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March 25, 2025
Bank of Japan

Minutes of the Monetary Policy Meeting

on January 23 and 24, 2025

(English translation prepared by the Bank's staff based on the Japanese original)

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A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Thursday, January 23, 2025, from 2:00 p.m. to 3:53 p.m., and on Friday, January 24, from 9:00 a.m. to 12:16 p.m.[1]

Policy Board Members Present

UEDA Kazuo, Chairman, Governor of the Bank of Japan
HIMINO Ryozo, Deputy Governor of the Bank of Japan
UCHIDA Shinichi, Deputy Governor of the Bank of Japan
ADACHI Seiji
NAKAMURA Toyoaki[2]
NOGUCHI Asahi
NAKAGAWA Junko
TAKATA Hajime
TAMURA Naoki

Government Representatives Present

SAITO Hiroaki, State Minister of Finance, Ministry of Finance[3]
TERAOKA Mitsuhiro, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance[4]
SETO Takakazu, State Minister of Cabinet Office, Cabinet Office[3]
HAYASHI Sachihiro, Vice-Minister for Policy Coordination, Cabinet Office[4]

Reporting Staff

KOUGUCHI Hirohide, Executive Director
KATO Takeshi, Executive Director
SHIMIZU Seiichi, Executive Director (Assistant Governor)

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on March 18 and 19, 2025, as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.
[2] Present via conference call.
[3] Present on January 24.
[4] Present on January 23.

SUWAZONO Kenji, Executive Director

MASAKI Kazuhiro, Director-General, Monetary Affairs Department

HATTORI Ryota, Deputy Director-General, Monetary Affairs Department[5]

NAGANO Teppei, Head of Policy Planning Division, Monetary Affairs Department

SUZUKI Koichiro, Director-General, Financial System and Bank Examination Department

FUJITA Kenji, Director-General, Financial Markets Department

NAKAMURA Koji, Director-General, Research and Statistics Department

SUGO Tomohiro, Head of Economic Research Division, Research and Statistics Department

CHIKADA Ken, Director-General, International Department

Secretariat of the Monetary Policy Meeting

HARIMOTO Keiko, Director-General, Secretariat of the Policy Board

KINOSHITA Takao, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

ANDO Masahiro, Deputy Director, Secretariat of the Policy Board

TSUCHIKAWA Akira, Head of Policy Infrastructure Division, Monetary Affairs Department[5]

MARUO Yuji, Senior Economist, Monetary Affairs Department

YAGI Tomoyuki, Senior Economist, Monetary Affairs Department

KITAHARA Jun, Senior Economist, Monetary Affairs Department

[5] Present on January 23 from 3:06 p.m. to 3:53 p.m.

I. Summary of Staff Reports on Economic and Financial Developments[6]

A. Market Operations in the Intermeeting Period

The Bank had been conducting money market operations in accordance with the guideline for money market operations decided at the previous meeting on December 18 and 19, 2024.[7] The uncollateralized overnight call rate had been in the range of 0.226 to 0.232 percent.

Meanwhile, in December 2024, the Bank had conducted Japanese government bond (JGB) purchases of about 4.9 trillion yen per month. In January 2025, it had cut down the monthly purchase amount by about 400 billion yen, to about 4.5 trillion yen per month; this was in accordance with the JGB reduction plan decided at the July 2024 meeting. The Bank had conducted purchases of CP and corporate bonds in accordance with the decision made at the March 2024 meeting.

B. Recent Developments in Financial Markets

In the money market, the uncollateralized overnight call rate had been at around 0.25 percent. The general collateral (GC) repo rate had been at around the same level as the uncollateralized overnight call rate. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had increased.

The Tokyo Stock Price Index (TOPIX) was more or less unchanged: although developments such as investment flows associated with the renewal after the turn of 2025 of annual tax-free investment quotas under the Nippon Individual Savings Account (NISA) program had been observed, attention continued to be drawn to, for example, speculation over the policy conduct of the new U.S. administration. Yields on 10-year JGBs had risen, against the background of market participants' views on the future conduct of monetary policy and the rise in U.S. interest rates. The liquidity indicators in the JGB markets had deteriorated somewhat toward the end of 2024, with a decline in transaction volume, but had improved after the turn of January 2025. In the foreign exchange market, the yen had depreciated against both the U.S. dollar and the euro.

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[6] Reports were made based on information available at the time of the meeting.

[7] The guideline was as follows:

The Bank will encourage the uncollateralized overnight call rate to remain at around 0.25 percent.

C. Overseas Economic and Financial Developments

Overseas economies had grown moderately on the whole. The U.S. economy had grown firmly, mainly led by private consumption. European economies had bottomed out, although weakness remained in part. The pace of improvement in the Chinese economy had been on a slowing trend, with continued downward pressure from adjustments in the real estate and labor markets, although government policies had pushed up the economy recently. Emerging and commodity-exporting economies other than China had improved moderately on the whole, as exports had picked up, mainly led by IT-related goods.

As for the outlook, overseas economies were projected to keep growing moderately. There were high uncertainties regarding the outlook, such as developments in the policy conduct of countries around the world, developments in the Chinese economy, and how geopolitical tensions would unfold.

Overseas financial markets remained stable on the whole after the new U.S. administration took office on January 20, 2025. U.S. long-term interest rates had risen slightly, reflecting factors such as speculation over the new administration's policy conduct and solid economic indicators. European long-term interest rates had risen significantly, mainly reflecting the rise in U.S. interest rates. U.S. stock prices had increased slightly, mainly on the back of expectations for policies under the new administration, although the increase in prices for some stocks, including high-tech-related stocks, had been weighed down by the rise in interest rates. Meanwhile, currencies in emerging economies had depreciated against the background of the rise in U.S. interest rates and the U.S. dollar's appreciation. Crude oil prices had risen due to the latest sanctions imposed on Russia by the United States and the severe winter weather in the United States.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had recovered moderately, although some weakness had been seen in part. Regarding the outlook, the economy was likely to keep growing at a pace above its potential growth rate, with overseas economies continuing to grow moderately and as a virtuous cycle from income to spending gradually intensified against the background of factors such as accommodative financial conditions.

Exports had been more or less flat. Regarding the outlook, as overseas economies continued to grow moderately, exports were projected to return to an uptrend, mainly due to a recovery in global demand for IT-related goods.

Industrial production had been more or less flat. Regarding the outlook, it was projected to return to an uptrend, mainly due to the recovery in global demand for IT-related goods.

Corporate profits had been on an improving trend. Business sentiment had stayed at a favorable level. In this situation, business fixed investment had been on a moderate increasing trend. With regard to the outlook, such investment was expected to continue on an increasing trend, mainly on the back of accommodative financial conditions, as corporate profits continued on an improving trend.

Private consumption had been on a moderate increasing trend despite the impact of price rises and other factors. The consumption activity index (CAI; real, travel balance adjusted) had increased for the July-September quarter of 2024, partly because of a rise in sales of goods due to the effects of hot weather and stockpiling demand to prepare for natural disasters, and with services consumption increasing moderately as a trend. The index had then decreased slightly on average for the October-November period relative to the July-September quarter, mainly for nondurable goods, partly because of a reactionary decline to the rise in sales of goods due to the effects of the hot weather and the stockpiling demand. Based on anecdotal information from firms and on high-frequency indicators, private consumption since December seemed to have also been on a moderate increasing trend, although some firms had pointed to the effects of consumers' increased thriftiness due to price rises. Consumer sentiment had been more or less flat. Regarding the outlook, for the time being, although private consumption was expected to be affected by price rises, it was projected to continue on a moderate increasing trend, with nominal employee income continuing to improve. Thereafter, private consumption was likely to continue increasing moderately as employee income continued to improve.

The employment and income situation had improved moderately. Regarding the number of employed persons, that of regular employees had been on a moderate uptrend, albeit with fluctuations, mainly in the information and communications industry, which had been facing severe labor shortages. The number of non-regular employees overall had been more or less flat recently: while the number of non-regular employees in industries such as face-to-face services had been on an increasing trend, the number of involuntary non-regular employees had been on a declining trend with labor market conditions tightening. Nominal wages per employee had increased clearly. With regard to the outlook, nominal employee income was likely to continue to see a clear increase in reflection of an acceleration in nominal wage growth. A positive trend in the year-on-year rate of change in real employee income was expected to take hold, albeit with fluctuations.

As for prices, commodity prices had risen slightly on the whole. The rate of change in the producer price index (PPI, adjusted for the effects of seasonal changes in electricity rates) relative to three months earlier had been positive, in the range of 1.0-1.5 percent, mainly reflecting the impact of the yen's depreciation. The year-on-year rate of increase in the services producer price index (SPPI, excluding international transportation) remained relatively high, at around 3 percent recently, mainly on the back of a rise in personnel expenses. The year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) had been at around 3 percent recently, as services prices continued to rise moderately, reflecting factors such as wage increases, and as the government's measures to reduce the household burden of higher energy prices had been scaled back, although the effects of a pass-through to consumer prices of cost increases led by the past rise in import prices had waned. Inflation expectations had risen moderately. With regard to the outlook for the CPI, while the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices were expected to wane, underlying CPI inflation was expected to increase gradually, since it was projected that, with a growing sense of labor shortages, the output gap would improve and medium- to long-term inflation expectations would rise with the virtuous cycle between wages and prices continuing to intensify. In the second half of the projection period of the January 2025 *Outlook for Economic Activity and Prices* (Outlook Report), underlying CPI inflation was likely to be at a level that was generally consistent with the price stability target. Through fiscal 2025, rice prices were likely to be at high levels and the effects of the government's measures pushing down inflation would dissipate, and these factors were expected to make a positive contribution to the year-on-year rate of increase in the CPI (all items less fresh food).

2. Financial environment

Japan's financial conditions had been accommodative.

Real interest rates had been negative. Firms' funding costs had increased but remained at low levels on the whole. Firms' demand for funds had increased moderately on the back of, for example, the recovery in economic activity as well as mergers and acquisitions of firms. With regard to credit supply, financial institutions' lending attitudes as perceived by firms had been accommodative. Issuance conditions for CP and corporate bonds had been favorable. In this situation, the year-on-year rate of increase in the amount outstanding of bank lending had been at around 3.5 percent. That in the aggregate amount outstanding of CP and corporate bonds had been at around 4.5 percent. Firms' financial positions had been favorable. The pace of increase in the number of bankruptcies of firms had slowed recently.

Meanwhile, the year-on-year rate of change in the money stock had been in the range of 1.0-1.5 percent.

3. Financial system

Japan's financial system maintained stability on the whole.

Profits of major banks had been firm, owing in particular to a rise in net interest income, mainly composed of interest on loans, and to an increase in net non-interest income, such as fees and commissions. Meanwhile, their credit costs had been at low levels. Their capital adequacy ratios remained sufficiently above the regulatory requirements.

Profits of regional banks had been firm, mainly on the back of the rise in net interest income. Meanwhile, their credit costs had been at low levels. Their capital adequacy ratios remained sufficiently above the regulatory requirements.

With regard to the financial cycle, of the 14 Financial Activity Indexes (FAIXs) that comprise the heat map in the *Financial System Report*, 12 showed neither an overheating nor a contraction of financial activities, and two -- including one indicating stock prices -- showed deviations from the trends, toward overheating. Regarding the financial gap, the positive gap remained narrower than a while ago, and there had been no overheating of financial activities overall. However, attention continued to be warranted on the pace of increase in stock and real estate prices, and it was necessary to continue paying close attention to whether financial activities would not significantly deviate from real economic activity.

II. Transitional Measure Accompanying the Termination of the Fund-Provisioning Measure to Stimulate Bank Lending

A. Staff Reports

In light of recent economic and financial developments, the staff considered it appropriate that new loan disbursements under the Fund-Provisioning Measure to Stimulate Bank Lending would not be made after the scheduled deadline of June 30, 2025. The staff's examination of the possible impact of the termination of the measure on factors such as financial institutions' financing and market interest rates suggested that significant issues were unlikely to arise.

On this basis, with the amount outstanding of loans disbursed under the fund-provisioning measure being at a high level, it would be appropriate that the Bank, with the aim of facilitating the smooth termination of the measure, amend the "Principal Terms and Conditions for the Fund-Provisioning Measure to Stimulate Bank Lending Conducted through the Loan Support Program," and implement a transitional measure that would allow counterparties to roll over up to 50 percent of the amount of loans maturing over the period of six months following the deadline for loan disbursement -- until December 31, 2025 -- into one-year loans.

B. Discussions by the Policy Board

Members agreed that, as explained by the staff, it was appropriate that (1) the Bank would not make new loan disbursements under the Fund-Provisioning Measure to Stimulate Bank Lending after June 30, 2025, and (2) in doing so, it would implement a transitional measure over the period of six months until December 31, 2025. One member commented that, as seen in, for example, financial institutions' active lending stance, the fund-provisioning measure had already sufficiently served its intended purpose. The member then expressed the view that it was appropriate for the Bank to terminate the measure at this stage, given the considerably strong effects of its support for financial institutions' financing. One member pointed out that, during the course of the Bank's balance sheet reduction, it was important to monitor developments in financial institutions' financing more carefully.

C. Vote

Members voted unanimously to approve the amendment to the "Principal Terms and Conditions for the Fund-Provisioning Measure to Stimulate Bank Lending Conducted through the Loan Support Program." It was confirmed that this would be made public after the meeting.

III. Summary of Discussions by the Policy Board on Economic and Financial Developments and the January 2025 *Outlook for Economic Activity and Prices*

A. Current Situation of Economic Activity and Prices

With regard to global financial and capital markets, members shared the view that market sentiment continued to be at an improved level compared with a while ago, and remained stable on the whole after the new U.S. administration took office on January 20, 2025.

Members shared the recognition that overseas economies had grown moderately on the whole.

Members agreed that the U.S. economy had grown firmly, mainly led by private consumption. Some members pointed out that concerns that had emerged in summer 2024 over a rapid deceleration in the economy had eased, considering, for example, the recent firmness in indicators relating to private consumption and employment. One of these members noted that the Federal Reserve could conduct its monetary policy with more leeway, given the ongoing disinflation process with firmness in the real economy. This member then added that it was highly likely that weakness in the employment statistics -- which was one of the causes of the global decline in stock prices in summer 2024 -- had been a temporary fluctuation. In relation to this point, a different member expressed the view that there was a growing likelihood that the U.S. economy would accelerate again in the near future, rather than making a soft landing, as seen in the possibility that the labor market would bottom out. This member pointed out that, in this situation, there was an expectation that the Federal Reserve would temporarily pause its policy interest rate cuts. Meanwhile, one member noted that there were high expectations for the U.S. economy to make a soft landing. That said, the member continued that, with high uncertainties surrounding the policy conduct of the U.S. administration, attention was warranted on the possibility that, if the inflation rate or interest rates rose further, this would push down private consumption -- which had supported the economy -- through a decline in stock prices.

Members shared the recognition that European economies had bottomed out, although weakness remained in part. As background to the weakness in European economies, one member pointed to, for example, continued high energy costs and cost increases due to the high wage growth rate. One member noted that, of European economies, Germany and France in particular had seen some weakness.

Members shared the view that the pace of improvement in the Chinese economy had been on a slowing trend, with continued downward pressure from adjustments in the real estate and labor markets, although government policies had pushed up the economy recently. One member pointed out that adjustments in the real estate and labor markets were still taking place. The member then expressed the view that, with sluggish domestic demand, coupled with the Chinese yuan's depreciation, the Chinese economy could become more dependent on exports.

Members shared the recognition that emerging and commodity-exporting economies other than China had improved moderately on the whole, as exports had picked up, mainly led by IT-related goods.

Members agreed that financial conditions in Japan had been accommodative. In addition, they shared the view that firms' funding costs had increased but remained at low levels on the whole.

Based on the above deliberations on economic and financial conditions abroad and financial conditions in Japan, members discussed the state of Japan's economic activity and prices.

With regard to economic activity, members shared the recognition that Japan's economy had recovered moderately, although some weakness had been seen in part. Most members expressed the view that Japan's economic activity had been developing generally in line with the Bank's outlook presented in the previous Outlook Report.

Members concurred that exports had been more or less flat.

Members shared the view that industrial production had been more or less flat.

Members agreed that business fixed investment had been on a moderate increasing trend with corporate profits improving and business sentiment staying at a favorable level. On this basis, one member pointed out that, while corporate profits of large firms had been favorable, those of small and medium-sized firms had still been slightly weak in part, as their profits had deteriorated in the July-September quarter of 2024 following an increase in the April-June quarter, resulting in profits for the first half of fiscal 2024 being below those for the first half of fiscal 2023.

Members concurred that private consumption had been on a moderate increasing trend despite the impact of price rises and other factors. A few members said that private consumption had been supported from the income side, with an increase in nominal wages partly owing to favorable corporate profits. One of these members expressed the view that a positive change had been seen, as evidenced, for example, by the fact that the year-on-year rate of change in real wages had turned positive in the November 2024 *Monthly Labour Survey*. A different member pointed out that private consumption among younger employees, who had been benefiting the most from the wage increases, had been on an expanding trend. Meanwhile, some members commented that higher import prices, stemming from the depreciation of the yen, and the rise in prices of rice and fresh food had pushed up consumer prices, and this in turn had pushed down real income and private consumption. One of these members added that the rise in food prices had also adversely affected household sentiment. A different member noted that, when examining developments in private consumption, attention should be paid to trends in disposable income that take into account factors such as developments in the income of pensioner households and the payment of social insurance premiums. The member then pointed out that the pace of improvement in disposable income had been only moderate in real terms, and this had led to households' increased thriftiness.

Members shared the view that the employment and income situation had improved moderately.

As for prices, members agreed that the year-on-year rate of increase in the CPI (all items less fresh food) had been at around 3 percent recently, as services prices continued to rise moderately, reflecting factors such as wage increases, and as the government's measures to reduce the household burden of higher energy prices had been scaled back, although the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices had waned. Most members expressed the view that prices had been developing generally in line with the Bank's outlook presented in the previous Outlook Report. A few members stated that, in particular, those industries and firms that had not passed on cost increases sufficiently until recently continued to reflect in their selling prices the past increases in raw material prices and other cost increases. These members continued that moves to reflect increased personnel expenses and distribution costs in selling prices had also been observed across a wide range of industries and firms. On this basis, some members pointed out that the recent rise in the year-on-year rate of increase in the CPI was partly attributable to the fact that rice prices had not fallen even after the distribution of rice harvested in autumn 2024.

Meanwhile, members agreed that inflation expectations had risen moderately. One member noted that the Bank's December 2024 *Opinion Survey on the General Public's Views and Behavior*, released in January 2025, indicated a rise in the average of households' inflation expectations for five years ahead. A different member said that an increasing number of indicators for medium- to long-term inflation expectations had been in the range of 1.5-2.0 percent. In addition, one member was of the view that it was likely that firms' and households' inflation expectations had been at around 2 percent. In response, one member expressed the view that, if inflation expectations had risen significantly with nominal interest rates remaining low, the economic stimulus effects should have been stronger than they actually were through a decline in real interest rates. Based on this, the member added that, although inflation expectations had been rising, they should be considered to be lower than 2 percent.

B. Outlook for Economic Activity and Prices

In formulating the January 2025 Outlook Report, members discussed <u>the baseline scenario of the outlook for Japan's economic activity</u>. They shared the recognition that Japan's economy was likely to keep growing at a pace above its potential growth rate, with overseas economies continuing to grow moderately and as the virtuous cycle from income to spending gradually intensified against the background of factors such as accommodative financial conditions.

Members agreed that, as overseas economies continued to grow moderately, Japan's exports were projected to return to an uptrend, mainly due to the recovery in global demand for IT-related goods.

Members shared the view that industrial production was likely to return to an uptrend, mainly due to the recovery in global demand for IT-related goods.

Members concurred that business fixed investment was expected to continue on an increasing trend, mainly on the back of accommodative financial conditions, as corporate profits continued on an improving trend.

Members agreed that, for the time being, although private consumption was expected to be affected by price rises, it was projected to continue on a moderate increasing trend, with nominal employee income continuing to improve. They shared the view that, thereafter, private consumption was likely to continue increasing moderately as employee income continued to improve. One member expressed the recognition that for private consumption to be firm, real wages needed to rise. The member then pointed out that the focus, at this point, was on whether the momentum of wage hikes in the 2025 annual spring labor-management wage negotiations would be sustained, and on the future course of the higher prices that stemmed from the rise in prices of rice and fresh food and from the continued depreciation of the yen. In addition, some members expressed the view that, in assessing the outlook for private consumption, attention was warranted on the growing differences in, for example, the income situation depending on household attributes.

Members shared the view that nominal employee income was likely to continue to see a clear increase in reflection of the acceleration in nominal wage growth. With regard to the 2025 annual spring labor-management wage negotiations, most members shared the view that, based on information gathered so far from reports at the January 2025 meeting of the general managers of the Bank's branches and various surveys, firms were projected to continue to raise wages steadily, following the solid wage increases in 2024. One of these members noted that wage hikes for 2025 were likely to be at least at levels comparable to those seen in 2024, given developments in corporate profits, the labor market, and prices, as well as anecdotal information gathered around the beginning of 2025, such as remarks by corporate executives, various surveys, and reports at the meeting of the general managers of the Bank's branches. A different member expressed the view that information from various sources collected so far suggested that there was a growing possibility that wage hikes would be conducted at a similar level to those at around the same time in 2024. A few members, including this member, pointed to the recent successive announcements by firms of plans to raise the starting salaries for new graduates. In relation to this, one member commented that it was also reported at the meeting of the general managers of the Bank's branches that there was a growing recognition among firms of the importance of continuing to raise wages;

therefore, wage growth exceeding the 2024 level could be expected. One member pointed out that an increasing number of firms had factored in future wage hikes as a premise of their medium-term management plans. The member then said that this clearly indicated a shift from the zero norm, that is, the norm that wages do not rise. Meanwhile, one member expressed the view that, while the momentum for wage hikes seemed to have grown steadily among larger firms, for a certain number of small and medium-sized firms, the capacity for raising wages had been relatively limited. The member continued that it was therefore necessary to examine how labor-management wage negotiations would evolve.

Based on these discussions, members shared the recognition that, comparing the projections with those in the October 2024 Outlook Report, the projected real GDP growth rates were more or less unchanged. They continued that the basic view on future economic developments was unchanged.

Members then discussed the baseline scenario of the outlook for Japan's price developments. They shared the view that the medians of the Policy Board members' forecasts for the year-on-year rate of increase in the CPI (all items less fresh food) were in the range of 2.5-3.0 percent for fiscal 2024, at around 2.5 percent for fiscal 2025, and at around 2 percent for fiscal 2026. On this basis, members shared the view that, while the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices were expected to wane, underlying CPI inflation was expected to increase gradually, since it was projected that, with a growing sense of labor shortages, the output gap would improve and medium- to long-term inflation expectations would rise with the virtuous cycle between wages and prices continuing to intensify. They continued that, in the second half of the projection period of the January 2025 Outlook Report, underlying CPI inflation was likely to be at a level that was generally consistent with the price stability target. Members also shared the recognition that, through fiscal 2025, rice prices were likely to be at high levels and the effects of the government's measures pushing down inflation would dissipate, and these factors were expected to make a positive contribution to the year-on-year rate of increase in the CPI (all items less fresh food).

Members shared the recognition that, comparing the projections with those in the October 2024 Outlook Report, the projected year-on-year rates of increase in the CPI (all items less fresh food) for fiscal 2024 and 2025 were higher, reflecting the rise in rice prices and the higher import prices stemming from factors such as the recent depreciation of the yen.

One member pointed out that the yen's depreciation and high crude oil prices would lead to a rise in prices such as electricity charges, with a lag of about six months.

Regarding underlying inflation, many members expressed the view that it was likely to increase gradually, since moves to pass on higher costs, such as increased personnel expenses and distribution costs, to selling prices were expected to become more widespread with wages continuing to rise. Some members noted that, looking at recent indicators of inflation expectations and other factors, it could be judged that the likelihood of underlying inflation increasing was rising. In addition, some members pointed out that the recent increase in the upward pressure of costs might affect underlying inflation through changes in inflation expectations. One member expressed the view that, from a longer-term perspective, factors that could also push up underlying inflation included Japan's heavy dependence on imports, moves toward de-globalization, and growth in emerging economies. On the other hand, one member said that factors such as households' increased thriftiness, the decline in inflation rates in the United States and Europe, and the continuing deflationary trend in China were likely to push down prices.

Members also discussed the impact of tightening labor market conditions on prices. One member expressed the view that firms' wage- and price-setting behavior had begun to change as labor supply constraints had drawn attention, and that the cycle between wages and prices through the pass-through of wage hikes to prices was expected to become full-fledged. The member then added that, in such a situation, the output gap would likely have lower explanatory power for price developments. One member stated that, looking at the breakdown of the output gap, the labor input gap had been positive, and while the capital input gap had been negative, this was partly due to the shortage of labor needed to operate production facilities sufficiently. On this basis, the member expressed the view that the reason for the continued high inflation was that the utilization ratio of the production factor had in fact increased, although the situation varied across industries. A different member also pointed out that, with severe labor shortages, the main contributing factor to inflation had started to shift to tightening labor market conditions.

Members then discussed upside and downside risks to economic activity and prices. They concurred that there remained high uncertainties surrounding Japan's economic activity and prices, including developments in overseas economic activity and prices, developments in commodity prices, and domestic firms' wage- and price-setting behavior. Moreover, members shared the view that, under these circumstances, it was necessary to pay due attention to developments in financial and foreign exchange markets and their impact on Japan's economic activity and prices.

On this basis, members noted the following three factors as major risks to economic activity: (1) developments in overseas economic activity and prices and in global financial and capital markets; (2) developments in import prices, particularly those of commodities, including grains; and (3) the impact of various changes in the environment surrounding Japan on firms' and households' medium- to long-term growth expectations and on Japan's potential growth rate. In relation to (1) above, some members expressed the view that it was necessary to continue to carefully examine the effects of the policy conduct of the new U.S. administration on economies at home and abroad and on global financial and capital markets.

Regarding risks to prices, members concurred that, if the aforementioned risks to economic activity materialized, prices would be affected, and that the following factors warranted attention as risks specific to prices: (1) firms' wage- and price-setting behavior, and (2) future developments in foreign exchange rates and international commodity prices, as well as the extent to which such developments would spread to import prices and domestic prices. On this basis, members shared the recognition that, in particular, with firms' behavior shifting more toward raising wages and prices recently, exchange rate developments were, compared to the past, more likely to affect prices.

With regard to the risk balance, members shared the recognition that, judging each member's risk assessments as a whole, (1) risks to economic activity were generally balanced, and (2) risks to prices were skewed to the upside for fiscal 2024 and 2025.

IV. Summary of Discussions on Monetary Policy

Based on the above assessment of economic and financial developments, members discussed monetary policy.

Members first exchanged views on the guideline for money market operations for the intermeeting period.

Based on the discussions on economic and financial developments, most members expressed the recognition that Japan's economic activity and prices had been developing generally in line with the Bank's outlook presented in the previous Outlook Report, and the likelihood of realizing the outlook had been rising.

Specifically, most members shared the following recognition. First, regarding wages, with the continued improving trend in corporate profits and a growing sense of labor shortage, there had been many views expressed by firms stating that they would continue to raise wages steadily in the 2025 annual spring labor-management wage negotiations, following the solid wage increases in 2024. Second, on the price front, underlying CPI inflation had been increasing gradually toward the price stability target of 2 percent; with wages continuing to rise, there had been an increase in moves to reflect higher costs, such as increased personnel expenses and distribution costs, in selling prices. Some members pointed out that, in this situation, the year-on-year rate of increase in the CPI (all items less fresh food) was likely to be in the range of 2.5-3.0 percent for fiscal 2024 and then be at around 2.5 percent for fiscal 2025, partly due to higher import prices stemming from factors such as the recent depreciation of the yen. One of these members said that if the rate of increase in the CPI developed in line with the Bank's outlook, it would have been clearly above 2 percent for four consecutive years since fiscal 2022. The member continued that, in this situation, economic entities' perception of prices had been rising over time, although this had been triggered by cost-push factors. In addition, one member noted that the negative impact that the yen's depreciation had had on households and firms had been in the form of cost increases stemming from the accumulated effects of the yen being on a depreciation trend in the medium to long term, rather than in the form of short-term fluctuations in exchange rates. One member expressed the view that there was a risk that inflation expectations would exceed 2 percent, with CPI inflation remaining significantly above 2 percent.

Members shared the view that, in the meantime, while attention had been drawn to various uncertainties, global financial and capital markets remained stable on the whole after the new U.S. administration took office, as overseas economies had followed a moderate growth path. A few members pointed out that global financial and capital markets had been relatively stable, as they had smoothly passed through such a major event as the start of the new U.S. administration, and that this situation was an appropriate environment for the Bank to consider changing the policy interest rate. One of these members said that (1) unlike when the policy interest rate was changed in July 2024, long U.S. dollar positions against the yen had not been built up, and (2) there seemed to be no significant perception gap between market participants and the Bank regarding, for example, their assessment of economic activity and prices, partly due to the Bank's dissemination of information on various occasions since the beginning of 2025. The member continued that, given these factors, if the Bank changed the policy interest rate at this meeting, this was less likely to cause major market disruption. One member expressed the recognition that there had been concern over large price fluctuations that could be seen in, for example, foreign exchange markets, with the monetary policies of the Bank of Japan and the Federal Reserve moving in opposite directions. The member continued that, however, given the bottoming out of the U.S. economy, the Federal Reserve was expected to temporarily pause its policy interest rate cuts, and this had led to increased flexibility in the Bank of Japan's monetary policy. Meanwhile, a few members noted that their view remained that the U.S. economy was likely to continue growing, even after taking account of the policies that the new administration announced when it took office. One member stated that the policies of the new U.S. administration would gradually become clear, and they were likely to affect Japan's economy in various ways. The member continued that, however, the resilience of Japan's economy as a whole had increased enough to withstand some downward stress. A different member added that there was a possibility that a resurgence of inflation in the United States and global intensification of trade frictions would occur simultaneously, leading to the materialization of a stagflation scenario. The member continued that the Bank was not in a situation where it could manage such a scenario simply by conducting accommodative monetary policy.

Based on the above deliberations, most members expressed the view that it was appropriate for the Bank to raise the policy interest rate by 0.25 percentage points to around 0.5 percent at this meeting from the perspective of sustainable and stable achievement of the price stability target of 2 percent. In addition, these members shared the recognition that the following points were appropriate: (1) in order to implement this change, the interest rate applied to the complementary deposit facility would be 0.5 percent, and (2) the basic loan rate would also be raised by 0.25 percentage points to 0.75 percent. One member noted that, if the Bank decided to raise the policy interest rate at this meeting, the timing of the policy change would be sufficiently neutral, in the sense that it was neither hawkish nor dovish compared with average market expectations. One member said that, considering the impact and the pace of the policy interest rate hikes, as well as recent developments in economic activity and prices, it was appropriate for the Bank to raise the policy interest rate at this meeting.

On this basis, some members shared the recognition that real interest rates were expected to remain significantly negative even if the Bank decided to raise the policy interest rate at this meeting, and that accommodative financial conditions would be maintained. One of these members said that the policy interest rate hike discussed at this meeting would not tighten financial conditions, but would rather be an adjustment in the degree of monetary accommodation under accommodative financial conditions.

On the other hand, a different member expressed the view that the Bank should maintain the policy interest rate at its current level at this meeting, and should consider raising the policy interest rate at the next meeting, after (1) confirming whether the pass-through of cost increases to selling prices by small and medium-sized firms had progressed and such firms had secured profits in order to raise wages, from sources such as the *Financial Statements Statistics of Corporations by Industry*, and (2) examining whether relatively high wage hikes had been achieved in small and medium-sized firms in the annual spring labor-management wage negotiations, based on, for example, the first provisional aggregate results of wage negotiations compiled by the Japanese Trade Union Confederation (Rengo).

As for <u>the future conduct of monetary policy</u>, members agreed on the following: while it would depend on developments in economic activity and prices as well as financial conditions, given that real interest rates were at significantly low levels, if the outlook for economic activity and prices was realized, it would be appropriate that the Bank accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation. On this basis, members shared the view that, with the price stability target of 2 percent, the Bank would conduct monetary policy as appropriate, in response to developments in economic activity and prices as well as financial conditions, from the perspective of sustainable and stable achievement of the target.

One member pointed out that real interest rates were expected to remain significantly negative after the policy interest rate hike, and if economic activity and prices remained on track, it would be necessary for the Bank to continue to raise the policy interest rate accordingly, so that the negative range of real interest rates would shrink. One member expressed the view that, if underlying inflation increased, the Bank would need to raise the policy interest rate accordingly in a gradual manner. Meanwhile, one member said that, with economic activity and prices remaining on track, risks to prices had become more skewed to the upside, and it was therefore appropriate for the Bank to adjust the degree of monetary accommodation in a timely and gradual manner. One member stated that prices could deviate upward from the baseline scenario due to further progress in the pass-through of cost increases to consumer prices led by domestic factors, such as wage hikes, toward fiscal 2025, and to the depreciation of the yen; in addition, investors' expectations had increased, following a rise in asset prices including real estate. The member continued that it would be necessary for the Bank to adjust the degree of monetary accommodation from the viewpoint of avoiding the yen's depreciation and the overheating of financial activities, both of which appeared to be due to excessively high expectations of continued monetary easing. In response to this, a different member said that a rapid depreciation of the yen, as seen through the first half of 2024, would not be desirable. The member continued that, on the other hand, considering the current situation of the economy, due attention was also warranted on the risk that the yen's depreciation would be retraced rapidly. In addition, one member pointed out that it was necessary to pay close attention to the effects of factors such as intensified thriftiness among households on firms' price-setting behavior.

With regard to the pace at which the Bank would change the policy interest rate, one member pointed out that, considering that both upside and downside risks were significantly large, the Bank should be extremely careful about suggesting the pace of policy interest rate hikes and the terminal policy rate, which corresponds to the peak level of the policy interest rate. A different member said that, rather than raising the policy interest rate to achieve, for example, a specific neutral interest rate level, it would be necessary for the Bank to carefully adjust its monetary policy while examining the impact of the policy interest rate hike on economic activity and prices at the time of each rate hike. In response to this, one member expressed the view that, if economic activity and prices developed in line with its outlook, it would be desirable for the Bank to bear in mind that the policy interest rate should be at around 1 percent in the second half of fiscal 2025 and to raise the rate toward that level.

Members also discussed how to capture underlying CPI inflation when making policy decisions in the future. They shared the recognition that underlying CPI inflation could not be captured by a single indicator, and it was important to capture it from various perspectives and interpret the results with a degree of latitude. One member said that underlying CPI inflation should be assessed comprehensively. The member then commented that, in the future, it would be desirable for the Bank to clarify the role of the various indicators of underlying CPI inflation. One member pointed out that, on a conceptual basis, for underlying CPI inflation to increase, it was important that prices with strong rigidity, such as housing rent, rise. On the other hand, one member said that, given customary practice in Japan, it was likely to take a long time for housing rent and administered prices to rise. The member continued that, therefore, it would be necessary to pay attention to upward risks to prices by excluding housing rent and administered prices and carefully monitoring those prices that would be affected by monetary policy.

V. Remarks by Government Representatives

Based on the above discussions, the government representatives requested that the chairman adjourn the meeting. The chairman approved the request. (The meeting adjourned at 11:33 a.m. and reconvened at 11:46 a.m.)

The representative from the Ministry of Finance made the following remarks.

(1) The government would submit the budget for fiscal 2025 to the Diet today. The government would work to obtain approval from the Diet for the budget at the earliest possible time so that it could do its utmost with regard to economic and fiscal management.

(2) The government considered that the change in the policy interest rate proposed at this meeting had been judged necessary for achieving the price stability target of 2 percent, and it expected the Bank to explain its policy intention carefully to the public.

(3) The government expected the Bank to conduct monetary policy as appropriate toward sustainable and stable achievement of the price stability target of 2 percent while closely cooperating with the government.

The representative from the Cabinet Office made the following remarks.

(1) The government assessed that the Japanese economy was recovering at a moderate pace, although it was still pausing in part. That said, due attention was warranted on uncertainties such as downside risks to overseas economies.

(2) The government would do its utmost in its policy conduct to secure a transition to a growth-oriented economy.

(3) The government considered that the proposal made at this meeting had been judged necessary for achieving the price stability target in a sustainable and stable manner. In

order to achieve sustainable growth, the government considered it necessary for the Bank to firmly support the economy from the financial side.

(4) The government expected the Bank to continue to conduct monetary policy as appropriate toward achieving the price stability target of 2 percent in a sustainable and stable manner, while continuing to closely cooperate and exchange views with the government.

VI. Votes

A. Vote on the Guideline for Money Market Operations

Based on the above discussions, to reflect the majority view of the members, the chairman formulated the following proposal on the guideline for money market operations and put it to a vote.

The Policy Board decided the proposal by a majority vote.

The Chairman's Policy Proposal on the Guideline for Money Market Operations:

The guideline for money market operations for the intermeeting period will be as follows.

> The Bank will encourage the uncollateralized overnight call rate to remain at around 0.5 percent.

Votes for the proposal: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, ADACHI Seiji, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, and TAMURA Naoki.

Votes against the proposal: NAKAMURA Toyoaki.

Nakamura Toyoaki dissented, considering that the Bank should decide on changing the guideline for money market operations after confirming a rise in firms' earning power from sources such as the *Financial Statements Statistics of Corporations by Industry* at the next Monetary Policy Meeting.

B. Vote on a Change in the Interest Rate Applied to the Complementary Deposit Facility etc.

To reflect the majority view of the members, the chairman formulated the following proposal on a change in the interest rate applied to the complementary deposit facility etc. and put it to a vote.

The Policy Board decided the proposal by a majority vote and agreed that the amendment to "Principal Terms and Conditions of Complementary Deposit Facility" should be made public promptly after the meeting.

The Chairman's Policy Proposal on a Change in the Interest Rate Applied to the Complementary Deposit Facility etc.:

The interest rate applied to the complementary deposit facility will be as follows, and the "Principal Terms and Conditions of Complementary Deposit Facility" will be amended.

> The interest rate applied to the complementary deposit facility will be 0.5 percent per annum.

> Votes for the proposal: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, ADACHI Seiji, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, and TAMURA Naoki.
>
> Votes against the proposal: NAKAMURA Toyoaki.

Nakamura Toyoaki dissented for the same reason as he opposed the proposal regarding the guideline for money market operations.

C. Vote on a Change in the Basic Discount Rate and the Basic Loan Rate

To reflect the majority view of the members, the chairman formulated the following proposal on a change in the basic discount rate and the basic loan rate and put it to a vote.

The Policy Board decided the proposal by a majority vote.

The Chairman's Policy Proposal on a Change in the Basic Discount Rate and the Basic Loan Rate:

The basic discount rate for discounting of bills pursuant to Article 33, paragraph 1, item (i) of the Bank of Japan Act and the basic loan rate for loans made pursuant to Article 33, paragraph 1, item (ii) of the Act will be as follows.

> The basic discount rate and the basic loan rate will be 0.75 percent per annum.

> Votes for the proposal: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, ADACHI Seiji, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, and TAMURA Naoki.
>
> Votes against the proposal: NAKAMURA Toyoaki.

Nakamura Toyoaki dissented for the same reason as he opposed the proposal regarding the guideline for money market operations.

D. Discussion on the Statement Entitled "Change in the Guideline for Money Market Operations"

On the basis of the above discussions, members discussed the statement "Change in the Guideline for Money Market Operations." The chairman formulated the statement "Change in the Guideline for Money Market Operations" and put it to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment).

VII. Discussion regarding the Outlook Report

Members discussed the draft of "The Bank's View" in the January 2025 Outlook Report (consisting of "The Bank's View" and "The Background"). To reflect the view of the members, the chairman formulated a proposal on "The Bank's View" and put it to a vote. The Policy Board decided the text of "The Bank's View" by a unanimous vote. It was confirmed that "The Bank's View" would be released immediately after the meeting. It also was confirmed that the full text of the Outlook Report would be made public on January 27.

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of December 18 and 19, 2024, for release on January 29, 2025.

Attachment

January 24, 2025

Bank of Japan

Change in the Guideline for Money Market Operations

1. At the Monetary Policy Meeting (MPM) held today, the Policy Board of the Bank of Japan decided, by an 8-1 majority vote, to set the following guideline for money market operations for the intermeeting period: [Note]

   The Bank will encourage the uncollateralized overnight call rate to remain at around 0.5 percent.[8]

2. In accordance with the change in the guideline for money market operations, the Bank decided to change the interest rates applied to its measures, by an 8-1 majority vote.[9] [Note]

   (1) Interest rate applied to the complementary deposit facility

   The interest rate applied to the complementary deposit facility (the interest rate applied to current account balances held by financial institutions at the Bank, excluding required reserve balances) will be 0.5 percent.[10]

   (2) Basic loan rate[11]

   The basic loan rate applicable under the complementary lending facility will be 0.75 percent.

3. Regarding the Fund-Provisioning Measure to Stimulate Bank Lending, new loan disbursements will not be made after June 30, 2025, as scheduled. With the aim of facilitating the smooth termination of the measure, the Bank decided, as a transitional measure, to allow counterparties to roll over up to 50 percent of the amount of loans maturing between July 1 and December 31, 2025, into one-year loans (a unanimous vote).

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8 The new guideline for money market operations will be effective from January 27, 2025.

9 The new interest rate applied to the complementary deposit facility and the new basic loan rate will be effective from January 27, 2025.

10 The interest rates applied to the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas and the Funds-Supplying Operations to Support Financing for Climate Change Responses continue to be the interest rate applied to the complementary deposit facility.

11 The basic loan rate is stipulated in Article 15, paragraph 1, item (ii) of the Bank of Japan Act. The basic discount rate in item (i) in the same paragraph also will be 0.75 percent (discounting of bills is currently suspended).

4. Japan's economic activity and prices have been developing generally in line with the outlook presented in the previous *Outlook for Economic Activity and Prices* (Outlook Report), and the likelihood of realizing the outlook has been rising. Japan's economy has recovered moderately, although some weakness has been seen in part. Regarding wages, with a continued improving trend in corporate profits and a growing sense of labor shortage, there have been many views expressed by firms stating that they will continue to raise wages steadily in this year's annual spring labor-management wage negotiations, following the solid wage increases last year. On the price front, underlying CPI inflation has been increasing gradually toward the price stability target of 2 percent. With wages continuing to rise, there has been an increase in moves to reflect higher costs, such as increased personnel expenses and distribution costs, in selling prices. In this situation, although the effects of a pass-through to consumer prices of cost increases led by the past rise in import prices have waned, the year-on-year rate of increase in the CPI (all items less fresh food) is likely to be in the range of 2.5-3.0 percent for fiscal 2024 and then be at around 2.5 percent for fiscal 2025, partly due to higher import prices stemming from factors such as the recent depreciation of the yen. In the meantime, while attention has been drawn to various uncertainties, global financial and capital markets have been stable on the whole, as overseas economies have followed a moderate growth path.

   In view of these circumstances, the Bank judged it appropriate to adjust the degree of monetary accommodation from the perspective of sustainable and stable achievement of the price stability target of 2 percent. Real interest rates are expected to remain significantly negative after the change in the policy interest rate, and accommodative financial conditions will continue to firmly support economic activity.

5. As for the future conduct of monetary policy, while it will depend on developments in economic activity and prices as well as financial conditions going forward, given that real interest rates are at significantly low levels, if the outlook for economic activity and prices presented in the January Outlook Report will be realized, the Bank will accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation. With the price stability target of 2 percent, it will conduct monetary policy as appropriate, in response to developments in economic activity and prices as well as financial conditions, from the perspective of sustainable and stable achievement of the target.

[Note] Voting for the action: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, ADACHI Seiji, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, and TAMURA Naoki. Voting against the action: NAKAMURA Toyoaki. Nakamura Toyoaki dissented, considering that the Bank should decide on changing the guideline for money market operations after confirming a rise in firms' earning power from sources such as the *Financial Statements Statistics of Corporations by Industry* at the next MPM.