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November 6, 2023

Bank of Japan

Minutes of the Monetary Policy Meeting

on September 21 and 22, 2023

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

Secretariat of the Policy Board, Bank of Japan
P.O. Box 30, Nihonbashi, Tokyo 103-8660, Japan

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, September 21, 2023, from 2:00 p.m. to 4:05 p.m., and on Friday, September 22, from 9:00 a.m. to 11:45 a.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

NOGUCHI Asahi

NAKAGAWA Junko

TAKATA Hajime

TAMURA Naoki

Government Representatives Present

KANDA Kenji, State Minister of Finance, Ministry of Finance[2]

SAKAMOTO Motoru, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance[3]

IBAYASHI Tatsunori, State Minister of Cabinet Office, Cabinet Office[2]

INOUE Hiroyuki, Vice-Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

SHIMIZU Tokiko, Executive Director (Assistant Governor)

KAIZUKA Masaaki, Executive Director

SHIMIZU Seiichi, Executive Director

MASAKI Kazuhiro, Director-General, Monetary Affairs Department

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on October 30 and 31, 2023, 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 on September 22.

[3] Present on September 21.

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

FUJITA Kenji, Director-General, Financial Markets Department

OTANI Akira, Director-General, Research and Statistics Department

NAGAHATA Takashi, Head of Economic Research Division, Research and Statistics Department

KAMIYAMA Kazushige, Director-General, International Department

Secretariat of the Monetary Policy Meeting

KURAMOTO Katsuya, Director-General, Secretariat of the Policy Board

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

ANDO Masatoshi, Senior Economist, Monetary Affairs Department

KITAHARA Jun, Senior Economist, Monetary Affairs Department

I. Summary of Staff Reports on Economic and Financial Developments[4]

A. Market Operations in the Intermeeting Period

In accordance with the guideline for market operations and the guideline for conduct of yield curve control, both of which were decided at the previous meeting on July 27 and 28, 2023, the Bank had been conducting market operations, including purchases of Japanese government bonds (JGBs).[5] Specifically, it had carried out outright purchases of 10-year JGBs at 1.0 percent through the fixed-rate method and fixed-rate purchase operations of the cheapest-to-deliver (CTD) issues every business day. Moreover, the Bank had nimbly conducted unscheduled purchases of JGBs and the Funds-Supplying Operations against Pooled Collateral with a loan duration of five years through the variable-rate method. With these market operations, long-term interest rates had been at levels consistent with the Bank's guideline and the shape of the JGB yield curve continued to be generally smooth.

The Bank had conducted operations to purchase exchange-traded funds (ETFs), Japan real estate investment trusts (J-REITs), CP, and corporate bonds in accordance with the guidelines for asset purchases decided at the previous meeting.

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments generally had been in negative territory. With regard to interest rates on overnight instruments, the uncollateralized call rate had been in the range of around minus 0.012 to minus 0.076 percent; general collateral (GC) repo rates had been in the range of around minus 0.091 to minus 0.164 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had decreased somewhat.

The Tokyo Stock Price Index (TOPIX) had risen. Long-term interest rates (10-year JGB yields) had increased following the decision at the previous meeting to conduct yield curve control with greater flexibility, and they had been in the range of around 0.435 to 0.720

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

[5] The short-term policy interest rate:

The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

The long-term interest rate:

The Bank will purchase a necessary amount of JGBs without setting an upper limit so that 10-year JGB yields will remain at around zero percent.

percent. Many of the liquidity indicators in the JGB markets generally remained in a state of deterioration compared with those seen in the first half of 2022. However, they continued to improve relative to their deterioration. The diffusion index (DI) for the degree of bond market functioning in the *Bond Market Survey*, despite remaining negative, showed an improvement from the previous survey. In the foreign exchange market, the yen had depreciated against both the U.S. dollar and the euro, while the yield differentials between Japan, the United States, and Europe had drawn attention.

C. Overseas Economic and Financial Developments

The pace of recovery in overseas economies had slowed. The U.S. economy, despite being affected by policy interest rate hikes by the Federal Reserve, had been firm, particularly for private consumption. European economies kept slowing moderately as they continued to be affected by policy interest rate hikes by the European Central Bank (ECB) and other central banks, and by the situation surrounding Ukraine. The Chinese economy had slowed moderately, mainly owing to the effects of a slowdown in external demand and adjustments in the real estate market, although services consumption had been firm as the normalization of economic activity had progressed. In emerging and commodity-exporting economies other than China, the pace of improvement had slowed on the whole; although domestic demand continued to improve moderately in these economies, exports had slowed.

As for the outlook, the pace of recovery in overseas economies was projected to remain slow for the time being. They were expected to pick up gradually thereafter as the effects of containment of inflation through monetary tightening materialized. There were considerably high uncertainties regarding the outlook, such as the impact of policy interest rate hikes by central banks, developments in the Chinese economy, and how geopolitical tensions would unfold.

With respect to overseas financial markets, in the United States, long-term interest rates had risen, due to prospects of a deterioration in the supply and demand conditions of U.S. Treasury securities, reflecting government plans to increase issuance. Stock prices had declined due to the rise in long-term interest rates. In Europe, long-term interest rates had also risen in line with those in the United States. Stock prices in Europe had declined due to the rise in long-term interest rates and in view of a delay in the recovery of the Chinese economy. Meanwhile, currencies in many emerging economies had depreciated, in reflection of the rise in U.S. long-term interest rates. Crude oil prices had risen, mainly reflecting continued production cuts by some oil-producing economies.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had recovered moderately. Regarding the outlook, the economy was likely to continue recovering moderately for the time being, supported by the materialization of pent-up demand, as well as by factors such as accommodative financial conditions and the government's economic measures, although it was expected to be under downward pressure stemming from the slowdown in the pace of recovery in overseas economies.

Although exports and production had been affected by the slowdown in the pace of recovery in overseas economies, they had been more or less flat, supported by a waning of the effects of supply-side constraints. Regarding the outlook, exports and production were projected to continue showing similar developments for the time being. Thereafter, they were likely to return to an uptrend with overseas economies picking up.

Corporate profits had been at high levels on the whole. Business fixed investment had increased moderately. With regard to the outlook, as corporate profits remained at high levels on the whole, such investment was expected to continue increasing.

Private consumption had increased steadily at a moderate pace, despite being affected by price rises. The consumption activity index (CAI; real, travel balance adjusted) had been on an increasing trend until July 2023, albeit with monthly fluctuations. Based on anecdotal information from firms and high-frequency indicators, private consumption seemed to have continued on a moderate uptrend since August 2023, despite being affected by price rises and typhoons. This was because the income situation had improved, partly in light of the 2023 annual spring labor-management wage negotiations, and pent-up demand had also provided support. Even amid ongoing high prices, private consumption had seen firmness thus far, as consumer sentiment followed an improving trend on the back of the moderate pick-up in the income situation. Regarding the outlook, although such consumption was expected to be affected by price rises, it was projected to continue increasing moderately with nominal employee income continuing to improve, and partly supported by household savings that had accumulated as a result of pandemic-related restrictions.

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 medical, healthcare, and welfare services industry, as well as the information and communications industry, both of which had faced severe labor shortages. The number of non-regular employees had risen moderately, mainly in the wholesale and retail industry and the face-to-face services industry, as economic activity normalized. Nominal wages per employee had increased moderately, reflecting the recovery in economic activity. 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. Partly as inflation declined, the year-on-year rate of decline in real employee income was projected to follow a decelerating trend; thereafter, the rate of change was likely to gradually turn positive.

As for prices, commodity prices had been more or less flat on the whole. Although the impact of past high commodity prices had gradually waned, the rate of change in the producer price index (PPI) relative to three months earlier had been more or less flat, mainly due to the impact of a recent rise in energy prices. The year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) was slower than a while ago, mainly due to the effects of pushing down energy prices from the government's economic measures, but it had been at around 3 percent recently owing to the effects of a pass-through to consumer prices of cost increases led by the past rise in import prices. With regard to the outlook, the year-on-year rate of increase in the CPI (all items less fresh food) was expected to decelerate, with a waning of the effects of the pass-through led by the past rise in import prices.

2. Financial environment

Japan's financial conditions had been accommodative.

Firms' demand for funds had increased moderately on the back of the recovery in economic activity and past high raw material costs. 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. Firms' funding costs had been hovering at extremely low levels. 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 2.5 percent. The number of bankruptcies of firms had increased. Firms' financial positions had improved on the back of the recovery in economic activity.

Meanwhile, the year-on-year rate of change in the monetary base had been in the range of 1.0-1.5 percent. That in the money stock had been at around 2.5 percent.

II. Summary of Discussions by the Policy Board on Economic and Financial Developments

A. Economic and Price Developments

With regard to global financial and capital markets, members concurred that improvement in market sentiment had paused somewhat, as attention continued to be drawn to uncertainties over the U.S. and European monetary policies, as well as the outlook for the global economy, and as U.S. and European long-term interest rates had risen, although solid corporate results in the United States were a positive factor.

Members shared the recognition that the pace of recovery in overseas economies had slowed.

Members agreed that the U.S. economy, despite being affected by policy interest rate hikes by the Federal Reserve, had been firm, particularly for private consumption. A few members expressed the view that it was becoming increasingly likely that the economy would achieve a soft landing, in which inflation would be curbed without a recession. On the other hand, a few other members pointed out that, although inflation had peaked out, the pace of deceleration in the growth of employment and private consumption had been moderate, and thus inflationary pressure remained persistent. One of these members added that attention was warranted on whether adverse effects on the financial front would occur due to the accumulated impact of policy rate hikes, especially since another policy rate hike by the Federal Reserve was anticipated. A few members commented that it was also necessary to closely monitor how the course of the negotiations for substantial wage increases that a labor union in the automobile industry was demanding would affect wages and prices, for example.

Members shared the recognition that European economies kept slowing moderately as they continued to be affected by policy interest rate hikes by the ECB and other central banks, and by the situation surrounding Ukraine. Some members expressed the view that these economies were expected to continue to slow, mainly due to the effects of the recent price rises and policy rate hikes.

Members shared the view that the Chinese economy had slowed moderately, mainly owing to the effects of the slowdown in external demand and adjustments in the real estate market, although services consumption had been firm as the normalization of economic activity had progressed. Many members pointed out that there were high uncertainties over future developments in the Chinese economy given that the inflation rate was declining amid such problems as prolonged adjustments in the real estate market, the protracted high youth unemployment rate, and heightened geopolitical risks. One of these members added that there were also such problems as a lack of new growth drivers and a decline in growth expectations.

Regarding emerging and commodity-exporting economies other than China, members shared the recognition that the pace of improvement had slowed on the whole; although domestic demand continued to improve moderately in these economies, exports had slowed.

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

With regard to economic activity, members agreed that Japan's economy had recovered moderately. One member expressed the view that, although firms' business fixed investment had been somewhat weak due to subdued external demand, private consumption continued on an expanding trend, albeit moderately.

As for the outlook for economic activity, members shared the recognition that Japan's economy was likely to continue recovering moderately for the time being, supported by factors such as the materialization of pent-up demand, although it was expected to be under downward pressure stemming from the slowdown in the pace of recovery in overseas economies. They continued that, thereafter, as a virtuous cycle from income to spending gradually intensified, Japan's economy was projected to continue growing at a pace above its potential.

Members shared the recognition that, although exports and production had been affected by the slowdown in the pace of recovery in overseas economies, they had been more or less flat, supported by the waning of the effects of supply-side constraints.

Members agreed that business fixed investment had increased moderately, with corporate profits being at high levels on the whole. One member pointed out that firms' earning power had been on an improving trend, as evidenced by, for example, the fact that current profits of listed firms were expected to reach a new peak for fiscal 2023, and that those of small and medium-sized firms registered double-digit year-on-year increases for the April-June quarter. This member expressed the recognition that this situation indicated growth in appetite for business fixed investment among firms, including small and medium-sized ones.

Members concurred that private consumption had increased steadily at a moderate pace, despite being affected by price rises. One member pointed out that sources such as data on the flow of people and financial results of retailers suggested that private consumption had been resilient. Meanwhile, one member expressed the view that, although private consumption was expected to continue increasing at a moderate pace, it was somewhat concerning that some firms were voicing cautious views about the outlook, and there was also a risk that people's attitudes toward spending would become more defensive. A different member noted that it would be necessary to closely monitor developments in private consumption in particular because the materialization of pent-up demand to date had been limited. On this basis, the member said that developments in and levels of underlying inflation measures had shown a certain degree of possibility that the year-on-year rate of increase in the CPI would continue to significantly exceed the price stability target for a considerable period of time, and that this would keep squeezing private consumption.

Members shared the view that the employment and income situation had improved moderately. One member expressed the view that it seemed that large firms, which had proceeded with structural reforms, had increased confidence in their earning power; small and medium-sized firms, however, had lagged behind in these reforms on the whole and a large number of them had insufficient capacity to raise wages. This member continued that attention therefore needed to be paid to whether or not changes in the economic environment would cause a waning in their appetite for wage hikes and business fixed investment.

As for prices, members agreed that the year-on-year rate of increase in the CPI (all items less fresh food) was slower than a while ago, mainly due to the effects of pushing down energy prices from the government's economic measures, but it had been at around 3 percent recently owing to the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices. Some members expressed the recognition that the recent inflation rate had been higher than the forecasts presented in the July 2023 *Outlook for Economic Activity and Prices*.

With regard to the outlook, members shared the view that the year-on-year rate of increase in the CPI was likely to decelerate, with the waning of the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices. They continued that, thereafter, the rate of increase was projected to accelerate again moderately, as the output gap improved and as medium- to long-term inflation expectations and wage growth rose, accompanied by changes in factors such as firms' wage- and price-setting behavior. Some members pointed out that moves to pass through mainly the rise in import prices to consumer prices remained more persistent than projected. A few members expressed the view that the year-on-year rate of increase in goods prices had started to decelerate, following a decline in import prices, and that it was highly likely that the inflation rate would slow, although the pace was uncertain. A few other members added that the possibility of price rises becoming prolonged had increased due to the persistent pass-through of cost increases to selling prices, the yen's depreciation, and high crude oil prices; however, these causes of such increased possibility were associated with cost-push factors.

On this basis, many members expressed the recognition that, while recent price rises were mainly due to cost-push factors, they also had been affected by changes in firms' wage- and price-setting behavior. Some members pointed out that certain aspects of firms' behavior had begun to shift more toward raising wages and prices. One of these members said that a positive wage-setting behavior had started to spread among firms, and that they maintained their appetite for business fixed investment. The member continued that, given this, a virtuous cycle that led to inflation accompanied by wage increases seemed to have started to emerge. A few members expressed the view that, in relation to policy responses, price rises due to wage increases were more important than those resulting from cost-push factors. These members continued that upward movements in prices stemming from wage increases would be desirable in the present situation where the underlying inflation trend had not risen sufficiently. On this basis, one of these members pointed out that it was important to collect micro-level information about the extent to which the two factors -- wage increases and cost-push factors -- affected prices, and to underpin such information with statistical data. In relation to this point, one member pointed out that the year-on-year rates of change in price indicators, which strongly tend to show the underlying inflation trend, had been on an uptrend recently, and that many of them already had exceeded 2 percent. A different member noted that the year-on-year rate of change in sticky prices also had been rising gradually, although it had not reached the level seen in the first half of the 1990s. In addition, one member expressed the view that, as for the distribution of the year-on-year rates of change in prices of individual items constituting the CPI, the degree of concentration at the mode of around 0 percent was much lower, and was highly likely to be even lower in the future. A different member added that, with regard to the price change distribution by item for the United States, the degree of concentration at the mode had declined and the dispersion of price changes had become significant before prices had surged. The member then noted that this was not currently the case for Japan. Some members were of the opinion that, when examining the price change distribution by item for Japan, attention was warranted on the fact that prices of some items were less likely to move, such as housing rent and administered prices. Meanwhile, one member expressed the view that, looking at the GDP deflator, the contribution of unit labor costs was still small, and inflation accompanied by wage increases had not yet come in sight.

Members discussed whether changes in firms' wage- and price-setting behavior would continue. Some members expressed the view that it was quite possible that the wage growth rate to be agreed in the annual spring labor-management wage negotiations in 2024 would exceed that in 2023. As background to this view, one of these members pointed to such factors as current projections of the inflation rate for 2023 being higher than those for 2022, as well as the government's announcement of its policy of making further future hikes in minimum wages, which had risen significantly. Some members expressed the recognition that, in assessing how wage hikes would evolve during 2024, close monitoring was warranted on developments in such hikes by small and medium-sized firms in particular. One of these members said that sustained wage increases required changes in firms' wage- and price-setting behavior and initiatives to address prolonged labor shortages. The member continued that attention was warranted on whether firms would promote business strategies that were based on the realization of base pay increases to address price rises, including their efforts on wage system reforms. One member pointed out that it was necessary to monitor whether the momentum for wage increases would strengthen steadily even among small and medium-sized firms as their moves to pass on cost increases to selling prices became widespread and their profits rose. In relation to this point, a different member expressed the view that, in light of the fact that profit margins had been squeezed and wages also had been pushed down over the past three decades, it might be natural to consider that, for some time, firms -- by means of making up for these cumulative decreases -- would maintain their positive stance of allocating the profits, which had improved on the back of the pass-through of cost increases, for wage hikes and other factors. Meanwhile, many members pointed out that attention should be paid to whether future cost increases, such as of wage costs, would be reflected in prices. One of these members added that a rise in personnel expenses had already begun to be passed on to selling prices, and this might continue to be the case. A different member noted that, in the current phase, the gap between the extent of cumulative cost increases and that of the rise in consumer prices had been narrowing. The member then commented that, if consumer prices rose further and firms' profit margins expanded accordingly, the result would be price rises stemming from factors other than the pass-through of cost increases, such as preemptive price rises in anticipation of, for example, future wage hikes. A different member expressed the view that consumer prices were projected to continue rising into fiscal 2024, as hikes in fees for shipping and public services were expected. One member pointed to resilience in private consumption brought about by pent-up demand as a contributing factor that had enabled firms to pass on cost increases to selling prices thus far. The member then said that an important aspect from the viewpoint of sustainability of price hikes was whether firms could continue with their price-setting behavior, such as that observed recently, even as such demand waned.

As for risks to economic activity and prices, members concurred that there were extremely high uncertainties for 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, they 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. A few members expressed the view that, with the inflation rate being at a high level, there was a risk of private consumption being pushed down. One of these members pointed out that, if this were to happen, prices also could be under downward pressure thereafter due to weak demand. A different member commented that the recent high prices and, moreover, developments in foreign exchange rates and crude oil prices showed a certain degree of risk that prices overall would not decline as much as expected and would deviate upward from the Bank's baseline scenario. The member continued that, therefore, it was more necessary than before to humbly monitor relevant data.

B. Financial Developments

Members agreed that financial conditions in Japan had been accommodative. In addition, they shared the view that firms' funding costs had been hovering at extremely low levels. Regarding the functioning of the corporate bond market, one member expressed the recognition that, while the issuance conditions for such bonds had been on an improving trend, investors' demand had begun to shift from those in the long-term zone to those in the medium-term zone due to expectations of a rise in interest rates; in addition, transactions in the secondary market had been somewhat sluggish.

III. Summary of Discussions on Monetary Policy

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

With regard to the Bank's basic stance on its future conduct of monetary policy, members agreed that sustainable and stable achievement of the price stability target, accompanied by wage increases, had not yet come in sight, and thus the Bank needed to patiently continue with monetary easing under yield curve control. One member noted that, in order to achieve the price stability target of 2 percent in a sustainable and stable manner, it was necessary that it be accompanied by wage increases and -- with a pass-through of these increases -- that price rises, particularly for services, take root. The member then pointed out that it was important for the Bank to support the momentum for wage hikes through continuation of monetary easing. A different member noted that recent changes in firms' wage- and price-setting behavior were brought about by inflationary pressure from overseas coinciding with tight labor market conditions, and the Bank should carefully nurture such buds of change. One member expressed the recognition that, in order for expectations that the price stability target would be achieved to turn into conviction, there needed to be initiatives by firms to make reforms, as well as initiatives to, for example, improve corporate metabolism and strengthen financing of startups. The member then pointed out that Japan's economy was in a critical phase where boosting firms' appetite for reforms was required. In this situation, some members were of the opinion that the Bank needed to thoroughly monitor developments in wage hikes in 2024, including those of small and medium-sized firms, as well as their interaction with prices. One of these members expressed the recognition that, as inflation expectations had shown some upward movements, Japan's economy was getting closer to achieving the price stability target, although there was somewhat of a distance to go. The member continued that, therefore, the second half of fiscal 2023 would be an important period for determining whether the price stability target would be achieved, including examining developments in wage hikes for 2024. Meanwhile, a different member expressed the view that achievement of 2 percent inflation in a sustainable and stable manner seemed to have clearly come in sight, and the Bank might be able to determine around January to March 2024 whether it would be achieved.

With respect to yield curve control, members agreed that long-term interest rates had been at levels consistent with the guideline for market operations, as the Bank had been conducting yield curve control with greater flexibility in accordance with the guideline decided at the previous meeting. Most members expressed the view that long-term interest rates had been relatively stable and there was no need for an additional revision to the conduct of yield curve control. One of these members expressed the recognition that the Bank's intention to decide on conducting yield curve control with greater flexibility had been conveyed mostly accurately to financial markets, and the intended purpose had been achieved without causing discontinuity in market reactions. One member pointed out that, as there were uncertainties over whether projected inflation would deviate upward from the Bank's baseline scenario, it was important to examine price developments under the current yield curve control conducted with greater flexibility. A different member noted that a rapid tightening of financial conditions, including a significant rise in interest rates -- stemming from the greater flexibility in the conduct of yield curve control -- had been of concern; however, such tightening had not been observed since the previous meeting. In light of this, the member expressed the view that it was appropriate to maintain the current guideline. One member pointed out that, considering upward pressure on Japanese long-term interest rates exerted by a substantial rise in such rates in the United States since the previous meeting, it was appropriate to decide to conduct yield curve control with greater flexibility at that meeting. Meanwhile, a few members expressed the view that the August 2023 *Bond Market Survey*, for example, showed that market functioning remained deteriorated, although some improvements had been observed, partly as a result of the Bank allowing greater flexibility in the conduct of yield curve control. As background to this, one of these members pointed out that some took the view that the low liquidity situation in bond markets had not changed because of the Bank continuing to purchase a large amount of JGBs. A different member noted that the risk of market instability and the side effects on market functioning remained even after allowing greater flexibility in the conduct of yield curve control. The member then expressed the recognition that, as developments since the introduction of yield curve control showed that it was at a stage where it had already played many roles, if the Bank were to head toward an exit from the current monetary policy in the future, encouraging price formation with an emphasis on market functioning would contribute to preparing market participants to adapt to the exit, including through improving liquidity, mainly in bond markets.

Members also discussed the Bank's communication regarding its policy conduct. They agreed that it was important for the Bank to communicate its stance of patiently continuing with monetary easing, given that sustainable and stable achievement of the price stability target had not yet come in sight. Moreover, members noted that the Bank aimed to "achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases." On this basis, they reconfirmed that the Bank had made a commitment in its statements on monetary policy to continue with the yield curve control framework for as long as necessary to achieve that target in a stable manner. One member, while noting that it was a matter of course that members' views varied regarding assessment of economic activity and prices, pointed out that the Bank's policy reaction function -- that is, its stance toward future policy conduct -- was decided by a unanimous vote by all members of the Policy Board and made public. In addition, a few members said that, in making an assessment of economic activity and prices, members would examine a number of economic indicators and other information; however, the criteria for discussing the course of the Bank's monetary policy conduct would be whether the 2 percent price stability target had been achieved or not. A few members pointed out that the removal of the yield curve control framework and the termination of the negative interest rate policy should be discussed in relation to achievement of the 2 percent target and as a set with the success of that achievement. On this point, one member added that, while the Bank's judgment to terminate the negative interest rate policy would mean that it had deemed it desirable to set the interest rate at 0 percent or above, it would not do so in the current state where achieving the 2 percent target had not yet come in sight.

Based on the above discussions, members shared the recognition that the Bank would consider revising its policy if sustainable and stable achievement of the price stability target had come in sight; however, there were high uncertainties over the timing of and specific measures for policy revision, since this depended on developments in economic activity and prices and the outlook for them at each point in time. They continued that, at the moment, the Bank could not decide on any details. One member pointed out that the flexibility of the policy conduct was ensured in the Bank's forward guidance on, for example, the yield curve control framework. This member then expressed the view that, given high uncertainties surrounding economic activity and prices, it was desirable to devise ways to, in essence, provide guidance through various communications so that the flexibility regarding the timing and sequence of policy responses would not be overly constrained. Meanwhile, one member said that it was important from a risk management perspective to prepare and lay the groundwork for an exit from the current monetary policy in terms of, for example, improving market functioning, such as through a securing of and recovery in market liquidity, as well as of communicating with the market and society in view of this exit. This member also expressed the view that, even if the Bank were to terminate its negative interest rate policy, this could be considered a continuation of monetary easing if real interest rates remained negative. The member then said that it was important for the Bank to carefully provide communication on this. In response, one member -- while referring to, for example, the United States at the time of the Great Depression -- pointed out that, even if real interest rates were negative, it was necessary to pay attention to the possibility that the Bank's moves toward adjusting monetary easing would affect economic and financial developments significantly.

Based on the above discussions, regarding the guideline for market operations for the intermeeting period, members agreed that it was appropriate for the Bank to maintain the current guideline. In addition, they shared the recognition that it was appropriate for the Bank to continue with its current conduct of yield curve control.

Members concurred that it was appropriate to maintain the current guideline for asset purchases other than JGB purchases. Meanwhile, one member expressed the view that, although it was desirable for the Bank to maintain accommodative monetary easing for the time being by continuing with the current guideline, including purchases of assets other than JGBs, in the future phase of an exit from the current monetary policy, it should consider whether it needed to continue with its asset purchases.

With respect to the future conduct of monetary policy, members shared the basic stance that, with extremely high uncertainties surrounding economies and financial markets at home and abroad, the Bank would patiently continue with monetary easing while nimbly responding to developments in economic activity and prices as well as financial conditions, and that, by doing so, it would aim to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases. On this basis, they shared the view that the Bank would (1) continue with Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, aiming to achieve the price stability target, as long as it was necessary for maintaining that target in a stable manner, and (2) continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeded 2 percent and stayed above the target in a stable manner. In addition, members agreed that the Bank would continue to maintain the stability of financing, mainly of firms, and financial markets, and would not hesitate to take additional easing measures if necessary.

IV. Remarks by Government Representatives

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

(1) Applications for budget requests for fiscal 2024 were closed on August 31, 2023, and the government had started working on budget formulation.

(2) In formulating the budget for fiscal 2024, the government, as it stated in the Basic Policy on Economic and Fiscal Management and Reform 2023, would return its spending structure to normal and take initiatives to prevent emergency fiscal spending from becoming unnecessarily prolonged or constant. By doing so, it would work toward achieving both economic growth and fiscal soundness.

(3) The government expected the Bank to conduct appropriate monetary policy toward achieving the price stability target in a sustainable and stable manner while closely cooperating with the government.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was recovering at a moderate pace along with a full-fledged shift to a post-pandemic economy and society. However, high prices, mainly of energy and food, led by a rise in import prices had greatly affected people's daily lives. This had been a factor hindering improvement in people's impression of household circumstances, which mainly reflected wage increases.

(2) The government would consider economic measures to (1) protect people's daily lives from high prices and (2) strengthen structural wage increases that could keep up with high prices and the trend of expansion in investment that was aimed at enhancing domestic supply capacity.

(3) The government expected the Bank to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases, taking account of developments in economic activity and prices as well as financial conditions.

V. Votes

A. Vote on the Guideline for Market Operations

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

The Policy Board decided the proposal by a unanimous vote.

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

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

1. The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

2. The Bank will purchase a necessary amount of JGBs without setting an upper limit so that 10-year JGB yields will remain at around 0 percent.

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

Votes against the proposal: None.

B. Vote on the Conduct of Yield Curve Control

To reflect the view of the members, the chairman formulated the following proposal on the conduct of yield curve control and put it to a vote.

The Policy Board decided the proposal by a unanimous vote.

The Chairman's Policy Proposal on the Conduct of Yield Curve Control:

The conduct of yield curve control for the intermeeting period will be as follows.

The Bank will continue to allow 10-year JGB yields to fluctuate in the range of around plus and minus 0.5 percentage points from the target level, while it will conduct yield curve control with greater flexibility, regarding the upper and lower bounds of the range as references, not as rigid limits, in its market operations. The Bank will offer to purchase 10-year JGBs at 1.0 percent every business day for an unlimited amount through fixed-rate purchase operations, unless it is highly likely that no bids will be submitted. In order to encourage the formation of a yield curve that is consistent with the guideline for market operations, the Bank will continue with large-scale JGB purchases and make nimble responses for each maturity by, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations and the Funds-Supplying Operations against Pooled Collateral.

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

Votes against the proposal: None.

C. Vote on the Guideline for Asset Purchases

To reflect the view of the members, the chairman formulated the following proposal on the guideline for asset purchases and put it to a vote.

The Policy Board decided the proposal by a unanimous vote.

The Chairman's Policy Proposal on the Guideline for Asset Purchases:

The guideline for asset purchases other than JGB purchases will be as follows.

1. The Bank will purchase ETFs and J-REITs as necessary with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.

2. The Bank will maintain the amount outstanding of CP at about 2 trillion yen. It will purchase corporate bonds at about the same pace as prior to the COVID-19 pandemic, so that their amount outstanding will gradually return to the pre-pandemic level of about 3 trillion yen. In adjusting the amount outstanding of corporate bonds, the Bank will give due consideration to their issuance conditions.

Votes for the proposal: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, ADACHI Seiji, NAKAMURA Toyoaki, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, and TAMURA Naoki.
Votes against the proposal: None.

D. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy. The chairman formulated the Statement on Monetary Policy 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).

VI. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of July 27 and 28, 2023, for release on September 27.

Attachment

September 22, 2023

Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided upon the following.

   (1) Yield curve control

   a) The Bank decided, by a unanimous vote, to set the following guideline for market operations for the intermeeting period.

      The short-term policy interest rate:

      The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

      The long-term interest rate:

      The Bank will purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit so that 10-year JGB yields will remain at around zero percent.

   b) Conduct of yield curve control (a unanimous vote)

      The Bank will continue to allow 10-year JGB yields to fluctuate in the range of around plus and minus 0.5 percentage points from the target level, while it will conduct yield curve control with greater flexibility, regarding the upper and lower bounds of the range as references, not as rigid limits, in its market operations. The Bank will offer to purchase 10-year JGBs at 1.0 percent every business day through fixed-rate purchase operations, unless it is highly likely that no bids will be submitted.[6] In order to encourage the formation of a yield curve that is consistent with the above guideline for market operations, the Bank will continue with large-scale JGB purchases and make nimble responses for each maturity by, for example, increasing the amount of JGB

[6] Although no bids are expected to be submitted under the current interest rate environment, the Bank will offer fixed-rate purchase operations every business day for the time being.

purchases and conducting fixed-rate purchase operations and the Funds-Supplying Operations against Pooled Collateral.

(2) Guidelines for asset purchases (a unanimous vote)

With regard to asset purchases other than JGB purchases, the Bank decided to set the following guidelines.

a) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) as necessary with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.

b) The Bank will maintain the amount outstanding of CP at about 2 trillion yen. It will purchase corporate bonds at about the same pace as prior to the COVID-19 pandemic, so that their amount outstanding will gradually return to the pre-pandemic level of about 3 trillion yen. In adjusting the amount outstanding of corporate bonds, the Bank will give due consideration to their issuance conditions.

2. Japan's economy has recovered moderately. The pace of recovery in overseas economies has slowed. Although exports and industrial production have been affected by the developments in overseas economies, they have been more or less flat, supported by a waning of the effects of supply-side constraints. With corporate profits being at high levels on the whole, business fixed investment has increased moderately. The employment and income situation has improved moderately. Private consumption has increased steadily at a moderate pace, despite being affected by price rises. Housing investment has been relatively weak. Public investment has increased moderately. Financial conditions have been accommodative. On the price front, the year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) is slower than a while ago, mainly due to the effects of pushing down energy prices from the government's economic measures, but it has been at around 3 percent recently owing to the effects of a pass-through to consumer prices of cost increases led by the past rise in import prices. Inflation expectations have shown some upward movements again.

3. Japan's economy is likely to continue recovering moderately for the time being, supported by factors such as the materialization of pent-up demand, although it is expected to be under downward pressure stemming from a slowdown in the pace of recovery in overseas economies. Thereafter, as a virtuous cycle from income to spending gradually intensifies, Japan's economy is projected to continue growing at a pace above its potential growth rate. The year-on-year rate of increase in the CPI (all items less fresh food) is likely to decelerate, with a waning of

the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices. Thereafter, the rate of increase is projected to accelerate again moderately as the output gap improves and as medium- to long-term inflation expectations and wage growth rise, accompanied by changes in factors such as firms' wage- and price-setting behavior.

4. Concerning risks to the outlook, there are extremely 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. Under these circumstances, it is necessary to pay due attention to developments in financial and foreign exchange markets and their impact on Japan's economic activity and prices.

5. With extremely high uncertainties surrounding economies and financial markets at home and abroad, the Bank will patiently continue with monetary easing while nimbly responding to developments in economic activity and prices as well as financial conditions. By doing so, it will aim to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases.

   The Bank will continue with Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, aiming to achieve the price stability target, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. The Bank will continue to maintain the stability of financing, mainly of firms, and financial markets, and will not hesitate to take additional easing measures if necessary.