Not to be released until 8:50 a.m. Japan Standard Time on Friday, January 26, 2024.

January 26, 2024
Bank of Japan

Minutes of the Monetary Policy Meeting
on December 18 and 19, 2023

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

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 Monday, December 18, 2023, from 2:00 p.m. to 4:04 p.m., and on Tuesday, December 19, from 9:00 a.m. to 11:42 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

SAKAMOTO Motoru, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance
SHINDO Yoshitaka, Minister of State for Economic and Fiscal Policy, Cabinet Office[2]
INOUE Hiroyuki, Vice-Minister for Policy Coordination, Cabinet Office[3]
MORO Kengo, Deputy Director General for Economic and Fiscal Management, Cabinet Office[4]

Reporting Staff

SHIMIZU Tokiko, Executive Director (Assistant Governor)
KAIZUKA Masaaki, Executive Director

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on January 22 and 23, 2024, 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 December 19 from 10:39 a.m. to 11:42 a.m.

[3] Present on December 18.

[4] Present on December 19 from 9:00 a.m. to 10:38 a.m.

SHIMIZU Seiichi, Executive Director

MASAKI Kazuhiro, Director-General, Monetary Affairs Department

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

FUKUNAGA Ichiro, Advisor to Director-General, Research and Statistics Department[5]

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

KITAHARA Jun, Senior Economist, Monetary Affairs Department

KURACHI Yoshiyuki, Senior Economist, Monetary Affairs Department

[5] Present on December 18 from 3:26 p.m. to 4:04 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 market operations, including purchases of Japanese government bonds (JGBs), 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 October 30 and 31, 2023.[7] As for the Bank's conduct of nimble market operations, specifically, it had carried out unscheduled purchases of JGBs and reduced the amount of its scheduled JGB purchases, mainly taking into account interest rate developments and supply and demand conditions in the JGB markets. 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 0.008 to minus 0.027 percent; general collateral (GC) repo rates had been in the range of around minus 0.077 to minus 0.270 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had increased somewhat.

The Tokyo Stock Price Index (TOPIX) had risen. Long-term interest rates (10-year JGB yields), after reaching around 0.95 percent immediately after the previous meeting, declined to the 0.6-0.7 percent level in line with a significant decrease in U.S. long-term interest rates. Many of the liquidity indicators in the JGB markets improved in the period

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

[7] 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.

from summer 2023 to early autumn but had seen a pause in their improvement recently. 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 appreciated against the U.S. dollar as the yield differential between Japan and the United States had narrowed due to the significant decline in U.S. long-term interest rates. The yen had also appreciated against the euro.

C. Overseas Economic and Financial Developments

The pace of recovery in overseas economies had slowed. The U.S. economy had been firm, mainly led by private consumption, although it had been affected by policy interest rate hikes by the Federal Reserve. European economies kept slowing moderately as they continued to be affected by factors such as policy interest rate hikes by the European Central Bank (ECB). The Chinese economy remained on a moderate slowing trend, mainly owing to the effects of a slowdown in external demand and adjustments in the real estate market, but signs of a pick-up had been observed in some aspects, such as private consumption. Emerging and commodity-exporting economies other than China had improved moderately on the whole, with exports showing signs of a pick-up.

As for the outlook, the pace of recovery in overseas economies was projected to remain slow for the time being. Thereafter, they were expected to grow moderately, albeit with variation across countries and regions. There were considerably high uncertainties regarding the outlook, such as the impact of past 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 and Europe, long-term interest rates had declined significantly, led by the United States, as market participants' concern over prolonged monetary tightening and a deterioration in the supply and demand conditions of U.S. Treasury securities had abated. U.S. and European stock prices had risen substantially, reflecting the significant decline in long-term interest rates. Meanwhile, currencies in many emerging economies had appreciated in reflection of the decline in U.S. long-term interest rates. Crude oil prices had declined, mainly due to the disagreement among oil-producing economies over further coordinated oil production cuts.

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, as overseas economies grew moderately, albeit with variation across countries and regions, they were likely to return to an uptrend.

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

Private consumption continued to increase moderately, despite being affected by price rises. The consumption activity index (CAI; real, travel balance adjusted) had been on an increasing trend until October 2023, albeit with monthly fluctuations. With regard to private consumption since November 2023, based on anecdotal information from firms and high-frequency indicators, this seemed to have continued on a moderate uptrend, as the income situation had improved and pent-up demand had also provided support. However, a gradually increasing number of firms had pointed out a rise in households' thriftiness in response to price rises. Consumer sentiment remained at an improved level compared with a while ago, although it had seen a pause in its improvement due to the effects of high prices. Regarding the outlook, although such consumption was expected to be affected by price rises, it was projected to keep 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 risen moderately, albeit with fluctuations, mainly in the medical, healthcare, and welfare services industry, as well as the information and communications industry, with both these industries facing severe labor shortages. With economic activity normalizing, the number of non-regular employees had been on a moderate uptrend, mainly in the wholesale and retail trade as well as the face-to-face services industries. Nominal wages per employee had increased moderately, reflecting the recovery in economic activity and the results of the annual spring labor-management wage negotiations. 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, while crude oil prices had declined, other commodity prices had been more or less flat on the whole. With the impact of past high commodity prices gradually waning, the rate of change in the producer price index (PPI) relative to three months earlier had been at around 0 percent. 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. Inflation expectations had risen moderately. With regard to the outlook, the year-on-year rate of increase in the CPI (all items less fresh food) was likely to be above 2 percent through fiscal 2024, due to factors such as the remaining effects of the pass-through to consumer prices of cost increases led by the past rise in import prices. Thereafter, the rate of increase was projected to decelerate owing to dissipation of these factors.

2. Financial environment

Japan's financial conditions had been accommodative.

With a high level of demand for working capital stemming from elevated raw material costs, 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. 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 in the range of 3.0-3.5 percent. That in the aggregate amount outstanding of CP and corporate bonds had been at around 2 percent. Firms' financial positions had been favorable. The number of bankruptcies of firms had increased.

Meanwhile, the year-on-year rate of change in the monetary base had been at around 9 percent. That in the money stock had been in the range of 2.0-2.5 percent.

II. Summary of Staff Reports and Discussions by the Policy Board on the *Review of Monetary Policy from a Broad Perspective*

A. Staff Reports

As part of the *Review of Monetary Policy from a Broad Perspective*, the Research and Statistics Department was conducting a research project that looked back on developments in economic activity and prices over the past 25 years.

In this project, the staff had been conducting the following so far: (1) summarizing past discussions and previous studies, and (2) with regard to economic activity and prices in Japan since the late 1990s, making analyses from various perspectives, such as the effects of globalization, sluggish productivity, deterioration in the terms of trade, and people's mindset on prices as well as the social norm for them. The staff reported an overview of the analyses made so far, as follows.

With regard to productivity and other factors, (1) it was likely that productivity of Japan's trading sector had not necessarily benefitted fully from globalization, compared with in the United States and Europe. In this situation, (2) the decline in the competitiveness of Japan's trading sector relative to that of other countries seemed to be a factor that had led to deterioration in Japan's terms of trade, and this in turn had a negative impact on household income and private consumption. Meanwhile, (3) it was less likely that the so-called zombie firms had significantly inhibited Japan's economic growth, as their share had been at low levels in recent years.

As for price and wage developments, (1) the view that prices and wages do not increase easily was deemed to have gradually taken hold in society, as the costs that firms incur when revising prices -- or menu costs -- had increased, and to have strengthened due to the prolonged low-inflation environment. Meanwhile, (2) firms seemed to have secured profits by holding down wages as markups had contracted due to a highly competitive environment. In addition, (3) as globalization had proceeded, it was highly likely that overseas factors had acted to continuously exert downward pressure on Japan's consumer prices, except for the most recent period. Furthermore, (4) the relationship between economic activity and prices seemed to have weakened, as observed by the deviation between growth expectations and inflation expectations, as well as the flattening of the Phillips curve.

As inflation rates had been relatively high over the past year or two, there seemed to be signs of change in the long-standing situation of prices not increasing easily. Specifically, the frequency of price revisions had seen a rapid rise recently, and it was likely that the view that prices do not increase easily would begin to dissipate through the accumulation of firms' experiences from raising prices. In addition, downward pressure on costs from abroad that had been observed over most of the past 25 years was turning to upward pressure. However, the sustainability of such changes continued to warrant attention.

The Research and Statistics Department would continue with this research project, also making use of the results of a survey that was mainly on corporate behavior since the mid-1990s, which the Bank's Head Office and branches were currently working on together. With regard to the analyses of individual research, these were expected to be released in the form of research papers, such as the *Bank of Japan Working Paper Series*, and the staff would exchange views on the findings with experts, making use of occasions such as workshops.

B. Discussions by the Policy Board

Based on the above staff reports, members discussed developments in economic activity and prices over the past 25 years, particularly the background to the prolonged situation of wages and prices not increasing easily.

Some members expressed the recognition that it was the norm that wages and prices do not increase easily having taken hold in society during the deflationary period that had significantly contributed to the subsequent prolongation of low inflation. One of these members said that, with the low-inflation environment expected to be maintained, firms' pass-through of cost increases to selling prices had been less likely to take place. The member continued that this in turn had in part further intensified the perception that prices do not increase easily. A different member expressed the view that, when faced with such substantial shocks as financial crises, the impact on corporate and household behavior, as well as the adaptive formation mechanism of inflation expectations, would likely be prolonged by around a decade or more. The member added that, in the current situation where the Bank patiently continued with monetary easing for a long period, there had been a new shock of significant cost increases, and this had finally started to create an environment that was favorable for inflation expectations to change. One member pointed out that it was necessary to conduct a more detailed analysis of how, and to what extent, the norm of prices not increasing easily had affected the price formation mechanism.

Some members pointed to the effects of changes in Japan's growth potential and in the global environment on corporate behavior and prices. One of these members expressed the view that, amid environmental changes surrounding firms, including globalization, the declining population, and the yen's appreciation, Japanese firms had lagged behind reforms in their business models, and business management that emphasized cutting costs had taken hold against the background of the lingering management philosophy that had become entrenched during Japan's high-growth era -- namely, the idea that "wage increases stemming from improved labor productivity should be absorbed by firms' efforts, including the containment of costs through mass production." The member continued that this had resulted in stagnant innovation and wages. A different member pointed out that, as Japanese firms had long been exposed to intense competition, they had improved their production efficiency to secure high international competitiveness. The member -- noting that such competent business models of Japanese firms had seen a collapse during the 1990s -- expressed interest in whether the collapse was brought about by the effects of rapid appreciation of the yen or of monetary policy. One member commented that it also was important to consider whether changes in the global inflationary environment over the past few years were a structural or temporary phenomenon, with the latter arising from the course of recovery from the COVID-19 pandemic. The member -- noting that the norm for prices and the global low-inflation environment had significantly influenced past low inflation -- pointed out that, if these structural factors were beginning to shift, the implication would be that there was a greater possibility of Japan's economy achieving the price stability target of 2 percent and enabling it to take hold.

Meanwhile, one member noted, as an example, that there could be varied views regarding the relationship between the so-called zombie firms and Japan's growth potential.

The member then said that, with a view to enhancing the objectivity and transparency of the review from a broad perspective, it was important that the Bank incorporate diverse expertise through such initiatives as conducting surveys, holding interviews and workshops, and inviting public comment concerning its releases. A different member commented that it was necessary to continue to examine whether low interest rates had been one of the causes of the issue of zombie firms. On this basis, the member pointed out that low interest rates provide benefits for a wide range of firms, and even if there was a certain chance of such low rates extending the lifespan of zombie firms, it would not imply that the level of interest rates should have been raised. The member then added that the impact of other factors, such as various public measures, should be examined.

Based on these discussions, members shared the recognition that it was appropriate to continue with some on such factors as the background to the continued low-inflation environment, while taking into account the staff's additional analyses and examinations.

III. 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, although attention continued to be drawn to uncertainties over the U.S. and European monetary policies, as well as the outlook for the global economy, market sentiment had shown signs of improvement, reflecting the significant decline in U.S. and European long-term interest rates. One member expressed the recognition that, compared with developments in economic activity and prices, it seemed that the markets had factored in policy interest rate cuts in the United States rather excessively.

Members shared the recognition that the pace of recovery in overseas economies had slowed. One member expressed the view that global inflationary pressure had been easing as a trend, although uncertainties stemming from geopolitical risks remained.

Members agreed that the U.S. economy had been firm, mainly led by private consumption, although it had been affected by policy interest rate hikes by the Federal Reserve. Some members pointed out that the inflation rate had slowed gradually while labor market conditions had eased somewhat. Some members expressed the view that, under such circumstances, private consumption had been firm and the possibility of the U.S. economy achieving a soft landing had risen.

Members shared the recognition that European economies kept slowing moderately as they continued to be affected by factors such as policy interest rate hikes by the ECB. Some members pointed out that deceleration in these economies was becoming evident, mainly reflecting the effects of past interest rate hikes and heightened geopolitical risks.

Members shared the view that the Chinese economy remained on a moderate slowing trend, mainly owing to the effects of the slowdown in external demand and adjustments in the real estate market, but signs of a pick-up had been observed in some aspects, such as private consumption. Some members pointed out that the growth momentum from a somewhat long-term perspective had declined, mainly reflecting the sluggish real estate market and U.S.-China tension. One of these members, however, expressed the view that it was highly likely that the Chinese government would support the economy through fiscal policy measures for the time being.

Regarding emerging and commodity-exporting economies other than China, members shared the recognition that these economies had improved moderately on the whole, with exports showing signs of a pick-up.

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. A few members pointed out that, although weakness shown in the GDP statistics for the July-September quarter of 2023, for example, was a matter of concern, various data, including the *Tankan* (Short-Term Economic Survey of Enterprises in Japan) and financial results of firms, revealed that private consumption had increased, despite being affected by price rises, and that corporate profits as well as business fixed investment plans had been solid.

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 been on a moderate increasing trend, with corporate profits and business sentiment improving. Some members expressed the view that, mainly taking into account the strong business fixed investment plans in the December 2023 *Tankan*, firms maintained an active investment stance, although some coincident indicators had been relatively weak. One of these members expected that the favorable corporate performance of large firms would spread to profits of small and medium-sized firms through an increase in prices of goods sold by small and medium-sized firms to large ones, and that the existing virtuous cycle would intensify. The member then added that it was important for startups to grow and expand their scale of funding, as well as for larger firms and small and medium-sized firms to gain a higher degree of autonomy by augmenting their management resources.

Members concurred that private consumption continued to increase moderately, despite being affected by price rises. Some members expressed the view that it had been relatively weak in part, such as in nondurable goods, as households' spending behavior had become more defensive, mainly due to a decline in real income. A few members expressed the view that, until wage hikes were realized in spring 2024, private consumption would be supported by pent-up demand and household savings that had accumulated as a result of pandemic-related restrictions, and thus could lack momentum. Nevertheless, one of these members pointed out that private consumption was unlikely to decline as consumer sentiment had held up, mainly due to expectations for future income growth. A different member noted that a key issue was whether wage hikes would continue and could support private consumption from the household income side.

Members shared the view that the employment and income situation had improved moderately. One member expected that winter bonuses for 2023 would exceed those for the previous year, reflecting improvements in corporate profits.

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. Moreover, they shared the recognition that it had gradually become evident that the effects of the pass-through of the past rise in import prices to consumer prices had gradually waned, as seen, for example, in the preliminary estimates of the CPI for Tokyo's 23 wards for November 2023. Some members pointed out that the upward pressure of costs had paused as a trend, mainly as the number of items for which prices were raised had decreased, such as in food items. A different member expressed the view that there was a higher likelihood of the rate of increase in flexible prices, which include goods, decelerating temporarily, as the number of items which had experienced a significant price hike had decreased. Members shared the view that prices for services, for example, had risen moderately. One member pointed out that the rate of increase in services prices, excluding administered prices and housing rent, continued to be high. Meanwhile, members agreed that inflation expectations had risen moderately. A few members pointed out that the *Tankan* and other sources had indicated changes in firms' price-setting stance, including that of small and medium-sized firms, which also suggested a moderate rise in inflation expectations.

With regard to the outlook for prices, members agreed that the year-on-year rate of increase in the CPI was likely to be above 2 percent through fiscal 2024, due to factors such as the remaining 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 decelerate owing to dissipation of these factors. Moreover, members shared the view that underlying CPI inflation was likely to increase gradually toward achieving the price stability target, as the output gap turned positive and as medium- to long-term inflation expectations and wage growth rose. On this point, many members expressed the recognition that the likelihood of realizing this outlook had been rising gradually. Some members pointed out that a future scenario could be expected in which intensification of the virtuous cycle between wages and prices led by wage hikes made progress. One of these members said that, until the effects of wage hikes and the government's measures materialized, it was necessary to monitor whether economic developments, particularly in private consumption, would be solid and stay at that level. A different member pointed out that the second half of fiscal 2023 would be an important period for determining whether underlying inflation and inflation expectations would rise.

From the perspective of confirming that the virtuous cycle between wages and prices had intensified, members discussed wage developments. Some members expressed the opinion that the possibility had heightened of a notable wage increase being achieved in the 2024 annual spring labor-management wage negotiations. One of these members pointed out that the momentum in wage hikes at this point was stronger than in 2022, as various factors that affected wage formation, such as corporate profits, labor market conditions, and observed inflation, had improved compared with at this time in 2022. The member continued that these developments allowed for strong expectations for wage hikes, including among small and medium-sized firms. A different member said that the past rise in import prices had affected wage-setting behavior, and many firms had taken moves toward raising wages, partly reflecting heightening expectations in the society; given these factors, it was highly possible that the wage growth to be agreed in the 2024 wage negotiations would exceed that agreed in 2023. On the other hand, some members expressed the view that, with respect to local small and medium-sized firms in particular, there were high uncertainties as to whether a notable wage increase would be achieved, due mainly to weakness in their profit bases. A few of these members commented that whether or not a wide range of firms would achieve wage hikes could not be viewed optimistically, as evidenced, for example, by some firms avoiding raising the rate of base pay increases, even in industries where profits and business sentiment had improved significantly. In response, one member pointed out that, in the pre-pandemic phase, firms had addressed labor shortages, mainly by reducing unprofitable services and promoting labor participation of women and seniors. The member continued, however, that there was less room for such responses recently, and firms therefore were in a situation of being forced to raise wages to retain employees. A few members, including this member, added that the improvement in corporate profits and a decline in the labor share, partly due to progress in the pass-through of cost increases to selling prices, would also encourage wage hikes.

Members also discussed spillovers from wage increases to prices. A few members expressed the opinion that, as firms' price-setting behavior changed, moves to pass on higher personnel expenses to prices had spread and the year-on-year rate of increase in services prices, which are sticky, continued to be high. These members added that government support, such as the formulation of guidelines concerning price negotiations, also had affected firms' price setting. In response, some members pointed out that many firms had reported that it remained difficult to pass on higher wages to services prices. One of these members added that statistics showed that a notable increase in services prices had been seen, mainly for hotel charges, and the contribution of the rise in services prices to the rise in the overall CPI had been only around 1 percent. A different member said that there were some cases where existing systems and practices concerning price setting had made it difficult for firms to raise prices, and that attention needed to be paid to whether or not this would hinder the virtuous cycle between wages and prices. In relation to these points, one member pointed out that attention was warranted on whether higher personnel expenses would be passed on to selling prices in the services industry, where it was more difficult relative to the manufacturing industry to absorb cost increases by raising productivity. Meanwhile, one member expressed the opinion that, given the entrenchment of the idea held in the high-growth era that an increase in personnel expenses should be absorbed by firms' efforts, including the containment of costs through mass production, a pass-through of wage hikes to selling prices required improvement in customer satisfaction. The member continued that, therefore, human resource development as well as investment in human capital and research and development (R&D) were important.

As for risks to economic activity and prices, members concurred that there were 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. 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. With respect to overseas economies, one member noted the intention to continue paying significant attention to economic and financial developments in the United States. A different member expressed the recognition that uncertainties regarding overseas economies, including a reversal of globalization and geopolitical risks, had heightened. Regarding the Chinese economy, a few members pointed out that there were high uncertainties concerning the real estate sector. One of these members added that, while there was considerable room for conducting macroeconomic policy measures in China, where the potential growth rate was high, there was a risk that fiscal support to, for example, the real estate sector would be insufficient, as the government appeared to prioritize social stability in the long term. One member pointed out that, if Japanese firms adopted stronger cost-cutting measures in response to lower capacity utilization due to the yen's appreciation and slowdowns in overseas economies, they could have less of an appetite for wage hikes and investment. The member then noted that close attention was required on firms' profit plans and their business policies, including those of small and medium-sized firms.

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. A few members expressed the recognition that the degree of bond market functioning, for example, continued to improve as a trend. On this basis, one member expressed the view that issuance conditions for corporate bonds remained favorable. However, a different member said that long-term funding from the corporate bond market had been somewhat difficult as investors' expectations of a rise in interest rates had been growing.

IV. 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 was not yet envisaged with sufficient certainty at this point, and thus the Bank needed to patiently continue with monetary easing under yield curve control, aiming to support Japan's economic activity and thereby facilitate a favorable environment for wage increases. Some members expressed the view that, from the perspective of achieving the price stability target, it was essential at this point to examine demand and wage developments. One member said that the Bank should continue with the current monetary easing in order to encourage changes in economic and wage structures resulting from labor shortages.

Many members once again pointed out that, in determining whether to terminate the negative interest rate policy and the yield curve control framework, sustainable and stable achievement of the price stability target needed to come in sight, with a virtuous cycle between wages and prices being confirmed. Some members expressed the view that the determination of whether such achievement had come in sight should not be based on specific numerical values such as the rate of wage increases achieved in labor-management wage negotiations or other indicators, but instead on a comprehensive judgement. Moreover, with regard to the timing of making such a determination, members concurred that it would be decided at each future meeting based on various data and information obtained at each point in time. On this point, some members said that it seemed that the Bank was currently not in a situation where it would fall behind the curve if it did not rush to raise policy interest rates. These members continued that, even if the Bank made a decision after it saw developments in labor-management wage negotiations in spring 2024, it would not be too late. One of these members expressed the view that, given that the wage growth rate had not caught up with the inflation rate to date, even if wage hikes in 2024 were considerably higher than expected, the risk that this would intensify the cycle between wages and prices excessively and cause underlying inflation to significantly exceed 2 percent was small. A different member added that, unlike the situation seen in the United States in 2021, the strong upward pressure on prices was currently subsiding in Japan, and that it was important to thoroughly determine wage and price developments. In addition, another member expressed the view that, considering the fact that increasing the flexibility in the conduct of yield curve control at the previous meeting had lowered the likelihood of side effects, the Bank would have sufficient leeway to determine whether the virtuous cycle between wages and prices had intensified. In response, some other members pointed out that, looking ahead toward the exit from the current monetary policy, it was necessary to consider the treatment of yield curve control and the negative interest rate policy while taking into consideration their side effects and impact on the market. One of these members noted that, with the likelihood of achieving the price stability target in a sustainable and stable manner rising further, the timing of normalization of monetary policy was getting closer. The member then said that, to avoid the risk of high prices damaging the underlying trend in consumption and undermining the achievement of the target as a result of overly careful assessment, the Bank should not miss an opportunity to revise its policy. This member added that, while the risk of prices becoming excessively higher than expected and the Bank needing to rapidly tighten monetary policy was small, it was necessary to understand that the cost incurred if this risk materialized would be significant.

Members shared the recognition that, in determining whether to terminate the negative interest rate policy and the yield curve control framework, it was necessary to decide what means and which order of procedures would be appropriate based on developments in economic activity, prices, and financial conditions at that time. On this basis, a few members pointed out that one option could be to keep a moderate framework to avoid causing instability in long-term interest rates, even after sustainable and stable achievement of the price stability target had come in sight. One member noted that termination of the negative interest rate policy was different in some aspects from a short-term policy interest rate hike within positive territory. This member then expressed the view that, bearing in mind that the termination would not necessarily induce a change that was the opposite of the one observed at the time of the introduction of the negative interest rate policy in 2016, it was necessary to analyze possible effects in advance. Meanwhile, one member commented that the Bank held a large amount of JGBs, bearing much of the market's interest rate risk; therefore, from the perspective of maintaining confidence in its ability to conduct monetary policy in the exit phase, it was important that the Bank provide communication on central banks' balance sheets and the mechanism of changes in their profits.

Members also discussed policy conduct from a somewhat long-term perspective. A few members expressed the view that the Bank was likely to continue with substantial monetary easing for the time being, even after termination of the negative interest rate policy and the yield curve control framework. One of these members noted that it was important to maintain accommodative financial conditions, while slightly adjusting the degree of monetary easing. On this point, one member commented that the current guideline for future policy conduct -- specifically, that the Bank would 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 -- had allowed for some modifications to QQE with Yield Curve Control if achievement of the target was likely to be in sight after implementing them. The member continued that the guideline did not imply that the Bank would continue with the current policy until it had no choice but to implement, for example, rapid policy interest rate hikes after a policy revision.

Based on the above discussions, members shared the recognition that it was important for the Bank to continue to deepen discussions on issues such as the timing of the exit from the current monetary policy and the appropriate pace of raising policy interest rates thereafter, while giving consideration to the relationship with wage and price developments going forward.

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 in accordance with the guideline decided at the previous meeting, at which the Bank had decided to further increase the flexibility in the conduct of yield curve control. With regard to the increase in the flexibility decided at the previous meeting, one member judged that, given, for example, that long-term interest rates had been relatively stable and the shape of the JGB yield curve had been smooth, the intended purpose had been achieved. One member commented that many market participants had indicated that they had regarded the reduction in the amount of JGB purchases implemented during the intermeeting period as a factor that would contribute to the recovery in liquidity.

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. One member expressed the view that, given the improving trend in economic activity and prices, the treatment of asset purchases other than JGB purchases should be considered as well, taking account of, for example, their impact on the market.

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 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.

V. Remarks by Government Representatives

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was on a moderate recovery trend that offered a golden opportunity to shift to a new stage. On the other hand, private demand had lacked in strength as wage growth had not caught up with inflation, and the economy could revert to a deflationary state if left unaddressed. With regard to the supply side, Japan's potential growth rate remained at a low level of around 0.5 percent.

(2) Through the comprehensive economic measures, the government would protect people's daily lives from high prices and would sustain and expand the trend of wage hikes. It would also raise the potential growth rate by enhancing the supply capacity of its economy, thus leading to sustained wage hikes. The government would explore frontiers and promote efforts such as social implementation of new technologies, thereby structuring an economy that could grow in a sustainable manner even with a declining population.

(3) The government expected the Bank to conduct appropriate monetary policy toward achieving 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.

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

(1) The supplementary budget for implementing comprehensive economic measures was approved by the Diet recently. The government was currently in the process of finalizing the budget for fiscal 2024.

(2) The outline for tax reform for fiscal 2024 was formulated by the ruling parties on December 14, and the government would take appropriate actions based on it.

(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.

VI. 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 regard the upper bound of 1.0 percent for 10-year JGB yields as a reference in its market operations, and in order to encourage the formation of a yield curve that is consistent with the guideline for market operations, it 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).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of October 30 and 31, 2023, for release on December 22.

Attachment
December 19, 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 regard the upper bound of 1.0 percent for 10-year JGB yields as a reference in its market operations, and in order to encourage the formation of a yield curve that is consistent with the above guideline for market operations, it 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.[8]

   (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.

[8] The Bank will determine the offer rate for fixed-rate purchase operations each time, taking account of market rates and other factors.

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. Corporate profits and business sentiment have improved. In this situation, business fixed investment has been on a moderate increasing trend. The employment and income situation has improved moderately. Private consumption has continued to increase moderately, despite being affected by price rises. Housing investment has been relatively weak. Public investment has been more or less flat. 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 risen moderately.

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 be above 2 percent through fiscal 2024, due to factors such as the remaining 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 decelerate owing to dissipation of these factors. Meanwhile, underlying CPI inflation is likely to increase gradually toward achieving the price stability target, as the output gap turns positive and as medium- to long-term inflation expectations and wage growth rise.

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.