December 23, 2022
Bank of Japan

Minutes of the Monetary Policy Meeting

on October 27 and 28, 2022

(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 Thursday, October 27, 2022, from 2:00 p.m. to 4:12 p.m., and on Friday, October 28, from 9:00 a.m. to 11:43 a.m.[1]

Policy Board Members Present

Mr. KURODA Haruhiko, Chairman, Governor of the Bank of Japan

Mr. AMAMIYA Masayoshi, Deputy Governor of the Bank of Japan

Mr. WAKATABE Masazumi, Deputy Governor of the Bank of Japan

Mr. ADACHI Seiji

Mr. NAKAMURA Toyoaki

Mr. NOGUCHI Asahi

Ms. NAKAGAWA Junko

Mr. TAKATA Hajime

Mr. TAMURA Naoki

Government Representatives Present

Mr. OKU Tatsuo, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance

Mr. INOUE Hiroyuki, Vice-Minister for Policy Coordination, Cabinet Office

Reporting Staff

Mr. UCHIDA Shinichi, Executive Director

Ms. SHIMIZU Tokiko, Executive Director (Assistant Governor)

Mr. KAIZUKA Masaaki, Executive Director

Mr. SHIMIZU Seiichi, Executive Director

Mr. NAKAMURA Koji, Director-General, Monetary Affairs Department

Mr. KAMIJO Toshiaki, Deputy Director-General, Monetary Affairs Department[2]

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on December 19 and 20, 2022, 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] Mr. Kamijo was present on October 27 from 2:56 p.m. to 4:12 p.m.

Mr. NAKASHIMA Motoharu, Head of Policy Planning Division, Monetary Affairs Department

Mr. MASAKI Kazuhiro, Director-General, Financial System and Bank Examination Department

Mr. FUJITA Kenji, Director-General, Financial Markets Department

Mr. OTANI Akira, Director-General, Research and Statistics Department

Mr. NAGANO Teppei, Head of Economic Research Division, Research and Statistics Department

Mr. HIROSHIMA Tetsuya, Director-General, International Department

Secretariat of the Monetary Policy Meeting

Mr. CHIDA Hidetsugu, Director-General, Secretariat of the Policy Board

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

Mr. OTAKE Hiroki, Head of Policy Infrastructure Division, Monetary Affairs Department[3]

Mr. NAGAE Shinichiro, Senior Economist, Monetary Affairs Department

Mr. ANDO Masatoshi, Senior Economist, Monetary Affairs Department

Mr. TAKEDA Norihisa, Senior Economist, Monetary Affairs Department

[3] Mr. Otake was present on October 27 from 2:56 p.m. to 4:12 p.m.

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

A. Market Operations in the Intermeeting Period

In accordance with the short-term policy interest rate of minus 0.1 percent and the target level of the long-term interest rate, both of which were decided at the previous meeting on September 21 and 22, 2022, the Bank had been conducting purchases of Japanese government bonds (JGBs).[5] Under the guideline for fixed-rate purchase operations for consecutive days decided at that meeting, it had also conducted outright purchases of 10-year JGBs at 0.25 percent through the fixed-rate method every business day. Moreover, the Bank had carried out fixed-rate purchase operations of the cheapest-to-deliver (CTD) issues every business day. In this situation, 10-year JGB yields had been at around 0 percent, and the shape of the JGB yield curve had been consistent with the guideline for market operations.

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 guideline for asset purchases decided at the previous meeting. In addition, it had conducted the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) (the Special Operations to Facilitate Financing) to support financing, mainly of firms. Furthermore, with a view to meeting a wider range of financing needs, the Bank had conducted fund-provisioning under the Funds-Supplying Operations against Pooled Collateral without setting an upper limit.

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 0.021 to minus 0.073 percent; general collateral (GC) repo rates had been in the range of around minus 0.074 to minus 0.115 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 moved generally in line with U.S. stock prices and was more or less unchanged throughout the intermeeting period. Long-term

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

[5] The target level of the long-term interest rate was as follows:

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.

interest rates (10-year JGB yields) had been at around 0 percent under yield curve control. In the foreign exchange market, the yen had depreciated against the U.S. dollar and the euro, while such factors as differences in the direction of monetary policy in Japan and that in the United States and Europe had drawn attention again.

C. Overseas Economic and Financial Developments

Overseas economies had recovered moderately on the whole, but slowdowns had been observed, mainly in advanced economies. Although supply-side constraints continued to wane, downward pressure on the global economy remained in place, such as the impact of global inflationary pressure, policy interest rate hikes by central banks, and the situation surrounding Ukraine. As for the outlook, although the impact of COVID-19 and supply-side constraints was likely to wane, overseas economies were expected to slow, albeit with variation across countries and regions, reflecting the effects of various downward pressures. For the time being, there were high uncertainties over the course of the situation surrounding Ukraine as well as global inflationary pressure. There was also a risk that global financial conditions would tighten more than expected with central banks raising policy interest rates rapidly.

With regard to developments in overseas economies by region, the U.S. economy had slowed somewhat in reflection of a surge in inflation and continued policy interest rate hikes by the Federal Reserve. Private consumption continued to increase, particularly for services consumption, with household savings that had accumulated to date and firm labor market conditions continuing to act as underpinning factors. Nevertheless, the pace of its increase had slowed, mainly affected by the surge in inflation. Housing investment had decreased in reflection of the policy interest rate hikes. Production continued to increase, and business fixed investment also continued to see a small increase. Business sentiment kept improving, but the pace of improvement had slowed in the manufacturing industry. Regarding prices, the personal consumption expenditure (PCE) deflator had marked a high increase in the range of 6.0-6.5 percent on a year-on-year basis, mainly due to the effects of tight supply and demand conditions.

In European economies, slowdowns had been observed as they continued to be affected by the situation surrounding Ukraine. With regard to private consumption, while services consumption maintained an increasing trend, the consumption of goods other than automobiles had decelerated due to a surge in energy prices. Business sentiment had deteriorated. Production had been more or less flat on the whole, albeit with fluctuations. As for prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) had been at a very high level of around 10 percent, mainly due to the rise in food and energy prices.

The Chinese economy had recovered from the state of being pushed down as the impact of lockdowns and other public health measures had waned, despite the remaining effects of the spread of COVID-19. Private consumption had recovered as a trend from a deeply depressed level seen around spring, although the pace of improvement had slowed in part. Production had followed a recovery trend. Exports had generally recovered, reflecting the normalization of the production and logistics situations. Fixed asset investment had increased moderately on the whole, reflecting an increase in infrastructure investment, although real estate investment continued to decrease.

Emerging and commodity-exporting economies other than China had picked up on the whole, albeit with weakness seen in part. The NIEs and the ASEAN economies had recovered on the whole as domestic demand continued to improve with progress in the resumption of economic activity, although growth in exports had decelerated.

With respect to overseas financial markets, long-term interest rates in advanced economies had risen significantly on the back of central banks raising policy interest rates rapidly, and due in part to vigilance regarding fiscal policy in the United Kingdom. Stock prices had risen slightly over the intermeeting period in the United States and Europe, albeit with fluctuations. Crude oil prices had risen, mainly against the background of an agreement reached on large-scale production cuts by major oil-producing economies. Currencies in emerging economies had generally depreciated as preference for the U.S. dollar continued, mainly reflecting a rise in U.S. interest rates in addition to concern over a global economic slowdown.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy, despite being affected by factors such as high commodity prices, had picked up as the resumption of economic activity had progressed while public health had been protected from COVID-19. Regarding the outlook, the economy was likely to recover, with the impact of COVID-19 and supply-side constraints waning, although it was expected to be under downward pressure stemming from high commodity prices and slowdowns in overseas economies.

Exports and industrial production had increased as a trend, with the effects of supply-side constraints waning. Developments in real exports by goods were as follows. Although the global supply and demand conditions for semiconductors continued to be tight, exports of automobile-related goods had turned to a clear increase as the impact of lockdowns such as in Shanghai had almost dissipated. Exports of capital goods had increased, supported by steady machinery investment on a global basis and by strong demand for semiconductor production equipment on the back of projections that digital-related demand would expand in the medium to long term. Some weakness had been observed in IT-related exports, mainly for semiconductors for smartphones and personal computers, reflecting a global slowdown in demand for these items. Regarding the outlook, exports and industrial production were likely to remain on an uptrend, supported by the waning of supply-side constraints and high levels of order backlogs for automobiles and capital goods, although they were expected to be affected by the slowdowns in overseas economies.

Corporate profits had been at high levels on the whole. Business sentiment was more or less unchanged. Looking at developments in the diffusion index (DI) for business conditions in the September 2022 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) by industry, the DI for manufacturing had been more or less flat because it had been affected by raw material cost increases despite the effects of supply-side constraints waning somewhat. The DI for overall nonmanufacturing had improved slightly; while the DIs for industries such as electric and gas utilities as well as retail had been affected by rises in input prices, those for industries such as goods rental and leasing, transport and postal activities, and accommodations as well as eating and drinking services had improved somewhat.

Business fixed investment had picked up, although weakness had been seen in some industries. With regard to the outlook, as corporate profits remained at high levels on the whole despite being pushed down by the impact of high commodity prices, an uptrend in business fixed investment was expected to become clear on the back of accommodative financial conditions and the waning of supply-side constraints. Looking at leading indicators of such investment, machinery orders (private sector, excluding orders for ships and those from electric power companies) and construction starts (in terms of planned expenses for private and nonresidential construction) had both increased, albeit with fluctuations. The business fixed investment plan in the September *Tankan* showed that business fixed investment -- including software and research and development (R&D) investments but excluding land purchasing expenses, for all industries and enterprises including financial institutions -- was likely to see a clear increase of 15.2 percent on a year-on-year basis for fiscal 2022. This was because projects that had been postponed due to COVID-19 were expected to be carried out, and IT-related investment to digitalize business activities as well as environmental investment toward decarbonization were projected to increase.

Private consumption had increased moderately, despite being affected by COVID-19. The consumption activity index (CAI; real, travel balance adjusted) had increased clearly for the April-June quarter of 2022. It then saw a slight decline on the whole for the July-August period relative to the April-June quarter. By type, consumption of durable goods declined for the July-August period, mainly for smartphones, despite being pushed up by the waning of supply-side constraints. Consumption of nondurable goods had been firm, mainly for beverages and food, on the back of a pick-up in people's willingness to go out and of temperature rises. Services consumption declined slightly for the July-August period due to the impact of the COVID-19 resurgence during summer 2022. That said, the extent of the declines in dining-out and domestic travel was marginal compared with that observed during past phases when cases had surged.

Looking at developments in private consumption since September based on anecdotal information from firms and high-frequency indicators, it seemed to have increased moderately with the COVID-19 situation improving. Although many goods and services had seen price hikes since the beginning of October, price rises did not seem to have made households' consumption behavior significantly cautious so far. That said, looking at confidence indicators related to private consumption, the consumer confidence index remained at a low level, with attention being given to price rises. Regarding the outlook, private consumption was expected to be affected by price rises. However, on the back of improvement in the employment situation, it was projected to continue increasing because pent-up demand was likely to materialize, supported by household savings that had accumulated as a result of pandemic-related restrictions, as the resumption of consumption activities progressed further while public health was being protected.

The employment and income situation had improved moderately on the whole. Regarding the number of employed persons in the *Labour Force Survey*, that of regular employees had followed a moderate uptrend, mainly in the medical, healthcare, and welfare services industry as well as the information and communications industry, both of which had faced a severe labor shortage. The number of non-regular employees had increased moderately of late, including for the face-to-face services industry. The employment conditions DI in the September *Tankan* showed an increase in net "insufficient." Total cash earnings per employee had increased moderately, reflecting the pick-up in overall economic activity. With regard to the outlook, nominal employee income was likely to continue increasing along with economic improvement. In real terms, however, the year-on-year rate of change in employee income was likely to be negative for the time being, reflecting price rises.

As for prices, international commodity prices had been more or less flat, mainly because concern over a global economic slowdown had weighed on them. Reflecting developments in international commodity prices and foreign exchange rates, the rate of change in the producer price index (PPI) relative to three months earlier continued to be relatively high, although it had decelerated. The year-on-year rate of change in the consumer price index (CPI, all items less fresh food) had been at around 3 percent due to rises in prices of such items as energy, food, and durable goods. The year-on-year rate of increase in the CPI (all items less fresh food) for Tokyo's 23 wards for October was 3.4 percent, having accelerated from 2.8 percent for September. Inflation expectations had risen. Specifically, short-term inflation expectations had increased clearly. Medium- to long-term expectations had also risen moderately. With regard to the outlook, the year-on-year rate of change in the CPI (all items less fresh food) was likely to increase toward the end of 2022 due to rises in prices of such items as energy, food, and durable goods. The rate of increase was then expected to decelerate toward the middle of fiscal 2023 because the contribution of such price rises to this CPI was likely to wane.

2. Financial environment

Japan's financial conditions had been accommodative on the whole, although weakness in firms' financial positions remained in some segments.

Firms' demand for funds had risen moderately as demand for working capital had increased in reflection of the resumption of economic activity and raw material cost increases. With regard to credit supply, financial institutions' lending attitudes as perceived by firms had been accommodative. Issuance conditions for CP had been favorable. Those for corporate bonds also had been favorable on the whole. Firms' funding costs had been hovering at extremely low levels. In this situation, the year-on-year rates of increase in the amount outstanding of bank lending and the aggregate amount outstanding of CP and corporate bonds had been in the range of 2.5-3.0 percent and around 7 percent, respectively; their amounts outstanding remained at high levels. The number of bankruptcies of firms had been at a low level. Firms' financial positions continued on an improving trend, including for small and medium-sized firms, on the back of the pick-up in the economy, although weakness remained in some segments.

The year-on-year rate of change in the monetary base had been negative, as the amount outstanding of funds provided through the Special Operations to Facilitate Financing had decreased. That in the money stock had been positive, in the range of 3.0-3.5 percent.

3. Financial system

Japan's financial system was maintaining stability on the whole.

Profits of major banks had been firm, mainly due to a rise in net interest income on the back of a rise in loans outstanding and to an increase in income from fees and commissions, although realized gains/losses on securities holdings had deteriorated, reflecting the rise in overseas interest rates. Their credit costs had been at low levels on the whole. Their capital adequacy ratios remained sufficiently above the regulatory requirements.

Profits of regional banks had also been firm, mainly owing to increases in net interest income and net non-interest income, although realized gains/losses on securities holdings had deteriorated, reflecting the rise in overseas interest rates. Their credit costs had been at low levels. Their capital adequacy ratios remained sufficiently above the regulatory requirements.

With regard to the financial cycle, of the 14 Financial Activity Indexes (FAIXs) that comprise the heat map in the *Financial System Report*, three -- including one indicating the amount of financial institutions' credit relative to real economic activity -- showed deviations from the trends toward overheating. Nevertheless, this was mainly the result of active support toward corporate financing since the outbreak of COVID-19 and the fact that firms had secured ample on-hand liquidity, and therefore did not signal any overheating of financial activities. It was necessary to continue paying close attention to whether the amount of credit extended by financial institutions would return to a level consistent with real economic activity.

II. Amendment to the Purchasing Method for ETFs by Issue

A. Staff Report

With the aim of facilitating market operations, the staff proposed that the Bank amend the existing purchasing method -- in which the share of the amount of each ETF to be purchased would roughly be proportionate to that of the amount outstanding in circulation of that ETF issued -- to one in which the amount would be determined taking into account the holding cost of each ETF and other factors. The staff also proposed that the trust fee rate be used for the time being in taking into account the holding cost and other factors and, in principle, that the issue with the lowest rate be purchased.

B. Discussion by the Policy Board and Vote

"Amendment to 'Principal Terms and Conditions for Purchases of ETFs and J-REITs,'" which represented the aforementioned staff report proposing to amend the purchasing method for ETFs, was put to a vote. Members voted unanimously to approve the proposal. It was confirmed that this would be made public after the meeting.

III. Summary of Discussions by the Policy Board on Economic and Financial Developments and the October 2022 *Outlook for Economic Activity and Prices*

A. Current Situation of Economic Activity and Prices

With regard to global financial and capital markets, members shared the view that market sentiment had been increasingly cautious as a rapid rise in policy interest rates in the United States and Europe, as well as a slowdown in the global economy, had been drawing attention, mainly against the background of continued high inflation on a global basis. One member expressed the view that international commodity and energy prices had turned to a declining trend against the backdrop of concern over a slowdown in the global economy. A few members noted that there was concern as to whether global inflation and deterioration of fiscal conditions of emerging economies would induce such events as capital outflows from emerging economies and the depreciation of their currencies.

Members shared the view that overseas economies had recovered moderately on the whole, but slowdowns had been observed, mainly in advanced economies. Some members said that central banks in the United States and Europe had been raising policy interest rates, placing priority on addressing inflation. These members continued that this had put downward pressure on these economies.

With regard to overseas economies by region, members shared the recognition that the U.S. economy had slowed somewhat in reflection of a surge in inflation and continued policy interest rate hikes by the Federal Reserve. Many members said that such hikes were likely to continue for the time being, since upward pressure on prices in the United States had stayed strong, as evidenced by, for example, labor market conditions remaining tight. One of these members commented that, although energy prices had turned to a decline, the core CPI kept increasing, pushed up by price rises in services, which are linked with wage increases. The member pointed out that such inflation was likely to be persistent.

Members shared the view that European economies had recovered moderately with a resumption of economic activity; however, slowdowns had been observed as these economies continued to be affected by the situation surrounding Ukraine. Some members pointed out that there was a growing possibility of these economies experiencing recession, mainly against the background of a surge in prices, including those of commodities, a continued significant rise in policy interest rates, and constraints on energy supplies.

Members agreed that the Chinese economy had recovered from the state of being pushed down as the impact of lockdowns and other public health measures had waned, despite the remaining effects of the spread of COVID-19. Some members noted that the economy had been pushed down, restrained by the continued zero-COVID policy and the subdued real estate market. One member said that there was concern over a potential decline in growth expectations, partly because the high youth unemployment rate had become prolonged.

Members shared the recognition that emerging and commodity-exporting economies other than China had picked up on the whole, albeit with weakness seen in part. One member noted that emerging economies continued to raise policy interest rates from the perspective of defending their currencies, partly due to the effects of the appreciation of the U.S. dollar, and thus there were uncertainties over the outlook for economic recovery.

Members concurred that financial conditions in Japan had been accommodative on the whole, although weakness in firms' financial positions remained in some segments. They also shared the view that an improving trend in firms' financial positions was unchanged on the whole, although their demand for working capital had increased due to the effects of moves toward the resumption of economic activity and of raw material cost increases. One member expressed the view that the environment for external funding had been favorable on the whole, albeit with such factors as a rise in interest rates on corporate bonds. A different member said that it was necessary to pay close attention to such factors as developments in bankruptcies, as well as discontinuations of businesses, of firms -- for example, some small and medium-sized firms, including very small ones -- that had been faced with structurally severe business conditions.

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

With regard to economic activity, members shared the view that Japan's economy, despite being affected by factors such as high commodity prices, had picked up as the resumption of economic activity had progressed while public health had been protected from COVID-19. One member noted that, as the seventh wave of COVID-19 in summer 2022 had almost subsided and as the government launched a domestic travel discount program and eased COVID-19 border controls in October, clear signs of recovery had also been seen in the face-to-face services industry. A different member said that, based on these economic developments, it was expected that the output gap would close and the momentum for wage hikes would strengthen, bringing about a virtuous cycle in which, for example, rises in wage levels accelerated.

Members agreed that exports and production had increased as a trend, with the effects of supply-side constraints waning.

Members shared the recognition that business fixed investment had picked up with corporate profits being at high levels on the whole, although weakness had been seen in some industries. One member stated that, despite downward pressure, such as from cost increases, a virtuous cycle was maintained in the corporate sector, as seen with an active business fixed investment stance being confirmed in the September *Tankan*. A different member expressed the view that firms' appetite for investment had been solid on the back of high levels of corporate profits and low levels of real interest rates.

Members agreed that private consumption had increased moderately, despite being affected by COVID-19. One member said that, although the direct impact of high prices had not been pronounced thus far, partly due to the materialization of pent-up demand, confidence indicators had deteriorated. This member continued that it was necessary to pay attention to the impact that high prices would have on people's sentiment and consumer behavior.

As for prices, members agreed that the year-on-year rate of change in the CPI (all items less fresh food) had been at around 3 percent due to rises in prices of such items as energy, food, and durable goods. Many members expressed the recognition that the recent price rises were basically due to the effects of a pass-through to consumer prices of cost increases led by a rise in import prices. One member pointed out that, excluding the effects of the rise in import prices, the rate of increase in services prices had been sluggish, and underlying inflation based on domestic factors was still at a low level. A few members expressed the view that, although driven by cost-push factors, more firms had in fact passed upstream price increases on downstream, and that firms' operating principles based on the assumption that prices would not increase might have started to change. Members concurred that inflation expectations had risen.

B. Outlook for Economic Activity and Prices

In formulating the October 2022 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report), members discussed the baseline scenario of the outlook for Japan's economic activity. They concurred that, toward the middle of the projection period, Japan's economy was likely to recover -- with the impact of COVID-19 and supply-side constraints waning and with support from accommodative financial conditions and the government's economic measures -- although it was expected to be under downward pressure stemming from high commodity prices and slowdowns in overseas economies. A few members noted that the pace of economic recovery in Japan was likely to decelerate in fiscal 2023, mainly due to the effects of the slowdowns in overseas economies. Some members pointed out that, according to the latest *World Economic Outlook* (WEO) released by the International Monetary Fund (IMF), Japan was projected to have the highest growth rate among the Group of Seven (G7) economies in 2023. One of these members commented that the background to this projection was that, in Japan, in addition to expectations for the resumption of economic activity becoming full-fledged, the fact that accommodative financial conditions were being maintained differed greatly from the situation in other economies. Members shared the recognition that, from the middle of the projection period, Japan's economy was projected to continue growing at a pace above its potential growth rate as a virtuous cycle from income to spending intensified gradually.

Members shared the view that overseas economies were expected to slow toward the middle of the projection period, albeit with variation across countries and regions, and pick up thereafter. A few members said that, with the highest levels of inflation in 40 years, central banks in the United States and Europe continued to conduct policy interest rate hikes at historically rapid paces, placing priority on containing inflation. These members continued that these economies were therefore expected to slow. One member added that the IMF had presented its view in the latest WEO that more than a third of the global economy would contract and fall into recession.

Members agreed that Japan's exports and production were likely to remain on an uptrend with the effects of supply-side constraints waning and with support from high levels of order backlogs for automobiles and capital goods. They shared the view that inbound tourism demand, which is categorized under services exports, was also expected to increase, mainly in reflection of the government's relaxation of entry restrictions.

Members concurred that the uptrend in business fixed investment was expected to become clear as accommodative financial conditions provided support and supply-side constraints waned. They shared the view that, from the middle of the projection period, with support from accommodative financial conditions, business fixed investment was expected to continue increasing, including investment to address labor shortage, digital-related investment, and R&D investment related to growth areas and decarbonization. One member said that uncertainties over the outlook for the global economy could exert downward pressure on business fixed investment.

Members agreed that, although private consumption was expected to be under downward pressure from the real income side due to price rises, it was projected to continue increasing. They said that this was mainly because pent-up demand was likely to materialize, supported by household savings that had accumulated as a result of pandemic-related restrictions, as the resumption of consumption activities progressed further while public health was being protected. Members shared the view that, from the middle of the projection period, private consumption was expected to keep increasing steadily, although the materialization of pent-up demand was likely to slow.

Members shared the view that employee income was projected to continue increasing moderately. They said that this was on the back of the fact that, in addition to the increase in the number of regular employees, a rise in the number of non-regular employees was likely to become more evident with a recovery in the face-to-face services sector, and that wage growth was expected to increase, reflecting improvement in labor market conditions. One member pointed out that, given the high levels of corporate profits, summer bonus payments in 2022 had increased, and the number of firms paying one-time allowances following general price hikes had risen. On this basis, this member noted that positive changes in firms' wage-setting stance could be anticipated, partly on the back of labor shortages, although firms seemed to remain cautious about raising fixed salaries. A different member expressed the view that the possibility of realizing high wage growth had been increasing not only due to high levels of corporate profits and inflation, but also to labor shortages, mainly in the face-to-face services industry. A few members said that, regarding the annual spring labor-management wage negotiations in 2023, it was encouraging that business organizations, labor unions, and the government had all shown a positive stance toward raising wages. On the other hand, one member pointed out that the responsiveness of wage growth to labor market conditions had been extremely low in Japan compared with the United States, and this trend could be seen in general, regardless of industry and firm size. In response to this, a different member said that wages for non-regular employees with relatively higher mobility and for regular employees who were younger or with specialized job skills, for example, tend to be highly responsive to labor market conditions, while wages for regular employees in Japan who had limited opportunity to change jobs tend to be less affected by labor market conditions. One member expressed the view that even if wages rose, the degree would differ depending on firms and individuals, and therefore it was necessary to make efforts to examine the data from various aspects. Meanwhile, one member said that it was also important to encourage households' long-term and stable asset formation that took into account expenditure over their lifetime, so that economic growth would lead to an increase in their disposable income.

Based on this discussion, members concurred that, comparing the projections with those in the July 2022 Outlook Report, the projected growth rates were somewhat lower, mainly for fiscal 2022, due to the effects of the spread of COVID-19 in summer 2022 and of slowdowns in overseas economies.

Members then discussed the baseline scenario of the outlook for Japan's price developments. They agreed that the year-on-year rate of change in the CPI (all items less fresh food) was likely to increase toward the end of 2022 due to rises in prices of such items as energy, food, and durable goods; the rate of increase was then expected to decelerate toward the middle of fiscal 2023 because the contribution of such price rises to this CPI was likely to wane. They shared the view that, thereafter, it was projected to accelerate again moderately on the back of improvement in the output gap and rises in medium- to long-term inflation expectations and in wage growth. Members concurred that, on a fiscal-year basis, the year-on-year rate of increase in the CPI was highly likely to be below 2 percent from fiscal 2023. A few members pointed out that the view that the rate of increase in the CPI was likely to be below 2 percent from 2023 was generally shared among international institutions and economists in the private sector. One member expressed the recognition that producer prices in Japan had been at high levels due to continued inflationary pressure in Europe and the United States and the effects of past increases in raw material prices. This member continued that it was expected that the year-on-year rate of change in the CPI would continue to increase for some time with a pass-through of cost increases to consumer prices. A different member said that the inflation rate was highly likely to remain relatively elevated as signs of increases had been observed even in services prices, as well as in administered prices for items other than energy. A few members expressed the view that it was too early to judge that prices as a trend would rise at around 2 percent in a stable manner, considering the slowdowns in overseas economies and heightened uncertainties in the external environment surrounding economic activities and prices in Japan, in addition to the dissipating effects of import prices, all being expected to take place from fiscal 2023. On this point, one member said that while the trend had shown a rise in Japan's economic potential, even if the inflation rate fell below 2 percent from fiscal 2023, this did not mean that Japan's economy would return to deflation but rather that the inflation rate was projected to rise steadily.

In terms of inflation excluding energy, for which prices fluctuate significantly, members shared the recognition that, reflecting price developments in such items as food and durable goods, the year-on-year rate of change in the CPI (all items less fresh food and energy) was likely to see developments similar to those in the rate of change in the CPI (all items less fresh food), albeit with a comparatively smaller range of fluctuations.

As background factors to this outlook for prices, members shared the view that the output gap, which captures the utilization of labor and capital, was currently slightly negative; however, with Japan's economy following a growth path that outpaced its potential growth rate, the gap was projected to turn positive around the second half of fiscal 2022 and then continue to expand moderately. In addition, they concurred that medium- to long-term inflation expectations had risen, albeit at a moderate pace relative to short-term ones. On this basis, members shared the view that, given that the formation of inflation expectations in Japan was largely adaptive, an increase in actual inflation was expected to bring about a rise in households' and firms' medium- to long-term inflation expectations and, through changes in firms' price- and wage-setting behavior and in labor-management wage negotiations, lead to a sustained rise in prices accompanied by wage increases. One member said that, if firms' current price-setting behavior and moves to increase wages took hold and a virtuous cycle between prices and wages operated, sustainable and stable achievement of the price stability target of 2 percent would come in sight. One member, noting that from the second half of fiscal 2023, underlying inflation was projected to gain momentum on the back of improvement in the output gap as well as rises in inflation expectations and in wage growth, pointed out that the key to this outlook was wage developments reflecting the annual spring labor-management wage negotiations. Meanwhile, a few members noted that, with the emphasis on corporate behavior shifting from the conventional efficiency basis to a stability basis, against the background of geopolitical risks and stagnant globalization, this could result in prices being pushed up for a prolonged period.

Based on these discussions, members agreed that, compared with the projections in the July 2022 Outlook Report, the projected rates of increase in the CPI were higher, mainly for fiscal 2022, due to the effects of a pass-through to consumer prices of cost increases led by a rise in import prices.

Meanwhile, members also exchanged views regarding <u>the financial conditions</u> on which the outlook for economic activity and prices was based. They shared the recognition that such conditions were likely to remain accommodative as the Bank pursued Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, and that this was expected to support an increase in private demand.

Members then discussed upside and downside risks to economic activity and prices.

First, concerning risks to economic activity, members concurred that attention was warranted on developments in overseas economic activity and prices and in global financial and capital markets. They shared the recognition that, amid ongoing inflationary pressure on a global basis, central banks had raised policy interest rates rapidly, and there was concern in global financial and capital markets over whether it was possible to contain inflation and maintain economic growth simultaneously. On this point, a few members -- noting that the U.S. labor market remained tight and the core CPI had risen -- pointed out that there were risks of protracted high inflation and of the economy subsequently decelerating by more than expected. Members shared the view that, with central banks continuing to make rapid policy interest rate hikes, there was a risk that global financial conditions would tighten further through adjustments in asset prices, fluctuations in foreign exchange markets, and capital outflows from emerging economies, and that this would eventually lead to overseas economies deviating downward from the baseline scenario. On this point, one member expressed the recognition that, amid a situation of central banks in Europe and the United States continuing to tighten monetary policy at historically rapid paces, attention was warranted on the risks of, for example, sharper-than-expected slowdowns in overseas economies and a rapid deterioration in asset prices or credit markets that was due to a surge in real interest rates. On this basis, members concurred that 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.

In addition, members agreed that developments in the situation surrounding Ukraine and the associated developments in prices of commodities, including grains, warranted attention. Specifically, members shared the view that, depending on the course of this situation, overseas economies, particularly the euro area, could be pushed down further. They continued that, although prices of commodities, including grains, had declined compared with a while ago, they could rise again depending on, for example, developments in the situation surrounding Ukraine. A few members pointed out that, as background to the rise in prices of commodities, including grains, there were also such factors as a reconsideration of globalization, and thus the effects of the rise could continue for a prolonged period. Members said that, given that Japan is a commodity importer, a rise in these prices due to supply factors puts greater downward pressure on the economy through an increase in import costs. They shared the recognition that business fixed investment and private consumption could deviate downward from the baseline scenario through more cautious spending behavior of firms and households, induced by the deterioration in the terms of trade due to the rise in prices of commodities, including grains. On the other hand, members concurred that, if these prices saw a clearer downtrend, the economy could deviate upward.

Furthermore, members agreed that attention was warranted on how COVID-19 at home and abroad would affect private consumption and firms' export and production activities. They shared the recognition that COVID-19 had resurged in Japan this summer, but that its impact on the economy remained small relative to past phases of surges, and the resumption of consumption activities had progressed steadily while public health had been protected; that said, depending on the course of COVID-19, upward pressure from pent-up demand could weaken by more than expected. On the other hand, members shared the view that, if vigilance against COVID-19 lessened significantly, household savings that had accumulated as a result of pandemic-related restrictions could be withdrawn by more than expected and private consumption could be pushed up. Members also shared the recognition that supply-side constraints remained in part, and if COVID-19 resurged at home and abroad in this situation, such constraints could intensify again through, for example, supply-chain disruptions. They continued that this could in turn push down Japan's exports and production and the adverse impact could even spill over to goods consumption and business fixed investment.

Moreover, as a risk factor considered from a somewhat long-term perspective, members agreed that firms' and households' medium- to long-term growth expectations warranted attention. Members shared the view that efforts made in view of the post-COVID-19 era, digitalization, and decarbonization were expected to change Japan's economic structure and people's working styles, and that the heightened geopolitical risks could change the trend of globalization, which had supported the growth of the global economy to date. They continued that, depending on how households and firms would react to these changes, their medium- to long-term growth expectations, the potential growth rate, and the output gap could go either upward or downward.

Regarding risks to prices, members shared the view that, if the aforementioned risks to economic activity materialized, prices would be affected. On this basis, they also discussed risks specific to prices.

Members concurred that there were high uncertainties over firms' price- and wage-setting behavior, which could exert either upward or downward pressure on prices. Members shared the view that, depending on how much upward pressure would be exerted by raw material costs and on how firms' inflation expectations would develop, the pass-through of cost increases could accelerate by more than expected and lead prices to deviate upward from the baseline scenario; in addition, there was a possibility that wages and prices would rise by more than expected as more firms reflected price developments in wage setting through labor-management wage negotiations. They continued that, on the other hand, given that the behavior and mindset based on the assumption that prices and wages would not increase easily were deeply entrenched in Japan, there was a risk that moves to increase wages would not strengthen and prices would deviate downward from the baseline scenario. One member said that, although price rises had been observed for a wider range of items in fiscal 2022 and the inflation rate could deviate upward from the baseline scenario, it was still uncertain whether these rises would be sustainable. A different member noted that, as a prolonged disinflationary period had preceded the current inflationary phase in Japan and there had been structural changes, such as reversing globalization, past empirical findings were not necessarily directly applicable to this phase. The member then expressed the view that the risk that the inflation rate would deviate significantly upward from the baseline scenario could not be ruled out. On the other hand, one member pointed out that, if growth in overseas economies deviated downward from the baseline scenario, this could also affect such factors as firms' price-setting behavior.

As another risk specific to prices, members agreed that future developments in foreign exchange rates and international commodity prices, as well as the extent to which such developments would spread to import and domestic prices, might lead prices to deviate either upward or downward from the baseline scenario. Members shared the view that fluctuations in international commodity prices had been significant, reflecting high uncertainties over, for example, developments in the situation surrounding Ukraine, while inflation rates remained high on a global basis and foreign exchange markets had fluctuated sharply. They continued that how these factors would affect Japan's prices required due attention.

With regard to the risk balance, members agreed that risks to economic activity were skewed to the downside and that those to prices were skewed to the upside.

As one of the risks considered most relevant to the conduct of monetary policy, members discussed developments in Japan's financial system. They agreed that it was maintaining stability on the whole. Members shared the view that, although attention was warranted on, for example, the impact of the tightening of global financial conditions, the financial system was likely to remain highly robust on the whole even in the case of an adjustment in the real economy at home and abroad and in global financial and capital markets, mainly because financial institutions had sufficient capital bases. A few members said that, mainly owing to the tightening of regulations, the robustness of the banking sector had generally been enhanced since the Global Financial Crisis. These members continued, however, that with global financial conditions tightening, the market environment could affect the financial system, and vigilance was required against the risk of, for example, unwinding of highly-leveraged positions of the non-bank financial sector taking place in global financial and capital markets. Members shared the recognition that, from a longer-term perspective, if downward pressure on financial institutions' profits became prolonged, there would be risks of both a gradual pullback in financial intermediation activities and of increased vulnerability of the financial system, mainly due to the search for yield behavior; however, these risks were not significant at this point.

IV. Summary of Discussions on Monetary Policy

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

Members discussed the Bank's basic stance on its future conduct of monetary policy. They agreed that it was important to continue with the current monetary easing and thereby achieve the price stability target in a sustainable and stable manner accompanied by wage increases. One member pointed out that medium- to long-term inflation expectations had risen moderately as the Bank persistently continued with monetary easing, and that, through a decline in real interest rates, signs of materialization of stronger monetary easing effects on Japan's economy had emerged. A different member said that, in achieving the price stability target of 2 percent in a stable manner, nominal wage increases were essential. The member then expressed the view that monetary easing contributed to a rise in such wages through channels of tightening labor market conditions and of higher inflation expectations due to price rises. A few members noted that, for wages to increase in a sustainable and stable manner, it was also crucial that firms' growth expectations rise. One member commented that, considering that corporate profits had been at high levels on the whole and wage increases had been observed, Japan's economy had started to exhibit signs of a virtuous cycle; given this, it was appropriate for the Bank to maintain its current stance regarding the conduct of monetary policy for the time being. A few members expressed the view that, in achieving the price stability target in a sustainable and stable manner, making premature changes to monetary policy had a risk of disrupting the formation of a virtuous cycle between prices and wages, and it was therefore necessary for the Bank to persistently continue with monetary easing. In response to this, one member said that there was no need to immediately change monetary policy; however, it was necessary to examine the impact of high prices on household behavior and wages humbly and without any preconceptions from the perspective of judging whether a virtuous cycle between wages and prices would materialize, while paying attention to the side effects of monetary easing. The member added that it was also important to continue to examine how future exit strategies would affect the market and whether market participants would be well prepared for them. Meanwhile, some members -- pointing out the increase in housing loans, particularly among younger people -- expressed the recognition that it was necessary to pay attention to what impact a future rise in interest rates would have.

Regarding the Bank's communication to the public with respect to monetary policy conduct, one member expressed the view that, although the inflation rate had been exceeding 2 percent recently, the Bank needed to continue to carefully explain that it conducts inflation targeting policy by assessing the outlook for prices, rather than temporary price fluctuations, with the aim of achieving the price stability target of 2 percent in a sustainable and stable manner. A different member said that, in assessing the sustainability of price rises, not only the duration of price rises but also the background mechanism was crucial -- that is, whether the price rises were brought about by a virtuous cycle of economic activity that accompanied wage increases. The member expressed the opinion that it was necessary to continue to seek public understanding that the Bank's aim was to induce a cycle that would lead to improvement in people's lives. On this point, one member noted that, in communicating with the public, it was important to further deepen economic analysis regarding the relationship between prices and wages. A few members commented that, while Europe and the United States had been tightening monetary policy in the face of higher inflation, a virtuous cycle between wages and prices had not been achieved in Japan, and it was therefore necessary to continue with monetary easing. These members then stated that, including this factor, the Bank needed to continue to carefully explain the reasons behind the differing direction of monetary policy between Japan and overseas economies. One member said that -- from the viewpoint of the sound development of the national economy in Japan, which had fallen into a situation of low growth, low inflation, and a low rate of wage growth -- continued monetary easing was necessary in order to raise productivity and wage levels through supply-side reforms, such as with "investment in people" and business portfolio transformation, and thereby lead to a virtuous cycle from income to spending; the Bank needed to communicate this clearly to the public.

Meanwhile, a few members said that the recent rapid depreciation of the yen had heightened uncertainties for firms and was largely negative for Japan's economy. One of these members commented that foreign exchange rates should reflect economic fundamentals and that it was important for the Bank to communicate with market participants in line with this thinking to, for example, gain public understanding of its monetary policy conduct. A different member pointed out that an increase in demand for U.S. dollars as a safe asset might have contributed considerably to the recent developments in the foreign exchange market, given that currencies in many of the countries where policy interest rate hikes had been made had also depreciated against the U.S. dollar.

With respect to yield curve control, members shared the recognition that the JGB yield curve had been formed in a manner consistent with the guideline for market operations, as the Bank had devised various ways of conducting money market operations. A few members commented that, against the background of the rapid increase in U.S. and European long-term interest rates, upward pressure on interest rates had strengthened even in Japan; however, the rise in Japanese long-term interest rates had been contained by yield curve control. One of these members expressed the recognition that the Bank's increased purchases of JGBs to contain a rise in the yield curve had strengthened monetary easing effects in terms of quantity, namely, provision of liquidity. Another member expressed the view that, while long-term interest rates remaining at the upper limit of the range has a somewhat negative effect on market functioning, long-term interest rates being at low levels had significant benefits for the macroeconomy at present. One member commented that, as ensuring stability in the bond market was important, it was necessary to continue to gain a detailed grasp of market conditions through monitoring and other means.

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 following guideline. First, as for the short-term policy interest rate, it would 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. Second, as for the long-term interest rate, the Bank would purchase a necessary amount of JGBs without setting an upper limit so that 10-year JGB yields would remain at around 0 percent. Members continued that, in order to implement this guideline for market operations, it was appropriate that the Bank offer to purchase 10-year JGBs at 0.25 percent every business day for an unlimited amount through the fixed-rate method, unless it was highly likely that no bids would be submitted.

With regard to asset purchases other than JGB purchases, members shared the recognition that it was appropriate for the Bank to implement the following guideline. First, it would 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. Second, the Bank would purchase CP and corporate bonds at about the same pace as prior to the COVID-19 pandemic, so that their amounts outstanding would gradually return to pre-pandemic levels, namely, about 2 trillion yen for CP and about 3 trillion yen for corporate bonds.

With respect to the future conduct of monetary policy, members shared the view that the Bank would (1) continue with QQE with Yield Curve Control, aiming to achieve the price stability target of 2 percent, 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.

Regarding its policy stance for the time being, members agreed that, while closely monitoring the impact of COVID-19, the Bank would support financing, mainly of firms, and maintain stability in financial markets, and would not hesitate to take additional easing measures if necessary. Based on this, they shared the view that, as for policy rates, the Bank would expect short- and long-term interest rates to remain at their present or lower levels.

V. Remarks by Government Representatives

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

(1) It was important to seamlessly address the current price rises. Following the formulation of additional measures in September, the government planned to compile comprehensive economic measures. It would protect people's daily lives and business activities from sharp price increases through, for example, measures to reduce the burden of rising expenses such as electricity and gas charges.

(2) In addition, the government would swiftly formulate the second supplementary budget to implement the economic measures and make every effort to promptly obtain the Diet's approval.

(3) The government expected the Bank to conduct monetary policy toward achieving the price stability target in a sustainable and stable manner while taking the impact of the situation surrounding Ukraine and COVID-19 into account and cooperating with the government.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was expected to show movements of picking up. However, a slowing down of overseas economies due to global monetary tightening and other factors was a downside risk to the Japanese economy. Also, full attention should continue to be given to factors such as the impact of price increases on households and firms as well as supply-side constraints.

(2) With the responses to rising prices and the weaker yen, structural wage increases, and investment and reforms to spur growth as priority areas, the government would compile comprehensive economic measures in order to respond seamlessly to changes in the economic situation and advance a New Form of Capitalism, while keeping the risk of a global economic slowdown fully in mind.

(3) The government expected the Bank to continue to conduct appropriate monetary policy toward achieving the price stability target in a sustainable and stable manner, based on

due consideration of developments in economic activity and prices as well as financial conditions, 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:

1. 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 zero percent.

2. In order to implement the above guideline for market operations, the Bank will offer to purchase 10-year JGBs at 0.25 percent every business day for an unlimited amount through the fixed-rate method, unless it is highly likely that no bids will be submitted.

Votes for the proposal: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. ADACHI Seiji, Mr. NAKAMURA Toyoaki, Mr. NOGUCHI Asahi, Ms. NAKAGAWA Junko, Mr. TAKATA Hajime, and Mr. TAMURA Naoki.

Votes against the proposal: None.

B. 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 purchase CP and corporate bonds at about the same pace as prior to the COVID-19 pandemic, so that their amounts outstanding will gradually return to pre-pandemic levels, namely, about 2 trillion yen for CP and about 3 trillion yen for corporate bonds.

Votes for the proposal: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. ADACHI Seiji, Mr. NAKAMURA Toyoaki, Mr. NOGUCHI Asahi, Ms. NAKAGAWA Junko, Mr. TAKATA Hajime, and Mr. TAMURA Naoki.

Votes against the proposal: None.

C. 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. Discussion regarding the Outlook Report

Members discussed the draft of "The Bank's View" in the October 2022 Outlook Report (consisting of "The Bank's View" and "The Background"). To reflect the view of the members, the chairman formulated a proposal on "The Bank's View" and put it to a vote. The Policy Board decided the text of "The Bank's View" by a unanimous vote. It was confirmed that "The Bank's View" would be released immediately after the meeting. It also was confirmed that the full text of the Outlook Report would be made public on October 31.

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of September 21 and 22, 2022, for release on November 2.

Attachment
October 28, 2022
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 unanimous vote)

   a) The Bank decided 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 fixed-rate purchase operations for consecutive days

   In order to implement the above guideline for market operations, the Bank will offer to purchase 10-year JGBs at 0.25 percent every business day through fixed-rate purchase operations, unless it is highly likely that no bids will be submitted.

   (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 purchase CP and corporate bonds at about the same pace as prior to the novel coronavirus (COVID-19) pandemic, so that their amounts outstanding will gradually return to pre-pandemic levels, namely, about 2 trillion yen for CP and about 3 trillion yen for corporate bonds.

2. The Bank will continue with Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, aiming to achieve the price stability target of 2 percent, 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 consumer price index (CPI, all items less fresh food) exceeds 2 percent and stays above the target in a stable manner.

   For the time being, while closely monitoring the impact of COVID-19, the Bank will support financing, mainly of firms, and maintain stability in financial markets, and will not hesitate to take additional easing measures if necessary; it also expects short- and long-term policy interest rates to remain at their present or lower levels.