Not to be released until 8:50 a.m. Japan Standard Time on Wednesday, June 19, 2024.

June 19, 2024

Bank of Japan

Minutes of the Monetary Policy Meeting

on April 25 and 26, 2024

(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, April 25, 2024, from 2:00 p.m. to 4:10 p.m., and on Friday, April 26, from 9:00 a.m. to 12:15 p.m.[1]

Policy Board Members Present

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

Government Representatives Present

AKAZAWA Ryosei, State Minister of Finance, Ministry of Finance[3]
SAKAMOTO Motoru, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance[4]
SHINDO Yoshitaka, Minister of State for Economic and Fiscal Policy, Cabinet Office[5]
INOUE Hiroyuki, Vice-Minister for Policy Coordination, Cabinet Office[4]
MORO Kengo, Deputy Director General for Economic and Fiscal Management, Cabinet Office[6]

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on June 13 and 14, 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 via conference call.
[3] Present on April 26.
[4] Present on April 25.
[5] Present on April 26 from 10:57 a.m. to 12:15 p.m.
[6] Present on April 26 from 9:00 a.m. to 10:56 a.m.

Reporting Staff

SHIMIZU Tokiko, Executive Director (Assistant Governor)

KAIZUKA Masaaki, Executive Director

KOUGUCHI Hirohide, Executive Director

SHIMIZU Seiichi, Executive Director

MASAKI Kazuhiro, Director-General, Monetary Affairs Department

IIJIMA Kota, Deputy Director-General, Monetary Affairs Department[7]

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

NAKAMURA Koji, Director-General, Financial System and Bank Examination Department

FUJITA Kenji, Director-General, Financial Markets Department

OTANI Akira, Director-General, Research and Statistics Department

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

KAMIYAMA Kazushige, Director-General, International Department

Secretariat of the Monetary Policy Meeting

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

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

ANDO Masahiro, Deputy Director, Secretariat of the Policy Board

TSUCHIKAWA Akira, Head of Policy Infrastructure Division, Monetary Affairs Department[7]

MARUO Yuji, Senior Economist, Monetary Affairs Department

KITAHARA Jun, Senior Economist, Monetary Affairs Department

KURACHI Yoshiyuki, Senior Economist, Monetary Affairs Department

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[7] Present on April 25 from 2:50 p.m. to 4:10 p.m.

I. Summary of Staff Reports on Economic and Financial Developments[8]

A. Market Operations in the Intermeeting Period

The Bank had been conducting market operations in accordance with the guideline for market operations decided at the previous meeting on March 18 and 19, 2024.[9] The uncollateralized overnight call rate had been in the range of 0.074 to 0.077 percent.

Meanwhile, regarding purchases of Japanese government bonds (JGBs), CP, and corporate bonds, the Bank conducted the purchases in accordance with the decisions made at the March 2024 meeting.

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments had been at low levels. With regard to interest rates on overnight instruments, the uncollateralized call rate had been in the range of around 0.075 to 0.080 percent due to the termination of the negative interest rate policy; general collateral (GC) repo rates had turned positive, being at a level below 0.1 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) were more or less unchanged over the intermeeting period.

The Tokyo Stock Price Index (TOPIX) had declined somewhat, reflecting a decrease in U.S. stock prices and increased tension over the situation in the Middle East. Long-term interest rates (10-year JGB yields) had declined somewhat through the end of March, and since the start of April had increased in line with a rise in U.S. interest rates; they had risen slightly over the intermeeting period. Looking at the liquidity indicators in the JGB markets, inter-dealer transaction volume for cash JGBs had increased, albeit with some fluctuations, and market depth, price impact, and daily price range to transaction volume ratio of JGB futures and bid-ask spreads for the newly issued cash JGBs continued to improve. In the foreign exchange market, the yen had depreciated against the U.S. dollar as the yield differential between Japan and the United States had widened. The yen had also depreciated against the euro.

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

[9] The guideline was as follows:

The Bank will encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 percent.

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 affected by 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, as signs of a pick-up had been seen in exports.

As for the outlook, overseas economies were projected to gradually move out of the phase of slow recovery and grow moderately. 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, long-term interest rates in the United States had risen substantially since market expectations for policy interest rate cuts by the Federal Reserve had subsided due to higher-than-expected economic and price indicators. U.S. stock prices had declined slightly, due to the rise in U.S. interest rates, increased tension over the situation in the Middle East, and the corporate results of some high-tech firms, although solid economic indicators were viewed positively by market participants. In Europe, long-term interest rates had risen slightly and stock prices were more or less unchanged. Meanwhile, currencies in emerging economies had declined while the U.S. dollar had appreciated. Crude oil prices had risen slightly over the intermeeting period, albeit with some fluctuations due to heightened geopolitical tensions in the Middle East.

D. Economic and Financial Developments in Japan

1. Economic developments

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

Although exports had been affected by the slowdown in the pace of recovery in overseas economies, they had been more or less flat. Regarding the outlook, as overseas economies grew moderately, exports were projected to return to an uptrend, mainly due to a pick-up in global demand for IT-related goods.

Industrial production had been more or less flat as a trend, but it had declined recently, partly due to the effects of a suspension of production and shipment at some automakers. Regarding the outlook, industrial production was likely to return to an uptrend, mainly due to a pick-up in global demand for IT-related goods.

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

Private consumption had been resilient, although the impact of price rises and developments such as a decline in automobile sales due to the suspension of shipment at some automakers had been observed. The consumption activity index (CAI; real, travel balance adjusted) had declined slightly for the January-February period of 2024, due to the effects of mild winter weather and suspension of shipment at some automakers. However, when excluding the effects of these temporary factors that had pushed down private consumption, consumption had been resilient, particularly for services consumption, despite being affected by prices rises. Based on anecdotal information from firms and high-frequency indicators, with respect to private consumption for March 2024, many had indicated a weakness in expenditure related to spring apparel and going out, due partly to adverse weather conditions. Nevertheless, since the beginning of April, signs of a pick-up had been noted. Although an intensified thriftiness among households that reflected price rises continued to be pointed out by some firms, private consumption seemed to have been resilient. Consumer sentiment had been improving recently. Regarding the outlook, for the time being, although private consumption was expected to be affected by price rises, it was projected to increase moderately, partly due to the effects of the government's economic measures and with nominal employee income continuing to improve. Thereafter, it was projected to continue increasing moderately as employee income kept improving.

The employment and income situation had improved moderately. Regarding the number of employed persons, that of regular employees had been on a moderate uptrend, albeit with fluctuations, mainly in the information and communications industry, which had been facing severe labor shortages. The number of non-regular employees had also been on a moderate uptrend, albeit with fluctuations. Nominal wages per employee had increased moderately, reflecting the recovery in economic activity and the results of the 2023 annual spring labor-management wage negotiations. Corporate managers' responses to the 2024 annual spring labor-management wage negotiations revealed to date showed that wage increases for 2024, including regular seniority-based ones, had been above 5.0 percent, and the rate of increase in base pay for 2024 had been at around 3.5 percent, both significantly exceeding the 2023 levels. According to anecdotal information from firms and other sources, as labor shortages had intensified, moves to set a rate of increase in wages that exceeded the 2023 level were likely to spread among small and medium-sized firms, albeit with significant differences in degree, partly reflecting the fact that large firms would raise their wages significantly. 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. The year-on-year rate of change in real employee income was likely to gradually turn positive despite the effects of energy prices.

As for prices, commodity prices had risen on the whole. The rate of change in the producer price index (PPI) relative to three months earlier had been slightly positive recently, mainly due to the impact of the rise in crude oil prices since the end of 2023. The year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) had been at around 2.5 percent recently, as services prices continued to rise moderately, reflecting factors such as wage increases, although the effects of a pass-through to consumer prices of cost increases led by the past rise in import prices had waned. Inflation expectations had risen moderately. With regard to the outlook for the year-on-year rate of increase in the CPI (all items less fresh food), while the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices were expected to wane, the rate of increase was projected to be pushed up through fiscal 2025 by the effects of the recent rise in energy prices and a waning of the effects of the government's economic measures pushing down CPI inflation. Thus, the rate of increase was likely to be in the range of 2.5-3.0 percent for fiscal 2024, and be at around 2 percent thereafter. Meanwhile, underlying CPI inflation was expected to increase gradually, since it was projected that the output gap would improve and that medium- to long-term inflation expectations would rise with a virtuous cycle between wages and prices continuing to intensify. In the second half of the projection period, underlying CPI inflation was likely to be at a level that was generally consistent with the price stability target.

2. Financial environment

Japan's financial conditions had been accommodative.

Firms' funding costs had increased recently but remained at low levels. Firms' demand for funds had increased moderately on the back of, for example, the recovery in economic activity as well as mergers and acquisitions of firms. With regard to credit supply, financial institutions' lending attitudes as perceived by firms had been accommodative. Issuance conditions for CP and corporate bonds had been favorable. In this situation, the year-on-year rate of increase in the amount outstanding of bank lending had been at around 3.5 percent. That in the aggregate amount outstanding of CP and corporate bonds had been in the range of 1.5-2.0 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 1.5 percent. That in the money stock had been at around 2.5 percent.

3. Financial system

Japan's financial system maintained stability on the whole.

Profits of major banks had been firm, mainly owing to increases in interest on loans, as well as income from fees and commissions. Meanwhile, 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 been firm as the amount outstanding of bank lending continued to increase. Meanwhile, their credit costs had been at low levels. Their capital adequacy ratios remained sufficiently above the regulatory requirements.

With regard to the financial cycle, of the 14 Financial Activity Indexes (FAIXs) that comprise the heat map in the *Financial System Report*, 13 showed neither an overheating nor a contraction of financial activities. Regarding the financial gap, the positive gap had narrowed due to the rebalancing of private debt and economic activity, reflecting the recovery of economic activity. Although stock prices had risen and valuations of some properties in the real estate market seemed relatively high, there had been no overheating of financial activities overall so far. However, it was necessary to continue paying close attention to whether financial activities would not significantly deviate from real economic activity.

II. Amendment to "Principal Terms and Conditions for the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas"

A. Staff Reports

With regard to the 2016 Kumamoto Earthquake, one of the designated disasters specified in the "Principal Terms and Conditions for the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas," it was deemed that the purpose of the operation to support efforts toward restoration and reconstruction made by financial institutions in disaster areas had been achieved, considering the usage of loans under the operation and whether relevant public support measures remained in place. Therefore, the Bank could amend the "Principal Terms and Conditions for the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas," and remove the 2016 Kumamoto Earthquake from the category of designated disasters.

B. Discussion by the Policy Board and Vote

Members voted unanimously to approve the amendment. 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 April 2024 *Outlook for Economic Activity and Prices*

A. Current Situation of Economic Activity and Prices

With regard to global financial and capital markets, members concurred that, while attention continued to be drawn to uncertainties over the outlook for the global economy, market participants had again heightened their vigilance against the possibility of prolonged monetary tightening by the Federal Reserve. Some members pointed out that the effects of the heightening had been reflected in recent developments in foreign exchange markets.

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

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. On this basis, some members pointed out that U.S. economic indicators, mainly those of private consumption, had been firmer than expected. One of these members pointed out that upward revisions had been observed in the outlook for overseas economies overall, particularly for the U.S. economy. The member then expressed the view that the firmer-than-expected U.S. economy was mainly attributable to the fact that firms' and households' balance sheets had been sound. A few members added that elevated inflation due to firm economic activity had caused market participants to anticipate prolonged monetary tightening by the Federal Reserve. One member expressed the view that the effects of monetary tightening had not become apparent in the United States, partly because of a supply-side factor, that is, a substantial increase in immigration, and therefore future developments in labor markets warranted close attention.

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.

Members shared the view that the Chinese economy remained on a moderate slowing trend, mainly affected by 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 it remained highly uncertain whether the economy would return to a stable growth path, although a slowing trend in the economy had been staved off, partly due to stronger responses by the government. One of these members said that structural problems regarding domestic demand shortages, mainly due to the declining and aging population, and excessive supply had not improved, and adjustments in the real estate market continued. A different member expressed the view that the economy could be entering into deflation.

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

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

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

With regard to economic activity, members shared the recognition that Japan's economy had recovered moderately, although some weakness had been seen in part.

Members concurred that, although exports had been affected by the slowdown in the pace of recovery in overseas economies, they had been more or less flat.

Members shared the view that industrial production had been more or less flat as a trend, but it had declined recently, partly due to the effects of the suspension of production and shipment at some automakers.

Members agreed that business fixed investment had been on a moderate increasing trend with corporate profits improving and business sentiment staying at a favorable level. One member said that, if firms postponed business fixed investment due to factors such as supply-side constraints, this could lead them to lose business opportunities and hinder improvement in their productivity, and in turn create a risk that firms would not be able to secure enough resources for wage hikes. The member continued that attention was therefore warranted on developments in business fixed investment.

Members concurred that private consumption had been resilient, although the impact of price rises and developments such as the decline in automobile sales due to the suspension of shipment at some automakers had been observed. One member added that, despite the fact that recent indicators had been weak due to these temporary factors, private consumption seemed to be resilient on the whole as consumers had been selective with their spending patterns, in that they were thrifty on daily goods while being willing to spend money on hobbies and luxury goods and on special occasions and services. A few members noted that household sentiment had been on an improving trend.

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

As for prices, members agreed that the year-on-year rate of increase in the CPI (all items less fresh food) had been at around 2.5 percent recently, as services prices continued to rise moderately, reflecting factors such as wage increases, although the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices had waned. A few members pointed out that the rate of increase in producer prices had risen somewhat again, reflecting developments in import prices, and such movements in producer prices had gradually spread from intermediate goods to final ones. One member noted that the CPI indicated that services prices continued to show relatively high increases and the rate of increase in the services producer price index had also accelerated, possibly due to firms' moves to pass on personnel expenses to prices.

Meanwhile, members agreed that inflation expectations had risen moderately. One member pointed out that inflation expectations of firms, households, and economists had all been on a moderate rising trend, and the BEI (break-even inflation) rate calculated using inflation-indexed JGBs had been above 1.5 percent.

B. Outlook for Economic Activity and Prices

In formulating the April 2024 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report), members discussed the baseline scenario of the outlook for Japan's economic activity. They shared the recognition that Japan's economy was likely to keep growing at a pace above its potential growth rate, with overseas economies growing moderately and as a virtuous cycle from income to spending gradually intensified against the background of factors such as accommodative financial conditions.

Members agreed that, as overseas economies grew moderately, exports were projected to return to an uptrend, mainly due to a pick-up in global demand for IT-related goods. In addition, they shared the view that inbound tourism demand, which is categorized under services exports, was expected to continue increasing.

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

Members concurred that, as corporate profits followed an improving trend and accommodative financial conditions provided support, business fixed investment was likely to continue on an increasing trend, including investment to address labor shortages, digital-related investment, research and development (R&D) investment related to growth areas and decarbonization, and investment associated with strengthening supply chains. One member pointed out that, according to a survey by the Cabinet Office, firms' expected growth rate had risen gradually and the business fixed investment plans in the March 2024 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) had been at high levels. In addition, the member noted that an increase in firms' capital bases in real terms and an improvement in the value of collateral, both due to a rise in stock and land prices, could bring about a rise in business fixed investment. One member said that it was unlikely that constraints on labor supply would ease and therefore, in order to continue raising wages to recruit and retain employees, firms' stance toward investment to improve labor productivity would likely become more active. A different member expressed the view that firms' moves to collaborate with competitors, even on their main lines of business -- including production and research and development -- had become widespread. The member continued that these efforts were expected to address factors such as labor shortages, high prices, and interest rate hikes, and in turn lead Japanese firms into a period of change.

Members agreed that, for the time being, although private consumption was expected to be affected by price rises, it was projected to increase moderately, mainly reflecting the rise in wage growth and improvement in consumer sentiment and partly due to the effects of the government's economic measures. They shared the view that, thereafter, private consumption was projected to continue increasing moderately as employee income kept improving. Many members pointed out that the current weakness in private consumption was attributable to the downward pressure, albeit waning, on real income due to price rises. On this basis, some members expressed the view that, with wages starting to reflect the results of the annual spring labor-management wage negotiations, household income would improve and private consumption would increase moderately, partly due to the effects of cuts in income tax and inhabitant tax. In relation to this, one member added that private consumption was highly likely to remain stagnant until the effects of wage increases appeared from summer 2024, as import prices started to rise again, mainly against the background of the rise in crude oil prices and the depreciation of the yen. Meanwhile, one member expressed concern that, even if wage increases were achieved, disposable income would not rise very much, and private consumption would not increase in a sustainable manner, given that the household saving rate had fallen to around 0 percent and the number of working households that benefited from the wage increases had declined amid population aging.

Members shared the view that employment was likely to continue rising, but the pace of increase was projected to moderate gradually; this was because it would become more difficult for labor supply to increase, with labor force participation of women and seniors having advanced to a high degree thus far. They continued that, nevertheless, as these developments would lead to an increased tightening of labor market conditions during the course of the economic recovery, wage growth was expected to increase as a trend, partly reflecting price rises, and employee income was projected to continue increasing. A few members said that, mainly based on reports presented at the meeting of the general managers of the Bank's branches, moves to set a rate of increase in wages that exceeded the 2023 level were highly likely to spread also among small and medium-sized firms, as labor shortages had intensified. In addition, some members pointed out that aggregate results of base pay increases at small and medium-sized firms set in the annual spring labor-management wage negotiations had seen upward revisions with each release. On this basis, these members expressed the view that, with wage increases at large firms being at a high level, the level had become the so-called prevailing wage, influencing in turn the wage-setting behavior of small and medium-sized firms. In relation to this, one member said that the awareness of the prevailing wage represented a landmark change for the economy, in that it indicated the creation of a benchmark for wage increases to reflect increases in prices. The member then expressed hope that this change would take hold as the economy shifted away from the mindset and behavior based on the assumption that wages and prices would not increase easily. On the other hand, one member expressed the recognition that, as polarization had been seen in terms of firms' profitability and wage levels, many small and medium-sized firms had raised wages to retain employees, which suggested that wage increases resulting from structural reforms seen among large firms remained weak at small and medium-sized firms. On this basis, the member expressed the view that, in order to achieve sustained wage increases, corporate dynamism was necessary, in which, for example, (1) small, medium-sized, and larger firms that had improved their profitability -- through such means as passing on cost increases to selling prices -- raised their growth potential steadily by making business fixed investment and strengthening their business structures and (2) startups, which created new markets, grew into so-called unicorns.

Based on this discussion, members shared the recognition that, comparing the projections with those in the January 2024 Outlook Report, (1) the projected real GDP growth rate for fiscal 2023 was lower, mainly reflecting lower private consumption due in part to the effects of the suspension of production and shipment at some automakers, (2) the projected growth rate for fiscal 2024 was somewhat lower, given that the GDP growth rate for the second half of fiscal 2023 was expected to be fairly lower than previously projected, and (3) the projected growth rate for fiscal 2025 was more or less unchanged. They continued, however, that the basic view on future economic developments was unchanged.

Members then discussed the baseline scenario of the outlook for Japan's price developments. They agreed that the year-on-year rate of increase in the CPI (all items less fresh food) was likely to be in the range of 2.5-3.0 percent for fiscal 2024 and then be at around 2 percent for fiscal 2025 and 2026. In addition, they shared the recognition that, while the effects of a pass-through to consumer prices of cost increases led by the past rise in import prices were expected to wane, the rate of increase was projected to be pushed up through fiscal 2025 by the effects of the recent rise in crude oil prices and a waning of the effects of the government's economic measures pushing down CPI inflation. One member commented that the rate of increase would remain at around the 2 percent level, mainly due to (1) a rise in import prices reflecting the continuation of relatively high inflation overseas, (2) tightness in domestic labor market conditions, and (3) continued changes in firms' price-setting behavior.

Meanwhile, with regard to underlying CPI inflation, members shared the view that, it was expected to increase gradually, since it was projected that the output gap would improve and that medium- to long-term inflation expectations would rise with a virtuous cycle between wages and prices continuing to intensify. They continued that, in the second half of the projection period, it was likely to be at a level that was generally consistent with the price stability target. A few members pointed out that the likelihood of underlying CPI inflation rising and the price stability target of 2 percent being achieved continued to rise. One of these members said that it had become widely recognized in society that prices would rise continuously. A different member expressed the view that the pass-through of higher personnel expenses to selling prices had begun to progress, with the March 2024 *Tankan* and anecdotal information from firms showing a continuing trend of their behavior shifting more toward raising wages and prices, and with the government also strongly supporting such moves by firms.

Members shared the recognition that, comparing the projections with those in the January 2024 Outlook Report, the projected year-on-year rate of increase in the CPI (all items less fresh food) for fiscal 2024 was higher, mainly due to the effects of the recent rise in crude oil prices, but that for fiscal 2025 was more or less unchanged.

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

On this basis, members noted the following three factors as major risks to economic activity: (1) developments in overseas economic activity and prices and in global financial and capital markets; (2) developments in import prices, particularly those of commodities, including grains; and (3) the impact of various changes in the environment surrounding Japan on firms' and households' medium- to long-term growth expectations and on Japan's potential growth rate. Meanwhile, one member pointed out that, while the output gap had been at around 0 percent, the weighted average of the diffusion indexes (DIs) for production capacity and employment conditions in the *Tankan* indicated a historically large net "insufficient." On this basis, the member said that, in determining whether Japan's economy would keep growing steadily, it was important to confirm whether the output gap was not underestimated or the potential growth rate was not overestimated.

Regarding risks to prices, members concurred that, if the aforementioned risks to economic activity materialized, prices would be affected, and that the following factors warranted attention as risks specific to prices: (1) firms' wage- and price-setting behavior, and (2) future developments in foreign exchange rates and international commodity prices, as well as the extent to which such developments would spread to import prices and domestic prices. With regard to firms' wage- and price-setting behavior, some members expressed the view that it could shift more toward raising wages and prices than previously expected. A few members commented that, while corporate profits had been at high levels and there was room for firms to absorb cost increases brought about by wage hikes, it was possible that firms would proceed with raising prices more than expected to prepare for wage hikes in fiscal 2025. One of these members added that there had actually been more cases in which prices were raised because of higher personnel expenses, particularly in business-to-business transactions, and it was necessary to observe how this would spread. A different member said that, on the back of continued price rises, if business managers' inflation expectations rose steadily in an adaptive manner, this could be an upside risk to prices.

Members also discussed the risk to prices that the recent depreciation of the yen and other factors would have. One member noted that the yen's depreciation and high crude oil prices had weakened the premise that cost-push factors would wane. On this basis, the member said that, considering the changes in firms' wage- and price-setting behavior, it was possible that the time lag for the effects of the yen's depreciation and high crude oil prices to spill over to overall prices and furthermore to wages, was becoming shorter. In relation to this point, one member pointed out that the degree of the pass-through of the yen's depreciation to consumer prices seemed to have heightened, reflecting the changes in corporate behavior, and that the effect the yen's depreciation had on overall prices and wages would not necessarily be temporary. A different member expressed the view that the depreciation of the yen and the rise in crude oil prices had started to affect producer prices through an increase in import prices, and it was necessary to pay attention to the possibility that the current deceleration in the rate of increase in goods prices would bottom out and start to reverse, as well as to the increase in services prices accompanying wage hikes. Another member noted that, while the yen's depreciation was likely to push down the economy in the short run through price rises driven by cost-push factors, it could push up underlying inflation in the medium to long run, since it was also likely to have the effect of increasing production and income through, for example, a rise in inbound tourism demand and manufacturers moving their overseas production sites back to Japan. One member expressed the view that it was necessary for the Bank to examine without any preconceptions whether a pass-through of cost increases to consumer prices would occur again, following the pass-through from 2022, since there was a risk of higher inflation due to a rise in import prices and an increase in inflation expectations. Based on this discussion, members shared the recognition that it was necessary to closely monitor how the recent depreciation of the yen affected underlying inflation.

With regard to the risk balance, members shared the view that risks to economic activity were generally balanced for fiscal 2024 onward. They agreed that risks to prices were skewed to the upside for fiscal 2024 but were generally balanced thereafter.

IV. Summary of Discussions on Monetary Policy

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

With respect to the guideline for market operations for the intermeeting period, members agreed that it was appropriate for the Bank to maintain the guideline that it would encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 percent. In addition, regarding purchases of JGBs, CP, and corporate bonds, they shared the recognition that it was appropriate for the Bank to conduct the purchases in accordance with the decisions made at the March 2024 Monetary Policy Meeting.

Some members expressed the view that the changes in the monetary policy framework decided at the previous meeting were being digested by the market without causing confusion. One of these members pointed out that CPI figures and other information released recently had proved that the conditions for changing the monetary policy framework had been fulfilled at the time of the previous meeting. A different member expressed the view that the Bank's communication since the second half of 2023 had enhanced the predictability of its future conduct of monetary policy, thereby contributing to stability in the market.

Members discussed the future conduct of monetary policy. They concurred that this would depend on future developments in economic activity and prices as well as financial conditions. Specifically, some members expressed the recognition that, from the perspective of sustainable and stable achievement of the price stability target of 2 percent, developments in underlying inflation were important. A different member pointed out that the key factors were whether positive corporate behavior could be confirmed through summer 2024 from, for example, business fixed investment, and whether private consumption would improve, reflecting wage hikes. One member expressed the view that there were various upside risks to prices, such as greater-than-expected progress in the wage-price spiral, a further depreciation of the yen, active fiscal policy, lack of supply capacity that was mainly due to labor shortages, and a rise in commodity prices. In addition, while noting that foreign exchange rates were not subject to direct control by monetary policy, some members pointed out that exchange rates were one of the important factors affecting economic activity and prices, and that monetary policy responses would be necessary if there was a change in the outlook for economic activity and prices, or a change in the risks regarding the outlook. One of these members commented that, given factors such as the trilemma of international finance, monetary policy should not be employed to achieve stability in foreign exchange rates. The member continued, however, that, if movements in foreign exchange rates had an impact on firms' medium- to long-term inflation expectations and corporate behavior, this would raise the risk of prices being affected, thereby making monetary policy responses necessary.

On this basis, members shared the recognition that (1) if underlying inflation rose in line with its outlook, the Bank would adjust the degree of monetary accommodation and (2) if there was a change in the outlook for economic activity and prices, or a change in the risks regarding the outlook, that would be an appropriate reason to adjust the policy interest rate accordingly. In relation to this, many members pointed out that the Bank would adjust the degree of monetary accommodation as underlying inflation rose, but that, given the outlook for economic activity and prices, accommodative financial conditions would be maintained for the time being. One member expressed the recognition that it was necessary to deepen discussion on the timing and degree of policy interest rate hikes. One member said that the pace of adjusting the degree of monetary accommodation would change depending on the likelihood of realizing the outlook for economic activity and prices. However, the member continued that, to avoid any rapid policy changes, one option was to adjust the degree of monetary accommodation by conducting moderate policy interest rate hikes before the likelihood of realizing the outlook for economic activity and prices rose sufficiently, in response to developments in economic activity and prices as well as financial conditions. A different member noted that, in order to adjust the degree of monetary accommodation in a way that did not exert stress on the economy, it would be necessary for the Bank to raise the policy interest rate in a timely and appropriate manner as the likelihood of realizing the outlook for economic activity and prices rose. One member expressed the view that, if the current outlook for economic activity and prices was realized, then in about two years, the price stability target would be achieved in a sustainable and stable manner and the output gap would be positive, and that therefore there was a possibility that the future policy interest rate would be higher than the path that was factored in by the market. One member was of the opinion that, in the current situation where underlying inflation was below 2 percent, accommodative financial conditions needed to be maintained for a fairly long period. However, the member pointed out that, if underlying inflation continued to deviate upward from the baseline scenario against the backdrop of a weaker yen, it was quite possible that the pace of monetary policy normalization would increase. Meanwhile, one member expressed the view that, as households' purchasing power remained weak, it was appropriate for the Bank to maintain accommodative financial conditions for the time being.

Based on the above discussions, members agreed that it was necessary for the Bank to explain clearly its thinking on the conduct of monetary policy in the Outlook Report. In response to this, the chairman requested that the staff present possible descriptions of the future conduct of monetary policy. The staff reported that the descriptions could be as follows. First, as for the conduct of monetary policy, it would depend on future developments in economic activity and prices as well as financial conditions; uncertainties surrounding these economic and financial developments at home and abroad remained high. Second, if the outlook for economic activity and prices presented in the Outlook Report was realized and underlying inflation increased, the Bank would adjust the degree of monetary accommodation, while it anticipated that accommodative financial conditions would be maintained for the time being. Third, with the price stability target of 2 percent, the Bank would conduct monetary policy as appropriate, in response to developments in economic activity and prices as well as financial conditions, from the perspective of sustainable and stable achievement of the target.

In reaction to the staff's explanation, members shared the view that the descriptions presented by the staff were appropriate. One member pointed out that it was necessary for the Bank to emphasize, in explaining to the public, that underlying inflation was not something that could be captured by, for example, a single indicator, but was simply an abstraction.

Members discussed <u>the Bank's future asset purchases and the treatment of its asset holdings</u>. Regarding purchases of JGBs, some members expressed the recognition that, at some point the Bank should indicate its intention to reduce its purchase amount. These members then noted that it was currently monitoring market conditions after the changes in the policy framework. One member pointed out that the Bank needed to reduce the size of its balance sheet in order to optimize the amount of its JGB holdings and reserve balances. On this basis, the member expressed the view that, given that the gradual increase in flexibility in the conduct of yield curve control led to a smooth exit from the previous policy framework, it was important for the Bank to proceed with reducing its purchase amount of JGBs in a timely manner, while paying attention to market developments and the supply and demand conditions for JGBs. A different member noted that one option was to reduce the Bank's purchase amount of JGBs based on the supply and demand balance of JGBs, with the aim of restoring market functioning. The member continued that it was important to indicate the Bank's intention to reduce its purchase amount of JGBs from the perspective of enhancing market predictability. Meanwhile, some members expressed the view that, under the current guideline for JGB purchases, the daily purchase amount would be adjusted carefully by the Bank's Financial Markets Department, in response to factors such as the supply and demand conditions for JGBs.

Members shared the recognition that the Bank needed to take time to consider the treatment of its holdings of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs). On this basis, one member expressed the view that, given market developments, it was increasingly likely that the Bank would be able to discuss the specifics of the treatment of these asset holdings. A different member pointed out that, in discussing the treatment of the Bank's ETF holdings, it was necessary to take into account, for example, the impact that the manner of the disposal of these assets would have on the functioning of the stock market and the extent of this impact. On this basis, the member expressed the recognition that, although there was no simple solution to this issue, the Bank should aim at bringing the amount outstanding to zero, even if it took a long time.

V. Remarks by Government Representatives

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was recovering at a moderate pace, although it recently appeared to be pausing. Regarding the outlook, the economy was expected to continue recovering at a moderate pace, while attention should be given to uncertainties regarding the global economy and to the impact of the yen's depreciation on households' purchasing power.

(2) The government would support wage hikes, underpin private consumption through cuts in income tax and inhabitant tax, and work toward raising the potential growth rate.

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

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

(1) It seemed that business fixed investment had marked its highest level and the trend toward raising wages seen among large firms had also spread to other firms. However, there were

many small, medium-sized, and larger firms that had not been able to pass on personnel expenses to selling prices, and private consumption lacked firmness.

(2) In aiming toward full liberation from deflation -- the path to which Japan was still only halfway down -- the government would carry out all possible measures and strongly promote wage hikes.

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

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.

> The Bank will encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 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. Discussion on 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 April 2024 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 April 30.

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of March 18 and 19, 2024, for release on May 2.

Attachment
April 26, 2024
Bank of Japan

Statement on Monetary Policy

At the Monetary Policy Meeting (MPM) held today, the Policy Board of the Bank of Japan decided, by a unanimous vote, to set the following guideline for money market operations for the intermeeting period:

> The Bank will encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 percent.

Regarding purchases of Japanese government bonds, CP, and corporate bonds, the Bank will conduct the purchases in accordance with the decisions made at the March 2024 MPM.