Not to be released until 8:50 a.m. Japan Standard Time on Monday, May 9, 2022.

May 9, 2022

Bank of Japan

Minutes of the Monetary Policy Meeting

on March 17 and 18, 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, March 17, 2022, from 2:00 p.m. to 3:52 p.m., and on Friday, March 18, from 9:00 a.m. to 11:44 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. SUZUKI Hitoshi

Mr. KATAOKA Goushi

Mr. ADACHI Seiji

Mr. NAKAMURA Toyoaki

Mr. NOGUCHI Asahi

Ms. NAKAGAWA Junko

Government Representatives Present

Mr. OKAMOTO Mitsunari, State Minister of Finance, Ministry of Finance[2]

Mr. ONO Heihachiro, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance[3]

Mr. KIKAWADA Hitoshi, State Minister of Cabinet Office, Cabinet Office[2]

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

Reporting Staff

Mr. UCHIDA Shinichi, Executive Director

Ms. SHIMIZU Tokiko, Executive Director (Assistant Governor)

Mr. KAIZUKA Masaaki, Executive Director

Mr. SHIMIZU Seiichi, Director-General, Monetary Affairs Department

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on April 27 and 28, 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] Messrs. Okamoto and Kikawada were present on March 18.

[3] Messrs. Ono and Inoue were present on March 17.

Mr. KAWAMOTO Takuji, Head of Policy Planning Division, Monetary Affairs Department

Mr. OTANI Akira, Director-General, Financial Markets Department

Mr. KAMEDA Seisaku, 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. NAKAJIMA Takeshi, Director-General, Secretariat of the Policy Board

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

Mr. OBA Hidetada, Deputy Director, Secretariat of the Policy Board

Mr. ANDO Masatoshi, Senior Economist, Monetary Affairs Department

Mr. KADOGAWA Yoichi, Senior Economist, Monetary Affairs Department

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

A. Market Operations in the Intermeeting Period

In accordance with the 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 January 17 and 18, 2022, the Bank had been conducting purchases of Japanese government bonds (JGBs).[5] 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. Meanwhile, in mid-February, when upward pressure on 10-year JGB yields increased, mainly reflecting developments in U.S. interest rates, the Bank conducted outright purchases of 10-year JGBs through the fixed-rate method (fixed-rate purchase operations).

With a view to supporting financing, mainly of firms, and maintaining stability in financial markets, the Bank had taken the following measures: purchases of CP and corporate bonds and conduct of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19), both under the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) (the Special Program); flexible provision of ample funds, mainly through purchases of JGBs and conduct of the U.S. dollar funds-supplying operations; and purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.

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 0.01 to minus 0.03 percent; general collateral (GC) repo rates had been in the range of around minus 0.08 to minus 0.09 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had been more or less flat.

With stock prices in the United States and Europe declining substantially due to the rise in their long-term interest rates and deterioration in the situation surrounding Ukraine,

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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.

the Tokyo Stock Price Index (TOPIX) had also been falling significantly. Long-term interest rates in Japan had been at around 0 percent under yield curve control, although they had temporarily been subject to upward pressure reflecting, for example, developments in such rates in the United States. In the foreign exchange market, the yen had depreciated against the U.S. dollar, mainly due to the rise in U.S. interest rates and to growing purchases of U.S. dollars by Japanese importers in response to such factors as a surge in commodity prices. It had temporarily appreciated against the euro in the wake of the deterioration in the situation surrounding Ukraine; however, it then saw a reversal to depreciation, reflecting the rise in European interest rates. Meanwhile, three-month U.S. dollar funding premiums in the foreign exchange swap market had increased somewhat due to heightened uncertainties stemming from the deterioration in the situation surrounding Ukraine but remained at a low level.

C. Overseas Economic and Financial Developments

Overseas economies had recovered on the whole, albeit with variation across countries and regions. In the wake of the economic sanctions imposed on Russia by advanced economies such as the United States and Europe, their effects on economic activity had started to be observed in the form of, for example, (1) firms' moves to withdraw from or scale back their business in Russia and (2) stagnation of logistics and delivery delays within and around the areas under attack; however, thus far, business sentiment globally continued to improve, and production of the manufacturing industry and trade volume had increased, partly reflecting the waning of the effects of supply-side constraints. As for the outlook, with the impact of COVID-19 waning gradually, overseas economies were likely to continue recovering on the whole. That said, geopolitical risks due to the situation surrounding Ukraine had heightened, and its impact, particularly on the global economy as well as global financial and capital markets, entailed high uncertainties for the time being.

With regard to developments in overseas economies by region, the U.S. economy had recovered. Private consumption continued to increase. While the number of employees continued to rise, the degree of tightness in the labor market had been increasing with a slow recovery in the labor force participation rate and increased turnover rates. As for the corporate sector, business sentiment kept improving and business fixed investment continued to increase. Regarding price developments, the personal consumption expenditure (PCE) deflator had marked a high increase of around 6 percent on a year-on-year basis, mainly due to the effects of the tight supply-demand conditions in the goods market.

The European economy had recovered. Private consumption kept recovering as a trend, particularly for services consumption, although the effects of elevated energy prices had been observed. With regard to the corporate sector, in a situation where business sentiment kept improving, business fixed investment also had improved. As for prices, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) had increased clearly in positive territory, mainly for energy prices, and had reached around 5.5 percent.

The Chinese economy had recovered as a trend, but the pace of improvement remained slow. Private consumption had been on an uptrend, with the employment and income situation continuing on an improving trend, although downward pressure stemming from the impact of COVID-19 had been intensifying in part. Fixed asset investment had been more or less flat, mainly because real estate investment had decelerated in reflection of, for example, firms' debt problems. Production had started to pick up with the waning of the effects of power supply issues and supply-side constraints.

Emerging economies other than China had picked up on the whole. The NIEs and the ASEAN countries had recovered with the impact of COVID-19 waning.

With respect to overseas financial markets, long-term interest rates in advanced economies had declined temporarily due to heightened geopolitical risks but had increased over the intermeeting period amid growing expectations for an earlier-than-anticipated normalization of monetary policy. Stock prices had declined significantly, particularly in Europe, reflecting heightened geopolitical risks. Crude oil prices had risen sharply due to growing concerns over a tightening of supply-demand conditions given, for example, that advanced economies had imposed economic sanctions on Russia. With regard to currencies in emerging economies in the foreign exchange market, those in commodity-exporting economies, such as Latin America, generally had appreciated, whereas the Russian ruble had plunged and currencies in Eastern Europe also had depreciated.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had picked up as a trend, although some weakness had been seen in part, mainly due to the impact of COVID-19. Regarding the outlook, the economy -- despite being affected by a rise in commodity prices -- was likely to recover, with downward pressure stemming from COVID-19 on services consumption and the effects of supply-side constraints waning and with support from an increase in external demand, accommodative financial conditions, and the government's economic measures.

Exports and industrial production continued to increase as a trend on the back of the recovery in overseas economies, despite the remaining effects of supply-side constraints. Developments in real exports by goods were as follows. With supply-demand conditions of semiconductors remaining tight worldwide, exports of automobile-related goods turned to a slight increase for February, after having marked a relatively large decrease for January, induced in part by suspensions of operations at some parts factories due to clusters of COVID-19 cases emerging; however, they still had not returned to the level seen before the production decline in summer 2021. On the other hand, against the background of an expansion in global demand for digital-related goods, exports of IT-related goods had been at a high level and those of capital goods had increased, albeit with fluctuations. With regard to the outlook, despite being affected by overseas economies having been pushed down by the deterioration in the situation surrounding Ukraine, exports and industrial production were expected to increase moderately for the time being as the effects of supply-side constraints waned gradually. Thereafter, the increase was projected to continue on the back of firm expansion in, for example, the global demand for digital-related goods.

Corporate profits and business sentiment continued to improve on the whole. Looking at the *Financial Statements Statistics of Corporations by Industry, Quarterly*, current profits for all industries and enterprises for the October-December quarter of 2021 (seasonally adjusted) had improved significantly, registering the highest level since the peak marked in the April-June quarter of 2018. Under these circumstances, business fixed investment had picked up, although weakness had been seen in some industries. In a situation where the effects of supply-side constraints on machinery investment remained, the quarter-on-quarter growth rate of real business fixed investment on a GDP basis registered 0.3 percent for the October-December quarter of 2021. With regard to the outlook, as the effects of supply-side constraints waned gradually, an uptrend in business fixed investment was expected to become clear, supported by high levels of corporate profits and accommodative financial conditions. Machinery orders (private sector, excluding orders for ships and those from electric power companies), a leading indicator of machinery investment, had increased.

A pick-up in private consumption had paused due to increased downward pressure stemming from a resurgence of COVID-19, particularly on services consumption. The consumption activity index (CAI; real, travel balance adjusted) had clearly picked up toward the end of 2021, but then declined substantially for January due to the spread of the Omicron variant and the resultant implementation of public health measures. Consumption of durable goods had increased, particularly of products such as household appliances, while that of nondurable goods had decreased again given the reduced frequency of people going outside. Although services consumption, particularly of dining-out and domestic travel, had picked up toward the end of 2021, it had been weak since January 2022.

Looking at recent developments in private consumption based on anecdotal information from firms and high-frequency indicators, consumption of services, such as dining-out and domestic travel, had declined from the second half of January through the first half of February to the levels seen around the September-October period of 2021; however, it then appeared to have picked up somewhat. On the other hand, that of goods seemed to have been relatively firm, mainly owing to stay-at-home consumption, particularly of food. In the outlook, private consumption -- despite being affected by price rises in energy and food -- was projected to pick up again, supported by the materialization of pent-up demand and the government's economic measures, as the COVID-19 situation improved gradually and the resumption of economic activity progressed in stages while public health was being protected.

Housing investment had been more or less flat. The number of housing starts was more or less unchanged, albeit with fluctuations due to revisions to the tax deduction system for housing loans. Despite being restrained by a rise in housing prices, such investment was likely to be more or less flat, supported by pent-up demand and accommodative financial conditions.

The employment and income situation remained relatively weak on the whole, although improvement had been seen in some parts. The number of employed persons in the *Labour Force Survey* remained at a relatively low level, mainly for non-regular employees in the face-to-face services industry. Total cash earnings per employee had increased moderately but were still below the pre-pandemic level. As of the so-called concentrated response date in mid-March, employers' responses to the annual spring labor-management wage negotiations in 2022 showed that, owing to an improvement in corporate profits, there had been an increasing number of firms, mainly in the manufacturing industry, that had agreed to offer a rate of increase in wages -- including in base pay -- that exceeded the rate for fiscal 2021. As for the outlook, employee income was likely to continue increasing moderately, with the economy improving on the back of the waning impact of COVID-19 in particular, and to see a clear rise in its level.

As for prices, international commodity prices had risen significantly, mainly against the background of heightened supply concerns that stemmed from the situation surrounding Ukraine. The rate of change in the producer price index (PPI) relative to three months earlier continued to increase clearly, reflecting developments in international commodity prices and foreign exchange rates. The year-on-year rate of change in the consumer price index (CPI, all items less fresh food), despite being affected by a reduction in mobile phone charges, had been at around 0.5 percent, reflecting price rises in energy and other items. That in the CPI (all items less fresh food and energy) had been at around 0.5 percent when excluding temporary factors such as the effects of the reduction in mobile phone charges. Meanwhile, inflation expectations had risen moderately. Indicators of short-term inflation expectations of households, economists, and market participants had been rising clearly, mainly due to the effects of price rises, such as in crude oil. With regard to the outlook, the year-on-year rate of change in the CPI (all items less fresh food) was likely to increase clearly in positive territory for the time being due to a significant rise in energy prices, a pass-through of raw material cost increases, and dissipation of the effects of the reduction in mobile phone charges.

2. Financial environment

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

Firms' demand for funds was more or less unchanged on the whole, as precautionary demand for liquidity due to the impact of COVID-19 had generally subsided, although demand for working capital had been seen -- particularly in the CP market -- reflecting 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 had generally been favorable as well, although developments such as the postponement of corporate bond issuance had recently been seen in part, in response to increased market volatility. 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 0.0-0.5 percent and 10-15 percent, respectively; their amounts outstanding remained at high levels. The environment for external funding was still accommodative owing to the Bank's and the government's measures, as well as efforts made by financial institutions. The number of bankruptcies of firms had been at a low level. Firms' financial positions continued to improve on the whole on the back of the pick-up in Japan's economy, although weakness remained, particularly for firms in industries that were susceptible to the impact of COVID-19, as well as for small and medium-sized ones.

The year-on-year rate of change in the monetary base, while declining compared with a while ago, remained positive, at around 7.5 percent recently. That in the money stock had also stayed positive, at around 3.5 percent.

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

A. Economic Developments

Members shared the view that global financial and capital markets had been volatile, due mainly to the effects of Russia's invasion of Ukraine as well as continued moves to reduce monetary accommodation in the United States and Europe, and that prices of commodities such as crude oil had risen significantly. They continued that, therefore, future developments warranted attention. One member said that, if inflation rates rose due to an increase in commodity and grain prices that reflected the situation surrounding Ukraine, investors' risk aversion might intensify further as market participants were increasingly concerned over a reduction in monetary accommodation by central banks. A different member commented that attention should be paid to the possibility of global financial and capital markets becoming destabilized because a rise in U.S. interest rates would induce capital outflows from and depreciation of currencies in emerging economies, thereby causing the central banks of these economies to conduct policy rate hikes to prevent such developments.

Members concurred that overseas economies had recovered on the whole, albeit with variation across countries and regions. One member expressed the view that the recovery trend of the global economy was generally being maintained, as evidenced by the fact that the Global Purchasing Managers' Index (PMI) for February exceeded 50 for both the manufacturing and nonmanufacturing industries. A different member noted that, in many overseas countries, economic recovery had progressed while living with COVID-19, despite a repeated resurgence of the virus. Moreover, the member said that the global rise in inflation continuing to date suggested that the momentum toward an expansion in demand had not weakened on the back of expansionary fiscal and monetary policies taken as measures in response to the pandemic. As for the outlook, members agreed that, with the impact of COVID-19 waning gradually, overseas economies were likely to continue recovering on the whole. On this basis, they shared the recognition that geopolitical risks due to the situation surrounding Ukraine had heightened, and its impact, particularly on the global economy as well as global financial and capital markets, entailed high uncertainties for the time being. Members pointed to the following as specific risk factors: (1) the effects of the situation surrounding Ukraine on commodity prices and supply-side constraints; (2) resultant developments in inflation and policy responses by central banks; and (3) deterioration in business and household sentiment caused by destabilization of global financial and capital markets. A few members expressed the view that there was a risk that stagnation in trade activity with Russia would exert widespread effects on the global economy by causing global supply-side constraints, in addition to pushing down the European economy, which relied significantly on Russian natural gas. One member said that, although the Russian economy accounted for only a small share of the global economy, there was a possibility that Russia, due to its invasion of Ukraine, would play above its weight in terms of the impact it would have on the global economy through the consequent effects on commodity and food prices. A few members noted that attention was warranted on whether inflation rates would decline to appropriate levels without hampering the recovery trend of the global economy, owing to monetary policy responses by central banks, including the Federal Reserve.

With regard to overseas economies by region, members shared the recognition that the U.S. economy had recovered. One member was of the view that the latest employment statistics explained the firmness of the U.S. economy, as seen, for example, in a continued solid increase in nonfarm payroll employment. A different member expressed the view that, while the spread of COVID-19 due to the Omicron variant had started to subside, production and private consumption had recovered. On the other hand, a few members noted that attention should be paid to the point that consumer sentiment had started to deteriorate, reflecting the surge in gasoline prices in particular.

Members agreed that the European economy had recovered. As for risks regarding the outlook, one member was of the opinion that attention was warranted on whether the possibility of the economy falling into stagflation -- a situation in which a rapid inflation and an economic downturn occur at the same time -- would heighten due to the resurgence of COVID-19 and the deterioration in the situation surrounding Ukraine. A different member expressed concern over the effects of the real economy being pushed down through trade and investment activities since Europe had close economic ties with Russia.

Members shared the view that the Chinese economy had recovered as a trend but the pace of improvement remained slow. Some members said that the growth pace had decelerated, mainly reflecting strict public health measures, or the so-called zero-COVID policy, and some weakening of investments in real estate and infrastructure due to the recent tightening of regulations. In relation to this, some members expressed the view that particular attention should be paid to how the lockdowns, imposed in areas including electronics and IT industry centers, would affect supply chains, for example.

Members shared the recognition that emerging economies other than China had picked up on the whole. A few members expressed the view that, although the number of confirmed new cases of COVID-19 had increased recently, the pick-up in these economies had been maintained as people gradually learned to live with COVID-19. One member noted that, since the effects on emerging economies, mainly of the surge in energy and food prices, seemed to be larger than those on advanced economies, future developments warranted attention.

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

With regard to economic activity, members concurred that the economy had picked up as a trend, although some weakness had been seen in part, mainly due to the impact of COVID-19. A few members expressed the view that the real GDP growth rate for the October-December quarter of 2021 had registered clear positive growth, but after the turn of 2022, the spread of the Omicron variant had been exerting downward pressure on economic activity, mainly on private consumption. A few other members were of the view that, despite being affected by the resurgence of COVID-19, the virtuous cycle from improvement in corporate profits continued to operate.

As for the outlook for economic activity, members agreed that Japan's economy -- despite being affected by the rise in commodity prices -- was likely to recover, with downward pressure stemming from COVID-19 on services consumption and the effects of supply-side constraints waning and with support from the increase in external demand, accommodative financial conditions, and the government's economic measures. One member presented the view that, although attention needed to be paid to how firms' and households' sentiment would deteriorate due, for example, to a surge in prices of imported raw materials, the economy was likely to pick up, particularly for services consumption, with the impact of COVID-19 waning. A different member expressed the view that deterioration in the terms of trade due to the recent rise in commodity prices could push down domestic demand, but given that the economy was on its way to recovery from a downturn caused by COVID-19 and that the so-called forced savings were expected to serve as a buffer against a decline in households' real income, the resilience of domestic demand in the current phase was higher than it had been around 2008 -- another period in which the rise in commodity prices had been seen. Meanwhile, one member noted that the gap in business conditions had widened across firm sizes and industries due to the impact of COVID-19, and that it was highly unlikely to narrow completely even after COVID-19 subsided as changes in individuals' consumption behavior that had caused the gap to widen were structural to some extent.

Members shared the recognition that exports and production continued to increase as a trend on the back of the recovery in overseas economies, despite the remaining effects of supply-side constraints. One member said that some production activity had been constrained because the number of workers who were absent from their workplaces due to being infected with COVID-19, or having been in close contact with infected persons, had surged since the turn of 2022 with the spread of the Omicron variant. As for the outlook, members shared the view that, despite being affected by overseas economies having been pushed down by the deterioration in the situation surrounding Ukraine, exports and production were expected to continue increasing moderately, owing to the waning of the effects of supply-side constraints -- which were expected to last for the time being -- and to firm expansion in, for example, the global demand for digital-related goods.

Members agreed that corporate profits and business sentiment continued to improve on the whole. One member commented that improvement in corporate profits had been led by the manufacturing industry on the back of the recovery in overseas economies. A different member noted that it was of concern that current economic conditions in the *Economy Watchers Survey* for February 2022 remained subdued, as in January, mainly due to anxiety regarding the situation surrounding Ukraine. One member said that the effects of the yen's depreciation on household and business sentiment could depend on the external environment, such as whether such depreciation was accompanied by a rise in commodity prices, and that future developments therefore warranted attention.

Members shared the recognition that business fixed investment had picked up, although weakness had been seen in some industries. As for the outlook, they shared the view that, as the effects of supply-side constraints waned gradually, an uptrend in such investment was expected to become clear, supported by high levels of corporate profits and accommodative financial conditions. A few members expressed the view that firms' appetite for fixed investment had been maintained, as seen in the fixed investment plans in the *Annual Survey of Corporate Behavior*, suggesting that such investment was expected to be solid. These members added, however, that as the survey was conducted in January 2022, it was necessary to note that these plans did not fully factor in the effects of the situation surrounding Ukraine.

Members agreed that a pick-up in private consumption had paused due to increased downward pressure stemming from the resurgence of COVID-19, particularly on services consumption. Some members said that, due to the prolonged restrictions on day-to-day activities and deterioration in consumer sentiment, both of which reflected the resurgence of COVID-19, downward pressure on consumption of services, such as eating and drinking as well as accommodations, had been intensifying again. In the outlook, members shared the view that private consumption -- despite being affected by price rises in energy and food -- was likely to pick up again, supported by the materialization of pent-up demand and the government's economic measures, as the COVID-19 situation improved gradually and the resumption of economic activity progressed in stages while public health was being protected. A few members presented the view that private consumption was likely to recover again following the lifting of priority measures to prevent the spread of disease scheduled in late March 2022.

Members agreed that the employment and income situation remained relatively weak on the whole, although improvement had been seen in some parts. Some members expressed the view that the annual spring labor-management wage negotiations in 2022 -- with March 16 designated as the concentrated response date -- indicated that large firms had started to make positive responses with respect to wage increases, reflecting favorable business performance. As for the outlook for employee income, members shared the view that it was likely to continue increasing moderately with the economy improving on the back of the waning impact of COVID-19 in particular and see a clear rise in its level. One member said that, based on recent anecdotal information from firms, their price-setting stance generally seemed to have been shifting toward raising prices, and that attention was being paid to whether such proactive stance would lead to a rise in wages. A different member expressed the opinion that it was important to induce wage increases via a rise in CPI inflation, while firms made use of such measures as the government's preferential tax treatment for those that had raised wages. One member expressed the view that, if labor market conditions tightened as Japan's economy recovered amid it facing difficulty in raising labor supply further for women and seniors, wages of the middle class were more likely to increase. On the other hand, a different member noted that it was uncertain whether wage increases would be sustained since the *Annual Survey of Corporate Behavior* did not indicate an upward revision in firms' growth expectations.

As for <u>prices</u>, members agreed that the year-on-year rate of change in the CPI, despite being affected by the reduction in mobile phone charges, had been at around 0.5 percent, reflecting price rises in energy and other items. One member said that, as producer prices continued to increase at a historically high pace, the underlying inflationary pressure in terms of the CPI seemed to be gradually increasing as well. A different member pointed out that it appeared that the number of firms passing on raw material cost increases to retail prices had been increasing. The member said that this seemed to be because firms considered that they could now gain more acceptance by consumers of rises in selling prices than they had before, as there were circumstances where consumers were likely to find it reasonable for prices to rise, such as price increases by competitors and price rises in energy and other items. In response to this, a few members expressed the view that, although retail prices had risen for energy-related items as well as food and other items, the pass-through of cost increases to retail prices overall had been limited thus far when considering the rise in producer prices. As background to this, one of these members pointed out that the recovery in domestic demand had been insufficient and that it remained difficult for firms to pass on cost increases to product prices under the current macroeconomic conditions. Meanwhile, members agreed that inflation expectations had risen moderately. One member said that indicators of such expectations of households, firms, economists, and market participants had been rising recently.

With regard to the outlook, members concurred that the year-on-year rate of change in the CPI was likely to increase clearly in positive territory for the time being due to the significant rise in energy prices, the pass-through of raw material cost increases, and dissipation of the effects of the reduction in mobile phone charges. They also shared the recognition that the underlying inflationary pressure was projected to increase, mainly on the back of improvement in the output gap and a rise in medium- to long-term inflation expectations. A few members expressed the view that, although it depended on developments in crude oil prices and policy responses by the government, the year-on-year rate of change in the CPI could increase clearly in positive territory from April, due mainly to a rise in energy prices, and stay at around 2 percent for the time being. On this basis, one of these members stated that, because inflation in fiscal 2022 was expected to stem from cost-push factors, it was likely that this would subsequently be followed by a certain reactionary decline in the inflation rate. A few other members also expressed the view that, given such factors as the household budget constraints and competitive environment for firms, it was unlikely that the recent surge in prices of imported raw materials would lead to a sustained rise in the CPI. One of these members added that, for sustained inflation, it was necessary to push up households' purchasing power by increasing wages. Another member expressed the view that raising productivity of firms, including small and medium-sized ones, for which 70 percent of employees in Japan work, was essential for sustained wage and price increases. The member continued that efforts by regional financial institutions were important in supporting the enhancement of firms' innovation through, for example, investment in human capital as well as in supporting the promotion of entry and exit of firms and their structural reforms through, for example, fostering startups. One member noted that attention was being paid to whether the norm of refusing price rises, which seemed to have been deeply entrenched in Japan, would diminish and whether improvement in the tolerance of price rises would be observed widely. On this point, a different member pointed to the fact that Japan's CPI inflation rate was the highest among major advanced economies at the time of global inflation in the 1970s. The member then expressed the view that the norm among Japanese firms to conform with one another suggested the possibility of successive price hikes moving through them in a chained manner once moves to raise prices emerged. Meanwhile, one member said that, although changes had been observed in firms' price-setting behavior and inflation expectations, achieving the price stability target by the end of fiscal 2023 was difficult given developments in the output gap and such expectations.

As for risks to economic activity and prices, members agreed that the course of COVID-19, including variants, and its impact on domestic and overseas economies continued to warrant attention. One member noted that it was necessary to pay attention to the risk of downward pressure being exerted again on the face-to-face services sector due to the resurgence of COVID-19. A different member expressed the view that, if the pandemic did not subside, there was a possibility that private consumption would repeatedly fluctuate in response to potential waves of COVID-19, and there also was a risk of a delay in the timing of pent-up demand materializing. One member noted that economic entities in Japan were still putting forth efforts to counter the pandemic, and if this situation continued, there was a risk that forced savings of households and firms would be hoarded, thereby further suppressing the vitality of Japan's economy. Meanwhile, one member pointed out that the risk of the resurgence of COVID-19 abroad adversely affecting Japan's exports and production through supply-chain disruptions also warranted attention. On this point, one member noted that, if the spread of COVID-19 in China and the resultant lockdowns across its cities further intensified the effects of supply-side constraints on Japanese firms' production activities, a significant degree of downward pressure would be exerted on exports.

As for other risks, members shared the view that there were extremely high uncertainties over how the situation surrounding Ukraine would affect Japan's economic activity and prices, mainly through developments in global financial and capital markets, commodity prices, and overseas economies. One member said that, if the deterioration in the situation surrounding Ukraine caused further price rises in energy and other items, this could have a significant adverse impact on Japan's economic recovery by squeezing corporate profits and household income. A different member expressed the view that attention was warranted on the risk that judgment with respect to wage increases and business fixed investment would become cautious, particularly among small and medium-sized firms, due to such factors as the deterioration in the situation surrounding Ukraine. One member commented that, in the wake of the economic sanctions that were imposed mainly on Russia, activities of Japanese firms that had made investment in the countries concerned had already been constrained, but as it would take time for the effects of bottlenecks in logistics and interruptions in funds settlements to materialize, attention needed to be paid to the possibility that there would be further increases in constraints and burdens on economic activity. Regarding risks to prices, one member expressed the view that, although commodity prices had surged, reflecting the situation surrounding Ukraine, they could see a reactionary decline in the near future, particularly following the commencement of the Federal Reserve's reduction of its balance sheet. The member continued that, therefore, vigilance was instead required against downside risks to prices from the second half of fiscal 2022.

B. Financial Developments

Members concurred that financial conditions in Japan had been accommodative on the whole, although weakness in firms' financial positions remained in some segments. Some members pointed out that, while market volatility had heightened, reflecting the situation surrounding Ukraine, there were moves to postpone fund-raising through equity financing as well as in parts of the corporate bond market, and dollar funding costs had also risen somewhat temporarily. However, one of these members commented that the environment for external funding remained accommodative on the whole, as evidenced, for example, by the smooth financing in the CP market of working capital, for which demand had heightened due to the rise in commodity prices. Another member also expressed the view that issuance conditions for CP and corporate bonds had generally been favorable and that, at present, no particular problems had arisen in terms of the financial system and of financial positions, mainly of firms. Meanwhile, one member said that, with the recent rise in U.S. long-term interest rates and other factors pushing down profits of the markets divisions at major banks, attention needed to be paid to the risk that credit costs would also increase due to the prolonged COVID-19 pandemic and the lasting effects of supply-side constraints. Moreover, this member pointed out that, under the prolonged low interest rate environment, institutions such as pension funds -- which had once been conservative in terms of fund management -- had shifted their investment from bonds to high-risk assets including stocks. The member then commented that, if the situation surrounding Ukraine and the impact of rises in European and U.S. interest rates caused significant adjustments in prices of risk assets, this could substantially affect those institutions.

III. Summary of Discussions on Monetary Policy

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

Regarding the Bank's response to COVID-19 for the time being, members agreed that the three monetary easing measures -- namely, (1) the Special Program, (2) an ample provision of yen and foreign currency funds without setting upper limits, and (3) purchases of ETFs and J-REITs -- had been exerting their intended effects. They also agreed that it was important for the Bank to continue to support financing, mainly of firms, and maintain stability in financial markets through the three monetary easing measures. On this basis, members concurred that the Bank for the time being would closely monitor the impact of COVID-19 and not hesitate to take additional easing measures if necessary. One member said that developments such as the postponement of corporate bond issuance had been seen in part, with market volatility having been heightening recently. That said, the member continued that, as the issuance conditions for CP and corporate bonds generally remained favorable, it would be appropriate for the Bank to complete its additional purchases of CP and corporate bonds -- a part of the Special Program intended to provide support for large firms -- at the end of March 2022 as scheduled.

Members then discussed the Bank's basic stance on its future conduct of monetary policy. One member said that, in addition to the impact of COVID-19, Russia's invasion of Ukraine had heightened uncertainties regarding future developments; in this situation, the Bank should continue with the current monetary easing and closely monitor developments in economic activity and prices. A different member stressed that, in the conduct of monetary policy, the effects that movements in commodity prices or foreign exchange rates had on economic activity and prices, rather than the movements themselves, warranted consideration. A few members noted that, unlike the United States and the United Kingdom, Japan was not in a situation where the inflation rate would likely exceed the price stability target of 2 percent in a continuous manner while accompanying a wage-price spiral, and that it was therefore important for the Bank to continue with monetary easing to support the economic recovery from the pandemic. One member pointed out that price rises in energy and other items due to the situation surrounding Ukraine would push down domestic demand while raising the CPI. The member then expressed the view that, under these circumstances, it was necessary for the Bank to improve labor market conditions and provide stronger support for wage increases by persistently continuing with the current monetary easing. A different member said that, in the short run, Japan's inflation rate might exceed 2 percent, with the rises in commodity and other prices; however, if downward pressure on economic activity and prices increased, the economy might instead be in danger of falling into deflation again. On this basis, the member added that it was appropriate for the Bank to continue with monetary easing until underlying inflation reached the price stability target in a stable and sustainable manner, thereby supporting a virtuous cycle from a rise in corporate profits to increases in wages and business fixed investment. This member continued that, if it became difficult to achieve the target, the Bank should act nimbly without hesitation. One member pointed out that the Bank should strengthen its monetary easing stance with a view to improving the output gap and inflation expectations, and thereby achieve an economic recovery and the price stability target early. On the other hand, a different member expressed the view that, even if Japan's economic activity came under downward pressure due to the rise in commodity prices, it was projected that economic recovery would continue and the underlying trend in the inflation rate would rise as the impact of COVID-19 and supply-side constraints waned. The member continued that additional easing therefore was not required at this stage. Meanwhile, one member said that, given recent changes in the external environment affecting Japan's economic activity and prices, it was important to consider monetary policy responses while assuming various possibilities.

In relation to market operations, members also discussed <u>measures to address the upward pressure on Japanese long-term interest rates</u> that had been observed recently. A few members said that there was a possibility that upward pressure on Japanese long-term interest rates would strengthen as the policy rate hikes in the United States were projected to be conducted more frequently and at an accelerated pace. These members continued that, with a view to maintaining the economic stimulus effects from the monetary policy side, it was important for the Bank to contain such upward pressure through various measures, including the fixed-rate purchase operations, thereby adhering to the guideline for market operations. One of these members expressed the view that, since inflation expectations had been rising recently, stimulus effects on, for example, business fixed investment could be expected to strengthen by containing the rise in nominal interest rates and lowering real interest rates further.

Members also discussed the Bank's communication to the public regarding its assessment of the underlying trend in prices. One member said that what the Bank was aiming to achieve was not temporary inflation induced by such factors as a rise in energy prices, but rather the 2 percent price stability target in a sustainable and stable manner. On this basis, some members, including this member, expressed the view that, for the time being, while there was a possibility that the year-on-year rate of change in the CPI would reach around 2 percent, owing mainly to the rise in energy prices, it was necessary to consider the optimal way of explaining the Bank's assessment of the underlying trend in prices and its outlook for prices, including how to present these in the *Outlook for Economic Activity and Prices* (Outlook Report). Meanwhile, one member pointed out that the following should be taken into account. In assessing the underlying trend in prices, it was important to exclude those items for which prices tend to be subject to fluctuations, such as fresh food and energy; however, providing an explanation to the public of its assessment of price developments and its monetary policy stance, relying solely on figures that excluded fresh food and energy -- items directly affecting people's daily lives -- carried the risk that the Bank would face difficulties in gaining wide public understanding. On this basis, the member said that it was important for the Bank to communicate to the public from the viewpoint of whether a virtuous cycle was operating, such that prices were on a rising trend accompanied by rises in corporate profits and wages.

With respect to yield curve control, members shared the recognition that the JGB yield curve had been formed smoothly in a manner consistent with the guideline for market operations.

Based on the above discussions, regarding the guideline for market operations for the intermeeting period, most members expressed the view 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.

On this point, one member expressed the opinion that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, with a view to encouraging firms to make active business fixed investment for the post-COVID-19 era.

With regard to <u>asset purchases other than JGB purchases</u>, 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 with an upper limit on the amount outstanding of about 20 trillion yen in total until the end of March 2022. From April onward, it would purchase these assets 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 <u>the Bank's stance on its future conduct of monetary policy</u>, members shared the view that it would (1) 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 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.

With regard to the measures that the Bank had taken since March 2020 in response to the impact of COVID-19, members shared the view that it would continue to support financing, mainly of firms, and maintain stability in financial markets through (1) the Special Program, (2) an ample provision of yen and foreign currency funds without setting upper limits, and (3) purchases of ETFs and J-REITs.

Regarding its policy stance for the time being, members agreed that the Bank would closely monitor the impact of COVID-19 and not hesitate to take additional easing measures if necessary. Based on this, most members concurred that, as for policy rates, it would expect short- and long-term interest rates to remain at their present or lower levels.

On this point, one member was of the opinion that further coordination of fiscal and monetary policy was necessary and it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.

IV. Remarks by Government Representatives

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

(1) The government had been working in close cooperation with the international community, including the Group of Seven (G7), in response to the invasion of Ukraine by Russia. With regard to the effects of the situation surrounding Ukraine on the Japanese economy, it was necessary to continue to closely monitor the impact amid the continuously changing circumstances; as for energy prices, which have a large impact, the government had compiled emergency measures to respond to oil price hikes and had been taking various steps.

(2) With the budget for fiscal 2022, which was compiled with the supplementary budget for fiscal 2021, the government aimed to realize a new form of capitalism through a virtuous cycle of growth and distribution while taking all possible measures to contain the spread of COVID-19. The government had been making efforts to swiftly obtain the Diet's approval of the budget.

(3) The government expected the Bank to conduct appropriate monetary policy, taking the situation surrounding Ukraine and the impact of COVID-19 into account while cooperating with the government.

The representative from the Cabinet Office made the following remarks.

(1) The recently released second preliminary estimates of GDP for the October-December quarter of 2021 showed that real GDP had almost recovered to the pre-pandemic level. On the other hand, due attention should be paid to the downside risks to the economy posed by, for example, the surge in raw material prices that mainly reflected the situation surrounding Ukraine, the future course of COVID-19, and global supply-side constraints.

(2) In order to minimize the impact of these risks on people's daily lives and business activities, the government would swiftly implement, for example, (1) emergency measures that included the significant expansion and intensification of operations to dampen drastic fluctuations in fuel prices and (2) multilayered measures to support people's daily lives, provided as part of the measures to contain the spread of COVID-19.

(3) The government expected the Bank to continue to conduct appropriate monetary policy while giving due consideration to developments in economic activity and prices as well as financial conditions and closely cooperating with the government.

V. Votes

A. Vote on the Guideline for Market Operations

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

The Policy Board decided the proposal by a majority vote.

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

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

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

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

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

Votes against the proposal: Mr. KATAOKA Goushi.

Mr. Kataoka dissented, considering that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, with a view to encouraging firms to make active business fixed investment for the post-COVID-19 era.

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 with an upper limit on the amount outstanding of about 20 trillion yen in total until the end of March 2022. From April onward, it will purchase these assets 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. SUZUKI Hitoshi, Mr. KATAOKA Goushi, Mr. ADACHI Seiji, Mr. NAKAMURA Toyoaki, Mr. NOGUCHI Asahi, and Ms. NAKAGAWA Junko.

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. Mr. Kataoka expressed the opinion that further coordination of fiscal and monetary policy was necessary and it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.

Based on this discussion, the chairman formulated the Statement on Monetary Policy and put it to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment).

VI. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of January 17 and 18, 2022, for release on March 24.

Attachment
March 18, 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

The Bank decided, by an 8-1 majority vote, to set the following guideline for market operations for the intermeeting period. [Note 1]

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.

(2) Guidelines for asset purchases

With regard to asset purchases other than JGB purchases, the Bank decided, by a unanimous vote, 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 with an upper limit on the amount outstanding of about 20 trillion yen in total until the end of March 2022. From April onward, it will purchase these assets 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. Japan's economy has picked up as a trend, although some weakness has been seen in part, mainly due to the impact of COVID-19. Overseas economies have recovered on the whole, albeit with variation across countries and regions. However, in the wake of Russia's invasion of Ukraine, global financial and capital markets have been volatile and prices of commodities such as crude oil have risen significantly, and future developments warrant attention. In this situation, Japan's exports and industrial production have continued to increase as a trend, despite the remaining effects of supply-side constraints. In addition, corporate profits and business sentiment have continued to improve on the whole. Business fixed investment has picked up, although weakness has been seen in some industries. The employment and income situation has remained relatively weak on the whole, although improvement has been seen in some parts. A pick-up in private consumption has paused due to increased downward pressure stemming from a resurgence of COVID-19, particularly on services consumption. Housing investment has been more or less flat. Public investment has been relatively weak, albeit at a high level. Financial conditions have been accommodative on the whole, although weakness in firms' financial positions has remained in some segments. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food), despite being affected by a reduction in mobile phone charges, has been at around 0.5 percent, reflecting price rises of energy and other items. Meanwhile, inflation expectations have risen moderately.

3. Japan's economy, although expected to be affected by a rise in commodity prices, is likely to recover, with downward pressure stemming from COVID-19 on services consumption and the effects of supply-side constraints waning and with support from an increase in external demand, accommodative financial conditions, and the government's economic measures. The year-on-year rate of change in the CPI (all items less fresh food) is likely to increase clearly in positive territory for the time being due to a significant rise in energy prices, a pass-through of raw material cost increases, and dissipation of the effects of the reduction in mobile phone charges. Meanwhile, the underlying inflationary pressure is projected to increase, mainly on the back of improvement in the output gap and a rise in medium- to long-term inflation expectations.

4. Concerning risks to the outlook, the course of COVID-19, including variants, and its impact on domestic and overseas economies continue to warrant attention. In addition, there are extremely high uncertainties over how the situation surrounding Ukraine will affect Japan's economic activity and prices, mainly through developments in global financial and capital markets, commodity prices, and overseas economies.

5. 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 CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner.

   The Bank will continue to support financing mainly of firms and maintain stability in financial markets through (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of yen and foreign currency funds without setting upper limits mainly by purchasing JGBs and conducting the U.S. dollar funds-supplying operations, and (3) purchases of ETFs and J-REITs with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.

   For the time being, the Bank will closely monitor the impact of COVID-19 and will not hesitate to take additional easing measures if necessary, and also it expects short- and long-term policy interest rates to remain at their present or lower levels. [Note 2]

[Note 1] Voting for the action: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. SUZUKI Hitoshi, Mr. ADACHI Seiji, Mr. NAKAMURA Toyoaki, Mr. NOGUCHI Asahi, and Ms. NAKAGAWA Junko. Voting against the action: Mr. KATAOKA Goushi. Mr. Kataoka dissented, considering that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, with a view to encouraging firms to make active business fixed investment for the post-COVID-19 era.

[Note 2] Mr. Kataoka dissented, considering that further coordination of fiscal and monetary policy was necessary and it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.