Not to be released until 8:50 a.m. Japan Standard Time on Tuesday, December 24, 2024.

December 24, 2024

Bank of Japan

Minutes of the Monetary Policy Meeting

on October 30 and 31, 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 Wednesday, October 30, 2024, from 2:00 p.m. to 4:15 p.m., and on Thursday, October 31, from 9:00 a.m. to 11:41 a.m.[1]

Policy Board Members Present

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

Government Representatives Present

SAITO Hiroaki, State Minister of Finance, Ministry of Finance[2]
TERAOKA Mitsuhiro, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance[3]
AKAZAWA Ryosei, Minister of State for Economic and Fiscal Policy, Cabinet Office[2]
HAYASHI Sachihiro, Vice-Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

KOUGUCHI Hirohide, Executive Director
KATO Takeshi, Executive Director
SHIMIZU Seiichi, Executive Director (Assistant Governor)
SUWAZONO Kenji, Executive Director

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1 The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on December 18 and 19, 2024, as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.
2 Present on October 31.
3 Present on October 30.

MASAKI Kazuhiro, Director-General, Monetary Affairs Department

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

KAIHATSU Sohei, Head of Policy Studies Division, Monetary Affairs Department[4]

SUZUKI Koichiro, Director-General, Financial System and Bank Examination Department

FUJITA Kenji, Director-General, Financial Markets Department

NAKAMURA Koji, Director-General, Research and Statistics Department

SUGO Tomohiro, Head of Economic Research Division, Research and Statistics Department

CHIKADA Ken, 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

MARUO Yuji, Senior Economist, Monetary Affairs Department

KITAHARA Jun, Senior Economist, Monetary Affairs Department

KURACHI Yoshiyuki, Senior Economist, Monetary Affairs Department

[4] Present on October 30 from 3:10 p.m. to 4:15 p.m.

I. Summary of Staff Reports on Economic and Financial Developments[5]

A. Market Operations in the Intermeeting Period

The Bank had been conducting money market operations in accordance with the guideline for money market operations decided at the previous meeting on September 19 and 20, 2024.[6] The uncollateralized overnight call rate had been in the range of 0.225 to 0.228 percent.

Meanwhile, in September 2024, the Bank had conducted Japanese government bond (JGB) purchases of about 5.3 trillion yen per month. In October 2024, it had cut down the monthly purchase amount by about 400 billion yen, to about 4.9 trillion yen per month; this was in accordance with the JGB reduction plan decided at the July 2024 meeting. The Bank had conducted purchases of CP and corporate bonds in accordance with the decision made at the March 2024 meeting.

B. Recent Developments in Financial Markets

In the money market, the uncollateralized overnight call rate had been at around 0.25 percent. The general collateral (GC) repo rate had been at around the same level as the uncollateralized overnight call rate, albeit with some fluctuations. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had declined somewhat.

The Tokyo Stock Price Index (TOPIX) had risen slightly. Yields on 10-year JGBs had also risen slightly, moving in line with U.S. interest rates. Many of the liquidity indicators in the JGB markets continued to improve from the levels in August 2024, when these indicators had temporarily deteriorated. In the foreign exchange market, the yen had depreciated against the U.S. dollar mainly in response to the rise in U.S. interest rates. The yen had also depreciated against the euro.

C. Overseas Economic and Financial Developments

Overseas economies had grown moderately on the whole. The U.S. economy had grown moderately, mainly led by private consumption, although the economy had been affected by past policy interest rate hikes by the Federal Reserve. European economies had

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

[6] The guideline was as follows:

The Bank will encourage the uncollateralized overnight call rate to remain at around 0.25 percent.

bottomed out, although weakness remained in part. Despite government support, the pace of improvement in the Chinese economy had slowed, with continued downward pressure from adjustments in the real estate and labor markets. Emerging and commodity-exporting economies other than China had improved moderately on the whole, as exports had picked up, mainly led by IT-related goods.

As for the outlook, overseas economies were projected to keep growing moderately. There were 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, U.S. long-term interest rates had risen significantly, reflecting economic indicators being more solid than market expectations. European long-term interest rates had also risen slightly, moving in line with U.S. interest rates. U.S. stock prices had increased slightly reflecting economic indicators being more solid than market expectations. European stock prices were unchanged over the intermeeting period. Meanwhile, currencies in many emerging economies had depreciated against the background of the U.S. dollar's appreciation reflecting the firmness of the U.S. economy. Crude oil prices were more or less unchanged over the intermeeting period.

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, the economy was likely to keep growing at a pace above its potential growth rate, with overseas economies continuing to grow moderately and as a virtuous cycle from income to spending gradually intensified against the background of factors such as accommodative financial conditions.

Exports had been more or less flat. Regarding the outlook, as overseas economies continued to grow moderately, exports were projected to return to an uptrend, mainly due to a recovery in global demand for IT-related goods.

Industrial production had been more or less flat. Regarding the outlook, it was projected to return to an uptrend, mainly due to the recovery 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 on a moderate increasing trend despite the impact of price rises and other factors. The consumption activity index (CAI; real, travel balance adjusted) had increased for the April-June quarter of 2024, as automakers that had suspended production and shipment had resumed their activities. It had then increased slightly on average in the July-August period, relative to the April-June quarter, partly because of a rise in sales of goods due to the effects of hot weather and with services consumption increasing moderately as a trend. Based on anecdotal information from firms and high-frequency indicators, private consumption since September seemed to have been on a moderate increasing trend, although some firms had pointed to the effects of consumers' increased thriftiness due to price rises. Consumer sentiment had bottomed out. Regarding the outlook, for the time being, although private consumption was expected to be affected by price rises, it was projected to continue on a moderate increasing trend, with nominal employee income continuing to improve. Thereafter, it was likely to continue increasing moderately as employee income continued to improve.

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 overall had been more or less flat recently: while the number of non-regular employees in industries such as face-to-face services had been on an increasing trend, the number of involuntary non-regular employees had been on a declining trend with labor market conditions tightening. Nominal wages per employee had increased clearly, reflecting the results of the 2024 annual spring labor-management wage negotiations and an increase in bonuses supported by high levels of corporate profits. 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. A positive trend in the year-on-year rate of change in real employee income was expected to take hold, albeit with fluctuations.

As for prices, commodity prices had risen on the whole. The rate of increase in the producer price index (PPI, adjusted for the effects of seasonal changes in electricity rates) relative to three months earlier had slowed, mainly reflecting the past decline in commodity prices, and had been only slightly positive. The year-on-year rate of increase in the services producer price index (SPPI, excluding international transportation) remained relatively high, in the range of 2.5-3.0 percent recently, mainly on the back of a rise in personnel expenses. 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 CPI, 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, 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 the virtuous cycle between wages and prices continuing to intensify. In the second half of the projection period of the October 2024 *Outlook for Economic Activity and Prices* (Outlook Report), underlying CPI inflation was likely to be at a level that was generally consistent with the price stability target. Through fiscal 2025, it was expected that a dissipation of the effects of the government's measures pushing down inflation would make a positive contribution to the year-on-year rate of increase in the CPI (all items less fresh food), whereas factors such as the recent decline in crude oil and other resource prices would make a negative contribution.

2. Financial environment

Japan's financial conditions had been accommodative.

Real interest rates had been negative. Firms' funding costs had increased but remained at low levels on the whole. 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 percent. That in the aggregate amount outstanding of CP and corporate bonds had been in the range of 3.0-3.5 percent. Firms' financial positions had been favorable. The pace of increase in the number of bankruptcies of firms had slowed recently.

Meanwhile, the year-on-year rate of change in the money stock had been at around 1.5 percent.

3. Financial system

Japan's financial system maintained stability on the whole.

Profits of major banks had been firm, owing in particular to a rise in net interest income, mainly composed of interest on loans, and to an increase in net non-interest income, such as fees and commissions. Meanwhile, their credit costs had been at low levels. Their capital adequacy ratios remained sufficiently above the regulatory requirements.

Profits of regional banks had been firm, mainly on the back of the rise in net interest income. 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*, 11 showed neither an overheating nor a contraction of financial activities, and three -- including one indicating stock prices -- showed deviations from the trends toward overheating. Regarding the financial gap, the positive gap remained narrower than a while ago. Although attention continued to be warranted on the pace of increase in stock and real estate prices, there had been no overheating of financial activities overall. However, it was necessary to continue paying close attention to whether financial activities would not significantly deviate from real economic activity.

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

A. Staff Reports

Since the decision at the April 2023 Monetary Policy Meeting to conduct a review of monetary policy from a broad perspective (the Review), the Bank had conducted a wide range of initiatives such as (1) a number of analyses related to the Review, (2) surveys and interviews with households, firms, and financial institutions, (3) exchanges of views on occasions such as meetings of the Policy Board members with local and business leaders, and

(4) workshops and other events involving experts at home and abroad. The Bank had also engaged in multiple rounds of discussions on specific topics associated with the Review at Monetary Policy Meetings.

In light of these initiatives, the staff had formulated a proposal outlining an approach for compiling the final results of the Review, and the schedule for finalization.

The staff proposed that the final results would begin with a look back on developments in economic activity, prices, and financial conditions over the past 25 years, and on monetary policy implemented during the period. Considering the findings of the look-back, the final results would lay out the implications that these findings had for the Bank's conduct of monetary policy from a somewhat long-term perspective. In addition, with a view to enhancing the Review's objectivity and transparency, it would be worthwhile for the Bank to solicit comments and opinions on the final results from external experts.

The staff also suggested that, based on the discussions at this meeting, the secretariat of the Monetary Policy Meeting would formulate a proposal concerning the final results. After having further discussions at the December 2024 Monetary Policy Meeting, the text of "The Bank's View" section of the final results would be decided, followed by the publication of the full text after that meeting.

B. Discussions by the Policy Board

Based on the above staff reports, members shared the recognition that, regarding the editorial policy and the schedule for completing the Review, it was appropriate to proceed in accordance with the staff's proposal. Moreover, they shared the recognition that it was also appropriate for the Bank to explain to the public at the press conference after this meeting the approach for finalizing the results of the Review and its intention to confirm the results and decide on their release at the next Monetary Policy Meeting in December.

On this basis, members discussed some viewpoints in finalizing the results.

Some members pointed out that deflation in Japan from the latter half of the 1990s had been triggered by factors such as changes in corporate behavior after the burst of the bubble. One of these members expressed the view that cautiousness in corporate behavior had increased considerably due to various factors, including a sharp decline in asset prices, intensified competition vis-à-vis overseas firms, and the experience of financial crises. A different member commented that, with a deterioration in business performance, firms' costcutting efforts, moves to shift supply chains overseas, and their stance toward curbing domestic investment had also contributed significantly to the deflation.

Some members expressed the recognition that the behavior and mindset based on the assumption that wages and prices would not increase easily had been entrenched in society, as the observed inflation rate had been at around 0 percent for a prolonged period, and this had made it more difficult to overcome the deflation or low-inflation environment. One of these members stated that it was particularly important that rigidity in services prices had risen. A few members pointed out that quantitative analyses and extensive surveys among firms, both conducted as part of the Review, had revealed aspects of firms' wage- and price-setting behavior that previous research, which mainly used macro analysis, had been unable to fully capture.

Based on this assessment of economic and price developments, members discussed the impact of monetary easing on economic activity and prices. One member expressed the view that monetary easing through 2012 had not provided sufficient stimulative effects under the zero lower bound, but it could be assessed as having played a large role in maintaining stability in the financial system through the provision of liquidity. With regard to large-scale monetary easing from 2013, some members expressed the view that it had firmly exerted its effects and contributed to moving Japan's economy out of a state of deflation. One of these members noted that large-scale monetary easing had stimulated economic activity and prices through a decline in real interest rates, and this had led to a significant increase in employment. A different member commented that it was of great significance that, through various quantitative analyses, the Bank had been able to confirm the impact of large-scale monetary easing on economic activity and prices. One member said that large-scale monetary easing had exerted some effects on aspects of influencing expectations, in addition to lowering nominal interest rates. On the other hand, one member noted that the extent of the effects of each monetary easing measure from 2013 was unclear. In addition, the member expressed the view that the Bank should review its initial aim, from 2013, of achieving 2 percent inflation within two years.

On this basis, some members pointed out that it had taken longer than expected for wages and prices to increase even under large-scale monetary easing. One of these members stated that this reflected the fact that the behavior and mindset based on the assumption that wages and prices would not increase easily had been entrenched in society. Some members added that the sharp rise in import prices after the COVID-19 pandemic had played an important role in the recent changes in expectation formation and behavior among households and firms. Meanwhile, a few members expressed the view that the channel via asset markets had been important in terms of the transmission mechanism of large-scale monetary easing. One of these members said that the global situation needed to be taken into account when assessing large-scale monetary easing -- namely, the fact that central banks in the United States and Europe had conducted unconventional monetary policy measures, such as large-scale asset purchases.

Members also discussed the impact of large-scale monetary easing on financial markets, the functioning of financial intermediation, and the growth potential of Japan's economy. A few members expressed the recognition that both effects and side effects on financial markets and the functioning of financial intermediation had become evident through the staff's analyses to date and it was appropriate to provide an unbiased and objective description of these effects. With regard to the impact of large-scale monetary easing on the supply side of the economy, including growth potential, a few members expressed the view that it was difficult to judge its impact at this point and continued analysis was necessary. One of these members commented that both sides of the argument should be described in the final results of the Review for topics where a conclusion had not yet been reached, such as how monetary easing had affected productivity and other factors. On this point, one member added that monetary easing did not seem to be particularly effective in sparking innovation and encouraging growth.

Based on the above discussions regarding the effects and side effects of large-scale monetary easing, members shared the recognition that, in completing the Review, it was important to assess the effects and side effects as a whole. One member stated that it was necessary to give due consideration to objectivity when assessing these effects and side effects as a whole. Some members pointed out that, although large-scale monetary easing had exerted some side effects, it could be assessed that it had been effective in pushing up economic activity and prices. One of these members added that the shift from the deflation or low-inflation environment had taken far longer and had incurred a much larger cost than expected, and that it had entailed some side effects. Many members then expressed the view that attention was warranted on the possibility that the negative effects would materialize at a later date, given, for example, that it would take time for the Bank's balance sheet to shrink.

One of these members added that the assessment on the effects of large-scale monetary easing could change depending on whether the price stability target of 2 percent was achieved in a sustainable and stable manner.

Meanwhile, one member noted that several analyses had indicated that, in an economy where wages and prices do not move easily, the functioning of resource allocation through relative price adjustments could diminish. The member then stated that it was important for monetary policy to continue to be conducted with the aim of achieving not 0 percent but 2 percent inflation. In addition, this member expressed the view that it was necessary to pass on the lesson regarding monetary policy conduct that, once significantly low inflation took hold in society, it would not be easy to escape from that situation. A different member pointed out that, in conducting monetary policy under the price stability target of 2 percent, understanding the mechanism affecting price changes was more important than focusing on the actual inflation rate at each point in time.

III. Summary of Discussions by the Policy Board on Economic and Financial Developments and the October 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 market sentiment had improved compared with a while ago. As background to this, most members pointed to a series of solid economic indicators in the United States. One member expressed the view that, relative to the time of the previous meeting, there was a lower risk that global financial and capital markets would be considerably affected by a significant slowdown in the U.S. economy or by a substantial policy interest rate cut to avoid the slowdown. However, many members, including this member, expressed the recognition that it was necessary to continue to pay close attention to developments in global financial and capital markets. A few members noted that, with continued difficulty in assessing whether the U.S. economy would make a soft landing, the markets could remain susceptible to uncertainties over future economic indicators and the Federal Reserve's monetary policy conduct. A few other members said that recent developments in global financial and capital markets had been partly driven by speculations regarding the U.S. presidential and congressional elections, and that it was therefore necessary to examine market developments after the elections.

Members shared the recognition that overseas economies had grown moderately on the whole. One member expressed the view that the economic situation varied to a certain degree across countries and regions.

Members agreed that the U.S. economy had grown moderately, mainly led by private consumption, although the economy had been affected by past policy interest rate hikes by the Federal Reserve. Pointing to, for example, firmness since the previous meeting in indicators relating to private consumption and employment, most members noted that a soft landing of the U.S. economy remained the baseline scenario. One of these members pointed out that, as a result of revisions to the U.S. GDP statistics, the household saving rate had changed from being on a declining trend to being flat, and expressed the view that the sustainability of a rise in private consumption could be expected. A different member commented that the balance sheets of households and firms in the United States had been sound and there had been no excessive tightening in financial conditions. Meanwhile, a few members noted that attention was warranted on how the policy conduct of the new U.S. administration would affect economic activity and prices. In addition, a different member expressed the view that there was a risk of a slowdown in the U.S. economy if long-term interest rates remained elevated for some time. The member continued that this was because valuation adjustments, as shown in the price-earnings ratio, were likely to lead to a decline in prices of assets, including stocks and real estate, thus affecting the real economy, such as in terms of private consumption and business fixed investment.

Members shared the recognition that European economies had bottomed out, although weakness remained in part. As background to the weakness in European economies, one member pointed to, for example, continued high energy costs, cost increases due to the high wage growth rate, and intensifying competition with Chinese firms in areas such as electric vehicles. A different member noted that, of European economies, the German economy in particular had seen some weakness. As background to this, the member pointed to the impact of the slowdown in the pace of improvement in the Chinese economy, in addition to geopolitical factors.

Members shared the view that, despite government support, the pace of improvement in the Chinese economy had slowed, with continued downward pressure from adjustments in the real estate and labor markets. Some members expressed the view that, since adjustments in the real estate sector were highly likely to take time, it was difficult to expect a strong recovery in the Chinese economy for the time being, even if a sharp economic slowdown was avoided due to policy responses by authorities. One of these members noted that, with an increase in households' thriftiness, the growth of the Chinese economy had been led by external demand, and that this had been a factor causing trade friction.

Members shared the recognition that emerging and commodity-exporting economies other than China had improved moderately on the whole, as exports had picked up, mainly led by IT-related goods. One member expressed the view that, in the ASEAN economies, the impact of intensified competition with China was a matter of concern.

Members agreed that financial conditions in Japan had been accommodative. In addition, they shared the view that firms' funding costs had increased but remained at low levels on the whole. Meanwhile, one member pointed out that there was concern that a tightening of supply and demand conditions of the cheapest-to-deliver (CTD) issues of JGB futures, which was one of the side effects of yield curve control, could lead to a decline in liquidity in the JGB market and to distortions in interest rates. The member then noted that, in order to mitigate this, it was important that the Bank continue to encourage counterparties of the Securities Lending Facility to use without hesitation the Bank's measure that enables them to request a reduction in the amount of the CTD issues repurchased by the Bank.

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. One member added that, while growth in private consumption remained somewhat weak, production, employment, and income, for example, had seen moderate growth and had been developing generally as expected. In relation to business and household sentiment, one member commented that corporate executives of small and medium-sized firms had reported that foreign exchange rates had a larger impact on business management than interest rates. The member continued that various survey results seemed to suggest that households welcomed the retracement of the yen's depreciation.

Members concurred that exports had been more or less flat.

Members shared the view that industrial production had been more or less flat.

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.

Members concurred that private consumption had been on a moderate increasing trend despite the impact of price rises and other factors. A few members expressed the view that private consumption had been supported from the income side due to increased summer bonuses and the increase in scheduled cash earnings since spring 2024. One of these members pointed out that the year-on-year rate of change in real wages had been positive in the *Monthly Labour Survey* for both June and July. The member then added that consumer sentiment had also bottomed out. Meanwhile, one member noted that there was a limit on how much information could be captured on e-commerce and it was not easy to capture by statistics the impact of changes in consumer behavior since the COVID-19 pandemic. In addition, the member expressed the view that, considering, for example, the fact that firms had been enhancing their pricing strategies since the pandemic by using consumer purchasing data, it was appropriate, when assessing developments in private consumption, to use standards that were different from those applied before the pandemic and that did not put too much emphasis on macroeconomic statistics.

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. Some members pointed out that the impact of wage increases on prices had also been seen. On this basis, a few of these members were of the view that, looking at the year-on-year rate of change in the CPI for October 2024 for Tokyo's 23 wards, while the rates for rice prices and dining-out had increased, with the latter reflecting the rise in rice prices, it could be assessed that the developments in the CPI for other items, including services for which prices had been revised, had been generally in line with the Bank's outlook. In addition, one member noted that the rapid and one-sided depreciation of the yen that progressed in the first half of 2024 had been reversed for a while since the end of July, and this in turn had started to constrain the rise in import prices. The member continued that the effects of this development seemed to have gradually been spreading to producer prices and consumer prices.

Meanwhile, members agreed that inflation expectations had risen moderately.

B. Outlook for Economic Activity and Prices

In formulating the October 2024 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 continuing to grow moderately and as the virtuous cycle from income to spending gradually intensified against the background of factors such as accommodative financial conditions.

Members agreed that, as overseas economies continued to grow moderately, Japan's exports were projected to return to an uptrend, mainly due to the recovery in global demand for IT-related goods.

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

Members concurred that business fixed investment was expected to continue on an increasing trend, mainly on the back of accommodative financial conditions, as corporate profits followed an improving trend. One member expressed the view that, with aggregate demand remaining below supply, some of the business fixed investment plans might be postponed.

Members agreed that, for the time being, although private consumption was expected to be affected by price rises, it was projected to continue on a moderate increasing trend, with nominal employee income continuing to improve. They shared the view that, thereafter, private consumption was likely to continue increasing moderately as employee income continued to improve. One member expressed the view that the expanding trend in private consumption was likely to become more evident, since the uptrend in real wages was expected to take hold. In relation to this, one member pointed out that concerns about the future had led to households' increased thriftiness; in order to dispel this, wage increases exceeding price rises needed to take hold.

Members shared the view that nominal employee income was likely to continue to see a clear increase in reflection of the acceleration in nominal wage growth. A few members expressed the view that, given the labor shortages, the necessity of wage hikes was naturally being recognized, including by small and medium-sized firms. One of these members pointed out that some large firms had already announced plans to raise wages by a relatively high degree; a growing number of small and medium-sized firms had also indicated a positive stance toward wage hikes for this time of year, although some small and medium-sized firms continued to report that wage hikes were difficult. Under these circumstances, some members noted that the wage growth rate to be agreed at the 2025 annual spring labor-management wage negotiations was expected to continue to be at a high level. One of these members pointed out that the rates of increase in scheduled cash earnings of full-time employees had not caught up with those in the CPI for the past three years. The member then expressed the recognition that solid wage increases needed to be achieved at the 2025 annual spring labor-management wage negotiations. One member pointed out that, at the October 2024 meeting of the general managers of the Bank's branches, there were many reports that, while small and medium-sized firms had recorded low profits, they had raised wages as a defensive step to retain employees; considering this, the sustainability of wage hikes was of concern. On this basis, the member said that, although it might take some time, the key to raising wages in a sustainable and positive manner was for small and medium-sized firms to make structural reforms to grow their businesses and thereby increase their productivity. Meanwhile, one member noted that wage hikes due to labor shortages were expected to result in a virtuous cycle between wages and prices; however, in the short term, there was also a risk that labor supply constraints would cause Japan's economic growth to slow through, for example, firms scaling down their businesses by withdrawing from business areas with low profitability.

Based on this discussion, members shared the recognition that, comparing the projections with those in the July 2024 Outlook Report, the projected real GDP growth rates were more or less unchanged. They continued 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 at around 2.5 percent for fiscal 2024 and then be at around 2 percent for fiscal 2025 and 2026. In addition, members shared the view that 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, 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 the virtuous cycle between wages and prices continuing to intensify. They continued that, 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.

Members also shared the recognition that, through fiscal 2025, the dissipation of the effects of the government's measures pushing down inflation would make a positive contribution to the year-on-year rate of increase in the CPI, whereas factors such as the recent decline in crude oil and other resource prices would make a negative contribution.

One member pointed out that, in examining whether prices would develop in line with the Bank's outlook, it was necessary to monitor both whether (1) wage increases would support prices from the demand side through an expansion in private consumption, and (2) the supply-side channel was functioning smoothly, through which firms pass on wage increases to selling prices. One member expressed the view that, although upside risks to prices had decreased, reflecting a pause in the yen's depreciation -- which had progressed from the beginning of 2024 until before the summer -- and a decline in crude oil prices, the uptrend in prices was likely to continue with a change in the behavior and mindset based on the assumption that wages and prices would not increase easily. A different member expressed concern over how prices would be affected by the future course of fiscal policies in Japan and the United States, as well as by developments in foreign exchange rates reflecting these policies. Meanwhile, one member pointed out that, in previous cases, it took about six months for import prices to have their greatest effect on the CPI. On this basis, the member noted that the effects on CPI inflation of the rise in import prices that reached its peak two years ago, could run its course in the near future. Based on this recognition, this member added that the time was approaching for the Bank to closely examine the extent of underlying factors in the observed inflation rate.

Members shared the recognition that, comparing the projections with those in the July 2024 Outlook Report, the projected year-on-year rate of increase in the CPI (all items less fresh food) for fiscal 2025 was somewhat lower due to factors such as the recent decline in crude oil and other resource prices.

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.

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. On this basis, members shared the recognition that it was notable that, with firms' behavior shifting more toward raising wages and prices recently, exchange rate developments were, compared to the past, more likely to affect prices.

With regard to the risk balance, members shared the recognition that, judging each member's risk assessments as a whole, (1) risks to economic activity were generally balanced, and (2) risks to prices were skewed to the upside for fiscal 2025.

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 money 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 0.25 percent. One member pointed out that, considering the heightening uncertainties in Japan and abroad, the Bank needed to conduct monetary policy with caution, and therefore it was appropriate for the Bank to maintain the current policy at this meeting. Some members noted that it was necessary to examine the impact of the policy interest rate hikes so far on economic activity and prices. One of these members expressed the view that it was necessary for the Bank to take time and exercise caution when deciding on raising the policy interest rate. The member continued that this was because the shift to "a state with positive interest rates" entailed uncertainties in Japan, which had not experienced a policy interest rate above 0.5 percent for the past 30 years. Meanwhile, one member expressed the recognition that if economic activity and prices developed as expected, the Bank could follow a path in which it raised the policy interest rate gradually so that the rate would be 1.0 percent in the second half of fiscal 2025 at the earliest. The member continued that, based on this assumption, it could be considered at this meeting that the Bank had time to monitor developments in economic activity and prices.

As for the future conduct of monetary policy, members shared the basic thinking that if the outlook for economic activity and prices was realized, the Bank would accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation. One member expressed the view that, if underlying inflation rose in line with the Bank's outlook, it was desirable for the Bank to raise the policy interest rate moderately while keeping real interest rates below the natural rate of interest. Meanwhile, a different member expressed the recognition that, from the viewpoint of communication with market participants, it was important for the Bank to communicate effectively its core message that if the outlook for economic activity and prices was realized, the Bank would continue to raise the policy interest rate accordingly.

Members discussed how developments in overseas economies, particularly the U.S. economy, and in financial and capital markets would affect the conduct of monetary policy. Some members pointed out that, in the United States, the risk of the economy making a hard landing and the possibility of a significant policy interest rate cut becoming necessary to achieve a soft landing had waned somewhat. One of these members said that, although financial and capital markets continued to show some nervousness, they were not in an unstable condition, as in August 2024, when market liquidity declined substantially. A different member expressed the view that stock markets and foreign exchange markets had regained their calmness, and there had been no significant deviation in positions.

On this basis, many members noted that the Bank needed to continue to pay attention to developments in overseas economies, particularly the U.S. economy, and in financial and capital markets. Some members commented that, depending on the result of the U.S. presidential election, markets could see large fluctuations, and it was therefore necessary for the Bank to be well prepared. One of these members noted that the recent rise in U.S. interest rates and the appreciation of the U.S. dollar reflected not only an improvement in U.S. economic indicators, but also speculations regarding the presidential and congressional elections, and therefore, it could not be judged at this point that markets were stabilizing. The member then expressed the recognition that, as the Bank had been expecting to raise the policy interest rate at a moderate pace, it had time to monitor the future course of the U.S. economy, including that after the presidential election. A different member noted that in its previous five cycles of policy interest rate hikes, the Bank had turned to rate cuts after the Federal Reserve cut its rate. The member then expressed the view that the situation was different this time given that, for example, there was no pressure on balance sheet adjustments in the financial, corporate, and household sectors in the two economies. This member noted that, based on this situation, the Bank should consider policy interest rate hikes after pausing to assess developments in the U.S. economy. The member added that -- with the monetary policies of the Bank and the Federal Reserve moving in opposite directions -- the markets, particularly foreign exchange markets, could see large fluctuations, and attention was warranted on the risk that adjustments to the degree of monetary accommodation over the long run would be hindered if rate hikes by the Bank triggered a shock in the markets. One member expressed the recognition that upside risks to prices had decreased, partly due to a decline in inflation rates in the United States and Europe, and to the effects of price competition in the global market. The member then commented that the Bank should maintain the current policy interest rate for the time being, until it examined various economic data to assess factors such as corporate profits, business fixed investment, private consumption, the cost pass-through rate, and developments in structural business reforms by firms, and until it became more confident about the sustainability of the virtuous cycle between wages and prices. Meanwhile, a few members expressed the recognition that, depending on the effect the new U.S. administration's policy conduct had on price developments in the United States and in financial and capital markets, this could become an upside risk to prices in Japan through fluctuations in financial and capital markets. One member noted that there was also the possibility of an increase in risk-taking by financial institutions with relatively low risk tolerance through increasing their investment in JGBs with long maturities to secure income, in a situation where interest rate levels remained lower than these institutions' targets for investment.

Members also discussed <u>markets' views on the future conduct of monetary policy, and the Bank's dissemination of information</u>. One member pointed out that, compared with the Bank's outlook for economic activity and prices and its stance on monetary policy conduct, there was a possibility that market interest rates were low. On this basis, the member expressed the view that it was important that the Bank make efforts to explain its stance more carefully. In relation to this point, a few members noted that many market participants -- while understanding the Bank's stance on policy conduct -- could be of the view that there were high uncertainties as to whether underlying inflation would rise in line with the outlook presented in the Outlook Report. One of these members then expressed the view that it was important that the Bank disseminate information while examining carefully whether the likelihood of realizing the outlook for economic activity and prices would increase. One member said that it was difficult for the Bank to show with confidence the medium-term path of the policy interest rate to the markets as there were high uncertainties regarding the level of the neutral interest rate and the transmission mechanism of monetary policy.

In response to the members' views, 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, while it would depend on developments in economic activity and prices as well as financial conditions going forward, given that real interest rates were at significantly low levels, if the outlook for economic activity and prices presented in the Outlook Report was realized, the Bank would accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation. Second, on this basis, the Bank needed to pay due attention to the future course of overseas economies, particularly the U.S. economy, and developments in financial and capital markets. It also needed to examine how these factors would affect the outlook for Japan's economic activity and prices, the risks surrounding them, and the likelihood of realizing the outlook. 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 expressed the recognition that the staff's proposal had taken into account recent developments in global financial and capital markets and in overseas economies. A different member pointed out that, since August 2024, market developments, and developments in the U.S. economy that lay behind them, continued to require assessment, and the Bank had been explaining that there was "enough time" to do so.

The member continued that, however, given that uncertainties over the U.S. economy had decreased, the Bank was entering a phase where it would communicate without using the language of whether it had "enough time." Based on the above discussions, members shared the recognition that it was important for the Bank to communicate that, at each meeting, it would examine the various risk factors surrounding Japan's economic activity and prices -- including overseas economies and market developments -- and the likelihood of realizing the outlook for economic activity and prices, based on information such as various data available at the time of each meeting.

V. Remarks by Government Representatives

The representative from the Cabinet Office made the following remarks.

(1) The government assessed that the Japanese economy was recovering at a moderate pace, although it was still pausing in part. That said, full attention should be given to factors such as slowdowns in overseas economies.

(2) Standing on the principle that "a sound economy is the foundation of fiscal health," the government would prioritize breaking free from deflation in its economic and fiscal management, and would aim to achieve a "growth-oriented economy driven by wage increases and investment."

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

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

(1) The government's stance was that it would prioritize breaking free from deflation in its economic and fiscal management. As a first step, the government was formulating an economic policy package in accordance with the prime minister's instructions given on October 4, 2024. It would decide on comprehensive economic measures and submit the supplementary budget to the Diet.

(2) 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. Moreover, it expected the Bank to communicate

effectively with financial and capital markets, including through its dissemination of information.

VI. Votes

A. Vote on the Guideline for Money Market Operations

Based on the above discussions, to reflect the view of the members, the chairman formulated the following proposal on the guideline for money 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 Money Market Operations:
The guideline for money market operations for the intermeeting period will be as follows.

> The Bank will encourage the uncollateralized overnight call rate to remain at around 0.25 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 October 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 November 1.

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of September 19 and 20, 2024, for release on November 6.

Attachment
October 31, 2024
Bank of Japan

Statement on Monetary Policy

At the Monetary Policy Meeting 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 0.25 percent.