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July 29, 2022

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on July 20 and 21, 2022

I. Opinions on Economic and Financial Developments

Economic Developments

- Japan's economy has picked up. It is likely to recover with the impact of the novel coronavirus (COVID-19) and supply-side constraints waning, although it is expected to be under downward pressure stemming from a rise in commodity prices. Thereafter, as a virtuous cycle from income to spending intensifies, Japan's economy is projected to continue growing at a pace above its potential growth rate.
- Although Japan's economy has been pushed down by, for example, supply-side constraints and a surge in prices of imported raw materials, it has picked up, mainly led by private consumption.
- Private consumption is expected to continue to recover, mainly for travel and other event-related consumption. However, due to the impact of price rises and changes in people's behavioral patterns, it has been difficult to expect consumers to immediately withdraw much of their savings that have accumulated as a result of pandemic-related restrictions.
- Firms' and households' inflation expectations have risen. In addition, the expected growth rate of Japan's economy probably has increased, which is consistent with firms' solid business fixed investment plans. Given these factors, the likelihood of wage inflation seems to be increasing as firms' expectations for future sales growth rise.

¹ English translation prepared by the Bank's staff based on the Japanese original.

² "Summary of Opinions at the Monetary Policy Meeting" is made through the following process: (1) each Policy Board member and government representative makes a summary of opinions that she/he presented at the Monetary Policy Meeting (MPM) under a certain word limit and submits this to the Governor of the Bank of Japan, who serves as the chairman of the MPM, and (2) the chairman edits those opinions as his responsibility.

- In the context of the global economy, market attention has focused not only on inflation but also on a recession that could be caused by containing inflation. Monetary tightening by overseas central banks and the prolonged shortage of semiconductors are factors putting downward pressure on the global economy.
- Amid monetary tightening in Europe and the United States, it is necessary to pay attention to risks that could affect Japan's economy, including that of the U.S. economy falling into recession and that of global financial markets experiencing a negative shock.
- There remain high uncertainties over the outlook for Japan's economy, including the course of COVID-19 at home and abroad and its impact, the situation surrounding Ukraine, and the impact of global inflation.
- Risks to Japan's economic outlook are skewed to the downside, particularly regarding a resurgence of COVID-19 at home and abroad, prolonged supply-side constraints, and a decline in asset prices that reflects monetary tightening in major economies.
- COVID-19 has resurged in some parts of China, and there is concern that the global economy could be pushed down further with strict public health measures taking place intermittently.

Prices

- The year-on-year rate of change in the consumer price index (CPI, all items less fresh food) has been at around 2 percent. Inflation expectations have risen. Toward the end of this year, the year-on-year rate of change in the CPI is likely to increase due to rises in prices of such items as energy, food, and durable goods. Thereafter, the rate of increase is expected to decelerate because the positive contribution of the rise in energy prices to the CPI is likely to wane.
- Prices have risen recently due to higher import prices. However, achieving the price stability target in a stable manner is difficult given developments in the output gap and inflation expectations.
- Commodity prices are assumed to remain at high levels for the time being, and these developments are expected to be gradually reflected in consumer prices for a wide range of goods and services, including those for which firms have refrained from raising prices so far.
- Sustained wage hikes and an increase in value-added are becoming important issues for business management. As the economy recovers, a virtuous cycle between wages and prices

is expected to be achieved through investment in human capital, an increase in job changes aimed at increasing income, and the growth of startups.

- Recent price hikes by various firms indicate that a change may have arisen in the conventional mindset among firms toward raising prices.

II. Opinions on Monetary Policy

- For the time being, while closely monitoring the impact of COVID-19, the Bank should support financing, mainly of firms, and maintain stability in financial markets, and should not hesitate to take additional easing measures if necessary. It is appropriate for the Bank to maintain the current forward guidance for the policy rates.
- The recent resurgence of COVID-19 is extremely rapid, and it is necessary to examine how this will affect financial positions, mainly of small and medium-sized firms. Thus, it is appropriate that the Bank decide on the treatment of the Special Operations to Facilitate Financing in response to COVID-19 at the September MPM.
- Although the Special Operations to Facilitate Financing in response to COVID-19 have had their intended effects and seem to be finishing their role, the decision regarding the operations should not be made at this MPM in the face of the resurgence of COVID-19.
- While Japan's economy is on its way to recovery from the pandemic, it has been under downward pressure due to an outflow of income from Japan caused by high commodity prices. In this situation, it is appropriate that the Bank encourage wage increases through monetary easing, aiming to achieve the price stability target in a sustainable and stable manner.
- As the output gap has been negative for more than two years, the Bank should persistently continue with the current monetary easing, which supports an expansion in demand and sustained wage increases.
- In order to achieve the price stability target while increasing the likelihood of wage inflation, it is appropriate for the Bank to continue with the current monetary easing.
- The price stability target of 2 percent should be achieved in a sustainable and stable manner, and inflation targeting policy should be based on the inflation outlook. Therefore, it is appropriate to conduct the policy by looking not only at the actual rate of inflation but also at inflation expectations and the outlook based on these indicators.

- Amid a situation where the wage growth rate has drawn public attention, it is necessary to accurately assess wage developments in conducting monetary policy.
- In examining wage increases, which are necessary for achieving the price stability target, it is important to look at wage developments from multiple angles, including the overall trend in wages and how the distribution has been changing, using statistics and other sources.
- Given that a rise in some determinants of underlying inflation, such as services prices, and CPI inflation exceeding 2 percent in a stable manner have not come in sight, it is natural to continue the current monetary easing.
- Price increases have been seen recently, but they are expected to subside for a while next fiscal year. Thereafter, inflation is expected to exceed 1 percent toward the second half of the projection period as the economy continues to recover. Under these circumstances, it is necessary to persistently continue with the current monetary easing under the price stability target of 2 percent.
- In the conduct of monetary policy, 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.
- The recent rise in inflation expectations with nominal interest rates remaining low has strengthened the effects of monetary easing through a decline in real interest rates, and this seems to have led to, for example, firms' increasingly active stance on business fixed investment. Meanwhile, the Bank needs to closely monitor the impact that the recent increase in its Japanese government bond (JGB) purchases to contain upward pressure on interest rates has on the functioning of the JGB market.
- Japan's financial system has maintained stability on the whole. However, due attention continues to be warranted on the risk that the side effects of monetary easing will materialize at some point in the future and affect the financial system.
- The Bank needs to provide information regarding the effects of monetary easing in an appropriate manner. Large-scale monetary easing has increased employment and raised real wages adjusted for working hours, and it also has improved non-wage benefits and increased real GDP growth per capita.
- The Bank aims at achieving a virtuous cycle between wages and prices, which will lead to an improvement in people's living standards. There is still a long way to go to achieve the

objective at this point and therefore it is necessary to support economic activity by continuing with monetary easing. It is crucial that the Bank clearly communicate this kind of basic thinking to the public.

III. Opinions from Government Representatives

Ministry of Finance

- At the Group of Twenty (G20) meeting in July, participants discussed topics such as the situation where Russia's aggression against Ukraine has led to concerns about food and energy supplies and thereby added to rising inflation.
- To counter rising prices, the government will take measures tailored to the situation in terms of both prices and economic conditions, including the use of reserve funds already set aside under the supplementary budget.
- The government expects the Bank to conduct appropriate monetary policy toward achieving the price stability target in a sustainable and stable manner while taking the impact of the situation surrounding Ukraine and COVID-19 into account and cooperating with the government.

Cabinet Office

- The government will steadily implement the package of economic measures compiled last year and the comprehensive emergency measures compiled this April. Under the Task Force on Prices, Wages, and Daily Living, it will work seamlessly to take swift and comprehensive measures, including the flexible use of reserve funds.
- In a time of ongoing price increases, the government will press forward with comprehensive efforts so that the trend of wage hikes will become more reliable and continual.
- The government expects the Bank to continue to conduct appropriate monetary policy based on due consideration of developments in economic activity and prices as well as financial conditions, while cooperating with the government.