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October 3, 2022

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting[1,2]

on September 21 and 22, 2022

I. Opinions on Economic and Financial Developments

Economic Developments

- Japan's economy has picked up as the resumption of economic activity has progressed while public health has been protected from the novel coronavirus (COVID-19), despite being affected by factors such as a rise in commodity prices. The economy is likely to recover, with the impact of COVID-19 and supply-side constraints waning, although it is expected to be under downward pressure stemming from a rise in commodity prices due to factors such as the situation surrounding Ukraine.

- Japan's economy has picked up as exports and production have turned to an increase, and as private consumption has increased moderately despite being affected by COVID-19.

- Although COVID-19 cases in Japan started increasing again from July, high-frequency data, for example, suggest that private consumption has been solid. Business fixed investment has continued to pick up, including for projects that have been postponed due to the impact of COVID-19 and supply-side constraints.

- While the yen's depreciation leads to price hikes in items such as imported products and food in the short run, it also has an effect of pushing up domestic economic activity in the medium to long run. On this point, such depreciation is different from energy price rises, which only have a negative impact of increasing costs.

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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.

- The key to augmenting the advantages of the yen's depreciation are an expansion in inbound tourism consumption, an increased emphasis on domestic sites in investment for growth areas, and enhancement of small and medium-sized firms' export capacity.
- Depending on its course in Japan, COVID-19 could push down domestic consumption, and its course in China, which has continued to adopt a zero-COVID policy, also could be a factor to push down Japan's economy through both the channels of external demand and supply-side constraints. Therefore, COVID-19 has remained a significant risk to the economy.
- Although the impact of COVID-19 has remained in some industries, taking the corporate sector as a whole, efforts with a view to the post-COVID-19 era and those to create new businesses have become important.
- A virtuous cycle has just started to operate in Japan's economy. Meanwhile, with major economies -- namely, the United States, Europe, and China -- seeing slowdowns, there is a certain degree of risk of a global recession and consequent downward pressure on external demand.
- Amid a situation of central banks in Europe and the United States continuing to rapidly tighten monetary policy, attention is warranted on the risks of, for example, a sharper-than-expected slowdown in overseas economies and high volatility in asset prices or credit markets.

Prices

- The year-on-year rate of change in the consumer price index (CPI, all items less fresh food) has been in the range of 2.5-3.0 percent. It is likely to increase toward the end of this year 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 contribution of such price rises to the CPI is likely to wane.
- Against the backdrop of past increases in raw material prices, firms have announced plans to raise prices one after another, and price increases for a wide range of items are expected to continue.
- The year-on-year rate of change in the CPI is likely to increase in the short run, but sustained wage increases have not been confirmed yet and achieving the price stability target in a stable manner is still faced with challenges.

- Japan's inflation expectations have been stable at low levels due to past prolonged deflation. While this has been a constraint on achieving the price stability target, it has been a reason for the contained inflation rate in Japan compared with those in Europe and the United States in the current phase.

- Among other risks, that of consumer prices deviating significantly upward from the baseline scenario, including the impact of foreign exchange rates, needs to be examined humbly and without any preconceptions.

- The various existing measures of core inflation have been highly susceptible to import prices, making it more difficult to interpret them. It should be reemphasized that it is necessary to pay close attention to the fundamental price formation mechanism, especially trends in wages.

- To achieve the price stability target in a sustainable manner, wage increases are crucial. Given, for example, the recent labor shortages, high wage increases might be one possible outcome.

- Japan is in a situation where labor market conditions need to tighten in order for wages to rise in a manner consistent with the price stability target of 2 percent. The economic situation in Japan differs from those in the United States and the United Kingdom, where labor market conditions have already been tight and a wage-price spiral has been of concern.

II. Opinions on Monetary Policy

- Financial conditions in Japan have been accommodative on the whole. Although the impact of COVID-19 has remained in some segments of small and medium-sized firms in particular, financial positions, including of these firms, have been on an improving trend.

- It is appropriate for the Bank to firmly maintain accommodative financial conditions, mainly for firms, by shifting its focus to meeting a wide range of financing needs while gradually scaling back the role of acute crisis measures, such as the Special Operations to Facilitate Financing in response to COVID-19.

- The amount outstanding of funds provided through the Special Operations to Facilitate Financing in response to COVID-19 has declined and business foundations of regional financial institutions have strengthened. However, as weakness in firms' financial positions has remained in some segments, phasing out the operations is appropriate.

- While the Special Operations to Facilitate Financing in response to COVID-19, which were introduced as an emergency response, have almost finished their role, COVID-19 is only halfway to subsiding and it is therefore desirable to phase out the operations. On the other hand, a surge in raw material prices, for example, has fueled firms' new demand for funds. It is appropriate to increase the usability of fund-provisioning measures in response to the growing demand for funds.

- Although the Special Operations to Facilitate Financing in response to COVID-19 will be phased out, there is no change to the Bank's stance of nimbly supporting firms' financing, depending on the situation with COVID-19, and of continuing with monetary easing.

- While a certain degree of upside risk to prices exists, there is a long way to go to achieve the price stability target of 2 percent in a sustainable and stable manner. The Bank should maintain monetary easing given that the output gap has been negative, the unemployment rate and the active job openings-to-applicants ratio have not returned to pre-pandemic levels, and a surge in energy and raw material prices has brought about an outflow of income from Japan.

- The year-on-year rate of change in the CPI has been in the range of 2.5-3.0 percent. However, until a rise in some determinants of underlying inflation, such as services prices, and CPI inflation exceeding 2 percent in a stable manner come in sight, it is appropriate to continue with the current monetary easing.

- Wage growth has been low, and inflation has been neither wide-ranging nor significant. In order to achieve the price stability target of 2 percent in Japan, which has fallen into a situation of low growth, low inflation, and low wage growth, it is necessary to continue with monetary easing so as to encourage improvement in productivity brought about by reforms of economic and wage structures and thus lead to a virtuous cycle between prices and income.

- At present, it is necessary to carefully monitor whether a virtuous cycle between wages and prices will operate, and there is no need to immediately change the current monetary policy stance.

- In the conduct of monetary policy, foreign exchange rates are not subject to direct control. The Bank should carefully explain that it needs to continue with monetary easing to achieve the price stability target in a stable manner.

- It has been pointed out in the market that further depreciation of the yen is partly due to differences in the direction of monetary policy between Japan and other economies. Since the impact of the yen's depreciation differs among economic entities, the Bank needs to carefully explain the significance of continuing with the current monetary easing.

- Although other risks, such as a slowdown in overseas economies, certainly affect policy decisions, COVID-19 has remained a significant risk, and thus there is no need to change the current wording of forward guidance.

- Given that the course of COVID-19 is still uncertain and that the inflation rate is highly likely to decelerate from fiscal 2023, it is desirable to maintain the easing bias in the current forward guidance.

- Some market participants are concerned about a decline in the functioning of the bond market. With a view to ensuring financial market stability, it is important for the Bank to continue to monitor and examine market conditions and, at some point in the future when the timing is considered appropriate, to make proper communication with the markets, such as regarding exit strategies.

III. Opinions from Government Representatives

Ministry of Finance

- The government considers that the Bank's responses discussed at this MPM, including those regarding the Special Operations to Facilitate Financing in response to COVID-19, reflect its stance of continuing to do its utmost to ensure smooth corporate financing.

- The government has started working on the formulation of the budget for fiscal 2023. While pushing forward with expenditure reforms, it will work toward achieving both economic revitalization and fiscal soundness.

- The government has made use of reserve funds and taken additional measures to address soaring prices. It will proceed with deliberations to compile comprehensive economic measures during October.

- The government expects the Bank to conduct monetary policy toward achieving the price stability target in a sustainable and stable manner while cooperating with the government.

Cabinet Office

- The government will swiftly implement the additional measures to address rising prices, which were compiled on September 9.
- On this basis, the government will compile comprehensive economic measures during October in order to seamlessly respond to changes in economic developments, including soaring prices, push forward with a New Form of Capitalism, and ensure the safety and security of the public.
- The government expects the Bank to continue to conduct appropriate monetary policy toward achieving the price stability target in a sustainable and stable manner, based on due consideration of developments in economic activity and prices as well as financial conditions, while closely cooperating with the government.