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January 26, 2023

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on January 17 and 18, 2023

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 high commodity prices and slowdowns in overseas economies. Thereafter, as a virtuous cycle from income to spending intensifies gradually, Japan's economy is projected to continue growing at a pace above its potential growth rate.
- Japan's economy has been resilient on the whole. With regard to the outlook for private consumption, pent-up demand is likely to materialize gradually. In addition, inbound tourism demand is expected to increase.
- Japan's economy is likely to continue to pick up. However, the pace could slow given high uncertainties regarding factors such as developments in overseas economies.
- There remain extremely high uncertainties for Japan's economy, including the following: developments in overseas economic activity and prices; developments in the situation surrounding Ukraine and in commodity prices; and the course of COVID-19 at home and abroad and its impact.
- A positive stance has been observed among firms toward raising wages, as well as toward passing on cost increases to selling prices. This may lead to a virtuous cycle between economic activity and prices through a boost to corporate profits.

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.

- To achieve sustained wage increases, it is necessary to transform the wage profile into one that is based on job type and performance. Therefore, efforts to reform the wage and personnel system are a factor that warrants attention in the annual spring labor-management wage negotiations this year.

Prices

- The year-on-year rate of increase in the consumer price index (CPI) is likely to be relatively high in the short run due to the effects of a pass-through to consumer prices of cost increases led by a rise in import prices. The rate of increase is then expected to decelerate toward the middle of fiscal 2023 due to a waning of these effects, as well as to the effects of pushing down energy prices from the government's economic measures.
- The year-on-year rate of increase in the CPI is expected to decelerate for a while due to a decline in crude oil prices and to the effects of pushing down energy prices from the government's economic measures. Thereafter, it is projected to accelerate again, as a rise in wage growth and firms' moves to pass on cost increases to their selling prices are likely to continue.
- The year-on-year rate of increase in the import price index has decelerated clearly, and upward pressure of costs, which has driven price rises, has started to wane.
- The year-on-year rate of increase in the CPI is expected to fall below 2 percent from fiscal 2023, and at this point, there is still a long way to go to achieve the price stability target.
- CPI inflation is expected to fall below 2 percent after upward pressure of costs diminishes. In order to achieve the price stability target of 2 percent, it is necessary that underlying inflation, particularly for services, rise sufficiently thereafter in reflection of nominal wage increases.
- The momentum for wage hikes has grown, and it is possible that a certain degree of base pay increases will be realized, especially among large firms. However, there have been cautious views among some firms on raising wages. Since it will take time for wages to see a sustained increase, there needs to be support from macroeconomic policy.
- In order to achieve the price stability target of 2 percent, a shift to demand-pull inflation is necessary, and the inflation rate for general services warrants close monitoring.
- With Japan's economy being resilient, upward pressure on consumer prices is projected to remain, since past rises in raw material prices are likely to be passed on to consumer prices

with a lag. Firms' moves to restructure supply chains in consideration of geopolitical risks may also exert upward pressure on prices.

- Firms are currently passing on cost increases to selling prices, and the inflation momentum has continued. According to the *Tankan* (Short-Term Economic Survey of Enterprises in Japan), firms' outlook for output prices has been higher than that for general prices for one year ahead in both cases, and this indicates that firms' stance has shifted toward actively raising their selling prices.
- The pace of rises in prices of not only goods but also services is accelerating.
- It is possible that the significant price shocks since last year stemming from overseas developments will change the norm for prices.
- Progress in the pass-through of cost increases has led to improvement in corporate profits and to active wage hikes and investment. In this situation, a virtuous cycle has started to operate somewhat, in which such developments bring about further improvement in profits and additional wage hikes through higher employee engagement and through creating innovation.

II. Opinions on Monetary Policy

- Given developments in economic activity and prices, it is appropriate for the Bank to continue with the current monetary easing, including the conduct of yield curve control.
- Considering the outlook for prices, at present, it is important for the Bank to continue with monetary easing and thereby firmly support the economy and realize a favorable environment for firms to raise wages.
- The Bank needs to continue with the current yield curve control, considering the outlook that it will take time to achieve the price stability target of 2 percent in a sustainable and stable manner. It is important that the Bank carefully explain this point and continue with appropriate market operations.
- A virtuous cycle between economic activity and prices is essential to achieving the price stability target. It is necessary to examine and clearly explain to the public the mechanism behind and sustainability of price developments.

- In order to encourage firms' efforts with regard to business transformation until sustained wage increases can be expected, the Bank needs to curb interest rate rises across the entire yield curve while paying attention to the functioning of bond markets.
- The modification of the conduct of yield curve control decided at the previous MPM is a measure that is aimed solely at making monetary easing more sustainable through improvement in the functioning of financial markets.
- It is necessary for the Bank to take some time to examine the effects that the modification of the conduct of yield curve control decided at the previous MPM has on market functioning.
- It may take some time for the market to calm down and for market functioning to recover. The Bank should carefully explain that it needs to continue with monetary easing, that its accommodative policy stance has not been changed, and that it will take time to achieve the price stability target of 2 percent in a sustainable and stable manner because wage increases have not yet become full-fledged.
- In assessing financial conditions, it is necessary to continue examining the effects that the modification of the conduct of yield curve control has on factors such as funding costs. At this point, given the overall picture that includes the funding structure -- such as the shares of floating-rate loans and fixed-rate loans in total loans -- it can be assessed that financial conditions have remained accommodative on the whole.
- There has been upward pressure on long-term interest rates, and the distortions on the yield curve have not dissipated. Given this, the Bank should curb interest rate rises across the entire yield curve through measures such as increasing the amount of Japanese government bond (JGB) purchases and enhancing the Funds-Supplying Operations against Pooled Collateral.
- In addition to the current large-scale JGB purchases, enhancement of the Funds-Supplying Operations against Pooled Collateral is a scheme that contributes to stable formation of the yield curve.
- It is expected that continuing with nimble conduct of market operations while making use of the Funds-Supplying Operations against Pooled Collateral will improve market functioning.
- It is important for the Bank to conduct appropriate market operations while taking improvement in market functioning into consideration, and to humbly and carefully follow developments in factors such as the shape of the yield curve, conditions in market functioning including liquidity, and corporate bond market conditions.

- The Bank should continue to communicate to the public that, at the previous MPM, it maintained its accommodative monetary policy stance by deciding to increase the amount of JGB purchases while expanding the range of 10-year JGB yield fluctuations from the target level.
- Since fund management and financing have continued to be based on the assumption that interest rates will remain low for a long period, in the future phase of an exit from the current monetary policy, it will be necessary to examine where the risks associated with a rise in interest rates lie and whether market participants are well prepared.
- It is appropriate to continue with monetary easing at this point, although it is necessary to examine this at some point in future and assess the balance between positive effects and side effects.

III. Opinions from Government Representatives

Ministry of Finance

- The government is preparing to submit the budget for fiscal 2023 to the upcoming ordinary session of the Diet. With this budget, it aims to pave the way to solving important issues at home and abroad that Japan faces -- such as the fundamental reinforcement of defense capabilities, child-related policy, and promotion of the green transformation -- and to carve out a future path for the country.
- The government will work to obtain approval from the Diet for the fiscal 2023 budget at the earliest possible time so that it can do its utmost with regard to economic and fiscal management.
- The government expects the Bank to conduct appropriate monetary policy toward achieving the price stability target in a sustainable and stable manner, based on consideration of developments in economic activity and prices as well as financial conditions, while cooperating with the government.

Cabinet Office

- The government will implement swiftly and steadily the comprehensive economic measures and the second supplementary budget for fiscal 2022, so as to sufficiently address the downside risks to Japan's economy and put it on a sustainable growth path led by private demand.

- 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.