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March 20, 2023

Bank of Japan

## Summary of Opinions at the Monetary Policy Meeting<sup>1,2</sup> on March 9 and 10, 2023

### I. Opinions on Economic and Financial Developments

#### *Economic Developments*

- Japan's economy, despite being affected by factors such as high commodity prices, has picked up as the resumption of economic activity has progressed while public health has been protected from COVID-19. It 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 high commodity prices and slowdowns in overseas economies.
- Japan's economy has been resilient on the whole. Firms have been positive about making business fixed investment and private consumption has been on a recovery trend. On the other hand, exports have been somewhat weak recently; while this seems to be partly attributable to the timing of the Lunar New Year holidays in China, attention needs to be paid to developments in exports, together with developments in overseas economies.
- The fact that firms' outlook for the long-term domestic economic growth rate has risen warrants attention as a positive development. In addition, with this rise, firms' business fixed investment is likely to remain solid.
- Although private consumption has been on a recovery trend on the whole, this is partly due to the effects of various measures to stimulate consumption. Therefore, close monitoring is required on the sustainability of the recovery, including the impact of price rises.

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<sup>1</sup> English translation prepared by the Bank's staff based on the Japanese original.

<sup>2</sup> "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 background to weakness in consumption is that the growth rate in households' nominal income has not reached the inflation rate; the reality seems to be that, when some expenditure increases, households have to cut back on other spending. While it is important to see whether real income rises as nominal income increases, an examination is required not only of the results of this year's labor-management wage negotiations but also of the spread and sustainability of wage hikes thereafter.
- There is a certain degree of possibility that relatively high wage increases will be achieved, including among small and medium-sized firms. This possibility has increased since the previous MPM.
- The following factors are key to achieving sustained wage increases: reforms toward realizing the wage profile that is based on job type and performance to promote higher employee engagement; business portfolio realignment to enhance core businesses; increasing the value-added of labor; and a shift of labor force to areas with high productivity. Among these factors, attention is warranted first on changes in the wage structure as a result of labor-management wage negotiations. In addition, for wage growth to rise among small and medium-sized firms, an appropriate pass-through of cost increases to their selling prices and sustained enhancement of value-added in their products and services are important.
- As a step to achieving the price stability target in a sustainable and stable manner, the results of this spring's labor-management wage negotiations are important. On this point, since positive wage- and price-setting behavior has been observed among firms, it is possible that this will lead to higher-than-expected wage growth.

### *Prices*

- The year-on-year rate of increase in the consumer price index (CPI) is likely to decelerate toward the middle of fiscal 2023 due to the effects of pushing down energy prices from the government's economic measures and to a waning of the effects of a pass-through to consumer prices of cost increases led by a rise in import prices.
- The year-on-year rate of increase in the CPI is likely to decelerate, mainly for goods prices, due to a waning of the effects of a pass-through to consumer prices of cost increases led by a rise in import prices.

- CPI inflation is expected to fall below 2 percent in the second half of this year. In order for it to accelerate again toward 2 percent thereafter, services prices, which are sticky, need to see a sustained rise. An essential condition for this to happen is further wage increases.
- Firms have continued to pass on cost increases to selling prices, and the year-on-year rate of change in services prices excluding imputed rent has risen to the range of 1.5-2.0 percent. Going forward, it is necessary to pay full attention to upside risk to prices.
- It is possible that the significant price shocks since last year stemming from overseas developments will change the "norm" for prices. If this happens, firms' price- and wage-setting behavior may remain positive even after upward pressure of costs wanes and higher-than-expected inflation may continue.
- There has been a change in the "norm" of prices not increasing easily. However, if improvement in the output gap is delayed or if wage hikes do not spread enough or lack sustainability, there is still a risk that Japan will return to a situation where prices do not increase easily along with an expected waning of upward pressure of costs.

## **II. Opinions on Monetary Policy**

- Given the outlook for economic activity and prices, the Bank needs to persistently continue with monetary easing toward achieving the price stability target.
- Until achievement of the price stability target of 2 percent sufficiently comes into sight, it is necessary for the Bank to continue with the current monetary easing, including yield curve control.
- As the current monetary easing has had side effects, such as distortions on the yield curve, it is necessary for the Bank to examine market functioning without any preconceptions while assessing the balance between positive effects and side effects. That said, in the current phase, the Bank should persistently continue with large-scale monetary easing.
- It will still take time to examine the effects that the modification of the conduct of yield curve control has on market functioning. Nevertheless, when the observed CPI inflation declines and market projections of interest rates in turn calm down, distortions on the yield curve are expected to be corrected.
- The shape of the yield curve is generally smoother than a while ago, due in part to modifications of the conduct of the Funds-Supplying Operations against Pooled Collateral

and the Securities Lending Facility. However, market developments, including the impact of the Bank's various measures, should continue to be carefully monitored.

- A number of measures have been taken since the December 2022 MPM, and while they have been effective to a certain extent, fundamental improvement in market functioning has not yet been realized. It is necessary to monitor humbly and carefully the situation going forward -- namely, market conditions as well as developments in economic activity, prices, and wages -- and ensure the transmission of the effects of monetary easing to the real economy in a sustainable and effective manner by, if necessary, working to improve market functioning, including the functioning of the corporate bond and swap markets.
- Although the widening of issuance spreads on corporate bonds has paused, the effects of deterioration in the functioning of the Japanese government bond (JGB) market remain and warrant close monitoring.
- In order to achieve the price stability target of 2 percent, it is important for the Bank to anchor inflation expectations to that target by maintaining the target firmly and committing to achieving it.
- In view of recent price rises, there are calls for revision to the Bank's accommodative monetary policy. However, as the environment surrounding prices is currently changing for the better toward achieving the price stability target, the risk from a hasty policy change that could lead to missing a chance of such achievement should be considered as more significant than the risk from a delay in policy change.
- It is crucial that the Bank firmly maintain its commitment to the price stability target of 2 percent. Starting a discussion on the target may lead to unnecessary speculation on the conduct of monetary policy, despite the growing possibility that the price stability target will be achieved. Similarly, there is no need to revise the joint statement of the government and the Bank.
- It is important for Japan's economy that its economic and wage structures are reformed so that wages increase in tandem with economic growth. If the Bank lowers its inflation target and changes its accommodative monetary policy given that it is taking time to achieve the target, there is a risk that necessary reforms will be delayed.

- Although Japan's economy has exhibited signs of a virtuous cycle, the Bank needs to carefully consider and discuss whether to revise its monetary policy, since such revisions affect financial markets and a wide range of economic entities.
- In order for progress to be made in supply-side reforms that are necessary for sustained wage increases and the expectation of a virtuous cycle to turn into conviction, the Bank needs to persistently continue with monetary easing and support firms' efforts to make those reforms.

### **III. Opinions from Government Representatives**

#### ***Ministry of Finance***

- The budget for fiscal 2023 is aimed at paving, to some extent, the way to solving currently important issues, such as the fundamental reinforcement of defense capabilities and enhancement of child support and child care support. The government will work to obtain approval from the Diet for the budget at the earliest possible time.
- In addition, the government will compile new measures to alleviate the impact of rising energy and food prices, so as to swiftly respond to recent price developments.
- 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 effects of the comprehensive economic measures and the second supplementary budget for fiscal 2022 have materialized, as suggested by the fact that the rate of increase in the CPI for Tokyo's 23 wards for February 2023 decelerated by 1 percentage point from that for January.
- On the other hand, price hikes have continued, particularly for food, due to the effects of past instances of rises in raw material prices and depreciation of the yen. The government will thus consider additional necessary measures to alleviate the impact of rising energy and food prices.

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