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May 11, 2023
Bank of Japan

Summary of Opinions at the Monetary Policy Meeting[1,2]
on April 27 and 28, 2023

I. Opinions on Economic and Financial Developments

Economic Developments

- Japan's economy has picked up, despite being affected by factors such as past high commodity prices. Regarding the outlook, the materialization of pent-up demand, relatively high wage increases, and other factors are expected to underpin consumption. In addition, active business fixed investment is likely to continue. When considering the outlook for Japan's economy, the strength of these developments is important.

- The domestic economy has been resilient on the whole. Although firms' appetite for business fixed investment has been maintained, private consumption has seen relatively low growth recently. This seems to be partly attributable to the effects of bottlenecks stemming from labor shortages.

- Regarding the outlook for Japan's economy, close monitoring is required on the effects of slowdowns in overseas economies. In particular, attention is warranted on factors such as the impact of monetary tightening in the United States, developments on the employment and income side in China, and the possibility of adjustments in the Chinese real estate market.

- When structural reforms of firms progress and households' expectations for the future heighten, it is expected that the saving rate, which had risen during the COVID-19 pandemic, will return to normal and that this will push up private consumption in a sustained manner.

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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.

- Recently, cost increases led by a rise in import prices have been passed on to consumer prices and wage hikes by firms have progressed. In order for this to lead to a sustained virtuous cycle among prices, wages, and demand, it is important that Japan's economy sees broad structural changes, such as further vitalization of the job market, improvement in firms' business operations, business realignment, and transformation in business models.

- The annual spring labor-management wage negotiations have seen favorable developments. That said, the issue is whether such developments will take hold from next year. Close monitoring is required regarding whether wages will continue to increase sufficiently relative to prices and whether this increase can support private consumption.

- With labor shortages intensifying, high wage increases can be expected next year as well.

- This year's wage growth seems to be partly attributable to temporary factors. As a response to high raw material costs, passing on such cost increases to selling prices has become a viable option for firms. However, in order to sustain wage increases that can keep up with inflation, firms need to strengthen their international competitiveness and capacity for generating earnings by reforming their business and wage structures, which has been a longstanding issue. In this regard, firms' responses to labor market reforms and developments in structural reforms warrant attention.

Prices

- The year-on-year rate of increase in the consumer price index (CPI) is likely to be above 2 percent for the time being due to a pass-through to consumer prices of past rises in import prices. However, it is expected to fall below 2 percent toward the middle of fiscal 2023 with the pass-through peaking out.

- As the output gap improves and as inflation expectations and wage growth rise, CPI inflation is projected to come close to the price stability target of 2 percent. That said, this will take time and there are high uncertainties over the outlook.

- Attention needs to be paid to future scenarios, such as one where CPI inflation declines to a level well below 2 percent, mainly due to an increase in households' thriftiness and weak real wages, and does not return to 2 percent.

- The year-on-year rate of change in the CPI is likely to remain high for the time being. This is mainly because past price increases in commodities and raw materials are expected to continue to be passed on to consumer prices with a time lag, and because inflation overseas and a rise in personnel expenses stemming from labor shortages are likely to have an effect.

- In addition to a pass-through of higher raw material prices, an increasing number of factors have contributed to firms raising their selling prices, including a pass-through of increases in shipping costs, electricity charges, and even personnel expenses.

- With regard to the outlook for prices, the year-on-year rate of increase in goods prices is likely to decelerate from the middle of fiscal 2023, reflecting a decline in import prices. On the other hand, the rate of increase in services prices could accelerate going forward, mainly on the back of wage increases.

- A sustained increase in income due to base pay increases pushes up consumer prices in a more sustained manner than do cost-push factors and is more effective than a temporary income increase in terms of boosting the propensity to consume. Moreover, a virtuous cycle between wages and prices tends to be maintained.

- The achievement of a higher-than-expected increase in base pay is largely attributable not only to increased mobility in the labor market and the effects of labor shortages, but also to the fact that movements toward a change in the "norm" of firms for prices and wages have been observed against the background of significant price shocks since last year stemming from overseas developments.

II. Opinions on Monetary Policy

- Given that the inflation rate is likely to decline and a heightening of uncertainties regarding overseas economies has been seen, the Bank should continue with the current monetary easing.

- In order to achieve the price stability target of 2 percent in a sustainable manner, this needs to be accompanied by wage increases. Although wages are now projected to be raised by more than previously expected in this year's annual spring labor-management wage negotiations, it is necessary for the Bank to continue to firmly support the momentum for wage hikes through monetary easing so that the nominal wage growth rate will rise sufficiently relative to prices.

- Although price projections have been raised somewhat, the risk of missing a chance to achieve the 2 percent target due to a hasty revision to monetary easing is much more significant than the risk of the inflation rate continuing to exceed 2 percent.

- While attention is warranted for the time being on the possibility of continued high inflation, a scenario where the inflation rate declines well below 2 percent and does not return to 2 percent is considered to be more important in the medium term. The Bank should patiently continue with monetary easing while keeping an eye on both its positive and side effects.
- It seems that achievement of the price stability target of 2 percent is coming into sight. However, it is appropriate that the Bank continue with monetary easing for the time being, since there are both upside and downside risks.
- Although the impact of COVID-19 has lessened, there are extremely high uncertainties surrounding economies and financial markets at home and abroad. The Bank should emphasize that there is no change in its stance of patiently continuing with monetary easing and taking additional easing measures if necessary.
- For the time being, it is appropriate for the Bank to continue with the current monetary easing, and it should be careful to ensure that revision to the forward guidance will not be taken as its willingness to raise the policy interest rates.
- Since it will still take time to achieve the price stability target of 2 percent, the forward guidance, which states that the Bank will continue with monetary easing until achievement of the target, is effective from the perspective of demonstrating its strong commitment to achieving the target.
- With the extremely low interest rates built into the business conventions of economic entities, the Bank needs to avoid abrupt changes in interest rates, humbly monitor price and wage developments, and respond to them at the right moment.
- Signs of a virtuous cycle between wages and prices have started to emerge in Japan's economy. It is necessary for the Bank to appropriately assess underlying developments in economic activity and prices so that its policy responses will not fall behind.
- As distortions on the yield curve are currently dissipating, there is no need to revise the conduct of yield curve control.
- There are many views that market functioning has remained low, including the functioning of Japanese government bond (JGB) yields as reference rates. Yield curve control seems, in some aspects, to have hampered smooth financing, and attention is warranted on upcoming *Bond Market Survey* results.

- A broad-perspective review of the 25 years since the late 1990s, when Japan's economy faced the effective lower bound on short-term interest rates and the Bank stepped in to implement the unconventional monetary policy measures, would provide useful insights for the future conduct of monetary policy.

- The review of monetary policy will be useful in, for example, effectively continuing with monetary easing. In order to make it objective and reasonable, this review should be conducted from a broad perspective without bearing a specific policy change in mind.

- The prolonged monetary easing is largely attributable to the formation of the "norm" that prices and wages do not rise, which has resulted from the protracted deflationary equilibrium since the bursting of the bubble economy. For this reason, an analysis based on a broad perspective is necessary in the assessment of monetary policy.

- It is necessary for the Bank to take sufficient time to analyze, assess, and comprehensively review structural changes and monetary policy effects during the "lost three decades," so as to make use of the findings in the future conduct of monetary policy.

III. Opinions from Government Representatives

Ministry of Finance

- At a recent meeting, Prime Minister Kishida and Bank of Japan Governor Ueda shared the recognition that, with extremely high uncertainties, the government and the Bank will nimbly conduct policies in response to developments in economic activity and prices as well as financial conditions, and that, at this point, there is no need to revise the joint statement of the government and the Bank.

- The government expects the Bank to continue to work toward achieving the price stability target in a sustainable and stable manner under the new leadership of Governor Ueda, while closely cooperating with the government.

- The budget for fiscal 2023 was approved by the Diet on March 28. The government will implement it swiftly and steadily.

Cabinet Office

- As two wheels of a cart, the government will promote (1) improvement in productivity through an expansion in domestic investment and encouragement of research and development and (2) wage hikes by way of securing markups through a pass-through of cost increases to selling prices.

- It is important for the Bank to carefully explain to the public its intention to change the description on its monetary policy stance.
- The government expects the Bank to achieve the price stability target of 2 percent in a sustainable and stable manner, taking account of developments in economic activity and prices as well as financial conditions.