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June 26, 2023

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on June 15 and 16, 2023

I. Opinions on Economic and Financial Developments

Economic Developments

- Japan's economy, despite being affected by factors such as past high commodity prices, has picked up as private consumption, for example, has increased moderately. Although the economy is likely to recover moderately, attention needs to be paid to factors such as developments in overseas economies.
- The domestic economy has been resilient on the whole. A business sentiment indicator has been higher than the break-even point between improvement and deterioration, and firms' positive stance toward business fixed investment has been maintained.
- Factors behind significant improvement since April in households' sentiment indicators include not only the normalization of economic activity but also the achievement of wage increases at high levels. Attention is warranted on whether these developments, together with the effects of the recent rise in stock prices, will lead to supporting positive developments among firms and households.
- It is necessary to assess whether there is a higher possibility of achieving wage increases that can keep up with inflation by (1) examining, for example, initiatives toward implementing a system of job-based pay that is appropriate for Japan and the situation with a view to next year's wage negotiations and (2) gathering information on progress with strengthening firms'

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.

capacity for generating earnings such as developments in firms' pass-through of cost increases to their selling prices, mergers and acquisitions, sales of businesses, and expansions of small and medium-sized firms' exports.

- Growth expectations are rising due to firms' efforts to strengthen their capacity for generating earnings. Attention is warranted on the role of regional banks, which stimulate and sustain demand for funds by firms that drive the regional economy.

Prices

- The year-on-year rate of increase in the consumer price index (CPI) is likely to decelerate toward the middle of fiscal 2023. Meanwhile, there are still high uncertainties over whether it will accelerate again thereafter, and it is necessary to examine factors such as the sustainability of wage hikes going forward.
- High consumer prices around the turn of the fiscal year were mainly led by goods prices, and thus the main reason for this was not a pass-through of wage increases to services prices. That said, whether there will be a change in firms' price-setting behavior warrants attention.
- While price rises in Japan are still largely attributable to overseas factors, the contribution of domestic factors has increased, as seen in the fact that consumer prices of services have risen at a notable pace and the year-on-year rate of change in the GDP deflator has reached 2 percent.
- Although the rise in raw material prices has paused, firms' pass-through of cost increases to their selling prices has intensified further, the employment and income situation has improved, and inbound tourism demand has recovered. Given this, inflationary pressure is likely to remain strong for the time being.
- Considering the time lag with which a decline in import prices spreads to consumer prices, the future scenario in which the year-on-year rate of increase in the CPI decelerates toward the middle of fiscal 2023 seems to have remained reasonable.
- The year-on-year rate of increase in the CPI is expected to fall below 2 percent in the second half of fiscal 2023 after the pass-through of the past rise in import prices diminishes. However, given that firms' stance has shifted toward raising their selling prices, there is a possibility that the rate will deviate upward from the baseline scenario.

- Corporate behavior has seen clear changes, and price and wage hikes have been incorporated into corporate strategy. In addition, various measures of underlying inflation have mostly shown a rate exceeding 2 percent. It is highly likely that the year-on-year rate of increase in the CPI (all items less fresh food) will decelerate toward the middle of fiscal 2023 but will not fall below 2 percent.
- There are both upside and downside risks to the outlook for consumer prices. As an upside risk, attention is warranted on the possibility that firms' pass-through of cost increases to consumer prices will continue for longer than expected. As a downside risk, in a case where the global economy -- the U.S. and Chinese economies in particular -- deviates downward from the baseline scenario, how this will affect Japan's prices also warrants attention.
- The outlook for prices may deviate upward from the baseline scenario since the pass-through of cost increases has continued to be observed. However, the sustainability is still of concern.
- Uncertainties over the outlook for prices have heightened, and various paths can be expected depending on the pace of deceleration in import inflation, when inflation that stems from domestic factors will take place, and how strong such inflation will be. There emerged a possibility that the inflation rate will follow a path of heading slowly toward 2 percent without falling below that level. In addition, the risk that the rate will remain high at a level exceeding 2 percent cannot be ruled out. That said, there remains a significant risk of the inflation rate not returning to 2 percent after it falls below 2 percent in the future.

II. Opinions on Monetary Policy

- Given the outlook for prices and other factors, it is appropriate that the Bank continue with the current monetary easing.
- In order to achieve the price stability target of 2 percent in a sustainable and stable manner, price rises accompanied by wage increases, rather than those caused by cost-push factors, are necessary.
- The Bank should continue with monetary easing and thereby carefully nurture the long-awaited buds of change in Japan's economy, including those in firms' wage- and price-setting behavior.
- The wage growth rate agreed in this year's annual spring labor-management wage negotiations thus far has been the highest in around 30 years. In order to achieve the price

stability target of 2 percent in a sustainable and stable manner, it is important for the Bank to keep supporting such momentum for wage hikes through continuation of the current monetary easing.

- Many small and medium-sized firms have started to be more willing to raise wages and invest with, for example, their continued pass-through of cost increases to selling prices and expansions of exports. It would be premature to revise monetary policy if it would hinder such developments.
- Although uncertainties over the outlook for prices have heightened, downside risks are still considered to be significant in the medium term. It is appropriate that the Bank continue with monetary easing while paying attention to its side effects.
- It is important for the Bank to patiently continue with monetary easing, since there is a significant risk of missing a chance to achieve the price stability target due to a hasty policy change. That said, due attention is required because the possibility that the persistence of price rises in Japan has been underestimated cannot be ruled out, as were the cases with Europe and the United States.
- As dissipation of distortions on the yield curve has progressed and improvement in market functioning has been observed, there is no need to revise the conduct of yield curve control.
- With regard to market functioning, that of the domestic corporate bond market has been on an improving trend. Specifically, yields on bonds issued by energy-related firms have been on a declining trend, and issuance conditions of corporate bonds have improved with recovery in investors' demand for them.
- The functioning of the bond market has improved compared with a while ago, but its level has remained low.
- Although there is no conclusive evidence that medium- to long-term inflation expectations have seen a significant change due to the recent high prices, attention is warranted on their future developments, since such expectations are an important factor, including with regard to the conduct of yield curve control.
- Although there is a growing possibility of achieving 2 percent inflation in a sustainable and stable manner, the Bank should maintain the overall framework of monetary easing for the time being, since the cost of waiting for such achievement is not high. That said, as for yield curve control -- a policy tool for monetary easing -- the cost is high, taking into account such

factors as (1) preventing sharp fluctuations in interest rates in the future phase of an exit from the current monetary policy, (2) improvement in market functioning, and (3) enabling smoother dialogue with market participants. Given all of this, a revision to the treatment of yield curve control should be discussed at an early stage.

- With regard to themes of the review of monetary policy from a broad perspective, the Bank needs to (1) assess the positive and side effects of monetary policy to date while giving consideration to interactions between this policy and developments in economic activity and prices and (2) examine the background to such factors -- namely, how corporate and household behavior and the formation mechanisms of wages and prices have changed in reflection of various changes in the economic environment since the 1990s. It would be appropriate to make additions or revisions during the course of discussions on these themes.
- In reviewing monetary policy from a broad perspective, it would be appropriate for the Bank to incorporate diverse expertise in the review and take various initiatives with a view to enhancing its objectivity and transparency. Such initiatives include not only conducting internal analyses, but also making use of existing series of materials, such as reports and surveys, and holding interviews, exchanges of views, and workshops.
- It is desirable that the Bank provide communication on the monetary policy review, conducted from a broad perspective, in an appropriate and timely manner, since it has attracted high attention from the public.

III. Opinions from Government Representatives

Ministry of Finance

- The government will further accelerate its efforts toward a new form of capitalism and thereby expand the virtuous cycle of growth and distribution. In addition, it will continue to work toward achieving both economic revitalization and fiscal soundness by steadily promoting integrated economic and fiscal reforms and returning the expenditure structure to one in line with what is seen in normal times as it makes a shift from the period of responding to COVID-19 to normal times.
- The government expects the Bank to conduct appropriate monetary policy toward achieving the price stability target in a sustainable and stable manner, taking account of developments in economic activity and prices as well as financial conditions, while closely cooperating with the government.

Cabinet Office

- The government will formulate the Basic Policy on Economic and Fiscal Management and Reform 2023 and will accelerate its efforts toward realizing a new form of capitalism.
- The government will aim to realize the virtuous cycle of growth and distribution by, for example, working toward a scenario where price rises due to exogenous factors lead to a virtuous cycle between wages and prices and toward a sustained expansion of domestic investment. Through these efforts, the government will lead Japan's economy to break away from deflation by widely fostering awareness that the economy will not return to deflation.
- The government expects the Bank to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases, taking account of developments in economic activity and prices as well as financial conditions.