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Bank of Japan

## Summary of Opinions at the Monetary Policy Meeting<sup>1,2</sup> on October 27 and 28, 2022

### 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 picked up as the resumption of economic activity has progressed while public health has been protected from COVID-19. It is expected that the output gap will close and the momentum for wage hikes will strengthen, bringing about a virtuous cycle in which, for example, rises in wage levels accelerate.
- The pace of economic recovery in Japan is likely to decelerate in fiscal 2023, mainly because overseas economies are expected to slow.
- Clearer signs of slowdowns have been seen in European and U.S. economies, where addressing inflation has been a priority. In particular, European economies have been significantly affected by a surge in commodity prices, and a potential recession in these economies has been of concern.
- Amid a situation of central banks in Europe and the United States continuing to tighten monetary policy at historically rapid paces, attention is warranted on the risks of, for example,

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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.

sharper-than-expected slowdowns in overseas economies and a rapid deterioration in asset prices or credit markets that is due to a surge in real interest rates.

- It is important to encourage households' long-term and stable asset formation that takes into account expenditure over their lifetime, so that economic growth will lead to an increase in their disposable income.

### *Prices*

- Producer prices in Japan have been at high levels due to continued inflationary pressure in Europe and the United States and the effects of past increases in raw material prices. It is expected that the year-on-year rate of change in the consumer price index (CPI) will continue to increase for some time with a pass-through of cost increases to consumer prices.
- The inflation rate is highly likely to remain relatively elevated as signs of increases have been observed even in services prices, as well as in administered prices for items other than energy.
- The year-on-year rate of change in the CPI (all items less fresh food) has been at around 3 percent. Inflation expectations have risen. The rate of change is likely to increase toward the end of this year and then decelerate toward the middle of fiscal 2023.
- The year-on-year rate of change in the CPI has been at 3 percent. The recent upward pressure on the CPI is due to the effects of a pass-through to selling prices of cost increases led by rises in imported goods prices. While the pass-through is likely to continue to push up the CPI for the time being, it is expected that the contribution of such factors will wane in fiscal 2023 and the rate of increase will decelerate to below 2 percent.
- Taking into account the effects of a possible slowdown in the global economy, for example, the year-on-year rate of increase in the CPI is highly likely to decelerate to below 2 percent from fiscal 2023.
- From the second half of fiscal 2023, underlying inflation is projected to gain momentum on the back of improvement in the output gap and rises in inflation expectations and in wage growth. The key to this outlook is wage developments reflecting the annual spring labor-management wage negotiations.
- Although driven by cost-push factors, more firms have in fact passed upstream price increases on downstream. In this situation, firms' behavioral standard based on the assumption that prices will not increase may have started to change.

- A prolonged disinflationary period preceded the current inflationary phase in Japan and there have been structural changes, such as reversing globalization. Therefore, past empirical findings are not directly applicable to this phase and the risk that the inflation rate will deviate significantly upward from the baseline scenario cannot be ruled out.

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

- Financial conditions in Japan have been accommodative on the whole. Firms' financial positions have remained on an improving trend and the environment for external funding has been favorable on the whole. Under these circumstances, it is appropriate for the Bank to maintain the current guidelines for market operations and asset purchases, as well as its current stance regarding the future conduct of monetary policy.
- For the time being, while closely monitoring the impact of COVID-19, the Bank should support financing, mainly of firms, and maintain stability in financial markets, and should not hesitate to take additional easing measures if necessary. It is appropriate for the Bank to maintain the forward guidance for policy rates that was decided at the previous MPM.
- In achieving the price stability target, it is important that wages increase in a sustainable and stable manner. For wages to increase, it is crucial that firms' growth expectations rise.
- In order to achieve the price stability target while increasing the likelihood of wage inflation being realized, it is appropriate for the Bank to continue with the current monetary easing.
- Considering that corporate profits have been at high levels on the whole and wage increases have been observed, Japan's economy has started to exhibit signs of a virtuous cycle. Given this, it is appropriate for the Bank to maintain its current stance regarding the conduct of monetary policy for the time being.
- Although price rises have been observed for a wider range of items this fiscal year and the inflation rate could deviate upward from the baseline scenario, it is still uncertain whether these rises will be sustainable. If firms' current price-setting behavior and moves to increase wages take hold and a virtuous cycle between prices and wages operates, sustainable and stable achievement of the price stability target of 2 percent will come in sight.
- In achieving the price stability target in a sustainable and stable manner, it is undesirable to make premature changes to monetary policy because they have a risk of disrupting the formation of a virtuous cycle between prices and wages.

- Medium- to long-term inflation expectations have risen moderately as the Bank persistently continues with monetary easing. Through a decline in real interest rates, there have emerged signs of materialization of stronger monetary easing effects on Japan's economy.
- In achieving the price stability target of 2 percent in a stable manner, nominal wage increases are essential. Monetary easing contributes to a rise in such wages through channels of tightening labor market conditions and of higher inflation expectations due to price rises.
- While there is concern over a wage-price spiral in Europe and the United States, a virtuous cycle between wages and prices has not been achieved in Japan. Including this factor, the Bank needs to carefully explain the reasons behind the differing direction of monetary policy between Japan and overseas economies.
- Continued monetary easing is necessary in order to raise productivity and wage levels through supply-side reforms, such as with "investment in people" and business portfolio transformation, and thereby lead to a virtuous cycle from income to spending. The Bank needs to communicate this clearly to the public.
- The Bank needs to carefully explain that, as inflation targeting policy should be based on the inflation outlook, it conducts the policy by assessing the outlook for prices, rather than temporary price fluctuations, with the aim of achieving the price stability target of 2 percent in a sustainable and stable manner.
- Japan's financial system has maintained stability on the whole. However, continued vigilance is required against the impact of a tightening of global financial conditions.
- Foreign exchange rates should reflect economic fundamentals. It is important for the Bank to communicate with market participants in line with this thinking to, for example, gain public understanding of its monetary policy conduct.
- As ensuring stability in the bond market is important, it is necessary to continue to gain a detailed grasp of market conditions through monitoring and other means.
- Although there is no need to immediately change monetary policy, it is necessary to examine the impact of high prices on household behavior and wages humbly and without any preconceptions while paying attention to the side effects of monetary easing.
- It is also important to continue to examine how future exit strategies will affect the market and whether market participants will be well prepared for them.

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

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

- It is important to seamlessly address the current price rises. Following the formulation of additional measures in September, the government plans to compile comprehensive economic measures. It will protect people's daily lives and business activities from sharp price increases through, for example, measures to reduce the burden of rising expenses such as electricity and gas charges.
- In addition, the government will swiftly formulate the second supplementary budget to implement the economic measures and make every effort to promptly obtain the Diet's approval.
- 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***

- With the responses to rising prices and the weaker yen, structural wage increases, and investment and reforms to spur growth as priority areas, the government will compile comprehensive economic measures in order to respond seamlessly to changes in the economic situation and advance a New Form of Capitalism, while keeping the risk of a global economic slowdown fully in mind.
- 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.