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January 31, 2024

Bank of Japan

## **Summary of Opinions at the Monetary Policy Meeting<sup>1,2</sup>** on January 22 and 23, 2024

### **I. Opinions on Economic and Financial Developments**

#### ***Economic Developments***

- Japan's economy has recovered moderately and is likely to continue to do so. However, there remain extremely high uncertainties surrounding economic activity and prices.
- It is necessary to closely research and analyze the impact of the Noto Peninsula Earthquake on Japan's economy.
- The domestic economy has been resilient on the whole and has continued to recover moderately. An increasing number of firms have reported that, with improvement in profits, they have concern over labor shortages and have positive views toward wage hikes. In addition, there have been moves to resume business fixed investment plans that had been postponed due to a rise in material prices.
- With high uncertainties regarding overseas economies, Japan's economy is currently lackluster due to somewhat weak exports and business fixed investment. However, if overseas economies recover, Japan's economy is likely to see a clearer recovery trend.
- Even amid price rises, the level of consumer sentiment has been maintained so far, mainly due to moderate improvement in the employment and income situation as well as the effects of the government's various measures, such as those to address rising prices.

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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.

- Japan's economy has not broken away from the low value-added structure due to a delay in the transformation of Japan's business models from ones that put emphasis on efficiency into ones that focus on creating value-added. It is important that new export industries are fostered, larger firms as well as small and medium-sized firms with a relatively large-scale business operation grow, and startups make great advancements.

### *Prices*

- The likelihood of realizing the outlook that a virtuous cycle between wages and prices will intensify and underlying inflation will increase gradually toward 2 percent has continued to gradually rise.
- Inflationary pressure resulting from a pass-through of the past rise in import prices to consumer prices has waned clearly.
- It is likely that the year-on-year rate of increase in goods prices will decelerate further, while that in services prices will accelerate, supported by wage increases resulting from this year's annual spring labor-management wage negotiations. Therefore, overall, the year-on-year rate of increase in the consumer price index (CPI) is projected to be at around 2 percent for the time being, while fluctuating depending on which of these prices will have larger effects.
- Given the rise in services prices, inflationary pressure stemming from wage increases seems to be rising. However, achievement of the price stability target of 2 percent is not yet envisaged with sufficient certainty.
- There is a growing possibility that the wage growth to be agreed in this spring's labor-management wage negotiations will exceed that agreed last spring. Therefore, there is increasing momentum toward achieving a virtuous cycle between wages and prices.
- Various information that has come out since the previous MPM shows that (1) wage hikes can be expected, including among small and medium-sized firms, and (2) the rate of increase in services prices has remained high, reflecting a rise in personnel expenses. Given this, it can be assessed that the likelihood of achieving a virtuous cycle between wages and prices has risen further in a steady manner.
- Although some issues remain regarding the pass-through of wage increases to prices, passing on cost increases to selling prices is increasingly viewed as common and it is highly possible that the wage growth to be agreed in this year's wage negotiations will exceed that agreed last

year. While there are uncertainties, achievement of the price stability target has started to come in sight.

- If wage growth at major firms rises and this facilitates their acceptance of suppliers passing on wage increases to selling prices, it can be expected that a virtuous economic cycle in which prices rise in line with an increase in demand will emerge. Therefore, attention is warranted on this year's level of increase in base pay.

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

- Sustainable and stable achievement of the price stability target has not yet come in sight, and thus the Bank needs to patiently continue with monetary easing under yield curve control. Going forward, if a virtuous cycle between wages and prices is confirmed and achievement of the target comes in sight, the Bank will likely determine whether to continue with its large-scale monetary easing measures, including the negative interest rate policy.
- To achieve the price stability target of 2 percent, it is necessary that wage growth continue to clearly exceed 2 percent and that the virtuous cycle between wages and prices intensify further.
- There is a growing possibility that wage revisions for this spring will be at relatively higher levels than in the past; in addition, economic activity and prices overall have been on an improving trend. Given these factors, it seems that conditions for policy revision, including the termination of the negative interest rate policy, are being met.
- The Bank has likely entered a phase where it needs to determine the likelihood of achieving the price stability target of 2 percent in a sustainable and stable manner by examining individual economic indicators.
- After assessing the degree of macroeconomic effects of the Noto Peninsula Earthquake by monitoring its impact for about the next one or two months, the Bank is highly likely to reach a point where it can normalize monetary policy.
- Although achievement of the price stability target of 2 percent is not yet envisaged with sufficient certainty, it is necessary for the Bank to start discussing the exit from the current monetary policy, since the achievement of the target is becoming more realistic.
- Regardless of the timing of policy change, the Bank needs to devise both communication and market operations so as not to create discontinuity in the market before and after the change.

From this perspective, it would be beneficial for the Bank to start explaining to the public from the current phase its basic thinking on terminating the negative interest rate policy and the yield curve control framework, as far as is possible at each point in time.

- Given the current outlook for economic activity and prices, it is highly likely that accommodative financial conditions will be maintained even if policy actions such as the termination of the negative interest rate policy are implemented.
- Since it is difficult to determine in advance the path of the policy interest rates after the exit from the current monetary policy, the Bank needs to consider this in response to developments in economic activity and prices as well as financial conditions at each point in time.
- While the sequence of steps that the Bank will take in proceeding with policy change depends on developments in economic activity and prices as well as financial conditions at each point in time, a basic principle is that measures with large side effects are revised first.
- Now is an important time to consider whether to adjust the degree of monetary easing down from the current extremely powerful level. In considering this, it is necessary to discuss the treatment of yield curve control and of the negative interest rate policy and to deliberate on the inflation-overshooting commitment.
- The Bank's purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) have been conducted as part of its large-scale monetary easing. It is therefore natural for the Bank to discontinue these purchases once sustainable and stable achievement of the 2 percent target comes in sight. As the purchase amount of these assets has been very small since the change in the guidelines for asset purchases in March 2021, even if the Bank discontinues the purchases, it is likely that the impact on factors such as market conditions will not be significant.
- In order to sustain price rises accompanied by wage increases, it is necessary that (1) firms strengthen their earning power by enhancing core businesses and (2) they design business models that increase the value of human resources and thereby improve customer satisfaction. It is important for data that focus on progress with these efforts to be incorporated in the Bank's decision making.
- In order to proceed deliberately along the path of monetary policy normalization in response to developments in economic activity and prices, the Bank needs to decide on the termination

of the negative interest rate policy at an appropriate timing as a first step toward the normalization. A delay in making this decision creates the risk of undermining achievement of the 2 percent target and of necessitating rapid monetary tightening.

- Shifts in monetary policies of overseas central banks could reduce the flexibility of the Bank's monetary policy. Now is a golden opportunity, and the Bank's policy decisions need to take into account that, if it continues with the current monetary policy, the accompanying side effects will remain until the next recovery phase, particularly that of overseas economies.

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

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

- The government is preparing to submit the budget for fiscal 2024 to the upcoming ordinary session of the Diet. With this budget, it aims to effectively address structural issues facing Japan, such as by promoting initiatives toward achievement of wage increases that can keep up with price rises.
- In addition, as a response to the 2024 Noto Peninsula Earthquake, the government decided to increase the amount of general reserve funds to 1 trillion yen.
- 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.

#### ***Cabinet Office***

- The government will seamlessly take initiatives for restoration and reconstruction of areas hit by the Noto Peninsula Earthquake, such as rebuilding the lives and livelihoods of people affected by it.
- The government will carry out all possible measures to achieve wage increases that exceed price rises, such as new guidelines on the pass-through of labor costs, enhancement of the tax system promoting wage hikes, and support for labor-saving investment.
- The government expects the Bank to conduct appropriate monetary policy toward achieving 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.