



Not to be released until 8:50 a.m.
Japan Standard Time on Monday,
June 24, 2024.

June 24, 2024

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on June 13 and 14, 2024

I. Opinions on Economic and Financial Developments

Economic Developments

- Japan's economy has recovered moderately, although some weakness has been seen in part. It is likely to keep growing at a pace above its potential growth rate, as a virtuous cycle from income to spending gradually intensifies.
- Although some of the latest data show relatively weak developments and some information has raised concerns, the following main scenario remains unchanged: a virtuous economic cycle is expected to be supported from the income side by significantly high levels of corporate profits and by the highest level of wage growth in around three decades, achieved in the annual spring labor-management wage negotiations. In addition, price indicators have been on track.
- Private consumption lacks momentum, as high prices have affected daily shopping and consumer sentiment. Close attention needs to be paid to the extent to which wage hikes and the government's measures push up private consumption.
- Regarding regular employees of small and medium-sized firms and pensioners, increases in their wages and pensions may not catch up with the rise in prices for the time being. Meanwhile, increases in wages for non-regular employees and for regular employees of large firms can be expected to be equal to or greater than the rise in prices. Attention is warranted on the effects of these wage developments on private consumption.

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.

- The recent deterioration in consumer sentiment is due to an increase in upside risks to prices.
- The profitability of small and medium-sized firms has been weaker than that of larger firms, which has improved significantly compared with pre-pandemic levels. Investment and wage growth of small and medium-sized firms have also been low. Given certain structural issues in Japan -- such as the declining birthrate and aging population -- and the decline in its international competitiveness, to realize a virtuous cycle between wages and prices, it is necessary to create a growth spiral through the following: growth-oriented small, medium-sized, and larger firms boost their investment while strengthening their business structures, and startups make great advancements, so that all these firms attract funds and talent.

Prices

- Underlying inflation, measured by the consumer price index (CPI), is expected to increase gradually. In the second half of the projection period, it is likely to be at a level that is generally consistent with the price stability target.
- Although a virtuous cycle between wages and prices is developing, underlying inflation has not yet reached 2 percent, taking into consideration the nominal wage growth rate, inflation expectations, the rate of increase in services prices, and other factors.
- It is difficult to say at this time that the results of this year's annual spring labor-management wage negotiations have been reflected enough in wage statistics. That said, given that the corporate goods price index and the services producer price index have risen, steady progress has been made toward achieving the price stability target.
- Prices have been developing in line with the outlook presented in the April 2024 *Outlook for Economic Activity and Prices* (Outlook Report). They are likely to continue rising, affected by an increase in import prices, tight labor market conditions, and high shipping costs due to the so-called 2024 problem in Japan's logistics sector.
- For the virtuous cycle between wages and prices to intensify steadily amid price rises accompanying the yen's depreciation, it is important that there be progress in the pass-through of cost increases to selling prices by small and medium-sized firms and that the nominal wage growth rate increase further.

- At this point, it is unlikely that the increase in import prices will bring about a pass-through of cost increases to consumer prices as seen from 2022 onward. That said, another wave of price hikes may occur toward the second half of 2024, since it has become easier for firms to pass on cost increases to selling prices, partly due to a shift in the norm in which they keep prices unchanged.

II. Opinions on Monetary Policy

- If the outlook for economic activity and prices presented in the April Outlook Report will be realized and underlying inflation will increase, the Bank will raise the policy interest rate and adjust the degree of monetary accommodation.
- While price developments have been in line with the Bank's outlook, there is a possibility that prices will deviate upward from the baseline scenario if another pass-through of recent cost increases to consumer prices happens. It is therefore necessary for the Bank to consider whether further adjustments to monetary accommodation are needed from the perspective of risk management.
- Although price developments have been on track to achieve the price stability target of 2 percent in the second half of fiscal 2025, upside risks to prices have become more noticeable. It is necessary for the Bank to continue to closely monitor relevant data in preparation for the next MPM -- taking into account that the upside risks to prices have affected consumer sentiment -- and if deemed appropriate, it should raise the policy interest rate not too late, in response to an increase in the likelihood of achieving the target.
- Any change in the policy interest rate should be considered only after economic indicators confirm that, for example, the CPI inflation rate has clearly started to rebound and medium- to long-term inflation expectations have risen.
- While private consumption lacks momentum, there have been successive unexpected suspensions of shipment at some automakers. As the Bank needs to assess the effects of these factors, it is appropriate that it continue with the current monetary easing for the time being.
- The depreciation of the yen increases the possibility of an upward revision to the outlook for the inflation rate. From the standpoint of the risk-management approach, the appropriate, risk-neutral level of the policy interest rate should rise in reflection of the increased upside risks to prices.

- Developments in foreign exchange rates have a wide-ranging impact on economic activity, and if exchange rates continue to deviate from fundamentals, this will also affect the sound development of the national economy. On the other hand, since monetary policy affects not only exchange rates but also wide aspects of people's daily lives and economic activity, it must be conducted based on the overall picture of developments in economic activity and prices.
- Monetary policy is conducted based on an assessment of the trend in prices and underlying wage developments. It is not determined by short-term developments in foreign exchange rates.
- The Bank should reduce its purchase amount of Japanese government bonds (JGBs) to ensure that long-term interest rates will be formed more freely in financial markets. In doing so, it is appropriate for the Bank to make a sizeable reduction in the purchase amount in a predictable manner, while securing flexibility to ensure stability in the JGB market.
- Given the experience of a smooth exit from the yield curve control framework, the Bank can determine the appropriate amount, pace, and framework for the reduction of JGB purchases and reduce the purchase amount of JGBs without causing market disruption. It is better not to decide on a specific plan at this MPM but to collect views from market participants before making a decision, in order to reduce the purchase amount of JGBs to a greater extent.
- Given the Bank's intention regarding the changes to the policy framework in March, it is necessary to decrease its presence in the market by reducing its purchase amount of JGBs.
- Side effects of large-scale monetary easing have remained as issues. For example, (1) the Bank has been an overwhelmingly big player in the JGB market and (2) it has held such a large amount of JGBs that it would be difficult for other market participants to hold them instead. Therefore, the Bank needs to normalize its balance sheet in a timely and appropriate manner, while communicating with market participants.
- Regarding the reduction in the purchase amount of JGBs, it is desirable to formulate a medium-term plan -- taking account of supply and demand conditions and improved functioning in the bond market -- and reduce the amount according to the plan in a straightforward manner. Since it is necessary to set, for example, an optimal pace of reduction, the Bank should take some time to discuss the plan carefully, including by communicating with market participants.

- It is necessary to prepare gradually for a reduction in the purchase amount of JGBs after assessing developments in economic activity, while communicating with market participants, since such a reduction could push down the economy, depending on the timing of the start and the scale of the reduction.
- The purpose of decreasing the size of the Bank's balance sheet is to reduce its increased involvement in the market without exerting disturbing effects on it, and this should be conducted separately from monetary policy.
- In reducing the purchase amount of JGBs, it is necessary to discuss a new market structure from a medium- to long-term perspective, bearing in mind what the structure of JGB holdings should be in the future. In doing so, it is important to discuss a wide range of issues, including the environment surrounding market participants.
- In order to discuss the treatment of the Bank's exchange-traded fund (ETF) holdings, the Bank needs to deepen its understanding of the funds' characteristics that affect the market -- for example, that they are not individual stocks but investment trusts.

III. Opinions from Government Representatives

Ministry of Finance

- Private consumption lacks momentum, although positive developments have been observed in, for example, wage hikes and business fixed investment recently. In addition, the government recognizes the risks concerning overseas economies.
- The government will make further progress toward achieving both economic revitalization and fiscal consolidation.
- The government expects the Bank to conduct monetary policy as appropriate toward sustainable and stable achievement of the price stability target of 2 percent while closely cooperating with the government. Moreover, it expects the Bank to communicate effectively with financial and capital markets, including through its dissemination of information.

Cabinet Office

- While taking all possible measures with regard to current economic management, the government will work, with strong determination, toward reforms that enable a transition away from an economy oriented toward cost cutting to a growth-oriented economy. The

government as a whole will implement a new economic and fiscal plan once it has been formulated.

- The government expects the Bank to make appropriate judgements regarding the specifics of monetary policy operations. It also expects the Bank to continue to conduct monetary policy as appropriate toward achieving the price stability target of 2 percent in a sustainable and stable manner while closely cooperating and exchanging views with the government.