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October 1, 2024

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on September 19 and 20, 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.
- Japan's economy has continued to recover moderately recently and prices have risen steadily, both developing generally as expected. The current situation shows no signs that the Bank's policy changes so far will have a negative impact on economic and financial developments.
- Recent indicators in Japan, such as those for wages, consumption, business fixed investment, corporate profits, and prices, suggest that the policy interest rate hike in July was appropriate.
- Uncertainties have heightened about the U.S. economy and the pace of policy interest rate cuts by the Federal Reserve. Attention needs to be paid to the possibility that these factors will have a negative impact on the yen's exchange rates and corporate profits in Japan.
- The U.S. economy is expected to make a soft landing, given that the balance sheets of households and firms in the United States have been sound and financial conditions have been stable. That said, it is necessary to closely examine developments in the U.S. economy until it is confirmed that the economy, particularly the labor market, has bottomed out.

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.

- While it is highly likely that the U.S. economy will make a soft landing, there is a risk of the U.S. dollar falling against the yen and of a decline in stock prices, depending on the degree of policy interest rate cuts aimed at achieving a soft landing. It will still take time to assess these risks.
- If the new U.S. administration implements measures such as expanding fiscal policy, restricting immigration, and strengthening trade protection, inflation may rise again in the United States and medium- to long-term interest rates may increase.
- Economic activity and prices were not significantly affected by the financial market fluctuations from August and have been on track, developing in line with the Bank's outlook. In considering any further policy interest rate hike, attention is warranted for the time being on consumer prices, the momentum toward next year's annual spring labor-management wage negotiations, and developments in the U.S. economy.
- Small and medium-sized firms, which employ 70 percent of workers in Japan, have tended to make wage hikes as a defensive step, and have lacked momentum in earning power; these factors lead to an increase in consumers' thriftiness. It is necessary to examine whether growth-oriented small, medium-sized, and larger firms will make business fixed investment more actively so that a rise in real wages takes hold, which is required to eradicate employees' concerns about the future.
- With the yen's depreciation being rapidly retraced, there is concern over the possibility that the pass-through of cost increases to consumer prices will be reversed due to a decline in raw material prices and export volume will decrease, and that this could affect firms' profits, their appetite for wage hikes, and private consumption.
- With prices of daily necessities rising significantly, it is important for overall demand to be maintained. While due attention has been paid to wage developments, it is also important for the Bank to continue enhancing its analysis, given that consumer behavior appears to have changed since the pandemic.

Prices

- Underlying inflation, measured by the consumer price index (CPI), is expected to increase gradually. In the second half of the projection period of the July 2024 *Outlook for Economic Activity and Prices*, it is likely to be at a level that is generally consistent with the price stability target.

- Although upside risks to prices have decreased due to the yen's appreciation and a decline in crude oil prices, Japan's economy is not in a state where it will return to deflation.
- The prolonged downward pressure on real consumption from the decline in real wages may have finally started to wane. Meanwhile, the belief that prices will not rise still appears to be entrenched among some consumers. It is necessary to continue to closely monitor whether this belief is indeed fading.

II. Opinions on Monetary Policy

- The Bank's basic thinking remains that if the outlook for economic activity and prices will be realized, the Bank will adjust the degree of monetary accommodation accordingly. That said, financial markets have remained unstable. In making policy decisions, it is important for the Bank to carefully assess not only developments in financial markets at home and abroad but also the factors underlying these developments, such as the situation in overseas economies, particularly the U.S. economy.
- For the time being, the Bank should assess developments in overseas economies, particularly the U.S. economy, those in financial and capital markets, and how these developments will affect the outlook for Japan's economic activity and prices, the risks surrounding them, and the likelihood of realizing the outlook. Since the upside risk to prices reflecting higher import prices has become smaller with the yen's depreciation being retraced recently, the Bank has enough time to assess the situation.
- Japan's economy is not in a situation where the Bank may fall behind the curve if it does not raise the policy interest rate at a certain pace. Therefore, the Bank will not raise its policy interest rate when financial and capital markets are unstable.
- The price stability target has not been achieved, and there remain uncertainties regarding economic and financial developments. In this situation, it is undesirable at this point to change the policy interest rate further, which might suggest a shift to full-fledged monetary tightening.
- Since uncertainties regarding overseas economies have heightened, in order to examine the impact of recent market fluctuations, it is appropriate for the Bank to monitor developments in overseas economies and market developments for the time being and make further adjustments to the degree of monetary accommodation when such uncertainties decline. In

the current phase, the Bank should patiently maintain the current accommodative financial conditions.

- I remain convinced that if it is confirmed that there will be no major downward revisions to its outlook, it is desirable for the Bank to raise the policy interest rate without taking too much time. However, the policy interest rate hike should not be an end in itself. It is desirable for the Bank to gradually raise the policy interest rate close to the level that is consistent with the expectations for sound growth of Japan's economy. The Bank needs to choose the appropriate timing for its policy change, taking account of factors such as the impact of sentiment on the real economy.
- It seems that, if economic activity and prices remain on track, the Bank can follow a path in which it raises the policy interest rate gradually so that the rate will be 1.0 percent in the second half of fiscal 2025 at the earliest. Therefore, the Bank should maintain the current policy interest rate at this meeting.
- In conducting monetary policy, it will be necessary for the Bank to give due consideration to downside risks to Japan's economy and monitor the data carefully.
- Uncertainties regarding Japan's economy have heightened with growing downside risks to the global economy. In order to avoid surprising the markets, it is important for the Bank to increase public awareness that the Bank's conduct of monetary policy is data-dependent -- in that the Bank will examine changes in economic data and make adjustments to its policy in line with improvements in the data -- while enhancing the understanding of the economic situation among markets and firms by signaling changes and developments in the real economy.
- When conducting further policy interest rate hikes, the Bank will need to communicate its policy stance and other factors to markets more carefully.
- Shared understanding between the Bank and markets over the language used by the Bank has decreased, partly because the Bank did not raise the policy interest rate for an extended period of time. The Bank should make every effort to enhance its communication by, for example, disseminating information in a way that leaves no misalignment between the views of the Bank and markets, and promptly correcting any misalignment should it occur.
- If the Bank's view of the economy changes in response to developments in economic conditions and other factors and there is a possibility that this may cause the views of markets

and the Bank to diverge, to prevent any such divergence, the Bank will need to communicate information with the utmost care.

- It is necessary for the Bank to carefully disseminate information about underlying inflation, the outlook for economic activity and prices, the risks surrounding them, and the likelihood of realizing the outlook.

III. Opinions from Government Representatives

Ministry of Finance

- In order to achieve sustainable economic growth, the government will aim to expand the virtuous cycle between prices and wages, carrying out all possible measures.
- In formulating the budget for fiscal 2025, the government will work toward achieving both economic growth and fiscal consolidation, in line with the Basic Policy on Economic and Fiscal Management and Reform 2024.
- 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

- The government assesses that Japan's economy is recovering at a moderate pace, although it is still pausing in parts. That said, due attention is warranted on factors such as slowdowns in overseas economies and fluctuations in financial and capital markets.
- Japan is entering a new economic stage. To secure this transition, the government will continue to conduct flexible policy.
- The government 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 continuing to cooperate closely with the government and carefully communicate with markets.