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October 2, 2023

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on September 21 and 22, 2023

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.
- Japan's economy has continued to recover moderately on the whole; although firms' business fixed investment has been somewhat weak due to subdued external demand, private consumption has continued on an expanding trend, albeit moderately.
- The domestic economy has been resilient on the whole. Although production activity has been more or less flat since orders from overseas have been sluggish, sources such as data on the flow of people and financial results of retailers suggest that private consumption has been resilient.
- It will be necessary to closely monitor developments in private consumption in particular because the materialization of pent-up demand to date has been limited. Developments in and levels of underlying inflation measures show a certain degree of possibility that the year-on-year rate of increase in the consumer price index (CPI) will continue to significantly exceed the price stability target for a considerable period of time, and that this will keep squeezing private consumption.
- It seems that large firms, which have proceeded with structural reforms, have increased confidence in their earning power. Small and medium-sized firms, however, have lagged

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.

behind in these reforms on the whole, and there are a large number of these firms that have insufficient capacity to raise wages. Attention needs to be paid to whether or not changes in the economic environment will cause a waning in their appetite for wage hikes and business fixed investment.

Prices

- Looking at consumer prices, the year-on-year rate of increase in goods prices has finally started to decelerate, following a decline in import prices. Given this, it seems highly likely that the inflation rate will slow.
- While the year-on-year rate of increase in the CPI has continued to exceed 2 percent, the main reason for this is still the pass-through of the rise in import prices to consumer prices. There is a possibility that persistence of a prolonged pass-through of this rise will lead to the rate of increase in the CPI continuing to deviate upward from the baseline scenario for some time.
- Consumer prices are projected to continue rising in the next fiscal year, as hikes in fees for shipping and public services are expected.
- In terms of sustainability of price hikes, an important aspect is whether firms can continue with their price-setting behavior, such as that observed recently, even as pent-up demand wanes.
- Some aspects of firms' behavior have begun to shift more toward raising wages and prices.
- A positive wage-setting stance has started to spread among firms, and they have maintained their appetite for business fixed investment. Given this, a virtuous cycle that leads to inflation accompanied by wage increases seems to have started to emerge.
- Given, for example, recent market projections of the inflation rate being higher than those in the previous year and the government's announcement of its policy of making further future hikes in minimum wages, which have risen significantly, it is quite possible that the wage growth rate next year will exceed that for this year.
- Sustained wage increases require change in firms' wage- and price-setting behavior and initiatives to address prolonged labor shortages. Attention is warranted on whether firms will promote business strategies that are based on base pay increases to address price rises, including their efforts on wage system reforms.

- The possibility of upward movements in prices has increased due to the persistent pass-through of cost increases to selling prices, the yen's depreciation, and high crude oil prices. However, these causes of such increased possibility are associated with cost-push factors. What is more important in relation to policy responses is price rises that are due to wage increases, and upward movements in prices from this aspect would be desirable at present.
- The recent high prices and, moreover, developments in foreign exchange rates and crude oil prices show a certain degree of risk that prices overall will not decline as much as expected and will deviate upward from the baseline scenario. Therefore, it is more necessary than before to humbly monitor relevant data.

II. Opinions on Monetary Policy

- Sustainable and stable achievement of the price stability target, accompanied by wage increases, has not yet come in sight, and thus the Bank needs to patiently continue with monetary easing under yield curve control.
- It is necessary for the Bank to keep supporting the momentum for wage hikes through continuation of monetary easing.
- As there are uncertainties over whether projected inflation will deviate upward from the baseline scenario, it is important to examine price developments under the current yield curve control, which the Bank decided to conduct with greater flexibility in July.
- As a result of the Bank allowing greater flexibility in the conduct of yield curve control, long-term interest rates have been relatively stable, and thus there is no need for an additional revision to it.
- The Bank aims to "achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases" and has made a commitment to continuing with the yield curve control framework "as long as it is necessary" to achieve that target. Naturally, the removal of the framework and the termination of the negative interest rate policy should be discussed in relation to achievement of the 2 percent target and as a set with the success of that achievement.
- In order to achieve the price stability target of 2 percent in a sustainable manner, it is necessary that wage increases take root and, with a pass-through of these increases, that price

rises, particularly for services, do so as well. In this regard, attention is warranted on whether the momentum for wage increases will strengthen steadily, including among small and medium-sized firms, and whether a pass-through of higher labor costs accompanying wage increases will progress firmly.

- As inflation expectations have shown some upward movements, Japan's economy is getting closer to achieving the price stability target, although there is somewhat of a distance to go. Therefore, the second half of fiscal 2023 will be an important period for determining whether the price stability target will be achieved, including examining developments in wage hikes for 2024.
- In order for expectations that the inflation target will be achieved to turn into conviction, there need to be initiatives by firms to make reforms, as well as initiatives to, for example, improve corporate metabolism and strengthen financing of startups. Japan's economy is now in a critical phase, and what is required at this phase is to boost firms' appetite for reforms.
- There are high uncertainties over the timing of and specific measures for policy revision, since this depends on developments in economic activity and prices and the outlook for them at each point in time. At the moment, the Bank is not in a phase to decide on any details.
- Given high uncertainties surrounding economic activity and prices, it is desirable to devise ways to in essence provide guidance through various communications so that the flexibility regarding the timing and sequence of policy responses will not be overly constrained.
- Achievement of 2 percent inflation in a sustainable and stable manner seems to have clearly come in sight, and the Bank may be able to determine whether it will be achieved around January to March of next year. It is important from a risk management perspective to prepare and lay the groundwork for an exit from the current monetary policy in terms of, for example, (1) improving market functioning, such as through a securing of and recovery in liquidity, and (2) communicating with the market and society in view of this exit.
- Although some improvements have been observed in market functioning as a result of the Bank allowing greater flexibility in the conduct of yield curve control, the risk of market instability and the side effects on market functioning have remained even after doing so. Developments since the introduction of yield curve control show that it is at a stage where it has already played many roles.

- Even if the Bank were to terminate its negative interest rate policy, this can be considered as continuation of monetary easing if real interest rates remain negative. It is important for the Bank to carefully provide communication on this.
- Although it is desirable for the Bank to maintain accommodative monetary easing for the time being, in the future phase of an exit from the current monetary policy, it should consider not only the treatment of yield curve control but also whether it needs to continue purchasing assets other than Japanese government bonds (JGBs).

III. Opinions from Government Representatives

Ministry of Finance

- Applications for budget requests for fiscal 2024 were closed at the end of August, and the government has started working on budget formulation.
- In formulating the budget for fiscal 2024, the government, as it states in the Basic Policy on Economic and Fiscal Management and Reform 2023, will return its spending structure to normal and take initiatives to prevent emergency fiscal spending from becoming unnecessarily prolonged or constant. By doing so, it will work toward achieving both economic growth and fiscal soundness.
- 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 consider economic measures to (1) protect people's daily lives from high prices and (2) strengthen structural wage increases that can keep up with high prices and the trend of expansion in investment that is aimed at enhancing the supply capacity of Japan's economy.
- 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.