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May 9, 2024
Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on April 25 and 26, 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.
- Upward revisions have been observed in the outlook for overseas economies overall, particularly for the U.S. economy.
- Although private consumption has been relatively weak, reflecting price rises, it is likely to regain momentum, given that momentum in wage hikes has been strong recently.
- If firms postpone business fixed investment due to factors such as supply-side constraints, this could lead them to lose business opportunities and hinder improvement in their productivity, and in turn create a risk that firms will not be able to secure enough resources for wage hikes. Therefore, attention is warranted on developments in business fixed investment.
- While the output gap has been at around 0 percent, the weighted average of the diffusion indexes (DIs) for production capacity and employment conditions in the *Tankan* (Short-Term Economic Survey of Enterprises in Japan) indicates that shortages of production capacity and labor have been at historically high levels. In determining whether Japan's economy will keep growing steadily at a pace above its potential growth rate throughout the projection period, it

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.

is necessary to assess the reason for this divergence between the output gap and the weighted average DI.

- Firms' moves to collaborate with competitors, even on their main lines of business -- including production and research and development -- have become widespread. These efforts are expected to address stress factors such as labor shortages, high prices, and interest rate hikes, and in turn lead Japanese firms into a period of change.
- In order to achieve sustained wage increases, corporate dynamism is necessary, in which, for example, (1) small, medium-sized, and larger firms that have improved their profitability -- through such means as passing on cost increases to selling prices -- raise their growth potential steadily by making business fixed investment and strengthening their business structures and (2) startups, which create new markets, grow into so-called unicorns.

Prices

- Underlying inflation, measured by the consumer price index (CPI), is expected to increase gradually, since it is projected that medium- to long-term inflation expectations will rise with a virtuous cycle between wages and prices continuing to intensify. 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.
- The outlook for prices is that they will remain at around the 2 percent level, mainly due to (1) a rise in import prices in reflection of continued inflation overseas, (2) tightness in domestic labor market conditions, and (3) continued changes in firms' price-setting behavior.
- The yen's depreciation and high crude oil prices have weakened the premise that cost-push factors will wane. Therefore, attention is warranted on the risk that prices will deviate upward from the baseline scenario.
- The recent depreciation of the yen and rises in prices, such as crude oil, have started to affect producer prices through an increase in import prices. Considering this, it is necessary to pay attention to the possibility that the current deceleration in the rate of increase in goods prices will bottom out and start to reverse, as well as to the increase in services prices accompanying wage hikes.
- While the yen's depreciation is likely to push down the economy in the short run through price rises driven by cost-push factors, it could push up underlying inflation in the medium to

long run, since it is also likely to have the effect of increasing production and income through, for example, a rise in inbound tourism demand and manufacturers moving their overseas production sites back to Japan.

- There is an upside risk of inflation due to cost-push factors stemming from a rise in import prices and to an increase in inflation expectations. Therefore, it is necessary for the Bank to examine without any preconceptions whether a pass-through of cost increases to consumer prices will occur again, following the pass-through from 2022.
- Attention is warranted on the various upside risks to prices, such as greater-than-expected progress in the wage-price spiral, a further depreciation of the yen, active fiscal policy, lack of supply capacity that is mainly due to labor shortages, and a rise in commodity prices.
- Polarization has been seen between large firms and small and medium-sized firms in terms of their profitability, wage levels, and other factors. Many small and medium-sized firms have raised wages to retain employees, which suggests that the spillover effects of the results of large firms' structural reforms on small and medium-sized firms have remained weak.

II. Opinions on Monetary Policy

- If the outlook for economic activity and prices will be realized and underlying inflation will increase, the Bank will adjust the degree of monetary accommodation, while it anticipates that accommodative financial conditions will be maintained for the time being.
- There remain high uncertainties surrounding the outlook for economic activity and prices presented in the April 2024 *Outlook for Economic Activity and Prices*. That said, if this outlook will be realized, then in about two years, the price stability target of 2 percent will be achieved in a sustainable and stable manner and the output gap will be positive. Therefore, there is a possibility that the future policy interest rate will be higher than the path that is factored in by the market.
- To contain any shocks arising from discontinuous and rapid policy changes when the price stability target is achieved, one option is to adjust the degree of monetary accommodation by conducting moderate policy interest rate hikes, in response to developments in economic activity and prices as well as financial conditions.
- In order to adjust the degree of monetary accommodation in a way that does not exert stress on the economy, it will be necessary for the Bank to raise the policy interest rate in a timely

and appropriate manner as the likelihood of realizing the outlook for economic activity and prices rises.

- It is necessary to deepen discussion on the timing and degree of policy interest rate hikes.
- The key factor in considering further adjustments to monetary accommodation is to confirm positive corporate behavior through this summer -- specifically, continued solid business fixed investment -- and an improving trend in private consumption, led by wage hikes, toward the second half of this year.
- In the current situation where underlying inflation is below 2 percent, accommodative financial conditions need to be maintained for a fairly long period. However, if underlying inflation continues to deviate upward from the baseline scenario against the backdrop of a weaker yen, it is quite possible that the pace of monetary policy normalization will increase.
- In 2023, disposable income did not rise and the increase in private consumption was due to the saving rate declining to 0 percent. As households' purchasing power has remained weak, it seems appropriate for the Bank to maintain accommodative financial conditions for the time being.
- CPI figures and other information released after the previous MPM have proved that the conditions for changing the monetary policy framework were fulfilled at the time of the MPM. In fact, rapid market fluctuations have not occurred following the policy change.
- Regarding purchases of Japanese government bonds (JGBs), while the Bank is currently monitoring market conditions after the termination of yield curve control, at some point it should indicate its intention to reduce its purchase amount of JGBs. Apart from this, the daily purchase amount of JGBs should be adjusted carefully by the Financial Markets Department, in response to factors such as supply and demand conditions for JGBs.
- The Bank needs to reduce the size of its balance sheet in order to normalize the amount of its JGB holdings and optimize the excessive levels of its reserve balances. Moreover, given that the gradual increase in flexibility in the conduct of yield curve control led to a smooth exit from the previous policy framework, it is important for the Bank to proceed with reducing its purchase amount of JGBs in a timely manner, while paying attention to market developments and the supply and demand conditions for JGBs.
- One option is to reduce the Bank's monthly purchase amount of JGBs -- which is currently about 6 trillion yen per month -- based on the supply and demand balance of JGBs, with the

aim of restoring market functioning. Moreover, it is important to indicate its intention to reduce its purchase amount of JGBs from the perspective of enhancing market predictability.

- Given market developments, it is increasingly likely that the Bank will be able to discuss the specifics of the treatment of its holdings of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs).
- In discussing the treatment of the Bank's ETF holdings, it is necessary to take into account, for example, the impact that the manner of the disposal of these assets will have on the functioning of the stock market and the extent of this impact. Although there is no simple solution to this issue, the Bank should aim at bringing the amount outstanding to zero, even if it takes a long time.

III. Opinions from Government Representatives

Ministry of Finance

- It seems that business fixed investment has marked its highest level and the trend toward raising wages seen among large firms has spread to other firms. However, there are many small, medium-sized, and larger firms that have not been able to pass on personnel expenses to selling prices, and private consumption lacks firmness.
- In aiming toward full liberation from deflation -- the path to which Japan is still only halfway down -- the government will carry out all possible measures and strongly promote wage hikes.
- 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.

Cabinet Office

- Japan's economy is recovering at a moderate pace, although it recently appears to be pausing. The economy is expected to continue recovering at a moderate pace, while attention should be given to uncertainties regarding the global economy and to the impact of the yen's depreciation on households' purchasing power.
- The government will support wage hikes, underpin private consumption through cuts in income tax and inhabitant tax, and work toward raising the potential growth rate.

- The government expects the Bank 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.