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June 27, 2022

Bank of Japan

## Summary of Opinions at the Monetary Policy Meeting<sup>1,2</sup> on June 16 and 17, 2022

### I. Opinions on Economic and Financial Developments

#### *Economic Developments*

- Japan's economy has picked up as a trend, although some weakness has been seen in part, mainly due to the impact of the novel coronavirus (COVID-19) and a rise in commodity prices. The economy is likely to recover, with the impact of COVID-19 and supply-side constraints waning, although it is expected to be under downward pressure stemming from the rise in commodity prices.
- Japan's private consumption has picked up, particularly for services consumption, with the impact of COVID-19 waning and the number of people going out increasing.
- Although Japan's economy has been under downward pressure due, for example, to supply-side constraints and a surge in prices of imported raw materials, it has picked up as a trend with private consumption improving, particularly for services consumption such as travel.
- Along with changes in the number of confirmed cases of COVID-19, Japan's economy saw repeated fluctuations, mainly for services consumption. However, as people have got used to living with COVID-19, the degree of decline in the economy in response to increases in the number of COVID-19 cases has become smaller.
- Private consumption has been on a recovery trend. Firms in the hospitality industry have said that they look forward to the central and local government support measures and that

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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.

reservations for the summer have been favorable. Attention is paid to the sustainability of the recovery trend in private consumption from the summer onward.

- In Japan's economy, while private consumption has picked up with the impact of COVID-19 waning, whether or not scarring effects will remain, mainly in the face-to-face services industry, is a matter of concern.
- A rapid depreciation of the yen has a negative impact on Japan's economy as it heightens uncertainties about the future and therefore makes it difficult for firms to formulate their business plans.
- Downward pressure on exports and production has been greater than was projected in the April *Outlook for Economic Activity and Prices* due to supply-side constraints reflecting lockdowns in China. Moreover, the possibility of such downward pressure being prolonged is of concern.
- Although lockdowns in Shanghai have been lifted, it will require time for economic activity in the area to normalize, and there is concern about the possibility of a slowdown in economic growth in China and of prolonged supply-side constraints on a global basis.
- There are high uncertainties over the outlook for Japan's economy, including the course of COVID-19 in China in particular and its impact, the situation surrounding Ukraine, and the impact of global inflation.
- Although the global economy has been on a recovery trend, it faces three uncertainties: inflation developments and monetary policies around the world; China's zero-COVID strategy; and supply-side constraints such as the semiconductor shortage.
- As the Federal Reserve has been raising its policy interest rate at a fast pace, the Bank needs to closely monitor whether or not the U.S. housing and leveraged loan markets will deteriorate.

### *Prices*

- The year-on-year rate of change in the consumer price index (CPI, all items less fresh food) has been at around 2 percent, mainly due to rises in energy and food prices. The rate of increase is likely to be at around 2 percent for the time being, but it is expected to decelerate thereafter because the positive contribution of the rise in energy prices to the CPI is likely to wane.

- In Japan, underlying inflation is expected to rise gradually as economic activity is likely to improve with the impact of COVID-19 waning.
- The rate of increase in Japan's CPI has been contained, mainly due to the government's measures to curb drastic changes in fuel oil prices.
- The recent rise in inflation is due to higher import prices and therefore will be only temporary. Achieving the price stability target in a stable manner is difficult given developments in the output gap and inflation expectations.
- It should be noted that the burden on households of price increases differs depending on expenditure shares across household income groups and regions.
- In order to achieve a virtuous cycle in which income and prices rise in a stable and sustainable manner, firms' efforts to improve productivity and raise wages are important. Also key to achieving the virtuous cycle are labor market reforms that lead to an increase in job changes aimed at increasing income, the growth of startups that create new value, and the promotion of stable asset formation by households.

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

- Japan's economy is on its way to recovery from the pandemic and has been under downward pressure stemming from the rise in commodity prices. In addition, it is necessary to pay due attention to developments in financial and foreign exchange markets and their impact on Japan's economic activity and prices. In order to achieve the price stability target, accompanied by wage increases, in a sustainable and stable manner, the Bank needs to conduct monetary easing while examining economic and financial developments, for which uncertainties have been extremely high.
- Although the range of items increasing in price has broadened due to the rise in commodity prices and movements in foreign exchange rates, it cannot be said that the price stability target has been achieved amid a virtuous cycle. It is therefore appropriate for the Bank to maintain the current monetary policy.
- With the output gap remaining negative for more than two years, in order to achieve a sustained rise in wages, which pushes up demand, it is appropriate for the Bank to continue with the current monetary easing and thereby firmly support the economy.

- Achieving the price stability target of 2 percent requires wage increases that exceed 2 percent inflation. However, with the output gap being negative, Japan's economy has not reached a situation where labor market conditions are likely to accelerate a rise in wages. On this point, the economic environment in Japan has been different from that in the United States and Europe, where monetary accommodation has been reduced.
- The continuation of monetary easing can be considered effective to encourage sustained wage hikes by firms.
- It has been structurally difficult for wages in Japan to rise because labor-management negotiations have long prioritized maintaining employment over raising wages. In order to achieve wage increases despite these circumstances, it is necessary for the Bank to persistently continue with monetary easing and thereby support the economy.
- In order to close Japan's negative output gap and increase income and employment, it is necessary for the Bank to aim at achieving a high-pressure economy by stimulating the economy, in coordination with the government's fiscal and other policies.
- In order to achieve the price stability target in a stable manner, it is necessary to raise households' purchasing power and inflation expectations.
- While assessing data in real time, particularly on underlying inflation and inflation expectations, the Bank should continue with monetary easing until it becomes certain that wages have increased as a trend and the price stability target is achieved in a sustainable and stable manner.
- In the conduct of monetary policy, the Bank should strengthen its monetary easing stance with a view to improving the output gap and inflation expectations, and thereby achieve an economic recovery and the price stability target early.
- Upward pressure on domestic interest rates from overseas is expected to continue. In this situation, in order to implement the guideline for market operations, it is appropriate for the Bank to continue conducting fixed-rate purchase operations every business day.
- For the time being, while closely monitoring the impact of COVID-19, the Bank should support financing, mainly of firms, and maintain stability in financial markets, and should not hesitate to take additional easing measures if necessary. It is appropriate for the Bank to maintain the current forward guidance for the policy rates.

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

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

- The supplementary budget for fiscal 2022 has been approved by the Diet. With the comprehensive emergency measures, including the supplementary budget, the government will swiftly respond to any unforeseen fiscal demand arising, for example, from a resurgence of COVID-19 or price increases, and thereby ensure the public's sense of security.
- In addition, the Basic Policy on Economic and Fiscal Management and Reform 2022 (hereafter the Basic Policy 2022) has been decided by the Cabinet. In formulating the budget from the summer onward, the government will steadily promote integrated economic and fiscal reforms based on both the Basic Policy 2022 and the Basic Policy 2021.
- The government expects the Bank to conduct appropriate monetary policy toward achieving the price stability target in a sustainable and stable manner while cooperating with the government.

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

- The government will swiftly implement the package of economic measures compiled last year and the comprehensive emergency measures compiled this April. It will establish a Task Force on Prices, Wages, and Daily Living to take swift and comprehensive measures.
- The government will give concrete shape immediately to the comprehensive measures for advancing the Basic Policy 2022 and the vision and the action plan of a New Form of Capitalism; through these efforts, it will transform the economy and society, making them more resilient and sustainable.
- The government expects the Bank to continue to conduct appropriate monetary policy based on due consideration of developments in economic activity and prices as well as financial conditions, while cooperating with the government.