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March 28, 2024

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting[1,2]

on March 18 and 19, 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 continue to do so as a virtuous cycle from income to spending is maintained.

- The domestic economy seems to be resilient on the whole. This is suggested by the fact that, although some weakness has been seen in private consumption and production, it is largely attributable to temporary factors; moreover, with corporate profits remaining at high levels, strong wage hikes have been observed, particularly among large firms.

- Reasons why the recovery pace of Japan's economy has been moderate despite real interest rates remaining substantially negative would include, for example, the low natural rate of interest and the lagged effects of monetary policy.

- Given anecdotal information from firms engaged in services for individuals and in view of their financial results, the consumption behavior of individuals has changed with the prolonged impact of the COVID-19 pandemic, and these changes seem to be irreversible.

- Expectations for the outlook for Japan's economy have increased, since the wage growth agreed in this year's annual spring labor-management wage negotiations to date has been higher than expected and stock prices have recently exceeded the record high. Thus, the economy is possibly reaching a historic inflection point.

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[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.

Prices

- As recent data and anecdotal information from firms have gradually shown that the virtuous cycle between wages and prices has become more solid, it can be judged that it is now within sight that the price stability target of 2 percent will be achieved in a sustainable and stable manner toward the end of the projection period of the January 2024 Outlook Report (*Outlook for Economic Activity and Prices*).

- The provisional aggregate results for the agreed wage growth rate compiled by the Japanese Trade Union Confederation (Rengo) have been higher than expected. In addition, wages are projected to be raised for a wide range of firms, according to anecdotal information from firms gathered through the Bank's Head Office and branches. With corporate profits being at high levels, it is likely that relatively large wage hikes and a moderate rise in services prices will coexist. Prices are projected to be at around 2 percent while gradually transitioning to a desirable state in which they are supported by wages.

- Given the results of this year's annual spring labor-management wage negotiations to date, achievement of the price stability target seems to have come in sight to some extent, mainly due to price rises accompanying wage increases. Thus, significant progress has been made toward achieving the target.

- It is highly likely that the mechanism behind price developments will continue to be consistent with the price stability target, although the inflation rate could fall below 2.0 percent, mainly due to temporary factors.

- Although the results of the annual spring labor-management wage negotiations to date have been strong, in order to confirm whether the virtuous cycle between wages and prices has become more solid, the Bank needs to carefully assess the rise in services prices and the progress in the pass-through of cost increases to selling prices by small and medium-sized firms.

- The rise in services prices is mainly due to an increase in those for dining-out on the back of a rise in the cost of food ingredients. It is too early to say that the main factor is the effects of a pass-through to consumer prices of higher personnel expenses due to wage hikes.

- As the impact of curbing consumption could be strong in the process of normalizing the saving rate, wage increases that can keep up with inflation are necessary. Thus, the virtuous cycle from prices to wages still cannot be considered to have become more solid on a national basis.

II. Opinions on Monetary Policy

- Based on recent data and other sources, it can be judged that it is now within sight that the price stability target will be achieved toward the end of the projection period of the January 2024 Outlook Report. In this situation, large-scale monetary easing measures, including the yield curve control framework and the negative interest rate policy, have likely fulfilled their roles.

- With the price stability target of 2 percent, the Bank should conduct monetary policy, guiding the short-term interest rate as a primary policy tool, in response to developments in economic activity and prices as well as financial conditions from the perspective of sustainable and stable achievement of the target.

- Shifting to a framework in which the Bank guides the short-term interest rate as a primary policy tool from one that deployed all unconventional instruments -- in other words, to a normal phase of monetary easing from the "new phase of monetary easing," namely, from quantitative and qualitative monetary easing (QQE) introduced in 2013 -- is quite possible without causing short-term shocks, and positive effects can be expected in the medium to long term.

- It is important to clearly communicate through the use of various methods that the changes in the monetary policy framework proposed at this MPM will not be a regime shift toward monetary tightening, but rather a part of efforts to achieve the price stability target.

- Long-term interest rates have been stable under the more flexible conduct of yield curve control. In addition, as a result of the Bank's communication thus far, there is a widespread understanding in financial markets that, even if the Bank were to terminate the negative interest rate policy, accommodative financial conditions would be maintained for the time being. Considering such factors, there is a low possibility that the changes in the policy framework proposed at this MPM will cause large fluctuations in the markets.

- In order to proceed deliberately but steadily with monetary policy normalization in response to developments in economic activity and prices, and thereby successfully unwind the unprecedented large-scale monetary easing, the Bank's future policy conduct will be crucial. To this end, it is appropriate that the Bank reach the starting line of monetary policy normalization at this MPM.

- It is appropriate for the Bank to take time to deal with purchases of Japanese government bonds (JGBs), CP, and corporate bonds in order to avoid large and rapid market fluctuations. Meanwhile, it is expected that the number of bond market participants will increase.

- The Bank will continue its JGB purchases at broadly the same amount as at present. That said, in conducting the purchases, it is necessary that they continue to be determined flexibly by the Bank's market operation desk while taking account of market developments. Thus, it is appropriate to conduct the purchases with some upper and lower allowances of, for example, about plus and minus 1-2 trillion yen.

- JGB purchases will be conducted from the perspective of avoiding rapid fluctuations in long-term interest rates, not as an active monetary policy tool. In doing so, it is important to promote recovery in market liquidity while letting interest rates be determined by the market as much as possible.

- As wage hikes have been confirmed this year as a symbolic change, it is necessary to revise the policy responses that have had side effects on market functioning to date, and to shift to a phase in which the market functions in a self-sustaining manner.

- With an eye on future normalization of monetary policy, it seems that now is the time for the Bank to shift to conducting monetary policy in a manner that leaves price formation to the market to some extent.

- In Japan, the risk of falling into wage inflation -- as seen in the United States and Europe -- is low, and there is time to assess, for example, whether the industrial structure will change to one where results of large firms' reforms affect small and medium-sized firms, which then pass wage hikes on to selling prices. Regarding monetary easing measures other than purchases of assets such as exchange-traded funds (ETFs) -- which are related to large firms -- and the Fund-Provisioning Measure to Stimulate Bank Lending, it is appropriate for the Bank, in order to ensure that the price stability target will be achieved, to revise them after encouraging small and medium-sized firms to prepare and confirming that their capacity to raise wages will likely increase. Moreover, the Bank would need to emphasize its cautious stance in the case of terminating the negative interest rate policy, as Japan's economy is not in a state where rapid policy interest rate hikes are necessary.

- It is still necessary to hold down long-term interest rates through continued purchases of JGBs. Thus, terminating the yield curve control framework and the negative interest rate policy simultaneously entails a risk of bringing about discontinuous changes in financial conditions, including long-term interest rates.

- If the policy changes proposed at this MPM increase expectations for future changes in a manner that does not reflect economic fundamental conditions, resulting in sudden changes in financial conditions, there is a risk that this will dampen the momentum of the virtuous cycle operating in Japan's economy and delay the achievement of the inflation target.

- It is necessary for the Bank to look back broadly at monetary policy over the past quarter century while taking account of the changes in the policy framework that were proposed at this MPM. In addition, it is important to utilize the findings of the ongoing review of monetary policy from a broad perspective in the future conduct of monetary policy.

III. Opinions from Government Representatives

Ministry of Finance

- The government considers that the proposals made at this MPM reflect the Bank's intention to keep aiming to achieve the price stability target of 2 percent in a sustainable and stable manner.

- Private consumption lacks firmness, although positive developments have been observed in, for example, wage growth and business fixed investment. In addition, the government recognizes the risks concerning overseas economies.

- The Bank explained that it would continue to maintain accommodative financial conditions. Meanwhile, the government expects the Bank to keep conducting 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

- The government considers that the proposals made at this MPM reflect the positive developments of a virtuous cycle between wages and prices being achieved, and it shares the same recognition with the Bank.

- In order to strengthen the economic recovery and achieve sustainable growth led by private demand, the government considers it necessary for the Bank to continue to firmly support the economy from the financial side.

- 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.