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September 28, 2018

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on September 18 and 19, 2018

I. Opinions on Economic and Financial Developments

Economic Developments

- Japan's economy is expanding moderately, with a virtuous cycle from income to spending operating. Going forward, it is likely to continue expanding, mainly against the background of highly accommodative financial conditions and the underpinnings through government spending.
- Japan's economy is expanding moderately. With somewhat tight supply-demand conditions continuing going forward, it is expected that there will be progress in implementing structural measures aimed at making use of a variety of human resources as well as saving labor, and that an increase in income will lead to an expansion in consumption.
- Japan's economy has regained its momentum as business fixed investment and consumption made a significant positive contribution in the April-June quarter. As for the outlook, the baseline scenario is maintained, in which the economy is expected to continue its moderate expansion mainly on the back of firm growth in overseas economies, although attention should be paid to risk factors.
- Japan's economy has continued its moderate expansion, with the output gap remaining positive led by domestic demand. Meanwhile, uncertainties regarding the outlook for overseas economies have been heightening, and it is necessary to pay due attention.

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.

- The underlying trend in Japan's economic activity has not changed significantly. As for overseas economies, the contrast between the favorable U.S. economy and other economies is becoming more evident, mainly reflecting U.S. trade policy, and uncertainties regarding their outlook have been heightening as well.
- With regard to the risk balance in the global economy, there likely remain growing downside risks stemming from trade friction between such economies as the United States and China as well as from fluctuations in financial markets.
- In a situation where there is growing concern about trade friction and natural disasters are occurring successively in Japan, close attention should be paid to heightening uncertainties regarding the outlook for economic activity and prices, as seen in some weakness in several leading indicators.
- Attention should be paid to the effects of the successive natural disasters on consumption and firms' production activity in Japan, and thus it is essential to continue to gather information thoroughly and to consider necessary responses.
- The effective way to achieve economic growth is to cut back on jobs that are not profitable. As this will give rise to problems in terms of employment, tightening labor market conditions through monetary easing will bring about economic growth. While the rate of increase in labor productivity per hour has been rising under quantitative and qualitative monetary easing (QQE), actual labor productivity is likely to be rising to a greater extent than the figures indicate, considering that the newly employed workers consist of those with little experience and seniors.
- In line with demographic changes such as the declining birthrate and aging population and developments in labor productivity, there likely will be downward pressure on the natural rate of interest. It is important to underpin this rate by further promoting technological innovation.

Prices

- The year-on-year rate of change in the consumer price index (CPI) is likely to increase gradually toward 2 percent, mainly on the back of the output gap remaining positive and medium- to long-term inflation expectations rising.
- As there is a limit to a rise in the employment rate and efficiency-improving investment that has a large impact, labor shortage will lead to wage increases. While the recent statistical

figures are said to be showing a higher rise in wages than is actually the case, wage increases and an expansion in employment will bring about an expansion in employee income -- that is, wages multiplied by the number of employees -- and raise prices through increases in both demand and costs.

- Looking at the latest CPI for all prefectures and that for Tokyo, it is a relief that the deceleration in prices of goods has paused, partly because the effects of the yen's appreciation through early spring have dissipated. A significant increase in summer bonuses is also a positive development.
- The momentum whereby an improvement in the output gap leads to a rise in inflation has been maintained, but it should be noted that it will still take considerable time for this to change people's perception of prices and thereby shift the Phillips curve upward.
- The year-on-year rate of increase in the CPI (less fresh food) is likely to continue accelerating moderately. Nevertheless, as consumers' tolerance of price rises has remained low and firms have been cautious about raising prices, it is projected that achieving 2 percent inflation will take some time.
- It is gradually becoming clear that the delay in a rise in inflation is affected by not only a mere demand shortage, but also various factors such as the persistent deflationary mindset and improvement in productivity stemming from expansion in supply capacity. Therefore, uncertainties regarding the outlook for prices have been heightening compared to before.
- The spread of the use of the internet and smartphones is likely to be effective in promoting labor participation by seniors through enabling necessary information gathering. As the supply of labor with high wage elasticity continues, this could be a factor that constrains wage increases, and thus its developments warrant close attention.

II. Opinions on Monetary Policy

- Although it will take time to achieve the price stability target, it is necessary to persistently continue with the current powerful monetary easing as the momentum toward 2 percent inflation is maintained.
- The Bank should continue with the current monetary policy stance with the aim of persistently encouraging the virtuous cycle to take hold and achieving the price stability target.

- It is necessary to persistently maintain highly accommodative financial conditions while carefully examining the positive effects and side effects of the current powerful monetary easing.
- It is necessary to continue to pay close attention to the effects on financial markets of strengthening the framework for continuous powerful monetary easing decided at the previous meeting, as only about two months have passed including the summer slack period for market transactions.
- It is important to continue to thoroughly explain that strengthening the framework for continuous powerful monetary easing has made clearer the Bank's intention to persistently continue with powerful monetary easing while taking into account its side effects.
- There is room for the Bank to consider making its monetary policy more flexible in the future with a view to maintaining market functioning, on the condition that the balance between supply and demand is maintained in the economy. However, taking account of uncertainties over prices, it is essential for the Bank to continue with the current monetary policy persistently and cautiously while taking sufficient care of side effects such as financial imbalances.
- Since monetary easing effects could deteriorate over time, it is ambiguous whether the strategy of maintaining short- and long-term interest rates at around certain levels for a long period is effective or not, with a view to achieving the price stability target at an early stage. Rather, it is necessary for the Bank, together with the government, to further support the positive changes in behavior among firms and households through additional monetary easing. Since there is a limit to continuing with large-scale monetary easing for a long period of time taking into consideration its side effects, the time frame for monetary policy should be more discussed among Policy Board members.
- In conducting monetary policy, it is important for the Bank to prepare for downside risks to economic activity and prices. In addition, the Bank should continue to improve the measures that influence inflation expectations, based on the recognition that monetary policy, including the expressions in related statements, is somewhat difficult to understand for households and firms in general in the first place.
- Although some hold the view that monetary easing effects have not been reaching local economies, small and medium-sized firms, and individuals, improvements have been seen in

the active job openings-to-applicants ratios in local regions, the profits of small and medium-sized firms, and compensation of employees.

- Firms' demand for funds cannot necessarily be regarded as strong while their amount of internal reserves has been at a record high level. In order to change this situation, it is considered important to encourage firms to create active demand for funds through efforts such as structural reforms, in addition to monetary policy.

III. Opinions from Government Representatives

Ministry of Finance

- With regard to the recent 2018 Typhoon No. 21 and 2018 Hokkaido Eastern Iburi Earthquake, the government is making efforts to provide support for those affected and swiftly restore critical infrastructure.
- The application of budget requests for fiscal 2019 was closed recently, and the government will continue to work on expenditure reforms under the New Plan to Advance Economic and Fiscal Revitalization.
- During the process of budget formulation, the government will consider countermeasures such as against possible fluctuations in demand accompanying the scheduled consumption tax hike.
- The government expects the Bank to continue to work toward achieving the price stability target, taking account of developments in economic activity and prices as well as financial conditions.

Cabinet Office

- The real GDP growth rate for the April-June quarter of 2018 registered positive growth for the first time in two quarters, and the nominal GDP marked a record high of 552.8 trillion yen.
- Attention should be given to the effects of situations over trade issues on the global economy and the economic impacts of the successive natural disasters. The government will do its utmost to proceed with the provision of support for the daily lives of those affected and the restoration and reconstruction of the affected areas.

- The government expects the Bank to steadily pursue monetary easing toward achieving the price stability target, taking account of developments in economic activity and prices as well as financial conditions.