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June 28, 2019

Bank of Japan

## **Summary of Opinions at the Monetary Policy Meeting<sup>1,2</sup>** on June 19 and 20, 2019

### **I. Opinions on Economic and Financial Developments**

#### *Economic Developments*

- Japan's economy has been on a moderate expanding trend, with a virtuous cycle from income to spending operating, although exports and production have been affected by the slowdown in overseas economies. Going forward, it is likely to continue on a moderate expanding trend, despite being affected by the slowdown in overseas economies for the time being.
- Japan's economy has maintained its moderate expanding trend, supported by firm domestic demand, although exports and production have been affected by the slowdown in overseas economies. While some nervousness has been seen in the markets, it is necessary to carefully examine the effects of stimulus measures in each economy for the time being.
- It can be said that an increase in business fixed investment for the January-March quarter even amid a heightening of uncertainties and risks regarding the global economy shows the resilience of Japan's economy.
- Japan's economy has been on a moderate expanding trend. Although overseas economies have managed to avoid a rapid deceleration for now, various risks entailed in these economies warrant attention.
- The global economy is expected to pick up moderately from the second half of this year on the back of accommodative financial conditions and of stimulus measures such as in China.

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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.

However, risks concerning overseas economies are significant, and it is necessary to carefully examine their impact on firms' and households' sentiment in Japan.

- Risks concerning the global economy have been further tilted to the downside compared to the previous meeting. Intensified trade friction and heightened geopolitical tensions have resulted in a further deterioration in business sentiment. They also have started to affect, for example, investors' sentiment in financial markets and the direction of monetary policy in each economy.
- The Federal Reserve and the European Central Bank (ECB) have returned to an accommodative policy stance due to heightening uncertainties regarding the global economy, and 10-year government bond yields have declined on a global basis. In this situation, long-term interest rates in Japan currently mark the fourth lowest levels among major economies after Switzerland, Germany, and Denmark.
- An increase in uncertainties regarding overseas economies, such as the intensification in the trade friction between the United States and China and the possibility of a no-deal Brexit, has started to affect Japan's economy and people's sentiment. In addition, the scheduled consumption tax hike is a factor that will exert downward pressure on economic activity and prices.
- It has become highly likely that the slowdown in overseas economies will be prolonged and the degree will be greater than previously expected. It is necessary to pay closer attention to Japan's economy, taking account of the effects such as of the trade friction between the United States and China as well as of the scheduled consumption tax hike.

### *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.
- Further price rises, such as in food products, have spread widely on the back of increases in personnel expenses and prices of raw materials. Also, the labor market tightening that has lasted for a long period has led to a rise in prices of services. Prices seem to have been firm, and the basic mechanism for a rise in inflation driven by a positive output gap has been operating.

- With a positive output gap supporting a rise in inflation, the year-on-year rate of change in the CPI has been positive. In order to raise the inflation rate and maintain its level going forward, it is necessary to further raise wages and continue doing so while maintaining reasonably tight labor market conditions.
- While upward pressure of a positive output gap on prices has been maintained, a rise in inflation has been delayed, being offset by the constraining effects on inflation due to a rise in productivity accompanying, for example, firms' labor-saving investment.
- It appears that the convenience store industry has considered terminating late-night services due to a surge in wages for part-time workers on the late-night shift. This will result in a rise in sales per hour, which implies an increase in productivity, but will not lead to price rises. A lot of similar cases across the economy may be the reason behind a delay in price rises.
- An acceleration in inflation has not been seen in Japan with the large impact of the trade friction between the United States and China, while there is still a long way to go to achieve the price stability target of 2 percent.
- There is a low possibility that the output gap will continue to widen within positive territory, and inflation expectations have remained weak. Against this background, it cannot be judged that the inflation rate will accelerate toward 2 percent.

## **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.
- Despite high uncertainties regarding overseas economies going forward, the Bank, in a situation where a policy mix of monetary and fiscal policies are being sustained, should aim to achieve the price stability target by persistently continuing with the current monetary easing policy while paying closer attention than before to the side effects on the functioning of financial intermediation and the market functioning.
- The Bank should persistently continue with the current monetary policy stance with the aim of continuously encouraging the virtuous cycle of the economy to take hold and achieving the price stability target.

- Although downside risks warrant attention, it is appropriate for the Bank to continue with the current monetary policy stance given that the main scenario regarding economic activity that Japan's economy is likely to continue on its moderate expanding trend is unchanged and the momentum toward 2 percent inflation is maintained.
- The Bank needs to constantly consider measures that enhance the sustainability of monetary easing.
- It is necessary to closely examine the effects of such factors as deterioration in firms' and households' sentiment on the inflation momentum. If there is concern that such momentum will be lost, the Bank should consider implementing necessary policy measures appropriately.
- While central banks have been vigilant regarding the slowdown in the global economy and heightening uncertainties over it, the key to overcoming deflation is for the Bank to maintain its stance of taking some kind of policy responses if some changes emerge in the baseline scenario of the outlook for prices. All policy measures -- including adjustments in short- and long-term interest rates, an acceleration in the pace of expansion in the monetary base, and an increase in the amount of assets to be purchased -- should be deliberated when considering additional easing.
- Amid changes in the external environment such as growing expectations for monetary easing in the United States and Europe, the Bank also needs to strengthen monetary easing. In addition, it is necessary to further consider in depth the feasibility of a wide range of additional easing measures, as well as their effects and side effects.
- While banks' profits have been deteriorating, lending rates seem to be approaching the levels of the so-called reversal rates, which reverse the effects of monetary easing and decrease the amount of bank loans. If base rates for bank loans decline further, there could be a decline in the amount of bank loans, which constitute an important transmission channel through which the effects of monetary policy spread to the real economy.
- Regarding the provision of funds with negative interest rates by central banks to financial institutions, there is a risk that it will not lead to an increase in the amount of bank loans and concern that it will bring about downward pressure on interest rates, depending on developments in economic activity and financial conditions.

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

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

- The government is proceeding with discussions to compile the Basic Policy on Economic and Fiscal Management and Reform 2019. In line with the New Plan to Advance Economic and Fiscal Revitalization, it will continue to promote the integrated economic and fiscal reforms.
- At G20 Fukuoka held this month, a lively discussion took place about policy priorities set under Japan's presidency. The meeting ended with success and further discussion is expected to be held at G20 Osaka Summit.
- 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***

- In the Basic Policy on Economic and Fiscal Management and Reform 2019 to be compiled on June 21, the government is focused on accelerating the realization of Society 5.0, taking strong account of changes in the global environment. On the fiscal side, it focuses primarily on efficient and high-quality administrative and fiscal reforms through next-generation administrative services. It is described clearly in the Basic Policy that the government will take macroeconomic measures without hesitation in a timely manner when risks materialize.
- 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.