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Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on July 29 and 30, 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, production, and business sentiment have been affected by the slowdown in overseas economies. It is likely to continue on an expanding trend, despite being affected by the slowdown in overseas economies for the time being.
- Japan's economy has been on a moderate expanding trend. It is likely to continue growing at about the same pace as its potential. In addition to the slowdown in overseas economies, such factors as the effects of the scheduled consumption tax hike warrant attention.
- Japan's economy has maintained its moderate expansion, supported by firm domestic demand, although exports have continued to be affected by the slowdown in overseas economies. It is necessary to carefully examine the effects of the scheduled consumption tax hike and developments in the global economy for the time being.
- Overseas economies are expected to pick up moderately. However, as downside risks have remained significant, close attention should be paid to their impact on Japan's economy.
- With regard to the environment surrounding the global economy, it is concerning that risks have continued to be skewed to the downside since the turn of this fiscal year, due mainly to

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.

concern that trade friction, particularly between the United States and China, may become chronic.

- As signs of a further slowdown in the global economy have become more evident, the timing of its recovery could be delayed from the baseline scenario -- that is, from the second half of 2019. In Japan, as seen in a decline in the number of new job openings, mainly in the manufacturing sector, deterioration in exports and business sentiment has started to affect employment, which has been considered firm.
- Uncertainties have been heightening over the outlook for Japan's economy as well as the global economy. A consumption tax hike is scheduled to take place in Japan. A recovery in the global economy, which is expected to be seen in the second half of the fiscal year, does not seem to be observed before the scheduled consumption tax hike.
- As the risks concerning external demand increasingly have been skewed to the downside, it is difficult to be optimistic about Japan's economic activity. The resultant negative impact of external demand has been steadily affecting domestic demand, and if the risk factors both at home and abroad materialize at the same time, there is some possibility that the economy will head toward a downturn.
- Whether Japanese investors take excessive risks amid the ongoing global decline in interest rates warrants close monitoring.

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.
- Price rises, such as in food products, have spread widely on the back of an increase in, for example, personnel expenses. Also, the basic mechanism for a rise in inflation driven by a positive output gap has been operating. However, attention should be paid to the possibility that prices will be affected if downside risks to economic activity materialize.
- The underlying momentum of inflation seems to be increasing gradually. Now is the crucial phase in which it is extremely important to carefully support such developments.

- The acceleration in the year-on-year rate of increase in the CPI is likely to be only moderate. Despite a continued reasonably tight output gap, achieving the price stability target is expected to take some time.
- The situation has continued in which prices have not risen easily, with both the upward pressure of a positive output gap and the constraining effects that mainly result from a rise in productivity existing at the same time. It is expected that this situation will continue, given that investment aimed at raising productivity is likely to continue to be made.
- In the accommodation sector, moves to designate some days for closure have been spreading across the country. This reflects attempts to improve working conditions and raise occupancy rates on the whole by closing during the off-season and on days of the week when occupancy rates are low. As a result, labor productivity will be raised and thereby price rises will be constrained.
- The inflation rate has remained weak, reflecting weakness in demand. Resistance to wage increases seems to be deeply rooted in Japan.
- It cannot be judged that the inflation rate will accelerate toward the price stability target of 2 percent within the projection period. If economic and financial conditions deteriorate, it is expected that the possibility of the inflation rate becoming negative will be in sight.

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 persistently continue with the current monetary policy stance with the aim of continuously encouraging the virtuous cycle of the economy to take hold and thereby achieving the price stability target.
- If overseas economies deteriorate further and this has a negative impact on Japan's economic activity and prices, the Bank should respond swiftly while a monetary and fiscal policy mix is being pursued. Having said that, it is important to continue with the current monetary easing policy for the time being while paying attention to the side effects on the financial system.

- The degree of monetary accommodation in Japan seems to have been already greater than that in the United States and Europe. It is necessary to examine carefully whether there is a need for further monetary easing in this situation. At least for now, it is important to persistently continue with the current extremely powerful monetary easing for as long as possible.
- At this point, it is important to make a preventive and preemptive policy response to downside risks to prices. It is necessary to further strengthen monetary easing through both yield curve control and forward guidance.
- Since the effects of the monetary policy conduct of other economies are subject to change depending on developments in economic activity and markets, it is important to make a comprehensive judgment without being influenced by temporary developments.
- Given that downside risks to economic activity and prices remain significant, it is essential for the Bank to communicate that, if there is concern that the momentum toward achieving the price stability target will be lost, it will not hesitate to implement necessary policy measures appropriately to address these risks.
- The Bank should not hesitate to take monetary easing measures if it is expected that the momentum toward achieving the price stability target will be lost.
- Since Japan's economy is susceptible to the U.S.-China trade friction and the inflation rate is far from 2 percent, it would be necessary for the Bank to consider the claims for conducting so-called preventive monetary easing against downside risks to economic activity and prices. The effects of the scheduled consumption tax hike and sudden market changes warrant careful vigilance so that the Bank's monetary policy will not fall behind the curve.
- The Bank should communicate more clearly, both at home and abroad, that it will not hesitate to take additional monetary easing measures if there is a greater risk that the momentum toward achieving the price stability target will be lost. The Bank also should examine possible easing measures in advance.
- It is necessary to consider the pros and cons of various easing measures that involve such factors as quantity, quality, and interest rates.
- When considering policy responses, it is necessary to examine both their effects and side effects. In doing so, it is important to carry out careful examination and design while taking into account the risk that the effects may be impaired by the side effects.

- Given the time frame in which the side effects of monetary easing accumulate for a long time, it is necessary to consider monetary policy measures more carefully with a view to preventing financial instability while examining changes in financial institutions' risk-taking stance and the effects of a decline in interest rates on their profits and lending attitudes.

III. Opinions from Government Representatives

Ministry of Finance

- At the G20 Osaka Summit under Japan's presidency, the members successfully set out their stance to make a unified effort in addressing the challenges facing the global economy.
- The guidelines for budget requests for fiscal 2020 were discussed yesterday at the Council on Economic and Fiscal Policy. Under the New Plan to Advance Economic and Fiscal Revitalization, the government will proceed with budget formulation with a view to continuing to firmly undertake full-fledged expenditure reforms.
- 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 Cabinet Office's mid-year economic projection, Japan's economy is expected to recover, driven by the growth in domestic demand, and the real GDP growth rates for fiscal 2019 and 2020 are approximately 0.9 percent and 1.2 percent, respectively.
- Based on the Basic Policy on Economic and Fiscal Management and Reform 2019 -- A New Era of Reiwa: Challenges toward Society 5.0 -- the government will do its utmost with regard to economic and fiscal management while aiming to expand the virtuous cycle of growth and distribution and providing a social security system for all generations.
- 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.