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March 25, 2020

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on March 16, 2020

I. Opinions on Economic and Financial Developments

Economic Developments

- Global financial and capital markets have been unstable, with growing uncertainties over the global economy due mainly to the impact of the outbreak of the novel coronavirus (COVID-19). Under the circumstances, Japan's economic activity has been weak recently.
- Japan's economic activity has been weak recently. Attention should be paid to the impact of such factors as the outbreak of COVID-19.
- Downward pressure on Japan's economy has been increasing due to a constraint on economic activity that results from the outbreak of COVID-19, and financial and capital markets have been unstable. COVID-19 has been spreading rapidly worldwide, and this is expected to exert further downward pressure on the global economy as well for the time being.
- Financial conditions have become less accommodative, as seen partly in corporate financing. If economic activity remains weak for a prolonged period, concern over financial positions could increase, mainly among small and medium-sized firms. Provided that financial markets remain unstable, there is a risk that households' sentiment and firms' investment stance will become cautious rapidly.
- Firms currently are facing a sudden deterioration in business conditions that results from the outbreak of COVID-19, and the situation has been very serious. In addition, the end of the

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.

accounting period of many firms is coming up at end-March, which is unique to Japan, and close attention has been paid to whether they are fully prepared for this.

- Although Japan's economic activity is likely to remain weak for the time being, the economy is expected to return to a moderate expanding trend, with the impact of the outbreak of COVID-19 waning mainly owing to measures taken by each country.
- In the standard case, the outbreak of an infectious disease first brings about a significant economic downturn in the short term and, as the outbreak recedes, the economy eventually recovers. However, since the infection has been spreading globally with a time lag, the impact can be prolonged and significant.
- The shock of COVID-19 is different in nature from that of the global financial crisis and that brought about by natural disasters at the time of the Great East Japan Earthquake. As there are high uncertainties, it is necessary to keep in mind that the impact of COVID-19 can be significant and not just temporary. Japan's economy has shown some weakness since before COVID-19 exerted effects, and there is concern that it could remain weak even after overseas economies recover.
- In a situation where domestic demand has decreased significantly due to the effects of the consumption tax hike and natural disasters, the global outbreak of COVID-19 has put strong downward pressure on Japan's economy. An economic downturn can be serious and prolonged based on such measures as for public health taken by each country, including movement restrictions. In addition, it is not easy to make up for the lost services consumption, and Japan's economic trend seems to be weak even when excluding the impact of COVID-19. Thus, there are doubts regarding the scenario that the economy will strongly recover after the crisis caused by COVID-19 recedes.
- Due to the shock of COVID-19, firms' mindset that it is desirable to accumulate cash and deposits could become more entrenched. Even when the economy recovers to a normal state, there is a possibility that income will not be used for spending but instead moved into deposits. Even though this may not be the case, if many firms try to accumulate once more the cash and deposits that were lost, due mainly to a decline in sales, the situation in which spending decreases and income is not easily generated may be prolonged.

Prices

- The year-on-year rate of change in the consumer price index (CPI) is likely to be somewhat weak for the time being, partly due to the effects of the decline in crude oil prices. Thereafter, it is expected to increase gradually with the economy returning to a moderate expanding trend.
- Although a positive output gap has supported price rises, there is an increasing possibility that it will narrow due to the impact of the outbreak of COVID-19.
- Although there is a greater possibility that the momentum toward achieving the price stability target will be lost, the momentum has been maintained for now, with the output gap being positive and labor market conditions being close to full employment.
- Since downside risks to economic activity and prices have been increasing, there is a greater possibility that the momentum toward achieving the price stability target will be lost.

II. Opinions on Monetary Policy

- It is appropriate for the Bank to enhance monetary easing, with a view to doing its utmost to ensure smooth corporate financing and maintaining stability in financial markets, thereby preventing firms' and households' sentiment from deteriorating.
- The Bank should enhance monetary easing in terms of the following three perspectives: providing ample funds so that financial institutions can sufficiently fulfill the functioning of financial intermediation; doing its utmost to facilitate corporate financing; and ensuring stability in financial markets by restraining the expansion in risk premia through an increase in purchases of assets such as exchange-traded funds (ETFs).
- With the aim of containing the spread of COVID-19, there have been self-restraints on holding events and going outside. In this situation, what is required of monetary policy is not to stimulate the aggregate demand but to dispel the anxiety over the financial positions of firms and ensure stability in financial markets, thereby providing markets and the public with a sense of security.
- In the recent economic and financial environment, it is necessary to keep financial conditions highly accommodative mainly through the ample supply of funds.
- The high-priority issues for the time being are to provide ample funds and sufficiently facilitate corporate financing in terms of the financial positions. In doing so, it is important to

address such issues flexibly and swiftly depending on the situation by utilizing the existing policy scheme and, in principle, implementing temporary measures, while also taking into account the side effects on the functioning of financial intermediation.

- Corporate profits have deteriorated due to the impact of the outbreak of COVID-19, and some firms have gone bankrupt because of issues regarding their financing. The Bank should take necessary measures for maintaining the sufficient functioning of financial intermediation.
- Support measures for firms and households should be implemented swiftly on a large scale since the impact of COVID-19 has become serious. It is necessary for the Bank in the first place to take additional easing measures that facilitate corporate financing.
- The Special Funds-Supplying Operations to Facilitate Corporate Financing regarding the Novel Coronavirus (COVID-19) will encourage financial institutions to actively facilitate financing of their client firms despite their own severe business conditions, and will alleviate the anxiety of business managers whose firms are experiencing a deterioration in financial positions.
- It is essential to continue striving to regain stability in financial markets as a whole by making the most use of the advantage of the existing framework, which allows for a certain degree of flexibility depending on market conditions.
- Many people's job opportunities and income have decreased against the background of various measures necessary for responding to COVID-19. It is hoped that the government will address this situation appropriately and on a large scale. It is necessary for the Bank to provide funds to the fullest extent until income and earnings recover.
- As for the future conduct of monetary policy, it is still possible for the Bank to purchase Japanese government bonds (JGBs) with an annual pace of increase in their amount outstanding of up to about 80 trillion yen. In addition, depending on economic and price developments, it can take timely actions, including holding an unscheduled MPM. Since there is concern over an economic downturn, the Bank should firmly support the economy together with the government at this point in time and closely cooperate with the government's various measures and economic policy responses.

- With regard to policy responses, it is essential to maintain a strong cooperative framework between the Bank and the government as well as among major central banks, while closely sharing information.

III. Opinions from Government Representatives

Ministry of Finance

- The government compiled the Second Novel Coronavirus Disease (COVID-19) Emergency Response Package last week in response to the recent COVID-19 outbreak.
- Amid increasing concern over the outlook for economic activity resulting from the spread of COVID-19, it is important for the government and the Bank to cooperate closely and take measures against market instability. The government recognizes that the Bank will implement proposed measures mainly with a view to ensuring stability in financial markets, and assesses them as swift and appropriate responses.
- The government expects the Bank to continue doing its utmost mainly to ensure stability in financial markets and working toward achieving the price stability target.

Cabinet Office

- While closely monitoring, for example, the impact of COVID-19 on the global economy, the government will not hesitate to conduct necessary and sufficient economic and fiscal policies by implementing bold and unprecedented measures that will counteract the impact on the overall economy.
- The government recognizes that the Bank proposed the measures at this meeting to do its utmost to ensure smooth corporate financing and stability in financial markets.
- The government expects the Bank to continue conducting appropriate monetary policy. In addition, it will send a strong message that the government and the Bank will cooperate closely, while sharing a sense of crisis.