Not to be released until 8:50 a.m. Japan Standard Time on Thursday, January 31, 2019.

January 31, 2019

Bank of Japan

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

on January 22 and 23, 2019

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. Through fiscal 2020, the economy is likely to continue growing at about the same pace as its potential. While the countermeasures for the scheduled consumption tax hike are likely to contribute to maintaining the uptrend in domestic demand, it is necessary to pay attention to downside risks to overseas economies, which have been heightening somewhat.

- Japan's economy has continued to expand moderately and firms' fixed investment stance has not particularly changed. On the other hand, downside risks to the global economy have been heightening. Specifically, the growth pace of the Chinese economy has started to decelerate, due in part to the effects of the trade friction, and it is necessary to pay close attention to developments in the economy, including in stimulus measures.

- The effects on Japan's economy of factors such as the trade friction between the United States and China are likely to be limited so far, although some people point to a decrease in orders

[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.

from China.

- Amid the heightening uncertainties concerning the global economy and the scheduled consumption tax hike in Japan, consumption of nondurable goods has not moved off its bottom. It also is concerning that indicators of consumer sentiment have weakened somewhat.

- Although hard data suggest that the trend in Japan's economy has been firm, it also is true that some market participants hold excessively pessimistic views. Risks to overseas economies have been increasingly tilted to the downside, along with heightening uncertainties, and there are concerns that some of them may materialize. In that case, fiscal and monetary policies in each economy will be important but it could take some time for the policy effects to emerge.

- While stock prices tend to reflect changes in the real economy in an amplified manner, the recent fall in stock prices to a certain extent indicates the anticipation of a global decline in the real economic growth rate. The background to this is the stagnation of the economy in China, which now has the world's second largest import market. This is clear from developments in exports and imports, rather than GDP, which is declining marginally.

- As the baseline scenario, overseas economies are expected to continue growing firmly on the whole, mainly because positive momentum in domestic demand has been maintained in many economies.

- Risks concerning overseas economies have continued to be clearly tilted to the downside recently.

- Although overseas economies likely have continued to grow firmly, partly supported by the solid U.S. economy, it is necessary to pay attention to developments in economic activity in Europe's and China's manufacturing sectors.

- As for the Chinese economy, relatively weak developments have been observed in part recently, mainly due to the effects of authorities' measures to push forward with deleveraging and the trade friction between the United States and China. However, the economy is likely to broadly maintain its stable growth due to various measures to support economic activity.

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.

- The basic mechanism in which a positive output gap results in moderate increases in wages and prices has been operating, with tight labor market conditions continuing.

- In a situation where many small and medium-sized firms are struggling to secure employees, upward pressure on wages has been rising steadily. Recently, there also have been increasing moves to raise wages of new graduates and younger employees.

- The year-on-year rate of increase in the CPI (less fresh food) is likely to continue accelerating moderately. Nevertheless, as such developments have been weak and unstable and crude oil prices have been declining, it is projected that achieving 2 percent inflation will take some time.

- As there has been a relatively large decline in crude oil prices since last autumn, prices are expected to be pushed down for the time being.

- With upward pressure on inflation resulting from a positive output gap and downward pressure on inflation accompanying a rise in productivity existing at the same time, a rise in inflation has been delayed, partly due to a decline in crude oil prices, and the outlook remains highly uncertain.

- It has been taking time to resolve various factors that have been delaying price rises, and there is a high possibility that inflation expectations are more sticky than expected. It could still take more time for the rates of increase in wages and prices to rise and inflation expectations to be anchored at 2 percent.

- Although special factors such as the past decline in crude oil prices and the provision of free education are likely to temporarily push down prices, they could push up prices in the medium to long term through an expansion in real income. It is necessary to communicate clearly to the public on this point.

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 of the economy to take hold and achieving the price stability target.

- It is important to persistently continue with the current monetary easing policy while taking account of developments in economic activity and prices as well as financial conditions in a balanced manner.

- In a situation where there are high uncertainties regarding economic and price developments, it is important to sustain moderate economic expansion by maintaining a positive output gap to the extent that an accumulation of imbalances is avoided while carefully examining the balance between the positive effects and side effects of the policy.

- While the policy decision to conduct market operations and asset purchases in a flexible manner in July last year was aimed at addressing the decline in market functioning, such conduct also has played a role in alleviating instability in financial markets since last autumn.

- If downside risks to economic activity and prices materialize, the Bank should be prepared to make policy responses. Since achieving the price stability target has been delayed, it is not desirable to adopt a stance of not taking actions until a serious crisis occurs. Rather, a stance of taking swift, flexible, and decisive actions, including additional easing, in response to changes in the situation is desirable.

- It is necessary to devise ways to avoid a situation where an expectation that no policy change would occur for the time being will be fixed in financial markets amid successive downward revisions to the outlook for prices.

- The amount outstanding of Japanese government bonds (JGBs) held by financial institutions has likely been close to the minimum level needed as collateral, such as for funding. There seems to be some room for the current conduct of JGB purchase operation to be revised, taking account of the large stock of JGBs already purchased by the Bank.

- Looking at the changes in deposits as well as loans prior to and after the introduction of quantitative and qualitative monetary easing (QQE), deposits continued their increasing trend while loans turned to a moderate increase after leveling off. This change in loans is the result of QQE. Meanwhile, profit margins of financial institutions have decreased because the increase in deposits has exceeded that in loans. When we consider deposits and loans as products and sales, the difference between them is inventory. What is needed is inventory adjustment by reducing products.

- In a situation where financial institutions' lending rates to firms are low, there is a risk that, if financial situations at small and medium-sized firms worsened, corporate profits of regional financial institutions would be affected due to an increase in credit costs. It is necessary to pay close attention to whether regional financial institutions secure returns in line with risks in their lending operations.

- Further analysis and consideration are needed regarding the relationship between factors such as the inflation rate and either the levels of short- and long-term interest rates or the monetary base.

III. Opinions from Government Representatives

Ministry of Finance

- The budget for fiscal 2019 aims at achieving both economic revitalization and fiscal consolidation. As for the correction of data for the *Monthly Labour Survey*, the Cabinet decision regarding the budget for fiscal 2019 was changed in order to include necessary expenditures. In addition, with the second supplementary budget for fiscal 2018, the government addresses issues such as disaster prevention, disaster mitigation, and building national resilience. It will work to obtain approval from the Diet for these budgets at the earliest possible time.

- 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

- While the impact of the scheduled consumption tax hike on the economy is expected to be around 2 trillion yen, the government formulated the countermeasures for the hike to fully offset such impact, such as through implementing new budgetary and tax measures amounting to around 2.3 trillion yen in total. It will take all possible measures with regard to economic management so that the recovery trend in the economy will not be affected.

- 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.