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March 26, 2019

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on March 14 and 15, 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, although exports and production have been affected by the slowdown in overseas economies. Going forward, it is likely to continue its moderate expansion, despite being affected by the slowdown in overseas economies for the time being.
- Japan's economy is expanding moderately. Although overseas economies have continued growing, the pace has decelerated somewhat, and we are in a phase where various risks warrant close monitoring.
- Japan's economy has maintained its moderate expanding trend supported by firm domestic demand, although exports and production have shown some weakness due to the slowdown in overseas economies, particularly in the Chinese economy. While stimulus measures already have been introduced in China, it is necessary to pay due attention to their effects.
- While the widely held view, such as at international meetings, is that the global economy will pick up through the second half of this year, due mainly to the effects of stimulus measures in China and cyclical improvement in demand for IT-related goods, it is necessary to wait for some time until relevant data accumulate.

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.

- It is worth paying attention to when China's measures to support economic activity from both the fiscal and financial sides will become effective, as well as their impact on the economy.
- As for overseas economies, slowdowns have been observed, such as in China and Europe, as well as in production of IT-related goods. There are high uncertainties regarding the outlook, including negotiations on the United Kingdom's exit from the European Union (EU).
- Global financial markets have been relatively stable, partly because the expectation that the Federal Reserve will raise its policy rate has waned.
- While uncertainties regarding overseas economies started to become apparent from around last autumn, slowdowns have materialized. Reflecting these developments, downside risks to Japan's economy clearly have been heightening recently. Exports and production have shown some weakness, and it is necessary to pay close attention to whether this will affect future business fixed investment plans.
- Even if growth in the global economy decelerates somewhat, it is unlikely that business fixed investment in Japan, including that intended for domestic capacity expansion, will decline significantly. However, it is necessary to pay attention to developments in such investment.
- Private consumption is likely to follow an uptrend for the time being, primarily reflecting steady improvement in the employment and income situation, and public investment also is expected to turn to an expansion, mainly against the background of the supplementary budgets.
- Although the sluggishness of the global economy has been exerting downward pressure on Japan's economy, employment has continued to grow so far. However, the declines in exports and production could affect employment as well as consumption, thereby weakening the inflation momentum. Moreover, there is a risk that the scheduled consumption tax hike will have negative effects on consumption.
- There is a possibility that the pace of expansion in wages and business fixed investment will decelerate amid corporate profits peaking out. In addition, it is concerning that developments toward an economic downturn could heighten, depending on developments in overseas economies and the effects 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.
- The basic mechanism in which a positive output gap results in moderate increases in wages and prices has continued to operate, with domestic demand remaining firm and labor shortage continuing.
- The year-on-year rate of increase in the CPI (less fresh food) is likely to continue accelerating moderately. Nevertheless, it is expected to take some time to achieve the price stability target as wage increases have been moderate and crude oil prices have been sluggish, despite a situation of a somewhat tight output gap continuing.
- With regard to prices, upward pressure of a positive output gap and constraining factors, such as households' persistent deflationary mindset and a rise in productivity, have continued to exist at the same time, and the outlook is highly uncertain.
- The Bank should be more vigilant than before about whether the materialization of downside risks to economic activity at home and abroad will spread to domestic demand, and lead to the inflation momentum being lost. As downside risk factors in Japan, it is necessary to be vigilant about the impact that the scheduled consumption tax hike would have on economic activity and prices, such as through inflation expectations.

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 achieving the price stability target.
- In order to maintain the highly accommodative financial conditions, it is essential 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.

- It is necessary to maintain the current monetary easing policy, paying more attention than before to the side effects on financial institutions and market functioning while cautiously examining economic developments for the time being. In addition, it is important that the macroeconomic policy framework -- a policy mix of monetary and fiscal policies -- continue to be sustained.
- The current policy framework has a certain degree of flexibility to respond to market conditions, and can be described as a framework that allows accommodative financial conditions to be maintained easily even amid changes in the market environment while alleviating the side effects of monetary easing.
- In case developments in economic activity and prices undergo a phase shift, it is important to make preemptive policy responses.
- In the current situation where downside risks are materializing, the Bank should be prepared to make policy responses. If there are concerns that the inflation momentum will be lost, the Bank should decisively conduct additional easing and clearly argue against claims that there is a limit to monetary easing.
- At this point, the main scenario regarding developments in economic activity and prices is unchanged and the momentum toward 2 percent inflation is maintained. Monetary policy is not something that should automatically respond to each economic change, and it needs to be conducted based on the assessment of the underlying trend in prices.
- Although pricing in the corporate bond market has been conducted so far based on Japanese government bond (JGB) yields, it is starting to be based on a positive fixed value of interest rates amid negative JGB yields. In such a situation where a virtually zero lower bound exists, there is a possibility that monetary easing effects stemming from an additional decrease in JGB yields will be limited compared to before.
- In order to increase nominal interest rates in the long run, it is important to raise the inflation rate, and thus achieving 2 percent inflation at the earliest possible time is a quicker way to overcome low interest rates. Stopping monetary easing before completely overcoming deflation will instead result in continuous low interest rates.
- There seems to be room for the conduct of JGB purchase operation to be revised, taking account of (1) the fact that foreign investors' money has flowed into the JGB market and (2) the possibility that the amount of JGBs held by financial institutions has been close to the

minimum level needed, for example, as collateral for funding.

- Taking account of current developments in economic activity and prices, there is some risk that the scheduled consumption tax hike will exert downward pressure on economic activity and prices. It is important for fiscal and monetary policies to further coordinate and stimulate aggregate demand in a situation where early achievement of the price stability target cannot be envisaged.
- In order to raise productivity, the entry of firms with high productivity and the exit of those with low productivity are needed in every industry including the financial industry. To promote such a turnover of firms, labor transfers between firms are needed. Although these transfers have been hindered by the rigidity of Japan's labor market, this has been broken down by the pressure of long-lasting monetary easing. This is an example of monetary policy promoting structural reforms.

III. Opinions from Government Representatives

Ministry of Finance

- The second supplementary budget for fiscal 2018 was approved by the Diet recently. The government will swiftly implement this supplementary budget to address urgent issues such as disaster prevention and mitigation.
- The budget for fiscal 2019 was approved by the House of Representatives and is being deliberated in the House of Councillors. It addresses current important issues and the government will work toward obtaining the Diet's approval 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

- Although the GDP for the October-December quarter of 2018 registered positive growth supported by an increase in private demand, it is necessary to pay attention to the fact that the contribution of external demand has been negative for three consecutive quarters with the Chinese economy decelerating.

- In the annual spring labor-management wage negotiations, some firms have conducted base pay increases for six consecutive years, and firms' efforts to raise wages have been observed amid risks such as those regarding overseas economies.
- 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.