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May 10, 2019

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on April 24 and 25, 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. Stimulus measures have been introduced in major economies, and financial markets, including overseas, have been calm recently.
- While downside risks to overseas economies continue to warrant attention, the view that a pick-up is expected in the second half of this year is appropriate at this point, as shown in the forecasts by the International Monetary Fund (IMF).
- Japan's economy has been on a moderate expanding trend. As for the outlook, it is likely to continue growing at about the same pace as its potential. Attention needs to be paid to such factors as the slowdown in overseas economies and the effects of the scheduled consumption tax hike in fiscal 2019, as well as a peak-out of Olympic Games-related demand and developments in the IT sector from fiscal 2020 onward.

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.

- While domestic demand generally has contributed to Japan's economic growth, exports and production have shown some weakness, due mainly to the slowdown in the Chinese economy and a decrease in demand for IT-related goods. As some leading indicators also have given rise to slight concerns, it is appropriate to make a somewhat cautious assessment compared to the previous meeting.
- In forecasting economic developments, whether declines in exports and production will affect employment and even consumption is important. Considering that a significant amount of the increase in employee income has been allocated to savings so far, it is expected to take some time for the decrease in production to lead to that in consumption. However, there also is a risk that the scheduled consumption tax hike will bring forward the decline in consumption.
- There remains a risk that Japan's economy will head toward a downturn depending on developments in overseas economies and the effects of the scheduled consumption tax hike.
- Although Japan's labor market has improved steadily, its slack seems to have remained, mainly for men. It is necessary for the improvement to continue until such slack is completely resolved and tight labor market conditions lead to a clear acceleration in wage growth rates.
- Although financial markets have been calm, including foreign exchange rates and stock prices, it is necessary to be vigilant about the possibility that both the real economy and financial markets will deteriorate through an adverse feedback loop. Downward pressure of the scheduled consumption tax hike on economic activity and prices also warrants vigilance.
- In the United States, corporate debt relative to GDP has been at a record high level and there are many triple-B corporate bonds. If such bonds are downgraded during an economic downturn, there is a risk of the market environment deteriorating rapidly.

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.
- It can be said that the basic mechanism in which a positive output gap results in moderate increases in wages and prices has been operating, taking account of such factors as the achievement of a base pay increase that somewhat exceeds last year's and the recent rise in prices of food products.

- With regard to prices, upward pressure of a sustained positive output gap and constraining factors, such as households' persistent deflationary mindset and a rise in productivity, have been existing at the same time, and uncertainties are expected to remain high through fiscal 2021.
- Going forward, the acceleration in the year-on-year rate of increase in the CPI is likely to be small. Despite a situation of a reasonably tight output gap continuing, it is expected to take some time to achieve the price stability target due to such effects as the adaptive inflation expectation formation mechanism.
- Assessment is needed as to whether prices have stalled, in the sense that inflation expectations do not rise due to a lack of increase in actual prices and actual prices also do not rise because of a lack of increase in 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.
- It is necessary to maintain the current monetary easing policy for an extended period of time, paying closer attention than before to the side effects on financial institutions and market functioning while examining developments in the global economy and the effects of the scheduled consumption tax hike. In addition, it is important that a policy mix of monetary and fiscal policies continue to be sustained through fiscal 2021.
- The current policy framework has a certain degree of flexibility to respond to market conditions, and can be considered as a framework that allows accommodative financial conditions to be maintained easily even amid changes in the market environment while alleviating the side effects.
- The Bank should adjust the monetary policy framework in an appropriate manner while taking account of developments in economic activity and prices as well as financial conditions and thereby enhance its sustainability, with the aim of persistently encouraging the virtuous cycle of the economy to take hold and achieving the price stability target.
- The Bank needs to constantly consider measures that could lead to enhancing the sustainability of the policy framework.

- Given that there are high uncertainties regarding economic activity and prices and that it is likely to still take time to achieve 2 percent inflation, it is important to make clearer the Bank's stance to continue with the current powerful monetary easing.
- In order to strengthen public confidence in continuing with powerful monetary easing, it is appropriate to clarify forward guidance for policy rates, such as through making clear the specific period for which extremely low levels of interest rates will be maintained.
- It is appropriate to consider revising forward guidance for policy rates, given, for example, that uncertainties regarding overseas economies have heightened compared to the time of its introduction.
- With a view to contributing to the continuation of powerful monetary easing, the Bank should consider measures such as the expansion of eligible collateral for the Bank's provision of credit as well as the effective use of the Japanese government securities (JGSs) and exchange-traded funds (ETFs) held by the Bank, while also taking account of requests from financial institutions.
- Considering, for example, that employment and wages lag behind other indicators of economic activity, it is important to conduct monetary policy, taking into account developments in economic activity more than before.
- The Heisei era was one of deflation and marked by a battle against it. We should not repeat deflationary recession in the new era. In the current situation where there is still a long way to go to achieve the price stability target, claims for additional easing seem to be relatively reasonable. If the inflation momentum is lost, the Bank should flexibly and decisively conduct additional easing.
- Given that the side effects of monetary easing accumulate as economic activity undergoes a phase shift, it is necessary to strengthen monetary easing at this point toward achieving the price stability target at the earliest possible time.
- Looking at recent economic and financial developments, we are in a situation where it is more necessary to (1) pay attention to the time frame in which monetary policy effects spread to the real economy and to that in which their side effects strengthen in a cumulative manner, and (2) cautiously weigh up the positive effects and side effects.
- There is a possibility that a further decline in interest rates will result in a greater risk of inducing side effects on the real economy, rather than positive effects, considering (1) that

there likely is a zero lower bound -- contractually and operationally -- on financial institutions' interest rates on deposits and loans and (2) the investment and funding structures of the private sector.

- The argument that quantitative and qualitative monetary easing (QQE) has led to a deterioration in banks' profitability disregards the fact that monetary easing has brought about economic improvement, an increase in lending, a decline in credit costs, and an increase in profits stemming from stocks and bonds. This argument is based on an unrealistic assumption that banks would have gained more profits if lending rates had not declined, without taking account of the positive effects of the low interest rate policy on banks' profitability.

III. Opinions from Government Representatives

Ministry of Finance

- The government considers the proposals presented by the Bank's staff at this meeting as necessary measures for continuing with powerful monetary easing, and expects the Bank to make an appropriate judgment.
- The government expects the Bank to continue to thoroughly and actively explain developments in its conduct of monetary policy.
- The budget for fiscal 2019 was approved by the Diet on March 27. At the Group of Twenty (G-20) meeting held on April 11 and 12, the government shared, for example, its recognition regarding the recent global economy with other countries.
- 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 policies for economic and fiscal management and reform to be completed this summer, the government will compile an intensive program for the "employment ice-age generation."
- 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.

- The government recognizes that the clarification of forward guidance was proposed at this meeting in order to make clearer the Bank's stance of continuing with monetary easing. The government deems it important that the Bank thoroughly explain its intention to the public.
- The government expects the Bank to be fully prepared for responses accompanying the 10-day holiday period.