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September 30, 2019

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on September 18 and 19, 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. As for the outlook, attention should be paid to such factors as the effects of the scheduled consumption tax hike and a peak-out of Olympic Games-related demand, in addition to the slowdown in overseas economies.
- Japan's economy has maintained its moderate expansion, supported by firm domestic demand, although exports and some components of business fixed investment have been affected by the slowdown in overseas economies. For the time being, it is necessary to carefully examine the effects of the scheduled consumption tax hike and developments in overseas economies, for which the recovery has been delayed.
- Overseas economies are likely to pick up gradually, mainly due to the progress in adjustments in IT-related goods and the effects of fiscal and monetary policies.
- With regard to economic developments, the contrast between the manufacturing and nonmanufacturing sectors has become more evident in economic indicators both at home and

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.

abroad. Downside risks to the global economy as a whole have been increasing further, mainly in Europe, where the United Kingdom's exit from the European Union (EU) is scheduled to take place.

- Taking into account a heightening of various uncertainties, it is necessary to carefully examine the impact of developments in overseas economies on Japan's economy.
- Given that downside risks to overseas economies seem to be increasing, it is becoming necessary to pay closer attention to the environment surrounding Japan's economy. This situation has not been heading toward alleviation since the previous MPM.
- A pick-up in external demand cannot be expected to take place for the time being since the recovery in overseas economies has been delayed. Regarding domestic demand, effects of the slowdown in overseas economies have been observed and the consumption tax hike is imminent. Thus, it is difficult to be optimistic regarding the outlook for economic activity.
- Amid the situation where economic activity has been weak since the second half of last year, the consumption tax hike is scheduled to take place this October and various countermeasures will be implemented. It is difficult to correctly forecast their overall effects on the economy. There is a possibility that such measures as a point reward program will mitigate the effects of the tax hike to some extent.
- While monetary accommodation has been pursued on a global basis, it is necessary to closely monitor developments in global financial markets that indicate excessively high expectations and the effects of changes in asset prices on the economy.
- Under the low interest rate environment, the effects of interest rates on stock prices and foreign exchange rates might change. As a result, a decline in interest rates does not necessarily lead to a rise in stock prices and depreciation of the yen.

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.
- Thus far, the basic mechanism has been maintained in which prices rise gradually with the economy continuing on an expanding trend and the output gap remaining positive.

- While upward pressure of the positive output gap on prices has been maintained, an acceleration in wage and price inflation has not been observed.
- The year-on-year rate of change in the CPI has stayed stable, remaining somewhat positive, while both the positive output gap and developments such as a rise in productivity are existing at the same time. However, careful attention should be paid to the risk that the output gap will narrow led by external demand.
- There is no change in the recognition that a sign of momentum toward inflation becoming strong again has been maintained, but it is necessary to monitor more carefully than before whether this sign might fade away.
- Mainly reflecting the slowdown in the global economy and the delay in the timing of its recovery from the baseline scenario, various price indicators have been either declining or showing a deceleration in their pace of increase and the positive output gap has been narrowing.

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.
- Taking into consideration that it is becoming necessary to pay closer attention to the possibility that the inflation momentum will be lost, the Bank needs to reexamine economic and price developments at the next MPM. It is desirable to describe this in the policy statement and make it clear to the public.
- In preparation for a situation in which there is a greater possibility that the momentum toward achieving the price stability target will be lost, it is important for the Bank to communicate with an emphasis that it has not reached an impasse on monetary policy measures in terms of either short- and long-term interest rates, quantity, or quality and that any kinds of measures are possible at all times.

- It is appropriate to maintain the current monetary easing policy for the time being. However, given the concern that the delay in the recovery in overseas economies will have a negative impact on Japan's economic activity and prices, it is necessary to consider desirable policy responses while paying attention to the side effects.
- As there is some possibility that the momentum toward achieving the price stability target will be lost, the Bank should examine whether additional easing measures will be necessary. While making it clear that the aim of taking additional measures is to produce easing effects, the Bank needs to consider all possible policy measures without preconception, including cutting the short-term policy interest rate, lowering the target level of 10-year Japanese government bond (JGB) yields, expanding asset purchases, and accelerating the expansion of the monetary base. In addition, given the lessons of unconventional monetary policy tools implemented so far at home and abroad, it is important to take decisive actions and widely communicate the effectiveness of policy measures.
- When considering the outlook for the output gap, inflation expectations, and various leading indicators of prices, the inflation momentum seems to be lost, and thus it is necessary to take additional easing measures preemptively. Given the current flattening of the yield curve, lowering the short-term policy interest rate is appropriate to such measures. Besides additional easing, the Bank should strengthen its commitment and enhance further coordination of fiscal and monetary policy.
- At the next MPM, it is important to reexamine economic and price developments while also taking into account the results of the *Tankan* (Short-Term Economic Survey of Enterprises in Japan) and the reports made at the meeting of general managers of the Bank's branches. That said, the Bank should not have any preconceptions at this point regarding the outcome of its examination and future policy conduct.
- With regard to a negative interest rate policy, its impact on the overall economy should be considered first, rather than on banks' business conditions. According to the heat map in the *Financial System Report*, the total credit to GDP ratio started to increase after the introduction of quantitative and qualitative monetary easing (QQE) and is getting closer to "red." Through QQE, banks' lending has increased and their business conditions must have improved. The problem is that deposits have increased more than total credit.
- If a decline in banks' profitability and an increase in risks of their assets -- both resulting from the continued low interest rate environment -- lead to a downgrade of their ratings, there is a

possibility that foreign currency liquidity risks and foreign currency funding costs will rise and a negative impact will be exerted on their borrowing firms as well. Thus, it is necessary to continue to closely monitor changes in the creditworthiness of the banking system.

III. Opinions from Government Representatives

Ministry of Finance

- The application for budget requests for fiscal 2020 was closed at the end of August. In order to maintain the sustainability of social security and public finance, it is necessary to work toward achieving both economic revitalization and fiscal consolidation, and thus the government will push forward with full-fledged expenditure reforms.
- In view of the upcoming consumption tax hike scheduled for this October, the government will continue to conduct a detailed analysis of developments in economic activity and do its utmost with regard to economic management.
- 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

- With the aim of completely overcoming deflation, the Abe Cabinet will do its utmost with regard to economic and fiscal management, including countermeasures for the consumption tax hike scheduled to take place next month, by steadily carrying out the growth strategy in accordance with the Basic Policy on Economic and Fiscal Management and Reform 2019.
- With a view to creating a society in which anyone can unlock their potential and live with a sense of being secure, the government will establish the planning meeting on a social security system oriented to all generations and push forward with reforms to the 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.