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Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on October 30 and 31, 2019

I. Opinions on Economic and Financial Developments

Economic Developments

- Japan's economy is likely to continue on an expanding trend as the impact of the slowdown in overseas economies on domestic demand is expected to be limited, although the economy is likely to continue to be affected by the slowdown for the time being.
- Japan's economy is likely to be able to maintain its expanding trend as the impact of the slowdown in overseas economies is expected to be limited on the back of steady domestic demand thus far.
- Japan's economy has maintained its moderate expansion owing to steady domestic demand and the limited effects of a decline in external demand, despite a continuing slowdown in overseas economies and heightened uncertainties over the future.
- Japan's economy has been on a moderate expanding trend. As for the outlook, it is likely to grow at about the same pace as its potential. However, attention should be paid to such effects as of the slowdown in overseas economies and the consumption tax hike.
- In the short run, uncertainties are easing temporarily, due to progress in U.S.-China trade negotiations and developments in the United Kingdom's exit from the European Union (EU). However, uncertainties have remained high in the longer run, and the recovery in the global economy has been delayed for longer than previously projected.

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.

- As for the domestic economy, much of the country, including central Tokyo, has suffered irregular weather, even after the start of October, which seems to have been affecting to a certain extent the economic activity through not only production and distribution but also tourism and retails.
- Although the unemployment rate has declined to 2.2 percent, the rate of increase in nominal wages has decelerated. In this fiscal year, growth in employee income -- wages multiplied by the number of employees -- has also decelerated compared with that of the previous fiscal year. There is concern whether labor market conditions have changed.
- The following are matters of concern regarding consumption: the effects of the front-loaded increase in demand prior to the consumption tax hike and the reactionary decline to the increase; the seemingly weaker uptrend in consumption prior to the tax hike compared with that seen before the previous tax hike; consumer sentiment deteriorating remarkably amid the slow increase in household income; and the effects of successive natural disasters.
- The declining trend in interest rates is likely to continue because it seems that an increase in the purchases of bonds with higher yields by investors worldwide has brought about a spiral of globally low interest rates.

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, although the CPI inflation rate is expected to be affected by such factors as the decline in crude oil prices for the time being.
- It is expected to take time for the inflation rate to accelerate, mainly reflecting the constraining effects on inflation due to a rise in productivity resulting from steady business fixed investment. As the resilience of Japan's economy against fluctuations in external demand increases, prices have become less likely to fluctuate.
- Although there has been no further increase in the possibility that the momentum toward achieving the price stability target will be lost, it is necessary to continue to pay close attention to the possibility.
- Downside risks to overseas economies have remained significant, and if they materialize, prices in Japan could be affected to some extent. Thus, it is necessary to continue to pay close

attention to the possibility that the inflation momentum will be lost, although there has been no further increase in the possibility.

- Although the positive output gap has underpinned price rises, it has narrowed. Attention should be paid to the risk that the positive output gap may narrow further due to the materialization of downside risks to economic activity.
- Reflecting a heightening of risks regarding economic activity both at home and abroad as well as of policy uncertainties, business sentiment, mainly in the manufacturing sector, has become cautious and consumer sentiment has worsened. There is some possibility that the momentum toward achieving the price stability target will be lost.
- Since the introduction of yield curve control, the inflation momentum has been maintained in the sense that the economy will not fall into deflation. However, it cannot be said that the momentum toward achieving the price stability target of 2 percent has been maintained.

II. Opinions on Monetary Policy

- There has been no further increase in the possibility that the momentum toward achieving the price stability target will be lost. It is appropriate to maintain the current guidelines for market operations and asset purchases.
- As the inflation momentum has not been lost, the Bank should maintain the current monetary easing policy. That said, it is important to continue closely examining developments in the global economy, and the Bank could show its policy stance by, for example, revising the forward guidance. The Bank should continue with its monetary policy conduct, while also taking account of the side effects on the financial system.
- Given that it will still take time to achieve the price stability target, the Bank should communicate clearly its stance of continuing with powerful monetary easing.
- With regard to the forward guidance, it is appropriate to relate it to the inflation momentum from the viewpoint of consistency with previous communications. It is also appropriate to clarify that the Bank's policy stance is further tilted toward monetary accommodation by indicating that there will be a downward bias in the policy rates.
- It is desirable that the forward guidance incorporates the following three points: (1) it shows a stance that a decline in the inflation rate is not acceptable; (2) its context is specific; and (3) the Bank commits itself to conducting monetary policy based on concrete conditions.

- Although the inflation momentum is judged as being maintained at present, it cannot be said that households' and firms' inflation expectations have been robust, and thus closer attention should continue to be paid. It is necessary for the Bank not to hesitate to take additional easing measures if there is a greater possibility that the inflation momentum will be lost.
- In the current situation where risks are skewed to the downside, the Bank should continue to examine whether additional monetary easing will be necessary. Japan's economy is susceptible to developments in overseas economies. Also, inflation expectations in Japan are not anchored to the price stability target of 2 percent, and the observed inflation rate is far from the target. Thus, the claims for conducting preventive monetary easing would be most appropriate for the case of Japan. In addition, the Bank should seriously prepare for the next economic downturn as one of the risk scenarios. In doing so, it will become more important to not only conduct monetary policy but also enhance cooperation with the government in terms of fiscal and other policies.
- Monetary policy should be considered in terms of the relationship with the economy as a whole, rather than banks' business conditions. Banks' net income increased for several years following the introduction of quantitative and qualitative monetary easing (QQE), mainly due to an increase in sales gains on bonds and stocks as well as a decrease in credit costs. Some banks increased the number of employees, partly reflecting a rise in profits, but the rise in net income through the aforementioned factors is not necessarily attributable to the increase in the number of employees. It can be said that the important issue is how to use those employed to increase profits.
- If long-term yields remain at around current levels for a long period, the life insurance industry could face difficulties in maintaining the provision of insurance products such as whole life insurance and annuity insurance, for both of which there is strong public demand, and thereby may not fulfill its social responsibility. In addition, regarding investment in yen-denominated bonds, if interest rates are lowered by 0.1 percentage point, pension funds and investment trusts could lose profits of tens of billions of yen. Also, half of the amount outstanding of the Policy-Rate Balance, to which a negative interest rate is applied, is trust banks' assets entrusted by pension funds and investment trusts, and thus it can be said that pension funds and investment trusts effectively bear the cost of the negative interest rate.

III. Opinions from Government Representatives

Ministry of Finance

- The government recognizes the Bank's proposal as showing its stance of continuing with powerful monetary easing toward achieving the price stability target and expects the Bank to make an appropriate judgment at this meeting. It also expects the Bank to continue to thoroughly and actively explain developments in its conduct of monetary policy to the public.
- In response to the damage caused by the typhoons, the government approved the use of emergency funds. It will push forward with various measures for the restoration of the affected areas. With regard to the consumption tax hike, a large front-loaded increase in demand, such as that of the previous tax hike in 2014, has not been observed at this point.
- 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

- The government considers that, at this point, the effects of the consumption tax hike are not as significant as those of the previous tax hike.
- 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 change to the forward guidance was proposed at this meeting in order to clarify the Bank's policy responses if there is a possibility that the momentum toward achieving the price stability target will be lost. The government deems it important that the Bank thoroughly explain its intentions to the public.