



Not to be released until 8:50 a.m.
Japan Standard Time on Friday,
December 27, 2019.

December 27, 2019

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on December 18 and 19, 2019

I. Opinions on Economic and Financial Developments

Economic Developments

- Japan's economy has been on a moderate expanding trend, although exports, production, and business sentiment have shown some weakness, mainly affected by the slowdown in overseas economies and natural disasters.
- Japan's economy has maintained its moderate expansion owing to steady domestic demand such as private business fixed investment and public investment, and the effects of a decline in external demand and the consumption tax hike have been limited. For the time being, the focus should be on examining uncertainties over the outlook.
- Japan's economy has been on a moderate expanding trend. However, attention should be paid to such effects as of the slowdown in overseas economies and the consumption tax hike.
- 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 maintain its moderate expanding trend, as domestic demand is expected to remain firm and signs of a pick-up have started to be seen in overseas economies.

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.

- With regard to risks surrounding overseas economies, the risk profile has been changing from a situation where downside risks seemed to be increasing, to a situation where both downside and upside risks are starting to coexist, although downside risks remain at high levels.
- It remains difficult to be optimistic about developments in Japan's economic activity and prices on the whole. Although uncertainties have dissipated somewhat in the short run, reflecting the partial agreement of U.S.-China trade negotiations and the outcome of the general election in the United Kingdom, Japan's economy has been pushed down by the effects of the consumption tax hike and irregular weather.
- Although market conditions have improved, business sentiment has deteriorated and price developments have been weak in a situation where risks to economic activity at home and abroad have remained high. With regard to the outlook, it is important to examine whether overseas economies will improve, total employee income will increase, and the propensity to consume will not decline due to the consumption tax hike. These factors are a prerequisite for a virtuous cycle from income to spending.
- Consumption has declined significantly since October. This could be the start of a stagnation in consumption similar to that observed after the previous consumption tax hike in 2014. According to the December 2019 *Tankan* (Short-Term Economic Survey of Enterprises in Japan), business conditions in retailing have deteriorated recently, but are likely to improve in the future. The same results were observed after the previous tax hike, but consumption actually improved around three years later.
- With regard to the environment surrounding private consumption since October, the employment and income situation has been favorable and consumer sentiment has improved somewhat. There is no need to assume at this point that there has been any change in steady private consumption.
- The dollar/yen exchange rate will likely remain stable if speculative purchases of the yen are less than purchases of the U.S. dollar against the yen that mainly result from the difference in the ratio of dollar-dominated exports and imports in Japan as well as from foreign direct investment.

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.

- 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.
- Inflation has remained constrained due partly to a rise in productivity resulting from steady business fixed investment. It is essential to maintain a moderately positive output gap until room for the rise in productivity narrows and the inflation rate gradually rises.
- Although the positive output gap has underpinned price rises, it has remained narrow. Even though there has been no further increase in the possibility that the momentum toward achieving the price stability target will be lost, this continues to warrant attention.
- It is important to sufficiently provide the public with up-to-date information on the output gap and medium- to long-term inflation expectations, which together compose the momentum toward achieving the price stability target.

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.
- 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.
- Under the monetary-fiscal policy mix, it is important to support long-lasting economic growth by maintaining the current monetary easing policy. In doing so, it is essential for the Bank to pay due attention to its policy conduct while examining the side effects of the monetary easing policy from various aspects.
- Since downside risks to economic activity and prices continue to warrant attention, mainly regarding developments in overseas economies, it is appropriate to maintain a policy stance of being tilted toward monetary accommodation.

- Heightened uncertainties remain in the environment surrounding the global economy, and the Bank has not moved out of the situation where preconceptions about policy decisions are not acceptable.
- In the current situation where risks are skewed to the downside, the Bank should continue to examine whether additional monetary easing will be necessary and prepare for a possible economic downturn as one of the risk scenarios. In doing so, it will become more important not only to conduct monetary policy but also to enhance cooperation with the government in terms of fiscal and growth policies.
- The Bank expanded quantitative and qualitative monetary easing (QQE) around half a year after the previous consumption tax hike took place in 2014. It may become necessary to conduct further monetary easing this time as well, depending on the underlying trend in consumption.
- The Bank should constantly consider its policy framework, but the introduction of an inflation range target, such as that proposed by the International Monetary Fund (IMF), could weaken the Bank's commitment to achieving the price stability target.
- The current monetary policy can exert economic stimulus effects to a certain extent by allowing interest rates to decline in times of economic downturn through yield curve control that is flexible to some degree. However, interest rates appear to be rising recently, and this could be insufficient to stimulate the economy.
- The relationship between the momentum, the inflation target, and the policy decision is unclear, and the criterion to assess the momentum is vague. It would be necessary to revise the forward guidance to make it a powerful one that specifically relates to the price stability target.
- Although the financial system has been stable on the whole, it is important to pay attention to the side effects on the functioning of financial intermediation, given that the impact of structural issues and the low interest rate environment has continued to accumulate.
- Households and firms in total have positive net financial worth. If account maintenance fees are charged on their savings, the negative impact of a decline in returns on their assets could be greater than the positive effects of a decrease in the costs on liabilities resulting from borrowing. In addition, income disparity could widen since shareholders who have many stocks with a relatively high rate of return will be at an advantage, depending on

developments such as in stock prices. In this respect, in Germany, there has been progress in applying virtually negative interest rates not only to firms' deposits but also to individuals' large deposits, as well as raising account maintenance fees. It is necessary to pay close attention to developments in Germany, including the effects on the national economy.

- In some cases, it could be important to take up a specific measure to be discussed within the policy framework, or to focus on a particular sector or specific aspect of the sector. However, when assessing monetary policy in a situation where financial conditions have remained highly accommodative for a long period, it is essential to examine the policy effects while paying due attention to the overall economy and financial system.

III. Opinions from Government Representatives

Ministry of Finance

- The government has proceeded with budget formulation based on the economic measures and the Basic Principles of Budget Formulation, both of which were established recently. The supplementary budget for fiscal 2019 was decided by the Cabinet on December 13. The government is in the process of finalizing the budget for fiscal 2020.
- As for tax reform in fiscal 2020, the ruling parties' outline was formulated on December 12. Based on this, the government will make efforts to encourage firms to take positive initiatives.
- 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 Comprehensive Economic Measures to Create a Future with Security and Growth was decided by the Cabinet on December 5. According to the measures, fiscal spending amounts to about 13.2 trillion yen, and real GDP is expected to be directly raised by about 1.4 percent.
- The government's economic outlook, which also takes into account the Comprehensive Economic Measures, projects the real growth rate for fiscal 2020 to be around 1.4 percent, and CPI inflation to be around 0.8 percent.

- 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.