



Not to be released until 8:50 a.m.
Japan Standard Time on Monday,
May 11, 2020.

May 11, 2020
Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on April 27, 2020

I. Opinions on Economic and Financial Developments

Economic Developments

- Japan's economy has been in an increasingly severe situation due to the impact of the spread of the novel coronavirus (COVID-19) at home and abroad. Financial conditions have been less accommodative in terms of corporate financing, as seen in deterioration in firms' financial positions.
- Japan's economy has been in quite a severe situation due to the impact of the spread of COVID-19 at home and abroad. With regard to policy measures for medical care and the economy, close attention has been paid to, for example, the details, timing of implementation, size, and how they are playing out.
- Downward pressure on Japan's real economy has intensified further due to the spread of COVID-19. Although financial and capital markets have been less volatile recently, partly reflecting policy responses taken by major economies, there is a great risk that they will become unstable again with the real economy becoming depressed on a global basis. Thus, the current situation continues to warrant vigilance.
- The global economy, including Japan, has been in an increasingly severe situation, as seen in the fact that demand has either declined significantly or disappeared, excluding some exceptions such as for IT-related goods and daily necessities, and that business conditions have deteriorated further, mainly in the services industry.

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.

- Japan's economy is likely to remain in a severe situation for the time being due to the impact of the spread of COVID-19 at home and abroad. Thereafter, as this impact wanes at home and abroad, the economy is expected to improve, partly supported by accommodative financial conditions and the government's economic measures. However, there are extremely high uncertainties regarding the outlook and risks are skewed to the downside.
- Although it is assumed that there will be significant downward pressure on Japan's economy in the short run, such pressure seems to be attributable largely to constrained economic activity that results from preventive measures against the spread of COVID-19. Therefore, a short-term severe economic downturn does not necessarily determine medium- to long-term growth path.
- At this point, there are extremely high uncertainties over the medium- to long-term outlook for Japan's economy, and it is possible to assume both optimistic and pessimistic scenarios.

Prices

- The year-on-year rate of change in the consumer price index (CPI) is expected to be somewhat weak for the time being, mainly affected by the spread of COVID-19 and the decline in crude oil prices.
- As the spread of COVID-19 subsides, the economy is likely to improve and developments toward price rises are expected to be observed again.
- As the decline in the economic growth rate is likely to put downward pressure on the output gap and inflation expectations, coupled with a significant decline in crude oil prices, the inflation rate is expected to be in negative territory through fiscal 2021 and return to slightly positive territory thereafter.
- Taking into account future economic developments and the adaptive formation of inflation expectations, it is unlikely that the inflation rate will steadily approach 2 percent even in fiscal 2022, which is the final year of the projection period.
- A rapid economic contraction not seen since the Great Depression in the 1930s may occur in the short run, although it depends on the consequences of the impact of the spread of COVID-19. In this situation, achievement of the price stability target will be delayed.

II. Opinions on Monetary Policy

- It is appropriate for the Bank to further enhance monetary easing, with a view to doing its utmost to ensure smooth financing, such as of financial institutions and firms, and maintaining stability in financial markets.
- In the current phase, top priority should be placed on supporting financing of firms to continue their business and retain their employees, and on expanding fund-provisioning toward maintaining stability in financial markets.
- Further easing measures, mainly to provide liquidity, are necessary this time as well. It also is important to fully prepare for a possible further worsening of the situation.
- The high-priority task for the time being is to prevent firms from going bankrupt and protect employment through sufficiently supporting fund-provisioning in terms of corporate financing. Given that the real economy has been in an increasingly severe situation, it is necessary to further strengthen and enhance the current monetary easing measures.
- Corporate profits have deteriorated and some firms have gone bankrupt because of issues regarding their financing. At present, it is necessary to provide ample liquidity in order to secure the supply-side infrastructure of the economy.
- As for specific measures for corporate financing, the Bank should, for example, increase purchases of CP and corporate bonds as well as strengthen the existing special funds-supplying operations.
- The Bank should consider devising measures to support financing of small and medium-sized firms, taking account, for example, of the government's programs such as those in its emergency economic measures.
- In a situation where monetary easing is expected to last even longer, it is important to implement measures that encourage the active lending attitudes of financial institutions, taking into account their severe business conditions.
- It is necessary to strengthen the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) so that financial institutions can further fulfill the functioning of financial intermediation. In addition, given that financial institutions support firms of which financial positions have deteriorated due to the impact of COVID-19, developments in the financial system should be monitored closely with caution, keeping in mind the possibility that a certain proportion of loans will become nonperforming.

- Taking also into account the impact of the increase in the amount of issuance of Japanese government bonds (JGBs) and treasury discount bills (T-Bills) in response to the government's emergency economic measures, it is desirable to conduct further active purchases of JGBs and T-Bills, with a view to stabilizing the yield curve at a low level. Along with this, the Bank should purchase a necessary amount of JGBs without setting an upper limit to achieve the target level of the interest rate under yield curve control.
- For now, it is important to closely monitor the impact of COVID-19 and ensure economic and financial stability. The momentum toward achieving the price stability target has to be judged as being lost temporarily, and thus it is appropriate to revise the forward guidance for the policy rates to relate it to the impact of COVID-19.
- The Bank has placed top priority on implementing measures that contribute to supporting economic and financial activities, and also has clarified that it will take policy responses if necessary. With this in mind, it is more appropriate for the Bank to relate the forward guidance for the policy rates to this course of action rather than to the momentum toward achieving the price stability target in demonstrating its stance. This would lead to a sense of security for firms and households in a situation where their sentiment has deteriorated rapidly.
- With regard to policy responses, it is essential to maintain a cooperative framework between the government and the central bank as well as among major central banks, mainly by closely exchanging information and having a shared recognition of challenges.
- Policy authorities must act decisively in order to avoid a second Great Depression. Close cooperation between fiscal and monetary authorities in terms of their policies is essential at the time of a significant economic crisis. It is possible to contain the risk of a surge in the inflation rate as long as the price stability target is maintained firmly. Given the current situation where there is concern that the economy might fall into deflation, fiscal and monetary authorities can further cooperate with each other regarding their policies.
- The Bank should consider what is necessary to avoid deflation from taking hold again and achieve the price stability target while assessing the effectiveness of the current policy measures.
- By actively purchasing JGBs and T-Bills with the aim of lowering interest rates, coupled with the government's emergency economic measures, it is appropriate for the Bank to (1) further cooperate with the government, (2) alleviate firms' and households' interest burden, and (3) restrict potential deflationary pressure as much as possible.

- There are assumptions that COVID-19 will subside soon and that the economic structure before and after that happens will not change. However, in the current situation of a fierce headwind for economic activity and prices, as well as of extremely high uncertainties, it is necessary for the Bank to conduct monetary policy while factoring in the possibility that such assumptions might not be realized.
- It is assumed that economic deterioration stemming from COVID-19 will impair the balance sheets of financial institutions. Under the circumstances, if interest rates decline further in a situation of extremely small lending margins to date, they might reach the reversal rate at an earlier timing.

III. Opinions from Government Representatives

Ministry of Finance

- It is important for the government and the Bank to share a sense of crisis regarding the economic impact of COVID-19 and closely cooperate with each other in order to take assertive action in this difficult situation. The government recognizes that the Bank will implement proposed measures mainly with a view to doing its utmost to ensure smooth corporate financing and maintain stability in financial markets, and assesses them as appropriate responses.
- The Emergency Economic Measures to Cope with COVID-19 was decided by the Cabinet. In order mainly to implement this measure, the government will submit to the Diet the supplementary budget for fiscal 2020 today.
- The government expects that the Bank will continue to do its utmost mainly to ensure smooth corporate financing and maintain stability in financial markets, and also to work toward achieving the price stability target.

Cabinet Office

- The government recognizes that the Bank's measures proposed at this meeting will further facilitate corporate financing and strengthen a policy mix by the government and the Bank, and assesses them as timely responses that take account of current developments in economic activity and financial conditions.

- The government will respond flexibly and decisively as necessary. It also expects the Bank to continue conducting appropriate monetary policy while closely monitoring current and future developments.
- The government expects that the Bank will continue to cooperate closely with the government while sharing a sense of crisis.