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June 24, 2020

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting[1,2]

on June 15 and 16, 2020

I. Opinions on Economic and Financial Developments

Economic Developments

- Japan's economy has been in an extremely severe situation due to the impact of the novel coronavirus (COVID-19) at home and abroad. With regard to the outlook, the economy is likely to remain in a severe situation for the time being due to the impact of COVID-19 at home and abroad, although economic activity is expected to resume gradually.

- Japan's economy has been in an extremely severe situation due to the impact of COVID-19 at home and abroad. The impact of a change in consumption behavior on demand as well as that of a change in work style on employment, wages, and productivity warrant close monitoring.

- Although Japan's economy has faced downward pressure due to COVID-19, it recently appears to have bottomed out. However, there are still high uncertainties over how strong a future recovery will be. For the time being, it is essential to carefully examine a wide range of economic indicators, taking also into account developments in the global economy.

- It is still unclear when the spread of COVID-19 will subside on a global basis, as the spread is continuing in emerging economies in particular. It seems inevitable that the negative impact on the global economy, including Japan, will become prolonged without effective vaccines and medicines.

- The pace of economic recovery will likely be slow. This is because aggregate demand is highly likely to be pushed down by deterioration in the labor market and the utilization rate of

[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.

conventional types of services could decline given a new lifestyle that takes into consideration the risk of COVID-19.

- A delay in economic recovery brings about deterioration in firms' financial conditions and volatility in financial and capital markets. In turn, such a delay entails a risk of concern over financial system stability. Thus, it is necessary to pay due attention to future economic developments.
- In the course of economic activity gradually heading toward a recovery, adjustments in excess production capacity and changes in firms' and households' behavior are likely to materialize clearly. Since the current situation arose abruptly and unexpectedly, there is a possibility that a positive change will occur, but it is necessary to be vigilant to the risk that downward pressure on the economy will be exerted.
- Due to expectations for the future, prices in financial markets have been high compared with the current severe situation of the real economy. It is necessary to closely monitor future developments in the markets to see whether there will be a correction in asset prices.

Prices

- The year-on-year rate of change in the consumer price index (CPI) is likely to be negative for the time being, mainly affected by COVID-19 and the decline in crude oil prices. Thereafter, with the economy improving, it is expected to turn positive and then increase gradually.
- With regard to price developments from a somewhat long-term perspective, it is unlikely at present that the inflation rate will approach 2 percent with momentum in the foreseeable future, as rapid recovery in demand is hardly expected.
- The employment and income situation, which had supported the virtuous cycle that led to price rises, has shown some weakness. As a risk scenario, there is concern that the adaptive formation of inflation expectations might be affected if the CPI remains low for a prolonged period.
- Although there has been neither a surge in bankruptcies of firms nor severe employment adjustments at this point, there seems to be further excess in labor and production capacity, mainly for small and medium-sized firms. It is necessary to pay attention to the risk that, if an economic recovery is delayed due to a second wave of COVID-19, this may lead to a decline in prices through adjustments in labor and capital stock.

- With the continuing severe impact of COVID-19, the issue will shift from liquidity to solvency. The spread of COVID-19 has affected a wide range in terms of category of industry and firm size; namely, firms in the manufacturing and services industries, as well as large firms, small and medium-sized ones, and sole proprietors. Thus, there is concern about the "too-many-to-fail" problem, rather than the "too-big-to-fail" problem, as in the past crisis. The increasing number of bankruptcies of firms as well as suspension and discontinuation of businesses may have a negative impact on employment, prices, and finance. It is necessary to be vigilant so that the economy will not fall into deflation again.

II. Opinions on Monetary Policy

- It is important for the Bank to continue to support financing mainly of firms and maintain stability in financial markets through the following three measures: the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19); an ample provision of yen and foreign currency funds without setting upper limits; and active purchases of assets such as exchange-traded funds (ETFs).

- The current three monetary easing measures are flexible, in that they are highly adaptable to various changes in developments. The total size of the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) has increased significantly to about 110 trillion yen, mainly reflecting the expansion in interest-free and unsecured loans provided by private financial institutions based on the second supplementary budget.

- Although financing mainly of firms is still under stress, the funding environment has remained accommodative in terms of both indirect and direct financing. The monetary easing measures conducted since March have been exerting their intended effects.

- Since the Bank's policy measures that aim at responding to COVID-19 have been introduced, it is desirable to carefully confirm and examine their effects for the time being.

- Securing employment through support of corporate financing continues to be a high-priority task. For the time being, it is necessary to closely monitor the effects of a series of large-scale policy responses, which were decided based on cooperation between fiscal and monetary authorities, and the functioning of the financial system.

- The Bank will take every possible measure decisively under the current framework, thereby contributing to sustaining firms' businesses and employment as well as to maintaining financial market stability. This is necessary not only in terms of the present crisis response but also in order to achieve an economic recovery thereafter.

- It is essential to create an atmosphere in which economic growth can be achieved nationwide. It also is important to continue necessary support, so that firms' and households' growth expectations will not be hampered significantly.

- The Bank should respond swiftly if further policy measures are necessary. In doing so, it is important to firmly maintain cooperation between the government and the central bank as well as among central banks by, for example, closely exchanging information and sharing challenges and recognitions.

- Falling into deflation amid a situation where inflation expectations are not anchored to 2 percent could be a considerable obstacle to achieving the price stability target. Thus, considering this risk, it is necessary to conduct additional easing at this point.

- In the conduct of economic measures, it is necessary first of all to minimize the risk of deflation taking hold. Next, the three arrows of Abenomics should continue to be carried out to the fullest extent until the economy returns to a growth path in which the annual inflation rate is maintained sustainably at around 2 percent.

- In a situation where a gradual shift of phase from providing emergency support to promoting recovery materializes, the economic stimulus effects of the current monetary policy should be reexamined. Close attention should be paid to future price developments, taking into consideration the possibility that both the natural rate of interest and inflation expectations will decline.

- It is assumed that achievement of the price stability target will be delayed due to COVID-19 and that monetary easing will be prolonged further. In this situation, it is necessary to consider policy responses more carefully than before, while taking into account a further accumulation of side effects, so that deterioration in the real economy will not affect financial system stability.

- Firms have accumulated their profits as internal reserves rather than using them for wages and business fixed investment, and this has been reevaluated as an effective measure of overcoming the hardships of COVID-19. If firms continue to prioritize securing internal reserves, their investment stance will become cautious and the effects of monetary policy on their demand for funds could be limited.

III. Opinions from Government Representatives

Ministry of Finance

- The second supplementary budget for fiscal 2020, which includes the expansion in interest-free and unsecured loans provided by private financial institutions, was formulated by the government and approved by the Diet.
- The government deems that its measures and the Bank's measures, such as the fund-provisioning measure for private financial institutions that provide interest-free and unsecured loans, will play a further effective role in ensuring smooth corporate financing and stabilizing financial markets.
- The government expects that the Bank will contribute to supporting economic and financial activities by doing its utmost mainly to ensure smooth corporate financing and maintain stability in financial markets.

Cabinet Office

- While firmly supporting the economy, the government will work toward achieving both social and economic activities as well as the prevention of the spread of COVID-19, with a view to bringing the economy back onto the growth path from the bottom in April and May, when the state of emergency was declared.
- The second supplementary budget for fiscal 2020 was approved by the Diet on June 12. The government estimates that the series of economic and fiscal policy measures will directly underpin and push up the real GDP by 6.4 percent.
- The government expects the Bank to continue conducting appropriate monetary policy while closely monitoring current and future developments.