



Not to be released until 8:50 a.m.
Japan Standard Time on Tuesday,
September 29, 2020.

September 29, 2020

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on September 16 and 17, 2020

I. Opinions on Economic and Financial Developments

Economic Developments

- Japan's economy has started to pick up with economic activity resuming gradually, although it has remained in a severe situation due to the impact of the novel coronavirus (COVID-19) at home and abroad.
- Japan's economy is likely to follow an improving trend, but the pace is expected to be only moderate while the impact of COVID-19 remains worldwide. Thereafter, as the impact subsides, the economy is projected to keep improving further with overseas economies returning to a steady growth path.
- Domestic and overseas economies have started to pick up from the bottom hit in the April-June quarter. That said, economic activity has remained at a low level and the pace of the pick-up has been slow.
- Japan's economy has been picking up. However, it has been in a severe situation, as seen in the moderate pace of recovery in private consumption and a clear declining trend in business fixed investment.
- Although Japan's economy has been in a severe situation due to the impact of COVID-19, it already has bottomed out and is gradually recovering. For the time being, it is essential to carefully monitor the pace of economic recovery while aiming to achieve both containment of the spread of COVID-19 and expansion of economic activity.

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.

- The pace of improvement in Japan's economic developments seems to be somewhat slower than that observed at the time of the previous meeting.
- It is unlikely that Japan's economy will rebound significantly. This is because domestic demand, mainly in services consumption, will likely remain at a low level due to the impact of COVID-19, while exports and production have been bottoming out, reflecting developments in overseas economies.
- The pace of economic recovery has been only moderate, and therefore we still cannot be optimistic. Specifically, business fixed investment plans have been formulated more conservatively than usual, and it is expected that the improvement in business fixed investment will lag behind the recovery in business sentiment. Private consumption also is likely to weigh on the overall economic recovery as the employment situation has deteriorated against the background that it remains to be seen when COVID-19 will subside.
- In the current phase of economic recovery, a clear V-shaped recovery has been seen in some sectors, whereas a recovery in demand is still not in sight in other sectors. This contrast between sectors has started to become gradually more evident than that observed at the time of the Global Financial Crisis.
- Due to COVID-19, the risk of an unexpected future decline in income has been recognized. There is concern that this may further raise households' propensity to save and that downward pressure on consumption may be exerted accordingly.
- Fiscal and monetary policies around the world have been successful, and tension in financial markets has eased compared to a while ago. The increase in the number of bankruptcies of firms and discontinuation of businesses has been contained thus far. That said, attention should be paid to the possibility that, if the impact of COVID-19 persists, the challenge will shift from a liquidity problem to a solvency one through the calendar and fiscal year-ends and that this will put downward pressure on economic activity and prices.
- The functioning of financial intermediation has been fulfilled appropriately, and bank lending has continued to increase on an unprecedented scale. However, market participants' assessments on financial institutions, as seen in the price-to-book ratios of banks remaining low, may reflect concern over financial system stability.

Prices

- The year-on-year rate of change in the consumer price index (CPI) is likely to be negative for the time being, due mainly to the impact of COVID-19, but thereafter it is expected to turn positive and then increase gradually with the economy improving.
- The year-on-year rate of change in the CPI is likely to be negative for the time being. However, thus far, deflationary price-setting behavior that aims at retaining customers through price cuts does not seem to have been widely observed.
- There is growing momentum toward structural and regulatory reforms. It is likely that a social change brought about by reforms will lead to a rise in growth expectations, changes in social behaviors and consumption and investment activities, and in turn an increase in the inflation rate.
- The year-on-year rate of change in the CPI is likely to be clearly negative for the time being. There is concern that, if adverse conditions arise additionally, households' and firms' sentiment will be impaired further, and the timing of regaining inflation momentum could be affected accordingly.

II. Opinions on Monetary Policy

- The monetary easing measures conducted since March have had positive effects. It is important to continue to support financing, mainly of firms, and maintain stability in financial markets.
- For the time being, it is desirable to continue with monetary easing by conducting the three measures. This will support the economy, and thereby lead to achievement of the price stability target.
- With the effects of policy responses by the government and the Bank, a rapid increase in unemployment and bankruptcy has been avoided and corporate financing seems to have progressed. Thus, it is appropriate to examine the policy effects for the time being.
- It is appropriate for the Bank to maintain the current monetary policy for the time being and, as before, take additional measures if necessary while closely monitoring the impact of COVID-19.
- In conducting monetary policy, it is important to firmly carry out the support measures for corporate financing until the impact of COVID-19 subsides, and thereby continuously

encourage firms to undertake forward-looking activities, including investment for growth areas.

- It is necessary for the time being to focus on conducting monetary policy with a view to supporting financing, mainly of firms, and maintaining stability in financial markets. However, from a medium- to long-term perspective, while the government and firms make efforts to push forward with structural reforms and growth strategies, it is also important to encourage firms' growth, mainly through financial institutions' expertise in examining the creditworthiness of firms and through the market mechanism, so that the potential growth rate will rise accordingly.
- Supporting corporate financing and sustaining employment remains the priority for the time being. If the economic recovery is delayed, the potential growth rate of Japan's economy could decline through rises in bankruptcies of firms and unemployment, and the functioning of financial intermediation also could deteriorate, reflecting the materialization of credit risk. Thus, due attention should be paid to such possibility.
- In relation to the Federal Reserve's new monetary policy strategy, the Bank has been aiming to attain a situation where the inflation rate is 2 percent on average over the business cycle. With regard to the forward guidance for the policy rates, the Bank has made clear its policy stance of being tilted toward monetary accommodation.
- The Bank should maintain the current stance of monetary policy and carefully examine the positive effects and side effects. In order to achieve the price stability target, it is essential, mainly for small and medium-sized firms, to implement reforms to raise productivity beyond cutting their costs. The Bank should support reforms in the private sector while thoroughly analyzing and assessing the efforts by the government and the private sector, as well as taking account of consequent insights in conducting monetary policy as necessary.
- The Bank's large-scale monetary easing has increased the number of employees and income, even amid a decrease in the working-age population, and reduced the number of the poor. The Bank has taken the same policy stance as other major central banks in terms of aiming at the 2 percent inflation target, which is a global standard. In addition, it is extremely important for the Bank to cooperate with the government, especially at the time of an economic crisis. Taking into account these achievements and lessons learned, the Bank should further examine appropriate monetary policy conduct during the COVID-19 era.

- There is a possibility that the Bank will need to discuss appropriate monetary policy conduct from a new viewpoint of achieving both containment of the spread of COVID-19 and improvement in economic activity during the COVID-19 era.
- Given that the path toward achieving the price stability target is not in sight amid the situation of significant changes in economic developments, it will be necessary to reconsider the strategy toward achieving the target comprehensively.
- It is necessary for the Bank to continue to closely cooperate with the government based on their respective roles.
- It is important to continue to make policy responses swiftly and appropriately as necessary while maintaining cooperation by, for example, closely sharing information between the government and the central bank as well as among major central banks.

III. Opinions from Government Representatives

Ministry of Finance

- In response to COVID-19, the government has worked toward achieving both prevention of the spread of COVID-19 and improvement in socio-economic activities, mainly through formulating two supplementary budgets and approving the use of emergency funds.
- Looking ahead to the post-COVID-19 era, the government will aim at realizing a high-quality economic society in line with the Basic Policy on Economic and Fiscal Management and Reform 2020 (hereafter the Basic Policy).
- The government expects the Bank to continue to conduct necessary measures appropriately, including responses to COVID-19, while cooperating with the government.

Cabinet Office

- The real GDP growth rate for the April-June quarter registered the largest-ever decline, but the monthly data show that the economy is showing movements of picking up.
- The government aims at fully protecting businesses, employment, and livelihoods and at working toward achieving both prevention of the spread of COVID-19 and improvement in socio-economic activities. In line with the Basic Policy, it will formulate, by the end of the year, an action plan to realize a high-quality economic society under the "new normal" at the earliest possible time.

- The government expects the Bank to continue conducting appropriate monetary policy while closely monitoring current and future developments.