



Not to be released until 8:50 a.m.  
Japan Standard Time on Monday,  
November 9, 2020.

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Bank of Japan

## Summary of Opinions at the Monetary Policy Meeting<sup>1,2</sup> on October 28 and 29, 2020

### I. Opinions on Economic and Financial Developments

#### *Economic Developments*

- Japan's economy has picked 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.
- The baseline scenario has been maintained that Japan is likely to recover its level of economic activity moderately while achieving prevention of the spread of COVID-19 and improvement in economic activity simultaneously.
- Although Japan's economy has been in a severe situation, it has picked up, mainly for exports. That said, the pace of recovery is expected to be only moderate since the impact of COVID-19 is likely to be prolonged.
- Japan's economy has been in a severe situation due to the impact of COVID-19. However, it has followed an improving trend with economic activity resuming, and financial markets have remained more or less stable. That said, uncertainties over the future have remained

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<sup>1</sup> English translation prepared by the Bank's staff based on the Japanese original.

<sup>2</sup> "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.

high and thus, for the time being, it is crucial to carefully examine developments regarding recovery.

- There is a possibility that the pace of pick-ups in domestic and overseas economies will be only moderate. As a background to this, business sentiment has improved in the manufacturing industry, due partly to a recovery in automobile production spreading to related industries, whereas firms in the nonmanufacturing industry have been cautious regarding the risk that COVID-19 will spread again.
- Whether the uptrend in the world trade volume and in Japan's exports and production will be maintained is highly uncertain, and the services sector is projected to recover at only a moderate pace globally. Given these circumstances, I have a cautious view on the outlook toward the second half of the projection period.
- Japan's economy has started to recover. However, with the continuing effects of the economic downturn since autumn 2018, the consumption tax hikes, and COVID-19, the pace has been slow and there remain uncertainties over the level of economic activity after the economy recovers.
- The prices of land, which accounts for a larger share in individual assets than stocks, have turned to a decline, and there is concern over how this will affect consumer sentiment.

### *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, the past decline in crude oil prices, and the "Go To Travel" campaign. Thereafter, however, it is expected to turn positive and then increase gradually along with economic improvement.
- The year-on-year rate of change in the CPI is likely to remain relatively weak for the time being, mainly due to temporary factors, but price cuts are not expected to be observed widely.
- Price cuts that aim at stimulating demand have not been observed widely, and the risk of an overall and sustained decline in prices is judged as not significant at present.
- It is not assessed at present that price cuts that aim at stimulating demand have been observed widely. However, firms' price-setting behavior could be affected if the employment and income situation of households becomes more severe, and thus the Bank will closely monitor future developments.

- The pace of recovery in Japan's economy is slow compared with that of deterioration, and the inflation rate is expected to be negative for a while. Although the rate is likely to turn positive thereafter, the pace of increase is expected to be quite moderate due to slow improvements in the output gap and inflation expectations as well as to the later effects of the past weak inflation rate.
- The Bank should be vigilant against the downside risks to prices and inflation expectations that reflect, for example, the employment and income situation remaining at a low level and possible turmoil in financial markets stemming from overseas developments.
- Given that, in Japan, the formation mechanism of inflation expectations is backward-looking and such expectations are sticky, it is difficult to envisage rationally that these expectations will rise in the near future.

## **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.
- With the effects of policy responses by the government and the Bank, a rapid increase in unemployment and bankruptcy has been avoided and there has not been a severe issue with corporate financing. Thus, it is appropriate to continue examining the policy effects.
- The three measures can flexibly adapt to various changes in economic and financial developments that might occur in the near term. The outlook for such developments is highly uncertain, and thus it is desirable to continue with monetary easing through the three measures.
- The Bank's current monetary policy conduct, which focuses on maintaining stability in financial markets and supporting corporate financing, has had positive effects. This conduct will enable the Bank to achieve the price stability target through support for economic activity, although it will take time.
- It is necessary for the Bank to continue to make policy responses swiftly and appropriately as needed while firmly maintaining cooperation by, for example, exchanging information with the government and other major central banks.

- The Bank should exercise utmost vigilance against the possibility of a sudden change in financial markets and make policy responses flexibly when necessary, taking into account the effects of such a change on economic activity and prices. During the COVID-19 era, while cooperating with the government's economic and fiscal policies, it is desirable for the Bank to conduct monetary policy, taking full consideration of the urgent issue of maintaining people's employment and income. Keeping in mind that the fight against COVID-19 may be prolonged, the Bank should avoid bringing a premature end to its current policy responses.
- Upward pressure on the uncollateralized overnight call rate has increased somewhat recently. The Bank needs to carefully communicate with the market so that the increase will not be misinterpreted as a message that the Bank's monetary easing stance has weakened while other central banks have strengthened theirs.
- While the current policy responses have had positive effects, it is still the top priority to ensure corporate financing and sustain employment. In addition, if economic recovery is delayed, credit risk might materialize, leading to a risk on the financial system side. Thus, due attention should be paid to such possibility.
- It is desirable for the yield curve for super-long-term Japanese government bonds (JGBs) to become steeper at a moderate pace with the Bank keeping 10-year JGB yields at around 0 percent, in that financial institutions can gain profits on their investment and the Bank can achieve financial system stability while monetary easing is prolonged.
- It is necessary to continue with active purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) for the time being. However, given that monetary easing is expected to be prolonged, the Bank should further look for ways to enhance sustainability of the policy measure so that it will not face difficulty in conducting such purchases when a lowering of risk premia of asset prices is absolutely necessary.
- Given the situation where the impact of COVID-19 may persist, it is worthwhile to firmly support corporate financing. However, attention should be paid to the possibility that the more prolonged the crisis response, the more the structural reforms toward sustainable growth will be delayed.
- If COVID-19 spreads again and economic activity is pushed down, the CPI could stay in negative territory for a protracted period and deflation might take hold. This possibility warrants attention in conducting monetary policy.

- From the viewpoint of simultaneously achieving containment of the spread of COVID-19 and improvement in economic activity during the COVID-19 era, it is necessary for the Bank to deeply discuss policy responses that aim at achieving the price stability target of 2 percent.
- In order to encourage firms' efforts toward creating value-added, it is important to support establishing a system in which more investment funds for growth will be provided to firms.

### **III. Opinions from Government Representatives**

#### ***Ministry of Finance***

- The application for budget requests for fiscal 2021 was closed at the end of September. Under the New Plan to Advance Economic and Fiscal Revitalization, the government will continue with expenditure reforms and formulate a high-quality budget.
- It was reconfirmed at the recent Group of Twenty (G-20) meeting that all available policy tools would continue to be used as long as required.
- The government will push forward with various measures with a view to overcoming deflation and achieving sustainable economic growth, together with responses to COVID-19. It expects the Bank to conduct necessary measures appropriately.

#### ***Cabinet Office***

- Japan's economy is showing movements of picking up, but it is necessary to closely monitor the course of COVID-19, particularly in Europe and the United States, and its impact on the economy.
- The government will do its utmost to retain employees and sustain businesses. With the Council on Economic and Fiscal Policy serving as the headquarters, it will also discuss the basic course of and important issues regarding reforms, such as digitalization, and then design and implement them.
- The government expects the Bank to continue conducting appropriate monetary policy while closely monitoring current and future developments.