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March 29, 2021

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on March 18 and 19, 2021

I. Opinions on Economic and Financial Developments

Economic Developments

- Japan's economy has picked up as a trend, although it has remained in a severe situation due to the impact of the novel coronavirus (COVID-19) at home and abroad.
- In Japan, exports and production have remained firm, led by external demand, and the declining trend seen since before the outbreak of COVID-19 may be undergoing a phase shift recently.
- Japan's economy, with the impact of COVID-19 waning gradually, is likely to follow an improving trend. That said, downward pressure on face-to-face services consumption is projected to remain in the short run.
- Although a bipolarization between the face-to-face services industry and others is expected to continue for the time being, Japan's economy is likely to improve gradually as COVID-19 almost subsides.
- While Japan's economy has been on an improving trend with a pick-up in overseas economies, risks are skewed to the downside, mainly due to the impact of COVID-19.
- Japan's economy is likely to recover moderately on the assumption that COVID-19 will almost subside at home and abroad, but downside risks warrant attention since the consequences of COVID-19 entail high uncertainties.

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.

- Although there remain uncertainties over COVID-19, such as the future course of new variants, downside risks to economic activity at home and abroad have been contained since there have been no signs of an increase in industries that show deterioration in business conditions.
- There is concern that U.S. Treasury bond yields may surge, but such a surge could be limited by vigorous demand for bonds from banks for which loan-to-deposit ratios and lending margins have declined, as with the case in Japan.

Prices

- The year-on-year rate of change in the consumer price index (CPI) is likely to be negative for the time being. Thereafter, it is expected to turn positive and then increase gradually with the economy improving and the effects of such factors as the decline in crude oil prices dissipating.
- When excluding the effects of temporary factors that push down prices, such as energy prices, the year-on-year rate of change in the CPI has remained slightly positive, and price developments have continued to be firm compared with the degree of deterioration in economic activity.
- Although price cuts that lead to a decline in value-added have not been observed widely, attention should be paid to the risk that prices will remain low for a prolonged period.
- In Europe and the United States, there have been cautious views on rises in inflation rates. The Bank should carefully examine both upside and downside risks with regard to how prices will develop in Japan after the pandemic ends.
- Although Japan's economy is expected to recover, price developments are likely to remain weak. Inflation expectations have weakened somewhat and wages have not risen readily. The risk that various sectoral shocks will put downward pressure on prices for the time being is large. Unlike Europe and the United States, there is still a higher risk of deflation than of inflation in Japan.

II. Opinions on Monetary Policy

Responses to the Impact of COVID-19

- For the time being, it is important for the Bank to firmly continue with policy responses to the impact of COVID-19.
- The Bank should continue to provide support for financing, mainly of firms, and ensure stability in financial markets.

Assessment: General Remarks

- Based on the findings of the assessment, it is appropriate for the Bank to continue with powerful monetary easing under the framework of Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, with a view to achieving the price stability target.
- The Bank's policy actions announced at this meeting will strengthen the policy framework of monetary easing, in that they will enhance the sustainability of the Bank's policy conduct and enable it to make nimble and effective responses.
- The analyses of the policy effects made in the assessment show that the current monetary easing should be continued for a long time. The Bank's policy actions decided at this meeting have significance, in that they have ensured the sustainability and nimbleness of policy measures that are necessary to achieve the price stability target. It is desirable that this policy framework continue to be the basic guideline for the Bank's monetary easing for a few years to come.
- It is necessary to maintain highly accommodative financial conditions for a long period. At the same time, under the commitment to conducting monetary easing into the future, it is important to maintain the current policy framework in a more stable manner.
- Achieving the price stability target at the earliest possible time is the best prescription for containing the side effects of monetary easing. If such side effects become a matter of concern for additional monetary easing, one option could be to show in advance possible measures to mitigate them.

Assessment: Conduct of Yield Curve Control

- The Interest Scheme to Promote Lending, which enables the Bank to cut short- and long-term interest rates nimbly while considering the impact on the functioning of financial

intermediation, is effective in changing the views of market participants who see the possibility of interest rate cuts as limited.

- With a view to addressing the side effects, it is necessary to enhance the transparency of monetary policy conduct by clearly describing concrete actions the Bank will take at the time of rate cuts and by clarifying the range of fluctuations in long-term interest rates that is consistent with the monetary easing measures.
- Long-term interest rates can move within the range of around plus and minus 0.25 percent from the target level. This flexibility is desirable since it prevents arbitrageurs and speculators who had lost their profit opportunities from exiting the bond market and helps maintain the price stabilization function in the market.
- As for the upper limit of the range of fluctuations in long-term interest rates, it is appropriate to respond strictly to developments in those rates while also making use of the newly introduced "fixed-rate purchase operations for consecutive days."
- With the impact of COVID-19 continuing, it is appropriate for the time being to conduct yield curve control with a priority on stabilizing the entire yield curve at a low level.

Assessment: Purchases of Assets Such as Exchange-Traded Funds (ETFs)

- With a view to persistently continuing with further effective and sustainable monetary easing, the Bank should conduct purchases of assets such as ETFs with greater flexibility.
- Large-scale purchases of assets such as ETFs during times of heightened market instability are effective. Conducting the purchases more flexibly in a prioritized manner will enhance their sustainability and nimbleness.
- It is appropriate for the Bank to make clear its stance that it will purchase assets such as ETFs nimbly as necessary.
- It is desirable for the Bank to conduct purchases of assets such as ETFs nimbly.
- The revisions to purchases of assets such as ETFs have been made in order to conduct purchases more effectively. It is necessary to be careful so as to avoid a misunderstanding that the Bank has adopted a less accommodative stance on monetary policy.

Assessment: Inflation-Overshooting Commitment

- The findings of the assessment suggest that monetary easing will be continued for a long period with a view to achieving the price stability target of 2 percent. In order to make this clear, the inflation-overshooting commitment, through which the Bank implements a "makeup strategy," is extremely important.
- Based on the insights from the latest assessment, it is crucial to deliver a clear message that the Bank will continue with monetary easing patiently under the inflation-overshooting commitment.
- The inflation-overshooting commitment, through which the Bank implements a "makeup strategy," implies that monetary easing will be continued for a long period. Since a deflationary risk is a matter of concern at present, the commitment shows the Bank's strong stance that it will not head toward an exit easily.
- Simply adopting a "makeup strategy" does not necessarily lead to achievement of the price stability target. The commitment should be modified so that it incorporates concrete actions toward realizing the strategy.

Assessment: Other

- With the expectation that monetary easing will be continued for a long period, it is necessary to assess minutely its side effects on the financial system that accumulate over time, as well as with the policy effects. It is therefore appropriate to have the Financial System and Bank Examination Department staff regularly attend the MPMs and explain developments in the financial system.
- The Bank's consideration of financial system stability is not made to consider financial institutions' profits but to enable nimble conduct of effective monetary easing.
- It is important for the Bank to disseminate information and carry out public relations activities so that the public will deepen its understanding of the necessity of the price stability target of 2 percent, the mechanism toward achieving it, and the role of various measures conducted under the target.

Other

- It is necessary to support corporate reforms that lead to improvement in firms' and households' growth expectations and inflation expectations and to help strengthen the functioning of financial activities that underpins corporate reforms.

III. Opinions from Government Representatives

Ministry of Finance

- The government considers that the findings of the assessment and the Bank's policy actions based on them are appropriate, and thus expects the Bank to implement said actions.
- The government will continue to work together with the Bank and make efforts to support Japan's economy and stabilize financial markets.

Cabinet Office

- While the government decided to lift the state of emergency, it will continue to do its utmost to contain the resurgence of COVID-19 and carry out targeted and effective support measures for those affected economically.
- The government expects that the findings of the assessment and the resultant revisions to the manner of the monetary policy conduct will enhance the sustainability and nimbleness of monetary easing measures. It therefore considers that it is important for the Bank to provide a thorough explanation to the public.
- The government expects the Bank to continue to closely cooperate with the government and conduct appropriate monetary policy.