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June 28, 2021

Bank of Japan

## Summary of Opinions at the Monetary Policy Meeting<sup>1,2</sup> on June 17 and 18, 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.
- A virtuous cycle in Japan's economy has started to operate, partly owing to progress with vaccinations.
- Although overseas economies have recovered on the whole, the pace has varied across countries and regions, as seen in recent stagnation in emerging economies where progress with vaccinations is slow.
- Although the level of Japan's economic activity, mainly in the face-to-face services sector, is expected to be relatively low for the time being and uncertainties are projected to remain high, the economy is likely to recover, with the impact of COVID-19 waning gradually.
- As vaccinations have been progressing rapidly of late, Japan's economy is expected to recover to a certain extent in the short run, mainly due to an expansion in pent-up demand for consumption of face-to-face services, such as eating and drinking as well as accommodations.
- If the spread of COVID-19 continues to be contained, services-related consumption is likely to gradually regain its pace of recovery. In addition, an acceleration in vaccinations is positive news for future developments in economic activity.

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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.

- Despite remaining uncertainties and unevenness, progress with vaccinations has made a recovery in the global economy more evident. It is expected that a similar recovery will be seen in Japan.
- With the impact of COVID-19 continuing, the pace of recovery in Japan's economy is expected to be only moderate for the time being. Thereafter, as vaccinations progress and the impact of COVID-19 almost subsides, the economy can be expected to grow at a pace above its potential growth rate.
- Economic activity is expected to improve along with progress with vaccinations. However, it is necessary to continue to pay attention to the consequences of COVID-19 and downside risks to economic activity and prices.
- Prices have risen for a wide range of items on the back of a recovery in the global economy due to the widespread vaccinations and of a resultant expansion in demand. If this situation continues for a prolonged period, Japan's economy could be pushed down through deterioration in the terms of trade.
- It is important to carefully monitor responses made by firms and financial institutions to see whether or not increased corporate debt has weighed on their efforts for growth.
- Financial results of domestically licensed banks for fiscal 2020 show that they managed to avoid the realization of an initial concern; namely, a significant deterioration in profits stemming from a surge in credit costs due to the impact of COVID-19. It therefore can be considered that financial system stability has been maintained.
- When comparing Japan with Europe and the United States, there is a wide gap in the amount of digital-related investment that has accumulated over the past 20 years. Thus, it is important for Japanese firms to further accelerate digitalization.

### *Prices*

- The year-on-year rate of change in the consumer price index (CPI) is likely to be at around 0 percent in the short run. Thereafter, it is expected to increase gradually, mainly on the back of continued improvement in economic activity, a rise in energy prices, and a dissipation of the effects of a reduction in mobile phone charges.
- From the second half of 2021, the environment surrounding prices is expected to improve and the inflation rate is likely to increase as pent-up demand starts materializing.

- Although a rise in international commodity prices and improvement in domestic demand are expected to contribute to inflation, its pace is likely to be somewhat subdued.
- Prices could be pushed up depending on the situation regarding vaccinations, but such inflationary pressure is expected to be only transitory, partly due to an entrenched deflationary mindset.
- In order for an economic recovery to lead to a sustained rise in the CPI, it is important that accommodative financial conditions be maintained amid fiscal support being provided and that households and firms allocate their excess funds to consumption or investment.

## **II. Opinions on Monetary Policy**

### ***Extension of the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19)***

- Although financing, mainly of firms, has improved compared with a while ago, it is likely to remain under stress. Given this, it is appropriate for the Bank to extend the duration of the Special Program by six months, thereby continuing to support such financing.
- For the time being, it is likely that face-to-face services consumption will be constrained due to the impact of COVID-19 and there will remain a risk that concern over financing will emerge. Therefore, it is desirable to extend the duration of the Special Program by six months.
- Until it becomes certain that the impact of COVID-19 has subsided, it is important to steadily continue with policy responses, and thus extending the duration of the Special Program for the time being is appropriate.
- As seen in developments in the amount outstanding of bank lending, for example, demand for funds is still high in some sectors. Consideration should continue to be given to the situation, such as by extending the duration of the Special Program.
- If the Bank decides to extend the duration of the Special Program at this MPM, it can indicate its direction to financial institutions early and give a sense of security, mainly to firms.

### ***New Fund-Provisioning Measure to Support Financial Institutions' Efforts in Fields Related to Climate Change***

- Since the impact of climate change issues will be exerted on the economy and the financial system, these issues are relevant to the mandates of central banks. When taking monetary policy actions on these issues, it is true that there are many factors to be considered, such as micro-level resource allocation. However, it is time for the Bank to indicate its direction.
- Climate change issues could exert an enormous impact on developments in economic activity and prices as well as financial conditions in the long run, mainly through frequently occurring natural disasters. The Bank's policy actions on these issues should be linked to its mandate, which includes a contribution to the sound development of the national economy and stability in the macroeconomy.
- The Bank's support for financing of private firms that make various efforts in fields related to climate change is in line with its mandate as the central bank.
- In taking actions on climate change issues from the monetary policy side, it is important for the Bank to act in line with its mandate and give consideration to market neutrality. In addition, the new measure should be flexible since the external environment surrounding these issues is fluid, such as regarding taxonomy.
- Through the new fund-provisioning measure, the Bank will provide funds to financial institutions for various investments or loans that they make to address climate change issues based on their own decisions. This measure will enable the Bank to avoid direct involvement in micro-level resource allocation. In addition, it could be regarded as the successor to the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth.
- The Bank should consider monetary policy measures that support the private sector's efforts on climate change issues while taking into account market neutrality of the measures. That said, it is necessary to carefully design them because there are many points that have not been fully discussed, such as the specifics of the private sector's efforts and the impact of climate change issues on developments in economic activity and prices.
- The Bank will exchange views mainly with financial institutions and make public the outline of the new measure at the next MPM. When it is ready to be put in place, the Bank will start the fund-provisioning under the measure, likely within this year.

### ***Other***

- There has been an internationally shared recognition regarding sustaining policy support toward an economic recovery. It is important to persistently continue with monetary easing in Japan as well.
- In the conduct of monetary policy, it is important for the Bank to take advantage of a tailwind of the expected economic recovery and strengthen the monetary easing stance so as to achieve the price stability target.
- The Bank should enhance its external communication in order to carry out its mandate of achieving the price stability target of 2 percent.
- With widespread use of tools such as social media, the Bank can directly provide information to the public. Thus, its thorough dissemination of information is becoming increasingly important.
- It is important to push forward with reforming the economic structure, which has been delayed due to the impact of COVID-19. The Bank needs to devise various ways to improve policy responses that can contribute to the sound development of Japan's economy, taking into account the global trend of economic and social structures changing toward the post-COVID-19 era.

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

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

- The government recognizes that the matters discussed are an indication of the Bank's stance of doing its utmost, such as to ensure smooth corporate financing. It expects the Bank to consider those matters appropriately, together with the support regarding climate change issues.
- Today, the Basic Policy on Economic and Fiscal Management and Reform 2021 (hereafter the Basic Policy) will be compiled. The government will work on matters such as making responses to COVID-19 and boosting private demand for growth areas, including the green society. In addition, it will firmly undertake reforms from both the expenditure and revenue sides.
- The government expects the Bank to conduct necessary measures appropriately, including responses to COVID-19, while cooperating with the government.

### *Cabinet Office*

- While the government decided to lift the state of emergency for nine prefectures, it will continue to give top priority to the containment of the spread of COVID-19 and provide targeted and effective support for those severely affected.
- Under the Basic Policy, the government aims at achieving strong growth by focusing investment on four matters: the green society, digitalization, local revitalization, and support for children.
- The government recognizes that the Bank's proposals at this MPM have been made in a timely manner. It expects the Bank to continue to closely cooperate with the government and conduct appropriate monetary policy.