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Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on September 21 and 22, 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.
- With exports and production continuing on an uptrend, improvement in corporate profits has led to a pick-up in business fixed investment, suggesting that the virtuous cycle in the corporate sector has been maintained.
- Regarding Japan's economy, although exports and production have continued to increase, it is necessary to pay attention to how the semiconductor shortage or the suspension of operations of parts factories in Southeast Asia will affect business fixed investment and corporate financing.
- Domestic demand, mainly for services, has continued to be subdued with public health measures remaining in place. Although vaccinations have progressed further in the meantime, the consequences of COVID-19 and the pace of recovery in domestic demand continue to warrant close monitoring.
- The global economy has been on a recovery trend, but signs of a slowdown have been observed in the Chinese economy. Close monitoring is required on whether the tightening of various regulations in China will lower the medium- to long-term growth potential of its economy.

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 the level of Japan's economic activity, mainly in the face-to-face services sector, is expected to be relatively lower for the time being, the economy is likely to recover, with the impact of COVID-19 waning gradually, mainly due to progress with vaccinations.
- In the short run, Japan's economy is likely to be pushed down by a delay in the recovery of business sentiment in the face-to-face services sector due to the surge in the number of confirmed new COVID-19 cases in August and by production adjustments by some manufacturers because of the materialization of various supply-side constraints. However, the recovery trend of the economy has been maintained on the whole, and thus there is no need to change the current scenario for the outlook.
- Continued attention needs to be paid to the possibility that supply-side constraints, including difficulties in procuring parts such as semiconductors and logistics disruption, will expand or be prolonged.
- If, for example, vaccination certificates become widely used, it will be easier to protect public health and improve consumption activities simultaneously even in the face-to-face services sector.
- Once public health measures are eased, it is fairly likely that consumption will pick up, but this may not be sustained. Close monitoring will be required on, for example, the effects of developments in employee income on consumer sentiment.
- Given developments in other countries, the resurgence of COVID-19 will likely occur despite progress with vaccinations. It is expected that there will be further discussion on movement restrictions that also take into account their impact on economic activity.

Prices

- The year-on-year rate of change in the consumer price index (CPI) is likely to turn slightly positive, mainly reflecting a rise in energy prices.
- The year-on-year rate of change in the CPI has been substantially revised downward because the negative contribution of mobile phone charges has expanded due to its rebasing. That said, when excluding this and other temporary factors, the rate of change has been slightly positive, and there is no change to the underlying trend in prices thus far.

- Despite being revised downward due to the rebasing of the CPI, its year-on-year rate of change has been steady when such effects as of mobile phone charges are excluded. The risk is low that such steadiness will be hindered for the time being.
- It is highly likely that the year-on-year rate of change in the CPI will turn positive, partly due to temporary factors to push up prices. However, given developments in the output gap and inflation expectations, achieving the price stability target is difficult.
- Attention needs to be paid to how households' consumption behavior will be affected by price rises in everyday goods such as food products resulting from increases in energy and raw material prices.
- If firms are unable to pass on cost increases stemming from a rise, for example, in commodity prices to their product prices, expenditure on business fixed investment and labor costs will be curbed, and households facing stagnant income in turn will consume less. This cycle needs to be changed for prices to rise.
- It is still difficult for firms in Japan to pass on cost increases to selling prices. It is necessary to closely monitor progress on labor force transfer to growth areas, promotion of entry and exit of firms, and enhancement of innovation and profitability.

II. Opinions on Monetary Policy

Conduct of Monetary Policy

- The Bank should continue to support financing, mainly of firms, and maintain stability in financial markets through the three measures conducted in response to COVID-19.
- Since there is no significant change in the situation in Japan where economic activity, such as of firms, has been supported by accommodative financial conditions, it is appropriate for the Bank to maintain the current monetary policy measures, including the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19).
- It is expected to take time to achieve the price stability target. Therefore, the Bank should persistently continue with powerful monetary easing based on Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, of which the sustainability and nimbleness were enhanced following the assessment conducted this March.
- In countries where vaccinations have progressed ahead of Japan, policy measures in response to COVID-19 have been gradually scaled back against the background of an increase in

pent-up demand reflecting the normalization of economic activity. However, in Japan, it is important to ensure that such increase leads to achievement of the price stability target of 2 percent.

- Although financial markets have been stable on the whole, it is necessary to be vigilant in closely monitoring economic and financial developments, including the impact of developments in the Chinese real estate sector on global financial markets, and be ready to respond promptly if necessary.
- In the conduct of monetary policy, the Bank should strengthen its monetary easing stance with a view to improving the output gap and inflation expectations, and thereby achieve an economic recovery and the price stability target early.
- A policy mix of fiscal and monetary policies has been effective during the pandemic, and it will continue to be important even in the phase when the impact of COVID-19 subsides and economic activity normalizes.
- The Bank should share a vision with the government regarding socio-economy and policies in the post-pandemic era. In addition to cooperation in terms of fiscal and monetary policies, it is desirable to share the direction in, for example, addressing climate change, advancing economic growth, and transforming the economic structure.
- While bearing in mind a similar long-term horizon, the government and the Bank should fulfill their respective roles in fighting against the pandemic and addressing important challenges such as digitalization and decarbonization.
- With regard to the implementation of the Special Deposit Facility to Enhance the Resilience of the Regional Financial System, whether there is no interference with the smooth conduct of market operations should be carefully examined.
- To enhance the transmission effects of monetary policy, it is important to encourage households that save their surplus funds in the form of cash or deposits to have a better understanding of financial asset investment, so that funds, including risk capital, increase and circulate.

Funds-Supplying Operations to Support Financing for Climate Change Responses (Climate Response Financing Operations)

- The design of the Climate Response Financing Operations is appropriate on the whole, in that discipline will be exercised by asking financial institutions to disclose a certain level of information while leaving concrete decisions to them on which investment or loans will be eligible.
- The amount of fund-provisioning through the Climate Response Financing Operations may not be significant at the outset, since efforts toward decarbonization by firms and financial institutions have just begun. However, the amount is expected to increase as this operation serves as a catalyst and, accordingly, as the private sector steps up its efforts.
- Since actions toward addressing climate change have just got underway worldwide, this is an appropriate time to set up the Climate Response Financing Operations.
- It is expected that the government will make further efforts to prevent the green transformation from delaying so that the hollowing out of industries in Japan does not accelerate. At the same time, it is necessary for the Bank to firmly implement the Climate Response Financing Operations.
- Japan's actions to address climate change could directly relate to its international competitiveness, and they will have important implications for the Bank's mandate of achieving price stability. The Bank should facilitate understanding of this point through clear communication.
- Policy effects of the Climate Response Financing Operations should be assessed from the perspective of the Bank's accountability.

III. Opinions from Government Representatives

Ministry of Finance

- The government considers that the Climate Response Financing Operations reflect the Bank's stance toward addressing climate change. It expects the Bank to appropriately proceed with preparations for the launch within this year.
- Applications for budget requests for fiscal 2022 were closed at the end of August, and the government has started working on budget formulation. Under the New Plan to Advance Economic and Fiscal Revitalization, it will implement expenditure reforms, including budget

formulation in line with the benchmarks and budget prioritization on areas that will be a driving force for new growth.

- The government expects the Bank to conduct necessary measures appropriately, including responses to COVID-19, while cooperating with the government.

Cabinet Office

- It is expected that Japan's economy will pick up, but attention needs to be paid to a possible heightening of downside risks stemming from the course of COVID-19 at home and abroad and the effects of supply-chain disruptions.
- For the time being, the government will respond to the pandemic with the top priority on containing the spread. In light of the vaccination situation, it will also promote a national discussion and proceed with both infection prevention measures and efforts to restore daily life.
- The government will conduct macroeconomic policy in a timely manner, without hesitation. It expects the Bank to continue to closely cooperate with the government.