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January 29, 2021

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on January 20 and 21, 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.
- Japan's economy has picked up as a trend, although it has remained in a severe situation. That said, there is an increasing risk that the impact of COVID-19 will expand and be prolonged, and thus future developments warrant close monitoring.
- The current crisis entails two characteristics: uncertainty and unevenness. At present, the biggest uncertainty is the consequences of COVID-19. Domestic and overseas economies have picked up on the whole, but a considerable unevenness exists across regions, expenditure components, and industries.
- The impact of the reinstatement of the state of emergency for 11 prefectures on face-to-face services, such as accommodations as well as eating and drinking, should be monitored carefully given that private consumption in these prefectures accounts for nearly 60 percent of Japan's.
- Business fixed investment in Japan seems to have stopped declining. However, it is not sufficiently firm compared with that in countries such as the United States and China, where the appetite for digitalization-related investment in particular has been strong.

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.

- A recovery trend in Japan's economy to date has leveled off temporarily due to the impact of the resurgence of COVID-19 at home and abroad, and the economy has weakened somewhat.
- Although downward pressure stemming from the resurgence of COVID-19 is likely to be strong for the time being, particularly in face-to-face services consumption, Japan's economy is expected to maintain its moderate improving trend.
- Japan's economy is likely to follow an improving trend, but risks to both economic activity and prices are skewed to the downside, mainly due to the impact of COVID-19.
- There have remained extremely high uncertainties over the impact of COVID-19 on the economy, in that it is likely to take a certain amount of time for the resurgence of COVID-19 to subside. In this situation, risks to economic activity and prices are skewed to the downside.
- Depending on the consequences of COVID-19, stagnant economic activity and prices could become severe and be prolonged through the tightening of public health measures and deterioration in households' and firms' sentiment. This possibility warrants attention.
- The global resurgence of COVID-19 has intensified unevenness across countries and regions as well as industries, rather than put significant downward pressure on the overall economy. This could lead to an expansion in the income gap.
- The current economic shock has created not only gaps across countries and sectors but also significant differences in households' sentiment across income classes. This imbalance could hamper long-term economic growth.
- This year, it is necessary to closely monitor the broad impact of political developments overseas, such as the change of government in the United States and the replacement of the Chancellor of Germany, on economic activities and financial conditions at home and abroad. The political developments include climate change issues.

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.

- 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.
- A prolonged COVID-19 pandemic could bring about both upside and downside risks to prices in the medium to long term. It is therefore desirable for the Bank to pay due attention to such a wide range of risks in the context of achieving the price stability target of 2 percent.

II. Opinions on Monetary Policy

Monetary Policy Conduct for the Time Being

- Monetary easing measures conducted since last March have had positive effects. It is important to continue to provide support for financing, mainly of firms, and maintain stability in financial markets.
- For the time being, the Bank should maintain the current guidelines for market operations and asset purchases.
- At this point, there does not seem to be a high possibility that corporate financing will suddenly be under stress on the whole, but due attention should continue to be paid to it, including developments in the financial system.
- To determine whether scarring effects of COVID-19 will remain on Japan's economy, attention should be paid to firms' and households' growth expectations, developments in savings rates and inflation expectations, and stability in financial markets and the financial system. It is crucial not to allow this crisis to become prolonged. To prevent such an occurrence, the Bank should focus on the impact on people's sentiment and fully support Japan's economy in crisis from the monetary policy side while cooperating with the government.
- Given that COVID-19 has resurged since last autumn amid a situation where inflation momentum had been lost, risks of deflation seem to have increased even more. It is appropriate for the Bank to further strengthen its monetary easing stance in terms of yield curve control and its commitment regarding the future conduct of monetary policy.

Assessment for Further Effective and Sustainable Monetary Easing to Achieve the Price Stability Target of 2 Percent

- It is necessary for the Bank to make an assessment of the effects that the large-scale monetary easing has had on financial conditions and developments in economic activity and prices. The Bank should also reassess the side effects on the functioning of financial intermediation and of financial markets while taking into account that such effects have the tendency to accumulate.
- In the assessment, it is necessary to consider whether the Bank can conduct monetary easing more effectively in terms of striking a balance between its positive effects and side effects.
- One consideration behind the assessment, among others, is whether the Bank can conduct monetary policy more flexibly in a prioritized manner so that it can enhance the sustainability of such conduct during normal times and be nimble in responding to changes in circumstances.
- The main focus of the assessment is not on countermeasures to side effects of monetary easing but on how the Bank can be nimble in making effective responses.
- In the assessment, the Bank should reaffirm the significance of the price stability target of 2 percent and maintain the accommodative monetary policy regime.
- Given that it will take more time than expected for the economy to recover, it is important for the Bank to analyze and assess policy effects with a view to making further sustainable and effective policy responses. In terms of yield curve control and purchases of assets such as exchange-traded funds (ETFs), it is crucial for the Bank to conduct them more flexibly in a prioritized manner while maintaining the current policy framework.
- While monetary easing is expected to be prolonged, allowing 10-year Japanese government bond (JGB) yields to move upward and downward to some extent will meet the investment-management needs of financial institutions through market functioning, and thereby will contribute to financial system stability.
- Even in a situation where 10-year JGB yields are allowed to move to some extent, the effects on economic activity are likely to be limited, since the proportion of funds that are affected by long-term interest rates is not high among those raised by firms and households.
- Together with the assessment of monetary policy, it is necessary for the Bank to consider strategies toward achieving the price stability target.

Others

- In order for monetary policy to have appropriate effects, it is important for the Bank to maintain cooperation with the government and other major central banks as before, thereby ensuring stability in financial markets.
- It is important to encourage corporate activities for future growth, such as research and development (R&D) investment, business portfolio reforms, and efforts in digitalization and decarbonization. It is crucial for the Bank to help raise firms' and households' growth expectations by showing determination to never allow the economy to return to deflation and enhancing the predictability for business managers through close cooperation with the government's efforts to increase medium- to long-term growth potential.
- It is essential to be innovative not only in terms of policy measures based on theories but also policy practices.

III. Opinions from Government Representatives

Ministry of Finance

- A state of emergency was instated recently. While carefully examining the COVID-19 situation as well as the impact on the economy and people's livelihoods, it is important for the government to do its utmost to respond to COVID-19 and bring Japan's economy back on a growth path.
- The government submitted to the Diet the third supplementary budget for fiscal 2020 and the budget for fiscal 2021. It will work to obtain approval from the Diet for these budgets at the earliest possible time so that it can do its utmost with regard to taking preventive measures against COVID-19 as well as economic and fiscal management.
- The government expects the Bank to conduct necessary measures appropriately, including responses to COVID-19, while cooperating with the government.

Cabinet Office

- Japan's economy has been picking up, but it is necessary to pay due attention to the downside risks stemming from the spread of COVID-19.
- The government instated a state of emergency for 11 prefectures this month. This new state of emergency strictly focuses on constraining activities with high risk of leading to infection,

and the government will take targeted and effective support measures that also make use of emergency funds.

- The government will make every effort to enhance the vaccination system so that vaccinations can start from the end of February.
- The government expects the Bank to continue to closely cooperate with the government.