



Not to be released until 8:50 a.m.
Japan Standard Time on Tuesday,
May 11, 2021.

May 11, 2021

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on April 26 and 27, 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.
- Although face-to-face services consumption has been pushed down by the impact of COVID-19, Japan's economy has picked up, mainly for the manufacturing industry.
- Japan's economy has picked up, mainly supported by favorable external demand. However, given that there are uncertainties regarding the pace of the vaccine rollout and the effectiveness of the vaccines, attention should continue to be paid to downside risks to economic activity due to the resurgence of COVID-19.
- Japan's economy has continued to pick up as a trend, although it has remained in a severe situation due to the impact of COVID-19. That said, against the background of public health measures being tightened, mainly in four prefectures, attention needs to be paid to the consequences of COVID-19 and downside risks to economic activity and prices.
- On the back of a recovery in overseas economies, Japan's economy is expected to follow a recovery path, mainly led by external demand. That said, there are high uncertainties over the outlook, such as the course of COVID-19 and progress with vaccinations.

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 Japan's economy, mainly in the face-to-face services sector, is likely to remain susceptible to the situation surrounding COVID-19, it is expected to recover as the impact of COVID-19 wanes gradually.
- If COVID-19 subsides to a certain extent after the widespread vaccinations, demand for consumption that has been constrained to date is likely to materialize, and factors such as this may lead to a sustainable recovery in Japan's economy.
- A virtuous cycle in the corporate sector has started to operate gradually. As the impact of COVID-19 subsides, the virtuous cycle in Japan's economy as a whole is likely to intensify and the economy is expected to continue growing.
- The amount outstanding of cash and deposits held by households has increased by about 50 trillion yen over the past year, and thus considerable pent-up demand for services consumption is expected to materialize when the impact of COVID-19 subsides.
- Risks to economic activity are skewed to the downside for the time being, mainly due to the impact of COVID-19, which includes the current spread of variants and the recent reinstatement of the state of emergency. However, they are generally balanced for the middle of the projection period onward.
- Risks are still skewed to the downside for fiscal 2021 since there remain high uncertainties, such as over progress with vaccinations and the consequences of COVID-19.
- If vaccinations do not proceed smoothly in Japan in contrast to the progress abroad, it is concerning that the country might be left behind even in terms of economic growth.
- The global economy has been on a recovery trend. However, reflecting differences in progress with vaccinations and policy responses, varied and uneven developments have been seen across regions and industries, which can be characterized as K-shaped recovery. In addition, there is some possibility that the recovery will stall and policy responses will be terminated prematurely. There also are political and geopolitical risks to a certain extent.
- In order to bring Japan's economy back onto a growth path early, it is important to have an acceleration in the pace of vaccinations while mitigating deterioration in consumer sentiment and volatile movements in financial markets.

- If firms' efforts toward growth and reform are postponed in reflection of a recovery in business performance, medium- to long-term economic growth and achievement of the price stability target might be adversely affected.
- In the United States, risks regarding special purpose acquisition companies materialized and an investment entity called "family office" collapsed. Close attention should be paid to whether similar cases will happen again.

Prices

- The year-on-year rate of change in the consumer price index (CPI) is likely to be slightly negative for the time being. Thereafter, it is expected to turn positive and then increase gradually, on the back of economic activity continuing to improve and the effects of a reduction in mobile phone charges dissipating.
- Firms' price cuts that aim at stimulating demand have not been observed widely. Thus, while developments in prices remain firm, the inflation rate is likely to rise gradually along with economic improvement.
- Although price cuts that lead to a decline in value-added have not been observed widely, attention should be paid to the risk of such a situation happening.
- The year-on-year rate of change in the CPI is likely to remain negative for the time being. Steadiness in the pace of inflation is expected to be insufficient, partly affected by the adaptive formation of inflation expectations, which is deeply entrenched based on the past experience of deflation.
- In order to keep the pilot light on for inflation to ignite in the near future, expectations for wage increases should be maintained through the experience that a stable rise in wages can be secured even in a severe economic environment, as seen currently.

II. Opinions on Monetary Policy

- Weakness in firms' financial positions has continued to be seen, and there remain various uncertainties in financial markets. It is important for the Bank to support financing and maintain stability in the markets by conducting monetary easing through the three measures, which have been exerting positive effects.

- The face-to-face services sector in particular has been under downward pressure again in Japan, mainly due to the third state of emergency declared for four prefectures. With regard to the conduct of monetary policy for the time being, the Bank should comprehensively take into consideration this situation and firmly focus on addressing the impact of COVID-19.
- While taking into account such factors as the environmental changes surrounding corporate financing, it is necessary to proceed with discussions on whether to extend the duration of the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), which at present is until the end of this September.
- For the time being, it is necessary to persistently continue to provide support with both monetary and fiscal policies in order for COVID-19 to subside and in turn for economic activity to normalize.
- Although vaccinations will serve as the best economic measure until COVID-19 subsides, support from macroeconomic policies is still important. Under the current policy framework, close cooperation between fiscal and monetary policies will contribute to achievement of the price stability target.
- With regard to the policy decisions made in March, market developments to date suggest that the Bank's intention to enhance the sustainability and nimbleness of monetary policy has been interpreted without misunderstanding.
- The market reaction to the Bank's policy actions taken in March has been generally calm, and financial institutions' responses also seem to have been more or less within expectations.
- Financial system stability, which is the basis for achieving price stability, has been maintained on the whole and the smooth functioning of financial intermediation has been ensured. Starting from this MPM, the Policy Board receives an explanation on developments in the financial system from the Financial System and Bank Examination Department, and it is of great significance that these are regularly monitored at the MPMs.
- In view of the post-COVID-19 era, it is necessary to continue to carefully consider the path toward achieving the price stability target of 2 percent. Along with its commitment, it is extremely important for the Bank to have effective communication with the general public so that people can advance their understanding of monetary policy.

- Achieving the price stability target is not easy. Therefore, in the conduct of monetary policy, it is necessary for the Bank to take advantage of a tailwind of the expected economic recovery and enhance monetary easing so as to achieve the target.
- The large-scale fiscal support conducted around the world is starting to have a significant impact on the macroeconomy. In the medium to long run, it is necessary to consider, while closely cooperating with the government, how monetary and fiscal policies could be adjusted with a view to achieving stable economic growth.
- It is necessary to further deepen the understanding of how the financial economy and the effects of monetary policy will evolve as COVID-19 brings about a further acceleration in digitalization of the economy and in turn progress with a shift from tangible to intangible assets.
- Climate change is an important issue, in that it could affect the economy and the financial system. Thus, the Bank should continue to enhance interdepartmental cooperation and consider necessary responses in line with its mandate as the central bank.

III. Opinions from Government Representatives

Ministry of Finance

- The government will continue to make appropriate responses to COVID-19 by, for example, steadily implementing the budget for fiscal 2021, which was approved by the Diet on March 26.
- While aggressively inducing private investment in fields such as digitalization and the green society, the government will realize a virtuous economic cycle through transformation of the economic structure, improvement in productivity, and sustained wage increases.
- The government expects the Bank to conduct necessary measures appropriately, including responses to COVID-19, while cooperating with the government.

Cabinet Office

- The government declared a state of emergency for four prefectures. It will make the utmost efforts to contain the spread of COVID-19 by taking thorough preventive measures with respect to dining-out and constraining people's movements.

- The government will carry out targeted and effective support measures for those severely affected, such as by providing new cooperation money, mainly to large-scale facilities, and by increasing the Local Revitalization Grant for the Novel Coronavirus Disease.
- Based on the situation surrounding COVID-19 and the impact on the economy and people's livelihoods, the government will continue to make swift and nimble responses as necessary by also making use of emergency funds totaling 5 trillion yen. It also will continue to ask the Bank for close cooperation.