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Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on October 27 and 28, 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 Japan's economy is expected to be pushed down for the time being by the impact of COVID-19 and supply-side constraints, it is likely to recover moderately along with the materialization of pent-up demand.
- The baseline scenario that Japan's economy will recover is expected to be maintained. This is because, although downward pressure on production and exports stemming mainly from supply-side constraints is likely to strengthen in the short run, business fixed investment, for example, is projected to be firm from fiscal 2022.
- Economic improvement is expected to become pronounced in the first half of 2022, when vigilance against COVID-19 and the effects of supply-side constraints are projected to wane. That said, there are high uncertainties over whether services consumption will pick up steadily during the COVID-19 era. In addition, attention should be paid to a risk that the effects of supply-side constraints will be amplified or prolonged, as well as to downside risks to overseas economies.
- While downside risks to Japan's economy stemming from COVID-19 have decreased with a rapid decline in the number of confirmed new cases of COVID-19 and progress with

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.

vaccinations, it has become necessary to take into consideration upside risks due to an early normalization of economic activity.

- It was confirmed in the September 2021 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) that a virtuous cycle has been maintained in the corporate sector. However, it should be taken into account that the effects of supply-side constraints may not have been fully incorporated in the survey results.
- It is necessary to closely monitor whether the prolonged electricity crunch in China will have larger effects on its economy and the global supply chain.
- The effects of supply-side constraints and power shortages abroad have materialized of late, and clearer signs of a slowdown have been observed in the Chinese economy in particular. Attention is being paid to whether its growth rate will suddenly decelerate.
- It is important to encourage acceleration in digitalization and responses to climate change and achieve increases in productivity and wages at small and medium-sized firms, where 70 percent of employees in Japan work.
- Japan's financial system has maintained stability on the whole. Even if COVID-19 resurges, the risk of a substantial decline in the functioning of financial intermediation will be constrained.
- By promoting the use of the Nippon Individual Savings Account (NISA) and the defined contribution plan, for example, it is important that a wide range of households make use of their financial assets to increase their income.

Prices

- The year-on-year rate of change in the consumer price index (CPI) has been at around 0 percent, mainly due to a rise in energy prices, despite being affected by COVID-19 and a reduction in mobile phone charges. It is likely to increase moderately in positive territory for the time being, reflecting the rise in energy prices.
- Given, for example, improvement in the output gap and a pick-up in inflation expectations due to the reopening of economic activity, the underlying inflationary pressure has been increasing in Japan, albeit gradually.

- Inflationary pressure seems to have become stronger than before because firms' inflation expectations and expected growth rate have increased and energy prices may continue to rise, triggered by global actions toward addressing climate change.
- Mainly due to a rise in crude oil prices, administered prices and prices of food products, for example, have been raised since this October. It is necessary to pay attention to the impact these price rises may have on pent-up demand in terms of the timing of its materialization and the strength.
- The CPI has been pushed up by the pass-through of price rises in imported raw materials, but inflationary pressure stemming from wage increases and supply-side constraints has been weak.
- Although the year-on-year rate of change in the CPI has turned positive, achieving the price stability target is difficult given developments in the output gap and inflation expectations.
- The gap in inflation rates between the United States and Japan is mainly due to disparities in services prices, particularly wages. In Japan, labor market conditions need to tighten further in order for wages to be raised. Increases in income and wages are desirable, in that they will encourage households and firms to spend their standby funds.

II. Opinions on 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.
- Financial conditions have been accommodative on the whole, although weakness in financial positions has remained for some small and medium-sized firms in, for example, the face-to-face services industry.
- The impact of COVID-19 on financial positions is becoming limited to those of firms in industries facing subdued sales as well as small and medium-sized ones. The Bank will continue to examine the relevant data, such as the December 2021 *Tankan*, to see whether improvement in corporate financing will become widely observed.
- In Japan, where underlying inflation is still low, it is important to persistently continue with extremely accommodative monetary policy even when pent-up demand increases.

- In order to boost households' appetite for spending and make them more tolerant of price rises, it is necessary to dispel their concern regarding the future, mainly by raising their expectations for wage increases. The Bank should persistently continue with the current monetary easing and thereby support the economy, so that a rise in corporate profits leads to wage increases and the virtuous cycle from income to spending intensifies.
- While prices have increased recently, triggered by the yen's depreciation and the rise in energy prices, it is unlikely at present that heightened inflationary pressure will reduce the economic welfare of Japan as a whole. Therefore, the Bank should continue with the powerful monetary easing under Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control.
- In order to alleviate the effects of deterioration in the terms of trade, it is necessary to improve economic activity and raise inflation expectations, and thereby provide an economic environment where firms can smoothly pass on the rise in raw material prices to domestic selling prices.
- In order to address deterioration in the terms of trade, it is important to improve the output gap through monetary easing, and thereby create an environment where the pass-through of price rises will be promoted.
- The recent yen depreciation reflects differences in inflation rates and monetary policy stances among economies. When discussing the impact of the depreciation, various transmission channels should be taken into account, including those through the real economy and financial markets.
- Although foreign exchange rates and asset prices are important channels in the conduct of monetary policy, it should be noted that the Bank does not set them as policy targets.
- Regarding the rise in international commodity prices and the yen's depreciation, it is important to consider their impact on the macroeconomy when conducting monetary policy. At the same time, it is necessary to keep in mind that their effects on each economic entity are uneven depending on industry and size.
- Global financial markets have remained nervous due to an increase in various uncertainties, such as concern that the rise in inflation rates in the United States and Europe may be prolonged, developments in long-term interest rates reflecting the concern, and a risk regarding the Chinese economy. The Bank will continue to closely monitor such factors as

the conduct of monetary policy in the respective economies, as well as its impact on the economies and financial markets.

- Monetary policy will be normalized in Japan when the price stability target is achieved in a stable manner irrespective of policy developments in other economies. Given that the target has not been achieved, there is absolutely no reason to adjust monetary easing. The Bank should clearly explain this point to the public.
- 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.
- Given that financial positions of large firms are likely to continue improving, the Bank should give further consideration to how its purchases of corporate bonds will affect the market functioning, including the price determination mechanism, as well as the fund management by pension funds and life insurers.
- From the viewpoint of assessing the policy effects on the real economy, the Bank should closely monitor the progress with regional financial institutions' efforts toward strengthening their management structure for cultivating new borrowing needs and contributing to sustainable revitalization of the regional economy.

III. Opinions from Government Representatives

Ministry of Finance

- Under the new Cabinet, the government will work toward achieving the prime target of extricating Japan from deflation. Based on the prime minister's instructions, it will also develop a new economic stimulus package and compile a high-quality budget.
- At the Group of Twenty (G20) meeting, it was stated that central banks would act as needed to meet their mandates, including price stability.
- The government expects the Bank to conduct necessary measures appropriately, including responses to COVID-19, while cooperating with the government.

Cabinet Office

- The government has been swiftly making efforts to compile concrete measures in response to COVID-19, so that it has the overall picture of the responses in early November.

- The government will continue to strive to extricate Japan from deflation. In addition, it will work on designing a new economic stimulus package for compilation promptly after the general election.
- The government expects the Bank to continue to conduct appropriate monetary policy while carefully monitoring, for example, the impact of COVID-19 on the economy.