Not to be released until 8:50 a.m. Japan Standard Time on Tuesday, January 26, 2021.

January 26, 2021

Bank of Japan

Minutes of the Monetary Policy Meeting

on December 17 and 18, 2020

(English translation prepared by the Bank's staff based on the Japanese original)

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Thursday, December 17, 2020, from 2:00 p.m. to 3:59 p.m., and on Friday, December 18, from 9:00 a.m. to 12:06 p.m.[1]

Policy Board Members Present

Mr. KURODA Haruhiko, Chairman, Governor of the Bank of Japan

Mr. AMAMIYA Masayoshi, Deputy Governor of the Bank of Japan

Mr. WAKATABE Masazumi, Deputy Governor of the Bank of Japan

Mr. SAKURAI Makoto

Ms. MASAI Takako

Mr. SUZUKI Hitoshi

Mr. KATAOKA Goushi

Mr. ADACHI Seiji

Mr. NAKAMURA Toyoaki

Government Representatives Present

Mr. SHINKAWA Hirotsugu, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance

Mr. AKAZAWA Ryosei, State Minister of Cabinet Office, Cabinet Office[2]

Mr. TAWA Hiroshi, Vice-Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

Mr. UCHIDA Shinichi, Executive Director

Ms. SHIMIZU Tokiko, Executive Director (Assistant Governor)

Mr. KAIZUKA Masaaki, Executive Director

Mr. SHIMIZU Seiichi, Director-General, Monetary Affairs Department

Mr. IIJIMA Kota, Head of Policy Planning Division, Monetary Affairs Department

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on January 20 and 21, 2021, as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

[2] Mr. Akazawa was present on December 18.

[3] Mr. Tawa was present on December 17.

Mr. OTANI Akira, Director-General, Financial Markets Department

Mr. KAMEDA Seisaku, Director-General, Research and Statistics Department

Mr. KAWAMOTO Takuji, Head of Economic Research Division, Research and Statistics Department

Mr. FUKUMOTO Tomoyuki, Director-General, International Department

Secretariat of the Monetary Policy Meeting

Mr. NAKAJIMA Takeshi, Director-General, Secretariat of the Policy Board

Mr. HONDA Hisashi, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

Mr. FUKUDA Eiji, Deputy Director-General, Monetary Affairs Department[4]

Mr. YANO Masayasu, Head of Policy Infrastructure Division, Monetary Affairs Department[4]

Mr. HIGASHI Masato, Senior Economist, Monetary Affairs Department

Mr. TSUCHIKAWA Akira, Senior Economist, Monetary Affairs Department

[4] Messrs. Fukuda and Yano were present on December 18.

I. Summary of Staff Reports on Economic and Financial Developments[5]

A. Market Operations in the Intermeeting Period

In accordance with the short-term policy interest rate of minus 0.1 percent and the target level of the long-term interest rate, both of which were decided at the previous meeting on October 28 and 29, 2020, the Bank had been conducting purchases of Japanese government bonds (JGBs).[6] In this situation, 10-year JGB yields had been at around 0 percent, and the shape of the JGB yield curve had been consistent with the guideline for market operations.

The Bank had conducted purchases of CP and corporate bonds and the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) to support financing, mainly of firms, under the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19). In addition, with a view to maintaining stability in financial markets, the Bank had provided ample funds flexibly, mainly through purchases of JGBs and the conduct of the U.S. dollar funds-supplying operations, and had actively purchased exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs).

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments generally had been in negative territory. With regard to interest rates on overnight instruments, the uncollateralized overnight call rate had been in the range of around minus 0.02 to minus 0.04 percent. Overnight general collateral (GC) repo rates had been in the range of around minus 0.07 to minus 0.10 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had been more or less flat.

The Nikkei 225 Stock Average had risen, reflecting that market sentiment had improved, partly due to the end of the presidential and Congressional elections in the United States and progress in the development of vaccines for COVID-19. Long-term interest rates had been at around 0 percent under yield curve control. As for liquidity in the JGB market, a

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[5] Reports were made based on information available at the time of the meeting.

[6] The target level of the long-term interest rate was as follows:

The Bank will purchase a necessary amount of JGBs without setting an upper limit so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.

comparison of the November 2020 *Bond Market Survey* with the August survey showed that the diffusion index (DI) for the degree of bond market functioning (the proportion of institutions responding that bond market functioning was "high" minus the proportion of those responding that it was "low") had been more or less flat. In the foreign exchange market, where market sentiment had improved and the U.S. dollar had been depreciating, the yen had been appreciating slightly against the dollar while depreciating against the euro.

C. Overseas Economic and Financial Developments

Overseas economies had picked up, although the impact of a resurgence of COVID-19 had been seen in part. Since the number of confirmed new cases of COVID-19 had increased rapidly, European economies had reinstated public health measures, such as restrictions on going outside and on restaurant and retail store businesses in particular. However, even in countries such as the United Kingdom and France, where relatively strict measures had been introduced, economic activities, mainly in the manufacturing and construction industries, had been maintained, unlike in early spring 2020, and such measures had been eased gradually since the end of November with the number of confirmed new cases of COVID-19 decreasing. Under these circumstances, the decline in economic activity in Europe had been small compared with that in early spring and the impact had been concentrated in the face-to-face services industry. In addition, in the United States, where the number of confirmed new cases of COVID-19 had also increased rapidly, so far only some states had tightened their public health measures and no significant change had been observed in the improving trend in the overall economy. As mentioned earlier, each country had responded to the spread of COVID-19 in consideration of sustaining economic activity. In this situation, from a global perspective, business sentiment continued to improve clearly both in the manufacturing and services industries, and production of the manufacturing industry and trade volume had started to recover to the pre-pandemic levels. As for the outlook, overseas economies were likely to improve, partly supported by aggressive macroeconomic policies taken by each country and region. That said, it was highly likely that the pace of improvement would be only moderate and uneven for the time being, due in part to the impact of the resurgence of COVID-19 that was primarily seen in the United States and Europe. In addition, there remained extremely high uncertainties, mainly over the consequences of COVID-19 and their impact on overseas economies.

With regard to developments in overseas economies by region, the U.S. economy had picked up. Private consumption also had picked up, mainly for goods consumption, due in part to the government's measures implemented so far to compensate for the decline in household income and the materialization of pent-up demand, although services consumption remained at a low level, with the number of confirmed new cases of COVID-19 continuing to rise. Housing investment had increased clearly, with mortgage rates staying at record low levels. As for the corporate sector, business sentiment continued to improve and production had picked up. Under these circumstances, business fixed investment had started to pick up, mainly for machinery investment, although construction investment continued to decline.

The European economy had been pushed down, mainly for the services industry, reflecting the resurgence of COVID-19. In the euro area, as for private consumption, goods consumption remained firm but services consumption seemed to have been pushed down recently due to a tightening of public health measures. With regard to the corporate sector, although business sentiment in the services industry had deteriorated due to the resurgence of COVID-19, that in the manufacturing industry continued to improve, and exports and production had also picked up. Under these circumstances, business fixed investment had been depressed on the whole, mainly reflecting a decline in corporate profits, but it had picked up in part.

The Chinese economy continued to recover. Exports had increased. Private consumption had increased, mainly owing to an improvement in the employment and income situation, although the impact of COVID-19 remained in part. Fixed asset investment continued to increase, given, for example, that investment such as that related to public works had increased, reflecting the emergence of the effects of aggressive macroeconomic policies, and that such policy effects had also spread to the manufacturing industry. Under these circumstances, production also continued to increase.

Emerging economies other than China had picked up from a state of depression owing to progress in the resumption of economic activities. The NIEs and the ASEAN countries had seen a pick-up in economic activity, mainly for exports, although domestic demand remained depressed in some economies due to the impact of COVID-19. In India and Brazil, a pick-up had been widely observed on the whole with economic activities continuing to resume, although the number of confirmed new cases of COVID-19 remained at a high level. The Russian economy had been pushed down due to the resurgence of COVID-19.

With respect to overseas financial markets, in advanced economies, U.S. and European stock prices as well as U.S. long-term interest rates had risen, mainly reflecting that uncertainty over the transition of the U.S. administration had eased and expectations for early distribution of highly effective vaccines had increased. In the foreign exchange market, while the U.S. dollar had depreciated, currencies in emerging economies had appreciated on the whole. Crude oil prices had increased, mainly on the back of expectations for economic recovery that reflected progress made in the development of vaccines.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had picked up, although it remained in a severe situation due to the impact of COVID-19 at home and abroad. Regarding the outlook, the economy was likely to continue picking up, supported by accommodative financial conditions and the government's economic measures. However, the pace of the pick-up was expected to be only moderate for the time being while downward pressure stemming from COVID-19 continued, mainly on face-to-face services.

Exports and industrial production continued to increase on the back of a pick-up in overseas economies. Looking at real exports by goods, exports of automobile-related goods continued to increase clearly, reflecting a recovery in automobile sales in the United States, Europe, and China that was supported by the materialization of pent-up demand. With exports of parts for data centers, parts related to personal computers, and parts for on-board equipment for motor vehicles continuing to rise, IT-related exports kept increasing, which also reflected a rise in demand for parts related to new models of smartphones. Exports of capital goods had turned to a pick-up due to a global recovery in production activity and in demand for business fixed investment, mainly for machinery investment. As for the outlook, exports and production were likely to continue their increasing trend, mainly supported by the global recovery in demand for business fixed investment and firm digital-related demand, although the pace of increase was expected to decelerate due to a peaking-out of pent-up demand for automobile-related goods.

Private consumption had picked up gradually on the whole, although consumption of services, such as eating and drinking as well as accommodations, remained at a low level. As for goods consumption, automobile sales had increased since June 2020 and recently had been clearly above the levels seen around March. Sales of household electrical appliances remained firm, reflecting people spending more time at home, but the rate of increase had decelerated, partly due to a peaking-out of the positive effects of the provision of special cash payments. Food and daily necessities, for example, remained firm on the back of stay-at-home consumption, although their rates of increase had decelerated somewhat compared to a while ago. Services consumption had gradually picked up from the bottom hit in the April-May period, but its level remained low, mainly for face-to-face services. On a monthly basis, it remained susceptible to the situation regarding COVID-19; the pick-up in services consumption had leveled off due to an increase in the number of confirmed cases in summer, but had resumed in the September-October period, reflecting confirmed cases reaching a plateau and the effects of the "Go To" campaign. Dining-out in October had offset about 80 percent of the decline brought about by COVID-19, partly due to the demand-stimulating effects of the "Go To Travel" and "Go To Eat" campaigns since summer. As for travel, there had been almost no overseas travel as travel restrictions remained in place; on the other hand, domestic travel had shown a relatively marked pick-up, partly because the "Go To Travel" campaign had been expanded to include trips to and from Tokyo in October. However, according to interviews with firms and other relevant information, services consumption seemed to have shown growing signs of deceleration since mid-November, reflecting the resurgence of COVID-19. In the outlook, private consumption was likely to continue picking up as a trend. That said, while vigilance against the spread of COVID-19 continued, the pace of the pick-up was highly likely to be quite moderate for the time being.

With the continuing impact of COVID-19, the employment and income situation had been weak. As for the employment situation, according to the *Labour Force Survey*, the year-on-year rate of change in the number of employed persons remained in the range of minus 1.0 to minus 1.5 percent, mainly due to a decrease in non-regular employees in the face-to-face services industry. The year-on-year rate of change in the number of hours worked per employee continued to register relatively large negative growth, mainly in the accommodations as well as eating and drinking services industry, but the rate of change had been on an increasing trend in negative territory on the whole. With regard to labor market conditions, the active job openings-to-applicants ratio had stopped declining, mainly due to a pick-up in the number of job openings over the past few months. Looking at the employment conditions DI in the *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the net "insufficient" had narrowed significantly in the June 2020 survey and then had expanded again in the December survey, reflecting a pick-up in economic activity. The labor force participation rate had increased moderately because those who had been out of the labor market in the April-June quarter had been returning to it. The unemployment rate had been on a moderate uptrend. Total cash earnings had declined, mainly due to a decrease in non-scheduled cash earnings. Employee income was projected to continue declining clearly for the time being, while lagging somewhat behind the past worsening of business performance.

Corporate profits and business sentiment had deteriorated significantly but subsequently had improved gradually. Looking at the *Financial Statements Statistics of Corporations by Industry, Quarterly*, the ratio of current profits to sales for the July-September quarter had picked up with economic activity resuming. The business conditions DI for all industries and enterprises in the December *Tankan* had improved for the second consecutive quarter. Although the DI's level remained clearly below that in the March survey, the net "unfavorable" level had narrowed by about half compared with that in the June survey. Business fixed investment had been on a declining trend. While the aggregate supply of capital goods -- a coincident indicator of machinery investment -- had turned to a pick-up, reflecting increases in exports and production, private construction completed (nonresidential) -- a coincident indicator of construction investment -- continued to be on a moderate declining trend, partly due to large-scale Olympic Games-related construction having almost reached completion. Machinery orders -- a leading indicator of machinery investment -- had picked up, mainly for the manufacturing industry. On the other hand, construction starts -- a leading indicator of construction investment -- continued to be on a declining trend. This was largely attributable to a decrease in construction of stores and accommodation facilities, mainly in the eating and drinking as well as accommodations industry, which had been affected by COVID-19. Regarding figures for the December *Tankan* surveys, the business fixed investment plan for fiscal 2020 showed negative growth on a year-on-year basis, albeit marginally, for the first time since fiscal 2009. Within such plan, the year-on-year rate of change in software investment was expected to remain positive, reflecting firm developments in digital-related investment, although it had been revised downward from that in the September *Tankan*. As for the outlook, business fixed investment was expected to pick up gradually on the whole due to the increase in machinery investment by the manufacturing industry that reflected recoveries in exports and production, although construction investment by the services industry was projected to remain weak.

As for prices, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) had been negative, mainly affected by COVID-19, the past decline in crude oil prices, and the "Go To Travel" campaign. With regard to the outlook, the year-on-year rate of change in the CPI (all items less fresh food) was also likely to be negative for the time being.

2. Financial environment

Financial conditions had been accommodative on the whole but those for corporate financing remained less so, as seen in weakness in firms' financial positions.

Inflation expectations had weakened somewhat.

Firms' demand for funds that mainly reflected a decline in sales and a rise in precautionary demand, both of which were due to the impact of COVID-19, remained at a high level, although an increase in demand by large firms in particular had paused. With regard to credit supply, financial institutions' lending attitudes as perceived by firms had been accommodative. Issuing conditions for CP and corporate bonds had been favorable on the whole. Firms' funding costs had been hovering at extremely low levels. In this situation, the year-on-year rate of increase in the amount outstanding of bank lending had been at around 6 percent. That in the amount outstanding of CP and corporate bonds had been at a relatively high level that exceeded 10 percent, although the rate had decelerated compared to a while ago. Thus, the environment for external funding remained accommodative owing to the Bank's and the government's measures, as well as efforts made by financial institutions. The number of bankruptcies of firms had also been at a low level. However, although firms' financial positions had improved moderately, they remained weak, mainly reflecting a decline in sales due to the impact of COVID-19. With the pace of economic improvement being moderate, corporate financing was likely to remain under stress.

The year-on-year rate of increase in the monetary base had been at around 16.5 percent, and that in the money stock had been at around 9 percent.

II. Summary of Discussions by the Policy Board on Economic and Financial Developments

A. Economic Developments

Members agreed that sentiment in global financial markets had improved, partly due to the end of the U.S. presidential election and progress in the development of vaccines. However, they pointed out, for example, that the volatility indices for the stock market remained at a relatively higher level than that seen before the outbreak of COVID-19. On this basis, members shared the view that there existed various uncertainties that could lead to instability in financial markets, including the course of COVID-19. Some members said that, in the foreign exchange market, the U.S. dollar continued to depreciate moderately against the yen as part of its depreciation trend against a wide range of currencies, and that developments in the foreign exchange and other financial markets continued to warrant attention. One of these members added that the recent improvement in market sentiment had been partly driven by expectations for vaccines, and that this member was therefore closely monitoring stock market developments as well. Meanwhile, one member pointed out that future developments in the U.S. credit market warranted attention, since market participants had been actively conducting risk-taking activities.

Members concurred that overseas economies had picked up on the whole, although the impact of the resurgence of COVID-19 had been seen in part. However, some members expressed the view that the pick-up in overseas economies had been uneven across economies and also across industries: while the pick-up in manufacturing had been firm, deterioration in business conditions in nonmanufacturing -- the face-to-face services industry in particular -- was of concern due to the recent resurgence of COVID-19. With regard to the outlook, members shared the recognition that overseas economies were likely to improve, partly supported by aggressive macroeconomic policies taken by each country and region; however, they continued that it was highly likely that the pace of improvement would be only moderate and uneven for the time being, due in part to the impact of the resurgence of COVID-19 that was primarily seen in the United States and Europe. Some members expressed the view that, while positive news relating to vaccines was encouraging, it would take some time for vaccines and medicines to become widely available. In addition, many members pointed out that risks to future developments included the consequences of COVID-19, the tension between the United States and China, as well as trade negotiations between the United Kingdom and the European Union (EU), and that they entailed high uncertainties.

With regard to overseas economies by region, members shared the assessment that the U.S. economy had picked up. A few members pointed out that, despite an increase in the number of confirmed new cases of COVID-19, private consumption had picked up, mainly in goods consumption, and production and business sentiment in the manufacturing industry continued to improve. A few members said that housing-related demand had been firm, owing in part to an expansion of teleworking. However, some members noted that it was of concern that a recovery in employment had slowed with the resurgence of COVID-19.

Members shared the view that the European economy had been pushed down, particularly in the services industry, given the resurgence of COVID-19. A few members said that the decline in economic activity had been small compared with that in early spring; nevertheless, the growth rate for the October-December quarter was likely to be pushed down with public health measures being tightened. Adding to this, one member drew attention to the issue of whether necessary support through fiscal responses would continue to be provided so as to avoid the "fiscal cliff" with the impact of COVID-19 being prolonged.

Members concurred that the Chinese economy continued to recover. One member expressed the view that this recovery was the most remarkable among major economies and had been spreading from the corporate sector to the household sector. One member said that, with the slow pace of global economic recovery as well as the tension between the United States and China, the Chinese economy was expected to continue recovering, mainly led by domestic demand for the time being. This member continued that the signing in November of the Regional Comprehensive Economic Partnership (RCEP) Agreement by economies that are mainly in East Asia would have a positive impact on the Chinese economy from a somewhat long-term perspective. Meanwhile, one member, noting that some state-owned enterprises had defaulted, pointed out that due attention should be paid to future developments in the Chinese economy in terms of the sustainability of the recovery and policy responses.

Members shared the view that emerging economies had picked up from a state of depression owing to progress in the resumption of economic activities. One member said that there were differences among emerging economies in the pace of spread of COVID-19 and in terms of room for further policy responses, and therefore the pace of future economic recovery was projected to vary significantly across them.

Based on the above deliberations on economic and financial conditions abroad, members discussed the state of Japan's economy.

With regard to economic activity, members concurred that the economy had picked up, although it remained in a severe situation due to the impact of COVID-19 at home and abroad. Some members expressed the view that the economy continued to pick up on the whole, led by developments in goods, although the pick-up remained uneven across industries. However, many members said that the pick-up in the face-to-face services industry had been slowing due to the impact of the resurgence of COVID-19.

As for the outlook for economic activity, members concurred that Japan's economy, with the impact of COVID-19 waning gradually, was likely to follow an improving trend, supported by accommodative financial conditions and the government's economic measures; however, the pace of improvement was expected to be only moderate while vigilance against COVID-19 continued. They shared the view that thereafter, as the impact subsided globally, the economy was projected to keep improving further with overseas economies returning to a steady growth path. Nevertheless, many members expressed concern about the risk that the pace of economic recovery would be pushed down further, as evidenced, for example, by increased uncertainties over the outlook amid the continued spread of COVID-19, mainly for the face-to-face services industry. At the same time, some members said that the government's economic measures were expected to support and push up future economic activity.

Turning to current developments, members shared the recognition that exports and production continued to increase on the back of the pick-up in overseas economies. Some members said that exports and production of automobile-related goods in particular had evidently gained recovery momentum. One member pointed out that the pace of the pick-up in exports was faster than expected. As for the outlook, members shared the view that exports and production were likely to continue their increasing trend, mainly supported by the global recovery in demand for business fixed investment and firm digital-related demand, although the pace of increase was expected to decelerate due to a peaking-out of pent-up demand for automobile-related goods.

With regard to private consumption, members agreed that it had picked up gradually on the whole, although consumption of services, such as eating and drinking as well as accommodations, remained at a low level. Many members said that services consumption seemed to have been pushed down due to the resurgence of COVID-19. On the other hand, some members pointed out that goods consumption had been firm, owing in part to an expansion in stay-at-home consumption. In the outlook, members shared the view that private consumption was likely to continue picking up as a trend, but while vigilance against the spread of COVID-19 continued, the pace was highly likely to be quite moderate for the time being. Many members commented that the pick-up in private consumption was likely to be pushed down for the time being, against the background of such developments as self-restraint from holding year-end parties and visiting hometowns, as well as a suspension of the "Go To" campaign -- all of which were due to the resurgence of COVID-19. One of these members noted that, as the year-end and new-year peak sales period was approaching, the effects of these developments were of particular concern. Some members said that deterioration in corporate profits had been spreading to employee income with a time lag, and therefore they were paying attention to the impact on household sentiment.

Members concurred that, with the continuing impact of COVID-19, the employment and income situation had been weak. A few members pointed out that the decline in employment had been constrained, partly owing to the effects of the policy measures implemented by the government and the Bank. One member said that, since the resurgence of COVID-19 had a considerable impact on the face-to-face services industry, which held a large number of employees, attention on such impact was warranted. As for the outlook, members shared the view that employee income was projected to continue declining clearly for the time being, while lagging somewhat behind the past deterioration in corporate profits. Some members expressed the view that the unemployment rate could rise moderately since those who had been out of the labor market around early spring 2020 had been returning to it.

Members shared the recognition that business fixed investment had been on a declining trend. A few members pointed out that varying developments were beginning to appear among sectors: while investment by the services industry that had been largely affected by COVID-19 was likely to remain weak for the time being, a pick-up had been observed in machinery investment by the manufacturing industry. As for the outlook, members shared the view that business fixed investment was likely to pick up gradually on the whole due to the increase in machinery investment by the manufacturing industry that reflected recoveries in exports and production, although construction investment by the services industry was projected to remain weak. Some members noted that, although the business fixed investment plan in the December *Tankan* had not presented substantially negative figures compared with at the time of the Global Financial Crisis, it had been revised downward again. These members then expressed the view that, together with developments in the software investment plan, which also had been revised downward, they would carefully monitor changes in firms' future investment stance. Meanwhile, a few members were of the view that accommodative financial conditions had supported firms' fixed investment stance.

As for prices, members agreed that the year-on-year rate of change in the CPI had been negative, mainly affected by COVID-19, the past decline in crude oil prices, and the "Go To Travel" campaign, and that inflation expectations had weakened somewhat. A few members said that, excluding temporary factors such as the decline in energy prices and a discount on hotel charges due to the "Go To Travel" campaign, the year-on-year rate of change in the CPI remained slightly positive, and that prices had been firm compared with the decline in economic activity. In addition, many members expressed the view that, at this moment, price-setting behavior by firms that aimed at stimulating demand through price cuts -- as seen in the deflation period -- had not been observed widely. One of these members noted that, although prices had been relatively weak recently, they had not been declining at an accelerated pace. Meanwhile, a few members expressed the view that firms' inflation expectations had been maintained. One of these members commented that households' inflation expectations also had not declined sharply, although they were weak.

With regard to the outlook, members shared the recognition that the year-on-year rate of change in the CPI was likely to be negative for the time being, mainly affected by COVID-19, the past decline in crude oil prices, and the "Go To Travel" campaign. They continued that, thereafter, it was expected to turn positive and then increase gradually, since downward pressure on prices was projected to wane gradually along with economic improvement, and the effects of such factors as the decline in crude oil prices were likely to dissipate. Some members commented that, given that the economy was likely to continue to be pushed down by COVID-19 for the time being, it was necessary to be fully prepared to face the fact that it would take considerable time to achieve the price stability target of 2 percent. One member pointed out that, reflecting the decline in corporate profits and household income, it was quite difficult to hold an optimistic view on whether firms' and households' perception of prices would improve. A different member said that there was still a risk of the economy falling into deflation again as medium- to long-term inflation expectations had weakened somewhat. Meanwhile, one member expressed the view that, with the output gap deteriorating, it was difficult to envisage prices rising toward the 2 percent target in the near future.

As for risks to economic activity and prices, members agreed that there had been extremely high uncertainties over the consequences of COVID-19 and the magnitude of their impact; in particular, the impact of the recent resurgence of COVID-19 at home and abroad should be carefully monitored. In addition, members shared the view that it was necessary to pay close attention to whether, while the impact of COVID-19 remained, growth expectations would not decline substantially and the smooth functioning of financial intermediation would be ensured. A few members said that, even with positive news about vaccines, it was likely that uncertainties over the impact of COVID-19 on the economy would remain extremely high until effective vaccines became widely available. A few members noted that adjustment pressure on business fixed investment and employment was likely to remain in Japan. These members continued that, in this situation, there was a risk that the resurgence of COVID-19 at home and abroad would lead to an economic downturn through the tightening of public health measures and deterioration in households' sentiment, and thus this risk warranted attention. In addition, a few members commented that, while the impact of COVID-19 could be prolonged, attention needed to be paid to developments in financial institutions' credit costs. One of these members added that attention also should be paid to how an increase in financial institutions' provision of subordinated loans and the narrowing of spreads on these loans would affect their intermediation function.

B. Financial Developments

Regarding financial conditions in Japan, members concurred that the environment for external funding had been accommodative owing to the Bank's and the government's measures, as well as active efforts made by private financial institutions, and that financial conditions had been accommodative on the whole. However, members shared the view that financial conditions for corporate financing remained less so, as seen in the continued weakness in firms' financial positions. Some members pointed out that, depending on the situation regarding COVID-19, an increasing number of firms could once again face deterioration in their financial positions, mainly in the face-to-face services industry.

III. Summary of Discussions on Monetary Policy

Based on the above assessment of economic and financial developments, members discussed monetary policy.

At this meeting, members deliberated over responses to be made for the time being and from a somewhat long-term perspective, based on the recognition that it was necessary for the Bank to support the economy and thereby achieve the price stability target of 2 percent, given that economic activity and prices were projected to remain under downward pressure for a prolonged period due to the impact of COVID-19.

First, as for responses to be made for the time being, members concurred that the three monetary easing measures that were currently implemented to respond to COVID-19 -- namely, (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of yen and foreign currency funds without setting upper limits, and (3) active purchases of assets such as ETFs -- had been exerting their effects. However, they shared the view that financing, mainly of firms, was likely to remain under stress for the time being with vigilance against COVID-19 continuing and the economy improving at only a moderate pace. Given this situation, members agreed that it was appropriate for the Bank to decide to extend the duration of the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) and continue to support financing, mainly of firms. Many members expressed the recognition that, with COVID-19 resurging and uncertainties remaining high, indicating at an early point that the Bank would extend the duration of the Special Program would give a sense of security mainly to financial institutions that used the program and firms that raised funds from them, and that this would lead to alleviating firms' concern over their financing. Some members pointed out that the government had indicated in its new economic measures that it would further support the economy through, for example, ensuring corporate financing. In addition, some members stated that, together with the extension of the duration of the Special Program, it was desirable to also make adjustments to it, if necessary.

Based on the members' views, the chairman requested that the staff explain what responses could be considered regarding the extension of the duration of the Special Program and adjustments to the program.

The staff provided the following explanation.

(1) The Bank could extend the duration of the Special Program by 6 months until the end of September 2021, and make public that, depending on the future impact of COVID-19, the Bank would consider further extension of the program if necessary.

(2) The specifics of adjustments to the Special Program could be as follows.

(a) Given that the amount outstanding of corporate bonds with long remaining maturities tended to accumulate relatively easily, the maximum amount of additional purchases of CP and corporate bonds, which used to be 7.5 trillion yen for each asset, would be combined and distributed between each asset depending on market conditions.

(b) With regard to the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19), in order to further actively encourage private financial institutions to make loans on their own in response to COVID-19 mainly to small and medium-sized firms, the Bank would remove the upper limit of 100 billion yen on the funds it provided to each eligible counterparty against loans that private financial institutions made on their own, which were part of eligible loans under this operation.

Based on the staff's explanation, members agreed that it was appropriate for the Bank to extend the duration of the Special Program by 6 months and make the proposed adjustments to the program.

On this basis, members shared the recognition that it was important for the Bank to continue to support financing, mainly of firms, and maintain stability in financial markets through the three monetary easing measures. They also concurred that, for the time being, the Bank would closely monitor the impact of COVID-19 and not hesitate to take additional easing measures if necessary. A few members pointed out that the recent improvement in market sentiment had been partly driven by expectations for vaccines, and thus the risk of large fluctuations in financial markets continued to warrant attention. One member was of the opinion that, with full consideration of securing stability in financial markets and the financial system, it was important for the Bank to continue to make policy responses swiftly and effectively while firmly maintaining cooperation by, for example, exchanging information with the government and other major central banks. This member expressed the view that it was necessary for the Bank to continue to closely cooperate with the government based on their respective roles.

Members then deliberated over responses to be made from a somewhat long-term perspective. Some members expressed the view that it was highly likely that it would take time to achieve the price stability target of 2 percent due to the impact of COVID-19. Some members said that, considering that containment of the spread of COVID-19 and improvement in economic activity should be achieved simultaneously during the COVID-19 era, it would be necessary for the Bank to analyze once again the policy effects seen so far and examine from various aspects how to achieve the price stability target of 2 percent.

Members shared the recognition that the framework of Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, which was introduced after the Bank made a comprehensive assessment in summer 2016, had been working well so far, and thus there was no need to change it. Many members expressed the view that, given this framework, it was appropriate to assess various measures, such as asset purchases and the conduct of yield curve control. One member said that the Bank should examine the positive and side effects of monetary easing and enhance its sustainability and effectiveness as necessary. One member added that the Bank should assess its strategy, tools, and communication with determination to never allow Japan's economy to return to deflation, taking account of the initiatives taken by other central banks as well as academic research studies.

Some members expressed their opinions regarding asset purchases and the conduct of yield curve control. As for such purchases as of ETFs, a few members were of the opinion that this measure had played a significant role thus far as part of QQE with Yield Curve Control and remained necessary. One of these members expressed the view that it was premature to consider a so-called exit from those purchases. A few members said that active purchases, such as of ETFs, should be maintained for the time being, and that, under prolonged monetary easing, the Bank should seek room to make flexible adjustments depending on market conditions while taking into consideration the effects on market functioning as well as the Bank's financial soundness. A different member considered that, even under the current guideline for asset purchases, it was possible to conduct asset purchases in a more flexible manner depending on market conditions, but noted that it was worthwhile to look for additional ways. Next, as for the conduct of yield curve control, a few members commented that it was necessary for the Bank to enhance its sustainability through the flexible conduct and be prepared, so that it could respond effectively to possible changes in economic activity and prices as well as financial conditions. A different member expressed the view that it was necessary to take into account the possibility that, along with the increase in issuance of JGBs, supply-demand conditions would be eased in the bond market; meanwhile, with a view to simultaneously achieving prolonged monetary easing and financial system stability, it was desirable, in a sense, for the yield curve to become steeper at a moderate pace. This member continued that, in this situation, it would become necessary to control the yield curve more carefully and finely.

Based on the above discussions, members agreed that it was appropriate to conduct an assessment for further effective and sustainable monetary easing, with a view to achieving the price stability target of 2 percent. Some members emphasized that it was important to make clear that the objective of the upcoming assessment was to continue with monetary easing toward achieving the target. Most members shared the recognition that there was no need to change the Bank's commitments to date -- namely, achievement of the price stability target of 2 percent and the inflation-overshooting commitment for achieving that target, as well as the guidance for the policy rates. On this basis, members concurred that it was appropriate for the Bank to make public its findings of the assessment, likely at the March 2021 Monetary Policy Meeting, and announce after this meeting that it would conduct the assessment.

Members also discussed the growth potential of Japan's economy and firms. A few members expressed the recognition that there was considerable room for enhancing productivity of Japanese firms, mainly small and medium-sized ones, and it was vital for them to improve corporate management through such means as digitalization. These members added that this was also important with a view to strengthening the growth potential of Japan's economy. In addition, one member said that, in order to encourage firms' efforts toward creating value-added, it was important to develop and enhance direct financing through, for example, creating a deep corporate bond market so that more investment funds for growth would be provided to firms, and that the Bank should encourage their activities toward sustainable growth.

With respect to <u>yield curve control</u>, members shared the recognition that the JGB yield curve had been formed smoothly in a manner consistent with the guideline for market operations.

Based on the above discussions, regarding <u>the guideline for market operations for the intermeeting period</u>, most members expressed the view that it was appropriate for the

Bank to maintain the following guideline. First, as for the short-term policy interest rate, it would apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. Second, as for the long-term interest rate, the Bank would purchase a necessary amount of JGBs without setting an upper limit so that 10-year JGB yields would remain at around 0 percent. While doing so, the yields might move upward and downward to some extent mainly depending on developments in economic activity and prices.

On this point, one member expressed the opinion that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, with a view to responding to an increase in downward pressure on prices and encouraging firms to make active business fixed investment for the post-COVID-19 era.

With regard to asset purchases other than JGB purchases, members shared the recognition that it was appropriate for the Bank to implement the following guideline. First, it would purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively. With a view to lowering risk premia of asset prices in an appropriate manner, the Bank might increase or decrease the amount of purchases, depending on market conditions. For the time being, it would actively purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces with the upper limit of about 12 trillion yen and about 180 billion yen, respectively. Second, as for CP and corporate bonds, the Bank would maintain their amounts outstanding at about 2 trillion yen and about 3 trillion yen, respectively. In addition, until the end of September 2021, it would conduct additional purchases with an upper limit on the amount outstanding of 15 trillion yen in total.

With respect to the Bank's thinking behind its future conduct of monetary policy, members shared the view that it would (1) continue with QQE with Yield Curve Control, aiming to achieve the price stability target of 2 percent, as long as it was necessary for maintaining that target in a stable manner, and (2) continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeded 2 percent and stayed above the target in a stable manner.

With regard to the measures that the Bank had introduced and strengthened since March 2020 in response to the impact of COVID-19, members concurred that the Bank would continue to support financing, mainly of firms, and maintain stability in financial markets through (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of yen and foreign currency funds without setting upper limits mainly by purchasing JGBs and conducting the U.S. dollar funds-supplying operations, and (3) active purchases of ETFs and J-REITs.

Regarding its policy stance for the time being, members agreed that the Bank would closely monitor the impact of COVID-19 and not hesitate to take additional easing measures if necessary. Based on this, most members shared the view that, as for policy rates, it would expect short- and long-term interest rates to remain at their present or lower levels.

On this point, one member was of the opinion that, in order to avoid Japan's economy returning to deflation, further coordination of fiscal and monetary policy was necessary and it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target, thereby committing itself to conducting monetary policy based on concrete conditions.

IV. Remarks by Government Representatives

The representative from the Cabinet Office made the following remarks.

(1) The comprehensive economic measures that were decided by the Cabinet on December 8, 2020, included thorough measures to prevent the spread of COVID-19 and were aimed at (1) stimulating private investment in growth areas such as those related to digital reform and the realization of a green society, and at (2) pushing forward with disaster prevention and mitigation, as well as building national resilience. The comprehensive economic measures were expected to raise real GDP by about 3.6 percent and create around 600 thousand employment opportunities by the end of fiscal 2021. Through the prompt implementation of various measures, economic growth led by private demand would be achieved.

(2) The government recognized that the Bank's decisions to extend the duration of the Special Program and make adjustments to it had been made in a timely manner, in that the Bank would do its utmost to support corporate financing in line with the government's economic measures.

(3) The government expected the Bank to continue to closely cooperate with the government. It also expected the Bank to conduct appropriate monetary policy while carefully

monitoring the impact of COVID-19 on the economy as well as developments in financial and capital markets.

The representative from the Ministry of Finance made the following remarks.

(1) The government recognized that, mainly through extending the duration of the Special Program, the Bank would do its utmost to ensure smooth corporate financing, taking account of the consequences of COVID-19 and the government's economic measures. In addition, it expected the Bank to appropriately conduct an assessment for further effective and sustainable monetary easing to achieve the price stability target of 2 percent.

(2) The third supplementary budget for fiscal 2020 was decided by the Cabinet on December 15 in order to implement the comprehensive economic measures. In addition, the government was in the process of finalizing the budget for fiscal 2021. With regard to the fiscal 2021 tax reform, the government would respond to such issues as achievement of economic revitalization in the post-COVID-19 era and realization of a digitalized and green society. Taking these factors into account, the ruling parties formulated the outline for the tax reform on December 10.

(3) Based on the comprehensive economic measures, the government would continue to share with the Bank a strong sense of tension and cooperate closely with it under an appropriate policy mix of fiscal and monetary policies. The government expected the Bank to conduct appropriate monetary policy while carefully monitoring the impact of COVID-19 on the economy.

V. Votes

A. Vote on the Guideline for Market Operations

Based on the above discussions, to reflect the majority view of the members, the chairman formulated the following proposal on the guideline for market operations and put it to a vote.

The Policy Board decided the proposal by a majority vote.

The Chairman's Policy Proposal on the Guideline for Market Operations:

The guideline for market operations for the intermeeting period will be as follows.

1. The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

2. The Bank will purchase a necessary amount of JGBs without setting an upper limit so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.

Votes for the proposal: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. SAKURAI Makoto, Ms. MASAI Takako, Mr. SUZUKI Hitoshi, Mr. ADACHI Seiji, and Mr. NAKAMURA Toyoaki.
Votes against the proposal: Mr. KATAOKA Goushi.

Mr. Kataoka dissented, considering that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, with a view to responding to an increase in downward pressure on prices and encouraging firms to make active business fixed investment for the post-COVID-19 era.

B. Vote on the Guideline for Asset Purchases

To reflect the view of the members, the chairman formulated the following proposal on the guideline for asset purchases and put it to a vote.

The Policy Board decided the proposal by a unanimous vote.

The Chairman's Policy Proposal on the Guideline for Asset Purchases:

The guideline for asset purchases other than JGB purchases will be as follows.

1. In principle, the Bank will purchase ETFs and J-REITs so that their amounts outstanding will increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively. With a view to lowering risk premia of asset prices in an appropriate manner, it may increase or decrease the amount of purchases depending on market conditions. For the time being, the Bank will actively purchase these assets so that their amounts outstanding will increase at annual

paces with the upper limit of about 12 trillion yen and about 180 billion yen, respectively.

2. As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2 trillion yen and about 3 trillion yen, respectively. In addition, until the end of September 2021, it will conduct additional purchases with an upper limit on the amount outstanding of 15 trillion yen in total.

Votes for the proposal: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. SAKURAI Makoto, Ms. MASAI Takako, Mr. SUZUKI Hitoshi, Mr. KATAOKA Goushi, Mr. ADACHI Seiji, and Mr. NAKAMURA Toyoaki.
Votes against the proposal: None.

C. Vote on "Amendment to 'Principal Terms and Conditions of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19)'"

Members voted unanimously to approve "Amendment to 'Principal Terms and Conditions of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19),'" which represented the aforementioned staff reports.

D. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy. Mr. Kataoka expressed the opinion that, in order to avoid Japan's economy returning to deflation, further coordination of fiscal and monetary policy was necessary and it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.

Based on this discussion, the chairman formulated the Statement on Monetary Policy and put it to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment 1).

VI. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of October 28 and 29, 2020, for release on December 23.

Attachment 1
December 18, 2020
Bank of Japan

Statement on Monetary Policy

1. Japan's economy has picked up, but the pace of improvement is expected to be only moderate while vigilance against the novel coronavirus (COVID-19) continues (see Attachment 2). In this situation, financing, mainly of firms, is likely to remain under stress for the time being. Given these circumstances, the Bank of Japan judged it appropriate to extend the duration of the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) by 6 months and make adjustments to the program, with a view to continuing to support financing, mainly of firms. To this end, at the Monetary Policy Meeting (MPM) held today, the Policy Board of the Bank decided upon the following. Depending on the future impact of COVID-19, the Bank will consider further extension of the program if necessary.

   (1) Additional purchases of CP and corporate bonds (a unanimous vote)

   The Bank will extend the duration of additional purchases of CP and corporate bonds by 6 months until the end of September 2021. It will continue conducting purchases of these assets with an upper limit on the amount outstanding of about 20 trillion yen in total. Out of 20 trillion yen, 15 trillion yen will be for the additional purchases of CP and corporate bonds and it will be distributed between each asset depending on market conditions.[7]

   (2) Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) (a unanimous vote)

   The Bank will extend the duration of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) by 6 months until the end of September 2021. In addition, in order to further actively encourage private financial institutions to make loans on their own in response to COVID-19 mainly to small and medium-sized firms, the Bank will remove the upper limit of funds it provides to each

[7] The maximum amount of additional purchases of CP and corporate bonds used to be 7.5 trillion yen for each asset. Aside from the additional purchases, the amounts outstanding of CP and corporate bonds will be maintained at about 2 trillion yen and about 3 trillion yen, respectively.

eligible counterparty (i.e., 100 billion yen) against loans that private financial institutions make on their own, which are part of eligible loans under this operation.

2. The Bank decided to set the following guidelines for market operations as well as for purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs).

(1) Yield curve control (an 8-1 majority vote) [Note 1]

The short-term policy interest rate:

The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

The long-term interest rate:

The Bank will purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.[8]

(2) Purchases of ETFs and J-REITs (a unanimous vote)

The Bank will actively purchase ETFs and J-REITs for the time being so that their amounts outstanding will increase at annual paces with the upper limit of about 12 trillion yen and about 180 billion yen, respectively.[9]

3. The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed consumer price index (CPI, all items less fresh food) exceeds 2 percent and stays above the target in a stable manner.

The Bank will continue to support financing mainly of firms and maintain stability in financial markets through (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of yen and foreign currency funds without

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[8] In case of a rapid increase in the yields, the Bank will purchase JGBs promptly and appropriately.

[9] As for the guideline for purchases of ETFs and J-REITs, in principle, "the Bank will purchase these assets so that their amounts outstanding will increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively. With a view to lowering risk premia of asset prices in an appropriate manner, the Bank may increase or decrease the amount of purchases depending on market conditions."

setting upper limits mainly by purchasing JGBs and conducting the U.S. dollar funds-supplying operations, and (3) active purchases of ETFs and J-REITs.

For the time being, the Bank will closely monitor the impact of COVID-19 and will not hesitate to take additional easing measures if necessary, and also it expects short- and long-term policy interest rates to remain at their present or lower levels. [Note 2]

4. Given that economic activity and prices are projected to remain under downward pressure for a prolonged period due to the impact of COVID-19, the Bank will conduct an assessment for further effective and sustainable monetary easing, with a view to supporting the economy and thereby achieving the price stability target of 2 percent. In doing so, since the framework of "QQE with Yield Curve Control" has been working well to date, the Bank judges that there is no need to change it. The Bank will assess various measures conducted under this framework and make public its findings, likely at the March 2021 MPM.

[Note 1] Voting for the action: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. SAKURAI Makoto, Ms. MASAI Takako, Mr. SUZUKI Hitoshi, Mr. ADACHI Seiji, and Mr. NAKAMURA Toyoaki. Voting against the action: Mr. KATAOKA Goushi. Mr. Kataoka dissented, considering that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, with a view to responding to an increase in downward pressure on prices and encouraging firms to make active business fixed investment for the post-COVID-19 era.

[Note 2] Mr. Kataoka dissented, considering that, in order to avoid Japan's economy returning to deflation, further coordination of fiscal and monetary policy was necessary and it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.

Attachment 2

Economic Activity and Prices in Japan: Current Situation and Outlook

1. Japan's economy has picked up, although it has remained in a severe situation due to the impact of the novel coronavirus (COVID-19) at home and abroad. Overseas economies also have picked up, although the impact of a resurgence of COVID-19 has been seen in part. In this situation, exports and industrial production have continued to increase. In addition, corporate profits and business sentiment deteriorated significantly but subsequently have improved gradually. Business fixed investment has been on a declining trend. With the continuing impact of COVID-19, the employment and income situation has been weak. Private consumption has picked up gradually on the whole, although consumption of services, such as eating and drinking as well as accommodations, has remained at a low level. Housing investment has declined moderately. Public investment has continued to increase moderately. Financial conditions have been accommodative on the whole but those for corporate financing have remained less so, as seen in weakness in firms' financial positions. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) has been negative, mainly affected by COVID-19, the past decline in crude oil prices, and the "Go To Travel" campaign. Inflation expectations have weakened somewhat.

2. Japan's economy, with the impact of COVID-19 waning gradually, is likely to follow an improving trend, supported by accommodative financial conditions and the government's economic measures. However, the pace of improvement is expected to be only moderate while vigilance against COVID-19 continues. Thereafter, as the impact subsides globally, the economy is projected to keep improving further with overseas economies returning to a steady growth path. The year-on-year rate of change in the CPI (all items less fresh food) is likely to be negative for the time being, mainly affected by COVID-19, the past decline in crude oil prices, and the "Go To Travel" campaign. Thereafter, it is expected to turn positive and then increase gradually, since downward pressure on prices is projected to wane gradually along with economic improvement, and the effects of such factors as the decline in crude oil prices are likely to dissipate.

3. With regard to risks to the outlook, there have been extremely high uncertainties over the consequences of COVID-19 and the magnitude of their impact on domestic and overseas economies. In particular, the impact of the recent resurgence of COVID-19 at home and abroad

should be carefully monitored. In addition, it is necessary to pay close attention to whether, while the impact of COVID-19 remains, firms' and households' medium- to long-term growth expectations will not decline substantially and the smooth functioning of financial intermediation will be ensured with financial system stability being maintained.