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December 28, 2020

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on December 17 and 18, 2020

I. Opinions on Economic and Financial Developments

Economic Developments

- 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.
- Japan's economy has picked up, although it has remained in a severe situation. That said, there is a risk that the pace of economic recovery will be pushed down further, mainly due to the impact of the spread of COVID-19.
- Although Japan's economy has been in a severe situation with the continuing impact of COVID-19, it has maintained its improving trend on the whole. However, due to the recent spread of COVID-19, uncertainties over the outlook are increasing, mainly for the face-to-face services industry, and thus it is necessary to carefully examine future developments.
- With regard to the global economy, deterioration in business conditions of the face-to-face services industry is of concern due to a resurgence of COVID-19, whereas business conditions of the manufacturing industry have picked up firmly on the whole. Attention should be paid to the fact that the recent resurgence of COVID-19 has an uneven impact across countries, regions, and industries, rather than putting large downward pressure on the whole global economy.

¹ English translation prepared by the Bank's staff based on the Japanese original.

² "Summary of Opinions at the Monetary Policy Meeting" is made through the following process: (1) each Policy Board member and government representative makes a summary of opinions that she/he presented at the Monetary Policy Meeting (MPM) under a certain word limit and submits this to the Governor of the Bank of Japan, who serves as the chairman of the MPM, and (2) the chairman edits those opinions as his responsibility.

- Japan's economy is likely to follow an improving trend, but the pace is expected to be only moderate while vigilance against COVID-19 continues.
- Japan's economy is still on its way to recovery and it needs to be supported by policy effects for the time being.
- Even with positive news about the development of vaccines, it is likely that uncertainties over the impact of COVID-19 on the economy will remain extremely high until they become widely available.
- Adjustment pressure on business fixed investment and employment is likely to remain in Japan. In this situation, there is a risk that the resurgence of COVID-19 at home and abroad will lead to an economic downturn through the tightening of public health measures and deterioration in households' sentiment, and thus this risk warrants attention.

Prices

- The year-on-year rate of change in the consumer price index (CPI) is likely to be negative for the time being. Thereafter, with temporary factors that push down prices dissipating and the economy improving, it is expected to turn positive and then increase gradually.
- The year-on-year rate of change in the CPI is likely to be negative for the time being due to the effects of factors such as the "Go To Travel" campaign, but price cuts have not been observed widely when excluding temporary price fluctuations in particular sectors.
- The year-on-year rate of change in the CPI is expected to increase moderately. However, given that the economy is likely to continue to be pushed down by COVID-19 for the time being, it is necessary to be fully prepared to face the fact that it will take considerable time to achieve the price stability target of 2 percent.
- At present, the economy is not judged to have fallen into a deflationary situation again, but it is quite difficult to hold an optimistic view on whether firms' and households' perception of prices will improve.
- The year-on-year rate of change in the observed prices has turned negative due to temporary factors, and there is still, to a certain extent, a risk of the economy falling into deflation again as medium- to long-term inflation expectations have weakened somewhat. Risks of sudden changes in financial markets, including foreign exchange rates, also continue to warrant attention.

II. Opinions on Monetary Policy

Extension of the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19)

- The monetary easing measures conducted since March have had positive effects. It is important to continue to support financing, mainly of firms, and maintain stability in financial markets.
- The current policy responses have had their intended effects. However, given that future developments in some industries are unclear, the Bank should consider, in line with the government having formulated new economic measures, not only extending the duration of the measures to support financing but also enhancing their content, such as increasing convenience.
- A rapid increase in bankruptcies and unemployment has been avoided to date, but the impact of a resurgence of COVID-19 is of concern. In this situation, it is appropriate to consider, for example, extending the duration of the measures to support corporate financing in line with the government's economic measures.
- The spread of COVID-19 has not been contained and uncertainties have remained high. In this situation, indicating as early as possible that the Bank will extend the duration of the Special Program will remove one of the uncertainties surrounding management of firms and contribute to maintaining firms' sentiment, including risk-taking activities that are necessary for their future growth.
- It is important for the Bank to decide early to extend the duration of the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), thereby alleviating firms' concern over the future.

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

- It is highly likely that it will take more time to achieve the price stability target of 2 percent, mainly due to the impact of COVID-19. Given that monetary easing will be further prolonged, it is important to conduct an assessment for further effective and sustainable monetary easing, with a view to achieving the price stability target.

- It is appropriate for the Bank to make the upcoming assessment, focusing on the conduct of monetary policy under the current framework and keeping in mind the duration until the March 2021 MPM.
- Considering that containment of the spread of COVID-19 and improvement in economic activity should be achieved simultaneously during the COVID-19 era, it is necessary for the Bank to deeply discuss how to achieve the price stability target of 2 percent.
- It is necessary to reexamine from various aspects what kind of strategies the Bank should take toward achieving the price stability target.
- The Bank should assess its strategy, tools, and communication with a view to achieving the price stability target and not allowing Japan's economy to return to deflation. Since the bursting of the bubble, Japan's economy has repeatedly failed to recover every time a sign of economic recovery was in sight. If the economy falls into deflation again, positive economic developments, such as an increase in employment, will be hampered, and the opportunity for the economy to leap forward could be lost. The Bank should conduct the assessment with determination to never allow the economy to return to deflation.
- The framework of "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control" has been working well and thus there is no need to change it. The Bank should also maintain its commitments, including the price stability target of 2 percent.
- The Bank should examine the positive and side effects of monetary easing measures, including asset purchases, and enhance their sustainability and effectiveness as necessary.
- As for exchange-traded funds (ETFs), active purchases should be maintained for the time being. In addition, under prolonged monetary easing, the Bank should seek room to make flexible adjustments depending on market conditions while taking into consideration the Bank's financial soundness.
- It is necessary for the Bank to enhance sustainability of yield curve control and purchases of assets, such as ETFs, through the flexible conduct and be prepared so that it can respond effectively to possible changes in economic activity and prices as well as financial conditions.
- With regard to the conduct of yield curve control, it is necessary to take into account the possibility that, along with the increase in issuance of Japanese government bonds (JGBs), the amount of interest-rate risk will accumulate and supply-demand conditions will be eased in the bond market. Meanwhile, with a view to simultaneously achieving prolonged monetary

easing and financial system stability, it is desirable, in a sense, for the yield curve to become steeper at a moderate pace. In this situation, it will become necessary to control the yield curve more carefully and finely.

Others

- With full consideration of securing stability in financial markets and the financial system, it is 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.
- In order for Japan's economy to return to a powerful growth path, it is important to support from the financial side positive corporate activities for the post-COVID-19 era. In terms of monetary policy, it is appropriate to make responses by lowering short- and long-term interest rates and strengthening commitment.
- It is important to develop and enhance direct financing through, for example, creating a deep corporate bond market so that funds for growth will be provided to firms. The Bank should encourage their activities toward sustainable growth.

III. Opinions from Government Representatives

Ministry of Finance

- The government expects the Bank to do its utmost to, for example, ensure smooth corporate financing and to appropriately conduct an assessment toward achieving the price stability target.
- The third supplementary budget for fiscal 2020 was formulated in order to implement the economic measures decided by the Cabinet recently. In addition, the government is in the process of compiling the budget for fiscal 2021. On December 10, the ruling parties formulated the outline for tax reform.
- Based on the economic measures, the government will cooperate closely with the Bank under an appropriate policy mix. It expects the Bank to conduct appropriate monetary policy.

Cabinet Office

- The comprehensive economic measures that were decided by the Cabinet recently are expected to raise real GDP by 3.6 percent and support employment by creating 600 thousand opportunities. Through its prompt implementation, economic growth led by private demand will be achieved.
- The government recognizes that the Bank's decisions, such as on the Special Program, have been made in a timely manner, in that the Bank will do its utmost to support corporate financing in line with the government's economic measures.
- The government expects the Bank to conduct appropriate monetary policy while continuing to closely cooperate with the government and carefully monitoring the impact of COVID-19 on the economy as well as developments in financial and capital markets.