

Introduction

The BOJ released the minutes of the MPM on October 31 at which they decided the unexpected additional stimulus. While most of the lines of thoughts expressed in the minutes appeared to be what you could have expected, some of them could have long-lasting implications for the BOJ's policy.

Let me discuss several interesting points of this important minutes of the MPM.

Pros and cons

Opinions for the additional stimulus are already familiar with us, because Governor Kuroda explained them to us in detail at several occasions including the press conference and the most recent speech.

Those who supported the policy decision were concerned about the risk of delaying the removal of our deflationary minds due to recent deceleration of inflation rates. With this regard, some members pointed out that downward pressure of crude oil price on general prices could remain until the first half of next year, even if crude oil price would stay at the current level. From the viewpoint of communication policy, some members insisted the significance of the current commitment in achieving the 2% target in 2 years time.

In contrast, those who opposed to the additional stimulus had cautious views about the balance between the benefits and the costs. First of all, some members were skeptic about the incremental effects when the long-term yields are already historically low. In addition, some members expressed the doubts about the impacts on “shock-and-awe” strategy again. At the same time, several members were concerned about the increasing costs of the additional stimulus in terms of market functions and fiscal monetization.

As the policy strategy, those who supported the policy move preferred the large scale actions, because the additional stimulus would be intended to affects the minds of economic agents. Interestingly, only one member insisted the importance of the extension of average durations of JGBs purchased, while some members proposed the substantial increase in purchase of ETF and J-REITs. .

Consensus in QQE

Based on these lines of discussions, we could draw some important implications.

First, there remains the common supports for the idea of the QQE among the policy board members. Those opposed to the additional stimulus expressed their views that the existing QQE has had sufficiently powerful impacts on our economy, which would result in successful achievement of the inflation target as expected.

Second, at least among some of the members, the distance of the views are not so wide. In fact, one member who preferred the additional stimulus referred to the interesting outlook that the BOJ could start discussing the exit strategy if the achievement of the target could become more plausible. Readers may recall that such an opinion would be close to the view of an opponent who has been proposing the monetary stimulus in a concentrated manner.

This point could then have something to do with the long-term costs of the QQE pointed out by the opponents. As I discussed in the previous Notes, the balance between the

benefits and costs could deteriorate as time passes, in light of some structural factors including our fiscal conditions and IS balances.

Third, even the divergence in the views of policy strategy has some common roots. Those who opposed to the policy action were skeptic about the effects of another round of “shock-and-awe” strategy. In contrast, those who supported the additional stimulus emphasized the significance of trust in the QQE by maintaining the current commitment in achieving the target. Interestingly, this is the reason why they cling to make the additional stimulus as larger as possible. Once you believe in the idea of the QQE, the latter view would appear coherent (as far as you could disregard the long-term issues).

Divergence in economic assessment

According to the discussion described in the minutes, one interesting point of divergence is the assessment of our economy.

While most of the members agree that our economy is on the gradual but secure recovery track, and that the negative impacts of consumption tax hike is diminishing, they have different views on inflation expectation. As we discussed above, those who supported the additional stimulus were concerned about the risk of re-emergence of deflationary minds. In contrast, some members insisted that our inflation expectation is surely improving, by pointing out the fact that inflation rate excluding imputed rents have been closer to 2%. If you also take into account of the effects of consumption tax hike, the latter view would appear rather reasonable.

With this regard, another implicit issue would be whether the inflation dynamics with less economic fundamentals could have substantial impacts on our inflation expectation. As discussed above, both proponents and opponents have the common positive economic outlook. In addition, unlike our 1990's, we have little risk of debt deflation because the balance sheets of our firms and banks are safe and sound.

Conclusion

It could be argued that the concerns about the fiscal monetization would be inconsistent, because even those who opposed to the additional stimulus maintain the confidence in the QQE itself as above. You could criticize them because they seemed to disregard this risk when the QQE was introduced.

One possible reason for such changing views on the costs would be the growing concerns about the risk of approaching to some threshold. As a result, both proponents and opponents may be looking at the “critical moment”, as the term by Governor Kuroda, from different perspectives of time.

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