

Introduction

As suggested by the press conference by Governor Kuroda after January Monetary Policy Meeting (MPM), there emerged broader consensus among its members on further delay in the improvement of inflation rate. In the meantime, diversification of the views with regard to its implication for policy conducts remained intact.

Assessment of economy

Interestingly, one focus of the discussion at January MPM was Chinese economy. It is of course reasonable in light of our strong economic relationship with them and some signs of its slowdown there.

Several comments by the MPM members raised the voice of concerns about deceleration of Chinese economic growth, which would have downward pressures on activities in Japan and the global economy. In the meantime, a comment expressed the confidence in prospective effects of economic stimulate measures by Chinese authorities.

All in all, January MPM noticed stronger downside risks in the overseas economy, as suggested by the main text of economic outlook revised at January MPM.

With regard to our domestic economy, several comments (possibly by the executive members) confirmed the constructive views, by referring to the fundamentals supporting private consumption and business investment. In contrast, a comment pointed out the cautiousness of consumer sentiment.

Divergence of the assessments between domestic and overseas economy has become the common view among the advanced economies.

Assessment of inflation

In comparison with the economic development, assessment of the inflation appeared converged, especially in terms of the prospective risks.

Several comments again confirmed that the outlook of gradual acceleration of inflation under positive GDP gap remained the central scenario. Among them, one comment explained that upward revision of wages for younger generation has become more evident.

Nevertheless, larger number of comments warned the actual and prospective delay in the achievement of inflation target. Some of them emphasized the spillover effects of fall in the crude oil price. Others implied the effects of improvements of labor productivities and stronger stickiness of inflation expectations.

As a comment reasonably claimed, drop in the crude oil price and provision of free education would rather stimulate the economic activities through the improvement of purchasing power of households. They would doubtlessly have downward pressures on inflation rate, however, which could have further negative implication for inflation expectation.

Implication for monetary policy

January MPM maintained their accommodative policy unchanged. First several comments confirmed the idea that

the BOJ should keep the current monetary stimulus in a persistent manner, in order to support the momentum of inflation rate. Moreover, a comment insisted the importance of maintaining the positive GDP gap in pursuing the inflation target, which was one of the topic at the recent press conference by Governor Kuroda.

Interestingly, a comment suggested the by-product of enhanced flexibility of asset purchase at July MPM in 2018. According to the comment, it proved to be effective in reducing volatilities in financial markets since last autumn, while its original intention was to support general functioning of financial markets.

In terms of prospective conducts of monetary policy, clear divergence of the views remained intact.

On the one hand, couple of comments claimed that the MPM should prepare the enhancement of monetary stimulus. They expressed the concerns about negative implication of the inaction of monetary policy in spite of growing downside risk of economy and prices.

While one comment appeared to be worried about its impacts on inflation expectations, another comment pointed out the risk of impacts on financial markets.

On the other hand, three comments highlighted the side effects of the current monetary stimulus.

Among them, a comment referred to the possibility that the amount of JGB holdings by financial institutions may be approaching to the effectively minimal level, in consideration of JGB's role of collateral for financial transactions. As a result, the comment suggested the further review of JGB purchase program by the BOJ.

Other two comments raised the issue of financial intermediation. Among them, one comment suggested the mixed effect of the QQE, by claiming the gradual increase in lending as the positive impact, but the faster pace of increase in deposit as the negative factor for margin at banks.

Other comment drew attention to the vulnerability of profits by regional financial institutions. According to the comment, potential deterioration of conditions of SMEs (which are the major customers) could affect the sustainability of financial intermediation by regional financial institutions by way of increasing in the credit costs.

All in all, the last comment - proposing further analysis and discussion with regard to the relationships between interest rates, monetary base and inflation rate – is quite reasonable. Nevertheless, what we find as a result could be the appropriateness of the current stance of monetary policy and the needs of support by other pillars of economic policy.

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