

Introduction

Many of the members of the MPM suggested that we may have been observing some signs of structural changes of prices. Nevertheless, there maintained their consensus to maintain the accommodative policy.

Assessment of economy

First couple of comments confirmed the constructive view of our economy with reference to positive prospects of service consumption and incoming tourism.

In contrast, second couple of comments insisted the high uncertainties of economic outlook. They raised the risk of slower global growth and of potential impacts by infections of Covid-19 both in Japan and in other economies.

Interestingly, third couple of comments suggested that we should watch the development of rise in wages carefully.

One of them expected that positive stance by firms could pave the way to virtuous circle between economy and prices. The other claimed that overall reform of HR management is required to enhance sustainability of wage rises.

Assessment of prices

First five lines of comments maintained the cautious view of prices.

They basically supported the outlook that rate of inflation would decelerate toward the middle of next fiscal year due to diminishing impacts of energy prices. In fact, one of such comments explained that import price inflation has started to decelerate.

Ironically, as another one of such comments suggested, expected effects by the government policy measure to prevent further rise in retail energy prices would function as another downward driver for inflation in coming months.

All in all, these lines of comments confirmed their consensus view that there remained some distance to achieve the inflation target.

In order for sustainable achievement of inflation target, three lines of comments reiterated the view that rise in wages and its associated acceleration of service price inflation would be indispensable.

Moreover, one of such comments insisted that the BOJ should maintain accommodative monetary policy for the time being, as it would take some time before sustainable rise in wages.

It should be noted, however, that five lines of comments suggested some signs of structural changes of prices.

Three lines of such comments expected that upward pressure of prices would remain for the time being due to continuous transfer of higher costs by firms to their customers. Moreover, couple of such comments claimed that pricing behaviors by firms may have been changing.

As its implications, a line of comment pointed out that service price inflation has gradually accelerated, and the other line of comment appreciated their positive impacts including improvement of corporate profits and positive stance toward rise in wages and increase in business investments.

Policy decision

The first four lines of comments confirmed the view that the BOJ should maintain the accommodative policy, in light of their outlook that it would take some time to achieve the inflation target.

Interestingly, couple of such comments insisted the importance of communication policy. They claimed that the BOJ needed to explain carefully the rationale for maintenance of the YCC and the mechanism of transmission of its policy effects.

Moreover, the other couple of comment emphasized the idea that whole range of the yield curve should remain low to support rise in wages.

Other three lines of comments revisited implications of the expansion of target range of 10Y JGB yield at December MPM.

Couple of such comments reiterated the idea that the policy decision was intended to improve the market function. All in all, another line of comment claimed that the BOJ should explain clearly that their stance toward monetary easing remained unchanged.

The other line of comment claimed that financial conditions also remained unchanged for firms after the policy decision, taking account of the factors including proportion of the borrowings with fixe-rate and floating-rate terms.

From longer-term perspectives, a line of comment suggested that the BOJ should confirm the allocation of interest rate risks and the readiness to rises in interest in the financial markets at the time of exit from monetary easing.

Another line of comments claimed that the BOJ should review in the future the balance between the effects and the side-effects of the accommodative policy.

Introduction of long-term operation

A couple of comments expressed the positive view that the execution of new long-term operations for fund provision, coupled with the increase in JGB purchase, would prevent upward pressures on the yield curve and contribute to restore its stable shape.

Moreover, the other couple of comments expected that appropriate management of the operations would improve the functions of the JGB market.

In order for such goal, one of such comment confirmed the importance of careful monitoring of the conditions of the JGB markets including the shape of the yield curve and the market liquidities.

Author: Tetsuya Inoue
Senior Researcher
Financial Markets and Digital Business Research Department
Nomura Research Institute

This note is intended solely for informational purposes and should not be construed as investment advice. The author does not guarantee the accuracy or completeness of the information contained. Opinions in this note are those of the author and do not represent the views of Nomura Research Institute or Financial Technology and Market Research Department. This note is exclusively for the personal use of those receiving it directly from the author.