

Introduction

The BOJ decided to modify the management of the YCC at its July MPM. Interestingly, their opinions regarding its intentions seemed to be diversified.

Assessment of economy

First couple of comments confirmed the constructive view of domestic economic conditions despite uncertainties about overseas economies. One of them referred to positive sentiments of firms toward business investments.

Following set of comments evaluated the trend of rising wages. One of such comments expressed optimistic view with reference to a sign of continuous improvement of wages in coming years. However, another line of comment explained that there remained the firms which tried to keep the strategy of low wage, low price, and low margin.

Interestingly, a couple of such comments emphasized the importance of supporting SMEs. One of them claimed that cautious decision of monetary policy would be warranted to prevent harm on their appetites for business investments. The other pointed out the role of regional banks to promote reforms of their business models.

Assessment of prices

First couple of comments reiterated the central view of inflation outlook. Specifically, they expected deceleration of inflation as transfer of costs by firms would gradually diminish. They also maintained the view that inflation would re-accelerate as overseas economic conditions would improve.

It should be noted that rest of the comments mostly confirmed the upside risk of near-term inflation.

One of such comments expected that transfer of costs by firms could remain for the time being, despite the recent improvements of profit margins

Other five lines of such comments discussed the trend of rising wages. A couple of the comments suggested the signs of structural change of corporate behaviors toward setting prices and wages, which could have longer-term impacts on inflation. The other two lines of comments pointed out the prospects of virtuous circle between wage and price under tighter labor market.

All in all, a line of such comment claimed that sustainable improvement of wages would be necessary to re-accelerate inflation as the central view of inflation outlook expected.

Discussion on the YCC

First couple of comments confirmed the basic line of policy thought. They insisted that maintenance of accommodative monetary policy patiently was warranted to achieve the inflation target in sustainable and stable manner.

Following set of comments discussed the modification of the management of the YCC. Their lines of arguments seemed to be diversified.

A couple of comments claimed the need to maintain the YCC unchanged. One of such comments pointed out that our economy remained distant to the achieve the inflation target. It also suggested the considerable time lag between the modification of the YCC and the exit from the NIRP.

The other line of such comments emphasized the importance of profitability of SMEs for secure trend of wage improvements. With this regard, the comment suggested the idea that the modification of the YCC should be postponed until the structural conditions of SMEs would improve.

In contrast, many lines of comments expressed positive views on the modification of the YCC. Their lines of thought on its rationale, however, remained diversified.

A couple of such comments insisted the implications of higher risks of inflation outlook. Specifically, they claimed that the BOJ should enhance flexibility of the YCC as a pre-emptive action considering potential higher volatility of inflation in both directions.

Other three lines of such comments highlighted the technical issues of the YCC. One of them suggested the enhanced side-effects on volatilities of broader financial markets if the BOJ maintained the current target range of 10Y JGB yield under improved outlook of inflation.

Moreover, a couple of such comments insisted the significance of modification of the YCC in pre-emptive manner. One of them suggested that July MPM would be a good opportunity to avoid disruption of financial market. The other claimed the need to enhance its flexibility in advance taking account of technical difficulties of its modification.

Lastly, a line of comment claimed that the modification of the management of the YCC was necessary considering stronger prospects of achieving the inflation target.

Policy decision

All in all, a couple of comments confirmed the fundamental line of policy thought. Specially, they insisted the need to maintain long-term yield at low level, but they agreed to add some flexibility to the YCC for its sustainability under higher uncertainties about inflation outlook.

Regarding the expected effects of the modification, a line of comment explained that allowing higher yield to some extent according to changing inflation environment would promote stabilization of real interest rates. Moreover, the comment expressed the prospects of better balance between accommodative effects and side-effects on market functions.

Readers may like to remember that Governor Ueda explained this line of thought at the regular press conference on July MPM.

Lastly, another line of comment proposed the new principles of JGB purchase operations after the modification of the management of the YCC. They included 1) delegating the market to price the yield in most part, 2) making efforts to restore market liquidity, and 3) preventing high volatilities of the yield.

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