

## Introduction

Summary of opinions at December Monetary Policy Meeting (MPM) implied a modest divergence in the outlook of our economy, especially regarding the spillover effects from overseas economies.

## Assessment of economy

First set of comments covered the assessment of domestic economy by the members of the MPM.

It is interesting to note that many of them maintained the constructive views. They claimed that a virtuous circle from income/profits to spending remained intact, in spite of temporary slowdown of economic activities due to a series of natural disasters.

Meanwhile, several sets of comments expressed somewhat cautious views, largely focusing on some downside risks of negative spillovers from overseas economies. Not surprisingly, they referred to the international trade disputes between the US and China and its impacts on their economies.

Although a couple of comments maintained their constructive outlook of the global economy, larger number of comments raised some voices of concerns about the downside risks. One of them discussed the simultaneous deceleration of exports and imports of China and its implications for our economy.

Another comment paid attention to tightening credit conditions in China, due to the increase in defaults of private firms. According to the comment, the financial authorities have requested the banks to increase lending to firms in order to resolve the difficulty in funding. Nevertheless, the comment argued for keeping close attention.

## Assessment of prices

In light of the diversified views of economy, mixed opinions regarding prices seemed to be consistent.

On the one hand, several comments maintained the outlook of gradual improvement of prices. They claimed that positive GDP gap and gradual rising of long-term inflation expectation remained intact. One of them also referred to the positive DIs of output prices by Tankan survey for both large firms and SMEs.

On the other hand, several other comments expressed the cautious views. Interestingly, a couple of comments pointed out the structural factors including improvements of productivities as the sources of downward pressures.

In addition, a couple of comments raised the voices of concerns about potential negative impacts by crude oil prices. Readers may like to remember that the BOJ conducted the additional stimulus in the fall of 2014 when crude oil prices dropped substantially.

## Monetary policy conducts

While the MPM maintained its accommodative monetary policy unchanged at December MPM, there were more diversified views of policy strategy from longer-term perspectives.

First of all, a couple of comments confirmed the central view of policy strategy to maintain the current policy stance persistently to achieve the inflation target.

Then, a couple of other comments implied the significance to pay close attention to the side-effects on financial intermediation, because they could be cumulative.

It should be noted that several other comments raised the issue of managing the target yield of 10Y JGB. Among them, a couple of comments claimed that the downward movement of 10Y JGB yield in recent months has largely been driven by overseas factors and the BOJ should not try to drive it up.

In the meantime, other couple of comments suggested the possibility of further reduction of the scale of actual purchase of the JGB. One of them pointed out the stock effect of JGB holdings by the BOJ and the low remaining ratio of newly issued JGB in the market. Other of them suspected the spillover effects on the functions of corporate bond markets.

Apart from the policy conducts, a comment raised the issue of communication policy. According to this comment, it would become difficult to grasp the underlying trend of prices in the next fiscal year. This would not only be due to consumption tax hike and compensating measures by the government, but also due to possible decline in crude oil prices and modification of pricing scheme of mobile phone services.

Taking into account of these factors, the comment insisted more sufficient and courteous communication in conducting monetary policy. In addition to such outside factors, the lines of discussion with regard to side-effects and its policy implication should be covered as well by the communication.

## Pivotal point

Until earlier month, there was a speculation in our market that the BOJ would further enhance the flexibility of QQE at a coming MPM. Growing concern about earlier slowdown of the global economy and instability of the financial market caused a substantial blow.

It should rather be reminded that the BOJ could face the toughest challenge among the major central banks in utilizations of effective policy tools when and if they are necessary, and unless any policy innovation emerges.

Because the seasonal cycle of economic outlook for the BOJ is slightly different from the US and Europe, next important time point for the BOJ is the MPM in late January when they are scheduled to revise their outlook. The BOJ would be in a unique position to take into account of most recent data of the global economy earlier than overseas peers.

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