Notes on Financial Markets Vol.186

Summary of Opinions at June MPM—Too many to fail

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Introduction

Summary of Opinions at June MPM implied that the members paid attentions to the implications for inflation from various points of views.

Assessment of economy

Most of the comments confirmed the very cautious view of our economy. In fact, only a line of comment pointed out that the recent economic indicators might have bottomed out.

A couple of comments suspected that a change in consumption behavior would cause persistent downward impacts on the aggregate demand, especially of consumer services. Moreover, a line of comment paid attention to the implication of an evolution of working practices for productivity. Another line of comment raised concerns about the long-term impacts on global economy and its spillover effects.

Interestingly, other several lines of comments highlighted the risk of interaction between real economy and financial system. One of them expressed concern that the deterioration of financial conditions of firms could de-stabilize the financial markets. And the other suspected that there could be the adjustment of excess capacity by firms. Finally, a line of comment raised the possibility of correction of asset prices.

Assessment of prices

Majority of the comments affirmed the very cautious view of our inflation. Again, only one comment maintained the constructive view that the rate of inflation would gradually accelerate as our economy improves.

Several lines of comments pointed out a set of factors as the backgrounds of their cautiousness. A line of comment claimed that slow recovery of the aggregate demand would not cause the momentum of inflation.

Moreover, other couple of comments expressed concerns that the adjustment of human and physical capital as well as increasing number of bankruptcy and abolishment of business could cause further downward pressure on inflation. This line of argument seems to be consistent with the discussion of our economy. Specifically, at least some members became cautious about potential vicious interactions between inflation and financial system.

In light of the argument, a line of comment raised the risk of downward movement of inflation expectations due to persistent low rate of actual inflation under adaptive formation of expectation.

Policy decision

In contrast to the previous MPM (in April), it seemed that there were more diversified views on the neat-term management of monetary policy.

First several lines of comments may be made by the executive members. Basically, they confirmed that the current policy package have played the intended role of supporting the flow of credits to firms and of maintaining the stability of financial markets. In addition, one of these comments emphasized the flexibility of the program and its effectiveness in increasing the size of fund provision as policy measures by the government.

A couple of comments agreed such line of argument. Nevertheless, they insisted the importance of overall review of policy effects, especially on functions of financial system.

Meanwhile, several other lines of comments emphasized that the readiness of additional stimulus remained important. Interestingly, a line of comment argued that the bold actions to sustain the employment and business activities and to maintain the stability of financial markets could not only function as the crisis measures but also contribute to the economic recovery.

In addition, other couple of comments reiterated the significance of collaboration with the government. One of them claimed that it could prevent losing momentum of growth expectation by firms and households. The other suggested that the collaboration with overseas central banks would also be important.

Based on these lines of thoughts, a couple of comments suggested the additional policy actions in a pre-emptive manner. Interestingly, both of them expressed the worries about the risk of returning to deflation under the on-going circumstances.

As reviewed above, Summary of Opinions suggests that the implication of covid-19 for inflation appeared to be the focus of discussion at June MPM. In fact, the other line of comment that rather suggested the shift of gyration from crisis measures to economic stimulus also pointed out the importance of careful monitor of inflation with reference to the risk of downward movement of inflation expectation.

Last couple of comments discussed the transmission mechanism of monetary policy. One of these comments reconfirmed that the MPM should keep attention to the side-effects on financial intermediation when they would try to avoid the vicious circle between real economy and financial system.

The other comment raised concerns about the recent re-evaluation of accumulating retained profits by firms as the backstop against potential shortage of liquidity. Readers may like to remember that "active" overseas investors have criticized this practices among Japanese firms. In any case, the comment suspected that the revival of such practice could undermine the transmission of monetary stimulus.

All in all, it should be noted that there was no concrete proposal of policy tools, while there was discussion of additional stimulus. It might imply that the current policy package has sufficient flexibility. Alternatively, it could imply that it would be hard to find an effective policy tool for the shared concerns about lower rate of inflation in coming months.

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