Notes on Financial Markets Vol.192

Summary of Opinions at October MPM—Long-term challenge

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Introduction

At October MPM, there seemed to be a broad agreement of the view that our economy has been on a gradual recovery path. Nevertheless, opinions of the members appeared to be diversified with regard to the future path of inflation.

Assessment of economy

A number of lines of comments confirmed the gradual recovery of our economy.

Among them, three lines of comments appreciated the positive impacts of gradual lifts of limitation of economic activities, and expected the further recovery of our economy. They pointed out the positive factors including the expansion of overseas economic activities, or the balanced policy measures by the government between prevention of the spread of Covid-19 and stimulation of the economic activities.

Other three lines of comments expressed somewhat more cautious views.

On the one hand, they welcomed the recovery of exports, their spillover effects on broader area of manufacturing sectors, and the stabilization of financial markets. On the other hand, they pointed out the negative factors including slow pace of the economic growth, laggard recovery of the service sectors and high uncertainties about our economy ahead.

In contrast, other couple of lines of comments claimed more pessimistic discussion.

One of them suspected the sustainability of recovery of exports and production, and claimed that the cautious outlook would be warranted. The other expressed concerns about the carried over impacts of economic slowdown since 2018 and the consumption tax hike in addition to the shock of Covid-19.

Interestingly, another comments raised the potential impacts of renewed drop in real estate prices on consumer sentiment, as the risk exposure is larger than that of equity among household wealth.

Assessment of prices

Opinions of prices seemed to be more diversified among the members of the MPM.

First three lines of comments, seemingly those by the executive members, confirmed the constructive views.

While couple of them expected the negative rate of inflation for the time being, they claimed that it would be due to temporary factors including lasting impacts of the drop in energy prices and effects of the government support measures of tourism. Moreover, couple of them denied the risk of downward spiral of prices potentially due to competition of lower prices by firms.

Four other lines of comments, however, raised the concerns about the future course of inflation.

Interestingly, one of them expressed the doubt about the sustainability of current pricing practices with reference to the risk of further deterioration of employment and income of households.

Furthermore, three of them expressed the cautious views of inflation expectation both from short-term and medium-term perspectives.

One of them raised the risk of negative impacts of stagnation of employment and income as well as destabilization of the financial markets potentially due to overseas risk events. Two other of them pointed out the adaptive nature of our inflation expectation and its potential negative impacts in coming years.

Management of monetary policy

The BOJ maintained its accommodative policy unchanged at October meeting.

First four lines of comments confirmed the significance of maintaining the current policy in order to support the flow of credits to firms and to maintain the stability of financial markets. In addition, couple of them appreciated the intended policy effects, and another line of comment highlighted flexibility of the policy framework.

As a follow up, one line of comment emphasized the importance of close collaboration of policy measures between the government and the BOJ.

Interestingly, other couple of comments raised the voice of concerns about the risk of early adjustment of the current policy measures. Their discussions would be on the back of cautiously optimistic outlook as reviewed above. Moreover, it should be noted that one of them warned the risk of mis-communication with the financial markets.

In the meantime, contrasting views were expressed with regard to the balance of effects and side-effects of measures to sustain the flow of credits to firms.

On the one hand, a line of comment insisted that such measures should be maintained in order to avoid instability of the financial system due to increase in credit risks. On the other hand, another line of comment pointed out the potential negative effects of delaying the necessary structural reforms to enhance long-term economic growth.

In any case, there would be necessary to establish transmission mechanism of funds that could be utilized for investments for future growth of firms as a line of comment suggested.

In terms of the policy instruments, one line of comment suggested the needs to review the practice of ETF and REIT purchase in order to secure rooms for potential enhancement in the future, while it confirmed the need to maintain the current practice for the time being.

As the other line of comments suggested, another round of the review of monetary policy framework might be warranted, if the expected time to achieve the inflation target moves farther away. Nevertheless, potential points of discussion would not be so clear at this moment.

Author: Tetsuya Inoue
Chief Researcher
Financial Market and Innovation Research Department
Nomura Research Institute