

## Introduction

“Summary of Opinions at the MPM” released today may appear to deserve less attention, because it covers the MPM in March that maintained the QQE unchanged. Nevertheless, it has non-negligible implications for the policy decision at coming MPM, because it included a clear divergence in the opinions on the assessments of the NIRP.

## Assessment of economy

Members of the MPM pointed out the signs of stabilization of global financial markets. They maintained cautiousness about the future course of market dynamics, however, with the reference to the downward tilt of their balance of risks. Moreover, a comment virtually admitted that the risk of undermining the sentiments of firms may already be evident, which would result in smaller magnitude of wage increases from macroeconomic perspectives.

Regarding the economic outlook, several comments confirmed the weakness of exports and production, which could pave the way to drop in business investments. Readers may be more interested in the discussion on private consumption.

One comment proposed that the MPM should conduct a study on the reasons for recent weak consumption, and other comment suggested a tendency of cautious behaviors of consumers. It should be noted that the MPM has maintained its bullish outlook of private consumption on the back of improvements in employment and earnings. These comments above implied that some members have skepticism about their official view that recent weakness of private consumption was due to some transitory factors.

In any case, appropriate outlook of private consumption is not only crucial for accurate projection of our economy, but also important for proper estimation of the impacts of consumption tax hike next time.

In spite of such cautious outlook of economy, we see a mixed views on inflation. On the one hand, some comments showed constructive views on the achievement of 2% inflation sometime in 1H of FY2017, with the reference of signs of stabilization of crude oil prices. On the other hand, some comments expressed bearish views on inflation, because of less prospects of wage increases and some signs of downward shift of inflation expectations.

All in all, we receive a mixed message on their outlook of economy and prices. As a result, Summary of Opinions at the MPM covering the March MPM appears to have slightly more bullish impression than its policy statement with some warnings of risks.

## Assessment of NIRP

About half of Summary of Opinions at the MPM this time was devoted to the discussion on the NIRP. It is reasonable when we remember the March MPM was the first meeting since the introduction of the NIRP, and there were substantial debate on this unconventional policy not only by experts in financial markets and financial institutions, but also by general public.

Some comments confirmed the effectiveness by referring to easing financial conditions through the downward movements of prime rates for business loans and interest rates for housing finance. They further expected the improvements of purchasing power of households with less burdens of interest

payments on their borrowings. While the majority of the MPM could agree such assessments of the policy effects, it is not certain whether those members skeptic about the NIRP could agree the comment that the effects would gradually realize as time passes. It is nevertheless interesting to note that a comment by skeptics supported to maintain the NIRP, because its withdraw at this stage could rather destabilize the markets and undermine the confidence in the BOJ.

In contrast, some comments with skeptic views on the NIRP expressed concerns about its small effects. They referred to less prospects of “portfolio rebalancing” due to the lack of investment opportunities. They also pointed out the negative factors including the potential misunderstanding of a boundary of asset purchase, and the growing concerns among financial institutions and their depositors.

Other comments insisted the negative impacts on financial functions through shrinking balance sheets of financial institutions, for example. We also notice other comments, however, which affirmed their constructive views on the profits of financial institutions in the long run, by way of improving environment of their business. This is the line of argument that Governor Kuroda explained at the press conference several weeks ago.

Readers may remember that the flattening yield curve has been a source of criticism of the NIRP among financial institutions. It is, however, interesting to note that a comment claimed that a financial institution does not play a proper role of financial intermediation, if it depends on transformation of maturity as an only source of its profits.

Another set of comments raised the challenges of communication policy of the NIRP. In fact, a comment expressed concerns about the negative implication of complicated structure of the NIRP by the BOJ. Moreover, some comments admitted that the introduction of the NIRP unfortunately triggered excessive concerns among general public, and proposed that the BOJ should keep making efforts of explaining the NIRP in a proper manner.

## Implications

Diversified views on the NIRP in Summary of Opinions at the MPM are rather reasonable, because it was a close call when the MPM made its decision. It is more important to find that there remained the difference in the opinions on the side effects of the NIRP rather than on the policy effects. In terms of the challenge, there seems to be a kind of shared view that the BOJ should make efforts on communication policies of the NIRP to remove its exaggerated concerns. Lastly, there seemed to be an implicit agreement about some negative impacts on financial institutions in the short run. Nevertheless, there remains some different views on its potential benefits for financial institutions in the long run.

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