

## Introduction

Probably due to some domestic political developments, Summary of Opinion released on Friday (July 28th) did not attract much attention by the Japanese press and domestic market participants. In my view, however, we need to pay attention to the summary, because it covers the discussion at the pivotal meeting of monetary policy.

## Economic outlook

Readers may like to recall that the MPM made modest upward revision of its outlook of real GDP growth rates for coming years. Consistent with the direction of revision, the summary includes some comments referring to resiliency and firmness of our economic expansion.

It should be noted that there are a couple of comments that discuss the firms' efforts to overcome labor shortages. In fact, the text of the outlook analyzes it in detail. Probably based on the analysis, they raised two major points of its implications; such efforts could be long lasting in some service sectors and could improve their productivities in the long run.

If it would be the case, we could observe downward pressures on inflation at least for the time being, even under the tight labor conditions. This is the line of argument that Governor Kuroda explained at the press conference after July MPM.

Textbook economics suggests, however, improved productivity could encourage spending by the households in the long run, thanks to better prospects of economic growth and life-time income. If the growth expectation in our society is closely linked to the inflation expectation, it may not be appropriate to criticize the firms' efforts even from the viewpoint of monetary policy.

## Inflation outlook

Not surprisingly, the summary indicates an existing divergence of the views of inflation outlook.

As Governor Kuroda insisted at the most recent press conference, majority view claims that the rate of inflation would accelerate if we could maintain positive GDP gap in coming years. According to their views, expected rate of inflation could also improve as the actual rate of inflation would gradually rise. All in all, their scenario would rely on cyclical dynamics of inflation.

In contrast, minority view emphasizes the structural aspects of our low inflation. Interestingly, several comments in the summary suspect a potential substantial lag between tightening utilization of economic resources and accelerating rate of inflation.

It would be ironic that one important mechanism would be the firms' efforts against labor shortages in some segments. In addition, a comment suggests that such practices to avoid transferring higher input costs to their output prices would reflect their low prospects of economic growth.

While the latter lines of thoughts are minority in the MPM, it should be noted that not a small number of the policy board members see downside risks of inflation, as the risk balance chart of the MPM clearly implies. In any case, these differences in the opinions of inflation dynamics result in the different proposals of monetary policy strategy.

## Monetary policy

Majority views in the MPM claim that it is all the more important to maintain the current monetary easing, because our economy is moving in the right direction but it would take some more time to achieve the inflation target.

Moreover, as Governor Kuroda emphasized at the most recent press conference, some comments in the summary confirm the idea that the effects of monetary easing would become stronger as both our economy and inflation improve. Specifically, financial conditions would become easier under higher natural interest rate and higher inflation expectation.

To the contrary, there are several comments expressing skepticism about maintaining the current framework. One line of argument highlights the risk of losing flexibility of monetary policy by clinging to the inflation target. Primarily, they would take account of potential implications for normalization of QQE in the future. Moreover, a comment expresses concerns about the implications for financial stability.

Another line of argument refers to the risk of losing credibility due to a series of postponement of expected timing of achieving the inflation target. Readers may recall that it was the issue that attracted attentions by the reporters at Governor Kuroda's press conference at the time of July MPM.

As a result of these criticism, some comments suggest that the BOJ should modify the QQE by lowering the target to some practical level in our economy. They also propose to reduce the target amount of net JGB purchase.

These are already well-known arguments as evidenced by a series of policy statements. Nevertheless, readers would like to watch whether such lines of thoughts might be affected by a renewal of some members of the policy board.

## Communication policy

The summary of opinion at the MPM has functioned as an important tool for policy communication under the framework that it is difficult to reduce the time lag of issuing the minutes.

Nevertheless, there might be some rooms for improvements from the viewpoint of outside observers. For example, a rule of order of comments is still uncertain for readers. For the time being, we could suspect that comments with majority views and/or by executive members may be listed upper. We could, however, have difficulties in identifying a balance of debate when and if the BOJ's monetary policy approaches to some modification.

One important implication of such uncertainty is the difficulty to understand a dynamics of discussion at the MPM. If the purpose of early disclosure of the discussion at MPMs is to share the direction of monetary policy with the markets, re-designing the summary would be worth considering.

**Author: Tetsuya Inoue**  
**General Manager and Chief Researcher**  
**Financial Technology and Market Research Department**  
**Nomura Research Institute**

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