

## Introduction

In line with the tone of voice by Governor Kuroda at the press conference last week, Summary of Opinion released today included a number of comments emphasizing the policy normalization story would be too early. Nevertheless, we could still suspect a divergence of the views among the members regarding the side-effects of the QQE.

## Assessments of economy and prices

There seems to be a consensus among the members with regard to growing momentum of economic activities. Among all, a couple of comments highlighted the encouraging signs of improvement of our potential growth rate, thanks to increase in inputs of both labor and capital.

In contrast, there remained a divergence of the views on inflation. On the one hand, a few comments appreciated recent positive prospects of inflation, with references to reduction in GDP gap, more favorable conditions of wages due to tightening labor conditions and changing stance of price-setting by firms.

On the other hand, several other comments maintained the cautious views, pointing out of the factors including adaptive manner of inflation expectation, remaining slack of labor among younger generation, and possibly temporary nature of recent acceleration in inflation.

Readers may like to note that emphasizing the bullish prospects of inflation by a few members of the policy board has inevitably become the source of the BOJ's policy normalization story in the market. While the BOJ may have reasons to insist the achievement of the QQE, especially when the terms of executive members of the policy board will expire shortly, it would be an issue of communication policy.

## Views on policy conducts

Summary of opinion of January MPM confirmed that there were three lines of thoughts on monetary policy conducts.

First of all, several comments reiterated the view that the BOJ should maintain the current powerful monetary easing with persistence, although we observed improving prospects of inflation. In light of the comments by Governor Kuroda at the press conference last week, this would be the "official" line of argument supported by the majority of the members.

Moreover, the fact that first five comments were in this coherent tone suggested the intension of executives of the BOJ that they would like to calm down the markets in terms of growing story of policy normalization.

It is also interesting to note that some other comments tried to downplay the significance of actual size of JGB purchase as an indicator of monetary stimulus. Readers would remember that a small reduction in planned amount of purchase of super-long JGB by the BOJ triggered the considerable reactions in the markets.

This would be again a delicate issue of communication policy. The markets could continue to keep their eyes on the size of JGB purchase, in spite of the BOJ's intension to change the gyration of policy idea from quantity to interest rate at the

time of Comprehensive Review of the QQE. Because the BOJ maintains the quantitative aspects of policy commitment as net annual increase in JGB holdings (at ¥80 trillion).

Readers would also like to note that such unique way of modifying the policy framework could be a source of the story of policy normalization. Unlike the preceding cases of policy normalization by the FRB and the ECB, the BOJ has already shifted to the policy rate regime without exiting from large scale asset purchase.

Governor Kuroda reiterated many times that maintaining the target rates of Yield Curve Control (YCC) has been the core idea of the framework of the QQE, and the actual amount of JGB purchase would become endogenous. Recent discussion in the markets about policy normalization suggested, however, the BOJ's idea may not be shared properly.

Second line of thoughts on monetary policy was to propose the review of the QQE, by highlighting some side effects. Specifically, several comments claimed that the strength of monetary easing could change in light of improving prospects of economic growth and inflation.

It should be noted that this line of argument would not necessarily suggest the early normalization of monetary policy. In fact, a comment interestingly proposed that the adjustment of target rates of YCC from the perspectives of strengthening the sustainability of policy framework.

Another notable discussion along this line was to claim the needs of reviewing the ETF purchase. According to a comment, the role of this policy instrument could diminish in light of the performance of stock prices. Nevertheless, there were only one comment referring to this issue, and Governor Kuroda expressed skeptic view at the press conference.

Lastly, we could identify again the third line of thought that searched for rationale for enhancement of monetary easing. Interestingly, one comment in line with this idea criticized the discussion on Reversal Rate, by claiming that it only focused on one factor of bank lending. Another comment reiterated the idea that further decrease in longer yields of the JGB would be necessary to improve the GDP gap.

## Implication

Summary of opinion at January MPM, especially a part of monetary policy, appear to imply that the majority (and official) view may become closer to the views for modifying the QQE in terms of the fundamental understanding of economic conditions. In fact, either line of thought could evolve inter-changeably. This would be a persistent source of policy normalization story, in spite of official argument to downplay it.

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