

## Introduction

In spite of a major set of policy decision at July MPM, its Summary of Opinions at suggests that the discussion was less intensive than expected. Nevertheless, it is interesting to observe that respective members of the MPM expressed more concrete policy opinions than before.

## Assessment of economy and prices

Assessment of our economy remained largely unchanged. Only notable issue was the growing concerns about spillover effects of trade friction between the US and China.

In contrast, the members of the MPM expressed a number of opinions on inflation. First of all, three lines of comments confirmed the central view that CPI inflation rate would gradually improved, although it could take longer period of time. Major background was positive output gap.

In the meantime, a couple of comments appreciated the effects of structural changes of our economy, which include improvements of labor participation and labor productivity. While they admitted that they could cause downward pressures on wages and prices for the time being, they claimed such effects could lead to upward pressures in the long run thanks to improvements of economic growth.

It should be noted that both of the above groups of opinions supported the basic messages of the staff's review of wage and price formation. Then, another couple of comments effectively criticized such review and reconfirmed the pessimistic prospects of inflation. These comments insisted the significance of cyclical macroeconomic factors for inflation, implying to downplay micro and structural factors.

## Conducts of monetary policy

In terms of the policy strategy, first three lines of comments confirmed the central view that the BOJ should maintain the QQE in a persistent manner. Moreover, one of them insisted the importance of reviewing the policy framework with a view to minimize the side-effects.

Following them, other three lines of comments proposed to introduce the forward guidance. They seemed to agree that the introduction would enhance the commitment to achieve the inflation target. Nevertheless, a line of comment cautioned that the BOJ should examine its effects in due course.

It should be noted that another line of comment proposed the enhancement of the QQE rather than the improvement of sustainability of the QQE. It further argued that the MPM should design the forward guidance in order to accelerate the inflation rate so that the QQE will not be prolonged.

With regard to the management of policy instruments, first set of comments discussed the target yield of 10Y JGB. After a line of comment expressed the overall support to enhance the flexibility of the asset purchases, a couple of comments raised the issue of new target range.

While one of them proposed to double the width (to  $\pm 0.2\%$ ), the other argued for a new range of  $\pm 0.25\%$ . The latter comment claimed that slight upward movement of long-term

yield could reduce the side-effects on financial intermediation, with limited impacts on economy and prices. Moreover, the comment referred to the recent developments of long-term yields in major economies. In contrast, a line of comment expressed the opposing view, due to the concerns about the negative impact of potential higher yields on inflation.

It is also interesting to note that other comment suggested that Governor Kuroda should make clear the new range of target yield at the press conference, if most of the members of the MPM agreed to double the range. Readers may remember that Governor Kuroda actually referred to it.

Lastly, a set of comments discussed the significance of the policy decision. First of all, a couple of comments confirmed the idea. They insisted that the MPM prepared for continuing the QQE much longer by enhancing its sustainability and flexibility. Moreover, one of the comments claimed that it would be consistent with the initial policy intension of the QQE with flexibility, and the other argued that it could reinforce the commitment to achieve the inflation target.

Interestingly, another couple of comments reiterated the importance of the review of the QQE in a balanced manner. One of them insisted the need of maintaining different perspectives for effects and side-effects. The other suggested the integrated viewpoint between the impacts on the financial system and the achievement of inflation target.

In relation to the side-effects, another line of comment reiterated its critical view on the negative impacts of potential higher yield, by referring to the effects of the QQE on lowering the yields that contributed to increase in bank lending and rise in capital gains from financial assets.

## Opinions of government representatives

Readers may like to remember that every MPM is participated by the representatives of the government: one is from the Ministry of Finance (MOF) and the other is from the Cabinet Office (CO).

According to Summary of Opinion of July MPM, the representative of the MOF welcomed the policy proposals as strengthening the framework for continuous powerful monetary easing. Moreover, the representative of the CO expressed their understanding that policy proposals were intended to clarify the MPM's position to continue with monetary easing.

As was evidenced at the press conference by Governor Kuroda on the day of July MPM, communication policy appears to become all the more important for the MPM.

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