Notes on Financial Markets　Vol.183

Summary of Opinions at April MPM—Further downside risks

May 11, 2020

Introduction

Summary of Opinions at April MPM suggested that there were somewhat diversified views on the policy measures, while very cautious view on our economy was widely shared.

Assessment of economy

Several lines of comments confirmed that the economic conditions deteriorated further since the previous MPM in March. In fact, one of them described that the demand disappeared, and the other referred to tightening financial condition for firms.

Moreover, other couple of lines of comments suspected the downside risks of our economy, either due to the uncertainties about the spread of covid-19 or its second round negative effects on our external demand. In any case, we should watch carefully the developments of policy measures both on medical and economic front, as a line of comment suggested.

Interestingly, only a few lines of comments presented somewhat neutral views. One of them confirmed that it would be important to discuss the outlook based on a scenario analysis. The other claimed that the fundamental structure of our economy would remain unchanged, after the impacts of covid-19 diminishes.

Assessment of prices

In line with the tone of discussion of our economy, larger number of lines of comments expressed cautious views on our inflation.

From shorter-term perspectives, spreading impacts of covid-19 and spillover effects of the substantial drop of crude oil prices would cause downward pressures on domestic prices, as a couple of lines of comments suggested. Moreover, other couple of lines of comments suspected that the achievement of inflation target even at the end of horizon of the current outlook (FY2022) would become difficult.

Only one line of comment maintained the constructive view of inflation, by referring to the expectation of early recovery of positive momentum of inflation after the impacts of covid-19 diminishes.

Policy decision

It seemed that there were a consensus of policy priority at April MPM. Several lines of comments insisted that it was extremely important to support the flow of credit to firms and to maintain the stability of financial markets.

Some of them highlighted the urgent needs to maintain employment by preventing the failure of firms. Unfortunately, however, there already emerged bankruptcies of firms due to shortage of liquidity, as a line of comment pointed out.

Against this backdrop, a line of comment proposed the enhancement of purchase operations of corporate bonds and CP as well as of existing operations for fund provision. Moreover, other line of comments suggested that the BOJ should consider the introduction of a new instrument in light of a measure for fund provision for SMEs, which is expected to be a part of policy package by the government. Both lines of comments appeared to be made by executive members.

Moreover, a couple of lines of comments insisted the importance of promoting bank lending. While it is a common point of discussion among major central banks, it should be noted that these comments also claimed that the MPM needed to take into account of tough conditions of financial intermediation by banks. These would include persistent low profits and potential increase of credit costs.

Readers may remember that there had been a speculation in the market ahead of April MPM that the BOJ might modify the forward guidance. In fact, a couple of lines of comments raised this issue and suggested that a new forward guidance should be based on the impacts of covid-19.

On the one hand, such modification could enhance the policy stance from shorter-term perspectives, and could stabilize the sentiment of firms and households. On the other hand, it could weaken the commitment to achieve the inflation target, thereby having negative impacts on longer-term inflation expectation.

In fact, other couple of lines of comments discussed further the implications of inflation from longer-term perspectives. One line of comment, seemingly by a member of “reflationary” school of thought, strongly argued for the bold decision of policy measures. According to his view, risk of higher inflation as its potential side effect could be contained by the inflation target.

The other line of comment made a proposal of another round of policy review by the BOJ, in terms of the effectiveness of existing policy tools, in order to avoid the deflation again. While it seems attractive, the MPM may like to postpone this task until our economy regains stability.

Lastly, a couple of lines of comments proposed the enhancement of JGB purchase. Interestingly, both of them referred to the potential increase in JGB issuance due to large scale economic policy package as its background. While both of them insisted the importance of maintaining accommodative financial conditions for firms and households, they might have touched a delicate part of the Yield Curve Control.

Additional stimulus

It would be reasonable for the MPM to prepare a potential set of policy measures, if they have identified the downside risks of our economy. In fact, several lines of comments emphasized its importance.

Nevertheless, none of them referred to a concrete policy option. Only one comment expressed concerns about the sustainability of financial intermediation by banks, implying that a deeper negative policy rate would not be an adequate option.

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