

Introduction

Summary of Opinions at July MPM implied that majority of the members had confidence in the effects of their policy measures. Nevertheless, they paid more attention to the longer-term challenges of monetary policy.

Assessment of economy

First three lines of comments, seemingly made by the executive members, confirmed the main scenario of gradual economic recovery later this year. In addition, a line of comment expressed optimistic view on the maintenance of long-term growth expectation.

In contrast, several other lines of comments highlighted the risk factors. Namely, some of them expressed the concerns about the potential delay in economic recovery due to negative impacts on the sentiment, uncertainties of the overseas economy, risk of increase in the number of infections, and adjustment to the structural changes.

Other line of comment raised the issue of uneven recovery across the industries depending on respective magnitudes of the impacts. Moreover, another line of comment raised the risk of a vicious cycle from increasing unemployment to decreasing expenditures. It would be closely linked with the sustainability of economic policy measures both in Japan and the overseas as the other line of comment claimed.

Assessment of prices

First two lines of comments confirmed the main scenario of gradual acceleration of inflation rate after temporary sub-zero rate of inflation. In addition, a line of comment pointed out that the impacts of covid-19 could become both upward and downward factors of inflation.

Three other lines of comments, however, expressed more cautious views. They raised a number of issues including slow pace of the economic recovery, potential impacts on the price setting behavior by firms and the overall inflation expectation, and slow improvement of the GDP gap.

Interestingly, the number of comments on the issue of inflation this time was far smaller than that of the issue of economy as reviewed above. In addition, a line of comment (as part of policy decision) suggested that the BOJ should reconsider the appropriate policy measure to achieve the inflation target, after the impacts of covid-19 are projected to diminish.

Policy decision

First three lines of comments, seemingly by the executive members again, confirmed the confidence in effectiveness of their policy measures, and suggested that the BOJ should keep reviewing their impacts carefully for the time being. Moreover, two other lines of comments confirmed that the maintenance of flow of credit to firms remained the priority of policy management.

In contrast, a line of comment, seemingly by a member of “reflationary” school of thoughts, claimed that the MPM should reinforce the forward guidance of policy rates by way of more specific links to the rate of inflation. It could lead to an additional stimulus even under temporary negative rate of inflation in coming months.

With regard to the collaboration between monetary and fiscal policy, three line of comments generally confirmed its significance. One of them further discussed the importance of international collaboration among major central banks in the world. Another one of them suggested that the BOJ and the government should maintain close collaboration in the structural reform policies in coming years.

From longer-term perspectives, however, several lines of comments raised some caveats. Namely, a line of comment suggested that the BOJ should carefully monitor whether the issue of corporate finance could lead to the issue of solvency or not, while the current policy measures are important and effective.

In addition, another line of comment, while confirming the importance of bold policy actions in the current circumstance, argued that the BOJ should pay attention to the financial stability risks when the policy measures are maintained for a prolonged period.

Potential side effects could include the negative impacts on financial intermediation. In fact, a line of comment (as part of assessment of economy) confirmed that the effectiveness of the interest-free loans to SMEs as an economic measure. Nevertheless, it also expressed concerns that such practice could lead to further reduction in loan spreads even after the impacts of covid-19 diminishes.

From broader perspectives, another line of comment, possibly made by the same member, suggested that the BOJ should pay more attention to a potential link from deterioration of economic condition to accumulation of side-effects on financial intermediation. The comment raised the factors including increase in the credit costs, reduction in the loan spreads and in returns from the fund management, and expressed concerns about their implications for ROEs of financial institutions.

All in all, other comment suggested that the MPM should discuss further the appropriate monetary policy conducts during the period of covid-19 era. Specifically, it argued for examining the transmission mechanism of monetary policy and the effectiveness of policy measures, while paying attention to the risks of persistent downward movement of expectation of economic growth and inflation.

As several line of comments suggested both in terms of economy and inflation, there seemed to be the views among the members of the MPM that both the direct impacts of covid-19 and their recovery measures could lead to substantial structural changes of our economy. If it would be the case, it could still be significance to conduct the review of monetary policy as the comment suggested, even if it is only a few years since the comprehensive review in 2016.

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