

Introduction

According to the Summary of Opinions, the majority of the MPM members remained cautious about the momentum of economic recovery at its September meeting. Moreover, some of them suggested the review of policy strategy taking account of new policy challenges.

Assessment of economy

First two lines of comments confirmed the gradual recovery scenario, as explained by Governor Kuroda at the press conference. Its main rationale was the recovery of overseas economies.

Several other lines of comments, however, expressed the concerns about the slow pace of recovery, while they agreed that our economy had already hit the bottom. Interestingly, their source of concerns seemed to be the downward revision of business investment. If this was the case, firms may be skeptic about the sustainability of current economic recovery.

A few other lines of comments also pointed out the risk of laggard recovery of consumption. According to their comments, persistent impacts of Covid-19 on service expenditures as well as further rise in propensity to save could have longer-term implications.

Other couple of comments raised the issue of interaction between economic fundamentals and financial stability. One of them warned that core of the problem of firms could shift from liquidity to solvency as the impacts of Covid-19 persists. The other suggested that low PBR of banking sector implied the market concerns about financial stability.

Assessment of prices

In spite of the broad range of cautious views of our economy as reviewed above, only a line of comment expressed the concern about the losing momentum of inflation. It argued that any further deterioration of sentiment of firms and household could further delay the recovery of inflation.

Other two lines of comments confirmed the gradual recovery scenario of inflation and effectively denied the risk of deflation with reference to the current price setting behavior respectively.

Moreover, other line of comment expressed the long-term positive view of inflation, thanks to the momentum of de-regulation and structural reform. Readers may like to note that new Prime Minister Suga already emphasized at several occasions that de-regulation would be the initial priority of his economic policy.

Readers may also like to note that there emerged some concerns about additional downward pressures of prices due to the range of de-regulation. While it would be technically true, the author would agree with the long-term positive view.

Policy decision

There seemed be a consensus among the MPM members that the BOJ should maintain the current monetary measures as a number of line of comments confirmed. Major reason was the confidence in their effectiveness in supporting the corporate finance and in maintaining the stability of financial markets.

Nevertheless, some other lines of comments discussed the needs of shifting the focus. Specifically, several lines of comments insisted the importance of improving the potential growth rate.

One of them claimed that the monetary policy should promote positive actions by firms including investment in highly prospective areas. Another line of comment emphasized the significance of the viewpoint of stimulating the potential growth rate by way of appropriate financial intermediation by banks and the financial markets.

The other line of comment highlighted the needs of improving productivity of SMEs. It suggested that the BOJ should support the private initiatives taking account of the measures by firms and the government.

It should be noted that there has been a discussion in our markets whether the maintenance of crisis measures for long period of time would rather undermine the growth potential due to their side-effects on re-allocation of economic resources.

Policy strategy

The author was surprised to find that there was some discussion at September MPM with regard to the policy strategy. As I reported in my “Notes” on the press conference by Governor Kuroda just after September MPM, a number of press reporters raised the same topic.

One possible reason common to the press conference and September MPM would be the strategic review by the FRB. In fact, a line of comment claimed that the BOJ had already maintained the overshoot commitment of inflation targeting.

Another possible and more important reason would be the prospective shift of the focus of economic policy in light of the long-lasting impacts of Covid-19.

Interestingly, one line of comment effectively argued that the BOJ should maintain the current strategy. According to the comment, QQE contributed to increase the employment and the earnings despite the decrease in the size of labor force, and introduced the global standard of 2% inflation target.

Nevertheless, other couple of lines of comments pointed out the needs to review the policy strategy, either in light of evolving economic environment or losing sight of achieving the inflation target.

It should also be noted, however, there seemed to be another consensus among the MPM members with regard to the maintenance of strong collaboration with the government. While it is of course the case with crisis measures, it could also be an issue from longer-term perspectives.

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

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