

Introduction

Summary of Opinion at December MPM suggested that there was a consensus among its members to conduct the strategic review of monetary policy.

Assessment of economy

Several lines of comments confirmed that our economy had been on a gradual recovery trend. Nevertheless, there seemed to be diversified views of the near-term outlook.

A couple of comments pointed out the risk of deceleration of the recovery due to the current increase in the number of infection of Covid-19. Another line of comment implied the weakness of economic recovery with reference to its dependence on economic policy measures.

Several other lines of comments expressed more cautious views either by insisting the feature of uneven recovery across the economic sectors, or by highlighting the growing uncertainties ahead. Moreover, another comment explicitly warned the risk of recession due to policy measures to prevent further contagion of Covid-19 and to deterioration of sentiment of households and firms.

Assessment of prices

First couple of comments, seemingly by the executive members, reiterated the constructive view. They maintained the scenario of gradual acceleration of inflation rate, once the impacts of Covid-19 diminishes. Moreover, they downplayed the risk of deflation, because current negative rate of inflation was driven by some temporary factors.

In contrast, several other lines of comments indicated more bearish views. They expressed concerns about the risk of further persistent failure of achieving the inflation target, and about the signs of deterioration of inflation expectation. Ironically, such points of concerns would be the backgrounds of forthcoming review of monetary policy strategy.

Policy decision

Readers would like to remember that the MPM in December decided to maintain the measures to support the flow of funds to firms until the end of September 2021. Summary of Opinions implied that the decision was strongly supported by the members.

A couple of comments enhanced the significance of collaboration with the government, and proposed to enhance the measures by the BOJ when the government submitted another round of economic stimulus to the diet. Another couple of comments claimed the importance of pre-emptive action by the BOJ ahead of the previous end of term of policy measures (ie. the end of March 2021). According to their views, the extensions could sustain the sentiment of firms.

As other line of comment suggested, maintenance of financial intermediation toward firms would remain to be the priority for monetary policy for the time being. While the resiliency of banking system would be sustained in light of their capital and liquidity positions, more prominent role of corporate bond market would be necessary from the longer-term viewpoints, as another line of comment argued.

Meanwhile, other line of comment, seemingly by “reflationary” school of thought, reiterated the idea that the BOJ should enhance its accommodative monetary policy by reduction in target yields of both short- and long-term rates as well as the further reinforcement of policy commitment.

Review of policy strategy

With regard to the launch of policy strategy, first group of comments referred to its backgrounds. Readers may like to recall that reluctant views had seemed to be dominant at MPM until recently. In fact, the MPM conducted the comprehensive review in 2016, and introduced the YCC as its major result.

A couple of comments claimed that it was important to conduct another round of review of monetary policy to enhance effectiveness and sustainability, when it has become probable to take more time to achieve 2% target.

Another three lines of comments insisted that the focus of the review should be strategies of policy conducts under the current framework of 2% inflation target and the QQE with the YCC. One of them confirmed the confidence in the effectiveness of the YCC.

Such proposal of the scope was supported by a member, seemingly with “reflationary” line of thought. Its comment warned about the risk of deflation that would suspend the trend of improvement of employment, which had been often the case with our economy for decades.

Second group of comments referred to the potential contents. At the press conference, Governor Kuroda explained that the management of asset purchase and the YCC would be the issues for discussion.

A couple of comments raised the ETF purchase. While one of them confirmed the importance of maintaining active purchase for the time being, both of them suggested the importance of its flexibility. Moreover, one of them referred to the consideration of soundness of the BOJ’s asset, and both of them referred to the flexibility to evolving conditions of financial markets and economy.

One of such comments also claimed the importance of flexibility of the YCC. In addition, another line of comment confirmed the significance of more careful management of the yield curve. It expressed the risk of increasing interest rate risks due to increase in the JGB issuance, and confirmed the importance of maintaining steep shape of the yield curve in order to maintain financial stability.

Interestingly, there appeared few comments expressing the concerns about the potential instability of financial system in a different direction.

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