

## Introduction

Summary of opinions at March MPM of the BOJ clearly conveyed their message that the “assessment” of monetary policy was intended to enhance the sustainability of their accommodative policy

## Assessment of economy and prices

Views of the current economic condition among members of the MPM appeared to be somewhat converged.

Several lines of comments confirmed the recent gradual improvement of economic activities, supported by external demands. At the same time, a couple of comments pointed out that recovery of face-to-face service sectors lagged behind. In addition, a few comments expressed cautiousness about downside risks due to uncertainties about Covid-19.

Regarding prices, a couple of comments reconfirmed the central scenario of gradual improvement, suggesting its resiliency against overall economic conditions. While a line of comment pointed out the risks in the both direction in light of overseas concerns about inflation, another couple of comments emphasized the downside risks of prices that could cause low inflation for longer years.

## “Assessment” of policy – General remarks

First of all, readers should note that the BOJ called this round of policy review “assessment”. Their selection of the word seemed to suggest that its intension was to modify some parameters, but not to review the fundamental framework of the QQE with YCC.

Such intension was unanimously confirmed by the first set of comments. All of them expressed the view that the analyses for the “assessment” showed the need to maintain their accommodative policy.

Moreover, several lines of comments insisted the importance of enhancing flexibility and effectiveness of the policy framework in order to sustain the accommodative policy for longer years.

## “Assessment” of policy – YCC

First line of comment appreciated the introduction of the “Interest Scheme to Promote Lending”, as it could contribute to manage target yields flexibly without considerable impacts on financial intermediation.

Interestingly, this line of comment also claimed that the policy action would be effective in changing skeptic view in the market about possibility of further reduction in policy rate.

Other lines of comments appeared to put different weights on some aspects. First couple of comments appreciated the “clarification” of guidance of 10Y JGB yield, as it could enhance the transparency of monetary policy and the functions of JGB markets.

Other couple of comments confirmed the priority to stabilize the JGB yield curve at low level. Moreover, one of such comments argued that the BOJ should respond against upward pressure of the long-term yield, making use of “fixed-rate purchase operations for consecutive days” when necessary.

## “Assessment” of policy – ETF purchase

In comparison with management of the YCC, members of the MPM seemed to be more converged.

Specifically, most of the comments in this subsection agreed the principle that ETF purchase should be conducted flexibly and nimbly. One line of such comments expressed the idea that large scale purchase would be more effective when markets considerably destabilize.

Moreover, a couple of such comments confirmed the importance of enhancing flexibility in order to sustain accommodative policy in an effective manner, and to reinforce its transparency.

Another line of comment, however, raised the voice of concern that modification of ETF purchase was misunderstood as reduction in the magnitude of monetary easing, and argued that the BOJ should pay attention to such risk.

## “Assessment” of policy – Overshoot commitment

One interesting element of the “assessment” of monetary policy was the discussion on “overshoot commitment”.

According to the series of comments by Governor Kuroda, there had been the consensus view in the market that management of the YCC and ETF purchase would only be the focus of the “assessment”.

Several lines of comments confirmed the significance of this commitment, because it could send strong message of maintaining accommodative monetary policy for longer years. Moreover, a couple of such comments insisted its effectiveness as “make-up strategy” of monetary easing.

A potential reason to revisit this long-standing strategy might be the recent policy actions by overseas major central banks in terms of forward guidance of asset purchases. With this regard, it is interesting to note that other line of comment claimed that the BOJ should modify the commitment with more concrete actions, suggesting the maintenance of commitment would not be effective enough.

## “Assessment” of policy – Prudence viewpoint

A line of comment claimed the importance of taking account of side-effects of monetary easing on financial system, and argued that the staff should make regular reports to MPMs. Another line of comment pointed out, however, that its intension was to conduct effective monetary easing, but not to consider profits of financial institutions.

In any case, the author appreciates the modification, as the discussion by members of the MPM and the reports by the staff on this topic would become more transparent.

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

This note is intended solely for informational purposes and should not be construed as investment advice. The author does not guarantee the accuracy or completeness of the information contained. Opinions in this note are those of the author and do not represent the views of Nomura Research Institute or Financial Technology and Market Research Department. This note is exclusively for the personal use of those receiving it directly from the author.