

## Introduction

MPM of the BOJ decided to extend the measures to support financing in response to Covid-19 at December meeting. Its members also discussed the policy implications of recent upward pressures on prices.

## Assessment of economy

First four lines of comments confirmed the positive outlook of our economy. They pointed out the improvement of consumer sentiment and service expenditures thanks to gradual removal of containment measures against Covid-19 and some signs of diminishing effects of supply constraints.

Meanwhile, some of them reiterated the remaining uncertainties about negative effects by Covid-19 both on domestic and global economies.

Moreover, other couple of comments expressed concerns about the momentum of recovery of corporate sector.

One of them pointed out the lack of strength of investment plans by non-manufacturing sectors and SMEs as well as those for innovation and growth. Other raised the downside risk on corporate profits due to persistent congestion of logistics and supply constraints along with deterioration of terms of trade.

Three other lines of comments focused on the international aspects. One of them explained that positive impacts of depreciation of JPY have become smaller, because of the structural change of expenditure pattern by Japanese firms.

Other couple of comments confirmed the major risk factors for global economies including contagion of variant of Covid-19, inflation and policy response in the US, slower growth of Chinese economy with private debt problems.

## Assessment of prices

First four lines of comments maintained the constructive views of inflation.

They noticed gradual spillover effects from rapidly rising corporate prices to underlying inflation of consumer prices. Some of them pointed out some signs of modifications of price setting behaviors and emerging trend of improvement of medium- and longer-term inflation expectation. One of them insisted the importance of forthcoming policy measures by the government to encourage firms to increase wages.

Other couple of comments referred to the outlook of inflation.

One of them insisted the importance of focusing on future developments of price setting behaviors and inflation expectation, while it would be difficult to achieve the inflation target in FY2023 in light of the level of GDP gap and inflation expectation. The other suggested the review of downside risk of inflation at the next round of quarterly outlook, considering improving inflation expectation and rising material prices.

## Policy decision (Crisis measures)

Large part of the policy discussion at December MPM seemed to be related to the appropriateness of modification of crisis measures in response to Covid-19. Among all, there was the consensus that measures for large firms should be removed, while those for SMEs should be maintained.

In fact, first three lines of comments confirmed the view that favorable condition has been maintained in corporate bond and CP markets, and precautionary needs of funds by large firms have already diminished.

On of them also expressed some concerns about negative impacts by corporate bond and CP purchases on market functions and fund management by institutional investors.

In the meantime, they pointed out the remaining challenges for funding activities by SMEs, especially among those in individual services. Moreover, other couple of comments insisted the importance of early decision to maintain these measures for SMEs, because it could stabilize the sentiment of those firms and banks toward the end of the fiscal year.

Members of MPM expressed the similar view regarding the special operation for fund provision in response to Covid-19.

Some of them suggested to modify conditions of those to provide back-financing against the government-supported loans, because their application have already terminated. Another line of comment claimed that the operations against private debt as collateral could be completed as scheduled with no major problem.

## Policy discussion

Interestingly, some lines of comments discussed the implication of modification of crisis measures for overall policy strategy. Readers may like to note that there seems to be growing debate in domestic market about potential modification of accommodative policy in light of changing dynamics of inflation and its impacts.

Couple of comments confirmed the view that the policy decision at December MPM would not intend to modify the fundamental framework of the QQE, or would not contradict the overshoot commitment because long-term trend of increasing monetary base could still be maintained.

Other couple of comments insisted the importance of its communication to the markets that the modification would not affect macro economy and prices, and that the BOJ would remain ready to conduct crisis measures when necessary, with collaboration with the government.

From longer-term perspectives, other couple of comments reiterated the view that the BOJ should keep accommodative monetary policy to support the recovery of our economy and to achieve the inflation target.

One of them pointed out that large part of rise in inflation rate has been on the back of increasing crude oil and material prices and medium- and long-term inflation expectation has not anchored at 2%. The other insisted the importance of improving GDP gap and inflation expectation for now.

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