

Introduction

Members of the MPM of the BOJ expressed concerns about uncertainties due to Russia's invasion of Ukraine. Interestingly, their focus of discussion was potential negative impacts of our economy, rather than implications for prices.

Assessment of economy

First four lines of comments confirmed the constructive view of economic recovery. While three of them suggested the need to be cautious about deteriorating terms of trade, they expressed confidence in continuous recovery on the back of diminishing impacts by Covid-19 and supply constraints.

Moreover, one of these lines of comments expected that "excess savings" during the period of Covid-19 would play the role of buffer from decreasing real purchasing power of households. According to this comment, impacts of worsening terms of trade would be smaller than those in 2008.

Interestingly, next four lines of comments expressed concerns about potential negative implications of Russia's invasion of Ukraine for our economy.

Two of them focused the rise of energy and commodity prices and the other of them suggested the lagged negative impacts due to the broad-based economic sanctions. Another line of comment raised the concern about downward impacts on global economy due to tightening monetary policy by overseas central banks.

Assessment of prices

First three lines of comments confirmed the central view of the MPM. While the current rate of inflation crawls around 0%, they expected that we would continue to see approximately 2% inflation in coming months after April. Moreover, one of them noticed positive view of underlying inflation thanks to improvements of GDP gap and long-term inflation expectation.

Regarding the sustainability of upward movement of prices, however, the other line of comment pointed out the risk of reverse course of commodity prices in the latter half of FY2022.

Moreover, members of the MPM expressed mixed views about the prospects of transfer of rising input costs by firms.

On the one hand, a couple of lines of comments expected broader-based upward pressures on CPI inflation. One of them suggested that firms could gain more acceptance by consumers of rising selling prices by way of indicating higher energy prices especially when their competitors would also rise their selling prices.

On the other hand, three lines of comments expressed skeptic views about such second round effect. One of them noticed transfer of costs to retail prices have been limited as the recovery of domestic demand was insufficient. Other couple of comments pointed out that the conditions of purchasing power of households and competition by firms would prevent broad-based improvement of CPI inflation.

Moreover, the other line of comment claimed that it would be difficult to achieve 2% inflation target at the end of FY2023, in light of the developments of GDP gap and inflation expectation.

Members of the MPM also confirmed that wage dynamics would be important for sustainable inflation. One of such line of comments expected the improvement of wage conditions for middle-age population, as further increase in labor supply of female or old-age population would become difficult.

Other line of comment claimed that improvement of productivity by firms would be crucial to sustainable rise in wage. Interestingly, this line of comment further stressed importance of the role of regional banks in promoting innovation and new businesses as well as business model reforms by firms.

Monetary policy

First line of comment confirmed that domestic financial condition remained accommodative in spite of the recent geopolitical uncertainties. Nevertheless, one line of comment referred to the potential negative impacts on overseas assets of institutional investors if large scale correction of asset prices occurs.

It should be noted that almost all the lines of comments on monetary policy strategy confirmed the idea of preserving accommodative policy. They raised the various reasons.

While several lines of comments confirmed that there were signs of virtuous circle in domestic demand, they expressed either concern about its momentum, or skeptic view about their sufficient impacts on inflation expectation and wage.

Other lines of comments raised the potential negative implications of Russia's invasion of Ukraine. One of them confirmed the higher uncertainties of economic outlook, and the other warned the downward impacts on domestic demand. Another line of comment confirmed the idea that monetary policy should be conducted to achieve the inflation target stably, rather than to react directly to developments of commodity prices and foreign exchange rates.

Readers may like to note that this was the only comment referring to foreign exchange rate, in spite of its recent focus of domestic financial markets.

Moreover, another couple of comments claimed that accommodative monetary policy should rather be enhanced. One of them insisted the downside risks on economy and prices due to rising commodity prices. The other line of comment claimed that earlier recovery of economy and achievement of inflation target should be pursued.

Author would like to agree with the last line of comment, which suggested the importance of discussing the prospective policy conducts taking into account of evolving circumstances of economy and prices and their various prospects.

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