Notes on Financial Markets Vol.216

Summary of opinions at April MPM—Strong consensus

May 15, 2022

Introduction

Members of the MPM of the BOJ indicated the strong consensus about the maintenance of accommodative policy, in reaction to growing concerns in the markets about its side-effects of substantial depreciation of JPY.

Assessment of economy

First three lines of comments confirmed the central view of the MPM. While they pointed out the lack of momentum of consumption and its near-term downside risks, they remained confident about the underlying trend of economic recovery. According to their views, diminishing impacts of the infection, recovery of external demands, supports by fiscal policy and "excess" savings by households would be the drivers.

Regarding the implications of foreign exchange rates, other couple of comments claimed that 1) deterioration of terms of trade has largely been due to rising overseas prices, and 2) depreciation of JPY would be beneficial to economic recovery when GDP gap remains negative.

The other two comments expressed cautious views of overseas economies with reference to three major factors (situation of Ukraine, elevated inflation and supply constraints) and their potential impacts on global financial markets.

Assessment of prices

MPM members expressed a number of comments on inflation because of the obvious reasons.

First six lines of comments confirmed the central view of the MPM. Some of them expected that the rate of core inflation (excluding flesh food) would accelerate to approximately 2%since April and would crawl around the level for some time during FY2022.

Nevertheless, some of them also expected that the core inflation rate would decelerate afterwards. Regarding the reasons of such cautious views, they noted that 1) underlying rate of inflation remained low (especially in comparison with the US and the Europe), 2) GDP gap remained negative and employment did not returned to the level before Covid-19, and 3) households lacked the sufficient capacity to expenditures.

Moreover, a couple of their comments expressed concerns about downside risk of inflation, because they suspected that rising import prices of international commodities may be temporary. According to their views, domestic drivers of underlying inflation including GDP gaps and inflation expectation lacked momentum.

From medium-term perspectives, however, majority of comments reiterated the constructive views of inflation.

With respect to its backgrounds, they pointed out that 1) GDP gap would gradually improve, 2) firms would transfer the rising input costs to consumers (especially for foods), and 3) firms and households would modify their perception of inflation in the end.

It should be noted that one of such comments suspected that inefficiencies of trade and logistics due to the recent geopolitical conditions could have long-lasting impacts on prices of broad-based items in our domestic economy.

Moreover, a couple of such comments confirmed the idea that wage dynamics would be crucial for higher rate of inflation in a sustainable manner. One of them expected that expansion of labor shortage would function as upward pressure. The other claimed that it would be necessary to watch carefully the developments of flow of people, business investments, and initiatives for enhancement of growth.

Interestingly other two lines of comments raised the communication issues. One of them claimed that it was appropriate to include the outlook of core-core (excluding flesh food and energy) rate of inflation when discrepancy between the headline and the underlying inflation is large. The other argued for careful communication in order to avoid skepticism about inflation by households.

Monetary policy

First four lines of comments confirmed the idea that the BOJ should maintain the current policy when our economy is on the track of recovery. They reiterated the cautious views of the economy on back of reduction in real purchasing power and growing uncertainties of global economy. According to their comments, supporting economic activities by monetary easing would still be required.

Concerning the depreciation of JPY, a couple of other comments claimed that 1) monetary policy should take into account of their impacts on economy and prices, 2) but it should not target foreign exchange rates, and 3) recent developments have been driven by differences of the momentum of economic recoveries between Japan and the major overseas economies.

Three other lines of comments raised the issue of the YCC. Two of them expressed supports to the idea of pre-announcement of daily conducts of fixed-rate purchase operations of JGB. According to their comments, such practice would avoid the market speculations about implications of specific operations, and could clearly convey the policy intension. The other comment expected that the new practice would promote appropriate formation of the JGB yield curve.

From medium-term perspectives, three lines of comments suggested diversified views. On the one hand, a line of comment argued for further enhancement of monetary easing to achieve the inflation target in earlier period of time. On the other hand, a couple of other comments confirmed the idea of maintenance of the current policy in a patient manner. They also claimed that it would be necessary to remain aware of growing importance of its sustainability.

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