

Introduction

The MPM of the BOJ in June identified the resiliency of recovery of domestic consumption. Nevertheless, they confirmed the significance of maintenance of accommodative policy in order to achieve the inflation target.

Assessment of economy

Interestingly, first five lines of comments shared the constructive view of our domestic economy especially on the consumption front. Meanwhile, only one comment maintained the cautious view.

While a couple of the comments admitted that the economic activities have been affected by supply constraints and rise in import prices, all of them pointed out the diminishing impacts of Covid-19 on our economy.

In fact, four lines of the comments appreciated the recovery of service consumption by households, including tourism which has also been supported by the policy measures by the government. Moreover, three of the comments expected that the recovery would be sustainable.

It should be noted, however, three other lines of comments confirmed the cautious view of corporate activities.

One of them pointed out that rapid depreciation of JPY rates could increase uncertainties for firms for formulating business plans. A couple of them expressed concerns about negative impacts on supply constraints due to lock-down in Shanghai.

Moreover, three other lines of comments reiterated the high uncertainties about global economy, with reference to Covid-19 in China, Russia's invasion of Ukraine, dynamics of inflation, monetary policy and supply constraints. Other line of the comments pointed out the risk of instability of US financial markets in light of rapid pace of rise in poly rate.

Assessment of prices

Three lines of comments confirmed the central view of inflation among members of the MPM.

Specifically, they remained skeptic about sustainability of current rate of inflation around 2%, and expected that it would decelerate once contribution of energy price diminishes. Moreover, one line of the comments suggested that improvement of GDP gap and inflation expectation was not sufficient. Nevertheless, other line of the comments expected continuous recovery of underlying inflation.

Three other lines of comments discussed the implications.

Interestingly, one line of the comments suggested that current rise in CPI inflation rate may have been capped by the policy measures by the government. The other line of the comments pointed out that burdens on household consumption may be uneven depending on respective levels of earnings and weights of expenditures.

All in all, another line of the comments confirmed that improvement of productivity and wage payment by firms would be crucial for virtuous circle of income and prices in stable and sustainable manner. According to the comment, it would be necessary to mobilize labor force, to promote start-up business, and to encourage asset formation by households.

Discussion on monetary policy

Readers may like to remember that the rationale of maintenance of monetary easing has been focused not only by the market participants but also by the general public. In fact, it has become one of the issues for the general election of Upper house in July.

In contrast to the growing criticism, however, members of the MPM showed strong consensus about the significance of current accommodative policy.

Three line of the comments confirmed the view that our economy has been on the process of economic recovery and been negatively affected by rise in commodity prices. A couple of such comments pointed out the negative GDP gap and the needs for collaboration with government to stimulate economic activities.

Other four lines of comment insisted that the inflation target was not achieved in spite of the fact that headline CPI inflation rate has been crawled above 2% in recent months.

One of the comments confirmed the view that current rise in inflation rate has not been supported by virtuous circle of economic activities. Other three line of comments pointed out the lack of positive momentum of wage dynamics. All in all, these line of comments claimed that monetary easing would still be required to support improvement of wages.

From longer-run perspectives, three other lines of comments also noted the rationale of maintenance of monetary easing.

They claimed that improvement of purchasing power of households, inflation expectation and GDP gap would be crucial for achievement of the inflation target in sustainable manner. According to their opinions, it would be necessary to maintain current policy until these conditions are satisfied.

Readers may like to note that such line of argument had been mostly presented by "reflationary" school. Author could not identify the differences of opinions among member of MPM at its June meeting.

The other couple of comments referred to the policy instruments.

One of them expressed support for daily conducts of the fixed-rate purchase operations of JGBs in order to maintain the yields in the target range in light of the risk of continuous upward pressure from overseas.

The other suggested that additional measures should be conducted without hesitation, if liquidity condition of firms and/or stability of financial market becomes vulnerable. With this respect, the comment claimed that current forward guidance of monetary policy should be remained unchanged.

Author: Tetsuya Inoue
Senior Researcher
Financial Markets and Digital Business Research Department
Nomura Research Institute

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