

## Introduction

Members of the MPM of the BOJ maintained their strong consensus to keep the accommodative policy at its July meeting. They also expressed concerns about the downside risks of the overseas economies.

## Assessment of economy

First couple of comments reiterated the constructive view of our economy with reference to the prospects of recovery of consumption and reduction in supply constraints. Moreover, another comment pointed out the possible improvement of expected rate of growth that may lead to resilient increase in business investment and rise in nominal wages.

On the other hand, the other line of comment expressed the cautious outlook of domestic consumption. According to the comment, consumers may not withdraw much of their savings potentially due to the impacts of rising prices and the modification of their behaviors through the period of Covid-19.

Regarding the overseas economies, a number of comments pointed out the downside risks and their implications for our economy.

A couple of comments raised the risks of slowdown of economic activities in the US and the Europe as their reactions to tightening monetary policy.

Another couple of comments pointed out the uncertain outlook of the pandemic, Russia's invasion of Ukraine, and global supply constraints. Lastly, the other line of comments expressed concern about the strong prevention measures against Covid-19 in China and their impacts on the global economy.

Interestingly, some of them suggested that potential increase in volatilities in financial markets as well as direct impacts of our external demands would be the major mechanism of transmission of shocks.

## Assessment of prices

First couple of comments confirmed the consensus outlook of prices. One of them expected that CPI inflation rate would gradually accelerate toward the end of this year due to rising prices of energy, food and durable goods.

Nevertheless, both of them argued that the achievement of 2% target in a sustainable manner would still be difficult, as the inflation rate would decelerate in the next year. One of them pointed out the trajectories of GDP gap and inflation expectation as the reasons.

It should be noted, however, several other lines of comments expressed the constructive outlook of inflation from longer-term perspectives.

Couple of the comments suggested the probable modification of pricing behaviors by firms with reference to the prospects of elevated levels of commodity prices and the signs of rising prices in broader areas.

Moreover, another line of comment expressed hope for virtuous circle of wage and price on the back of investment in human capital, increase in the number of job changes and growth of star-up firms.

## Policy decision

First line of comment reiterated the official view. It explained that the BOJ would keep its efforts to support flow of funds to firms and to maintain stability of financial markets. It also insisted that the MPM should maintain the current forward guidance of policy conducts.

Another couple of comments argued that they should maintain the operations for fund provision against the pandemic. They suggested that MPM in September should review the remaining elements of the operations.

Regarding the overall stance of monetary policy, several lines of comments implied the strong consensus.

Couple of their comments pointed out the weakness of domestic demand due to reduction in real purchasing power by rising commodity prices, with reference to negative GDP gap for two consecutive years.

The other line of comment claimed the role of monetary easing to increase the prospects of higher nominal wages. Lastly, another line of comment confirmed the idea that the BOJ should conduct its monetary policy according to its outlook of inflation in order to achieve 2% target in a sustainable manner.

It should be noted that several lines of comments raised the importance of nominal wages as the factors of policy conducts. Couple of their comments claimed that the BOJ should identify the changing dynamics of nominal wages, including their distribution.

All in all, a line of comment confirmed the policy strategy that the BOJ should maintain the current accommodative policy in a persistent manner.

Nevertheless, another line of comment argued for reinforcement of monetary easing in order to improve GDP gap and inflation expectation.

In contrast, the other couple of comments raised its potential side-effects. One of them discussed that the BOJ should keep monitoring the functions of the JGB markets, while it confirmed the increasing effects of nominal low yields under improving inflation expectation. The other raised the risk of financial instability as a side-effect of monetary easing from long-term viewpoints.

Interestingly, the last two lines of comments raised the issues of communication policy.

One of them suggested that the BOJ should address the positive achievements of monetary policy, including contributions to increase in employment and real wage per hour. The other confirmed the importance of sharing the significance to pursue virtuous circle of wage and price.

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