

## Introduction

While the MPM of the BOJ maintained their benign outlook of inflation in coming fiscal years, some of them noticed its upside risks largely due to higher rise in nominal wages.

## Assessment of economy

First couple of comments confirmed the central view.

They noticed continuous recovery of domestic demands supported by the relief of both containment measure against Covid-19 and supply constraints. They also expressed further positive views of our economy in later years by the prospects of virtuous circle between income and expenditure.

Several other lines of comments, however, expressed concerns about deceleration of overseas economic growth and its impacts on our economy.

They pointed out the growing signs of slowdown of economic activities in the US and the Europe mostly due to monetary tightening against higher rates of inflation. One of such comments warned their negative impacts on our economy, and the other referred to the risk of higher volatilities of asset prices and credit markets.

## Assessment of prices

First couple of comments confirmed the rationale for upward revision of inflation outlook for the current fiscal year.

They explained that transfer of costs to prices by firms would continue for the time being, and they noticed some signs of rises in service prices.

Nevertheless, three other lines of comments reiterated the benign view of inflation in coming fiscal years.

Couple of them expected that the upward pressures on prices due to rising input costs would gradually diminish toward the middle of next fiscal year. The other comment expressed concern about potential downward pressure on domestic prices due to deceleration of overseas economic growth.

Interestingly, however, three other lines of comments pointed out the possibility of structural change of inflation dynamics from longer-run perspectives.

One of them suggested potential acceleration of wage rises along with improvement of GDP gap and inflation expectation. The other referred to the prospects of change in pricing practices once the actual transfer of costs to prices by increasing number of firms. Another line of comment pointed out the risk of inflation due to the reverse trend of globalization.

## Policy decision

Readers should note that the MPM members made a large number of comments on policy decision from various points of view.

First couple of comments stressed the importance of maintaining the current accommodative policy. They confirmed that the monetary policy successfully maintained the favorable financial conditions. They also claimed that the BOJ should maintain the current stance of monetary policy with the possibility of additional stimulus when necessary.

Interestingly, other six lines of comments discussed the prospects of wage rises and their policy implications.

With regard to the outlook of wage rises, views by the MPM members appeared to be diversified. One of the comments suggested the sign of wage rises supported by high level of corporate profits from macro-economic viewpoint. The other comment expressed skeptic view about its sustainability

As confirmed by the other couple of comments, there seemed be a consensus that rise in nominal wage in a sustainable manner would be indispensable to achieve the inflation target stably. Moreover, a comment reiterated that improvement of growth expectation by firms would be required.

It should be noted that most of the six lines of comments confirmed the view that maintenance of accommodative policy would be necessary to realize wage rises.

One of such comments expected that monetary easing could contribute to higher rises by way of improvement of both labor markets and inflation expectation. Other couple of comments insisted the importance of policy effects to support virtuous circle between price and wage.

The other three lines of comments raised the issues of communication policy. Readers may like to remember that there has been criticism by general public against the monetary easing in light of higher cost of living.

These line of comments suggested that the BOJ should explain more deliberately that 1) virtuous circle between price and wage has not materialized, 2) support for improvement of productivity by business investment would still be necessary and 3) achieving the inflation target would require sustainable rise in inflation.

Another interesting aspect of the discussion was three lines of comments on financial markets from various viewpoints.

One of them warned the risk of negative spillover from tightening financial conditions in overseas markets. The other comment referred to the idea that foreign exchange rate should align with economic fundamentals. Another comment claimed that maintenance of stability of the JGB market remained important.

Lastly, readers should note that the last couple of comments discussed the potential factors for policy normalization in the future.

One of them reiterated the importance to keep monitoring the side-effects of monetary easing including impacts of inflation on firms and households. The other claimed that the BOJ should enhance understanding of the potential market impacts by policy normalization and the readiness of market participants.

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