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Summary of Opinions at December MPM－Critical phase

December 29, 2022

Introduction

Majority of the MPM maintained the cautious outlook of inflation despite the prospects of stronger rise in wages. Accordingly, they insisted that the expansion of target range of 10Y JGB yield was intended to restore the market function to enhance sustainability of the YCC.

Assessment of economy

A couple of comments confirmed the constructive view of domestic economy. They referred to diminishing impacts of Covid-19 and supply constraints, and pent-up demands of consumption and investment as positive elements.

Interestingly, other three lines of comments expected stronger rise in wages. They pointed out a number of positive drivers including positive stance by both firms and employees toward higher wages, momentum of investment in human capital, elevated level of corporate profits from macro-economic perspectives and tightening labor condition.

With this regard, other couple of comments claimed that the ability to make profits by firms and the improvement of productivity at SMEs would be indispensable for sustainability of wage rises. One of such comments suggested that rise in general service prices would be an important indicator.

Readers may like to note, however, a couple of comments expressed concerns about deceleration of overseas economic activities. They raised the risk factors including evolution of the war in Ukraine, increase in the number of infection in China, and inflation developments in the US.

Assessment of prices

Five lines of comments confirmed the cautious view of inflation despite positive prospects of wage rises as discussed above.

Major line of their discussion was based on the understanding that current acceleration in inflation has been driven by rises in import prices. Accordingly, they expected that inflation would decelerate some time in 2023 due to diminishing impacts of earlier rises in commodity prices and to effects of policy measures to reduce utility prices (since February 2023).

All in all, a line of comment explained that firster rises in prices of items that showed stickiness (mainly those of services) would be required for sustainable achievement of the inflation target.

Nevertheless, three lines of comments suggested the signs of changing conditions. They referred to transfer of costs to prices by wider range of firms, acceleration of rises in indicators of underlying inflation, changing distribution of rates of price rises of items and levels of core-core inflation as noticeable factors.

Policy decision

It should be noted that first four lines of comments confirmed the significance to maintain the existing framework of monetary accommodation, despite their decision to expand the target range of 10Y JGB yield.

Their fundamental line of argument was it was important to maintain accommodative policy when our economy may be in the critical phase to achieve sustainably the inflation target.

Nevertheless, readers may like to note that they effectively admitted that our economy may be closer to achieve the inflation target, as none of them described that our economy was “distant” from the target.

Then, a large number of comments discussed the expansion of the target range of 10Y JGB yield.

Regarding the backgrounds, a couple of comments expressed concerns about the market functions. Specifically, they raised the risk of negative spillovers to corporate bond markets that might prevent raising funds by firms.

Accordingly, a line of comment claimed that the expansion of target range of 10Y JGB yield was necessary in order to maintain long-term interest rates at the low level stably.

Following four lines of comments insisted that the policy decision was not intend to change their accommodative stance of monetary policy.

They claimed the rationales including 1) the modification was necessary to maintain monetary easing under global acceleration of inflation, 2) policy effects has been enhanced due to rise in inflation expectation, 3) distortion of 10Y JGB yield should be corrected, and 4) reinforcing sustainability of the YCC was required to support wage rises.

Regarding its implementation, a line of comment suggested to enhance the scale and the flexibility of JGB purchase across the maturity zones. At the same time, other line of comment confirmed the importance to observe the impacts on the market functions in a careful manner.

Interestingly, other three lines of comments referred to longer-term issues.

One of them raised the importance to monitor the distribution of interest rate risks and the preparation to interest rate rises by market participants when the BOJ would approach toward the exit from accommodative policy in the future. The comment confirmed the prevalence of managing and raising funds under the assumption of maintenance of low yield environment.

Another line of comment confirmed the needs to review the effects and the side-effects of the current policy framework, thereby evaluating their balances.

In contrast, the other line of comment expressed skeptic view about potential modification of 2% inflation target as it may undermine the policy actions.

Readers may like to note that major financial press reported that Kishida administration seemed to have the idea to modify the communique between the government and the BOJ introduced in 2013 as the backbone of Abenomics.

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