

Introduction

At the MPM in June, majority of the members agreed to the idea that BOJ should maintain the current accommodative monetary policy, while their views of inflation remained diversified.

Assessment of economy

Interestingly, only five lines of comments discussed the economic conditions.

First three lines of comments confirmed the constructive views. They noted that positive appetite for business investment by firms and improved sentiment of households on back of rise in negotiated wages. Nevertheless, one of such comments remained cautious about outlook of overseas economies.

Other couple of comments raised longer-term issues. One of them insisted the importance to monitor signs of structural change of firms including introduction of functional base wages, attitude toward transfer of input costs, developments of M&A activities and competitiveness of SMEs. The other comments appreciated the improvement of profits of firms and expressed hope for active roles of regional banks.

Assessment of prices

Much larger number of comments on prices suggested the gyration of discussion at June MPM.

Three lines of comments confirmed the cautious view that the rate of inflation would decelerate in later this year before it would gradually regain momentum in coming years. One of them pointed out the uncertainties about recovery of momentum, and the others claimed that effect of transfer of input costs remained the major factor for high rate of inflation.

In contrast, a couple of comments expressed the outlook of higher rate of inflation. One of them noticed the growing impacts by domestic factors with reference to acceleration in inflation of service prices and higher rate of GDP deflator. Moreover, the other comments pointed out improvement of wage/income of households and rebound of incoming tourists as upward drivers of inflation.

Regarding the near-term risks of higher inflation as well, views of the members of the MPM diversified.

On the one hand, a couple of comments insisted the upside risks. Both of them noted that behavior of firms toward wage and prices have already changed structurally. Moreover, one of them confirmed the fact that annual rates of increase in various indicators of underlying inflation have risen above 2%.

On the other hand, other couple of comments remained cautious about downside risks. One of them pointed out the impacts on domestic inflation by potential deceleration of overseas economic growth. The other comment suggested skepticism about sustainability of upward dynamics of inflation.

All in all, the last line of comment summarized that the outlook of prices has become all the more uncertain. This line of comment suggested that the pace of diminishing impacts of import price inflation and the timing and strength of recovery of domestic inflation would be the key factors. According to these factors, future trajectory of inflation could diversify.

Decision of monetary policy

In contrast to diversified views about prices, opinions of monetary policy remained largely converged. In fact, seven lines of comments confirmed the idea to maintain current accommodative policy for the time being.

A couple of such comments argued that the monetary policy should provide supports to current structural change in behavior of firms toward price and wage.

Other line of comment confirmed the idea that achievement of inflation target should accompany rise in wages. Another comment claimed the importance to provide supports for SMEs that tend to take time to modify the behavior. Moreover, a line of comment confirmed the uncertainties about dynamics of inflation.

Only one line of such comment pointed out the importance of cautiousness about risk of undervaluation of inflation risks, while it agreed to the importance of maintenance of current accommodative policy.

Management of YCC

In contrast to the discussion on policy decision, the views of the MPM on management of YCC appeared to be diversified.

On the one hand, couple of comments claimed that its modification was not necessary. Both of them pointed out the improvement of market functions including the shape of JGB yield curve and conditions for issuance of corporate bonds.

On the other hand, three lines of comments suggested the importance of consideration of its modification. One of them confirmed the view that market functions remained deteriorated. Another line of comment claimed the importance to monitor the implication of longer-term inflation expectation on the shape of JGB yield curve.

Finally, one of such comment explicitly suggested that the MPM should discuss the modification of YCC. It claimed that maintenance of current YCC could cause substantial costs in such areas including high volatilities of interest rates at the time of its exit, ongoing side-effects of market functions, and effectiveness of dialogue with the markets.

Brief comment by the author

Readers should note that discussion for modification of YCC was not dominant, despite a rate and explicit claim by a member of the MPM.

More important issue in my view would be whether the BOJ would maintain the “separation principle” on YCC and policy rate. While former Governor Kuroda kept this idea, Governor Ueda could introduce a guideline of policy normalization incorporating both elements solely based on inflation outlook.

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