

Introduction

The BOJ decided to maintain the policy rate at its September MPM. Moreover, number of comments pointed out the importance of cautiousness in conducting monetary policy.

Assessment of economy

Four lines of comments confirmed the constructive view of domestic economy. Three of them expressed the confidence that economy and prices had been on the track of the BOJ's outlook. The other appreciated the appropriateness of the policy rate hike in July.

In contrast, a line of comment expressed the cautious view on the sustainability of wage hike by the SMEs. It further discussed the importance of promotion of productivity-friendly investment by them.

Moreover, two other lines of comments expressed concerns about the downside risk of economy. One of them raised concerns about potential reduction in corporate profits due to reversal of foreign exchange rate. The other insisted the importance to monitor the impacts of past reduction in real purchasing power on private consumption.

Interestingly, four other lines of comments expressed concerns about the US economic outlook. A couple of them insisted that careful monitor would be warranted about the effects of monetary policy conducts on financial markets, while they were confident about "soft-landing". The other also referred to the uncertainties about economic policy agenda by new President, and their potential impacts on higher inflation.

Assessment of prices

It should be noted that there were only three lines of comments on prices. This feature may indicate that the recent development of prices was not the focus of discussion at September MPM.

All in all, a couple of comments confirmed the constructive view of prices. One of them expressed the confidence that underlying rate of inflation would converge to the policy target toward the end of forecast period. The other claimed the idea that there was less risk of returning to deflation despite recent appreciation of JPY and drop in crude oil price.

Last line of comment raised the long-term issue of inflation. On the one hand, it appreciated that the downward impacts by reduction in real wage on private consumption seemed to be easing. On the other hand, it claimed that careful monitor would be warranted whether persistent perception of no-price rise by households would also be diminishing.

Strategy of policy normalization

Readers may like to note that there seemed to be a consensus at September MPM that the BOJ should raise policy rate in a careful and gradual manner. Nevertheless, the focus of attention or the rationales appeared to be diversified.

In light of the disruption of financial market in early August (just after the policy rate hike by the BOJ at July MPM), it was reasonable that many lines of comments referred to the importance to take account of instability of financial market and its implication in conducting monetary policy.

Specifically, first line of comment confirmed the strategy that the adjustment of magnitude of monetary easing should be pursued as long as economy and prices would be on the track of the BOJ's economic outlook.

Nevertheless, five lines of comments insisted the importance of careful monitor of financial market developments and their backgrounds including the overseas economic conditions. One of them also claimed that it would be important to assess the impacts of financial market dynamics on economic outlook and its risks.

Accordingly, all these lines of comments expressed that the cautiousness would be warranted to conduct additional rate hike. One of them referred to the reduction in upward pressure due to import prices and to less risk of "behind the curve". The other expressed the situation as the BOJ had "enough time".

Other couple of comments further expressed the idea that the BOJ should refrain from raising policy rate as long as the developments of overseas economy would remain uncertain.

Three other lines of comments discussed the pace of rate hike in the future. One of them explicitly suggested that the BOJ should raise policy rate to 1% as early as in later FY2025, if economy and prices would keep on the track.

Another line of comment insisted the importance of gradual pace of rate hike, taking account of its impact on sentiment of economic agents and expected rate of economic growth. The other two line of comment emphasized the needs to consider the downside risks based on the careful analysis of economic indicators.

Policy communication

It would appear reasonable that the dialogue with the market was one focus of the discussion. In fact, several members of the MPM referred to this issue at their speeches since early August until September MPM.

A line of comment insisted the importance of careful and better communication with the markets when the BOJ would conduct another round of policy rate hike.

Other couple comments raised the issue of communication gap. One of such comment claimed that the BOJ should make efforts to fill the gap of common understanding of policy terminology. The other comment insisted that the gap of views on economy between the BOJ and the market should be carefully corrected.

All in all, the last line of comment conformed the view that deliberate communication of the factors, including the underlying rate of inflation, the outlook of economy and prices, and its confidence, is necessary.

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