Notes on Financial Markets Vol.147

Summary of Opinions at the March MPM－Communication

March 20, 2018

Introduction

Summary of the opinions at the March MPM appeared to attract little attention in our markets, although it covered the last meeting for both Deputy Governors. Author of the Notes is interested in the sign of evolving discussion with regard to medium-term strategy of the QQE, however.

Assessment of economy

Among the majority of the MPM members, there is virtually no change in the assessment of our economic developments. Several comments confirmed their constructive views, with reference to tightening balance of aggregate demand and supply along with reducing slack of labor and capital. In addition, they appreciated the effects of the QQE in maintaining highly accommodative financial condition.

An interesting topic was the implication of higher volatilities in the financial markets in February. In contrast to the discussion in the US and Europe, a couple of comments expressed some concerns about its potential impacts on financial institutions and our economy. It would be because we observed not only higher volatility in stock markets but also appreciation of JPY against major currencies.

Regarding inflation, a couple of comments paid attention to the annual spring labor-management wage negotiations. Press reports suggested somewhat pessimistic views, as heightened instabilities of the markets would have given the managers of large corporations the excuse to be cautious about raising labor costs. In fact, another comment confirmed that our real wage registered negative growth (by some measure) in 2017.

Monetary policy

Majority of the comments reiterated their central view that the BOJ should maintain the current conduct of the QQE. This is because we are still distant from 2% inflation target, and the BOJ's commitment is strongly required to support the current virtuous circle of our economy.

Meanwhile, there was a set of comments raising the issues of maintaining the QQE. One comment paid attention to the evolution of economic conditions that could affect the balance between the policy effects and its side effects. Another comments showed suspect that the impacts of decline in the long-term real rates on economy and prices could have become smaller.

Other couple of comments shed light on financial aspects of the potential side-effects of the QQE. One of them proposed the review of the ETF purchase by insisting the needs of examination of its effects and side-effects from every angle. Other of them warned that prolonged environment of low yield could undermine the function of financial intermediation.

In light of their lines of discussion, many of the comments above would be made by the same group of members of the MPM. In other words, such cautious views on the QQE may not have grown its presence in the MPM. Moreover, they would not require the outright and substantial review of the QQE for the time being.

Nevertheless, there was an interesting development in the summary this time with regard to the communication strategy. A comment claimed that the BOJ should explain to the market that "normalization" is a process of monetary accommodation and is different from monetary tightening. This comment was made with the caveat that we are currently not in the phase of considering "normalization", because we are distant from 2% inflation target.

According to the benefits the comment suggested, it was intended to emphasize the communication strategy of policy normalization in an advanced manner. While we should not exaggerate the significance of one comment, we need to pay attention to such sign of evolution of the discussion. The comment might be made by a retiring Deputy Governor as an advise for remaining members. Readers may like to remember that Governor Kuroda would likely take care of the normalization, because his term was renewed by five years.

It should of course be noted that there were several comments that the BOJ should be ready to enhance its monetary accommodation in order to promote the virtuous circle of our economy. Among them, one comment claims that the BOJ should lower the yields of JGBs with maturities of 10 years and longer, and reinforce the inflation-overshooting commitment.

Like the case of the group of members with cautious views on the QQE, the above comments of positive views on the QQE would be made by the same group of members, in light of their words and phrases. All in all, the balance of opinions in the MPM appear to remain unchanged, by looking from the both angles.

Implications of changing deputy governors

As readers may be already aware, Mr. Amamiya and Mr. Wakatabe will participate in the next MPM as Deputy Governors.

While it is certain that Mr. Amamiya will join the majority view because of his backgrounds, there is some uncertainty about Mr. Wakatabe's position. The markets may expect that Mr. Wakatabe would support the Governor's view following the practice of Mr. Iwata.

It should be noted, however, the potential divergence of views of Governor Kuroda and Deputy Governor Iwata was not so evident due to the direction of the QQE throughout the regime. If and when the MPM starts to discuss the normalization, such collaborative action may not be warranted. In fact, Mr. Wakatabe insisted his independent judgment of monetary policy, which would rather be consistent with the spirit of Bank of Japan Law (see section 16 (2)).

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