

Introduction

Members of the MPM expressed somewhat cautious views about the near-term economic outlook. Furthermore, they actively discussed the dynamics of inflation and stressed the importance of policy communication.

Outlook of economy

First couple of comments confirmed the constructive view with reference to the diminishing impacts of supply constraints as well as the prospects of economic policy measures by the government. They were in line with the views included in the summary text of the new quarterly outlook.

Interestingly, three other lines of comments expressed the cautious views, however. They discussed the uncertainties about negative impacts by rapid contagion of the new variants of Covid-19. They raised the concerns about the effects of self-containment measures by individuals and potential deterioration of consumer sentiment.

Another line of comment raised the downside risk of decrease in export demands and additional damage on supply chains due to the current wave of infection in China and its stringent containment measures.

Outlook of prices

Not surprisingly, a number of comments discussed the issues of inflation, beginning with a set of comments discussed the near-term outlook of prices.

First three lines of comments reiterated the constructive views. They raised increase in energy prices and potential transfer of rising input costs to output prices by firms as the major upward drivers.

In the meantime, one other comment maintained the balanced view, claiming that change in price setting behaviors would depend on the confidence of recovery of consumption.

Second set of comments expressed the respective views of inflation dynamics from medium-term perspectives.

Specifically, a couple of comments confirmed the significance of sustainability of inflation and its underlying factors, while it would be possible for annual rate of CPI inflation could be close to 2% temporarily at sometime after this spring.

Several lines of comments insisted that rise in wages and earnings would be the key drivers for sustainable inflation. Couple of such comments claimed that rising wages could affect positive spillover to services price inflation that had remained low for years. Another couple of comments expected the positive effects of the government policy measures to promote higher wages.

Moreover, three lines of such comments raised the other drivers including potential modification of acceptance of rising prices by households and improvements of longer-term inflation expectations. Even under prevalence of “adaptive formation”, the expectation could improve once the actual rate of inflation accelerates.

Policy decision

Readers would like to remember that December MPM had

decided to modify the set of crisis measures.

With this regard, three lines of comments confirmed that it would still be necessary to maintain cautiousness about negative impacts of Covid-19 for the obvious reasons.

The tone of such argument, however, appeared to be slightly different from the confidence included in the summary text of the new outlook. Namely, the summary text suggested the growing capacity of taking balance between the containment of Covid-19 and the sustainment of economic activities.

Another set of comments discussed the stance toward the accommodative monetary policy.

Three of such comments reiterated the importance to maintain the current stance. Moreover, one of them claimed that its fundamental tools such as overshoot commitment of fund provision and forward guidance of policy rate should remain intact.

Regarding the reasons, a couple of comments expressed the skeptic views about modification of fundamental views of prices by economic agents or about anchoring longer-term inflation expectations at the target.

Moreover, another line of comment claimed that it would be necessary to enhance policy accommodation in order to accelerate the pace of approaching toward the target.

In the meantime, other line of comment enhanced the importance of stimulating the dynamism of labor force and firms as well as investment in human capital, in order to promote business investments in both tangible and intangible assets.

The other line of comment welcomed the performance of the initial round of “green operation” in December. It expressed the hope for potential effectiveness for promoting business investments against climate change by broad range of firms, and stressed the needs for the BOJ to conduct analysis the corporate actions in this area.

Communication policy

One notable feature of the discussions at January MPM was the focus on communication policy. Readers may like to remember the market speculations about the signs of policy normalization ahead of the meeting.

Three lines of comments confirmed the fundamental idea that the BOJ should maintain its accommodative monetary policy until the price stability target is achieved in stable and sustainable manner. Moreover, they claimed that the BOJ should communicate such idea securely and stably with the public. This line of argument was the background for the presentation by Governor Kuroda at the press conference.

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