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Summary of opinion at December MPM－Emerging divergence

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Introduction

At the regular press conference a week ago, it seemed that Governor Kuroda tried to calm down the growing discussion in the markets on possible fine-tuning of the yield curve control (YCC). It is in fact consistent with some lines of argument included the Summary of Opinion at the Monetary Policy Meeting (MPM) in this month.

Nevertheless, the Summary would suggest some signs of divergence in the views, not only on the policy conducts, but also on the dynamics of inflation.

Assessment of economy

With regard to economic fundamentals, however, views of the members of the policy board seemed to converge for the most part. In fact, first several comments appreciated the current expansion of our economy, with some reference to a virtuous circle from income to spending by households and firms as well as continuous tightening of labor markets.

Interestingly, some of the members raised the structural issues. A line of comment expressed a prospect that long-term trend of decline of labor force participation and over-competition among firms may be changing. In addition, another line of comment suggested that increasing investments in robotics and AIs could rather contribute to investments in human capital, which are complementary with each other.

I am personally interested in the last comment in the part of economic development. It claimed that large part of business investments by large firms has been done in overseas by cross-border M&As. As an evidence, it drew attention to the fact that their ratio of cash and deposit to total assets is in normal situation in spite of the impression of excessive cash/deposit holdings.

It should be noted that some of the critics claim that it would be a leakage of policy effects, since the introduction of the QQE. Nevertheless, their increase in overseas investments could still bring some benefits to our economy through increasing profits of such firms and/or raising their stock prices. It would be reasonable for firms to look for overseas business opportunities until the long-term prospects of our domestic economy structurally improves.

Prospects of inflation

In contrast, we could identify some divergence of the views among the members of the policy board on dynamics of inflation.

First several comments sent the messages in line with the official view expressed in policy statement and at the press conference by Governor Kuroda. Specifically, they insisted some recent improvements of factors including survey results of inflation expectations and positive gap of aggregate demand/supply, which would contribute to gradual but secure acceleration of inflation rate.

A line of comment, however, emphasized some uncertainties about changing attitudes of price setting by firms. Another line of comment reiterated the view that their remains an excess supply capacity in capital stock and labor markets, which could prevent rising expectation of inflation in an adaptive manner. In light of this line of thought, the latter comment would be made by Mr. Kataoka, who required some modification of the framework of monetary policy (as discussed below).

Decision of monetary policy

Not only reflecting the difference in the views on inflation dynamics, but also reflecting the recent communication of monetary policy by Governor Kuroda, comment on monetary policy diverged further.

Interestingly, a number of comments reiterated the view that it would be necessary to maintain the current monetary easing with the YCC. With regard to its reason, some claimed the effectiveness in achieving the inflation target, others confirmed that we are still distant from the target.

Coupled with the comments made by Governor Kuroda at the regular press conference after December MPM, we could suspect some intension of communication policy by the executive branch of the BOJ. They may like to calm down the growing discussion on possible fine-tuning of the YCC at least for the time being, probably because a slight modification of communication about the YCC might be intended to test the market reaction as a preliminary step.

Nevertheless, it is interesting to note that another set of comments still argued some side-effects of monetary easing, and suggested some possibility of fine-tuning of the YCC. Furthermore, these lines of arguments might be made by members of the policy board who are not the executives of the BOJ, while we do not have any measures to verify this hypothesis.

If it would be the case, it would be another important task for the executive branch of the BOJ to calm down these internal lines of discussion. In my view, however, discussion on the potential modification of the YCC could rather contribute to enhanced sustainability of the policy framework in light of the distance to the inflation target.

Second to the last comment may be made by Mr. Kataoka, because it is consistent with his opposing vote as evidenced by the footnote of the policy statement previously released. He proposed that the BOJ should purchase JGBs in order to lower the broad range of the yield curve longer than 10Y.

According to the comment, the reason is to achieve the inflation target in FY 2018, before downside risk of our economy grows in FY 2019 (either by another round of consumption tax hike or cyclical slowdown of US economy). While the markets could agree that we should take account of such risk factors in FY 2019, they may like to pursue the possibility of other policy options.

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