Notes on Financial Markets Vol.253

Summary of Opinions at March MPM―Domestic resiliency

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Introduction

The BOJ decided to maintain its policy rate at 0.5% at March MPM. Members indicated confidence in momentum of rising wages and perception of upside risks of inflation.

Assessment of economy

First two lines of comments, which seem to be those by executive members, confirmed the constructive view of the economy. One of them expected that the economy would continue to grow faster than the potential rate.

Interestingly, next five lines of comments referred to the evolution of wages. At the MPM, it appear to be an important issue for the momentum of economic activities, as well as for the sustainable achievement of the inflation target.

Among such comments, three of them expressed positive views on earlier results of the annual wage negotiation. They confirmed that the rates of increase at large firms were higher than the previous year. They also expected the effects would spread to SMEs, leading to support consumption.

Other couple of comments, however, expressed cautious views, especially on the spillover to SMEs. One of such comments suggested the skepticism of sustainability of wage rises as business investment decreased simultaneously. The other insisted that promotion of structural reforms of SMEs would be crucial.

Lastly, four lines of comments raised the implications of the US economic policy. A couple of them confirmed that their uncertainties raised the uncertainties about the global economy by affecting the sentiment of households and firms. While other comment expressed the view that the US economy has been on a soft-landing path, another comment suspected that the US economy faced both risks of higher inflation and slower growth.

Assessment of prices

First two lines of comments, which seem to be those by executive members again, confirmed the constructive views. One of them expected the achievement of inflation target in later phase of outlook period, and the other confirmed the continuous improvement of underlying inflation.

Regarding the momentum of inflation, three lines of comments refereed to the domestic factors. Two of such comments explained that rising prices of fresh foods and rice would be sustainable, because their supply shocks appeared to be driven by structural reasons including the reduction in production and the rises in labor costs.

The other comment expressed the view that transfer of costs to prices has still been on the way, with reference to recent wave of upward revision of food prices

All in all, two of such comments expressed the views that the sustainable rises in food prices would affect the underlying inflation as well as the inflation expectation.

Lastly, a line of comment suggested that the BOJ would reach a new stage of communication in the FY2025. This is because the achievement of inflation target would become much closer, due to the effects of high rate of wage rises and the pressures of inflation by domestic factors.

Management of monetary policy

First line of comment confirmed the fundamental strategy that the BOJ would adjust the magnitude of monetary easing as long as the economy and the prices evolve along the outlook.

Nevertheless, this line of comment and two other comments maintained cautiousness about a next rate hike. A line of comment confirmed the need to update the assessment of risks and the confidence of outlook. Two other comments insisted the BOJ should evaluate the impacts of past rises of policy rates or recent rises in JGB yields on economy, and suggested that it would take some time.

Regarding the risk factors, five lines of comments raised the implications of the economy and the policy in the US.

Couple of such comments expressed concerns about downside risks. One of them warned the negative spillover of slowdown of the US economy. The other raised de-coupling of supply chain and potential deterioration of competitiveness against China as additional factors. Accordingly, they claimed that the BOJ should be cautious about a next rate hike.

Interestingly, three of such comments expressed somewhat different views. One of such comment suggested that the flexibility of the BOJ's policy might have improved as the FRB seemed to exclude fast pace of reducing its policy rate.

Moreover, other couple of such comments claimed that higher uncertainties about economy and prices would not directly imply that the BOJ should maintain its policy rate. One of them suggested that some bold action would be necessary depending on the economic conditions.

Meanwhile, a comment suggested the active adjustment of monetary policy, as magnitude of monetary accommodation appeared to be strong in financial market, and refrain of financial excess would be appropriate.

Following the discussion, a line of comment confirmed the fundamental idea that the BOJ should judge its policy decision, according to its assessment of 1) inflation expectation of households and firms, 2) realization of upside risks of inflation, and 3) evolution of wage rises.

Regarding the communication, a line of comment suggested that the evaluation of policy stance might be modified from accommodative to neutral at a next rate hike, when the underlying inflation would be much closer to the inflation target.

Lastly, a couple of comments raised the QT. One of them suggested the need to review the strategy from longer-term perspectives, but no need to change the current practice. The other expressed the view that the dialogue with the markets would contribute to stabilization of the JGB yields.

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