

Introduction

The BOJ decided to maintain its policy rate at 0.25% at October MPM. While the members generally confirmed the strategy of policy normalization, their views were diversified regarding its pace.

Assessment of economy

First three lines of comments, which seem to be those by executive members, reiterated the constructive view of the economy. They expected that the recovery of consumption would contribute to the economic growth at faster pace than its potential rate.

Regarding the condition of SMEs, however, many members expressed various views.

While a line of comment expected continuous wage rise next year due to shortage of labor, other line of comment suspected its sustainability as wage rise so far was defensive in nature. It discussed that the improvement of productivity by modification of business model would be required.

Moreover, the other line of comment expressed the concern that the exit from inefficient businesses by firms due to shortage of labor could undermine the momentum of economic growth.

Another line of comment claimed that the managers of SMEs appeared to focus more on exchange rate than interest rate. It further claimed that households might also appreciate the correction of depreciation of JPY.

Concerning the economic outlook of the US, a line of comment raised the risk of financial stress that would be caused by rise in long-term interest rate leading to correction of valuations of asset prices.

Assessment of prices

First two lines of comments confirmed the central view of the MPM. One of them maintained the outlook of convergence to the inflation target in later year of forecast period. The other explained that CPI inflation rate in October for Tokyo was generally in line with the outlook, except for the impact of rise in price of rice.

Regarding the pass through of import prices, the members expressed different views.

One line of comment expected that diminishing impacts of import price rise in the past would disappear as it was already one and half years since import price index (yen terms) reached its peak. It also referred to the fact that it took about six months for import prices to have largest impact on CPI inflation rate in previous cases.

Nevertheless, the other line of comment expressed cautious view about the potential impact by exchange rate under future trajectory of monetary policy in Japan and the US.

Policy decision

Readers would like to note that the number of comments on conducts of monetary policy was large, and they were much more numerous than those on economy and prices. Such active discussion was interesting despite the fact that the BOJ maintained the policy rate unchanged.

Many lines of comments reiterated the idea that the BOJ would maintain the strategy of policy normalization.

One of them explained that the BOJ remained unchanged regarding the strategy of gradual adjustment of monetary easing as far as the economy and prices would evolve along its outlook. It added the cautiousness about the impacts of overseas economies and financial markets.

Moreover, the other line of comment claimed that the BOJ should restart the rate hike after temporary pause for assessing the US economy. It also discussed that it was not the situation that required monetary easing both in Japan and the US, as their banks, firms or households were not under pressures of adjustment of their balance sheets.

Accordingly, a couple of comments raised the importance of communication policy. One of them suggested the BOJ should suspend to use the words “enough time”, and should express clearly the principle of data dependence at each MPM. The other claimed that the BOJ should clearly address the idea of policy normalization.

Furthermore, another line of comment expressed the idea that the BOJ should gradually raise policy rate to 1% in later FY2025 at the earliest, while it agreed to maintain the policy rate unchanged at this meeting.

Meanwhile, a line of comment claimed that addressing the medium-term path of policy rate with confidence would be difficult, as there was uncertainties about the level of neutral rate and the transmission mechanism of policy rate hike.

Nevertheless, many lines of comments expressed the view that the BOJ should be cautious in raising policy rate.

Three lines of comments focused on the external factors. Couple of them discussed that conditions of financial markets could remain volatile due to speculations about the election in the US, while risk of hard landing of the US economy and associated monetary easing by the FRB appear to diminish to some extent.

Another comment warned that if exchange rate would become volatile due to the policy action by the BOJ, it could become difficult to continue the policy normalization.

The other three lines of comments focused on the domestic factors. Couple of them insisted the high uncertainties. One of such comment highlighted the risks associated to transition to positive yield environment.

Moreover, another line of comment claimed that the BOJ should maintain the policy rate unchanged until it is more confident about the sustainability of “virtuous circle”. It further claimed that the upward pressures on prices diminished in the global economy.

Author: Tetsuya Inoue
Senior Chief Researcher
Financial Markets and Digital Business Research Department
Nomura Research Institute

This note is intended solely for informational purposes and should not be construed as investment advice. The author does not guarantee the accuracy or completeness of the information contained. Opinions in this note are those of the author and do not represent the views of Nomura Research Institute or Financial Technology and Market Research Department. This note is exclusively for the personal use of those receiving it directly from the author.