

Introduction

The BOJ decided to maintain its policy rate at 0.25% at December MPM. Nevertheless, several members suggested that it was rational to raise policy rate at this meeting.

Assessment of economy

First couple of comments, which seem to be those by executive members, reiterated the constructive view of the economy. They expected faster economic growth rate than its potential, and showed confidence about achieving the outlook.

Regarding the outlook of the US economy, a couple of comments suggested that the possibility of re-acceleration or the decrease in downside risks. Nevertheless, two lines of comments insisted the needs to be cautious for the time being.

Other couple of comments raised the impacts of potential adjustment of JPY rate. One of them discussed the uncertainties about foreign exchange policy by the new US administration. The other warned the risk and the cost of reversal of recent depreciation of JPY.

It should be noted that large number of comments focused on wage dynamics and their implications.

A couple of comments expressed the bullish views on wage rises in the next year. They expected the substantially high rate of increase or the rate consistent with the inflation target. As their backgrounds, they referred to high level of corporate profits or attitude of firms to maintain labor force.

On the other hand, one line of comment expressed the cautious view on sustainability of wage rises. The other line of comment, seemingly by an executive member, discussed that some more information was necessary to confirm the momentum of virtuous circle.

Regarding the implications, two line of comments expressed cautious views. One of them suggested that positive impacts on consumption and service prices would take time, as the stance of consumers against high prices remained cautious. The other raised the risk of reduction in real purchasing power.

Lastly, a line of comment expected that regional banks should play a role of supporting SMEs for their structural reforms to enhance profits that contribute to sustainable rise in wages.

Assessment of prices

Interestingly, only three lines of comments discussed prices. Moreover, all of them confirmed the constructive views.

One of them reiterated the outlook to achieve the inflation target in later phase of the outlook period. Other two lines of comments insisted that the current momentum of inflation was robust, while there seemed to be little risk of its over-shooting.

Management of monetary policy

Readers should note that the two lines of comments appeared to express the basic strategy of executive members.

First, a line of comment confirmed the idea that the BOJ would adjust the magnitude of monetary easing as far as the economy and the prices are on track of its outlook. The comment also reaffirmed that the timing of adjustment would depend on incoming data and information.

Second, the other line of comment specifically explained that the timing of adjustment would depend on the following two factors: 1) expected pace of policy rate hike according to the time of achieving the inflation target, 2) risks in the both directions at the time of policy decision.

Based on these comments, we could understand that the BOJ would allocate 75 to 100bp additional hikes to MPM meetings in a year or so.

This inference depends on the three facts: A) the BOJ expects the inflation target to be achieved in later phase of the outlook period, B) Governor Ueda suggested that normalization of monetary would be the goal of the current cycle, C) around 100bp seems to be the lower end of estimates of “neutral policy rate”.

Meanwhile, members of the MPM expressed mixed views on the policy decision at December MPM.

Among them, four lines of comments claimed that it was rational to wait the decision from the viewpoint of risk management until the economic policy by the new US administration becomes clearer. Another line of comment raised the uncertainties about the economic recovery of Europe and China.

Moreover, four lines of comments expressed the cautious views of domestic economy.

Two of such comments suspected the sustainability of wage rises and insisted the need to confirm its momentum at the next annual round of wage revision. The other line of comment referred to low profits at SMEs. Another line of comment raised the uncertainties about the income tax revision currently discussed at the parliament.

On the other hand, several lines of comments suggested that it was rational to raise policy rate at December MPM.

Two of such comments confirmed that the economy and the prices had been on track of the outlook. One of such comment referred to the upside risk of inflation.

Moreover, a couple of comments including the above claimed that the BOJ should gradually and timely adjust policy rate in forward looking manner. Another line of comment also insisted the importance to avoid faster pace of policy normalization in later stage due to slower pace of it in earlier stage.

Lastly, seemingly in relation to “Multifaceted review of monetary policy”, a line of comment insisted the need to show the resiliency of financial soundness of the BOJ on condition of the gradual pace of policy rate hike.

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