

Introduction

Summary of opinion of the MPM in April implies that there was an interesting evolution of discussion at the meeting, in spite of a calm tone of voice by Governor Kuroda at the press conference on the day.

While the prospective focus of debate was of course the abolishment of expected time of achieving the inflation target, it covered the overall management of the YCC.

Outlook of economy and prices

It deserves attention to the discussion on economy and prices before reviewing the policy issues, because there emerges stronger consensus of positive economic outlook from near-term perspectives.

Among all, large part of the opinions of our economic developments was constructive. Only caveats expressed by a couple of members were potential negative impacts on our sentiment by the next round of consumption tax and risk of blows to emerging economies by possible tightening of financial conditions in the US.

Moreover, balance of opinions in terms of inflation outlook appeared to tilt toward positive side to some extent. One opinion referred to a sign of transferring rising costs to output prices even among SMEs. Another opinion expected longer-term positive effects of increasing supply capacity on permanent income.

Even the cautious lines of opinions, which insisted the longer time period before achieving the inflation target, admitted the current upward trend of inflation toward the target and improving stance of firms toward price setting.

Management of the QQE

In contrast of the evaluations of economy and prices, there remain non-trivial divergence in the views among the members of the MPM concerning the policy conducts in some important aspects.

First of all, several lines of opinions, which may be expressed by executive members of the MPM, confirmed the fundamental idea that the BOJ would continue to pursue its current powerful monetary easing persistently to encourage the virtuous circle of achieving the inflation target.

Several other lines of opinions raise the issue of sustainability of the QQE, mainly referring to its side-effects on financial intermediation and functions of equity market. It is also interesting to note that some of the opinions suspected the diminishing returns of the policy measures, and other opinion raised the possibility of stronger effects on economy and prices than previously expected.

Naturally, these lines of opinions were followed by the discussion on the YCC, and the views seemed to be diversified. One line of opinion was cautious about upward adjustment of policy rates. It expressed concerns about negative impacts on financial markets and economic activities by raising the target of long-term yield. In addition, it suggested risk of further flattening of the JGB yield curve, when short-term policy rate is raised.

Another line of opinion appeared to explore the possibility of modifying the target rates under the YCC. First, it emphasized the importance of clear explanation of exit and normalization of the QQE. Then, it argued the significance that the BOJ could flexibly respond to developments of economic activity and prices as well as financial conditions.

In light of these lines of arguments, communication of commitment in inflation target is crucial in order to avoid speculations about full-fledged normalization of the QQE in such an early stage to achieve the target.

In fact, the several following lines of opinions reiterated the importance of communication policy with this regard. It is interesting to note that one line of opinion effectively expressed opposing view against the abolishment of expected time of achieving the inflation target, because it could weaken the commitment.

Another line of opinion suggested the needs to improve the measures to strengthen the commitment and encouraged the staff to study further. It seems to have become a common challenge for major central banks.

Readers may have come to notice that there was only a few lines of opinion directly regarding the abolishment of expected time of achieving the inflation target. It is rather strange to observe that only a few member discussed its pros and cons. One potential implication is that it is not an one-off action, rather than a step of longer-term modification of the framework of the QQE.

One interesting aspects of communication policy is the potential divergence of the reactions by its intended targets. As a number of opinions implied, re-anchoring inflation by firms and households are crucially important to achieve the inflation target in a stabilized manner. And it seems that the BOJ's commitment in achieving the target is shared among them relatively well.

Nevertheless, as discussed above, sharing the understanding of such commitment with markets is also crucial in order to conduct modification of the QQE without exaggerated reactions. It would be a tougher challenge for the BOJ, since there has been an underlying skepticism about the QQE at least among some segments of the markets.

In any case, any economic stimulus by the government would be helpful for the BOJ. In fact, a line of opinion reiterated the importance of collaboration of economic according to the joint statement released in early 2013. Interestingly, both the representatives of the MOF and the Cabinet Office mentioned that the joint statement was reconfirmed recently (at the time of renewal of Mr. Kuroda's term as Governor).

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