

Introduction

According to the Summary of Opinions at the most recent MPM, there seemed to be a growing momentum of the discussion that another round of review of the weakness of wages and prices, in spite of resiliency of economic activities, would be necessary. Interestingly, a couple of members argued further that the communication should be improved in order to improve our inflation expectation.

Assessment of economy and prices

As Governor Kuroda explained at the press conference, the BOJ's official view of our economy remained constructive, in spite of temporary weakness of the activities in the first quarter. Nevertheless, a couple of members paid attention to continued weakness of consumer sentiment and increasing uncertainties about the impacts of trade conflicts.

In terms of prices, several members focused on supply side issues. One member suspected that the recovery of business investment could have downward pressures on prices at least for the time being. Another member pointed out the increase in labor participation and suggested a lower structural unemployment rate. Moreover, another member raised the voice of concern about the renewed correlation between actual inflation and inflation expectation, although the deceleration of inflation could be temporary.

Based on this cautious tone of discussion, several members argued that another round of review of the weakness of wages and prices. In fact, a couple of members proposed the same plan that the MPM should deepen the analysis of wage and price setting toward its July meeting, when they publish the revised outlook of economy and prices.

According to their comments, these members would be concerned about the persistent weakness of wages and prices in spite of very tight labor condition and positive aggregate output gap. Moreover, the failure to accelerate the actual rate of inflation would be the cause of lackluster inflation expectation.

In fact, another couple of members insisted that such review should focus on the output gap, which is quite uncertain to estimate. In addition, a member also confirmed that behavior of firms toward setting wages and prices should be another point of focus.

Judgment of monetary policy

The BOJ's official view is that it is important to maintain the current monetary policy stance with persistence in order to encourage the momentum toward achieving the inflation target. First three lines of comments may reflect the opinions of the executive members of the MPM.

It should be noted, however, as in previous meetings, several other members raised the issues of side-effects of maintaining this policy stance for long period of time. A couple of members raised the negative impacts on financial intermediation through squeezing the lending margins of financial institutions. Other member insisted that the MPM should keep reviewing the effects on the ETF market. Another member referred to the fact that there have been days when inter-dealer

transactions of newly issued bonds were not concluded.

It should be noted that these members would not request to make substantial reform of the current policy framework or to suspend them. Nevertheless, they seemed to seek for the modification of the monetary policy conducts if it could be possible. This is because the side-effects of current monetary policy could become evident in cumulative manner.

In the meantime, a couple of members argued for the enhancement of policy commitment. According to their comments, the idea was to reinforce the inflation expectation. Interestingly, a member suspected the effectiveness of the current strategy of commitment, by referring to the fact that our inflation expectation remain unaffected by the delete of expected time of achieving the target.

Against these lines of comments, another couple of members claimed that unchanged inflation expectation suggests it was anchored (regardless of its level) and the BOJ should maintain their commitment in price stability to the joint statement with the government.

Implications of the discussion

As Governor Kuroda confirmed at the press conference, the July MPM could conduct another round of review of the weakness of wages and prices, and their results could affect the revision of quarterly outlook.

The analysis would not be so comprehensive as the review in September 2016, as was also suggested by Governor Kuroda. However, it could still become an important element of enhancement of flexibility of monetary policy strategy in gradual and cautious manner. In other words, it could be another step of such efforts, next to gradual decrease in the pace of JGB purchase and abandonment of expected time of achieving the inflation target.

The underlying reasons for the modification of monetary policy strategy have been growing concerns about its side-effects. In addition to market functions of JGB and ETF, financial intermediation has attracted growing attention. Nevertheless, the author suspect that concerns about "policy space" for a next economic recession might have become another rationale for the modification.

If this would be the case, it would be crucial for the MPM to avoid misunderstanding by the market that it would be "normalization" of monetary policy rather than modification. With this respect, some kinds of modification of forward guidance could be effective, in light of the recent practice by the ECB and the discussions reviewed above.

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