

## Introduction

Summary of Opinions at the Monetary Policy Meeting (MPM) in March implied that the BOJ joined the major central banks that are paying close attentions to China. Nevertheless, it also indicated the growing debates about the prospective policy measures when they become necessary.

## Assessment of economy and inflation

Four lines of comments referred to the downside risks of overseas economy including China. Moreover, three of them maintained cautiousness about the potential effects of stimulus measures by the Chinese government, while they acknowledged their early introduction. In contrast, only one comment referred to accommodative financial condition in the global financial markets thanks to the modification of monetary policy strategy by the FRB.

With regard to the transmission mechanism to the domestic economy, three lines of comments focused on the business investment under growing uncertainties. In fact, such concerns are consistent with the results of Tankan survey released on April 1.

Regarding inflation, the number of lines of comments was modest. On the one hand, two lines of comments confirmed the BOJ's official view of inflation; therefore, they may be submitted by the executive members. On the other hand, three of comments claimed the cautious views on the prospects of inflation.

Readers may like to note that our challenge has been lackluster improvements of nominal wages in spite of tight labor conditions. In addition, the members of "reflationary" school of thought paid considerable attentions to the potential negative impacts of the consumption tax hike scheduled in October this year.

## Policy conducts

Like the other major central banks, the decision making body of the BOJ identified no imminent needs to conduct additional accommodation of monetary policy. Nevertheless, in light of the growing uncertainties about the global economy and their impacts on domestic economic activities, the discussion on the policy conducts became more active.

The first three lines of comments affirmed the official view of monetary policy stance by the BOJ; maintenance of the current accommodative policy is necessary and appropriate.

Moreover, it is interesting to note that the executive members and those with "reflationary" minds appeared to share the common opinion that the BOJ should correct the pessimistic views in the markets about the potential policy tools.

In fact, several other comments, seemingly by the members of "reflationary" school of thought claimed that pre-emptive actions were desirable in light of the growing downside risks of our economy. Moreover, one of the comments reiterated the view that accommodative policy mix between the BOJ and the government was required.

The other set of comments highlighted the side-effects of the current strong monetary stimulus. With regard to the JGB purchase, they raised the impacts on the market functions.

While they were not new lines of idea, their viewpoints were somewhat different.

One comment referred to the structural change of the pricing of corporate bonds. In the past, they had been based on the yield spreads against the JGBs. According to the comment, however, corporate bonds were recently priced by their absolute yields. The comment suspected that further downward pressure on the JGB yield would not cause the impacts on corporate bond yields, under the current practice.

Another comment suspected the quantitative boundary of the JGB purchase by the BOJ. According to this comment, the BOJ may face more competition by the overseas investors who have shown growing interests in the market.

Moreover, such comment pointed out that the JGB holdings by financial institutions may have approached to the minimal levels consistent with their own outstanding needs including those for financial collaterals.

The last comment regarding policy conducts seems to have longer viewpoint. It argued that we need to have active entries and exits in all the industries including finance, in order to improve the productivity from the macro-economic perspective.

According to the comment, remaining rigidity of our labor market prevented the re-allocation of human capital necessary for such creative destruction of firms. With this respect, the comment argued that the strongly accommodative monetary policy for the long period of time may have had promoted such structural reform

## Focus on the next MPM

Unlike the FRB and the ECB, next policy meeting (in late April) is pivotal one for the BOJ with the regular review of the economic outlook. In light of the above discussion and recent indicators of economy, the MPM would confirm the growing uncertainties ahead. While the policy effects in China could become gradually evident, other sources of risks in overseas economies would remain intact.

Taking account of the resilience of domestic economy, there is still low probability of additional stimulus at the next MPM. Nevertheless, it would still be important for the BOJ to show the flexibility of monetary policy when they make further downgrade of the economic outlook.

At the same time, however, over-emphasizing the risks by the BOJ could aggravate the sentiments of firms and households, potentially leading to self-fulfilling deterioration of economic activities. In this regard, the MPM is required to manage its communication policy in a delicate manner.

**Author: Tetsuya Inoue**  
**Chief Researcher**  
**Financial Market and Innovation 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.