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Summary of Opinions at the MPM ― Clarifying the clarification

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Introduction

Summary of Opinions at the latest MPM suggests that the discussion on a concrete set of measures might have been limited. Meanwhile, diversified views were expressed again with regard to the implications of side-effects, especially for domestic financial intermediation.

Outlook of economy

Readers may like to remember that the Monetary Policy Meeting (MPM) in April kept their economic outlook largely unchanged from the previous one in January.

In fact, the first three lines of comments confirmed the main scenario of the outlook at April MPM. They expected the gradual recovery ahead, supported by policy measures by the overseas authorities.

Next three lines of comments raised some concerning points. Those included potential spillover effects from exports and production to consumption, impacts of consumption tax hike, and signs of decelerating demands for IT-related goods.

It is interesting to note that a couple of comments raised the risk of feedback of stress between real economy and financial markets. One of the comments referred to the elevated level of corporate debts in the US as the potential source of stress for the global financial conditions.

Outlook of prices

Like the case for economy, the MPM in April also maintained their outlook of prices mostly unchanged. This may be the reason why the divergence of views were only evident in terms of the tone of voice.

On the one hand, a couple of comments insisted that the fundamental mechanism for higher rate of inflation remained intact. Their claims depended on the maintenance of positive GDP gap and the better annual revision of negotiated wages.

On the other hand, a couple of comments highlighted the downside factors. They included the persistently deflationary minds among households, the improvement of productivity, and the adaptive formation of inflation expectation.

With regard to the implications of persistently low rate of inflation, other line of comments expressed concern about the vicious circle between actual and expected inflation, and proposed another round of review by the BOJ.

Monetary policy conducts

It should be noted that first five lines of comments effectively reiterated the idea that the sustainability of monetary easing was essential. This is of course because it would take several years to achieve the inflation target, as the new outlook of prices implied. It is also interesting to note that one of such comments insisted the importance of policy mix with fiscal stimulus.

Moreover, some of these comments claimed that the MPM should keep enhancing the sustainability by utilizing the flexibility of current framework of monetary policy. Among them, a couple of comments referred to the needs for adjustments of policy stance, in light of the conditions of financial markets and financial system.

Following these comments, three line of comments discussed the clearer message of policy stance.

A couple of these comments argued for such needs in order to maintain the confidence in monetary policy in light of gradual convergence of inflation rate to the target. Other comment proposed the time-contingent forward guidance, talking account of uncertainties of overseas economies.

In contrast to these lines of comments on the adjustment of forward guidance, only one comment referred to the enhancement of eligible collateral and the utilization of holding JGBs and ETFs to maintain their market functions. Moreover, it is interesting to note that this comments implied that these measures were requested by financial institutions.

Monetary policy strategy

Rest of the comments shown in the part of “monetary policy” were from the viewpoint of strategy rather than the imminent policy decision.

First three comments insisted the accommodative stance. One of these comment effectively suggested that the current economic cycle was entering the maturing phase. Other comment reiterated the idea that the BOJ should flexibly and decisively conduct additional easing, if the momentum of inflation is lost.

Moreover, other one of these comments suggested to enhance the monetary easing, in order to reduce the accumulation of side effects.

With regard to the side effects, a couple of other comments presented more cautious views. One of such comments proposed to take appropriate balance between the proliferation of policy effects and accumulation of side effects. Accordingly, the comment expressed the cautious view on an additional stimulus.

Other of these comments agreed with such view, by referring to the zero boundary of deposit rate and the structures of investment and funding by the private sector. (Unfortunately, the latter factor would not be so clear, probably due to the limitation of the length of comment.)

It should be noted that the last comment in this part expressed the critical view of side effects on banks. It claimed that the monetary easing rather contributed to the profit of banks by way of the improvement of economic activities, the associated increase in lending and decrease in credit costs, and the valuation gains of stock and bonds.

As suggested by the original academic analysis of “reversal rate”, the divergence in the views may at least be related to the difference of phase that respective comments focused.

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