

Introduction

The BOJ decided to maintain the accommodative policy at its July MPM. Nevertheless, its lines of argument appeared to be the effective start of discussion on its policy normalization.

Assessment of economy

First three lines of comments confirmed the moderately constructive view of domestic economy. A couple of them highlighted the divergence between the stagnant activities of business investment and production on the one hand, and the resilience of private consumption on the other hand.

Nevertheless, the other line of comment expressed the cautious outlook of private consumption due to continuous loss of real purchasing power of households. Moreover, another line of comment pointed out the divergence of performances between large firms and SMEs in terms of profits, which might lead to deceleration in wage rise and business investment by SMEs.

Assessment of prices

First line comment reiterated the current central scenario, under which the inflation rate would become lower as rise in goods prices would decelerate. However, couple of other comments expressed the view that the inflation rate would remain high or become higher due to continuous transfer of costs by firms and to projected rises in service prices in the next fiscal year.

Several other lines of comments discussed the modification of behaviors of firms toward wages and prices. Three of such comments noted positive signs of proactive actions by firms not only in terms of setting wages and prices, but also of investing in business projects.

Moreover, the other comment referred to improved conditions for wage rises including the higher rate of inflation expectation as well as the government policy measures.

All in all, the other line of comment confirmed the needs to monitor carefully whether the firms would take account of continuous rise in wages in planning their businesses. Another line of comment expressed the opinion that the inflation associated with rises in wages would be desirable.

Last line of comment referred to the upside risk of inflation due to future developments of foreign exchange rate and crude oil prices.

Discussion on the accommodative policy

First couple of comments confirmed the official view. They insisted that maintenance of accommodative monetary policy was warranted to achieve the inflation target with upward momentum of wage rise.

Following set of comments reiterated the opinion that the BOJ should maintain the modified framework of the YCC for the time being. Couple of them referred to the fact that the outlook of inflation remained uncertain and that the long-term yield had mostly stabilized since the policy decision.

Moreover, the other comment expressed the idea that the abandonment of the YCC as well as the exit from the NIRP should be discussed in relation to the achievement of inflation target.

Strategy of policy normalization

Readers should note that a number of comments effectively discussed the prospective strategy of policy normalization.

First set of comments discussed its conditions.

One of them claimed the importance to observe the virtuous circle between the rises in wages and the rises in service prices by way of transfer of costs by firms. Accordingly, this line of comment insisted the need to monitor closely the pricing behaviors by firms including SMEs.

Couple of these comments also suggested that Japan's economy would approach toward the pivotal point of time.

Notably, one of such comments expressed the view that the second half of the current fiscal year would be the significant time to judge the prospects of achievement of the inflation target. Other line of comment claimed that monetary policy should support proactive business actions by firms including modification of business models and investments in start-ups.

Second set of comments discussed the options.

Interestingly, first couple of comments emphasized the importance of flexibility of the strategy.

One of them expressed the view that the MPM was not in the stage to make judgement of the time and the options for policy normalization, as the uncertainties of economy and prices remained high. Moreover, the other such comment pointed out the risk of potential constraint to flexibility of the strategy due to the implicit guidance by policy dialogue.

In contrast, a couple of other comments insisted the importance of communication policy.

One of such comments expressed the opinion that communication with the markets and the society in a forward-looking manner along with further improvement of market functions would be important as the way of risk management. It also suggested that the MPM could clearly judge the plausibility of achieving the inflation target as early as in the last quarter of the current fiscal year.

The other couple of comments discussed the priority of options. One of them claimed that the significance of the YCC might have disappeared for the most part with reference to the remaining side-effects on market functions. The other pointed out the importance of idea that real policy rate would remain in the negative territory even after the exit from the NIRP.

Last line of comment suggested the importance to review the needs to purchase other assets than the JGB when the policy normalization occurs.

Author: Tetsuya Inoue
Senior Chief Researcher
Financial Markets and Digital Business Research Department
Nomura Research Institute

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