

Daiwa's View

Summary of Opinions at July BOJ MPM

- Basic stance for additional easing is to conduct “careful examination,” but various options appear to be under consideration

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Basic stance for additional easing is to conduct “careful examination,” but various options appear to be under consideration

The BOJ announced the Summary of Opinions at the Monetary Policy Meeting (MPM) on 29-30 July. At the meeting, the statement added the following language: “In particular, in a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, are significant, the Bank will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost” (referred to as ‘the “will not hesitate” wording’ hereinafter in this report). This means that the BOJ went a step further in comparison with the previous expression that “we will take additional easing measures without hesitation if the momentum is lost.”

◆ Statement at July BOJ MPM (30 July 2019)

• In particular, in a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, are significant, the Bank will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost.

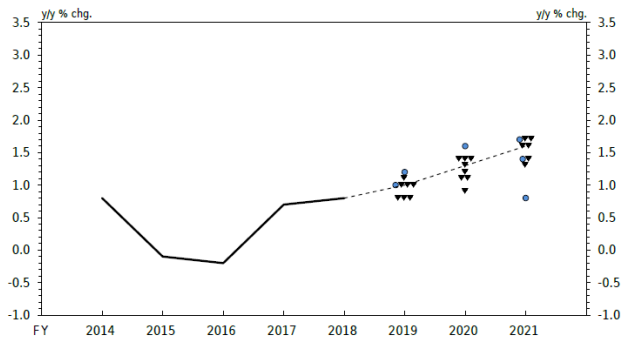
Market participants had focused on whether the summary report would hint at the BOJ’s opinions on the timing and concrete options for additional easing. In addition, another focal point was whether the report would clarify opinions inside the BOJ with respect to the substantial yield declines. Board members appear to be considering “the pros and cons of various easing measures that involve such factors as quantity, quality, and interest rates,” but the report did not clearly show clues about concrete options. It did not include opinions on the current yield level hovering at the lower end of the BOJ’s operational target range because the meeting was held before US President Trump’s remarks on the fourth round of tariffs on Chinese products.

First, most opinions regarding economic developments are related to the downside risks concerning overseas economies, underpinning descriptions of “growing risks centering on overseas economies” in the July *Outlook for Economic Activity and Prices* report (*Outlook* report). As witnessed by statements that “the risks concerning external demand increasingly have been skewed to the downside” and “it is concerning that risks have continued to be skewed to the downside since the turn of this fiscal year,” board members were strongly aware of the growing downside risks.

As a result, members doubted the BOJ’s main scenario that post-tax-hike Japan’s economy will be supported by a rebound of the overseas economy in 2H FY19, saying that “the timing of its recovery could be delayed from the baseline scenario—that is, from 2H FY19” and “a recovery in the global economy, which is expected to be seen in 2H FY19, does not seem to be observed before the scheduled consumption tax hike.” One member was also aware of a recession, saying that “if the risk factors both at home and abroad materialize at the same time, there is some possibility that the economy will head toward a downturn.”

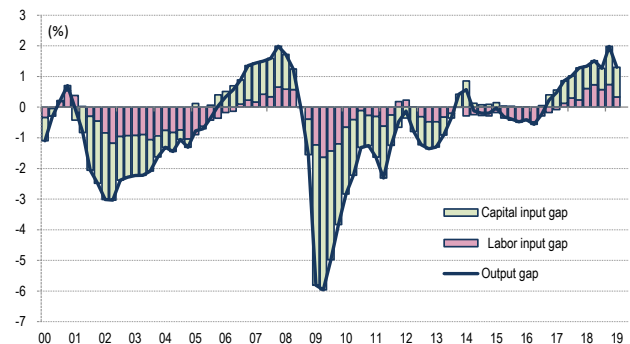
Still, many members stated that a positive output gap was putting upward pressure on prices, pointing out that the output gap (which shows inflation momentum) remains reasonably tight. On the other hand, many have admitted that “the situation has continued in which prices have not risen easily” and “achieving the price stability target is expected to take some time,” as shown in the July *Outlook* report.

Chart: BOJ Policy Board Members' Risk Assessments in Price Projections (CPI: all items less fresh food)



Source: Extract from BOJ Outlook report.

Chart: Output Gap (estimated by BOJ)



Source: BOJ; compiled by Daiwa Securities.

That said, the statement added the “will not hesitate” wording, reflecting the fact that the aforementioned economic downside risks are affecting prices. In addition, opinions on monetary policy in the summary report included the official opinion that “it is essential for the Bank to communicate that, if there is concern that the momentum toward achieving the price stability target will be lost, it will not hesitate to implement necessary policy measures appropriately to address these risks.”

According to the minutes of the April MPM at which forward guidance was clarified, a few members said that “the Bank needed to thoroughly communicate to the public that it would make policy adjustments without hesitation.” It can be said that the “will not hesitate” wording in the July statement reflected opinions among these members (who appear to be proponents of reflation), and presented a more dovish stance to the public.

In fact, several members who are regarded as proponents of reflation made remarks at the July meeting with the Fed’s preventive rate cut in mind, stating “it is important to make a preventive and preemptive policy response to downside risks to prices” and “it would be necessary for the Bank to consider the claims for conducting so-called preventive monetary easing.” Under the current situation, it is natural that these opinions tend to attract attention. However, the number of opinions shows that members advocating preventive easing are limited to the so-called reflation faction.

In contrast to these opinions, some members were not aggressive about additional easing because monetary easing in Japan has become more powerful than that in Europe and the US. They stated that “it is necessary to examine carefully whether there is a need for further monetary easing in this situation” and “it is important to make a comprehensive judgment without being influenced by temporary developments.” These opinions are the same as those mentioned in the speech/press conference by BOJ deputy governor Masayoshi Amamiya on 1 August 2019.

◆ **BOJ deputy governor Masayoshi Amamiya (1 Aug 2019)**

• There may be various evaluations regarding whether the current situation is covered by the insurance. However, as a result of monetary easing policy to date, I think that we have to now examine the benefits and side effects from various monetary policy measures more carefully than other nations.

In that sense, the BOJ governor/deputy governors now have a stance of carefully considering the need for additional easing. In his press conference after the July MPM, Governor Haruhiko Kuroda stated that “conducting additional easing measures without

hesitation does not necessarily mean that we would take action soon.” In fact, the summary report included an opinion calling for the comparison of the merits and demerits of additional easing: “When considering policy responses, it is necessary to examine both their effects and side effects.”

Looking at the summary report, we think that the central bank is still far from conducting additional easing. Meanwhile, the latest report implied more than the previous report that members engaged in concrete discussion of various additional easing options. First, a member seemingly advocating the reflationary policy stated that “the Bank also should examine possible easing measures in advance,” similar to the previous meeting. In contrast to this aggressive opinion, the aforementioned member who touched on the need to examine both the benefits and the side effects when considering policy responses offered a rebuttal, saying that “In doing additional easing, it is important to carry out careful examination and design while taking into account the risk that the effects may be impaired by the side effects.”

As the latter member showed, the concrete “design” of an additional easing framework is now being discussed. Moreover, a member with a neutral stance added that “It is necessary to consider the pros and cons of various easing measures that involve such factors as quantity, quality, and interest rates.”

Both the post-MPM press conference by Governor Haruhiko Kuroda and the 1 August speech by deputy governor Masayoshi Amamiya stated “regarding measures for additional easing, we would use any measure from the four measures that have been already stated. Combinations or applications of various measures also are possible.” It seems that the BOJ is currently considering the pros and cons of such measures. Unfortunately, however, the concrete measures and relative merits/demerits of the combinations are not shown in the summary report.

◆ BOJ deputy governor Masayoshi Amamiya (1 Aug 2019)

• As has been made clear already, there are various possible measures for additional easing such as cutting the short-term policy interest rate, lowering the target level of 10-year JGB yields, expanding asset purchases, and accelerating the expansion of the monetary base. Combinations or applications of various measures also are possible.

At the press conference after the July MPM, Governor Kuroda stated that additional easing would be considered based on the premise of the current framework for yield curve control and therefore the policy effects would be exhibited via premiums of the real interest rate and asset prices. This policy logic—that the effects of monetary easing will be exhibited via a lower real interest rate and a narrower risk premium—has been unchanged since the introduction of QQE.

In short, if the BOJ conducts additional easing, we surmise that it will explain the effects based on this policy logic. Conversely, it would be useful to keep this logic in mind when thinking of concrete additional easing measures (and their combinations).

◆ Minutes of MPM on 19-20 Jun 2019

• One member expressed the view that the effects of JGB purchases had spread to economic activity and prices, mainly through changes in interest rates, and that quantitative effects were limited unless accompanied by downward pressure on interest rates.

Chart: Summary of Opinions at MPM on 29-30 Jul 2019

Opinions on Monetary Policy		Remarks
1	Although it will take time to achieve the price stability target, it is necessary to persistently continue with the current powerful monetary easing as the momentum toward 2 percent inflation is maintained.	Status quo
2	The Bank should persistently continue with the current monetary policy stance with the aim of continuously encouraging the virtuous cycle of the economy to take hold and thereby achieving the price stability target.	Status quo
3	If overseas economies deteriorate further and this has a negative impact on Japan's economic activity and prices, the Bank should respond swiftly while a monetary and fiscal policy mix is being pursued. Having said that, it is important to continue with the current monetary easing policy for the time being while paying attention to the side effects on the financial system.	Status quo (Side effects warrant attention)
4	The degree of monetary accommodation in Japan seems to have been already greater than that in the United States and Europe. It is necessary to examine carefully whether there is a need for further monetary easing in this situation. At least for now, it is important to persistently continue with the current extremely powerful monetary easing for as long as possible.	Status quo (Further monetary easing should be examined carefully)
5	At this point, it is important to make a preventive and preemptive policy response to downside risks to prices. It is necessary to further strengthen monetary easing through both yield curve control and forward guidance.	Preventive policy response Strengthening of monetary easing
6	Since the effects of the monetary policy conduct of other economies are subject to change depending on developments in economic activity and markets, it is important to make a comprehensive judgment without being influenced by temporary developments.	Comprehensive judgment
7	Given that downside risks to economic activity and prices remain significant, it is essential for the Bank to communicate that, if there is concern that the momentum toward achieving the price stability target will be lost, it will not hesitate to implement necessary policy measures appropriately to address these risks.	Importance of communication "Will not hesitate" wording
8	The Bank should not hesitate to take monetary easing measures if it is expected that the momentum toward achieving the price stability target will be lost.	Additional easing without hesitation
9	Since Japan's economy is susceptible to the U.S.-China trade friction and the inflation rate is far from 2 percent, it would be necessary for the Bank to consider the claims for conducting so-called preventive monetary easing against downside risks to economic activity and prices. The effects of the scheduled consumption tax hike and sudden market changes warrant careful vigilance so that the Bank's monetary policy will not fall behind the curve.	Need to conduct preventive policy response
10	The Bank should communicate more clearly, both at home and abroad, that it will not hesitate to take additional monetary easing measures if there is a greater risk that the momentum toward achieving the price stability target will be lost. The Bank also should examine possible easing measures in advance.	Importance of communication Examination of additional easing options
11	It is necessary to consider the pros and cons of various easing measures that involve such factors as quantity, quality, and interest rates.	Consideration of the pros and cons of concrete easing options
12	When considering policy responses, it is necessary to examine both their effects and side effects. In doing so, it is important to carry out careful examination and design while taking into account the risk that the effects may be impaired by the side effects.	Importance of carrying out careful examination and design, given benefits and side effects
13	Given the time frame in which the side effects of monetary easing accumulate for a long time, it is necessary to consider monetary policy measures more carefully with a view to preventing financial instability while examining changes in financial institutions' risk-taking stance and the effects of a decline in interest rates on their profits and lending attitudes.	Cumulative effects of side effects from monetary easing

Source: BOJ; compiled by Daiwa Securities.

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[Standard & Poor's]

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