Notes on Financial Markets Vol.265

# Summary of Opinions in December MPM—Bullish outlook

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## Introduction

The BOJ decided to raise its policy rate to 0.75% in December MPM. There appeared to be a consensus on bullish outlook of economy and underlying inflation.

## Assessment of economy

First line of comment confirmed the central scenario that the economic growth would re-accelerate after temporally slowdown due to overseas trade policies.

Regarding the firms, two lines of comments expressed constructive views. One of them pointed out the positive sentiment, and the other suggested that firms in local areas increased investment to deal with labor shortages.

Moreover, a line of comment expected that the annual growth rate of negotiated wages next year would be high as this year. Other line of comment expected that positive effects of the policy measures by the government could ease concerns by the households on high living costs.

Other line of comment referred to the current simultaneous stimulus by both monetary and fiscal policy globally, leading to better prospects of the global economy and prices.

## Assessment of prices

Two line of comments confirmed the central scenario that the underlying inflation would reaccelerate and converge to the inflation target in later period of the outlook. In addition, other line of comment expressed the view that the risk of stagnation of underlying inflation may have diminished.

Other two lines of comments discussed the implications of price/wage setting behavior by the firms.

One of them suggested the stickiness of price rises due to changing behavior as well as foreign exchange rate. Furthermore, it expected that the policy measures by the government would make positive contribution to longer-term inflation by way of active consumption and investment.

The other of them claimed that the 2% target of underlying inflation could be achieved, if annual rate of wage growth would be consistent with the inflation target in three consecutive years in the spring next year.

Two other lines of comments raised the supply side issues. One of them suggested that upside shocks of import prices due to global demographic and climate conditions should be watched carefully, as they could affect inflation expectation and underlying inflation in Japan.

## Management of policy rate

First two lines of comments confirmed the rationale for policy rate hike this time. One of them confirmed that the confidence in the outlook of economy and prices has reinforced. The other mentioned that 1) impacts of the US tariffs would not be extraordinary risks, 2) upward momentum of wage rises maintained on the back of high level of corporate profits, and 3) domestic inflation would re-accelerate along with wage rises after temporally deceleration.

Following set of comments discussed the implications of laggard decision on the rate hike. One of them suggested that the solid profits of firms and impacts of foreign exchange rate would cause policy risks if the decision would be postponed to the next meeting.

The other there line of these comments confirmed the view that the policy rate was excessively low. Two of them confirmed that the real policy rate was extremely low either in terms of its equilibrium or in the global context. They raised concerns about inefficiency of resource allocation and impacts on prices through foreign exchange rate. Moreover, other line of comment claimed that financial condition remained excessively accommodative.

Looking forward, the opinions were mixed.

On the one hand, three lines of comments suggested that policy rate hike on regular basis should be resumed. One of them confirmed that real policy rate would remain substantially negative. The other suggested that raising rate once in several months would be warranted, in order to avoid accelerated rate hikes in later years. Another comment suggested the risk of behind the curve as overseas central banks would resume rate hikes next year.

In contrast, three lines of comments expressed the cautious views. One of them mentioned that monitoring of economy and markets would be necessary as policy rate reached highest level in long years. The other two lines of comments insisted that the BOJ should not have a specific pace of rate hikes.

Meanwhile, a line of comment expressed the view that monetary and fiscal policy would have complementary effects under the current condition that households suffer from cost-push inflation and achievement of 2% target as underlying inflation is closed.

Interestingly, following three lines of comments discussed the implications of neutral policy rate.

Two of them confirmed the idea that ex-ante specification of neutral rate would be difficult. Accordingly, they suggested that monitoring the reactions on economy and markets as well as the changing financial conditions globally would be necessary. Another of them offered more flexible approach that both econometric estimation of neutral rate and careful monitoring of spillover effects of rate hikes would be useful.

Last set of comments raised the implications on financial conditions. One of them expressed the view that low policy rate under the current inflation caused depreciation of JPY and rise in long-term yields. The other suggested that the level and variations of long-term yields may be affected by risk premium.

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