Japan: BOJ Summary of Opinions from June MPM: Two Members Call for an Acceleration in the Pace of Rate Hikes

Akira Otani
+81(3)4587-9960 | akira.otani@gs.com
Goldman Sachs Japan Co., Ltd.

BOTTOM LINE: The Summary of Opinions from the June Monetary Policy Meeting (MPM) showed that two board members expressed opinions calling for an acceleration in the pace of rate hikes. While these opinions are in the minority at present, the extent to which they will spread to other members going forward will likely depend on future assessments regarding the risk of underlying inflation exceeding 2 percent.

MAIN POINTS

- On June 24, the BOJ released the Summary of Opinions from its June Monetary Policy Meeting, where it decided to raise the policy interest rate to 1% and to halt the reduction of its Japanese government bond (JGB) purchase amount from the next fiscal year onward.
- Regarding monetary policy, there was an opinion which we think came from board member Toichiro Asada, who opposed the rate hike ("Raising the policy interest rate could suppress aggregate demand by curbing firms' business fixed investment, potentially inducing simultaneous declines in inflation and in production and employment. The Bank should therefore hold the rate steady at this point."). However, other opinions supported the rate hike, citing that downside risks to the economy have decreased and there is a risk that underlying CPI inflation will deviate upward to a level above 2 percent.
- As for the future pace of rate hikes, there were opinions from two members calling for an acceleration in the pace, such as, "It is necessary to bring the policy rate closer to the neutral rate as soon as possible," and "The neutral interest rate appears to be at around 2 percent, and taking this into account, it is desirable to consider (raising the policy interest rate) as appropriate with intervals of a few months in mind." At present, these opinions are limited to two members, but the extent to which these opinions will spread to other members going forward will likely depend on future assessments regarding the risk of underlying inflation exceeding 2 percent.
- Meanwhile, regarding the reduction of the JGB purchase amount from the next fiscal year onward, there was an opinion, which we think came from board member Naoki Tamura, who argued for continuing the reduction (halting the reduction carries the risk that it "is perceived by the market as fiscal financing or as an attempt to lower long-term interest rates"). However, most opinions suggested that halting the reduction was appropriate because, while the functioning of the JGB markets has been improving, it is also necessary to give

consideration to market stability.

The Japan Economics Team

Akira Otani
+81(3)4587-9960
akira.otani@gs.com
Goldman Sachs Japan Co., Ltd.

Tomohiro Ota
+81(3)4587-9984
tomohiro.ota@gs.com
Goldman Sachs Japan Co., Ltd.

Yuriko Tanaka
+81(3)4587-9964
yuriko.tanaka@gs.com
Goldman Sachs Japan Co., Ltd.

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Contributing Authors: Akira Otani Goldman Sachs Japan Co., Ltd..

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