

Introduction

The MPM of the BOJ made the downward revision of their inflation outlook as a result of the review of wage/price formation. Moreover, they decided to modify a number of policy variables in order to enhance the sustainability of the QQE. Although there have been speculation about this kind of policy actions most recently, press reporters struggled to understand their intension and the potential effects.

Revision of outlook

The MPM largely maintained their outlook of economy. While they expect the pace of expansion would decelerate in FY 2019 and FY 2020, real GDP growth rates would be around our growth potential thanks to the recovery of global economy. In fact, except for the current fiscal year, the median of expected rate of growth for both years remained unchanged (+0.8% respectively).

In contrast, the MPM made the downward revision of their inflation outlook again. The median of expected rates of core CPI inflation from FY 2018 to FY 2020 would now be +1.1% → +1.5% → +1.6% (according to their previous outlook as of April, it was +1.3% → +1.8% → +1.8%). At the press conference today, Governor Kuroda avoided to refer to the prospective time to achieve the inflation target.

As a background, the staff conducted another round of review of the reasons why the reactions of wages and prices against tight demand/supply conditions. They claimed that improvement of wages is prevented by general preference of job security, high elasticity of labor supply by senior and female workers and low prospects of economic growth.

Then, they suspected that setting higher prices by firms remain difficult for the fear of losing customers under tough competitions in broad range of industries. Moreover, they suggested that rising productivities in service sectors and IT innovations also function as downward drivers.

Large part of them has already been discussed by experts of our economy. Nevertheless, their important policy implication is that the BOJ need to maintain their accommodative policy for longer period of time (as far as under the inflation target).

Policy actions

Governor Kuroda insisted several times at the press conference today that the set of policy actions was intended to enhance the sustainability of the QQE, based on the review of wage and price formation above.

With regard to the YCC, the MPM decided to allow some flexibilities of 10Y yield and of actual amount of purchase, while they maintained the 0% target and the annual increase of 80 trillion yen. At the same time, they decided to inflate the “macro-balance” of current account deposit (with 0% yield) in order to reduce its estimated amount (with negative yield) by half (to approximately 10 trillion yen).

In reply to the questions by press reporters, Governor Kuroda explained that the modifications of JGB purchase would further enhance the sustainability of the QQE, which should now be maintained longer period of time. In the meantime, there was no reference to the current account by reporters Interestingly,

Governor Kuroda argued that too narrow guideline of 10Y yield may have contributed to deteriorate the functions of the JGB market. In contrast, he denied the idea that allowing volatility of JGB yield in order to support the profits of financial institutions, while he confirmed the needs to pay attention to financial intermediation under lengthy period of low yield environment.

With regard to ETF purchase, the MPM decided to increase the weight of purchase of Topix based ones. As Governor Kuroda explained, the modification could ease the side-effect of corporate governance. It should also be noted that the MPM decided to introduce some flexibility of actual amount of purchase of ETF, with a view to lowering risk premia of asset prices. Probably because the markets have already be aware of these options, there were few questions today.

Communication policy

Rather than the modification of policy variables, its communication by the MPM would worth noting. In fact, the first element of policy statement today was the new forward guidance of policy rates of both long- and short-term yields. While the MPM referred to the uncertainties of economy and prices due to the next round of consumption tax hike (scheduled for October 2019), the forward guidance is not be time or state contingent.

In reply to a question, Governor Kuroda explained that the MPM intended to maintain the current extremely low rates “for extended period of time” in English terms. With this respect, it seems similar to the forward guidance by the ECB.

Another press reporter asked Governor Kuroda about its relationship with the set of existing commitments. He pointed out that it would be technically possible to change the target yields of the YCC at any MPM even under the current framework, and this is why the new forward guidance would have technical significance.

Much more important question for press reporter today was the intension of introducing this forward guidance at this point of time. Governor Kuroda insisted several times that their decision today was not intended to increase policy rates or to reduce the strength of monetary accommodation, and this is the reason of the title of policy statement.

The MPM had good reason to introduce the forward guidance in order to avoid misunderstanding by the markets that this might be an initial step to policy normalization. Price actions of JGB market today suggest, however, it was too effective. This might be the reason why Governor Kuroda referred to specific range of new allowance of JGB yield (± 20 bp) at the press conference.

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