

Introduction

The Monetary Policy Meeting (MPM) of the BOJ decided to maintain its accommodative policy as widely expected. Press reporters raised a number of questions, however, with regard to the MPM's unchanged assessment of domestic economic activities in light of their growing concerns.

Assessment of economy and prices

The MPM's assessment of domestic economic activities in the policy statement, remained mostly unchanged (except for the state of corporate profits). With this regard, a number of reporters asked about the possibility of its downward revisions, implying that the assessment would be too optimistic or outdated.

While Governor Kuroda admitted its downside risks, he confirmed their constructive views on the central scenario, by referring to the most recent outlook by the IMF. Moreover, he claimed that the growing cautiousness by firms could only be found at some specific industries as evidenced by TANKAN.

Some other reporters discussed the potential sources of economic stresses from overseas, with reference to China and Europe. Governor Kuroda emphasized that economic slowdown in China has been driven by structural factors from longer-term perspectives. Moreover, he pointed out that some of the downward drivers in Europe are temporary in nature, and the expected rate of economic growth could remain higher than their potential growth rate.

Other reporters asked Governor Kuroda what kinds of information the BOJ should draw from the recent volatilities of the markets. He effectively avoided to answer the question, but confirmed the importance to watch the markets closely in order to prevent the spillover effects on economic activities.

It should be noted that the conditions of domestic financial conditions appear to remain accommodative, especially in comparison with the US. Both of the financial systems have been hit by considerable corrections of equity prices. In Japan, however, the value of JPY remain low from medium-term perspectives and there is few stress in the credit markets.

Interestingly, downside risks of inflation seem to be shared to some extent between the BOJ and the reporters.

While the BOJ preserved the central scenario of gradual acceleration in inflation rate, thanks to improving GDP gap, Governor Kuroda reiterated the results of the review at July MPM meeting. Specifically, prices of goods and services are inelastic to their demands, due to persistent concerns about price competitions.

Potential implication is the risk of lower rate of inflation when there emerge some downward pressures under such conditions as slower growth of aggregate demand, appreciation of JPY, or persistent drop of energy prices.

Apparently, the key factor is the stability of inflation expectations. Governor Kuroda seemed to have mixed view. On the one hand, he had the confidence in resiliency of inflation expectations in the downward direction. But on the other hand, he was disappointed at the recent suspension of their improvements in spite of tight labor conditions.

Prospects of monetary policy

With the back of the growing concerns about slowdown of economic activities, the focus of attention in the markets seem to shift gradually to the prospects of additional monetary stimulus, regardless of its time-frame.

In fact, several press reporters raised this issue today. Governor Kuroda denied its near-term possibility in light of their current constructive outlook of economy and prices. Moreover, after he reiterated this baseline scenario, he claimed that the BOJ maintains a set of policy tool for further monetary accommodation.

Specifically, he referred to the policy statement at the time of introducing the Yield Curve Control (YCC) and reminded the reporters of 1) adjustment of O/N policy rate, 2) adjustment of the target yield of 10Y JGB, and 3) increase the scale of operations.

Ironically, some other reporters suspected that the side-effects on financial intermediation could prevent the further decrease in the O/N policy rate. Readers may like to remember that careful consideration of such side-effects was likely to lead to the discussion for early normalization of monetary policy until very recently.

As reply to the reporters, Governor Kuroda explained that larger part of issues in relation to the financial intermediation by regional financial institutions could be found in the structure of domestic banking, rather than the low yield environment. Furthermore, Governor Kuroda also implied that such issues should be addressed by the supervisory authorities.

It is also ironic that the criticism in the market over the ETF purchase by the BOJ lost momentum amid higher volatility. In fact, in reply to the question by a press reporter, Governor Kuroda appreciated the flexibility of the ETF purchase, enhanced at July MPM. He confirmed that volume of the purchase have shown substantial variation in recent months.

Pivotal point

In any case, the BOJ could face the toughest challenge among the major central banks in utilizations of effective policy tools when and if they are necessary, and unless any policy innovation emerges.

Because the seasonal cycle of economic outlook for the BOJ is slightly different from the US and Europe, next important time point for the BOJ is the MPM in late January when they are scheduled to revise their outlook.

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