

Introduction

The BOJ's monetary policy meeting (MPM) today maintained its accommodative policy unchanged. Nevertheless, Governor Kuroda insisted that the BOJ is ready to conduct appropriate policy actions if necessary. With this respect, the BOJ's policy strategy seems to be in line with overseas peers.

Assessment of economy

Governor Kuroda explained that June MPM still regarded the gradual recovery of our economy as the main scenario. It is supported by the expected recovery of overseas economies, thanks to a range of policy measures.

Interestingly, Governor Kuroda noted somewhat less pessimistic outlook of the global economy at the discussion of G20 finance ministers and central bank governors meeting. He suspected that the solid recovery of major economies in the first quarter and the temporary postponement of US tariff over the imports from Mexico would be the reasons.

Nevertheless, Governor Kuroda confirmed that downside risks of our economy have become acute. Their major source could also be found in the overseas economy. He noted at the meeting above that trade disputes between the US and China appeared to be less favorable.

In fact, the policy statement of July MPM suggested that the members were concerned about the persistence of weakness in exports and production. Moreover, it literally mentioned that downside risks of the overseas economies may have grown, and downward impacts on the minds of households and firms would be a channel of stress.

Regarding the inflation, Governor Kuroda confirmed that the MPM continue to think the gradual conversion of inflation toward its target as the main scenario. This is consistent with the main scenario of economic outlook, and it might be the reason why few press reporters asked about its plausibility.

Implications of monetary policy by overseas peers

As widely expected, several press reporters raised this issue. Governor Kuroda reiterated the basic principle that every central bank should conduct its monetary policy in pursuit of the stability of economy and prices in respective jurisdiction.

One of significant challenges to the BOJ in the global context is the perception in financial markets: they seem to believe that the BOJ would face the toughest conditions in terms of effective policy tools. Furthermore, they seem to speculate that the Japan would be in a difficult situation when and if "currency war" materializes.

From the viewpoint of economic fundamentals, monetary accommodation in the overseas major economies could be beneficial to our economy, through supporting the recovery of global economy. In fact, such policy measures would rather be consistent with the MPM's main scenario of economic outlook as discussed above.

Nevertheless, appreciation of JPY rates as its "side-effects" of additional monetary stimulus by major peers could have non-negligible impacts on our economy and prices, if it becomes too fast and too high.

Monetary policy strategy

Governor Kuroda appeared to be mindful of such issues, and this may be the reason why he insisted that the BOJ maintains effective policy tools. He claimed that the BOJ is ready to conduct the combination of measures including 1) reduction in O/N policy rate, 2) lowering target yield of 10Y JGB, 3) increase asset purchase, and 4) inflate scale of base money.

Governor Kuroda made some further notable comments.

First, Governor Kuroda mentioned that the target range of 10Y JGB yield could be more flexible. The markets could perceive either the BOJ is ready to widen the target, or the BOJ is ready to endorse the yield below lower bound of the current range. In fact, JGB yields dropped further during the press conference today.

Second, Governor Kuroda confirmed the significance of coordination of the monetary policy by the BOJ with the economic policy by the government, in line with the BOJ act.

Furthermore, he claimed that there is a "coordination" under the YCC. Domestic market participants are already aware of such "ex-post" policy effect. Nevertheless, the markets could perceive that the BOJ might intend such effects ex-ante.

Third, when referring to the policy tools for additional accommodation, Governor Kuroda seemed to downplay the side-effects. While he reiterated the idea that the BOJ will take into account of them in conducting monetary policy, Governor Kuroda argued that the side-effects on financial intermediation or market functions have been modest.

All in all, Governor Kuroda appeared to insist that the BOJ still maintained the flexibility of monetary policy, in order to remove the excessive pessimism about the rooms for additional accommodation. With this background, Governor Kuroda confirmed the fundamental stance of monetary policy: the BOJ is ready to act without any hesitation if the momentum of inflation toward the target diminishes.

With regard to the timing of policy action, some press reporters speculated that the July MPM would be pivotal. It is largely because the FRB and the ECB could take some concrete actions in July and it is the time for the BOJ to review its outlook of economy and prices.

Governor Kuroda emphasized the fundamental strategy of "data-dependent" and expressed the skeptic view about further price actions by the policy actions by peer central banks. Nevertheless, July MPM has now become all the more significant for the future course of the QQE.

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