

Introduction

The MPM of the BOJ decided to maintain the current accommodative policy at its October meeting. At the same time, they introduced the new forward guidance of target rates, according to their assessment of “the Momentum toward Achieving the Price Stability Target”.

Assessment of economy and prices

The MPM made another round of downward revision of the outlook at their quarterly review.

Their new outlook of real GDP growth rates from FY2019 to FY2021 is +0.6%→+0.7%→+1.0%, in comparison with the previous outlook (+0.7%→+0.9%→+1.1%) at the time of July MPM. Their summary text suggested the downward revision reflected the delay in recovery of the global economy.

The MPM effectively forecasted that our economy would grow at a pace marginally below its potential growth rates until FY2020, reducing the positive GDP gap moderately.

Slower economic growth and laggard recovery of crude oil prices brought about the downward revision of their outlook of inflation. Their new outlook of core CPI inflation rate from FY2019 to FY2021 is +0.5%→+1.0%→+1.5%, substantially lower than the previous outlook (+0.8%→+1.2%→+1.6%) at the time of July MPM.

Interestingly, however, their summary text appeared to emphasize the resilience of domestic economy. Among all, they showed the confidence in domestic business investments in the fields of urban-restructuring, automation of businesses, and research and development. Along with the public investment for disaster recoveries, they would be largely immune to the conditions of overseas economies.

Moreover, preliminary studies by the BOJ staff suggested that the downward impacts on durable goods consumption would be muted, especially in contrast to the case of previous consumption tax hike in 2014. Such estimation was based on the smaller advance increases in the consumption until the end of September in order to avoid the higher tax rates.

While more detailed analyses could be included in the full text of their new outlook, readers could read their brief summaries in the reference material of the assessment of “Momentum toward Achieving the Price Stability Target” released today.

Combination of the downward revision of outlook and their constructive views on domestic economy was one of the focus of the press conference today. In fact, the summary text suggested the view that potential negative spillover from the slowdown of overseas economies would be muted.

Moreover, press reporters referred to the recent improvements of overseas development, including positive signs of US-China trade disputes, less risk of no-deal Brexit, and less pressures of inventory adjustments of major IT goods.

While Governor Kuroda admitted these near-term favorable developments, he maintained cautiousness about them from longer-term perspectives. Furthermore, with the reference to other risks in emerging economies (probably in China), he insisted that the risks of outlook remained tilted downward, and they would deserve careful attention.

New forward guidance

The MPM inserted the new forward guidance in the policy statement; “the Bank expects short- and long-term interest rates to remain at their present or lower levels as long as it is necessary to pay close attention to the possibility that the momentum toward achieving the price stability target will be lost”. While it looked like the ECB’s version with the explicit reference to the possibility of additional stimulus, this has some interesting features.

Among all, the condition is the perception of risk rather than the outlook or the performance of economic indicators. As a result, satisfaction of the condition would be judged solely by the MPM. While the ECB’s case could have similar issue (as the condition is defined as the inflation outlook), the BOJ’s case could cause some challenge in communication (as the assessment of risks would be more subjective).

Technically, the MPM could have followed the practice of the ECB. In light of the distance to the inflation target, however, such version of forward guidance could lead to expectation of the current accommodative policy for very long period of time. It could rather result in further flattening of the yield curve, where the BOJ seems to struggle in its modest correction.

At the press conference today, some reporters asked the reason to abandon the previous calendar based forward guidance. Governor Kuroda explained that the downside risks of overseas economies could remain for the time being, and the MPM would like to make enhanced announcement of easing bias.

Some other reporters asked about the potential policy tools. In reply, Governor Kuroda insisted that the MPM would decide an appropriate combination of tools, according to the conditions of economy and prices at the time of an additional easing. And he insisted that the tools would not be limited to the reduction of target yields of the YCC because of the new forward guidance.

More specifically, some of them raised the cases and conditions of enhancing NIRP. Governor Kuroda reiterated the view that the MPM have some rooms for deeper negative rates in light of the cases of some European states and the framework of tiering system of current account at the BOJ.

Moreover, while he admitted that it would cause some additional impacts on financial intermediation, he would not see the risk of transferring the cost to retail customers. All in all, he confirmed strongly that consideration of side-effects should not prevent the MPM from taking necessary policy actions altogether, and any policy decision should be made by taking proper balance between the benefits and the costs.

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