

## Introduction

The MPM of the Bank of Japan decided to maintain the current accommodative policy at its December meeting. Governor Kuroda also reiterated their cautious views of the overseas economy and its implication for the domestic economy, in spite of recent signs of reductions in downside risks.

## Assessment of economy

According to their new policy statement, the MPM maintained the overall tone of evaluations of our economy.

While the statement confirmed the recent weakness of exports, production and sentiment of firms, it also referred to some potential impacts by a series of natural disasters. In any case, these additional impacts would be temporary in nature.

Moreover, the statement reiterated its constructive views of business investment, as evidenced by the recent results of TANKAN survey. While the domestic expenditures would be affected by the consumption tax hike, the MPM continued to expect that they would be supported by very accommodative financial conditions and the forthcoming fiscal stimulus.

Interestingly, however, the policy statement maintained the strong vigilance against downside risks of the overseas economy because of the same list of reasons.

In reply to the questions by some reporters, Governor Kuroda agreed that the first phase agreement of US-China trade deal and the recent results of the UK election could reduce the uncertainties of these two major risk factors. Nevertheless, he insisted that we need to pay attention to their developments in coming months, as non-negligible uncertainties remained.

Some other reporters asked if the economic outlook would be substantially improved by the fiscal stimulus by the government. Governor Kuroda welcomed their potential impacts of GDP gap and long-term effects of improving the productivity, but effectively avoided to show their impacts in a concrete manner. He explained the MPM's intention to take into account of their effects at its January meeting as its regular seasonal review of the outlook.

## Policy decision

The MPM decided to maintain its accommodative policy as widely expected by the market. Overseas readers would like to note, however, there has been remarkable change of the policy outlook among the domestic market participants in recent weeks.

Apparently, they have been driven by the series of political events in the US/China and the UK. They are not only consistent with the renewed risk appetite in the global market, but also reasonable because the major source of downside risks could be found in the overseas.

Moreover, such changes in the outlook appeared to reflect the monetary policy conducts by the overseas central banks. In fact, a press reporter asked Governor Kuroda if the BOJ could change the course of policy after having observed that both the FRB and the ECB suspended the further reductions in policy rates at their December meetings. Governor Kuroda of course explained that economic conditions in respective economies are different.

From broader perspectives, both the policy statement and the comments by Governor Kuroda maintained the cautious views as reviewed above. The MPM may have good reasons to prevent too early speculation about potential change of policy stance. Their modestly constructive views of our economy and prices are largely dependent on the very accommodative financial conditions as the important assumption.

In addition, even if the GDP gap could be expected to widen in the positive direction when taking account of the effects of the fiscal stimulus, the outlook of inflation would still be distant from the target. In fact, Governor Kuroda insisted several times at the press conference that the BOJ will persistently maintain the accommodative policy.

## Policy framework

In light of the issues of communication between the MPM and the markets, there seemed to emerge several points of discussion.

First is the effects of the current forward guidance. Fundamentally, the forward guidance enhanced at the previous meeting was intended to prevent too early speculation about the policy normalization. Members of the MPM may like to reconsider its modality.

Second is the implications of very rapid upward movement of long-term JGB yields. While Governor Kuroda explained that the market sentiment has improved in recent weeks, he also implied that the level of yield of super-long JGB might be too low in his view.

Moreover, Governor Kuroda has argued the side effects of extremely low long-term yield since his interviews in September, and the BOJ continued to reduce the amount of purchase of super-long JGBs. All in all, the markets seem to suspect that the BOJ's intention may have contributed to the recent developments of longer-term yields.

Third is the side effects of the NIRP. Press reporters paid renewed attention to this issue, by referring to the introduction of deposit maintenance fees by major banks and the further deterioration of regional banks' profits.

Governor Kuroda expressed his opinion that increasing fees would be rational in light of growing needs to sophisticate the settlement services, and reiterated the view that the functions of financial intermediation by banks remained sound. In addition, he confirmed that the significance of the NIRP should be considered in the context of policy package.

All in all, if our economy would develop in line with the BOJ's modestly constructive outlook, the year 2020 could be a good opportunity to fine-tune some elements of policy measures and its communications to enhance sustainability of its framework.

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