

Introduction

The BOJ maintained its accommodative policy today. Like major central banks, its policy statement confirmed the recent improvement of economic activities, while reiterated the cautiousness about downside risks. In the meantime, a number of press reporters asked about the policy collaboration under the new administration.

Assessment of economy and prices

The new policy statement confirmed the overall improvement of our economy. Among all, it welcomed the recent recovery of exports and industrial production thanks to the recovery of the overseas economies. It also referred to the gradual improvement of private consumption.

Nevertheless, the statement insisted that the aggregate level of economic activity was still low, and the business investment remained weak due to the deterioration of corporate profits and their economic outlook.

In reply to the question by a press reporter about the prospects of business investment, Governor Kuroda admitted the uncertainties about positive transmission from recovering production to stimulating business investment. He expressed his view, however, that firms maintained interests in specific area of activities including R&D and reinforcement of logistics.

Looking ahead, the policy statement reiterated its constructive view of gradual recovery. Governor Kuroda explained, however, the pace of recovery would be slow and continue to depend on the developments of Covid-19, especially in terms of the implication for the growth expectation and the financial intermediation.

The new policy statement also confirmed the constructive view of prices. While the downward pressures due to the substantial drop of aggregate demand would remain for the time being, the rate of inflation would gradually accelerate as the economy recovers.

Collaboration of economic policy

Several press reporters seek the evaluations of Abenomics as Mr. Abe resigned Prime Minister. Governor Kuroda appreciated the substantial expansion of employment with higher labor participation, the diminishing risk of deflation and the remarkable recovery of corporate profits. He also insisted that the three “arrows” played their respective roles as expected.

In light of the close collaboration between the government and the BOJ under the Abenomics, it was natural for large number of reporters asked about its prospects under Prime Minister Suga’s leadership. Governor Kuroda strongly confirmed the view that such good relationships would remain unchanged.

Interestingly, several press reporters wondered whether the policy communique between the government and the BOJ should be revised or not. Readers may like to remember that it was announced in 2013 just before the QQE was introduced. It expressed the fundamental idea of three “arrows” of Abenomics.

According to the comments by reporters, the obvious reason for such speculation would simply be the change of our Prime

Minister. Another reason seemed to be the practices of monetary policy review by the overseas major central banks. Specifically, those who supported the idea of modification of the policy communique appeared to think that it would be a good time to review the idea of pursuing 2% inflation target.

Governor Kuroda strongly affirmed that the policy communique remained important and should be maintained. Moreover, he strongly denied the needs to review the 2% inflation target with reference to the fact that all the major central banks maintain this framework.

Governor Kuroda also claimed that the potential side-effects of persistent accommodative monetary policy to achieve the target have been negligible. In fact, a few reporters expressed the concerns about the asset price inflation in the stock market due to the BOJ’s large scale operations.

In addition to these factors, the current political condition might be another reason for the maintenance of the policy communique. As some reporters suggested that the sustainability of employment is the core challenge of economic policy as in the major overseas economies. Any modification of the framework of policy collaboration could pave the way to add another mandate to the central bank, which could attract supports by the general public.

Governor Kuroda emphasized several times that the BOJ act clearly stipulates that the BOJ should pursue price stability, thereby contribute to the sound development of our economy. Press reporters would have felt the strong intension of Governor Kuroda to cling to the role of price stability.

Average inflation target

A few press reporters referred to the FOMC’s formal introduction of average inflation target earlier in our time and asked about its evaluation. While Governor Kuroda avoided to comment on its appropriateness, he explained that the BOJ had already implemented the idea by its overshoot commitment. Under the framework, the BOJ would continue the ample provision of funds even when the actual rate of inflation becomes above 2%.

Technically, relative strength of policy accommodation between these frameworks would not apparent a priori, as it would depend on the broad range of economic and financial conditions. Nevertheless, as Governor Kuroda insisted, the BOJ also maintains strong forward guidance of both short-term and long-term policy rates.

In any case, policy options for both central banks in coming years would only be reinforcing accommodative policy or maintaining such policy.

Author: Tetsuya Inoue
Chief Researcher
Financial Market and Innovation Research Department
Nomura Research Institute

This note is intended solely for informational purposes and should not be construed as investment advice. The author does not guarantee the accuracy or completeness of the information contained. Opinions in this note are those of the author and do not represent the views of Nomura Research Institute or Financial Technology and Market Research Department. This note is exclusively for the personal use of those receiving it directly from the author.