

Introduction

The BOJ maintained its accommodative policy today. Moreover, it reiterated the central scenario of economy and prices in coming years, with modest downward revision of those for the current fiscal year. At the press conference, a few reporters raised the issue of medium-term strategy to achieve the inflation target.

Outlook of economy

First of all, readers may need to note that October MPM is the time to conduct the quarterly review of their outlook (unlike the FRB and the ECB). The new outlook of real GDP growth rates for FY2020 to FY2022 is $\Delta 5.5\% \rightarrow +3.6\% \rightarrow +1.6\%$.

In comparison with their previous one (as of July), growth rate for the current fiscal year was revised downward by 0.8pp, but those for FY2021 and FY 2022 were modestly revised upward respectively (by 0.3pp and 0.1pp). Governor Kuroda explained that the downward revision reflected the weakness of recovery of domestic service expenditure, and the rest of the outlook remained virtually unchanged.

A few press reporters referred to the renewed increases in the number of infection of Covid-19 especially in the US and some European states, and asked their potential impacts. While Governor Kuroda admitted that they would be the source of uncertainties ahead, he expressed the view that the impacts of their economies would not be severe in comparison with those in spring and early summer.

Specifically, Governor Kuroda pointed out that the measures taken by those governments this time appear to be more targeted and limited. Moreover, he explained that the US economy in particular maintained the momentum of recovery in spite of increase in the number of infection.

From the point of view of our economy, recovery of production and exports of some major industries including automobile is the reason of such cautious optimism. On the other hand, weakness of recovery of domestic service expenditure is the source of concerns. Their developments as well as the effects of government stimulus measures should be carefully watched.

Outlook of prices

The MPM's new outlook of core CPI inflation rate for FY 2020 to FY 2022 is virtually the same as the previous one. It is $\Delta 0.6\% \rightarrow +0.4\% \rightarrow +0.7\%$ versus $\Delta 0.5\% \rightarrow +0.3\% \rightarrow +0.7\%$ as of July. The summary text indicated the downward impacts of the government provisions on tourism and dining would be 0.2pp in FY 2020 (but upward impact of 0.2pp in FY 2021).

In spite of the maintenance of the scenario, several reporters raised the supply side issues of inflation. One of them asked the risk of inflation due to Covid-19. Governor Kuroda denied such possibility, because the decrease in demand would be larger and the production capacity remains intact.

The other of them asked about the downward impacts of government policy measures. Readers may like to note that Prime Minister Suga strongly requested the downward revision of mobile phone services. Governor Kuroda denied the possibility of comprehensive impact on the overall rate of inflation, as it would be micro-economic adjustment.

Interestingly, a few other reporters asked again the significance of maintaining the inflation target, and about the policy strategy ahead. As reviewed above, core CPI inflation rate in FY 2022 would be far below the target, even if the MPM's central scenario becomes valid.

Governor Kuroda reiterated the idea that the 2% inflation target remains significant and should be maintained. He explained that the existence of upward bias of inflation estimate and the room for adjusting nominal policy rate are the most important reasons. This is the same line of argument by Governor Lagarde at the ECB watcher conference a month ago.

Moreover, Governor Kuroda pointed out that the BOJ should prioritize in conducting crisis measures to restore stability of financial markets to support the flow of credits to firms and households since this spring. According to his view, the BOJ should maintain such strategy for the time being, and it would pave the way to rebuild the foundation for higher rate of inflation once the economic activities become normalized.

Policy instruments

A couple of press reporters raised the side-effects of ETF purchase and their potential exit strategy. Governor Kuroda reiterated the idea that ETF purchase is intended to restore stability of financial markets, thereby stabilizing the sentiment of firms and households.

He also explained that the potential side-effects have been mitigated by a range of measures such as shift of purchase toward ETFs linked to broader indices, flexible conducts of actual purchase and proper delegation of voting rights to trust banks. All in all, he emphasized that ETF purchase should be continued for the time being.

A few other reporters tried to hear the idea about potential extension of the special operations for fund provision. Like TETRO III, this measure is expected to be maintained beyond the current end of term (end of March 2021). In fact, it attracted strong interests by banks thanks to its very favorable conditions.

While Governor Kuroda mentioned that there was no specific discussion about its extension at October MPM, he confirmed that the MPM was ready to extend the term. Moreover, he suggested that its conditions could be modified in light of the liquidity demands by firms as well as the government's economic measures.

With regard to the sustainability of financial intermediation, banks' capacity to absorb credit costs in coming years is another important issue. The summary text of the outlook referred to it as a source of downside risk of our economy, while the MPM judged its probability to be low.

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