

## Introduction

In spite of the downward revision of growth and inflation prospects for the current fiscal year, the revised outlook of economy and prices maintained its constructive view for later years. Focus of discussion at the press conference was the implication of overseas developments on domestic economy.

## Assessment of economy

Summary text of the outlook admitted that supply constraints have affected industrial production and export. Nevertheless, it expected that virtuous circle from production to investment would be revived once these constraints are eased. Moreover, it maintained constructive view of global economy, especially among advanced economies, which would provide supports for robust expansion of exports in coming years.

Regarding the private consumption, it expressed positive views of pent-up demand under more balanced approach between prevention measures of infection and recovery of economic activities. It also expected gradual improvement of wages due to labor shortages in some segments.

All in all, the revised outlook of real GDP growth rates for FY2021 to FY2023 is +3.4%→+2.9%→+1.3%. In comparison with the previous one (as of July), growth rate for FY2021 was revised down by 0.4pp, but that for FY2022 was revised up by 0.2pp.

At the press conference, several reporters asked the implications of supply constraints. Governor Kuroda reiterated the view that the phenomenon would be temporary while there would remain uncertain about their duration. Interestingly, he insisted that major part of constraints have been driven by overseas factors.

It should also be noted that summary text explained that balance of risks is broadly balanced in coming years, while it would be still tilted downward in the near-term. It raised the risk factors including the impacts of Covid-19 on private consumption, the effects of supply chain and the overseas economic developments, all of which could have both positive and negative implications.

## Assessment of prices

One notable feature of inflation outlook by the BOJ is persistent cautiousness about low inflation in spite of global concerns about potential acceleration of inflation. As summary text suggested, large downward revision of CPI inflation rate due to regular review of the consumption basket (0.7pp during 2Q) has non-negligible impacts.

Nevertheless, they would disappear in FY2022, and summary text reiterated its constructive views in coming years based on the fundamental improvement of GDP gap and gradual improvement of inflation expectation. Moreover, it expected that pricing power of firms would also improve as household would accept rising prices thanks to wage increases.

All in all, the revised outlook of core CPI inflation rates for FY2021 to FY2023 is +0.0%→+0.9%→+1.0%. In comparison with the previous one (as of July), core CPI inflation rate for FY2021 was revised down by 0.6pp, but that for FY2022 and FY2023 was kept unchanged.

A number press reporters raise the issues of inflation. First of all, some of them asked about the contrasts between Japan and other advanced economies.

Governor Kuroda explained that several potential reasons including weaker momentum of the demand, prioritization of the secure employment by firms and employees, and reluctance of firms to transfer the rising costs. Nevertheless, he expressed constructive view that these elements could be changed as gradual economic recovery continues.

Interestingly, he downplayed the concerns about “stagflation” in overseas economies, because he understood that surge in demand has been the major reason of supply constraints, and the economic growth would revive once supply constraints are eased.

Another focused topic was the implication of recent depreciation of JPY rates. Some reporters suspected that upward pressures of import prices have been aggravated by recent developments of foreign exchange rates, and have had negative impacts of corporate profits with the lack of transfer of rising costs to customers.

Governor Kuroda replied that impacts of developments of foreign exchange rates could be different on respective situations, and they would be affected by a number of fundamental factors of economy. He further expressed the view that the net impacts of recent depreciation of JPY would be positive due to their positive impacts on profits of exporting firms and on valuation of overseas assets.

A couple of reporters asked about the current evaluation of real effective exchange rate (REER). They mentioned that the current rate has been closed to the recent bottom in 2015, and cited Governor Kuroda’s comment at the parliament at that occasion.

Governor Kuroda claimed that there would be no “norm” about the level of REER as it would depend on broad range of factors, and it would not be appropriate to discuss economic policy with reference to REER. Furthermore, he reiterated the idea that foreign rechange rate should be in line with economic fundamentals, and expressed his view that it is broadly the case with the current level of foreign exchange rate.

## Financial conditions

Readers may like to note that management of fund supply operations against Covid-19 would be the focus of discussion at December meeting as its term would expire in March next year. Governor Kuroda avoided to make specific comments on this issue, and rather explained that the MPM would assess carefully the financial conditions of SMEs in the sectors affected by Covid-19.

**Author: Tetsuya Inoue**  
**Chief Researcher**  
**Financial Markets and Digital Business Research Department**  
**Nomura Research Institute**

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