

Introduction

MPM of the BOJ kept its accommodative policy unchanged, including the forward guidance of policy rate. Their new outlook suggested the brighter view of our economy, taking account of diminishing concerns both about domestic and overseas economies.

Outlook of economy

Summary text of the outlook welcomed the diminishing impacts of Covid-19 on consumption expenditures and the signs of diminishing constraints on industrial production. Looking forward, MPM expected positive effects by another round of the economic stimulus and pent-up production.

New outlook of real GDP growth rates from FY2022 to FY2023 is +3.8%→+1.1%. In comparison with the previous one (at October 2021), MPM made substantial upward revision for FY2022 by 0.9pp, while making slight downward revision for FY2023 by 0.2pp.

According to the summary text, MPM thought that expansion of global economy, favorable condition of corporate profits and finance, and improvement of employment and earnings would be the major factors for sustainable economic growth in later phase of the forecast period.

MPM raised several risk factors. In relation to Covid-19, the summary text referred to potential impacts on supply-chains in Asian economies, as well as on domestic consumption expenditures. In terms of overseas economies, it expressed concerns about risk of further deceleration of Chinese economic growth, along with risk of tightening financial conditions due to normalization of monetary policy in major economies. Regarding resources prices, it raised risk of deteriorating terms of trade, if their rises continue.

All in all, MPM maintained the view that the risks would be balanced in both directions.

Outlook of prices

MPM expected that rate of inflation would accelerate for the time being on back of modest second-round effects of rising energy prices and diminishing negative impacts of reduction in cell-phone service prices in the previous year.

Interestingly, MPM also thought that upward pressures on underlying inflation would be the driver of sustainable inflation in later phase of the forecast period. These include continuous improvement of GDP gap and long-term inflation expectation. The summary text expressed the view that GDP gap would become positive in 1H of FY2022 and household would accept rising prices on the back of wage rises.

New outlook of core CPI inflation rate for FY 2022 and FY2023 is +1.1% → +1.1%. MPM made modest upward revisions for both years (by 0.2pp and 0.1pp respectively).

MPM expressed the view that price setting behavior would remain the risk factor in both direction. On the one hand, acceleration of transfer of rising costs would drive the inflation higher, on the other hand, firms would remain reluctant to transfer the higher input costs.

All in all, MPM changed the balance of risks of prices from skewed downside to balanced in both directions.

At the press conference, several reporters suspected that upward pressures by energy prices would be more persistent. Governor Kuroda expressed the view that continuous rise in energy prices at such accelerated pace would not be plausible in light of the experience in 2008. It should be noted, however, the summary text noted that there has been market concern that under-investment due to de-carbonization policy could deteriorate supply constraints.

Other several reporters expressed concerns about negative impacts of real purchasing power of households and terms of trade for firms. One of them also asked about negative implication of depreciation of JPY.

Governor Kuroda reiterated the view that MPM expected sustainable inflation in coming years on the back of improvement of GDP gap and inflation expectations. He also confirmed the idea that foreign exchange rate should be maintained stably in line with economic fundamentals. Lastly, he maintained the view that net impacts of depreciation of JPY would remain positive at least from macro-perspectives.

In reply to the question by another reporter, Governor Kuroda insisted the importance of wage rises as the key to promote virtuous circle from household expenditures to corporate profits.

Policy normalization

Because of market speculation about potential modification of forward guidance, a number of reporters asked about the BOJ's strategy of policy normalization. Governor Kuroda clearly expressed the view that the inflation has not been approaching to the target in a sustainable manner, and this is why he would not consider any modification of the accommodative policy.

Regarding the forward guidance, he reiterated effectiveness of the current framework, and explained that the only factor for its review would be the prospects of achieving the inflation target, rather than improvement of economic outlook or diminishing concerns about impacts of Covid-19.

Interestingly, other couple of reporters asked if the aspect of quantity in the QQE has changed. Readers may like to note that rate of increase in monetary base has substantially decelerated, which has been one of the source of market speculation about implicit initial step of policy normalization.

Governor Kuroda explained that interest rate would be more important channel of policy transmission in any framework, while quantity of money remains the flip side of the coin. He also claimed that there would be no special challenge of communication of policy normalization when it is necessary, while he emphasized that MPM did not discuss the modification of accommodative policy at all.

Author: Tetsuya Inoue
Senior Researcher
Financial Markets and Digital Business 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.