

## Introduction

MPM of the BOJ today decided to maintain the current accommodative policy. Nevertheless, its policy statement clearly announced that they would continue to conduct the fixed-rate purchase operations of JGB on every business day.

## Outlook of economy

Taking account of negative impacts on real purchasing power due to rising energy and commodity prices, the MPM made downward revision of its economic outlook for the current fiscal year. Nevertheless, for the latter half of the outlook period, the BOJ remained confident about the revival of virtuous circle of recovery. Its major drivers would be increase in labor earnings, need for R&D investments and expansion of the global economies, according to the summary text of the outlook.

All in all, the new outlook of real GDP growth rate from FY2022 to FY2024 is +2.9%→+1.9%→+1.1%. In comparison, the previous one as of January (for FY2022 and FY2023) was +3.9%→+1.1%.

While Governor Kuroda admitted that the near-term risk would be tilted downward, he claimed that there have been some signs of domestic economic recovery. Those have been driven as containment measure of Covid-19 and supply constraint have been somewhat eased recently.

## Outlook of prices

In contrast, MPM's line of thought about inflation was somewhat complicated.

While MPM made substantial upward revision of its inflation outlook for the current fiscal year due to the obvious reasons, MPM maintained its cautious view of inflation in the next fiscal year. Governor Kuroda explained that rates of rises in energy and commodity prices would not be sustained, and their impacts on inflation would be diminished as a result.

Nevertheless, MPM expected that gradual upward pressures of underlying inflation would be maintained throughout the outlook period, thanks to improving GDP gap and tightening labor markets.

All in all, the new outlook of core CPI inflation rate from FY2022 to FY2024 is +1.9%→+1.1%→+1.1%. In comparison, the previous one as of January (for FY2022 and FY2023) was +1.1%→+1.1%. Interestingly, the MPM released its outlook of core-core CPI inflation rate (excluding flesh food and energy). According to such "reference", MPM expected +0.9%→+1.2%→+1.5% from FY2022 to FY2024.

Governor Kuroda admitted that near-term risk would be tilted upward, and that near-term expectation of inflation has gradually improved. The summary text of the outlook also expected that changing behaviors of price setting by firms could contribute to broader rise in prices.

Nevertheless, Governor Kuroda remained cautious about potential improvement of medium-term inflation expectation, because the current acceleration of inflation has been largely driven by rises in import prices. In any case, it would have negative impacts on domestic economic activities due to the loss of real purchasing power.

## Policy decision

A number of reporters raised the impacts of substantial depreciation of JPY on the domestic economy. In fact, JPY dropped considerably against USD after the policy announcement by the BOJ today.

Governor Kuroda reiterated the idea that the maintenance of accommodative policy would be strongly required in Japan where both the momentum of economic recovery and the upward pressure of prices have been weaker than in the US and the euro-area. While he admitted that high volatility of exchange rates could be harmful to economic activities, he avoided mentioning the appropriate level of USD/JPY rate.

Several other reporters asked about the impacts of the YCC on exchange rates. In particular, some of them expressed critical views of reinforcement of fixed-rate purchase operations of JGB, as they thought that it accelerated the price actions today.

Governor Kuroda confirmed the idea that the prevention of rising JGB yields would be crucial to maintain the accommodative financial conditions, which would be required to support the economic recovery. Moreover, he explained that clear commitment in the maintenance of the range of target yield would refrain from rising volatilities of the JGB yields. According to his accounts, discretion of fixed-rate operations by the executive branch of the BOJ may have promoted speculations in the market.

From broader perspectives, a few other reporters asked if the dialogue with the markets may have become complicated under the framework of the YCC.

While Governor Kuroda explained that such dialogue is always a tough job for a central bank, he expressed the view that it may be rather easier under the YCC. Specifically, the BOJ could specify the rationales of both short- and long-term policy rates. In comparison, other central bank would set short-term policy rate, but let the market to form the shape of yield curve.

Lastly, several other reporters expressed critical views of policy coordination between the BOJ and the government. According to their observation, accommodative monetary policy seems to be inconsistent with the economic measures to support households and firms from higher inflation.

Governor Kuroda argued that monetary easing would provide supports to vulnerable segments of the economy. Moreover, targeted measures by the government would be complementary to maintenance of accommodative monetary policy. With this regard, he insisted that both parties have closely collaborated.

**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.