

Introduction

MPM of the BOJ decided to maintain its accommodative policy at its July meeting today. It also revised the economic outlook downward and the inflation outlook upward for the current fiscal year.

Assessment of economy

Governor Kuroda explained the cautious view of the near-term economic outlook with reference to stronger downward impact by rising commodity prices.

Nevertheless, he reiterated the overall constructive view. As the backgrounds, he pointed out gradual recovery of consumption with improving labor earnings and gradual relief of supply constraints.

From longer-term perspectives, Governor Kuroda expressed the confidence in sustainable recovery. Interestingly, he expected the rise in nominal wages, and suggested the recovery of incoming tourists.

It should be noted, however, he admitted the high uncertainties ahead, and the risk is still tilted downward. Major factors included implication of infection of Covid-19, developments of energy and commodity prices, and evolution of overseas economy.

All in all, the new outlook of real GDP growth rate from FY 2022 to FY2024 is +2.4%→+2.0%→+1.3%. In comparison with the previous one in April, the outlook for FY2022 was downgraded by 0.5pp, while those for FY2023 and FY2024 were marginally upgraded by 0.1pp and 0.2pp respectively.

Assessment of prices

Governor Kuroda continued to expect that the inflation rate would remain modestly above 2% for the time being, but it would decelerate in coming years. He argued again that contributions of energy and commodity prices would diminish and transfer of rising costs to consumers would complete.

Nevertheless, his tone of voice has been slightly modified. He now expected somewhat higher rate of inflation for the current fiscal year. Moreover, he insisted the improvement of inflation expectation with reference to the results of the most recent TANKAN survey.

From longer-term perspectives, Governor Kuroda reiterated the view of gradual but secure improvement of underlying inflation. He expected that GDP gap would turn positive sometime later the current fiscal year, and upward pressure on nominal wage would accelerate partly because the pace of increase in labor supply would decelerate.

In reply to the question by a reporter, Governor Kuroda claimed that rise in import prices would doubtlessly cause downward impact on our economy through deterioration of the terms of trade.

Interestingly, he also expressed the view that the virtuous circle of prices and wages have not been sufficiently strong, while he identified some positive signs. Moreover, he explained that the norm of attitudes toward inflation has not changed among firms and individuals, which has been the basis for “adaptive expectation”.

Looking ahead, he admitted that the risk is still tilted upward. In addition to developments of energy and commodity prices, he pointed out that the behavior of firms over prices and wages and the evolution of foreign exchange rates would be the risk factors in both directions.

All in all, the new outlook of core CPI inflation rate from FY 2022 to FY2024 is +2.3%→+1.4%→+1.3%. In comparison with the previous one in April, the outlook were upgraded by 0.4pp, 0.3pp and 0.2pp respectively. For reference, the new outlook of core-core CPI inflation rate (excluding fresh foods and energy) is +1.3%→+1.4%→+1.5%.

Monetary policy

The MPM of the BOJ maintained the monetary easing unchanged. Moreover, Governor Kuroda confirmed the resolution that any modification of the YCC would not be necessary. He explained that any upward revision of policy rate would be harmful to domestic economic recovery, especially in the area of business investment.

Several press reporters asked about the side-effects of depreciation of the JPY. Governor Kuroda admitted that high volatility of JPY rate has been harmful for corporate activities, and has prevented firms to make use of the benefits. Nevertheless, he reiterated the idea that monetary policy should not target the foreign exchange rate.

Moreover, he suggested that interest rate differentials would not be the sole driver of foreign exchange rates with reference to depreciation of GBP and KRW rates in spite of rapid rises in the policy rates. All in all, he claimed that it is the appreciation of USD against major currencies,

Another press reporter raised the issue of JGB purchase operation. Readers may like to note that monthly amount of purchase in June was the record high since the introduction of the QQE for the obvious reason.

Governor Kuroda explained that the amount of purchase has been the dependent variable under the YCC, and the magnitude of policy accommodation should be evaluated by the level of target yield. Interestingly, he also admitted that effects of monetary easing may have somewhat enhanced due to the improvement of inflation expectation.

The other reporter raised the challenge of exit from the YCC with reference to the case of the RBA. Governor Kuroda expressed the view that the impacts of evolution of market outlook of policy normalization may be different, as the RBA set the target on the yields of 3Y notes. Nevertheless, he explained that he would take account of the lessons when the conditions of exit from the YCC are satisfied.

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