

Introduction

The MPM of the BOJ decided to maintain the accommodative policy at its September meeting. They not only decided to extend the crisis measures against Covid-19, but they also decided to enhance the existing operations for fund provision to support funding needs by firms.

Assessment of economy

Governor Kuroda maintained the constructive view of the domestic economy. He explained that exports has been supported by relief of supply constraints, and consumption continued to recover thanks to diminishing impacts by Covid-19. Moreover, business investment has been supported by elevated level of corporate profit.

Looking forward, he admitted that deterioration of real purchasing power and decelerating growth of overseas economy could have negative impacts on our economy. Nevertheless, he reiterated the outlook that our economy would continue to grow at the rate above its potential.

During Q&A session, focus of discussion was the significance of negative impacts by rapid depreciation of JPY.

Some reporters criticized the BOJ by claiming that its accommodative policy has been the major cause. Governor Kuroda described the current foreign exchange market as strong dollar rather than weak yen, with reference to depreciation of EUR and GBP against USD.

Moreover, Governor Kuroda maintained the view that depreciation of JPY has had positive effects on our economy from macro-economic viewpoint through inflating the size of corporate profit. While he admitted that households and SMEs has suffered from deteriorating terms of trade, he explained that the targeted fiscal supports have been appropriately conducted in such areas.

Assessment of prices

Readers may like to remember that CPI inflation rate in August increased by 3.0% annually. Except for the periods affected by consumption tax hikes, it was the highest rate during the period since 1991.

Interestingly, Governor Kuroda suggested that upward pressures of prices have become broader to durable goods, in addition to food and energy. He also admitted that the momentum of inflation has been stronger than previously thought.

Nevertheless, he reiterated the view that headline rate of inflation would become slower to 1% middle level. He also expected that acceleration of core inflation rate would be gradual but secure, on the back of improvement of GDP gap and nominal wage.

A number of reporters criticized the BOJ again by claiming higher rate of inflation has caused substantial damage on households.

While Governor Kuroda agreed that this has been the case, he emphasized the fact that recovery of our economy has been slower than overseas major economies. In fact, the level of real GDP for 2Q was still smaller the level before Covid-19. He explained several times that this has been the reason why

the BOJ should prioritize the support of economic recovery by maintaining accommodative policy.

Regarding the sources of import price inflation, Governor Kuroda modified the assessment with reference to higher contribution of depreciation of JPY due to reduction in commodity prices in dollar terms recently. At the same time, he confirmed continuous weakness of service prices on domestic front.

It should be noted, however, Governor Kuroda suggested the constructive view of wage developments. He explained that wage in service sectors would benefit from recovery of consumption. Moreover, considering elevated level of corporate profit, large firms could afford to raise wage at the next round of annual wage revision. From long-term point of view, he also suspected the pool of reserve labor force has been diminishing due to already high rate of labor participation of women and changing demographics.

Policy decision

The MPM of the BOJ decided to maintain its accommodative policy. Readers may like to note that it was the first unanimous decision in years.

It also decided to modify the exit strategy of crisis measures against Covid-19. Conducts of the special operations for fund provision for proprietary lending to SMEs was extended to the end of March, 2023. At the same time, those for government-supported lending against SMEs was extended to the end of December, 2022.

Moreover, they decided to enhance the existing operations for fund provision by removing the ceiling of amounts of respective operations since the end of this month.

Governor Kuroda explained that the BOJ would like to secure flow of funds to firms affected by Covid-19 during this winter when there remains the risk of infection wave. Furthermore, he explained that reinforcement of the exiting operations was intended to meet the funding needs by firms to manage inventory against supply constraint.

Several reporters asked the prospects of modification of forward guidance in light of higher rate of inflation. Governor Kuroda confirmed the need to maintain accommodative policy under the ongoing economic recovery. He also mentioned that expected period of its maintenance would be a matter of years rather than months.

In reply to the questions about the side-effects, he explained that the BOJ has taken appropriate measures including flexible management of tiered application of negative policy rate in money market and enhanced security lending in JGB market.

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