

Introduction

The MPM of the BOJ decided to maintain the accommodative policy at its October meeting. They made another upward revision of near-term inflation outlook, while they slightly downgraded economic outlook due to rising concerns about overseas economic growth.

Assessment of economy

Governor Kuroda reiterated the constructive view of the domestic economy. He explained that exports has been supported by relief of supply constraints, and consumption continued to recover by increasing service expenditures. Moreover, business investment has been supported by elevated level of corporate profit from macro-perspectives.

New outlook of real GDP growth rates from FY22 to FY24 is +2.0%→+1.9%→+1.5%. In comparison with the previous one (as of July), expected growth rates in FY22 and FY23 were reduced by 0.4pp and 0.1pp respectively, while that in FY24 was raised by 0.2pp.

Nevertheless, he admitted that the risk is tilted downward. Summary text of the economic outlook raised 1) overseas developments of economy and price, 2) implications of Ukraine war on commodity prices, and 3) impacts of Covid-19 on global economy as the key factors.

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

Governor Kuroda confirmed the idea that foreign exchange rate should align with economic fundamentals. In light of this idea, he argued that recent rise in volatility would enhance uncertainties for economic activities.

Other reporter asked the seriousness of downside risk of overseas economies. Governor Kuroda explained that major economies could avoid severe recession as central banks would adjust the monetary tightening accordingly. He also mentioned that there would be uncertainties, however.

Assessment of prices

Governor Kuroda confirmed the view that upward pressures of prices have become broader. He also admitted that transfer of rising input cost by firms to prices has also become more prevalent.

Nevertheless, he maintained the view that headline rate of inflation would become slower to 1% middle level in the next fiscal year as the upward pressures on import prices would diminish. He also expected that underlying inflation would gradually accelerate on the back of improvement of GDP gap and nominal wage.

New outlook of CPI inflation rate (excluding flesh food) from FY22 to FY24 is +2.9%→+1.6%→+1.6%. In comparison with the previous one (as of July), expected growth rates from FY22 to FY24 were raised by 0.6pp, 0.2pp and 0.3pp respectively.

Moreover, he admitted that the risk is tilted upward. Summary text of the inflation outlook pointed out that 1) evolution of price and wage setting behaviors, and 2) impacts of foreign exchange rate and international commodity prices as the key factors.

During Q&A session, several press reporters asked about the prospects of wage increases in coming months.

Interestingly, Governor Kuroda expressed the constructive view. He explained that summer bonus payments both in large firms and SMEs moderately increased. Moreover, he expected that recovery of economic activities would cause upward pressures on nominal wages under low rate of unemployment.

Even taking these factors into account, however, he suggested that he was not confident in achieving the inflation target during the forecast period. With this respect, Governor Kuroda also suggested that 3% annual increase of nominal wage would be necessary to achieve 2% inflation on the assumption of 1% increase in productivity.

Policy decision

All the members of the MPM agreed to maintain its accommodative policy.

Several press reporters expressed the criticism. They argued that monetary easing has been the cause of depreciation of JPY, which accelerated import price inflation.

Governor Kuroda denied such causality with references to historical developments of USD/JPY rate, while he admitted that interest rate differentials have been the focus of the market. He also reiterated the opinion that QE would remain necessary to support economic recovery.

Several other reporters raised the issues of normalization of monetary policy in the future. These included 1) whether the BOJ has advanced to achieve the policy target, and 2) whether the BOJ share the features of policy normalization in advance with the markets.

Governor Kuroda expressed the positive view on issue 1) above. He admitted that the BOJ has made modest advance to achieve the inflation target. Readers may like to note that new outlook of CPI inflation (excluding flesh food and energy) from FY22 to FY24 is +1.8%→+1.6%→+1.6%. Moreover, “risk balance chart” of the inflation outlook indicated that larger number of MPM members identified upward risk of inflation in FY23.

Nevertheless, Governor Kuroda confirmed the view that policy normalization within the forecast period remained less probable in light of the central scenario.

On issue 2), Governor Kuroda admitted in principle that the MPM would need to announce the features of policy normalization in advance when and if inflation outlook by the MPM foresees the achievement of inflation target. He insisted that it was not the case for now, however.

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.