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Press conference by Governor Kuroda—Devils in the details

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Introduction

The MPM of the BOJ kept its accommodative policy unchanged at January meeting in spite of a range of speculations ahead. Nevertheless, it introduced the long-term operations for fund provision which could have interesting implications in coming months.

Assessment of economy

The MPM maintained its constructive view of our economy while made modest downward revision of the outlook.

Summary text of their new outlook confirmed the positive momentum of expenditures both by firms and households in the earlier period. It also expected the continuous effects by policy measures by the government. In comparison with the previous outlook in October, however, it took account of stronger downward impacts by deceleration of overseas economic growth.

Regarding the later years, the new outlook incorporated the diminishing impacts by pent-up demands of private sector and policy measures by the government. Nevertheless, the MPM maintained the constructive view of underlying economic activities, leading to higher growth than our potential.

All in all, the new outlook of real GDP growth rates from FY2023 to FY 2024 is +1.7%→+1.1%. They were revised downward by 0.2pp and 0.4pp respectively from the previous outlook in October. Governor Kuroda explained that the risk is tilted downward in the earlier period.

Assessment of prices

The MPM maintained the underlying outlook of prices unchanged. However, technical factor relating to policy measures affected the expected trajectory of inflation rates.

Summary text of their new outlook reiterated the view that the positive contributions by transfer of rising costs by firms would gradually diminish in the earlier period of time. Moreover, it expected that policy measures by the government to reduce the costs of energy for households would cause additional downward impacts.

Regarding the later years, the new outlook took account of positive level effect by the expiration of the policy measure. Nevertheless, the MPM maintained the constructive view of underlying inflation, with reference to the positive GDP gap and stronger upward pressure of wages.

Readers may like to note that Governor Kuroda insisted the signs of structural changes of labor markets at his speech in late December. Apparently, it implied the prospects of sustainable wage increases in coming years.

Moreover, summary text suggested that the potential virtuous circle of prices and wages could be realized even under the adaptive formation of inflation expectation of our economic agents, after they experienced actual acceleration of inflation for months.

All in all, the new outlook of CPI inflation rates (excluding flesh foods) from FY2023 to FY 2024 is +1.6%→+1.8%. In comparison with the previous outlook in October, expected rate for FY 2024 was revised upward by 0.2pp.

Policy decision

The MPM maintained its accommodative policy in spite of the market speculations about further expansion of the target range of the 10Y JGB yield. Several press reporters claimed that the BOJ should take additional actions.

In fact, the distortion of the yield curve from 8 to 10Y maturity zone remained unchanged. Moreover, 10Y JGB yield rose above the new ceiling of the target zone in recent several days. The pace of JGB purchase increased, the amount of utilization of the SLF by the BOJ jumped significantly.

Governor Kuroda explained that it would take time to evaluate the effects of policy decision in December. He also reiterated the idea that the expansion of the target range of 10Y JGB yield was intended to enhance the sustainability of the YCC. Moreover, he expected to observe the intended effects in coming months.

Several other reporters asked whether the BOJ had approached toward the exit from the QQE with the YCC.

Governor Kuroda explained that we have observed much better economic performances than in the period before the introduction of the QQE, in terms of economic growth, inflation rate and wage increases. Nevertheless, he confirmed the view that he could not be confident in achieving the inflation target in a sustainable manner, with reference to the new outlook of inflation.

Introduction of long-term operation

The MPM introduced long-term operation of fund provision, which could have non-negligible implications.

Specifically, it expanded the eligible maturity for operations by auctions from 1Y to 10Y. In addition, yield for fixed-rate operations was changed from 0% to the level to promote formation of the JGB yield curve that is consistent with monetary policy stance.

Governor Kuroda explained that it was intended to support the function of the JGB market in order to promote smooth formation of the yield curve. He also expected that the new operations would play complementary role for the policy decision in December, by way of reducing the needs for JGB purchase by the BOJ.

While its impacts remains uncertain as banks could only be active in conducting arbitrage between the long-term operations and the JGB, this technical decision could become another step toward the policy normalization.

If the BOJ would like to change the policy rate from 10Y JGB yield to a medium-term yield after the exit from the QQE, yield for 5Y fixed-rate operations could become a candidate.

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