

Introduction

The MPM of the BOJ maintained the current monetary easing. Governor Ueda reiterated the outlook that inflation rate would decelerate in the latter half of this fiscal year, while he admitted that transfer of increased costs by firms have been extended longer than previously thought.

Assessment of economy

The MPM maintained the modestly constructive view of our economy described in the policy statement. Governor Ueda, however, insisted the high uncertainties about it.

At the Q&A session, several reporters asked about the potential implications of further slowdown of overseas economies. Governor Ueda explained that its gradual recovery on back of lower rate of inflation remained the central scenario.

Nevertheless, he admitted if this was not the case, there could be downward pressures on domestic economy either through reduction in external demand or deterioration of sentiment of firms.

Interestingly, the other reporter asked if the current good performance of stock prices implied a sign of financial bubble. While Governor Ueda declined to make comments about the level of stock indices, he suggested that there may be improved evaluation of our economic performances and of profits of Japanese firms from longer-term perspectives. Moreover, rising values of asset prices may stimulate economic expenditures by firms and households.

Assessment of prices

The MPM also maintained the cautious view of inflation. Governor Ueda suggested that process of transfer of increased costs has been longer than expected, but he insisted that upward pressure of upstream prices has already diminished.

All, in all, he reiterated the view that it would take time to achieve the inflation target in sustainable manner.

At the Q&A session, some press reporters asked about the reasons for longer process of transfer of costs. Governor Ueda pointed out that rates of increase in prices of food, daily goods and accommodation fee have been remarkable, and he suggested that costs of energy and raw materials are crucial for former two of them.

Governor Ueda also explained that while there appeared to be some signs of changing behavior of pricing by firms, it remained uncertain about their sustainability.

Interestingly, he expressed the similar view about rising wages. He mentioned that while we would observe the impacts of annual wage negotiations in coming months, he insisted the uncertainty about its sustainability in the next year.

Moreover, other reporters raised the implication of across-the-board depreciation of JPY recently. In fact, some of them expressed criticism about the monetary easing by the BOJ as the source of further rising costs of living of households.

While Governor Ueda avoided that the appropriateness of current rates of foreign exchange, he mentioned that benefits

and costs are diversified among different sectors of economy.

He also admitted that high rate of inflation has caused negative impacts on households, but he reiterated the view that major reason of the current inflation has been transfer of increased international prices.

From longer point of view, the other reporters asked about the overall impacts on prices by the wide-spread infection of Covid-19. Governor Ueda explained that it would be the global consensus that upward impacts have been larger due to the associated deterioration of supply conditions.

Modification of the YCC

The MPM of the BOJ maintained the YCC unchanged. Interestingly, we observed less speculation in the market toward June MPM, however, there has been growing expectation that the BOJ would modify the YCC at July MPM.

At the Q&A session, Governor Ueda suggested that the MPM would take into account of both the outlook of economy and prices, and the balance between the effects and side-effects before making decision of the modification of the YCC.

Regarding the latter elements, Governor Ueda explained that the conditions have somewhat improved. Nevertheless, he maintained the cautious views about the risks of renewed upward pressures on JGB yields due to overseas drivers, and about the implications of higher rate of inflation expectation in the domestic financial market.

Governor Ueda also admitted the challenge of its communication with the markets. He reiterated the intension that the BOJ would deliberately explain the results of its discussion at every MPM, but he admitted the risk of surprise action depending on the incoming data.

Policy rate hike

Several press reporters asked about the specific condition of policy rate hike, as the inflation rate has already been above 2% for a while. Governor Ueda insisted that the decision would be based on the outlook of inflation according to time lag of policy effects.

Moreover, he explained that the MPM would need to have confidence in sustainable achievement of inflation target. He also admitted that communication of such evaluations of probability distributions by the MPM members would be a challenge, while the current framework of assessment of risks could provide some clues.

Lastly, the other press reporter raised the implication of inclusion of wage rise as policy goal at April MPM. Governor Ueda claimed that it would not be the policy target, but the new statement implies the view that wage would rise in a sound manner when inflation rate achieves the 2% target.

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