

## Introduction

The MPM of the BOJ modified the guidance of 10Y JGB yield under the framework of the YCC. Governor Ueda insisted to maintain the monetary easing. He explained that the policy action was intended to address the potential upward pressure on long-term yield if outlook of prices improves further.

## Assessment of economy

The MPM maintained its moderately constructive view of our economy. In fact, their new outlook of real GDP growth rate from FY2023 to FY2025 remained mostly unchanged from its previous one (as of April). It is +1.3%→+1.2%→+1.0%.

Summary text of the outlook confirmed some positive drivers on domestic front including improvement of real purchasing power and relief of supply constraints, and it pointed out some negative factors on overseas front including slower growth of global economy.

## Assessment of prices

In contrast, the MPM made substantial upward revision of near-term outlook of prices. Their new outlook of CPI inflation (excluding fresh foods) from FY2023 to FY2025 is +2.5%→+1.9%→+1.6%. Outlook for FY2023 was revised up by 0.7pp from its previous one.

Moreover, risk balance of outlook for FY2024 was considerably tilted toward upside, while its median was marginally revised down by 0.1pp from its previous one.

Summary text of the outlook indicated that major reason of the revision was larger and longer than expected transfer of input costs by firms. Moreover, it confirmed further improvement of inflation expectation and modification of price/wage setting behavior of firms as upside risks for inflation outlook.

At the Q&A session, several reporters asked whether the achievement of inflation target became much more probable. Governor Ueda maintained the cautious view of inflation outlook. In particular, he insisted that the MPM was not confident enough of the magnitude and the timing of re-acceleration of inflation rate after it would decelerate temporarily toward FY2024.

## Modification of the YCC – Major aspects

Readers may like to know some aspects of the modification of the YCC before reviewing its discussion.

First, policy text of the MPM clearly insisted the intension that the BOJ would maintain monetary easing to achieve the inflation target. The MPM confirmed the view that our economy was still distant from its achievement in stable and sustainable manners.

Most important element of the modification of the YCC was to raise the entry point of fixed-rate operation of JGB purchase from 0.5% to 1.0%. Nevertheless, the MPM maintained the target range of 10Y JGB yield at  $\pm 0.5\%$ .

Moreover, the MPM suggested to conduct JGB purchase operations and operations for short-term fund provision to guide the shape of the yield curve consistent with the current policy stance.

## Backgrounds and intensions of the modification

At the Q&A session, Governor Ueda insisted the idea that the modification was not the initial step of policy normalization. He further explained that the reason for modification was identification of potential upside risks of inflation outlook.

Specifically, Governor Ueda expressed the idea that it would be too late to modify the YCC when upward pressure of long-term yields became apparent. Interestingly, he referred to the case of the modification in December last year.

In fact, Governor Ueda suggested the view that 10Y JGB yield would crawl within the target range ( $\pm 0.5\%$ ) as far as the economy and the prices would develop along the central scenario of the MPM. Readers should note that he may consider that domestic factors would be dominant drivers for future trajectory of long-term yield.

Moreover, Governor Ueda pointed out that both effects and side-effects of the YCC would simultaneously strengthen if the outlook of inflation improves. On the one hand, its policy effects becomes stronger as real long-term yield decreases. But on the other hand, its side-effects deteriorates as needs for market intervention increases.

According to his accounts, the intension of the modification was to improve balances of the above factors.

Lastly, Governor Ueda confirmed the view that it is basically difficult to conduct fine-tuning of the framework of the YCC. Nevertheless, he emphasized that preemptive action would be all the more important.

## Implementation of the modification

At the Q&A session, Governor Ueda expressed the optimistic view of the implementation, based on the benign view of the trajectory of 10Y JGB yield.

He further suggested that the BOJ would accept more the market dynamics of long-term yields. Nevertheless, he explained that the BOJ could conduct JGB purchase operations with market auctions even when 10Y JGB yield crawls within the range from 0.5% to 1%.

He suggested that the speed of change and the level of the yield would be key elements to decide market intervention. Moreover, he insisted that the BOJ would prevent 1% yield of 10Y JGB with active conducts of fixed-rate JGB purchase.

Finally, in reply to the question of a press reporter, Governor Ueda explained that the BOJ would modify the YCC further if the outlook of economy and prices improve further. He however avoided to mention its prospective points and explained that the details would depend on the overall economic conditions.

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