Notes on Financial Markets Vol.246

Press conference by Governor Ueda—Return to original strategy

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Introduction

The BOJ decided to maintain its policy rate at 0.25% at October MPM. Governor Ueda confirmed that our domestic economy had been on track of its outlook, and he explained that the expression of "enough time" was no longer necessary.

Assessment of economy

Governor Ueda confirmed the view that the domestic economy continued to recover moderately. He also expressed the view that our domestic economy had been on the track of the outlook. In fact, the revised quarterly outlook of real GDP growth rate remained virtually unchanged.

Moreover, the summary text explained that the assessment of risks by the MPM members were balanced in both directions. Nevertheless, the members continued to think that the development of overseas economies and their impacts on financial markets remained the major risk factor.

During the Q&A session, several reporters asks the outlook of the US economy. Readers may like to remember that Governor Ueda mentioned that it was the focus of attention at September MPM. He expressed more constructive view this time, although he was cautious about its downside risks due to laggard effect of monetary tightening.

Assessment of prices

Governor Ueda confirmed the constructive view of prices. Summary text of the outlook explained that both the virtuous circle between wages and prices and the improvement of GDP gap would support the increase in underlying rate of consumer price inflation, while upward pressures of import prices would diminish.

The revised quarterly outlook of core CPI inflation rate also remained virtually unchanged. It should be noted that small downward revision of the outlook for FY2025 was technically due to annual level effect of the policy measures to reduce energy prices this year.

All in all, Governor Ueda explained that the confidence in achieving the 2% target in later FY2025 remained unchanged. Summary text of the outlook refereed to the same set of risk factors including import prices, price/wage setting behaviors of firms and exchange rate and commodity prices. Moreover, the assessment of risks by the MPM members was tilted upward.

During the Q&A session, some reporters raised the sustainability of wage rises. Governor Ueda explained that recent indicators indicated some signs of stronger transfer of wage costs to service prices. He also appreciated that the annual rate of increase in total wage had been around 3%.

Furthermore, he expressed the view that a large labor union decided to request 5% wage rise at the next annual round of negotiation on the assumption of 2% inflation. It could be a sign of anchoring inflation expectation consistent with the BOJ's monetary policy strategy.

Nevertheless, Governor Ueda insisted that the rise in wages would not be a sufficient condition for the policy rate hike. Implicitly, he reaffirmed the idea that other factors including substantial rise in import price could also be the case for the next raise in policy rate.

Policy decision

While the policy decision by the BOJ at October MPM was widely expected by the economists and the markets, discussion at the Q&A session was active in several aspects.

First, the focus of attention was the suspension of the expression of "enough time". Governor Ueda explained that these words were specifically intended to mean that the BOJ should carefully monitor the economic outlook of the US before making its policy decision.

Moreover, he explained that recent economic indicators suggested that the downside risks appeared to diminish, and he mentioned that this was the reason that the expression of "enough time" was no longer necessary.

As the economists and the markets had appeared to understand that "enough time" might referred to cautious stance of monetary policy in broad sense, such explanation would be an issue of communication policy by the BOJ.

Nevertheless, the BOJ tried to return to the original strategy of monetary policy that the BOJ would gradually raise policy rate as long as the economy and the prices are on the track of the BOJ's outlook.

It should also be noted that the new phase to the summary text (confirming the cautiousness about overseas economies in general and their impacts of financial market) seemed to be intended for "soft-landing" of policy communication.

Accordingly, many reporters asked whether the BOJ would raise policy rate at December MPM. Governor Ueda avoided to make any specific comment. He insisted, however, that the BOJ would make policy decision on meeting-by-meeting basis based on incoming economic data.

Another focus of attention by reporters was implication of the result of Lower House election on last Sunday. Readers may like to remember that the existing coalition parties lost majority first time in decade. While the condition appears to be uncertain, domestic experts of politics seem to think that the minority cabinet would remain for the time being.

Some press reporters expressed concerns that the minority cabinet would have strong motivation for growth-friendly economic policy, requesting the BOJ to avoid further rate hike. The other reporters speculated that expansion of fiscal stimulus to enhance support from the general public could prevent appropriate monetary policy.

In reply to these questions, Governor Ueda claimed that the BOJ would conduct monetary policy according on the original strategy above. He added, however, the BOJ would take account of the effects of economic policy by the new cabinet if they are significant.

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