

Introduction

The BOJ decided to maintain its policy rate at 0.25% at December MPM. While Governor Ueda confirmed that our domestic economy are on track of its outlook, he explained that one more clue for confidence was necessary to raise policy rate.

Assessment of economy

Governor Ueda confirmed the view that the domestic economy continued to recover moderately. In fact, the text of policy statement virtually unchanged from the previous one in October.

He also reiterated the view that our economy would grow faster than its potential on the back of virtuous circle between income and expenditure under gradual recovery of overseas economies and accommodative financial condition.

During the Q&A session, several reporters asks the potential raise in import tariff by the new President of the US next year. Governor Ueda explained that the BOJ would take account of the economic impacts both directly and indirectly, while it was difficult both quantitatively and qualitatively until the details of policy measures and counter-measures become apparent.

Assessment of prices

Policy statement confirmed the constructive view that gradual rise in service prices on the back of wage rises sustained the inflation rate above 2%, despite the diminishing impacts of import price rises.

He also reiterated the view 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, and the policy target would be achieved in the later phase of the outlook period.

During the Q&A session, some reporters raised the sustainability of wage rises. Governor Ueda expressed the idea that the next round of negotiations for annual wages would provide the important information. He explained that its full-fledged information would be available in March or April.

Other press reporters asked the potential impacts of JPY rate on domestic inflation. Governor Ueda confirmed the view that the BOJ would watch it carefully, as the pass-through appeared to be stronger than in the past. Nevertheless, he referred to the fact that rate of increase in import prices crawled around 0% recently.

Policy decision

Governor Ueda insisted the policy strategy that the BOJ would gradually adjust the magnitude of monetary easing as far as the economy and the prices are on track of its outlook.

He also explained that the timing of policy rate hike would depend on careful assessment of data and information at every MPM. Specifically, he referred to the momentum of wage rises and the uncertainties of overseas economies, including the potential impacts of new economic policy measures in the US, as the key factors.

In the meantime, readers may like to remember the evolution of market outlook of the policy decision at December MPM.

The expectation of the rate hike had been stronger after Governor Ueda's interview released late November, probably because the market focused on his vigilance against the upside risk of inflation by potential depreciation of JPY rate. Nevertheless, such expectation rapidly diminished after the release of some press reports suggesting the cautious stance in the BOJ. .

Accordingly, number of press reporters asked the reason to maintain the policy rate this time, when the BOJ admitted that the economy and the prices are on track of its outlook. They also argued that the magnitude of uncertainties would remain unchanged in coming months.

Governor Ueda reiterated the idea that the BOJ needed more confidence of the sustainability of the wage rises and the gradual recovery of overseas economies. Regarding the first factor, he used the term of "one more notch" as necessary strength of confidence.

He also explained that the BOJ could decide a policy rate hike even when the relevant information would not become comprehensively available, because the BOJ could take check the consistency with other broad-based data.

Regarding the dialogue with the market, Governor Ueda claimed that the uncertainty of timing of next rate hike were caused by the fact that the BOJ needs to make decision based on insufficient set of information at every MPM.

Many of other press reports asked the pace of policy rate hike in coming months.

Governor Ueda reiterated the idea that the BOJ would gradually adjust the magnitude of monetary accommodation according to gradual improvement of underlying rate of inflation as well as inflation expectation.

Moreover, he expressed the view that these factors had been on the upward trends, but they were not consistent with 2%inflation target yet. He also explained that the BOJ would take account of the risk of faster pace of monetary tightening in the future due to excessively slow pace of rate hike.

Monetary policy review

The BOJ released the result of monetary policy review. It covers the evolutions of the economy and the prices during the past 25 years and discusses the impacts of monetary policy, specifically the unconventional measures.

According to its summary, the major points of its message appears to be consistent with the widely shared understanding in Japan. Nevertheless, it is worth noting as the official confirmation that effects of unconventional measures on inflation expectation was not as strong as expected, and that their side-effects were not negligible.

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