

## Introduction

The MPM of the BOJ decided to maintain the current strong policy package unchanged at its regular meeting. Moreover, their new economic outlook reiterated the constructive views of our economy in coming years.

## Outlook of economy

New outlook of real GDP growth rate from FY2020 to FY2022 is ▲4.7%→+3.3%→+1.5% as the median of forecasts by the MPM members. It is not directly comparable with the previous outlook in April, as it was allowed to include larger margins. Nevertheless, Governor Kuroda explained that the overall scenario of our economy in coming years remained broadly the same with a slight negative revision for FY2020 and marginally positive revision for rest of the forecast period.

While the summary text of the outlook confirmed the severe impact of our economy so far, both due to domestic and overseas factors, Governor Kuroda pointed out some positive signs. These included the rapid recovery of goods consumption by households and the resiliency of business investments. He also explained that the signs of earlier recovery than previously expected seemed to be shared among major economies.

The MPM of course maintained the cautiousness about high uncertainties of economic recovery, and their assessment of risks remained tilted downward. According to the summary text, the major risk factors would be the future courses of longer-term growth expectation and of functions of financial intermediation.

In reply to the question, Governor Kuroda expressed his view that our economy had already hit the bottom. Nevertheless, he explained that the current pace of recovery would not be sustainable, and this is the reason why the gradual recovery would be the most plausible scenario.

A number of reporters expressed concerns about a sign of increase in infections recently. Governor Kuroda denied the possibility of its considerable implications for economic recovery, by referring to the fact that the ratio of infection to the population has been contained in most of the large economies, especially in Asia and Europe.

Other press reporters raised the risk of diversified recoveries across the regions due to the features of industry structures. Readers may like to note that the introduction of support program of domestic tourism has caused the debate among general public. Governor Kuroda expressed his view that the overall feature of economic recovery has been broadly shared nationwide with the reference to the discussion at the recent branch managers' meeting.

## Outlook of prices

New outlook of core CPI inflation rate from FY2020 to FY2022 is ▲0.5%→+0.3%→+0.7% as the median of forecasts by the MPM members. While this is not directly comparable with the previous outlook again, these numbers broadly fall in the centers of forecast ranges at the time of April MPM.

The summary text reiterated the same scenario as in the previous outlook. While the MPM admitted the possibility of

negative rate of inflation for the time being due to lower energy prices and sudden reduction in domestic demands, they expected the gradual acceleration in inflation rate as our economy gradually recovers.

Some press reporters asked about its implication for inflation expectation. Governor Kuroda confirmed that price-setting practices by firms under the covid-19 would have significant implications for the future course of inflation, and the members of MPM maintained the assessment of risks tilted downward.

Governor Kuroda, however, claimed that long-term expectation of inflation remained broadly stabilized, and reiterated the view that the risk of deflation would be minimal.

## Effects of policy measures

As the MPM did not change the current policy, a number of reporters asked about the effects of policy program so far. Governor Kuroda showed strong confidence in the effectiveness for stabilizing the financial system and maintaining the flows of credits to firms.

With regard to its potential side-effects, a reporter raised the concerns about financial support to non-viable firms. Governor Kuroda denied such risks in the current circumstance, because the banks have cautiously reviewed their potential borrowers in terms of their sustainability. Moreover, he explained that, if the solvency of firms would become broader issue due to slower economic recovery, policy measures could be done by the government.

Flip side of the issue would be the sustainability of financial intermediation. In fact, the summary text pointed out that it would be one of the factors of downside risk of our economy. Governor Kuroda, however, expressed the constructive view of this issue, and confirmed that our banking system would remain resilient.

## Implication of Hong Kong issue

Interestingly, a couple of reporters raised the issue of Hong Kong. One of their question was related to its implications for the financial stability in the Asian region. Governor Kuroda avoided the direct comment, but he mentioned that the BOJ would keep watching the situations carefully.

The other question was the potential implication of US-China relationships. While Governor Kuroda declined to make comment as a BOJ official, he expressed his view as the former president of the ADB. Specifically, in light of the existence of major trade agreements among a number of large economies, he expected that the trend of globalization would not be reversed. This would of course be a life-line of our economy.

**Author: Tetsuya Inoue**

**Chief Researcher**

**Financial Market and Innovation Research Department**

**Nomura Research Institute**

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