

Introduction

The MPM of the BOJ decide to maintain its accommodative policy, and made the upward revision of their economic outlook, taking into account of the impacts of fiscal stimulus by the government. Nevertheless, they maintained cautiousness about the downside risks.

Assessment of economy

Summary text of the new outlook expressed the constructive views of external demands.

While it suggested that the exports could be weak for the time being, it expected the gradual recovery, thanks to the macro-economic stimulus in overseas economies and improvements of IT-cycle. According to the MPM's view, such favorable developments would lead to the recovery of industrial production.

They also pointed out the resiliency of domestic economy. Among all, they expected the continuous expansion of business investment even after 2020 Olympic Games, due to the firms' strong interests in urban-reconstruction projects, labor-saving technologies, and R&D activities.

Moreover, they maintained confidence in the resiliency of household consumption with reference to the positive cycle from earnings to expenditure. With regard to the recent weakness of relevant indicators, summary text explained that they would be largely due to temporary factors including a series of natural disasters and leads-and-lags reaction to the consumption tax hike.

On top of these factors, the MPM took into account of the effects of fiscal stimulus. Interestingly, its effects would be allocated for coming years, because of the policy mix between the infrastructure investments and the measures to enhance macro-economic productivity.

All in all, the new outlook of real GDP growth rate from FY2019 to FY2021 is +0.8%→+0.9%→+1.1%, in comparison with +0.6%→+0.7%→+1.0% at the time of October MPM.

Outlook of prices

In contrast, the new outlook of core CPI inflation rate from FY2019 to FY2021 is +0.4%→+0.9%→+1.4% if the impacts of consumption tax hike and free education policy are excluded. For your reference, the previous outlook at October MPM was +0.5%→+1.0%→+1.5%.

Summary text of the outlook reiterated several structural factors that would have continuous downward pressure on the inflation. Moreover, it explained that such small downward revision of the inflation outlook was due to the carried-over effects of low oil prices in the past.

A few press reporters asked about the consistency of upward revision of economic outlook on the one hand, and downward revision of inflation outlook on the other hand. Governor Kuroda confirmed the technical reason above, and expressed his view that the outlook remained mostly unchanged.

While it might be strange to expect slower rate of inflation in spite of the expected improvement of GDP gap, it could be rather argued that the combination of the growth rate and the inflation rate has become more consistent.

Discussion on side-effects

Some other press reporters raised the issue of side-effects. One point of focus was the cost and benefits of NIRP. Press reporters suspected the negative impacts on financial intermediation would have become stronger, and asked about the implication of the exit from NIRP by the Riksbank.

Governor Kuroda confirmed the view that its benefits are still larger than its costs. He insisted that the commercial banks maintain strong capital positions as a whole, and the bank lending keeps expanding gradually but securely.

Another point of focus was the appropriateness of long-term yields. With regard to the correction of 10Y yield since last fall, Governor Kuroda explained that it was consistent with the idea of the YCC that allows some fluctuation of 10Y yield around the target level.

Interestingly, Governor Kuroda also explained his view that JGB yields with longer than 10Y maturity still seemed to be somewhat low. It is consistent with his previous comment that he would welcome somewhat steeper yield curve, in order to avoid the negative impacts on retail savers.

Risks of the outlook

In spite of the overall constructive tone of the outlook, the MPM reiterated cautious view that risks of economic activities and inflation dynamics were still tilted downward.

In reply to the questions by press reporters, Governor Kuroda explained that the level of uncertainties about overseas economies remained elevated, despite recent improvements. Moreover, summary text of the outlook suggested that there remained uncertainties about the transmission from GDP gap to inflation due to a range of structural factors.

While such cautious stance is shared with the overseas central banks, observers might suspect the policy intension. Under the main scenario, we could enjoy relatively high rate of growth for coming years, with gradual acceleration of inflation rate. Stabilization of market expectation about policy strategy would become more important.

Lessons from “low-for-longer”

During the Q&A session, Governor Kuroda raised three major points. First, it is extremely important to avoid such situation, because it becomes hard to remove “deflationary minds”. Second, prevention of financial excess is also very important, because the collapse of financial bubble could be one of the causes of such situation. And third, stimulation of potential growth is required to exit from such situation, by way of stronger transmission of policy effects.

Author was personally relieved at this line of argument.

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