

Introduction

The MPM of the BOJ decided to keep their monetary accommodation unchanged. In the meantime, they slightly upgraded the economic outlook for FY 2019, but expressed somewhat dovish outlook of inflation outlook both for FY 2019 and FY 2020.

Interestingly, however, attention by the press reporters focused on the fact that the MPM dropped its reference to the expected time of achieving the inflation target.

Outlook of economy and prices

Before discussing the focused issue, I would like to review their revised outlook. Median of outlook of real GDP growth rate from FY 2018 to FY 2020 is +1.6%→+0.8%→+0.8%. In comparison, previous outlook was +1.4%→+0.7%.

Summary note of their new outlook suggests that most important reason is the upward revision of external demands thanks to improvements of global economic developments. According to their view, it would create a virtuous circle leading to increase domestic business investment. The MPM expects such increase in demands could offset the potential negative impact by consumption tax hike to some extent.

Trajectory of economic outlook implies that the MPM expects gradual deceleration of growth rates to our estimated potential growth rate. This is the important background of their outlook of gradual acceleration of inflation in coming years. In fact, median of outlook of core CPI inflation rate from FY 2018 to FY 2020 is +1.3% → +1.8% → +1.8% respectively, largely unchanged from their previous outlook (+1.4%→+1.8%).

While the lists of risk factors in summary note also remained broadly unchanged, their risk balance charts of both real GDP growth rate and core CPI inflation rate indicate that larger number of the MPM are conscious of downside risks than at the previous case. With this respect, Governor Kuroda suggested at the press conference that they would become less confident in the transmission mechanism from tightening GDP gap to inflation rate.

All in all, while the MPM would become slightly bullish about short-term growth prospects, they would be modestly less confident in medium term improvement of inflation rate.

Expected time of achieving the target

Abandonment of reference to expected time of achieving the 2% inflation target by the MPM attracted substantial attention by press reporters today.

From technical point of view, it has become difficult to keep such reference in summary text, because the ranges of the MPM's inflation outlook (as reviewed above) for FY 2019 and FY2020 could not reach 2%.

Nevertheless, press reporters speculated the reason for such modification of policy communication. Several of them suspected that the abandonment could lead to the downplay of 2% target as long-term goal rather than imminent target to pursue. Others expressed concerns that such abandonment

could undermine the commitment by the BOJ to pursue the 2% inflation target. Moreover, a few reporters raised concerns that such suspension of reference could imply the losing confidence by the MPM in achieving the target within a reasonable time frame.

In reply to these questions, Governor Kuroda insisted the idea that the MPM would like to prevent the outlook to result in speculation about prospective policy action. In fact, readers may remember that every time the MPM postponed the expected time of achieving the target, the markets expected additional actions of accommodative monetary policy. Governor Kuroda specifically claimed that they would like to cut the inappropriate linkages between them.

Moreover, Governor Kuroda explained that, in early years of the QQE, the BOJ tried to achieve the 2% inflation in relatively short-period of time. But he confirmed that the MPM effectively modified the strategy since then. In fact, the MPM would maintain the magnitude of accommodative policy unless the momentum of economy activities apparently would decelerate. Put differently, any additional action to enhance monetary easing would require considerable slowdown of inflation outlook.

Finally, Governor Kuroda strongly confirmed that such failure to refer the specific timeframe would never mean that the BOJ would abandon the 2% inflation target altogether.

The live webcast of today's press conference suggests that there remained a divergence in the views on the intension of the MPM.

On the one hand, some press reporters seemed to think that the MPM would lose confidence in achieving the target within several years. If it would be the case, the MPM could effectively claim that achieving the target could not be expected during the current economic cycle. On the other hand, some press reporters appeared to understand that the MPM would secure some flexibility of monetary policy management regardless of short-term developments of inflation outlook.

In my view, the latter line of thoughts seems to be more consistent with Governor Kuroda's comments above. The MPM could claim that maintaining the current stance of accommodative policy would be appropriate in light of the balance of benefits and costs, unless our economy is hit by another round of shock. Furthermore, it could be the message of Governor Kuroda not only to the markets but also to members of the policy board.

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