

Introduction

The MPM of the BOJ today decided to maintain the current policy package against the downward economic impacts of the Covid-19. Meanwhile, they made modest upward revision of their economic outlook for coming fiscal years.

Outlook of economy

Governor Kuroda admitted that the recent measures to prevent further increase in the number of infection would have negative impacts on the consumption expenditures and the specific areas of business.

Nevertheless, he reiterated the constructive views from medium-term perspectives. He heightened the gradual recovery of overseas economies and its positive spillover effects on exports and industrial production, and expected the policy effects of a series of emergency measures by the government.

In fact, the revised outlook of real GDP growth rates for FY2020 to FY2022 is ▲5.6%→+3.9%→+1.8%. In comparison with the previous one (as of October 2020), outlook for both FY2021 and FY2022 were revised up (0.3pp and 0.2pp) respectively, while outlook for FY2020 was marginally revised down (by 0.1pp).

A few reporters asked whether the recent negative impacts were appropriately reflected in the revised outlook. Governor Kuroda pointed out that the economic recovery until recently had been stronger than previously expected, and explained that the current weakness of consumption would partly be compensated by increased fiscal expenditures.

Outlook of prices

The MPM also maintained the medium-term constructive outlook of prices. The revised outlook of core CPI inflation rates for FY2020 to FY2022 is ▲0.5%→+0.5%→+0.7%. Outlook for both FY2020 and FY 2021 were marginally revised up (by 0.1pp respectively).

Summary text of the outlook maintained the same set of temporary downward factors (impacts of earlier drop in energy prices and government support for tourism and restaurants) as well as that of medium-term upward factors (improvement of aggregate demand/supply condition).

A press reporter expressed the suspect that the recent downturn of economic activities could have a severe impacts on prices. Governor Kuroda denied such causality and explained that pricing behavior of firms would not seem to change, as expected elasticity of consumer demand would remain low under the current social circumstances.

Another press reporter suggested more cautious view of inflation from medium-term perspectives with reference to the estimated negative GDP gap for two consecutive quarters and the further decrease in estimated potential growth rate.

While Governor Kuroda admitted that these two factors are the important determinant of medium-term inflation, he implied the view that their estimation may have become difficult under such unprecedented economic circumstance. Moreover, he maintained the constructive view that the positive economic outlook by households and firms remain intact, in light of strong economic recovery later last year.

Review of policy strategy

A number of press reporters raised this interesting issue. Readers may like to remember that the BOJ is conducting the review of policy strategy, and will announce the result after March MPM. Governor Kuroda explained that the staff reported the outline of the review to the MPM members today.

He reiterated that the focus would be the effects of the YCC and asset purchase programs since 2016, and explained that the purpose of the review would be to enhance the effectiveness of policy measures with minimizing the side-effects. Moreover, he insisted the significance of enhancing the flexibility against the evolution of our economy.

Regarding the potential contents, current gyration of the market attention is potential modification of management of the target yield of 10Y JGB. Readers would like to note that some financial media reported last week that the BOJ might broaden the target range.

In fact several reporters asked either if such modification would be the case or if the MPM would favor the steeper shape of the yield curve. While Governor Kuroda avoided to make comments on the speculation, he reiterated the idea that excessive low long-term yield would rather be harmful as it could deteriorate the return of pension fund investment.

At the same time, he insisted that the maintenance of low and stable yield curve would be important under the current economic environment. It should be noted that Governor Kuroda explained last year that it would be important not only for households and firms but also for the government.

With regard to NIRP as a part of the YCC, a reporter expressed skeptic view of its effectiveness and suggested the revision at the review. Governor Kuroda explained that the management of NIRP would be discussed, but confirmed the view that its effects have been larger than its side-effects.

Another focus of market attention to the review is potential modification of ETF purchase. Readers may like to remember that Governor Kuroda reconfirmed the positive view of its effectiveness at the last press conference, while he admitted that this policy instrument is unconventional.

In reply to the question by a reporter, Governor Kuroda avoided to make any specific comment on the modification, while he admitted the issue would be covered by the review.

Most important issue would be whether the BOJ actually adjusts the policy parameters according to the result of the review at March MPM. Governor Kuroda declined again to answer such question by another press reporter.

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