

## Introduction

The MPM of the BOJ kept its accommodative policy unchanged. While their upward revision of economic outlook was notable, focus of the attention at the press conference today was persistently low inflation outlook.

## Assessment of economy and its outlook

Summary text of the outlook released today indicated that the MPM became more confident in the momentum of economic recovery from medium-term perspectives.

In fact, the MPM was aware of downside risk in the near-term. Governor Kuroda admitted that there would be a risk of further delay in recovery of services for individuals, in light of the current enhanced measures to contain the Covid-19.

Nevertheless, Governor Kuroda emphasized that medium-term economic recovery would be supported by faster pace of overseas economic recovery, accommodative financial conditions and economic policy measures by the government.

Interestingly, he showed confidence not only in the sustainable expansion of external demand and industrial production, but also in the recovery of business investment due to the improvement of corporate profits and the resilient confidence. Moreover, summary text of the outlook expressed positive views of consumption expenditure, once the Covid-19 is contained.

The MPM's new outlook of real GDP rates from FY21 to FY23 is +4.0%→+2.4%→+1.3%. Expected rate of growth for FY22 is upgraded by 0.6pp from the previous one (as of January), and that for FY23 is faster than our potential growth rate.

At the press conference, a reporter asked whether the wider divergence of economic outlook among the advanced economies was due to the difference in the pace of vaccination. While Governor Kuroda admitted that the pace of containment of Covid-19 would be a factor, he expressed the view that they would be more related to structural factors.

Another interesting question by other reporter was whether the tension between the US and China might affect the pace of global economic recovery. Governor Kuroda explained that it would not be a central scenario, while it could be a risk.

## Assessment of prices and its outlook

In contrast of the improved economic outlook, the MPM's new outlook of prices remained subdued.

While the articles of domestic economic press highlighted the substantial downward revision of expected rate of inflation for FY21, summary text explained that it was largely due to the downward revision of cellphone service prices. In reply to a question by a reporter, Governor Kuroda suggested that the estimated magnitude of impact would be 0.5pp to 1.0pp.

Nevertheless, more important issue was the persistently cautious outlook of inflation by the MPM from medium-term perspectives.

The MPM's new outlook of core CPI inflation rates from FY21 to FY23 is +0.1%→+0.8%→+1.0%. Readers may like to note that the previous one (as of January) from FY21 to FY22 was +0.5%→+0.7%.

Divergence of outlook between growth rate and inflation rate implies the flatness of Philips Curve, while summary text suggested that the downside risk would be contained as firms would not try to attract demand by cutting their prices further (as the elasticity of demand would remain lower until Covid-19 is contained).

A number of reporters raised the issue of low inflation. Among all, some of them expressed skeptic views on the effectiveness of the QQE with the YCC for achieving the inflation target. One of them asked whether the MPM could modify the target to more "realistic" one.

Moreover, other several press reporters asked about the expected time of achieving the target. Readers may like to remember that the current term of Governor Kuroda terminates in the beginning of FY23.

Governor Kuroda confirmed the view that the QQE with the YCC has been effective as evidenced by a set of economic analyses released at the "assessment" of monetary policy at March MPM.

Specifically, Governor Kuroda explained that the QQE with the YCC maintained accommodative financial condition, positive GDP gap and small but positive rate of inflation until the contagion of the Covid-19.

He also reiterated the view that adaptive formation of inflation expectation has functioned as downward factors for setting prices by firms, while he expressed the hope that it could function in the opposite direction once actual rate of inflation becomes higher.

Moreover, Governor Kuroda confirmed the significance of maintaining 2% target. He explained that no major central banks abandoned 2% target, in spite of underperformance of inflation since the GFC. Moreover, he expressed the idea that sharing 2% target among major economies has contributed to stability of foreign exchange rates.

Lastly, he confirmed his term as Governor would have no relation with achieving the target.

## Assessment of financial condition

In reply to a question, Governor Kuroda confirmed the idea that the MPM would be ready to extend special fund provisions against Covid-19, if financial stress on the firms of services for individuals remains later this year.

Governor Kuroda also appreciated the new practice of quarterly reports of financial system by the staff, as a result of the "assessment" of monetary policy. While he confirmed that maintenance of financial stability is the matter of prudence policy, it would be crucial for effective transmission of monetary policy effects.

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