

Introduction

MPM of the BOJ decided to maintain its accommodative policy at its June meeting today. Governor Kuroda insisted the significance of policy support for economic recovery.

Assessment of economy

Governor Kuroda confirmed the view that economic recovery remained intact. He showed confidence in resilience of consumption on back of diminishing impacts of pandemic. He also pointed out that recovery of business investment has been on track thanks to elevated level of corporate profits.

Nevertheless, he noticed that exports and production have been affected by renewed supply constraints, and that improvement of corporate sentiment has paused. All in all, he indicated the downside risks in the near-term, but remained confident in underlying momentum of recovery.

While he expected positive contributions by external demand and policy support, he admitted high uncertainties about economic outlook, due to developments of pandemic, Russia's invasion, commodity prices and global economy.

Assessment of prices

Governor Kuroda expressed the view that CPI inflation rate would crawl above 2% for the time being, mostly because of the rises in energy and food prices. Nevertheless, he reiterated the outlook that the inflation rate would decelerate afterwards due to diminishing contribution of energy prices.

It should be noted that he maintained the constructive view of gradual acceleration of underlying inflation on back of improvement of inflation expectation and GDP gap as well as increase in nominal wages. The policy statement pointed out the recent increase in shorter-term inflation expectation.

Several press-reporters asked the views of acceptance of general public to transfer of higher input costs by firms. Readers may like to remember that his comments on this issue at the parliament earlier last week triggered strong criticism among general public.

Governor Kuroda explained that he understood that people accept higher cost of living reluctantly, and he intended to express the observation that firms appear to be more willing to raise the prices of goods and services than in the past. Moreover, he insisted that improvement of nominal wages have been crucial under the current environment. While he noticed some good signs of annual revisions of base salary and summer bonus, he was not satisfied with them.

From broader perspectives, Governor Kuroda insisted that current rise in inflation would not be desirable, as it deteriorates terms of trade and real purchasing power. He would rather hope to see a kind of inflation driven by positive GDP gap and improved inflation expectation.

Discussion on foreign exchange rates

Readers may like to remember that an important source of criticism of the monetary easing has been substantial depreciation of JPY. Opponents claim that it caused downward pressures on our economy through deteriorated terms of trade. It should also be noted that a new sentence

was added to the policy statement, underlining the importance to pay close attention to developments of financial and foreign exchange market.

A number of press reporters raised this issue. First of all, Governor Kuroda claimed that foreign exchange rate should be consistent with economic fundamentals, but declined to discuss whether the current level was the case. Nevertheless, he reiterated his recent line of argument that rapid depreciation of JPY would be harmful to our economy as firms face difficulties in managing their business plans.

Moreover, he explained that close monitor of exchange rates would be important because their developments would affect economic activities, but not because foreign exchange rate is the target variable of monetary policy. He also claimed that foreign exchange rates are driven by a number of factors that includes interest rate differentials.

Monetary policy

There have been some waves of upward pressures on JGB yields since the middle of February. The source of the most recent round was market speculation of "adjustment" of monetary easing following the policy actions by overseas major central banks.

Focus of the discussion in the market has been the management of fixed-rate purchase operations of JGBs. In fact, many press reporters raised this issue. Governor Kuroda noticed that there has been some divergence of developments between cash and futures markets of JGBs, and explained that it was the reason to introduce a new purchase operation of 7Y CTD notes.

Nevertheless, he reiterated the confidence in maintaining the position and shape of JGB yield curve consistent with the current monetary easing, as the BOJ could utilize flexibility of operations. Moreover, the BOJ could minimize the distortions of market functions by way of conducting their policy measures including securities lending facility.

As a result, he clearly expressed the skepticism about potential widening of the target zone of 10Y JGB yield, or suspending the guidance of JGB yield altogether. Specifically, he explained that econometric analysis at the time of monetary policy assessment in March 2021 suggested that volatilities of 10Y JGB yield within the range of 50bp would not be harmful to economic activities.

All in all, he reiterated the idea that maintenance of monetary easing remained crucial for economic recovery. He also clearly denied the speculation that there would be a limit of maintenance of the target yield or there emerges divergence of opinions among executive members of the BOJ.

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