

Introduction

MPM of the BOJ kept its accommodative policy unchanged. Their policy statement, however, expressed concerns about negative economic impacts by rising energy and commodity prices. As a result, Governor Kuroda denied rationale for policy normalization.

Assessment of economy

The MPM made a modest downward revision of recent developments of household expenditures due to surge in the number of infections in earlier month. In the meantime, Governor Kuroda pointed out that corporate profits and appetite for business investment remained resilient.

Regarding potential impacts by the Russian invasion of Ukraine and the economic sanction measures, Governor Kuroda raised three channels. He explains that the effects through the first channel – pushing up energy and metal prices - would be most crucial to Japan, as they would deprive our real purchasing power.

According to his comment, the effects through the second channel – disruption of supply chain - would be indirect, in light of our small relationship of trade against Russia. Lastly, the effects through the third channel – unstable financial markets – would remain uncertain and could have negative implications for sentiment of household and firms.

All in all, the policy statement admitted that these impacts on our economy remained highly uncertain.

Assessment of prices

In contrast, the MPM made a clear upward revision of near-term outlook of inflation. Governor Kuroda reiterated the view that there had been some positive signs of inflation in earlier months, thanks to gradual improvement of aggregate demand and nominal earnings. Readers may also like to remember that downward level effect by reduction in cellphone service prices would disappear in next month.

Nevertheless, Governor Kuroda explained that the dominant part of recent inflation have been contributed by rising energy and commodity prices. Moreover, it would be apparent that escalation of the invasion could cause additional upward pressures on those prices.

It should be noted that Governor Kuroda claimed that such inflation is undesirable, as both real purchasing power of households and profit margins of firms would be reduced.

During the Q&A session, a number of press reporters raised the issue of substantial depreciation of JPY. Governor Kuroda reiterated the view that the dominant part of current import-price inflation has been caused by rises in international prices (in USD terms) of energy and commodity.

Moreover, he argued that, even when taking account of deteriorating terms of trade, net economic effects of depreciation of JPY remained positive, as returns of overseas investments would be inflated in JPY terms.

He also expressed his view that rises in energy and commodity prices would not be sustainable, taking account of their future prices. If this would be the case, their contributions

to inflation rate would diminish, regardless of their levels.

Lastly, in reply to the question by a reporter, Governor Kuroda appreciated the significance of temporary subsidy on gasoline prices. He claimed that it would be important to reduce the burden of inflation on households and firms, in spite of its effective transfer of burdens to fiscal condition.

Policy normalization

Several press reporters asked Governor Kuroda about the BOJ's reaction to a potential achievement of 2% inflation. In fact, Governor Kuroda admitted the possibility that the headline CPI inflation rate could become close to 2% in coming months due to the factors discussed above.

Nevertheless, Governor Kuroda clearly and strongly denied the possibility that BOJ would start normalizing monetary policy accordingly. As is obvious from his discussion on the current inflation, he argued that rise in import inflation rate would rather undermine the momentum of recovery of domestic demands. As a result, he also argued that accommodative monetary policy would remain significant.

Interestingly, Governor Kuroda suggested that the BOJ could modify the monetary policy, if and when rapid rise in nominal earnings, their second-round effects on prices, and associated acceleration in inflation expectation are observed.

While they have not been the case in recent years, there emerges modest hope for larger increases in nominal earnings this year. In addition to favorable conditions of corporate profits especially among manufacturing firms, strong policy initiatives to promote wage increase have been conducted by PM Kishida.

Governor Kuroda agreed the view that the annual revisions of nominal wages by large firms have shown good performances so far. Nevertheless, he seemed to remain cautious whether upward revision of nominal wages would be share among broad range of firms or not.

Several other press reporters expressed the concerns that divergence of policy stance between the BOJ and the major central banks could reinforce the upward pressures of import prices through further depreciation of JPY.

Governor Kuroda denied such concerns again. He reiterated the idea that foreign exchange rates are driven by broad – range of factors, and the interest rate differential is not the solely strong driver. Moreover, he claimed that the BOJ should not conduct a policy action with this regard, because the foreign exchange policy is the responsibility of the MOF.

From longer-term perspectives, Governor Kuroda expressed his idea that convergence of 2% inflation target among major economies may have contributed to stability of nominal exchange rates for years.

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