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Press conference by Governor Kuroda — Greater possibility

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Introduction

MPM of the BOJ today kept its current accommodative policy unchanged as majority of the markets had expected. They also maintained the constructive outlook of economy and prices at its quarterly review. Nevertheless, the new sentence in the policy statement reiterated the readiness to act, on the back of increased downside risks in overseas economies.

New outlook

Medians of the new outlook of real GDP growth rates from FY2019 to FY2021 were +0.7% → +0.9% → +1.1%. In comparison with the previous one in April, outlook for FY2019 and FY2021 were revised down by both 0.1pp.

It should be noted, however, that the revisions were marginal and that MPM effectively expected our economy would move along the path of potential growth. In fact, summary text of the outlook suggested the constructive views of economic activities of firms and household in domestic economy.

It was also the case with the new outlook of inflation. Medians of expected rate of CPI inflation (excluding the impacts of consumption tax hike and introduction of free education) from FY2019 to FY2021 were +0.8%→+1.2%→+1.6%. For FY2019 and FY2020, the outlook was revised down by 0.1pp respectively.

Nevertheless, summary text noted that the risks of economy and prices were still tilted downward, and their uncertainties had increased since the previous quarterly review in April. Readers could identify the increased number of downward triangles in the "risk balance charts" attached to the outlook.

While the text highlighted protectionism as the main driver, Governor Kuroda referred to a broader range of issues including geopolitical risks, uncertainty about Brexit, and risks of underperformance of economic stimulus in China.

At the press conference, several reporters asked Governor Kuroda about the reason of maintaining constructive outlook in spite of identification of larger risks. Governor Kuroda referred to the fact that the most recent WEO by the IMF kept its gradual recovery scenario, and explained that such constructive view was shared as the main scenario in the international financial community.

Policy stance

MPM added a sentence to the policy statement, reiterating the readiness to take additional measures without hesitation. It also referred to their view that downside risks to economy and prices mainly regarding overseas economies were significant.

According to this sentence, the condition to act was a greater possibility of losing momentum toward achieving the inflation target. While Governor Kuroda has insisted the readiness to conduct additional stimulus if the momentum is lost, he explained that this sentence implied enhanced readiness. The BOJ is ready to conduct additional monetary stimulus if they identify the greater risk of losing momentum.

It was uncertain whether press reporters distinguished this kind of fine tuning of the communication. Nevertheless, a number of reporters asked Governor Kuroda about its intension to introduce this new sentence.

First of all, Governor Kuroda insisted that MPM shared the view that the momentum of inflation toward its target was maintained, although its pace was slow. Accordingly, Governor Kuroda effectively implied that the additional stimulus would not be imminent. Reporters would identify the different sense of urgency between the ECB and the BOJ in terms of additional stimulus.

Governor Kuroda, however, confirmed the view of MPM that downside risks of prices had become larger, and referred to the concern that prolonged period of high uncertainties could have impacts on inflation dynamics.

In reply to the question by a reporter about potential indicators of inflation momentum, Governor Kuroda raised the GDP gap and inflation expectation. Needless to mention, they are two major variables of Philips Curve. Governor Kuroda confirmed the idea that the BOJ should maintain the positive GDP gap by persistent maintenance of the QQE, and try to sustain the inflation expectation by strong commitment in accommodative policy.

Interestingly, a press reporters asked about "Japanization" in the US and Europe regarding the underperformance of inflation in achieving the target. According to the comment by Governor Kuroda major central banks would share the view that we should avoid low growth and low inflation situation as our economy from 1998 to 2012.

Governor Kuroda, however, explained his view that current downward pressures of prices are shared among major economies, and their major drivers include digitalization and globalization of economy and carried over effects of the global financial crisis.

Policy tools

While press reporters seemed to understand that the additional stimulus by the BOJ would not be imminent as long as our economy goes along their main scenario, they showed interests in potential tool kits of monetary stimulus.

Governor Kuroda reiterated his previous comment in late June that the BOJ could reduce O/N policy rate and target yield of 10YJGB, and enhance its asset purchase and supply of monetary base. He also explained that potential venue of policy transmission would be reduction in real yields and risk premium of asset prices.

In light of the current practice of QQE, managing risk premium could be an easier task by modifying their asset purchase. In contrast, affecting real yields could be a difficult task, unless the inflation expectation is anchored. With this regard, prolonged period of uncertainties, even if they do not cause substantial damage on economic activities, could still be a problem for the BOJ's policy.

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