

## Introduction

The MPM of the BOJ maintained the QQE with YCC at its April meeting. According to their new outlook, achievement of inflation target until FY2025 would be less probable. Meanwhile, the announcement of the review of monetary policy for 25 years attracted attention by press reporters.

## Assessment of economy

Governor Ueda confirmed the constructive view of our economy. While the current momentum of economic activity has been moderate due to loss of real purchasing power of households, he expected somewhat faster pace of economic growth since late FY2023 on back of virtuous circle between income and expenditure by both households and firms.

New outlook of real GDP growth rates from FY2023 to 25 was +1.4%→+1.2%→+1.0%. Outlook for FY2023 was revised down by 0.3pp from the previous one at January, while the previous that for FY2024 was revised up by 0.1pp. In any case, the MPM expected that the growth rate would remain slightly above its potential for coming years.

## Assessment of prices

Governor Ueda maintained the short-term cautious view, but he confirmed the medium-term constructive view.

In terms of the former, he expected that the effects of diminishing transfer of higher import costs would decelerate the inflation rate to lower than 2% in the 2H of FY2023. Nevertheless, the inflation rate would gradually accelerate due to improving GDP gap as well as modification of behavior of firms and households against prices and wages.

New outlook of core CPI inflation rates from FY2023 to 25 was +1.8%→2.0%→+1.6%. Outlook for FY2023 and FY2024 were revised up by 0.2pp respectively from the previous ones at January. Governor Ueda cautioned that the inflation rate for FY2024 would be supported by level effect by suspension of policy measures to reduce energy prices in FY2022.

Several press reporters asked whether the new outlook implied the effective achievement of inflation target in FY2024. Their implicit assumption was substantial upside risks of inflation in FY2022. Governor Ueda denied such view, with reference to high uncertainties about the recovery of inflation rate in FY2024.

Other press reporter asked if there is a meaningful indicator of underlying inflation. Governor Ueda expressed the negative view. He rather mentioned that medium-term outlook itself could be a useful proxy, as it is estimated by removing variety of temporary factors.

## Decision of monetary policy

Governor Ueda insisted the idea that the risk of failure to achieve 2% inflation due to policy rate hike too early remained larger than the risk of higher inflation due to policy rate hike too late.

Moreover, in reply to the concerns by press reporters about loss of real purchasing power of households because of current inflation, Governor Ueda claimed that deceleration of inflation in coming months coupled with rising nominal wages would improve real earnings of households. He further

expressed positive view that such effects would support growth of consumption.

Interestingly, only a few reporters raised the issue of modification of the YCC. Governor Ueda explained that conditions have somewhat improved due to diminishing upward pressure of yields, flexible management of SLF and wider target yield since December. He explained, however, higher expectation of inflation has enhanced the policy effects, but it has aggravated the side-effects when the BOJ tries to maintain the target yield.

Readers may notice that the forward guidance of policy rate with reference to impacts of Covid-19 was removed from the policy statement. Governor Ueda explained that it was technical adjustment because of diminishing risks of infection, and he insisted the commitment to maintain the accommodative policy in a patient manner.

## Review of monetary policy

Governor Ueda announced to launch the overall review of monetary policy for 25 years. He explained that inflation rate has been low for the most period since 1998, and the BOJ conducted various instruments of unconventional monetary policy (UMP). He also suggested that the review would finish in a year and a half.

According to his comments, the purpose is to evaluate the effectiveness of such instruments and to identify their reasons, taking account of conditions of economy, prices and finance. He also refer to fiscal conditions as potential exogenous elements.

Governor Ueda further suggested that comprehensive study by the BOJ staff, discussion at research forum participated by academics, interviews with outside experts would be the major platforms. He also suggested that meeting by executive members of the BOJ and broad-based stakeholders would be an option.

In reply to a number of questions, Governor Ueda insisted the idea that the BOJ did not intend to conduct the review in order to identify appropriate policy instruments for specific policy actions. With this regard, he emphasized the differences of purposes between this review and the comprehensive assessment of the QQE in 2016.

Furthermore, some reporters asked whether the BOJ would not modify any policy instruments until the review is finished. Governor Ueda denied such idea and confirmed that the BOJ maintains flexibility of monetary policy during the period of the review. He reiterated the idea that evaluation of policy instruments from short-term viewpoint should be conducted at every meeting of the MPM.

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