

Introduction

The BOJ decided to maintain its accommodative policy at September MPM. Governor Ueda insisted the “meeting by meeting” approach toward policy normalization.

Assessment of economy

Governor Ueda confirmed the view that our economy continued to recover moderately. He explained both private consumption and business investment increased, while exports remained stabilized.

During the Q&A session, a reporter asked the impacts of reduction in real purchasing power due to high rate of inflation. Governor Ueda confirmed that private consumption maintained its positive momentum, while he admitted such negative implication of inflation.

Several other reporters asked about his view on the global economy. Governor Ueda explained that prospect of soft-landing of the US economy appeared to increase, and there emerged some signs of stabilization of the Chinese economy.

Nevertheless, he referred to risk factors including laggard effects of financial tightening in the US and effectiveness of the policy measures for real estate sector in China.

Assessment of prices

Governor Ueda explained that core CPI inflation rate decelerated somewhat due to the policy measures by the government, while the impacts of transfer of costs by firms continued to function.

During the Q&A session, number of reporters asked the assessment of wage dynamics and its outlook. Readers may like to note that Governor Ueda had claimed since his nomination hearing that achievement of inflation target should accompany secure increase in wages.

Governor Ueda reiterated the view that development of wage remained one of the most important factors for sustainable achievement of inflation target. He also expressed positive prospect of real wage both due to continuous increase in nominal wage and deceleration in headline rate of inflation.

Moreover, he explained that the outlook of annual revision of contractual wage for large firms could become apparent in 1Q while it would take more time for SMEs. Nevertheless, he suggested that the BOJ could collect relevant information of underlying factors for wage dynamics in a continuous manner.

Several other reporters asked the risks of inflation.

Governor Ueda confirmed that members of the MPM judged at its July meeting that the risk of inflation was tilted upside. He also explained that there was some discussion at September meeting that deceleration in headline inflation was somewhat slower than expected.

Nevertheless, he mentioned that the outlook remained highly uncertain both due to domestic and overseas factors. Moreover, he insisted that momentum of underlying inflation should be assessed by broader factors including GDP gap and inflation expectation.

Accordingly, he explained that the outlook should be carefully reviewed at October MPM.

Policy decision

Governor Ueda insisted that the time to achieve inflation target could not be expected accurately, while there have been some signs of changing behaviors of firms and households toward prices and wages.

During the Q&A session, a couple of reporters asked about the effects of modification of the YCC in July. Governor Ueda expressed the positive view with reference to developments of 10Y JGB yield without notable volatility.

Several other reporters raised the issue of renewed traction of JPY rate and its implication.

Governor Ueda expressed the view that volatility of JPY rate might be higher unless the modification of the YCC in July. Nevertheless, he admitted that continuous depreciation of JPY rate caused higher costs of living of households. He also insisted that the BOJ would watch closely JPY rate as it affects future course of prices and economy.

More interesting points of discussion was the time and the strategy of policy normalization.

Readers should note that Governor Ueda’s interview by a major press had attracted attention in the financial market. Most important comment was satisfaction of condition of exit from the NIRP might be apparent toward the end of this year.

Accordingly, some press reporters tried to clarify the implication of his interview.

Governor Ueda confirmed the view that it remained uncertain about the time to achieve inflation target in stably and sustainably. He also explained that his comment at the interview was not intended to imply that the satisfaction of the condition has been closer ahead.

Several other reporters raised potential negative impacts of policy normalization. Governor Ueda explained that the BOJ would assess such factors carefully when interest rates rise noticeably.

Lastly, some other reporters tried to clarify the trajectory conditions of policy normalization.

Governor Ueda confirmed that the BOJ would maintain the framework of the YCC until the prospect of sustainable achievement of inflation target becomes confident. He also explained that adjustment of target yield could be possible under the framework of the YCC as evidenced by the policy decision at July MPM.

He suggested, however, that the MPM might discuss abandonment of the target yield, exit from the NIRP as well as exit from the commitment in base money supply when the achievement of inflation target becomes certain.

Author: Tetsuya Inoue
Senior Chief Researcher
Financial Markets and Digital Business Research Department
Nomura Research Institute

This note is intended solely for informational purposes and should not be construed as investment advice. The author does not guarantee the accuracy or completeness of the information contained. Opinions in this note are those of the author and do not represent the views of Nomura Research Institute or Financial Technology and Market Research Department. This note is exclusively for the personal use of those receiving it directly from the author.