

Introduction

The BOJ decided to maintain its policy rate at March MPM. Governor Ueda confirmed that our domestic economy is on track of its outlook. However, he pointed out the need for vigilance against potential impacts by trade conflicts.

Assessment of economy

Governor Ueda confirmed the constructive view that the domestic economy continued to grow moderately, while he admitted some weakness of consumption. The policy statement also maintained the constructive outlook as a main scenario supported by gradual growth of overseas economies and accommodative financial condition in Japan.

Nevertheless, the statement referred to evolution of trade policy by overseas economies and their impacts on economy and prices as a new risk factor for obvious reasons..

During the Q&A session, many reporters asked about the potential impacts by tariff policy by President Trump.

Governor Ueda explained the measures announced so far has been faster and broader than previously expected. Moreover, he perceived that early April would be the pivotal time for Japan, when “reciprocal” tariff and additional tariff on automobile are expected to be introduced.

Regarding the impacts on our economy and prices, Governor Ueda reiterated the idea that we should take account not only of the direct impacts but also of the indirect impacts from the US and the rest of the world.

Governor Ueda further argued that the dimensions of transmission could be categorized into the following: 1) impacts on sentiment of households and firms, 2) impacts on risk appetites in financial markets, and 3) impacts on expenditures by households and firms. He explained that these would be interconnected to some extent, and it would take longer time to identify 3).

Assessment of prices

Governor Ueda confirmed the constructive view that our economy and prices has been on track to achieve the 2% target in later phase of the outlook period. Among all, he expressed the confidence that rate of increase in wages at the annual negotiation session (“Shunto”) would be higher than previously thought, according to interim reports.

In fact, the policy statement maintained the constructive outlook as a main scenario supported by improvement of GDP gap and gradual increase in inflation expectation.

During the Q&A session, some reporters asked about the assessment of annual wage revision. Governor Ueda reiterated the positive view so far, while he explained that the BOJ would carefully monitor whether strong upward revision of wages would be shared by the SMEs.

Interestingly, some reporters asked the policy implication of substantial rise in rice prices in recent months. Governor Ueda explained that implementing monetary policy to address rice prices would not be relevant. Nevertheless, the BOJ would monitor carefully whether continuous rises in daily goods prices would affect the inflation expectation by households.

As a related issue, some reporters asked about the current assessment of underlying inflation. Governor Ueda explained that it remained hard to show the single relevant indicator, while the BOJ has made substantial efforts for its identification. Nevertheless, he reiterated the view that underlying rate of inflation has been going up gradually, but it has not reached 2%.

Monetary policy decision

The BOJ decided to maintain its policy rate at 0.5% with unanimous votes. Governor Ueda confirmed the strategy of policy normalization: the BOJ would adjust the magnitude of monetary accommodation as long as our economy and prices are on track to achieve the inflation target.

During the Q&A session, several reporters asked the condition for a next rate hike.

In terms of the domestic factors, he insisted that the BOJ would like to confirm that annual wage hike is widely shared among firms and its associated impacts on prices, especially in service sector.

Regarding the external factors, Governor Ueda suggested that it could be possible at least partially to consider the potential impacts by trade conflicts on domestic economy as early as April MPM when the BOJ could collect data and information of the impacts on sentiment of firms and households and markets.

As the follow-up discussion, several other press reporters asked about the assessment of neutral rate.

Governor Ueda confirmed the idea that it remained hard to estimate neutral rate ex ante, but it could become identified when we are closer to 2% inflation target with potential growth rate. He also suggested that the BOJ could keep hiking rates until substantial economic reactions occur.

From technical viewpoint, Governor Ueda referred to both uncertainties about 1) estimates of potential growth rate, and 2) inflation expectation at such state of economy as factors to prevent accurate estimate of neutral rate.

Other press reporters raised the implication of recent rise in JGB yield. Governor Ueda explained that markets attributed the fundamental factors including recent data of real GDP growth rate and CPI inflation rate as well as spillover effects of rise in yield of German government bond to the major backgrounds.

Accordingly, Governor Ueda expressed the idea that it is not the situation for the BOJ to conduct direct intervention in the JGB market, while the BOJ would keep watching the market evolution carefully.

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