

Introduction

Monetary policy meeting (MPM) of the BOJ today maintained the current accommodative policy and maintained their outlook for the most part. Nevertheless, they made a downward revision on the assessment of the risks, which attracted the attentions by the reporters.

Revised outlook

MPM conducted the quarterly review of their outlook. With regard to the real GDP growth rates, their new outlook for FY2018 to FY 2020 is +1.4% → +0.8% → +0.8%. In comparison with the previous one (at July meeting), only difference is the downward revision for FY 2018 by 0.1pp.

Summary text of the outlook confirmed their constructive views on our economy in coming years. For the moment, momentum of domestic economic activities would remain intact thanks to the autonomous expansion of household consumption and business investment (on the back of favorable fundamentals including labor conditions and corporate profits). In coming years, they expect the benefits of continuous expansion of the global economy via exports.

In terms of the core CPI inflation rates, they revised down their outlook again. Their new outlook for FY 2018 to FY 2020 is +0.9%→+1.4%→+1.5%. For your reference, their previous one (at July meeting) was +1.1%→1.5%→+1.6%.

Governor Kuroda explained, however, MPM had no intension to modify the outlook considerably. According to his account, downward revision for FY 2018 only reflected the weak performance of the core inflation in 1H of FY 2018. He also insisted that the changes for FY 2019 and FY 2020 were marginal.

In fact, summary text of the outlook mostly remained unchanged. They maintained the same lines of arguments for the culprits of low inflation for the time being. Moreover, they confirmed that further tightening of GDP gap coupled with gradual improvement of inflation expectation would pave the way to achieve the inflation target from medium-term perspectives.

Balance of risks

While MPM maintained their central scenario, they made downward revision of the risks. As a result, both the risks of economy and prices have become tilted downward. Governor Kuroda explained that MPM focused the two major factors among those referred to in summary text.

Needless to say, the first one is the risk of proliferation of impacts of trade disputes between US and China. Governor Kuroda referred to the resiliencies of the both economies. Economic activities in the US are expanding at a rapid pace, and Chinese government has a broad range of policy tools against the slowdown of economy.

Nevertheless, Governor Kuroda insisted that the impacts on the both economies could not be negligible, if the trade disputes escalate further. He mentioned that, under such risk scenario, the global economy including Japan could face the substantial stress through the global supply chain inter-connected across the economies.

The second set of risks is the impacts of US monetary policy, according to Governor Kuroda's comment. Specifically, he explained that further tightening of monetary policy by the FRB could have broader and stronger impacts on emerging economies, largely through the foreign exchange rates and the cross-border flows of capital.

Governor Kuroda also mentioned some additional factors in Europe, including the uncertainties of Brexit, disputes over the Italian budget and the political instability in a major state. He emphasized, however, that the current focus of attention at MPM is two of the above.

A press reporter asked about the potential policy tools of the BOJ if such downside scenario materializes. Governor Kuroda reiterated the idea of the current framework of monetary policy since the "comprehensive review". Specifically, the BOJ could modify the target rates of the YCC, expand the scale of asset purchases and accelerate the pace of increase in the quantity of reserves.

Side effects

A number of reporters revisited the issues of side effects of the QQE. One set of questions were related to the functions of the JGB markets. Some of the reporters suspected that the functions have not improved in spite of the modification of the JGB purchase at July MPM. In reply, Governor Kuroda argued against it, by referring to that their market survey.

Another set of questions were related to the conditions of regional banks. Governor Kuroda admitted that their returns from lending business have deteriorated further, and they have become dependent on such unsustainable sources of income including the reduction of loan loss provision and the capital gains from securities.

Moreover, Governor Kuroda explained that the regional banks struggle with charging higher yields on loans to middle-risk customers. He also explained that further squeeze of profits could prevent the banks to play a role of financial intermediation.

With regard to the BOJ's policy tool against the issue of regional banks, however, Governor Kuroda explained that the BOJ could only persuade the banks to reduce the costs further, to enhance the risk management, and to adjust their business models. All in all, he effectively implied that large part of the problems could be found on the side of banks.

Readers may like to note, however, the BOJ share the responsibility of financial stability and large part of the analyses discussed above are included in the most recent issue of their FSR.

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