

## Introduction

The MPM of the BOJ kept its accommodative policy unchanged at its September meeting. Nevertheless, they inserted a new set of sentences in their policy statement that implied a detailed review of downside risks and potential policy responses at the next MPM.

## Assessment of economy and prices

According to the new statement, the MPM's assessment of economy is largely the same as that at the previous meeting in July. They maintained its constructive view of our economy, supported by domestic virtuous circle from income to expenditure and gradual recovery of overseas economy.

While the list of risk factors was also unchanged, the MPM described that downside risks of overseas economies have been growing, and stressed the importance of monitoring of their impacts on the sentiments of our firms and households.

Overseas readers may like to note that this line of argument is not new. Governor Kuroda insisted such view at the Nikkei's interview released on September 7th. Nevertheless, we should pay attention to the new sentences, because the MPM implied that it could have implications for inflation.

In fact, the MPM inserted a new section to the policy statement that explained the new judgment that it has become necessary to pay attention to the risks of losing momentum of inflation toward the target. Moreover, the new policy statement announced that the MPM would conduct a detailed review of economy and prices at the next (October) meeting.

A number of reporters asked about the reasons and contents of such review at the press conference today. Governor Kuroda emphasized that the MPM maintained its constructive view until its September meeting. He also reiterated, however, the view that downside risks have been growing overseas. Moreover, Governor Kuroda confirmed his observation that the US economy remains resilient, but Euro-area economy decelerates and recovery of Chinese economy is delayed.

It is interesting to note, however, Governor Kuroda avoided to explain the potential contents of such review and gave only general accounts of regular quarterly review. Readers like to remember that the BOJ's quarterly review is scheduled in January, April, July and October, one month later than the cases of the ECB and the FRB respectively.

## Implication for policy

A number of press reporters asked Governor Kuroda whether the new sentences of policy statement also implied any policy action. It was reasonable because of the interesting structure of the new statement.

The last part of policy statement has been intended to reiterate the set of policy commitments by the MPM. It included the "over-shoot commitment" of injecting reserves and the forward guidance of the target rates of the YCC. Moreover, it emphasized the readiness to conduct additional stimulus without hesitation when the risk of losing momentum of inflation becomes high.

At the September meeting, the MPM inserted the set of new sentences just after such commitment. These two sets of

sentences appear to imply that they perceive that the risk of losing momentum has been approaching to the threshold, and that the MPM is ready to act if it is confirmed at the next MPM in late October.

Interestingly, Governor Kuroda effectively avoided to show a concrete guidance, and suggested that the MPM would present a policy strategy in a clear manner. At the same time, he declined the idea of conducting another round of comprehensive review of the policy framework.

Governor Kuroda reiterated that the BOJ could utilize four policy options along with their combinations. They are lowering O/N policy rate, lowering 10Y target yield, increasing asset purchases, and increasing reserve provision. Governor Kuroda confirmed the confidence in their effectiveness, and insisted their rooms for further explore.

In reaction to the questions by reporters regarding the priority of these options, Governor Kuroda explained that potential selection of options would substantially depend on the specific conditions of economy and prices at the time of policy action, and therefore it could not be decided a priori.

Furthermore, Governor Kuroda strongly insisted that lowering O/N policy rate, namely enhancing NIRP, is potential policy action. While he acknowledged its potential side-effects, he reiterated the view that the evaluation of relative importance of costs and benefits is regular practice. Governor Kuroda implied that the MPM could enhance NIRP when they are confident that its effects is significant.

Interestingly, Governor Kuroda seemed to pay more attention to the side-effect of lowering long-term yields. According to the article of interview, he expressed a voice of concern about its negative psychological impacts on consumers due to the fears of further lower returns from their life-insurance and pension contracts.

At the press conference today, Governor Kuroda accepted that the downward pressures have been driven by economic fundamentals and spillover from overseas markets. He, however, reconfirmed that the BOJ will continue to adjust the modality of JGB purchase to avoid the excessive yields.

## Implication for October MPM

As discussed above, the new set of sentences is not a concrete pre-announcement of policy action. Moreover, in light of its timing of regular review of economic outlook, policy decision is apparently data-dependent.

Nevertheless, the MPM's assessment of downside risks also imply that they would conduct additional stimulus, unless such risks would be significantly reduced (or projected to be reduced). Selection of policy options remains the challenge.

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