

Daiwa's View

BOJ Governor Kuroda gives jarring answer to leading question

- Remark that caused yen depreciation was failure of communication policy

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BOJ decides at September policy meeting to phase out special COVID-19 funding operations

BOJ Governor Kuroda was asked about yen depreciation and high prices at his press conference

His explanation of the impacts of yen depreciation included more focus on the negative impacts

Will respond appropriately, with the BOJ handling macro measures and the government handling micro ones

BOJ Governor Kuroda gives jarring answer to a leading question

His answer of two or three years was a failure of communication policy

BOJ Governor Kuroda gives jarring answer to leading question

22 October was central bank day. The results of the BOJ September policy meeting, announced before noon, included no change in policy, as expected, and no change in forward guidance for its policy rates either. In a special section added to the written statement, it decided to phase out the special COVID-19 funding operations scheduled to expire at end-September while providing unlimited funding against pooled collateral. The BOJ showed that its focus is on helping SMEs.

Governor Kuroda was asked many questions about yen depreciation and high prices at his regularly scheduled press conference that began at 15:30. Regarding yen depreciation's economic impacts, he spent more time on the negative impacts than he has before, noting that "while it boosts earnings for global companies, it hurts nonmanufacturers and SMEs" and "it will have a downward impact on private consumption via near-term declines in households' real incomes." He gave the impression that he did not want to say anything that would weaken the yen. Regarding high prices, he acknowledged that import prices are being affected by exchange rates but noted that services prices have not risen as much as they have in Europe and the US. He did not, however, change his forecast that "upward cost pressures would start wearing off in January and that the CPI would decline to below 2%." Next, he noted regarding the impact on consumers that the government and BOJ have different roles, with the government taking the appropriate micro measures but the BOJ needing to continue macro policies that support a recovery.

What was shocking at his press conference was his answer to a second question on forward guidance. When he was first asked about forward guidance and when it would be modified, he stated unequivocally "we see no need for change for the time being" and "we will not raise interest rates for the time being." But he did not stop there. Asked a second time whether "for the time being" meant three months or a longer time span, he retorted "for the time being does not mean several months but rather two or three years." Although he did add that "there may be minor adjustments," the fact that he stated that fundamental change would not be that simple at a time of major global change was a failure in the BOJ's communication policy. Even if that is what Mr. Kuroda truly thinks, extending his remit past the end of his term is not a good thing. In other words, the BOJ governor seemed to say that it would be desirable to appoint someone who thinks the same way he does as his successor. In response to Mr. Kuroda's jarring remark, the USD/JPY jumped to nearly the 146 level around 16:00.

With the Swiss National Bank exiting its negative interest rate policy, the BOJ stands alone with its single-minded continuation of easing

Right after that at 16:30, the Swiss National Bank announced a 75bp rate hike that takes its policy rate out of negative territory. The BOJ stands alone with its single-minded continuation of easing. However, this lack of action by the BOJ could also be viewed as proof that the role the government expects the BOJ to play has not changed. The government is focusing on putting together its comprehensive economic package in October and the BOJ is adhering steadfastly to easing while helping with measures to support SMEs. The Ministry of Finance deals with exchange rates while the BOJ's priority is on keeping interest rates from rising. Right around 17:00, the MOF played its role by intervening in FX markets for the first time in 24 years.

The October *Outlook for Economic Activity and Prices* report will provide an important message on how policy will be conducted between now and next spring

The BOJ releases the *Outlook for Economic Activity and Prices* report at its next policy meeting in October. Around that time, a broad picture of the Jul-Sep quarter should be visible enough to gauge the potential for the BOJ's estimate of the output gap to turn positive in 2H FY22. At the same time, inflation is likely to remain above 2% for a while. I think that if the core CPI reaches around 2%, the government and BOJ will need to have a meeting of the minds regarding their assessment of prices. Given also the declining functionality of the JGB market, the BOJ may need to become more flexible in how it conducts policy.

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