

【Fixed Income Commentary - Monetary Policy Navigator】 Ueda BoJ decides to leave policy on hold and conduct "broad-perspective review"

(original Japanese report issued on April 28, 2023)

Key points

- BoJ decides to maintain current easing policies, as expected by the market
- Bank abandoned forward guidance for policy rates but broadly emphasized its intention to continue easing
- It also announced "broad-perspective review of monetary policy" over last 25 years, possibly in preparation for full-fledged policy review

BoJ leaves policy on hold at first meeting under Governor Ueda

The BoJ decided to leave its current easing policies in place at the Policy Board meeting on April 27-28. This was the first meeting under Governor Ueda, who took office on April 9.¹ The results are discussed below.

The Bank made no changes to the short-term policy rate (-0.1%), the guidance target for the 10-year JGB yield (around 0%), the trading band for the same ($\pm 0.5\%$), or the guidelines for the daily fixed-rate purchase operation guidelines (Table 1). The guidelines for purchases of ETFs and J-REITs were also left on hold. Since the BoJ's holdings of commercial paper have now returned to pre-pandemic levels, it said it would "maintain the amount outstanding of CP at about 2 trillion yen." No changes were made to the guidelines for corporate bond purchases. All of this was in line with both the consensus forecast and our own expectations for the meeting.

Table 1: Ueda BoJ decides to keep easing policy on hold at its first Monetary Policy Meeting

| Yield curve control | |
|---------------------------------|--|
| Short-term policy interest rate | The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. |
| Long-term policy interest rate | The Bank will purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit so that 10-year JGB yields will remain at around zero percent. |
| Conduct of yield curve control | The Bank will continue to allow 10-year JGB yields to fluctuate in the range of around plus and minus 0.5 percentage points from the target level, and will offer to purchase 10-year JGBs at 0.5 percent every business day through fixed-rate purchase operations, unless it is highly likely that no bids will be submitted. In order to encourage the formation of a yield curve that is consistent with the above guideline for market operations, the Bank will continue with large-scale JGB purchases and make nimble responses for each maturity by increasing the amount of JGB purchases and conducting fixed-rate purchase operations. |
| Asset purchases | |
| ETFs and J-REITs | The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) as necessary with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding. |
| CPs and corporate bonds | The Bank will maintain the amount outstanding of CP at about 2 trillion yen. It will purchase corporate bonds at about the same pace as prior to the COVID-19 pandemic, so that their amount outstanding will gradually return to the pre-pandemic level of about 3 trillion yen. In adjusting the amount outstanding of corporate bonds, the Bank will give due consideration to their issuance conditions. |

Source: MUMSS, from BoJ

¹ This was also the first Board meeting for deputy governors Ryozyo Himino and Shinichi Uchida, whose terms commenced on March 20.

BoJ stresses intention to achieve 2% price target at top of policy guidelines

There were both additions to and deletions from the policy guidelines. The following passage was inserted at the top of this section: "With extremely high uncertainties surrounding economies and financial markets at home and abroad, the Bank will patiently continue with monetary easing while nimbly responding to developments in economic activity and prices as well as financial conditions. By doing so, it will aim to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases." This is in line with comments made by Governor Ueda at his inaugural press conference and was probably meant to emphasize that the Bank still planned to maintain the existing easing policies. The phrase "patiently continue with monetary easing" was often used by former Governor Haruhiko Kuroda.

BoJ stresses it will continue easing despite removing forward guidance for policy rates

Two aspects of the policy guidelines were deleted; mention of COVID-19 and the forward guidance for policy rates that had been linked to the pandemic (Table 2). Previous monetary policy statements had contained the following passage: "For the time being, while closely monitoring the impact of COVID-19, the Bank will support financing, mainly of firms, and maintain stability in financial markets, and will not hesitate to take additional easing measures if necessary; it also expects short- and long-term policy interest rates to remain at their present or lower levels." We suspect the BoJ felt less need to maintain this language given the diminishing impact of the pandemic on economic activity and the discontinuation of the Bank's COVID-19 funding operations at the end of March. It ultimately opted to delete the language concerning the pandemic and also to remove the forward guidance that indicated the future direction of monetary policy. However, perhaps out of concern that market participants might view this as a tightening of policy, it reiterated its existing pledge: "The Bank will continue to maintain stability of financing, mainly of firms, and financial markets, and will not hesitate to take additional easing measures if necessary."

Table 2: Monetary policy guidelines of Ueno BoJ

| Policy stance | |
|---|---|
| Newly added | With extremely high uncertainties surrounding economies and financial markets at home and abroad, the Bank will patiently continue with monetary easing while nimbly responding to developments in economic activity and prices as well as financial conditions. By doing so, it will aim to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases. |
| Continuation of YCC (unchanged) | The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. |
| Inflation-overshoot commitment (unchanged) | It will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all item less fresh food) exceeds 2 percent and stays above the target in a stable manner. |
| Clause of "will not hesitate" (left as separate sentence) | The Bank will continue to maintain stability of financing, mainly of firms, and financial markets, and will not hesitate to take additional easing measures if necessary |

"Forward guidance for policy rates" deleted

For the time being, while closely monitoring the impact of COVID-19, the Bank will support financing, mainly of firms, and maintain stability in financial markets, and will not hesitate to take additional easing measures if necessary; it also expects short- and long-term policy interest rates to remain at their present or lower levels.

Source: MUMSS, from BoJ

BoJ announces policy review stretching back to late 1990s

The BoJ also announced that it would conduct a "broad-perspective review of monetary policy" stretching back to the late 1990s, as had been reported by the *Sankei Shimbun* on April 23 (Table 3). Inasmuch as the Bank's various monetary easing measures over the last 25 years have "interacted with and influenced wide areas of Japan's economic activity, prices, and financial sector," the BoJ said it had

decided "to conduct a broad-perspective review of monetary policy, with a planned time frame of around one to one and a half years." We will be waiting for more information about the review's target and approach and for hints as to whether the findings will lead to new policy discussion.

Table 3: BoJ announces "broad-perspective review" of monetary policy

| | |
|--|--|
| Conduct of "broad-perspective review" of monetary policy | Since the late 1990s, when Japan's economy fell into deflation, achieving price stability has been a challenge for a long period of 25 years. During this period, the Bank has implemented various monetary easing measures. These measures have interacted with and influenced wide areas of Japan's economic activity, prices, and financial sector. In light of this, the Bank has decided to conduct a broad-perspective review of monetary policy, with a planned time frame of around one to one and a half years. |
|--|--|

Source: MUMSS, from BoJ

**Outlook Report
Inflation projections
are lower than
expected**

The BoJ inflation projections in the Outlook for Economic Activity and Prices ("Outlook Report") came in lower than we expected. The Bank forecast a core CPI inflation rate of 1.8% for FY23, which while higher than its 1.6% projection in January was still less than 2%. It raised its forecast for FY24 from 1.8% to 2.0% but expects inflation to slow to 1.6% in FY25, which was included in the forecasts for the first time (Table 4, Graph 1). The BoJ presented the following scenario for prices: "Even as actual inflation decelerates toward the middle of fiscal 2023," there will be "improvement in the output gap and changes in firms' price- and wage-setting behavior and in labor-management wage negotiations," which "will likely lead to a sustained rise in prices accompanied by wage increases." For now, however, the Bank does not appear to feel that achievement of the 2% price target in a sustained manner is within sight. It also concluded that "risks to prices are skewed to the upside for fiscal 2023 but are skewed to the downside for fiscal 2025."

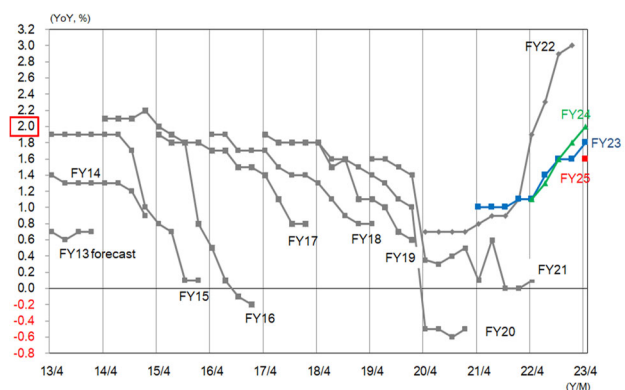
Table 4: April 2023 Outlook Report

(%, the median forecast, the forecast ranges of the majority members are in parentheses)

| | Real GDP | CPI (all items less fresh food) | (Reference) CPI (all items less fresh food and energy) |
|------|----------------------|------------------------------------|---|
| FY22 | 1.2 < 1.2 ~ 1.2 > | 3.0 | 2.2 |
| Jan | 1.9 < 1.9 ~ 2.0 > | 3.0 < 3.0 ~ 3.0 > | 2.1 < 2.1 ~ 2.1 > |
| FY23 | 1.4 < 1.1 ~ 1.5 > | 1.8 < 1.7 ~ 2.0 > | 2.5 < 2.7 ~ 2.7 > |
| Jan | 1.7 < 1.5 ~ 1.9 > | 1.6 < 1.6 ~ 1.8 > | 1.8 < 1.7 ~ 1.9 > |
| FY24 | 1.2 < 1.0 ~ 1.3 > | 2.0 < 1.8 ~ 2.1 > | 1.7 < 1.5 ~ 1.8 > |
| Jan | 1.1 < 0.9 ~ 1.3 > | 1.8 < 1.8 ~ 1.9 > | 1.6 < 1.5 ~ 1.8 > |
| FY25 | 1.0 < 1.0 ~ 1.1 > | 1.6 < 1.6 ~ 1.9 > | 1.8 < 1.8 ~ 2.0 > |

Source: MUMSS, from BoJ

Graph 1: BoJ Core CPI forecasts



Source: MUMSS, from BoJ

Summary

At the first Policy Board meeting under Governor Ueda, the BoJ emphasized that it would continue the current easing measures and gave no indication of possible revisions to YCC or other policies. However, the announcement of a "broad-perspective review" of monetary policy over the last quarter century is worth noting. The review may prompt fresh discussion of whether existing policies should be continued with the goal of achieving the 2% price stability target. The Bank also

presented a relatively cautious outlook for inflation, but the April CPI print for Tokyo, released on the morning of April 28, showed inflation coming in stronger than anticipated, with the core CPI rising at a YoY rate of 3.5% and the core-core CPI up 3.8% over the year before. In the new fiscal year companies have continued to pass on higher costs by raising prices. Sustained wage growth also appears likely for the time being as resurgent personal consumption and inbound demand lead to growing labor shortages. And it would be hard to argue that JGB market functioning has recovered. We suspect the Bank may eventually need to review existing policies even if the policy assessment is still in progress.

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15:00 JST, April 28, 2023

Appendix A

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