

# Daiwa's View

## Policy ops to be reviewed while board member Sakurai in office

- At press conference, Gov. Kuroda gave consideration to side effects; aiming to expeditiously respond to changes

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**Jan BOJ MPM uneventful; Outlook Report maintained moderate recovery scenario**

**Downward pressure to remain strong for now mainly in face-to-face services consumption**

**At regular press conference by Gov. Kuroda, questions focused on policy review in Mar**

**Aiming for expeditious responses to changes, giving consideration to side effects**

### Policy ops to be reviewed while board member Sakurai in office

The BOJ's January Monetary Policy Meeting (MPM) on the 20<sup>th</sup> and the 21<sup>st</sup> was held during a preparatory period ahead of the policy review meeting scheduled for March. The central bank decided to keep the status quo by a majority vote (alongside one-year extension of loan disbursements under Fund-Provisioning Measure to Stimulate Bank Lending and Fund-Provisioning Measure to Support Strengthening Foundations for Economic Growth). In the January *Outlook for Economic Activity and Prices* report (*Outlook Report*), which is an important source for checking economic and financial conditions, the moderate economic recovery scenario on gradual mitigation of the pandemic impact is unchanged. The report said that "downward pressure stemming from the impact of the resurgence of COVID-19 is likely to remain strong for the time being, particularly in face-to-face services consumption." Compared to the previous October figures, projections for the growth rate were lifted slightly centering on FY21 on the back of the effects from economic measures. Meanwhile, price projections were largely unchanged. The BOJ's outlook is based on the following assumptions—(1) the impact of COVID-19 will wane gradually and then subside toward the end of the projection period, (2) while the impact remains, firms' and households' medium/long-term growth expectations will not decline substantially, and (3) the smooth functioning of financial intermediation will be ensured with financial system stability being maintained. Due to the declaration of another state of emergency (SOE) for eleven prefectures in early January, it is highly likely that Jan-Mar GDP will decline y/y. The outlook is highly uncertain, including concern about whether the SOE will be lifted on 7 February.

At the post-meeting regular press conference by BOJ governor Haruhiko Kuroda, questions were focused on the policy assessment in March. In December when the central bank announced that it would assess the policy, he stated that "we will examine operations under yield curve control and various measures such as asset purchases," and made a definitive statement that "we will not review the 2% target, inflation-overshooting commitment, or negative rate policy." One month has since passed. This time, he stated that "we will conduct effective monetary easing by containing the side effects as much as possible," sharing the recognition on the direction of the policy review. Regarding concrete measures, he pointed out that "various discussions, such as [a decline] in market function, are being made, although the YCC has been effective." On top of that, he stated that "we need to enable the YCC to expeditiously cope with changes, while maintaining its framework. We can think of more modulated operations." The central bank intends to increase the leeway in policy operations and make the policy more sustainable, but it appears to be giving consideration to the side effects.

**FY20-22 Forecasts of Majority of Policy Board Members (y/y % chg)**

	Real GDP	CPI (all items less fresh food)	(Ref.) Ex cl. effects of consumption tax hike and policies concerning provision of free education
FY20	- 5.7 ~ - 5.4 [- 5.6]	- 0.7 ~ - 0.5 [- 0.5]	- 0.8 ~ - 0.6 [- 0.6]
As of Oct 2020	- 5.6 ~ - 5.3 [- 5.5]	- 0.7 ~ - 0.5 [- 0.6]	- 0.8 ~ - 0.6 [- 0.7]
FY21	+ 3.3 ~ + 4.0 [+ 3.9]		+ 0.3 ~ + 0.5 [+ 0.5]
As of Oct 2020	+ 3.0 ~ + 3.8 [+ 3.6]		+ 0.2 ~ + 0.6 [+ 0.4]
FY22	+ 1.5 ~ + 2.0 [+ 1.8]		+ 0.7 ~ + 0.8 [+ 0.7]
As of Oct 2020	+ 1.5 ~ + 1.8 [+ 1.6]		+ 0.4 ~ + 0.7 [+ 0.7]

Source: BOJ; compiled by Daiwa Securities.

Notes: (1) Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates).

(2) The forecasts of the majority of the Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate -- namely, the figure to which he or she attaches the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. The range does not indicate the forecast errors.

(3) Each Policy Board member makes their forecasts taking into account the effects of past policy decisions and with reference to views incorporated in financial markets regarding the future conduct of policy.

(4) The direct effects of the October 2019 consumption tax hike on the CPI for fiscal 2020 are estimated to be 0.5 percentage point. In addition, based on a specific assumption, the direct effects of policies concerning the provision of free education on the CPI for fiscal 2020 are estimated to be around minus 0.4 percentage point.

**Assessment results to be compiled as appendix**
**Given assessment results, board will decide to review YCC ops, make asset purchases more flexible**
**We will confirm whether Dec MPM minutes, Summary of Opinions of Jan MPM include concrete measures**
**Senshu University's reflationist Noguchi to replace Sakurai**

Meanwhile, he admitted that ETF purchases were also the target of policy review, saying that "we will discuss it in the March meeting, given the assessment results. It is not appropriate to say here ahead of the meeting." According to this context, the BOJ is expected to take the process in which the assessment results (analysis results to be compiled as appendix) are shown, and based on these results, the board will decide to review YCC operations (acceptance of wider fluctuation range) and make asset purchases more flexible. That said, the BOJ clearly said that it would not change the framework. It is likely to show that this framework is effective as a result of assessment, and then think of measures to sustain the policy. The volume of materials is expected to be larger than that at the review meeting in October 2019, although it would be less than that under the Comprehensive Assessment in September 2016 (which was assumed to review framework). I take off my hat to the analysis/compilation staff's laborious efforts. On the day of the announcement (19 Mar), we had better be prepared for the large amount of materials.

Next week, the minutes of the MPM on 17-18 December (which may be more informative than Summary of Opinions) is to be released on 26 January, and the Summary of Opinions of the January MPM is to be announced on 29 January. We hope to confirm whether they include concrete opinions and measures after the recognition of the policy review direction was shared.

Shortly after 13:00, 1.5 hours after the announcement of the January MPM result, the government submitted a personnel proposal to obtain the Diet's agreement, in which Senshu University's Professor Asahi Noguchi is nominated as a replacement of BOJ board member Makoto Sakurai, whose term of office expires at the end of March. Professor Noguchi, a reflationist economist, is one of the members who supported Abenomics. Last spring as well, his name appeared as a candidate to replace board member Yutaka Harada. Although some people anticipated a change in the method of personnel selection due to the shift from the Abe administration to the Suga administration, we can say that the method was adopted. From April, the number of reflationists will become four (other three are Deputy Gov. Masazumi Wakatabe, board member Goushi Kataoka, board member Seiji Adachi).

**Fiscal year-end measures one reason of policy assessment in Mar MPM, but market disruptions need to be avoided**

**Unable to get why BOJ did not wait for Apr *Financial System Report, Outlook Report***

**BOJ to decide to review policy ops while Sakurai in office**

Thus far, I have thought that the BOJ chose March for the assessment meeting to come up in advance with fiscal year-end measures and head off the sort of market disruptions that occurred in March 2020. If the BOJ's decision includes measures to mitigate the side-effects and the market understands it as a scaling-back of easing measures, it may cause correction in stock prices and a stronger yen, which is meaningless. As the BOJ needs to avoid market disruptions at an important term-end period, it should emphasize the sustainability of easing policy. Still, why did it choose such risky timing? I was not able to get why the BOJ did not wait another month until April, when the *Financial System Report* and *Outlook Report* (which checks financial, price, economic conditions) are to be released. However, I came up with one reason from the aforementioned BOJ's personnel proposal. The BOJ may have wanted to decide to review policy operations while board member Sakurai is still in office in anticipation of obtaining consent from him with respect to measures to cope with the side effects.

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