

Daiwa's View

Implications of proposal by Reiwa Rincho panel

- Authorities likely to continue on path of monetary policy normalization

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Daiwa Securities Co. Ltd.

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Implications of proposal by Reiwa Rincho panel

On 30 January, the Reinventing Infrastructure of Wisdom and Action panel (also known as Reiwa Rincho), which consists of voluntary members from the economic world and learned persons, proposed a review of the joint statement that was issued by the government and the Bank of Japan in 2013. With the panel urging the BOJ to turn its 2% goal into a long-term price stability target, the USD/JPY rate dropped suddenly from Y129.90 to around Y129.20 due to speculations about policy revisions. While the reaction in the bond market was limited, selling became dominant temporarily.

At the press conference, MUFG Bank special advisor Nobuyuki Hirano pointed out that the shift of management resources from mature or sluggish sectors to new business fields and active private companies was delayed due to the postponement of growth strategies and structural reform, resulting in a vicious cycle in which monetary policy normalization was also delayed, and emphasized that they wanted to assess the joint statement in 2013, which was the starting point. The issue is that only the first and second arrows of Abenomics were implemented, while the third arrow—growth strategies—which should be the most important, has been postponed. He argued that an integrated reform of fiscal and monetary policies was necessary in order to improve the current situation.

We would like to note Mr. Hirano's response to the question of whether the 2% price target is appropriate, from the standpoint of the forex market. Hirano stated that he thought the public wanted Japan to remain a member of the advanced nations, and that the 2% figure was now a global standard for achieving that. He also said that everyone should make an effort to achieve this target in order to avoid a gradual decline in Japan's international presence.

Since the media started reporting about the possibility of revisions to the joint statement by the government and the BOJ, I have been focusing on the possibility of downward revisions being made to the 2% target, such as a reduction to a 1% price target or a shift to a 1-2% range. A change in the price target to 1%, rather than the global standard of 2%, would mean that the authorities would accept 1% appreciation of the yen annually in terms of purchasing power parity. Therefore, such a revision could cause a rapid return to yen appreciation. Mr. Hirano's reply is not based on this viewpoint, and will ease such concerns.

Furthermore, we noticed that Yuri Okina, Chairperson of the Japan Research Institute, is a member of the Reiwa Rincho panel. The media reported on the same day that Okina might be appointed as a deputy governor of the BOJ. This will likely increase speculation that she would promote the Reiwa Rincho proposal as a BOJ deputy governor starting April. We will need to keep a close eye on how things develop with the BOJ for the time being.

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