

What assessment will BOJ make in September?

- Amid growing skepticism over BOJ's policy stance, the assessment on the monetary policy, scheduled in September, will receive much attention.
- Amongst the major central banks, only BOJ sets when to achieve price target.
- Possibility of thorough reform of BOJ's policy framework is low, however, whether to reschedule the inflation target or not might be an open question.

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BOJ announced that they will conduct a comprehensive assessment on economic and price conditions under the current monetary policy of “Quantitative and Qualitative Monetary Easing” and “Introduction of Negative Interest Rate” at the next Policy Meeting scheduled on 20th and 21st September. The market quickly responded to this announcement by anticipating some possible changes in BOJ's policy framework including rescheduling when to meet the price stability target.

There are concerns over (i) tight JGB's supply-demand conditions caused by expansion of “Quantity” measures and (ii) distortion of pricing mechanism of Japanese stock market due to additional purchase of ETFs as a measure of “Quality” expansion. In addition, extension to “negative interest rate” has a bad reputation among financial institutions and bond market participants as a whole, and the inflation target has repeatedly been postponed (Table 1). Under such circumstances, BOJ's assessment on their own monetary policy will receive much attention.

"Table 1: When to achieve price target of 2% set by BOJ"

BOJ's Monetary Policy Meeting (MPM)		When to meet the target
Year 2013	April MPM	Latter half of forecasted period (FY2013-FY2015)
	October MPM	Latter half of forecasted period (FY2013-FY2015)
Year 2014	April MPM	Middle of forecasted period (FY2014-FY2016)
	October MPM	Forecasted period with FY2015 in the middle
Year 2015	April MPM	Around first half of FY2016
	October MPM	Around second half of FY2016
Year 2016	January MPM	Around first half of FY2017
	April MPM	In FY2017

(Source) SMAM, based on BOJ's materials.

"Table 2: Inflation targeting of Central Banks"

Central Bank	Target Rate	When to Achieve Target
Reserve Bank of New Zealand	1 - 3%	Medium term
Bank of Canada	2% ($\pm 1\%$)	Generally 18 to 24 months
Bank of England	2%	Appropriate period of time (Medium term)
Reserve Bank of Australia	2 - 3%	Medium term
Riksbank	2%	Generally 2 years
Bank of Japan	2%	In FY2017

(Note) As of 1st August 2016. CPI composite is Consumer Price Index Composite Index. BOJ's CPI is Consumer Price Index excluding fresh foods.

Riksbank is a central bank of Sweden.

(Source) SMAM, based on Bloomberg L. P. data.

Currently, amongst the major central banks, only BOJ sets when to achieve price stability target.

Many of the central banks set their inflation targeting (Table 2). Although US and European region do not have clearly-set price targets, US Federal Reserve Board (FRB) have set a “long-term inflation target” defined as a YoY increase in Personal Consumption Expenditure (PCE) Price Index of “2%” and European Central Bank (ECB) have set “quantitative definition of price stability” defined as a YoY increase in the Harmonized Index of Consumer Prices (HICP) for the euro area of “around below 2%”.

Recently, inflation targeting is used as “reference” to enhance transparency of policy management rather than as a rigid “target”. Therefore, majority of central banks clarify their policy position to achieve price stability and sustainable economic growth in medium terms, by managing their monetary policy in a flexible manner even if current price deviates from their target. Accordingly, BOJ is the only central bank among major central banks that set when to achieve price stability target as mentioned in Table 2.

Possibility of thorough reform of BOJ’s policy framework is low, however, whether to reschedule the inflation target or not might be an open question.

BOJ Governor Kuroda has been maintaining his belief that commitment to when to achieve the price stability target can be a powerful measure to come out of deflation. However, the reality is that BOJ has repeatedly delayed the price target due to subdued inflation. Mr. Kuroda pointed out at his press conference on 29th July that “drop of oil prices” and “consumption tax hike” were the reasons behind the subdued inflation.

In light of Mr. Kuroda’s statements, it is not likely that the central bank would make over the monetary policy framework after its September review. Therefore, BOJ will seek for measures to achieve the 2% price stability target as early as possible, based on the current policy. Meanwhile, BOJ is expected to stick to basic policy of early achievement of 2% price stability target itself, however, whether to reschedule the achievement (currently in FY2017) or not might be an open question

*** Please note that this report is a translation of Japanese report written on 1st August, 2016.**

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