

# AT A GLANCE | Japan

October 27, 2023

## Monetary Policy Meeting Forecast Based on Latest Summary of Opinions

Economist: Tetsuya Sano

### Direction of Current Monetary Policy Framework

Currently, the Bank of Japan (BOJ) is adopting a monetary policy called quantitative and qualitative monetary easing (yield curve control, or YCC) with manipulation of long and short interest rates. Although this framework bears the same name as the Quantitative and Qualitative Monetary Easing (QQE), which was introduced in 2013 under former Governor Haruhiko Kuroda, it is a framework in which the target of market control has shifted from the monetary base to interest rates and is substantially different from Kuroda's QQE, which was centered on the monetary base target.

In fact, after the current YCC framework was adopted in September 2016, the volume of Japanese government bond (JGB) purchases attracted considerable attention for a while, but after the so-called stealth tapering, the rate of expansion of the monetary base is now hardly seen as a major problem.

**Figure 1: Changes in Japanese Monetary Policy Since the Introduction of QQE**

	Interest Rates			Monetary Base (JPY trn)	Asset Purchases					Forward Guidance		
	Short-Term	Long-Term	Operation		JGB (JPY trn)	CP (JPY trn)	Corp. Bonds (JPY trn)	ETF (JPY trn)	J-REIT (JPY bil)	Framework	Interest Rates	Asset Purchases
2013.4	—	—	—	60~70	—	—	—	1	30	○	—	—
2014.10	—	—	—	80	80	—	—	3	90	○	—	—
2016.1	-0.1%	—	—	80	80	2.2	3.2	3	90	○	—	—
2016.9	-0.1%	0%	—	—	80	2.2	3.2	6	90	○	—	○
2018.7	-0.1%	0%	—	—	80	2.2	3.2	6	90	○	○	○
2021.3	-0.1%	0±0.25%	0.25%	—	no limit	20	—	12	180	○	○	○
2022.12	-0.1%	0±0.5%	0.50%	—	no limit	2	3	12	180	○	○	○
2023.4	-0.1%	0±0.5%	0.50%	—	no limit	2	3	12	180	○	—	○
2023.7	-0.1%	0±0.5%	1.00%	—	no limit	2	3	12	180	○	—	○

Source: Bank of Japan

In particular, after the transition to the administration of current BOJ Governor Kazuo Ueda and the removal of the interest-rate section from the forward guidance, the main focus of attention on the Bank of Japan's policy management has shifted to developments in long- and short-term interest rates. In other words, in the current monetary policy framework, the only variables that can be modified without determining the

achievement of the price target are (1) the level of long- and short-term interest rates, (2) the level of interest rates for limit operations, and (3) the policy of purchasing small amounts of assets such as exchange-traded funds (ETFs), which is close to the traditional framework of interest-rate manipulation.<sup>1</sup>

### Judgments of Committee Members Will Have an Impact on Policy Revision

When making policy adjustments such as interest-rate levels based on the judgment that the inflation target has not been reached, the Bank of Japan is forced to choose between (1) making policy adjustments from a technical perspective, as it did at the July meeting, and (2) making policy adjustments based on substantive reasons such as economic price developments (which do not reach the inflation target). Of course, (3) there is a way to view policy changes as a result of achieving the price target, but it is a realistic option to abolish the YCC framework when achieving the price target, and for policy adjustments that do not reach this point, the explanation of (1) or (2) should be used.

Here, it should be noted that in the case of a policy revision based on (1) or (2), the judgment must be fairly qualitative and subjective, even if it is based on substantive reasons (for example, a firm economic situation or a high price trend) as in (2). Of course, the BOJ continues to make judgments on the achievement of the price target based on quantitative indicators such as underlying prices on the grounds of uncertainty in the future (so to speak, based on qualitative judgments).

In other words, in predicting the Bank of Japan's future behavior and timing, there is a limit to thinking from the perspective of what kind of economic data will lead to policy adjustments, and it is necessary to grasp the criteria and views of each policy committee member.

### Policy Board Members' Perceptions of the Price Situation Remain Bullish

The Bank of Japan's official publication, "Summary of Opinions at the Monetary Policy Meeting" (hereafter, the "Opinion"), provides an important clue when trying to gauge the views of Policy Board members and thus the possibility of policy revision. This is an edited publication based on the "[c]omments expressed by policymakers and government officials at the Monetary Policy Meeting", which "are summarized by the speakers themselves within a certain number of characters". Thus, unlike the minutes prepared by the executive, this framework allows the Policy Board members to review summary statements in their own words. Under current circumstances, where policy decisions are made without necessarily being based on quantifiable criteria, it is an extremely useful source of information to learn about the views and perspectives of Policy Board members.

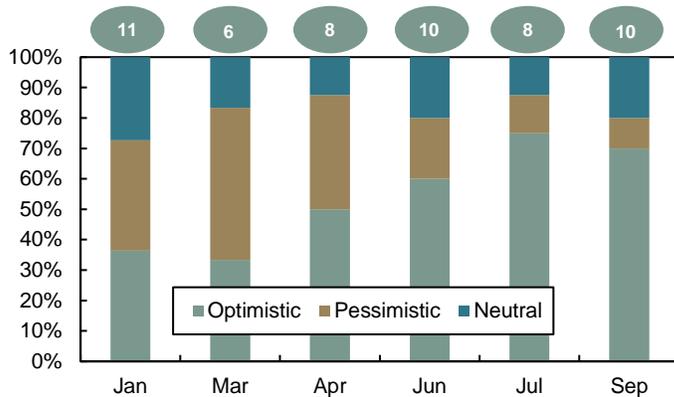
For example, in July of this year, YCC flexibilities were adopted. As of June, more than half of the respondents were bullish on the inflation situation (Figure 2). In addition, this bullish view on the price situation has been consistent since January, when former BOJ Governor Kuroda was in power, and the opinion at the July decision meeting was that there was finally only one bearish view on the price situation. If we look at the opinions of the latest Monetary Policy Meeting in September, we can see that the views of the Policy Board members on the price situation have been bullish, as the bearish opinion has remained at only one position since July (and is thought to be by the same committee member as the bearish opinion in July).

On the other hand, among the opinions on the conduct of monetary policy, even in June, when the view on the price situation was bullish, there were not necessarily proposals to revise the policy (maintaining the status quo of monetary policy was unanimously approved). The current style of involvement of Policy Board members in policy management does not necessarily indicate that they are confident and bullish on prices to the extent that they propose opposing views, and it is likely that the initiatives of the executive have greatly influenced the discussion.

---

<sup>1</sup> In the forward guidance, neither the guidance on the framework (the guidance on the continuation of the YCC until achieving the price target) nor the guidance on the volume (overshoot commitment to expand the monetary base to a point where actual consumer prices continue to reach 2% above the previous year) can be revised without judgment on achieving the price target.

**Figure 2: Policy Committee Members' Views on Price Developments**



Note: The figures in green circles are the total number of opinions on price developments.

Sources: Bank of Japan, SMBC

**Figure 3: Changes in the Opinions Seen on the Executive Side**

April	Although the rate of increase in the consumer price would be over 2% for a while due to the increase of the import goods price, the rate would go under 2% by the middle of this fiscal year, reflecting the ceasing of price pass-throughs.
June	The rate of increase in the consumer price would decrease by the middle of this fiscal year. There is considerable uncertainty on the rate of increase in the consumer price, hence we need to closely watch the continuity of wage increases.
July	The rate of the price increase would gradually decrease due to the downward pressure caused by the decline of import goods prices though it would face upward pressure along with the wage increase. It would probably be after the recovery of overseas economies.
September	Looking at the consumer price, the rate of increase in the goods price is finally decreasing, following the decline in import goods prices. Considering this, the rate of price increase in the goods would gradually decrease in the future.

Source: Bank of Japan

### Is Sole Remaining Bearish Opinion a Policy Board Member on the Executive Side?

Therefore, the content of the only remaining bearish opinion is important in predicting future policy management. This is because the opinion is close to the official opinion of the Bank of Japan's executive department on prices, and is likely to have come from the governor or deputy governor. Figure 3 shows the changes since April of this year, taking out the opinions that are closest to the Bank of Japan's official position. Although the September meeting continued to have a cautious tone regarding the outlook for prices, there is evidence that the BOJ has gradually lost confidence in price developments over the second half of the year.

Given the current view of prices among policymakers, a policy revision could occur at any moment. In addition, when policy amendments are made, they are likely to be surprise amendments by executive initiatives, such as the July decision mentioned above. It will be necessary to pay closer attention to information dissemination on the executive side than ever before.

### Rise in Number of Policymakers Who Do Not Require Wage Increases

Even if prices remain firm, the BOJ's management currently believes that the sustainability of price increases is necessary to determine whether the inflation target will be met, and the BOJ will place importance on wage trends when assessing the sustainability of price increases. Based on this logic, it is possible to continue to believe that the price target has not been met on the grounds of wage developments, even if price developments continue to remain firm above 2%. Therefore, a sufficient increase in the number of members with opinions that do not require a wage increase will also be necessary for a full-scale policy-revision decision. Given that the BOJ is a single-mandate central bank whose sole responsibility is price stability, the number of Policy Board members who do not place undue importance on factors other than prices will gradually increase.

In fact, the opinions of some Policy Board members are that achieving the price target is "clearly in sight", while others are not so bullish but say that "in order for expectations of achieving the price target to change to confidence, in addition to corporate reform efforts, it will be necessary to strengthen business metabolism and startup companies' financing", and there is an increasing number of opinions that do not necessarily consider wage increases as a necessary condition for determining the achievement of the price target.

It should be noted that the possibility of a policy revision would be further increased if more Policy Board members did not place undue importance on wage increases.

## Economic Outlook: 2023-2024 Forecast

Figure 1: Forecasts for Economic Growth, Inflation, and Unemployment Rates

		2022			2023				2024				2021	2022	2023	2024
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
US	Real GDP	-0.6	2.7	2.6	2.2	2.1	4.9	1.2	0.6	1.0	1.2	1.7	5.9	2.1	2.4	1.3
	Inflation	5.2	5.2	5.1	4.8	4.6	3.9	3.6	3.0	2.7	2.6	2.5	3.6	5.2	4.2	2.7
	Unemployment	3.6	3.6	3.6	3.5	3.6	3.7	3.9	4.2	4.4	4.4	4.5	5.4	3.7	3.7	4.4
Euro Area	Real GDP	0.8	0.3	0.0	0.0	0.2	0.0	0.1	0.2	0.3	0.3	0.4	5.9	3.4	0.5	0.8
	Inflation	8.0	9.3	10.0	8.0	6.2	4.9	3.2	3.3	3.2	3.0	2.8	2.6	8.4	5.6	3.1
	Unemployment	6.7	6.7	6.7	6.6	6.5	6.5	6.6	6.7	6.8	6.8	6.8	7.7	6.7	6.6	6.8
Japan	Real GDP	5.3	-1.2	0.2	3.2	4.8	0.9	0.8	0.9	0.9	1.1	1.1	2.2	1.0	1.5	1.0
	Inflation	2.1	2.7	3.8	3.5	3.2	2.9	2.5	2.9	2.8	2.5	2.1	-0.2	2.3	3.0	2.6
	Unemployment	2.6	2.5	2.5	2.6	2.5	2.4	2.4	2.3	2.3	2.3	2.3	2.8	2.6	2.4	2.3
China	Real GDP	0.4	3.9	2.9	4.5	6.3	4.9	5.2	4.0	4.7	4.7	5.0	8.4	3.0	5.2	4.6
	Inflation	2.2	2.8	1.8	1.3	0.2	0.0	0.6	1.1	1.5	1.8	2.0	0.8	1.7	0.5	1.6
	Unemployment	5.8	5.4	5.6	5.5	5.2	5.2	5.1	5.1	5.0	5.0	5.0	5.1	5.1	5.2	5.0

Real GDP growth is in QoQ annualized for U.S. and Japan, QoQ for euro area and YoY for China and India. Inflation rate is in YoY%. Inflation rate is YoY, % of core index (ex. fresh food) for Japan, YoY % of PCE deflator for U.S., and total YoY% for the rest.

Figure 2: Forecast for Rates

Interest rate		2022	2023				2024				2022	2023	2024
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
US	Policy rate	4.25	4.75	5.00	5.25	5.25	5.25	5.00	5.00	4.75	4.25	5.25	4.75
		4.50	5.00	5.25	5.50	5.50	5.50	5.25	5.25	5.00	4.50	5.50	5.00
	2yr	4.43	4.03	4.90	5.04	5.00	5.00	4.75	4.75	4.75	4.43	5.00	4.75
	10yr	3.87	3.47	3.84	4.57	4.20	4.00	3.90	4.00	4.00	3.87	4.20	4.00
Germany	Policy rate	2.50	3.50	4.00	4.50	4.50	4.50	4.50	4.25	4.00	2.50	4.50	4.00
	Deposit rate	2.00	3.00	3.50	4.00	4.00	4.00	4.00	3.75	3.50	2.00	4.00	3.50
	2yr	2.50	2.68	3.20	3.20	3.00	2.80	2.60	2.40	2.30	2.50	3.00	2.30
	10yr	2.20	2.29	2.39	2.84	2.50	2.30	2.20	2.10	2.10	2.20	2.50	2.10
Japan	Policy rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.10	0.10	0.10	-0.10	-0.10	0.10
	2yr	0.04	-0.06	-0.07	0.06	0.15	0.20	0.30	0.30	0.30	0.04	0.15	0.30
	10yr	0.42	0.35	0.40	0.77	0.75	0.80	0.90	0.90	0.90	0.42	0.75	0.90
China	Policy rate	2.75	2.75	2.65	2.50	2.50	2.50	2.50	2.50	2.50	2.75	2.50	2.50
	2yr	2.39	2.41	2.11	2.26	2.27	2.32	2.37	2.47	2.52	2.39	2.27	2.52
	10yr	2.83	2.85	2.64	2.67	2.62	2.67	2.72	2.77	2.82	2.83	2.62	2.82

Figure 3: Forecast for FX and Oil Price

		2022	2023				2024				2022	2023	2024
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
USD/JPY	Range	130.58 ~ 151.95	127.23 ~ 137.91	130.64 ~ 145.07	137.25 ~ 149.71	138.00 ~ 152.00	133.00 ~ 147.00	126.00 ~ 140.00	128.00 ~ 142.00	128.00 ~ 142.00	113.47 ~ 151.95	127.23 ~ 152.00	126.00 ~ 147.00
	End of quarter	131.12	132.86	144.31	149.37	145.00	140.00	133.00	135.00	135.00	131.12	145.00	135.00
EUR/USD	Range	0.9633 ~ 1.0735	1.0806 ~ 1.1033	1.0635 ~ 1.1095	1.0488 ~ 1.1276	1.0100 ~ 1.1100	1.0000 ~ 1.1000	1.0100 ~ 1.1100	1.0100 ~ 1.1100	1.0200 ~ 1.1200	0.9536 ~ 1.1495	1.0100 ~ 1.1276	1.0000 ~ 1.1200
	End of quarter	1.0705	1.0839	1.0909	1.0573	1.0500	1.0400	1.0500	1.0600	1.0600	1.0705	1.0500	1.0600
EUR/JPY	Range	138.81 ~ 148.40	124.40 ~ 145.67	142.55 ~ 158.00	151.42 ~ 159.76	148.00 ~ 162.00	141.00 ~ 155.00	135.00 ~ 149.00	135.00 ~ 149.00	136.00 ~ 150.00	124.40 ~ 150.00	137.39 ~ 162.00	135.00 ~ 155.00
	End of quarter	140.41	144.01	157.43	157.93	152.25	145.60	139.65	143.10	143.10	140.41	152.25	143.10
Crude Oil Prices (WTI)		82.64	75.99	73.67	82.22	89.50	85.50	79.50	80.50	80.00	98.74	80.35	81.38

※ Crude oil prices are averages for each period. Source: SMBC.

## Disclaimers

This document is provided by SMBC Group (including, collectively or individually, Sumitomo Mitsui Banking Corporation, SMBC Nikko Securities America, Inc., and their affiliates, as applicable) for informational purposes only. This document was prepared by SMBC Group's economist(s). The views, statements, assumptions and forecasts expressed herein are those of the author(s) and do not reflect the judgment of any other person or of SMBC Group. It does not constitute an offer, or solicitation of the sale or purchase, of securities or other investments. The information contained herein is obtained or derived from sources believed to be reliable, but SMBC Group and the author(s) make no representations as to its accuracy or completeness. In some cases, such information may be incomplete or summarized. This document has been prepared based on assumptions and parameters determined by the economist(s) in good faith. The assumptions and parameters used are not the only ones that could have been selected, and therefore no guarantee is given as to the accuracy, completeness, or reasonableness of any such quotations, disclosures, or analyses. Past performance is not a reliable indicator of any future results.

This document has been prepared for and is directed at institutional investors and other market professionals, and is not intended for use by retail customers. It does not take into account any specific investment objective, financial situation, or particular need of any recipient. The information contained herein should, for whatever purpose, be used solely at the discretion and responsibility of the recipient. SMBC Group does not accept any liability or responsibility for any results in connection with the use of such information. Recipients are responsible for making final investment decisions and should do so at their own discretion after conducting a careful examination of all documentation delivered prior to execution, explanatory documents pertaining to listed securities, prospectuses, and other relevant documents, and their own independent analysis and assessment of the merits of any transaction. The financial instruments discussed may be speculative and may involve risks to principal and interest.

## Conflicts of Interest Disclosures

The views, statements, assumptions and forecasts expressed herein may differ from those expressed in globally branded research produced by SMBC Group. The trading desks of SMBC Group trade or may trade as principal in the financial instruments that are the subject of this material, and the author(s) of this document may have consulted with the trading desks while preparing this document. The proprietary interests of SMBC Group may conflict with those of the recipient. SMBC Group may seek to do business with the companies mentioned in this material and the trading desks may have accumulated, be in the process of accumulating, or accumulate long or short positions in the financial instruments mentioned and may have acquired them at prices no longer available. The trading desks may also have or take positions inconsistent with the views expressed in this document or may have already traded on those views.

This material is not a research report, and neither this material nor its author(s) is subject to policies and procedures that apply to the globally branded research reports and research analysts of SMBC Group or to legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research. This means that on the date of this document, SMBC Group, and its directors, representatives, or employees, may have a long or short position in any of the instruments mentioned in this document and may make a market or trade in instruments economically related to the securities, derivatives or other underlying assets mentioned herein, in each case either as principal or as agent.

No part of the author(s) compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed herein. The personal views of authors may differ from one another.

Distribution, possession or delivery of this document in, to or from certain jurisdictions may be restricted or prohibited by law. Recipients of this document are required to inform themselves of and comply with all such restrictions or prohibitions.

© 2023 SMBC Group. All rights reserved.