Japan Watch

BoJ Watch: Jan MPM Summary of Opinions: further signals for Mar/Apr policy change

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Economics
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Further signs of nearing BoJ exit

The Summary of Opinions (SOP) of the Bank of Japan (BoJ)'s January 22-23 monetary policy meeting (MPM), released today offer further evidence that the BoJ is growing more confident in the likelihood of sustained and stable 2% inflation and therefore the exit from its current large-scale easing framework. The release reinforces the message from the January MPM and Governor Ueda's press conference (BoJ review: One step closer to normalization, 23 January 2024).

We see a very high likelihood that the central bank will exit negative interest policy (NIRP) and overhaul the current policy framework in its next two MPMs, in March and April. Though the latter remains our base case, we think the March meeting is very much live (see Exhibit 2 for calendar of BoJ-related events and key data releases).

Like Governor Ueda's post-MPM press conference this month, the Summary of Opinions of the January MPM showed a notable shift in tone from December. Whereas many of the opinions on monetary policy in December were focused on laying out the conditions for judging the 2% price stability target "in sight," January saw many members expressing confidence that those conditions are falling into place (see for example comments 3[1], 4, 6 in "Opinions on monetary policy" in Exhibit 1).

Moreover, the January Summary of Opinions suggests that at least one board member, and possibly as many 3, may have—in principle—supported policy change in January. One comment implied that conditions for a policy exit had already been fulfilled, but ultimately supported a delay out of the desire to monitor the impact of the 1 January Noto earthquake "for about the next one or two months" (comment 5, Exhibit 1).

Another comment argued for the need to move forward with normalization in order to prevent the risks of falling behind the curve (comment 14, Exhibit 1). An additional comment pointed to the need to be mindful of the possibility that "shifts in monetary policies of overseas central banks could reduce the flexibility of [the BoJ's] monetary policy," referencing factors other than domestic fundamentals to support the case for moving sooner rather than later (comment 15, Exhibit 1).

Finally in contrast to the December SOP, gone were dovish comments that advocated patience on the exit decision on the grounds that the risk of the BoJ falling "behind the curve" was low. (continued)

[1] We note that in the BoJ's English translation of the January Summary of Opinions, one comment—possibly from the BoJ leadership given its positioning near the top of the comments on monetary policy—stated that "it seems that conditions for policy revision, including the termination of the negative interest rate policy, are being met" (emphasis ours). The phrase "are being met" may create the impression that the conditions have already been achieved. But in our view, the nuance of the Japanese original (「満たされつつある」), is that the conditions for policy revision are "gradually being met" or "falling into place" (our preferred translation of the Japanese original).

Policy change won't be limited to NIRP exit

Another notable feature of the January Summary of Opinions is the increase in comments discussing specific aspects of the policy exit, once the central bank judges that achievement of its 2% price stability target is "in sight."

As Governor Ueda stated in his post Jan-MPM press conference, policy changes would not be limited to an exit from negative rates policy (NIRP) but involve a comprehensive discussion over the future of all aspects of the BoJ's current large-scale easing program (see comment 1 in "Opinions on monetary policy" in Exhibit 1). This would include the future of the risk asset purchase program, which Governor Ueda had also flagged in his earlier press conference (see comment 12, Exhibit 1).

One thing that the governor did not explicitly mention in his January press conference, but which was implied in one of the comments in the Summary of Opinions, is that the BoJ would also be revisiting its "2% inflation overshooting commitment" at the time of NIRP/YCC exit (comment 11, Exhibit 1). The commitment, which was introduced when yield curve control (YCC) was launched in September 2016, obliges the central bank to "continue expanding the monetary base until the year-on-year rate of increase in observed CPI (all items less fresh food) exceeds 2% and stays above the target in a stable manner."

That its future is up for discussion suggests to us that the commitment is likely to be formally dropped in conjunction with the exit from NIRP/current yield curve control framework, though we think that BoJ quantitative tightening (QT) will not start in earnest until 2025 at the earliest (BoJ review: One step closer to normalization, 23 January 2024).

What to watch: Uchida speech in focus

Looking ahead, we think markets will remain sensitive to BoJ headlines and wage/inflation-related data.

Note that as is the custom, one of the BoJ deputy governors is expected to give a speech to local business leaders in early February. Since deputy governor Ryozo Himino spoke as recently in December, it is highly likely that the responsibility will fall on deputy governor Shinichi Uchida, most likely in the second week of February (the date has not been confirmed yet).

Given deputy governor Uchida's central role in the policy planning process, his remarks and press conference will be closely watched as markets navigate the probability of a March move. If the BoJ are, in fact, leaning towards policy change next month, it will likely want the consensus among domestic market participants to shift further towards the March MPM. This should be reflected in a further step up in the central bank's communications over the next month and a half.

Looking further ahead, we will have 1) preliminary estimates of 4Q CY23 GDP (15 Feb);, 2) speech by BoJ board member Takata (29 Feb); 3) Rengo's tabulation of unions' FY24 Shunto wage demands (4 Mar?); 4) the results of the BOJ's large-scale special survey on corporate behavior since the mid-1990s (early Mar?); and 5) the results of the FY24 Shunto preliminary response round (15 Mar) (see Exhibit 2 for calendar of events).

Exhibit 1: Summary of Opinions of the 22-23 January BoJ MPM

The BoJ Jan MPM Summary of Opinions reflected a clear shift in tone in favor of a near-term policy exit

	January SOP
	I. Opinions on Economic and Financial Developments
	Economic Developments
①	Japan's economy has recovered moderately and is likely to continue to do so. However, there remain extremely high uncertainties surrounding economic activity and prices.
②	It is necessary to closely research and analyze the impact of the Noto Peninsula Earthquake on Japan's economy.
③	The domestic economy has been resilient on the whole and has continued to recover moderately. An increasing number of firms have reported that, with improvement in profits, they have concern over labor shortages and have positive views toward wage hikes. In addition, there have been moves to resume business fixed investment plans that had been postponed due to a rise in material prices.
④	With high uncertainties regarding overseas economies, Japan's economy is currently lackluster due to somewhat weak exports and business fixed investment. However, if overseas economies recover, Japan's economy is likely to see a clearer recovery trend.

Exhibit 1: Summary of Opinions of the 22-23 January BoJ MPM

The BoJ Jan MPM Summary of Opinions reflected a clear shift in tone in favor of a near-term policy exit

	January SOP
⑤	Even amid price rises, the level of consumer sentiment has been maintained so far, mainly due to moderate improvement in the employment and income situation as well as the effects of the government's various measures, such as those to address rising prices.
⑥	Japan's economy has not broken away from the low value-added structure due to a delay in the transformation of Japan's business models from ones that put emphasis on efficiency into ones that focus on creating value-added. It is important that new export industries are fostered, larger firms as well as small and medium-sized firms with a relatively large-scale business operation grow, and startups make great advancements.
	Prices
①	The likelihood of realizing the outlook that a virtuous cycle between wages and prices will intensify and underlying inflation will increase gradually toward 2 percent has continued to gradually rise.
②	Inflationary pressure resulting from a pass-through of the past rise in import prices to consumer prices has waned clearly.
③	It is likely that the year-on-year rate of increase in goods prices will decelerate further, while that in services prices will accelerate, supported by wage increases resulting from this year's annual spring labor-management wage negotiations. Therefore, overall, the year-on-year rate of increase in the consumer price index (CPI) is projected to be at around 2 percent for the time being, while fluctuating depending on which of these prices will have larger effects.
④	Given the rise in services prices, inflationary pressure stemming from wage increases seems to be rising. However, achievement of the price stability target of 2 percent is not yet envisaged with sufficient certainty.
⑤	There is a growing possibility that the wage growth to be agreed in this spring's labor-management wage negotiations will exceed that agreed last spring. Therefore, there is increasing momentum toward achieving a virtuous cycle between wages and prices.
⑥	Various information that has come out since the previous MPM shows that (1) wage hikes can be expected, including among small and medium-sized firms, and (2) the rate of increase in services prices has remained high, reflecting a rise in personnel expenses. Given this, it can be assessed that the likelihood of achieving a virtuous cycle between wages and prices has risen further in a steady manner.
⑦	Although some issues remain regarding the pass-through of wage increases to prices, passing on cost increases to selling prices is increasingly viewed as common and it is highly possible that the wage growth to be agreed in this year's wage negotiations will exceed that agreed last year. While there are uncertainties, achievement of the price stability target has started to come in sight.
⑧	If wage growth at major firms rises and this facilitates their acceptance of suppliers passing on wage increases to selling prices, it can be expected that a virtuous economic cycle in which prices rise in line with an increase in demand will emerge. Therefore, attention is warranted on this year's level of increase in base pay.
	II. Opinions on Monetary Policy
①	Sustainable and stable achievement of the price stability target has not yet come in sight, and thus the Bank needs to patiently continue with monetary easing under yield curve control. Going forward, if a virtuous cycle between wages and prices is confirmed and achievement of the target comes in sight, the Bank will likely determine whether to continue with its large-scale monetary easing measures, including the negative interest rate policy.
②	To achieve the price stability target of 2 percent, it is necessary that wage growth continue to clearly exceed 2 percent and that the virtuous cycle between wages and prices intensify further.
③	There is a growing possibility that wage revisions for this spring will be at relatively higher levels than in the past; in addition, economic activity and prices overall have been on an improving trend. Given these factors, it seems that conditions for policy revision, including the termination of the negative interest rate policy, are being met.
④	The Bank has likely entered a phase where it needs to determine the likelihood of achieving the price stability target of 2 percent in a sustainable and stable manner by examining individual economic indicators.
⑤	After assessing the degree of macroeconomic effects of the Noto Peninsula Earthquake by monitoring its impact for about the next one or two months, the Bank is highly likely to reach a point where it can normalize monetary policy.
⑥	Although achievement of the price stability target of 2 percent is not yet envisaged with sufficient certainty, it is necessary for the Bank to start discussing the exit from the current monetary policy, since the achievement of the target is becoming more realistic.
⑦	Regardless of the timing of policy change, the Bank needs to devise both communication and market operations so as not to create discontinuity in the market before and after the change. From this perspective, it would be beneficial for the Bank to start explaining to the public from the current phase its basic thinking on terminating the negative interest rate policy and the yield curve control framework, as far as is possible at each point in time.
⑧	Given the current outlook for economic activity and prices, it is highly likely that accommodative financial conditions will be maintained even if policy actions such as the termination of the negative interest rate policy are implemented.
⑨	Since it is difficult to determine in advance the path of the policy interest rates after the exit from the current monetary policy, the Bank needs to consider this in response to developments in economic activity and prices as well as financial conditions at each point in time.
⑩	While the sequence of steps that the Bank will take in proceeding with policy change depends on developments in economic activity and prices as well as financial conditions at each point in time, a basic principle is that measures with large side effects are revised first.
⑪	Now is an important time to consider whether to adjust the degree of monetary easing down from the current extremely powerful level. In considering this, it is necessary to discuss the treatment of yield curve control and of the negative interest rate policy and to deliberate on the inflation-overshooting commitment.
⑫	The Bank's purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) have been conducted as part of its large-scale monetary easing. It is therefore natural for the Bank to discontinue these purchases once sustainable and stable achievement of the 2 percent target comes in sight. As the purchase amount of these assets has been very small since the change in the guidelines for asset purchases in March 2021, even if the Bank discontinues the purchases, it is likely that the impact on factors such as market conditions will not be significant.
⑬	In order to sustain price rises accompanied by wage increases, it is necessary that (1) firms strengthen their earning power by enhancing core businesses and (2) they design business models that increase the value of human resources and thereby improve customer satisfaction. It is important for data that focus on progress with these efforts to be incorporated in the Bank's decision making.
⑭	In order to proceed deliberately along the path of monetary policy normalization in response to developments in economic activity and prices, the Bank needs to decide on the termination of the negative interest rate policy at an appropriate timing as a first step toward the normalization. A delay in making this decision creates the risk of undermining achievement of the 2 percent target and of necessitating rapid monetary tightening.
⑮	Shifts in monetary policies of overseas central banks could reduce the flexibility of the Bank's monetary policy. Now is a golden opportunity, and the Bank's policy decisions need to take into account that, if it continues with the current monetary policy, the accompanying side effects will remain until the next recovery phase, particularly that of overseas economies.

Source: Bank of Japan

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Exhibit 2: Calendar of key BoJ-related events

Mar-Apr data key for the BoJ's assessment of sustained and stable 2% inflation

	Date	Key events
2024	Jan-Feb	Response period for BoJ special survey on corporate behavior since the mid-1990s (part of Broad Perspective Review)
	Feb 8?	**Speech by BoJ Deputy Governor Shinichi Uchida**
	Feb 15	4Q CY23 GDP (1st estimate)
	Feb 29	Speech by BoJ board member Hajime Takata
	Mar 4?	**Rengo to announce tabulation of unions' wage demands for FY24 Shunto (as of 1 Mar)**
	Mar 5	Tokyo CPI (Feb, prelim)
	Mar 11	4Q CY23 GDP (revised)
	Mar 13	FY24 Shunto intensive response round (major unions announce)
	Mar 15	**Rengo publishes results of FY24 Shunto preliminary respond**
	Mar 18-19	BoJ MPM
	Mar 28	BoJ Mar MPM Summary of Opinions
	Mar 29	Tokyo CPI (Mar, prelim)
	Apr 1	BoJ Tankan (1Q)
	Early Apr	Regional Economic Report & Quarterly meeting of BoJ Branch Managers
	Apr 26	Tokyo CPI (Apr, prelim)
	Apr 25-26	BoJ MPM (outlook report)
	Apr 28	By-elections (3 Diet seats so far)
	Around May	2nd Workshop re: BoJ Broad-Perspective Review
	9 May	BoJ Apr MPM Summary of Opinions
	Mid-May	1Q CY24 GDP (1st estimate)
	Late May / early Jun	2024 BoJ-IMES Conference
	June	JPY40K/person flat-rate income tax reductions commence
	Early Jun	April Monthly Labour Survey (preliminary)
	Early Jun	1Q CY24 GDP (revised)
	Jun 13-14	BoJ MPM
	Mid-Jun?	End of Regular Diet Session
	Mid-Jun?	Cabinet approval of Basic Policy on Economic and Fiscal Management and Reform 2024 (Strong Bone Policy)
	Jun 24	BoJ Jun MPM Summary of Opinions
	Jul 7	Tokyo Gubernatorial Election
	Late Jul	May Monthly Labour Survey (final)
	Jul 30-31	BoJ MPM (outlook report)
	Aug 8	BoJ Jul MPM Summary of Opinions
	Sep	LDP presidential election
2025	Summer	Upper House election
	Fall	Lower House term ends

Source: BofA Global Research, Reuters, Bank of Japan

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