

Economics

Kuroda Plays Down Risk of Global Inflation Fears Hitting Japan

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► BOJ chief welcomes weaker yen, doesn't see stagflation chance

► Central bank stands pat on policy, lowers growth, price views

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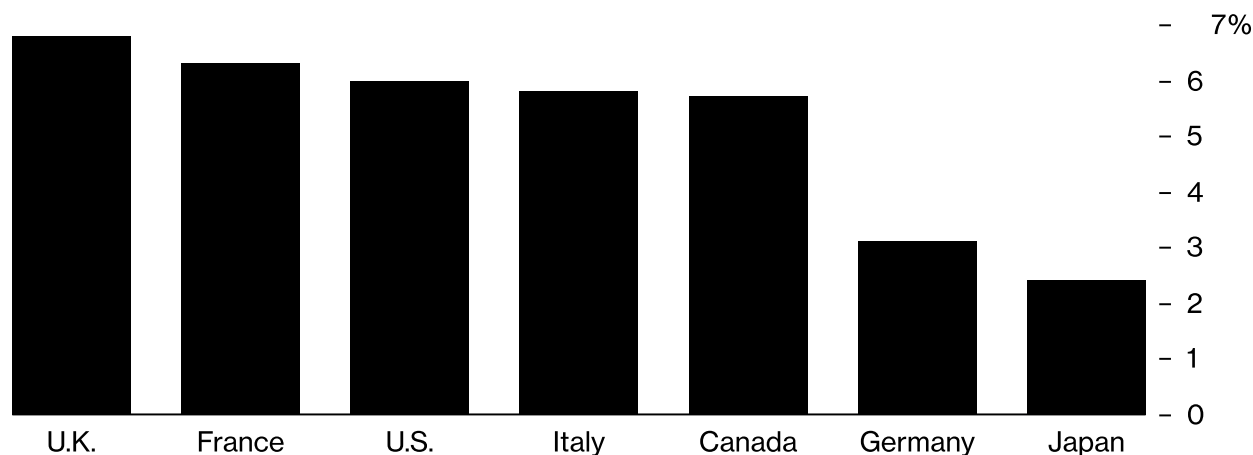
Bank of Japan chief Haruhiko Kuroda said there is scant risk of the country's inflation accelerating in the same way it has elsewhere in the world as he reinforced the message that stimulus will keep rolling in Tokyo even as other central banks pare theirs back.

Inflation trends overseas and moves by the Federal Reserve and other monetary authorities won't sway BOJ policy or soften the yen, Kuroda said at a press briefing after the central bank stood pat on policy and lowered its price and growth forecasts. That said, the recent weakening of the currency was a positive for the economy, he added.

Underlining how out of sync Japan's prices are with the rest of the world, the BOJ now sees zero inflation in the year ending in March. That view and the bank's lower growth forecast for the year indicate that it still remains a long way from any normalization of policy.

Delayed Recovery

Japan is forecast to have the weakest growth among G-7 this year



Source: IMF

"I believe that the sort of inflation acceleration risk that's been a cause of concern abroad is extremely limited in Japan," Kuroda said, spelling out reasons why the country's price pulse is typically weaker than elsewhere. Those factors include Japanese companies' tendency to absorb input cost increases rather than pass them on to consumers via higher price tags, he said.

The comments come as global central banks take action to scale back their Covid support measures as higher inflation levels continue to surprise forecasters.

The European Central Bank meets Thursday to consider its stance on inflation. The Bank of Canada ended its bond-buying stimulus on Wednesday and the Federal Reserve next week is seen announcing a pullback of its debt purchases. A move by the Fed could further buoy the dollar at the expense of the yen, which last week dropped to near a four-year low.

	BOJ'S NEW INFLATION FORECASTS	PRIOR
FY2021	0%	0.6%
FY2022	0.9%	0.9%
FY2023	1%	1%

Kuroda said another key factor for why prices abroad were currently jumping while Japan's aren't is the delayed recovery highlighted by the BOJ's lower growth forecast. Supply hasn't been able to keep up with surging demand in the U.S. and Europe as economies have opened up, Kuroda said. That's not the case in Japan where demand remains pent-up, he indicated.

For now concerns over a sudden jump in prices remain off the agenda of policy makers here. The recovery, a return to semi-normal life and income inequality are the central themes in a national election this weekend. Recently installed Prime Minister Fumio Kishida is expected to hold on to a majority in the vote and then unveil an economic package worth "tens of trillions" of yen in the coming weeks to support growth.

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Factoring in the impact of a recovery delayed by a summer virus wave and global supply constraints, the central bank now sees the economy expanding 3.4% this fiscal year. The BOJ said the supply issues and developments in overseas economies are among the main risk factors going ahead, rather than singling out Covid. If the effects of the supply bottlenecks are

prolonged, the economy could take a further downward track from its main scenario, the bank said.

Still, the recent “slight” weakening of the yen would help the recovery, Kuroda said, adding that the level was still in line with economic fundamentals. He said a growing policy divergence with the Fed wouldn’t directly affect its level.

“While this isn’t immediately on the horizon, it’s possible that the BOJ will face a weakening of the yen stemming from policy divergence that becomes problematic for the economy,” said Masaaki Kanno, chief economist at Sony Financial Holdings and a former BOJ official. “Then they could get in real trouble with the inflation target still likely far off.”

	BOJ'S NEW GROWTH FORECASTS	PRIOR
FY2021	3.4%	3.8%
FY2022	2.9%	2.7%
FY2023	1.3%	1.3%

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“Its assessment of risks to growth and inflation appears to be gradually shifting to post-Covid factors... (That) may signal that the BOJ is starting to discuss post-Covid policy management, including green financing and how its Covid-related corporate funding support program will fit into the picture as the recovery proceeds.”

--Yuki Masujima, economist

To read the full report, [click here](#).

There are no signs in Thursday’s report of the BOJ paving the way toward a normalization of policy anytime soon, said Mari Iwashita, chief market economist at Daiwa Securities.

“The BOJ just isn’t feeling the heat of inflation like other central banks,” she said. “In the absence of wage growth, they are also aware that inflation led by higher commodity prices and a weak yen would end up weighing on households.”

(Adds comments from Governor Kuroda’s press briefing)

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