

## Introduction

At the MPM in late October, members of the policy board revise their semi-annual outlook and the BOJ announces its central tendency. As expected, it is very hard to identify the differences in this new outlook from those in July. As a result, the issues raised at the press conference today were rather technical. Let me nevertheless discuss some of them which could have implications for the future course of QQE..

## Growth rate for FY 2014

It would be needless to emphasize that the growth rate for FY 2014 has critical significance for the QQE. This is not only because FY 2014 is virtually the last year for inflation targeting by the BOJ, but also because it will be the first year when we would have the impacts of consumption tax hike (for the first round to 8%).

As a median of the forecast range, members of the policy board revised up the outlook (from +1.3% to +1.5%), which attracted some attention by reporters at the press conference today. Readers may like to recall some probable factors behind the revision. First of all, as Governor Kuroda clearly admitted, higher rate of consumption tax would have negative impacts on consumption expenditure at least in FY 2014. On the other hand, as Prime Minister Abe announced earlier this month, the government will launch the fiscal stimulus to reduce such negative impacts.

Interestingly, some press reporters asked Governor Kuroda whether there is any hidden downward revision for the outlook. From their viewpoints, negative impacts by consumption tax hike have already been taken account of in the outlook in July. Moreover, positive effects by the fiscal stimulus would be much larger than the contribution to GDP by 0.2% point s.

Governor Kuroda suggested that magnitude of the revision may be dependent on some technical reasons. In fact, the contribution could be smaller than the announced size of fiscal package (¥5tn) depending on the composition of concrete measures. In addition, the fiscal expenditures concerned could probably be distributed for at least two years.

It should still be noted, however, the BOJ may have revised down the expected negative impacts by consumption tax hike for FY 2014. According to the summary statement of their new outlook, members of the policy board highlighted the factors (including the fiscal stimulus) to reduce the impacts. This could be additional source of discrepancies of the inflation outlook between the BOJ and the private economists.

## Rise in wage

Since the introduction of QQE, there has been a shared view (between the BOJ and the markets) that wages would be a key factor for inflation in Japan in coming months. It would also be important to note that the negative prospects of higher wages have become one of the important sources of skepticism about the achievement of inflation target.

A few reporters again asked the views of Governor Kuroda today on this issue. While he advised that we should not expect higher wages in short-period of time, Governor Kuroda insisted that he is still bullish in outlook of wages. According to his comments, 1) significant improvements of corporate profits, 2) tightening labor markets (especially in some non-manufacturing sectors) and 3) the government initiative could gradually function for higher wages in coming months.

There are some caveats, however. First, like the case of the US, pace and magnitude of improvements of labor conditions may be diversified as suggested by the BOJ. Furthermore, mis-match of demand and supply could be included. Second, and more importantly, it may be desirable for Japanese corporations to use their profits for more productive activities (R&D etc) at least for the time being. It is crucial for us to regain competitiveness in global markets, and this is why reducing the tax burdens for corporations is one the of the pillar of “third arrow” of Abenomics.

All in all, we need some patience before higher wages, and their contributions to inflation could function as a booster in the later stages, not a starter for now.

## Portfolio re-balancing

As the overall review of the first six months of QQE, a senior press reporter asked Governor Kuroda whether the portfolio re-balancing has functioned well as transmission of policy effects. Readers may like to note again that this is a source of skepticism about the effectiveness of QQE. In fact, major domestic institutional investors have reportedly kept purchasing JGBs rather than stocks or foreign assets.

Governor Kuroda referred to some interesting observations as the evidences of the portfolio re-balancing. First, the aggregate outstanding amount of bank lending has been growing moderately but continuously. Second, the major commercial banks have reduced exposures to JGBs since April (as evidenced by their public disclosures).

These two factors may be inter-connected and could have positive implications as a whole, if the banks face increasing demands for bank lending on the back of the economic recovery, and the major banks have raised the necessary funds through liquidating the JGBs.

Nevertheless, smaller banks have rather increased exposures to JGBs, according to the most recent issue of the FSR by the BOJ. From the viewpoint of economic recovery, such asymmetric reactions among banks would imply diversified economic recovery again. Moreover, this could have some implications for our financial stability from long-term perspectives.

In any case, Governor Kuroda have good reasons to emphasize the other mechanism of policy transmission including negative real interest rates on investments and consumption by the removal of deflationary minds. In this respect, QQE has been successful in their initial priority of changing expectations. Nevertheless, as Governor Kuroda admitted, improved sentiments should be supported by the “real” acceleration of economic growth and inflation in coming months.

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