

Introduction:

As a simultaneous commentator of a Nikkei CNBC program over the press conference by Mr. Kuroda, I felt somewhat comfortable than previous cases. Because major part of the questions were widely expected by the markets. Moreover, large part of attention by the observers may have been diverted to PM Abe's comment on prospective reduction in corporate tax rates. I would nevertheless think it is important to review some points that Governor Kuroda raised.

Upward correction of global economic outlook

As an article of Nikkei newspaper suggested, the BOJ expressed more positive outlook of global economy. While we should wait for the release of BOJ's monthly reports for details, Governor Kuroda explained that the BOJ expects acceleration in the US economic growth for coming quarters. As a straightforward implication, it could benefit our exports both directly to the US and indirectly through Asian economies.

Such bullish outlook of overseas economies is consistent with expected path of our economy and inflation toward 2015 by the BOJ. It would however raise some concerns in the markets, because we may at the same time be observing some sighs of deceleration in economic growth both in the US and Europe.

Even if some downside risks are realized, our economy could show resiliencies in terms of growth rates in coming quarters. I still suspect, however, reduction in profits of exporting firms could have some impacts on the momentum of business investment. Moreover, expected time of achieving the inflation target may be delayed, mostly because the aggregate demand and supply conditions may become less tight.

Views on global economies in any case would attract attention at the mid-term review of economic and inflation outlook by the BOJ, which is scheduled on the next MPM on 15 July.

Policy package the ECB

A number of reporters today raised some issues in relation to the recently announced policy package by the ECB. First of all, they wonder if the euro-area economy would fall into the kind of economic condition which we have been suffering from. At least from their points of view, there appear to be some common aspects between the euroarea economies now and our economy then.

Governor Kuroda expresses some concerns about disinflation, but he reiterated that there is less risk of deflation there thanks to gradual economic recovery and anchored expectation of inflation. Emphasizing the role of inflation expectation is apparently consistent with the idea of the BOJ's QQE.

Another interesting issue the reporters raised was the potential impacts on JPY rates by the policy package by the ECB, negative interest rate in particular. Governor Kuroda strongly argued against the possibility. He in fact repeated his recent comment that there would be no reason to expect JPY would appreciate against EUR for the time being.

Readers may agree that this tone of comment might be too strong in light of a common practice in the central banking community. Governor Kuroda could conduct this kind of communication as an old boy of international financial

community. Or, he may think that it is utmost important to maintain the current condition of JPY rates, because this has been one of the important venue for policy transmission for an unconventional policy like QQE.

Economic growth strategy

Many press reporters asked about his evaluations on the major outline of economic growth strategy by the cabinet office, which will deal with some homework of the "Third arrow" postponed from the previous year. Governor Kuroda insisted that it should include policy measures for boosting business investment and R&D activities as well as for encouraging senior people and women to participate in labor markets.

This line of thoughts is consistent with his concerns about the prospective constraints of aggregate supply, which Governor Kuroda insisted at the previous press conference.

His discussion on aggregate supply seemed to cause some confusion in the market. Some experts in fact asked me if Governor Kuroda had changed his policy idea from "re-flation" school to structural reform school.

In my view, Governor Kuroda maintains the original idea of QQE, and the strong commitment in achieving the target. He might start to be concerned, however, if our economic growth would be moderate at best when the inflation target is achieved. Possible criticism by general public and politicians would undermine the significance of QQE. Realizing more "balanced" economic conditions could become crucial for the BOJ, and this would be the reason why Governor Kuroda tried to encourage the government to tackle the growth strategy more seriously.

Another (and possibly more important) reason would be the fiscal condition. While the efforts for reducing expenditures on some important policy front would be required, higher and sustainable economic growth is apparently indispensable for our fiscal consolidation. And it would be needless to say that maintenance of fiscal stability is also crucial to the functioning of QQE by the BOJ, which includes extremely large scale purchase of our government debt.

Challenge for the BOJ in this respect are due to the fact that the BOJ has less to do directly with the supply side of the economy. This is why Governor Kuroda sends some messages to the government as we discussed above. Readers would like to recall the similar challenge for the FRB with regard to the labor conditions.

While we would agree with these difficulties, we could still argue that the central bank could contribute to aggregate supply conditions through stimulating aggregate demands; increasing business investment and employment would in turn increase capital and labor stocks that could contribute to long-term economic growth.

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