

## Introduction

Large part of the discussion at the press conference today was the assessment of overseas economies (emerging economies in particular) and its implications for us. It was interesting that only one reporter raised the issue of monetary policy, in spite of its growing debate in the market.

## Assessment of economy

The policy statement today referred to negative impacts from emerging economies, by adding the term three times (see 3rd paragraph). All in all, the MPM admitted that slowdown of emerging economies is dragging our exports and domestic production as a result.

Nevertheless, the MPM maintained their view of gradual expansion of our economy. They reiterated their view that private consumption is resilient, thanks to continuous improvement of employment and earnings. Moreover, the MPM rather upgraded their assessment of business investment due to elevated level of corporate profits.

Number of press reporters challenged this modestly optimistic view. First of all from international perspectives, many of them asked Governor Kuroda whether he maintained constructive view on Chinese economy. Governor Kuroda insisted the long-term positive view on China because of remaining rooms and capacities of macro economic policies.

In addition, some press reporters expressed concerns about further negative impacts of the FRB's prospective rate hike on the emerging economies. Governor Kuroda avoided any specific comments on the FRB's policy, but he reiterated the view that a rate hike in general could imply the confidence in the economic expansion in the US.

In terms of our economy, attention of the reporters today concentrated to our business investment. This is not only because it would function as the venue for transmitting negative shocks in overseas economies, but also it remains to be one of the major economic pillars that recorded positive developments. Governor Kuroda maintained the bullish outlook as discussed above, while he admitted that corporate sentiment could have become somewhat cautious due to uncertainties about emerging economies and higher volatilities in the markets.

## Outlook of inflation

Governor Kuroda insisted again that the underlying inflation remained stable. According to his accounts, it is evidenced by several indicators including 1) tightening aggregate supply/demand gap, 2) stable inflation expectation as most indicators suggest, 3) positive dynamics of wages and 4) improving pricing power of firms. As a result, Governor Kuroda reiterated his expectation that 2% target of inflation could be achieved sometime in the 1H of FY2016, while he exact timing could somewhat fluctuate depending on the price dynamics of commodities.

Observers could discuss the inflation outlook differently. In fact, some press reporters effectively expressed skepticism about factor 1) by showing concerns about momentum of our economic expansion. Others raised the issues of 2) by referring to some signs of its deceleration of inflation expectation in the market. All in all, these discussion effectively represented the recent debate in the market.

## Additional stimulus

Major line of thoughts on the management of QQE has been changing in the market since early summer. Pressure of request to the BOJ to enhance the QQE because of diminishing prospects of achieving the inflation target appear to be weaker. This seems to be in line with "flexible" management of the QQE as suggested by Governor Kuroda.

One possible reason could be thoughts on "side-effects". One of the major venue of policy transmission of the QQE has been foreign exchange rates. While depreciation of JPY could bring about a number of benefits to our economy, its further depreciation under the current environment could have some side-effects.

Moreover, it could require a different line of thoughts in the BOJ, if a downside risk scenario of economy becomes convincing. Further slowdown of economic activities could prevent our economy from growing at its potential growth rate. It could further have downward pressures the inflation. Against such conditions, enhancement of monetary policy would be a normal course of business for a central bank, regardless of its inflation target.

In light of the transmission mechanism of external shocks as discussed by Governor Kuroda as above, outlook of business investment would be a crucial factor for policy decision. Among all, underlying momentum of business investment that could be apparent after the market volatility has settled would be important.

This is the reason why there is a growing attention in the market to the next TANKAN survey which will be released on October 1<sup>st</sup>. In any case, the MPMS in October could be pivotal points of the QQE again this year.

## Expert of foreign exchange policy

Interestingly, press reporters referred to the books written by Governor Kuroda before he joined the BOJ. One is about flexibility of CNY rate, and the other is about diplomacy over currency policy.

On the former topic, a press reporter asked about the idea of the PBOC's action last month. Governor Kuroda insisted that international financial community share the understanding that it is a step toward long-term strategy of enhanced flexibility, rather than simple devaluation.

On the latter topic, another press reporter asked about the rationale of CNY's prospective inclusion to SDR's basket, and Governor Kuroda avoided any specific comment. Nevertheless, the author shares the sincere regret with the reporter that our own initiative to internationalize JPY has already lagged behind substantially.

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