

Introduction

At the first sight of the policy statement, I was impressed by a number of risk factors that could allegedly undermine the sentiment of firms and households. Nevertheless, large part of discussion at the press conference today was related to carried over issues of the negative interest rate policy (NIRP).

Let me discuss the implications of the press conference today, including those caused by a potential gap of communication as noted above.

Assessment of economy

The MPM maintained its current outlook of economy and prices as its main scenario. The policy statement reiterated its constructive views on both private consumption and business investment, referring to favorable conditions including improving income and record-level of profits.

It should be noted, however, the MPM made a clear downward revision of its short-term outlook of global economy, due to slowdown of some emerging economies. They admitted that our export has been under pressures of stagnant overseas demand. Moreover, the MPM suspected that there may be signs of gradual drop in inflation expectation, although they have a long-term confidence in its upward dynamics.

Looking ahead, the MPM added a number of risk factors to its existing pool. They included development of the US economy, potential spillover effects of the policy rate hike by the FRB and geopolitical tension. Moreover, they referred to China as a source of global uncertainties. Then the MPM sent a warning that these factors could increase volatilities of the markets, which could affect the sentiment of economic agents.

In my view, such warning message would have non-negligible implications. Readers may like to note that such warnings were sent even when we started to feel some signs of stabilization of the markets. Furthermore, this line of thought was the reason for the introduction of NIRP in January.

NIRP in light of costs and benefits

Large part of the discussion at press conference today was devoted to the issues related to NIRP, however. Some press reporters expressed the skeptic views on NIRP, either referring to the developments of financial markets and FIs since its introduction, or raising the issues of potential imbalances between the cost and the intended effect.

Among the issues, possible negative impacts on household could be crucial for NIRP, because it could prevent the recovery of private consumption through deterioration of their sentiment. Governor Kuroda denied such mechanism by complaining about exaggeration of the costs against the benefits. He confirmed that household could enjoy the benefits of lower rate applied to housing loans from longer-term viewpoint, for example.

A press reporter even criticized Governor Kuroda, because the modification of the treatment of MRF under NIRP (decided today) appears as the symptom of ill-prepared policy option. Governor Kuroda argued that they took full account of its negative impacts on financial industry and the exemption of MRF was a part of such idea. Moreover, he explained that MRF should deserve a special treatment, because it could function as the source of “portfolio rebalancing” by domestic investors.

All in all, Governor Kuroda reiterated the MPM's confidence in the performance of NIRP from medium-term perspectives. He pointed out the overall downward movement of a range of interest rates. According to his account, nominal negative rates coupled with some degree of inflation expectations have been driving the real interest rates into negative territory as well. It is indeed a significant achievement, which could pave the way to increase in economic activities.

Readers may also like to note that most of the explanation of QQE by Governor Kuroda is now conducted by way of interest rate rather than the quantity of funds. With this respect, introduction of NIRP could become a pivotal point of time during the course of dynamics of their policy idea.

Dialogue with the market

Highlighting a number of risk factors and sending its warning message in the policy statement this time might be intended to imply that the MPM has some easing bias toward the next MPM. In fact, the next meeting could be a pivotal one, as the MPM conducts its semi-annual review of its outlook of economy and prices. Appreciation of JPY during these months alone could pose a threat to achieving the 2% target sometime in the first half of 2017.

Nevertheless, concentration of attention to the issues of NIRP at the press conference might make an unintended impression of the near-term management of QQE. Because, Governor Kuroda explained for several times today that we should wait for a while before NIRP could have meaningful impacts on our economy. It could be misunderstood as the BOJ would take wait and see stance for managing QQE.

A risk of misunderstanding of inaction by the BOJ would disappear in the end. We should be aware, however, there is a growing debate about a possible boundary of unconventional monetary policy in major economies. Under such environment, some could draw an impression of policy challenges of QQE in an exaggerated manner.

Keeping a fine balance

During the course of the press conference today, toughest question to Governor Kuroda would be about his opinion on the next hike of consumption tax rate. From long-term perspective, Mr. Kuroda have actually encouraged the efforts by the government for fiscal consolidation. Nevertheless, there might be a risk of (temporary) negative impacts on our economy, which could push further away the achievement of inflation target.

As a principal, the BOJ should take for granted any decision in the parliament on this tax issue in conducting QQE, as Governor Kuroda explained. In any case, both long-term fate and short-term performance of QQE would be dependent on this important political decision at least to a certain degree.

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