

Introduction

Not a small number of press reporters asked Governor Kuroda about his review of the BOJ's policy performance for the past five years, as his first term ends. Nevertheless, their focus of attention was the prospective idea or plan of "normalizing" the QQE in coming years.

Achievements of the QQE

In reply to some questions, Governor Kuroda showed confidence in reviving our economy with the QQE. According to his accounts, our firms enjoy the record level of profits, and our households become better off thanks to full employment and modest wage growth. While the current rate of inflation appears to be frustrating, it's prospects become much favorable both in terms of aggregate demand and supply as well as gradually improving inflation expectation.

Interestingly, Governor Kuroda raised the issue of communication policy with reference to the panel discussion by central banks several weeks ago. He admitted that communication of monetary policy would be so difficult in comparison with that of fiscal policy. It is because the effects of monetary policy is hard to be identified due to its nature of transmission of effects.

In the meantime, a few of the reporters raised the risk of monetization of government debt as a potential side effect. Governor Kuroda strongly denied the risk and explained that the monetization refers to the situation when the Government relies on the central bank to borrow funds. According to Governor Kuroda, the BOJ has conducted the QQE solely for the purpose of monetary policy.

While the accounts of Governor Kuroda sound reasonable, attention to this kind of risk from long-term perspective is shared not only by the press reporters but also by the domestic market. It is because the lack of meaningful sense of fiscal consolidation.

Mode of policy normalization

Readers may remember the press reports last week about Governor Kuroda's inference of policy normalization. While Governor Kuroda mentioned that the BOJ could discuss the exit as early as FY2019, which would be consistent with the BOJ's expectation of achieving the inflation target (sometime in FY2019), the comment seemed to be quoted improperly.

As a result, the markets misunderstood that the BOJ would start the process of policy normalization in FY2019. In fact, it would be apparently violate the BOJ's forward guidance that requires to secure the actual rate of inflation as above 2% in a stabilized manner in order to exit from the QQE.

While Governor Kuroda had opportunities to explain his intension of the above comments, press reporters raised some related and technical issues. For example, a couple of them asked if the QQE would be more effective when our inflation expectation improves. Governor Kuroda confirmed such mechanism, but expressed his skeptic view against the need for adjusting the effectiveness. He insisted that earlier achievement is utmost important.

Other several reporters asked if the BOJ had already started "stealth tapering". It would be easy to claim that this is not be the case; Nevertheless, the BOJ needed to seek understanding by the reporters that the gyration of policy instrument had already shifted from quantity to interest rate. It is therefore still a potential source of miscommunication.

Last not in the least, Governor Kuroda reiterated his idea that any reference to policy normalization in earlier phase of improving inflation would undermine the effect of the QQE. While he implied some internal discussion within the BOJ, he may think that sharing the implication with the outsiders would be too early .

Twentieth anniversary

2018 is the twentieth year since the current BOJ law became effective. In light of this memorial time, several press reporters raised the fundamental issues of the BOJ. (For your reference, our Financial Markets Panel will also organize a conference on global central banking in 20 years).

First of all, a press reporter asked whether the BOJ is independent in terms of policy instrument. In fact, Professor Wakatabe who is one of the newly selected Deputy Governor by the cabinet office, reportedly mentioned that it is the case with the BOJ. Governor Kuroda, however, explained that the BOJ voluntarily introduced the framework of inflation targeting and its 2% target, while the BOJ is delegated the role of contribution to our national economy through monetary policy.

More interesting question was raised by another reporter: which would be desirable to have Governor and Deputy Governors would share the same opinion. Governor Kuroda pointed out that, according to the BOJ law, they should function as individual members of the policy board. Nevertheless, Governor Kuroda expressed his personal view that Governors and Deputy Governors should of course collaborate with each other.

Motivation

Press conference today was the first time for Governor Kuroda to explain the reason why he accepted the request of the cabinet office (effectively Prime Minister himself) to renew his term as Governor. He mentioned it was because he has something to do with inflation rate which continues to be underperforming against the target.

While we all admit that our economy has become much closer to the inflation target than we were in March 2013, we might have divergent views whether we would achieve the target within a reasonable timeframe.

Author: Tetsuya Inoue
General Manager and Chief Researcher
Financial Technology and Market Research Department
Nomura Research Institute

This note is intended solely for informational purposes and should not be construed as investment advice. The author does not guarantee the accuracy or completeness of the information contained. Opinions in this note are those of the author and do not represent the views of Nomura Research Institute or Financial Technology and Market Research Department. This note is exclusively for the personal use of those receiving it directly from the author.