

Introduction

Following the official announcement of the reappointment of Governor of the BOJ, Mr. Kuroda conducted a press conference in the evening of yesterday (April 9th). Not surprisingly, large part of the discussion was spent on the prospects of monetary policy including policy normalization, which would be probable during his renewed term of five years.

Evaluations of policy performance

Before reviewing the discussion on prospective policy conducts, it would be worth paying attention to Governor Kuroda's evaluation of the QQE for the last five years.

In reply to critical comments by some press reporters, Governor Kuroda confirmed his constructive view on the positive effects of the QQE with reference to gradual but secure improvement of inflation. He also explained that it would naturally take time to anchor the inflation expectation at 2%, due to its formation in an adaptive manner.

Regarding the concerns about side-effects of strongly accommodative policy, Governor Kuroda confirmed that it is important to taking account of potential impacts on financial intermediation in light of its function of transmitting effects of monetary policy. Nevertheless, he reiterated the opinion that we have not observed any serious impacts on financial intermediation for the time being.

Prospective conducts of monetary policy

Interestingly, a few press reporters asked Governor Kuroda about potential policy instruments if the BOJ decides to enhance monetary easing. They raised the concerns about slowdown of our economy incoming years when the expansion of overseas economies decelerate, our government raises the consumption tax rate, and our investment boom ends after the Olympic games in 2020.

First of all, Governor Kuroda expressed somewhat optimistic views on the domestic sources of concerns. He claimed that potential negative impacts of consumption tax hike would not be so large, because its margin of revision is small and the cabinet commits to utilize a part of its revenue for building human capital. He also expressed his hope to observe pent-up demands of private investment after deceleration of public investments in light of tight labor conditions.

This line of argument by Governor Kuroda was also an answer to the question whether the BOJ should prioritize in securing the "space" of monetary stimulus against next round of economic recession. He emphasized that it is utmost important to maintain the QQE when we are observing some good signs of inflation. In fact, Governor Kuroda reiterated the BOJ's commitment in pursuing the 2% inflation target several times during the conference, which actually became the headlines of major press reports.

In contrast, several other press reporters raised the issues of policy normalization. They pointed out that it would be necessary to discuss these issues in advance, if the BOJ expects the achievement of inflation target sometime in FY2019. Moreover, they claimed that its communication to the markets in an appropriate manner would be crucial.

While Governor Kuroda agreed with the importance of its communication policy, he confirmed his position that it would not be desirable for the BOJ to explain their strategy of policy normalization well in advance of achieving the inflation target. According to his comments, concrete policy actions and their sequences for normalizing monetary policy would crucially depend on the conditions of economic activities and inflation as well as financial environment. This is why too early communication could cause volatilities in the markets.

Nevertheless, there might be slight changes in Governor Kuroda's comments on policy normalization yesterday. First, he referred to a set of instruments for policy normalization in general terms. In fact, Governor Kuroda expressed the confidence in maintaining the stability of the markets by utilizing redemption of JGBs, various measures of reserve absorption, and interest rate on excess reserves.

Second, he confirmed the commitment in maintaining the YCC until it becomes sure to achieve the 2% inflation target. He also affirmed the another commitment in maintaining the expansion of monetary base even after the target is achieved, and explained it would be the time to discuss policy normalization.

These two sets of comments would have some implications. First, we could expect that the set of instruments for policy normalization by the BOJ would be largely the same as those used by the FRB. Second, there would be a possibility of non-negligible time lag between modifying the YCC and exiting from the overshoot commitment.

Collaboration with the government

Another interesting part of the press conference was the discussion on "the joint statement" by the BOJ and the government. Readers may like to note that it has attracted renewed attention in our market from the different viewpoints. Those who claim the importance of early achievement of inflation target tend to rely on the joint statement to request further monetary stimulus. In contrast, those who are skeptic about the significance of achieving the 2% target tend to argue that the joint statement should be revised.

Governor Kuroda explained that, at the time of official re-nomination, Prime Minister Abe requested him to conduct monetary policy appropriately to achieve the target, and he replied that he would make every effort to do so as clearly stipulated in the joint statement.

As readers would be aware, however, crucial element of policy normalization by the BOJ is the long-term sustainability of fiscal condition, which is another part of the joint statement.

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