

Introduction

At the testimony on August 23rd, Governor Ueda explained that major reason of the market disruption in early August was the pessimism of US economic outlook. He also confirmed that the BOJ raised its policy rate at July MPM both because it became confident about the achievement of inflation target and aware of upside risk of import prices.

Market disruption

Readers may like to note that the both houses of the parliament set this unscheduled testimony to discuss the causes and implications of the market disruption in early August.

Governor Ueda explained that the major reason was the pessimism of US economic outlook triggered by a series of major economic indicators. He admitted that the policy rate hike by the BOJ had some impacts on JPY rate.

Furthermore, Governor Ueda insisted that correction of such pessimism as well as good prospect of corporate profits in Japan provided supports to prevent further volatility in stock and foreign exchange markets. He nevertheless mentioned that careful monitor was warranted as the markets remained instable

Members of the parliament (MPs) broadly agreed with the views above, while some of them argued that the lack of common understanding of the BOJ's policy strategy aggravated the situation.

Governor Ueda confirmed the importance of dialogue with the market as it is the major venue of policy transmission. He also committed to make efforts of communication through various channels including speeches and press releases.

Rationale for policy rate hike

Some MPs argued that lagged normalization of monetary easing caused excess accumulation of investment positions, leading to their large and sudden correction.

Governor Ueda pointed out that the QQE had the commitment to maintain its framework until the BOJ becomes confident of the outlook of achievement of inflation target in stable and sustainable manner. He also explained that the series of policy rate hikes this year were consistent with the idea.

On the other hand, some MPs argued that the policy rate hikes were too early. They claimed that sustainability of wage increase among SMEs remained uncertain. Moreover, other MPs expressed concerns about increases in financial costs for SMEs and households.

Governor Ueda expressed confidence of broad-based wage increase across the sizes of firms, based on economic indicators as well as the BOJ's special survey. He also explained that the BOJ would maintain monetary easing to support the efforts of firms to improve productivity.

Moreover, Governor Ueda insisted that firms and households could benefit from rising interest revenue from their ¥1000trn deposits. Finally, he insisted that monetary easing remained even after the policy rate hikes.

A few MPs criticized the Governor's comment at the press conference on July MPM. He suggested that it was inevitable to observe firms that could not adjust to rising interest rates. In reply, Governor Ueda confirmed that the BOJ would closely monitor the impacts of rate hike.

Based on these discussions, many MPs asked the prospects of policy normalization. They also raised the speech of Deputy Governor Uchida on August 7th. On the one hand, some of them insisted cautiousness of policy conducts toward risk of market instability. On the other hand, others claimed monetary policy should not pay too much attention to market dynamics.

Governor Ueda confirmed the guidance that monetary policy depends on the judgement whether inflation evolves along the path of achieving the target in stable and sustainable manner. He nevertheless mentioned that the BOJ closely monitor financial markets, and he suggested that the views of Governor and Deputy Governor remained consistent.

Financial soundness of the BOJ

Interestingly, a number of MPs raised this topic including the issues of potential valuation loss from holding JGBs and realized loss from paying interest on excess reserve.

In stock terms, Governor Ueda confirmed that loss would not realize from holding JGBs, as far as the BOJ holds them until maturity. The reason is JGBs are valued on original costs basis. He also mentioned that the BOJ had no idea to sell JGBs in the market as part of its QT.

Reactions of MPs diversified. A few of them argued that the BOJ should accelerate the pace to reduce JGB holdings with reference to the current case of the FRB. Some others insisted that the BOJ should be cautious about its QT with paying much attention to market impacts.

In flow terms, Governor Ueda admitted that negative interest margin would remain for the time being, as the rate of returns of assets were low. He nevertheless expressed the view that seigniorage would turn positive in the end. This is because the rate of return from JGBs would gradually improves and outstanding of banknotes (with zero yields) would provide supports.

It should also be noted that several MPs asked the stance against ETF holdings. They seemed to be based on the concerns about the BOJ's presence as major stake holder of firms, or on the importance of dividend revenue for the BOJ.

Governor Ueda confirmed that there was no plan to sell ETFs and expressed that careful discussion was warranted. He also mentioned that prevention of both market instability and realizing loss would be the keys to consider.

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