

Introduction

In contrast to the US and the euro area, our economy is still distant from 2% inflation. Interestingly, however, there is a growing debate in our market about normalization of the monetary policy as well as its potential costs. Reflecting such circumstance, a number of reporters raised this issue at the press conference today.

Assessment of economic activities

Before discussing the issues regarding normalization of the QQE, I briefly cover the BOJ's assessment of our economy.

The monetary policy meeting (MPM) confirmed that momentum of economic expansion has become modestly stronger. In fact, they deleted the phrase referring to remaining weakness of emerging economies, and upgraded the strength of private consumption.

In the meantime, the rates of inflation - especially in relation to underlying trends - remain weak. Governor Kuroda, nevertheless, reiterated the view that we have seen some signs of wage hikes for part-time jobs that would be most sensitive to labor conditions. Moreover, he insisted that the increase in annual wages for workers at large firms for four consecutive years is an encouraging evidence. According to the BOJ's view, gradual increase in nominal wages would push service prices in the end.

Normalization of QQE

As at the previous press conference in April, large part of the discussion was devoted to the issues of normalization of the BOJ's monetary policy.

Interestingly, a press reporter asked the reason for growing attention to these issues in spite of failure to achieve the inflation target until now. Governor Kuroda raised a couple of potential reasons including; 1) domestic markets may be affected by recent policy actions by the FRB and the ECB, and 2) performance of our economy has substantially improved.

Readers might wonder if 2) above would be the case. It could have significant implication for the mandate of the BOJ, if this comments imply that our general public may be satisfied with the current economic condition without 2% inflation. In other words, public's view on the balance of cost and benefit of the inflation target may have evolved.

In addition to the two hypotheses above, we could raise a third reason. At least some economists and market participants expressed concerns about potential losses and costs during the process of policy normalization. In fact, some politicians have invited Governor Kuroda and the BOJ's several executives to the parliament at growing occasions, and asked how large the loss and cost would be, and their impacts on our economy and financial system.

To the requests of press reporters to explain in detail the potential loss and cost, Governor Kuroda remained very cautious. He repeated his idea that any disclosure of estimated loss or cost could be misleading, although the BOJ have some results of their internal simulation.

Its major reason is that such results would crucially depend on a number of elements including the assumption of trajectory of policy rate and shape of the yield curve, and the size of normalized balance sheet. Moreover, Governor Kuroda

properly suggested that the results of such simulation would also depend on economic fundamentals when the BOJ would successfully exit from the QQE.

Having observed these discussion, several press reporters changed the issue to announcement of the principles of policy normalization, rather than concrete figures of the simulation results. While Governor Kuroda maintained his cautious stance against it on the whole, he referred to some non-negligible aspects of BOJ's potential conducts of policy normalization.

For example, in reply to the question by a few press reporters, Governor Kuroda admitted the possibility that the BOJ could modify its ETF purchase before they start to "taper" its JGB purchase. He also implied that management of "guidance" of 10Y JGB yield as part of the yield curve control (YCC) could be a supplemental instrument to O/N policy rate and size of the balance sheet during its transitional process.

All in all, Governor Kuroda might have made another baby step toward the transparency with regard to prospective normalization of the monetary policy. This could be an efficient and effective practice for the BOJ to have dialogue with the markets. It would be all the more the case when growing number of leaders of our financial industry started to request vocally to the BOJ to maintain closed communication.

In my view, however, it would be better for the BOJ to share a brief document on the fundamental framework of policy normalization with the market, rather than to disclose it on part by part basis in replying to respective questions at different occasions. Current practice of communication of this important issue might become ad-hoc, and have some risk of its divergent understandings among the markets.

Last but not least, Governor Kuroda reconfirmed that potential loss or capital deficiency due to higher rates of interest during and after policy normalization would not cause loss of confidence in the BOJ or its monetary policy

Yield curve control

A few press reporters raised again the fact of undershooting the amount of JGB purchase under the BOJ 's guideline. They mentioned that the BOJ should modify the guideline (annual net increase of ¥80tn) downward, reflecting the recent actual performance (slightly less than ¥60tn).

While Governor Kuroda's response was the same as those at the previous occasions - the actual amount of purchase could fluctuate depending on numerous factors -, he has become somewhat straightforward about its reason. That is, Governor Kuroda clearly mentioned that the YCC is the basic framework of the QQE, and therefore the actual amount of purchase is now an endogenous variable.

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