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Press conference by Governor Kuroda—Alternative view

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Introduction

The MPM of the BOJ decided to keep the monetary stimulus unchanged with virtually the same assessment of our economy as in previous meeting. Nevertheless, the discussion at the press conference today has become interesting, thanks to dissenting vote by a new member of the policy board and recent political developments in Japan.

Optimality of the yield curve control

Mr. Kataoka voted against maintaining the policy target rates under the framework of yield curve control (YCC). According to the policy statement, he argued that they would be insufficient to achieve 2% inflation target around FY 2019, because there may remain excess supply capacity in capital stock and labor market in our economy.

Lines of discussion behind the argument are uncertain. In fact, Governor Kuroda avoided to elaborate the discussion and requested the press reporters to wait for the main opinions and the minutes covering the MPM today. Moreover, it might be difficult to identify excess supply capacity in labor market at least from macro-economic viewpoint, since our unemployment rate is already extremely low.

We could suspect, however, some excess capacity of capital stock as gross return of investment has become depressed. By using the terms of economics, we could argue that natural rate of interest has decreased due to excess supply of savings against demand of investment.

If it would be the line of thoughts by Mr. Kataoka, its implication is that the BOJ should enhance its monetary stimulus. It is again uncertain why Mr. Kataoka did not propose a concrete set of additional stimulus. Nevertheless, his dissenting vote inspired the discussion on the optimality of current YCC at the press conference.

Some reporters asked Governor Kuroda about the effects and evaluation of the YCC since its introduction about an year before. Governor Kuroda expressed his confidence in its effects on our economy, especially on labor market and business investment. While he admitted that we are still distant from 2% inflation target, he confirmed that underlying inflation has been on the right track.

In contrast to the view that the BOJ introduced the YCC in order to enhance the sustainability of monetary stimulus, idea of dissenting vote by Mr. Kataoka seem to prioritize the speed to achieve the inflation target. With this regard, Mr. Kataoka's opinion seems to be more consistent with the monetary policy framework before the comprehensive review in last September.

Moreover, we would like to know what kinds of policy instruments Mr. Kataoka has in mind. It is not uncertain, while he has been a representative figure in "reflationary" school. In any case, it would be interesting to follow his arguments and proposals at coming MPM meetings.

Implications of fiscal discipline

A number of press reporters raised the significance of fiscal discipline to the BOJ's monetary policy. Readers may like to note that Prime Minister Abe reportedly would like to invest in education and other important policy goals with the additional fiscal revenue from a next round of consumption tax hike. Recent articles of news papers suggest that the interim goal of fiscal consolidation from medium perspectives would effectively be postponed.

Governor Kuroda avoided to express his opinion, because fiscal policy is a mandate of the government and decided at the parliament. Moreover, there has not been its official announcement by Prime Minister Abe.

While Governor Kuroda admitted that fiscal discipline and its perception could cause some impacts on financial markets, he implied that its magnitude is uncertain. He also insisted that maintaining fiscal discipline is much more important for the government than for the BOJ, in order to keep conducting broad range of economic policies.

In spite of Governor Kuroda's reply, at least some press reporters were aware that fiscal condition could have non-negligible implications for the BOJ's monetary policy. One extreme case would be policy normalization with the lack of fiscal consolidation.

In principle, Governor Kuoda's line of claim would be rational. In practice, however, we could think of a complex case. If an exit of JGB purchase or a reduction of JGB holding by the BOJ in the future had some risk of destabilizing JGB market owing to concerns about fiscal discipline, the BOJ could be in a tough position. It could trigger stress in our financial system, in spite of the BOJ's mandate to maintain financial stability.

With this respect, JGB purchase by the BOJ might already be taken as hostage by fiscal condition, unless sovereign risk exposures by private sector players has become manageable.

Revitalization of Abenomics

Readers may like to note that there has been a number of articles and reports, suggesting that Prime Minister Abe would dissolve the lower house of the parliament probably in next week. Moreover, one of the issues in the coming election is reportedly the evaluation and revitalization of Abenomics.

In light of such political developments, a senior reporter of Nikkei asked Governor Kuroda whether he expects some impacts on the BOJ's monetary policy. While he of course avoided replying the question, it would be an interesting issue.

It should be noted that discussion for additional stimulus would not be so strong among general public. Such conditions may be reflected in the lines of discussion at the press conference today. Some of them asked Governor Kuroda whether the YCC is sufficient enough; but others asked him about the side effects of the QQE including undermining fiscal discipline.

In the meantime, results of the coming election could have non-negligible impacts on the nomination of next Governor of the BOJ, because the QQE has played a significant role in Abenomics so far.

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