

## Introduction

Monetary Policy Meeting (MPM) by the BOJ today decided to maintain its accommodative policy unchanged. While they noticed the recent weakness of our exports and production, they confirmed the confidence in their resiliency, taking account of the positive prospects of the global economy later this year.

## Assessment of economy

In accordance with the recent indicators of exports and industrial production, MPM modified the policy statement by referring to some signs of their slowdown. Nevertheless, they maintained the constructive views in the long run.

In replies to a number of questions by the press reporters, Governor Kuroda emphasized the positive outlook of the global economy. First of all, he pointed out the expected effects of large scale macro-economic stimulus by the Chinese government in latter half of this year.

With regard to the source of downward pressures, Governor Kuroda repeatedly pointed out China and Europe. Interestingly, he appreciated the resiliency of US economy. In addition, Governor Kuroda explained his constructive views of other developing economies in the Asian region, thanks to a pause of policy rate hike by the FRB.

According to his comment, it would relieve the pressures of capital outflows from these economies, which could enhance flexibility of the economic policy measures. Readers may like to remember that Mr. Kuroda was President of the Asian Development Bank (ADB) before he was nominated Governor of the BOJ.

Moreover, Governor Kuroda reiterated the confidence in resiliency of the domestic economy, with reference to favorable conditions of labor market, wage earnings, and corporate profits. He insisted that these conditions remained intact, in spite of the near-term uncertainties of the global economy.

## Assessment of inflation

At the press conference today, there were two major lines of discussion regarding the inflation, both of which have the taste of seasonality.

One line of discussion was about the evaluation of annual review of wages at firms. According to the press reports, the managers of large manufacturing firms appear to agree with their unions of workers with only modest increases in regular wages. This is potentially because of cautious sentiments of the managers, due to uncertainties of their global businesses.

While Governor Kuroda cautioned that we are still in the early phase of annual wage negotiation, he suggested that the overall labor earnings keep their gradual upward trend thanks to the increase in bonus payments and other benefits.

Another line of discussion was regarding the performance of the QQE in stimulating the inflation. As some press reporters mentioned, it is six years since the BOJ launched the QQE. In spite of the unprecedented scale of monetary operations, our headline rate of inflation is crawling below 1%.

Governor Kuroda pointed out that the headline rate of inflation was around 1.5% in mid-2014, but it substantially dropped since then and has never returned to such level in a

stabilized manner. He reiterated the official view of the BOJ that both the collapse of crude oil prices and the instability of inflation expectations in downward direction were the major reasons.

Among all, such characteristics of our inflation expectations is the root cause of the persistent difference in headline rate of inflation against the US and the euro area, according to Governor Kuroda's accounts. He insisted that the re-anchoring of our inflation expectations at 2% is extremely hard task after long years of low inflation environment.

As follow up to the discussion, a press reporter asked Governor Kuroda whether the BOJ still maintain the strategy to achieve the inflation target "as soon as possible". He confirmed it and implied that it is firmly shared among the members of the MPM.

## Policy conducts

Interestingly, only a few press reporters raised this issue. One of them asked about the conditions for additional stimulus. While it may sound strange, the readers would like to know that there was speculation in the market yesterday, that the BOJ might increase in ETF purchase. In accordance with the constructive view of our economy, however, Governor Kuroda effectively disregarded the question.

Another reporter pointed out the side-effects of the ETF purchase in terms of market functions and corporate governance. Governor Kuroda denied their seriousness, by insisting the series of modifications of the scheme and their delegations of voting rights to managers of fund trust.

The other reporter requested the evaluation of the NIRP which remained over three years. First, Governor Kuroda explained that the central banks in some countries and areas in Europe also conduct the NIRP. Furthermore, the magnitudes and the amounts of reserves affected by the policy are much larger.

Then, Governor Kuroda expressed his confidence in the effectiveness of the NIRP, while he admitted that there has been the discussion regarding its side-effects on the profits of financial institutions.

Overseas readers may like to note that Nikkei reported today that the JFSA would conduct stringent supervision on the ability to make profits by domestic regional banks. In light of structurally weak profits, any shocks of credit risks (possibly due to economic recession when it happens) could make these players vulnerable. While the low yield environment is not its only cause, it is ironic that such concern was also expressed by the BOJ's FSR last year.

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