

Introduction

The MPM of the BOJ this time attracts less attention even by our domestic market participants, and they rather seem to look for the FOMC statement and press conference by Chair Yellen. Nevertheless, no news is good news for both our economy and the BOJ for the time being.

Let me discuss the points of Governor Kuroda's press conference today as usual.

Assessment of economy

The MPM virtually maintained their assessment of economy. In fact, there is only one point of revision in the policy statement from February to March, which refers to near-term outlook of inflation. Exports have been picked up thanks to recovery of overseas economies. Private consumption remained resilient against the background of improvements in employment and income. Due to the progress in inventory adjustment, industrial production has been picking out.

All in all, the MPM reiterates the view that our economy continued its moderate recovery trend. Furthermore, Governor Kuroda insisted at today's conference the improvements of household sentiments thanks to the better prospects of wage increase. Recent articles in major newspapers suggest that a number of major manufacturing firms as well as financial institutions proposed the hikes of annual base salary, for the first time in decades for some cases.

While it is still uncertain whether workers at SMEs could receive the similar benefits, these actions by firms could contribute to the increase in earnings income from macro-perspectives. Moreover, it is ironic that the increase in nominal wages this year could result in the improvements in real purchasing power because of lower rate of inflation after the disappearance of the effects of consumption tax hike in April.

Monetary policy under low rate of inflation

Several press reporters raised this issue again today, and asked Governor Kuroda whether he would be ready to enhance the QQE again when our rate of inflation further decelerates in coming months due to the obvious reason. Governor Kuroda looked tired of this same line of discussion, but he elaborated the BOJ's monetary policy strategy.

Governor Kuroda explained that the BOJ would not make a policy decision in a mechanical manner whenever the inflation rate turns negative. Specifically, if the BOJ could identify that the underlying rate of inflation anchored well, they could maintain the current intensity of monetary stimulus. In terms of the underlying inflation, Governor Kuroda explained that 1) aggregate demand/supply gap, 2) long-term expectation of inflation, and 3) general views of prices by firms and household, are the major indicators to estimate it.

Governor Kuroda and his staff seem to reconstruct their policy strategy since January press conference. And the modified lines of thoughts first appeared at the time of Governor Kuroda's speech on February 27. While their communication policy proved to be successful as a whole, it would still be relevant to make some comments.

First, the idea of underlying inflation is rational and clear as a concept, but it would be hard to show the hard evidences. This could be a source of challenges at dialogues between the BOJ and the markets. Second, situation of financial

markets would be another important elements for policy decision. For example, even if the underlying inflation remain intact in spite of sub-zero rate of inflation sometime in coming months, instabilities of financial markets (stock and foreign exchange in particular) could push the BOJ to conduct another round of additional stimulus. It is because the positive impact on financial markets have been one of the important effects of the QQE.

As a result, whether the BOJ enhances the QQE or not when rate of inflation turns negative would depend on strength of economic expansion on the one hand, and on the stability of financial markets on the other hand. This is the BOJ version of "data dependent" and it would appear to be highly conventional conducts of unconventional monetary policy.

2% inflation in two years

It has already become improbable that we could have 2% inflation in two years since the introduction of the QQE. Readers may remember that Governor Kuroda effectively extended the range of time to achieve the target at previous press conferences. It is important to note that there has been less criticism from the general public against this slight modification. This may be largely because we are aware of improved economic conditions.

Nevertheless, some press reporters raised this issue again at today's press conference and criticize Governor Kuroda for "failure" of the achievement of the target in a timely manner. They have some technical reasons to discuss this issue, because it is now second anniversary of Mr. Kuroda's appointment as Governor of the BOJ (on March 20, 2013).

Regardless of such "technical" criticisms, there are still some issues of dealing with this policy commitment. First, there remain some uncertainties about the reactions from the markets when they perceive the BOJ is proceeding a bit slower. To the contrary, if the markets maintain stability, the BOJ could become "patient" in introducing another round of stimulus to accelerate the achievement of the inflation target.

Second, the BOJ may need to think more about the sustainability of the QQE. If it would take longer period of time before 2% inflation in a stable manner, the BOJ would need to purchase more JGBs under the current framework. In light of the growing debates in our markets, the BOJ might reach some boundary to conduct JGB purchase operations, simply because the BOJ's holdings of the JGBs may have become extremely large.

With this respect, management of the QQE in a sustainable manner, possibly by changing weights and composition of assets purchased, would be growingly important for the BOJ..

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