

Introduction

A notable feature of policy debate in our market has been concentration of attention to overseas economies and financial markets rather than domestically oriented issues. We have so many reasons to do so, while it would be rare among advanced economies. Today's discussion at press conference was also the case.

Mid-term review: Growth rate

The MPM made the mid-term review of its economic outlook. In terms of our real GDP growth rate, they made downward revision of their previous one in April for FY2015 (+2.0%→+1.7%), while they virtually maintained those for FY2016 and FY2017.

Governor Kuroda explained that large part of such revision is due to weaker than expected exports, which results in weaker domestic production and some adjustments of business inventory. Nevertheless, Governor Kuroda insisted the slowdown of exports was largely driven by weak economic activities in our major trading partners (US and emerging Asia), which he expects would be transitory.

Moreover, Governor Kuroda emphasized his confidence in gradual expansion of domestic economic activities. He explained that on-going improvements of labor condition coupled with moderate increase in earnings would provide further supports for private consumption. In addition to gradual recovery of housing investments, business investments have finally started to indicate good prospects as seen by the recent TANKAN survey, thanks to the record level of corporate profits from macro-economic perspectives.

In response to these accounts, a number of press reporters asked Governor Kuroda whether we could regard the overseas risk to our economy as only a matter of past. In particular, many of them raised a potential spillover effects of substantial slowdown of Chinese economy if it happens.

While Governor Kuroda admitted that there could be moderate slowdown of Chinese economies during the period of their structural reforms, he reiterated his strong confidence in their much higher potential growth rate in light of the global norms. Moreover, he referred to their larger rooms for economic stimulus, which have already been utilized so far.

From shorter term perspectives, this line of discussion could be shared with the markets. In light of our own experiences, however, it would still be uncertain whether the effects of macro-economic stimulus as conducted in recent years could be maintained in China in coming years when the de-regulation of economic activities are accomplished.

Mid-term review: Inflation

In contrast to the outlook of growth rate, the MPM's outlook of inflation rate for coming years was maintained virtually the same as that at the time of April.

With this regard, Governor Kuroda explained that their estimates of underlying inflation is stabilized, and expects a fast recovery in coming months due to some factors including continuous improvement of aggregate supply/demand gap and diminishing downward pressure by crude oil prices. Among all, Governor Kuroda reiterated his bullish view that our rate of inflation could accelerate toward the end of this year as crude oil price would develop in line with the assumption by the MPM.

An important background of such bullish views on inflation rate would be, according to Governor Kuroda's comment, that their estimates of inflation expectation in all major economic areas (financial markets, households and firms) have been stabilized. In fact, we could agree with his understandings of resiliencies of our inflation expectations in spite of virtually zero rate of inflation observed in recent months.

Nevertheless, the MPM's outlook of inflation would be more controversial (than that of growth rate), and this is the reason why some press reporters raised this issue. In reply to the questions, Governor Kuroda pointed out that gradual improvements of nominal earnings remain intact to support our inflation rate. In addition, improvements of pricing power by our domestic firms, as he expected, would pave the way of a virtuous circle between wage increase and higher general prices.

A wildcard for our rate of inflation for coming months would be crude price (this year again!). Governor Kuroda said few words on its prospects, probably because of its high uncertainties largely in relation to overseas economies. He rather referred to the fact that the assumption of crude price would not include their intention or expectation.

If crude oil price would become fragile in downward direction, it would not only affect the trajectory of actual rate of inflation, but also have impacts on our inflation expectation. While the magnitude would be uncertain, especially on our inflation expectations, we may need take into account of the fact that our expectations would still be fragile to external shocks.

For example, if crude oil price would fail to keep in track with the MPM's assumption (as detailed by the footnote of the MPM's revised outlook) when our economic recovery would be suspended by whatever reasons, it would be consistent to expect some additional action by the BOJ, both in light of their policy commitment and their rationale for their action in last October.

Concluding remarks

A press reporter asked Governor Kuroda about the comparative threat to our economy between uncertainties in China and those in Greece.

Governor Kuroda replied to this question in a diplomatic way. In fact, he pointed out that China is the second largest economy and has interconnected with Asian economies including Japan. Nevertheless, he reiterated his confidence in the resiliencies of Chinese economy as discussed above. In terms of Greece, he referred to much smaller economic link to our economy, while he admitted there would require substantial efforts by the parties concerned before Greek economy could recover an economic stability.

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