

Introduction

While the discussion on foreign exchange policy was one of the focused topic as previously expected, the reform of MPM announced today by the BOJ attracted so much attention. As the regular commentator of live broadcast of Governor Kuroda's press conference (by Nikkei CNBC), I enjoyed the interesting viewpoints by some press reporters.

Economic assessment

The MPM made upward revision of its economic assessment of housing investment this time. Although it is hard to find the point of revision (because it is marginal), there is a caveat.

Regular readers of the BOJ's policy statement (or my Notes) would notice that the MPM has continuously made a series of upward revisions on a broad range of economic activities. Moreover, Governor Kuroda expressed confidence in sustainability of gradual expansion of exports as well, although this point was not clearly reflected in today's statement.

While the magnitudes of each revision has been rather marginal, their accumulated impacts and implications should deserve attention. At the next MPM in mid July, we could observe firmer than expected result of mid-term review of the MPM's semi-annual economic outlook.

Foreign exchange policy

A number of press reporters asked Governor Kuroda about his view on foreign exchange policy and benefits and cost of depreciation of JPY. Readers may like to remember that Governor Kuroda's comment at the parliament hearing some ten days ago had considerable impacts on USD/JPY rate.

Governor Kuroda deliberately avoided answering these questions on a direct manner. He rather repeated a general principle that foreign exchange rate should stably move in line with economic fundamentals. He also insisted that foreign exchange rate is not a policy target, although the balance of monetary policy in economies concerned could result in its movements.

In spite of Governor Kuroda's efforts to deflect the attention, it would continue to be one important issue for the QQE because of the domestic reasons.

First, as the empirical analysis included in the "official view" of the QQE by the BOJ, depreciation of JPY has apparently played a significant role of policy transmission. Second, there is high uncertainties whether the correction of overvaluation of JPY since the global financial crisis has finished or not. Third, households would raise the voice of concerns about further depreciation of JPY as long as improvement of nominal earnings is moderate at best.

With regard to the second reason above, discussion on foreign exchange policy in the international financial community would be another important issue. Here, it would deserve attention Governor Kuroda's first comment at the parliament was on REER of JPY.

In any case, Governor Kuroda had rather been active in making comments of foreign exchange rate until recently. The markets seemed to have thought that it was largely due to the fact that he is from the JMOF and is an expert of international currency policy. If there is another important reason, we may like to have a different view of the future course of QQE.

Reform of the MPM (effective in January 2016)

The BOJ announced today that there would be a substantial reform of the management of the MPM.

They would reduce the number of the MPM from 14times/year to 8times/year. At the same time, they would revise the economic outlook 4times/year instead of the current semi-annual revision. While the minutes would still be released after the next MPM, they introduce the "summary opinions" that would be released a week after the MPM.

On the new outlook, they would release the level of each member of the policy board with risk assessments. In other words, this would be a "dot chart" for outlook with marker indicating the direction of risk. Please see the sample at http://www.boj.or.jp/en/announcements/release_2015/rel150619a.pdf.

While the announcement was unexpected, the issues taken care of by this reform have been discussed in our markets for long years. In terms of frequency of the MPM, it was sometimes hard to seek policy agenda for a next MPM simply because it was too closed ahead. In the meantime, the market may have had difficulties in understanding the policy message by the mid-term review of semi-annual outlook, due to the lack of release of economic analysis behind it.

It would be too early to discuss the significance of "summary of opinions", because we have no idea at this moment about the contents. The BOJ could argue, however, new charts of economic outlook has some flavor of innovation. It would be all the more interesting and informative, when we have observed its dynamics for coming years.

At today's press conference, a number of press reporters raised this topic. They interestingly expressed concerns about the policy transparency due to less frequent MPM with regular press conference. In reply, Governor Kuroda insisted that the reform is intended to enhance transparency, 4times/year revision of outlook as well as "summary" in particular.

I have some initial thoughts on the reform. First, one of the reasons of concerns expressed today would reflect the perception that the QQE is Governor Kuroda's own idea. This is why the press would like to hear his own voice as frequently as possible. Second, timing of its introduction could be sensitive as a press reporter suggested. If our economy could successfully achieve the inflation target as the BOJ hopes, we would need to speculate the normalization strategy by using this unfamiliar set of information.

Lastly, I wonder whether the MPM would introduce a chart of policy rate expectations by each member of the policy board with the innovative marker for risk balance. While it could be more informative than the original dot chart by the FOMC, the BOJ would of course need to deal with "tapering" of QQE before discussing the policy rate.

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