Notes on Financial Markets Vol.104

# Press conference by Governor Kuroda – Anniversary

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## Introduction

In spite of modest market talks about "a surprise move" beforehand, the MPM of the BOJ decided to keep the QQE unchanged. As sole and regular commentator of simultaneous broadcasting of the press conference by Nikkei CNBC, I rather enjoyed today's discussion on broader range of issues raised than usual.

## Dynamics of wage

As in the US, prospects of nominal wages have been one of the important elements for inflation, and their increases have been smaller than the policy authorities expected. At this press conference, a reporter asked if the revision of wages this spring would be satisfactory or not.

Governor Kuroda expressed the positive assessment. He mentioned that the aggregate growth rate of regular wages is estimated at +0.7% annually, which is larger than +0.4% last year at this time. He also referred to the estimate that nominal wage increase may spread from large corporations to medium firms according to a national labor union.

Furthermore, Governor Kuroda pointed out that increase in real income would be probable this year, because our inflation rate would drop further in coming months. Readers may notice that it could become a misleading message for the obvious reason. In fact, Governor Kuroda later insisted that increase in nominal wages in two consecutive years (although they are small in magnitude) would improve the sentiment of general public, which would support the momentum of consumption.

## Conditions of another round of stimulus

While most of the reporters seem to be tired of the critical discussion on the shortage of actual inflation against 2% target in originally designated time, some reporters again requested the self-review of the QQE during these two years.

Like previous cases, Governor Kuroda expressed the overall positive views with regard to the policy effects of the QQE. He explained that one unexpected development was the substantial fall in crude oil prices beginning in last fall. Governor Kuroda also insisted that the most important reason for the additional stimulus last October was the concerns about serious negative impacts on inflation expectation because of losing momentum of economic activities then.

According to this line of thoughts (which have been expressed at several occasions), we could suspect that the conditions for any additional stimulus would be risk of lower inflation coupled with negative prospects of economic activities. Reader would think it would be straightforward, because this idea would be consistent with monetary policy conducts in a forward looking manner.

For example, if the BOJ is confident about the expansion of economic activities in spite of a low inflation in recent months, they would like to take wait and see stance for now. In fact, Governor Kuroda implied today that the current economic conditions and prospects are different from those last October.

Readers may also remember Governor Kuroda's discussion on underlying inflation at previous conferences. He reiterated today that the underlying inflation is estimated to grow continuously in spite of the considerable deceleration of actual inflation. He also explained that underlying inflation could be estimated by several factors including aggregate demand-supply gap, pricing power of firms and dynamics of wages and prices.

One important implication for another round of stimulus, as I suspect, would be that we now could draw a relatively accurate speculation about another round of additional stimulus by way of estimating economic activities for coming months. This could be practically done through estimating underlying inflation based on the above factors.

Based on this line of argument, "a surprise move" by the BOJ becomes simply difficult, because the BOJ and the markets may now share the logic and key elements of any additional stimulus. It is then interesting that the market still pay attention to prospects of the next move. If "a surprise" move is still accomplished again, Governor Kuroda may need to point to a separate set of elements that would be flesh to the market. And it would not be certain to me whether such abrupt change in communication policy would be desirable or not.

## Stress in financial markets

It is uncommon for Governor Kuroda's press conference to discuss issues of financial stability either domestic and international as this time.

On domestic front, several reporters asked whether there are any sources of financial instabilities, and a reporter further requested the view on a possible policy decision when and if we observe the signs of excess in our financial system and the prospects of lower inflation in our economy.

First of all, governor Kuroda insisted that there is no sign of future stress in financial system. Moreover, he explained that the optimal choice of policy decision would depend on the seriousness of either factor as well as the timeframe of the monetary policy. He added in the end that large part of central bankers as well as policy experts would think that a central should prioritize price stability, and it should collaborate with supervisory authorities to deal with financial stability.

Interestingly, Governor Kuroda's reference to time frame reminded me of Mr. Shirakawa's line of thoughts of this issue. He often insisted that losing stability of financial system would finally result in losing stability of prices (ex deflation), and therefore these two factors should be treated in a coherent manners. At the same time, delegation of the primary role of maintenance of financial stability to macro-prudential policy appears to be a familiar line of argument by the FRB.

In any case, the reason why several press reporters raised the financial stability issues may be their critical stance toward the QQE. Readers may agree that it would be some blow to financial system if and when an unconventional policy would trigger any serious side-effects in the end. This kind of concerns would lead to a rationale that a central bank conducting unconventional policy should at the same time enhance the function of maintaining financial stability.

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