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Nomination hearing of BOJ Governor at Upper House Committee

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Introduction

Mr. Ueda reiterated cautious outlook of inflation, confirming the need to maintain monetary easing. He also avoided to make comments on strategies of policy normalization.

Review of low inflation and monetary policy

Mr. Ueda reiterated the view that 1) series of substantial external shocks, and 2) low expectation of inflation embedded by chronic low inflation were the major sources of low inflation for extended period of time.

Moreover, he claimed that lack of commitment to inflation target and dependence of shorter-term instruments were the problems of monetary policy conducts before the QQE.

Meanwhile, he confirmed the positive view of the QQE and explained that potential side-effects including those on financial intermediation and market functions have been properly addressed. With this respect, he denied the view that the policy rate has reached the “reversal rate”.

From longer-term perspectives, he agreed that low potential growth rate has been a concern. He argued that activation of business investment, R&D activities and investment in human capital are required to gain momentum of economic growth.

Framework of monetary policy

Mr. Ueda reiterated the view that maintenance of price stability is the fundamental infrastructure for economic activities. While he suggested that theoretical target would be 0% inflation, practical target is 2% for major central banks taking account of securing room to reduce nominal policy rate when necessary.

In terms of the choice of target, he expressed skeptic view about targeting GDP deflator. He explained that central banks would like to monitor the implications of private consumption on prices, and pointed out some technical issues including time lag and its definition (e.g. higher import prices would reduce GDP deflator).

In reply to number of comments on wage and employment, Mr. Ueda’s view seemed to be negative against the idea of incorporating these factors as additional policy target. He explained that nominal wage would rise sustainably, and full employment would be realized when inflation target is stably achieved. Moreover, he mentioned that real wage would rather depend on growth of productivity.

Prospective course of monetary policy

Mr. Ueda effectively agreed again with the current outlook of inflation by the BOJ. This is why he reiterated the idea that the BOJ should maintain the monetary easing for now. He also insisted that maintenance of accommodative monetary condition would pave the way for sustainable rise in nominal wages by way of supporting the increase in corporate profits.

In spite of many questions on policy normalization when necessary, Mr. Ueda declined to make comments on its timing, approach or instruments. While he admitted that he has already conducted some thought experiments, he insisted that it would be too early to refer to them because of substantial dependence of specific choice of strategy on actual economic conditions.

With this respect, he also insisted that shift of target yield from 10Y JGB to 3 or 5 year JGB would only be an option. Readers would like to note that Mr. Ueda suggested this idea by his news paper article.

Moreover, readers may have noticed that Mr. Ueda did not refer to the possibility of modifying accommodative policy to reduce side-effects, even if the BOJ would not be confident in achieving inflation target in stable and sustainable manner.

Relationship with the government and the markets

Mr. Ueda reiterated the skeptic view about modification of the policy communique published in 2013. Interestingly, he referred to the fact that introduction of 2% inflation target was voluntarily decided at the MPM of the BOJ.

Moreover, he appreciated the economic policy conducts by the government for enhancing growth as agreed by the communique. Specifically, he claimed that labor market reforms have contributed to increased participation by women and senior people that sustained labor supply despite diminishing size of prime-age workers.

From broader perspectives, Mr Ueda confirmed the idea that both independence of monetary policy and collaboration of economic policies with the government are important, according to the Bank of Japan Law.

In reply to many comments on the risk of monetization of fiscal debt, he clearly insisted that the BOJ purchase JGBs as the policy instrument to achieve inflation target. Accordingly, he did not agree to the concern as he claimed that the BOJ would stop JGB purchase when inflation target is achieved.

As a related issue, Mr. Ueda also declined the concern that potential deterioration of financial condition of the BOJ would prevent from conducting appropriate monetary policy. He referred to practices of valuation of assets and system of loss provision as its safety net.

Nevertheless, he confirmed the idea that maintenance of confidence in currency would be crucial requirement for the BOJ to maintain ability of monetary policy. While he reiterated his comment that management of fiscal policy is the mandate of parliament and the government, he agreed the idea that maintenance of confidence in fiscal policy is important.

Regarding the communication with the market, he reiterated its significance as the market would be the core venue for policy transmission. He also claimed that proper share of policy ideas with the markets in a logical manner would be effective. Moreover, he agreed to make efforts to conduct dialogue with general public in more accessible manner.

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