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Nomination hearing of BOJ Governor at Lower House Committee

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Introduction

Mr. Ueda expressed cautious outlook of inflation, while he suggested modification of monetary easing some time in the future, taking account of side-effects of the QQE/YCC.

Review of low inflation and monetary policy

Mr. Ueda argued that 1) series of substantial external shocks, 2) low expectation of inflation embedded by chronic low inflation, and 3) less effective monetary policy in low yield environment were the major sources of low inflation for extended period of time.

Nevertheless, he insisted that the QQE was innovative as it introduced massive purchase of long-term JGBs which are not close substitutes for reserves. With this regard, he categorized the QQE as “qualitative easing”. He further claimed its success with reference to higher average rate of inflation since 2013 than its previous period.

Mr. Ueda also explained that the idea of the YCC was rational as there was some room to lower the yield curve. He explained that lower rates supported the economic activities.

Concerning the NIRP, he admitted the side-effects on financial intermediation through reducing lending-deposit margins at banks. He also suggested that low yield environment effectively supported the survival of “zombie” firms. Nevertheless, he argued that stagnation of regional economies would be the fundamental reason for under-function of financial intermediation.

Framework of monetary policy

Mr. Ueda insisted that the maintenance of price stability is the fundamental infrastructure for economic activities. Moreover, he supported the idea of 2% inflation target as the international standard. He explained that potential estimation bias of inflation indicator and need for room to reduce nominal policy rate are its rationales.

Under such framework, he expressed the view that conduct of monetary policy in forward looking manner is important when talking account of time lag of policy effects. While he explained that focusing underlying inflation is required, he suggested that the BOJ should watch broad range of indicators for estimation of underlying rate of inflation.

Interestingly, he expressed the skeptic view about the need for overall review of the QQE/YCC. He explained that discussion of monetary policy at every MPM meeting would effectively provide the opportunity for such review.

Prospective course of monetary policy

Mr. Ueda supported the current outlook of inflation by the BOJ. Specifically, he expected the rate of CPI inflation would decelerate to around the middle of 1% some time later this year, as upward pressures of import prices diminishes. In addition, he mentioned that government policy measures to reduce retail energy prices would have downward impact.

He therefore suggested that the BOJ should maintain the monetary easing for now, while he noticed some gradual improvement of underlying inflation in recent months. From longer-term perspectives, Mr. Ueda also insisted the importance of distinguishing price level and rate of inflation.

In light of high uncertainties, Mr. Ueda emphasized the importance of flexibility of policy conducts. He explained that the BOJ should normalize the monetary policy when they become confident in achieving the inflation target in a stable and sustainable manner.

In contrast, if it is not the case, he suggested that the BOJ should keep its accommodative policy with less side-effects. With this regard, he admitted that the YCC may have undermined the functions of JGB market.

He declined to mention the specific options for potential modification of the YCC, however, and suggested that the choice of option should be dependent on the specific conditions of the economy. He rather appreciated the policy action by the BOJ at December MPM, and mentioned that we should watch carefully its impacts.

Relationship with the government and the markets

Mr. Ueda expressed the skeptic views about modification of the policy communique published in 2013. Specifically, he declined to introduce the rise in wage as the additional mandate for the BOJ, as real wage depends on rise in productivity which the BOJ could not affect.

He also argued against the concern about the risk of monetization of fiscal debt. He confirmed the importance of independence of monetary policy, and claimed that the JGB purchase has not violated the prohibition of fiscal finance by the law. He referred to the fact that 1) BOJ has purchased JGBs from the markets, and 2) the purpose of JGB purchase has been price stability.

Another interesting topic was the soundness of BOJ’s asset. Mr. Ueda explained that potential source of substantial financial loss would be due to interest rate payments on reserves when the BOJ normalizes the monetary policy. In contrast, he clearly denied that the BOJ would sell the JGBs held as a result of the QQE.

He further explained that realization of financial loss would not prevent appropriate conducts of monetary policy, while he insisted that maintenance of confidence in currency would be indispensable anyway.

Mr. Ueda also suggested that the BOJ would need to review the ETF holdings when the normalization of monetary policy becomes closer ahead. He declined to refer to the potential options, however, as it was too early to discuss.

Regarding the communication with the market, he confirmed its significance as the market would be the core venue for policy transmission. While he explained that surprise in policy decision would be unavoidable anyway due to unexpected development of economy, he claimed that proper share of policy idea with the market could minimize such risks.

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