

Introduction

After the important policy decision by the Fed yesterday in our time, players in Tokyo financial market seem to pay less attention to the MPM today as well as Governor Kuroda's press conference. I guess, however, they may have missed the discussion that could have significance for the BOJ's policy conducts in coming months.

Let me therefore give the brief review of today's conference with covering the important point at the end.

Elasticity of exports

Some of the reporters asked the reasons for less remarkable increase of our exports in recent months, in spite of the significant depreciation of JPY especially in comparison with the last year.

Governor Kuroda referred to the factors both on cyclical and structural fronts. First of all, he referred to the delayed economic recovery in ASEAN economies that are one of our major trading partners. In addition, he admitted that the large scale overseas investments by Japanese corporations in recent years may play some roles. Production activities of their overseas subsidiaries may effectively substitute for our exports to satisfy the global demands.

Nevertheless, he implied that we should not be seriously concerned about these factors. The BOJ expects the gradual recovery of ASEAN economy, which could generate larger export demands. Moreover, rapid expansion of economic activities of Japanese corporations in overseas economies would benefit our economy from longer-term perspectives through improved competitiveness in the global markets.

While most of the economists may agree to this line of argument, there is more pessimistic view on lower elasticity of our exports. A core industry of our economy may be losing competitive grounds. In any case, we should keep our eyes on the performances of our exports in the next year.

Expected impacts of consumption tax hike

Press reporters have good reasons to raise this issue, because the BOJ referred to the signs of impacts in the policy statement released today.

Governor Kuroda basically reiterated the same line of thoughts on this issue. In fact, he admitted that some negative effects on housing market is observed. Overseas readers may like to note that our consumption tax is applied to new house purchases, and the government introduced the tentative measure by which new house buyers are applied the low tax rate if the purchases are agreed before the end of September 2013. Governor Kuroda also mentioned about some signs of last-minute purchase of durable goods including automobiles.

He insisted, however, the magnitudes of the impacts in housing market appear to be much smaller than in 1997. He also explained that the policy measures by the government including that to relieve the increased tax burden to purchase automobiles could function well.

All in all, the BOJ maintains the relatively bullish outlook for FY2014 with +1.5% GDP growth rate, in spite of temporal dip in the 1Q of FY2014. If this is realized, as Governor Kuroda emphasized, Japanese economy will expand faster than its potential growth rate. This could result in further step forward to achieve the inflation target.

Management of QQE

In the last 10 minutes, two press reporters raised the important questions on the management of QQE. First issue was the prospective amount of JGB purchase. The press reporter as a famous BOJ watcher asked if the amount could become smaller as long as the BOJ's commitment is on the stock-terms. This is because the reduction in the amount of redemption of JGBs held by the BOJ, due to the extension of average maturities as an intended effect of QQE.

As a reply, Governor Kuroda insisted that the BOJ would manage the BOJ purchase flexibly depending on the economic conditions. Moreover, he expressed his view that the actual amount of purchase in flow-terms would not be different next year.

Second issue was the time frame of QQE. The press reporter and a friend of mine asked if the BOJ would continue QQE until the inflation target is stably achieved. Readers may like to recall that there is a discussion that QQE has uncertainty about the time-frame. The reason is that the BOJ emphasized that the target would be achieved within two years.

With regard to this, there was an interesting observation of speech material by Governor Kuroda several weeks ago. The BOJ silently added dots to the graph of expect course of outstanding amount of JGB holdings in years after 2015.

Governor Kuroda clearly admitted today that the BOJ would maintain QQE until the inflation target is stably achieved, regardless its absolute time. In other words, he officially admitted that the QQE would be open-ended.

There are several important implications of the discussion. First, open-end conduct of QQE itself could not be an option of additional stimulus if and when our economy requires. The BOJ already operates QQE in an open-ended manner.

This may pave the way to the increase in ETF (or other credit assets) purchase as a major option as additional stimulus, which seems to be the favorite view among our market participants.

There may be, however, another option on JGB purchase front. Governor Kuroda's reply above could imply that the BOJ could change their commitment in JGB purchase from stock-terms to flow-terms. If the BOJ chooses this option, the outstanding amount of JGB holdings by the BOJ would grow faster than under the current framework.

Conclusions

The discussion on additional stimulus could appear strange, especially when our economy rapidly grows and inflation rate improves. As the debate above implies, the critical point is the time-frame. In spite of the clear message today, it is uncertain whether the BOJ could successfully shift the point of attention.

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