Notes on Financial Markets Vol.69

Press conference by Governor Shirakawa — Legacy

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Introduction

The Monetary Policy Meeting (MPM) today attracted much less attention. In addition to little prospects for additional stimulus due to some signs of improvements of our economic activities, the announcement of earlier retirement by Governor Shirakawa might have contributed to less interests.

Nevertheless, the discussion at today's press conference covered some important issues that must be carried over to new Governor and deputy Governors. Let me elaborate some of them in this Note.

Point 1: Achieving the target

There were still reasons for some press reporters to ask why the BOJ would not enhance its monetary stimulus today. According to the policy statement, the BOJ expects that the inflation rate would remain zero for the moment, while the GDP growth rates would gradually improve from the bottom.

In response, Governor Shirakawa referred to some points. First, the BOJ is conducting strong stimulus, and commits itself in maintaining the policy measures including those decided at the MPM in January. Second, it has become more probable that the inflation rate would reach 1% in FY2014, thanks to the improvements of economic activities. Third, monetary policy has always some time-lags in making impacts on the economy.

All in all, Governor Shirakawa implied that the target could be achieved by the collective efforts by the government and the private economic agents as well as the central bank. At the same time, he implied that the monetary stimulus could contribute to the acceleration of the inflation to some extent and with a substantial time-lag.

This line of discussion is consistent with the contents of the join statement released at the time of the MPM last month. Moreover, it may worth noting that the BOJ may like to emphasize the uncertainties about the timing of achieving the target (see the section 6 of today's policy statement).

As suggested by some press reporters, however, it is highly uncertain whether such understanding is shared with our Prime Minister. The task of filling this gap is of course carried over to new Governor of the BOJ. Readers may like to note that the Council of Economic and Fiscal Policy (CEFP) by the Cabinet Office, rather than MPM, would be more important venue for this task, because the regular review of policy performance would be conducted there .

Point 2: Impacts on the foreign exchange rates

A number of press reporters suspected that the recent criticism of "currency manipulation" would prevent the BOJ from maintaining strong monetary stimulus.

This is the expected line of discussion, because there have been diversified views on the implication of the recent statement by G7 Ministers of Finance and Central Bank Governors. In fact, some overseas officials reportedly suggested that the reference to foreign exchange policy by the statement reflects the criticism on our economic policy, while our Minister of Finance explains that our policy agenda was approved as the reasonable idea against our chronic deflation.

Governor Shirakawa naturally declined to elaborate the detailed discussion at the G7 meeting. Nevertheless, he reiterated the idea that the monetary stimulus has been Solely intended to our domestic economic recovery with the stabilization of inflation.

Readers may be impressed by the high sensitivity of our policy debates to the criticism by overseas policy makers. In fact, we could make arguments that the depreciation of JPY so far has been a correction of large appreciation due to the risk aversion during the global crisis. Moreover, the MOF of Japan has not conducted foreign exchange intervention at this stage.

Still, we have some reasons to take account of the criticism. There is a deeply rooted trauma among the policy makers and the private economic agents that the international coordination of foreign exchange policy in the past had substantial impacts on our economy at some cases. Furthermore, our economic recovery coupled with modest inflation in coming years would crucially depend on the external demands. With this regard, unnecessary tension against our major trading partners would undermine our growth strategy.

In any case, accountability of our monetary policy, not only to the domestic parties concerned, but also to the overseas policy makers and the markets is becoming much more important as the stimulus is enhanced further. Moreover, from longer-term perspectives, possible policy tension in the global context could ironically function as an anchor that prevents our monetary policy from taking excessively unconventional measures.

Point 3: Desirable capacities for next Governor

The last question at today's press conference was to ask about the views on the nomination of the new Governor. Governor Shirakawa once declined to make any comments, because it is the task of the Cabinet with the consents by the both houses of the Parliament. To my surprise, however, Governor Shirakawa expressed his own views on the abilities desirable for new Governor in general terms

According to his view, new Governor is required to have the broad range of knowledge and experience of "central banking". He explained that the BOJ has the policy mandates not only of monetary policy but also financial stability and international finance. Governor Shirakawa also insisted that new Governor should be humble enough to listen to the diversified opinions. He added that this is important because the policy conducts face some tough challenges. Lastly, Governor Shirakawa reiterated his idea that it is desirable for new Governor to make policy decisions with the global perspectives.

It is the first time to discuss so actively the desirable capacities of the BOJ Governor. In fact the debates has been participated by the broad range of people including politicians, market participants, academic economists. I hope this kind of discussion would become the precious intellectual asset for our economy as the legacy from Governor Shirakawa's regime.

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