

Introduction

The MPM of the BOJ decided today to maintain the current accommodative policy on the back of their unchanged assessment of economy and prices. As a result, a number of press reporters raised the structural issues of our inflation dynamics and the implications of policy normalization by both the FRB and the ECB.

Dynamics of inflation

It is interesting to note that the policy statement of the June MPM was virtually the same as that of the April MPM, except for the description of current state of our inflation that somewhat decelerated in most recent months.

Moreover, there were several press reports released before the June MPM, speculating that the BOJ would conduct another round of substantial review of inflation toward the next revision of their inflation outlook in the July MPM. It could make sense, because we failed to observe notable and sustainable improvement of inflation even during the period of positive GDP gap with smaller volatility of foreign exchange rates and unexpected rebound of energy prices.

While Governor Kuroda expressed skeptic views on the needs of another round of substantial review of inflation, he effectively confirmed that such process would be required for every revision of their economic and inflation outlook. With this respect, the press conference today played the role of the introduction of some relevant issues for the process.

In fact, a number of press reporters asked Governor Kuroda whether he or members of the MPM could still identify the positive momentum of inflation. Governor Kuroda replied that it is the case with the most of them including himself. In addition, Governor Kuroda referred to some signs of changing pricing behavior of firms in service providing sectors.

Nevertheless, Governor Kuroda implied that we still have some issues of the slope and position of our Philips Curve, probably due to “deflationary sentiments” in our minds. He also explained that the rapid improvement of our labor productivity thanks to their labor-substituting business investments could insulate their output prices from upward pressures of wages due to very tight labor conditions, at least from shorter-term perspectives.

Interestingly, a press reporter suspected that some structural downward factors on inflation would be common to major economies. Governor Kuroda agreed to such hypothesis and raised some candidate reasons. These include 1) unidentified slack of labor, 2) enhanced competition against firms in emerging economies, 3) high efficiency of goods and services transactions through “e-commerce”, and 4) upward rigidity of wages under their downward rigidity.

Sustainability of the QQE

Once the momentum of our inflation is weaker than previously thought, we would like to require the enhanced sustainability of the QQE. From the viewpoint of the BOJ, they have already accomplished their task at the time of the Comprehensive Review in September 2016. Readers may like to remember that the MPM decided to launch the YCC.

In the meantime, a few press reporters asked Governor Kuroda about his views on the side-effects of the QQE. Specifically, they suspected that the downward pressures on the lending margins of domestic banks may have already become too large, as suggested by the analysis conducted both by the BOJ and the JFSA.

Governor Kuroda affirmed that the BOJ should keep monitoring the situations carefully, because the impacts could grow in an accumulating manner as far as the BOJ maintain its strongly accommodative policy. He claimed, however, the magnitude of such side-effects would not be so large at least for the time being. This is because most of domestic banks could still enjoy profits, and keep increasing the amounts of lending to their customers.

Another press reporter raised the different aspects of side-effects. In fact, he expressed the concerns about the negative impacts on credit markets, due to the BOJ’s purchase of ETF and J-REIT. Governor Kuroda insisted his view that these policy measures have been effective in reducing the risk premium. He also claimed that their sizes would not be too large in comparison with the aggregate size of our credit market.

Implications of policy normalization by the FRB and ECB

It is reasonable for press reporters to discuss this issue, as they have just observed the policy actions by the FRB and the ECB in series this week.

From international perspective, a press reporter raise the voice of concern about their pressures on the financial system in neighboring economies. Governor Kuroda expressed the rather positive views, especially in terms of the economies in our region. He explained that their fundamental structures (in relation to international balance and fiscal conditions) have become resilient. He also referred to the substantial accumulation of foreign reserves.

From domestic perspective, Governor Kuroda maintained the cautious view on the depreciation scenario of JPY suggested by a few press reporters. He in fact argued that it is too simple argument, because JPY rates could be driven by a broad range of factors. Nevertheless, there emerges a clear contrast of monetary policy conducts between the BOJ on the one hand, and the FRB and the ECB on the other hand.

Moreover, there appears to be uncertain whether the BOJ could step forward to their policy normalization during the renewed term of Mr. Kuroda as Governor of the BOJ.

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