

Introduction

Monetary policy meeting (MPM) of the BOJ today maintained the current accommodative policy. Moreover, they modified no word in their assessment of economy and prices in the policy statement. We observed the lively discussion at the press conference, however, due to several reasons.

Comment on exit

A number of press reporters referred to the comment by our Prime Minister with regard to the BOJ's policy. According to the media reports, Mr. Abe mentioned that the BOJ should not continue the current monetary easing forever, and would exit from it within Mr. Abe's next term as President of the LDP. Readers may like to note that the LDP is conducting the race for President, with voting in this weekend.

Some participants in our market, especially among those who have critical views on the BOJ's policy, seem to understand that Prime Minister Abe would request the BOJ to exit from the QQE in coming three years. This is why the press reporters raised the issue today.

Governor Kuroda declined to make any comments in a direct manner. Nevertheless, he insisted that the agreement between the BOJ and the government to make the maximum efforts to exit from deflation, announced as the joint statement in early 2013, is still valid. Moreover, Governor Kuroda expressed his prospect to exit from the QQE after having achieved the inflation target, thanks to the effects of the economic policy in a broad sense.

While it would not be appropriate to put too much stress on the media reports, fundamental views by our Prime Minister and/or the cabinet office on the significance of achieving the inflation target is one of the important elements for the future course of the monetary policy. Moreover, it would be all the more true, if the administration would like to declare the victory over long-period of low growth and low inflation.

Forward guidance

Second set of issue was the idea of forward guidance, newly introduced at the July MPM. Even in our markets, there seems to be diversified views with regard to its intension.

Governor Kuroda admitted the challenge of communication, by mentioning that he has sometimes been asked about it. Then he reiterated the idea that management of the target yields has been the primary instrument of monetary policy since the comprehensive review. Moreover, he confirmed that the introduction of the forward guidance was intended to enhance the commitment to achieve the inflation target.

It should be noted the implication of the new forward guidance within the framework of the yield curve control (YCC). It could become an effective measure, if it could successfully reduce the flexibility embedded in the YCC. This highlights the fundamental feature of the forward guidance: it is effective when the market expectation is "binding" against the policy intensions.

In fact, Governor Kuroda explained that one of the reasons for introducing the forward guidance was the growing speculation in the market about early normalization of monetary policy.

Readers may also like to note that such an idea is common to the major central banks when they would like to conduct "policy normalization" with less frictions.

With regard to the forward guidance, another point of focus in the market seems to be the difference between the "over-shoot commitment" and the new forward guidance.

From technical point of view, the former relates to quantitative aspects of the QQE, and the latter is about target yields. While the quantity of monetary base became endogenous under the YCC, it would be possible to maintain the "over-shoot commitment" with flexible management of target yields. From broader perspectives, the "over-shoot commitment" could have longer-term implications than the forward guidance, because of the relative toughness of the exit conditions.

Side effects

Interestingly, the markets seem to have better understanding of the policy decision at July MPM, except for the forward guidance. In fact, several press reporters raised the issues of side-effects of the current policy framework.

Governor Kuroda reiterated his view that the he has not identified substantial negative impacts on the financial intermediation or the function of financial markets. He insisted that the bank lending has grown at a gradual pace and explained that the most recent result of market survey implies the functions of JGB markets has stabilized.

Nevertheless, Governor Kuroda confirmed that it is still important to keep close eyes on potential side-effects of the QQE, because the BOJ needs to maintain it for longer period of time. Moreover, he suggested that reducing the risks of side-effects was one of the reasons for the modification of the QQE at July MPM.

From the technical point of view, one of the remaining unknown is the management of ETF purchase in a flexible manner. In comparison with JGB purchase, it is all the more true because ETF purchase seems to have always been contingent. In reply to a question, Governor Kuroda warned that it would be too early to speculate about its new implicit guideline, because the actual purchase in August was affected by the seasonal lack of market liquidity.

Elaboration

All in all, the discussion by Governor Kuroda today was largely intended to elaborate the backgrounds and the intensions of the policy decision at July MPM, which was complicated from the viewpoint of the market.

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