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Press conference by Governor and deputy Governors of the BOJ

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Introduction

As expected, the discussion at the first press conference by new Governors and deputy Governors of the BOJ covered the broad range of issues in relation to the monetary policy. Let me focus some of them that have significant implications for the policy strategy for the time being.

Point 1: Policy mandate

In reply to a number of questions about the causes of our chronic deflation, Governor Kuroda, while referring to some candidate reasons, insisted that the BOJ should tackle the deflation regardless of its backgrounds. He indeed implied that the central bank is the only authority in the government to have responsibility of the price stability.

This line of argument was the clear contrast to those by Mr. Shirakawa. An implication would be that the intension of the joint statement between the BOJ and the government issued at the time of introduction of the inflation target could be modified. Specifically, the BOJ under Governor Kuroda could pursue the achievement of the target autonomously, while the economic growth strategy by the government could be helpful.

Moreover, the reporters may be impressed by the strong optimism by Governor Kuroda in achieving the 2% target in around two years. It could be intended to change the inflation expectation by those who have been trapped in strong deflation expectations. Nevertheless, he looked like the overseas central governors when referring to his idea of utilizing every kind of policy tools available.

This is not a surprise to us in light of the argument by Prime Minister Abe in these months. Nevertheless, the features of questions by press reporters today suggested that we would still need to adjust our minds when thinking about the new policy measures under this new leadership.

Point 2: Policy tools and monetary transmission

The markets had expected that Governor Kuroda would hint a concrete set of policy tools today in order to impress us with the sense of urgency. Although he looked cautious enough to avoid referring to a specific policy tool, he expressed his fundamental idea rather clearly.

He emphasized that the BOJ should conduct the monetary stimulus both in terms of "quantity and quality". He effectively claimed that the injection of large amount of funds by way of exchanging base money with TBs would have limited effects. Rather, he explained that the BOJ should exchange base money with the kind of assets that are far from the substitutes.

While he has been a proponent for purchasing broad range of credit assets by the BOJ to enhance its policy effects, he strongly suggested to extend the maturities of JGB that are eligible assets to be purchased. In fact at some occasions, he referred to the policy effects on the shape of yield curve.

Moreover, in reply to the questions about the prospective transmission of his new policy measures, he criticized that the BOJ should not rely too much on bank lending, and expressed his idea that the BOJ should utilize other credit channels including those through various capital markets.

One interesting question was whether the BOJ could use the transmission through foreign exchange markets. He dealt skillfully with this delicate question; on the one hand, even the monetary stimulus to address domestic economic needs could depreciate the currency, but on the other hand, there is a global consensus that the foreign exchange rate should be decided in the markets and the foreign exchange policy is delegated solely to the MOF in Japan. Readers could draw some clues about his stance of the foreign bond purchase.

Point 3: Idea of "re-flation"

Deputy Governor Iwata raised the interesting argument as reply to the question about correlation of money supply and inflation. He explained that the correlation may be instable in the early period of exiting from deflation, because the corporations and households would tap the excess liquidity on their balance sheet at first in order to meet the increased needs for funds for economic activities. According to his study, it was also the case with 1930's in both the US and Japan.

As we discussed above, Governor Kuroda would not be single-minded to expand the scale of fund provision by the BOJ, either. Nevertheless, we could still expect a substantial expansion of the scale of operations in the coming MPM. The reasons are 1) Governor Kuroda thinks very important to alter deflation expectation in Japan, and 2) there is limitation for increasing the amount of credit easing due to the features of our credit markets.

Point 4: Risk of monetization

In contrast to the press conference by Chairman Bernanke earlier today, some reporters asked Governor Kuroda whether the current scheme of JGB purchase has already been monetizing the fiscal deficits in effect, and whether some guidance would be needed in place of the "bank note rule" to protect the BOJ from the risk of monetization in the future.

His discussion was indeed straightforward. He claimed that the JGB purchase would not be the monetization as long as such purchase is decided at the MPM of the BOJ as a monetary policy tool in an autonomous manner.

While his line of discussion is theoretically true, what the BOJ has been concerned is the risk that the BOJ might be "requested" to make autonomous decision to purchase JGBs. The BOJ's concern may be the result of the lack of mutual trust between the central bank and the government. Therefore, Governor Kuroda may well think that such trust could be recovered if and when the BOJ achieves the inflation target within the reasonable duration of time.

Conclusion

I have found extremely hard to make any comments on Deputy Governor Nakaso who had been my direct boss for years. I would still like to note that Mr. Kuroda and Mr. Nakaso shared the idea that the BOJ should simplify the framework of monetary policy in order to conduct better dialogue with the markets. This is the first fruits of the common expertise of these gentlemen in the context of the global financial markets.

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