

Introduction

Although you have little interests in a MPM meeting just after a major policy decision generally, MPM this time attracted so much attention. It was apparently because Prime Minister Abe officially announced the postponement of the second round hike of consumption tax. We were also shocked by considerably weak GDP growth rate for 3Q.

Let me summarize the three major points of Governor Kuroda's press conference today.

Assessment of economy

Interestingly, Governor Kuroda maintained its gradual recovery scenario. It is in fact consistent with most recent indicators, as today's policy statement refers to the conditions of private consumption and residential investment.

In addition, contents of 3Q GDP would not be so bad as it appeared. Largest negative contribution was generated from inventory investment. Because the inventory already started to increase at factories (as IP statistics shows), large reduction may be a lagged reactions at wholesale/retail arena. As a result, inventory adjustment may be diminishing. Moreover, the recovery of private consumption was evident although it was slow. All in all, the worst may be behind us.

For FY2015 and FY2016, the postponement of the second round hike of consumption tax would also remove the downside risk of our economy, as it has already been discussed widely in our markets. It is ironic that the achievement of 2% inflation target could become more plausible than before Prime Minister Abe's announcement.

Readers may wonder then whether the additional stimulus was necessary or not. In reply to the questions by press reporters today, Governor Kuroda insisted that the policy decision was appropriate. He reiterated the BOJ's concern that slowdown of inflation rate due to fall in commodity prices could prevent the improvement in our inflation expectations.

A hidden but important factor would be our GDP gap. Since the BOJ had claimed the gap was zero, two consecutive quarters of negative GDP growth would have widened the gap again. If it is still true that closing the gap would be crucially important to have higher rate of inflation in FY2015, you would need to have more powerful policy mix as economic stimulus.

Abenomics revisited

During the coming general election in mid-December (after Prime Minister dissolves the Diet), focused issue will be the assessment of Abenomics. Accordingly, some reporters asked Governor Kuroda about his views.

While Governor Kuroda avoided to answer to such a political question, he narrowed the scope to the "first arrow". In replying to a criticism that the QQE has carried the heaviest burdens, Governor Kuroda insisted that monetary policy could naturally play the leading role. It is because the monetary policy is more flexible in decision making and implementation. With regard to the effects, Governor Kuroda reiterated this confidence in the QQE in spite of some skeptical views. According to his comments, the QQE functions through the following mechanism of policy transmission; 1) policy commitment (forward guidance), 2) lower long-term rates, 3) reduction in risk premium.

This line of argument seems to be reasonable, regardless of your agreement with it. We should pay attention to the public

opinion, however. At least some part of general public appears to believe that reduction of real purchasing power would be a side-effect of the QQE by the BOJ. If and when this kind of concern becomes criticism about the QQE, future conduct of monetary policy would become more difficult.

Fiscal discipline

A number of press reporters raised the issue of the postponement of the second round hike of consumption tax from longer-term perspectives. It would be needless to say that they expressed the concerns about the risk caused by the further delay in our fiscal consolidation.

While Governor Kuroda admitted that it would be extremely difficult for a central bank to manage a kind of economic/financial condition as an absolute result of lack of fiscal discipline, he insisted that its probability is very small for now. It is because the government maintains its commitment in long-term fiscal consolidation as Prime Minister Abe emphasized at the press conference last night. In fact, Mr. Abe explained to abandon the economic condition clause from the next round of consumption tax hike.

We should be aware, however, all the BOJ could do for fiscal consolidation would be encouraging and/or persuading the government. Governor Kuroda's accounts above would only be a hope in a sense, because fiscal policy is not the business of central bank.

Moreover, Governor Kuroda downplayed the significance of the joint statement by the BOJ and the government in 2013. According to this statement, the BOJ would make efforts to achieve 2% inflation, and the government would make efforts to accelerate economic growth and to consolidate fiscal deficits. Governor Kuroda implied that the BOJ would pursue the inflation target, whatever the "partner" would do.

Conclusion

There is a strong view in our market that the government made a "free-riding" of the BOJ's additional stimulus. More important implication of the postponement of the second round consumption tax hike for the BOJ could be, however, related to the normalization of the QQE.

Even if we have 2% inflation sometime in FY 2015, the BOJ would maintain wait-and-see stance, because it commits to keep the QQE until the target would be stably achieved. If it would take another year or so before the BOJ start the process of normalization of the QQE, possibly with "tapering", we might be too close to April 2017 when the postponed second round of consumption tax hike is scheduled. If the trauma of first round hike would still be alive, it could become quite uncertain if the BOJ could start the process smoothly. If this would be the case, the task of normalization of the QQE could rather be a business of next BOJ Governor, because the term of Governor Kuroda expires on April 2018.

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