

Introduction

Governor Ueda reiterated the cautious line of thought on monetary policy at his inaugural press conference. In fact, he claimed that the QQE remains viable from “proportionate” viewpoint. Nevertheless, he suggested the case of modification of policy framework even if the inflation target would not be achieved.

Review of the QQE

Governor Ueda confirmed the positive evaluation of the QQE. He appreciated that the QQE contributed to exit from deflation, although the inflation target has never been achieved in sustainable manner.

In reply to the question, he explained that 1) series of external shocks, 2) nominal zero boundary of policy rate, and 3) downward biased inflation expectation were the major factors that prevented higher rate of inflation.

With regard to 2) above, Governor Ueda might imply some limitations of unconventional monetary policy. In fact, he expressed the cautious view on the effects of the QQE on economic activities, especially from long-term viewpoints.

Moreover, concerning 3) above, he agreed to the idea that lengthy period of deflation or low inflation caused deflationary minds due to adaptive formation of expectation.

This idea would be consistent with his claim that the review of the BOJ’s policy since late 1990’s would be more relevant, while Governor Ueda expressed reluctant view on the review of the QQE. His first comment at the press conference was price stability has been long-term challenge for the BOJ.

Achieving the inflation target

Governor Ueda admitted that there emerged some favorable signs of higher rate of underlying inflation in sustainable manner. Those included larger than expected rises of wages at annual negotiations at large firms and longer than expected process of upward revisions of prices of consumer goods.

While he expected that the inflation target could be achieved in due course, he declined to specify its time frame. Moreover, he cautioned that the achievement could be prevented if any external shock hits our economy and financial system.

His somewhat cautious outlook of inflation was consistent with his comment that the BOJ should maintain the QQE for the time being. Furthermore, his skepticism about policy normalization seemed to be reinforced by the line of thought discussed in the previous section.

Specifically, Governor Ueda may like to confirm that downside risk of inflation expectation is fully removed. This is the core challenge for the BOJ’s policy for decades, and among the three factors, the only one that monetary policy could affect.

Looking from different perspectives, one interesting question is the implication of Philips Curve. We were disappointed at widening negative GDP gap in 4Q due to stagnant economic growth. While Governor Ueda was reluctant to specify the sufficient level of positive GDP gap to achieve the inflation target, he admitted that positive GDP gap would at least be required.

Interestingly, he further claimed that improvement of productivity would contribute to achieving the inflation target. According to his accounts, higher productivity would raise natural rate of interest. As a result, effects of monetary stimulus could become stronger even if nominal policy rate remains the same. Governor Ueda effectively suggested that government policy measures on “supply side” of our economy would be desirable.

Modification of policy framework

Even if the BOJ maintains the QQE to gain more confidence in achieving the inflation target in sustainable manner, potential modification of accommodative policy remains an important issue.

At the press conference, Governor Ueda expressed somewhat mixed views. On the one hand, he suggested the possibility of modification in order to reduce side-effects. On the other hand, he expressed optimistic view about the current situations of side-effects.

In fact, he admitted that the QQE could cause some side-effects. Specifically, he explained that 1) the NIRP could undermine financial intermediation, 2) the YCC could deteriorate market functions. Moreover, 3) unexpected modification of policy framework could cause considerable adjustments of markets and economy.

Nevertheless, Governor Ueda expressed optimistic views on these risks. With regard to 1), he pointed out that bank lending has grown gradually but stably, on the back of soundness of capital and liquidity of banking sector. Concerning 2) above, he showed confidence that measures by the BOJ including enhancement of the SLF and expansion of range of target yields have been effective.

Last not in the least, regarding 3), Governor Ueda confirmed the importance of advance communication of potential modification of policy framework, if necessary.

Collaboration with the government

After Governor Ueda had a meeting with Prime Minister Kishida today, he made a comment to press reporters that he would like to maintain the policy communique published in spring of 2013 (just before the QQE was introduced). Governor Ueda confirmed this idea at the press conference. He claimed that the BOJ and the government should conduct appropriate policy respectively, and they should maintain close dialogue.

As long as the policy “bias” is the same between them, it would be less challenging task. If and when it is not the case, however, ability of judgment and decision would be tested as a press reporter suggested.

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