BOJ Board Members Stress Need for Prolonged Monetary Easing

- Some comments in summary focus on commitment, sustainability
- Others flag side effects of prolonged easing program

By Toru Fujioka

(Bloomberg) --

Bank of Japan board members discussed the need for policy sustainability and strengthened commitment to reaching its 2 percent inflation goal during its April 26-27 policy meeting, when it removed language about when it expected to hit that target.

A summary of opinions from that meeting, released on Thursday, indicate that the BOJ looks set to continue on its current course following the arrival of two new deputy governors, including the reflationist Masazumi Wakatabe.

“The summary show a stronger tone on the need for prolonged monetary easing,” said Junko Nishioka, chief economist at Sumitomo Mitsui Banking Corp. and a former BOJ official. “It confirms no policy change is coming anytime soon.”

BOJ’s Kuroda Starts New Term With Fresh Commitment to Easing

The meeting last month was the first for Wakatabe and newly appointed Deputy Governor Masayoshi Amamiya, as well as the first of BOJ Governor Haruhiko Kuroda’s new term. In its statement following the meeting, the BOJ removed its previous projection that it would achieve 2 percent inflation around the fiscal year starting next April.

One board member said the bank needs to make it clear that there is no change in its commitment to fulfill the objective as soon as possible, according to the summary, which don’t identify who said what. Kuroda said the BOJ will continue easing “very persistently” at a press conference following the policy decision.

BOJ’s updated price forecast for four years through fiscal 2020 was also released on April 27, showing no board members see inflation rising above 2 percent in a stable manner.

“In order to continue with powerful monetary easing, the bank needs to constantly consider enhancing its sustainability while aiming to gain consensus among the public on the necessity of the price stability target,” one board member said.

One member said an early rate hike would result in multiple adverse effects, including falling bond and stock prices, while a stronger yen would cut into corporate profitability.

Side Effects

Still, the side effects of easing were also discussed. One member said it was important to consider the desirable shape of the yield curve, given the cumulative impact on financial institutions "becoming increasingly severe." One member said "possible side effects should continue to be examined from every angle."

Nishioka said the BOJ is aware of the risk that inflation won’t meet its forecasts, and that it has few tools left. One board member said it may be appropriate for the government and the BOJ to cooperate and to consider taking actions once risks to the price target materialize.

Even after more than five years of unprecedented monetary stimulus, gains in Japan’s core inflation slowed down to 0.9 percent in March.

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