

Kuroda: BOJ easing not tied to two years

KYODO, BLOOMBERG

Bank of Japan Gov. Haruhiko Kuroda said Friday the central bank will keep its aggressive quantitative easing policy in place until its 2 percent inflation target is achieved, hinting the monetary experiment may take more than two years to work.

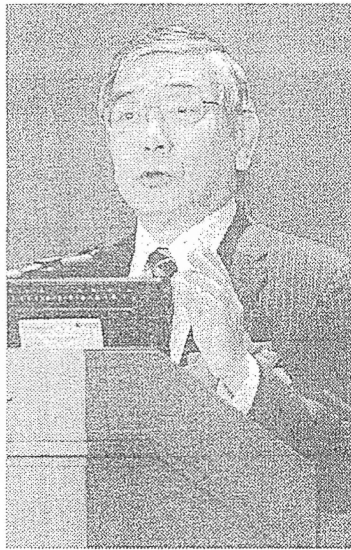
"It is not appropriate to say that the monetary easing will only last for two years," although the BOJ took the rare step of committing itself to that very time frame when announcing the step, Kuroda said in a speech in Tokyo.

For the BOJ to affirm its commitment, including to skeptics, "It is appropriate to state that the bank will continue with monetary easing ... as long as it is necessary" until it achieves the target and maintains it stably, he said. "Making such a commitment will, in the end, further ensure the achievement of the target in two years."

He also repeated his insistence that the unorthodox policy isn't designed to target currency rates, although the launching of such an accommodative policy by a central bank tends to cause its national currency to depreciate — as illustrated by the yen's accelerated plunge since the BOJ took the unprecedented action last week.

"This is war against the deflationary sentiment that's become entrenched among people and corporations in Japan," said Shogo Fujita, the chief Japanese bond strategist in Tokyo at Bank of America Corp. "This deflationary mind won't change unless Kuroda shows a decisive stance that he will continue easing until there's inflation."

The bank may upgrade its inflation forecast for fiscal 2014 to 1.5 percent at its meeting on April 26, according to sources who asked not to be identified.



The governor's not for turning: Bank of Japan Gov. Haruhiko Kuroda delivers a speech in Chiyoda Ward, Tokyo, on Friday. KYODO

"The year-on-year rate of change in the CPI (consumer price index) has recently been at around 0 percent or slightly negative, but looking to the future, it is expected to turn positive and start picking up," Kuroda said in a speech Friday in Tokyo, his first since becoming governor last month. The acceleration will mainly reflect "improvement in the aggregate demand and supply balance," he said.

The BOJ's new monetary policy has been generally welcomed abroad, but some have expressed concern that the central bank is engaging in manipulation to weaken the yen and that aggressive easing steps could cause the inflow of massive funds to emerging markets and invite unwanted inflation there.

"The objective of the bank's monetary policy is, obviously, to pursue the stability of domestic prices," he said.

Kuroda, who took office on March 20, will be seeking international support for the experi-

mental monetary policy when he makes his international debut as BOJ chief at the Group of 20 financial chiefs' meeting next week.

"The bank's monetary policy is focused on achieving the domestic objective of leading Japan's economy toward overcoming deflation," he said. "Achieving this goal will eventually provide the global economy with favorable effects."

Kuroda also urged the government to "restore fiscal health" while the BOJ goes on its massive debt-buying binge, noting that any inking that the BOJ is monetizing the debt will risk crippling both the financial system and the economy by destabilizing the market for Japanese government bonds by sharply lifting long-term interest rates.

"It is vital for the government to clearly show the future course of fiscal consolidation and steadily make progress to reform the fiscal structure" to prevent such doubt from arising, he said.

Last week, the BOJ launched an unorthodox quantitative easing policy that doubles its monetary base in two years, increases its purchases of JGBs and riskier financial assets, such as exchange-traded funds and real estate investment trusts. The announcement accelerated the yen's depreciation, which boosted the stock market as investors piled into exporters.

Under the policy, which Kuroda termed "a new phase of monetary easing both in terms of quantity and quality," the BOJ adopted Japan's monetary base as the main target for its money market operations instead of the overnight call rate.

To explain the new policy, the BOJ held a meeting with representatives of financial institutions Thursday and separately announced the schedules for bond auctions.

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