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Q&A-BOJ has run out of tools to boost consumption, growth; Govt must first clarify "green" strategies for BOJ to act: Sayuri Shirai, ex-BOJ board member



The Bank of Japan (BOJ) has run out of tools to stimulate domestic consumption, except to continue expanding lending to banks under its preferential incentives scheme, **Sayuri Shirai, a former policy board member at the Japanese central bank**, told the Reuters Global Markets Forum on Monday, August 30, 2021.

Japan's consumption remains weak as the "government is not able to come up with effective measures," said Shirai, who is a professor at Keio University.

Shirai, however, expected both consumption and growth to pick up from the "fall" as more people are vaccinated and able to move around.

The Bank of Japan (BOJ) won't be able to promote "green" activities in a major way without the Japanese government coming up with credible strategies to achieve the net zero target, Shirai said.

"Banks are not green and will take time, (and the) government should clarify the definition of green activities," she said.

Following are edited excerpts from the conversation:

Q: What are your thoughts on Japan's struggle with vaccinations, and how consumption could be held back longer than in other economies -- do you see that delaying an economic recovery?

A: Yes. The consumption remains quite weak since this year because the government is not able to come up with effective measures. The Olympic Games may have contributed to the increase. The economy remains sluggish, but exports are doing great. When we look at the growth trajectory, Japan is weakest among major advanced economies. Japan is currently a net exporter. But before the COVID-19, the trade balance was so surplus. Currently exports are booming thanks to China's growth as well as U.S. growth.

Q: Should the Bank of Japan (BOJ) respond with additional easing if consumption remains too weak for too long?

A: No. BOJ has run out of the tools. As you see. The BOJ mainly increased lending to banks since March last year.

Q: What do you expect the BOJ to do, as you say they've run out of tools? Can they do anything to drive consumption?

A: Not much. Since March this year, BOJ strengthened flexibility by saying that they will purchase ETFs (exchange traded funds) only when the market is under stress. Since then, BOJ hardly purchases ETFs. Also, in March, BOJ expanded the 10-year target range from plus/minus 0.2% to 0.25%. This is understood as BOJ's desire to steepen the yield curve. Right now, the BOJ continues to expand lending to banks due to very preferential incentives. This is the only thing, to be honest.

Q: How do you see BOJ policy moving, after the U.S. Federal Reserve and other central banks have outlined their plans?

A: Actually, the BOJ is already doing tapering since October 2016 when YCC (yield curve control) was introduced. Last year, BOJ increased the purchases of TBs (Treasury bills) and JGBs (Japanese government bonds) to respond to the government's expenditure increase. I think BOJ purchased half of the new issuance. But now the government is no longer doing massive stimulus. So, BOJ is buying less.

Q: Were economic benefits from the Olympics better than expected?

A: The economic benefits of the Olympic was almost none since we are under the state of emergency. But it may be helping to improve people's sentiments due to good results by the athletes.

Q: Do you see additional lockdowns due to the Delta variant, and may be more too, forcing the BOJ's hand in any way?

A: The government is not able to impose lockdown currently due to the Constitution that guarantees free movements of people. So, measures are not so stringent. We will have an election among the ruling party next month. Let's see if (Prime Minister Yoshihide) Suga can get support. Japanese in general are not happy with the way government is handling the coronavirus (crisis). More than 60% feel that way. Suga's popularity is low.

Q: Suga has the support of his party -- Does that mean the LDP might not win a national election, given his low popularity?

A: Suga has strong back up from the LDP -- especially from the old guys. But the election will be conducted including local members, I think. In Japan, LDP wins most of the time not because of the public support. It is mainly no other alternative party. About 40% of Japanese say there is no political party they want to support.

Q: When do you see growth numbers beginning to pick up in Japan?

A: The growth will pick up from the fall since many are getting vaccinated. As people will start to move around, consumption will pick up.

Q: What are your thoughts on BOJ's plan to support efforts on climate change by fund-provisioning measures?

A: Yes. BOJ announced they will provide one-year cheap loans to banks provided banks invest or finance green bonds/loans, transition bonds/loans, and sustainability linked bonds. The interest rate is 0%. The maturity is short but can be renewed unlimitedly. They will do it until 2032.

Q: Do you see the BOJ promoting green activities by continuing to offer cheap funds to banks? Or will they eventually begin buying green bonds?

A: I think BOJ wanted to show some green activities since it is a member of NGFS (Network for Greening the Financial System). But compared with BOE (Bank of England) and ECB (European Central Bank), where they are discussing to remove the market neutrality principle on corporate bond purchases, BOJ insists (on) market neutrality and does not want to be involved in micro-level credit allocation.

Since the government has not come up with credible green strategies to achieve the net zero target, it is difficult for BOJ to do much about it. In addition, lending to banks in green area will not give much contribution to promoting green activities. This is because banks are not green and will take time. Government should clarify the definition of green activities, and greater disclosure. Until that time, the green bond market will be too small to purchase. Japan's general corporate bond market is so tiny. Only 10% of GDP. Green bond is much smaller.

Q: Former RBI governor Raghuram Rajan joined us last week, and said the onus of promoting sustainable investments should lie with governments and not central banks -- <https://reut.rs/3kvgWhj> -- are you in that camp as well?

A: I fully support it. The government should be the first. The central bank is supporter.

Q: Do you see these green activities as a distraction from the BOJ's more important and elusive goal of achieving its 2% inflation target? Should their focus remain on that?

A: No. The impact of such new green policy will be small. Anyway, BOJ cannot get a lot of credit demand from banks.

Q: Has there been a tangible difference in diversity at Japanese companies, especially for women?

A: Japan still faces gender issues. On surface, female board members are increasing. but many are taking the position for a number of companies. still man dominated

Q: Are you worried about China slacking, and that impacting global demand, supply chains, and growth in general? Is that one of the factors that's not being taken into consideration properly yet?

A: So far, exports to China from Japan is strong even though automobile exports are weak.

Q: How concerned is Japan about the South China sea issue How do you see that panning out in the future?

A: The South China Sea issue is very much (of) concern to Japan. Japan also has issues on our island -- Senkaku. How to balance economic interests and growing power from China is a very challenging issue.

Q: Do you expect the Chinese regulatory crackdown to affect Japanese companies?

A: So far, I do not see much impact from China's regulatory crackdown.

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