IMPROVING ECONOMIC POLICY

Comments on “Potential issues with BOJ’s exit from unconventional monetary policy” by Takashi Miwa

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Main arguments of the paper

- Sooner or later the BOJ will have to exit and it will follow the template of the Federal Reserve:
  1) Phased reduction in net asset purchases,
  2) Stopping net asset purchases (reinvestments = new purchase only to replace maturing assets),
  3) Raising policy interest rates,
  4) Scaling back reinvestments.
- The paper quantifies the impact of BOJ exit on BOJ profit, under certain assumptions
- It argues that the resulting BOJ financial loss would not impact the conduct of monetary policy
- Instead, the key issue is whether fiscal consolidation will be done by the time of BOJ exit

Comments - agreements

- The arguments are clear and sensible
- The empirical calculations are made very carefully
- I very much agree with the ultimate conclusions:
    1. Central bank profits should not matter for monetary policy; in fact, some central banks have even negative equity and they do their job well
    2. Fiscal consolidation is key to the sustainability of public finances and to limiting the fiscal dominance of monetary policy

Comments - questions

- Interest rate assumptions :
  - Short-term BOJ policy interest (which is paid on financial institutions' current account deposits at the BOJ) will increase to 0.5%
  - 10-year government bond yield will increase to 1.0%
- Why?
- I believe the expected future interest rates (as well as the timing of exit) should be seen in conjunction with inflationary developments
- E.g. if inflation will not reach 2% (which seems plausible), the BOJ might not raise the policy rate at all (or just raise to 0%), and thereby it will not suffer any net interest income loss

Comments – broader questions

1. What will happen if the BOJ will not reach its 2% inflation target? E.g. will it acknowledge the failure and lower the (effective) inflation target to 1%?
2. Under such circumstances, will it reduce its balance sheet?
   - *Note: the Federal Reserve started to increase the interest rate and to reduce its balance sheet only after inflation surpassed 2% in a sustainable manner*
3. Will a 1% long-run inflation (instead of 2%) be a problem?
4. Suppose BOJ reduces its balance sheet in the future. Will there be buyers of the excess supply of government bonds? If so, would that crowd out funding for private companies?

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Thank you for your attention

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