



September 25, 2016
**Bank of Japan lacks the Tools to
Fight Deflation**



Q. We had a big announcement from the BOJ. What are the implications of their new policy?

What's very clear is that there are not sufficient tools in the BOJ kitty to tackle the inflation problem. They have done monetary easing for a long time – it hasn't worked. Inflation is not at 2% and its not coming up to 2% anytime soon. So what they have done is to lay out a framework which will span beyond the term of Governor Kuroda, and perhaps lay out the groundwork for potential helicopter money in the future. What's very clear is that fiscal policy has to support Japan's recovery rather than just monetary policy.

Q. Is helicopter money coming in your opinion?

It's probably coming somewhere down the line. So by having said that they are targeting 0% at the 10-year, and not say anything beyond that duration, they have left the door open. And potentially if Abenomics is going to work, they have to lengthen the duration of infrastructure spending and finance that by JGBs.

Q. It was really interesting that on Friday we heard from the Finance Minister, Taro Aso, who said essentially that the government cannot be relying solely on the BOJ to fix all these issues, boosting economic growth and also defeating deflation. Do you think a bigger effort needs to be put on long term fiscal reform and the fiscal side in Japan?

Obviously. That is the third arrow of Abenomics, which they haven't been very successful at. But I think the problem is that, as Governor Kuroda has said, they have had some incidents in the past few years, such as oil prices, because of which they can't hit the 2% inflation target. By removing the 2% target, they have implicitly they have first of all created a structure where they don't need to target the 2% specifically, and they have also said to the Government that unless fiscal spending comes through, the BOJ can't be solely responsible for bringing the economy back on track.

Video link:

<http://www.cnbc.com/video/2016/09/25/boj-lacks-the-tools-to-fight-deflation-investor.html>