Economics

Kuroda to Miss Price Goal as Japan's Inflation Hunt Drags On

By Toru Fujioka and Sumio Ito

April 27, 2021, 10:14 AM GMT+7
Updated on April 27, 2021, 3:55 PM GMT+7

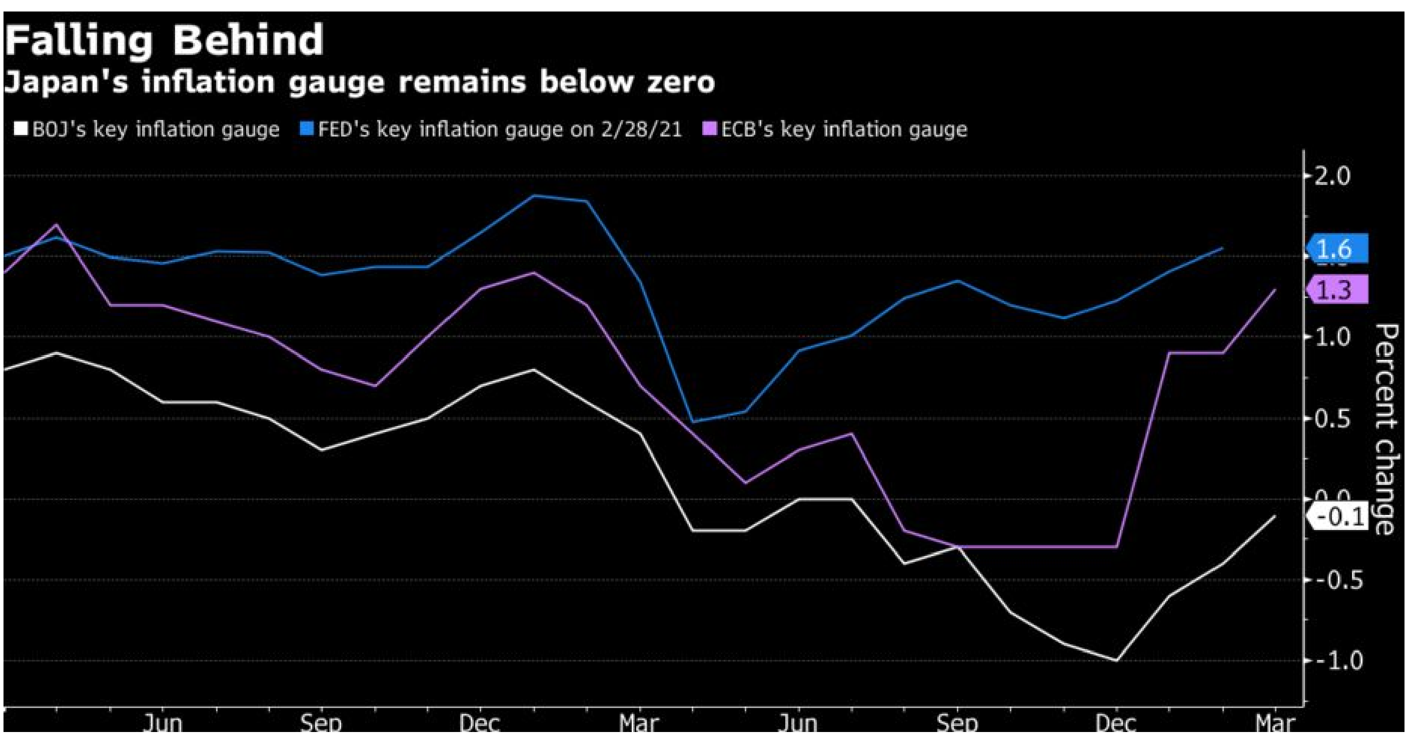
- Projections show inflation averaging just 1% in FY2023
- Weak price outlook comes despite stronger growth projections

Outside the Bank of Japan (BOJ) headquarters stands in Tokyo. *Photographer: Kiyoshi Ota/Bloomberg*

Bank of Japan Governor Haruhiko Kuroda will fail to reach his goal of stable 2% price growth during his term after what will have been more than a decade of stimulus to stoke inflation, according to the Bank of Japan's latest forecasts.

Even with an economy expected to show a faster recovery from the pandemic, a slew of rising commodity costs and global expectations for accelerating inflation, the BOJ still couldn't find enough positive factors to see price growth averaging 2% by the end of March 2024.

The BOJ released the latest projections Tuesday after leaving unchanged its interest rate and asset purchase settings, as had been widely expected. While the bank now sees stronger economic growth of 4% in the year started April and 2.4% the following year, it cut its inflation forecast for the current fiscal year to just 0.1%, citing cheaper mobile phone bills.



The latest projections lay bare the challenge the central bank faces to complete a mission Kuroda initially hoped to achieve in about two years. While the BOJ governor will likely continue insisting that temporary factors won't undermine the underlying inflation trend, the reality is that he has little price growth to show for the world's most ambitious experiment to reflate an economy.

"It's hugely symbolic that even Kuroda can't hit the target after a decade," said Hideo Kumano, executive chief economist at Dai-Ichi Life Research Institute and a former BOJ official. "That again raises the question of whether the 2% inflation goal really is the right one for Japan."

Speaking at a press briefing after the decision, Kuroda stuck to his mission statement that 2% was the appropriate target. He said it shouldn't be lowered and insisted that efforts to achieve it had been worthwhile and had largely kept inflation above zero. Staying in line with global central banks to pursue 2% inflation was also a major factor keeping foreign exchange rates stable, he added.

"I don't think it's really necessary to get hung up on achieving the target just because it's my term," said Kuroda, whose current stint is due to end in April 2023. "Either way we'll keep doing our utmost, and if as a result the goal can't be reached until fiscal 2024 or beyond, that just can't be helped."

His comments highlighted how the appetite among Japan's senior policy makers to charge ahead with efforts to hit 2% inflation has dramatically waned since the target was established.

Kuroda launched the massive easing program in April 2013 with a firm intention of shaking up the psychology of consumers and companies and convincing them that inflation was coming soon. Even before the pandemic struck, the BOJ had stacked up enough bonds and stock funds to outsize Japan's economy in pursuit of the goal.

Last month's policy review, the biggest since 2016, was another step back from the bold strategy Kuroda originally set out. The bank effectively streamlined its stimulus program so it could more flexibly pursue its goal while acknowledging that it won't achieve it anytime soon.

Mission Unaccomplished

Prices didn't really respond to the massive stimulus under Kuroda

Source: Japan's Statistics Bureau, Bank of Japan

The latest decision and projections will further cement the view that the BOJ is likely to keep its stimulus unchanged well beyond global peers such as the Federal Reserve and the European Central Bank even if Japan's economy is regaining traction at a faster-than-expected pace.

	NEW GROWTH PROJECTIONS	PREVIOUS PROJECTIONS	NEW CPI PROJECTIONS	PREVIOUS PROJECTIONS
FY2021	4.0%	3.9%	0.1%	0.5%
FY2022	2.4%	1.8%	0.8%	0.7%
FY2023	1.3%	N/A	1.0%	N/A

The 2% goal was a cornerstone of Abenomics, a project that started in 2013 to more closely coordinate policy between Japan's government and the central bank to help reinvigorate the world's third-largest economy.

The close coordination has helped Japan weather the storm of Covid-19 better than many countries, with record public spending financed by borrowing at rates the central bank helps keep ultralow. But the relationship no longer seems entirely reciprocal.

Yoshihide Suga, Shinzo Abe's successor as prime minister, appears less committed to the inflation goal than his former boss. Suga has repeatedly demonstrated he is more concerned about the day-to-day reality of voters' pocket books than the theoretical importance of forming stronger inflation expectations.

Even before the pandemic, Suga's insistence that cell phone fees should be lowered by around 40% as soon as possible showed his prioritizing of putting cash in shoppers' wallets than generating imagery of rising prices in shoppers' heads. Travel subsidies spearheaded by Suga last year also dragged down the monthly overall price index by as much as 0.4 percentage point.

"The issue with these government policies is that they could strengthen a deflationary mindset if they continue," said economist Harumi Taguchi at IHS Markit, who called for more reforms to help Japan's economy grow and power price growth. "What's needed are what the government calls structural reforms. The underlying growth potential needs to be pushed up so there's a positive impact for consumers."

– With assistance by Yuko Takeo, and Yoshiaki Nohara

(Adds comments from Governor Kuroda)