Did The Bank of Japan Throw In the Towel? Has QE Flopped?

Under Governor Haruhiko Kuroda, the Bank of Japan has pursued a relatively strong quantitative easing program, and applied negative interest-rates on a large portion of bank deposits.

The Japanese central bank buys 10-year Japanese government bonds (JGBs), when rates rise above 0%. The BoJ has also become the largest buyer of equities in Japan, though its purchases of ETFs. The central bank's short-term policy rate is 0.1%, and the BoJ buys about $730 billion in bonds every year. The BoJ owns about 45% of the entire stock of JGBs.

By the pedestrian and ossified standards of central-bankers, Kuroda is a tiger.

But two weeks ago Kuroda, in some regards, tossed in the towel. The Bank of Japan, which has had a receding timeline to hit a meek 2% inflation target (IT), has abandoned the fiscal 2019 (through March of 2019) target date for hitting even that low bar.

Japan, by orthodox macroeconomic metrics, remains a puzzle.

For example, there are 159 job openings for every 100 job hunters, Japanese officials recently reported. The economy has been growing mildly in the last couple of years, around 1.3%, although Q1 may come in flat. The Japan CPI core in March was up only 0.9% YOY, and the yen is stronger against the US dollar than a year ago.

So Kuroda, in postponing yet again a target date for hitting 2% inflation, may be admitting that QE and low interest rates alone will not bring Japan to its IT 2% or strong GDP growth.

Upshot: Bring in the Choppers?

The outlook is edgy for Japan.

The Market Monetarists (a tribe to which I belong) generally support QE, and have thought that if a central bank does enough QE, it should work. But with the BoJ owning 45% of JGBs, and becoming a major shareholder though ETF purchases, and with labor conditions historically tight…one has to wonder if QE can turn the tide in Japan. If not now, when?

Even if QE eventually works in Japan, could any other central bank muster the resolve to be as tough as Kuroda & Co.?

Can one imagine the Fed being as persistent?

QE has been the topic of numerous academic and central bank studies, most of which conclude QE is weak tea. Certainly, the US “recovery” from the Great Recession has been sluggish (or as Marcus Nunes points out, still lacking compared to former trend-lines) while Europe, under the ECB-QE program, has also limped along,

Given the stalling nature of inflation and the economy of Japan, one must ponder if money-financed tax cuts, aka helicopter drops, are a sensible next step for Tokyo.

And when recession comes again to the West, should central bankers go to 1) QE, or 2) QE plus government deficits (a lot like money-financed fiscal stimulus), or 3) bald-faced money-financed fiscal stimulus?