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Some BOJ Policy Makers Want to Save Ammunition

Central bank has been pointing to the possibility of additional rate cuts at next week's policy meeting



Bank of Japan Gov. Haruhiko Kuroda spoke to the press Sept. 19, after the bank's last policy meeting. PHOTO: KIMIMASA MAYAMA/EPA/SHUTTERSTOCK

By Megumi Fujikawa

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TOKYO—Some Bank of Japan policy makers see little merit in an interest-rate cut this month, believing the ammunition should be saved for worse economic conditions, according to people familiar with the BOJ's thinking.

Gov. Haruhiko Kuroda has recently pointed to the possibility of additional easing, given the global economic uncertainty. Last month the bank promised to take a more thorough look at the economy before its Oct. 30-31 policy meeting.

But concerns about a global falloff have eased somewhat in recent weeks. Tokyo's Nikkei Stock Average gained on Wednesday for the seventh time in the past eight sessions, rising 0.3% to finish at 26,685.28, which sent the yen's value back to around 100 to the dollar, a level that

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In addition, hopes have risen that Britain's protracted divorce from the European Union is finally entering its endgame, and the U.S. and China have begun talking again about a trade deal.

While matters could quickly take a turn for the worse, Bank of Japan officials believe they now have some breathing room, said the people familiar with the bank's thinking.

"The bank wouldn't want to waste its bullets," one of them said. "There were signs in September that the global economy might fall apart. It is now in a very delicate phase."

The people said such assessments could lead the bank to stand pat at next week's meeting if it concludes the Japanese economy is on track and sees momentum toward the BOJ's 2% inflation target.

The BOJ's hesitation highlights two larger issues—the difficulty of measuring the impact of the U.S.-China trade war and the limited tools many central bankers have to address downturns.

The International Monetary Fund said last week that it expects global growth to slow to 3% this year, the weakest since the global financial crisis, down from its 3.2% forecast in July.

BOJ officials have backed away from previous optimism that global growth would pick up this year, and Mr. Kuroda has been talking openly about easing options—including lowering the central bank's short-term rate target, currently minus 0.1%.

"Because risks are increasing overall, I feel more favorably about monetary easing than before," he said Sept. 24. He said the bank wouldn't hesitate to act if momentum toward its 2% inflation target were threatened. Prices in September, excluding fresh food and energy, were up 0.5% from a year earlier.

Totan Research chief economist Izuru Kato said he expected the BOJ to lower its short-term rate target to about minus 0.2%, especially if the Federal Reserve goes ahead with a rate cut Oct. 30, which officials have hinted is likely.

"Symbolic easing like that is more effective if it is done early. It wouldn't mean anything if the BOJ moves after it was driven into a corner," Mr. Kato said. "If the BOJ gives the impression of a boy crying wolf, nobody is going to trust its pledge to ease without hesitation."

The problem for Mr. Kuroda is that the BOJ has fewer workable options for easing than the Fed,

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Makoto Takashima, chief executive of Sumitomo Mitsui Banking Corp. and the chairman of Japanese Bankers Association, said last month that the BOJ could pay positive 0.1% interest on a greater portion of the money commercial banks park at the central bank and take other steps to lift financial firms' investment returns. Even then, he said, "it would be impossible to completely offset the bad effects of cutting short-term rates deeper into negative territory."

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