The IMF-JC's Views Calling for Further Action on the Yen Rise and Deflation

February 27, 2012
IMF-JC

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On February 14, the Bank of Japan decided on a new policy of enhancement of monetary easing. The main points are as follows:

＊ It set an inflation target of 1% year-on-year rise in the CPI, and until that can be achieved will keep interest rates at virtually zero and will purchase financial assets (long-term Japanese government bonds) to pursue powerful monetary easing.

＊ It also increased the total size of the Asset Purchase Program for purchase of government bonds from 55 trillion to 65 trillion yen. Of these funds, funds appropriated for asset purchases were increased from 20 trillion to 30 trillion yen.

The manufacturing sector has suffered a severe blow to profits due to the extremely high yen, which has remained in the range of 70 yen to the dollar. However, this is not the only problem. There continue to be instability in power supply and delays in the signing of FTAs and EPAs, leading to acceleration in the movement of domestic production bases overseas, a series of factory closures especially in rural areas, and movement of research and development overseas as well. At this rate, domestic manufacturing and domestic employment will fall into a catastrophic state, leading to a hollowing-out of industry in Japan. The huge yen rise has also dealt a blow to domestic demand oriented industries through a slump in consumption, which is plaguing the entire Japanese economy.

The IMF-JC has heretofore demanded measures to address the yen rise and deflation, and asserted the need for greater quantitative easing. We approve of this round of enhanced monetary easing as one that adheres to our assertions. We are also seeing positive signs in exchange rates and stock price trends. However, current market prices are ultimately the effect of the new policy announcement, and if the market ends up disappointed, we worry that this effect may only be temporary.

We call for the following policy actions to achieve exchange rates in the $1 = 90 yen range, aiming toward the stable range of exchange rates that existed prior to the Lehman Brothers bankruptcy, and a full recovery from deflation.

(1) The government, the ruling party and the Bank of Japan share awareness of the crisis in the manufacturing industry and domestic unemployment, and work closely together to execute monetary easing.

(2) The Bank of Japan provides liquidity to the private sector through purchase of long-term government bonds quickly and effectively and further strengthens this policy so that the effect of monetary easing does not weaken.

(3) We should work to achieve a system for setting monetary policy that can quickly respond to changes in industry trends and lifestyle circumstances.

(4) The government should put full efforts into domestic employment policy and work decisively to promote new growth strategies as well as domestic placement of manufacturing, including participation in the TPP.