

Money Spigot Opens Wider

Japan Unveils an Aggressive New Policy, Echoing the Fed and Other Central Banks

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TOKYO—The [Bank of Japan](#)'s new leaders delivered on their pledge to radically overhaul its strategy to revive Japan's economy, unveiling a package of easy-money policies Thursday so aggressive in scale and tactics that it surprised investors.

Japan's central bank will double its holdings of government bonds and the amount of yen circulating in its economy, joining major central banks that since the financial crisis have been testing the limits of their powers in a grand—and some say risky—experiment to stimulate the sluggish global economy.

As the Bank of Japan embraced more easy money, the European Central Bank and Bank of England left their relaxed monetary policies unchanged Thursday, and some U.S. Federal Reserve officials have begun talking about when to end its \$85 billion a month in bond buying.

Shares in Tokyo were fueled by the BOJ moves, with the Nikkei stock average up more than 3% by midday Friday, after having gained 2.2% Thursday.

The Bank of Japan's new tactics echo moves by the Fed: aggressive buying of long-term securities, accompanied by clearly stated targets and backed by bold talk of commitment

from the central bank chief. The goal is to push down long-term interest rates, spurring consumers and businesses to borrow more, spend more and invest more.



"This is an entirely new dimension of monetary easing, both in terms of quantity and quality," the Bank of Japan's new governor, Haruhiko Kuroda, said Thursday. The BOJ said the programs would continue at least two years.

The strategy seeks to broadly change Japanese behavior and attitudes that have contributed to depressed spending, wages and prices over the past two decades. With rising consumer prices, the Bank of Japan seeks more spending and economic vitality.

The central bank earlier this year set a 2% inflation target

after years of falling prices. Whether its new policies will push Japan's economy toward that goal will take months or longer to determine.

"I will not use my fighting power in an incremental manner," Mr. Kuroda said at a news conference following the central bank's two-day meeting. "Our stance is to take all the policy measures imaginable at this point to achieve the 2% target in two years."

On Thursday, the yen fell against the dollar and yields on long-term Japanese government bonds dropped. U.S. stocks finished slightly higher.

The Bank of Japan, for years the most conservative of the major central banks, has come out swinging. The BOJ's new bond-buying program, for example, is more than 60% larger than the Fed's monthly purchases of Treasury and mortgage-backed securities, as a percentage of gross domestic product.

"We really all face a common situation where we've had disappointing economic performance and we're all taking steps, all of us different packages of monetary policy steps to try to address that, so that I think that's something that's completely appropriate," Fed Vice Chairwoman [Janet Yellen](#) said Thursday.

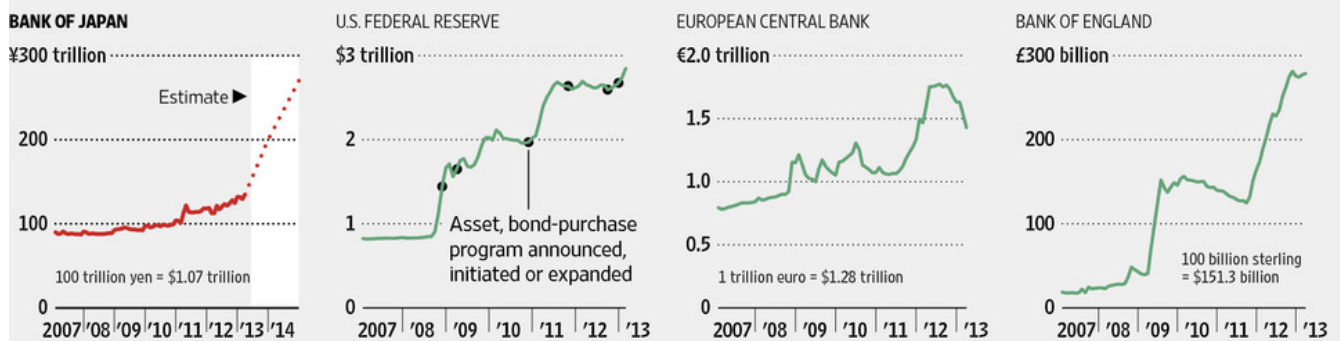
Fed policies appear to have helped trigger upturns in such interest-sensitive markets as housing and cars. But, like the Fed strategy, the Bank of Japan announcement raised questions about the dangers posed by central banks pumping cash into their economies. Critics worry the central bank could cause inflation or asset bubbles in junk bonds and exotic corners of the mortgage securities and corporate-loan markets. The long-term benefits of the policies remain uncertain.

"If you pursue a radical policy, asset prices may change greatly, but if you set off a bubble and make the overall economy unstable, then you end up getting your priorities wrong," said Ryutaro Kono, chief economist at [BNP Paribas](#) in Tokyo. Mr. Kono once was considered for a seat on the Bank of Japan's policy board but was voted down by lawmakers who saw him as unwilling to try a more aggressive central-bank strategy.

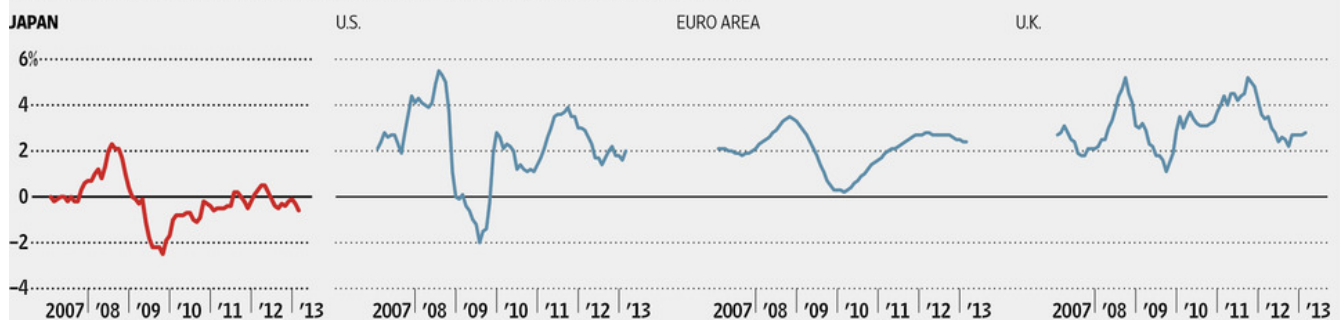
Money Pumpers

The Bank of Japan, which hasn't poured money into the economy as aggressively as other central banks, plans to ramp it up. The money, which central banks use to fund purchases of bonds and other assets, so far hasn't caused inflation.

Monetary base (cash in circulation and bank reserves)



Consumer price indexes through February, change from a year earlier



Sources: (monetary base, left to right) Bank of Japan; Federal Reserve; European Central Bank; Bank of England; (inflation, left to right) Japan's Statistics Office; U.S. Labor Dept. Eurostat; U.K. Office for National Statistics

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Mr. Kono's view echoes a continuing critique of Fed policy.

"I view the current policies as overly accommodative, causing distortions and posing risks to financial stability and long-

term inflation expectations with the potential to compromise future growth," Esther George, president of the Federal Reserve Bank of Kansas City, said in a speech Thursday. "As the Fed's balance sheet continues to expand, the risks and costs increase in my view."

The Fed must eventually decide how far to push its economic growth policies. It launched its monthly bond-buying program last year, saying it would continue until the job market improved substantially.

Fed officials now wonder whether that improvement is starting to appear.



The Bank of Japan's new leaders deliver on their pledge to radically overhaul the bank's monetary-policy program, as Facebook unveils a new home app for Android. Kaitlyn Kiernan joins The News Hub looks at the day in the markets. Photo: AP.

"I expect we will meet the test for substantial improvement in the outlook for the labor market by this summer," John Williams, president of the Federal Reserve Bank of San Francisco, said in a speech Wednesday. "If that happens, we could start tapering our purchases then. If all goes as hoped, we could end the purchase program sometime late this year."

Mr. Williams has been among the most vocal supporters of the program and his suggestion that the Fed could begin winding down its bond buying by summer seemed to some investors much sooner than expected.

Other Fed officials have said recently the program could continue longer. A U.S. Labor Department report Friday on the health of the job market in March will likely figure in the Fed debate.

"The U.S. is going to probably be the first central bank to be able to begin to cease balance-sheet expansion," said Garth Friesen, co-chief investment officer at III Associates, a hedge fund that specializes in global debt investments.

Even if the Fed reduces its bond buying this year, it is clear that the world's large central banks see low interest-rate policies continuing.

The Fed has said even after the end of its bond program—known as quantitative easing—it plans to keep short-term interest rates near zero until the U.S. unemployment rate falls to 6.5%, which economists don't expect until 2015. The jobless rate was 7.7% in February. Fed officials are considering suggestions to hold on to mortgage bonds for longer than previously planned, potentially leaving the Fed with a swollen balance sheet through the decade.

Fiscal policy is a major question for all of the central banks. The European Central Bank has been reluctant to launch an expansive government bond-buying program over fears it would be seen as bailing out struggling governments in countries like Spain and Italy.

A different fiscal cloud hangs over the U.S., where Fed officials worry that planned federal tax increases and

spending cuts could restrain growth, just as the economy is picking up.

The BOJ cast aside long-running worries about appearing to help the government run large budget deficits. The BOJ said it would suspend a self-imposed limit on buying government bonds that had been created to avoid the appearance of "monetizing" government debt.

The ECB left its policies unchanged Thursday. Economists at [J.P. Morgan](#) estimated the euro-area economy would contract by 0.6% this year after contracting 0.5% last year. Economies in the U.S. and Japan are projected to grow moderately.

ECB President Mario Draghi said the central bank can't solve such problems as weak banks and big government budget deficits. "The buck doesn't stop with the ECB," he said, though he added the central bank was still looking for ways to support the economy.

"We will assess all of the incoming data in the coming weeks and we stand ready to act," he said. The ECB could lower a short-term interest rate it targets, currently at 0.75%, as soon as next month if the euro zone's struggling economy fails to show signs of stabilizing.

With interest rates already at record lows, economists said another cut wasn't likely to add much juice to the euro-zone economy, which has not expanded since the third quarter of 2011. The ECB's main problem is that its easy-money policies aren't being felt evenly across the 17-member currency bloc.

In such healthy economies as Germany, where unemployment is low, the ECB's policies have made it easier for households and businesses to borrow cheaply. But

borrowing costs are far higher in Spain, Italy and other troubled economies.

The ECB has considered making it easier for banks to post small business loans as collateral for cheaper ECB funds, for example. But the ECB's reluctance to take this or other steps suggests the central bank is having trouble gaining a consensus for action over doubts the policies would do much good.

Mr. Draghi "provided little hope that policies considered to be within the Bank's remit were likely to be effective," said Jennifer McKeown, economist at consultancy Capital Economics, in a research note.

The Bank of England held its main lending rate at 0.5% and decided Thursday not to add to its portfolio of bonds.

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