

Here's the grammatically corrected version of the transcript:

1,230 views Live broadcast on March 19, 2024 JAPAN LIVE: Bank of Japan's Governor Proposes Ending Negative Interest Rates | Japan's Interest Rate | CNBC TV18 Transcript

0:14 Yes, um, I'm Yoshida from NHK, the secretary. Thank you very much. First of all, regarding today's press conference,

0:20 the scheduled time is the usual 45 minutes, but we are planning for a maximum of 60 minutes to allow for more questions from various perspectives.

0:26 I think we should try to focus the questions and keep the content as concise as possible to accommodate as many questions as possible.

0:34 Also, when designated by the moderator, please indicate from which seat you are speaking, and please state your company name and designation before asking your question.

0:40 Thank you for your cooperation. First of all, let me begin. Regarding today's decision, um, concerning the decision on policies,

0:59 regarding wage and physical circulation...

1:07 we have confirmed the integration of wages and physical circulation, and,

1:14 based on the outlook report, it is judged that the goal of 2% price stability can be achieved sustainably,

1:22 and under these circumstances, the Bank of Japan has concluded that the large-scale monetary easing policies such as yield curve control and negative interest rate policy have played their roles. 1:27 In addition, regarding the overshoot-type commitment regarding the monetary base, it has been determined that the requirements have been met.

1:35 The Bank of Japan will continue to operate short-term interest rates as a policy measure to manage monetary policy appropriately according to the economic, price, and financial conditions.

1:44 Based on the current economic outlook and physical circulation outlook, it is assumed that the accommodative monetary environment will continue for the time being.

1:59 Next, I will explain the specifics of today's decision. Regarding the financial market adjustment policy, the examination of the call rate...

2:38 on the overnight index swap rate, and it was decided to aim for it to fluctuate around 0 to 0.1%.

2:52 In order to realize this policy, a swing interest rate of 0.1% will be applied to Bank of Japan current account deposits, excluding the required reserves.

3:01 The new financial market adjustment policy and the swing interest rate will be applied from the next business day, March 21.

3:17 As for the purchase of long-term government bonds, it was decided to continue at roughly the same amount as before.

3:31 Regardless of the monthly purchase plan, measures such as increasing the amount of purchases and supplying repo common collateral funds will be implemented in case of a sharp rise in long-term interest rates.

3:46 Regarding the allocation of assets other than long-term government bonds, the issuance of new ETFs and J-REITs will be phased out.

4:23 As for the operation to support financial institutions' climate change response, the lending rate will be set at 0.1% with a lending period of one year.

4:36 Regarding the provision of support funds for Shizuoka, it has been established that funds up to the amount of Shizuoka Prefecture's share of the budget can be provided.

4:54 ETF purchases related to large companies should be terminated. However, the negative interest rate policy should continue until it is confirmed that the wage increase for small and medium-sized enterprises, which is lagging behind, is improving.

5:11 As for the financial market adjustment policy and the improvement policy for long-term government bonds, Committee Member Noguchi opposes the simultaneous abolition of short-term and long-term interest rate manipulation and the negative interest rate policy in order to avoid discontinuous changes in the financial environment.

5:42 Next, I will explain the background of the review of this monetary policy and the economic and price situation. Although there are some weak movements in the economy,

5:56 it is gradually recovering. Regarding wage-related conditions, non-regular income continues to improve, and labor demand is tightening.

6:10 As for the wage negotiations this year, based on the current results, the possibility of achieving solid wage increases similar to last year's seems high.

6:30 It can be seen from hearing information from companies that there is a trend of wage increases in a wide range of companies.

6:39 Regarding the physical aspect, the influence of price transfers based on the rise in oil prices is decreasing.

6:55 However, due to the gradual wage increases so far, there continues to be a moderate increase in service prices. Recently, data and hearing information confirm the strengthening of the wage-price cycle, and it is judged that the goal of 2% price stability can be achieved sustainably, according to the outlook report. That's all for now. Thank you very much.

7:18 I will ask two questions from the monitor. If you could answer each one, I would appreciate it. First, Ueda-san, in your first year as Governor, you have made a major policy change. The Japanese economy has continued to experience deflation, and negative inflation persists even now. Why did you decide to make this policy change at this time?

7:48 Yes, there are overlapping parts with the previous answer, but in today's decision meeting, we thoroughly examined recent economic and price conditions,

8:06 especially wage and price movements, including the results of spring wage negotiations. Based on recent data and hearing information, we have confirmed the strengthening of the wage-price cycle,

8:28 and it was judged that the goal of 2% price stability could be achieved sustainably by the end of the forecast period of the outlook report. Based on this, we decided to review the easing measures extensively.

8:41 Thank you. Now, another question, please. Regarding the impact of this policy change on housing loans and lending rates, it is expected that interest rates will rise. How do you foresee the overall impact on consumers, businesses, and the entire Japanese economy?

9:16 The lending and deposit rates will change somewhat in response to this policy change, but I believe it will be determined by the judgment of each financial institution based on market interest rate trends.

9:37 The short-term interest rate hike resulting from this policy change is expected to be around 0.1%. As I mentioned earlier, we will continue the purchase of government bonds at roughly the same level as before.

9:58 In addition, if long-term interest rates rise sharply, we plan to implement additional measures such as increasing purchases. Therefore, we do not expect significant increases in deposit and lending rates due to this measure. We will continue to base our outlook on the current economic and price outlook, and we believe that the accommodative monetary environment will continue to support the economy and prices. Thank you.

10:30 Thank you very much. Now, we will move on to the next question. Please, Tsuzaki-san from the Asa Newspaper, go ahead. Sure, here's the corrected version of the text:

10:40 I'm Tsuzaki from the Asa Newspaper. I have two questions. Firstly, concerning the Bank of Japan's future policy direction in case the outlook deteriorates and you decide to resume easing measures, such as YCC, which you decided to end this time, do you have any thoughts on this matter?

12:04 I think it will be necessary to set the short-term policy rate similar to other central banks that have adopted it as a policy tool. Therefore, I believe it will be necessary to choose an appropriate policy interest rate according to the outlook for prices and the economy. However, currently, we have reached a situation where the sustainable realization of a 2% price stability has been seen. However, from the perspective of expected price increases, there is still some distance from 2%. So, when we focus on this gap, it is important to maintain an accommodative environment even with normal monetary policy, as mentioned earlier. While paying attention to this point, we will continue with ordinary monetary policy. I believe this will be the case.

13:20 We have two questions. The first one is that in this meeting, major easing policies such as the negative interest rate policy have ended. Also, purchases of risk assets such as ETFs have ended. However, regarding interest rate targeting for both short and long-term rates, it is stated that quantitative and qualitative monetary easing has fulfilled its role. The unconventional easing has effectively ended. Some people may have this perspective. However, if we continue with this new monetary policy framework, what will the Governor call it?

13:54 The second point is about the Yield Curve Control (YCC) being terminated from today, or starting from the 5th. Now that the upper limit for long-term interest rates, which was set at 1%, has disappeared, if long-term interest rates were to rise sharply in the new framework, we would conduct fixed-rate operations to guide the rates back on track. However, if interest rates were to rise gradually, would you be willing to tolerate it without taking such measures?

14:35 Yes. As for the first point, starting from today, or from the 5th, the question is about naming the monetary policy framework. We are not particularly considering a name. As mentioned earlier, it will become an ordinary monetary adjustment tool using short-term interest rates. Regarding long-term interest rates, we will continue at the same level as before in the international arena, but the interest rate level will be determined by the market. However, as your question mentioned, if interest rates were to rise sharply, we would want to have the flexibility to conduct operations as a backstop.

15:11 As for your second question about the stock effect of the large amount of JGBs held by the Bank of Japan, we are aware that there is an easing effect due to this stock effect. While recognizing this, we do not intend to actively use open market operations or balance sheet adjustments as

proactive monetary policy measures. We will conduct adjustments using short-term interest rates as a monetary adjustment tool.

23:20 Regarding the consideration for the financial system, the question seems to be about how much consideration is given to it. Not only the financial system but also the entire economy has been in a situation where zero interest rates or near-zero interest rates have been used for a long time, for over 20 years. So, if interest rates were to rise sharply from now on, it is uncertain what kind of impact it would have, and we are aware of this. Specifically, we must consider where we are, but in that sense...

24:04 In this case, even if there is a rate hike in the future, I think it's appropriate that we've reached a stage where we can proceed slowly. Also, when considering the path of interest rates including rate hikes in the future, I believe the question was about how we would think about something like the Taylor rule. Um, Taylor rules are always in the minds of those of us who make monetary policy decisions. However, I apologize for getting into mathematical discussions, but depending on the levels of the variables that should be included in the equation, or the values of the parameters that appear in the equation, the interest rate levels that come out can vary widely.

25:11 Therefore, while I recognize that it's very valuable for organizing our thinking, I don't think we should calculate just one thing and pursue it as a policy.

25:39 Another point is regarding the first round of labor-management negotiations this time. That influenced this decision. However, as I have mentioned before, the settlement status of wages at the Spring Union is one of the important judgment points. So, it actually became a significant factor in our decision this time.

26:23 I'd like to confirm a little about future rate hikes. However, regarding the basic inflation rate mentioned earlier, if it rises, the outlook report indicates that there may be an increase in investment, or the likelihood of an increase. This additional rate hike could become a factor in our judgment.

26:50 Another point is that for the time being, we will continue with an accommodative monetary environment. However, is it correct to understand this until the inflation target is achieved? Also, what constitutes an accommodative monetary environment? In the future, is it neutral interest rates or real interest rates? So, what do you think about the need to ensure an accommodative environment by showing things like neutral rates or real rates?

27:13 Yes, as for the first point, whether a certain interest rate level is accommodative or not depends somewhat on what I mentioned earlier about the neutral rate. Speaking of the neutral rate, it's the expected inflation rate plus the real neutral rate. So, it becomes a bit uncertain from there, but if you ask what the real neutral rate is, it's something that central banks internationally gather and discuss for hours, if not days, but it's difficult to pinpoint it exactly.

28:07 And concerning the expected inflation rate, for example, over a period of about 10 years, it's expected to be somewhere between 1 and 1.5, I think. However, this should move towards 2% for long-term, sustainable stability, meaning it needs to reach 2%. So, there's room for movement ahead, which means the nominal neutral rate level will likely change. It's a bit embarrassing that it's not clear yet and I apologize for that, but in the current scenario, if the policy rate is below 0.1, for example, after this policy change, and if the expected inflation rate is likely above 1, then subtracting it means the real interest rate is significantly negative. So, in that sense, the current real interest rate is well below the neutral level. Therefore, I think it's fair to say that we are currently in a clearly accommodative monetary environment.

31:58 Could you explain a bit more clearly whether a short-term rate of 0.75% or a policy rate of 1% would be considered accommodative?

32:07 Whether a particular interest rate level is accommodative depends somewhat on what I mentioned earlier about the neutral rate. It relies on how much the neutral rate is. Speaking of the neutral rate, it's the expected inflation rate plus the real neutral rate. So, it becomes somewhat uncertain from there.

35:14 Yes, particularly in our hearings conducted this time, we held discussions not only from the perspectives of major corporations but also from smaller ones, including contacts with small and medium-sized enterprises. We have received responses indicating plans for wage increases from more than half of the hearing respondents, including those from a wide range of companies, including smaller ones.

36:04 Additionally, particularly, we are aware that it is difficult for small businesses, in particular, to raise wages. However, we recognize that many small businesses are struggling. Although small businesses may struggle, they are still observing how overall or large corporations set wages. There is a tendency for companies to also determine wage settings for their employees, so that point should also be considered for future small and medium-sized enterprises.

36:26 There is a possibility of predicting wage increases for small and medium-sized enterprises after this decision. We request TV Tokyo.

36:38 I'm Mr. Oe from TV Tokyo. Nice to meet you. Regarding small and medium-sized enterprises, there

was a question earlier. Regarding this decision, Commissioner Nakamura opposes it. He opposes it because he believes that we should continue until we confirm that the improvement in profitability of small and medium-sized enterprises, which are lagging in performance recovery, leads to increased room for wage hikes. Is it recognized that this has been confirmed? That's one point. Another point is that the results of the FOMC in the United States will come out after the Bank of Japan's decision this time. In the United States, inflation is quite persistent, making it difficult to lower interest rates. There are observations that despite the Bank of Japan's actions today, the exchange rate has become yen-weakening and has reached the 100-yen level. What is your view on this movement?

37:38 Firstly, regarding the wage trends of small and medium-sized enterprises, although we have gathered a certain amount of information about this, and based on the behavior patterns of small and medium-sized enterprises so far, we anticipate what will happen in the future. However, there is not absolute confidence that wages will rise significantly, nor is there any solid basis for it. However, looking at the discussions and deliberations of large companies so far, even though there may be some weakness in the direction of small and medium-sized enterprises, overall, it seems to be forming to a certain extent. I believe this is the basis for the decision this time. Also, about inflation in the United States, there are concerns that the inflation rate may not decline smoothly despite our policy changes, and despite some yen weakening, due to the difficult situation of interest rate cuts in the United States. How do you feel about this?

39:40 This is from Sankei Shimbun's Nagata. I'm from Sankei Shimbun, Nagata. Regarding the wage increase in March, it seems that it played a significant role in the final policy decision, but there were also opinions that the basis for small and medium-sized enterprises is not yet sufficient. What are your thoughts on whether the timing of wage negotiations and wage increases for small and medium-sized enterprises will progress from now on, and whether you will continue to monitor this? Also, how do you think the results of monitoring will affect future decisions on additional rate hikes?

40:26 Regarding the wage increase, it seems that the Ministry of Labor's Oshita's compilation has become a major factor, as you mentioned. However, not only that, but also the prices have been closely monitored. Especially, regarding service prices, we have been paying attention to them for a long time, and even though there have been various fluctuations in accommodation prices, overall, we have confirmed that there is a steady movement. Additionally, regarding the economy, there is a slight weakness in consumption, but on the other hand, the overall trend of comprehensive price indicators has been stabilizing. Furthermore, it seems that wages are likely to move steadily. From this, it is expected that the economy will gradually recover in the future. Additionally, improvements in consumer sentiment have been continuing, and further improvements are expected. Moreover, the GDP data for the fourth quarter recently announced, as well as the data on corporate investment that formed the basis for it, have been revised upward, and strong movements have been confirmed in leading indicators of capital investment such as construction starts. Taking these factors into account, our stance has changed from January to March, and we will continue to review it.

42:18 I'm sorry. From NHK's Asahi, it's NHK. It has been almost 45 minutes since the start of the press conference, and there are still questions. Since time is limited, please limit your questions to one per person and keep the content concise. I hope the governor can also cooperate. Thank you.

43:54 I'm sorry. From Mainichi Shimbun's Kato. I'm from Mainichi Shimbun, Kato. With this policy change, the market adjustment policy has been changed to keep the uncollateralized call rate around 0.1% instead of around 0.05%, as it was before. You mentioned earlier that the normal monetary policy will continue. Could you please elaborate on this, including what role unconventional monetary easing has played so far?

45:18 Regarding unconventional monetary easing, I believe it has played a role to some extent. However, as for the specific role it has played, as I have mentioned before, we are currently conducting a review, and we expect to announce the results in the near future. However, I can add that although unconventional easing has ended, the assets accumulated from the past easing, such as government bonds and ETFs, still remain in large quantities on the balance sheet. In that sense, the legacy of past unconventional easing will continue to exist for the time being.

46:28 From Hokkaido Shimbun's Takasaka. Regarding the inflation target, I would like to ask about it. It seems that although there is a prospect of achieving the inflation target as it is, it has not yet reached 100%. You have repeatedly mentioned this. In that sense, for example, there are data indicating that individual consumption is weakening. As the governor, if you were to raise the scenario for future risks, what would they be? And if you have any thoughts on the measures for those risks, please let us know.

47:49 I don't think the risk of ending [the policy] is currently significant, but in the future, I think we need to keep it in mind. Um, Mr. Fujii from Nihon Nogyo Shimbun, please.

48:02 I'm Goto from Nihon Nogyo Shimbun. Earlier, it was mentioned that the unconventional monetary easing has ended, but that was a reverse operation. From now on, it can be understood as a return to the world of traditional monetary policy, focusing on short-term interest rate operations. In short,

the Bank of Japan has taken a step towards opening the door to the normalization of monetary policy. We don't know for sure, but that's the perception.

48:53 Um, yes, we've used various measures with unconventional easing, but, um, based on the current economic and price outlook, when we compare it to our target, we realize that those unconventional measures are no longer necessary. So, focusing on short-term interest rates, we've reached a judgment that it's appropriate to maintain an easing environment. Um, Mr. Takase from TV Asahi, please.

49:39 I'm Takase from TV Asahi. Thank you. Um, in short, if I could ask a slightly complex question, please. Firstly, regarding this time, the policy interest rate has been set at 0 to 0.1%. But can we understand this as the so-called zero interest rate policy? First, could you answer this briefly?

50:01 We don't consider this to be a zero interest rate policy. Also, another point is, it overlaps a bit with the previous question, but the term "normalization" of monetary policy is often heard. But with this decision, like the one Governor Kuroda made before, various policies have almost disappeared. Can we say that this has been normalized? Could you please answer this specifically? That's all.

50:31 The meaning of the term "normalization" varies depending on the individual, but I think it ultimately comes down to the fact that various measures have been discontinued. Regarding the policy tools, we've shifted towards short-term interest rates this time. As for "normalization," I understand that there's no specific definition for this time. Is it okay to understand that we haven't set a definition for what constitutes normalization?

51:05 What to call normal is different for each person, so I just wanted to mention that. Um, Mr. Kaneshima from Yomiuri Shimbun, please.

51:12 I'm Kaneshima from Yomiuri Shimbun. Can I ask a question? Um, we've heard about the strength of wages this time, which policy was focused on, but in making this major decision, were there any points regarding wages that made you hesitate or were confident about? Um, everything can't be confirmed, even regarding wages. Also, including small and medium-sized enterprises, how much will it spread in the future, and also on the demand side, considering the weakness of consumption, how strong should the support for economic cleansing be? We should continue to review these, although it's a bit abstract, I think we can understand to some extent and adjust our perspectives accordingly.

52:34 That's how we've come to adjust our perspective. Um, Mr. Fujihara from Kyodo News, please.

52:39 I'm Fujihara from Kyodo News. Um, one point, please. With this time's removal of the negative interest rate policy and the abolition of long-term interest rate operations, the large-scale easing policy that has been continued for many years has ended. How do you feel about this decision? For example, do you feel relieved or any other feelings?

53:02 We consider that appropriate policy adjustments have been made to respond to the development of economic and price situations. Um, Mr. Hara from Asahi Shimbun, please.

53:27 I'm Hara from Asahi Shimbun. Um, based on the explanation earlier, we received the story that this time's policy was directed towards the strength of wages. However, regarding this major decision, were there any points regarding wages that you didn't hesitate about or, if there were, what were they? Could you please tell us?

53:57 Um, not everything can be confirmed. Um, even regarding wages, we need to continue inspecting how much it will spread in the future, including small and medium-sized enterprises. Also, on the demand side, considering the weakness of consumption, we need to continue inspecting how strong the support for economic cleansing should be. Um, it's a bit abstract, but I believe we can adjust our perspectives to some extent.

55:13 Um, Mr. Hosomi from NHK, please.

56:03 Um, there are 5 minutes left until the end of the conference, and if there are any more questions, um, if there's anyone who has a question for the third time, please refrain.

56:21 Um, alright, then, the one who raised their hand first, please.

56:27 Um, first, Mr. Wada from Reuters, please.

56:32 I'm Wada from Reuters. Um, when we received the first estimate of the spring wage round from the unions, economists speculated that the final figure might exceed 3%. This strong result might be a factor in pushing up the previous inflation rate mentioned earlier by the Governor. What do you think about that? Also, if you made that judgment, do you think the additional rate hikes from the Bank of Japan might come sooner than expected? We'd like to hear the Governor's thoughts.

57:06 For the time being, what I can say is that, with the next outlook report next month, we will create new forecasts, so we will consider the points of your current question in that. Um, Mr. Ta from Mainichi Shimbun, please.

57:47 I'm Ta from Mainichi Shimbun. Um, earlier, there was talk about reducing the balance sheet, if I remember correctly. Um, although you mentioned disposing of it, about how much will you be able to start dealing with the balance sheet reduction within your tenure? Um, what should be done is something we're constantly considering, but as for the specific timing and method, currently,

Unfortunately, we're unable to specify. Um, Mr. Shida from NHK, please.

58:40 Um, I'm Shida from NHK. There's only one point, please. Um, Governor, you mentioned earlier that the unconventional easing policy has ended. You mentioned it in the review, but personally, how do you feel about it as the Governor? We'd like to hear your personal opinion.

59:22 Um, we consider that the wage-price circulation has begun, and in a situation where the 2% price target is steadily achieved, we think it's appropriate to adjust policies. Um, and then, um, with Nihon Keizai Shimbun, Mr. Oshima, please.

59:51 I'm Oshima from Nihon Keizai Shimbun, Oshima. Regarding the future, I think we will enter a phase of interest rate hikes while continuing international purchases. However, I would like to know about the relationship between the future reduction in international purchase flow and the decision on interest rate hikes. Is there a sequence between them or are they simultaneous? Also, I would like to know on what basis each of them is judged.

1:00:21 As I mentioned earlier, the policy tool is short-term interest rates, so adjustments will be made according to changes in economic and price conditions, which would be short-term interest rates. So, if the timing comes to raise short-term interest rates next time, whenever that may be, the reduction or adjustment of the balance sheet might come first, or perhaps they could happen simultaneously. As for the timing of this international reduction, we are not currently considering it specifically.

1:01:09 This is from Bloomberg, Fujioka. It seems that accommodative monetary policy will continue for the time being, but with the beginning of interest rate hikes, there will be increased attention on where the overseas terminal rate stands. At this point, does the governor have any views on the terminal rate? Some people speculate that if prices rise to 2%, it wouldn't be strange for various stocks to rise to 2% as well. How does the governor view the terminal rate?

1:01:50 As I mentioned earlier, the concept of the neutral rate is very useful for organizing our thinking, but in reality, we have conducted various estimations many times, and the results vary. Unfortunately, we cannot currently specify an exact percentage, so the situation remains unclear. We would like to continue our efforts.

1:02:37 This is from Mainichi Shimbun, Tachi.