BOJ Launches Bold Plan to End Deflation

By TAKASHI NAKAMICHI, TATSUO ITO and GEORGE NISHIYAMA

TOKYO—Under a new governor who has vowed to do “whatever it takes” to get the nation out of 15 years of deflation, the Bank of Japan rolled out a series of aggressive easing measures Thursday, taking markets by surprise, pushing bond yields to an all-time low and sending share prices zooming upward.

Following his inaugural policy board meeting, Haruhiko Kuroda said the central bank is pulling out all the stops to get the economy out of deflation, referring to the nine-member panel’s unanimous decision to vastly expand government bond purchases, including buying longer-term debt. The BOJ also tossed aside some self-imposed limits that previous leadership had stuck to.

"I will not use my fighting power in an incremental manner," Mr. Kuroda told a news conference following the two-day meeting, one of the most closely watched in the central bank’s recent history. "Our stance is to take all the policy measures imaginable at this point to achieve the 2% price stability target in two years."

Those measures include the doubling of its holdings of Japanese government bonds and exchange-traded funds over two years. As a result, the BOJ would be buying ¥7.5 trillion ($79 billion) of JGBs a month, up from the current ¥3.8 trillion. The central bank will also expand purchases of real-estate investment trusts.

With Japan’s interest rates pushed to near zero, purchases of government bonds and other assets have been the main way the central bank has sought to help stimulate the economy and end the chronic price falls that have undercut growth.

Japanese government bonds yields fell sharply after the announcement, with the benchmark 10-year yield hitting an all-time low of 0.425%, surpassing the previous low of 0.430% set in 2003. The Nikkei Stock Average finished the day up 2.2%, while the dollar jumped more than one full yen. As of 1330 GMT it was at ¥95.72 from ¥92.90 just before the announcement.
Traders said the size of the JGB buying was a surprise, as was the shift to a target for the monetary base, which measures currency in circulation and deposits held at the central bank. The BOJ said it now aims to double the monetary base in two years.

"I'd give it a 100 on a scale of one to 100, or actually 120," said Dai Sato, a senior dealer at Mizuho Corporate Bank. "In all aspects, the BOJ exceeded our expectations," he said.

Prime Minister Shinzo Abe, who came into power in December on a platform calling for more action from the central bank, said the new BOJ leadership he had picked, had delivered.

"I had chosen the governor and the deputies believing they have the ability, the will, and can embark on bold monetary policy, one on a different dimension," Mr. Abe said on a television program following the BOJ decision.

"They did a brilliant job in meeting everyone's expectations."

Prime Minister Abe had set monetary easing as one of the three key pillars along with fiscal stimulus and growth measures, of his strategy to end deflation that has dogged the world's third largest economy after the financial bubble burst in the early 1990s.

Mr. Abe had criticized Masaaki Shirakawa, the previous BOJ governor, for not taking enough action, and had said he was looking forward to choosing Mr. Shirakawa's successor.

Even Finance Minister Taro Aso, who has expressed skepticism over the BOJ's ability to reach the 2% inflation target in two years, praised the central bank, saying that the most significant part of the BOJ's move was to unveil all steps at once and not in a piecemeal manner.

"The latest policy decision shows that Mr. Kuroda is a man who talks the talk and walks the walk. He had been saying he would do everything he could do in a bold manner," Mr. Aso told reporters.

The central bank also said it will purchase longer-term bonds, a move the BOJ had been reluctant to undertake previously since such assets were more prone to possible falls in value, creating future losses for the central bank.

Mr. Kuroda assumed the post two weeks ago, promising to do "whatever it takes" to create a 2% inflation rate in two years. Those promises have already sent Japan's stock market sharply upward to its highest levels since 2008 and helped in weakening a stubbornly strong yen that has been a major drag on the country's big exporters.

In a clear break from his predecessor, Mr. Kuroda focused on a simple message for the markets. Mr. Shirakawa was often criticized for watering down BOJ moves with cautionary language questioning their effectiveness.

At the news conference, Mr. Kuroda even used big placards, the kind used by TV newscasters. One listed all the "two's" of the central bank's easing moves in big red figures. Another featured a large graph showing how Japan's monetary base had crept upward between 2007 and 2012, but will then take a sharp, hockey-stick turn upward after the new easing kicks in.

But critics say Mr. Kuroda's approach isn't risk free.

Ryutaro Kono, chief economist at BNP Paribas in Tokyo, questioned whether pushing down already low interest rates though aggressive purchases of JGBs would have an impact on stimulating the economy. Mr. Kono, who was once tapped to be on the BOJ's policy board, but voted down by lawmakers who saw him as being opposed to easing, also said stocks and exchange rates may be affected by inflation.
expectations, but wages not.

"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."

Other critics also say that if Japan's borrowing costs rise more sharply than goods and services prices in response to the central bank's actions, that could damage the economy and swell Japan's public debt, already well over 200% of annual economic output.

However, Mr. Kuroda said now isn't the time to worry about such things.

"I'm not concerned that long-term interest rates could spike or asset market bubbles will emerge, Mr. Kuroda said. "I don't have any intention of financing government spending."

—Toko Sekiguchi, Takashi Mochizuki, Mitsuru Obe and Kosaku Narioka contributed to this article.

Write to Takashi Nakamichi at takashi.nakamichi@dowjones.com, Tatsuo Ito at tatsuo.ito@dowjones.com and George Nishiyama at george.nishiyama@dowjones.com