

Feature Articles

This month's focus: **The End of Global Monetary Easing and Implications for the Bank of Japan**

Can the Bank of Japan Exit from its Massive Monetary Easing? Unexpected Inflation and Unprecedented Monetary Easing in Japan

Toru Nakazato

As prices continue to rise, there is growing interest in the future conduct of monetary policy. In this paper, we review the development of monetary easing over the past 11 years, assess current economic conditions, and discuss how the framework for monetary policy conduct should be revised. While it is not appropriate to shift monetary policy in the direction of tightening at a time when the economy remains fragile, fine-tuning of the monetary policy framework does need to proceed even under such circumstances.

Some Issues on Exit from Large-Scale Monetary Easing

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Monetary policy issues after the Bank of Japan lifts negative interest rates are considered. They include: how the BOJ will raise policy rates given the large amount of excess reserves; whether the functioning of money markets is maintained; how the Bank communicates that monetary conditions are still accommodative; the appropriate size of the BOJ's balance sheet after monetary normalization; the capacity of the private sector to increase JGB holdings after the lifting of the YCC; the risks of holding ETFs and J-REITs for a long period of time; and the downward pressure on the BOJ's earnings and its impact on monetary policy management.

Normalization of the BOJ's Monetary Easing and Impact on Financial Institutions

Izuru Kato

How will the BOJ proceed with the exit policy from extreme monetary easing, as exemplified by negative interest rates and YCC (yield curve control)? In this paper, a long-term "roadmap for monetary policy normalization" has been created with consideration given to overseas central banks' easing revisions, the domestic economy, fiscal conditions, etc. Based on the roadmap, the impact on financial institutions' profits and variable-rate mortgages have been reckoned. In addition to the above, the BOJ's response has been considered as a risk scenario assuming the yen stays weak while the home bias in household asset management weakens.

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Will the BOJ Learn from What's Happened in the US and Europe?

Ryutaro Kono, CMA

Global inflation was caused primarily by significant delays in monetary tightening after the massive fiscal spending embarked upon by advanced economies in response to COVID-19, with central banks characterizing inflation as “transitory” and insisting on a need for continued monetary easing even as prices kept accelerating higher from the spring of 2021. Signs of systematic error were in fact apparent, with similar mistakes being made right across the board as inflation was underestimated and monetary policy mismanaged accordingly. But can the BOJ learn the necessary lessons and thereby avoid the same stumbles?

Articles

Earnings Management and Future Performance: Evidence from the TSE Reform

Ritsuko Okada

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The purpose of this study is to capture the intentions and motivations of managers engaging in earnings management in response to exogenous shocks. I investigate the impact of the Tokyo Stock Exchange (TSE) reform in Japan on earnings management and the subsequent performance of affected firms. The evidence shows that these firms experience a reversal of discretionary accruals without any improvement in earnings performance, consistent with the managerial opportunism hypothesis. Moreover, the study notes a decline in investor evaluations of these firms, suggesting that earnings management triggered by exogenous shocks can detrimentally affect both the financial and stock performance of firms.

The Social Significance and Trends of B Corps Aiming for ESG Management (Revisited)

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B Corps, which are companies certified as practicing ESG management, are attracting global attention. The number of B Corps worldwide has already exceeded 8,200 (as of the end of February 2024) and in Japan has more than doubled from last year to over 30. Interviews were conducted in the fall of 2023 with several B Corps in the San Francisco Bay Area of California in the USA. This article analyzes the results using the process model of identity control (IC) theory and explores the direction of revision of review criteria for future B Corp applications.