

THE NEXT BOJ GOVERNOR – THE AGENDA

Jesper Koll — Senior Advisor

02/14/2018

Japanese prime minister Shinzo Abe is about to appoint the next Bank of Japan (BOJ) governor. More than anything, the appointment will define the future of Japanese finance and markets. There is little doubt that for most investors at home and around the globe, much of the success of [Abenomics](#) is primarily due to Kurodanomics. In my view, BOJ governor Haruhiko Kuroda deserves a second term, if he wants it. Current market [volatility](#) has probably increased Kuroda's chances of becoming the first BOJ governor since 1960 to get a second term.

Let's keep aside the "who" for now and focus on the "what." Yes, there is much to do for the next BOJ leader.

- The current global market rout will have to be addressed sooner or later, putting to the test not just soft communication skills but the next governor's willingness to use hard-currency power: Will the BOJ's ¥6 trillion ETF "war chest" be used more aggressively? So far in the downdraft, the BOJ has been notably silent.
- Structurally, the BOJ's pro-growth credentials will need to be asserted against mounting fears of a 2019/20 Japan [recession](#). Recession? Yes, markets will not deny the combined negativity of the next consumption tax hike (October 2019) and the pre-Olympic construction boom-turning-bust (typically, activity peaks about 12–18 months before the start of the games, i.e., next spring). Those two negatives will start to dominate Japan's 2019/20 forecasts before long.
- An added challenge for the next governor: The current BOJ board expects the 2% [inflation](#) target to come into sight at just about the same time when fears of the combined negativity from tax hikes and pre-Olympic bust combine. The new governor will have to manage this conflict, and the earlier he starts doing so, the better. Waiting until next year is not an option, in my view.
- On the domestic side, Japan's regional banks are undercapitalized, fragmented and without viable franchise models. Managing the consolidation of the secondary banking system is an urgent task for the next BOJ governor. He'll need lots of political capital as well as strong respect from the private banks to create a better foundation for regional—and thus domestic—growth. This is why an academic without real-world experience or leverage with the technocracy would be unsuited for the BOJ top job, in my view.
- The next governor can either create the future of finance or be forced to play catch-up to China or South Korea. Technological progress in general, and fintech and blockchain in particular, demand regulatory leadership from central banks. The BOJ cannot afford to merely sit on the sidelines anymore. Yes, Tokyo wants to be Asia's leading financial center, and it needs strong BOJ leadership on progressive rules and regulations for that.
- Central banks in general, and the BOJ in particular, will have to redefine their policy goals and targets. While the simplicity of an inflation target makes it attractive, the growing complexity forced by relentless technological innovation, entrepreneurial drive and globalization may demand a more complex target for central banks. Here, Prime Minister Abe launched a campaign for a nominal [GDP](#) level target about two years ago. It will be interesting to see whether Abe's next governor will follow his lead.

Important Risks Related to this Article

Investments focused in Japan increase the impact of events and developments associated with the region, which can adversely affect performance.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Kara Marciscano, Jianing Wu and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

Abenomics : Series of policies enacted after the election of Japanese Prime Minister Shinzo Abe on December 16, 2012 aimed at stimulating Japan's economic growth.

Volatility : A measure of the dispersion of actual returns around a particular average level. nbsp;.

Recession : two consecutive quarters of negative GDP growth, characterized generally by a slowing economy and higher unemployment.

Inflation : Characterized by rising price levels.

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.