

Economist (Japan), 18/08/98

Newly Independent Bank of Japan Reduces Information Disclosure Further

BANK CREDIT GROWTH ACTUALLY MUCH HIGHER THAN DATA SHOW

By Richard A. Werner

© 1998, 1999, 2000, 2001 Profit Research Center Ltd. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, without the prior permission in writing of Profit Research Center Ltd. Please read [the disclaimer](#).

There are only three tools for democratically elected governments to intervene and improve the welfare of the nation, namely regulatory policy, fiscal policy and monetary policy. Although Japan's post-war economic miracle was built on clever government intervention that used these tools, the government is now in the process of losing all three and hence its ability to fulfil its democratic mandate to intervene in the economy to improve people's lives: Due to the huge fiscal deficit, fiscal policy will have to tighten in the future. Deregulation means that regulatory intervention will disappear. And since April this year, the government has no more influence over monetary policy, as that is now decided by the Bank of Japan. The most important control levers over the economy and hence people's livelihoods are therefore held by the central bank - it has a license to print money and allocate purchasing power in the economy. Due to the revised Bank of Japan Law that has become effective from April this year, the BoJ has become totally independent from the democratically elected government. It can more or less do what it wants.

For democracy to continue, it is crucial to closely monitor and check the activities of the central bank. In order to assess its policies, it is necessary to have accurate information on the economy. Economic activity is determined by the creation of purchasing power (credit creation), which means data on the credit creation by the BoJ and the banking system. The credit creation of the banking system is largely due to loan growth. When banks give out loans, it is as if they 'print money'. Therefore information on how many loans banks extend and which sectors of the economy obtain this newly created money is invaluable in order to gauge the economy and judge BoJ policy.

There is a problem: the data which we need in order to assess the economy and the activities of the Bank of Japan are produced by none other than the BoJ itself. This creates a conflict of interest. The newly independent BoJ might not have a strong interest in educating the public about what the economy is doing and what the central bank itself is doing. Indeed, central bankers have stated in public that it is their job to be vague about the economy. That is why the law-makers, when formulating the new Bank of Japan Law, insisted that the powers of the central bank should only be strengthened, if in exchange the Bank of Japan obliges itself to greater disclosure of information, transparency and openness.

However, the BoJ is misusing its independence: since April, when the new BoJ law became effective, it has stopped publishing the monthly data for sectoral bank loans, which it has been compiling and using as the basis for its credit allocation since 1942. Stopping the publication of these data series, three of which are shown in figure 1, will make it harder for economists to analyse the economy and to assess BoJ policies. There is another series of bank loan growth data, which is calculated on a month-average basis (figure 2). It shows that bank loan growth is declining by 2.3% YoY in June. This is why many economists are now arguing that Japan suffers from a credit crunch. However, these data are misleading the public: At the end of March, banks wrote off bad debts in the double-digit trillion yen amounts. This accounting exercise means that a large part of the banks' loan balance is simply crossed out of their loan books. Since officially reported loans outstanding have fallen, compared to last year, loan growth, as reported by the Bank of Japan, must be negative. While this seems to suggest a 'credit crunch', in actual fact, new loans are already rising and credit creation is positive. This would be visible, if one adjusted the loan growth figures for the write-offs. That is an easy calculation for the Bank of Japan, which has all the relevant data. But again, the BoJ is not disclosing such data, despite the fact that its staff have been quoted in the Nikkei admitting that the loan growth figures are distorted and hence misleading. Again, the BoJ is misusing its enormous power over the collection and dissemination of information.

Despite the fact that computers have made the collection of data almost instantaneous for the BoJ, the central bank still sticks to the decade old publication dates, which show loan growth data only after a time lag of up to three months. This means that the BoJ keeps crucial information to itself and shares it with the public after months - if at all.

The BoJ is currently finally taking the right policy steps to create an economic recovery. However, the BoJ should explain to the public why it has waited for seven years until it took this very simple and effective method to reflate the economy.

One must conclude that the BoJ is betraying the confidence it was given by the public through the new Bank of Japan law. It is therefore necessary to review the law again. In particular, it is indispensable to take away the power over collection and dissemination of data relating to banks and credit from the central bank and give this crucial task to an independent institution that is not connected to the Bank of Japan. Only when it is provided by a party that has no vested interests can we expect to obtain reliable and timely data on the economy. And only then will we be in a position to assess the economic situation and the actual policies taken by the BoJ.

Richard Werner is Chief Economist for Tokyo-based Profit Research Center Ltd.