

19 July 2024

## Kōno may not speak for government on yen, but hints at LDP debate to come

### Key takeaways

- The Kishida government was quick to disavow remarks by Digital Affairs Minister Kōno Tarō about the desirability of higher interest rates.
- The government's thinking on a rate increase likely has not changed: raise interest rates, just not yet.
- As a potential leadership candidate, Kōno's comments suggest that the impact of yen weakness could be a central issue in the leadership campaign.

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Prime Minister Kishida Fumio, speaking to a Keidanren forum in the resort town of Karuizawa on Friday, 19 July, touted the normalization of monetary policy as a part of the “transition to a new economic stage.” However, there is little to suggest that the prime minister or his government have become more eager for the Bank of Japan (BOJ) to announce another interest-rate hike when its policy board meets on 30-31 July, notwithstanding the [ongoing concerns](#) about the impact of yen weakness on Japanese households and small businesses.

The Kishida government's response to remarks by Kōno Tarō, the digital affairs minister and a potential candidate in the Liberal Democratic Party (LDP) leadership election, are instructive. In an interview with Bloomberg on Wednesday, Kōno suggested that the BOJ needed to raise rates to reverse yen's decline and provide relief to the households, an issue outside of his government portfolio but increasingly unavoidable for a potential leadership candidate to address. Kōno's remarks, combined with comments from US presidential candidate Donald Trump and his running mate J.D. Vance about an overly strong dollar, served to push the yen up more than 1% briefly.

However, rather than let Kōno's remarks stand, Chief Cabinet Secretary Hayashi Yoshimasa and Finance Minister Suzuki Shinichi both used their standing press conferences to push back against his involvement in a sensitive policy issue. Hayashi reiterated the government's position that monetary policy is not aimed at guiding exchange rates and that "concrete [monetary policy] measures are entrusted to the BOJ." Suzuki, meanwhile, criticized Kōno more directly on 19 July, warning him that "careless remarks" could have an impact on markets. Kōno, asked directly in his own press conference on 19 July about monetary policy, said docilely that "the BOJ decides monetary policy."

There is little to suggest that this was a deliberate act of "oral intervention" by the Kishida government or a trial balloon. It is more likely to have been freelancing by a senior politician with a reputation for speaking his mind. In fact, the Kishida government has been careful to avoid pressuring the BOJ one direction or another, issuing anodyne statements like Kishida's remarks to Keidanren rather than more explicit prescriptions like Kōno's. Indeed, notwithstanding the yen's weakness, the government may continue to prefer that the BOJ not move too quickly to raise short-term interest rates, particularly with the LDP leadership election approaching, even as it begins reducing its purchases of long-term government bonds. June consumer price index (CPI) data, which was released on 19 July, likely does not alter the government's approach, as inflation remained above target but did not accelerate from May; core-CPI excluding fresh food was 2.6% year-over-year (compared with 2.5% in May) and core-core CPI excluding fresh food and energy was 2.2% (compared with 2.1%). The prospect of monetary policy changes in the United States – both before and after the November presidential election – could buy the Japanese government and BOJ more time as well.

Nevertheless, even if Kōno was not speaking for the government, his remarks serve as a signal that monetary and exchange rate policies will be a major issue in the [LDP's leadership election](#). Whether Kōno himself is the main advocate for harder money in the race – there are reasons to doubt that Kōno will have enough public support or support among LDP lawmakers to match his second-place finish in 2021 – it is highly likely that there will be at least one candidate in the race calling for a stronger yen to provide relief to Japanese households. Ishiba Shigeru, for example, was a persistent critic of former BOJ governor Kuroda Haruhiko's unconventional monetary policies, has recently expressed his concerns about the impact of yen weakness on Japan's plans to increase defense spending, and, as the public's top choice among potential party leaders, could be more inclined to give voice to public frustrations about the cost of living.

It is therefore likely that as the LDP leadership campaign intensifies, other senior politicians will join Kōno in offering their views on the yen.

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