Bank of Japan maintains ultra-easy policy as widely expected

The Bank of Japan believes that robust growth is a prerequisite for stable inflation and a change in monetary policy. The Bank left its long-term yield target and asset purchase programme unchanged. The newly released outlook confirms that the BoJ will not change its policy stance anytime soon

Source: istock

-0.1% Policy rate

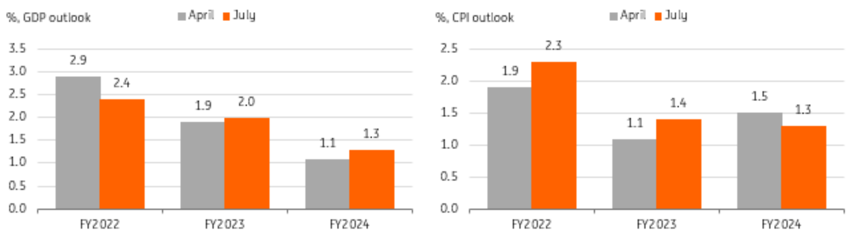
As expected

Gradual cut to growth outlook; inflation outlook revised up

The BoJ sees GDP growing by 2.4% and 2.0% year-on-year in FY2022 and FY2023, respectively (vs 2.9%, 1.9% estimated in April). Although the BoJ has gradually downgraded its growth forecast, the revised outlook still appears to be too optimistic amid growing concerns about a recession in the US and EU. ING expects GDP to grow by 0.8% in 2022 and 1.2% in 2023. Already, most monthly data suggests that the second-quarter GDP rebound is likely to be limited as pent-up demand has been suppressed by high inflation, and exports have been hit by China's lockdown measures. Also, the renewed increase in Covid-19 cases is another downside factor to short-term growth. For example, the government temporarily suspended its travel voucher programme in July.

Meanwhile, the BoJ made upward revisions to its inflation outlook, to 2.3% and 1.4% in FY2022 and FY2023, respectively (vs 1.9%, 1.1% estimated in April). The CPI has moderated as global commodity prices have stabilised slightly, and government subsidy programmes have capped cost-push inflation of food and energy. But we expect inflation to reaccelerate in the second half of the year due to a low base last year.

BoJ's outlook suggests this year's +2% inflation is only temporary



Source: BoJ

Outlook for BoJ action

Two of the BoJ's nine board members will see their term end by the end of July, but we don't think this would trigger a policy shift in the near future. The BoJ will stick to its current policy stance as it believes inflation will move below its 2% target over the next two years and there will be no sign of real wage growth in the near term. Going forward, global recession concerns are likely to ease some of the pressure on the 10Y JGB, thus the yield curve control is expected to remain unchanged. The CPI is expected to stay around the current level over the coming months, allowing the BoJ to focus on supporting the recovery.

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