

AT A GLANCE | Bank of Japan

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BOJ Fine-Tunes Policy to Make YCC More FlexibleChief FX Strategist: Hirofumi Suzuki
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The Bank of Japan (BOJ) held its Monetary Policy Meeting (MPM) on July 27 and 28 and decided to maintain monetary policy. In a statement, the BOJ acknowledged that the bank would allow 10-year Japanese government bond (JGB) yield to fluctuate above +0.5%, while maintaining the targeted upper range at +0.5%. The central bank will offer to purchase 10-year JGBs at 1.0% every business day through fixed-rate purchase operations. At the same time, the quarterly Outlook for Economic Activity and Prices has been released. The following is a review of the key points highlighted in this report and a discussion of the outlook for monetary policy.

Several revisions have been made to the economic outlook, as reported by some news agencies.

The median GDP forecast was revised down from +1.4% to +1.3% in fiscal year 2023. On the other hand, the figures for fiscal year 2024 and fiscal year 2025 were kept at +1.2% and +1.0%, respectively.

As for the median Consumer Price Index (CPI) forecast, it was +1.8% to +2.5% in fiscal year 2023, +2.0% to +1.9% in fiscal year 2024, and for fiscal year 2025, it was unchanged at +1.6% (Figure 1, Figure 2). It is still projected to fall short of 2% in fiscal year 2025. In addition, the CPI outlook for non-fresh food and energy remains unchanged. That is, while underlying inflation has risen to near 2%, it is not expected to reach 2%.

On the policy front, the BOJ indicated it would allow the 10-year government bond yield to exceed 0.5%, while maintaining the yield curve control (YCC) framework. This increases policy flexibility and means that the YCC framework will become a mere shell. Although the policy details will be gradually revealed, it is clear that the BOJ will not allow the 10-year JGB yield to fluctuate above 1%. The BOJ will allow interest rates to rise in line with market conditions, although the bank will have discretion over when to purchase JGBs massively to halt the rise. In terms of controlling the yield curve, it would go from being a strict to a flexible operation.

Regarding the forward guidance on the future of the policy, the central bank did not change its previous wording, saying, “[w]ith extremely high uncertainties surrounding economies and financial markets at home and abroad, the Bank will patiently continue with monetary easing while nimbly responding to developments in economic activity and prices as well as financial conditions. By doing so, it will aim to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases.” It added that “[t]he Bank will continue to maintain the stability of financing, mainly of firms, and financial markets, and will not hesitate to take additional easing measures if necessary.” The easing bias is being maintained while aiming to achieve the inflation target in a manner accompanied by wage increases.

The Bank of Japan is expected to maintain its monetary policy for the rest of the year. It seems that the BOJ thinks that (1) as with the adjustment at the end of last year, it will take some time to assess the impact of policy revisions, and (2) for policy changes that are not minor revisions to the YCC, as mentioned above, it will be important to see whether inflation and business performance will remain strong enough to see wage increases through next year. (3) Looking at the future political schedule of Japan, a dissolution of the

National Diet (i.e., the legislature) and general election are likely to take place in the period from September to October, and the government is likely to compile next year’s tax outline—including a tax increase on defense spending—by the end of the year. Overall, there is little incentive for the BOJ to revise its policy further this year. The next policy change is expected to be the lifting of negative interest rates in April 2024, taking into account wage trends in the spring wage negotiations.

Figure 1: Forecasts of the Majority of the Policy Board Members

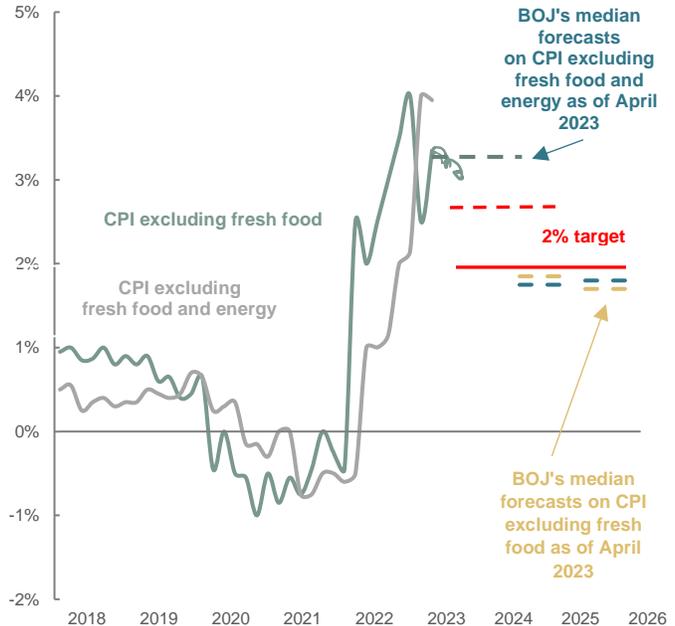
	Real GDP	CPI (all items less fresh food)	CPI (all items less fresh food and energy)
FY 2023	+1.2 – +1.5	+2.4 – +2.7	+3.1 – +3.3
	<+1.3>	<+2.5>	<+3.2>
As of Apr	+1.1 – +1.5	+1.7 – +2.0	+2.5 – +2.7
	<+1.4>	<+1.8>	<+2.5>
FY 2024	+1.0 – +1.3	+1.8 – +2.2	+1.5 – +2.0
	<+1.2>	<+1.9>	<+1.7>
As of Apr	+1.0 – +1.3	+1.8 – +2.1	+1.5 – +1.8
	<+1.2>	<+2.0>	<+1.7>
FY 2025	+1.0 – +1.2	+1.6 – +2.0	+1.8 – +2.2
	<+1.0>	<+1.6>	<+1.8>
As of Apr	+1.0 – +1.1	+1.6 – +1.9	+1.8 – +2.0
	<+1.0>	<+1.6>	<+1.8>

y/y % chg.

Note: Figures in brackets indicate the medians of the Policy Board members’ forecasts

Source: BOJ

Figure 2: CPI (YoY)



Sources: BOJ, MIC, SMBC

Economic Outlook: 2023-2024 Forecast

Figure 1: Forecasts for Economic Growth, Inflation, and Unemployment Rates

		2022			2023				2024				2021	2022	2023	2024
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
US	Real GDP	-0.6	3.2	2.6	2.0	2.4	-0.8	0.6	0.9	1.4	1.8	2.2	5.9	2.2	1.4	1.0
	Inflation	5.0	5.0	4.8	4.7	4.4	4.2	3.9	3.2	2.8	2.5	2.2	3.3	5.0	4.4	2.7
	Unemployment	3.6	3.6	3.6	3.5	3.5	3.7	4.3	4.6	4.7	4.7	4.6	5.4	3.7	3.7	4.7
Euro Area	Real GDP	0.8	0.4	-0.1	0.0	0.3	0.2	0.1	0.2	0.3	0.3	0.2	5.3	3.3	0.6	0.9
	Inflation	8.0	9.3	10.0	8.0	6.2	4.8	3.2	3.1	2.9	2.7	2.5	2.6	8.4	5.6	2.8
	Unemployment	6.7	6.7	6.7	6.6	6.6	6.6	6.7	6.8	6.8	6.9	6.9	7.7	6.7	6.6	6.9
Japan	Real GDP	5.6	-1.5	0.4	2.7	1.7	1.0	0.9	0.9	0.8	0.8	0.7	2.3	1.1	1.0	0.9
	Inflation	2.1	2.7	3.8	3.5	3.2	3.0	2.5	3.0	2.8	2.5	2.1	-0.2	2.3	3.1	2.6
	Unemployment	2.6	2.5	2.5	2.6	2.5	2.4	2.4	2.3	2.3	2.3	2.3	2.8	2.6	2.4	2.3
China	Real GDP	0.4	3.9	2.9	4.5	6.3	4.8	5.5	4.5	5.0	5.1	5.1	8.4	3.0	5.3	4.9
	Inflation	2.2	2.8	1.8	1.3	0.2	1.4	1.5	1.6	1.9	2.0	2.0	0.8	1.7	1.1	1.9
	Unemployment	5.8	5.4	5.6	5.5	5.2	5.3	5.2	5.1	5.0	5.0	5.0	5.1	5.1	5.3	5.0

Real GDP growth is in QoQ annualized for U.S. and Japan, QoQ for euro area and YoY for China and India. Inflation rate is in YoY%. Inflation rate is YoY, % of core index (ex. fresh food) for Japan, YoY % of PCE deflator for U.S., and total YoY% for the rest.

Figure 2: Forecast for Rates

Interest rate		2022	2023				2024				2022	2023	2024
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
US	Policy rate	4.25	4.75	5.00	5.25	5.25	5.00	4.75	4.50	4.25	4.25	5.25	4.25
		~4.50	~5.00	~5.25	~5.50	~5.50	~5.25	~5.00	~4.75	~4.50	~4.50	~5.50	~4.50
	2yr	3.43	4.03	4.90	4.20	4.00	3.80	3.60	3.40	3.20	3.43	4.00	3.20
	10yr	3.87	3.47	3.84	3.60	3.60	3.60	3.60	3.50	3.50	3.87	3.60	3.50
Germany	Policy rate	2.50	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	2.50	4.25	3.75
	Deposit rate	2.00	3.00	3.50	3.75	3.75	3.75	3.75	3.50	3.25	2.00	3.75	3.25
	2yr	2.50	2.68	3.20	3.20	3.00	2.80	2.60	2.40	2.30	2.50	3.00	2.30
	10yr	2.20	2.29	2.39	2.30	2.30	2.30	2.20	2.10	2.10	2.20	2.30	2.10
Japan	Policy rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.10	0.10	0.10	-0.10	-0.10	0.10
	2yr	0.04	-0.06	-0.07	0.10	0.15	0.20	0.30	0.30	0.30	0.04	0.15	0.30
	10yr	0.42	0.35	0.40	0.65	0.75	0.80	0.90	0.90	0.90	0.42	0.75	0.90
China	Policy rate	2.75	2.75	2.65	2.55	2.55	2.55	2.55	2.55	2.55	2.75	2.55	2.55
	2yr	2.39	2.41	2.11	2.16	2.24	2.32	2.39	2.49	2.59	2.39	2.24	2.59
	10yr	2.83	2.85	2.64	2.64	2.69	2.74	2.79	2.84	2.89	2.83	2.69	2.89

Figure 3: Forecast for FX and Oil Price

		2022	2023				2024				2022	2023	2024
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
USD/JPY	Range	130.58	127.23	130.64	128.00	125.00	121.00	119.00	116.00	116.00	113.47	125.00	116.00
		~151.95	~137.91	~145.07	~147.00	~138.00	~135.00	~133.00	~130.00	~130.00	~151.95	~147.00	~135.00
	End of quarter	131.12	132.86	144.31	137.00	133.00	130.00	128.00	126.00	123.00	131.12	133.00	123.00
EUR/USD	Range	0.9633	1.0806	1.0635	1.0300	1.0200	1.0100	1.0000	1.0100	1.0100	0.9536	1.0200	1.0000
		~1.0735	~1.1033	~1.1095	~1.1300	~1.1200	~1.1100	~1.1000	~1.1100	~1.1100	~1.1495	~1.1300	~1.1100
	End of quarter	1.0705	1.0839	1.0909	1.0700	1.0600	1.0500	1.0500	1.0600	1.0600	1.0705	1.0600	1.0600
EUR/JPY	Range	138.81	124.40	142.55	145.00	136.00	131.00	128.00	127.00	123.00	124.40	136.00	123.00
		~148.40	~145.67	~158.00	~159.00	~150.00	~145.00	~142.00	~141.00	~137.00	~150.00	~159.00	~145.00
	End of quarter	140.41	144.01	157.43	146.59	140.98	136.50	134.40	133.56	130.38	140.41	140.98	130.38
Crude Oil Prices (WTI)		82.64	75.99	73.67	75.00	80.00	80.00	75.00	77.00	78.00	98.74	76.17	77.50

※ Crude oil prices are averages for each period. Source: SMBC.

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