

# Bank of Japan Monetary Policy Decision

Maintains status quo amid high market uncertainty, but highlights risk to inflation

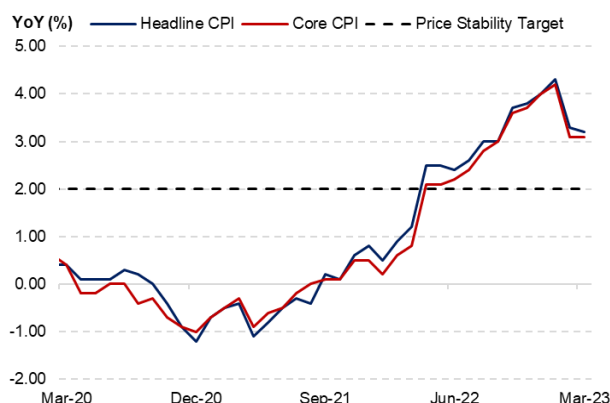
- Bank of Japan (BoJ) governor Kazuo Ueda's first act was to stand pat.** The BoJ kept the short-term policy rate at -0.1%, long-term interest rate target band at 0.5%, and reiterated its readiness to implement further easing measures if necessary. However, the BoJ removed its previous commitment to keep policy rates at their current or lower levels.
- Unanimous vote on Yield Curve Control (YCC)**
  - The short-term policy interest rate:** maintained a negative interest rate of -0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the bank.
  - The long-term interest rate:** to purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit to keep the 10-year JGB yields at around 0.0%.
    - To implement the above guideline for market operations, the BoJ will continue to allow 10-year JGB yields to fluctuate in the range of around +/- 0.50% from the target level and will offer to purchase 10-year JGBs at 0.5% every business day through fixed-rate purchase operations.
- Guidelines for asset purchases (unanimous vote)**
  - BoJ will continue to buy exchange-traded funds (upper limit: JPY12.0t) and Japan real estate investment trusts (upper limit: JPY180.0b) on annual paces of increase in their amounts outstanding.
  - BoJ will keep the outstanding amount of commercial paper at about JPY2.0t and maintain its previous purchasing rate of corporate bonds before the COVID-19 pandemic. This is to ensure that the outstanding amount of corporate bonds gradually returns to its pre-pandemic level of approximately JPY3.0t.
- The bank has revised its 2023 growth forecast downward to 1.4% YoY (previously 1.7%) while adjusting its inflation forecasts upward to 1.8% (previously 1.6%) for headline and 2.5% (previously: 1.8%) for core.** The BoJ stresses that these forecasts are subject to the global economic environment, the situation surrounding Ukraine and uncertainties surrounding firms' pricing and wage-setting behaviour.
- Despite BoJ's upward revision on inflation forecasts, the bank may take some time to end its ultra-loose policy**
  - In its statement, the BoJ indicated that it had "decided to conduct a broad-perspective review of monetary policy, with a planned time frame of around one to one and a half years". Based on this, without strong signs of demand-pull inflation and sustainable economic growth, it may take some time for the BoJ to make any changes to its ultra-loose policy. However, given Ueda's data-driven approach on policy, we think that the BoJ could potentially revise its yield curve control policy in 3Q23 and even consider adjusting its negative interest rate as early as 4Q23.
  - USDJPY year-end forecast (117.04; 2022: 131.12): the yen could face downward pressure in the near term due to the BoJ's decision to maintain an accommodative stance while other major central banks tighten their monetary policies. However, if there are any indications that the Fed may pause during its June meeting and if Japan's inflation continues to trend above 3.0% in the coming months, the yen may benefit from safe-haven flows.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
5.25% (+0.50%)	New Zealand	Official Cash Rate	Apr-23
1.875% (+0.125%)	Taiwan	Discount Rate	Mar-23
6.25% (+0.50%)	Philippines	Overnight Reverse Repurchase	Mar-23
3.50% (+0.50%)	Euro Area	Fixed Rate	Mar-23
3.60% (+0.25%)	Australia	Cash Rate	Mar-23
4.25% (+0.25%)	UK	Base Rate	Mar-23
4.75% - 5.00% (+0.25%)	USA	Funds Rate Target	Mar-23
1.75% (+0.25%)	Thailand	Repo Rate	Mar-23
5.75% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Jan-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
2.75% (+0.25%)	Malaysia	Overnight Policy Rate	Nov-22
3.65% (-0.05%)	China	Loan Prime Rate (1Y)	Aug-22
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

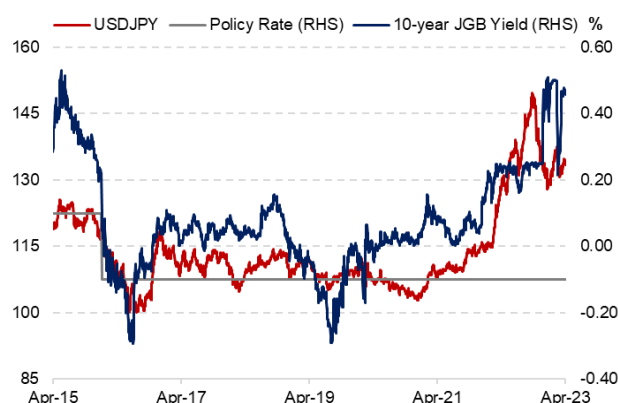
Source: Bloomberg, CEIC, Kenanga Research

Graph 1: Headline and Core Inflation Rates



Source: Bloomberg, Kenanga Research

Graph 2: USDJPY and Policy Rates (short- and long-term)



Source: Bloomberg, Kenanga Research

02 May 2023

**Table 2: Bank of Japan Monetary Policy Meeting Schedule for 2023/ KIBB Outlook**

No.	Date		KIBB Research Outlook	BoJ Decision
1 <sup>st</sup>	17-18 January* (Tue and Wed)	<input checked="" type="checkbox"/>	No change	No change
2 <sup>nd</sup>	9-10 March (Thu and Fri)	<input checked="" type="checkbox"/>	No change	No change
3 <sup>rd</sup>	27-28 April* (Thu and Fri)	<input checked="" type="checkbox"/>	No change	No change
4 <sup>th</sup>	15-16 June (Thu and Fri)	<input type="checkbox"/>	No change	
5 <sup>th</sup>	27-28 July* (Thu and Fri)	<input type="checkbox"/>	Termination/adjustment of YCC	
6 <sup>th</sup>	21-22 September (Thu and Fri)	<input type="checkbox"/>	No change	
7 <sup>th</sup>	30-31 October* (Mon and Tue)	<input type="checkbox"/>	No change	
8 <sup>th</sup>	18-19 December (Mon and Tue)	<input type="checkbox"/>	50% probability of 20 bps hike	

Source: Bank of Japan, Kenanga Research

\*Meeting associated with The Bank's View (outlook for economic activity and prices)

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