

# Bank of Japan Monetary Policy Decision

Global outlier holds firm, yet eyes a hawkish turn

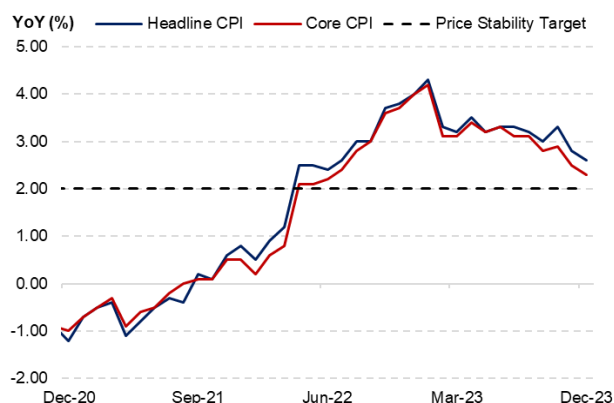
- No clear hint on the timing of a long-awaited policy shift.** As widely expected, the Bank of Japan (BoJ) maintained its monetary policy settings. However, it emphasised that the certainty of reaching its price target was gradually increasing.
- Unanimous vote on Yield Curve Control (YCC)**
  - The short-term policy interest rate:** maintained its negative interest rate policy (NIRP) at -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 consider **1.0% as the upper bound reference for 10-year JGB yields.**
- 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) at annual paces of increase in their outstanding amounts.
  - The outstanding amount of commercial paper will be maintained at about JPY2.0t, and the previous purchasing rate of corporate bonds before the COVID-19 pandemic will be upheld to facilitate the gradual return of the outstanding amount to its pre-pandemic level of approximately JPY3.0t.
- Inflation to remain above the 2.0% target while growth is set to recover gradually.** Despite the bank **revising its 2024 inflation forecast downward to 2.4% YoY (previously 2.8%)**, citing the impact of the recent decline in crude oil prices, the number is still above its 2.0% target due to the pass-through of imported input prices to domestic prices and base effects. Subsequently, inflation may gradually increase as the output gap turns positive and wage growth rises, with the tight labour market exerting upward pressure on wages, intensifying demand-pull inflation. **GDP growth is projected higher at 1.2% in 2024 (previously 1.0%)**, supported by the realisation of pent-up demand and a tight labour market. However, the bank's forecasts are contingent on extremely high external and domestic uncertainties.
- To pivot from quantitative easing in April driven by the anticipation of solid wage hikes**
  - The prospect of higher wages, which could potentially amplify the income-to-spending cycle will be the primary factor influencing the BoJ's policy decision. If an average pay hike of 5.0% or more is achieved during the Shuntō wage talks in March, it may establish a positive cycle of increasing prices and wages. This could convince the BoJ that its price target is secure in the long run, leading it to project inflation above 2.0% for 2025 and 2026. Consequently, the bank is expected to abandon the YCC as early as April and NIRP in July, contingent on the emergence of more evidence supporting sustainable demand-pull inflation.
  - USDJPY year-end forecast (125.11; 2023: 141.04): An uptick in Japanese disposable income, driven by wage hikes and income tax cuts, is expected to stimulate spending, potentially escalating demand-pull inflationary pressures. This could prompt the BoJ to shift away from its ultra-easy policy. And combined with the sustained inbound tourism surge, robust corporate profits, and a tightening labour market is expected to bolster the yen. However, in the coming months, JPY may continue to face pressure due to the short-term USD strength.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.35% (+0.25%)	Australia	Cash Rate	Nov-23
6.50% (+0.25%)	Philippines	Target Reverse Repurchase	Oct-23
6.00% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Oct-23
2.50% (+0.25%)	Thailand	Repo Rate	Sep-23
4.50% (+0.25%)	Euro Area	Fixed Rate	Sep-23
5.25% (+0.25%)	UK	Base Rate	Aug-23
3.45% (-0.10%)	China	Loan Prime Rate (1Y)	Aug-23
5.25% - 5.50% (+0.25%)	USA	Funds Rate Target	Jul-23
5.50% (+0.25%)	New Zealand	Official Cash Rate	May-23
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23
1.875% (+0.125%)	Taiwan	Discount Rate	Mar-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

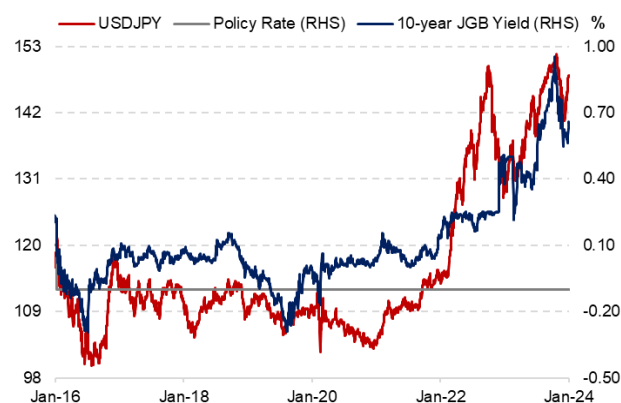
Source: Bloomberg, CEIC, Kenanga Research

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

24 January 2024

**Table 2: Bank of Japan Outlook for Economic Activity and Prices (YoY %)**

Forecasts made in	Real GDP		Core CPI	
	October 2023	January 2024	October 2023	January 2024
<b>Fiscal 2023</b>	+1.8 to +2.0 (+2.0)	+1.6 to +1.9 (+1.8)	+2.7 to +3.0 (+2.8)	+2.8 to +2.9 (+2.8)
<b>Fiscal 2024</b>	+0.9 to +1.4 (+1.0)	+1.0 to +1.2 (+1.2)	+2.7 to +3.1 (+2.8)	+2.2 to +2.5 (+2.4)
<b>Fiscal 2025</b>	+0.8 to +1.2 (+1.0)	+1.0 to +1.2 (+1.0)	+1.6 to +2.0 (+1.7)	+1.6 to +1.9 (+1.8)

Source: Bank of Japan, Kenanga Research

Note: Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates)

**Table 3: Bank of Japan Monetary Policy Meeting Schedule for 2024/ KIBB Outlook**

No.	Date		KIBB Research Outlook	BoJ Decision
1 <sup>st</sup>	22-23 January* (Mon and Tue)	<input checked="" type="checkbox"/>	No change	No change
2 <sup>nd</sup>	18-19 March (Mon and Tue)	<input type="checkbox"/>	No change	
3 <sup>rd</sup>	25-26 April* (Thu and Fri)	<input type="checkbox"/>	Termination of YCC	
4 <sup>th</sup>	13-14 June (Thu and Fri)	<input type="checkbox"/>	No change	
5 <sup>th</sup>	30-31 July* (Tue and Wed)	<input type="checkbox"/>	10 bps hike	
6 <sup>th</sup>	19-20 September (Thu and Fri)	<input type="checkbox"/>	No change	
7 <sup>th</sup>	30-31 October* (Wed and Thu)	<input type="checkbox"/>	10 bps hike	
8 <sup>th</sup>	18-19 December (Wed and Thu)	<input type="checkbox"/>	No change	

Source: Bank of Japan, Kenanga Research

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

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