

18 June 2025

BoJ Monetary Policy Decision (16-17 June)

Holds rates, slows bond taper from 2026 to buy time - next move hinges on inflation

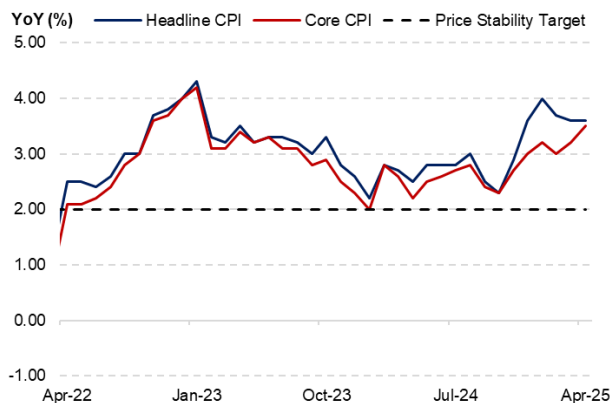
- Unexpected tweak to bond tapering:** As widely anticipated, the Bank of Japan (BoJ) **kept its short-term policy rate unchanged**. However, it surprised market by **announcing a slower pace of bond tapering from fiscal 2026**, citing heightened external risks and ongoing volatility in Japan's bond market.
- Short-term rate (Unanimous vote):** The BoJ kept the overnight call rate (OCR) steady at 0.50%.
- Long-term rate (8-1 majority vote):** The bank halved the planned quarterly reduction in its balance sheet, from JPY400.0b in fiscal 2025 to JPY200.0b in 2026. It expects its holdings to fall to around JPY2.0t by 1Q27.
- Economic growth outlook:** Set to cool amid **faltering overseas demand and shrinking domestic corporate profits**. Loose monetary conditions will soften the blow, but the drag on momentum appears inevitable. **A gradual recovery is likely once global economies stabilise, allowing Japan to return to modest expansion.**
- Inflation outlook:** Headline inflation is **poised to ease as earlier import and food price shocks fades**. Core inflation remains subdued, held back by tepid economic activity. Over time, however, **labour shortages and rising inflation expectations may lift underlying prices**. By late 2025, inflation is expected to align more closely with the BoJ's 2.0% target, though uncertainty remains high.
- Hiking cycle on pause as BoJ seeks inflation certainty, but October move still likely**
 - Policy rate outlook:** Despite persistent uncertainty over tariffs and intensifying geopolitical tensions, **we continue to anticipate the next policy rate hike in October**. While core inflation rose to 3.5% in April and firms continue to pass on higher costs, the BoJ remains unconvinced of the durability of 2.0% inflation. With Japan and the US failing to secure a tariff agreement, policymakers are likely to wait for more clarity. **Sustained evidence that inflation is anchored near the target may pave the way for a move later in the year.**
 - USDJPY year-end forecast (139.00; 2024: 156.84):** The decision to taper more gradually may help stabilise Japan's bond market. However, **unresolved trade talks and rising Middle East tensions may delay rate hike expectations, putting pressure on the yen**. Still, as a relative safe haven and the only major central bank with a tightening bias, we maintain our view that the yen could strengthen to sub-140.0/USD by end-2025.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
2.00% (-0.25%)	Euro Area	Key Deposit Facility Rate	Jun-25
2.50% (-0.25%)	South Korea	Base Rate	May-25
3.25% (-0.25%)	New Zealand	Official Cash Rate	May-25
5.50% (-0.25%)	Indonesia	BI Rate	May-25
3.00% (-0.10%)	China	Loan Prime Rate (1Y)	May-25
3.85% (-0.25%)	Australia	Cash Rate	May-25
4.25% (-0.25%)	UK	Base Rate	May-25
1.75% (-0.25%)	Thailand	Repo Rate	Apr-25
5.50% (-0.25%)	Philippines	Target Reverse Repurchase	Apr-25
2.75% (-0.25%)	Canada	Overnight Rate	Mar-25
0.50% (+0.25%)	Japan	Overnight Call Rate	Jan-25
4.25% - 4.50% (-0.25%)	USA	Funds Rate Target	Dec-24
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23

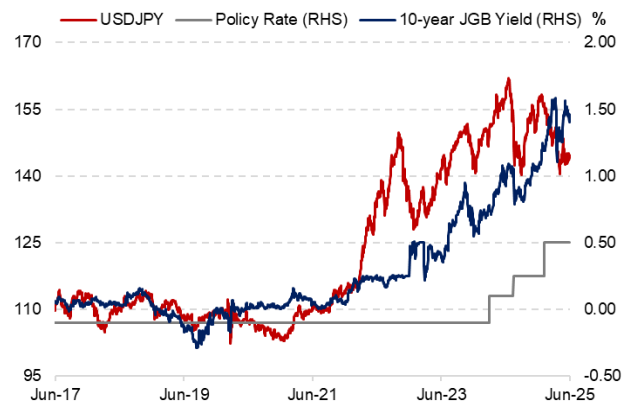
Source: Bloomberg, CEIC, Kenanga Research

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

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

Forecasts made in	Real GDP		Core CPI	
	January 2025	May 2025	January 2025	May 2025
Fiscal 2024	+0.4 to +0.6 (+0.5)	+0.7 to +0.7 (+0.7)	+2.6 to +2.8 (+2.7)	+2.7
Fiscal 2025	+0.9 to +1.1 (+1.1)	+0.4 to +0.6 (+0.5)	+2.2 to +2.6 (+2.4)	+2.0 to +2.3 (+2.2)
Fiscal 2026	+0.8 to +1.0 (+1.0)	+0.6 to +0.8 (+0.7)	+1.8 to +2.1 (+2.0)	+1.6 to +1.8 (+1.7)
Fiscal 2027	-	+0.8 to +1.0 (+1.0)	-	+1.8 to +2.0 (+1.9)

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 2025/ KIBB Outlook

No.	Date		KIBB Research Outlook	BoJ Decision
1 st	23-24 January* (Thu and Fri)	☑	25 bps hike	25 bps hike
2 nd	18-19 March (Tue and Wed)	☑	No change	No change
3 rd	30 April-01 May* (Wed and Thu)	☑	No change	No change
4 th	16-17 June (Mon and Tue)	☑	No change	No change
5 th	30-31 July* (Wed and Thu)	☐	No change	
6 th	18-19 September (Thu and Fri)	☐	No change	
7 th	29-30 October* (Wed and Thu)	☐	25 bps hike	
8 th	18-19 December (Thu and Fri)	☐	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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