



# Economics Group

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## BoJ Ups Growth Forecasts, Leaves Policy Levers Untouched

*The Bank of Japan revised its growth forecast higher and slightly adjusted its inflation outlook but opted to keep its set of monetary policy programs in place.*

### No News Is (Because of) Good News

The Bank of Japan (BoJ) opted to keep monetary policy on hold, while also upgrading its forecast for GDP growth. The BoJ inflation forecast was slightly lowered for this year and remained unchanged for 2018.

The 7-2 vote in favor of maintaining the official BoJ policy of “quantitative and qualitative easing with yield curve control” was broadly in line with expectations. Although in recent weeks, there was some growing speculation that BoJ might take some action to preempt a steep climb in the value of the yen. That pressure eased a bit with the Macron win in the French election.

A different outcome (Le Pen victory) might have engendered a flight-to-safety trade in global financial markets. The Japanese yen’s status as a funding currency might have been subject to upward pressure in this scenario. Had that been the case, BoJ policy maker’s promise to overshoot the 2.0 percent CPI inflation target would have been made even more difficult. The more benign outcome in the French election eased any pressure that may have existed for Japanese policy makers to act preemptively; the yen opened 1.5 percent lower on Monday when the outcome of the election was known.

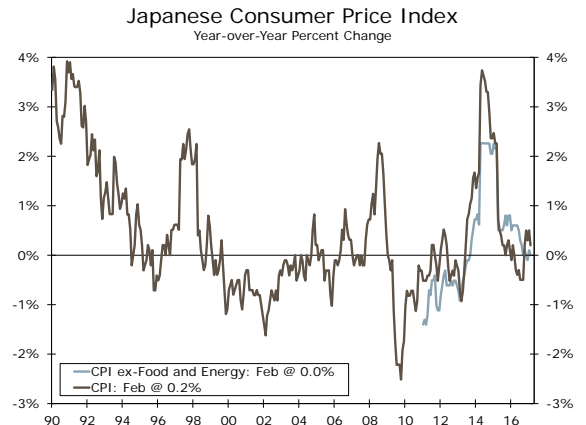
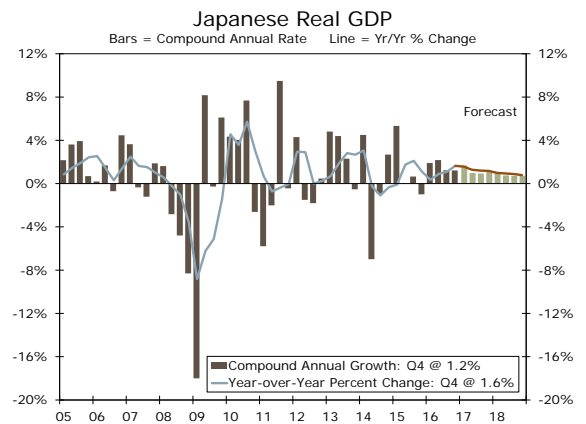
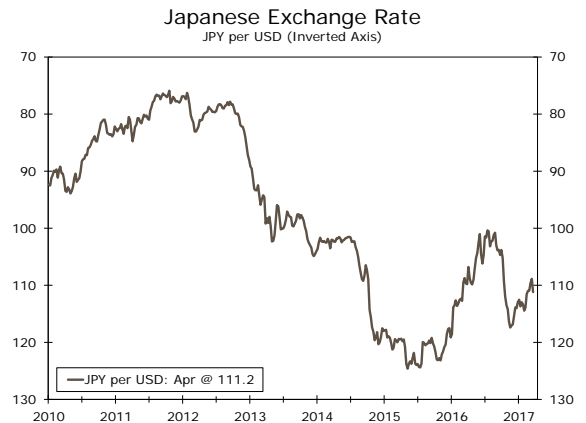
### Slightly Higher Growth Forecast

After a run of upbeat signals in terms of economic activity, the BoJ upped its projections for growth and now expects real GDP to grow 1.6 percent in fiscal year 2017 and 1.3 percent in 2018. Both of those figures were revised up from the January forecast of 1.5 percent in 2017 and 1.1 percent in 2018. Our own forecast for the Japanese fiscal year implies GDP growth of 1.3 percent in fiscal year 2017 and 1.2 percent for 2018, which puts us three tenths of a percent below the BoJ projection for 2017 and one tenth below for 2018.

The CPI inflation forecast for next year is unchanged at 1.7 percent, although the forecast for the current fiscal year was lowered a tenth of a percent to 1.4 percent. The downward revision from the BoJ for 2017 CPI brings it a step closer but still pretty far away from our fiscal-year-adjusted forecast of just 0.0 percent.

There was some speculation in the weeks leading up to the BoJ meeting that there might be a signal of eventual rate increases. Although we recently revised our growth forecast slightly higher for Japan, the expectation of rate hikes is premature, in our view.

Today’s official BoJ outlook statement affirmed that the current regime of policy solutions will remain appropriate “with a view to maintaining the momentum toward achieving the price stability target.” This is consistent with our view that the BoJ will likely remain on hold into 2018.



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