BOJ Refrains From Boosting Stimulus as Recovery Seen

By Toru Fujoka and Masahiro Hidaka - Apr 8, 2014

The Bank of Japan refrained from adding extra stimulus as policy makers said the world’s third-largest economy can maintain a recovery even with last week’s increase in the sales tax.

Governor Haruhiko Kuroda and his board maintained a pledge to expand the monetary base at a pace of 60 trillion yen to 70 trillion yen ($681 billion) per year, the central bank said in a statement today in Tokyo, as forecast by all 36 economists in a Bloomberg News survey. The economy has continued to recover moderately, “albeit with some fluctuations due to the consumption tax hike,” the BOJ said.

While the central bank highlighted a pickup in private investment and increasing industrial production, economists forecast the BOJ will boost stimulus by July, according to a Bloomberg News survey ahead of today’s decision. A drop in a confidence indicator, announced separately today, to the lowest since 2011 highlighted risks to the recovery as the tax increase damps consumption.

“The BOJ seems confident in its economic assessment and outlook,” said Masaaki Kanno, chief Japan economist at JPMorgan Chase & Co. At the same time, “there is an above 50 percent chance of easing in July,” he said.

The yen weakened after the announcement, and was trading at 102.87 per dollar at 3:05 p.m. in Tokyo, up 0.2 percent. The Topix index, which has climbed 6.6 percent over the past year, fell 1.9 percent today, down for a third day after technology shares extended a retreat.

Outlook Drops

The BOJ is gauging the extent of an anticipated setback to the economy and prospects for achieving its 2 percent inflation goal after last week’s 3-percentage-point increase in the sales tax, the first since 1997. The price goal excludes the effects of changes in the sales tax.

The central bank’s benchmark price gauge rose 1.3 percent in February from a year earlier, and companies see price gains persisting for at least the next five years, in what would mark an end to 15 years of deflation.

A gauge of economic expectations of people such as taxi drivers and restaurant workers tumbled to 34.7 in March from 40 a month earlier, according to the Economy Watchers survey released today by the Cabinet Office in Tokyo.
“Economic activity will likely weaken abruptly in the second quarter,” said Marcel Thieliant, Japan economist at Capital Economics in Singapore.

Incremental Steps

The economy is forecast to shrink an annualized 3.5 percent in the three months from April, breaking a projected six straight quarters of growth, according to a separate Bloomberg survey of economists.

Kuroda has said he will adjust record easing that the BOJ began in April last year should prospects for achieving the price target within an initial two-year timeframe be jeopardized. The challenge for Kuroda will be to avoid any perception of incremental policy steps, an approach he has vowed to avoid.

Forty-four percent of economists predict the BOJ will add to stimulus in July, when the strength of an economic rebound will become clearer, the Bloomberg News survey showed.

The central bank will probably double the annual pace it accumulates exchange-traded funds to 2 trillion yen in months ahead, according to the poll. The bank could boost annual bond purchases by at least 10 trillion yen, according to the survey.

Stimulus Package

Finance Minister Taro Aso said last week that the next few months will be key in a decision on whether to go ahead with a further increase in the sales tax to 10 percent as the government tries to rein in the world’s largest public debt burden.

“Given it takes months for the effects of monetary policy to penetrate the economy, I predict easing later this month,” said Yuichi Kodama, chief economist at Meiji Yasuda Life Insurance Co. in Tokyo. “It’s hard for the BOJ to achieve the same impact with stimulus again so a surprise has to come from the timing.”

Seventy-eight percent of the economists in the poll said Abe will have to compile another stimulus package in the fiscal year starting this month to support the economy.

Kuroda’s press conference after a policy meeting usually starts at 3:30 p.m. in Tokyo.

Kuroda said last month that Japan won’t see a repeat of the recession that followed the sales tax increase in 1997, pointing to Japan’s now-stronger financial system and an absence of a regional financial crisis that hurt the country’s exports then.

To contact the reporters on this story: Toru Fujioka in Tokyo at tfujioka1@bloomberg.net; Masahiro Hidaka in Tokyo at mhidaka@bloomberg.net

To contact the editors responsible for this story: Paul Panckhurst at ppanckhurst@bloomberg.net Arran Scott, James Mayger