BOJ Sticks With Easing Plan as Sales-Tax Bump Looms in Japan

By Toru Fujioka and Masahiro Hidaka - Mar 11, 2014

The Bank of Japan maintained record easing, keeping ammunition as an April sales-tax bump threatens to trigger the deepest one-quarter contraction since the March 2011 earthquake.

The BOJ kept a pledge to expand the monetary base at a pace of 60 trillion to 70 trillion yen ($677 billion) per year, the central bank said in a statement in Tokyo today, in line with all but one of 34 forecasts in a Bloomberg News poll. The bank lowered its view of exports and lifted its assessments of industrial output and investment.

Governor Haruhiko Kuroda is predicted to face the biggest obstacle yet to his bid to generate 2 percent inflation as the first sales levy increase in 17 years squeezes households and businesses. Seventy-three percent of economists surveyed by Bloomberg forecast the BOJ will add to easing by the end of September to support the world’s third-biggest economy.

“The BOJ has to stand ready to act,” Kazuhiko Ogata, chief Japan economist at Credit Agricole SA., said before today’s decision. “Kuroda’s handling of monetary policy will be tested, as he doesn’t want to be seen as passive by moving too late.”

The yen strengthened against the dollar after the decision and was little changed at 103.26 at 1:47 p.m. in Tokyo. The Topix index was up 0.1 percent.

Debt Load

Prime Minister Shinzo Abe is raising the sales tax to 8 percent in April from 5 percent, as he tries to rein in a debt load that the International Monetary Fund projects will be equal to 242 percent of the economy by the end of the year.

Tackling Japan’s fiscal challenges is risky for Abe, who is spearheading an effort to end 15 years of falling consumer prices and stoke sustained recovery.

The economy is forecast to shrink 3.9 percent in the three months from April, according to a Bloomberg poll of economists, ending a projected six straight quarters of growth.

Japan’s economy grew less than economist estimated last quarter, revealing a lack of firm support from business investment and exports. A survey yesterday underlined concern about the impact of the higher levy.
Falling Expectations

Expectations of people such as taxi drivers, supermarket managers and restaurant workers for the economy two to three months ahead fell in February by the most since March 2011, when the economy was struck by an unprecedented earthquake and tsunami, erasing all the improvement made after Abe took office in December 2012, a Cabinet Office survey showed yesterday.

The government approved a 5.5 trillion yen extra budget in December to offset the impact of the higher sales levy.

Exports have leveled off recently, the bank said today. Overseas shipment volumes fell 1.5 percent in 2013, as a slide in the yen didn’t deliver the boost seen after previous bouts of currency depreciation.

The BOJ also said a pickup in business investment has become increasingly evident as corporate profits improved. Capital expenditure rose 0.8 percent in the last three months of 2013, the third consecutive quarter of growth, government data showed yesterday.

The BOJ’s decision to keep its overall assessment that the economy is gradually recovering may reflect an effort to temper market expectations for further stimulus, Yasunari Ueno, chief market economist at Mizuho Securities Co., wrote in a report after the decision. The bank’s view was a balanced one, with the stronger view on investment and production compensating for a lower assessment of exports, Ueno wrote.

Preemptive Action

The BOJ fueled expectations for additional stimulus when it doubled the scale of lending programs on Feb. 18, with the Nikkei 225 (NKY) Stock Average rising the most this year on that day. Eighty-eight percent of economists surveyed by Bloomberg foresee further easing by the end of the year.

“As an economic slowdown is certain after the sales tax hike, Kuroda probably wants to take preemptive action and to surprise markets to cement the path to achieve the price target, rather than waiting for the evidence of economic weakness,” Yuichi Kodama, chief economist at Meiji Yasuda Life Insurance Co. in Tokyo, said before the decision.

Japan’s dependence on monetary policy to support growth is growing as Abe takes time to flesh out his growth strategy, the third “arrow” of Abenomics, while the public debt burden will make policy makers cautious about higher spending, said Chotaro Morita, chief debt strategist at SMBC Nikko Securities Inc.

“After all, it comes back to the BOJ,” Morita said before the decision. “A weak yen is the pillar of Abenomics and that has been driven in most part by the BOJ.”

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