BOJ keeps policy steady, sees steady progress toward inflation goal
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TOKYO (Reuters) - The Bank of Japan kept monetary policy steady on Wednesday and laid out projections underscoring its conviction that inflation will head steadily towards its 2 percent target, suggesting no additional stimulus is on the near-term horizon.

In a twice-yearly outlook report, the central bank projected that core consumer inflation will accelerate this year and stay at around 2 percent for at least two years from the middle of 2015, signaling its confidence on meeting its price goal.

It also maintained its view that Japan's economy will continue its modest recovery despite a temporary slump in demand caused by a sales tax hike this month.

"As the BOJ proceeds with its qualitative and quantitative monetary easing and as actual inflation exceeds 1 percent, medium- to long-term inflation expectations will rise as a trend and gradually converge around its price target of 2 percent," the central bank said in the closely-watched report, which serves as a basis for future monetary policy decisions.

As widely expected, the BOJ maintained its pledge to increase base money, its key policy gauge, at an annual pace of 60 trillion to 70 trillion yen ($588-$686 billion).

The upbeat projections may reinforce a growing market consensus the BOJ will stand pat on policy until July or even longer, as it awaits more data for clues on how the economy has weathered the sales tax hike.

The BOJ reiterated in the report, however, that it will "adjust policy as needed" depending on future economic and price moves, signaling its readiness to ease policy further should risks threaten to derail the inflation target.

Industrial production rose a less-than-expected 0.3 percent in March and manufacturers expect output to slide in April, data showed on Wednesday, a sign the recovery in the world's third-largest economy remains fragile.

UPBEAT OUTLOOK INTACT

The BOJ has stood pat since offering an intense burst of monetary stimulus in April last year, when it pledged to double base money to accelerate inflation to 2 percent in roughly two years via aggressive asset purchases.

In the report, the BOJ maintained its projection made three months ago that core consumer inflation will hit 1.3 percent in the current fiscal year ending in March 2015, and accelerate to 1.9 percent the following year, excluding the effect of the sales tax hike.

In projections for fiscal 2016, which were issued for the first time, the central bank forecast core consumer inflation to reach 2.1 percent, signalling it remains confident its price target will be achieved for a sustained period of time.

The increase in the national sales tax - to 8 percent from 5 percent - has sparked worries that consumers will curb their spending, threatening the economic recovery that Prime Minister Shinzo Abe has engineered with aggressive monetary and fiscal stimulus.

The BOJ, however, remains optimistic that the economy can withstand the pain without additional stimulus. It also sees a tightening job market leading to higher wages that will help accelerate inflation towards its price target.

Indeed, total wages rose 0.7 percent in the year to March to mark the first increase in three months, although regular pay fell for the 22nd straight month in a sign firms are hesitant yet to increase fixed personnel costs.

Core consumer inflation in Tokyo, a leading indicator of national trends, jumped to a 22-year high of 2.7 percent in April in a sign that companies are making progress in passing on the tax increase to consumers.

The BOJ issues its long-term economic and price forecasts in a semiannual report produced in April and October of each year. It reviews the projections in January and July of each year.

($1 = 102.0350 Japanese Yen)
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