BOJ: Monetary Policy Stayed Put; Cut Economic Growth Expectation.

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After a relatively short meeting, the Bank of Japan decided to keep all policy measures untouched, with an 8-1 majority vote. The Bank's policy board cuts the GDP growth forecast to shrink 4.7% and predicts the consumer price index to fall 0.5%.

Current Monetary Policy

The Bank decided to continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," until the 2% target inflation has been achieved, to bolster the country's economy, keeping short-term interest rates at minus 0.1 percent while guiding long-term rates at around zero percent.

It also decided to keep its corporate support measures totaling ¥110 trillion ($1 trillion), including interest-free loan programs for companies and corporate bond and commercial paper purchases introduced at its June meeting.

Perspectives

It expects the Japanese economy to shrink between 4.5% and 5.7% on year-over-year span, with a median of 4.7% shrink in the fiscal 2020 in fiscal 2020 through March 2021 due to the coronavirus pandemic. In the last quarter outlook report, it had projected a contraction of between 3% and 5%.

The economy "has been in an extremely severe situation" with the impact of the coronavirus pandemic prevailing through domestic and abroad, the BOJ said in the latest quarterly report released after the policy meeting. However, the Bank forecasts the country's economy will grow 3.3% in fiscal 2021 ending in March 2022, with expectations that economic activities will gradually return to pre-pandemic levels.

A recent rise in Tokyo cases continues to weigh on sentiment and inflation has fallen below zero. The Bank predicts the CPI to stay negative for the time being under the pressure of pandemic and downward push of decline in crude oil prices. However, it believes that the downward pressure on prices will wane gradually with economic recovery as the pandemic subsides, and expects the CPI to turn positive in two years.

Risks to Face

The potential second wave of virus infections may cause the risks of downturn expectations of firms and households on economic growth, which in turn decline appetite for spending both from demand and supply sides, making prices resumption harder even after the pandemic subsides. The prices for international trades may deviate from the basic scenario, though effects are ambiguous. The push-down in economic activities will further deteriorate financial stability.

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DE View

The economy has been hit hard by the spread of the virus, with exports and industrial production substantially declined, corporate profits and business sentiment have deteriorated, as well as employment and income largely weakened. Hence, pandemic control is the top priority until effective medicines and vaccines are developed, in order to keep economic activities and financial system in stable manners. It will be more challenging for business to head back to pre-pandemic level due to the escalated tension between China and U.S. as well as that between China and Japan.