

Today's Topic

## Japanese Monetary Policy (Feb 2015)

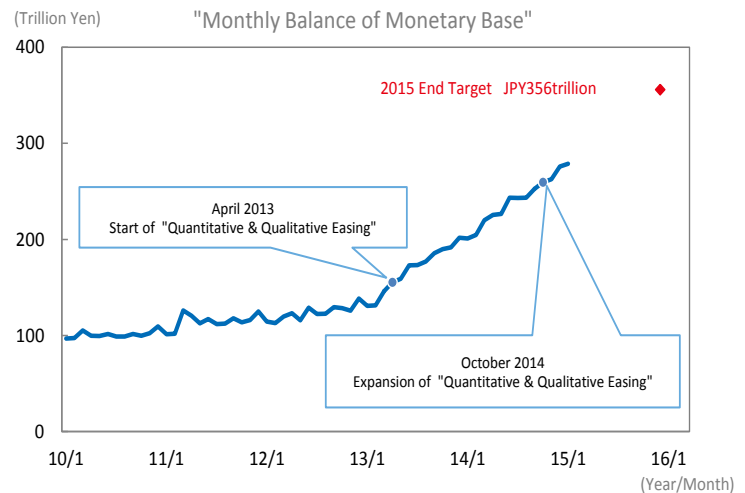
### Current monetary easing to be continued

#### Point 1

#### Monetary Policy remains "Intact"

2% inflation target has been maintained, too

- BOJ held Monetary Policy Meeting (hereafter MPM) over February 17 and 18 and decided to maintain their current quantitative & qualitative easing. This aggressive easing policy continues to increase the monetary base approximately JPY80 trillion per a year by purchasing massive JGBs, ETFs and J-REITs.
- At the January MPM, BOJ revised down FY2015 inflation forecast to + 1.0% from + 1.7% y-o-y, while raised slightly upward FY2016 forecast to 2.2% y-o-y from 2.1% y-o-y. The central bank reasserted their inflation outlook that prices are likely to be rising moderately with weakening inflation pressure led by lower crude oil price.

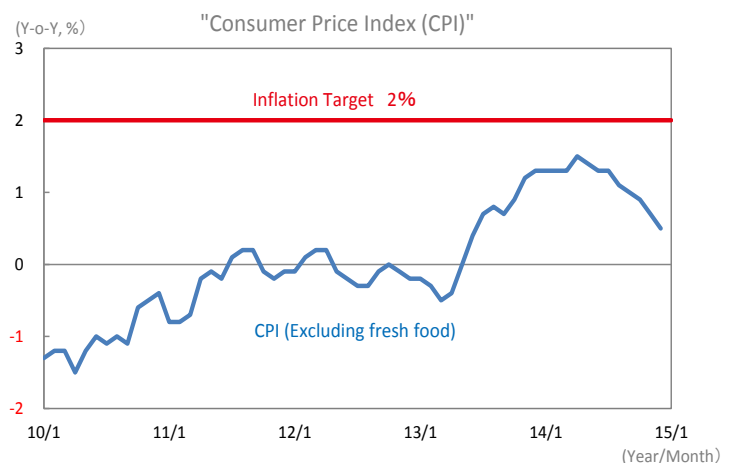


#### Point 2

#### Inflation rate is declining

Caused by low crude oil price

- Consumer Price Index (hereafter CPI, excluding fresh food and impact of consumption tax hike) was up + 0.5% y-o-y in December 2014, and has been softening since its peak at + 1.5% y-o-y in April 2014. The slower growth in the price index was caused by fall in petroleum goods prices such as gasoline because of crude oil price plunge.
- BOJ forecasts the CPI to pick up going forward, alongside moderate recovery in crude oil price at this moment although inflation is likely to be contracting due to plunge in crude oil price for the time being. BOJ Governor, Haruhiko Kuroda showed his confidence of achieving the inflation target and expressed his view again, "The prices excluding energy are continuing to keep rising".



(Note) Data Period:  
 1) Monetary Base is from Jan. 2010 to Jan. 2015.  
 2) CPI is from Oct. 2010 to Dec. 2014. CPI data after Dec. 2014 is calculated excluding impact of the consumption tax hike.  
 (Source) SMAM, based on Bloomberg L.P. and the BOJ data.

#### Future Outlook

#### Current monetary easing to be continued for the time being

- The Oct.-Dec. quarter real GDP growth rate released on February 16 gained annualized + 2.2% y-o-y for the first time in three quarters after the negative growth. This recovery was underpinned by increase in exports due to Yen depreciation. The slight increase in personal consumption expenditures helped to raise the growth rate. Japan's economy is likely to finally be getting rid of the negative impact of the consumption tax hike last April.
- The BOJ Governor, Kuroda reasserted that the economic recovery is ongoing and the inflation target of 2% is highly likely to be achievable some time in FY2015 or around under current monetary policy, therefore expressed his cautious stance to adopt additional easing right now. Current monetary policy will be maintained as far as there is any material fundamental change such as further decline in crude oil price.

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