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## TD Economics

### International Commentary: Bank of Japan leaves monetary policy unchanged

#### Highlights

- Overnight, the Bank of Japan's (BoJ) Policy Board voted with a 7-2 majority to leave policy interest rates (-0.1% on Policy-Rate balances) and asset purchases unchanged.
- As a reminder, the BoJ will continue to purchase Japanese Government Bonds (JGBs) at a pace that leaves the 10-yr yield around zero percent, which should amount to about 80 trillion yen annually.
- The BoJ also voted, once again with a 7-2 majority, to leave its pace of ETF purchases at 6 trillion yen annually, and Japanese real estate investment trusts (J-REITs) purchases at roughly 90 billion yen annually. Commercial paper and corporate bond holdings will remain at about 2.2 trillion yen and 3.2 trillion yen respectively.
- New information concerning the inflation outlook was revealed in the BoJ's updated economic [outlook](#), suggesting that underlying trend inflation will remain below target through fiscal 2018. The median inflation outlook was revised down by 0.2 percentage points through fiscal 2018 from the July forecasts, resulting in a median inflation outlook of -0.1% in 2016, 1.5% in 2017 and 1.7% in 2018. The outlook for real GDP growth remained unchanged from the previous July projection, which anticipates median growth to pick-up from 1.0% in 2016 to 1.3% in 2017 before moderating to 0.9% in 2018.

#### Key Implications

- The BoJ's decision to leave monetary policy unchanged was widely anticipated, following September's bold commitment to expand the monetary base until inflation overshoots its 2% target. As such, there was little market reaction to the news, although the lack of additional stimulus coupled with the expectation that inflation should disappoint for another two or more years saw the USDJPY firm up earlier today despite broad-based U.S. dollar strength.
- [While](#) the risks to Japan's inflation outlook remain to the downside, the BoJ seemed comfortable in delaying further easing measures, possibly until the effects of the fiscal stimulus announced by the Abe administration begin to bolster quarterly growth. In our [view](#), the BoJ's growth outlook remains too optimistic, and likely reflects greater contribution to growth from announced fiscal stimulus and construction activity related to the 2020 Olympic Games through 2018 than is likely to materialize.

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