

Bank of Japan set to do more stimulus



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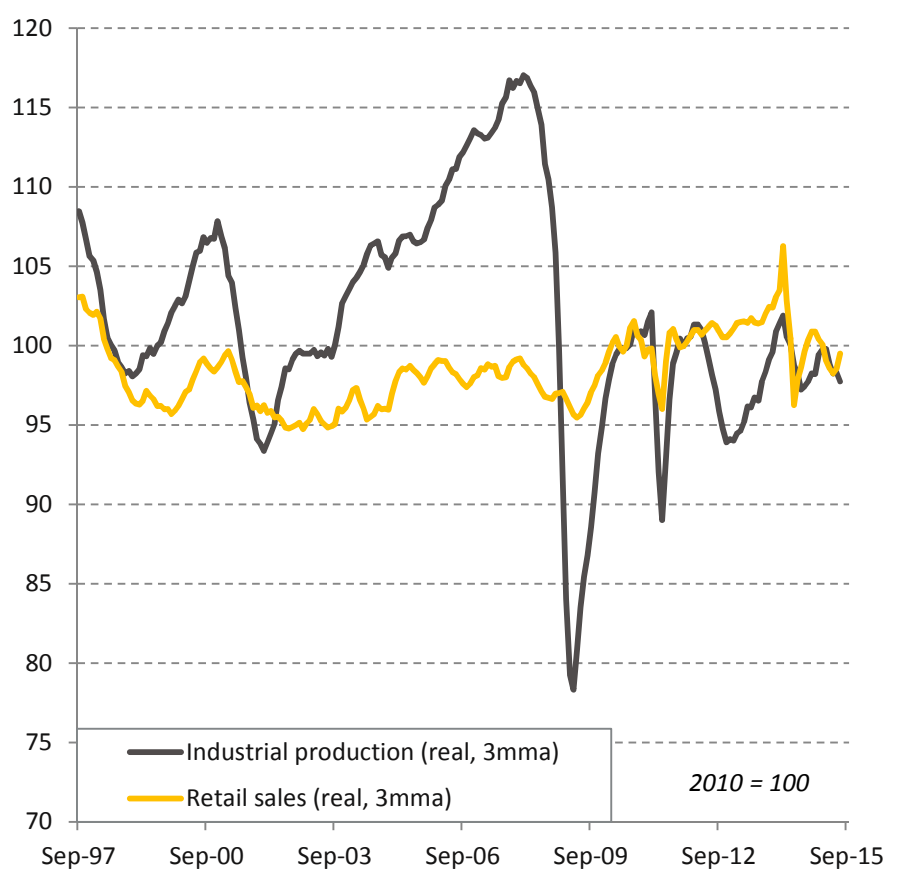
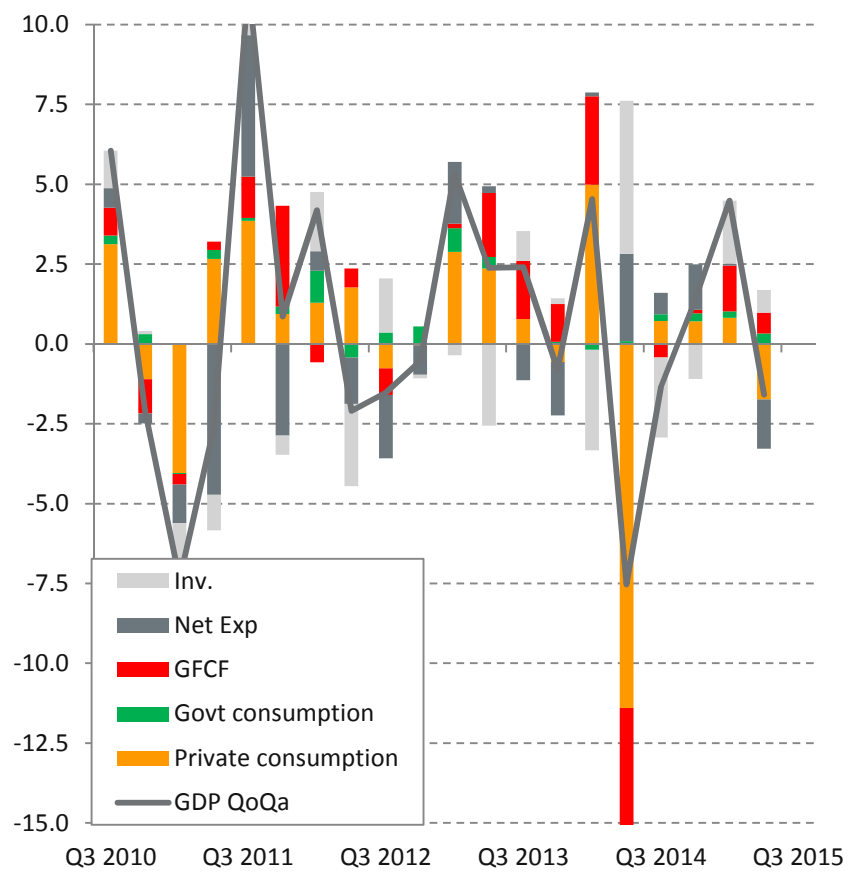
Lowflation environment will spur BoJ to do more monetary stimulus

- Following a strong start, growth slipped back in negative territory in Q2
- Economic activity still sluggish, leading indicators show no sign of swift turnaround
- Tightening labor market should translate in wage growth though evidence is mixed
- In addition, the BoJ's 2% inflation target is still far out of reach
- Bank of Japan going for it but still set to do more stimulus
- This will keep downward pressure on JPY though most of JPY depreciation is done
- Higher nominal GDP growth should be the primary focus (not budgetary savings)



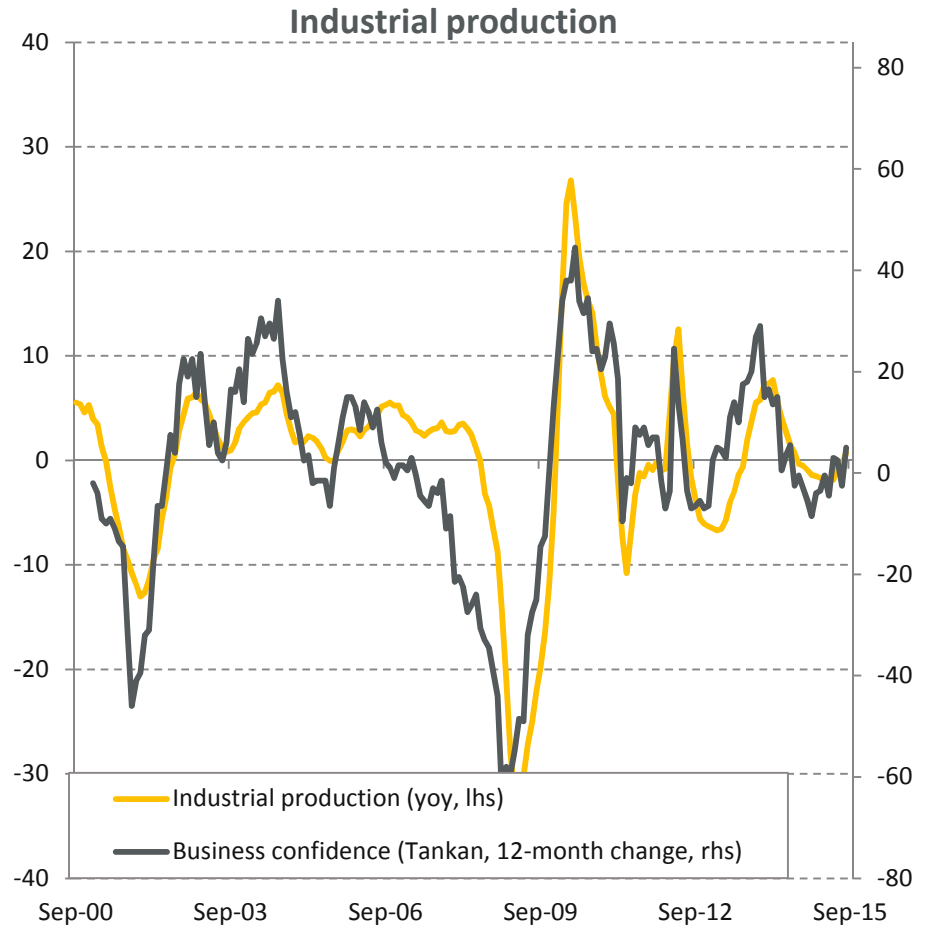
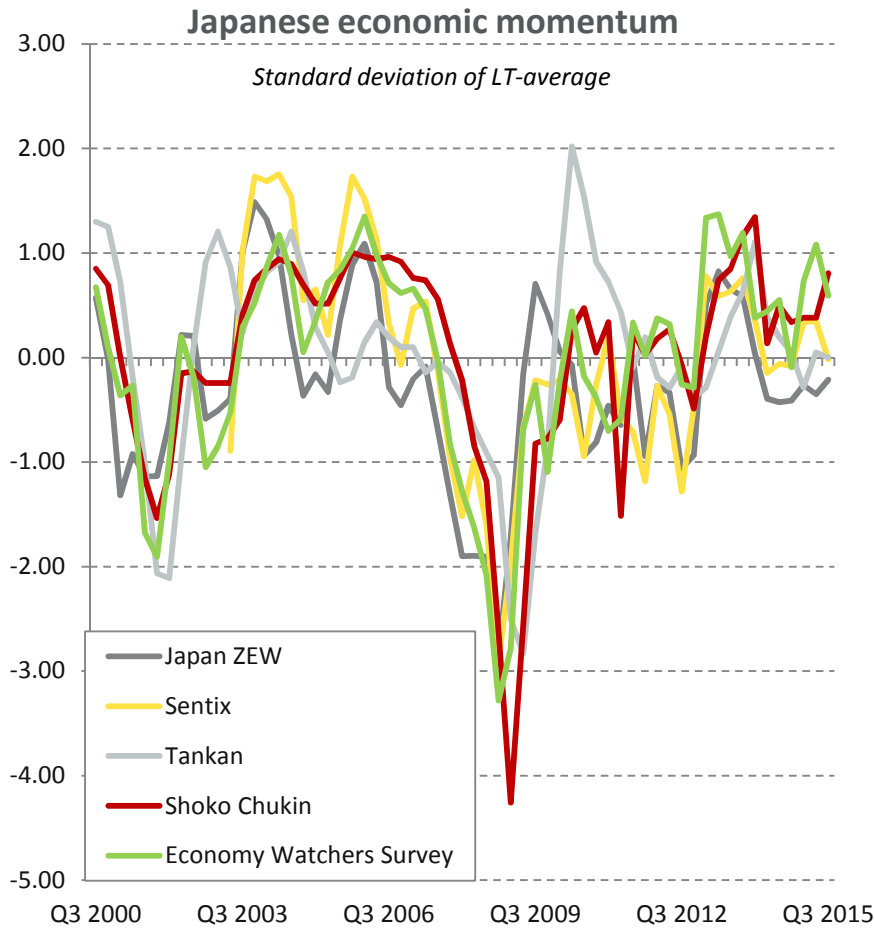
Q2 growth back in negative territory

Economic activity still fairly sluggish

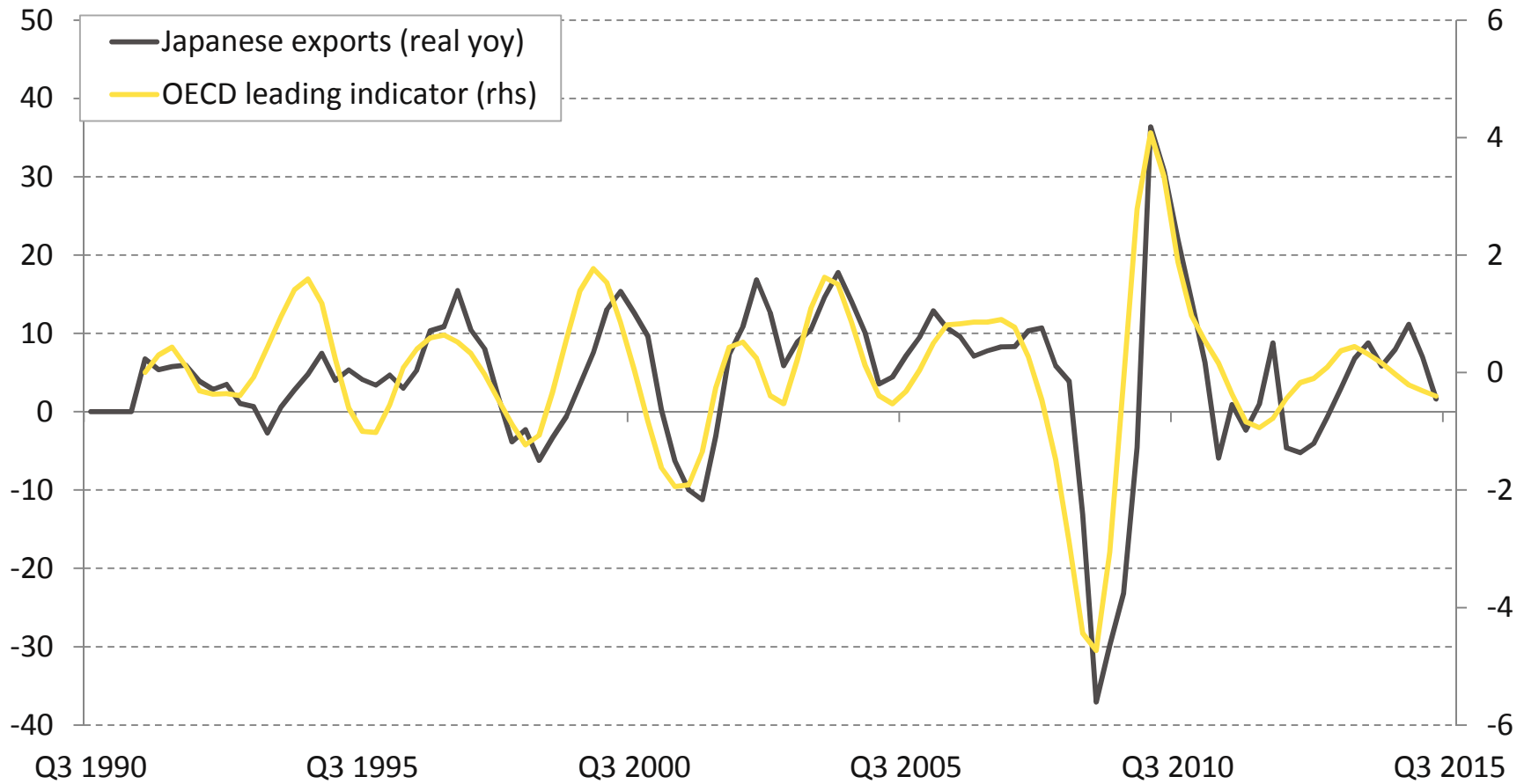


Confidence indicators paint a modest growth outlook

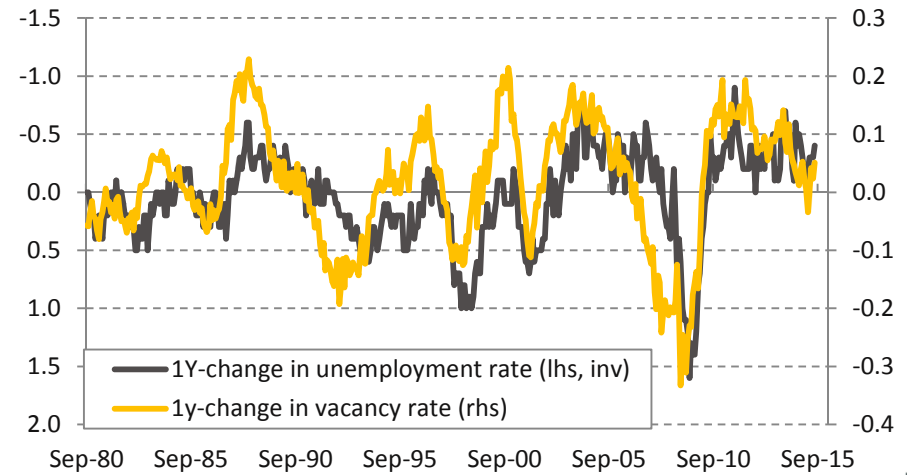
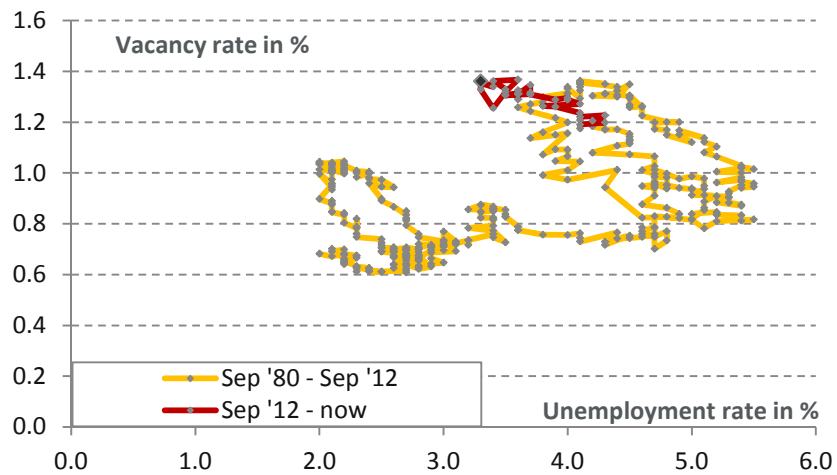
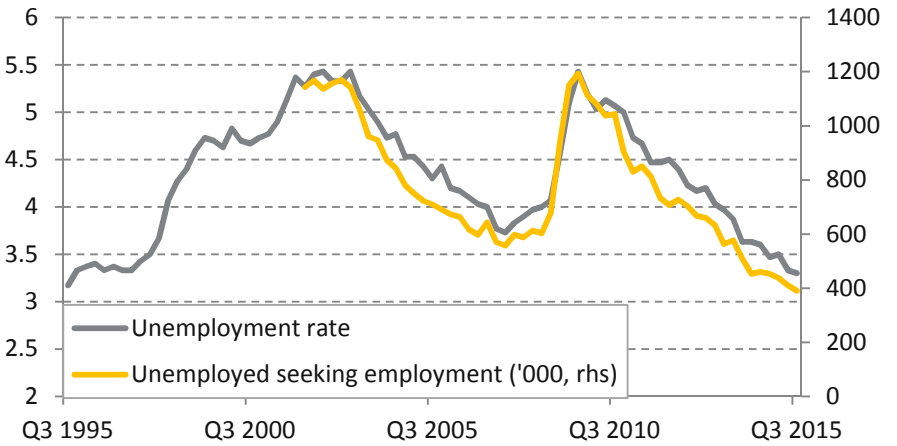
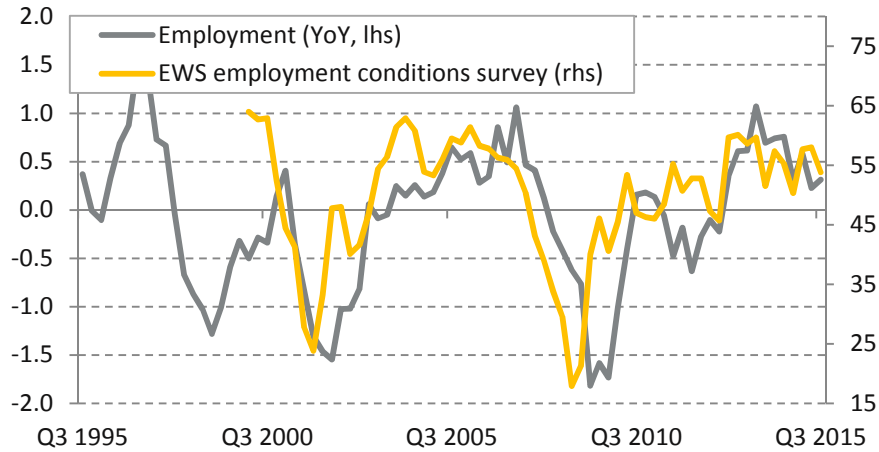
Industrial production growth set to move back in positive territory



Japanese exports closely linked to the global business cycle

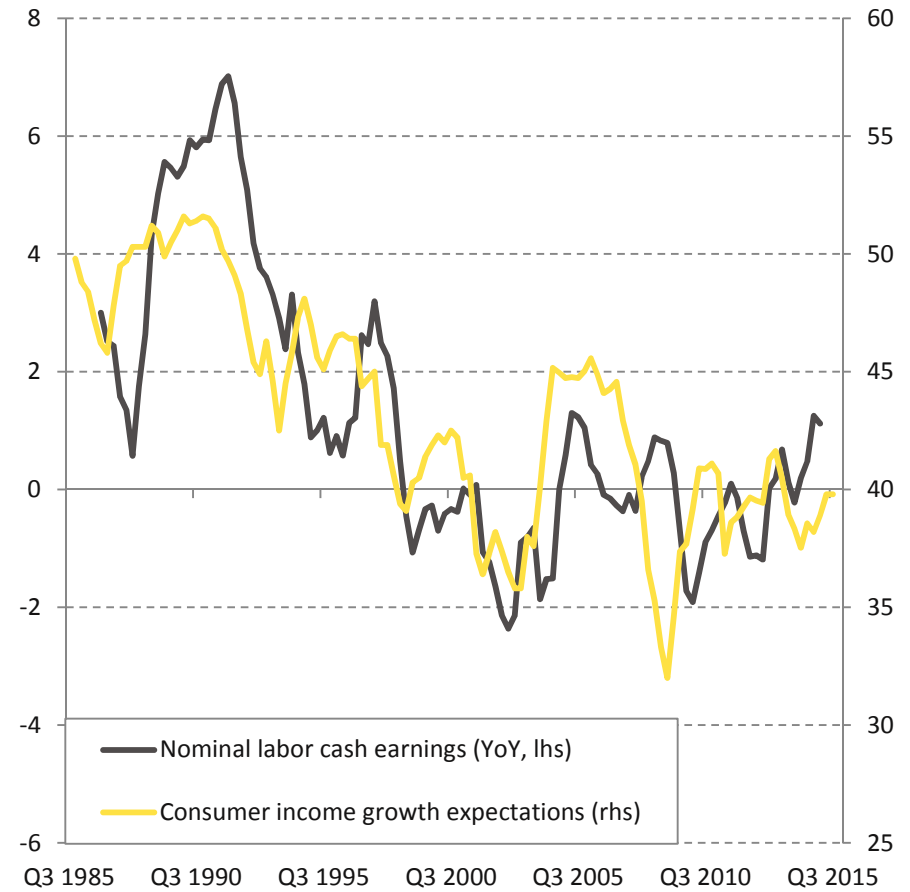


Japanese labor market continues to tighten...



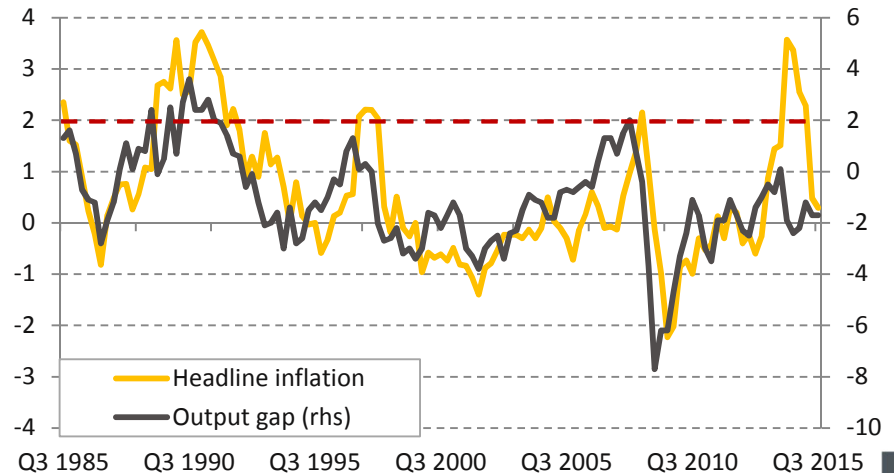
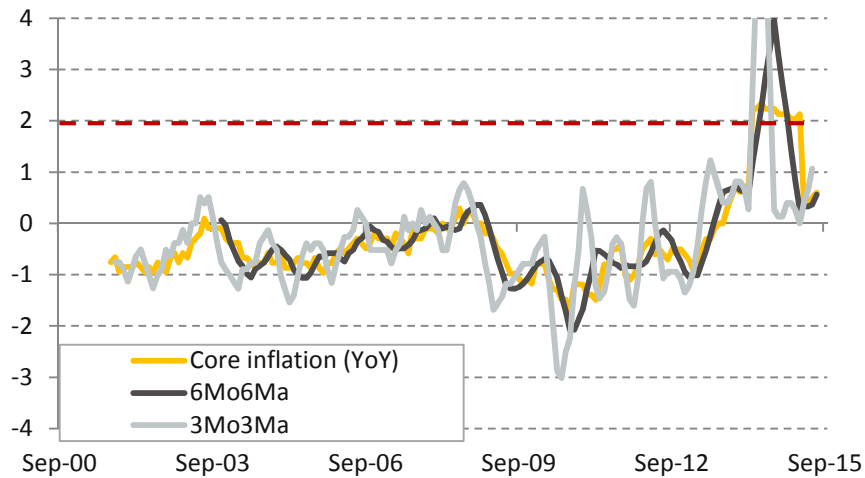
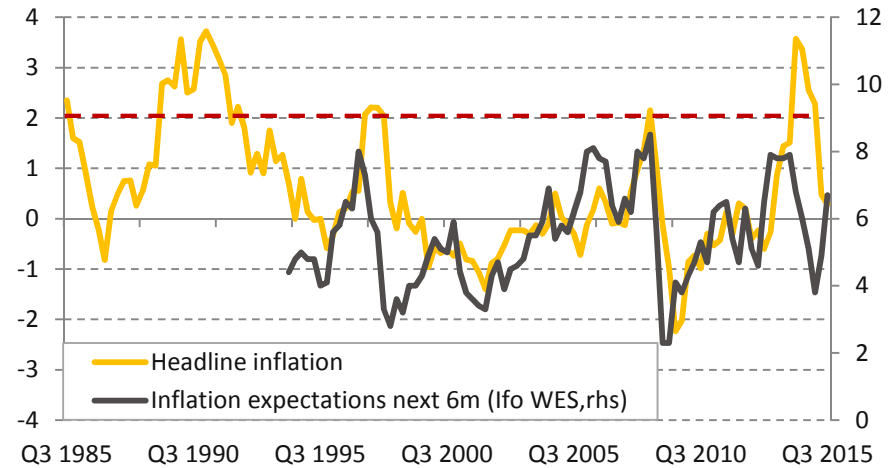
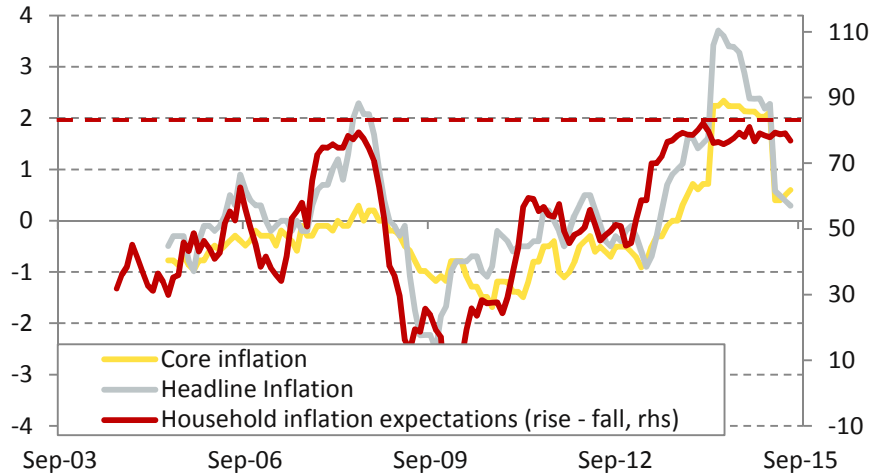
Tighter labor market should translate in accelerating wage growth...

...Although other indicators suggest expectations should be tempered

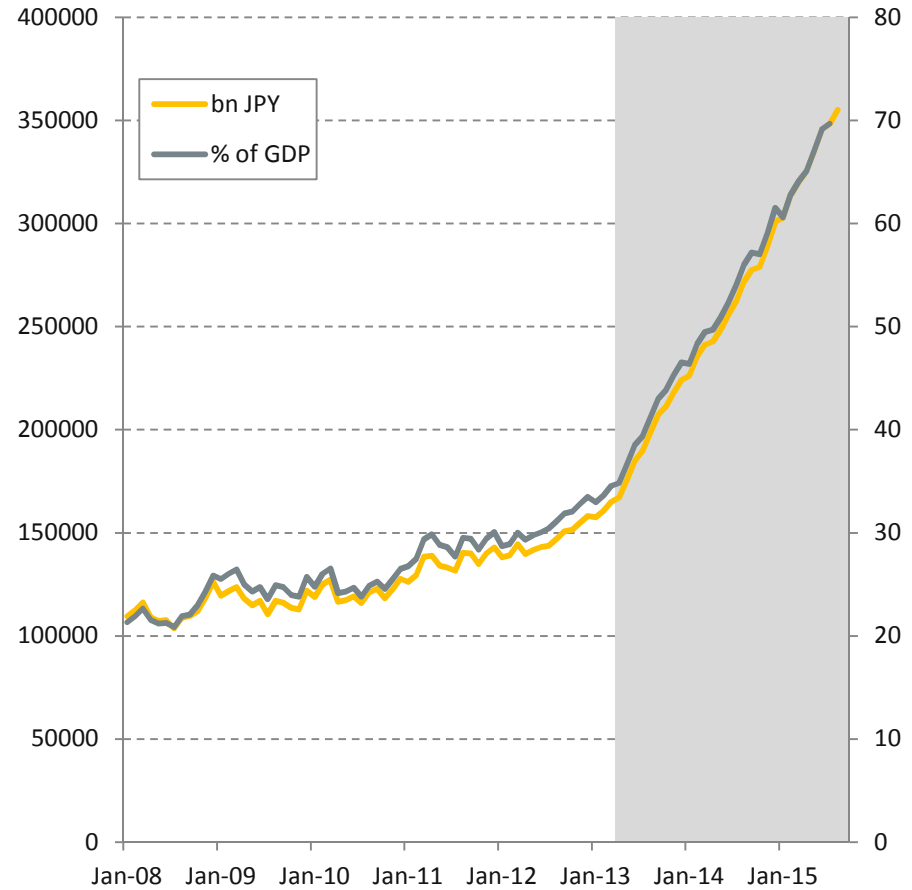
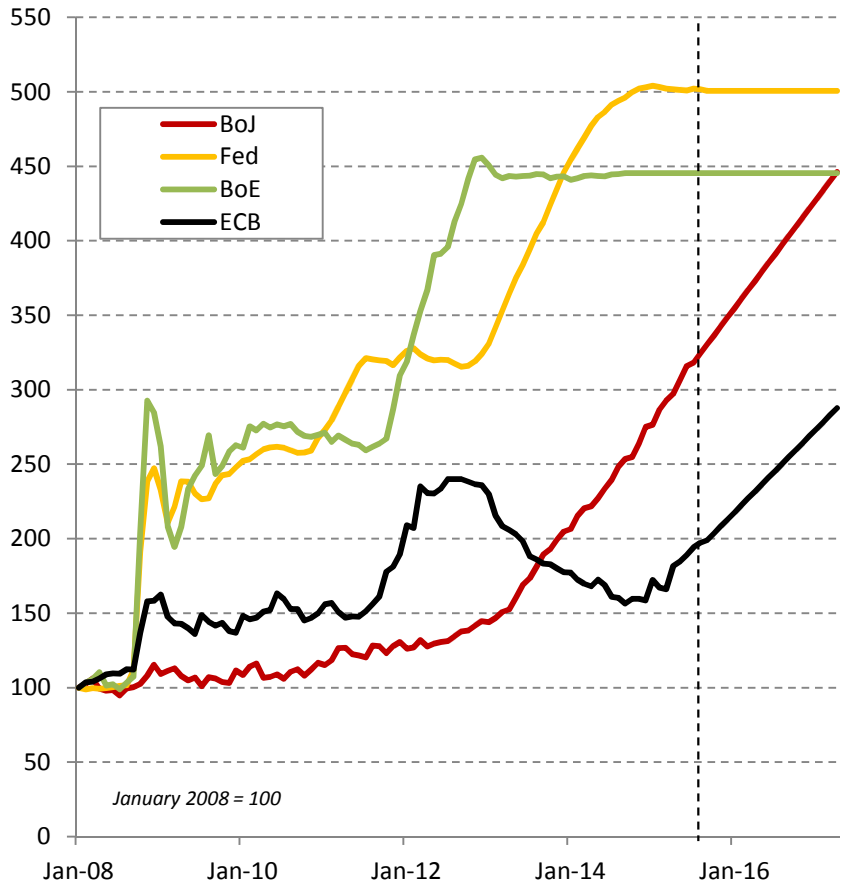


BoJ's 2% inflation target remains very challenging

Several indicators show the BoJ has more work to do

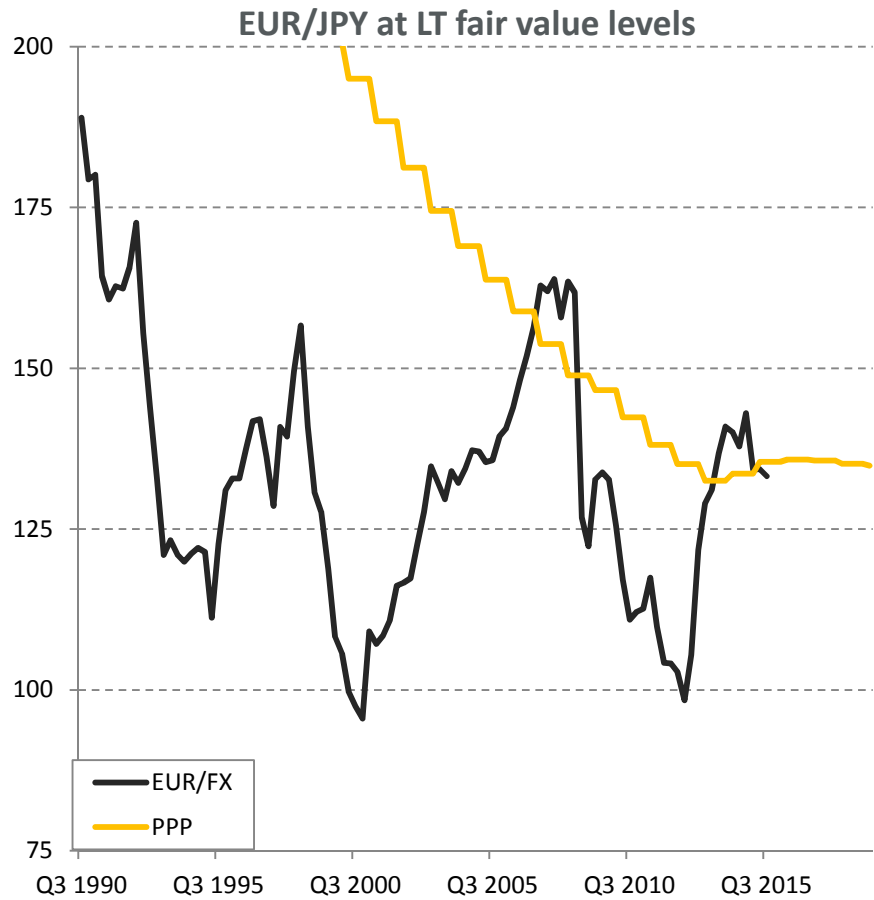
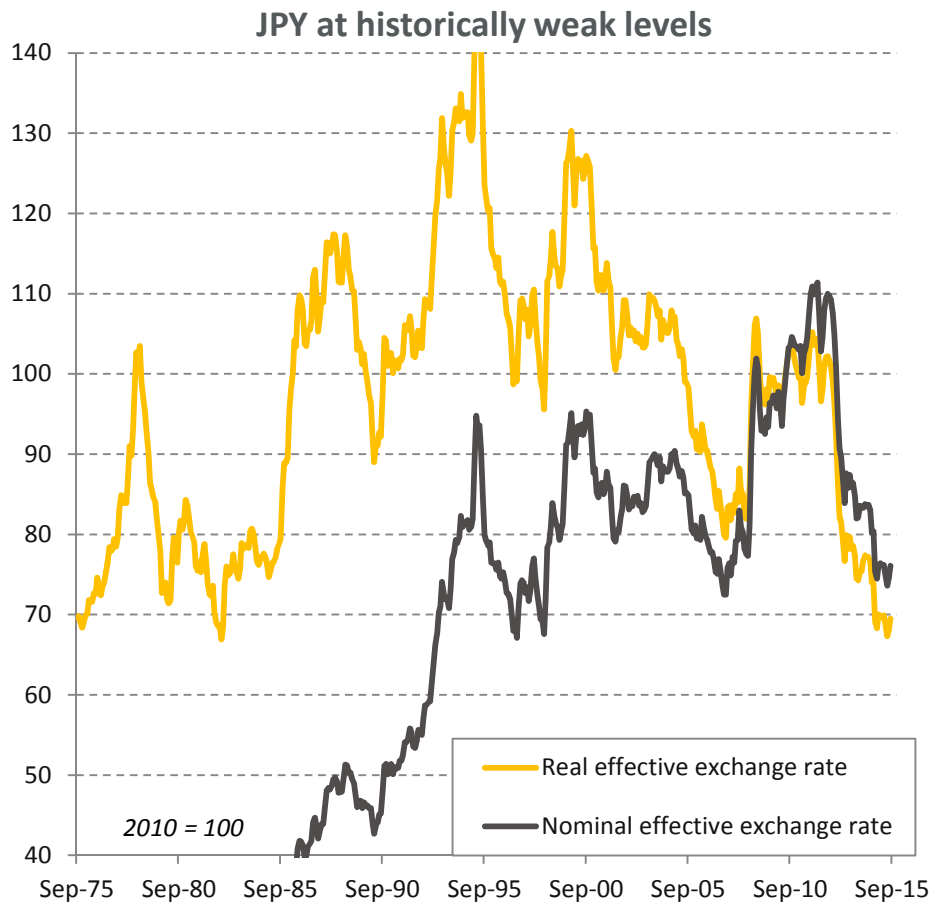


Bank of Japan going for it but still set to do more stimulus



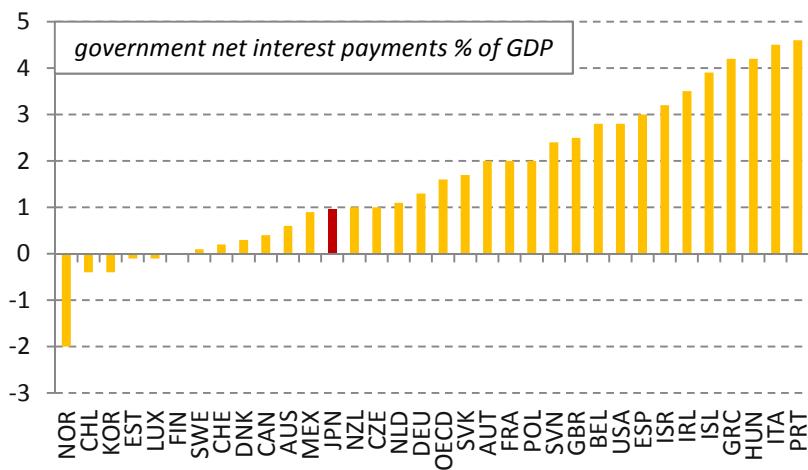
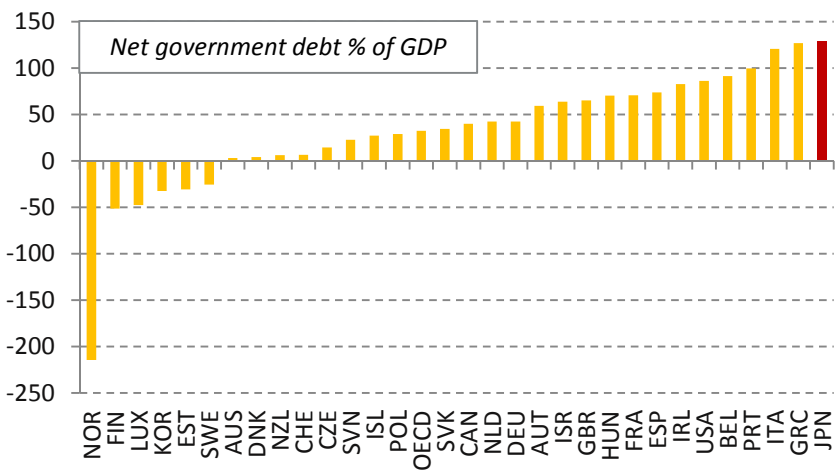
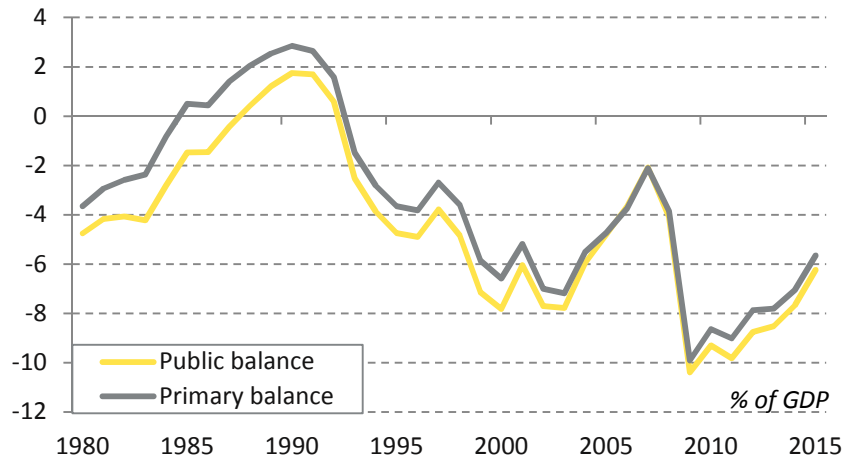
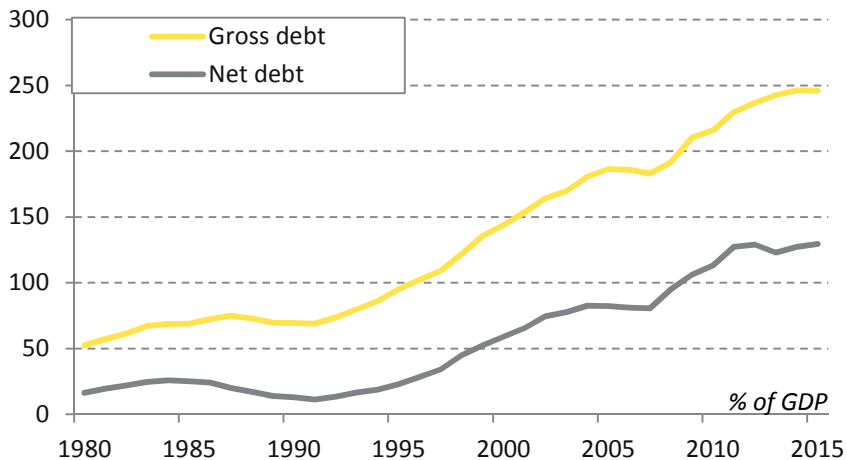
More BoJ stimulus will keep downward pressure on the JPY

However, the big depreciation seems behind us

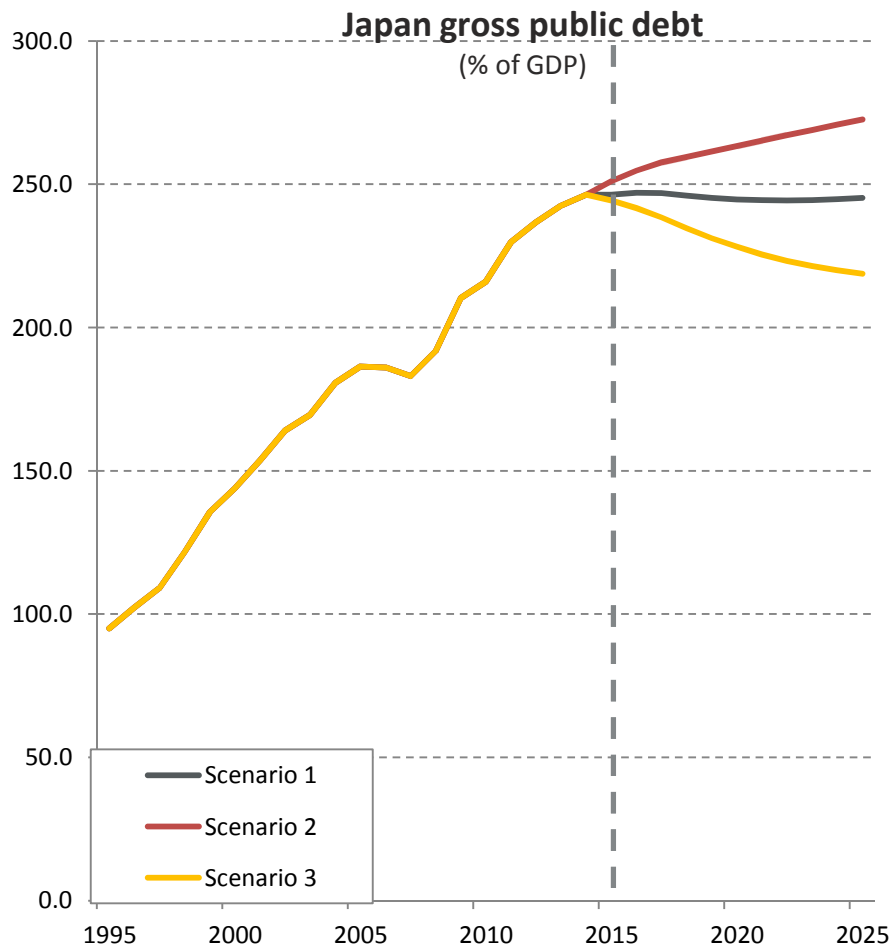


What about Japan's unsustainable public debt position?

Keep in mind though that interest payments are very low



Importantly, higher nominal growth should be the primary focus



→ **Scenario 1:**
 Real growth at 1% (~ LT-average since 1990)
 Inflation at 1% (up from post-1990 average of -0.4%)
 Primary balance gradually improving to -3% of GDP (-6% now)
 Implicit interest gradually rising to nominal growth (2%)

→ **Scenario 2:**
 Real growth at 1% (~ LT-average since 1990)
 Inflation stuck at post-1990 (-0.4%)
 Primary balance gradually improving to -3% of GDP (-6% now)
 Implicit interest gradually rising to nominal growth (0.6%)

→ **Scenario 3:**
 Real growth at 1.5%
 Inflation at 2% (in line with BoJ target)
 Primary balance gradually improving to -3% of GDP (-6% now)
 Implicit interest gradually rising to nominal growth (3.5%)



Japanese policymakers have still more work to do

- Following a strong start, growth slipped back in negative territory in Q2
- Economic activity still modest, leading indicators show no sign of swift turnaround
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