

(BN) BOJ Said to Mull Raising Inflation Forecast for Fiscal 2014
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(Updates with Furusawa comments in seventh paragraph.)

By Toru Fujioka and Masahiro Hidaka

April 12 (Bloomberg) -- The Bank of Japan is considering boosting its consumer-price outlook to signal confidence it will meet a pledge to achieve 2 percent inflation in two years, people familiar with the central bank's discussions said.

The BOJ may upgrade its view on price gains excluding fresh food to at least 1.5 percent from 0.9 percent for fiscal 2014 in its next forecast update on April 26, according to the people, who asked not to be identified because the talks were private.

Policy makers are seeking to assure the public that new Governor Haruhiko Kuroda's unprecedented stimulus will help meet the price goal, with the yen dropping about 11 percent since the previous forecast on Jan. 22. Kuroda said today that the central bank won't set a time limit for easing and will continue until it achieves sustainable inflation.

"It will be very challenging to meet this forecast, but it's not mission impossible," said Masamichi Adachi, senior economist at JPMorgan Chase & Co. in Tokyo and a former BOJ official. "It's a mind game to some degree, based on raising inflation expectations."

The Nikkei 225 Stock Average pared losses following the Bloomberg News report on the BOJ forecast to close down 0.5 percent today, after falling as much as 1.1 percent. The yen was trading at 99.24 against the dollar at 7:50 p.m. in Tokyo, up 0.4 percent after this week touching the lowest since April 2009.

'Turn Positive'

"The year-on-year rate of change in the CPI has recently been at around 0 percent or slightly negative, but looking to the future, it is expected to turn positive and start picking up," Kuroda said in a speech today in Tokyo, his first since becoming governor last month. The acceleration will mainly reflect "improvement in the aggregate demand and supply balance," he said.

Separately today, Japan's new top currency official said the nation will be able to convince trading partners that the central bank's monetary stimulus is not intended to weaken the yen.

"The monetary policy being carried out by the Bank of Japan is clearly aimed at getting Japan out of deflation,"

Mitsuhiro Furusawa, the vice-finance minister for international affairs, said in an interview today in Tokyo. He said Japan will "properly explain" its position at a meeting of Group of 20 nations in Washington next week.

All Measures

Kuroda told reporters earlier this week that the central bank has taken all "necessary" and "possible" measures to achieve the 2 percent inflation goal. The BOJ chief reiterated a pledge to do what's needed to meet the target in two years.

The BOJ declined to comment for this article, a central bank spokesman said.

The BOJ forecasts, updated about every three months, represent the median estimate of nine board members, excluding the effects of a consumption-tax increase. The central bank provides a range of projections with the highest and lowest figures left out.

An estimate of 1.5 percent would represent inflation over the course of the 2014 fiscal year that runs from April 2014 to March 2015, indicating price gains may approach 2 percent toward the end of the period.

Kuroda and Prime Minister Shinzo Abe are aiming for sustained gains in prices and wages after more than a decade of deflation and three recessions in five years. They face an aging population and the world's biggest public debt load, more than double the size of the economy.

Key Measure

Gross domestic product rose an annualized 0.2 percent in the fourth quarter of last year. Prices excluding fresh food, officials' key measure, haven't gained 2 percent in any year since 1997, when a sales tax was increased.

Economists are skeptical about the BOJ's attempt to reach the price target in two years. Only two out of 40 economists surveyed by the Japan Center for Economic Research said Kuroda can achieve the goal in the time frame, according to a report released on April 10.

Abe said this month that the central bank shouldn't pursue a 2 percent inflation target "at all costs" and may fail to achieve it should global conditions change.

Deputy Governor Kikuo Iwata has said the best way to take responsibility if the central bank fails to meet the target in two years would be to resign.

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