

Introduction:

Stock prices have shown substantially positive response to the today's policy decision by the BOJ, although there were already growing expectations in the markets. In contrast, large part of the discussion today at the press conference by Governor Kuroda was related to our economic fundamentals.

Let me give the outline of today's policy decision and review the highlight of press conference by Governor Kuroda.

SBLF and GSFF

I am afraid that the readers may be tired of such four letter words for years since the crisis. I would still need to used ones in order to explain the policy decision today in efficient manner.

By SBLF (Stimulating Bank Lending Facility), the BOJ extended credits to banks up to the amount of net increase of their lending to their customers. Such credits have two-year maturity at the longest and 0.1% yields. Today, the BOJ decided to double the eligible amount and to extend the maximum maturity to four-years.

Meanwhile, the BOJ extended credits to banks by GSFF (Growth-Supporting Funding Facility) when they lent the funds to their customers conducting the projects in accordance with the guideline. Today, the BOJ decided to double the aggregate amount of this facility (from ¥3.5tn to ¥7tn) and to increase the ceiling for respective banks (from ¥150bn to ¥1tn).

Most important reason for growing expectation of the reform of these facilities seems to be rather technical: the deadline of the new application of the facilities are closing ahead (March 31). Nevertheless, the policy decision today by the BOJ have several points that deserve attention.

First, while GSFF was originally launched by Governor Shirakawa, it may have acquired some taste of "Third arrow", because the BOJ guides the banks to lend money to a specific set of projects. In fact, the large amount of funds under this facility has been lent to the projects of 1) environment and energy, 2) medical and health care and 3) social infrastructure.

Second, SBLF could contribute to the BOJ's massive injection of the base money as the QQE to some extent. Although the BOJ does not set any ceiling of the aggregate amount of this facility, they estimate that the facility would grow to ¥30tn according to the footnote of their policy statement today.

Third, today's decision have some (remaining) flavor of shock and awe strategy of the QQE in April last year, because doubling the amounts were again the key words. It seemed hard to show the specific (or empirical) rationale for doubling the amounts of some parts of these facilities, while Governor Kuroda tried to do so in response to several questions at today's press conference.

Economic outlook

Interestingly, press reporters rather liked to raise issues in relation to the economic outlook. Focus of their discussion are the following points.

First of all, a number of press reporters asked about the evaluation of our Q4 GDP (released Monday). It caused negative reaction by the markets, simply because it was weaker than expected by the markets.

Governor Kuroda insisted the positive aspects of the economic performance. He drew attention to the fact that both the major

segments of domestic demands - business investment and household consumption - continued to expand. Moreover, in terms of negative net exports, he emphasized that the exports showed some recovery and the imports grew by a temporary increase in domestic absorption before consumption tax hike.

While these facts would be important, the market concerns that some reasons for our negative net exports may not only be temporary, and these could drag the momentum of our economic expansion in coming years.

From cyclical viewpoint, some press reporters asked Governor Kuroda today if the BOJ's outlook of global economy is too strong and any downward revision could make it hard to achieve the 2% inflation target in 2015.

In response, Governor Kuroda reiterated the current economic outlook by referring to expectation of faster growth of global economies, which would result in a renewed expansion of our exports. In fact, he insisted some positive signs of economic expansion not only limited in the US and Europe, but also in ASEAN economies that have significance to us.

Nevertheless, the markets may not be persuaded. A major point of diversification of the views between the BOJ and the market is the medium-term elasticity of our exports to the value of JPY.

The BOJ likes to argue that our exports will increase in the end thanks to the depreciation of JPY with some time lags. In contrast, there seems to be some concerns in the markets that some structural factors including the losing competitiveness of our products in the export markets and/or substantial reallocation of production to overseas markets may have been making larger impacts.

Even if the above concerns would prove to be true in the end, the BOJ lacks the effective policy measures to correct structural problem of our export or trade account deficits in general. Industrial policy should play more important role. It should be noted, however, the BOJ may be requested to conduct additional monetary stimulus if and when the inflation target becomes hard to achieve for whatever reasons.

Conclusions

As discussed above, outlook of the global economy has become crucially important again for management of monetary policy in Japan. It would be all the more true, as our domestic expenditures would suffer from negative impacts of the consumption tax hike (although it may be temporary).

This is the reason why our markets are paying strong attention to the coming G20 meeting of Finance Ministers and Central Bank Governors for any clearer and more updated clues for the course of global economy this year.

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