

Introduction

The BOJ held today the unscheduled MPM and decided several policy measures. Its policy statement explained that the decision was intended to stabilize the market sentiment and to secure credits to households and firms.

Assessment of the impacts of COVID-19

According to the attachment to the statement, the MPM identified the weakness of Japan's economy due to the decrease in exports to China, and the disruption of global supply chain. Coupled with the decrease in incoming tourists and the self-restraints of domestic events, these developments led to deterioration of business sentiment. While the overall condition of finance remained accommodative, financing of SMEs indicated some stress.

All in all, the MPM expected the weakness of economic activities for the time being. While they still maintained the constructive outlook from medium-term perspectives, they noticed significant uncertainties about the size and the persistence of the impact of COVID-19 on domestic and overseas economies.

At the press conference, several reporters asked about such uncertainties. Governor Kuroda confirmed the substantial uncertainties about the overseas economies, partly because of the lagged contagion of COVID-19 to the major economies.

Nevertheless, he expressed somewhat optimistic view about our economy, because he expected that relatively rapid recovery of Chinese economy could provide supports for our exports and for recovery of supply chain.

Policy decision

The MPM today decided three set of measures.

First, they decided to enhance supply of funds. They decided to reinforce the USD funds supply operations as part of the coordinated action by the six major central banks. Moreover, they confirmed to maintain amply supply of JPY funds through active purchase of JGBs as announced on last Friday.

Second, they introduced some measures to facilitate corporate financing. They decided to introduce a new fund supply operation to provide loans to banks against corporate debt as collateral. Twice of its outstanding will be treated as the Macro Add-on balance (with 0% interest rate applied). It will be available until September 2020.

Moreover, the MPM decided to increase the limit of CP purchase and corporate bond purchase by ¥1tn respectively. As a result, new limits have become ¥3.2tn and ¥4.2tn.

Third, they decided to enhance purchase of ETF and J-REITs. While they maintained the current paces respectively, they decide to increase the annual paces to ¥12tn and ¥180bn for the time being.

Governor Kuroda insisted several times at the press conference that these measures were targeted to 1) stabilize the market to prevent deterioration of the sentiment of household and firms and 2) to secure corporate financing to firms, especially SMEs, considerably affected by COVID-19, which are the most important tasks of the BOJ.

A number of press reporters raised the issue of the timing of

policy decision. Governor Kuroda pointed out that the rapid expansion of the impacts of COVID-19 to broader area of global economies as the fundamental reason.

Moreover, he insisted that the maintenance of smooth funding of both JPY and USD toward the end of March is extremely important for Japanese banks and firms. And last but not least, he confirmed the policy decision today was a part of coordinated action by major central banks.

Several press reporters expressed the cautious view on the intended policy effect, with reference to the drop in stock prices after the policy announcement. Governor Kuroda reconfirmed the idea that the set of policy measures were well addressed to the current issues of challenges.

Furthermore, a few press reported asked the reason to avoid enhancing the NIRP this time, and suspected that such policy action would rather deteriorate financial intermediation by the commercial banks.

Governor Kuroda strongly denied such speculation and confirmed his view that a further negative policy rate could benefit the banks as far as it could stimulate lending to customers. Moreover, he confirmed that the BOJ is ready to enhance NIRP when necessary and appropriate.

Lastly, several press reporters asked whether the BOJ maintained any rooms for enhancing stimulus when Japan's economy deteriorates further. Governor Kuroda reconfirmed somewhat optimistic view that the stress would be temporary in nature, while there remain uncertainties about the duration and the size. He also insisted that the MPM will not hesitate to take additional measures if necessary.

Discussion on policy

First three lines of comments confirmed the appropriateness of accommodative stance of monetary policy with some bias toward further easing, because of the vigilance against the risk of losing momentum of inflation. This is the tone of voice expressed by the summary text of their quarterly outlook.

Moreover, a line of comment confirmed that our economy would still be in the process of exiting from its longer-term stagnation. It insisted that the BOJ should be ready for the next round of economic recession as a risk scenario, and should further enhance collaboration with the fiscal and growth policies by the government.

Having discussed the policy decision above, members of the MPM focused the issues of side-effects.

Three lines of comments expressed the cautious views. A couple of them raised the impacts on the profits of regional financial institutions, and discussed the side-effects on the non-financial firms that their net borrowings have been shrinking. Moreover, another line of comment suspected that the maintenance of NIRP could rather lower the inflation expectation by way of undermining the growth prospects.

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