

Introduction

The MPM of the BOJ decided to maintain the current framework of accommodative policy at its regular meeting. Size of the policy program, however, automatically grew, due to the enhancement of policy program by the government.

Assessment of economy

The MPM made downward revision of its current assessment of economy. According to the statement, its mechanism of transmission and features are largely the same as other economies. It also confirmed the substantial uncertainties about the proliferation of covid-19 and its economic impacts.

Some press reporters asked if the MPM had become more cautious. Governor Kuroda explained that the economic outlook had been intended to show the medium-term perspectives, and he continued to think that the gradual recovery of our economy as a main scenario. He also pointed out that there have not been second major waves of infection in any major economies.

Several other press reporters claimed that no additional policy action might be inconsistent with the downward revision of economic assessment.

Readers may like to remember that the new operation of fund provision decided at the unscheduled MPM in May would effectively function as back-financing the “interest- and collateral-free” lending by private banks, thanks to fiscal support by the prefecture governments and credit guarantee by the credit guarantee corporations.

Size of these support measures was enhanced as a part of additional package of economic policy by the government. Accordingly, the expected size of new operation by the BOJ grew by ¥35tn, and the aggregate size of the special policy program (including purchase operations of corporate bond and CP) by the BOJ became ¥110tn.

Governor Kuroda insisted that the policy package has shown substantial effectiveness, both in terms of supporting the flow of credits to firms and households and of stabilizing the financial markets. In fact, as he explained, the annual growth rate of bank lending was over 5% in May, which was highest in last 30 years. Moreover, size of issuance of corporate bond and CP revived with diminished credit spreads.

Flip side of the coin is the sustainability of financial intermediation by private banks. In fact, the policy statement referred to the need to maintain cautiousness.

In reply to the question about the current assessment of financial stability, Governor Kuroda pointed out some signs of weakness of bank profits as evidenced by their performances of previous fiscal year (ending in March). He admitted that both lending margins and fees of mutual fund sales of domestic business decreased, and burden of loan loss provisions increased.

Nevertheless, he maintained confidence in the soundness of banking system from macro-perspectives both in terms of capital adequacy and liquidity. Moreover, Governor Kuroda welcomed the rapid increase in bank lending in recent months as encouraging sign, supported by policy programs by the government and the BOJ.

Assessment of prices

The MPM maintained cautious assessment of current inflation. In fact, Governor Kuroda explained that the rate of core inflation would be negative for the time being both due to fall in crude oil price and weakness of aggregate demand.

In reply to the question about the risk of deflation, however, Governor Kuroda reiterated the constructive view from long-term perspectives. He pointed out that the inflation rate excluding the impacts of crude oil price remained stabilized and there has been less sign of more cautiousness about pricing practices by firms.

Nevertheless, Governor Kuroda honestly admitted that it would be less plausible to start hiking interest rates until the end of FY2022 (ie. March 2023). He referred to the fact that the upper end of the distribution of inflation forecast for FY 2022 at April MPM was only +1.0%.

Several press reporters rather asked about the potential tools of monetary easing. While Governor Kuroda insisted flexibility in choosing the tools including further enhancement of current package of measures, he also referred twice to the possibility to shift downward the target yields of YCC.

As a related issue, several reporters raised the issue of steepness of yield curve. Governor Kuroda confirmed the general idea that extremely low level of long-term yield would undermine the consumer sentiment, as discussed at the comprehensive review of QQE in 2016. He also reiterated that the current policy mandate is to keep the whole range of yields low in order to support economic recovery.

Monetization of debt

Toward the end of press conference, several press reporters raised the issue of monetization of government debt by pointing out the high share of JGB holding by the BOJ.

Governor Kuroda strongly argued against them. He claimed that larger supply of the government bonds due to the expansion of fiscal stimulus could cause upward pressure on the yield, regardless of the concerns about fiscal discipline. He also explained that major central banks including the BOJ have been purchasing large amount of the bonds, solely in order to satisfy the mandate of monetary policy.

Moreover, Governor Kuroda claimed that it would be rude to discuss that the management of fiscal policy might be affected by the asset purchase by a central bank, as the fiscal policy is the matter of the diet and the government. He further explained that the monetization of government debt would be the case when a central bank automatically underwrites the debt or conducts asset purchase according to the fiscal condition of the government.

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