

Introduction

The MPM of the BOJ extended the duration of a set of measures to support flow of credit to firms by half an year. While these policy decisions were widely expected in the market, the announcement to review the monetary policy conducts attracted attention by press reporters.

Assessment of economy

According to the policy statement, the MPM maintained their constructive outlook of our economy. They confirmed recovery of exports, production and sentiment by firms. They also noticed gradual recovery of consumption expenditures, although labor and earning condition remained weak.

The MPM expected gradual improvement of economic activities in coming months, supported by accommodative financial condition and economic policy measures. Moreover, they maintained confidence in acceleration of economic recovery, as the impacts of Covid-19 diminish globally.

Their somewhat optimistic view could be due to the lag of economic indicators covering most recent development. In fact, the statement noted the vigilance against the recent developments of domestic and overseas economies, and insisted the uncertainties about the outlook above.

Regarding the prices, the MPM kept the outlook virtually unchanged. While the core CPI inflation rate would remain negative for the time being, it would turn to be positive as a series of factors including effects of lower oil prices, downward pressure from weak aggregate demand diminish.

Press reporters showed less interests in economic outlook. Nevertheless, a press reporter asked about the economic impacts of recent appreciation of JPY against USD. While Governor Kuroda confirmed the need to keep watching foreign exchange rates, he downplayed the significance of such concerns, with reference to the fact that JPY also depreciates against most of the currencies.

Policy decision

The MPM decided today the extension of durations of a couple of measures by half an year until the end of September 2021; 1) enhanced purchase of CPs and corporate bonds and 2) special operation of fund provision. Readers should note that both ETF/REIT purchase and JGB purchase remained unchanged.

Regarding the purchase of CPs and corporate bonds, the MPM enhanced the flexibility, by integrating the upper limits of outstanding amounts of these assets (¥15tn from ¥7.5tn respectively). The MPM also modified the special operation, by removing the ceiling of eligible amount (¥100bn per each FI) for the case of lending without the public credit guarantee.

Governor Kuroda explained that these measures were necessary, because funding conditions of firms has not fully recovered as December TANKAN survey indicated. Moreover, against the concern by a press reporter about its potential side-effect of supporting “Zombie” firms, Governor Kuroda argued that the intension of these measures is to support the financial intermediation, and implied that their proper function could prevent funding to such firms.

Policy review

The MPM announced the review of monetary policy. According to their policy statement, its background was the outlook of persistent downward pressures on economy and prices due to Covid-19. In light of such idea, Governor Kuroda insisted that the BOJ would like to explore effectiveness and sustainability of policy accommodation.

Regarding the prospective area of the review, the statement explained that the framework of QQE with YCC would be excluded. Moreover, Governor Kuroda emphasized that the BOJ would keep 2% inflation target as well as its “overshoot commitment” unchanged, and explained that the BOJ intended to maintain the current forward guidance of policy rates, denying the prospects of abandonment of NIRP.

Some press reporters suggested the need to review the 2% target itself, because it has proved to be hard to achieve the target in spite of the maintenance of QQE. Governor Kuroda strongly argued against such opinions, confirming that the price stability is the BOJ’s mandate. Moreover, he mentioned that common framework of 2% target could contribute to stability of major foreign exchange rates, while no major economies has achieved the target in recent years.

According to these discussions, the scope of the review would be more targeted in comparison with the recent cases of the FRB and the ECB. In fact, Governor Kuroda reiterated the idea that the QQE with YCC has functioned well against Covid-19 shock and the framework was introduced as the result of the previous review in 2016.

In reply to a number of questions by press reporters, Governor Kuroda indicated that the conducts of YCC and asset purchases would be the focused areas of the review. Nevertheless, readers should note that Governor Kuroda expressed negative views on the potential shift of target yield of 10Y JGB to shorter one.

Interestingly, Governor Kuroda also denied the concerns about side-effects of large scale purchase of ETFs especially in terms of corporate governance, and the prospects of discussion about its “exit” policy.

All in all, the MPM may like to re-enhance sustainability of monetary easing to secure the achievement of 2% target within reasonable timeframe by adjusting some parameters of JGB purchase and operation for fund provision.

The MPM could enhance clarity about the pace of JGB purchase once the negative impacts of Covid-19 contain. Regarding the fund-supplying operations, future management of interest payments on current account balance as a special measure to mitigate the side-effects of NIRP would be an issue.

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