

Introduction

March MPM of the BOJ conducted the assessment of its monetary policy and modified several parameters of the YCC and the asset purchases.

Intension of the assessment

Governor Kuroda reiterated that the effectiveness of the current framework remain intact. In fact, the background paper attached to the statement included broad-based analysis of the effects by the staff and their overall positive evaluations.

Therefore, as Governor Kuroda insisted, the intension of the assessment was to reinforce flexibility and sustainability of the current framework, in light of some additional time before achieving the inflation target.

This may be the reason why the BOJ called this practice “assessment” rather than “review”. Nevertheless, detailed analysis by the staff implied somewhat deliberate preparation for the policy decision today. It might be a part of long-term policy strategy of the BOJ

This may be the reason why press reporters expressed skepticism about their effects for achieving the inflation target. While the points of modifications (discussed below) could enhance the resiliency of accommodative policy, it would be uncertain to have the instant impacts on the policy conducts.

Management of policy rate

The MPM today modified the management of the YCC on both ends of the yield curve. Regarding its short-end, they decided to introduce the tiering scheme of interest payments on the current account balances held by banks.

Specifically, funds provided through special operations in response to Covid-19 against “proper” lending to customers are applied 0.2%, those funds against other lending are applied 0.1%, and fund provided through other existing operations are applied 0%.

Similar scheme was built in TLTRO III by the ECB. It should be noted, however, the policy statement suggested that the level of interest rates and the eligible categories of funds could be modified when necessary at respective MPMs.

Governor Kuroda confirmed that the idea was to enhance incentive of banks to extend credits to customers. In particular, he explained that it is important to avoid the market skepticism about further reduction of policy rate when necessary, due to concerns about its side-effects on financial intermediation.

Several reporters suspected that the introduction of this measure implied limitation of the NIRP. Governor Kuroda denied such interpretation and emphasized that the new scheme would rather reinforce the transmission mechanism of the NIRP by supporting the incentive of banks to maintain flow of credits.

From broader and technical viewpoint, the MPM today also decided to revise the guidance to modify the macro-balance (with 0% interest payment) in the tiering framework of current account balance at the BOJ. Apparently, it could further reduce the burden of the NIRP on the holders of monetary base.

Management of 10y yield

The MPM today confirmed that the range of 10Y JGB yield fluctuations would be from minus 0.25% to plus 0.25%, with target yield at 0% unchanged. The decision was the focus of attention in the markets, because of seemingly inconsistent statements by Governor Kuroda and Deputy Governor Amamiya previously.

In reply to several questions by reporters, Governor Kuroda strongly emphasized that this was the clarification of the current idea. Specifically, Governor Kuroda explained that the MPM decided in July 2018 to allow 10Y JGB yield to fluctuate in about double the previous range from minus 0.1% to plus 0.1%.

While he admitted that the allowance of fluctuation of the yield would contribute to sustain the market functions, he confirmed that the effects of accommodative policy should be prioritized. In fact, the analysis in the background paper implied that volatility of 10Y yield within 50bp would not be harmful to the intended policy effects.

Readers may also like to note that the policy statement stipulated that the current priority was to maintain the yield curve at a low level, while excessive decline of super-long JGB yield could have negative impacts on economic activity.

Moreover, Governor Kuroda suggested the asymmetric treatment of the range. He mentioned that the BOJ would not prevent lower than minus 0.25% yield of 10Y JGB by modifying the management of JGB purchase, for example.

In contrast, he insisted the idea that higher than plus 0.25% yield of 10Y JGB would not be appropriate in light of the current policy stance. In fact, the MPM today decide to introduce “fixed rate purchase operations of JGB for consecutive days” in case of such conditions.

Purchase of ETFs and REITs

As widely expected, the MPM decided to maintain the upper limits of ¥12trn and ¥180brn on annual paces of increase in the outstanding amounts of ETFs and REITs respectively held by the BOJ, even after the Covid-19 subsidies. In addition, the MPM decide to purchase only ETFs tracking Topix onwards.

These policy actions are consistent with the intension of the assessment above. The staff would secure more discretion of purchase operations of these assets, and could avoid excessive effective ownership of specific firms for the case of ETFs. Governor Kuroda insisted that the modification could make rooms for large-scale purchase in stressful conditions that proved to be more effective.

Author: Tetsuya Inoue
Chief Researcher
Financial Market and Innovation Research Department
Nomura Research Institute

This note is intended solely for informational purposes and should not be construed as investment advice. The author does not guarantee the accuracy or completeness of the information contained. Opinions in this note are those of the author and do not represent the views of Nomura Research Institute or Financial Technology and Market Research Department. This note is exclusively for the personal use of those receiving it directly from the author.