

Introduction

Summary of Opinions at June MPM implied that there was a growing consensus of positive prospects of our economy. In addition, many of the members expressed supports to the idea of introducing “Green operation” at the coming meeting.

Assessment of economy

As usual, the first couple of comments appeared to confirm the constructive views by the executive members.

Moreover, other five lines of comments expressed the positive prospects of our economy. Many of them referred to the advancement of the vaccination as the important driver. Some of them also expected its positive impacts on the recovery of service industries for individuals, including restaurants and hotels. All in all, the other comment claimed that faster growth rate than the potential could be possible, once Covid-19 is contained.

Meanwhile, several lines of comments expressed somewhat cautious views. One of them warned about the risk of uneven recovery of overseas economies due to diversified pace of the vaccination, and the other pointed out the downside risk of domestic economy due to uncertainty about Covid-19. Interestingly, another line of comment expressed concern about deterioration of terms of trade if prices of broad range of commodities keep rising.

In addition, a couple of comments referred to the financial aspects of our economy. On the one hand, a line of comment confirmed the importance of close monitoring of firms and banks in order to avoid the problem of debt overhang by firms. On the other hand, another line of comment welcomed that banks seemed to avoid substantial increase in credit costs.

Assessment of prices

In spite of the brighter outlook of economy, assessment of prices remained subdued.

First couple of comments again confirmed the constructive views, with reference to the ongoing economic recovery, the diminishing impacts of temporary factors, and the expected pent-up demands. In contrast, other couple of comments expressed cautious views on the back of weak spillover effects from overseas inflation and sentiment of disinflation.

All in all, as the other comment suggested, sustainable acceleration of inflation would largely depend on the attitudes of household and firms toward making expenditures using their abundant funds under accommodative financial condition.

Policy decision to extend the special program

The members decided to extend the duration of the special program to support financing against Covid-19 at June MPM.

Summary of Opinions suggested its broad agreement. Several lines of comments confirmed the importance of its maintenance for the time being, because of uncertainty about Covid-19 and remaining stress on corporate finance. Moreover, the other line of comment claimed that funding needs remained strong by firms of some specific sectors.

As the last line of comment insisted, the MPM appeared to think that making decision of the extension well in advance could have positive psychological impacts on firms and banks.

Policy decision to introduce “Green operation”

June MPM decided to discuss “Green operation” and to announce the framework at the next MPM in July. According to the statement, the measure would provide “back-finance” to banks that extend credits or make investments to firms conducting eligible projects in relation to climate change.

Summary of Opinions implied broad consensus of the significance of the BOJ’s role for sustainable finance against climate change and the appropriateness of introducing this concrete measure.

First three lines of comments confirmed the fundamental idea that climate change has close relation with the mission of central bank, as it could have significant impacts on economy, prices and finance.

While one of them reserved cautiousness about the intervention of micro-level resource allocations by monetary policy, the other claimed that providing financial supports to initiatives by firms would be consistent with the mandates of central bank.

Regarding its potential scheme, opinions appeared to be somewhat diversified. On the one hand, a line of comment expressed optimistic view about its side-effects. Specifically, it claimed the measure to “back finance” the fund provisions by banks as their own initiatives could avoid affecting resource allocations directly.

Readers may also like to remember that, for long years, the BOJ has already conducted the similar measure of back-financing the banks providing funds for eligible set of projects by firms (under the name of “Fund-Provisioning Measures to Support Strengthening the Foundation for Economic Growth”). In fact, the statement suggested the new measure would succeed this existing measure.

On the other hand, a couple of comments insisted the importance of market neutrality as the guiding principle for designing the scheme. Moreover, one of them suggested that the measure should maintain flexibility in light of ongoing evolution of sustainable finance including the standardization of its taxonomy.

While one line of comment claimed that the MPM should keep discussing the implications of private sector initiatives or the potential impacts of climate change on economy and prices, the last line of comment (seemingly by the executive member) suggested the prospective time frame toward introduction of the measure.

According to this comment, the MPM would announce the framework at July MPM, taking into account of the results of dialogue with banks. The comment also explained the plan to launch the measure likely before the end of this year.

Author: Tetsuya Inoue
Chief Researcher
Financial Markets and Digital Business 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.