

Introduction

The MPM of the BOJ maintained its accommodative monetary policy and reiterated the cautiously optimistic outlook of economy. The focus of attention at the press conference, however, was the prospective framework of “green operation” and BOJ’s strategy on climate change.

Outlook of economy and prices

The MPM confirmed their recovery scenario as Covid-19 is contained and overseas economies gain momentum. They modestly downgraded its outlook for FY2021 on back of ongoing wave of infection, and slightly upgraded the outlook for FY2022, implying the recovery would be slightly delayed.

Their new outlook of real GDP growth rates from FY2021 to FY23 is +3.8%→+2.7%→+1.3%. In comparison, the previous one (as of April) was +4.0%→+2.4%→+1.3%. Summary text suggested that advancement of vaccination may have contributed to enhanced confidence in the recovery.

The MPM maintained their cautious scenario of prices. While they upgraded its outlook for FY2021 due to increases in commodity prices, their outlook for FY 2022 and FY23 remained subdued. In fact, their new outlook of core CPI inflation rate from FY2021 to FY23 is +0.6%→+0.9%→+1.0%. In April, it was +0.1%→+0.8%→+1.0%.

Summary text also implies that the MPM was concerned about deterioration of terms of trade. This line of thought implicitly suggested that the firms would have difficulties in transferring the costs to consumers due to weakness in demand. The MPM expected the pent-up demand once Covid-19 is contained, although it might not be strong.

Outline of “green operation”

As expected, the MPM announced the outline of the new operation for fund provision in the policy statement, and expected to launch it within CY2021.

Financial institutions (FIs) would be required to conduct proper disclosures in order to become eligible counterparties. The BOJ would provide funds as “back-finances” to eligible FIs for extending credits through “green loans” or “green bonds” and “sustainability link loans” or “sustainability link bonds”, as well as for the purposes of “transition” by their customers.

While the maturity of new operation would be 1 year, eligible FIs could refinance it until the BOJ would terminate the scheme in FY2030. As the incentives, the yield of the operation would be 0%, and the BOJ would apply 0% yield to current account balances by the FIs twice as much as the outstanding amount of the operations.

Governor Kuroda explained that the BOJ would consult with FIs and other relevant parties regarding the details of its scheme, in order to maximize the effects.

Several reporters asked about the potential size of fund provision. Notably, they expressed skepticism of momentum of regional banks and their customers for making efforts against climate change.

Governor Kuroda explained that major banks had already announced the large scale plans of extending credits to their customers as sustainable finance. He also pointed out that

growing number of regional banks showed interests in it. Moreover, he expected that launching the measure would provide opportunities for customers to think seriously about their need to invest in technology and human resources.

Other reports raised the issues of appropriate conditions. Governor Kuroda insisted that the BOJ would require proper disclosures by the FIs, although it would consult with overseas central banks and other parties in designing the conditions. Nevertheless, he claimed that it would be too late to wait for some international standards, as it would seem to take some time.

Another interesting question was whether an overseas projects could be eligible. While Governor Kuroda suggested that domestic projects would only be eligible, he admitted that some overseas projects could contribute to prevent climate change in Japan.

BOJ’s strategy on climate change

The BOJ also released today the overall strategy on climate change.

In addition to the introduction of “green operation” as monetary policy, the BOJ would promote proper functioning of financial intermediation for sustainable finance. With this respect, the BOJ would request FIs to enhance disclosures, and prepare risk analysis of large FIs according to common scenario in collaboration with the FSA.

Moreover, the BOJ would contribute to international initiatives in this field, and enhance investments in green bonds either within the framework of the Asian Bond Fund by the EMEAP or as management of its foreign assets.

In reply to a question by a reporter, Governor Kuroda insisted that climate change would have substantial impacts on stability of prices and financial system, which are the two major mandates of the major central banks. Moreover, they have effective tools to mitigate the risks and to promote sustainable finance. He explained these are the reason for number of central banks are launching the projects.

Another reporter asked the reason for prioritizing Asia in promoting green bonds. Governor Kuroda explained that economies in Asia emit large amount of CO2 and suffer from growing cases of natural disasters. Therefore, they need to make investments for preventing climate change, for which regional central banks could provide supports.

Interestingly, Governor Kuroda expressed skeptic views about “green QE” as domestic policy tool. He explained that it would mean more direct intervention to resource allocation than “green operation”, as FIs would play the primary role of fund provision to their customers in the latter case.

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