

Introduction

MPM of the BOJ decided to extend the measures to support financing in response to Covid-19 by six months until September 2022, with a view to maintaining more targeted supports for SMEs.

Assessment of economy

According to the policy statement, MPM appeared to confirm its constructive views of the economy indicated at the previous round of quarterly review of the outlook in October.

Governor Kuroda highlighted the underlying strength of corporate activities despite the supply constraints. In contrast, he admitted the weak developments of employment and earnings of households, while he pointed out the signs of recovery of consumption.

At the press conference, a few reporters expressed concerns about potential negative effects of overall depreciation of JPY.

Governor Kuroda reiterated the view that its benefits would be more significant as the depreciation of JPY would inflate the value of overseas assets and revenues for firms. Moreover, he expressed the understanding that large part of current negative effects of terms of trade would be caused by surge in energy prices.

Assessment of prices

MPM's medium-term constructive view of the prices appeared to be consistent with the outlook released in October. Policy statement reiterated the near-term positive scenario due to rising energy prices, and the medium-term constructive scenario in light of narrowing GDP gap and improving longer-term expectation of inflation.

Interestingly, a couple of reporters asked about the upside risk of inflation in Japan.

Governor Kuroda admitted that near-term uncertainties have increased because of some temporary effects in both directions including substantial reduction in mobile phone service fee, policy subsidization of travel and surge in energy prices. Nevertheless, he confirmed the view that it would be less probable to discuss policy normalization in the near term as the inflation target is still distant.

Furthermore, Governor Kuroda explained that every central bank in a major economy would pursue a virtuous circle between economic expansion and rising prices. He also expressed support for the policy initiative by the government to increase wages, and the idea of its 3% rise that would be consistent with 2% inflation and 1% improvement of productivity in the long-run.

Implications of actions by overseas central banks

It was also interesting to note that several press reporters raised this issue. While three major central banks made significant policy decisions just before the MPM, focus of attention was the FRB's policy action. Specifically, reporters asked about its potential impacts on our economy and policy decisions by the BOJ.

Governor Kuroda reiterated the fundamental principle that every central bank should pursue its own policy goal under respective economic conditions. He also highlighted the

considerable differences of inflation developments between Japan and the US, confirming the BOJ's patient policy strategy to achieve 2% inflation target.

Moreover, he welcomed the policy action by the FRB because it would effectively imply the strength of economic expansion in the US, and would maintain favorable economic conditions with contained inflation.

Policy decision

MPM decided to extend the measures to support financing in response to Covid-19 in a selective manner by six months until September 2022.

Readers would like to know that the measures could effectively be divided into two parts: those for SMEs and those for large firms. MPM's policy decision today was intended to extend the term for the earlier, but to terminate the term for the latter at the end of March 2022.

Regarding the measures for SMEs, MPM decided to extend the implementation period for fund provisions against "proprietary" loans by six months with their terms and conditions unchanged. It also extended the implementation period for fund provisions against government-supported loans with less favorable terms and conditions (in terms of interest payment by the BOJ and treatment of tiering system of current account).

In contrast, regarding the measures for large firms, MPM decided to terminate fund provisions against private debt pledged as collateral at the end of March 2022 as previously scheduled. Readers may like to note that such collateral include loan debentures for large firms.

MPM also decided to terminate the contingent enhancement of purchase operations of CPs and corporate bonds at the end of March 2022. Their limit of outstanding amount will be revised down to ¥2 trillion for CPs and ¥3 trillion for corporate bonds respectively, from temporally increased limit of ¥20 trillion as their aggregate.

Governor Kuroda explained that financing conditions for large firms have already returned to normality and their funding needs have also stabilized. He mentioned that overall financing conditions for SMEs may have also improved. Nevertheless, he maintained cautious views of financing conditions for SME of the industries substantially affected by Covid-19 with references to the results of TANKAN survey.

In reply to the question by a reporter, Governor Kuroda admitted the remaining uncertainties about Covid-19 and confirmed the readiness of the BOJ to re-launch a contingent funding measure if necessary.

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