

Introduction

The MPM of the BOJ decided a set of additional policy measures to enhance monetary easing. Moreover, Governor Kuroda insisted their readiness to conduct additional stimulus, as the outlook of our economy is considerably uncertain.

New outlook

The MPM conducted the regular quarterly review of the outlook of economy and prices. In terms of the economic activities, the MPM expected that it would remain weak for the time being due to both disruption of the global economies and suspension of the domestic expenditures.

From longer-term perspectives, however, they expected that the impact of Covid-19 would diminish in overseas economies in 2H of 2020. Pent-up demand and recoveries of production would stimulate our economy coupled with the effects of policy measures by our government.

All in all, ranges of forecast of real GDP growth rates by the majority of MPM from FY20 to FY22 are -5.0~-3.0%, +2.8~+3.9% and +0.8~+1.6%. And their forecasts are evenly distributed within these ranges for both FY20 and FY21.

Nevertheless, the MPM confirmed that the risk is tilted downward. In addition to the risk of persistence of Covid-19 and their negative impacts, the summary text highlighted the risks of downward shift of economic growth expectation and of deterioration of functions of financial intermediation.

In reply to the questions by press reporters, Governor Kuroda reiterated that the level of uncertainties is extremely high, while the MPM's main scenario is gradual recovery.

In terms of the outlook of prices, the MPM also expected the gradual acceleration of inflation rates after the considerable deceleration due to slowdown of aggregate demand and fall in crude oil prices. Range of forecast of core CPI inflation rates by the majority of MPM from FY20 to FY22 are -0.7~-0.3%, 0.0~+0.7% and +0.4~+1.0%. Their forecasts are evenly distributed within these ranges for both FY20 and FY21.

A few press reporters confirmed that the inflation target would not be achieved in FY22 (last fiscal year of the current term of Governor), and asked its implication. Governor Kuroda explained that the MPM expects the inflation would return to its gradual expansion path as the impacts of Covid-19 diminishes, and reconfirmed that the BOJ's commitment to achieve price stability remains unchanged.

Policy decision

The first set of policy measures is to increase the size of purchase of corporate bonds and CP. In addition to the existing outstanding amounts of ¥2tn and ¥3tn respectively, contingent additional ceilings are increased from ¥1tn to ¥7.5tn respectively. As a result, in stock terms, the BOJ could hold corporate bonds and CP by ¥20tn respectively.

Moreover, the BOJ 1) increased the issuer's limit to ¥500bn for CP and ¥300bn for corporate bonds (both from ¥100bn previously), 2) increased the share limit of holdings to 50% for CP and 30% for corporate bonds (both from 25% previously), and 3) broaden the eligible remaining maturity from 1 to 5years (from 1 to 3years previously).

Governor Kuroda explained the needs for these measures by referring to the fact that even the large corporations tap the credit lines at the banks. Furthermore, he insisted that the size of measures is big enough in comparison with the size of these domestic capital markets.

The second set of measures is to enhance support of bank lending. The MPM decided to modify the special operations to facilitate corporate financing regarding Covid-19. It was introduced in March and have already been executed.

The points of reinforcement are 1) expansion of eligible collateral to household debt (as a result, the collateral pool increased from ¥8tn to ¥23tn), 2) expansion of eligible counterparty to financial cooperatives, and 3) apply +0.1% interest rate to its corresponding balance of current account at the BOJ.

Furthermore, Governor Kuroda instructed the staff to consider a new measure to provide funds to banks, taking into account of the government program to support financing of SMEs. The outline is similar to the existing operation above in terms of loan rate and treatment of the tiering system of current account at the BOJ.

In reply to the questions by several press reporters, Governor Kuroda expressed the very cautious views of financing conditions of SMEs, while he confirmed the confidence in the resiliency of our banking system both in terms of capital adequacy and liquidity conditions.

The third set of measures is to conduct further active purchase of JGBs and T-Bills. As widely speculated in our market, the MPM dropped the official guidance amount of ¥80tn. The policy statement pointed out the two major issues as the backgrounds: remaining low liquidity in the market and increase in the amount of issuance in response to the emergency economic measures.

This set of measures attracted considerable attention by press reporters. Some of them asked if it intends "unlimited" purchase. Governor Kuroda confirmed the idea of the YCC, and explained that the BOJ would purchase JGBs sufficient enough to keep the yield curve low.

A number of press reporters raised the issue of monetizing the government debt. Governor Kuroda strongly denied such speculation and confirmed that JGBs purchase to maintain low yield is the monetary policy strategy under the YCC.

Moreover, he claimed that closer collaboration with the government is the common practice among major central banks during Covid-19 crisis, while he suggested that the maintenance of fiscal discipline is the mandate of the government and the parliament.

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

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