

Introduction

The BOJ held the unscheduled MPM on March 16th. While all the members expressed concerns about the economic impact of Covid-19, the consensus of the MPM was to prioritize the stabilization of market sentiment and the support of financial intermediation to firms.

Assessment of the economy and prices

Members of the MPM pointed out three major issues of concerns about the economy.

First, momentum of domestic economic activities had already decelerated in 4Q last year. Although the MPM members did not discuss its reasons this time, the markets suspected several factors including a series of natural disasters, unusual warm weather, leads and lags of reaction to consumption tax hike and deceleration of external demand. In any case, Covid-19 would be an additional blow to our economy, as a line of comment by a MPM member suggested.

Second, we would observe an external shock to our economy due to the contagion of Covid-19 to the economies around the world in a lagged and gradual manner. In fact, three lines of comments, probably by those in a dovish school of thoughts, expressed cautious views against a scenario of temporary drop of our economic activities.

Third, there is some concerns about persistent cautiousness about expenditures by firms. Readers would already be aware that cash hoarding had been one of the characteristics of Japanese firms. A line of comment by a MPM member suspected that such an idea could be reinforced further, preventing the early recovery of economic activities.

Regarding the prices, a line of comment raised the negative impacts of fall in crude oil prices. It is interesting to note, however, longer-term view was mixed. On the one hand, a couple of comments maintained the constructive view of returning to the path of gradual acceleration of inflation. On the other hand, other couple of comments expressed warning about the risk of losing momentum of inflation. Readers may like to note that this is the condition of the forward guidance

Policy decision

Members of the MPM pointed out two important issues that the BOJ should address in an urgent manner.

First is the stabilization of financial markets. While it was shared by the major central banks under the G7 communique, unique feature of the BOJ's policy is the flexibility of its policy framework. Ironically, the MPM could adjust the strength of monetary accommodation by changing a number of parameters of existing policy measures, as several lines of comments suggested. Those include purchases of JGBs, ETFs, corporate bonds, commercial papers and J-REITs.

Second is the support of financial intermediation to firms. This idea again is shared among the major central banks, while it is interesting to note that there was no reference to the role of central bank of fund provision to households. In fact, a line of comment claimed that this important task should appropriately be conducted by the government, and the BOJ's role would be to maintain market liquidity.

Moreover, a couple of comment emphasized the significance of close cooperation with the government in supporting the economic activities.

In line with the lines of discussion, the MPM decided to enhance the paces of purchases of corporate bonds, commercial papers, ETFs and J-REITs. In addition, the BOJ had enhanced the flexibility of JGB purchase in terms of timing and scale. Moreover, the MPM decided to launch a new operation of fund provision to sustain bank lending.

While the market showed the negative instant reaction to the policy decision (probably in terms of its "scale"), it seems that the idea of the policy decision has been properly shared by the market. The set of measures addressed the areas of concerns in our economic/financial system. It should be noted that the end of March is the pivotal time for both banks and firms in Japan, as it is the end of their fiscal year.

Readers may also like to note that enhancing the purchases of broad range of credit instruments had the taste of "Market Maker of Last Resort (MMLR)" that became a new mandate of central banks since the GFC. Experts of the markets noted some under-functions of some domestic credit markets, although their magnitudes have been moderate in comparison with overseas markets.

Introducing a special operation to support bank lending is another common feature of policy measures by the major central banks. The ECB and the BOE launched them respectively. This kind of measure is important for the case of bank-centric financial system.

With this regard, it was very interesting that several central banks actually mobilized the macro-prudential policy instruments. Readers may like to note that JFSA (in charge of bank supervision in Japan) also conducted the similar policy actions.

Nevertheless, the effectiveness of these policy measures would crucially depend on the robustness of banking system. While this is not the imminent issue of bank supervision in Japan, the policy authorities would keep close monitoring of financial institutions domiciled in the affected areas.

Future course of monetary policy

Having addressed the prioritized issues, the important role of the BOJ ahead is to promote the economic activities when the contagion of Covid-19 decelerates and the constraint of expenditure diminishes.

The BOJ would identify the impacts on domestic economy by a series of incoming data including April TANKAN survey, and would take into account of the ongoing discussion of economic stimulus measures at the parliament.

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