

Introduction

The MPM of the BOJ extended the duration of the special financing program in response to Covid-19 by six months. It also made a notable announcement to show the outline of new measure of fund provision to support “green” finance by banks at the next MPM in July.

Assessment of economy

Governor Kuroda confirmed the constructive view of our economy. He explained that exports and industrial production continued to expand steadily, contributing to improvements of profits and sentiment. Business investment also recovered in spite of the weakness in some sectors.

In contrast, Governor Kuroda admitted that household consumption remained stagnant with remaining downward pressures on services, and he explained that employment and earnings conditions also lagged in recovery.

While he judged that the level of overall economic activities would continue to be lower than prior to the pandemic, he expected that our economy would gradually recover on the back of growing external demand, accommodative monetary policy and economic support measures.

In reply to a question, Governor Kuroda explained that he had more positive view of the economy than in April. While there remained measures to contain Covid-19 in some regions, he pointed out that both the pace of expansion of external demand and that of vaccination were faster than previously forecasted.

Assessment of prices

Governor Kuroda affirmed the cautious views of prices, in spite of acceleration in inflation rates overseas. He expected that core inflation rate would accelerate only gradually, due to higher energy prices and diminishing impacts of earlier reduction in the cellphone service prices.

A couple of press reporters asked about the reasons for apparent contrast of inflation dynamics between Japan and the US. Governor Kuroda expressed the view that large part of increase in inflation rates in overseas major economies was due to the base effect of fall in prices in previous year and the supply constraint due to lagged recovery of supply in comparison with pent-up demand.

All in all, he was skeptic about the idea of higher rate of inflation for extended period of time, and expected that the inflation rates in the US and other major economies would converge to 2% from medium-term perspectives.

While he expressed hope for gradual acceleration of inflation rate in Japan, as expansion of service activities on the back of vaccination, he admitted that the momentum of inflation would depend more on the prospective strength of demand. Accordingly, he confirmed the view that it would take more time to achieve the inflation target,

Other press reporter expressed concern about the risk of squeezing margins for domestic firms as import prices rise and domestic CPI stagnates. Governor Kuroda shared such concern to some extent, while he claimed that rising commodity prices would rather be positive signs if they are caused by the global economic recovery.

Policy decision

As widely expected, the MPM decided to extend the duration of the special operations of fund provision against Covid-19 until March 2022. Governor Kuroda insisted the significance of the decision with reference to the risk of continuous stress on corporate finance.

In reply to a question, he claimed that it was not a precautionary action, and the extension of support measure would not only relieve the pressures of funding by firms but also contribute to smooth recovery of business activities.

From a different viewpoint, other press reporter expressed concern about the risk that the BOJ’s measure of fund provision would rather aggravate the excess borrowing by SMEs. Interestingly, he referred to the recent government measures for enhancing resolution of defaulted borrowers.

On the one hand, he understood such line of argument, and referred to the recent expirations of similar policy measures in overseas major economies. But on the other hand, he reiterated the view that the pressures for funding by firms in some industries remained intact.

Furthermore, he expressed the hope that the BOJ’s measure would provide the opportunity for banks to conduct constructive dialogue with their customers for enhancing sustainability of their business.

Green operation

According to the policy statement, the MPM will show the outline of special operation for fund provision at the time of July meeting. Governor Kuroda also explained that the BOJ will release the overall policy strategy against climate change some time in the next month.

In reply to questions, Governor Kuroda confirmed that the policy conducts against climate change should primarily be the mandate of government. Nevertheless, maintenance of stability of economy and financial system under climate change would be a meaningful job of a central bank.

In addition, he explained that the staff at the BOJ had discussed the appropriate policy role for lengthy period of time, taking into consideration of opinions exchanged with overseas central banks at some international fora.

Regarding the options of instruments, Governor Kuroda emphasized the significance of supporting banks to extend credits to firms for promoting investments to mitigate the impacts of climate change, in light of bank-centric feature of our financial system. While he confirmed green bonds were already eligible for the asset purchase, he suggested that standardization of the bonds would be desirable.

Author: Tetsuya Inoue
Chief Researcher
Financial Markets and Digital Business Research Department
Nomura Research Institute

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