

Market Commentary

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Japan expanded its monetary policy again

- **Following other major central banks, the Bank of Japan (BoJ) decided today to ease its monetary policy again. The main measures are to:**
 - **scrap the limits on JGB purchases,**
 - **increase CP and corporate holding limits to ¥20 tr from ¥7 tr previously,**
 - **strengthen the Special Funds-Supplying Operations by expanding the collateral to ¥23 tr from ¥8 tr previously.**
- **The BoJ's yield curve control policy remains unchanged.**
- **Moreover, the BoJ revised down its growth and inflation projections. GDP growth is now seen in a range between -5.0% and -3.0% for the fiscal year 2020 (FY2020), which we consider reasonable. Regarding inflation, the BoJ has given up to reach its 2% inflation target even by FY2022.**
- **With scrapping the limits on JGB purchases, the BoJ is de facto moving further towards helicopter money. This could prove important for financing possible upcoming more fiscal support measures. However, for the time being, buying will be guided by the bank's yield curve control policy as the BoJ cannot control volume and price at the same time.**
- **Regarding the corporate support, the BoJ took the right step to help avoiding a wave of bankruptcies, although CPs and corporate bonds are less important in financial intermediation in Japan than compared e.g. with the US.**

Today, the BoJ eased its monetary policy again with a special focus on corporate finance. It also published its economic outlook report including estimates on growth and inflation until FY2022.

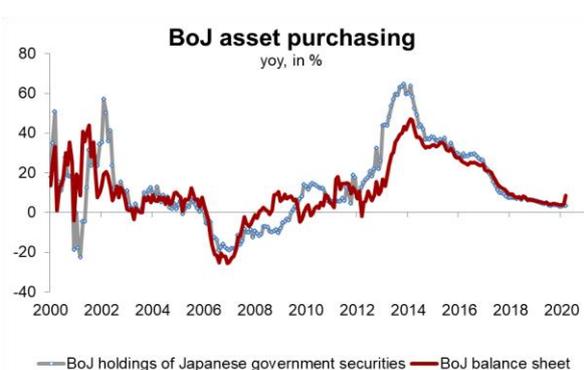
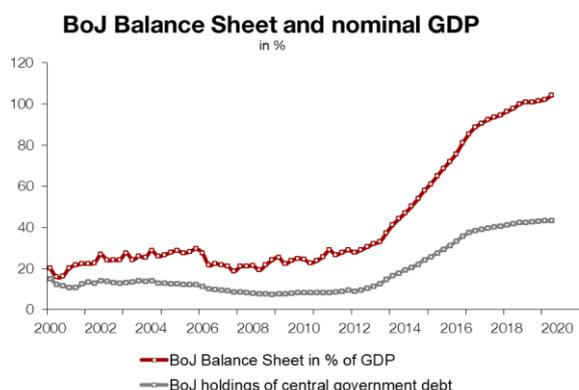
The BoJ announced the following measures:

1. Firstly, the BoJ significantly increases the maximum amount of purchases of CP and corporate bonds to an upper limit of ¥20 tr in total (previously ¥7 tr). To achieve this goal, it also revised up the maximum amounts, shares and maturities it is willing to buy from a single issuer:
 - a. buying CP and corporate bonds up to ¥500 bn resp ¥300 bn (from ¥100 bn before),
 - b. with the maximum share of the BoJ holdings of a single issuer's CP and corporate bonds of 50% resp 30% (up from 25%),
 - c. and raising the possible maximum maturity up to 5 years (previously 3 years).
2. Secondly, the BoJ expanded the **“Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19)”** that was introduced in March. It explicitly mentioned the target as to **“firmly supporting financial institutions to further fulfill the functioning of financial intermediation for a wide range of private sectors, mainly in terms of firms”**. This includes the following measures:
 - a. The range of eligible collateral was widened to private debt in general which also includes household debt.
 - b. The number of eligible counterparties was increased.
 - c. A positive interest rate of 0.1 % will be applied to the outstanding balances of current accounts that correspond to the loans provided through this operation.
3. **Thirdly, the BoJ scraps the limits on JGB purchases:** The policy statement removed the phrase that the BoJ will increase JGB holdings by ¥80 tr with the phrase **“without setting an upper limit”**. The BoJ refers to market conditions in which the liquidity in the bond market is low. Thus, it expects the

government's emergency fiscal package to have an impact on the market. To sterilize any potential impact, it confirms its yield curve control policy with the short-term policy interest rate of -0.1% and the 10-year JGB yields around zero percent.

Today's measures are welcome. Like other central banks did recently, they target the need to bridge and facilitate corporate liquidity gaps in order to prevent as far as possible a wave of bankruptcies. However, CPs and corporate bonds are less important in financial intermediation in Japan than compared e.g. with the US. Accordingly, facilitating again bank lending to firms complements the measures. In addition, Governor Kuroda already instructed the BoJ's departments to develop new funds-supplying operations regarding government-supported lending to small firms with reduced interest rates.

While these measures to support corporate finance are the right thing to do, we consider the potential impact of the BoJ – given its zero yield policy for years – as limited. In fact, economic support has shifted to fiscal policy for quite some time now. Recently, the government announced a new emergency package of ¥117 tr (20% of GDP), of which ¥48.4 tr is fiscal spending. Typically, there should be some caution regarding the headline figures of these programs as they include previous announced measures. However, it will offer firms significant near-term funding support. The BoJ wants to prevent any impact on long-term yields by formally scrapping its yearly bond buying limit of upper limit ¥80 tr. De facto, the bond buying was much lower of late (see graph).



Finally, the BoJ updated its outlook on activity and prices. Board members now expect GDP growth in a range between -5.0% to -3.0% for FY2020, followed by a recovery in the range of 2.8% to 3.9%. This looks similar to our own forecasts of -5% this year and 3% in 2021. Most remarkably, however, is the fact the BoJ has given up on reaching its 2% inflation target even by FY2022. The latest prediction only sees a rise to 0.4% to 1.0%. Nevertheless, in its policy statement, the BoJ kept the 2% target, but obviously even the central bank considers it more out of reach than ever.

(Appendix)
Forecasts of the Majority of the Policy Board Members

	Real GDP	CPI (all items less fresh food)	(Reference) Excluding the effects of the consumption tax hike and policies concerning the provision of free education
Fiscal 2019	-0.4 to -0.1	+0.6	+0.4
Forecasts made in January 2020	+0.8 to +0.9	+0.6 to +0.7	+0.4 to +0.5
Fiscal 2020	-5.0 to -3.0	-0.7 to -0.3	-0.8 to -0.4
Forecasts made in January 2020	+0.8 to +1.1	+1.0 to +1.1	+0.9 to +1.0
Fiscal 2021	+2.8 to +3.9	0.0 to +0.7	
Forecasts made in January 2020	+1.0 to +1.3	+1.2 to +1.6	
Fiscal 2022	+0.8 to +1.6	+0.4 to +1.0	

Source: Bank of Japan, Outlook for Economic Activity and Prices (April 2020), April 27, 2020

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