

Market Commentary - BoJ introduced a new fund supplying measure

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Macro & Market Research, Generali Insurance Asset Management S.p.A. SGR

- **The Bank of Japan (BoJ) held an unscheduled policy meeting today.**
- **It introduced a new scheme which offers loans against pooled collateral to financial institutions at an interest rate of 0% with maturity of up to one year.**
- **The measure is geared towards supporting financing for small and medium-sized enterprises (SMEs).**
- **The BoJ also decided to extend its existing measures until the end of March 2021.**
- **While today's measures are welcome support, we do not expect the BoJ to touch its current rates within its yield curve control approach.**

Back at its monetary policy meeting in April, the BoJ board already asked staff to develop a new fund-provisioning measure geared towards further supporting the financial needs of mainly small and medium-sized enterprises (SMEs) within the COVID-19 crisis. Today, the BoJ held an unscheduled meeting to implement the proposal as soon as possible.

The BoJ introduced a new fund-supplying measure for financial institutions against pooled collateral for up to 1 year at a rate of 0%. The funds will be provided to financial counterparties to the extent, they themselves issue eligible loans. The BoJ specified these eligible loans as (1) loans based on the government's programs, i.e. interest-free and unsecured loans based on the government's emergency measures and loans guaranteed by the credit guarantee corporations in response to COVID-19. (2) Loans to SMEs which are equivalent to (1) in terms of loan conditions. The funds made available by today's measure are expected to reach about ¥30 tr.

Moreover, the measure comes with an additional incentive. Corresponding to the outstanding amount of loans through this measure, twice as much of this amount will be included in the Macro Add-on Balance (part of a three-tiered structure the BoJ applies to bank's current accounts at the BoJ), and this balance is rewarded with a positive interest rate of 0.1%.

The BoJ stressed that today's measure is the third initiative to support firms during the crisis: Previously it already

- (1) announced to purchase corporate paper and corporate bonds at a maximum amount of about ¥ 20 tr,
- (2) and announced a Special Funds-Supplying Operations (fund-provisioning against private debt) at about ¥25 tr.

The Bank will refer to these three measures as the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19). The BoJ Board also decided to extend the duration of these measures by 6 months until March 2021. In sum, the measures amount to ¥75 tr, about 13.5% of GDP.

Today's action comes against the background of Japan's economy being already in recession. After the sales tax hike on Oct. 1, 2019 and an implied drop in GDP. Q1 brought again a negative growth rate of 3.4% qoq ann. In Q2, GDP is expected to slump significantly as the shutdown started late. April real exports

already dived by 13.9% mom. Moreover, the nationwide core CPI receded by 0.2% yoy, the first negative rate since December 2016. Nevertheless, we do not expect the BoJ to change its policy rates (within the yield curve control), given the risks for banks' profitability. By scrapping the (formal) limits on its JGB purchases at the last board meeting, the BoJ signaled that policy stimulus rather has to come from the fiscal side while the BoJ is supporting a smooth government financing.

Author:

Christoph Siepmann

Christoph.siepmann@generali-invest.com

www.generali-investments.com

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