Bank of Japan Expands Monetary Stimulus

- Increasingly accommodative monetary policy stance reflects rising concerns regarding the economic fallout from the COVID-19 pandemic.
- Monetary authorities maintain a dovish bias, promising further easing measures if needed.

The Bank of Japan (BoJ) has become more concerned about the Japanese economy’s outlook as the country continues its fight against the COVID-19 outbreak. Assessing that conditions for corporate financing have become less accommodative in recent weeks due to the virus, Japanese monetary authorities opted to enhance monetary easing further following the April 27 policy meeting:

1) The BoJ will increase its purchases of commercial paper (CP) and corporate bonds. The maximum amounts of additional purchases will be raised from JPY 1 trillion to JPY 7.5 trillion for each asset; the upper limit of the amount outstanding will be about JPY 20 trillion in total. Additionally, the maximum amounts outstanding of a single issuer’s CP and corporate bonds will be raised and the maximum remaining maturity of corporate bonds to be purchased will be extended.

2) The BoJ will strengthen “the Special Funds-Supplying Operations to Facilitate Corporate Financing in Response to the Novel Coronavirus”, which was introduced in March. The central bank will expand the range of eligible collateral to private debt in general, increase the number of eligible counterparties, and apply a positive interest rate of 0.1% to financial institutions’ outstanding current account balances at the BoJ that correspond to the amounts outstanding of loans provided through this operation.

3) The BoJ will further active purchases of Japanese government bonds (JGBs) and treasury discount bills. The central bank is virtually shifting to unlimited quantitative easing. An earlier reference to conducting “JGB purchases at annual pace of JPY80 trillion” was omitted; moreover, responding to the fact that the government’s bond issuance will increase on the back of announced fiscal stimulus measures, the BoJ will maintain higher purchases “for the time being” to keep bond yields low.

In addition to the additional monetary easing steps, the BoJ decided to maintain the policy rate at -.1% and continue its policy of "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control", which aims to keep the 10-year JGB yield at around 0%. The BoJ maintains a dovish bias, highlighting that it stands ready to ease monetary policy further if needed and it expects short- and long-term policy interest rates to remain either at their present levels, or lower.

Japan’s economic outlook is challenging. We expect real GDP to decline by 3.8% in 2020 on the back of contracting domestic demand and recessionary conditions globally that will adversely impact Japan’s export sector. Meanwhile, Japan will continue to struggle with low inflation over the foreseeable future as the recession will keep wage gains and demand-driven inflationary pressures at bay. CPI excl. fresh food—the BoJ’s preferred inflation measure—rose by 0.4% y/y in March, far from the central bank’s 2% inflation target. We expect inflation to hover near zero for most of 2020; periods of declining prices are likely.
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