

## BOJ: Extend Special Financing Program By Six Months For the Second Time

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### The Policy of the Special Financing Program In Response To Covid-19

The Bank of Japan (BOJ) decided to **extend fund-provisioning against loans** in response to Covid-19 **by six months to September 2022**, mainly to support small and medium-sized firms. The Special Program to Support Financing was initially scheduled to end in September 2021 and was extended to March 2022 in June.

For the private debt fund-provisioning, which mainly consists of debt issued by large firms and housing loans, the BOJ decided to end the program in March 2022 as scheduled.

In addition, as the financing conditions for large firms have been improved, the BOJ will complete its additional purchases of CP (commercial paper) and corporate bonds at the end of March 2022 as planned. The current purchases have an upper limit of 20 trillion yen in total.

From April 2022 onward, these assets' purchases will gradually scale back to the pre-pandemic levels, with about 2 trillion yen for CP and 3 trillion yen for corporate bonds.

### Other Monetary Policy Details

The Bank stated to continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," **holding its short-term interest rates unchanged at minus 0.1%**. It will **continue expanding the monetary base** until the 2% target inflation has been achieved and stably maintained above the target.

It will continue to purchase a necessary amount of 10-year Japanese Government Bond (JGB) without setting an upper limit to keep its yields around zero.

The BOJ left the upper limit of its ETF purchases at about 12 trillion yen and the cap for its J-REITs purchases at about 180 billion yen annually.

### Perspectives and Risks

Japan's economy has picked up on the whole though the impacts of Covid-19 remained at home and abroad. The BOJ expects Japan's economy to continue growing at a pace, with inflation expectations picking up, buoyed by rising energy prices. Household consumption has improved, while the employment and wages remained weak.

In stark contrast with peer central banks, Governor Kuroda stated that the BOJ is not moving toward monetary policy normalization. The BOJ will monitor the impact of Covid-19, with concerns remaining over the Omicron variant, and will take additional easing measures if necessary.

## DE View

With a projection that inflation to rise gradually, the BOJ is expected to stick with the current policies and maintain an accommodative financial condition to support the economic Recovery.

For the time being, Japan's inflation remains relatively low as companies are not passing on costs in fear of losing customers. However, signs have started to emerge of inflation risk as prices of daily necessities have been rising. There could be an upside risk of inflation in 2022 if Japan's economy keeps fast growth.