

## Bank of Japan to “Rethink” over their monetary policy

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- Basic policy framework and price stability target of 2% will be maintained, however, timeline to achieve price stability target will possibly be removed.
- Various opinions are heard on measures for early achievement. SMAM’s view is extending negative interest rate to -0.2% from the current level of -0.1%.

### BOJ will “Rethink” their monetary policy by comprehensive review. Their conclusion will be announced at Monetary Policy Meeting in September.

BOJ is currently conducting comprehensive review of “Quantitative and Qualitative Monetary Easing” and “Quantitative and Qualitative Monetary Easing with a Negative Interest Rate” to “Rethink” over policy measures for early achievement of price stability target. Its conclusion will be announced at Monetary Policy Meeting scheduled on 20<sup>th</sup> and 21<sup>st</sup> of September.

We have already explained about BOJ’s assessment in our previous report “What assessment will BOJ make in September?” issued in early August. However, market has still not reached consensus on whether BOJ will implement reform of current policy framework and additional monetary easing. Therefore, on this report we would like to line up major policy measures which BOJ is likely to “Rethink” over and clarify market outlooks on each issue.

Table 1 : Policy measures which BOJ is likely to “Rethink” over

Policy Measures	Market Outlooks
Purchase of long-term JGB	① Approx. JPY70-90trillion (decrease in amount), ② Approx. JPY80-100 trillion (increase in amount), ③ Approx. JPY 90-100trillion (increase in amount).
Average maturity of long-term JGB purchase	① Approx. 7-10 years (shorten maturity), ② Lengthen maturity.
Purchase of ETF & J-REIT	① Revised to be measures for urgent situation, ② Additional small amount purchase of J-REITs.
Purchase of CP & Corporate Bonds	① Additional purchase, ② Addition of Municipal Bonds and Government Agency Bonds to the purchase list.
Negative interest rate of BOJ current account balances	① Deepening negative interest rate by 0.1%, ② Deepening negative interest rate + Decrease in long-term JGB purchase pace, ③ Deepening negative interest rate + Rise in benchmark ratio used to calculate macro add-on balance.
Loan support program	① Deepening negative interest rate + Lowering of interest rate of loan support program to -0.1%, ② Rise in upper limit of balance of loan disbursement under fund-provisioning measure to support strengthening the foundation for economic growth.
Forward guidance	① Long-term and continuous commitment on long-term JGB purchase.

(Source) SMAM, based on publicly available information.

**Basic policy framework and price stability target of 2% will be maintained. However, timeline to achieve price target will possibly be removed.**

Firstly, majority of the market view BOJ is unlikely to drastically revise its basic policy framework, based on its conclusion that previous policies were effective. Also, since inflation target is yet to be achieved, it is a broad consensus that further measures will be introduced by BOJ for early achievement. Main reasons for failure of achievement will be (i) low crude oil price, (ii) economic slowdown of emerging countries, (iii) consumption tax hike and (iv) slow wage growth.

Secondly, as for price stability target, majority of the market view that target will remain at 2%. However, some project that timeline to achieve price target will be made more flexible and ambiguous by BOJ. In fact, “Quantitative and Qualitative Monetary Easing” is a short-term policy and if the main reason for unachieved price target is a particular event such as declining crude oil price, which BOJ cannot deal by merely exercising monetary policy, there is still a risk of not achieving the target in a short term, down the road. Therefore, we believe it is reasonable for BOJ to lower tone on price stability target timeline by adding phrase such as “at the earliest possible date” and to shift to a long-term endurable policy. Accordingly, we believe BOJ is quite likely to lower tone on price target timeline.

**Various opinions are heard on measures for early achievement. SMAM’s view is extending negative interest rate to -0.2% from the current level of -0.1%.**

Next, we would like to turn our attention on specific measures. There are market outlooks that BOJ will set a range of JPY70-90trillion per year in purchase of long term JGB which may slow pace of purchase, a revise from current purchase amount of approx. JPY80trillion per year. However, we believe there is low possibility for BOJ to set a range for purchasing amount of JGB. This is because, if BOJ buys JGB at lower limit of the range, this may trigger tapering speculation which could lead to JPY appreciation and rise in long term interest rate.

Including various market outlooks, Table 1 (see page 1) summarizes major policy measures which BOJ is likely to “Rethink” over. Market views differ on whether additional monetary easing will be announced at the Monetary Policy Meeting on 20<sup>th</sup> and 21<sup>st</sup> of September. SMAM’s view is BOJ will announce further deepening of negative interest rate by 0.1% at the same time as disclosure of results on comprehensive assessment. We believe its possibility is quite high, as BOJ Governor Kuroda recently mentioned that implementation of negative interest rates has shown an intended impact. However we need to watch out carefully, as the market has not reached consensus toward assessment results and policy measures, and therefore market volatility may temporarily increase after the announcement.

**\* Please note that this report is a translation of Japanese report written on 25<sup>th</sup> August, 2016.**

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