

“Comprehensive Review” of monetary policy (Japan)

At the Monetary Policy Meeting scheduled on 20th and 21st of September, BOJ will conduct “Comprehensive Review” of the developments in economic activity and prices, as well as of policy effectiveness under the introduction of “Quantitative and Qualitative Monetary Easing” and “Quantitative and Qualitative Monetary Easing with a Negative Interest Rate”. Various opinions are heard in the market over possibility of change of current monetary policy framework and BOJ’s decision of additional easing.

Point 1

Governor and Deputy Governor of BOJ both spoke over “Comprehensive Review”

Both speeches were coherent as they have shared many similar views

- BOJ’s Governor Kuroda and Deputy Governor Nakaso made speeches titled “Comprehensive Assessment of the Monetary Easing: Concept and Approaches” on 5th September 2016 and “Toward a Comprehensive Assessment of the Monetary Easing” on 8th September 2016, respectively.
- Contents of both speeches were coherent as a whole, sharing many similar views. It seems that these speeches explained BOJ’s approach towards “Comprehensive Assessment” in plain terms.

Point 2

Price stability target of 2% will be maintained

BOJ acknowledges the side effects of negative-interest-rate policy

- Since both BOJ’s Governor and Deputy Governor expressed “importance to maintain commitment on achieving price stability target of 2% at the earliest possible time”, we believe this policy framework will not change by execution of “Comprehensive Assessment”.
- Also, both gentlemen confirmed strong policy effectiveness of “Quantitative and Qualitative Monetary Easing with a Negative Interest Rate”. Meanwhile, both admitted that they need to take into consideration of side effects on financial intermediaries when deciding implementation of monetary policies.
- In addition, BOJ’s Governor Kuroda addressed that “there is ample room for further monetary easing in either of three dimensions - quantity, quality, and the interest rate - and other new ideas should not be off the table”.

BOJ’s Current Key Monetary Policies

	Policy tools	Measures
Quantitative	Monetary Base	Approx. JPY 80 trillion per year (increase in amount).
Qualitative	Outstanding amount of long-term JGB	Approx. JPY 80 trillion per year (increase in amount).
	Average maturity of long-term JGB purchase	Approx. 7-12 years.
	Outstanding amount of ETFs	Approx. JPY 6 trillion per year (increase in amount).
	Outstanding amount of J-REITs	Approx. JPY 90 billion per year (increase in amount).
	Outstanding amount of CPs	Maintain Approx. JPY 2.2 trillion as a balance.
	Outstanding amount of Corporate Bonds	Maintain Approx. JPY 3.2 trillion as a balance.
Interest Rate	Policy-rate balance of BOJ current account balances	Apply negative-interest-rate of -0.1%.

(Source) SMAM, based on BOJ’S material and publicly available information.

We must watch out for the rise in market volatility when the assessment result will be announced on 21st September 2016

- Even after the afore-mentioned two speeches made by BOJ's Governor and Deputy Governor, view of market participants on the result of "Comprehensive Assessment" is far from reaching consensus. There seems to be some market participants expecting possible policy change to steepen yield curve.
- Therefore, we must watch out for the temporally rise in volatilities of Japanese stock, bond and currency markets, when the assessment result and future policy measures will be announced on 21st September 2016.

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