

Today's Topic BOJ's Monetary Policy (March 2016)

Decided to continue "Quantitative and Qualitative Monetary Easing with Negative Interest Rate"

Point 1 **Monetary Policy was unchanged**
Outlook for economic activity and prices was also unchanged

- BOJ held Monetary Policy Meeting (MPM) on 14th and 15th March and decided to maintain their current policy. Namely, i) apply a negative interest rate of -0.1% to the Policy-Rate Balances of current accounts held by financial institutions at BOJ, ii) conduct money market operation so that the monetary base will increase at an annual pace of about JPY80 trillion, iii) BOJ will purchase JGBs, ETFs and J-REITs. BOJ has also decided operational details in order to implement monetary policy smoothly.
- The Bank's view on the Japanese economy was weaker compared to January Outlook Report. For the outlook of economic activity, BOJ maintained its view of a moderate expanding trend and that of prices was also maintained as "the rate of change in the CPI is likely to be about 0% YoY for the time being, and, as the underlying trend in inflation steadily rises, accelerate toward 2 percent".

Point 2 **Equity market closed lower**
JPY turned stronger against USD

- On 15th March, Nikkei 225 closed JPY116.68 lower at JPY17,117.07, on the announcement from BOJ. Meanwhile, JPY turned stronger against USD to JPY113.42 as of 15th March, Tokyo time.

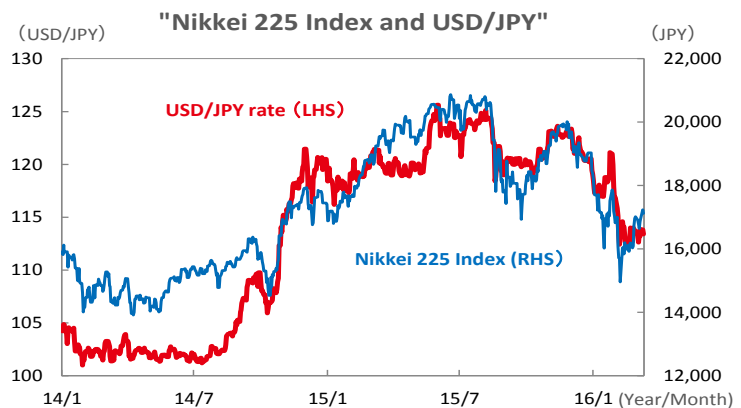
Operational Details Decided at March 2016 MPM

Each financial institution's "Macro Add-on Balance", to which a zero interest rate (not a negative rate) is applied, will be reviewed every three months in principle.

The amount outstanding of money reserved funds (MRFs) entrusted to a trust bank will be counted as Macro Add-on Balance (up to the amount outstanding of MRFs entrusted to this trust bank during previous year) of the trust bank. (Negative rate will not be applied to MRFs' balance.)

With the aim of further supporting financial institutions' efforts to increase lending, in case where a financial institution increases the amount outstanding of borrowing from BOJ through the "Loan Support Program" and the "Fund-Supplying Operation to Support Financial Institutions in Disaster Areas affected by the Great East Japan Earthquake", twice as much as the amount of increase will be added to this financial institution's "Macro Add-on Balance".

(Source) SMAM, based on publicly available materials of BOJ.



(Note) Data period is from 6th January, 2014 to 15th March, 2016.
 (Source) SMAM, based on Bloomberg L.P. data.

Future Outlook **Expectation for additional easing seems to continue**

- BOJ Governor Kuroda expressed his expectation on positive impact of lower real interest rate to economic activities of corporations and individuals, as a result of introducing negative interest rate. Lower real interest rate reduces loan burden of corporations and individuals and also stimulates capital demands. However, it may still take time to assess its effect.
- Current data indicate economic recovery is at a standstill. Wage growth rate continues to remain slow and Jan.-Mar. 2016 real GDP growth rate seems to be weaker than anticipated. Expectation for additional easing will stay and grow gradually toward mid-year, as a weak economy is highly likely to continue.

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