

Market Commentary

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Macro & Market Research, Generali Insurance Asset Management S.p.A. SGR

The BoJ introduced a first green funding for lending scheme

- **The Bank of Japan (BoJ) announced today a first green funding for lending scheme with a 0% interest rate. While the BoJ addresses the topic of climate change, its incentives for financial institutions to do so remain rather limited.**
- **Moreover, it revised down its growth forecast but revised up its inflation expectations.**
- **Separately, there are rising market expectations regarding another supplementary budget ahead of the elections in autumn.**

Today the Bank of Japan concluded a two-day policy meeting with the announcement of the “Preliminary Outline of the Fund-Provisioning Measure to Support Efforts on Climate Change (Climate Change operations).” Basically, this is a funding for lending scheme, under which the BoJ provides funds at 0% to financial institutions that make investments or loans addressing climate change issues. The scheme will be launched during this year. Funds will be provided for one year in principle, but can be rolled over. The scheme will run until the end of March 2031 (unless there is interference with the smooth conduct of market operations).

The new measure fits into the BoJ’s “Interest Scheme to Promote Lending” that was introduced in March (see graph and our respective [Market Commentary](#)). Within this scheme it falls under Category III. Thus, banks will not be paid a positive interest rate (as incentive) but a bigger portion of their deposits parked at the BOJ will be exempt from negative interest rates. This categorisation has led to diverse reactions. While some market participants voiced disappointment, others see it as justified as the BoJ has to avoid distortions on the micro level (central bank neutrality).

	Applied interest rate (incentive)	Eligible fund-provisioning measure
Category I	0.2%	➤ Special Funds-Supplying Operations to Facilitate Financing in Response to COVID-19, when funds are provided against loans made by financial institutions on their own
Category II	0.1%	➤ Special Funds-Supplying Operations to Facilitate Financing in Response to COVID-19, when funds are provided against loans other than those for Category I and against private debt pledged as collateral
Category III	0%	➤ Loan Support Program ➤ Funds-Supplying Operation to Support Financial Institutions in Disaster Areas

Independently of this, the BoJ revised its growth and inflation forecasts. Likely to reflect the fourth “State of Emergency” in Tokyo, it scaled down its real GDP forecast for FY2021 from +4.0% to +3.8%. Currently, calendar year (CY) and fiscal year (FY) forecasts show a strong gap. We continue to expect GDP growth in CY2021 at 2.2%. In addition, the BoJ revised up core CPI to 0.6% in FY2021, from 0.1% YoY before. The rise in crude oil prices will likely lead us to revise our CPI forecast for CY2021 up to 0.3%. The upcoming CPI index base year revision is a large uncertainty in this regard.

Forecasts of the Majority of the Policy Board Members

y/y % chg.

	Real GDP	CPI (all items less fresh food)
Fiscal 2021	+3.5 to +4.0 [+3.8]	+0.3 to +0.6 [+0.6]
Forecasts made in April 2021	+3.6 to +4.4 [+4.0]	0.0 to +0.2 [+0.1]
Fiscal 2022	+2.6 to +2.9 [+2.7]	+0.8 to +1.0 [+0.9]
Forecasts made in April 2021	+2.1 to +2.5 [+2.4]	+0.5 to +0.9 [+0.8]
Fiscal 2023	+1.2 to +1.4 [+1.3]	+0.9 to +1.1 [+1.0]
Forecasts made in April 2021	+1.2 to +1.5 [+1.3]	+0.7 to +1.0 [+1.0]

Source: Bank of Japan, Outlook for Economic Activity and Prices (July 2021)

Thirdly, there are growing signs for more economic stimulus and a supplementary budget for the FY2021. The budget could above all support the post-pandemic recovery, possibly address transfers to certain (low or none income) household and support digitalization and carbon-neutral measures. However, as there are substantial left-overs from the previous supplementary budget, thus the size of the fresh additionally budget could well come with a relatively small headline figure. Estimates are around 3% of GDP, which typically does not amount to the same size of fresh spending.

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