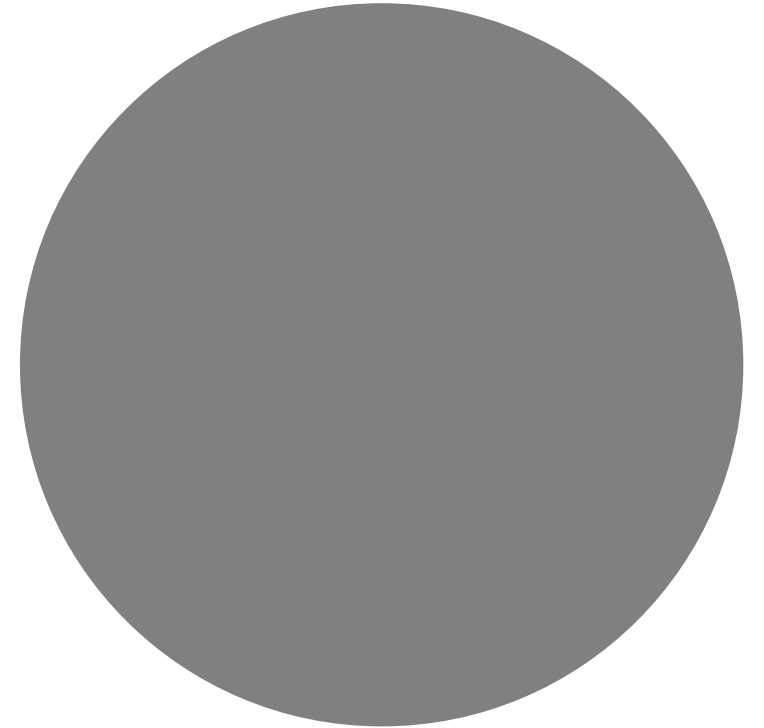


# **BOJ's Monetary Easing Policy -- Asset Purchases --**

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**Professor of Keio University  
Visiting Scholar to the ADB Institute  
Former Board Member of the BOJ**

**Dr. SAYURI SHIRAI**



# OUTLONE OF PRESENTATION

Part 1

**Shift in the Monetary Easing Framework since 2016**

Part 2

**Exchange-Traded Fund (ETF) Purchases**

Part 3

**Effectiveness of Monetary Easing**

Part 4

**Normalization of Monetary Policy**

# **PART 1. Shift in the Monetary Easing Framework since 2016**

# Facing Limit and Steps Toward Normalization?

## QQE with a Negative Interest Rate (January 2016):

Did not expand QE But Added a new policy (-0.1%)



## QQE with Yield Curve Control (September 2016):

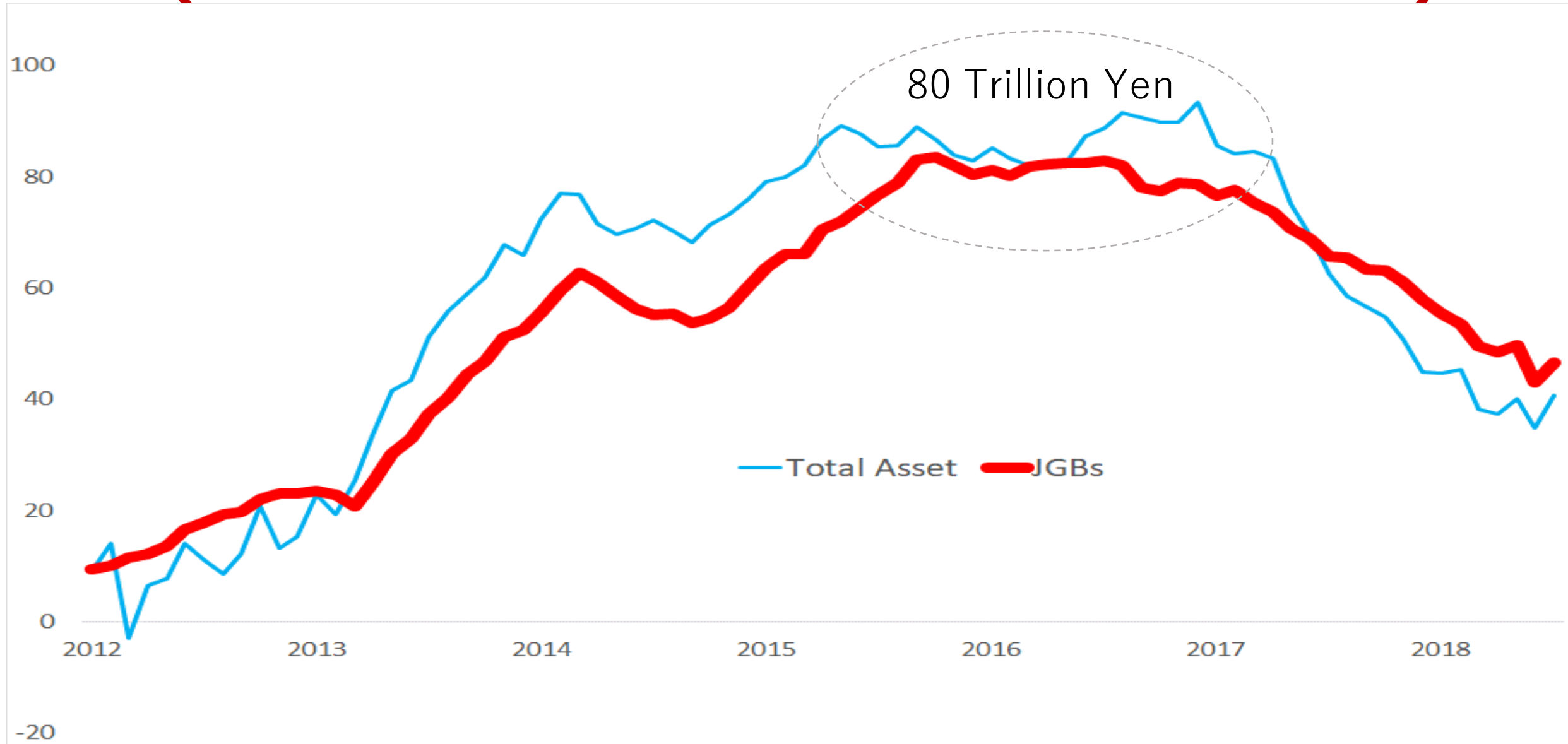
Shifting from Monetary Base Target to 10-Year Yield Target (0%)



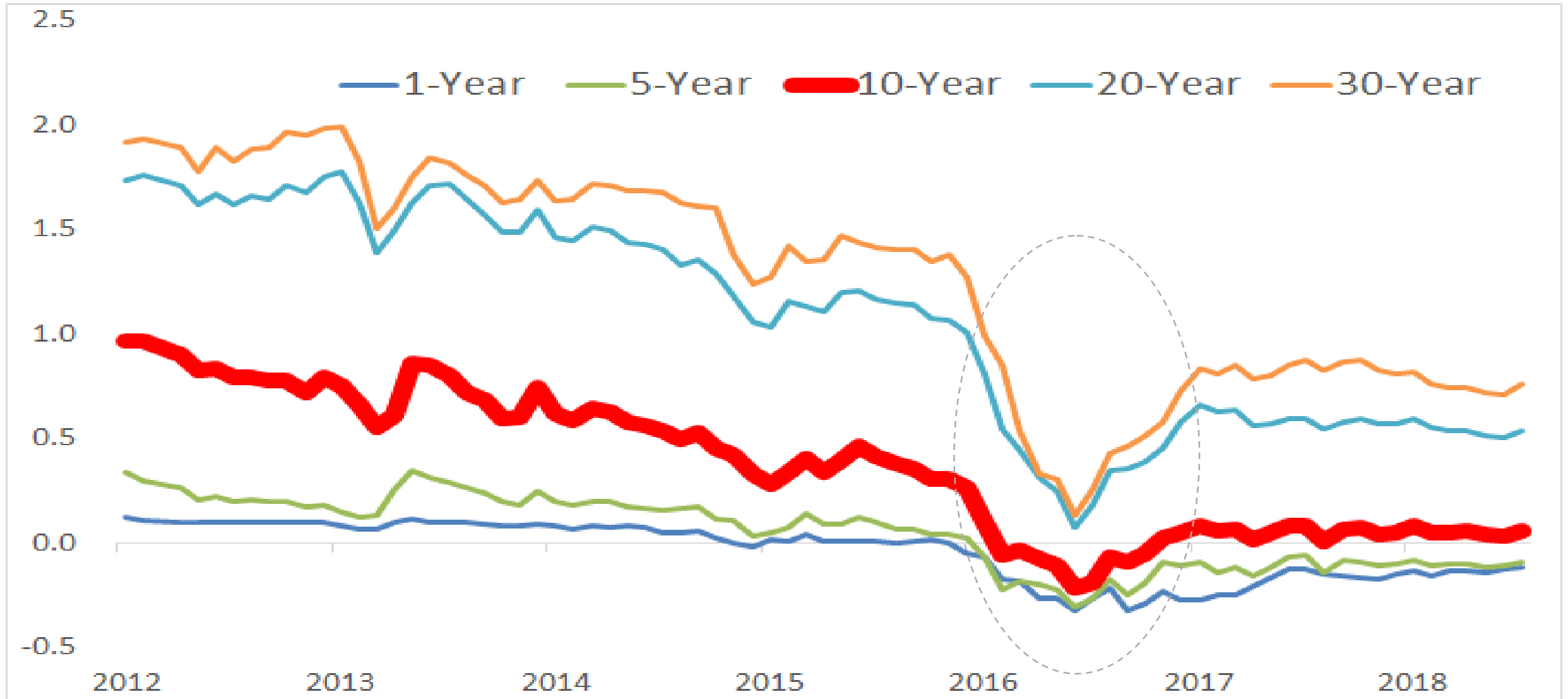
## Strengthening of Monetary Easing (July 2018):

Explicit Adoption of 10-Year Target Range and Doubled the Range to  $\pm 0.2\%$  (-0.2% to +0.2%)

# De Facto Tapering (Difference from the Previous Year)



# JGB Yields (%)



# **PART 2. ETF Purchases**

# Central Banks' purchases of Stocks for Two Reasons

## Monetary Policy

counter-cyclical  
policy

## Reserve Management:

management of foreign  
reserves held by  
central banks



# BOJ's Stock Purchases from Banks in 2002-04 and 2008-09

- Prudential Policy (to improve Financial System Stability)
- 2002-04: To facilitate resolution of banks' NPL problems stemming from (1) the bubble burst, (2) aggressive restructuring efforts, (3) low interest margins, and (4) unrealized losses on the stocks held by banks. The maximum amount of 3 trillion yen.
- 2009-10: To reduce banks' large losses associated with stock holdings. The maximum amount of 388 billion.
- In April 2016, the BOJ decided to sell the purchased stocks of about 3 trillion yen over the next 10 years (about 300 billion yen annually) on the mark-to-market value basis.
  - This deposit is associated with a roughly equivalent amount of the increase in ETF purchases under the initiative to promote firms' investment in R&D and human capital.

# Stock Market Intervention by the HKMA in 1998

- HKMA simultaneously intervened in the foreign exchange, stock and stock futures, and interbank markets.
- The size of intervention was large (HK\$120 billion, about 6% of market capitalization)
- Purchase conducted for a very short period (about two weeks).
- Thus, this purchase program should NOT be regarded as an unconventional monetary easing tool because of
  - (1) a short duration and
  - (2) different objectives (fighting against short-term speculative activities in Hong Kong vis-à-vis achieving aggregate demand and inflation in Japan).

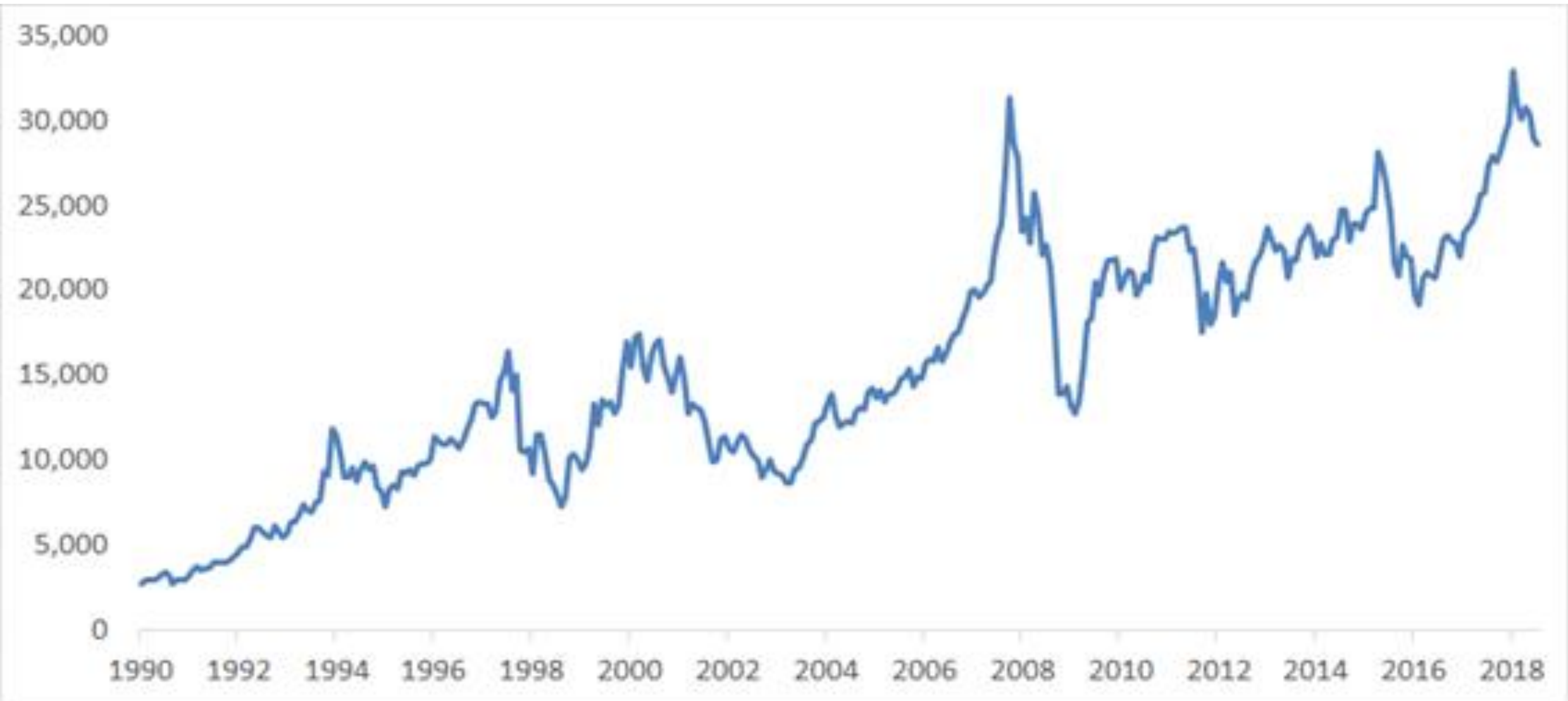
# Background Behind HKMA's Action

- **The Hong Kong SAR Government** decided to intervene in the stock market in the face of speculative attacks over the Hong Kong dollar fixed exchange rate policy under the Linked Exchange Rate System
- The foreign speculators adopted a "**double-market play**" strategy. They pre-funded themselves with Hong Kong dollars and then used the cash to build up large short positions in the cash and future stock markets and simultaneously sold the Hong Kong dollar in large quantities to drive up inter-bank interest rates.
- Hong Kong stock prices were already **underpriced** (about 16,000 in August 1997 to about 8,000 in August 1998 and P/E ratio of just 8 times).
- The Government increased concerns about potential losses to shareholders and weakening confidence by the public and market on the sustainability of the exchange rate policy.

# Exit Policy by HKMA

- The total amount of about HK\$120 billion spent to purchase stocks.
- The scale of intervention was adequate enough to **terminate the speculative attacks by the end of August 1998** as the Hang Seng index rose from 6,700 just before the intervention to 7,800 points successfully.
- In November 1999, HKMA took an **exit policy** by launching the Tracker Fund, which is an **open-ended exchange-traded fund**. The disposal of the stocks generated a profit of nearly HK\$100 billion at prevailing stock prices at that time to the HKMA because of higher stock prices.
- HKMA's successful exit from the stock purchase program could be attributable to the short-lived nature of a purchasing intervention in the stock market, thereby generating little distortions on stock prices by HKMA's intervention itself. Moreover, favorable stock market conditions enabled the HKMA to conduct a smooth exit policy and generate a profit.

# Hong Kong Hang Seng Index



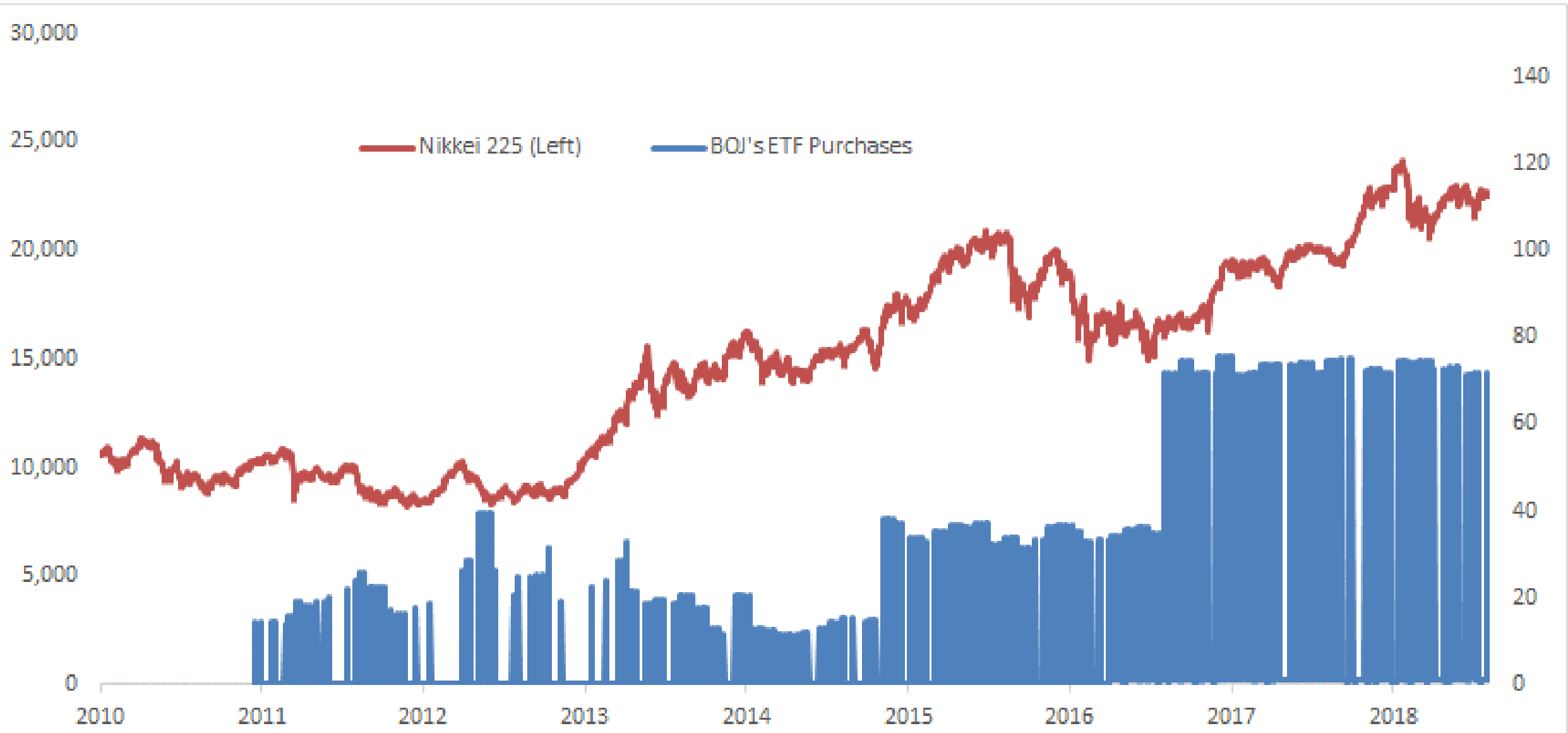
# Gov. Bonds As Main Purchased Assets

- JGB yields are the **benchmark** for measuring long-term fixed interest rates related to mortgages, loans, and corporate bonds.
- The decline in the yields will help to raise risk assets (such as **stocks**) through promoting **search for yield** due to **declined returns on bonds**.
- The decline in the yields will help to raise risk assets (such as **stocks**) through **lowering the discount rate** and thus higher PV of cash flows.

# BOJ Directly Purchases ETFs

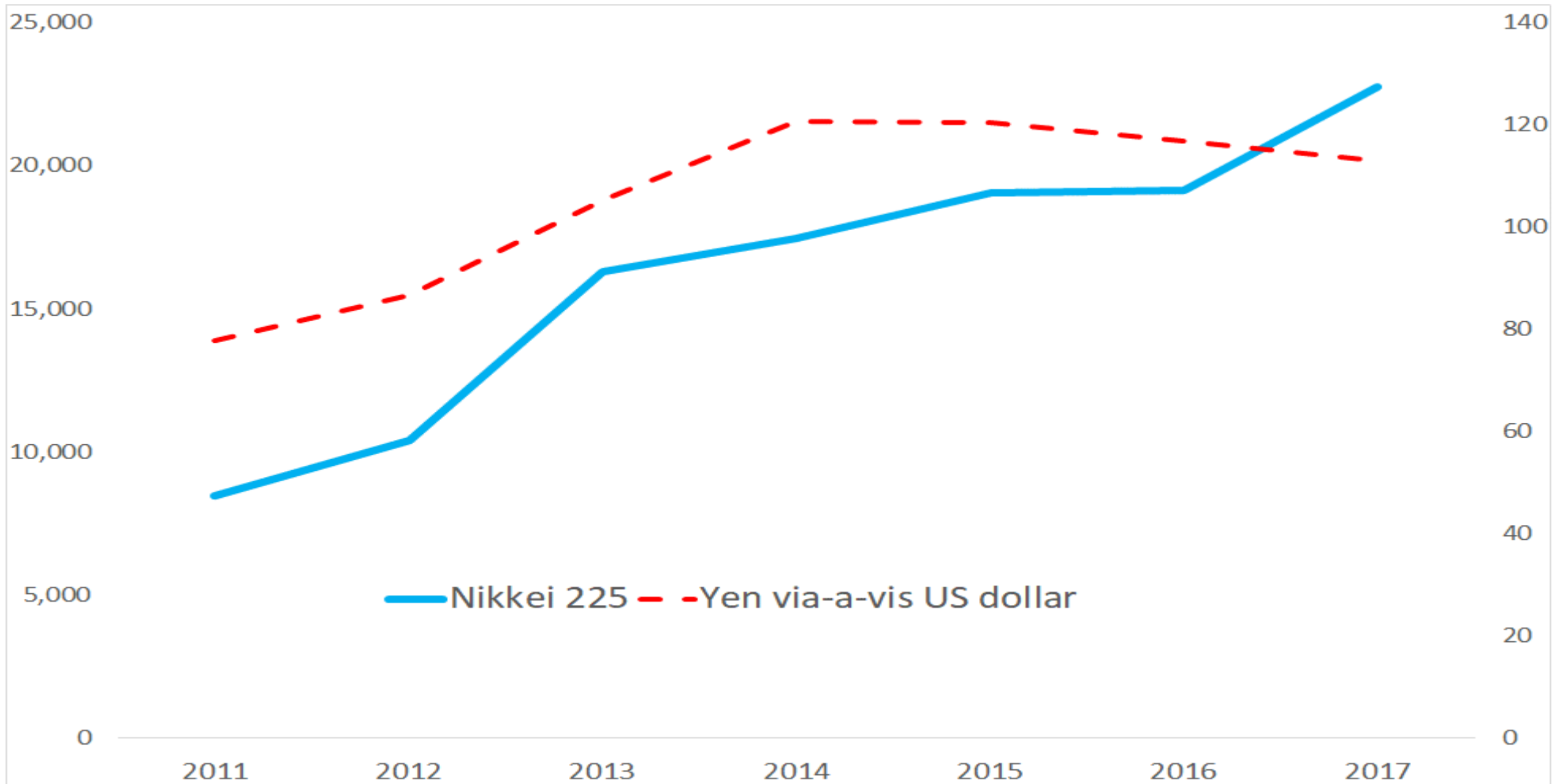
- Exerting downward pressure directly on the **risk premia**, thereby supporting stock markets and inducing a **portfolio rebalancing effect**.
- Promoting a **wealth effect** directly.
- Generating momentum to correct **undervaluation** of stock prices speedily.

# Stock Price and ETF Purchases





# NIKKEI 225 & JPY VIS-À-VIS US DOLLAR



# What are the ETFs?

 Listed on the stock exchange.

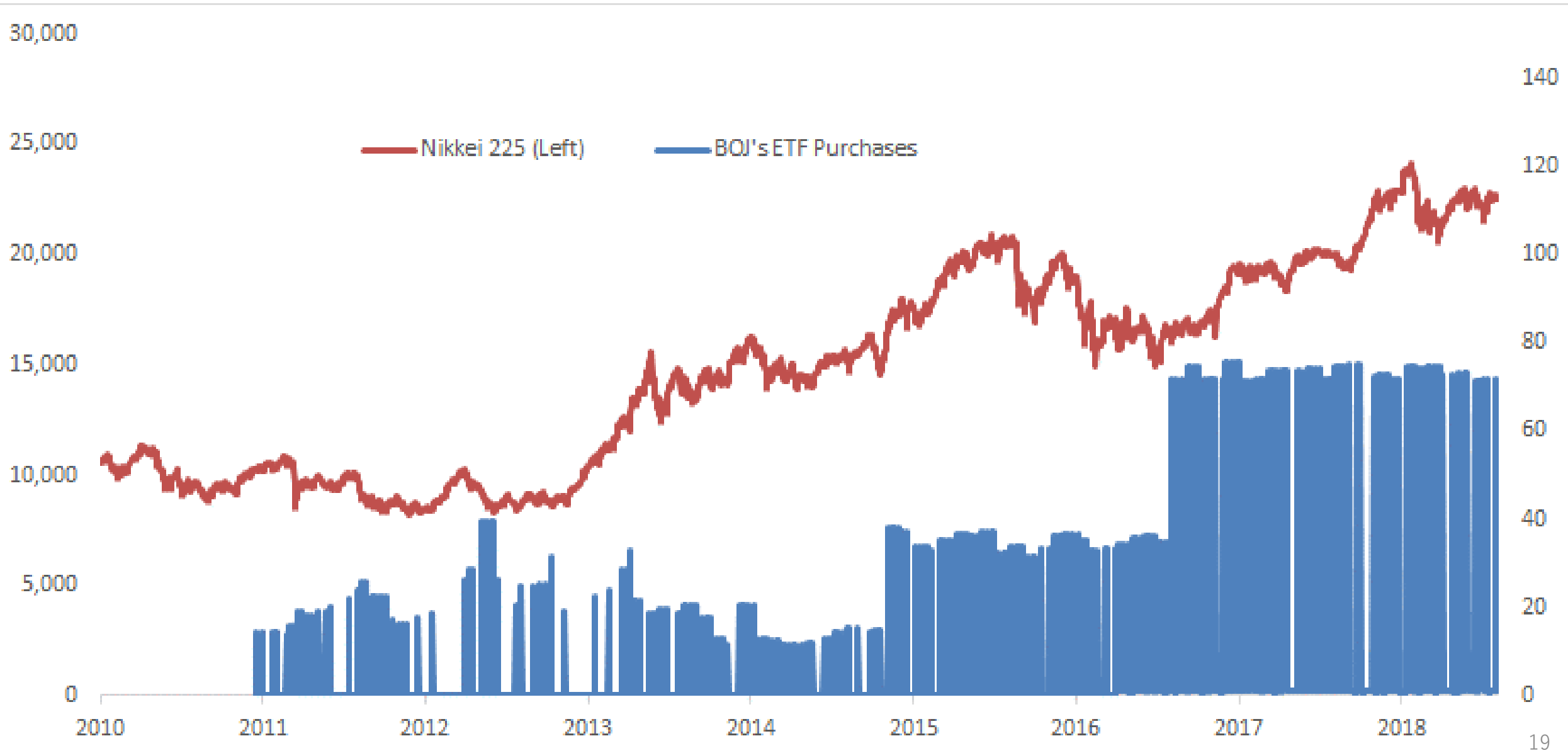
 ETFs Track (1) TOPIX, (2) Nikkei 225, (3) JPX-Nikkei Index 40

 BOJ indirectly purchases stocks through trust banks.

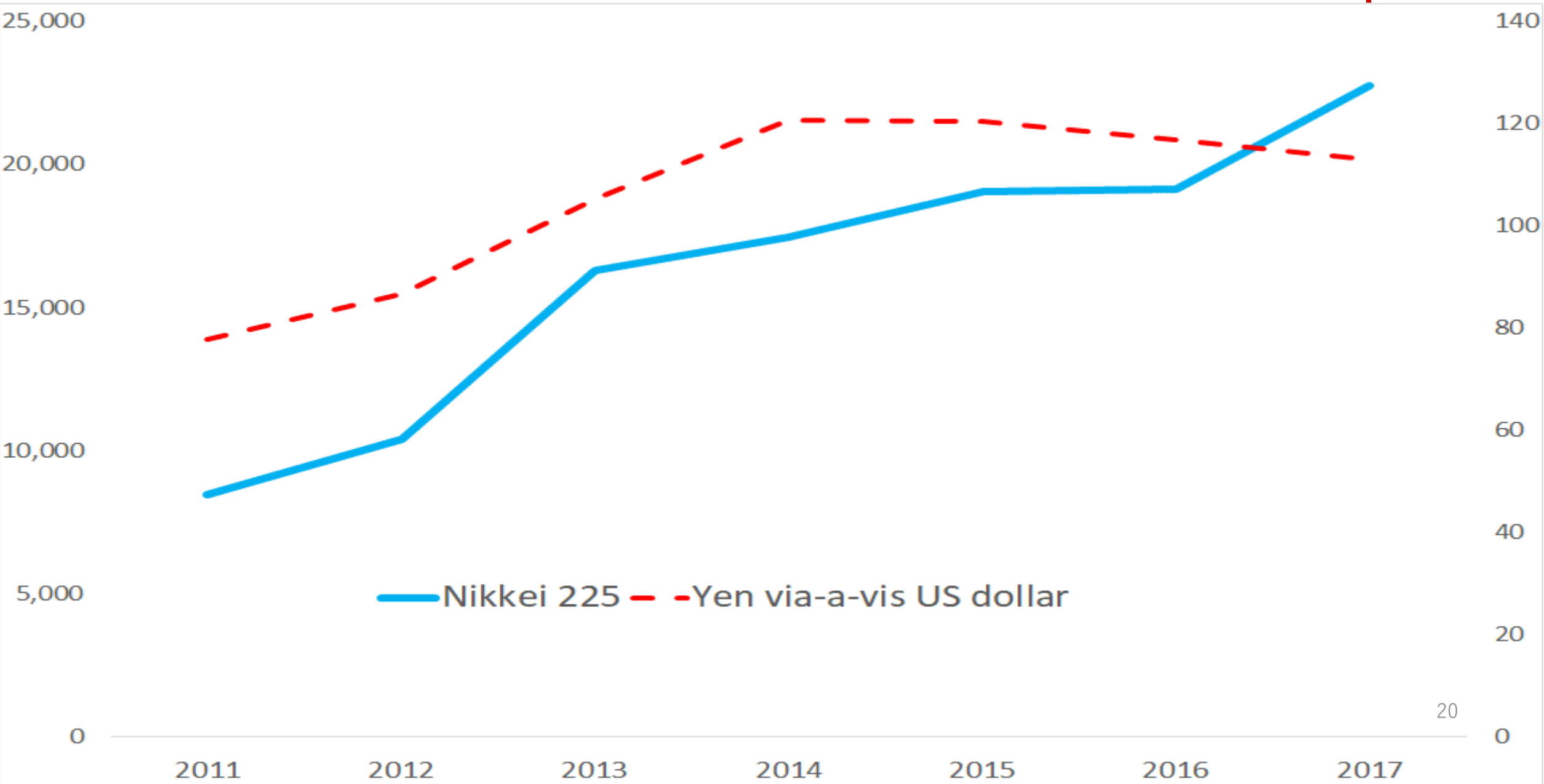
 BOJ does not exercise voting rights.

 The BOJ purchases about JPY 6 trillion annually.

# Stock Price and ETF Purchases

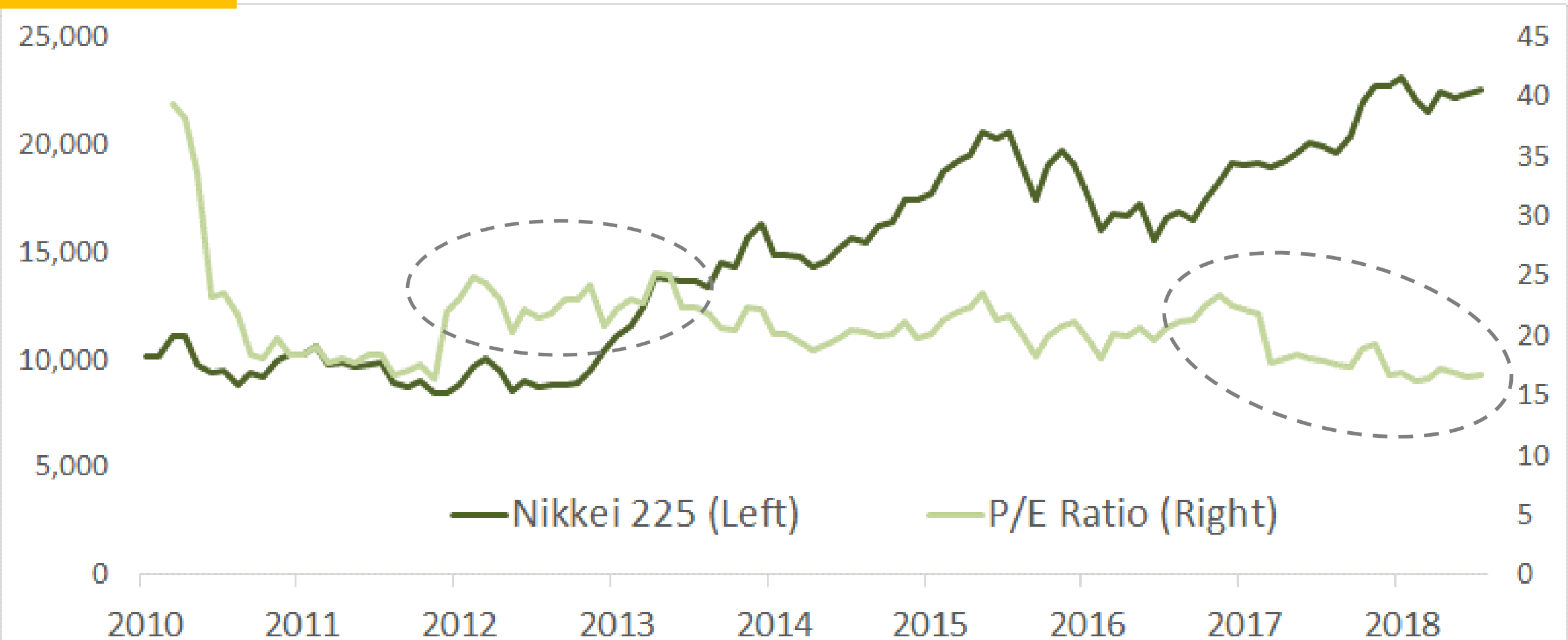


# NIKKEI 225 & YEN VIS-À-VIS US\$



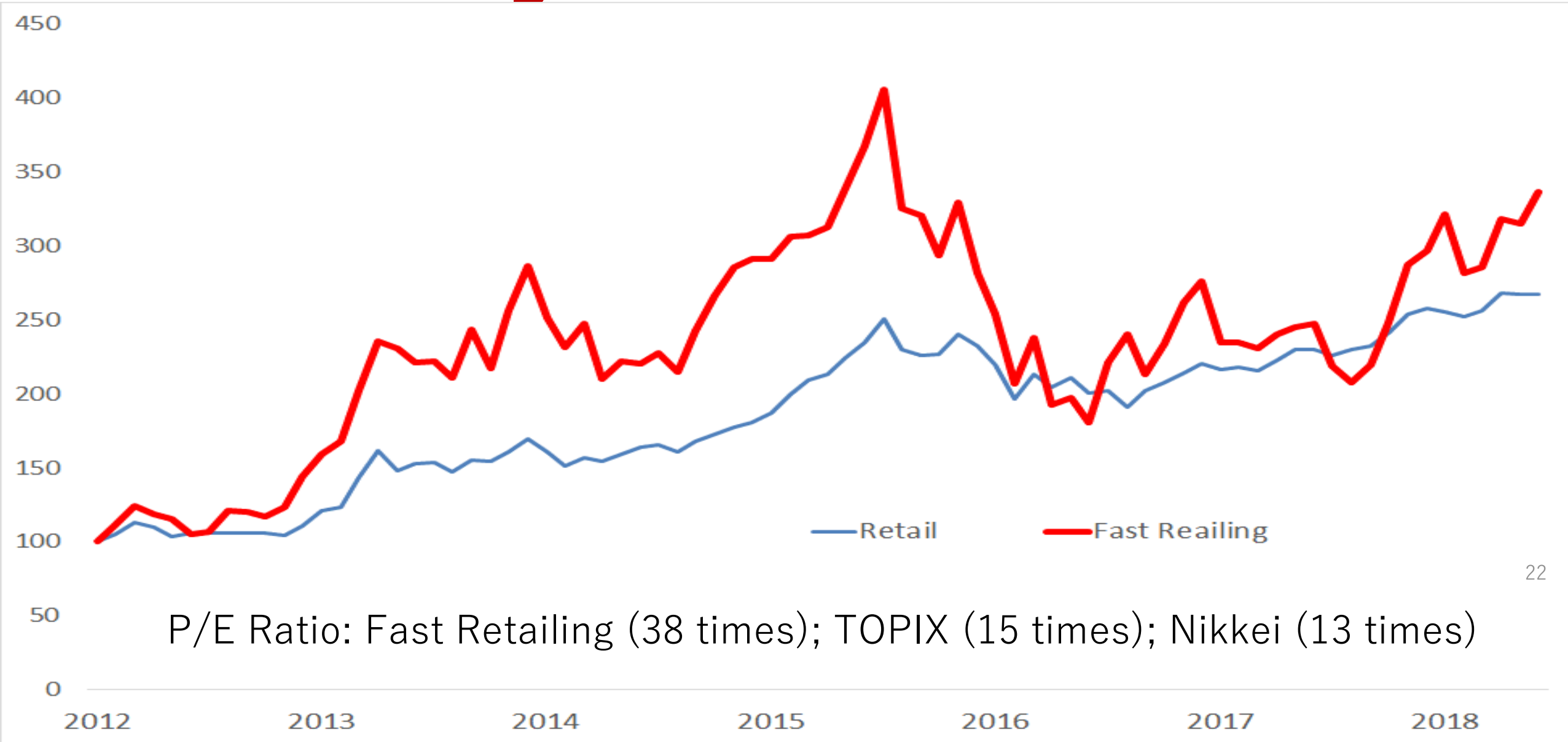
# Issue 1

# Stock Price and P/E Ratio



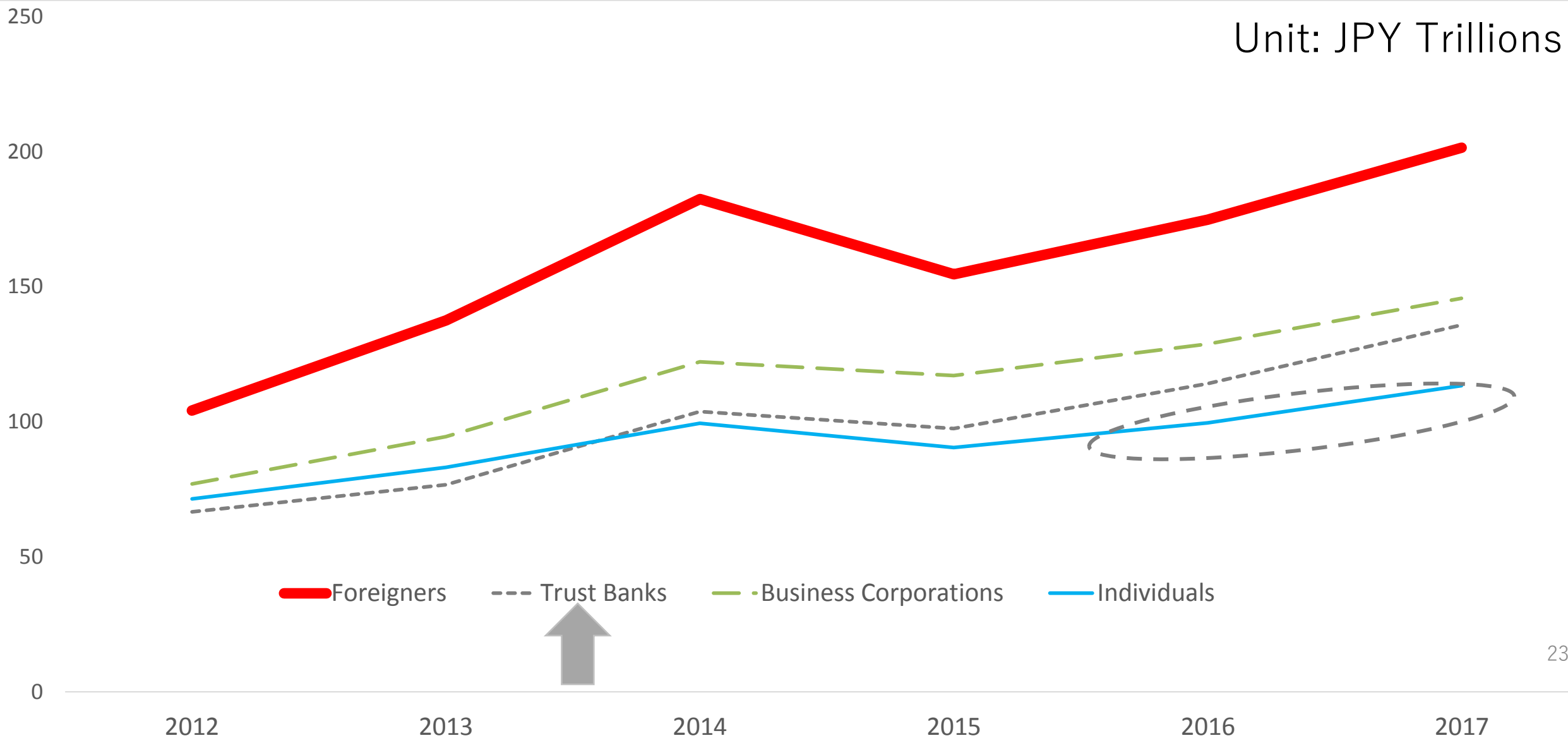
## Issue 2

# Small-Cap Firms' Stocks (Nikkei 225) Might be Overvalued



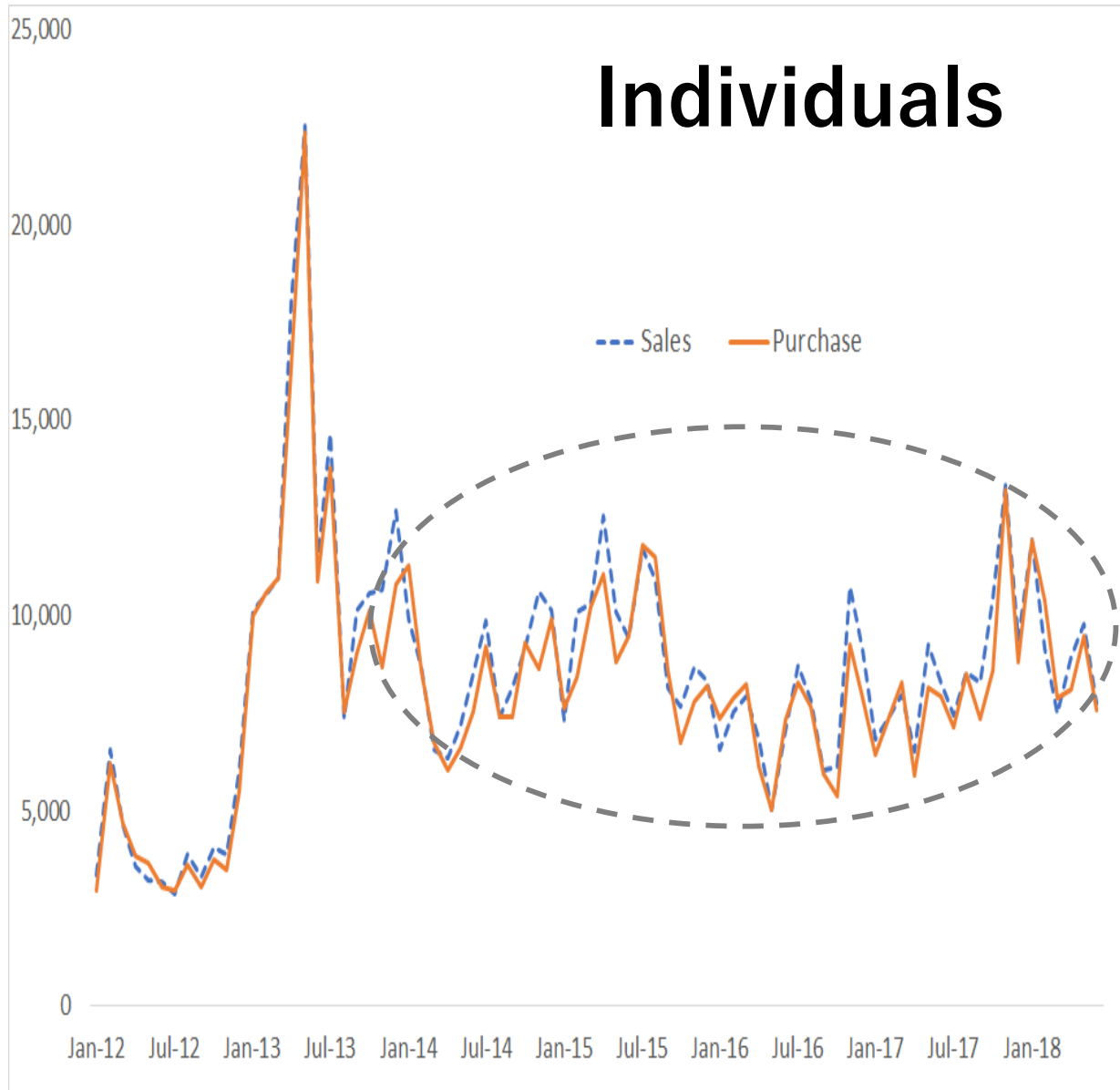
# Issue 3

# Large Stock Holdings by Foreign Investors

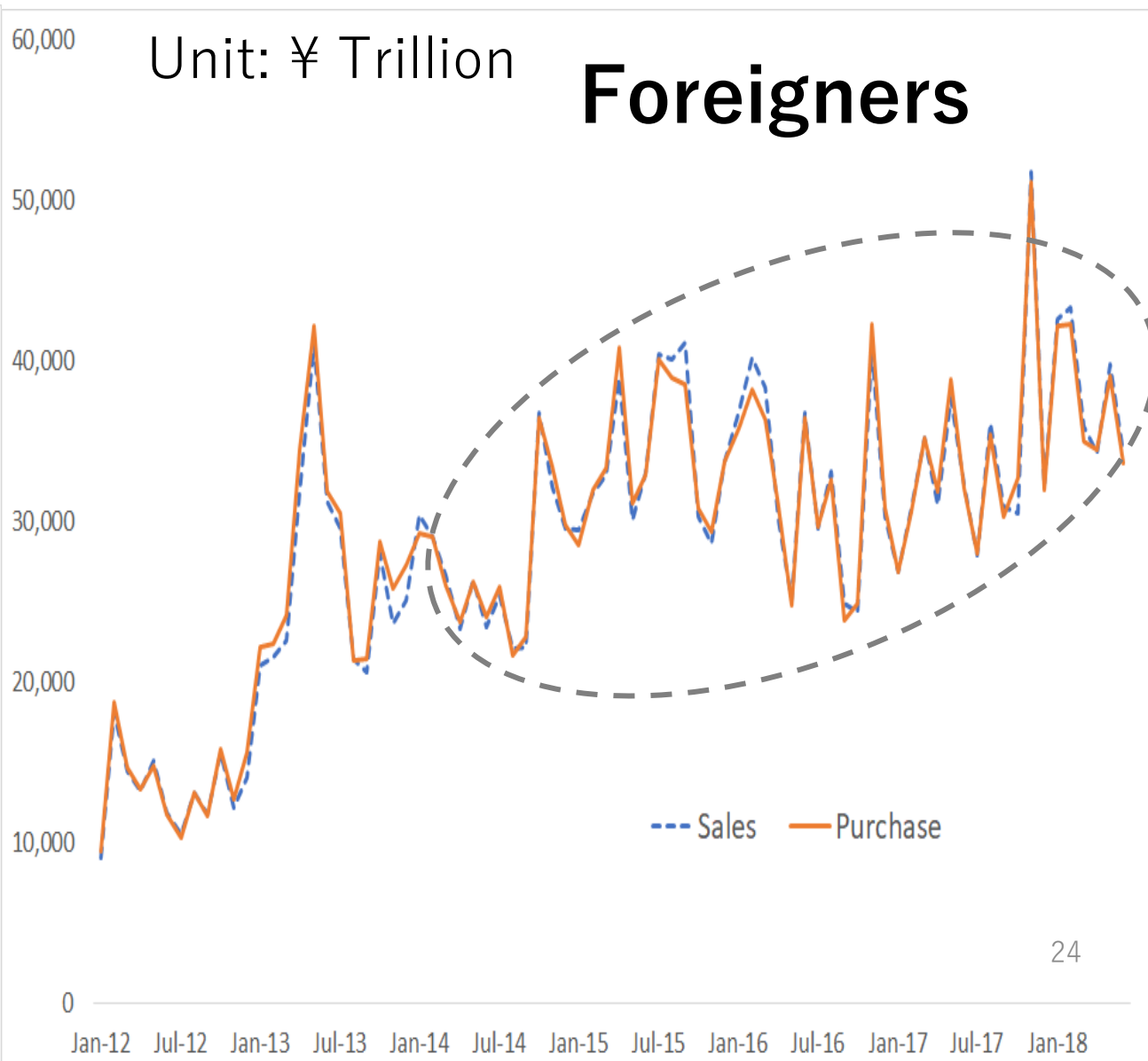


# Large Stock Transaction by Foreign Investors

## Individuals



## Unit: ¥ Trillion Foreigners





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Name of Listed Companies	BOJ's Share (% of Total Stocks Issued)	BOJ's Share (% of Floating Stocks)
Advantest	19	43
Fast Retailing	18	70
Taiyo Yuden	17	28
TDK	16	25
Uni • Family Mart HD	15	38
Toho Zinc	15	23
Trend Micro	15	27
Comsys	14	31
Nissan Chemical	14	22
Konami HD	14	31

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Source: Nikkei Newspaper (June 27, 2018)

## Issue 5

# Complicated Process toward Normalization

- Expanding the Target Range and Raising the 10-Year Yield Target
  - Reducing JGB Purchases to 20 Trillion JPN



- Reducing the JGB and **ETF Purchases to ZERO**
- Eliminating the 10-year Target



**Raising Short-Term Policy Rate**

# **Part 3. Effectiveness of Monetary Easing**

# CPI Inflation (exc. tax effect)

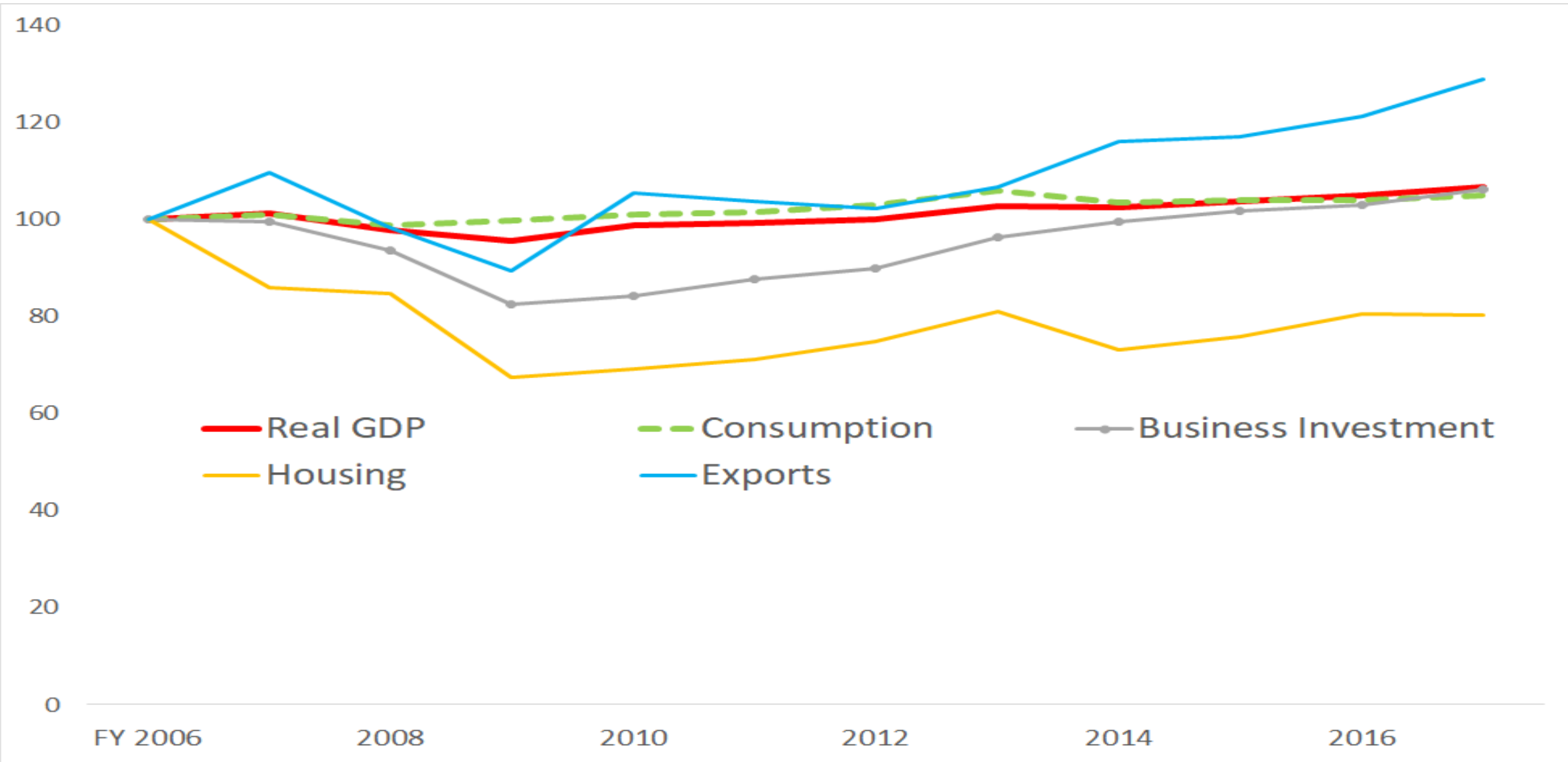
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	CPI	Exc. Fresh Food	Exc. Food and Energy
2013	0.9	0.8	0.2
2014	0.8	0.8	0.5
2015	0.2	0.0	0.7
2016	-0.1	-0.2	0.2
2017	0.7	0.7	0.0
<b>AVERAGE</b>	0.5	0.4	0.3

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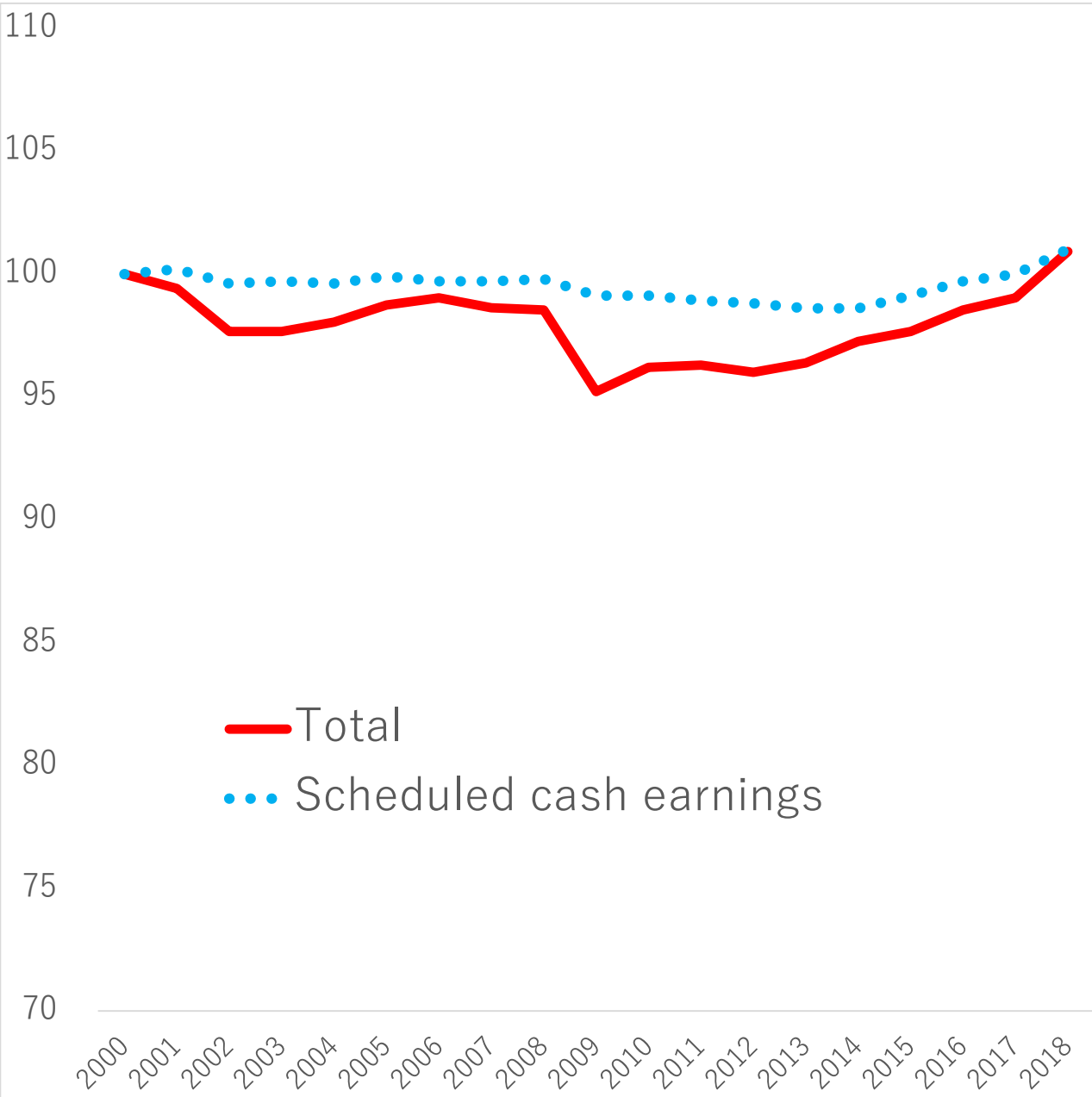
# Real GDP and Composition (FY 2006=100)



# Sluggish Consumption and Housing

- Households **DO NOT** have deflation mindset.
- Households **DO NOT** feel that income has risen. They **DO NOT** expect a higher income.
- A third of population is more than 65 years old (demographics)
- The majority of households **worry about the post-retirement life** (due to insufficient pensions or financial assets)

# Wages (Full-Time)



# Wages (Part-Time)

