

**(Box 5) Japan's Financial Conditions under the Impact of COVID-19**

COVID-19 has been exerting stress on financing such as of firms, mainly through a decline in sales due to constrained economic activity. In this situation, the Bank, in cooperation with the government, has actively made responses to support financing, mainly of firms. This box examines developments in Japan's financial conditions under the impact of COVID-19, as well as the policy effects.

Financial positions, mainly of firms, have deteriorated in Japan, regardless of firm size, due mainly to the sales decline that reflects the impact of COVID-19 (Chart 50). In response to this situation, the government and the Bank have taken aggressive measures to support financing, mainly of firms (Chart B5-1). The government has provided effectively interest-free and unsecured loans mainly to small and medium-sized firms through government-affiliated and private financial institutions. It also has provided crisis response loans to medium-sized and large firms through government-affiliated financial institutions. Since this March, with regard to the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), the Bank has increased purchases of CP and corporate bonds as well as established and strengthened the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19), which is a new measure to encourage lending by financial institutions. This operation includes a scheme in which the Bank provides funds to private financial institutions on favorable terms for the loans that they make to small and medium-sized firms as well as sole

**Chart B5-1: Major Measures to Support Corporate Financing**

<p>Japanese Government</p>	<ul style="list-style-type: none"> <li>-- Provision of effectively interest-free and unsecured loans to SMEs mainly through JFC and private financial institutions</li> <li>-- Provision of crisis response loans to medium-sized and large companies through DBJ and the Shoko Chukin Bank</li> <li>-- Programs by the credit guarantee corporations such as the Safety Net Guarantees Nos.4 and 5 and the Crisis-Related Guarantee</li> <li>-- Equity support mainly through subordinated loans and capital injections</li> </ul>
<p>Bank of Japan</p> <p>&lt;Special Program&gt;</p>	<ul style="list-style-type: none"> <li>-- Special Funds-Supplying Operations in response to COVID-19                             <ol style="list-style-type: none"> <li>1. Fund-provisioning against private debt pledged as collateral</li> <li>2. Fund-provisioning against eligible loans such as interest-free and unsecured loans based on the aforementioned government's measure</li> </ol> </li> <li>-- Increase in purchases of CP and corporate bonds</li> </ul>

**Chart B5-2: Firms' Financial Positions and Their Perceptions of Lending Attitudes of Financial Institutions**



Source: Bank of Japan.  
Note: Based on the *Tankan*. All enterprises.

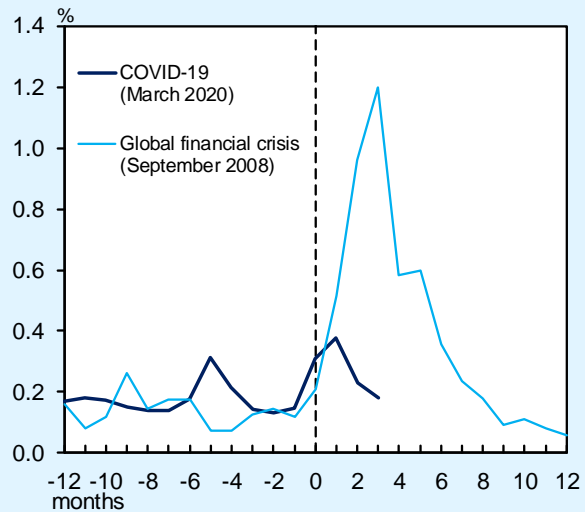
proprietors, mainly by making use of the government's programs to support financing. In cooperation with the government's measures, this serves to encourage active efforts by private financial institutions.

Under these various measures taken by the Bank and the government, financial institutions' lending attitudes have remained at their accommodative levels (Charts B5-2 and 49). What is unique to the current situation in particular is that, compared with the past phase of being under stress, there is a smaller proportion of firms answering that financial institutions' lending attitudes are "severe." In fact, the year-on-year rate of increase in bank lending has been at around 6.5 percent, registering the highest growth in about 30 years. In addition, issuance spreads for CP and corporate bonds expanded temporarily but have narrowed of late, suggesting that issuance conditions have remained favorable, even when compared with those under the global financial crisis (Chart B5-3). Under these circumstances, funding by the private sector has maintained its high growth, with the amounts outstanding of bank lending, CP, and corporate bonds all contributing to the increase (Chart B5-4). The DI for financial positions of small and medium-sized firms, which had deteriorated rapidly compared with the past shocks, has shown a rise in negative territory recently (Chart B5-5).

Thus, on the back of various measures taken by the Bank and the government, the environment for external funding has remained accommodative, and thus the liquidity has been supported from the financial side. In addition, the

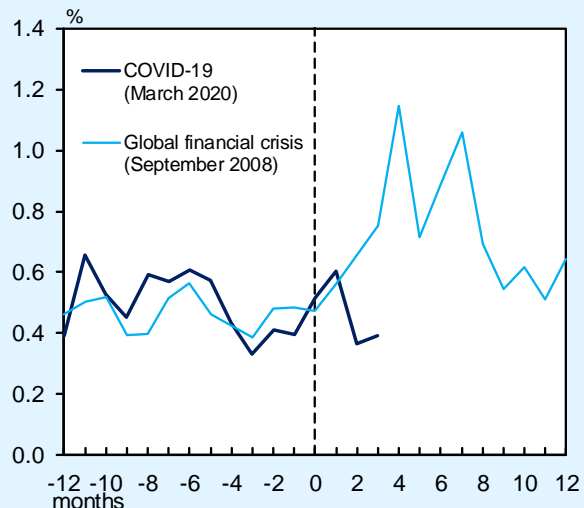
**Chart B5-3: Domestic Funding Environment**

**1. Issuance Spread for CP (Rated a-1)**



Sources: Bank of Japan; Japan Securities Depository Center; Bloomberg.  
 Notes: 1. The issuance spread is calculated as the issuance yield for CP minus the yield on 3-month T-Bills.  
 2. Month 0 is indicated in the legend for each event.

**2. Issuance Spread for Corporate Bonds (Rated A)**

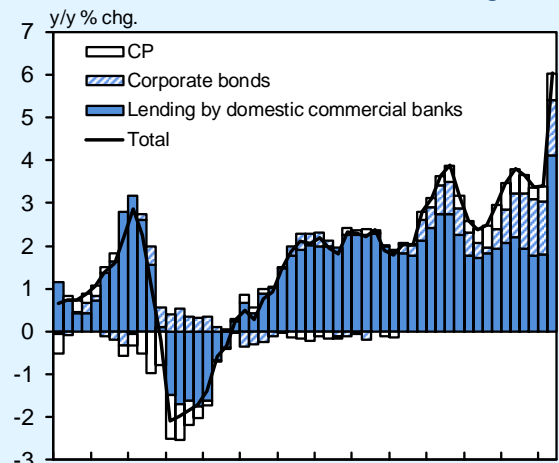


Sources: Capital Eye; I-N Information Systems.  
 Notes: 1. The issuance spread is calculated as the issuance yield for corporate bonds minus the yield on JGBs with the same maturity.  
 2. Month 0 is indicated in the legend for each event.

government has conducted support measures that take into account the solvency problem. Specifically, it has enhanced programs that provide loans guaranteed by the credit guarantee corporations and established programs to supply capital and quasi-capital funds through government-affiliated financial institutions and some entities (Chart B5-1).

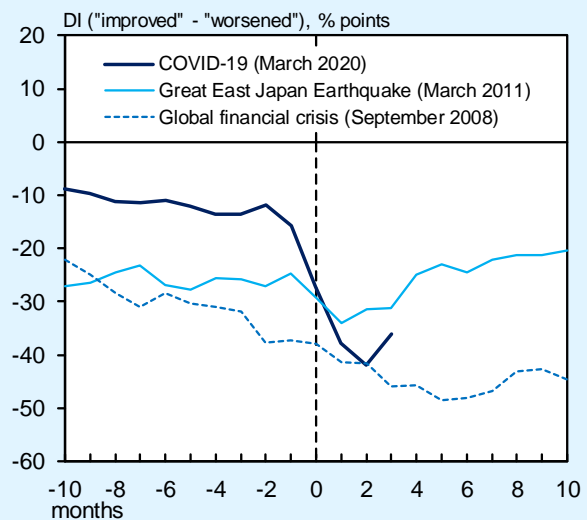
That said, there are extremely high uncertainties over the consequences of COVID-19 and their impact on the economy. If COVID-19 has a larger impact than expected, there is a risk that deterioration in the real economy will affect financial system stability, thereby exerting further downward pressure on the real economy. This risk is judged as not significant at this point, since (1) financial institutions have considerable resilience in terms of both capital and liquidity, (2) firms have maintained robust financial bases on the whole, and (3) the Bank and the government have made policy responses. However, it is necessary to pay close attention to future developments.

**Chart B5-4: Private Sector Funding**



Sources: Bank of Japan; Japan Securities Depository Center; Japan Securities Dealers Association; HN Information Systems.  
 Note: Figures for lending by domestic commercial banks include those for lending to local governments.

**Chart B5-5: Financial Positions of Small and Medium-Sized Firms**



Source: Japan Chamber of Commerce and Industry.  
 Notes: 1. Based on the LOBO survey. The survey includes sole proprietors.  
 2. Month 0 is indicated in the legend for each event.