

(Box 5) Bank of Japan's Responses to COVID-19 and Financial Conditions

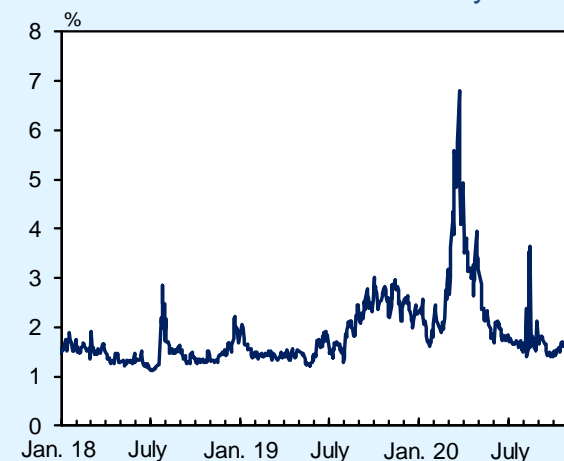
COVID-19 has affected the financial side. With a view to supporting financing, mainly of firms, and maintaining stability in financial markets, the Bank has actively made responses by conducting the following three measures: (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19); (2) an ample provision of yen and foreign currency funds without setting upper limits, mainly by purchasing JGBs and conducting the U.S. dollar funds-supplying operations; and (3) active purchases of ETFs and J-REITs (Chart B5-1).

These measures have had positive effects. Global financial markets became rapidly unstable from late February, reflecting the spread of COVID-19, but tension has eased. As for the funding environment for foreign currencies, premiums for U.S. dollar funding through the foreign exchange swap market between the dollar and other major currencies rose significantly due to vigilance against COVID-19. However, the premiums narrowed quickly and have been stable because major central banks, including the Bank of Japan, have cooperated to strengthen the U.S. dollar funds-supplying operations and to provide ample dollar funds, based on the lessons learned at the time of the GFC (Chart 57). In addition, although the volatility of the JGB market heightened, it has declined, partly due to the Bank's active JGB purchases (Chart B5-2). Meanwhile, the yield curve for JGBs has been stable at a low level, even at a time when market participants factored in an increase in JGB issuance (Charts 49 and 55). Triggered by the

Chart B5-1: The Bank's Measures in Response to COVID-19

Supporting Corporate Financing
Special Program to Support Financing in Response to COVID-19: total size of about 130 tril. yen + α Purchases of CP and corporate bonds: amount outstanding of about 20 tril. yen at maximum (previous amount outstanding of about 5 tril. yen) Special Funds-Supplying Operations to Facilitate Financing in Response to COVID-19: about 110 tril. yen
Stabilizing Financial Markets
Ample and Flexible Provision of Yen and Foreign Currency Funds Further active purchases of JGBs and T-Bills: unlimited Enhancement of the U.S. Dollar Funds-Supplying Operations: unlimited
Active Purchases of ETFs and J-REITs
ETFs: annual pace of about 6 tril. yen → annual pace with the upper limit of about 12 tril. yen (for the time being) J-REITs: annual pace of about 90 bil. yen → annual pace with the upper limit of about 180 bil. yen (for the time being)

Chart B5-2: Bond Market Volatility



Source: Bloomberg.
Note: Figures are based on the S&P/JPX JGB VIX Index.

spread of COVID-19, the volatility indices for the stock market rose to a level not seen since the GFC, but they have declined, partly because the government and central bank of each country and region have taken aggressive measures (Chart B5-3). That said, global financial markets have remained nervous, as seen in the volatility of the stock market staying relatively high compared with the pre-pandemic level.

Despite weakness in financial positions, mainly of firms, the environment for external funding has remained accommodative since private financial institutions have actively fulfilled the functioning of financial intermediation on the back of various measures taken by the Bank and the government (Chart 52). The Bank has mainly provided liquidity support by conducting the aforementioned measures. Meanwhile, the government has provided solvency support by enhancing programs that make use of guaranteed loans and by establishing programs to supply capital and quasi-capital funds.

On this basis, financial institutions' lending attitudes have remained accommodative. Specifically, the DI in the *Tankan* for financial institutions' lending attitudes as perceived by firms shows that the proportion of firms answering that such attitudes are "severe" has remained small compared with when business sentiment deteriorated in the past (Charts 51 and B5-4). The amount outstanding of lending has increased on the whole and loans to small and medium-sized firms also have increased for many industries (Charts 53 and B5-5). Meanwhile, the Special Funds-Supplying Operations to Facilitate

Chart B5-3: Stock Market Volatility

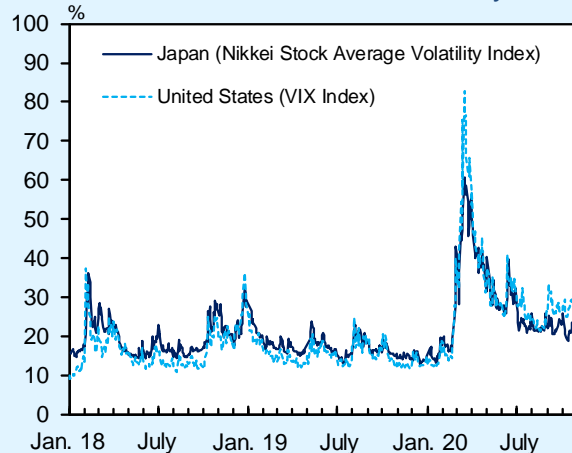


Chart B5-4: Business Sentiment and Firms' Perceptions of Lending Attitudes of Financial Institutions

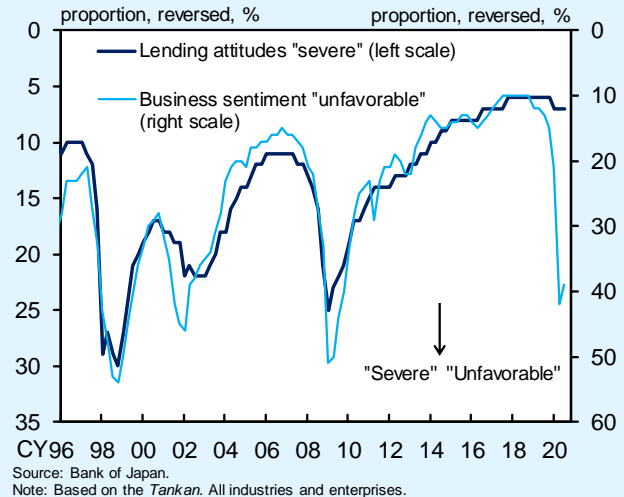
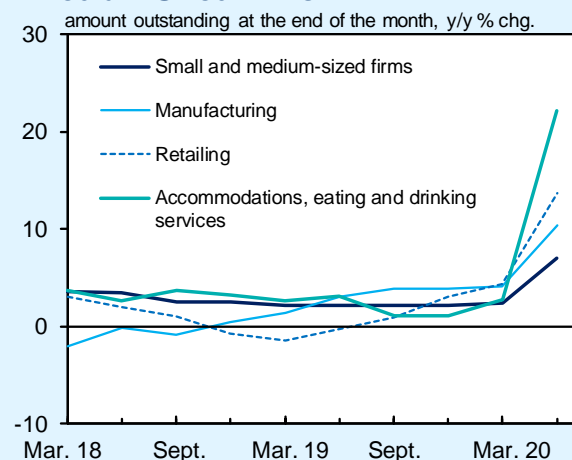
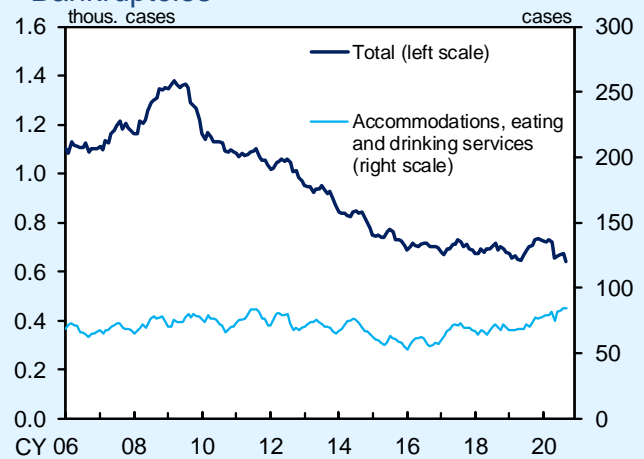


Chart B5-5: Loans to Small and Medium-Sized Firms



Financing in Response to the Novel Coronavirus (COVID-19), in which the Bank provides funds on favorable terms to financial institutions that particularly make loans in response to COVID-19, have increased significantly in size. For example, when the special operation was first conducted in March, there were 18 eligible counterparties and the amount outstanding of loans to them was 3.4 trillion yen, increasing to about 250 counterparties and 45 trillion yen, respectively, as of end-September. Issuance rates for CP and corporate bonds rose temporarily but have been stable after the Bank increased the upper limit on the total purchases of CP and corporate bonds to 20 trillion yen (Chart 50). The rate of increase in the amount outstanding of CP and corporate bonds has continued to be at a high level (Chart 53). These developments suggest that the economy has been supported from the financial side. Against this backdrop, the number of bankruptcies of firms has been stable on the whole, without a sudden increase seen even in the eating and drinking as well as accommodations industry, which has been largely affected by COVID-19 (Chart B5-6).

Chart B5-6: Number of Corporate Bankruptcies



Source: Tokyo Shoko Research Ltd., "Tosan Geppō" (Monthly Review of Corporate Bankruptcies).
 Note: Figures show 6-month backward moving averages.

That said, there are extremely high uncertainties over the consequences of COVID-19 and their impact on the economy. It is expected at this point that financial system stability will be maintained and the economy will continue to be supported from the financial side, partly owing to the policy responses by the Bank and the government. However, future developments warrant close attention.