

8 July 2020 (No. of pages: 1 )

Japanese report: 07 Jul 2020

# Effectiveness of Expanding COVID-19 Finance Operations

## *Bank of Japan's Efforts to Prevent Financial Crisis*

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### Summary

- The Bank of Japan (BOJ) has been working to facilitate corporate financing through its "Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19)" and other measures. By providing various incentives to promote bank lending, the number of financial institutions using the system has increased, as well as the balance of lending from the BOJ to financial institutions.
- According to the BOJ Tankan, although the financial positions of enterprises has worsened, the degree to which they have worsened is limited compared to the global financial crisis of 2008. Financial institutions appear to be actively lending to firms, suggesting that the provision of funds through the special funds-supplying operation has been effective.
- The negative chain-reaction between financial markets and the real economy is one characteristic of a financial crisis, and historical experience shows that once a chain-reaction begins, the crisis deepens. If the economic downturn is prolonged, financial institutions' balance sheets may deteriorate, leading to a financial crisis. Looking beyond the Corona Disaster, companies may need to make new capital investments in their core businesses as they reconsider their business models and restructure their businesses. It is desirable for the government to shift its policy focus from providing liquidity to increasing capital in order to strengthen the financial base.

#### Attention

This report is a summary translation. The official document is only in Japanese.