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How Effective Will BOJ's First Ever Green Monetary Policy Be?

Expectations for green operations and three points to pay attention to

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Summary

- The Bank of Japan announced the introduction of green operations to back-finance private financial institutions' investment and loans to companies who implement climate change-related projects. This is the first green monetary policy undertaken by the Bank of Japan. This paper, firstly, reviews the "Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth" that is currently in place and will become the predecessor of green operations. Secondly, it summarizes developments in climate change-related investment and loans that financial institutions have conducted so far. Finally, it estimates the effects of green operations in relation to the "Interest Scheme to Promote Lending" introduced in March 2021.
- Based on several assumptions, it is estimated that the amount of climate change-related investment and loans by financial institutions in Japan would be approximately ¥865.9 billion. This is smaller than the current amount outstanding of the predecessor program. In addition, even if interest payments are made by BOJ under the "Interest Scheme to Promote Lending", the amount of interest earned by financial institutions is expected to remain very small. Nevertheless, the BOJ's stance to indirectly engage in the rapidly growing sustainable finance market is significant.
- The detailed explanation of green operations will be open to the public at the Monetary Policy Meeting in July this year. The following three points are worth paying attention to: (1) in what form will the use of funds be designated for green operations and in which categories will the balance of green operations correspond to the "Interest Scheme to Promote Lending", (2) will terms and conditions of investment and loans to companies be attractive enough, and (3) whether the Bank of Japan will adopt another green monetary policy in the future.

Attention

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