

Spillovers of the Bank of Japan's Exchange Traded Fund and Corporate Bond Purchases

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Abstract

This study examines the spillovers of the Bank of Japan's (BOJ's) exchange-traded fund (ETF) and corporate bond (CB) purchases on bank operations and the supply of bank loans for public and private firms not subject to BOJ purchases. The results show that, first, following the introduction of the BOJ's purchases in 2010, the total lending of highly exposed banks decreased; instead, such banks invested more in securities compared to less exposed banks. Second, evidence suggests a small but negative effect of the purchase program on bank investment and performance ratios. The decline in targeted firms' bank loans may have intensified banking competition and encourage highly affected banks to engage more in risk-taking activities, which might adversely affect banks. Third, consistent with the increase in exposed banks' risk-taking incentives, the impact on bank loans of public ineligible firms is shown to be insignificant, while SMEs with higher exposure to the BOJ's program had more favorable loan terms such as larger loan amounts and lower interest rates after the policy implementation. However, this positive impact on SMEs is not strong enough to improve firms' performance.