



Bank of Japan and Non-standard Policy Measures

June 18, 2013

Non-standard Monetary Policy Measures

European Central Bank Workshop

Shuji Kobayakawa
Monetary Affairs Department
Bank of Japan

Contents

- 1. Quantitative and Qualitative Monetary Easing (QQE)**
 - Basic Features**
 - Transmission Channel (Interest Rates, Portfolio Rebalancing, Inflation Expectations)**

- 2. Loan Support Program**
 - Growth-Supporting Funding Facility**
 - Stimulating Bank Lending Facility**

Views expressed hereafter are those of mine and do not necessarily represent those of the Bank of Japan.
If you have any questions or comments, please do not hesitate to contact me at shuuji.kobayakawa@boj.or.jp.

1. QUANTITATIVE AND QUALITATIVE MONETARY EASING (QQE)

Quantitative and Qualitative Monetary Easing

Price Stability Target
= "2 percent"

Time Horizon
= "2 years"

Monetary Base
= "double" in 2 years

Avg. Remaining Maturity of JGB Purchases
= "more than double" in 2 years



Overcoming Deflation

Quantitative and Qualitative Monetary Easing

1. Adoption of the monetary base control

Main operating target: uncollateralized overnight call rate => monetary base
The monetary base will increase at an annual pace of about 60-70 tril. yen.

2. Increase in JGB purchases and their maturity extension

With a view to encouraging a further decline in interest rates across the yield curve, the Bank will purchase JGBs so that their amount outstanding will increase at an annual pace of about 50 tril. yen.

JGBs with all maturities will be made eligible for purchase, and the average remaining maturity of the Bank's JGB purchases will be extended from slightly less than 3 yrs to about 7 yrs -- equivalent to the average maturity of the amount outstanding of JGBs issued.

3. Increase in ETF and J-REIT purchases

With a view to lowering risk premia of asset prices, the Bank will purchase ETFs and J-REITs so that their amounts outstanding will increase at an annual pace of 1 tril. yen and 30 bil. yen respectively.

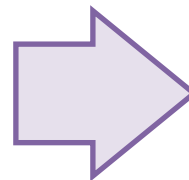
4. Continuation of the QQE

The Bank will continue with the QQE, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner.

Bank of Japan's Balance Sheet Projection

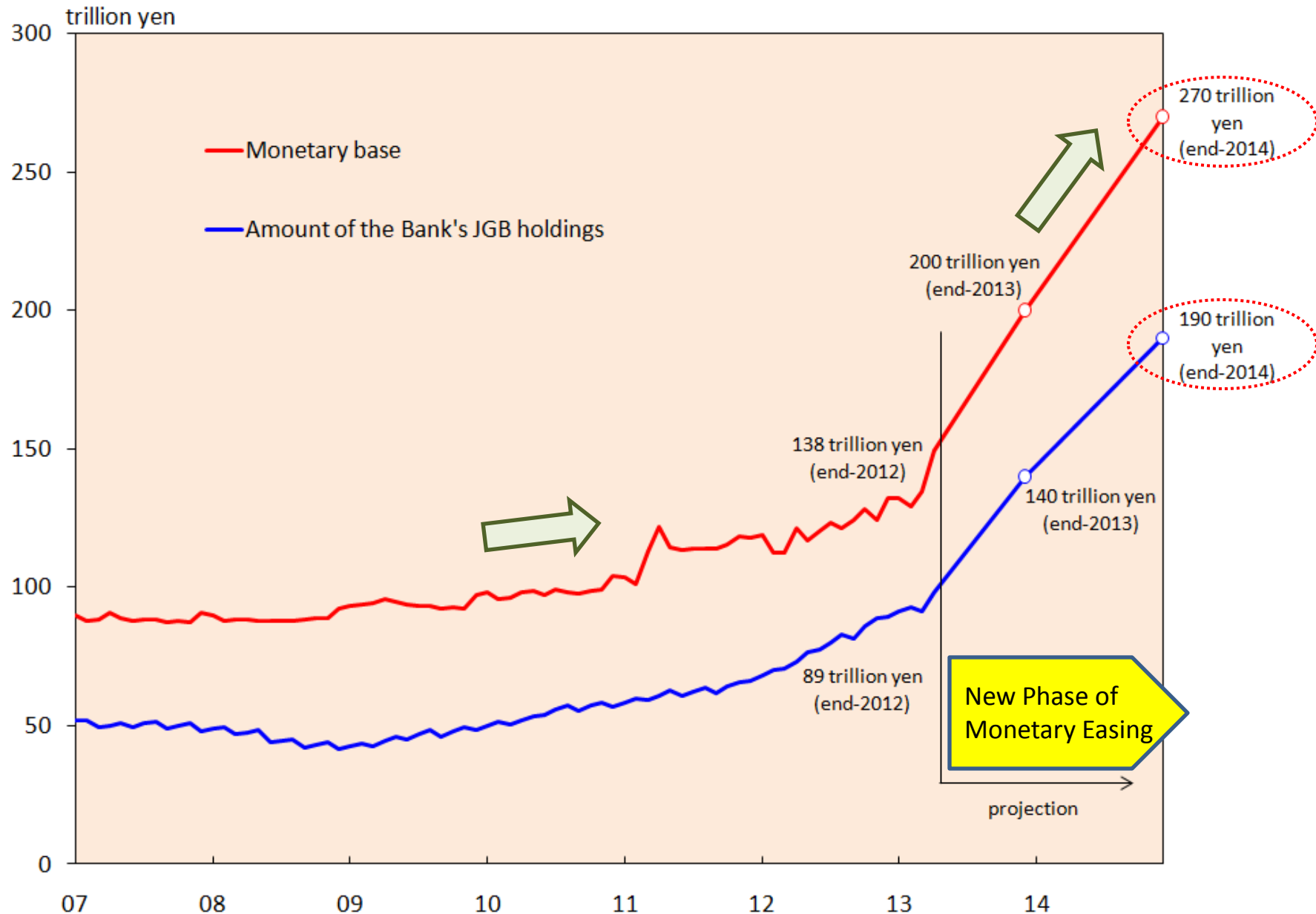
(trillion yen)

Balance sheet	end-2012 (actual)
Total assets	158
JGBs	89
CP	2.1
Corporate bonds	2.9
ETFs	1.5
J-REITs	0.11
Loan Support Program	3.3
Total liabilities	158
Banknotes	87
Current deposits	47
Monetary base	138



	end-2013 (projected)	end-2014 (projected)
Total assets	220	290
JGBs	140	190
CP	2.2	2.2
Corporate bonds	3.2	3.2
ETFs	2.5	3.5
J-REITs	0.14	0.17
Loan Support Program	13	18
Total liabilities	220	290
Banknotes	88	90
Current deposits	107	175
Monetary base	200	270

Monetary Base and the Bank's JGB holdings



Transmission Channel: Summary

Clear commitment

The Bank will achieve the price stability target of 2 percent at the earliest possible time, with a time horizon of about two years.

New phase of monetary easing both in terms of quantity and quality

Purchase of JGBs

Purchase of ETFs and J-REITs

Lowering longer term interest rates

Lowering risk premia of asset prices

1st channel

2nd channel

1st channel

3rd channel

Increasing lending and investing in risk assets

Changing expectations drastically

Loans

Asset prices

Rise in growth rate

Decline in real rates

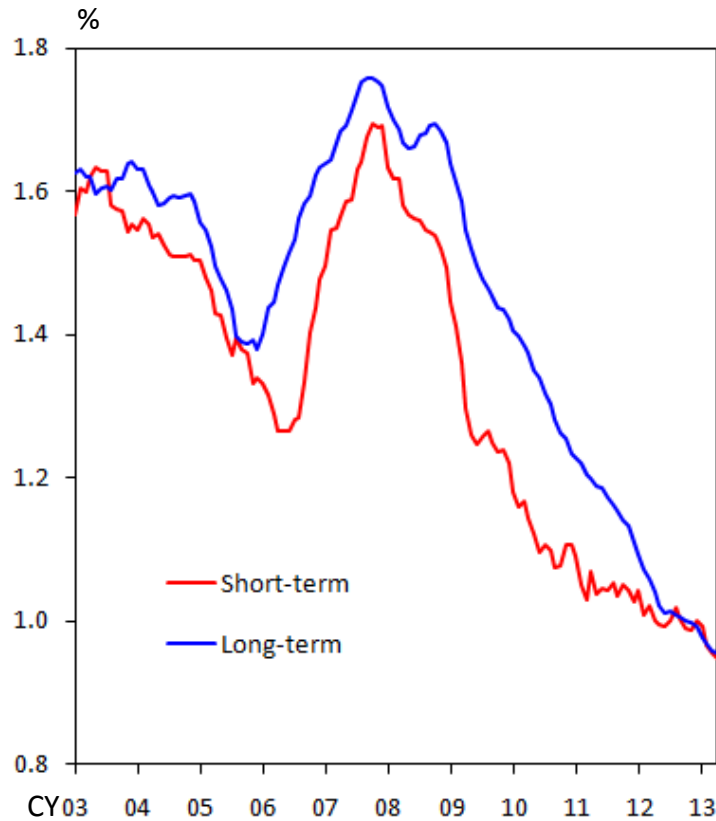
Improvement in the output gap

Rise in inflation expectations

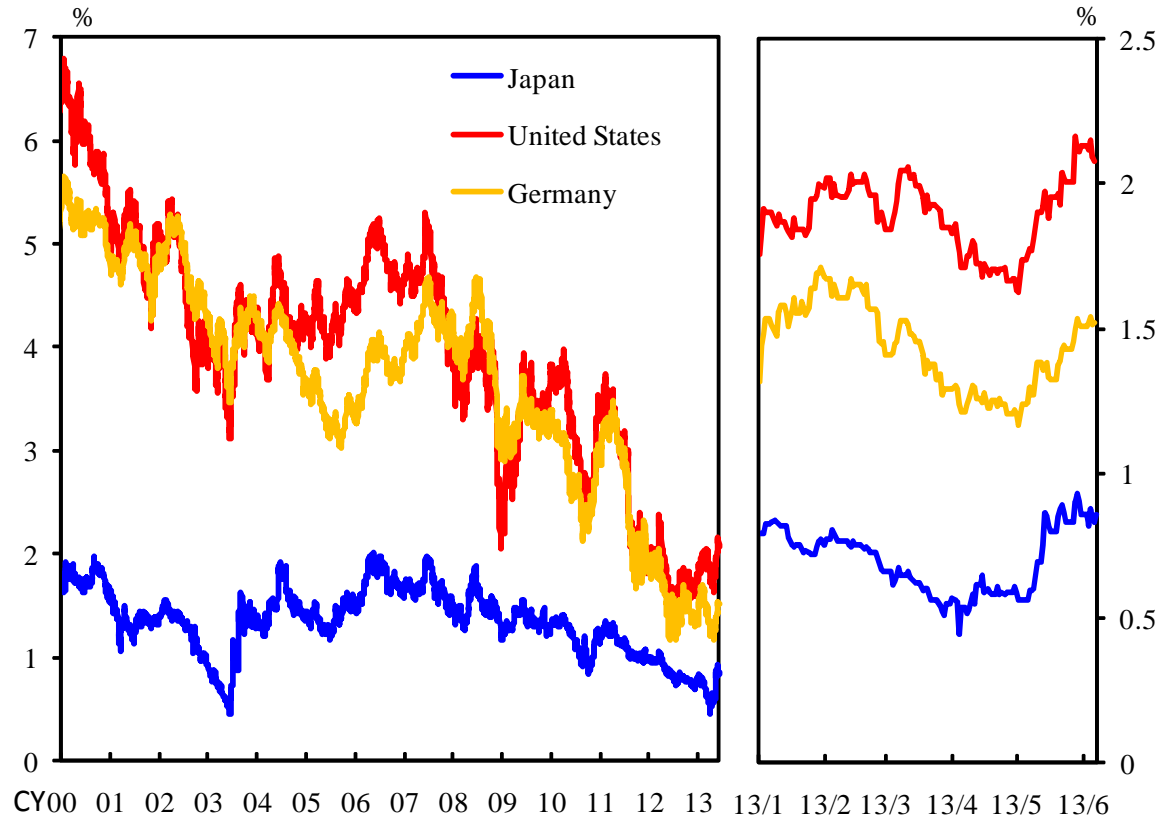
CPI ↑

Financial Conditions

Bank Lending Rates in Japan



10-year Government Bond Yields

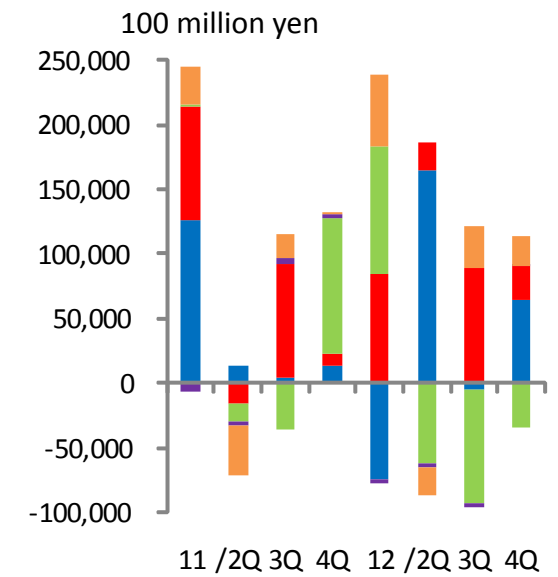
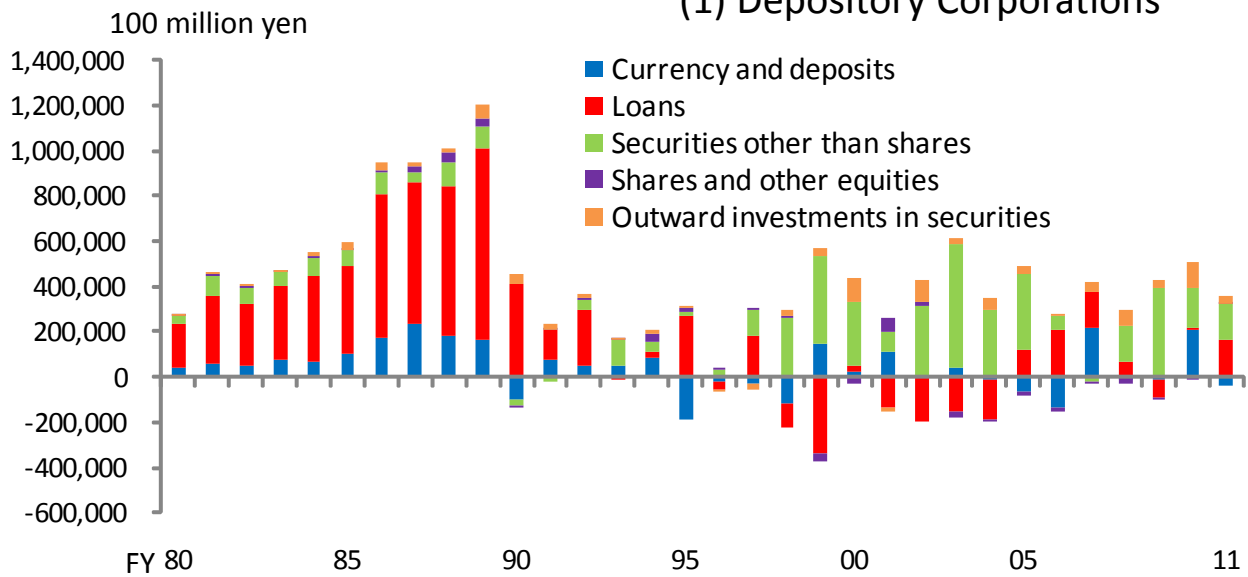


Note: Lending rates are the average contracted interest rates (six-month backward moving averages on new loans and discounts).

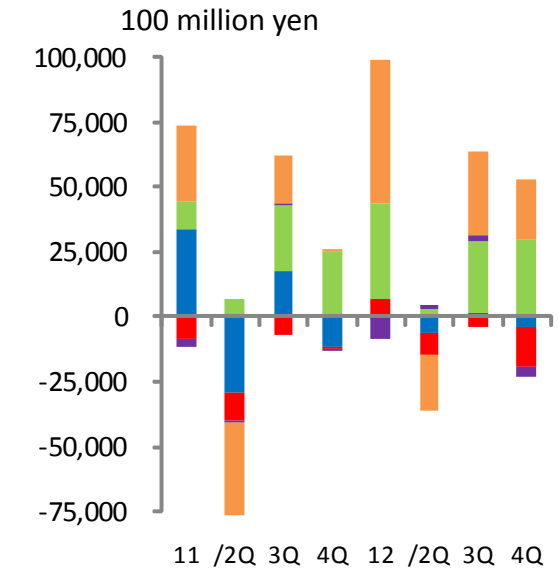
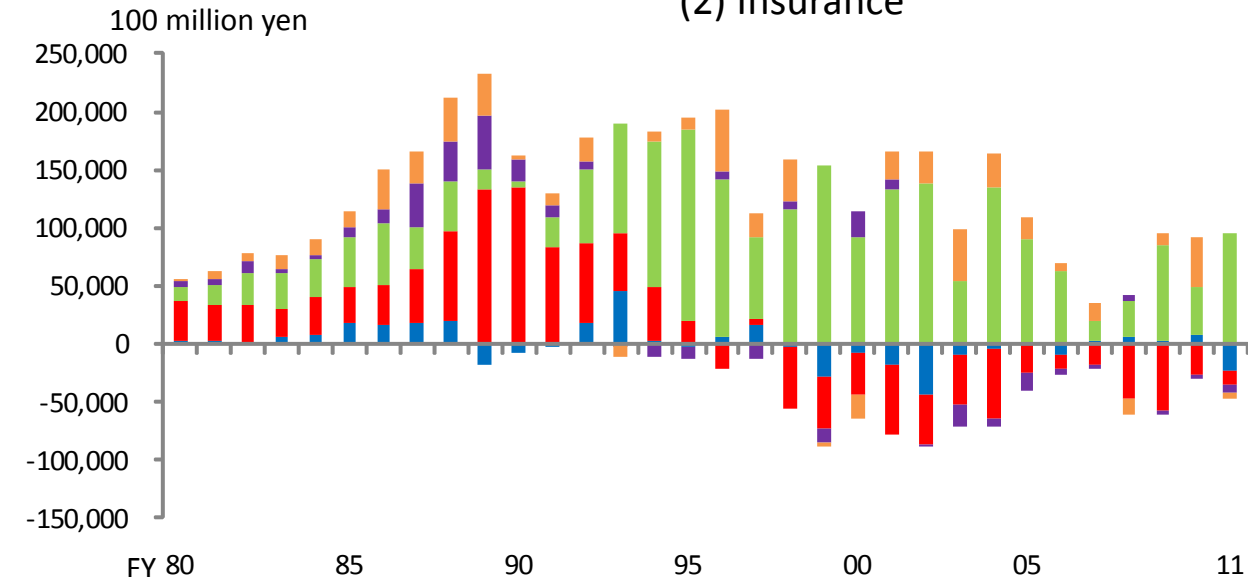
Sources: Bank of Japan; Bloomberg.

Portfolio: Banks and Insurance Companies

(1) Depository Corporations

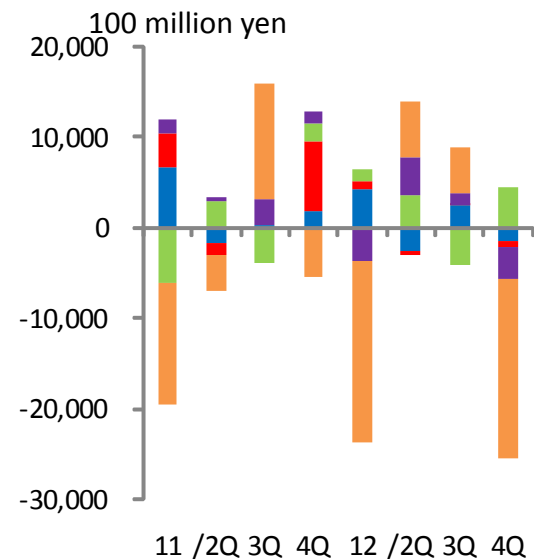
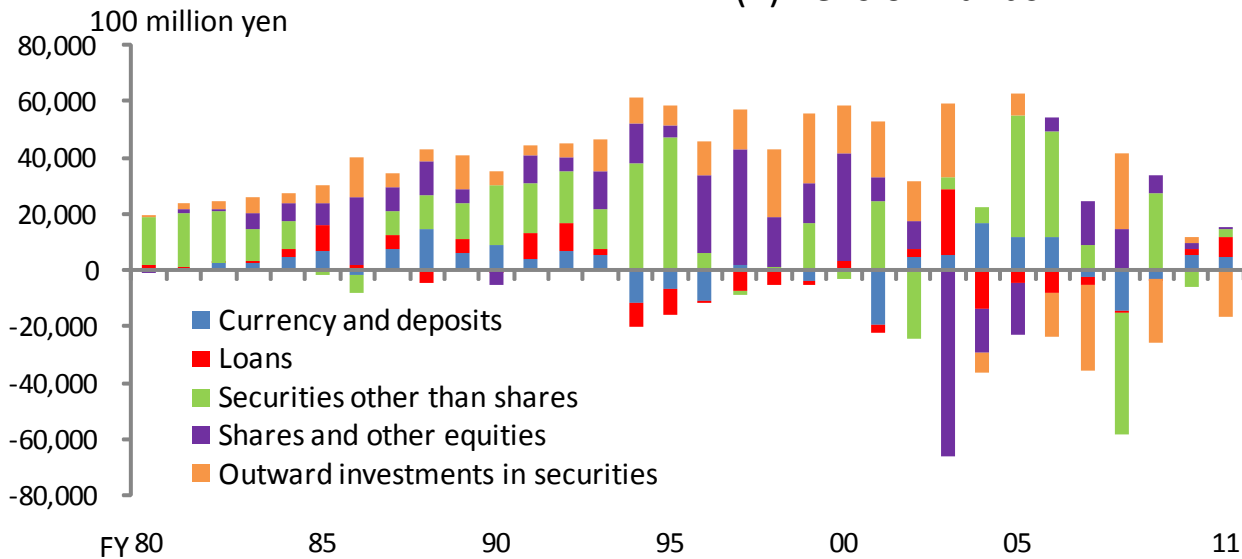


(2) Insurance

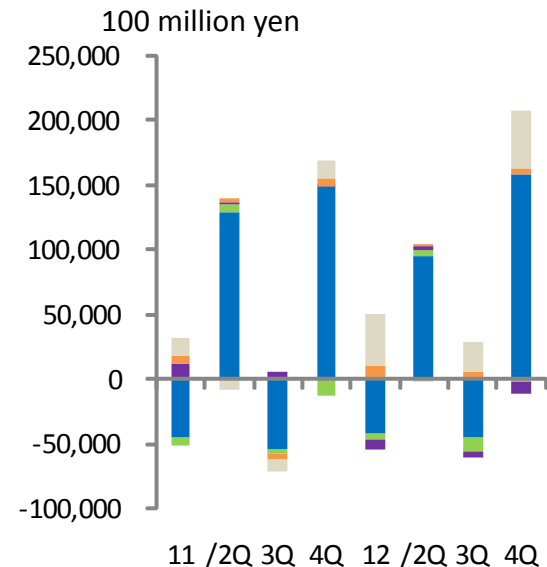
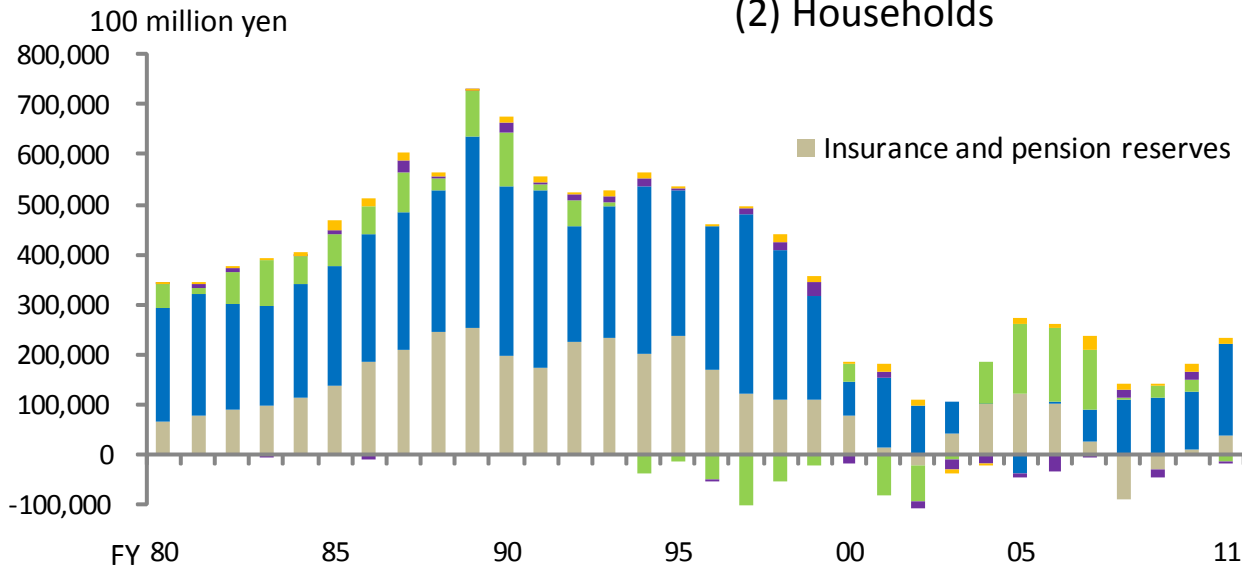


Portfolio: Pension Funds and Households

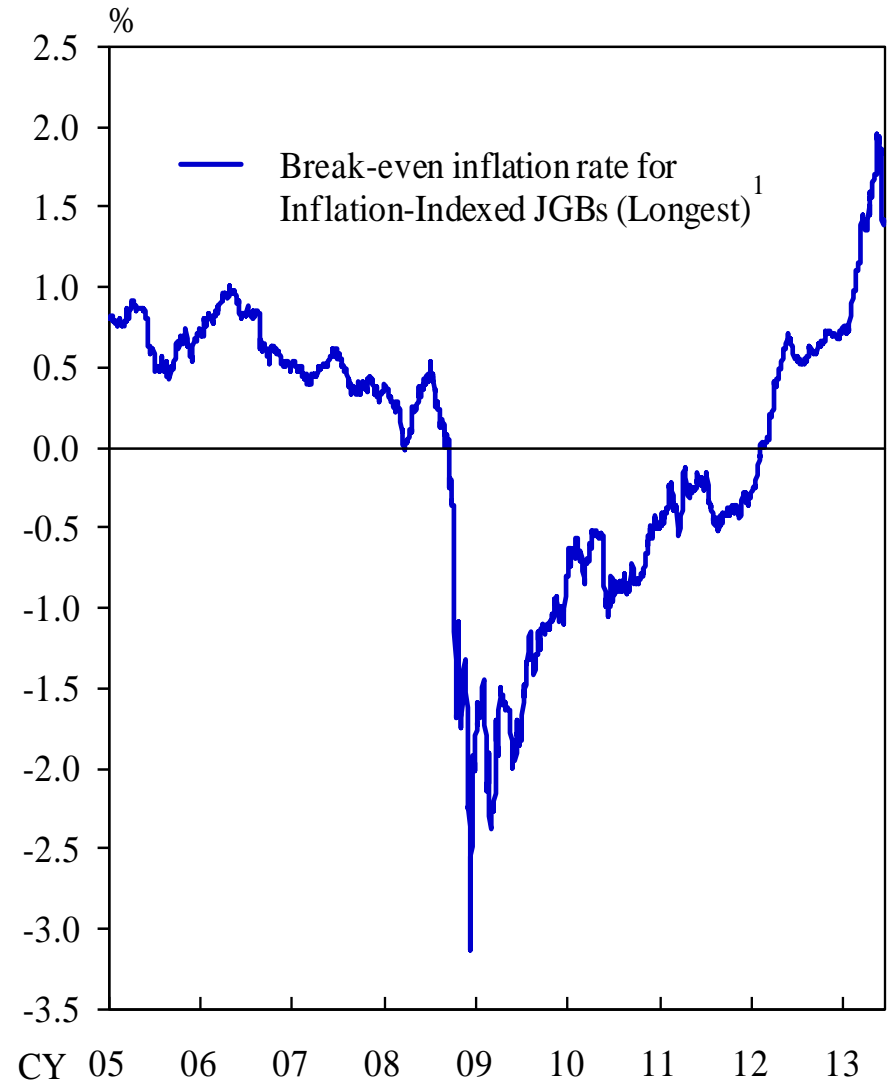
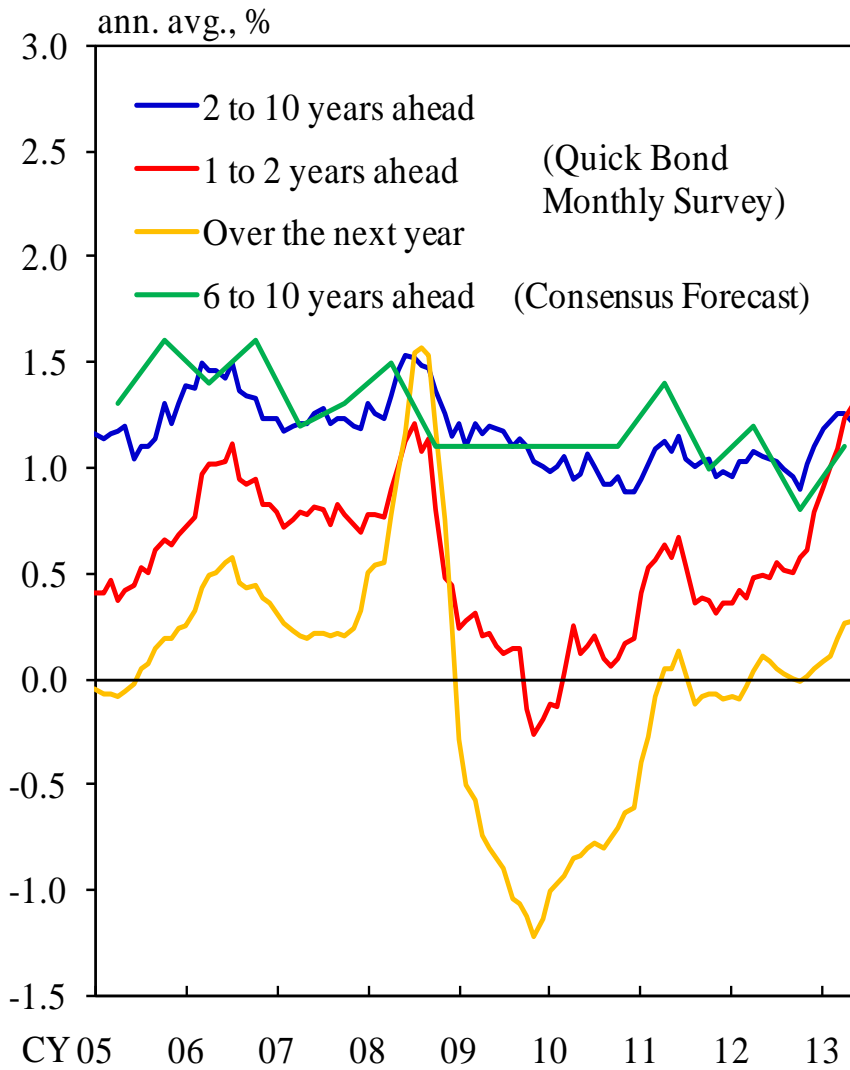
(1) Pension Funds



(2) Households



Inflation Expectations



Note 1: Yield spreads between fixed-rate coupon-bearing JGBs and inflation-indexed JGBs. Figures for “Longest” are calculated using yield data for the inflation-indexed JGBs that have the longest maturity at each period.

Sources: QUICK; Consensus Economics Inc., "Consensus Forecasts"; Bloomberg.

2. LOAN SUPPORT PROGRAM

Loan Support Program

Loan Support Program

Growth-Supporting Funding Facility

Total Amount: 5.5 trillion yen

Main Rules 3.5 trillion yen

Equity investments and ABL

0.5 trillion yen

Small-lot investments and loans

0.5 trillion yen

Loans in the U.S. dollar

U.S. dollar funds equivalent

to 1 trillion yen

Amount Outstanding: 3.6 trillion yen

Introduced in June 2010

Stimulating Bank Lending Facility

Total Amount: "unlimited"

Simply Calculated Amount from the
Recent Data: 15 trillion yen

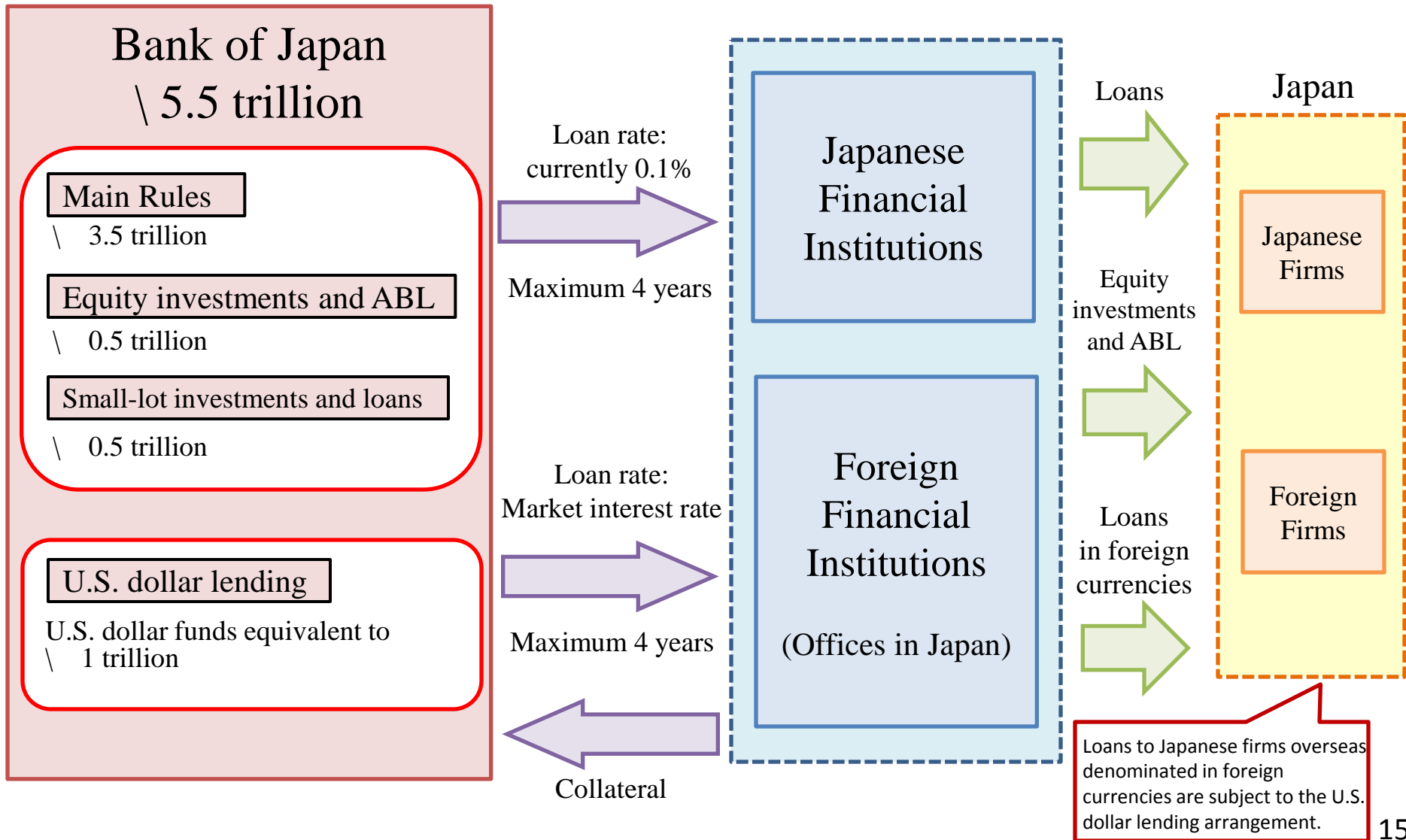
Note: According to the August 2012 data,
the amount of loans increased by
approximately 15 trillion yen in a year
for financial institutions whose lending
increased.

Amount Outstanding: 3.2 trillion yen

Introduced in December 2012

Growth-Supporting Funding Facility: Micro Approach

=> Playing a catalytic role in encouraging financial institutions' new lending to businesses with growth potential



Growth-Supporting Funding Facility: Details

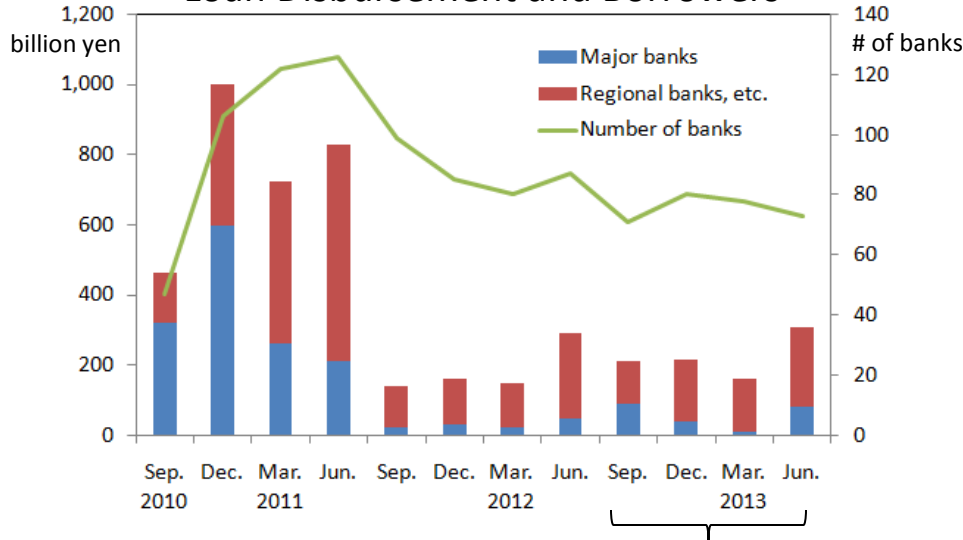
1. Counterparty: financial institutions (Japanese financial institutions + foreign financial institutions' offices in Japan)
2. Total amount: 5.5 trillion yen
3. Maximum amount to each counterparty: 150 billion yen
4. Duration of loans: 1 year in principle, max of 4 years by rollovers
5. Form of loans: provided in the form of the Bank of Japan's Funds-Supplying Operations against Pooled Collateral

18 Possible areas for strengthening growth potential

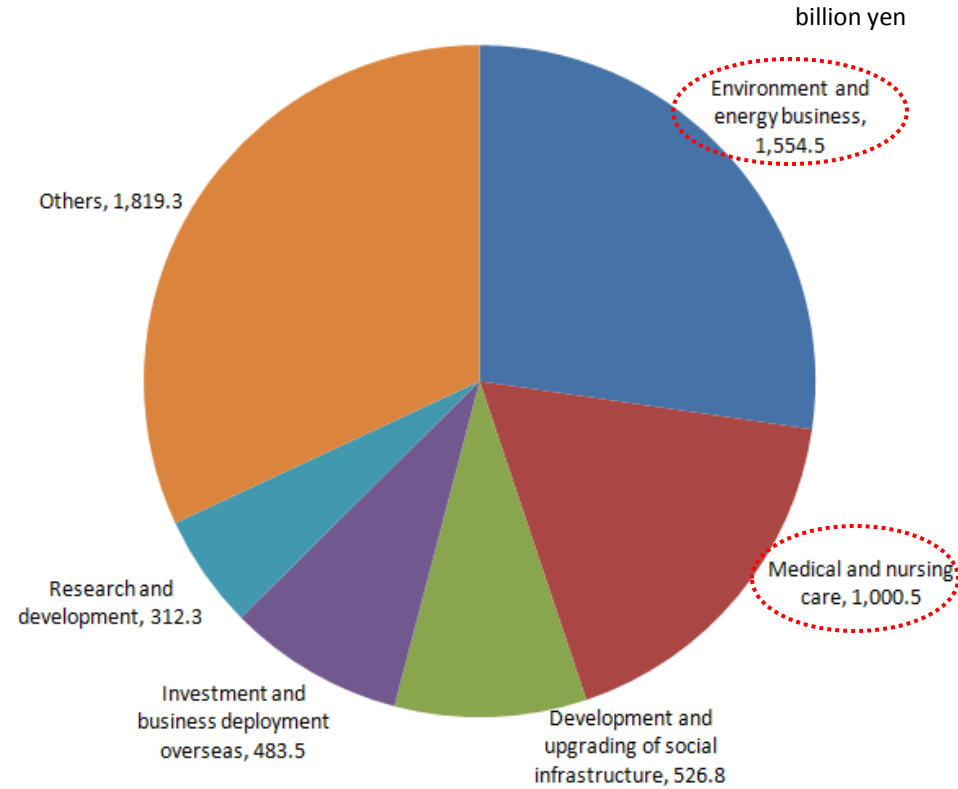
Research and development	Business serving the needs of senior citizens
Setting up a new business	Business in the content creation industry
Business reorganization	Tourism business
Investment and business deployment overseas	Regional and urban revitalization business
Science and technology research	Agriculture, forestry, and fisheries business
Development and upgrading of social infra.	Business which supports the creation of housing stock
Environment and energy business	Disaster prevention business
Business for securing/developing natural resources	Employment support, human resources development
Medical and nursing care	Childcare services business

Growth-Supporting Funding Facility: Evidence

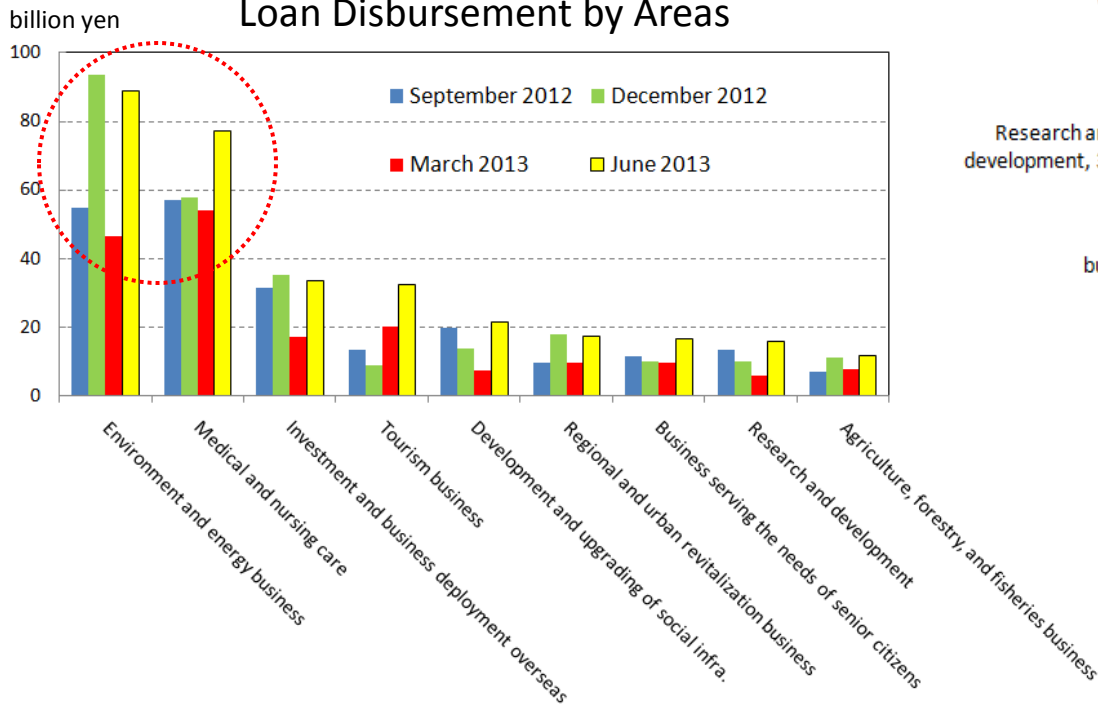
Loan Disbursement and Borrowers



Amounts Outstanding by Areas

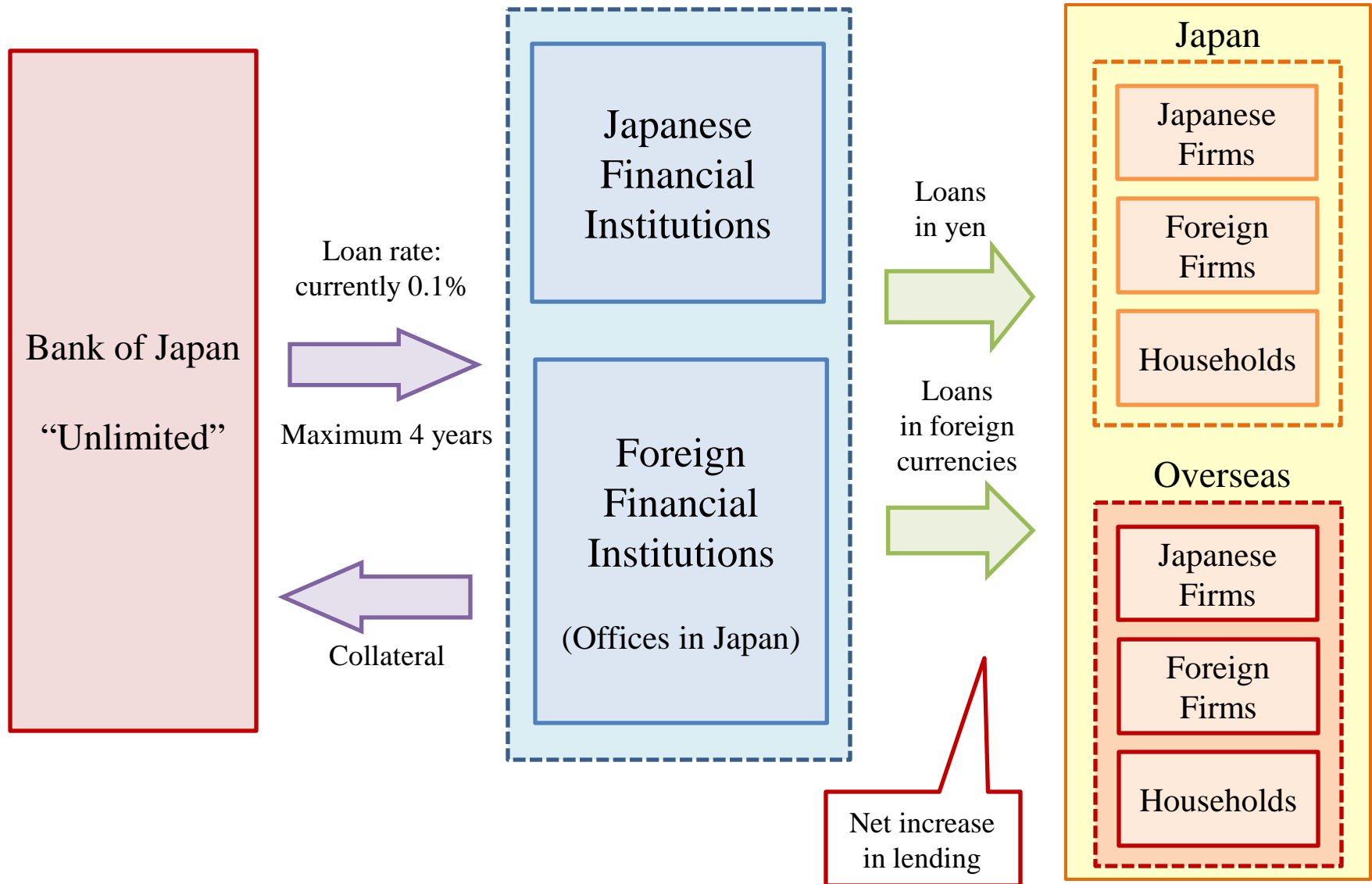


Loan Disbursement by Areas



Stimulating Bank Lending Facility: Macro Approach

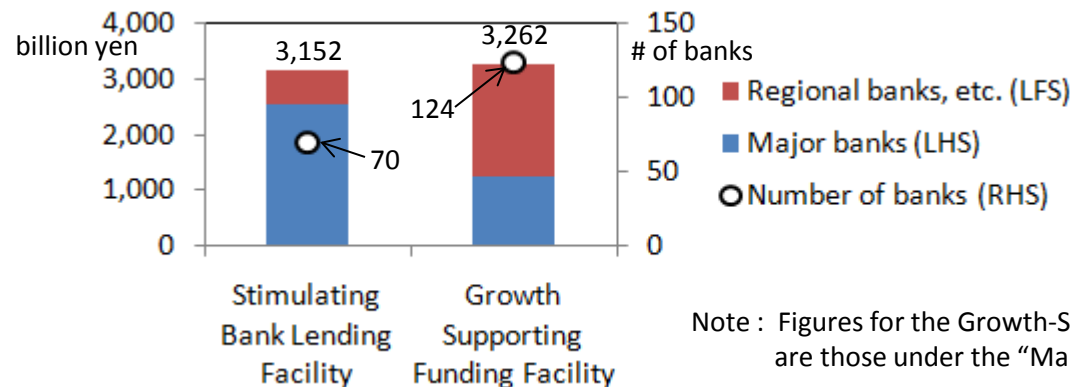
=> Promoting financial institutions' new lending to the private sector and helping increase proactive credit demand of businesses and households



Stimulating Bank Lending Facility: Details

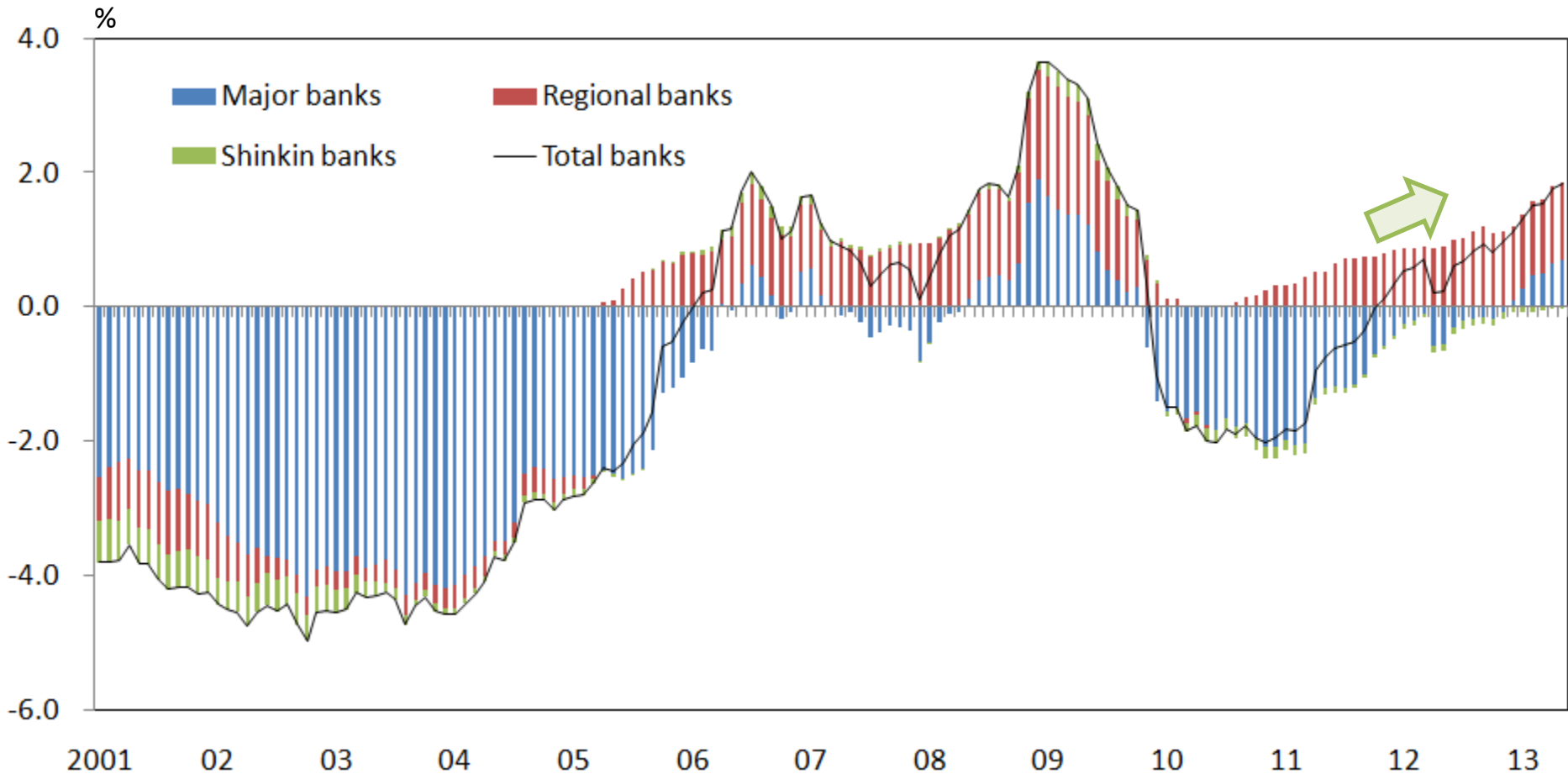
1. Counterparty: financial institutions (Japanese financial institutions + foreign financial institutions' offices in Japan)
2. Total amount: UNLIMITED
3. Maximum amount to each counterparty: net increase in lending (average amount of a specified quarter) — (average amount in Oct-Dec 2012)
4. Duration of loans: 1 yr, 2 yrs, or 3 yrs (overall duration including rollovers \leq 4 yrs)
5. Form of loans: provided in the form of the Bank of Japan's Funds-Supplying Operations against Pooled Collateral

Outstanding Balance of Loans and Number of Borrowers: June 2013



Note : Figures for the Growth-Supporting Funding Facility are those under the "Main Rules" only.

Lending Activity by Financial Institutions



Source: Principal Figures of Financial Institutions, Bank of Japan.