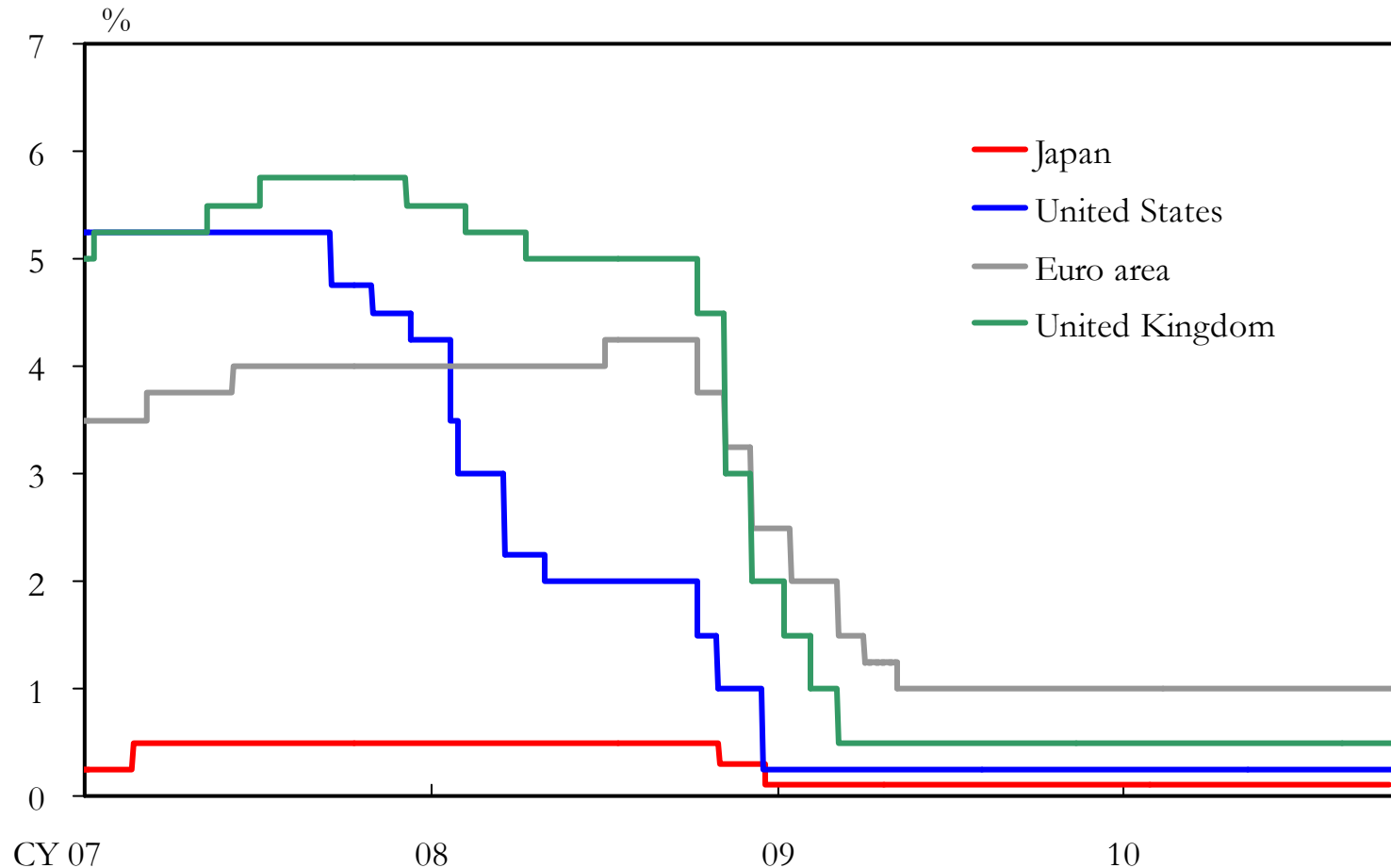




New Frontiers for Monetary Policy

28 October 2010
Hiroshi Nakaso
Bank of Japan

Policy Rates under Zero-bound



Note: In the United States, from December 16, 2008, the target range for the federal funds rate is 0 to 0.25 percent and the interest rate applied to reserve balances is 0.25 percent. In Japan, from October 5, 2010, the Bank encouraged the uncollateralized overnight call rate to remain at around 0 to 0.1 percent and the interest rate applied to the complementary deposit facility is 0.1 percent.

Sources: Federal Reserve; European Central Bank; Bank of England; Bank of Japan.

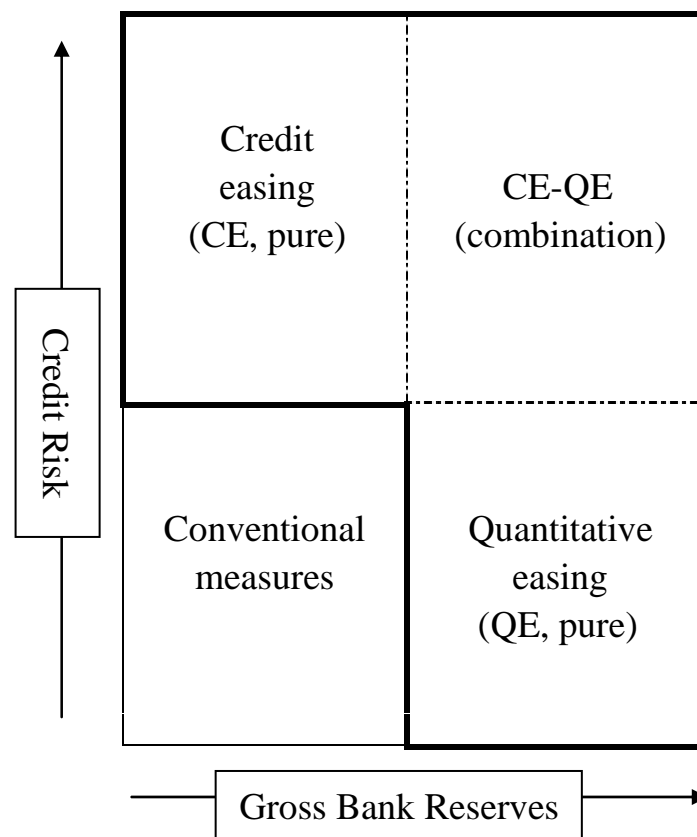
Typology of central bank unconventional policies

■ Credit easing (CE):

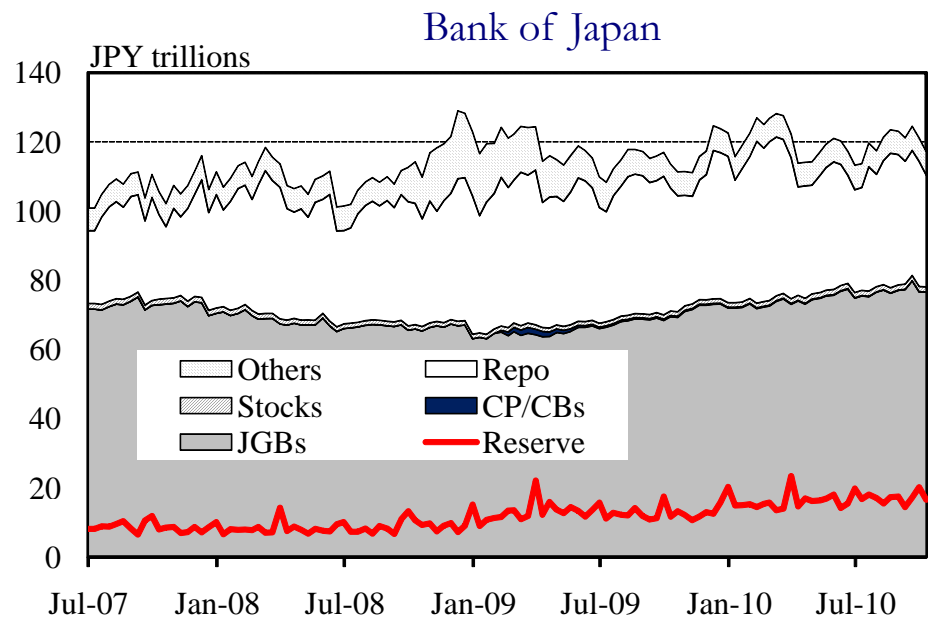
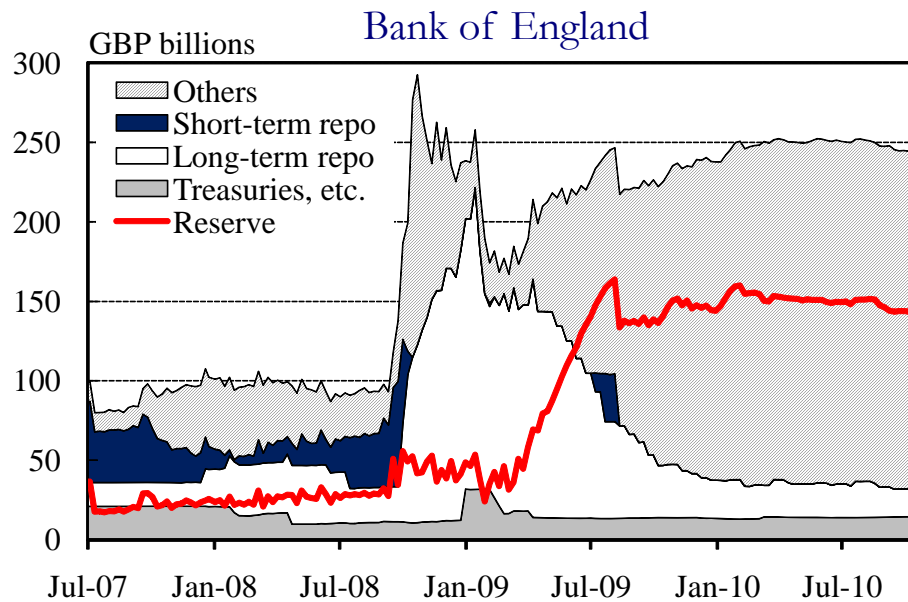
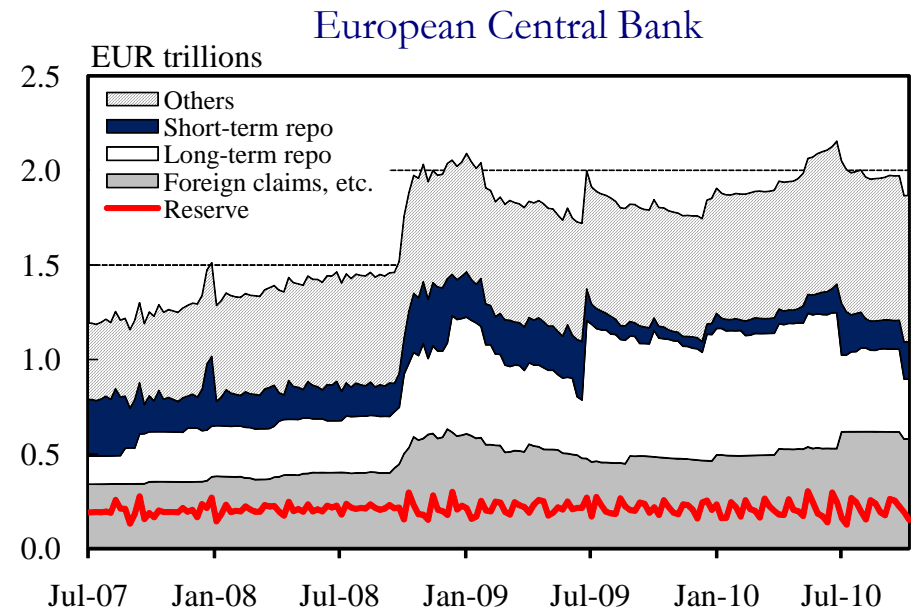
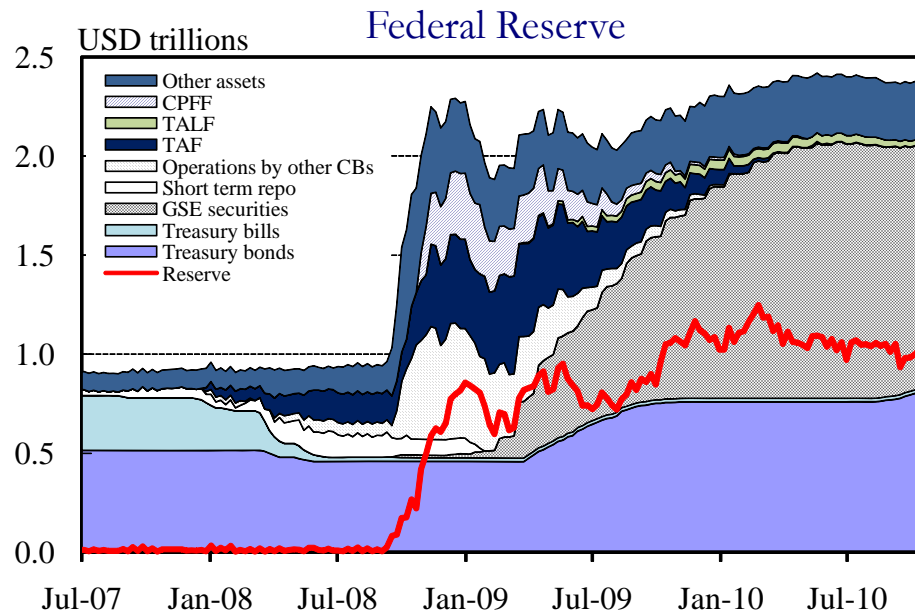
- by changing the composition of the balance sheets
- aims to reduce specific distortions in the financial sector by narrowing exceptionally wide risk or term spreads and by increasing credit flows in particular markets from depressed levels

■ Quantitative easing (QE):

- by expanding gross bank reserves well beyond the threshold necessary to reach the effective lower bound for short-term interest rates
- aims to inject central bank money into the economy, which should further increase the supplies of money and credit and reduce lending rates and market yields



Central banks' balance sheets



Sources: Federal Reserve; European Central Bank; Bank of England; Bank of Japan.

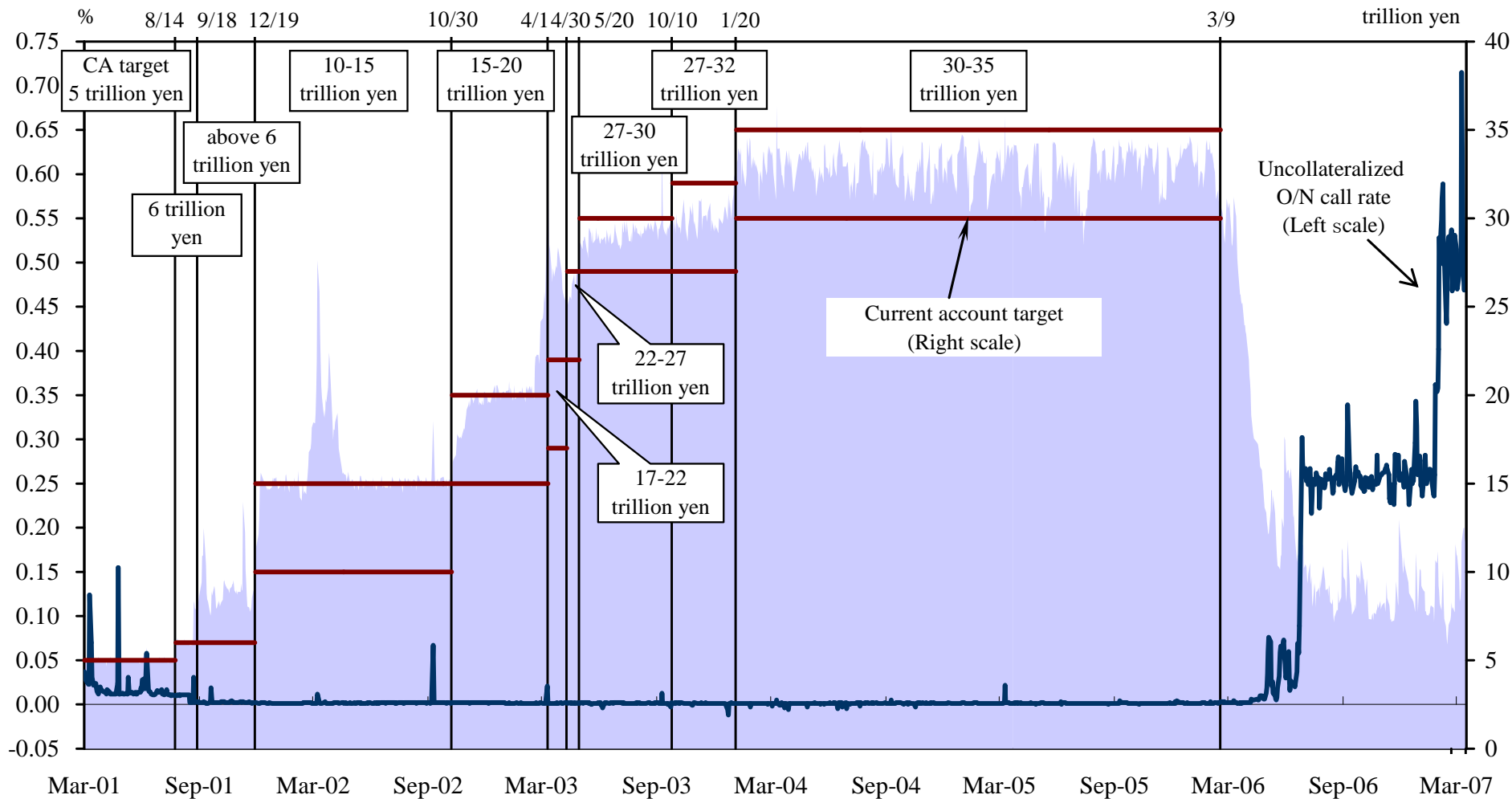


Japan's Invention (1)

- Quantitative Easing Policy 2001-2006
- Outright Purchase of Asset Backed Securities
(ABSs and ABCPs)

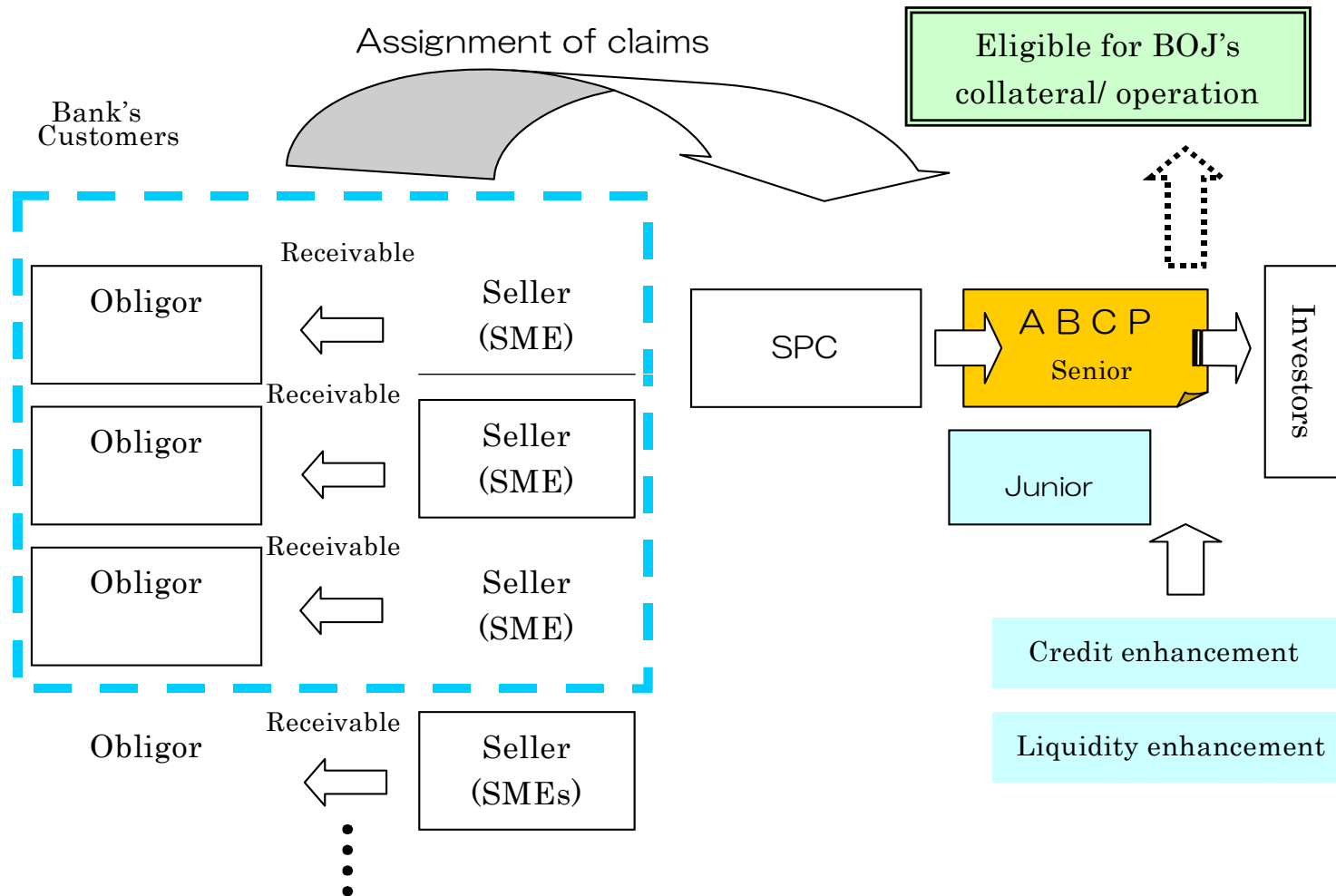
BOJ's 2001-2006 quantitative easing policy

Current account balance targeting

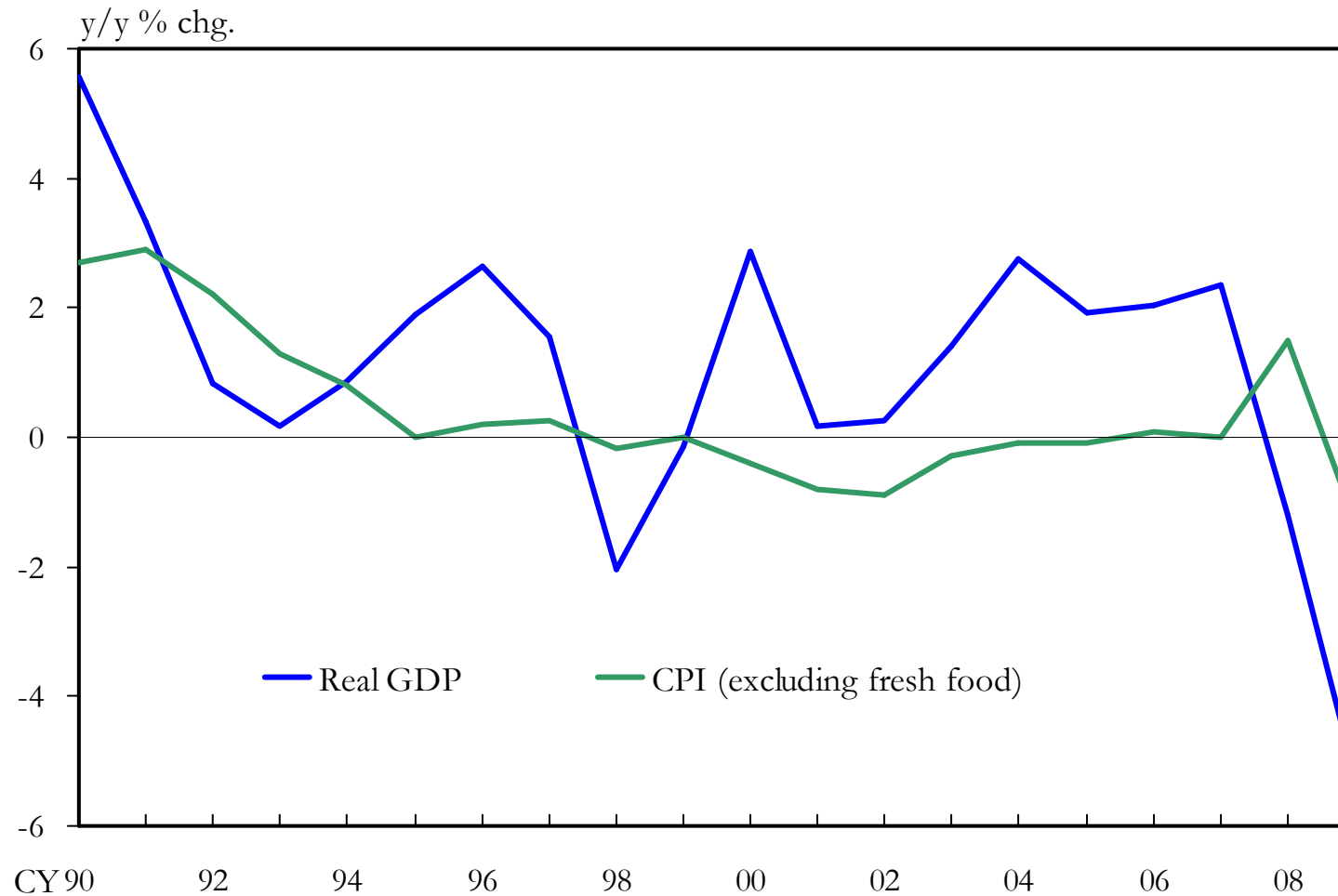


Source: Bank of Japan.

Outright Purchase of Asset Backed Securities



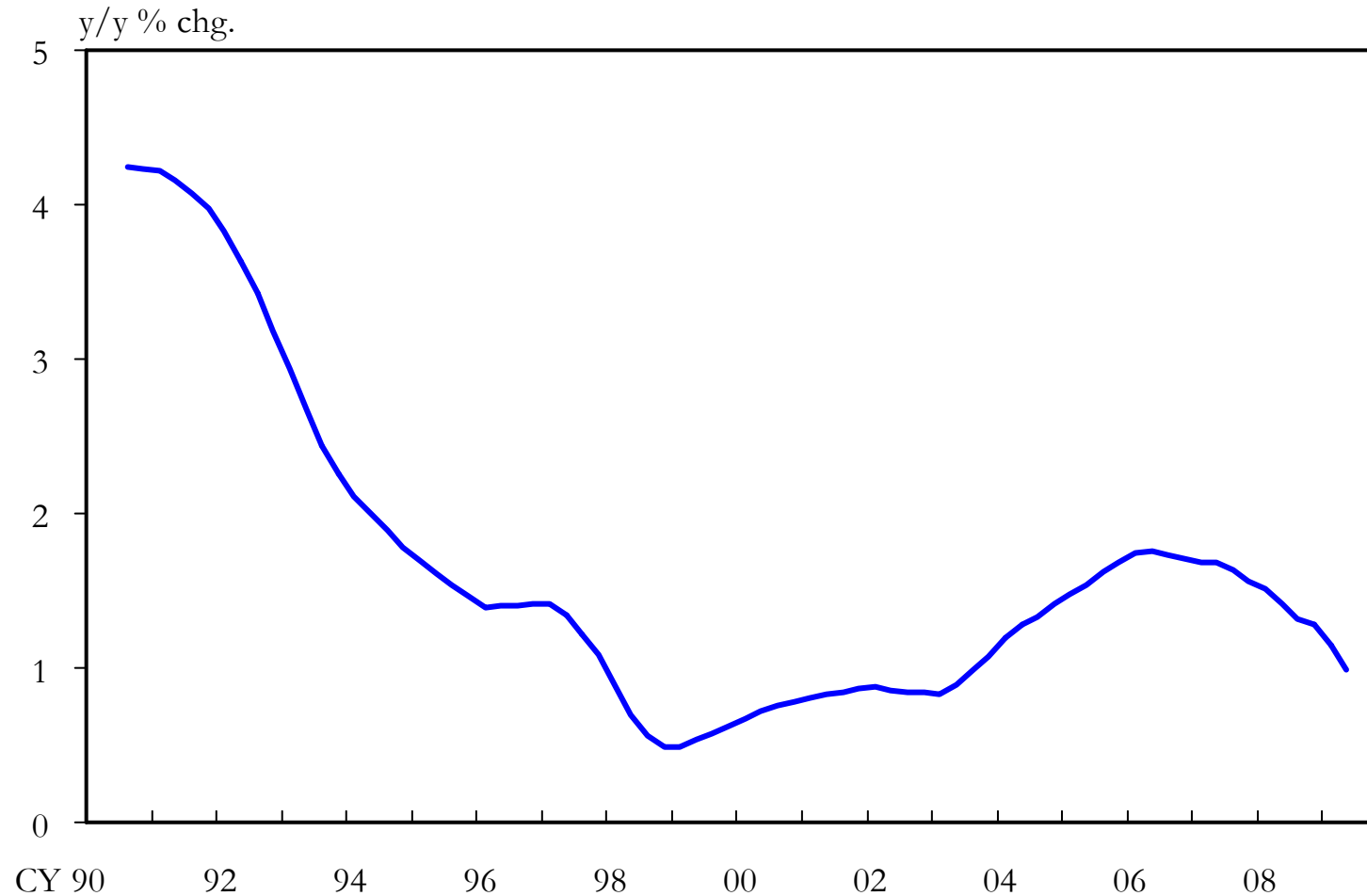
Post-bubble Economic cycle



Note: Figures for the CPI are adjusted for the impacts of consumption tax which was increased from 3 percent to 5 percent in April 1997.

Source: Cabinet Office, Ministry of Internal Affairs And Communications.

Japan's Potential Growth



Note: Figures for the potential growth are estimates made by the Research and Statistics Department of the Bank of Japan. For the specific method of estimation, please see *Bank of Japan Review*, "The New Estimates of Output Gap and Potential Growth Rate," released in May 2006.

Source: Bank of Japan.



Japan's Invention (2)

- Facility to Enhance Growth Foundation
- Comprehensive Policy Package of Monetary Easing

Facility to Enhance Growth Foundation

The Bank will provide long-term funds at a low interest rate against eligible collateral to private financial institutions that are making efforts in terms of lending and investment to strengthen the foundations for economic growth.

■ Eligible counterparties:

Counterparties for the Funds-Supplying Operations against Pooled Collateral

■ Duration of loans:

1 year: can be rolled over up to three times
(Maximum of 4 years)

■ Loan rates:

Policy rate: 0.1% will be applied for the time being

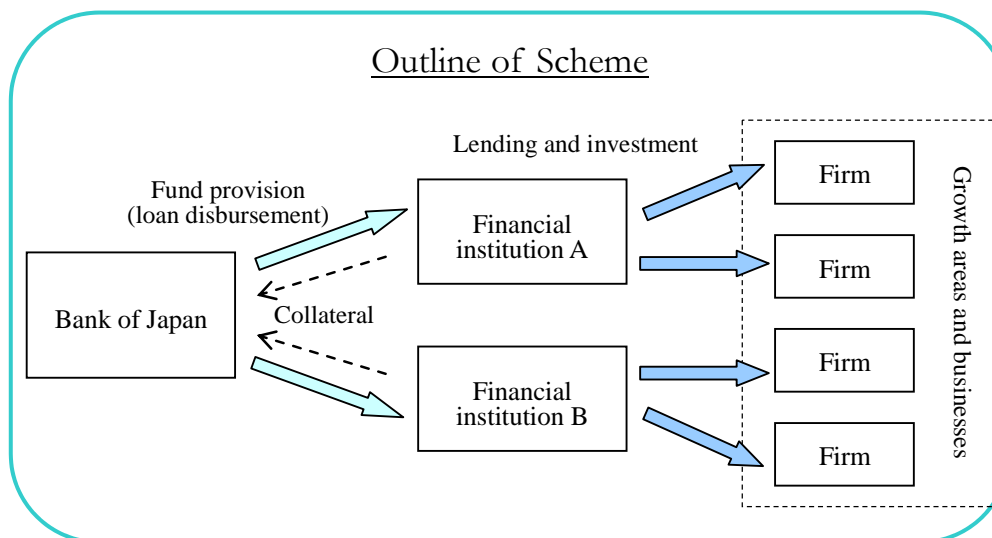
■ Maximum amount of loans:

Providing a maximum of 3 trillion yen in total with a limit of 150 billion yen per each counterparty

■ Deadline for New Applications for Loans:

March 31, 2012

Outline of Scheme



- The Bank anticipates that the measure will act as a catalyst to further stimulate private financial institutions' efforts to strengthen the foundations for economic growth.
- Will provide as broad as possible support for financial institutions' own initiatives: the Bank has listed a wide range of examples that are considered as Japan's new growth areas (18 areas).
- Will ensure that the Bank would not become directly involved in the allocation of funds to individual firms and industries.

Comprehensive Policy Package of Monetary Easing

(Decided at the MPM held on October 4 and 5, 2010)

(1) Change in the guideline for money market operations

- Making clear to maintain the virtually zero interest rate policy.
- The target for the uncollateralized overnight call rate:
Changed from “around 0.1 percent” to “around 0 to 0.1 percent.”

(2) Clarification of policy time horizon based on the “understanding of medium- to long-term price stability”

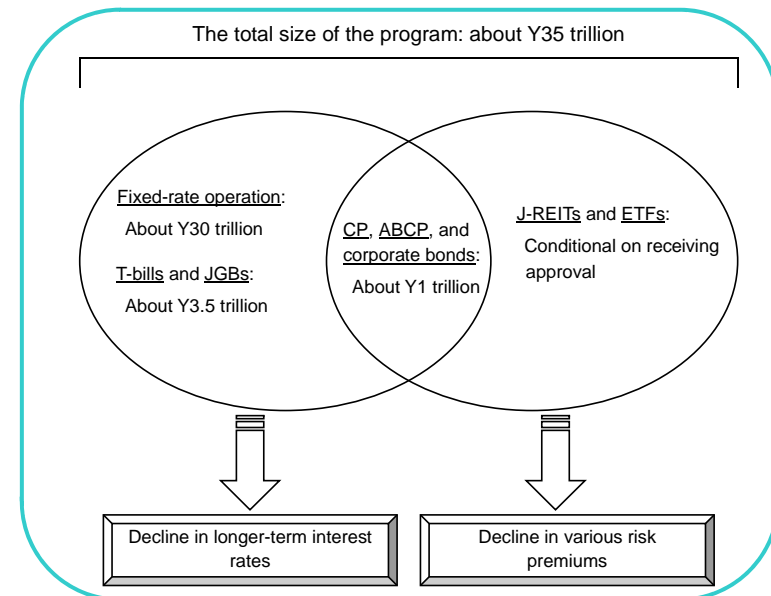
- Will maintain the virtually zero interest rate policy until judging that price stability is in sight.

Condition: no problem will be identified in examining risk factors, including the accumulation of financial imbalances.

Note1: On the basis of a year-on-year rate of change in the CPI, each Policy Board member's "understanding" falls in a positive range of 2 percent or lower, and the midpoints of most Policy Board members' "understanding" are around 1 percent.

(3) Establishment of an Asset Purchase Program

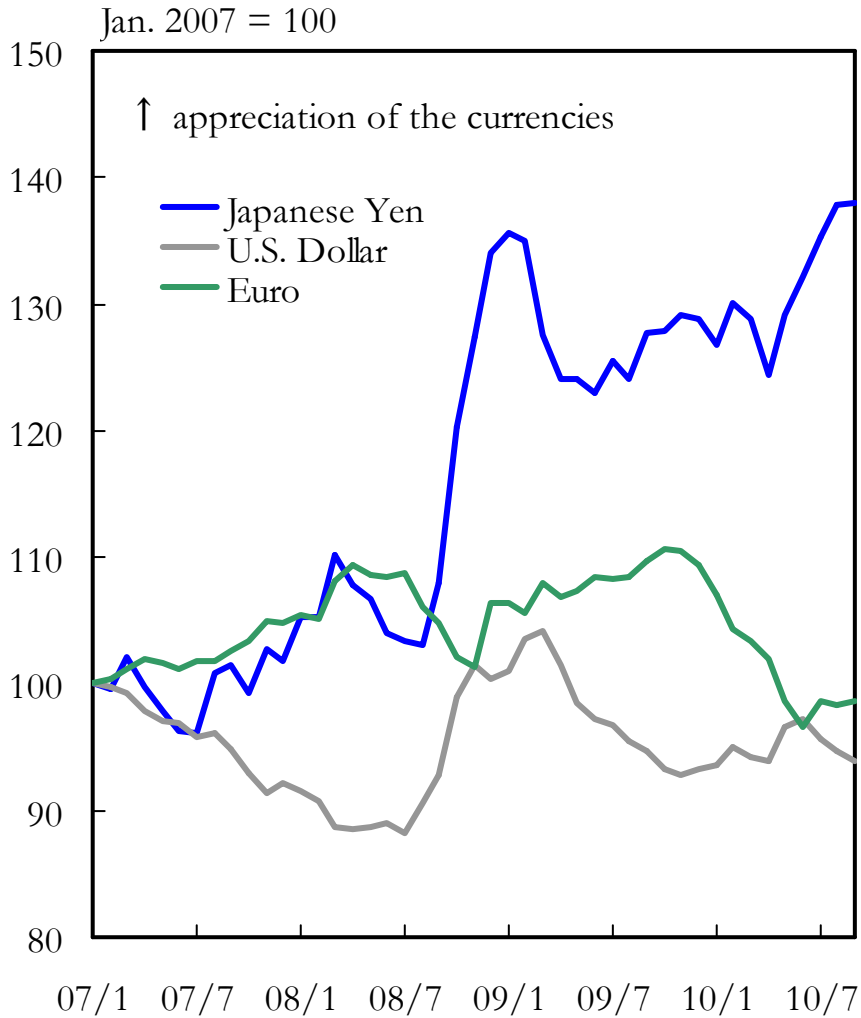
- Will examine establishing, as a temporary measure, a program to purchase various financial assets and to conduct the fixed-rate operation.
- Will encourage the decline in longer-term interest rates and various risk premiums to further enhance monetary easing.



Note2: JGBs purchased through the program will not be subject to the “banknote principle”

Nominal Effective Exchange Rate

Major Currencies



Source: Bank for International Settlements.

Emerging Currencies

