



Policy Panel Discussion at the
BOJ International Conference on
“Financial System and Monetary
Policy Implementation”

May 28, 2009

Hiroshi Nakaso

Bank of Japan

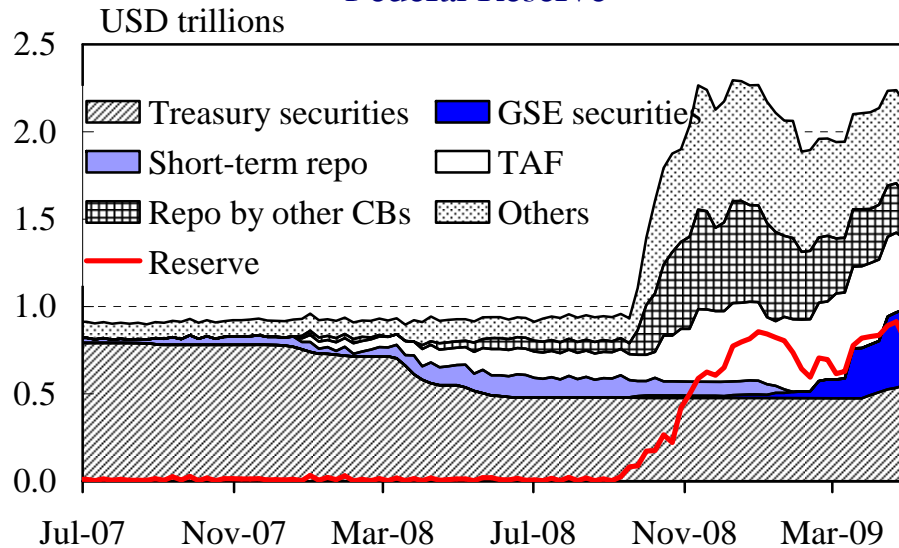
Policy measures taken by central banks

	Rate cuts	Liquidity provision	Others
Bank of Japan	0.50% to 0.10%	<ul style="list-style-type: none"> - Sufficient provision of funds over calendar and fiscal year-ends; - Increase in outright purchase of JGBs; - Interest on excess reserve balances <hr/> <ul style="list-style-type: none"> - U.S. dollar repo 	<ul style="list-style-type: none"> - Increase in frequency and size of CP repo; - Fixed-rate full-allotment liquidity provision against eligible corporate debt; - Expansion of eligible collateral <hr/> <ul style="list-style-type: none"> - Outright purchase of CP/ABCP and CBs; - <i>Stock purchases held by financial institutions;</i> - <i>Subordinated loans to banks</i>
Federal Reserve	2.00% to 0.00-0.25%	<ul style="list-style-type: none"> - Expansion of TAF, PDCF, and TSLF; - Interest on reserve balances <hr/> <ul style="list-style-type: none"> - Increase in swap lines with foreign central banks 	<ul style="list-style-type: none"> - Supportive measures against individual problem financial institution <hr/> <ul style="list-style-type: none"> - AMLF, CPFF, and MMIFF; - Outright purchase of Treasury securities; - TALF
European Central Bank	4.25% to 1.25%	<ul style="list-style-type: none"> - Fixed-rate full-allotment liquidity provision; - Increase in counterparties <hr/> <ul style="list-style-type: none"> - U.S. dollar repo and Swiss franc repo 	<ul style="list-style-type: none"> - Expansion of eligible collateral; - NCBs' supportive measures against individual problem financial institution <hr/>
Bank of England	5.00% to 0.50%	<ul style="list-style-type: none"> - Expansion of long-term funds provision - Discount Window Facility - BoE Sterling bills to drain reserves - Operational Standing Facility - Interest on excess reserve balances <hr/> <ul style="list-style-type: none"> - U.S. dollar repo 	<ul style="list-style-type: none"> - Expansion of eligible collateral <hr/> <ul style="list-style-type: none"> - Outright purchase of gilts and CBs (Asset Purchase Facility)

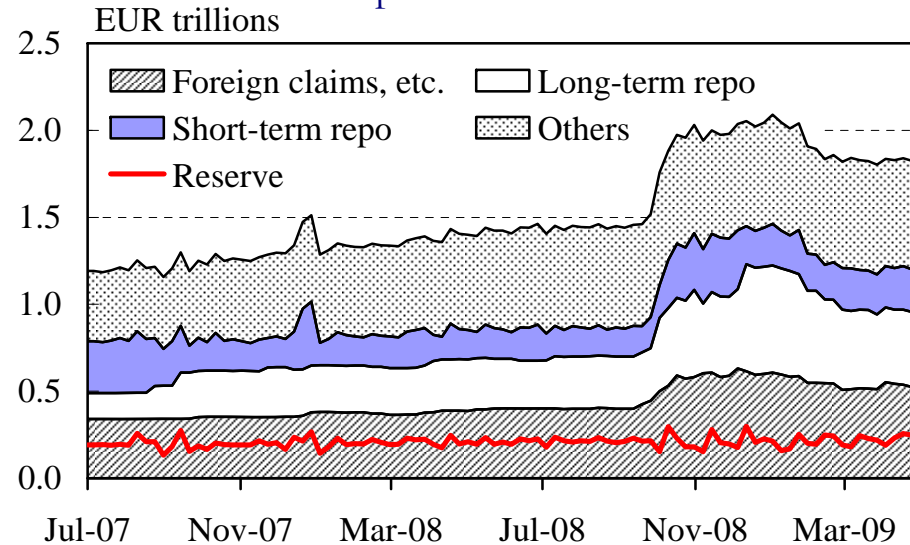
* After the failure of Lehman Brothers.

Central banks' balance sheets

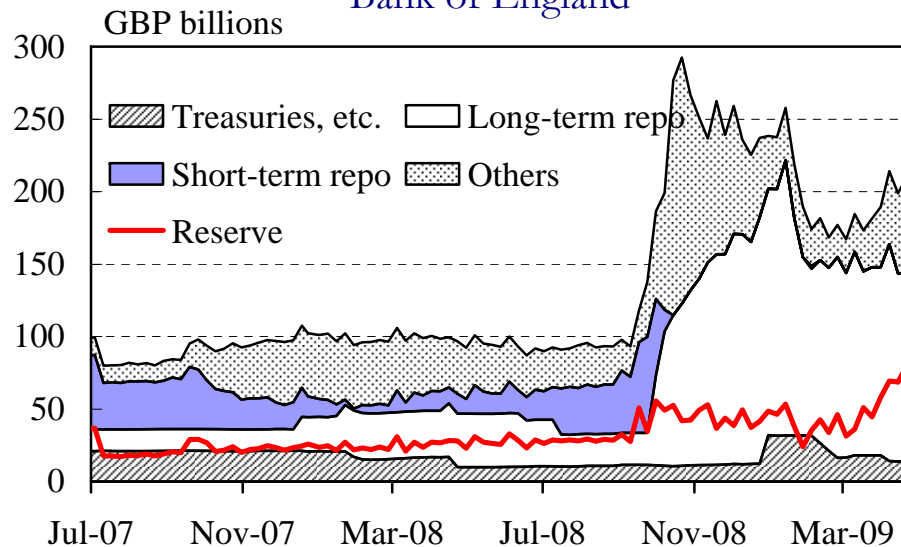
Federal Reserve



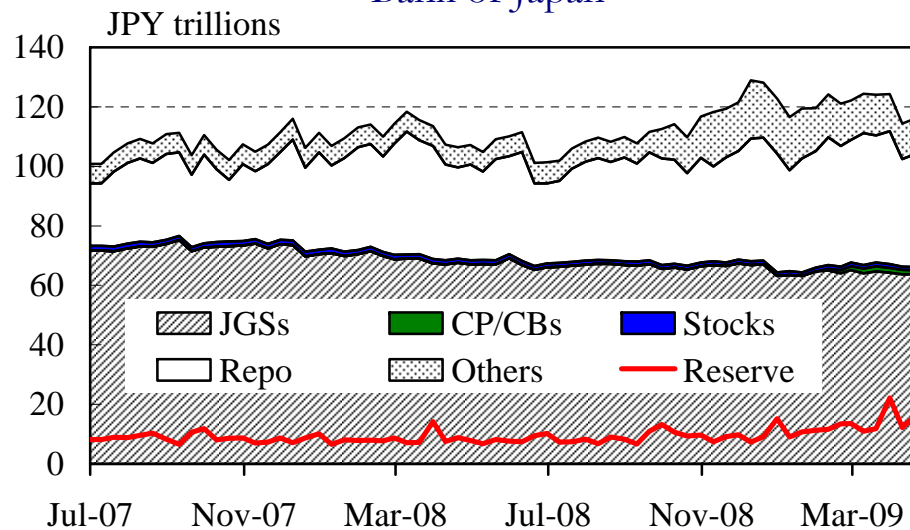
European Central Bank



Bank of England



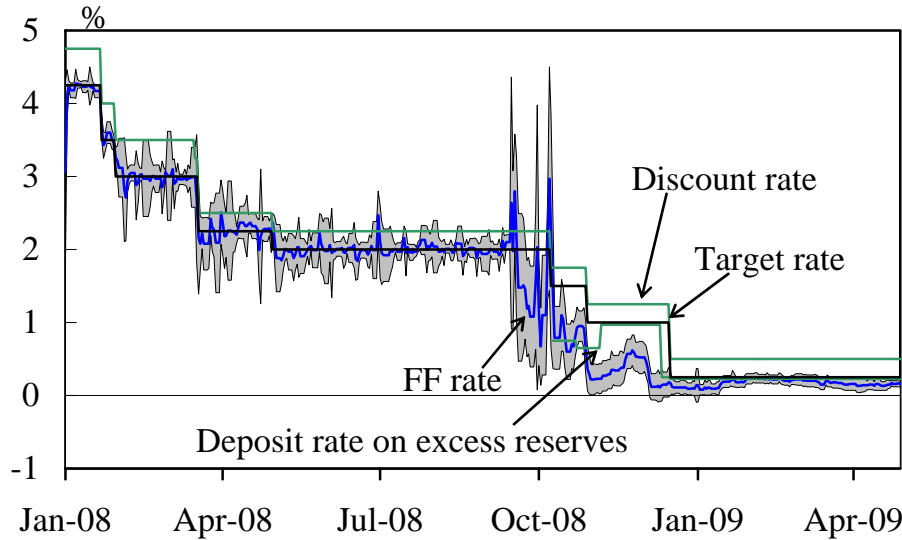
Bank of Japan



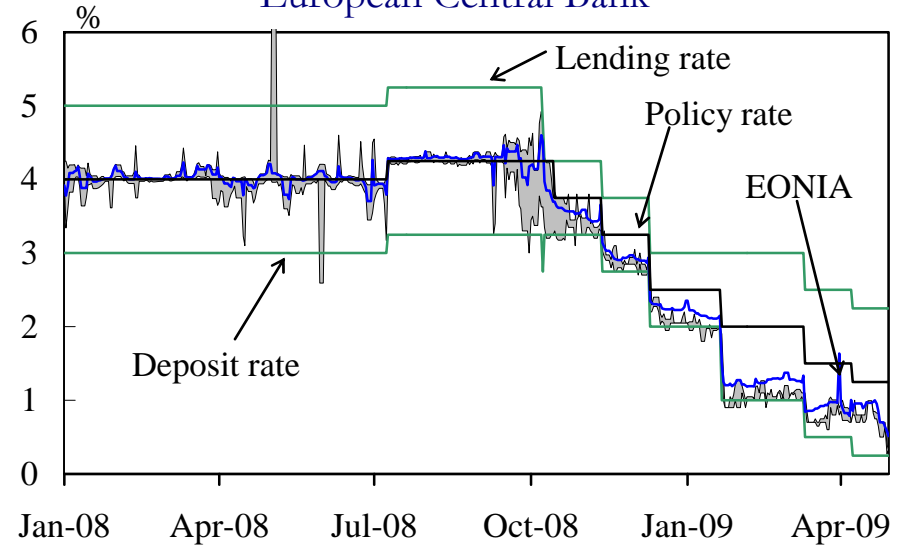
Sources: Federal Reserve; European Central Bank; Bank of England; Bank of Japan.

Interest rate control

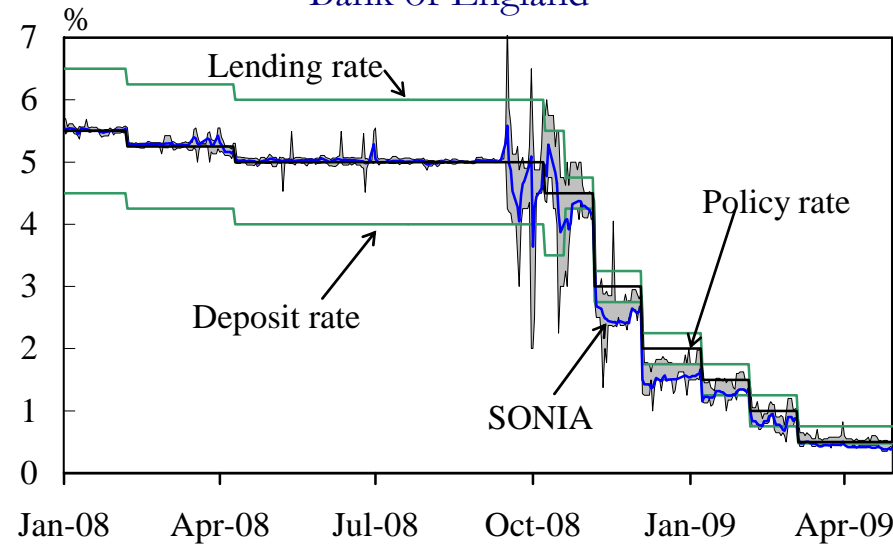
Federal Reserve



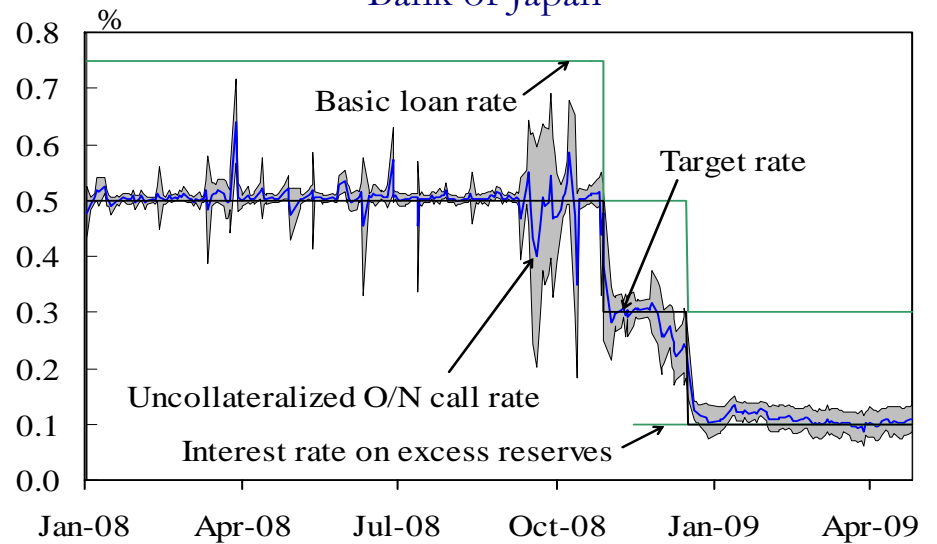
European Central Bank



Bank of England



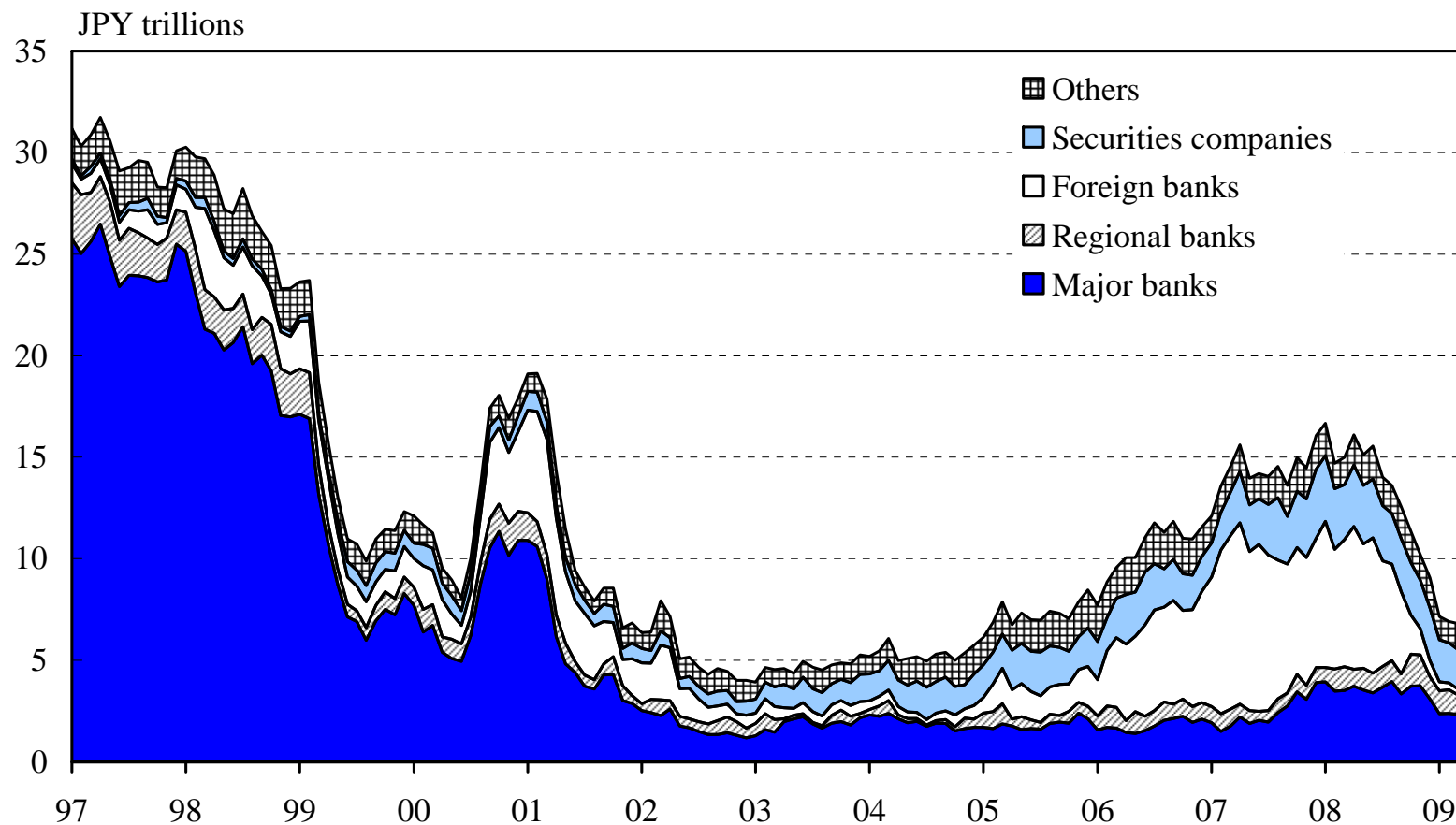
Bank of Japan



Note: Shadow indicates the range of market interest rates.

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

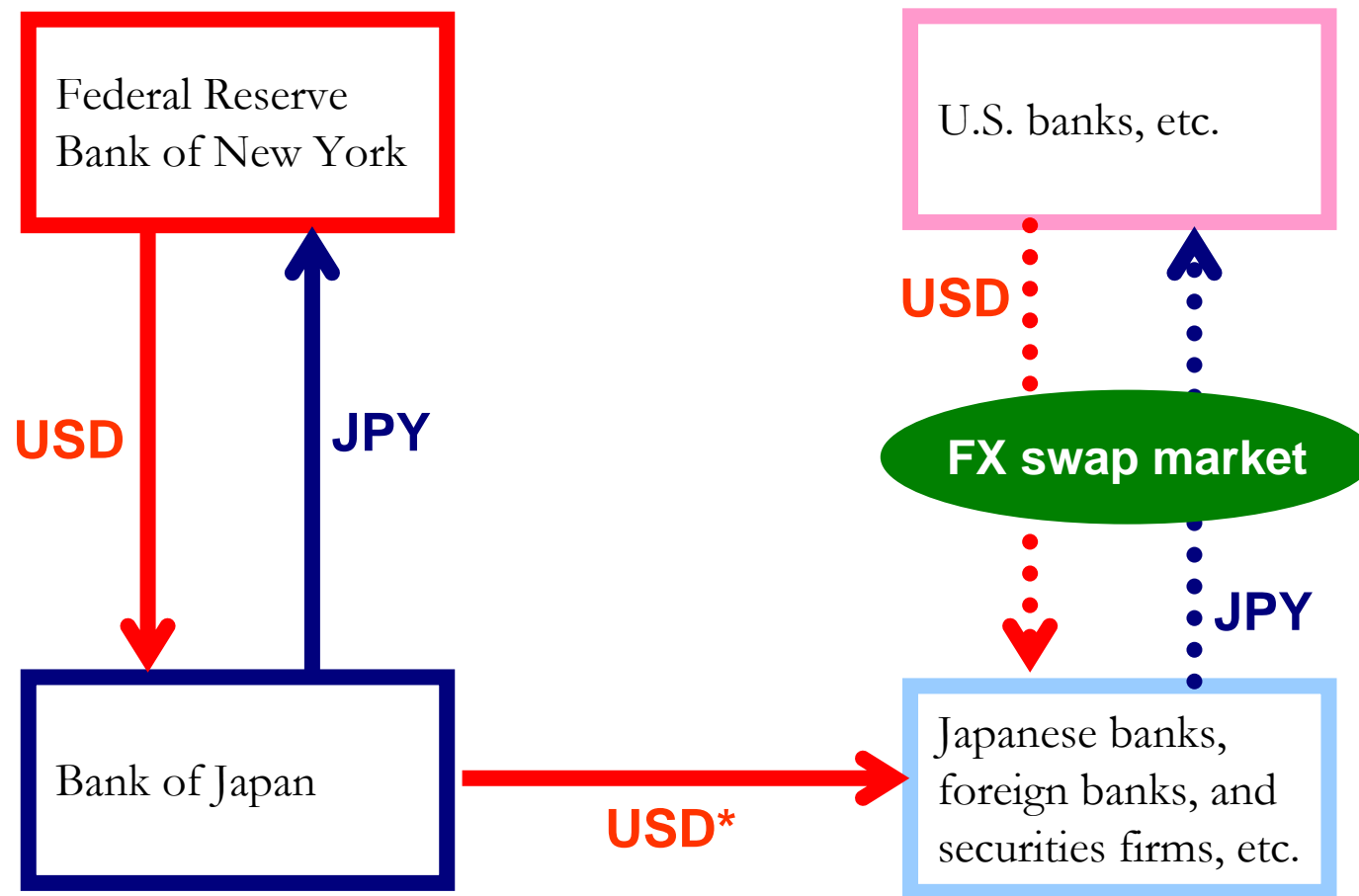
Shrinkage of Japan's call money market



Note: Monthly average of the amount outstanding of uncollateralized transactions.

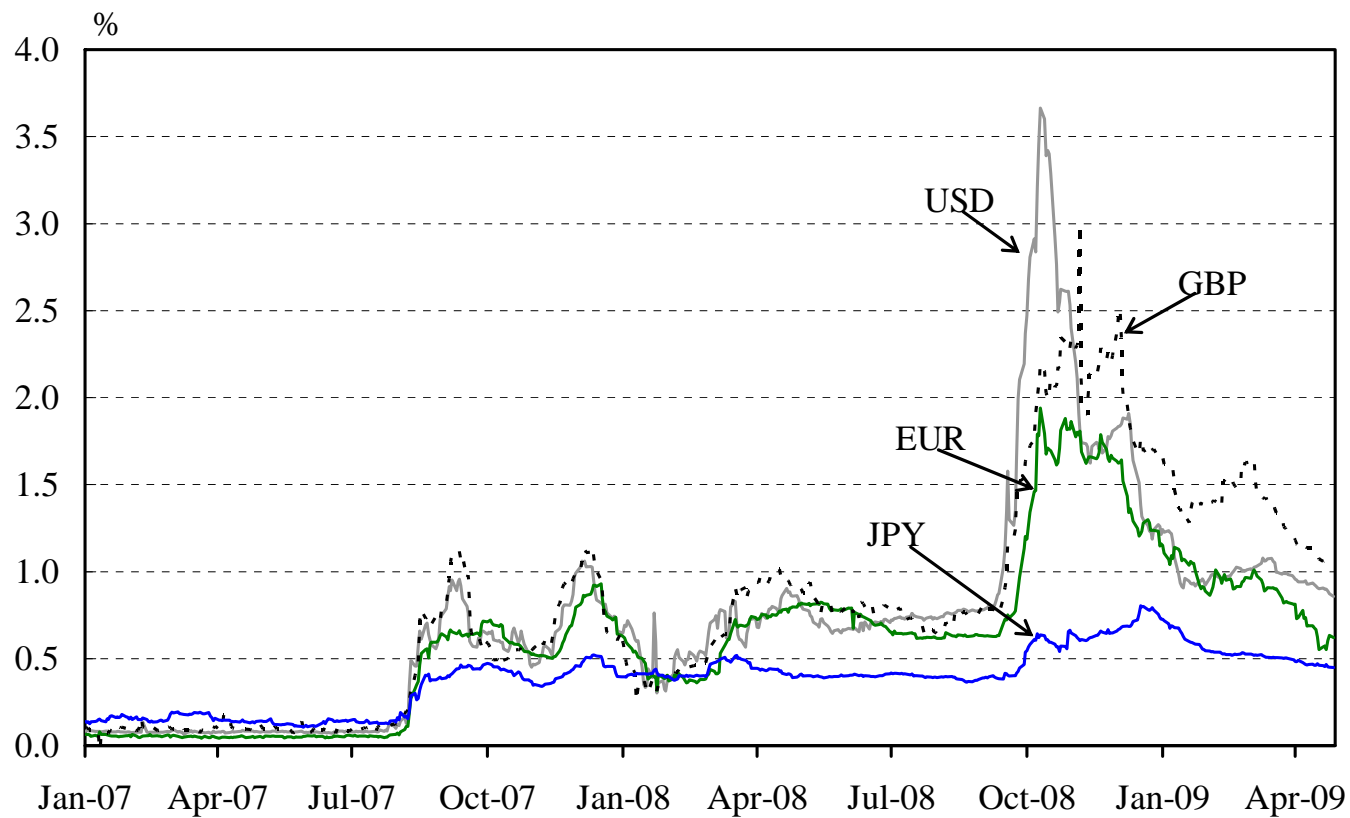
Source: Bank of Japan, "Amounts Outstanding in the Call Money Market."

Framework of U.S. dollar funds-supplying operations



* USD funds supplied against pooled collateral pledged by financial institutions to the Bank of Japan

Libor-OIS spreads



Note: 3-month.

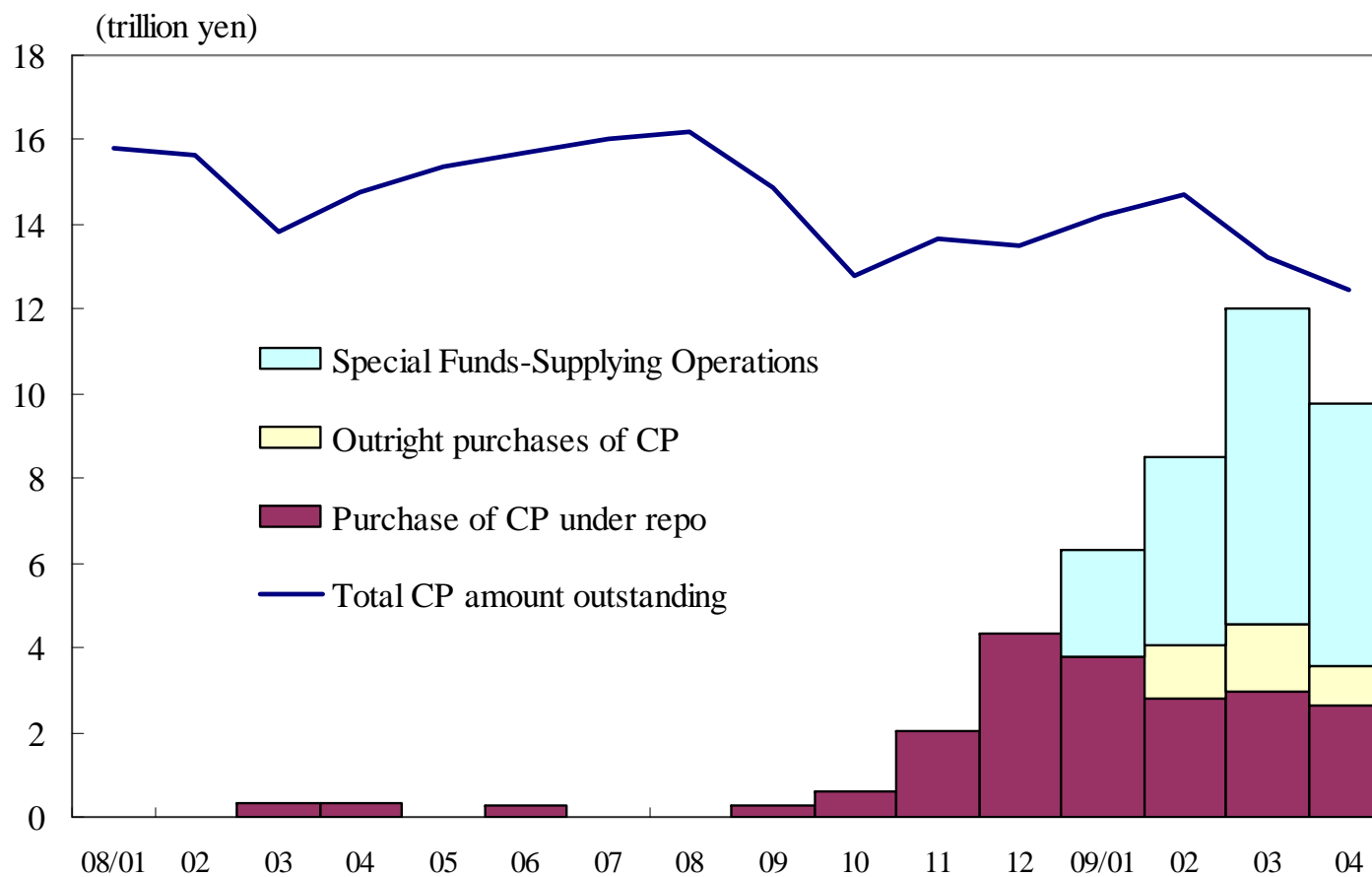
Source: Bloomberg.



Special Funds-Supplying Operations to Facilitate Corporate Financing

	Descriptions
Eligible counterparties	Financial institutions
Duration of loans	3 months (the maturity date shall be no later than September 30, 2009, extended from April 30, 2009)
Loan rates	0.1%
Allotment	Full allotment
Maximum loan amounts for each counterparty	The collateral value of corporate bonds, CP, bills drawn by companies, and loans to companies pledged by each counterparty as the standing pool of eligible collateral to the Bank

CP amount outstanding and operation



Source: Bank of Japan

Reduction in CP rates by operation

$$(CP_t - OIS_t) = const. + \alpha RISK_t + \beta (Tibor_t - OIS_t) + \gamma OPE_t + \varepsilon_t$$

Sample periods : Sep 1, 2008 ~ Feb 25, 2009

	$RISK_t$ (*10 ⁻³)	$Tibor_t - OIS_t$	OPE_t	R^2	S.E.
a-1+	3.84***	1.66***	-0.70***	0.53	0.15
a-1	6.52***	3.78***	-0.76***	0.72	0.21
a-2	9.41***	3.65***	-0.40**	0.66	0.31

(Notes) 1. Definitions of variables :

$(CP_t - OIS_t)$: CP-OIS spreads (3 months)

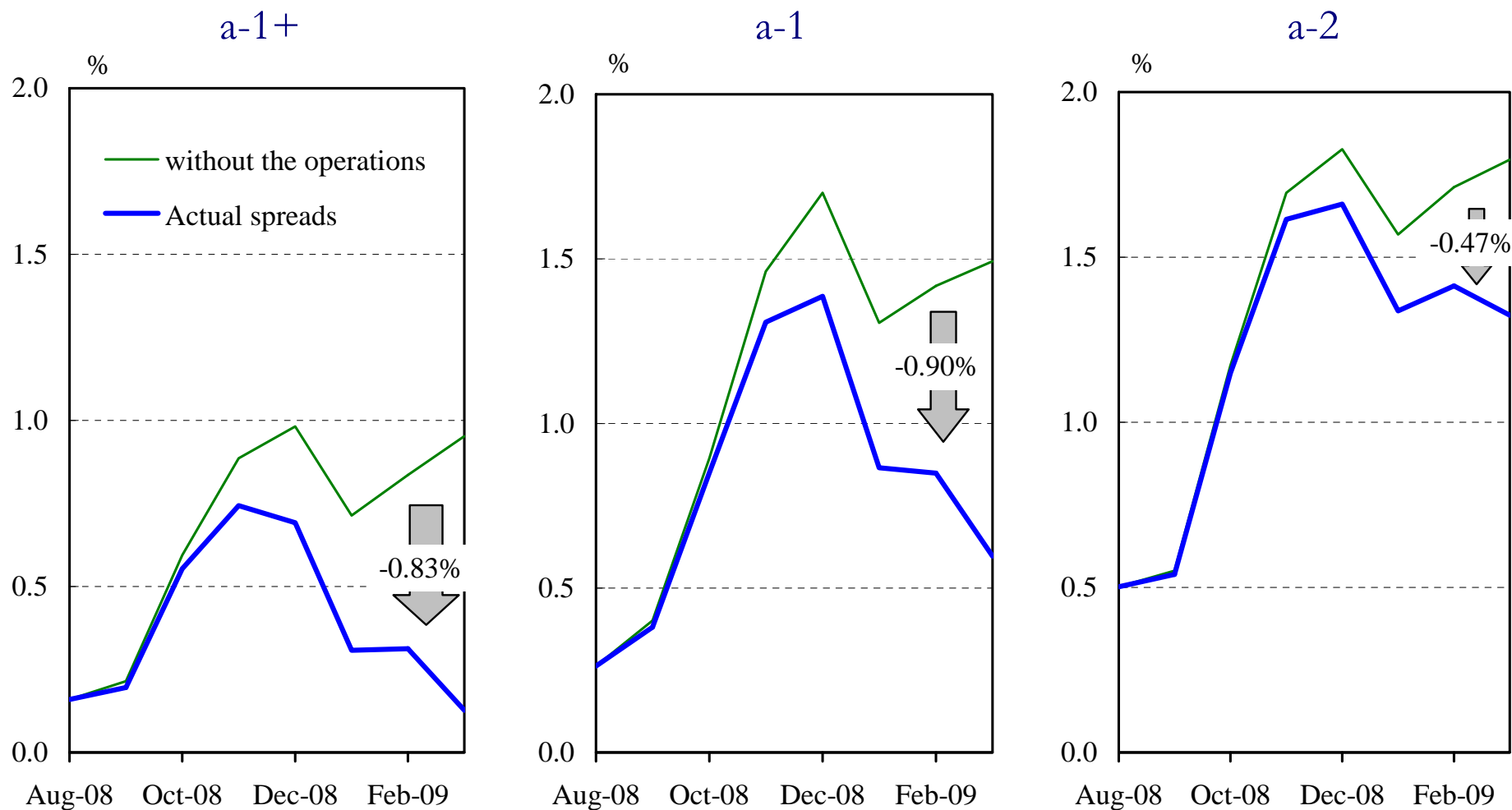
$RISK_t$: Implied volatility of equity prices

$(Tibor_t - OIS_t)$: Tibor-OIS spreads

OPE_t : Ratio of the amount outstanding of funds-supplying operations to facilitate corporate financing (purchases of CP under repo, CP outright purchases, and Special Funds-Supplying Operations) to CP amount outstanding

2. ***, and ** indicate significance at the 1% and 5% levels, respectively. 10

Effects of Bank of Japan's measures for corporate financing



Note: 3-month spreads between CP issuance rates and corresponding OIS rates. Monthly averages.

Outright purchase of government bonds

	Bank of Japan (Mar.18)	Federal Reserve (Mar.18)	Bank of England (Mar.5)
Objective	- to facilitate smooth money market operations	- to help improve conditions in private credit markets	- to boost the supply of money and credit
Targeted zones	- JGB with coupons (including floating-rate and inflation-indexed bonds)	- 2- to 10-year sector of the nominal Treasury curve	- 5- to 25-year sector of the conventional gilt curve
Purchase amount	- JPY21.6 trillion per year	- up to USD300 billion over the next six month	- GBP75 billion over the next three months



Challenges

- Credit allocation and market functioning
- Possible credit losses
- Communication
- Market intelligence
- Exit strategies