



FEDERAL RESERVE BANK  
OF SAN FRANCISCO





# BOJ's Monetary Policy and Effectiveness

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**April 2017**

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# Negative Interest Rate (January 2016)

# Factors Leading to Criticisms of a Negative Interest Rate

1

Financial Instability  
Risk

2

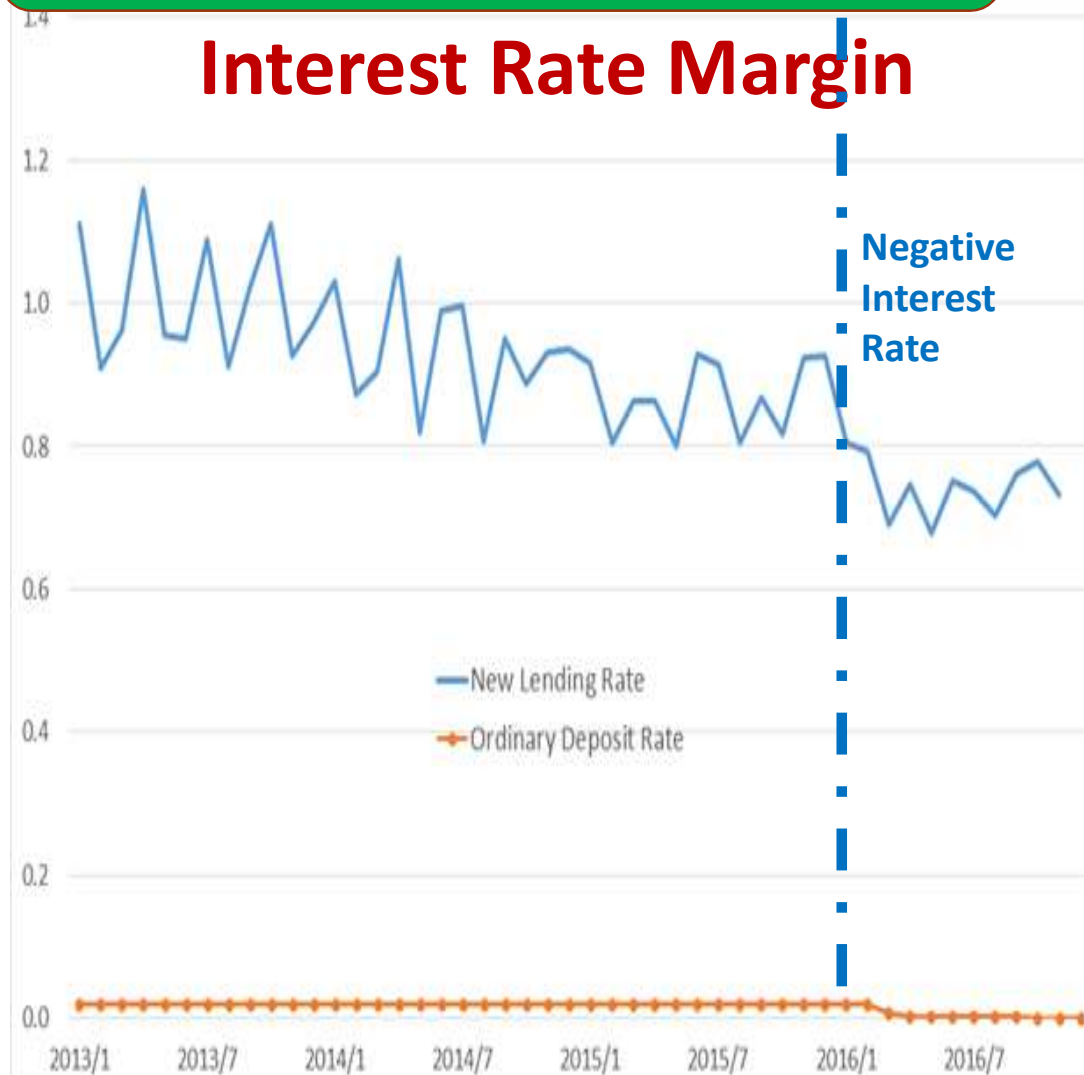
Substitution to Cash

3

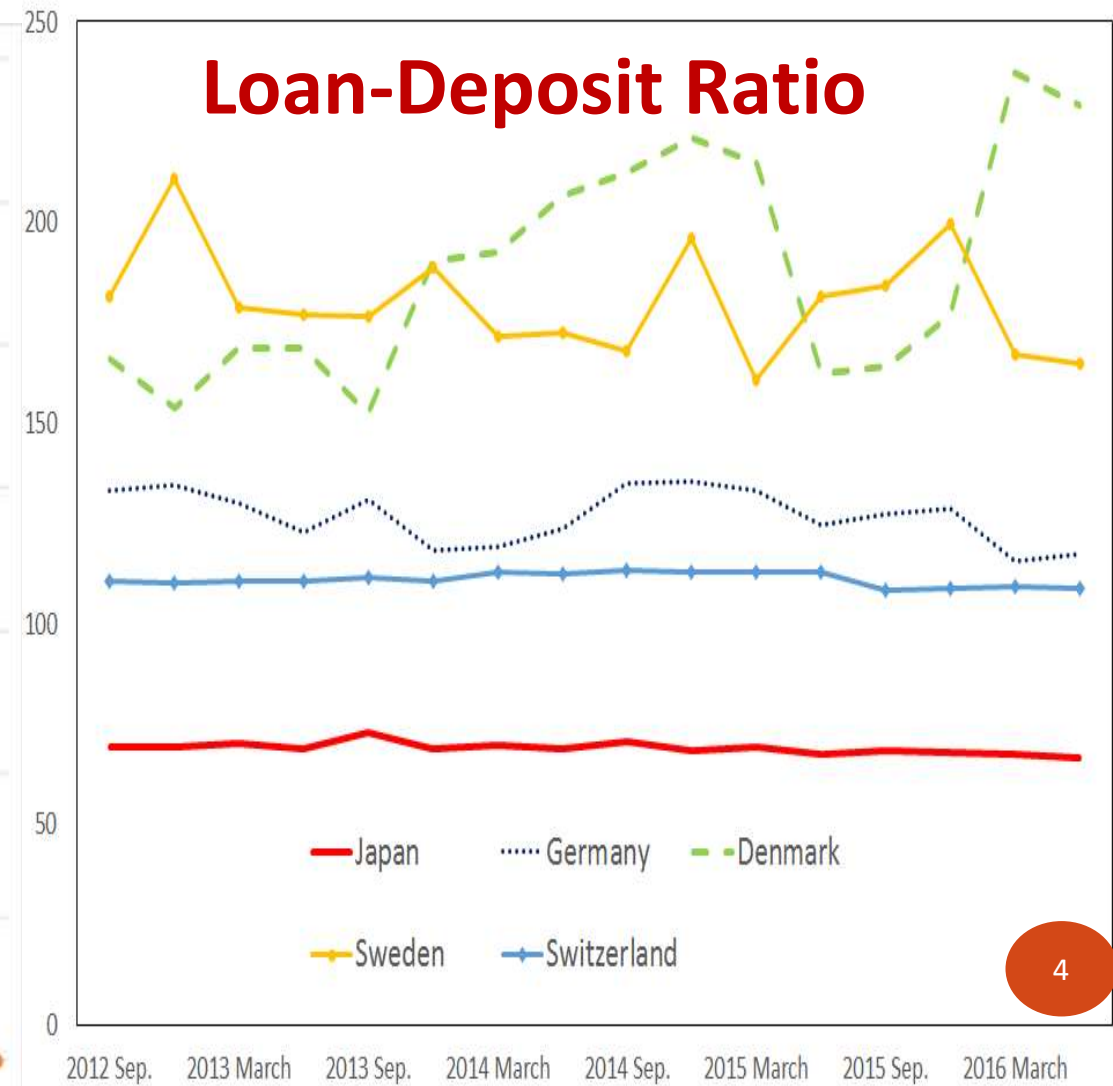
Inconsistency

# 1. Financial Instability Risk

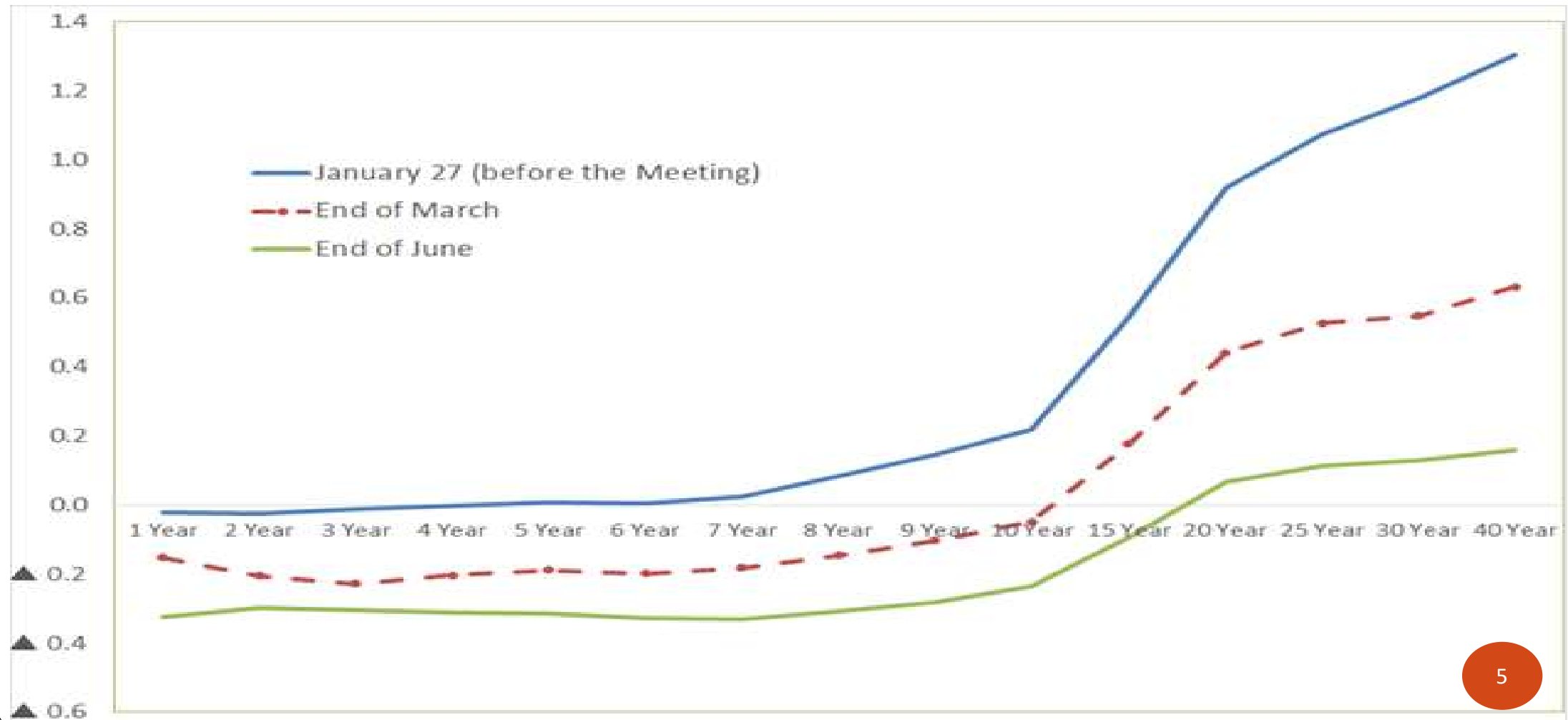
## Interest Rate Margin



## Loan-Deposit Ratio

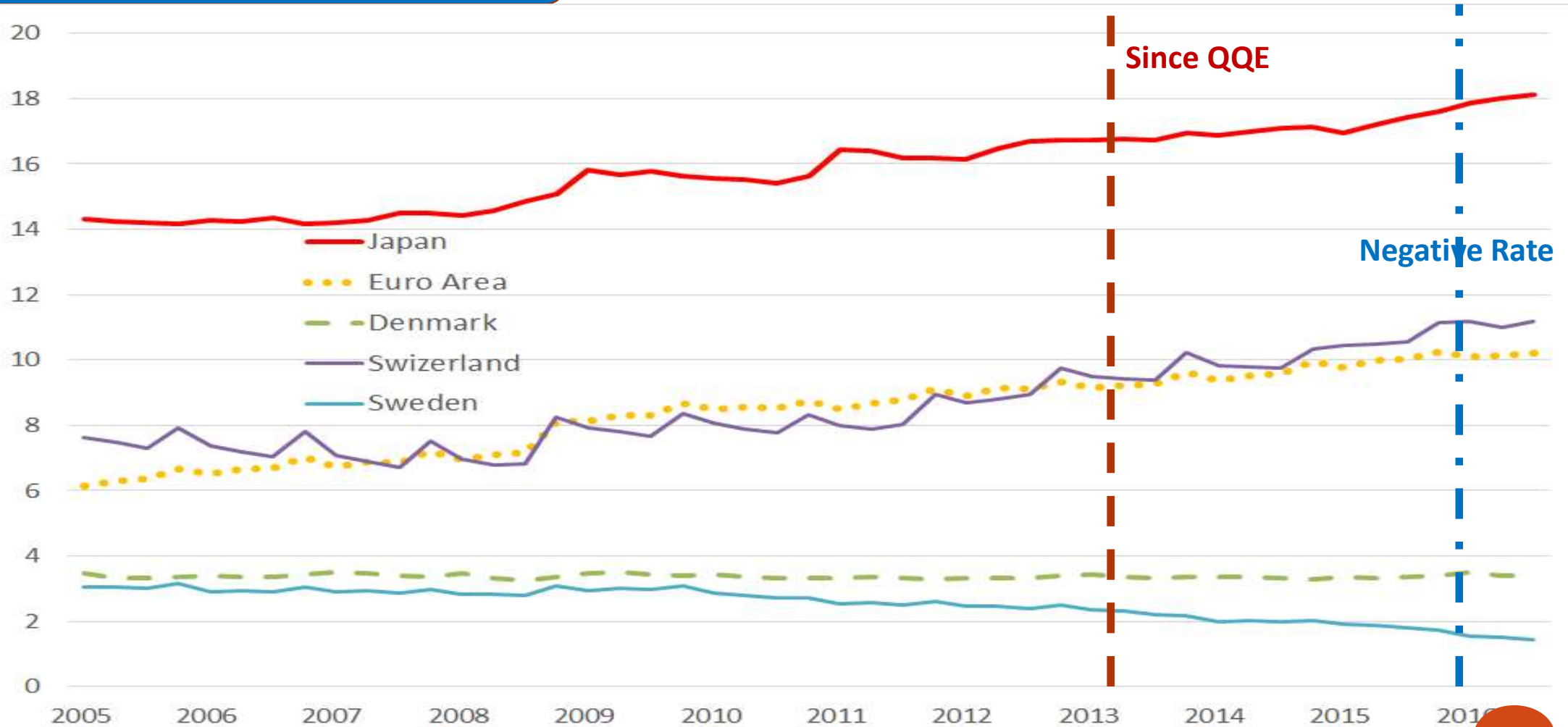


# Flattened Yield Curve



## 2. Cash Substitution

## Notes in Circulation (% of NGDP)



## Other Impacts on Households

- Households' Deposits and Cash account for **52%** of total financial assets (**35% in the Euro Area**) .
- Households' Deposits and Cash are about **3 times** as large as their loans.
- Households' holdings of stocks account for **only 9%** (**16% in the Euro Area**).
- Private sector insurers stopped providing some saving-type insurance products or raised premium.

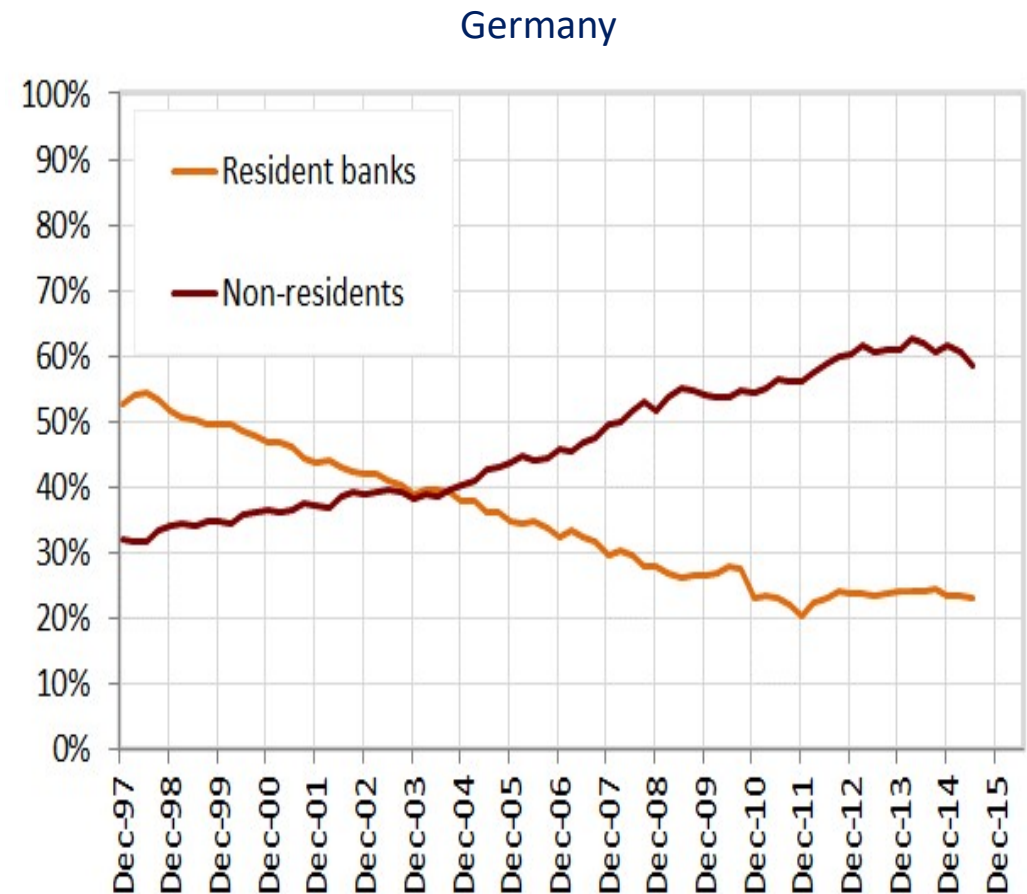


## 4. Inconsistency

JGB Investor Base (Total over 970 trillion yen)

- Nonresidents : 6%
- Banks: 25%
- Insurance Firms: 22%
- Pension Funds : 20%
- Bank of Japan : 37%

✕ Treasury Bills (Over 120 trillion yen): 47% owned by Non-residents and 47% by the Bank of Japan.



# Yield Curve Control

- Pegging the 10-Year Yield at around 0%
- Maintaining a negative interest rate (▲0.1%)
- Dropped the QE target  
..... **but inserted a projection of maintaining around ¥80 trillion**

# Why was the Yield Curve Control Adopted?

(Answer) It was introduced to mitigate the adverse impacts of a negative interest rate (long-term yields are too low and too flat).

... Trade off between Price Stability and Financial Stability

# Why Did the Markets Reacted Positively Despite de facto Tightening?

(Answer) .... Helped to Expand the Interest Rate Differentials  
after the US Presidential Election.

... Promoted the Short Positions in Yen  
and Long Positions in Stock Prices

... Yen is now Undervalued.

# What is the Near-Term Risk?

(Answer) .... Uncertainty over BOJ's priority  
between the 10-year peg and JGB purchases of about 80 trillion yen

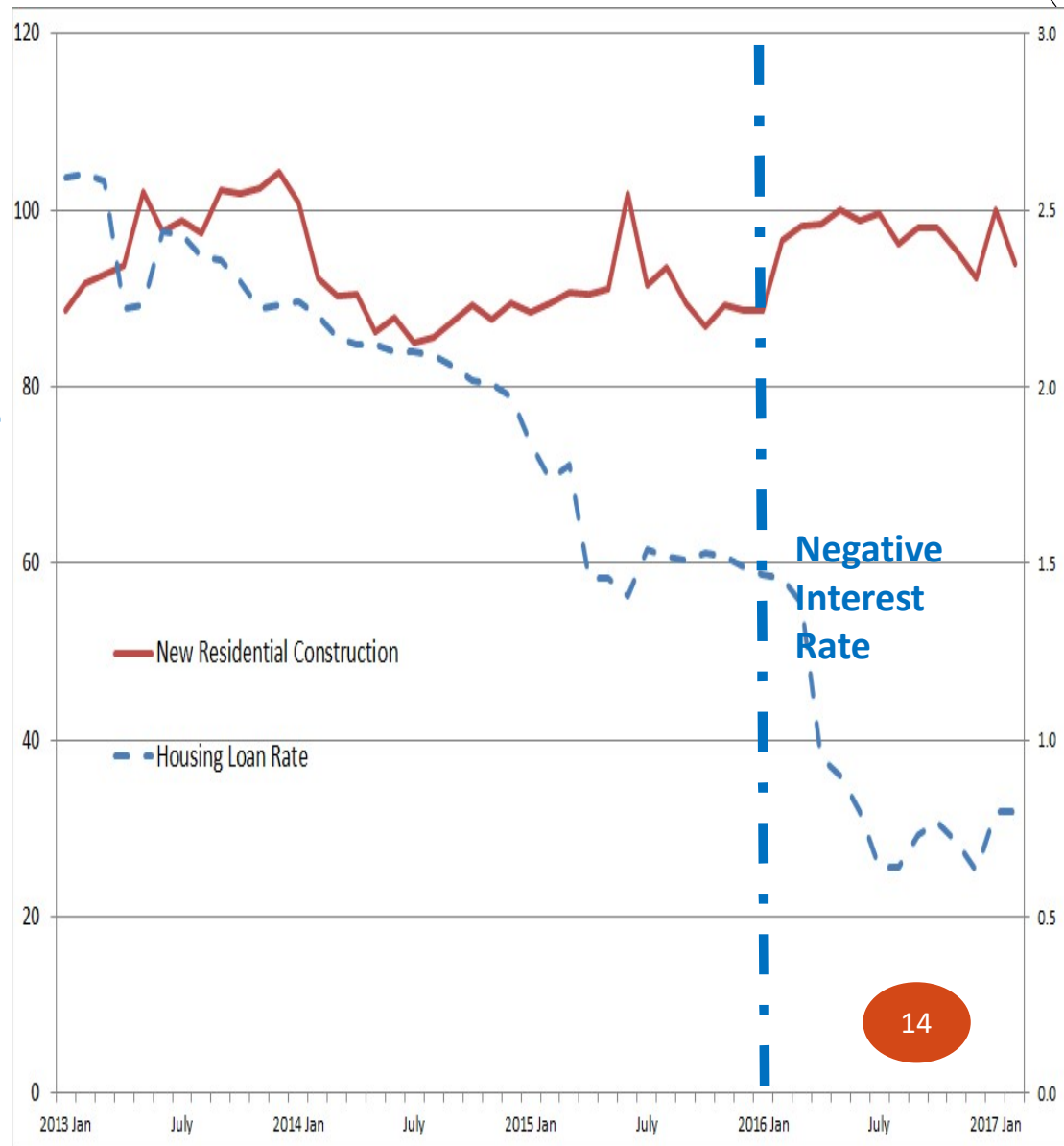
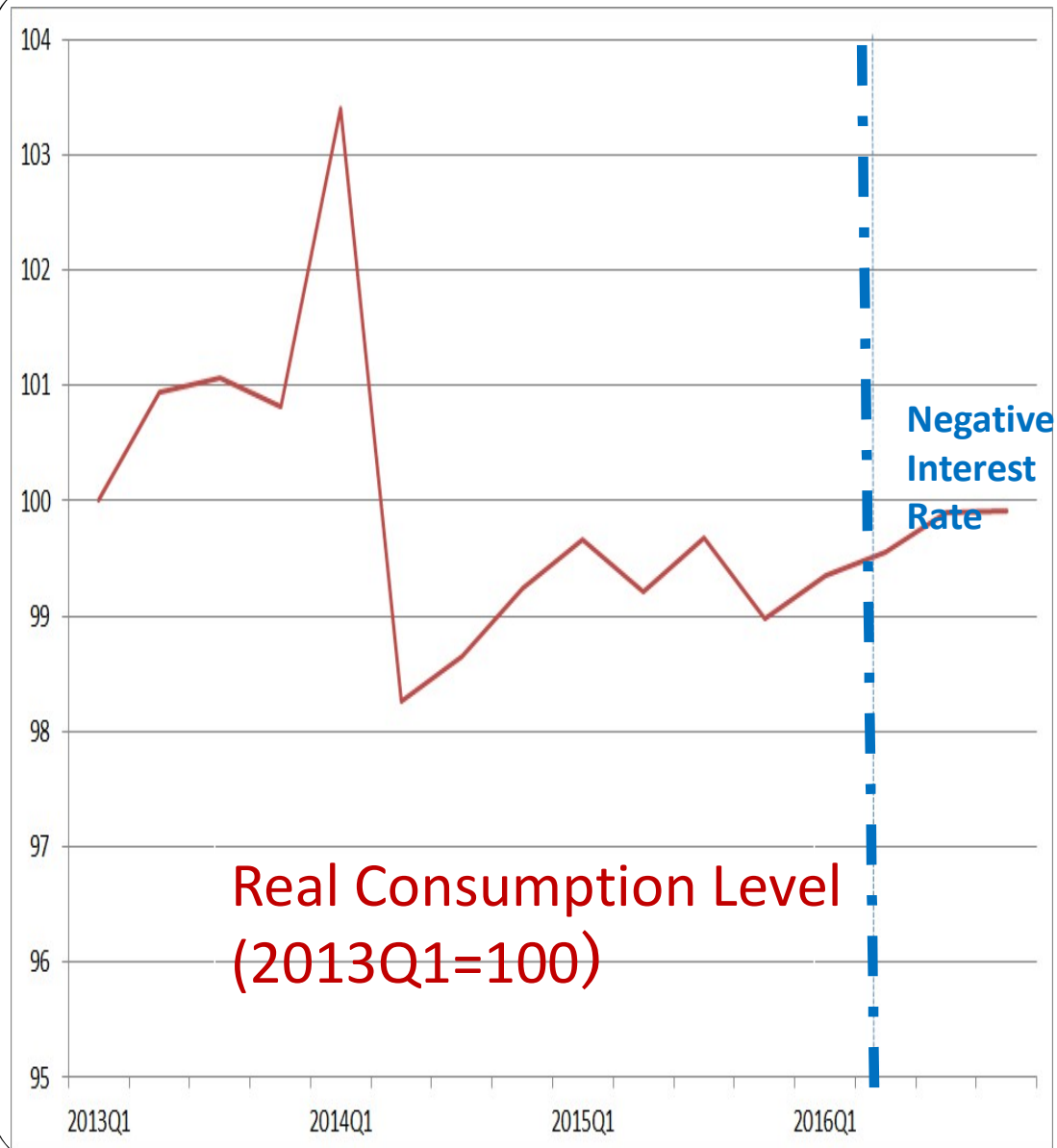
Potential Risk of Destabilizing the Markets



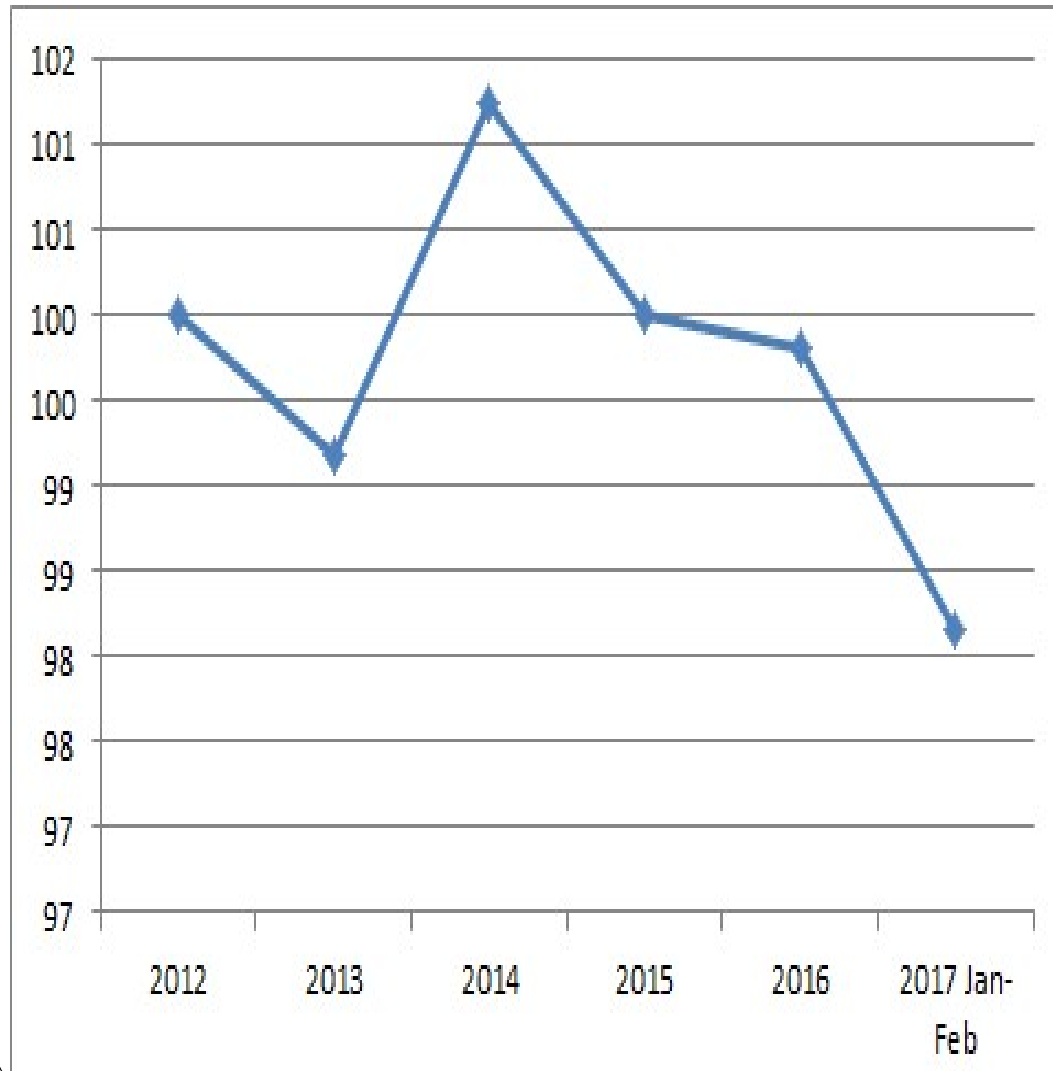
# Any Impacts on Raising Aggregate Demand and Inflation?

(Answer) .... Limited.

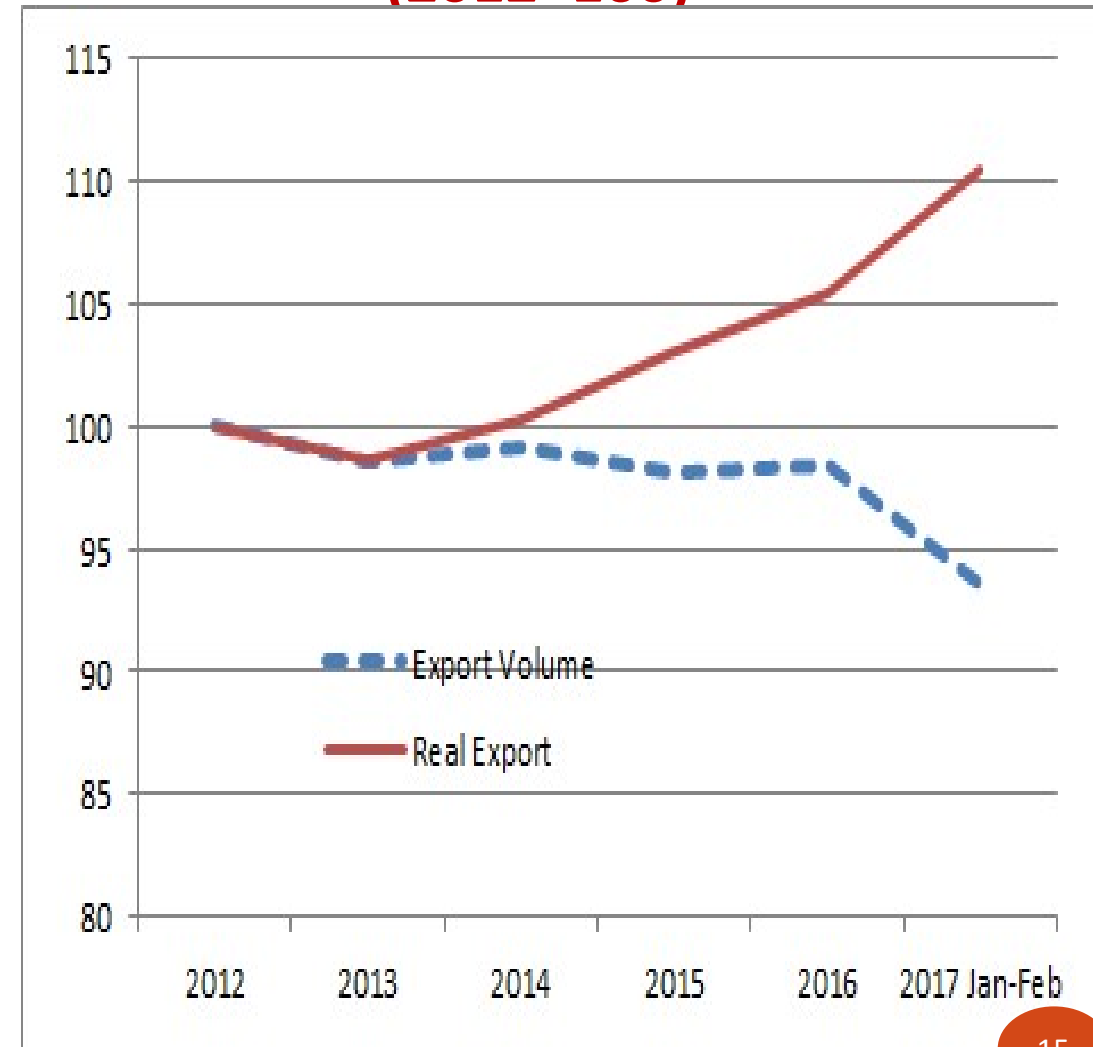
Underlying Inflation is Around 0%.



## Industrial Production (2012=100)



## Real Export and Export Volume (2012=100)



# Factors Limiting the Effectiveness

Low  
Potential  
Economic  
Growth



## STRUCTURAL ISSUES

Low wage growth

Lack of credit demand

Rapid pace of aging

Households' upward bias in  
inflation expectation