November 30, 2011
Bank of Japan

Coordinated Central Bank Action to Address Pressures in Global Money Markets

The Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve, and the Swiss National Bank are today announcing coordinated actions to enhance their capacity to provide liquidity support to the global financial system. The purpose of these actions is to ease strains in financial markets and thereby mitigate the effects of such strains on the supply of credit to households and businesses and so help foster economic activity.

These central banks have agreed to lower the pricing on the existing temporary U.S. dollar liquidity swap arrangements by 50 basis points so that the new rate will be the U.S. dollar overnight index swap (OIS) rate plus 50 basis points.[1] This pricing will be applied to all operations conducted from December 5, 2011. The authorization of these swap arrangements has been extended to February 1, 2013. In addition, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank will continue to offer three-month tenders until further notice.

As a contingency measure, these central banks have also agreed to establish temporary bilateral liquidity swap arrangements so that liquidity can be provided in each jurisdiction in any of their currencies should market conditions so warrant. At present, there is no need to offer liquidity in non-domestic currencies other than the U.S. dollar, but the central banks judge it prudent to make the necessary arrangements so that liquidity support operations could be put into place quickly should the need arise. These swap lines are authorized through February 1, 2013.

Bank of Japan Action

At the unscheduled Monetary Policy Meeting held today, the Bank of Japan, in cooperation with the aforementioned central banks, decided to take measures to

[1] Overnight index swap is a type of swap arrangement that exchanges the overnight interest rate over a specified period for a certain fixed rate. Its rate reflects market perception of the future overnight interest rates over the corresponding period on average.

address recent pressures in global money markets. Specifically, interest rates on the fixed-rate U.S. Dollar funds-supplying operations currently conducted by the Bank of Japan will be reduced by 0.5 percentage points, for operations conducted from December 5. The new rate will be a prevailing U.S. dollar overnight index swap market rate that corresponds to the duration of the loan plus 0.5 percentage points.[2] The expiration of the existing U.S. dollar liquidity swap arrangement with the Federal Reserve and the concomitant U.S. Dollar funds-supplying operations has been extended by six months through to February 1, 2013. In addition, the Bank of Japan will establish reciprocal currency swap arrangements with these central banks that will be available until February 1, 2013. Such arrangements will enable the Bank of Japan to provide Japanese yen to these five central banks if required. They will also allow the Bank of Japan to receive liquidity, should it be needed, in five currencies including the already available U.S. dollars.

Financial conditions in Japan have continued to ease and Japanese financial institutions do not face difficulty with funding in foreign currencies. There is, however, a possibility that Japan will be adversely affected, should conditions in global financial markets deteriorate further. The Bank of Japan will continue to maintain financial market stability in close cooperation with other central banks.

Information on Related Actions Being Taken by Other Central Banks

Information on the actions to be taken by other central banks is available on the following websites:

Bank of Canada (http://www.bankofcanada.ca)
Bank of England (http://www.bankofengland.co.uk)
European Central Bank (http://www.ecb.int)
Federal Reserve (http://www.federalreserve.gov)
Swiss National Bank (http://www.snb.ch)

[2] Interest rates on fixed-rate U.S. Dollar funds-supplying operations are set by the Federal Reserve Bank of New York taking account of a prevailing U.S. dollar overnight index swap market rate that corresponds to the duration of the loan. These are the same interest rates that apply to the aforementioned swap agreement.