

Macroprudential Policy and Initiatives by the Bank of Japan

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Outline

Introduction

- I. Issues Involved in Implementing Macroprudential Measures
- II. The Bank's Initiatives on the Macroprudential Front
- III. The Relation between Monetary Policy and Macroprudential Policy
- IV. The Bank's Recent Conduct of Monetary Policy

Types of Macroprudential Policy Measures

Type of instrument	Examples
Limits calibrated to borrower risk characteristics	Loan-to-value caps, debt-to-income limits, limits on foreign currency lending
Absolute limits	Aggregate or sectoral credit growth ceilings, limits on exposure by instrument
Limits on leverage	Size-dependent leverage limits or asset risk weights
Limits on financial system concentration	Limits on interbank exposures
Capital	Time-varying capital requirements
Provisioning	Countercyclical/dynamic provisioning
Liquidity risk	Loan-to-deposit limits, core funding ratios, reserve requirements
Currency risk	Limits on open currency positions or on derivatives transactions

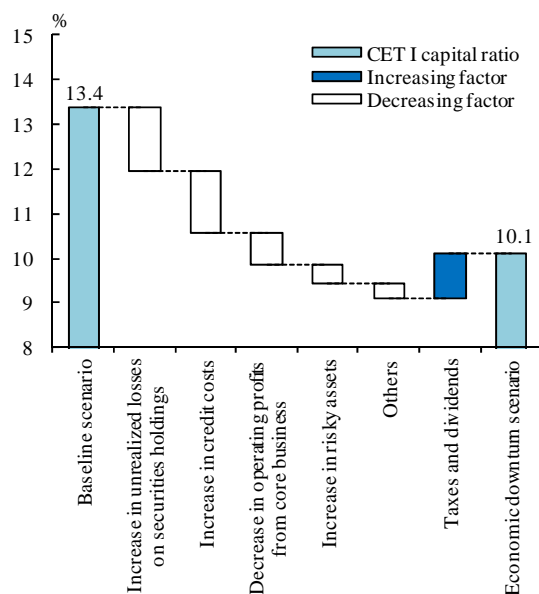
Sources: Bank for International Settlements (BIS); Bank of Japan.

Issues Involved in Implementing Macroprudential Measures

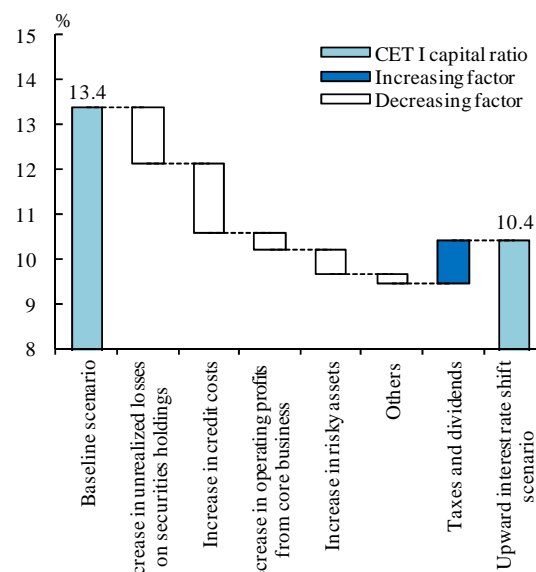
- (1) Implementation of effective measures with appropriate timing
- (2) Communication to the public at the time of policy implementation
- (3) Prevention of leakage of policy effects

Macro Stress Testing Results

Scenario of an economic downturn



Scenario in which a rise in interest rates causes an economic downturn



Note: Internationally active banks are counted. For details on the macro stress testing assumptions and estimation methods, see the October 2014 issue of the *Financial System Report* on pages 86-104.
Source: Bank of Japan.

Bank of Japan Act

Article 1

- (1) The purpose of the Bank of Japan, or the central bank of Japan, is to issue banknotes and to carry out currency and monetary control.
- (2) In addition to what is prescribed in the preceding paragraph, the Bank of Japan's purpose is to ensure smooth settlement of funds among banks and other financial institutions, thereby contributing to the maintenance of stability of the financial system.

Article 2

Currency and monetary control by the Bank of Japan shall be aimed at achieving price stability, thereby contributing to the sound development of the national economy.

Expansion of the Quantitative and Qualitative Monetary Easing (QQE)

- Accelerating the annual pace of increase in the monetary base from about 60-70 trillion yen to about 80 trillion yen.
- Increasing the annual pace of the Bank's JGB holdings from about 50 trillion yen to about 80 trillion yen.
- Extending the average remaining maturity of JGB purchases from about 7 years to about 7-10 years.
- Increasing the Bank's holdings of ETFs and J-REITs so that the annual paces of increase are tripled to about 3 trillion yen and about 90 billion yen, respectively.