December 2, 2020

Bank of Japan

Japan's Economy and Monetary Policy

Speech at a Meeting with Local Leaders in Akita
(via webcast)

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(English translation based on the Japanese original)

Introduction

It is my pleasure to have the opportunity today to exchange views with leaders in administrative, financial, and economic areas in Akita Prefecture, which is taking place online due to the continuing impact of the novel coronavirus (COVID-19). I would like to take this chance to express my sincere gratitude for your cooperation with the activities of the Bank of Japan's Akita Branch.

At the outset of this meeting, I would like to talk about the Bank's view on economic and financial developments at home and abroad, as well as its thinking behind the conduct of monetary policy since March in response to the impact of COVID-19. In addition, I will explain the purpose of the new facility that the Bank recently decided to introduce in order to enhance the resilience of the regional financial system.

I. Developments in Economic Activity and Prices

Economic Developments

I will start by talking about economic developments.

Japan's economy has picked up with economic activity resuming, although it has remained in a severe situation due to the impact of COVID-19 at home and abroad (Chart 1). The GDP growth rate for the April-June quarter marked a significant negative figure of minus 8.2 percent on a quarter-on-quarter basis but turned positive for the July-September quarter to 5.0 percent. That said, with the impact of COVID-19 remaining, the recovery has been only moderate and economic activity has been at a low level. What is unique about the current shock is that the pace of economic improvement varies significantly, mainly depending on the industry or size of firms, as well as household attributes. On this basis, I will briefly explain developments in overseas economies and then talk about Japan's exports as well as household and corporate sectors in some detail.

First is developments in overseas economies. They have picked up from a state of significant depression, as seen in the real GDP growth rates of major economies for the July-September quarter turning positive on a quarter-on-quarter basis. That said, the pace of pick-up is uneven depending on the situation regarding COVID-19 (Chart 2). By country and region, in China, with the number of confirmed cases of COVID-19 being at a low level since early spring, economic activity resumed earlier than elsewhere. The GDP growth rate has been positive for two consecutive quarters, partly due to the materialization of the effects of macroeconomic policies, such as the conduct of infrastructure investment, and its level has already exceeded that prior to the COVID-19 outbreak. As for the accommodations as well as eating and drinking services industry, which had been relatively slow to recover, the year-on-year rate of change has narrowed significantly within negative territory recently. Turning to Europe and the United States, private consumption fell substantially in early spring but has picked up, mainly in goods consumption, partly due to income support measures for households. However, since the number of confirmed cases of COVID-19 has increased rapidly to date, public health measures have been tightened again, and the impact on services consumption in particular is of concern. Regarding emerging economies other than China, although there are variations across countries, the number of people going out has continued to be constrained and the pace of improvement in consumption, mainly of services, has been only moderate in such places as India, where the number of confirmed cases of COVID-19 increased significantly. However, in many of these countries, business sentiment and production activity of the manufacturing industry have been heading toward improvement. The impact of COVID-19 also varies across sectors (Chart 3). Looking at the PMI, which shows business sentiment, the services PMI dropped sharply in early spring and the pace of improvement has been only moderate, whereas the manufacturing PMI has been relatively firm. Compared with the drop in the global GDP, which exceeds that seen during the Global Financial Crisis (GFC), the world trade volume declined by a small degree and has picked up swiftly.

As for the outlook, with the impact of COVID-19 waning gradually, overseas economies are likely to continue improving, partly supported by aggressive macroeconomic policies. That said, the pace of improvement is expected to be only moderate while vigilance against COVID-19 continues (Chart 4). Based on a similar assumption, the International Monetary Fund (IMF) projects in the *World Economic Outlook* (WEO) released in October that the global growth rate on a year-on-year basis will register a significant negative figure of minus 4.4 percent for 2020 but return to positive growth of 5.2 percent for 2021. However, recovery in overseas economies is expected to be varied and is likely to remain dependent on the course of COVID-19. Thus, it is necessary to continue closely monitoring developments in overseas economies, taking into account downside risks.

Second, let us look at developments in Japan's economy. Reflecting these developments in overseas economies, Japan's exports have increased, mainly for automobile-related goods, and have driven the pick-up in the economy. They are expected to increase for the time being, mainly for those goods. Thereafter, although there are high uncertainties, exports are likely to increase for a wide range of goods, including capital goods, with the impact of COVID-19 waning globally.

With regard to the household sector, private consumption has picked up gradually on the whole (Chart 5). The quarter-on-quarter rate of change in private consumption turned positive for the July-September quarter on a GDP basis, registering 4.7 percent. By type, goods consumption has been firm; the decline was small for the April-June quarter and the level for the July-September quarter exceeded that prior to the COVID-19 outbreak, mainly on the back of stay-at-home consumption. In addition, consumption of durable goods has increased substantially, partly supported by the effects of the provision of special cash payments. On the other hand, consumption of services, such as eating and drinking as well as accommodations, registered a sharp decline for the April-June quarter, and a delay in a subsequent pick-up has been obvious, as seen in the temporarily pause in the pick-up reflecting an increase in the number of confirmed cases of COVID-19.

Changes in consumer behavior, which are behind the slow pick-up in services consumption, have a marked characteristic (Chart 6). While vigilance against COVID-19 continues, people are cautious about spending on services, and this tendency is particularly clear for seniors. Compared with other age groups, services spending by senior households saw a larger decline and its subsequent pick-up has been slower in pace. Overall private consumption will likely be affected by developments in their consumption, which accounts for nearly 40 percent of it.

Private consumption is likely to continue picking up, supported also by the government's economic measures. However, while vigilance against COVID-19 continues, the pace is expected to be quite moderate, mainly for face-to-face services consumption. The number of confirmed cases has resurged recently, and there are regions where some industries are requested to shorten their operating hours. Developments in consumption, particularly of services, will continue to warrant attention.

The employment and income situation, which shows the underlying developments in private consumption, has been weak (Chart 7). The number of employed persons has decreased, mainly for non-regular employees in the face-to-face services industry. The year-on-year rate of change in nominal wages has been negative, mainly due to decreases in non-scheduled cash earnings and bonuses. COVID-19 has strongly affected certain sectors, such as the accommodations as well as eating and drinking services industry. In particular, micro, small, and medium-sized firms, as well as non-regular employees, have been facing a strong headwind since they account for a large share in those sectors. On the other hand, the overall employment adjustments have been small compared with the significant deterioration in the economy. The unemployment rate rose in early spring but subsequently has been at around 3 percent, which has been constrained to a relatively low level given that it was about 5 percent half a year after the GFC. This is because large-scale layoffs have been avoided due to the government's measures to expand employment adjustment subsidies and provide subsidies for sustaining businesses and rent assistance subsidies, as well as to the Bank's and the government's measures to support financing. As for the outlook, although the government's economic measures and accommodative financial conditions are expected to support employment, the employment and income situation is projected to be under downward pressure for the time being against the background of deterioration in corporate profits and worsening labor market conditions. Thereafter, however, the employment and income situation is likely to turn to an improving trend, with domestic and external demand recovering.

Turning to the corporate sector, business fixed investment has been on a declining trend, mainly against the background of deterioration in corporate profits and uncertainties over the future (Chart 8). The quarter-on-quarter rate of change in business fixed investment on a GDP basis for the July-September quarter was minus 3.4 percent. The business fixed investment plan in the September *Tankan* (Short-Term Economic Survey of Enterprises in

Japan) was revised downward, showing a marginal negative figure on a year-on-year basis. In particular, the plan indicates that business fixed investment by the accommodations as well as eating and drinking services industry, which had shown a significant increase, mainly reflecting a rise in inbound tourism demand, is expected to substantially decline.

Business fixed investment is likely to remain on a declining trend for the time being, mainly in industries affected strongly by COVID-19. However, the business fixed investment plan in the *Tankan* shows that firms are likely to maintain their active stance toward making investment for growth areas such as software investment. Against this background, as a baseline scenario, with the impact of COVID-19 waning, business fixed investment is likely to return to a moderate increasing trend along with improvement in corporate profits.

In sum, Japan's economy is likely to follow an improving trend, albeit only moderately, with economic activity resuming and the impact of COVID-19 waning gradually. Thereafter, as the impact subsides globally, the economy is projected to keep improving further with overseas economies returning to a steady growth path. That said, this baseline scenario of the economic outlook entails high uncertainties and risks are skewed to the downside. The spread of COVID-19 has not subsided globally, and the number of confirmed cases has resurged in Japan as well. The consequences of COVID-19 and their impact on domestic and overseas economies are extremely unclear, and thus the Bank will closely examine future developments.

Price Developments

Let me move on to price developments (Chart 9). The year-on-year rate of change in the consumer price index (CPI) excluding fresh food has been negative. However, this is mainly attributable to the facts that the past decline in crude oil prices has pushed down energy prices such as electricity charges with time lag, and that a discount on hotel charges through the "Go To Travel" campaign has been reflected in the CPI. In fact, when excluding the effects of these temporary factors, the CPI has been in the range of 0.0-0.5 percent recently, which is firm compared with the degree of deterioration in the economy. A significant decrease in demand for face-to-face services is largely attributable to people's vigilance against COVID-19; thus, even if prices of such services are lowered, the demand is less likely to increase. In addition, household spending and general prices have been supported by the government's large-scale income support measures. Thus, although price cuts that aim at stimulating demand were seen during the period of deflation, they have not been observed widely to date.

The year-on-year rate of change in the CPI is likely to be negative for the time being. However, thereafter, downward pressure on prices is projected to wane gradually along with economic improvement. In addition, the effects of temporary factors to push down prices, such as a decline in crude oil prices and the "Go To Travel" campaign, are likely to dissipate. Under these circumstances, the year-on-year rate of change in the CPI is expected to turn positive and then increase gradually. The risk of an overall and sustained decline in prices is judged as not significant at present. However, the employment and income situation is likely to remain weak for a while and a decline in actual prices could affect people's perception of prices under the adaptive formation mechanism of inflation expectations, which is persistent in Japan. Taking these factors into account, price developments continue to warrant attention.

II. The Bank's Conduct of Monetary Policy

Next, I would like to explain the Bank's conduct of monetary policy.

In response to COVID-19, the Bank has conducted powerful monetary easing since March through the following three measures (Chart 10). Specifically, the first is the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) to provide support mainly for corporate financing. The second is an ample and flexible provision of funds, mainly by purchasing Japanese government bonds (JGBs) and conducting the U.S. dollar funds-supplying operations, to ensure stability in financial markets. The third is active purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) to lower risk premia in asset markets.

As responses to COVID-19, supporting corporate financing and maintaining stability in financial markets are important in conducting monetary policy, and the three measures also aim to fulfill these two points. Let me elaborate on this. First, what is important from the financial side during the pandemic is to prevent firms and sole proprietors affected by COVID-19 from facing difficulties in financing and to provide an environment where they can quickly restart their businesses as the impact of COVID-19 subsides. Thus, support for corporate financing is necessary from this perspective. Second, if financial markets become unstable due to uncertainties over future economic developments, the real economy could be negatively affected through deterioration in firms' and households' sentiment. Such adverse effects may lead to a vicious cycle between turmoil in financial markets and deterioration in the real economy. To avoid this cycle, it is important to maintain stability in financial markets at the time of a crisis. Thus, maintaining accommodative financial conditions with a view to supporting corporate financing and ensuring stability in financial markets is the most appropriate approach to support an economy hit by COVID-19. In addition, the Bank considers that its responses will lead to achieving the price stability target, although it will take time.

The current powerful monetary easing measures have had positive effects, coupled with the government's measures and efforts by financial institutions. Global financial markets are still nervous, but tension has eased. Although firms' financial positions have been weak, they have stopped deteriorating. The environment for external funding, such as bank borrowing as well as the issuance of CP and corporate bonds, has remained accommodative, and this has supported corporate financing (Chart 11). Firms' funding costs have been hovering at low levels. In addition, the year-on-year rate of increase in the amount outstanding of bank lending has been at around 6 percent, registering the highest increase in about 30 years. That in the aggregate amount outstanding of CP and corporate bonds has been at a relatively high level that exceeds 10 percent.

That said, with the economy improving at only a moderate pace, corporate financing is likely to remain under stress for the time being. Various uncertainties, including the course of COVID-19, could lead to instability in financial markets at home and abroad. Thus, the Bank considers it important to continue firmly conducting current monetary easing through the three measures. On this basis, since there are high uncertainties over the impact of COVID-19 on economic and financial activities, the Bank will, for the time being, closely monitor its impact and not hesitate to take additional monetary easing measures if necessary.

At present, the Special Program is scheduled to be conducted until the end of March 2021, but considering such impacts as of the course of COVID-19, the Bank will extend the duration of the program when judged necessary.

III. A New Facility to Enhance the Resilience of the Regional Financial System

One of the major factors behind positive effects of the Bank's monetary easing measures and the government's support measures for financing is that financial system stability has been maintained on the whole and the smooth functioning of financial intermediation has been ensured. This is a big difference from the time of the GFC, when downward pressure from the financial side on the real economy intensified. As a background to the current situation, financial institutions have considerable resilience in terms of both capital and liquidity, on the back of continued efforts to enhance the robustness of the financial system since the GFC. It is expected that the economy will continue to be supported from the financial side. That said, the financial system could be affected when the challenge for economic entities shifts from a liquidity problem to a solvency one. Thus, future developments warrant close attention.

In relation to the smooth functioning of financial intermediation, I will touch on a new facility to enhance the resilience of the regional financial system (Chart 12). Such smooth functioning is extremely important to achieving sustainable economic growth. In recognition of this, on November 10, the Bank decided on a plan to introduce a special deposit facility, in which it will pay an additional remuneration to the current account balances held by regional financial institutions that meet certain requirements. This decision aims to strengthen the business foundations of regional financial institutions so that they may firmly support regional economies into the future and smoothly fulfill their functioning of financial intermediation.

As I have noted earlier, COVID-19 has significantly affected economic and financial developments globally. However, while Japan's financial system has been maintaining stability on the whole, financial institutions have actively provided funds to firms and households and thereby have supported Japan's economy. Nevertheless, financial institutions' profitability through domestic deposit-taking and lending activities has continued to decline in the long term against the background of structural factors such as the declining population, in addition to the prolonged low interest rate environment. Such structural factors have strongly affected regional financial institutions in particular, and they are facing an increasingly severe condition with the impact of COVID-19. Moreover, the environment surrounding regional economies is undergoing significant changes due, for example, to the increasing requests by society to address the Sustainable Development Goals (SDGs) and advancements in digital transformation and working-style reforms.

In order for regional economies to sustainably develop under these circumstances, strengthening the business foundations of regional financial institutions -- which support regional economies -- becomes increasingly important. The specific method, however, is absolutely a business decision to be made by each financial institution. On this point, business integration is one option, but strengthening business foundations by itself or by alliances with non-financial firms is another, among others. This facility requires mainly an improvement in indices that could measure both revenue increase and cost reduction.

What is important is that regional financial institutions firmly support economic activity in their respective regions into the future while steadily pursuing strengthening of their business foundations, even with the business environment becoming increasingly severe due, for example, to the impact of COVD-19. Based on this recognition, the Bank decided on a plan to introduce this facility. The Bank expects that this facility will be used by many regional financial institutions and will encourage their initiatives to support regional economies.

Conclusion

Lastly, I would like to talk about Akita Prefecture's economy.

As with other regions, the prefecture's economy has picked up moderately, although it has been in a severe situation due to the impact of COVID-19. A moderate pick-up has been seen in production, mainly on the back of a recovery in automobile sales at home and abroad. Private consumption also has picked up, of which demand has been stimulated by the premium accommodation and meal vouchers issued by the prefecture and its cities, as well as by the government's "Go To" campaign.

With the fastest pace of a declining population in the nation and a high aging population ratio, the environment surrounding the prefecture's economy is very challenging. However, the labor force participation of seniors and women has been increasing in the prefecture, as evidenced by the facts that the share of firms that have allowed seniors to continue working is the highest in the nation and that the M-shaped curve has flattened as women have joined the labor force. In addition, firms in the prefecture have addressed labor shortage by implementing various measures to enhance productivity. In the agricultural sector, the consolidation of farmland and the development of new large-scale production bases have led to progress with a shift to products other than rice and in "smart agriculture," which is the use of robotics and information and communication technology (ICT) in agriculture.

Akita Prefecture has also been fostering a range of new growth industries. The prefecture has a history of developing industries that utilize its abundant natural resources, and at present it is the renewable energy industry that is driving the local economy. Wood biomass power generation utilizes unused Akita cedar wood, supporting the local forestry industry. In the area of wind power generation, large-scale offshore wind power plants are planned to be built, taking advantage of the best wind conditions in Japan, and this is expected to have economic spillover effects by creating jobs and fostering related industries. In addition, in the leading electronic parts and devices industry, research and development of products in cutting-edge areas such as 5G and electric vehicles has been progressing, and a global expansion of related markets is expected to bring about growth in these business areas. Efforts to foster and attract industries such as medical and information-related industries have also been making progress. It is an encouraging sign that the number of people moving out of the prefecture is starting to decrease with these efforts.

With regard to urban development, the city center, mainly the area in front of Akita Station, has been redeveloped, and land prices in Akita City having turned to an increase has gained attention. I hope that the prefecture can attract more people by making the most of its world-class local resources, such as its World Natural Heritage site and UNESCO Intangible Cultural Heritages, and at the same time pushing forward with urban development that makes the region attractive.

Positive initiatives have been taken steadily in the prefecture, although the environment surrounding the local economy has been challenging and uncertainties are likely to remain high for the time being due to the impact of COVID-19. The Bank, and particularly its Akita Branch, will seek to play a part in contributing to the further development of Akita Prefecture's economy.

Thank you for your attention.

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Introduction

I. Developments in Economic Activity and Prices

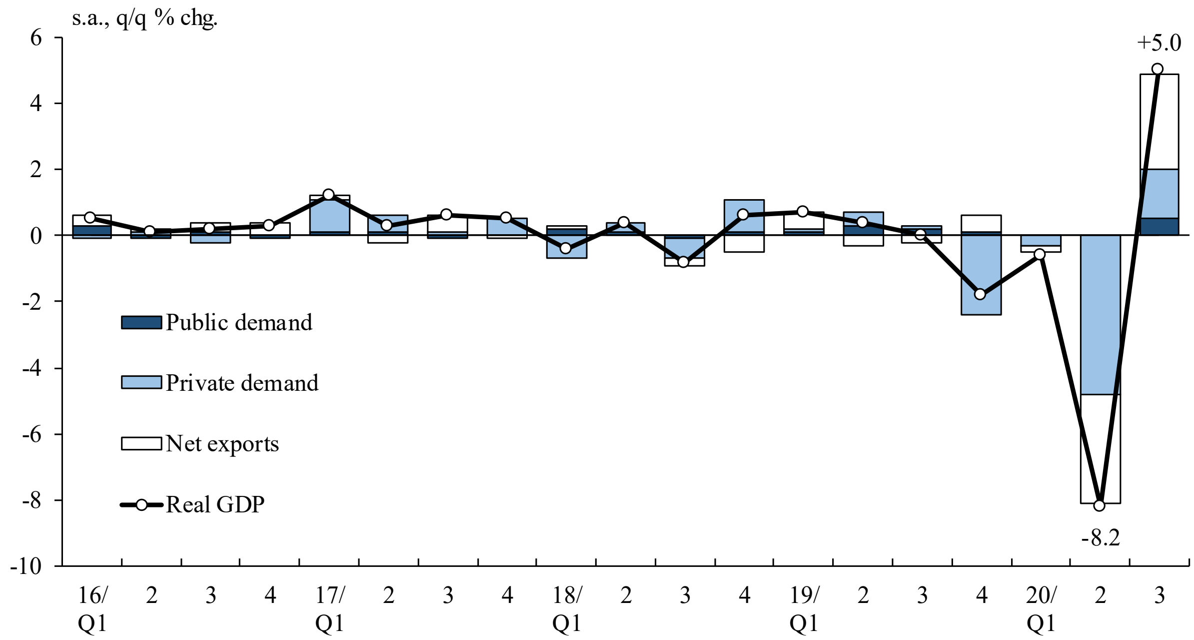
II. The Bank's Conduct of Monetary Policy

III. A New Facility to Enhance the Resilience of the Regional Financial System

Conclusion

Chart 1

Real GDP

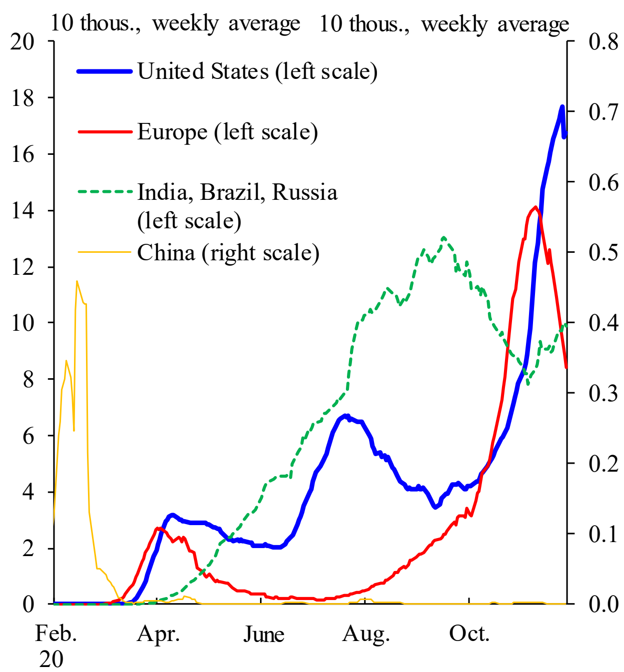


Note: Figures of components in real GDP indicate contributions to changes in real GDP.
Source: Cabinet Office.

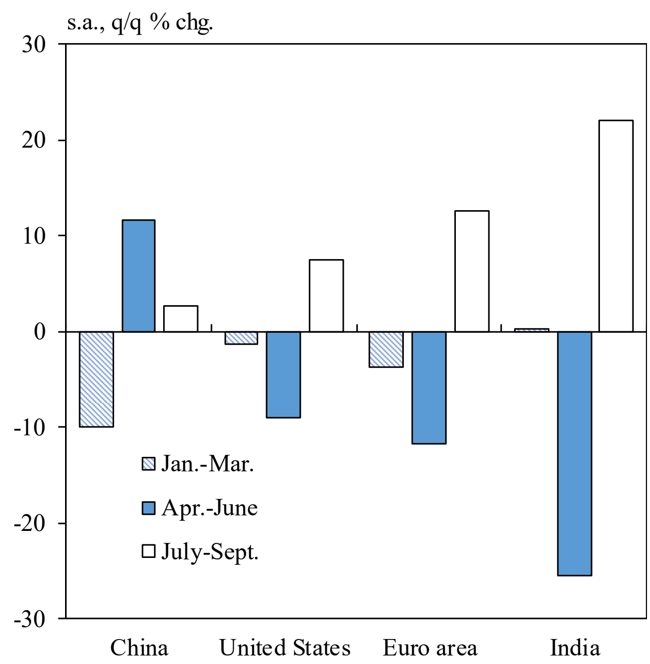
Chart 2

Impact of COVID-19 (1)

Confirmed New Cases



Major Economies' Real GDP

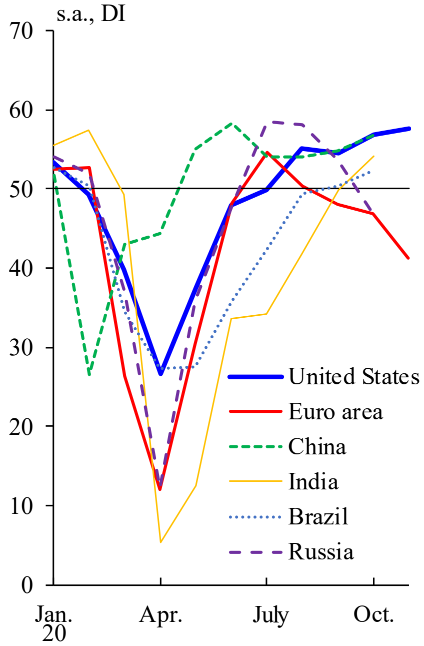


Sources: Haver; CEIC.

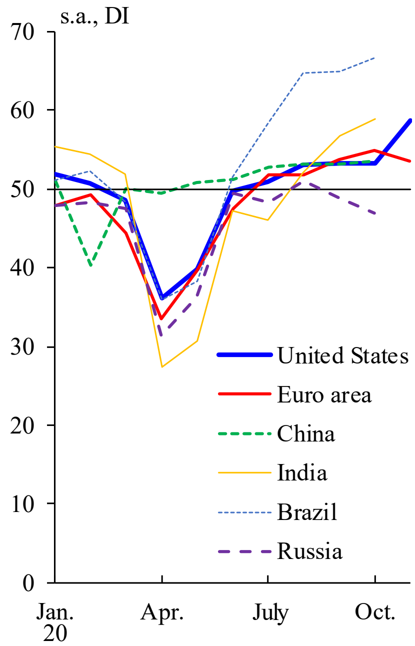
Chart 3

Impact of COVID-19 (2)

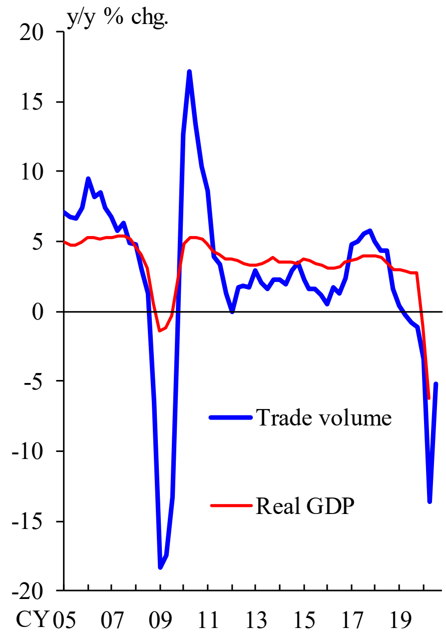
Services PMI



Manufacturing PMI



World Trade Volume and Real GDP of the World Economy



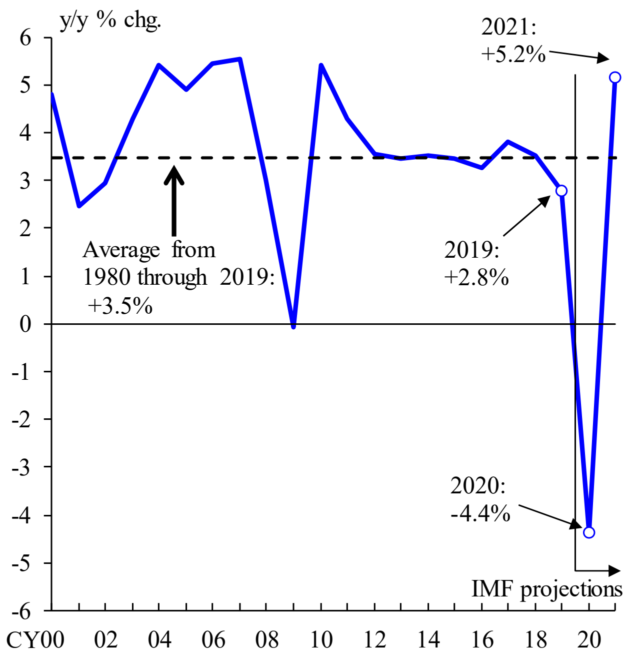
Notes: 1. In the left-hand and middle charts, figures for China are the "Caixin China PMI."
2. In the left-hand chart, figures for the services PMI are the "Services Business Activity Index."
3. In the right-hand chart, figures for the trade volume are those for real imports. Real GDP of the world economy is based on staff calculations using GDP shares of world total GDP from the IMF as weights.

Sources: IHS Markit (© and database right IHS Markit Ltd 2020. All rights reserved.); CPB Netherlands Bureau for Economic Policy Analysis; IMF, etc.

Chart 4

World Economic Outlook (IMF)

Global Growth Rate



Major Economies' Growth Rates

y/y % chg., % pts

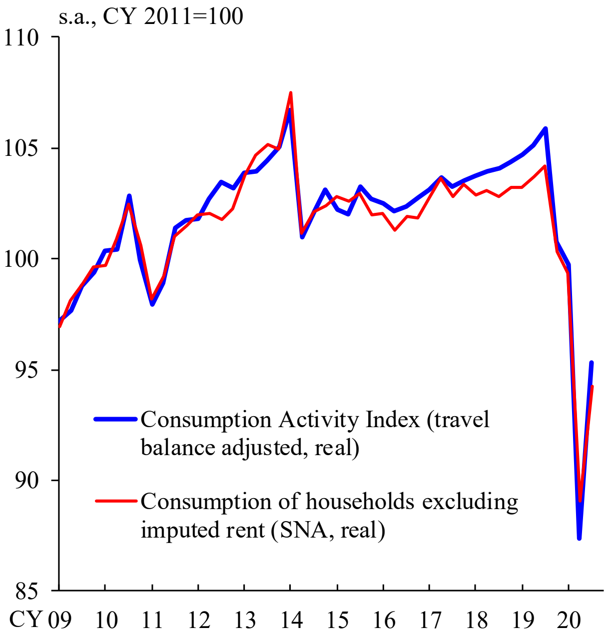
	2018	2019	2020 [Forecast]	2021 [Forecast]
World	3.6	**2.8**	**-4.4** **(0.8)**	**5.2** **(-0.2)**
Advanced economies	2.2	1.7	-5.8 (2.3)	3.9 (-0.9)
United States	2.9	2.2	-4.3 (3.7)	3.1 (-1.4)
Euro area	1.9	1.3	-8.3 (1.9)	5.2 (-0.8)
United Kingdom	1.3	1.5	-9.8 (0.4)	5.9 (-0.4)
Japan	0.3	0.7	-5.3 (0.5)	2.3 (-0.1)
Emerging market and developing economies	4.5	3.7	-3.3 (-0.2)	6.0 (0.2)
China	6.7	6.1	1.9 (0.9)	8.2 (0.0)
India	6.1	4.2	-10.3 (-5.8)	8.8 (2.8)
Latin America	1.1	0.0	-8.1 (1.3)	3.6 (-0.1)

Note: In the right-hand chart, figures in parentheses are the difference from the June 2020 projections.
Source: IMF.

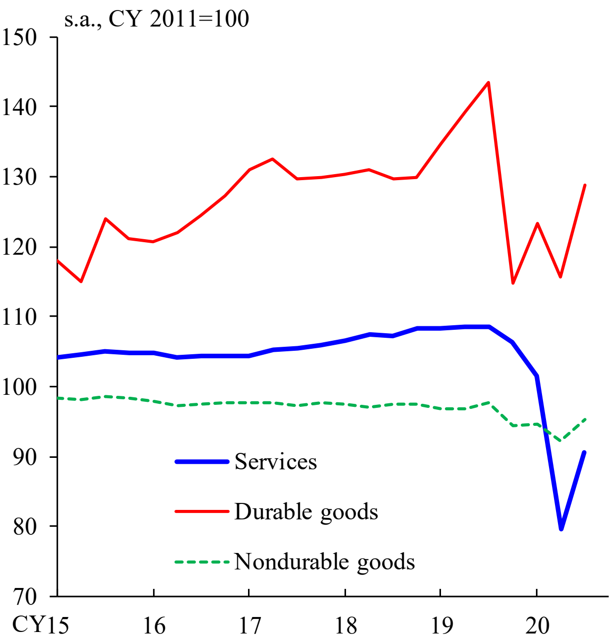
Chart 5

Private Consumption

Private Consumption



Consumption Activity Index (Real)

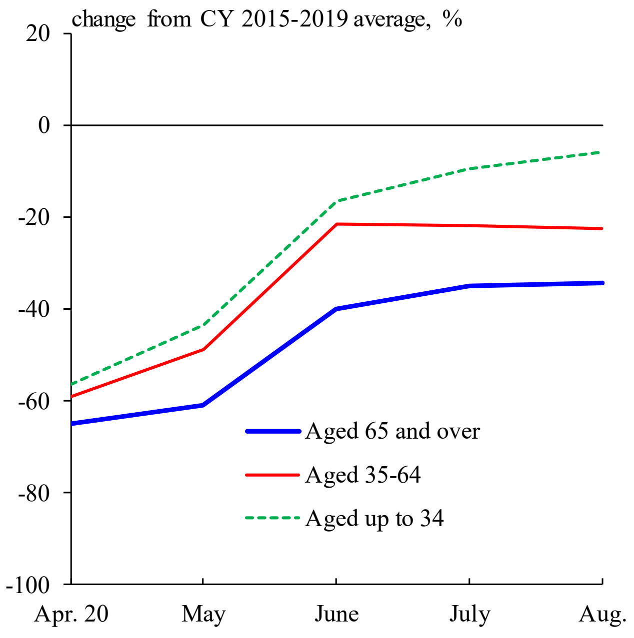


Note: In the left-hand chart, the Consumption Activity Index is based on staff calculations. Figures for the Consumption Activity Index (travel balance adjusted) exclude inbound tourism consumption and include outbound tourism consumption.
Sources: Bank of Japan; Cabinet Office, etc.

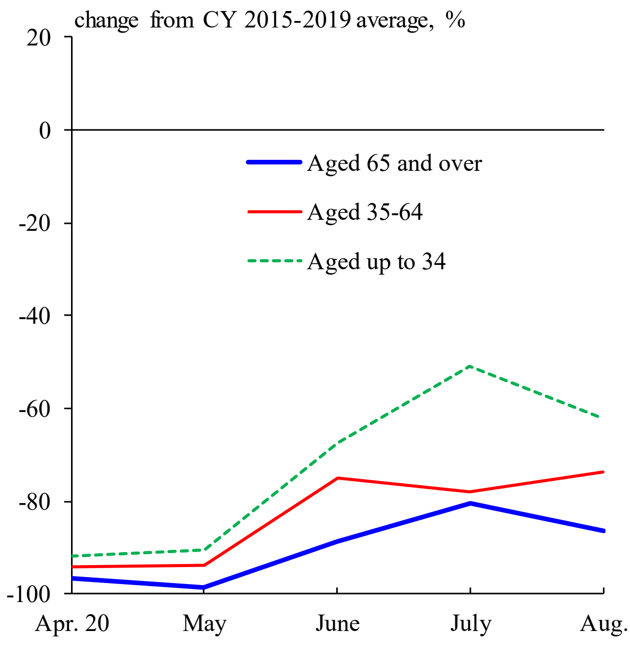
Chart 6

Developments in Consumption by Age (Services Spending)

Eating Out



Travel

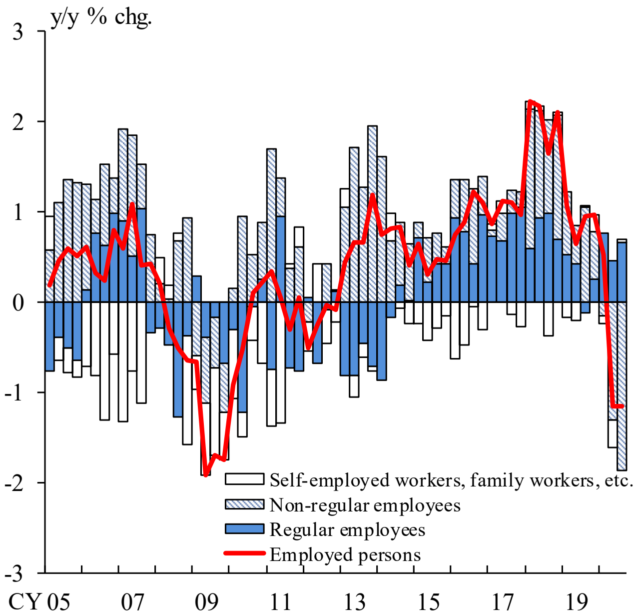


Notes: 1. Figures are for two-or-more-person households and compiled by the age of the household head.
2. As for the right-hand chart, figures are the sum of expenditures on accommodation services and package tours.
Source: Ministry of Internal Affairs and Communications.

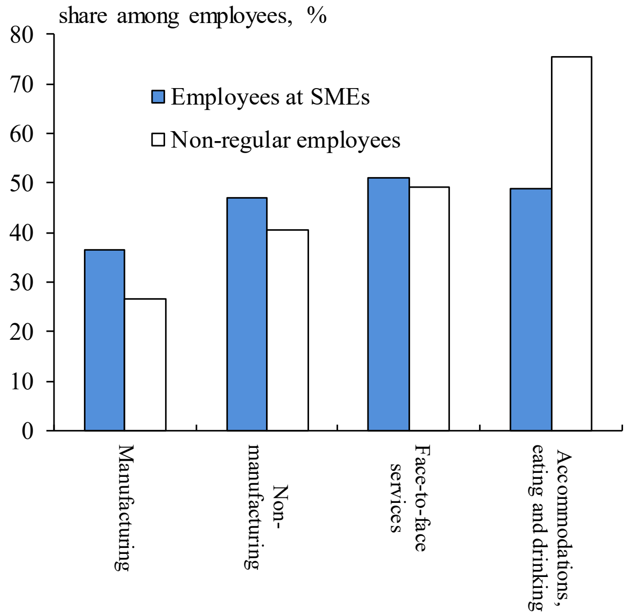
Chart 7

Employment

Number of Employed Persons



Employees at Small and Medium-Sized Enterprises (SMEs) and Non-Regular Employees



Notes: 1. In the left-hand chart, "self-employed workers, family workers, etc." includes executives of companies or corporations. Figures prior to 2014 are based on the "detailed tabulation" in the "Labour Force Survey."

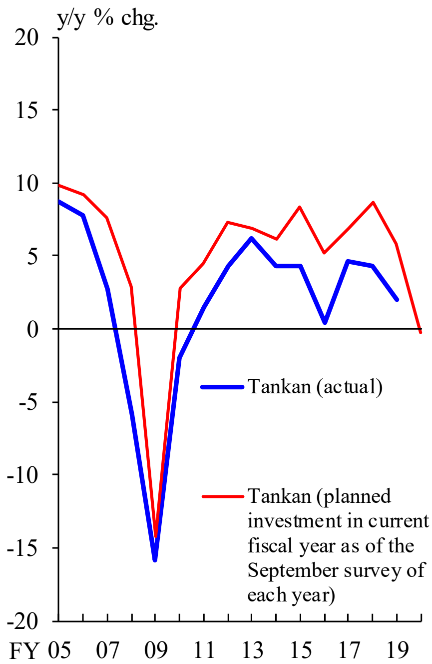
2. In the right-hand chart, "face-to-face services" consists of "accommodations, eating and drinking," "living-related services and amusement," "education, learning support," and "medical, health care and welfare." Figures for employees at SMEs represent the share of those working at firms with fewer than 100 employees among all employees. Figures for non-regular employees represent the share of non-regular employees among all employees excluding executives of companies or corporations. Figures show the averages for 2019.

Source: Ministry of Internal Affairs and Communications.

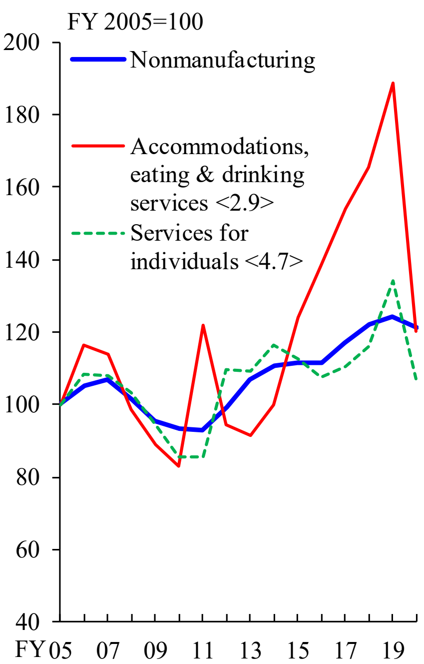
Chart 8

Business Fixed Investment Plans (*Tankan*)

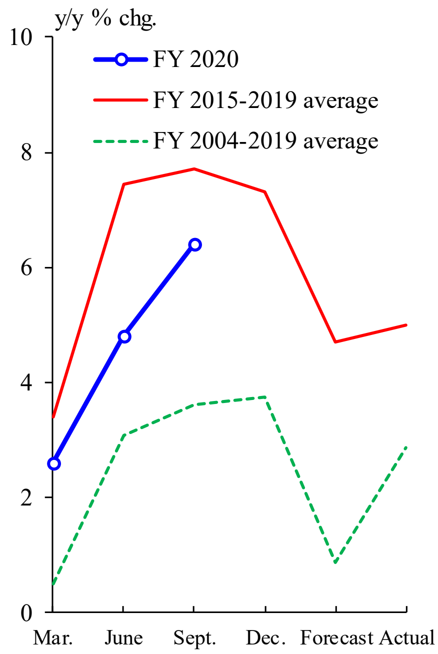
All Industries and Enterprises



Nonmanufacturing



Software Investment



Notes: 1. In the left-hand and middle charts, figures include software and R&D investments and exclude land purchasing expenses (R&D investment is not included before the March 2017 survey).

2. In the left-hand chart, figures are for all industries including financial institutions.

3. In the middle chart, figures up through fiscal 2019 are actual results. Figures for fiscal 2020 are forecasts from the September 2020 survey. Figures in angular brackets show the share of each industry in total business fixed investment in the nonmanufacturing sector for fiscal 2019.

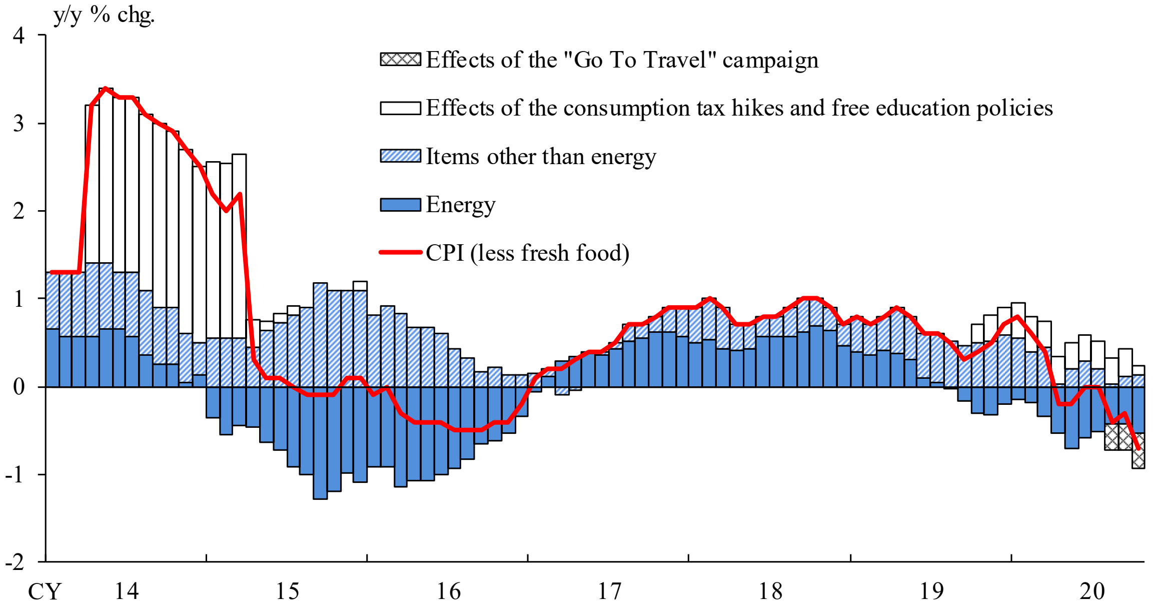
4. In the right-hand chart, figures show the amount of newly recorded software investment under intangible fixed assets. Figures are for all industries and enterprises.

Source: Bank of Japan.

I. Developments in Economic Activity and Prices

Chart 9

Consumer Prices



Notes: 1. Energy consists of petroleum products, electricity, and gas, manufactured & piped.
2. Figures for the "effects of the consumption tax hikes and free education policies" from April 2020 onward are based on staff estimations and include the effects of measures such as free higher education introduced in April 2020.

Source: Ministry of Internal Affairs and Communications.

II. The Bank's Conduct of Monetary Policy

Chart 10

The Bank's Measures in Response to COVID-19

Supporting Corporate Financing

Special Program to Support Financing in Response to COVID-19: total size of about 140 tril. yen + α

Purchases of CP and corporate bonds: amount outstanding of about 20 tril. yen at maximum (previous amount outstanding of about 5 tril. yen)

Special Funds-Supplying Operations to Facilitate Financing in Response to COVID-19: about 120 tril. yen

Stabilizing Financial Markets

Ample and Flexible Provision of Yen and Foreign Currency Funds

Further active purchases of JGBs and T-Bills: unlimited

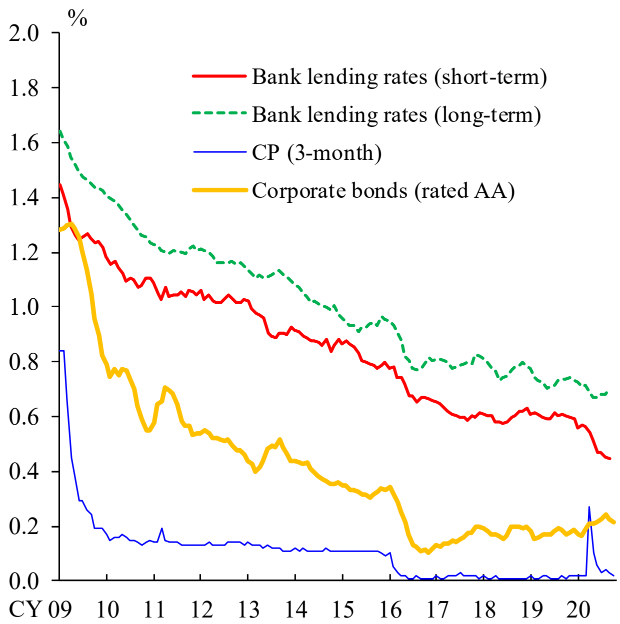
Enhancement of the U.S. Dollar Funds-Supplying Operations: unlimited

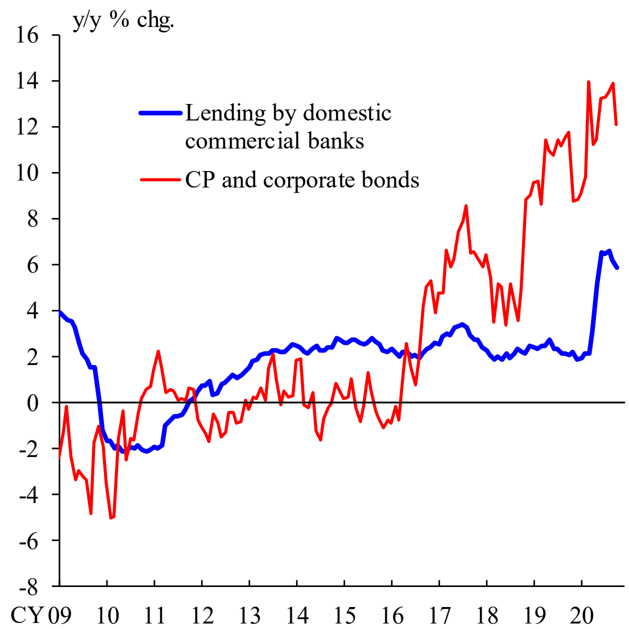
Active Purchases of ETFs and J-REITs

ETFs: annual pace of about 6 tril. yen
→ annual pace with the upper limit of about 12 tril. yen (for the time being)
J-REITs: annual pace of about 90 bil. yen
→ annual pace with the upper limit of about 180 bil. yen (for the time being)

Chart 11

Financial Conditions





Notes: 1. In the left-hand chart, figures for issuance yields for CP up to September 2009 are the averages for CP (3-month, rated a-1 or higher). Those from October 2009 are the averages for CP (3-month, rated a-1). Figures for issuance yields for corporate bonds are the averages for domestically issued bonds launched on a particular date. Bonds issued by banks and securities companies, etc., are excluded. Figures for bank lending rates and issuance yields for corporate bonds show 6-month backward moving averages.
2. In the right-hand chart, figures for lending by domestic commercial banks are monthly averages. Figures for CP and corporate bonds are those at the end of the period. Lending by domestic commercial banks includes loans to firms, individuals, and local governments.

Sources: Bloomberg; Bank of Japan; Japan Securities Depository Center; Capital Eye; I-N Information Systems.

Chart 12

Special Deposit Facility to Enhance the Resilience of the Regional Financial System

Background: The business environment surrounding regional financial institutions is becoming increasingly severe due to structural factors such as the declining population, the continued low interest rate environment, and the impact of COVID-19.

Outline of the Facility

- The Bank decided on a plan to introduce a new deposit facility to encourage initiatives of regional financial institutions to strengthen their business foundations so that they may firmly support regional economies into the future.
- The Bank will pay an additional remuneration of 0.1 percent to the current account balances of regional financial institutions that meet the following requirements (a three-year temporary measure).
  - (1) Being committed to contributing to sustainable development of regional economies and (2) to meet either of the following:

    (i) To strengthen business foundations to a designated degree (revenue increase and cost reduction)

    (ii) To make an institutional decision on mergers, business integration, or certain forms of acquisitions toward strengthening business foundations