

**NRI**

## Perspectives of “Unconventional Monetary Policy” Message from Financial Markets Panel

( Charts and Tables )

( Overview of Financial Markets panel )



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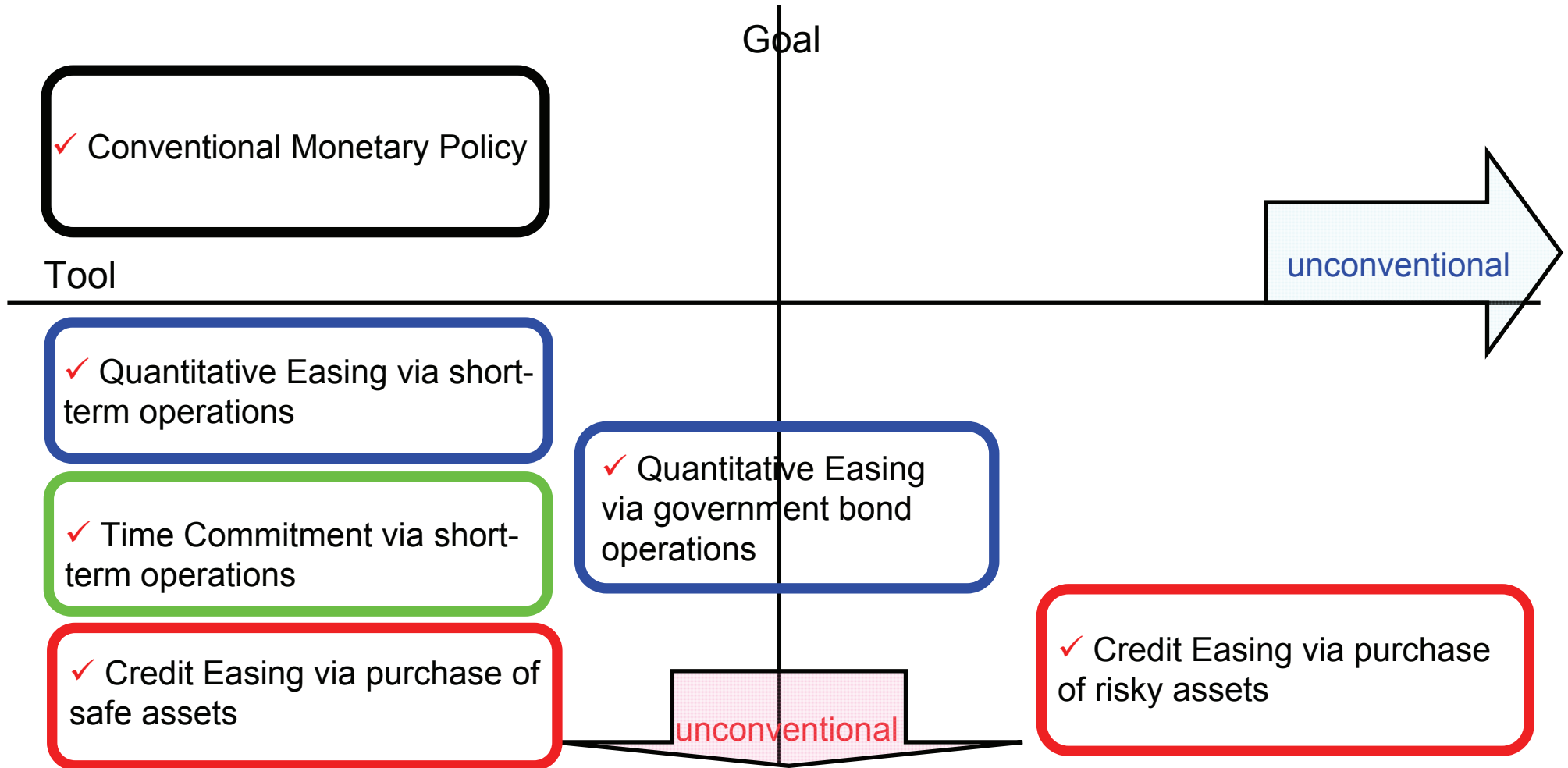
## (Table1) Classification and examples of unconventional policy

(source): NRI

| Category            | Objective  | Examples   |
|---------------------|--|--|
| Quantitative Easing | <ul style="list-style-type: none"> <li>•Restore market functions by supplying large amounts of liquidity to financial institutions and markets through asset purchases</li> <li>- Ordinarily implemented jointly with ZIRP</li> </ul>                | <ul style="list-style-type: none"> <li>•Japan (Mar 01 – Mar 06)</li> <li>•UK (Feb 09 –)</li> </ul>   |
| Time Commitment     | <ul style="list-style-type: none"> <li>•Stabilize medium-term interest rates by committing to maintain current monetary policy stance until certain conditions are met</li> <li>- Policy rate fixed at given level for duration of policy</li> </ul> | <ul style="list-style-type: none"> <li>•Japan (Mar 01 – Mar 06)</li> <li>•US (May 04 – Jan 06)</li> <li>&lt;US (Dec 08 - ) as a “weak form”&gt;</li> </ul> |
| Credit Easing       | <ul style="list-style-type: none"> <li>•Restore or replace market functions through asset purchases</li> <li>- May include purchase of risk assets, depending on markets being targeted</li> </ul>   | <ul style="list-style-type: none"> <li>•US (Jan 09 –)</li> <li>•Japan (Jan 09 –)</li> <li>•Eurozone (Jul 09 –)</li> </ul>                                  |

# (Chart1) Tools and goals of unconventional monetary policy

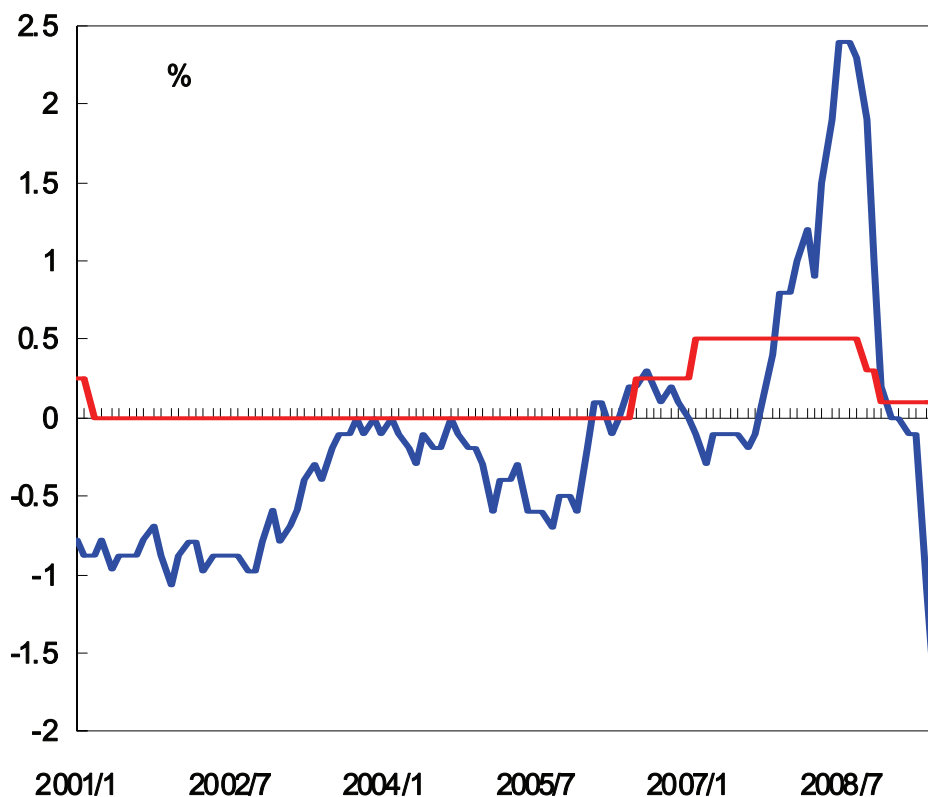
(source): NRI



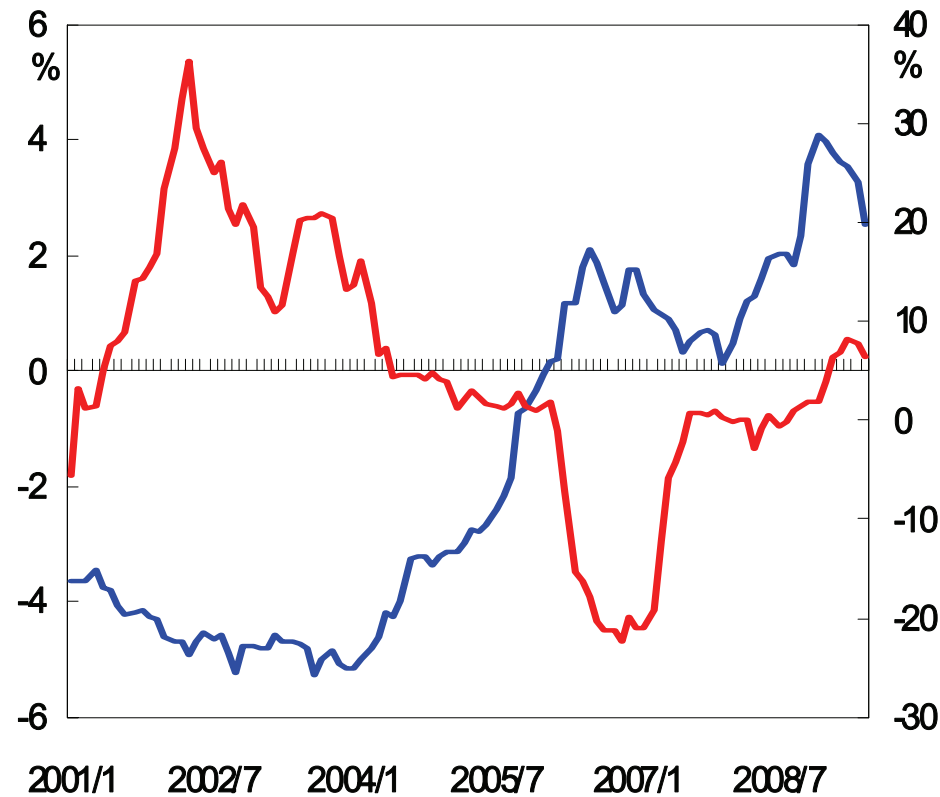
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# (Chart 2) Economic backdrop for quantitative easing in Japan

(source): MIAC, BOJ



— Nationwide CPI ( ex flesh food, y-y change )  
 — BOJ Policy Rate ( uncollateralized O/N call rate)



— Outstanding of Bank Loans ( all banks, y-y change ) <LHS>  
 — Outstanding of Monetary Base ( y-y change ) <RHS>

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# (Chart 3) Yield curve and BOJ’s statements on time commitments

(source): BOJ

New Procedures for Money Market Operations and Monetary Easing (19 March 2001) <excerpts>

b) CPI guideline for the duration of the new procedures

The new procedures for money market operations continue to be in place until the consumer price index (excluding perishables, on a nationwide statistics) registers stably a zero percent or an increase year on year.

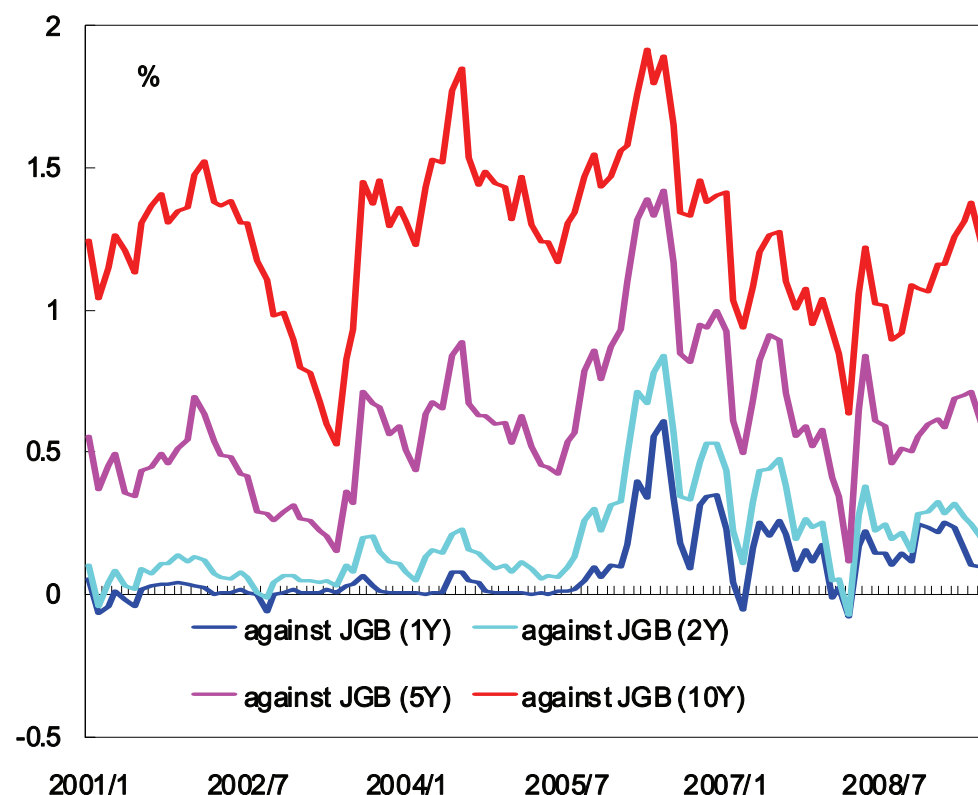
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New Steps for Monetary Easing: What is Significant? (19 March 2001) <excerpts>

■ **Strong Commitment in terms of Policy Duration**

- The new procedures continue until the CPI (excluding perishables) registers stably a zero percent or an increase year on year
- Affect people’s expectation to remove a deflationary bias
- Fall in interest rates across the yield curve

Spread between JGB yields and uncollateralized overnight call rate



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## (Table 2) Credit easing during current crisis in advanced economies

(source): BOJ, FRB, BOE, ECB

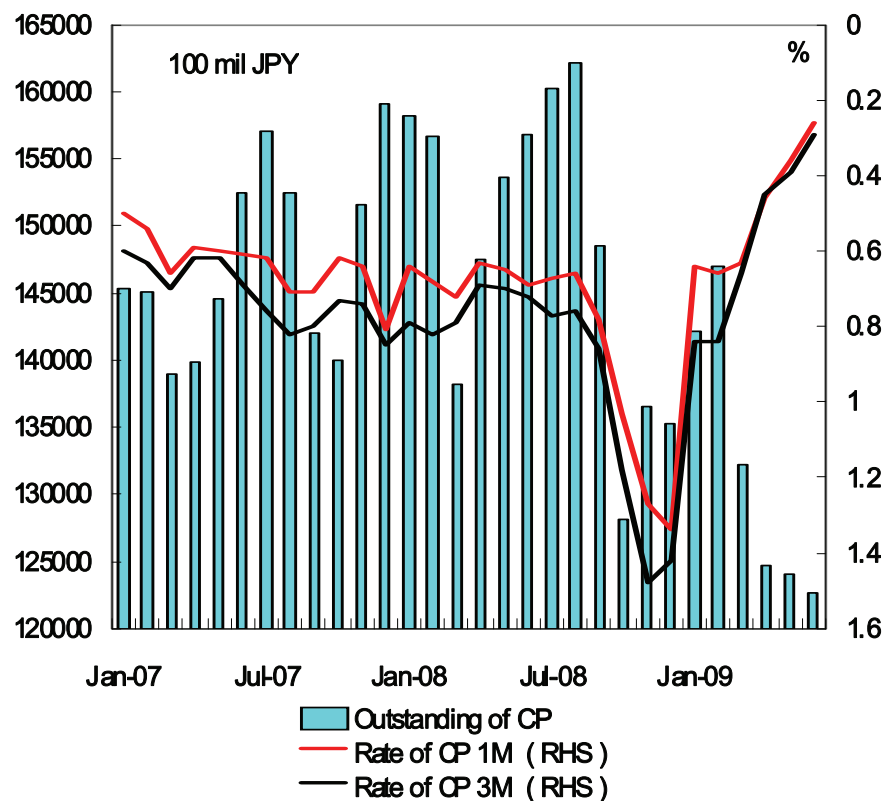
| Central bank | Program   | Duration                                   | Description  | Counterparties  | Interest rates  | Duration  | Scale                     |
|--------------|---|--|--|---|---|---|---------------------------|
| BOJ          | Purchase of CP and ABCP                           | Jan 09 - End-Dec 09                        | Purchase of CP and ABCP from operation participants  | Participants of CP repo and lending against pooled collateral                   | Determined by auction (with floor: eg. policy target rate +20bp for CP matured in 3 months)   | (matured in three months)   | ¥3trn (CP+ABCP)           |
|              | Purchase of Corporate Bonds                       | Mar 09 - End-Dec 09                        | Purchase of Corporate Bonds from operation participants  | (selected from financial institutions, financial product brokers, etc)          | Determined by auction (with floor: eg. policy target rate + 40bp for bonds matured in 6 months)   | (matured in 1 year)   | ¥1trn                     |
| FRB          | Term Asset-Backed Securities Loan Facility (TALF) | Mar 09 – End-Dec 09                        | Financing SPV purchase of ABS and CMBS from companies<br>- ABS backed by auto loans, credit card loans, student loans, and SBA-guaranteed loans        | All US corporations (with accounts at primary dealers)                          | Decided by the Fed for each underlying asset class (eg. 3Y Libor swap +100bp for auto and credit card loans <matured over 2 years>, and CMBS) | Up to 3 years (max 5-year average maturity for student loan and CMBS) | \$200bln                  |
|              | Purchase of MBS                                   | Jan 09 – End-Dec 09                        | Purchase of fixed-rate MBS from primary dealers  | Primary dealers   | (based on market rates)   | (not announced)   | \$1.25trn                 |
| BOE          | Purchase of CP and Corporate Bonds                | Feb 09 - Until financial markets stabilize | Financing of SPV purchases of CP and Corporate Bonds (new and existing issues, but only existing corporate bonds)                                      | Operation participants  | - For new issues set by the BOE (eg. OIS +75bp for A1 rated CP)<br>- For existing issues, lower of the above and market rates                 | (not announced) (CP matured in 3 months)                              | Min £ 50bn out of £ 125bn |
| ECB          | Purchase of Covered Bonds                         | Jul 09 - End-Jun 10                        | Purchase of covered bonds from operation participants (both new and existing issues)<br>- Covered bonds backed by home loans and public sector lending | Operation participants (including eligible counterparties for ECB’s investment) | (not announced)   | (not announced)   | €60bn                     |

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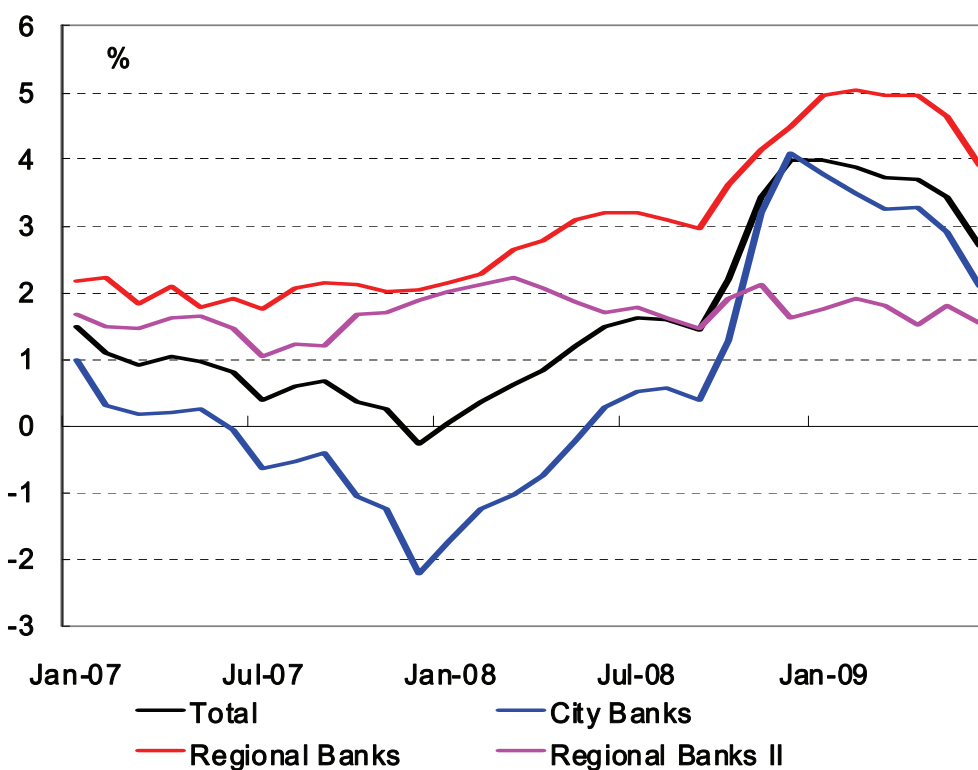
# (Chart 4-1) Japanese credit market conditions

(source): BOJ

CP rates and outstanding



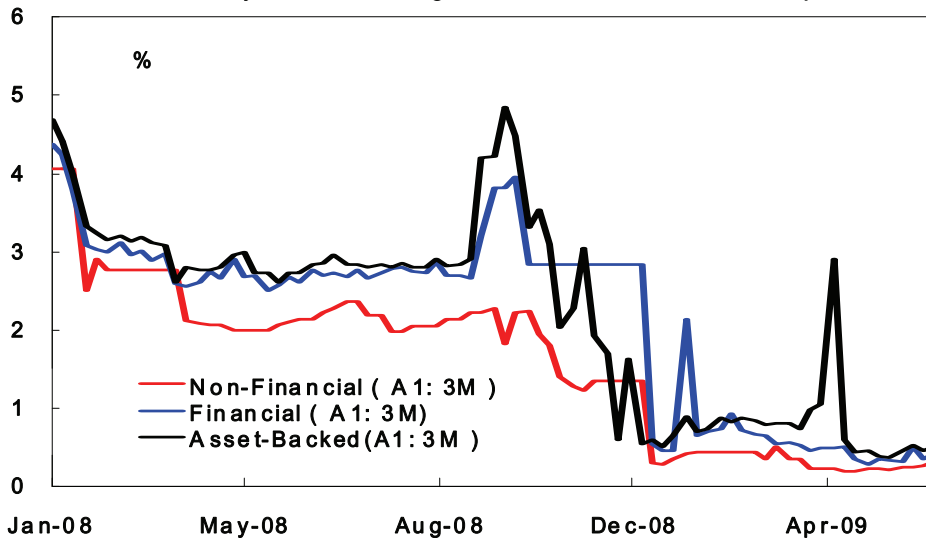
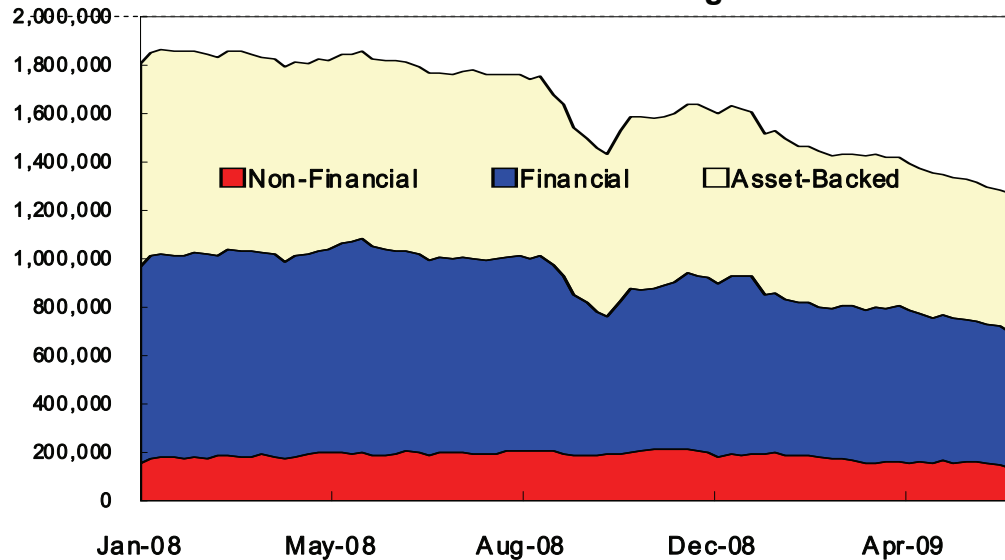
Bank loans (annual rate of growth: average outstanding)



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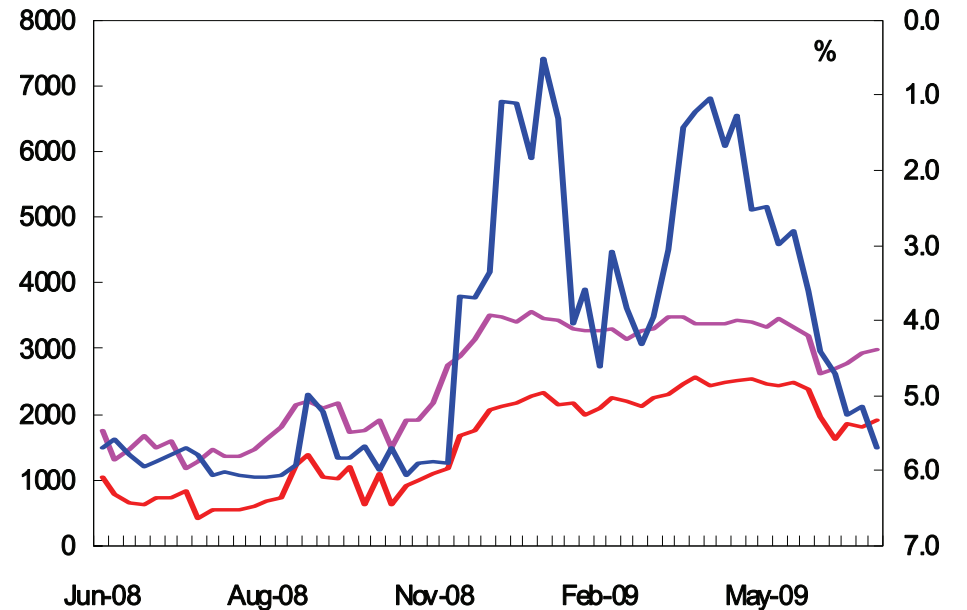
# (Chart 4-2) US credit market conditions

CP rates and outstanding



(source): FRB, Freddie Mac, MBA, Thomson Reuters

Mortgage rates vs refinancing index (rates on RHS <reversed>)



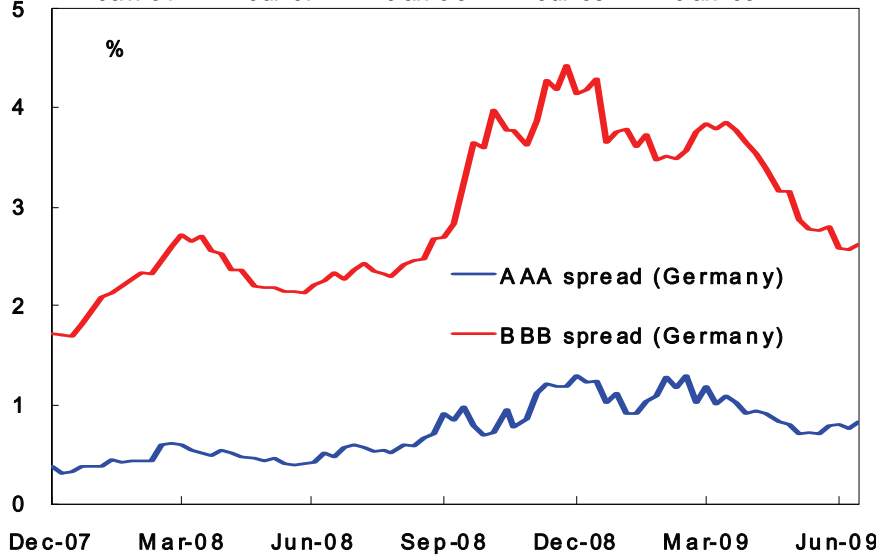
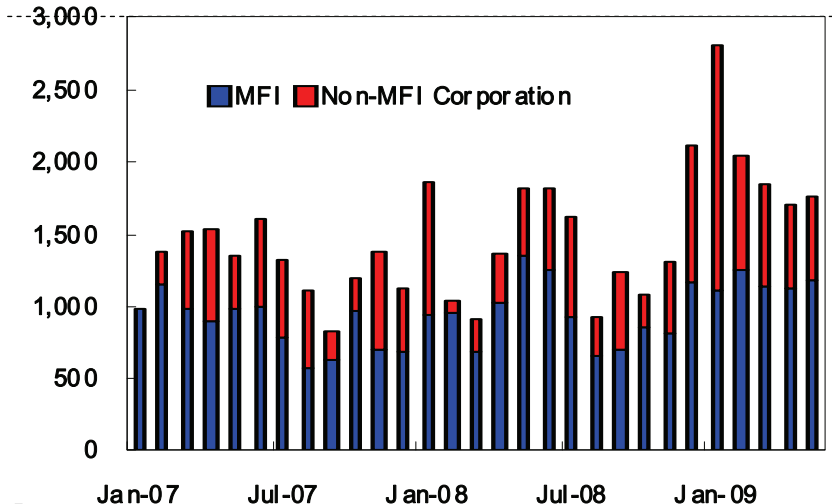
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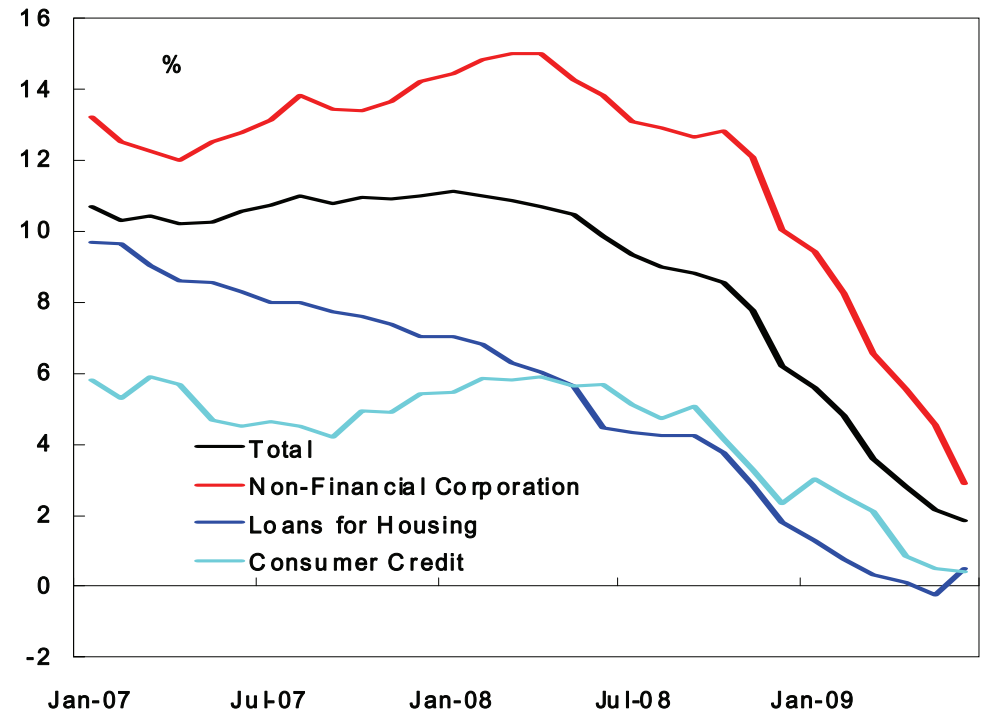
# (Chart 4-3) Eurozone credit market conditions

Bond rates and issuance

(source): ECB, Thomson Reuters



Bank loans (annual rate of growth)



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# (Table 3) Managing credit risk of credit easing in advanced economies

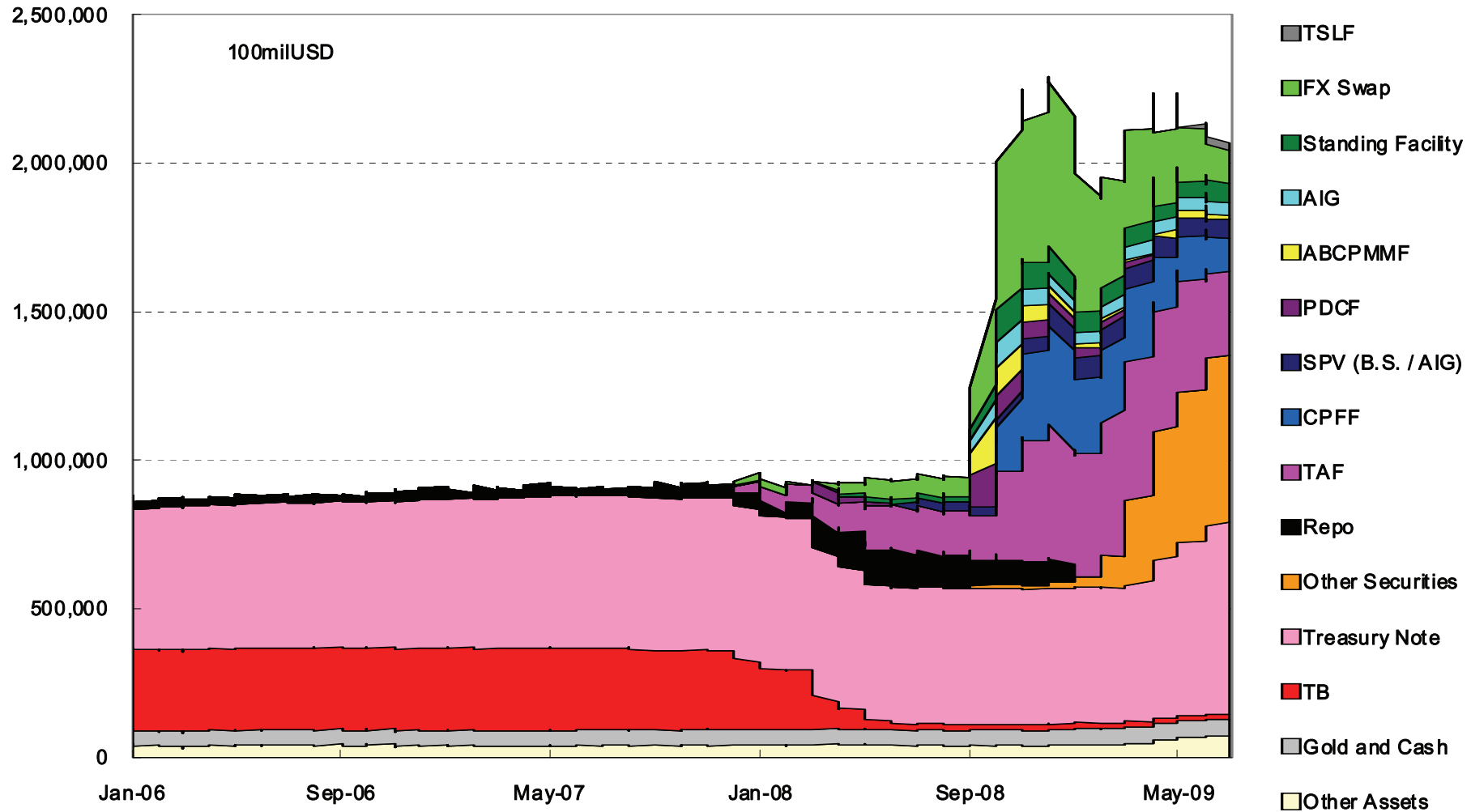
(source): BOJ, FRB, BOE, ECB

| Central Bank | Program                            | Measures   |
|--------------|------------------------------------|--|
| BOJ          | Purchase of CP and ABCP            | <ul style="list-style-type: none"> <li>• Limited to paper rated a-1 or higher</li> <li>• Ceiling on total purchase from single issuer (¥100bn)</li> <li>• Yield floor (eg. policy target rate + 20bp for paper matured in a month)</li> </ul>  |
|              | Purchase of Corporate Bonds        | <ul style="list-style-type: none"> <li>• Limited to bonds rated A or higher</li> <li>• Ceiling on total purchase from single issuer (¥50bn)</li> <li>• Yield floor (eg. policy target rate + 40bp for bonds matured in six months)</li> </ul>  |
| FRB          | TALF                               | <ul style="list-style-type: none"> <li>• Limited to investment grade (small business loans guaranteed by the SBA)</li> <li>• Haircuts by underlying asset class and time to maturity (eg. 10% for auto loans &lt;matured in a year&gt; and 15% for CMBS )</li> <li>• Spreads by underlying assets and fixed/floating status (eg. 1MLibor+100bp for auto loans &lt;variable rates&gt; and 3YLibor swap +100bp for CMBS )</li> <li>• (US Treasury to provide up to \$20bn in subordinated loans to SPV)</li> </ul>                     |
|              | Purchase of MBS                    | <ul style="list-style-type: none"> <li>• Limited to GSE-guaranteed securities</li> </ul>   |
| BOE          | Purchase of CP and Corporate Bonds | <p>(CP)</p> <ul style="list-style-type: none"> <li>• Limited to paper rated A3 or above</li> <li>• Spreads by rating (eg. OIS rate + 75bp for A1 rating)</li> <li>• Ceiling on total purchase from single issuer (not announced)</li> </ul> <p>(Corporate Bonds)</p> <ul style="list-style-type: none"> <li>• Limited to bonds rated BBB or above (not applicable to debentures guaranteed by the govt)</li> <li>• Spreads (no details announced)</li> <li>• Ceiling on total purchase from single issuer (not announced)</li> </ul> |
| ECB          | Purchase of Covered Bonds          | <ul style="list-style-type: none"> <li>• As a rule, limited to bonds rated AA or above and eligible as collateral to ECB</li> <li>• Underlying assets limited to home loans and public sector loans</li> </ul>   |

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# (Chart 5-1) Balance Sheet of FRB

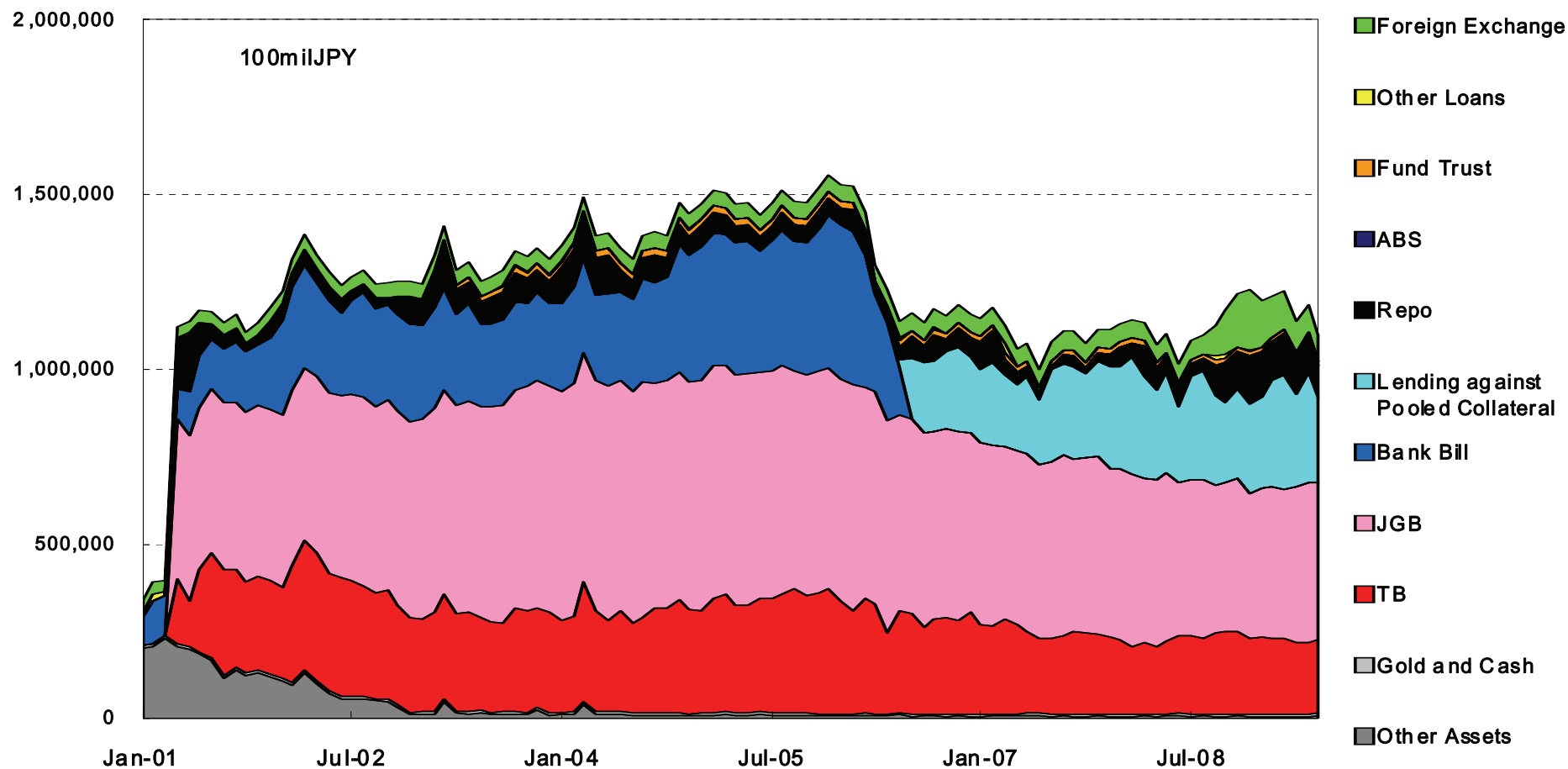
(source): FRB



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# (Chart 5-2) Balance Sheet of BOJ

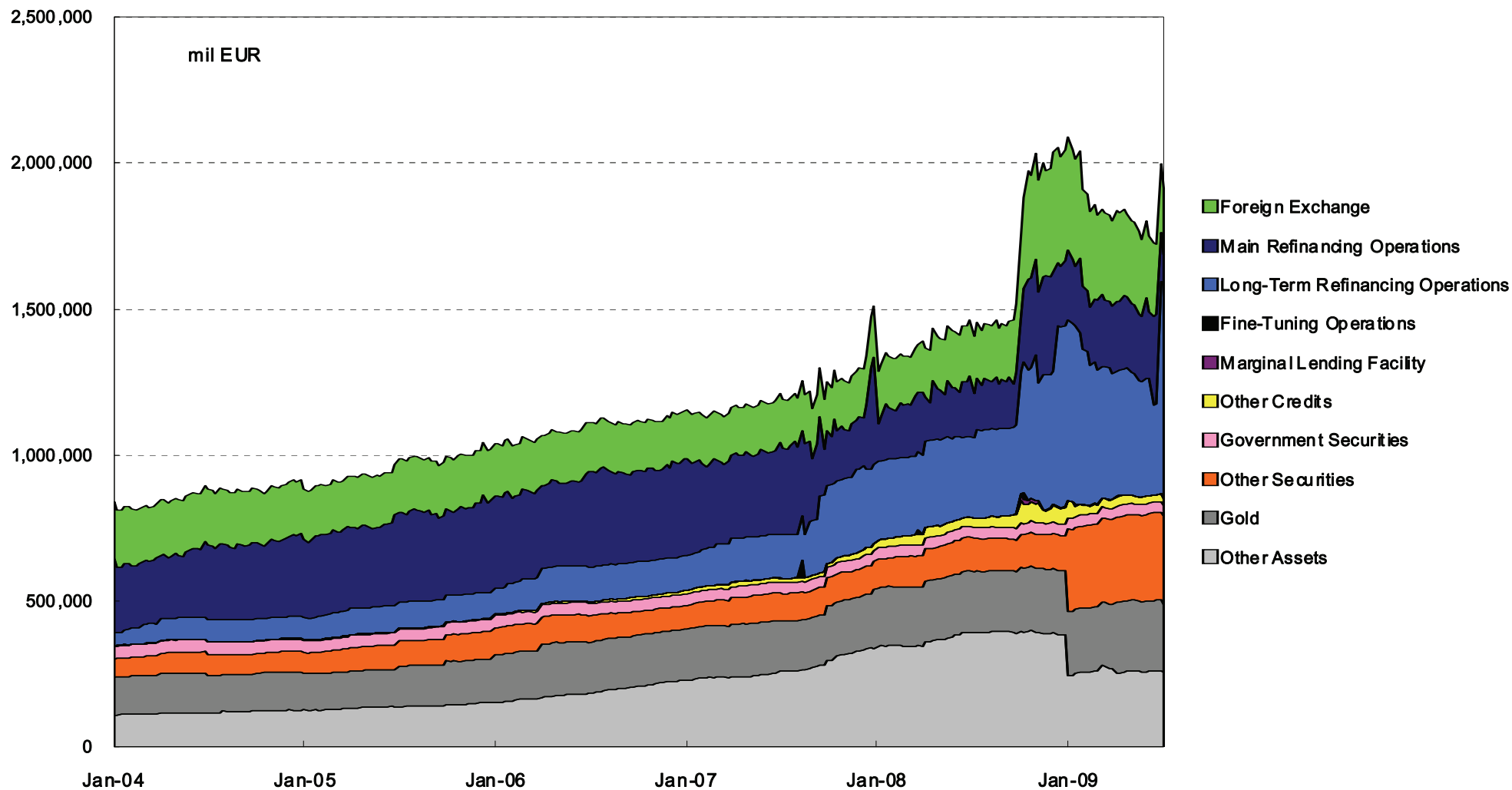
(source): BOJ



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# (Chart 5-3) Balance Sheet of ECB

(source): ECB



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## Overview of Financial Markets Panel

(source): NRI

### Financial Markets Panel

**Overview of recent major developments of financial markets**

+

**Discussion on desirable policy measures for financial markets from innovative and neutral perspective**

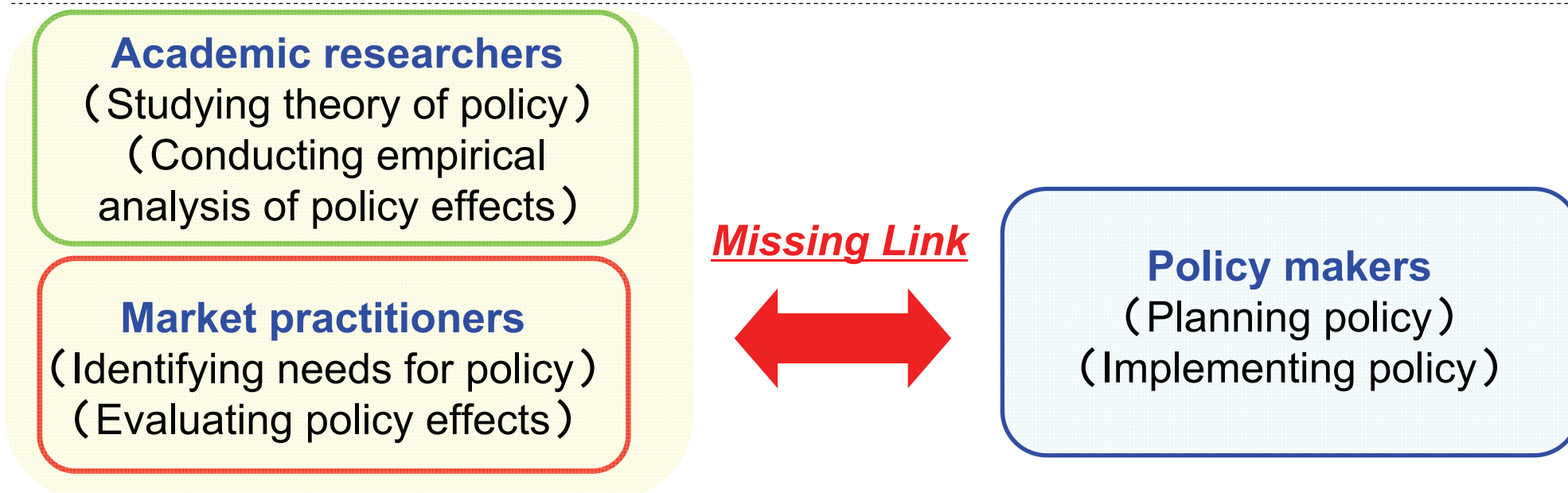
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**Addressing globally the results of the discussions**

- Regular meeting by designated members from both academics (economics and finance) and financial business
- Devoting to the topics relating financial markets
- Covering broad areas of policy measures relating to financial markets
  - including monetary policy, financial regulations, and best practices

## Overview of Financial Markets Panel

(source): NRI



### <Role of Financial Markets Panel>

- Introducing the forum for academic researchers and market practitioners to discuss policy issues from neutral and innovative perspectives
  - overcoming constraints of relevant information and lack of analytical tools
- proposing measures both with practical feasibility and theoretical backgrounds
  - overcoming “**Missing Link**” in our policy process

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## Overview of Financial Markets Panel

(source): NRI

### For discussion on policies

Addressing the results of the discussion from neutral and innovative view points contributes to more sound discussion on policies in relation to financial markets.

### For panel members

Academic members benefit from updated information of financial markets, and members from financial industry benefit from knowledge about state-of-the-art economic/financial theory.

### For financial markets

Establishing the forum on financial markets and policies leads the networks for discussion bridging academics and financial industry.



## Overview of Financial Markets Panel

(source): NRI

| Name                     | Current Title/Area of Research or Business  |
|--------------------------|---|
| <b>Shin-ichi Fukuda</b>  | Professor, Department of Economics, University of Tokyo<br>Monetary Economics, Macro Economics, International Finance       |
| <b>Ryuzo Miyao</b>       | Professor, Institute of Economy and Management, Kobe University<br>Economic Policy  |
| <b>Noriyuki Yanagawa</b> | Associate Professor, Department of Economics, University of Tokyo<br>Contract Theory, Corporate Finance                     |
| <b>Toshiaki Watanabe</b> | Professor, Economic Institute, Hitotsubashi University<br>Finance, Econometrics   |
| <b>Izuru Kato</b>        | Chief Economist, Totan Research<br>Money Markets, Monetary Policy   |
| <b>Hajime Takata</b>     | Chief Strategist, Department of Financial Market Research, Mizuho Securities<br>JGB Market, Monetary Policy                 |
| <b>Tetsuya Inoue</b>     | Chief Researcher, Department of Financial Market Studies, Nomura Research Institute<br>Secretary of Financial Markets Panel |

Secretary of Financial Markets Panel

(Mail : [fmp@nri.co.jp](mailto:fmp@nri.co.jp))



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