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Call Rate on the Rise Due to Aggressive Fund-raising by Regional Banks

Incentive system for financial institutions that are hampering monetary easing

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Summary

- In November 2021, the Bank of Japan amended the Special Deposit Facility to Enhance the Resilience of the Regional Financial System (the special current account system), thereby lowering the limit to the eligible amount for special remuneration. One of the reasons for the amendment was the rise in the call rate due to active fund-raising by regional banks. The combination of the two factors, namely, the fact that there was room to increase the current account balance through the use of the Corona financial operation, and the merits of increasing the current account balance by the special current account system itself led to the behavior of acquiring funds on the call market and accumulating them in the Bank of Japan's current account balance.
- The increase in the upper bound on macro add-on balances due to the use of the Corona operation means an increase in the amount outstanding that can be deposited with the Bank without receiving negative interest. In other words, if a bank can raise funds at a rate lower than 0%, it will be able to invest at 0% without taking on credit risk simply by keeping them on deposit with the current account. The interest rate on the total current deposits of regional banks was +0.04% in the reserve maintenance period in October 2019, but rose to +0.15% in the reserve maintenance period in October 2021. Although it is a simple calculation, it is possible that interest rates acceptable to local banks when they raise funds have risen.
- As a measure to prevent monetary easing from being hindered by policies with incentives for financial institutions, it is possible for the time being to respond by lowering the limit to the eligible amount for special remuneration. However, in the event that a policy with incentives for financial institutions is needed again, it will be necessary to review whether or not existing policies are obstructed, including in combination with other systems, rather than linking the structure to the balance of deposits.

Attention

This report is a summary translation. The official document is only in Japanese.