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BOJ's Quantitative and Qualitative Monetary Easing in its Tenth Year

Yield curve control (YCC) will have a great impact on policies for the time being, but there will be a lot of future challenges.

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Summary

- This report looks back on the evolution of the Bank of Japan's "Quantitative and Qualitative Monetary Easing" introduced in 2013, and examines the achievements and challenges of the current framework, "Quantitative and Qualitative Monetary Easing with Yield Curve Control" (YCC).
- The effect of yield curve control (YCC) becomes especially apparent at the point where there is strong upward pressure on long-term interest rates, such as the influence of inflation in the domestic market and rising interest rates in the United States. The introduction of YCC seems to have pushed up real GDP by around 13 trillion yen and core CPI by around 0.4 percent between FY2017 and FY2019. The Bank of Japan is expected to exert relatively large policy effects for the foreseeable future by restraining the rise in long-term interest rates.
- Issues to be addressed in the future include (1) the risk of market turmoil following the termination of YCC, (2) a slump in productivity due to the prolonged period of low interest rates, and (3) the risk of growing fiscal burden during the period of normalization of interest rates. With regard to (1) and (3), these risks are highly likely to be materialized as the exit strategy is implemented after the price stability target of 2% is met.
- One of the major issues is that the risks of the exit strategy, which have been pointed out since the introduction of quantitative and qualitative monetary easing, have not yet been fully explained.

Attention

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