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Issues with BOJ's JGB Purchases and Market Liquidity

Balance between yield curve control and market liquidity

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Summary

- At the Monetary Policy Meeting (MPM) held in December 2022, the Bank of Japan (BOJ) made changes to its operation of Yield Curve Control. At the MPM which followed, held on January 2023, BOJ expanded its Funds-Supplying Operations against Pooled Collateral.
- While Yield Curve Control is able to keep short- and long-term interest rates at low levels, the side effects of reducing market liquidity have surfaced, and it appears that BOJ is aiming at alleviating said side effects in order to maintain its monetary easing policy.
- To supplement market liquidity in the JGB markets and the repo markets, BOJ has instituted a Securities Lending Facility.
- Although reduction measures to exempt government bond deliveries have a significant effect on improving liquidity, there are concerns that BOJ could overturn the principle of holding government bonds until maturity and make losses.
- While BOJ is expected to continue monetary easing for the time being, the balance between yield curve control and market liquidity will continue to be a major issue.

Attention

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