

Bank of Japan Increases Liquidity Measures

By Manuel Leon Hoyos

Original post [here](#).

On May 22, the Bank of Japan (BOJ) extended and expanded its “[Special Program to Support Financing in Response to the Novel Coronavirus \(COVID-19\)](#)” to 75 trillion yen (about \$700 billion). This includes three programs: (1) \$186 billion in Outright Purchases of Commercial Paper and Corporate Bonds, (2) \$233 billion for the Special Funds-Supplying Operations, and (3) [\\$279 billion](#) for the recently launched New Fund-Provisioning Measure to support small and medium-sized enterprises. The duration of the measures was extended by six months from September 30, 2020 to March 31, 2021. On [March 16](#), the BoJ had announced emergency measures to facilitate corporate financing that included the first two measures (For details on the third measure, see this [YPFS blog post](#)).

On [April 27](#), the BoJ increased its upper-limit on Outright Purchases of Commercial Paper and Corporate Bonds to [\\$186 billion](#). This is a standing facility the BoJ has used for many years to conduct its monetary policy. Eligible counterparties must have a current account at the BoJ and be deemed sufficiently creditworthy. The mechanism requires counterparties to bid in competitive auctions the yield at which they desire to sell commercial paper or corporate bonds. The updated terms and conditions can be found [here](#).

On April 27, the Special Funds-Supplying Operations was expanded from \$72 billion to [\\$233 billion](#). It also increased the number of eligible counterparties to include member financial institutions of central organizations of financial cooperatives ([rules published on May 1](#)) and expanded the range of eligible collateral to private debt in general, including household debt. The BoJ now applies a positive interest rate of 0.1% to the outstanding balances of current accounts held at the BoJ. The program lends against corporate debt at a 0% interest rate, with maturities up to one year. The original terms and conditions can be found [here](#).

Additionally, the BoJ has further incorporated [active purchases of Japanese government bonds \(JGBs\) and Treasury discount bills \(T-Bills\)](#) to maintain stability in the bond market and stabilizing the yield curve at a low level.

During the 2007-09 global financial crises, the BoJ introduced both the Special Funds-Supplying Operations and Outright Purchases of Commercial Paper. Both of these programs had intended to facilitate corporate financing and were thought to have contributed to lowering interest rates in the commercial paper market.

Click [here](#) to read a YPFS case study on the BoJ Outright Purchase of Commercial Paper and [here](#) for the Special Funds-Supplying Operations during the GFC. These cases provide details of the program and access to key documents.