

Bank of Japan Introduces New Facility to Support Bank Lending to Small and Medium-Sized Firms

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Original post [here](#).

On [May 22](#), the Bank of Japan (BOJ) announced a new, 30 trillion yen (\$279 billion) facility to support bank lending to small and medium-sized enterprises (SMEs).

The [Japanese government announced](#) an emergency program to support lending to SMEs in early March. [Under this program](#), small businesses can take out zero-interest, unsecured loans of up to 30 million yen from financial institutions, including the Japan Finance Corporation, Shoko Chukin Bank, local banks, shinkin banks, and credit unions. The terms allow banks to defer principal payments for up to five years.

Through the new facility, the BOJ will offer loans for up to one year at a 0% interest rate to financial institutions. However, the BOJ will also pay financial institutions 0.1% interest on the amount of loans made under the new facility. Thus, the loans effectively carry a negative 0.1% interest rate, which is the same rate the BOJ pays (charges) on excess reserves. As collateral for the loans, the financial institutions may post loans, or pools of loans, made under the emergency government programs or loans with similar terms and counterparties.

The BOJ will begin extending loans under this new facility in June, taking into account loans made by financial institutions as of end-May. The new facility will operate through March 31, 2021.

The BOJ's new facility is similar to the Federal Reserve's [Paycheck Protection Program Liquidity Facility](#) (PPPLF). Under the [PPPLF](#), eligible lenders can use PPP loans made to small businesses as collateral when borrowing from the Fed.

Prior to the May 22 announcement, the BOJ announced separate facilities to support lending to corporations through commercial paper or corporate bonds. This facility has 45 trillion yen in funding, which brings the BOJ's total support for lending to businesses to 75 trillion yen.