Securities Analysts Journal®

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This month's focus: **Reassessment of QQE in 8th Year**

Articles

Despite bold monetary easing, QQE, the 2% inflation target has not been achieved, but the economy recovers, suicides decline, and income distribution improves. Certainly, as prices and interest rates do not rise, financial institutions are increasingly dissatisfied with low interest rates. Moreover, the unexpected shock, namely the COVID-19 pandemic, has further strengthened the private sector tendency to hold cash and deposits. But, persistent monetary easing coupled with the cooperation of expansive fiscal policy will lead to higher prices and interest rates.

The BOJ introduced "quantitative and qualitative easing" (QQE) in spring 2013 in order to achieve the price stability target of 2% in the Consumer Price Index (CPI) as soon as possible, with a time horizon of about two years. However, inflation has not risen as expected, and no "exit" is not yet visible. The negative effects of this policy are of concern, such as vulnerability of the financial system, distortion of credit allocation, and becoming numb to fiscal discipline. This paper discusses the future development of QQE analyzing the transition of the policy until now and emergency responses to the global outbreak of COVID-19.

Four years have passed since a negative interest rate policy (NIRP) was introduced in Japan. Although short-term interest rates have been stabilizing gradually, we see continuing deterioration of bank lending rates and net interest margins. The background to such rate deterioration, however, does not seem to be the same as what we saw before the introduction of NIRP. In the Euro area, the decline of deposit rates has been gathering pace since the start of NIRP. This report investigates the drivers of net interest margin (NIM) change at Japanese banks before and after NIRP, as well as reasons why Japanese banks' NIM trend is different from that of Euro banks. Finally, possible measures that could be taken by Japanese banks to overcome this severe business environment are discussed.

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as to derive solutions to companies' matters in Japan.