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

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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.

Problems and Challenges Caused by Prolonging QQE	<i>Izuru Kato</i>	20
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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.

Drivers of Continuing NIM Decline of Japanese Banks: Is Negative Interest Rate Really the Culprit?	<i>Nana Otsuki</i>	31
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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.

Did BOJ's ETF Buying Affect Equity Risk Premiums? : Empirical Analysis Using Expected Default Frequency Adjusted Implied Cost of Equity	42
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This study examines the impact of the Bank of Japan's (BOJ) ETF purchases on the stock markets, with a special focus on expected default probability and implied cost of capital. An empirical analysis reveals that from December 2010 to December 2019 (when the BOJ started buying ETFs), the average expected default probability of Japanese non-financial firms remained low, while there was no significant change in the implied cost of capital. However, in the wake of the COVID-19 pandemic, since February 2020, BOJ's increased intervention has brought stability to the stock market. Therefore, it can be concluded that buying ETFs can be an effective policy instrument that works as a "symptomatic treatment" when default risk premiums rise sharply.

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Detecting a hotspot cluster from statistical data which is partitioned by geographical regions such as prefectures or cities is a classical problem. Spatial scan statistics are a standard measure of the likelihood ratio which has been widely used for testing hotspot clusters. We measure this statistic based on abnormal returns to identify hotspot industries in the Tokyo Stock Exchange. We find a momentum effect among the stocks in the hotspot industry clusters, which is economically and statistically significant after controlling for size and book-to-market ratio.

Recommendations from Investors Regarding the Sophistication of Executive Remuneration Plans in Japan	<i>Hiroharu Ryoke, CMA</i> 83
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Japan has been considering the introduction of executive remuneration plans in the wake of the introduction of the Corporate Governance Code, but in terms of plan design and information disclosure of remuneration, they are in the development stage. Therefore, we will consider UK practices (that have been discussed for many years) regarding the design and disclosure of executive remuneration plans, and recommend the perspective of engagement between investors and companies to improve executive remuneration, as well

as to derive solutions to companies' matters in Japan.

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