

World Economic Situation and Prospects

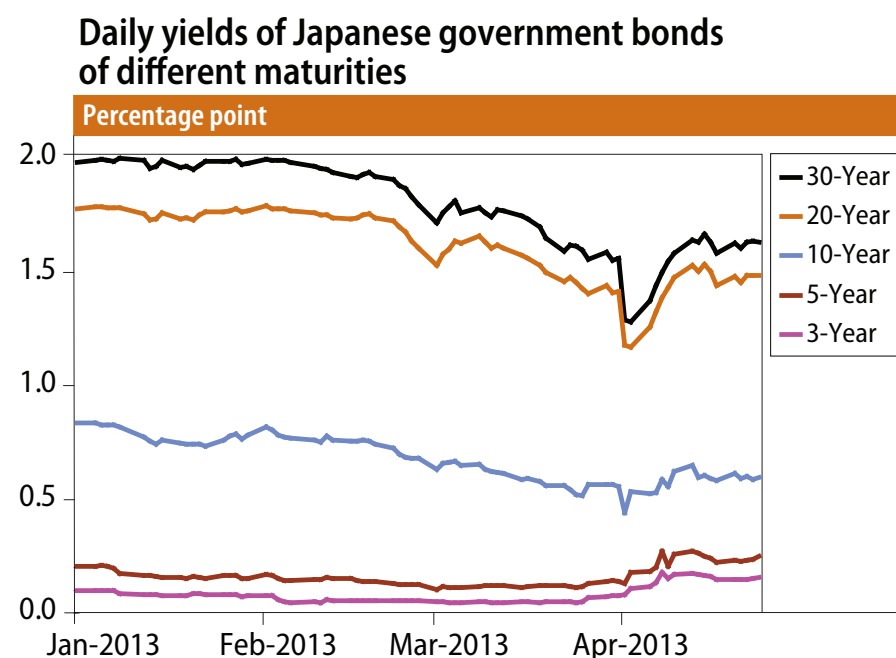
Weekly Highlights

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Japan: QQME and its initial impact

The Bank of Japan (BOJ) had already been purchasing Japanese government bonds (JGB) for the past few years before the introduction of the “Quantitative and Qualitative Monetary Easing” (QQME) on 4 April 2013. One qualitative feature for QQME is an increase in the purchases of JGB with longer time to maturity; this is a significant deviation from the original monetary-easing scheme, which mainly purchased JGB with less than 5 years to maturity. As the possibility of this modification became more certain, the yields for JGB with longer than 10 or more years to maturity started to drop beginning in February 2013. This drop was most intense on the day QQME was announced; the yield for 30-year JGB dropped by 26.8 basis points (see figure below). From 4 February, the cumulative decline of 30-year JGB reached 71.5 basis points just after the QQME announcement.



Sources: Ministry of Finance, Japanese Government.

Nevertheless, this trend started to reverse almost immediately and has wiped out about half of the decline within three weeks. One reason is the tendency to overshoot—a phenomenon regularly observed in the financial market. In addition, if QQME is successful in raising inflation expectations and eventually pushing up inflation, then the inflation-premium factor would require a higher yield.

Parallel to this development, the lower planned amount of BOJ purchases of shorter-term JGBs has caused the yields to increase. For example, yields for 3- and 5-year JGBs increased by 7.7 and 10.0 basis points from 3 April to 25 April, respectively. In Japan, the commercial banks' prime rate for lending is anchored on the yields of short-term JGBs. On 10 April, BOJ reported that the long-term prime lending rate increased by 5 basis points, the first increase since September 2011.