

## Twenty Years of Unconventional Monetary Policies:

### Lessons and Way Forward for the Bank of Japan

Economic growth is clearly important not only in each country but also in any part of the world because it helps to decrease poverty and improve the people's overall standard of livings. Many countries have adopted monetary policy as a tool to promote economic development. However, when the traditional monetary policy instruments such as open markets operations, standing facilities and so on, which do not have enough effects or cannot contribute to the financial stability, the central banks will then switch to the unconventional policy measures. Bank of Japan is a good example for committing unconventional monetary policy over two decades. By using traditional monetary policy, there would be lower interest rates that result in low profitability of the financial institutions and it will threaten the whole financial market. Bank of Japan started using unconventional monetary policy in 1999 and the reasons behind the need for this policy are because Bank of Japan wants to expand the economy, overcome the deflation, control the price stability and financial conditions.

The Bank of Japan has been using many unconventional monetary policy tools since then. The first one is Zero Interest Rate Policy (ZIRP) which the bank implemented by continuing to lower the interest rate at or close to zero percent until the deflationary shock recovered. The second powerful tool is Quantitative Easing Policy (QEP). The central bank was reluctant at first to change from the short-term interest rate to this policy instrument. QEP can be done by using quantity of reserves and buying long-term Japanese Government Bonds (JGBs) to increase the monetary base. JGBs have low risks and have always been an efficient role for the central bank's effort to boost inflation. The third easing measure is Comprehensive Monetary Easing (CME) which is different from QEP. This asset purchasing program consists of not only purchases of JGBs but also other risky

assets in order to mitigate risk premia. In addition to CME, Bank of Japan made effort to implement Quantitative and Qualitative Easing which is known as QQE. This is the upgrade level of CME by buying more and more of JGBs and risky assets.

Another tool that the country's central bank used is Negative Interest Rate Policy (NIRP). This policy was introduced when the bank worried that it would run out of JGBs to purchase and thus, no other ways to stimulate the economy. They implemented the negative rates on excess reserves to reach inflation goal, raise inflation targets and increase economic activity. The last measure that the Bank of Japan initiated is Yield Curve Control (YCC) which worked through setting the interest rate objectives (NIRP and 10-years JGB yield) and purchasing the necessary amount of JGBs to keep the interest rate at the desired level. YCC is very influential on the financial institutions as it makes the policy more sustainable without worrying of running out of JGBs to buy and improve the economy to another level.

It appears that all of these unconventional monetary policies have great impacts on the economy of Japan in the short run and long run. Not only that it stimulates the weak economy, and helps recovering from the economic shocks, it stabilizes the financial market, maintain price stability and anchor inflation at the certain level and achieve higher inflation expectations. The central bank of Japan has made endless efforts to achieve the two percent inflation target. As the world face Covid-19 pandemic this 2020, Bank of Japan still keeps on supporting firms who are in need of finance and maintain financial stability to secure a healthy national economy.

In conclusion, Bank of Japan has always been the top leader of innovating new global monetary policy in the recent twenty years. The Bank of Japan has taken great efforts for twenty year in order to expand and reflate the economy of Japan. As a result, it has distributed three essential lessons for other banks who are in the same positions which consist of the significance and transparency of the price stability targets, progressive and optimistic policy decision, and merging monetary, fiscal and financial policies should be effective and adequate. (Niklas, 2020)

## Reference

Westelius, J Niklas, 2020, "Twenty Years of Unconventional Monetary Policies: Lessons and Way Forward for the Bank of Japan," IMF Working Paper No. 20/226, International Monetary Fund: Washington DC.

