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Q What is the Complementary Deposit Facility? How does a negative interest rate applied to current accounts at the Bank affect financial markets?

A Under the Complementary Deposit Facility, the Bank applies interest rates to financial institutions' [excess reserves](#) (current account balances and special reserve account balances at the Bank in excess of required reserves held by financial institutions subject to the reserve requirement system). After the introduction of the facility in 2008, the Bank had long applied a positive interest rate to excess reserves. However, since January 2016, when Quantitative and Qualitative Monetary Easing with a Negative Interest Rate was introduced, current accounts at the Bank -- including excess reserves -- have been divided into three tiers, to which a positive interest rate, a zero interest rate, and a negative interest rate are applied, respectively.

The three-tier system encourages negative interest rate transactions in the money market. For example, financial institutions with the Policy-Rate Balances -- to which a negative interest rate is applied -- have an incentive to lend to other financial institutions in financial markets, even with a negative lending rate, as long as the rate exceeds the rate applied to the Policy-Rate Balances. Rather than merely holding surplus funds in current accounts at the Bank, such transactions improve financial institutions' profits.

When the Policy-Rate Balances increase as a whole, surplus funds -- which could be invested with negative interest rates -- increase and this exerts downward pressure on money market rates. In contrast, when the Policy-Rate Balances decrease as a whole, this exerts upward pressure on money market rates.

Benchmark Ratio

When the overall current account balance of financial institutions at the Bank increases due to factors such as the Bank's Japanese government bond purchasing operations, the Policy-Rate Balances -- to which a negative interest rate is applied -- normally increase. If no steps are taken to deal with this situation, there is concern that money market rates may decline substantially and this may exert excessive downward pressure on the profits of financial institutions.

Therefore, the Bank adjusts the Macro Add-on Balances -- to which a zero interest rate is applied -- according to aggregate changes in the balance of financial institutions' current accounts at the Bank, so as to avoid drastic changes in the Policy-Rate Balances. (As for the Basic Balances -- to which a positive interest rate is applied -- the amount is essentially fixed under the three-tier system.)

Specifically, the Bank decides the Benchmark Ratio, which is applied to all financial institutions. The average of each financial institution's Basic Balance during 2015 is then multiplied by this ratio, and each calculated amount is added to the financial institution's Macro Add-on Balance. The Benchmark Ratio is reviewed, in principle, every month in view of seasonal changes in the [excess and shortage of funds](#) while taking into account developments in money market transactions.

Eligible Institutions

Financial institutions eligible for the Complementary Deposit Facility are mainly banks, securities companies, and *tanshi* companies (money market brokers) that have current accounts at the Bank. However, as an exception, some financial institutions with current accounts at the Bank, such as central counterparties and public financial institutions, are ineligible for the facility. Financial institutions such as investment trust companies and insurance companies which do not hold current accounts at the Bank are not eligible for the facility.

Related Pages

For the amounts outstanding for the three tiers, see [BOJ Current Account Balances by Sector](#). For the Benchmark Ratio and modifications of the scheme of operations under the Complementary Deposit Facility, see [Complementary Deposit Facility](#).

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