November 10, 2020
Bank of Japan

Introduction of "Special Deposit Facility to Enhance the Resilience of the Regional Financial System"

At a regular board meeting held today, the Policy Board of the Bank of Japan decided on a plan to introduce "Special Deposit Facility to Enhance the Resilience of the Regional Financial System" (hereinafter referred to as "the Special Deposit Facility") as a measure to ensure financial system stability. Its outline is shown in the attachment. This decision aims to strengthen the business foundations of regional financial institutions so that they may firmly support regional economies into the future and smoothly fulfill their financial intermediation function.

Japan's financial system has been maintaining stability on the whole, while facing the continued spread of COVID-19. Financial institutions play key roles in supporting Japan's economy through the provision of active financial intermediation to companies and households. However, financial institutions' profitability through domestic deposit-taking and lending activities has continued to decline in the long term. While this is partly due to a continued environment of extremely low interest rates, it is important to recognize that structural factors such as the shrinking and aging of the population, the decline in growth expectations, and the excess savings in the corporate sector are significantly at play. Such structural factors have strongly affected regional financial institutions in particular. In years to come, should financial institutions' profitability continue to decline due, for example, to the protracted spread of COVID-19, the smooth functioning of financial intermediation could be impaired.

The environment surrounding regional economies is undergoing significant changes, not only due to the above-mentioned factors but also to factors such as the increasing requests by society to address Sustainable Development Goals (SDGs), changes in lifestyle and working-style stemming from the spread of COVID-19, and advancements in digital transformation. Against this background, regional financial institutions play vital roles in rejuvenating local companies and households, as well as in fostering sustainable economic growth in their respective regions and hence in Japan overall. In this context, it is essential that regional financial institutions continue to maintain sufficient capital and profitability so as to support economic activity in their respective regions into the future. It is also important for them to offer higher value-added financial services to help these regions address various challenges.

At present, regional financial institutions are focusing on providing financing support to companies and households affected by the spread of COVID-19 and are working on strengthening their business foundations in the long term. They are striving to boost net interest income as well as fees and commissions by meeting financial needs in regions, such as providing solution-related services for local companies and supporting households' asset management in response to the rise in longevity. They are also pushing ahead with initiatives to improve business efficiency. Moreover, from the same perspective, an increasing number of regional financial institutions have been implementing a wide array of initiatives through business integration and alliances with other financial institutions and non-financial companies, including those to facilitate digital transformation. Although it seems likely that it will take considerable time until their efforts bear fruit, it is necessary to accelerate efforts to actively engage in forward-looking actions.

On this basis, the Bank of Japan has judged it appropriate to introduce the Special Deposit Facility to encourage regional financial institutions' initiatives to strengthen their business foundations. The Bank will establish this facility as a three-year temporary measure for the fiscal years ending March 2021-2023 and pay extra interest on current account balances held by regional financial institutions that meet certain requirements. The Bank expects that many regional financial institutions will make use of this facility, which will contribute to strengthening the functioning of financial intermediation in regional economies and ensuring financial system stability. The Bank will also deepen dialogue with regional financial institutions and support their wide-ranging initiatives to support regional economies.

The Bank of Japan will deliberate on the details of the facility in a prompt manner. The principal terms and conditions for its implementation will be released following the Policy Board's decision.[1]

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[1] The Bank will also deliberate on matters associated with government approval that are necessary to implement the facility.

Attachment

Outline of "Special Deposit Facility to Enhance the Resilience of the Regional Financial System"

1. Purpose and overview of the facility

The Policy Board of the Bank of Japan decided on a plan to introduce a new deposit facility (hereinafter referred to as "Special Deposit Facility") as a measure to ensure financial system stability, in which excess reserve balances* of eligible financial institutions that meet certain requirements shall be remunerated (hereinafter referred to as "special remuneration") in addition to the remuneration in the Complementary Deposit Facility. This facility will be introduced as a three-year temporary measure. This decision aims to strengthen the business foundations of regional financial institutions so that they may firmly support regional economies into the future and smoothly fulfill their financial intermediation function.

* Current account balances held at the Bank in excess of required reserves. The same shall apply hereinafter.

2. Eligible financial institutions

Regional banks and *shinkin* banks that have current accounts at the Bank and wish to use the Special Deposit Facility.

After consultations with relevant parties, such as the central organizations of financial cooperatives, the Bank shall decide whether to allow financial cooperatives that do not have current accounts at the Bank to use this facility.

3. Requirements and methods for special remuneration

In the Special Deposit Facility, special remuneration shall be paid, provided that eligible financial institutions shall meet all of the following requirements in (1)-(3). The methods for special remuneration shall be prescribed in (2).

(1) Being committed to contributing to sustainable development of regional economies

(2) To meet any of the following:

(i) To strengthen business foundations to a designated degree

For each of the fiscal years ending March 2021-2023, excess reserve balances of eligible financial institutions that meet certain requirements for strengthening business foundations shall be remunerated for one year, starting from the September reserve maintenance period in the next fiscal year. The Bank shall prescribe such requirements by using the overhead ratio (OHR, or the ratio of overhead costs to gross operating profits), etc. If eligible financial institutions that do not meet the requirements for the fiscal year(s) ending March 2021 and/or 2022 meet the requirements for the subsequent fiscal year(s) (the fiscal year ending March 2023 at the latest), the Bank shall pay in the subsequent fiscal year(s) the amount equivalent to special remunerations for the past fiscal year(s).

Those wishing their excess reserve balances to be remunerated by meeting this requirement shall submit "Initiatives to Strengthen Business Foundations" to the Bank in advance and periodically report the progress to the Bank.

(ii) To make an institutional decision on mergers, business integration, or certain forms of acquisitions toward strengthening business foundations

For eligible financial institutions that make institutional decisions on mergers, business integration, or certain forms of acquisitions between November 10, 2020 and the end of March 2023, their excess reserve balances shall be remunerated for three years. Such remunerations shall be subject to the Bank's evaluations as to whether such mergers, business integration, or certain forms of acquisitions shall contribute to strengthening business foundations, based on such materials as business integration plans.

(3) There being no special circumstances in which such remunerations are deemed inappropriate

4. Interest rate

The interest rate applied to excess reserve balances in the Special Deposit Facility shall be +0.1 percent per annum.

Specifically, for eligible financial institutions that meet the requirements prescribed in 3, their excess reserve balances shall be remunerated at +0.1 percent per annum (from the fiscal year ending March 2022 at the earliest), in addition to the remuneration in the Complementary Deposit Facility (currently +0.1 percent per annum for the basic balance, +0.0 percent per annum for the macro add-on balance, and -0.1 percent per annum for the policy-rate balance).