Figure 2.4. Japan: Evolution of Bank Net Interest Margins in Normal and Low-for-Long Settings
(Percent)

Asset returns and funding costs normally adjust proportionally as interest rates fall ...

1. Normal Steady State

... but asset returns fall significantly more once funding costs hit the zero lower bound ...

2. Low-for-Long Steady State

... compressing net interest margins in periods of prolonged low interest rates.

3. Net Interest Margins

Sources: Fitch Connect; and IMF staff calculations.
Note: NIM = net interest margin.