

The Bank of Japan's Efforts toward Overcoming Deflation

Speech at the Japan National Press Club in Tokyo

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Chart 1

Decisions at the Monetary Policy Meeting (Feb. 14, 2012)

- The Bank decided to clarify its monetary policy stance and to further enhance monetary easing at the latest Monetary Policy Meeting in order to overcome deflation and achieve sustainable growth with price stability.

1. Introduction of "the Price Stability Goal in the Medium to Long Term"

- ✓ The inflation rate consistent with price stability sustainable in the medium to long term.
- ✓ A positive range of 2 percent or lower in terms of the year-on-year rate of change in the consumer price index (CPI). A goal of 1 percent is set for the time being.

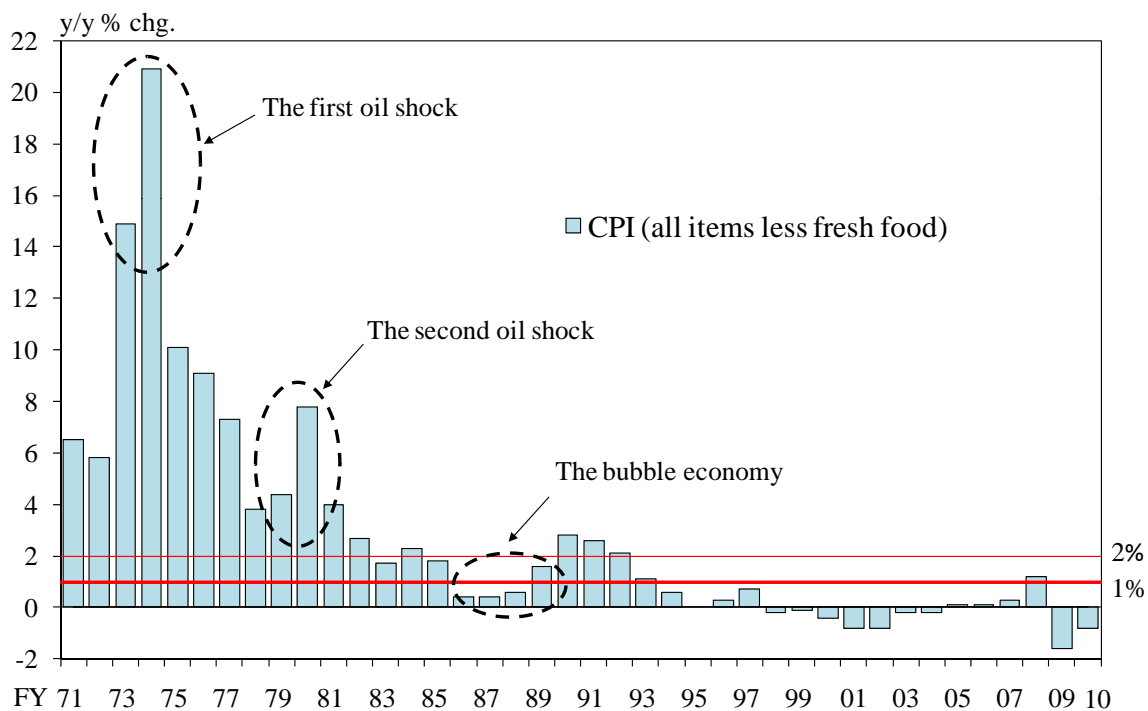
2. Clarification of the Bank's Determination to Pursue Monetary Easing

- ✓ Aiming at achieving the goal of 1 percent in terms of the year-on-year rate of increase in the CPI.
- ✓ Pursuing powerful monetary easing by conducting the Bank's virtually zero interest rate policy and by implementing the Asset Purchase Program mainly through the purchase of financial assets until the Bank judges that the 1 percent goal is in sight.
 - On the condition that the Bank does not identify any significant risk, including the accumulation of financial imbalances, from the viewpoint of ensuring sustainable economic growth.

3. Increase in the Asset Purchase Program

- ✓ About 55 trillion yen → about 65 trillion yen. (The total size of the Program is increased by about 10 trillion yen, with the increase earmarked for the purchase of Japanese government bonds.)
 - In addition to purchases under the Program, the Bank regularly purchases Japanese government bonds at the pace of 21.6 trillion yen per year.

Changes in Japan's CPI



Note: Figures are adjusted to exclude the effect of changes in the consumption tax rate.
Source: Ministry of Internal Affairs and Communications.

Increase in the Asset Purchase Program

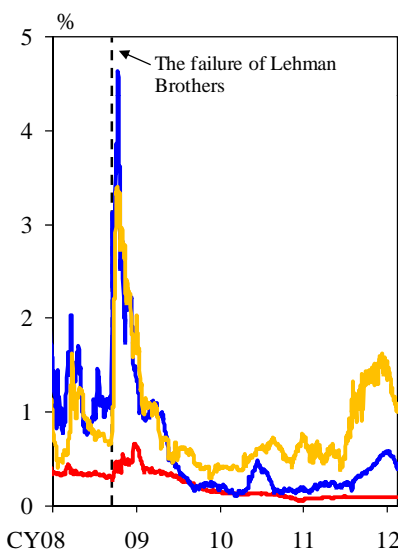
- The Program has had four increases, expanding to about 65 trillion yen from the initial size of about 35 trillion yen (the latest increase was decided on Feb. 14).

| | Started in Oct. 2010 | Mar. 2011 | Aug. 2011 | Oct. 2011 | Feb. 2012 | Amount outstanding as of Feb. 10, 2012 |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------------------------|
| Total size | About 35 | About 40 | About 50 | About 55 | About 65 | 43.1 |
| JGBs | 1.5 | 2.0 | 4.0 | 9.0 | 19.0 | 3.8 |
| T-Bills | 2.0 | 3.0 | 4.5 | 4.5 | 4.5 | 2.4 |
| CP | 0.5 | 2.0 | 2.1 | 2.1 | 2.1 | 1.5 |
| Corporate bonds | 0.5 | 2.0 | 2.9 | 2.9 | 2.9 | 1.7 |
| ETFs | 0.45 | 0.9 | 1.4 | 1.4 | 1.4 | 0.8 |
| J-REITs | 0.05 | 0.1 | 0.11 | 0.11 | 0.11 | 0.07 |
| Fixed-rate operation | 30.0 | 30.0 | 35.0 | 35.0 | 35.0 | 32.8 |
| Intended time of completion | Around end-Dec. 2011 | Around end-June 2012 | Around end-Dec. 2012 | Around end-Dec. 2012 | Around end-Dec. 2012 | |

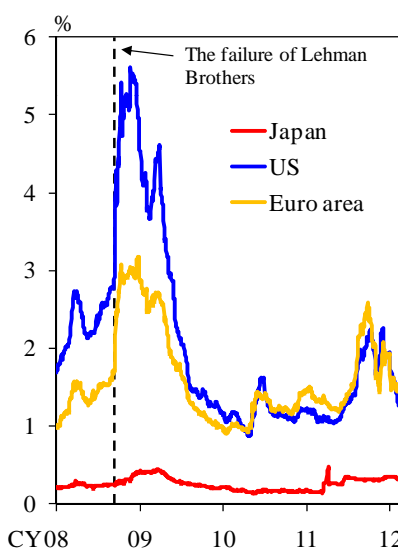
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Financial Conditions of Major Economies

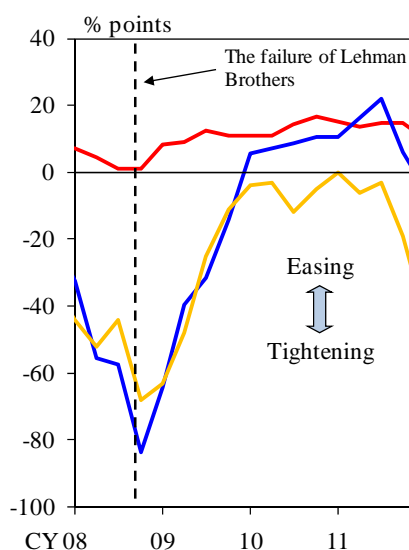
Degree of Strain in Funding Markets



Spreads on Corporate Bonds



Financial Institutions' Lending Attitude

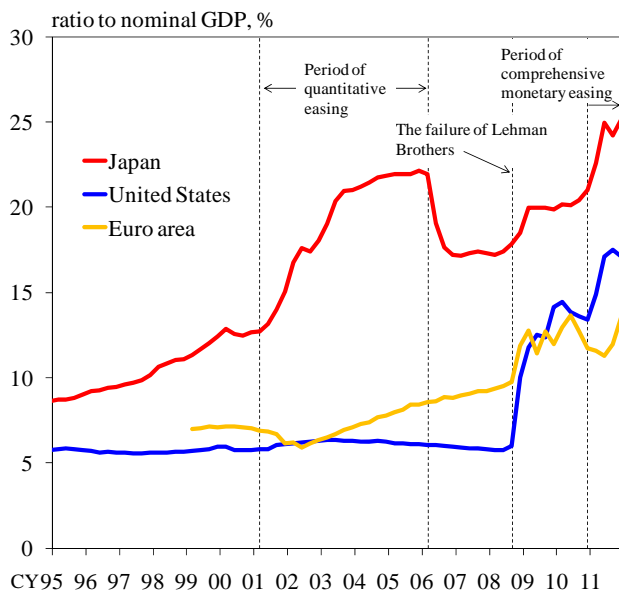


Notes: 1. The degree of strain in money markets is 3-month Libor minus 3-month T-Bill rates. Data for German government bonds are used for the euro area.
 2. The spreads on corporate bonds (rated AA) are corporate bond yields minus government bond yields.
 3. Financial institutions' lending attitude is the average of the DIs for large, medium-sized, and small firms for Japan, large and medium-sized firms for the United States, and large firms for the euro area.

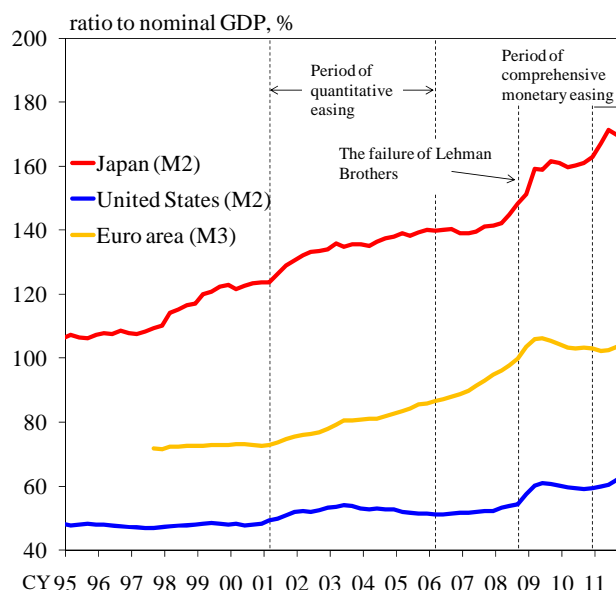
Sources: Bloomberg; Japan Securities Dealers Association; Bank of Japan; FRB; ECB.

Money Supply of Major Economies

Monetary Base

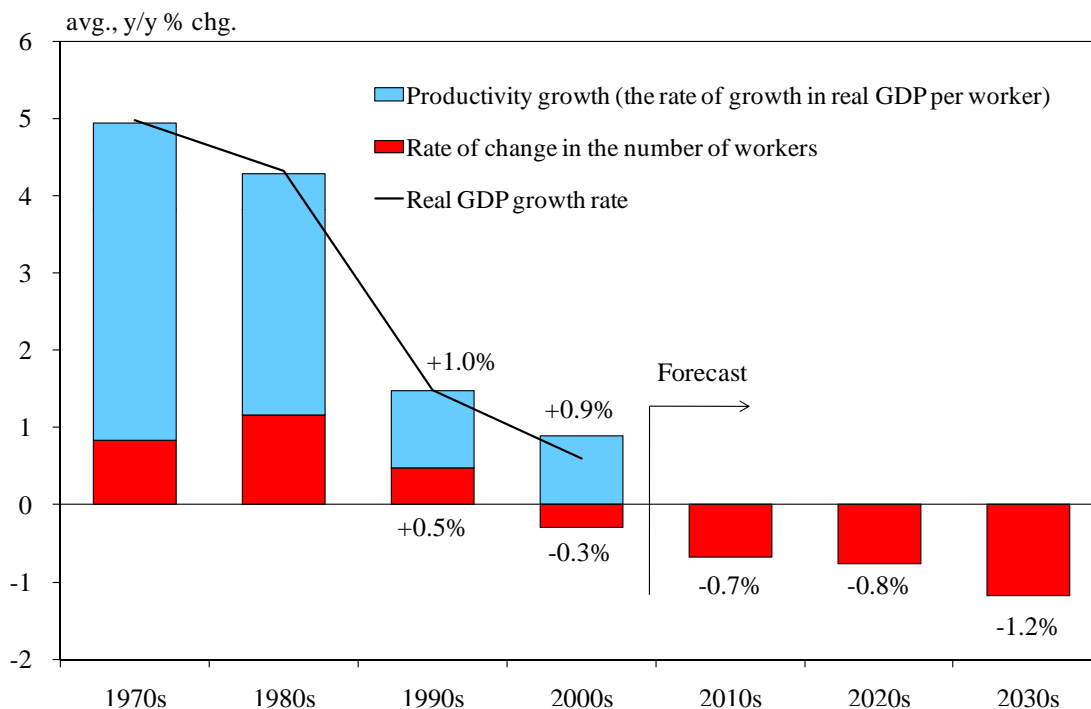


Money Stock



Note: Monetary base is the sum of banknotes in circulation, coins in circulation, and current account deposits at a central bank.
 Sources: Cabinet Office; Bank of Japan; FRB; BEA; ECB; Eurostat.

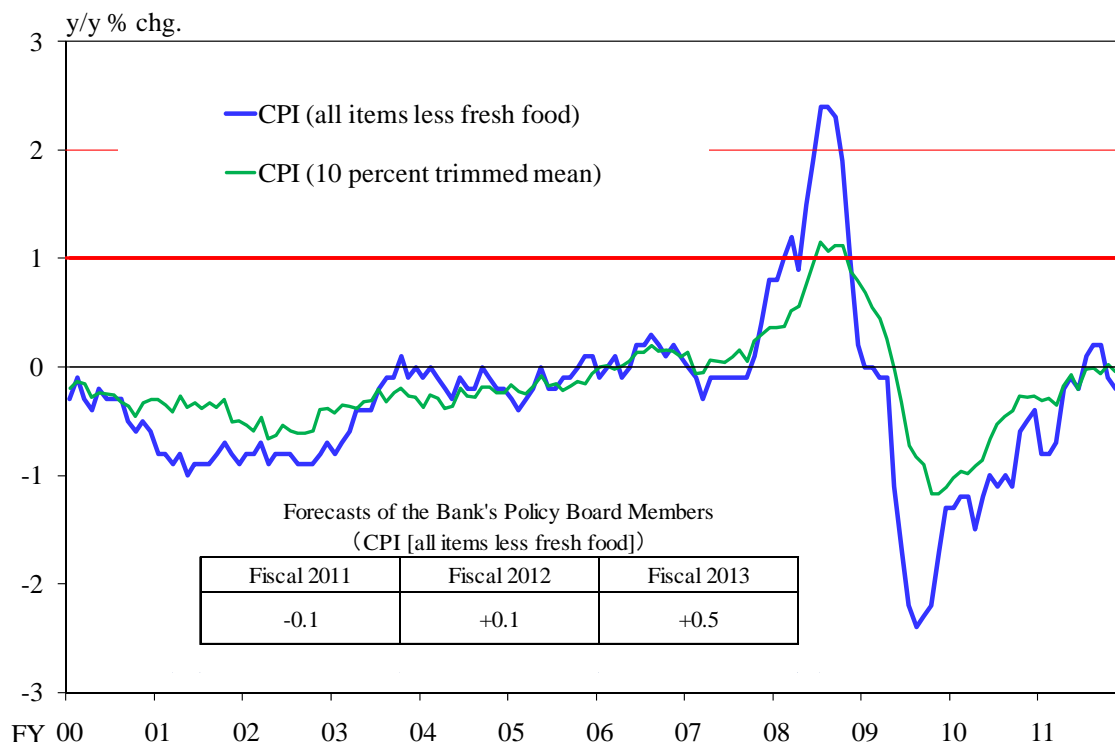
Decomposition of Real GDP Growth in Japan



Notes: 1. Data are on a fiscal-year basis.
 2. The rates of change in the number of workers from fiscal 2011 onward are calculated using the projected future population (medium variant) and the projected labor force participation rates (assuming that the labor force participation rates in each age/sex group remain the same as those in 2010).

Sources: Cabinet Office; Ministry of Internal Affairs and Communications; National Institute of Population and Social Security Research.

Underlying Trend of Japan's CPI



Note: Figures for the 10 percent trimmed mean are weighted averages of items; these items are obtained by rearranging year-on-year rates of price change in ascending order and then excluding items in both the upper and lower 10 percent tails by weight.

Source: Ministry of Internal Affairs and Communications.