

Enhancement of Monetary Easing

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan made the following decisions, by a unanimous vote, regarding the Asset Purchase Program (hereafter referred to as "the Program").
 - (1) The Bank decided to increase the total size of the Program by about 5 trillion yen, from about 65 trillion yen to about 70 trillion yen, with the following changes in its composition.¹
 - (a) An increase in the purchase of Japanese government bonds (JGBs) by about 10 trillion yen
 - (b) An increase in the purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) by about 200 billion yen and 10 billion yen, respectively
 - (c) A reduction in the maximum outstanding amount of the Bank's fixed-rate funds-supplying operation against pooled collateral with a six-month term, by about 5 trillion yen, taking into account the recent episodes of undersubscription
 - (2) With the aim of smoothly conducting the large-scale purchases after today's increase and encouraging a decline in longer-term interest rates effectively, the Bank decided to extend the remaining maturity of JGBs to be purchased under the Program from "one to two years" to "one to three years." It also decided to extend the remaining maturity of corporate bonds to be purchased under the Program just as is the case of JGBs.
 - (3) The Bank decided to increase the outstanding amount of the Program to about 70 trillion yen by around end-June 2013, while maintaining the existing schedule of increasing the outstanding amount of the Program to about 65 trillion yen by around end-2012.
2. The Policy Board also decided, by a unanimous vote, to set the following guideline for money market operations for the intermeeting period:

The Bank of Japan will encourage the uncollateralized overnight call rate to remain at around

¹ See Attachment for an overview of the Program.

0 to 0.1 percent.

3. Looking at economic developments overseas, a risk of the European debt problem causing financial market turmoil has decreased and the U.S. economy has continued to recover at a moderate pace. Against this background, although Japan's economic activity has remained more or less flat, it has become increasingly evident that the economy is shifting toward a pick-up phase as positive developments have become widespread. As examined in the *Outlook for Economic Activity and Prices* (Outlook Report) to be released today, Japan's economy is expected to return to a moderate recovery path as the pace of recovery in overseas economies picks up, led by emerging and commodity-exporting economies, and as reconstruction-related demand after the earthquake disaster gradually strengthens. As the aggregate supply and demand balance improves, the year-on-year rate of change in the CPI is expected to gradually rise to a range of above 0.5 percent and less than 1 percent toward the latter half of the projection period in the Outlook Report. Thereafter, it will likely be not too long before the rate reaches the Bank's "price stability goal in the medium to long term" of 1 percent for the time being. It is likely that Japan's economy will return to a sustainable growth path with price stability in the longer run.
4. The Bank has been pursuing powerful monetary easing, with its virtually zero interest rate policy and implementation of the Program mainly through the purchase of financial assets. Such measures by the Bank have been supporting economic activity by encouraging a decline in longer-term interest rates and risk premiums, as well as by maintaining financial market stability. By continuing to pursue monetary easing with the virtually zero interest rate policy, easing effects are expected to strengthen on the back of progress in economic recovery. The Bank expects that, together with the cumulative effects of earlier policy measures, today's decision to further enhance monetary easing will better ensure the return of Japan's economy to a sustainable growth path with price stability.
5. In pursuing the above powerful monetary easing, the Bank will verify that there is no significant risk to the sustainability of economic growth, such as from the accumulation of financial imbalances. Given that the Bank pursues powerful monetary easing in a severe fiscal situation, it is extremely important to maintain credibility in fiscal sustainability in financial markets, for the sake of effective transmission of the effects of monetary policy, financial system stability, and sustainable economic growth.
6. In order to overcome deflation, it is crucial to tackle the long-term structural challenge of declining trend growth rates amid rapid population aging. In order to overcome this

challenge and establish a new basis for economic growth, business firms need to become more innovative in an effort to add value to their activities and explore new sources of demand both at home and abroad. With the aim of supporting such positive movements by firms, the government should seek to create a more conducive environment and private financial institutions should make efforts to strengthen the foundation for economic growth. As described above, the goal of overcoming deflation will be achieved through such continued efforts by business firms, financial institutions, the government, and the Bank within their respective roles.

Increase in the Asset Purchase Program

(trillion yen)

[Intended time to complete the increase]	Program size at the time of establishment	Program size before the increase	Program size after the increase		Change in amount
	[End-December 2011]	[End-December 2012]	[End-December 2012]	[End-June 2013]	
		(A)		(B)	(B) - (A)
Total size	About 35	About 65	About 65	About 70	About +5
Asset purchases	5.0	30.0	35.0	40.0	+10.0
Japanese government bonds ^[Note 1]	1.5	19.0	24.0	29.0	+10.0
Treasury discount bills	2.0	4.5	4.5	4.5	—
CP	0.5	2.1	2.1	2.1	—
Corporate bonds	0.5	2.9	2.9	2.9	—
Exchange-traded funds (ETFs) ^[Note 2]	0.45	1.4	1.6	1.6	+0.2
Japan real estate investment trusts (J-REITs) ^[Note 2]	0.05	0.11	0.12	0.12	+0.01
Fixed-rate funds-supplying operation against pooled collateral	30.0	35.0	30.0	30.0	-5.0
Three-month term	20.0	20.0	20.0	20.0	—
Six-month term	10.0	15.0	10.0	10.0	-5.0

Notes: 1. In addition to purchases under the Asset Purchase Program, the Bank regularly purchases Japanese government bonds at the pace of 21.6 trillion yen per year.

2. The increases in the purchases of ETFs and J-REITs are conditional on obtaining authorization in accordance with the Bank of Japan Act.

(Reference)

Meeting hours:

April 27: 8:59-12:41

Policy Board members present:

Masaaki Shirakawa (Governor)

Hirohide Yamaguchi (Deputy Governor)

Kiyohiko G. Nishimura (Deputy Governor)

Ryuzo Miyao

Yoshihisa Morimoto

Sayuri Shirai

Koji Ishida

(Others present)

From the Ministry of Finance:

Mitsuo Mitani, Parliamentary Secretary for Finance (8:59-12:25,12:31-12:41)

From the Cabinet Office:

Hiroshi Ogushi, Parliamentary Secretary of Cabinet Office

(8:59-12:25,12:31-12:41)

Release of the minutes:

8:50 on Monday, May 28