

July 12, 2012

Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan 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 0 to 0.1 percent.

2. Overseas economies have shown some, albeit moderate, improvement, but on the whole still have not emerged from a deceleration phase. In global financial markets, some nervousness continues to be seen, mainly due to concern about the European debt problem. Particular attention should therefore be given to developments in these markets for the time being.
3. Japan's economic activity has started picking up moderately as domestic demand remains firm mainly supported by reconstruction-related demand. Public investment has continued to increase. Business fixed investment has been on a moderate increasing trend with improvement in corporate profits. Against the background of improvement in consumer sentiment, private consumption has continued to increase moderately due to the effects of measures to stimulate demand for automobiles. Housing investment has generally been picking up. Exports have shown signs of a pick-up. Reflecting these developments in demand at home and abroad, production has started picking up moderately with some fluctuations. Under these circumstances, business sentiment has been improving moderately particularly in domestic demand-oriented sectors. Meanwhile, financial conditions in Japan have continued to ease. On the price front, the year-on-year rate of change in the CPI (all items less fresh food) is around 0 percent.
4. As for the outlook, Japan's economy is expected to return to a moderate recovery path as domestic demand remains firm and overseas economies emerge from the deceleration phase. The year-on-year rate of change in the CPI is expected to remain at around 0 percent for the time being.

5. Compared with the forecasts presented in the April 2012 *Outlook for Economic Activity and Prices*, growth prospects will likely remain broadly unchanged. With regard to prices, the year-on-year rate of change in the domestic corporate goods price index will likely be somewhat lower for fiscal 2012 but broadly in line with the April forecasts for fiscal 2013. The year-on-year rate of change in the CPI (all items less fresh food) is expected to be broadly in line with the April forecasts.
6. Regarding risks to the economic outlook, there remains a high degree of uncertainty about the global economy, including the prospects for the European debt problem, the momentum toward recovery for the U.S. economy, and the likelihood of emerging and commodity-exporting economies simultaneously achieving price stability and economic growth. Regarding risks to the price outlook, careful attention should be paid to future developments in international commodity prices and in medium- to long-term inflation expectations.
7. The Bank recognizes that Japan's economy faces the critical challenge of overcoming deflation and returning to a sustainable growth path with price stability. This challenge will be met through efforts by a wide range of economic agents to strengthen the economy's growth potential and support from the financial side. Based on this recognition, the Bank has been providing support to strengthen the foundations for economic growth and pursuing powerful monetary easing. The Bank continues to conduct monetary policy in an appropriate manner. The Bank will also do its utmost to ensure the stability of Japan's financial system, while giving particular attention to developments in global financial markets.
8. Recently, undersubscription (i.e., aggregate bids falling short of the Bank's offers) has taken place in the Bank's fixed-rate funds-supplying operation against pooled collateral and some other purchases. At the Monetary Policy Meeting held today, the Policy Board decided to adopt the following measures with the view to proceeding with the aforementioned monetary easing in a continuous manner by steadily increasing the amount outstanding of the Asset Purchase Program.¹
 - (1) A reduction in the maximum outstanding amount of the Bank's fixed-rate funds-supplying operation against pooled collateral by about 5 trillion yen and an increase in the outright purchases of treasury discount bills by about 5 trillion yen

¹ See Attachment for an overview of the Asset Purchase Program.

- (2) A removal of the minimum bidding yield (currently 0.1 percent per annum) for the outright purchases of treasury discount bills and CP in order to ensure their smooth purchases
- (3) An integration of loan durations (currently "3 months" or "6 months") into "within 6 months" under the fixed-rate funds-supplying operation against pooled collateral in order to respond flexibly to liquidity demand by financial institutions

Forecasts of the Majority of Policy Board Members

y/y % chg.

	Real GDP	Domestic CGPI	CPI (all items less fresh food)
Fiscal 2012	+2.2 to +2.4 [+2.2]	-0.3 to 0.0 [-0.2]	+0.1 to +0.3 [+0.2]
Forecasts made in April 2012	+2.1 to +2.4 [+2.3]	+0.4 to +0.7 [+0.6]	+0.1 to +0.4 [+0.3]
Fiscal 2013	+1.6 to +1.8 [+1.7]	+0.6 to +0.8 [+0.6]	+0.5 to +0.7 [+0.7]
Forecasts made in April 2012	+1.6 to +1.8 [+1.7]	+0.7 to +0.9 [+0.8]	+0.5 to +0.7 [+0.7]

Notes: 1. Figures in brackets indicate the median of the Policy Board members' forecasts (point estimates).

2. The forecasts of the majority of the Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate, namely, the figure to which he or she attaches the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. The range does not indicate the forecast errors.

3. Individual Policy Board members make their forecasts with reference to the view of market participants regarding the future course of the policy interest rate -- a view that is incorporated in market interest rates.

4. Forecasts for the domestic CGPI made in April 2012 are on the 2005 base, and those made in July 2012 are on the 2010 base.

5. The CPI using the Chain-Weighted Index Formula has also been released as a reference. Based on this chain-weighted index, the year-on-year rate of change in the CPI around fiscal 2013 may be slightly lower than the above forecasts based on the Fix-Weighted Index Formula.

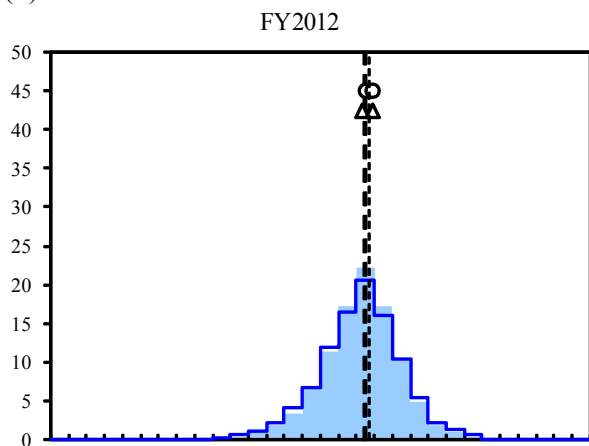
6. The ranges shown below include the forecasts of all Policy Board members.

y/y % chg.

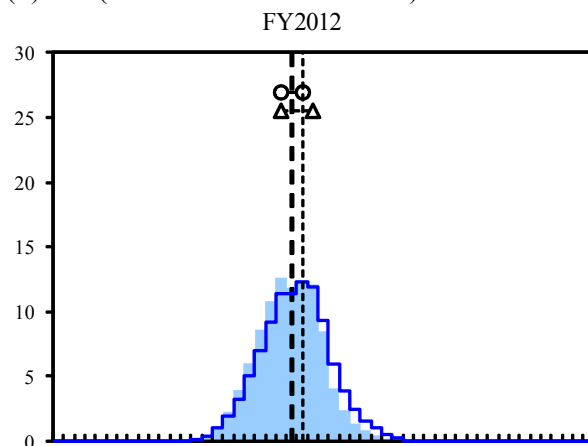
	Real GDP	Domestic CGPI	CPI (all items less fresh food)
Fiscal 2012	+2.1 to +2.4	-0.5 to 0.0	+0.1 to +0.4
Forecasts made in April 2012	+2.1 to +2.4	+0.3 to +0.8	+0.1 to +0.4
Fiscal 2013	+1.5 to +1.8	+0.5 to +1.0	+0.4 to +0.8
Forecasts made in April 2012	+1.5 to +1.8	+0.6 to +1.0	+0.4 to +0.8

Risk Balance Charts

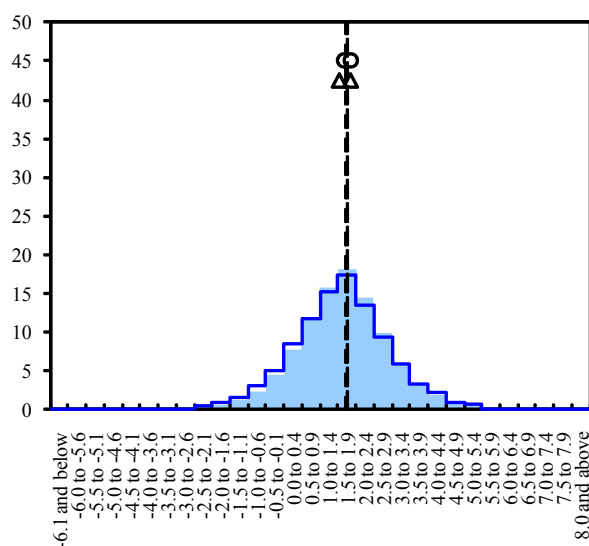
(1) Real GDP



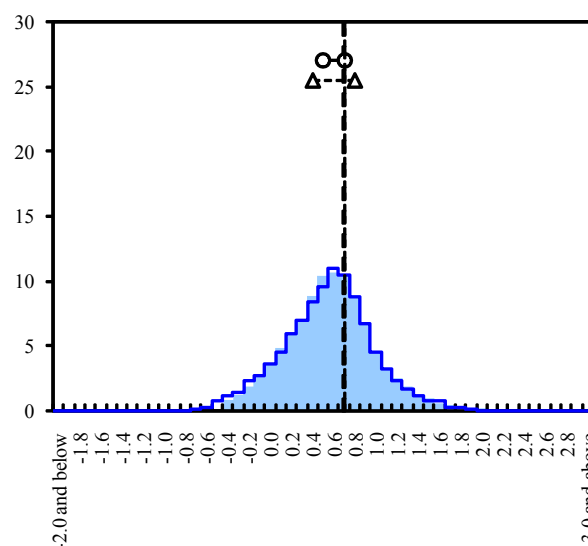
(2) CPI (All Items Less Fresh Food)



FY2013



FY2013



Notes: 1. Vertical axes in the charts represent probability (%), while horizontal axes represent the year-on-year percentage changes in the respective indicators. Bar charts represent the probability distributions in July 2012, and solid lines represent those in April 2012.

2. Heavy vertical dashed lines indicate the median of the Policy Board members' forecasts (point estimates).

○—○ indicates the range of the forecasts of the majority of Policy Board members. △-----△ indicates the range of the forecasts of all Policy Board members.

3. Thin vertical dashed lines indicate the median of the Policy Board members' forecasts (point estimates) in April 2012.

4. For the process of compilation of the Risk Balance Charts, see the box on page 9 of the April 2008 *Outlook for Economic Activity and Prices*.

Size of the Asset Purchase Program

(trillion yen)

	Program size at the time of establishment (October 2010)	Program size before today's decision		Program size after today's decision		Change in amount
		(End-December 2011)	(End-December 2012)	(End-June 2013)	(End-December 2012)	
(Intended timescale for completing the purchases)			(A)		(B)	(B) - (A)
Total size	About 35	About 65	About 70	About 65	About 70	—
Asset purchases	5.0	35.0	40.0	40.0	45.0	+5.0
JGBs ^[Note]	1.5	24.0	29.0	24.0	29.0	—
Treasury discount bills	2.0	4.5	4.5	9.5	9.5	+5.0
CP	0.5	2.1	2.1	2.1	2.1	—
Corporate bonds	0.5	2.9	2.9	2.9	2.9	—
Exchange-traded funds (ETFs)	0.45	1.6	1.6	1.6	1.6	—
Japan real estate investment trusts (J-REITs)	0.05	0.12	0.12	0.12	0.12	—
Fixed-rate funds-supplying operation against pooled collateral	30.0	30.0	30.0	25.0	25.0	-5.0
Three-month term	20.0	20.0	20.0	—	—	—
Six-month term	10.0	10.0	10.0	—	—	—

Note: In addition to purchases under the Asset Purchase Program, the Bank regularly purchases JGBs at the pace of 21.6 trillion yen per year.

(Reference)

Meeting hours:

July 11 : 14:00-16:29

July 12 : 9:00-12:46

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)

July 11

From the Ministry of Finance:

Shinichi Sato, Deputy Vice Minister for Policy Planning and Co-ordination
(14:00-16:29)

From the Cabinet Office:

Kenji Matsuyama, Vice-Minister for Policy Coordination (14:00-16:29)

July 12

From the Ministry of Finance:

Yukihisa Fujita, Senior Vice Minister of Finance (9:00-12:33,12:38-12:46)

From the Cabinet Office:

Hiroshi Ogushi, Parliamentary Secretary of Cabinet Office (9:00-12:33,12:38-12:46)

Release of the *Monthly Report of Recent Economic and Financial Developments*:

14:00 on Friday, July 13 (Japanese)

16:30 on Tuesday, July 17 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Friday, July 13

Release of the minutes:

8:50 on Tuesday, August 14