

Enhancement of Monetary Easing

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan made the following decisions with a view to further pursuing aggressive monetary easing.

(1) Increase in the total size of the Asset Purchase Program (hereafter referred to as "the Program"): unanimous vote

The Bank decided to increase the total size of the Program by about 11 trillion yen, from about 80 trillion yen to about 91 trillion yen in order to make financial conditions for such economic entities as firms and households even more accommodative by further encouraging a decline in longer-term market interest rates and a reduction in risk premiums. The increase in the size of respective assets under the Program is as follows, and the Bank intends to complete the increased purchases by around end-2013 (see Attachment 1 for an overview of the Program).¹

Japanese government bonds (JGBs):	about 5 trillion yen
Treasury discount bills (T-Bills):	about 5 trillion yen
CP:	about 0.1 trillion yen
Corporate bonds:	about 0.3 trillion yen
Exchange-traded funds (ETFs):	about 0.5 trillion yen
Japan real estate investment trusts (J-REITs):	about 0.01 trillion yen

(2) Establishment of the Framework for the Fund-Provisioning Measure to Stimulate Bank Lending ("Stimulating Bank Lending Facility"): unanimous vote

The Bank decided to provide long-term funds -- up to the amount equivalent to the net increase in lending -- at a low interest rate to financial institutions at their request, with the view to promoting their aggressive action and helping increase proactive credit demand of firms and households. There shall be no upper limit -- unlimited -- to the total amount of funds provided by the Bank under this facility. The Chairman instructed

¹ The increases in the purchases of ETFs and J-REITs are conditional on obtaining authorization in accordance with the Bank of Japan Act.

the staff to examine the specifics of establishing the framework for this new facility and report back at a Monetary Policy Meeting (see Attachment 2 for the outline of the preliminary framework).

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 0 to 0.1 percent.

3. Overseas economies have moved deeper into a deceleration phase. In global financial markets, while investors' risk aversion on the back of the European debt problem has abated somewhat, particular attention should be given to developments in these markets. Under such circumstances, exports and industrial production have decreased, starting to affect domestic demand which has remained firm thus far. As such, Japan's economy has been weakening somewhat. Meanwhile, the year-on-year rate of change in the CPI (all items less fresh food) is around 0 percent.

Going forward, there remains a high degree of uncertainty concerning Japan's economy, including the prospects for the European debt problem, the momentum toward recovery for the U.S. economy, the possibility of emerging and commodity-exporting economies making a smooth transition to the sustainable growth path, and the spreading effects of the recent bilateral relationship between Japan and China. Furthermore, attention should continue to be paid to the effects of financial and foreign exchange market developments on economic activity and prices.

4. Based on these economic and price developments, the Bank of Japan judged it appropriate to undertake further aggressive monetary easing policies in order to prevent Japan's economy from deviating from the path of returning to a sustainable growth path with price stability.
5. The Bank recognizes that Japan's economy faces the critical challenge of overcoming deflation as early as possible and returning to the sustainable growth path with price stability. This challenge will be met through the combination of (i) efforts by a wide range of economic agents -- such as business firms and financial institutions -- to strengthen the economy's growth potential and (ii) support from the financial side.
6. In order to address this challenge, it is necessary for the Government and the Bank of Japan to play their respective roles. The Bank, based on the aforementioned recognition, will

pursue powerful monetary easing. It strongly expects the Government to vigorously promote measures for strengthening Japan's growth potential, based on the Government's recognition that in order to overcome deflation reforming the economic structure predisposed to deflation is essential in addition to appropriate macroeconomic policy management. In order to state clearly the shared understanding concerning the roles of the Government and the Bank, the Bank decided to release today "Measures Aimed at Overcoming Deflation" along with the Government (see Attachment 3). The Bank believes that this release will contribute to enhancing the effectiveness of respective policy measures.

Size of the Asset Purchase Program

(trillion yen)

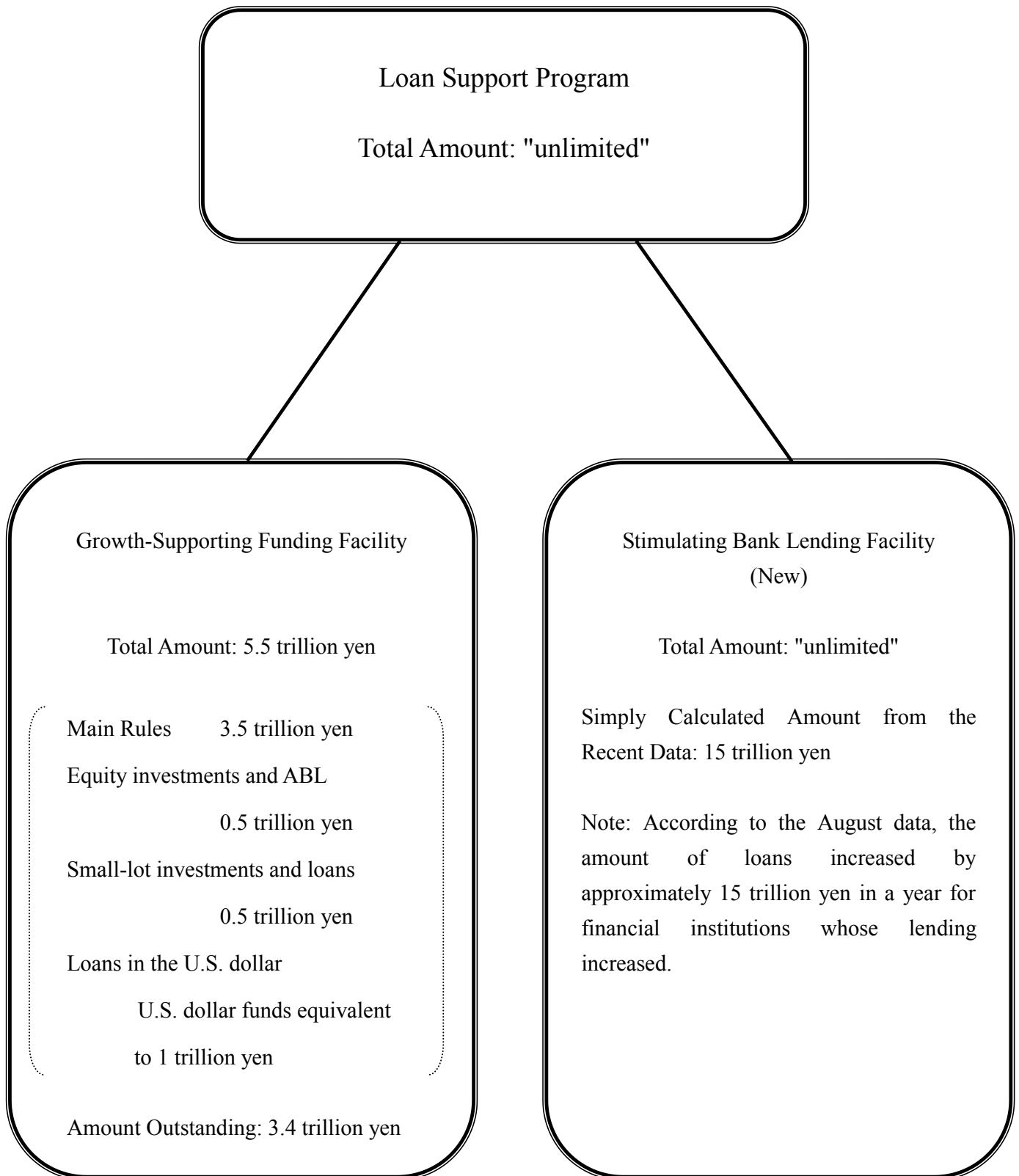
	Amount outstanding (as of end-September 2012)	Program size (Figures in parentheses represent the size before today's decision.)			Change in amount
		End-December 2012	End-June 2013	End-December 2013	
Total size ^[Notes 1,2]	About 61.8	About 65	About 78 (About 75)	About 91 (About 80)	About +11
Asset purchases	31.1	40	53 (50)	66 (55)	+11
JGBs ^[Note 3]	18.1	24.0	31.5 (29.0)	39.0 (34.0)	+5.0
T-Bills	7.4	9.5	14.5 (14.5)	19.5 (14.5)	+5.0
CP	1.4	2.1	-->	2.2 (2.1)	+0.1
Corporate bonds	2.7	2.9	-->	3.2 (2.9)	+0.3
Exchange-traded funds (ETFs) ^[Note 4]	1.4	1.6	-->	2.1 (1.6)	+0.5
Japan real estate investment trusts (J-REITs) ^[Note 4]	0.10	0.12	-->	0.13 (0.12)	+0.01
Fixed-rate funds-supplying operation against pooled collateral	30.7	25.0	25.0 (25.0)	25.0 (25.0)	—

- Notes: 1. The size of the Program at the time of its introduction in October 2010 was about 35 trillion yen.
2. The amount outstanding of the Program is 62.7 trillion yen as of October 20, 2012.
3. In addition to purchases under the Program, the Bank regularly purchases JGBs at the pace of 21.6 trillion yen per year.
4. The increases in the purchases of ETFs and J-REITs are conditional on obtaining authorization in accordance with the Bank of Japan Act.

**Framework for the Fund-Provisioning Measure to Stimulate Bank Lending
("Stimulating Bank Lending Facility")**

1. The Bank shall fulfill any request for funds from each counterparty up to the amount equivalent to the net increase in lending from the designated date.
2. The total amount of loans provided by the Bank under this facility shall be "unlimited" (i.e., no upper limit).
3. The interest rate charged by the Bank shall be a long-term fixed rate equivalent to the Bank's target for the uncollateralized overnight call rate at the time of loan disbursement. It is currently 0.1 percent per annum.
4. Duration of loans shall be 1 year, 2 years, or 3 years, at the request of each counterparty. Loans can be rolled over up to 4 years.
5. For about 1 year after the introduction of this facility, the Bank shall provide loans at an interval it deems appropriate.
6. Loans shall be provided against pooled collateral.
7. Counterparties eligible for this facility will be depository institutions.
8. In the calculation of net increases in lending for the purpose of this facility, only credit extended to the non-financial private sector shall be counted and it can be either yen denominated or foreign-currency denominated.
9. Loans under this facility, combined with those under the "Growth-Supporting Funding Facility" (Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth) shall constitute the "Loan Support Program."

(Reference) Outline of the "Loan Support Program"



Measures Aimed at Overcoming Deflation

The Government and the Bank of Japan will carry out the following measures aimed at overcoming deflation in Japan at this juncture.

1. The Government and the Bank share the recognition that the critical challenge for Japan's economy is to overcome deflation as early as possible and to return to a sustainable growth path with price stability. The Government and the Bank will work together and make their utmost efforts to address this challenge.
2. The Bank recognizes that the challenge mentioned above will be met through the combination of (i) efforts by a wide range of economic agents to strengthen the economy's growth potential and (ii) support from the financial side. The Bank strongly expects the Government to vigorously promote measures for strengthening Japan's growth potential.

The Bank judges "the price stability goal in the medium to long term" to be within a positive range of 2 percent or lower in terms of the year-on-year rate of change in the CPI. The Bank aims to achieve its goal of 1 percent for the time being in terms of the year-on-year rate of increase in the CPI through the pursuit of powerful monetary easing, conducting its virtually zero interest rate policy and implementing the Asset Purchase Program mainly through the purchase of financial assets. The Bank will continue with this powerful easing until it judges the 1 percent goal to be in sight. In doing so, it will ascertain whether there is any significant risk to the sustainability of economic growth, including from the accumulation of financial imbalances.

In the October 2012 issue of the *Outlook for Economic Activity and Prices* released on October 30, 2012, the Bank presented the projections for the CPI. The Bank will continue with this powerful easing aiming at achieving the goal of 1 percent. The Bank will report the outlook for prices regularly at the Ministerial Council on Exiting Deflation.

The Bank will also continue to make efforts to explain its thinking on the conduct of monetary policy clearly to the market.

3. The Government strongly expects the Bank to continue powerful easing as outlined in section 2 until deflation is overcome.

In order to overcome deflation, the Government recognizes that reforming the economic

structure predisposed to deflation is essential in addition to appropriate macroeconomic policy management. Therefore, based on the Prime Minister's instruction on October 17, 2012, the Government will promptly formulate economic policy measures to counter risks of a downturn that Japan's economy faces at this juncture and to accelerate measures for realizing economic revitalization. In addition, based on the "Comprehensive Strategy for the Rebirth of Japan," which was decided by the Cabinet on July 31, 2012, the Government, focusing on through fiscal 2013, will mobilize optimal policy measures including regulatory and institutional reforms, budget, fiscal investment and loan program, and tax in order to dynamically mobilize "goods," "people," and "money."

The Government will assess the economic developments including the state of deflation and the macroeconomic management regularly at the Ministerial Council on Exiting Deflation.

Masaaki Shirakawa
Governor of the Bank of Japan

Seiji Maehara
Minister of State for Economic and Fiscal Policy
Koriki Jojima
Minister of Finance

Note: English translation is prepared by the Bank's staff based on the Japanese original.

(Reference)

Meeting hours:

October 30: 9:00-14:41

Policy Board members present:

Masaaki Shirakawa (Governor)

Hirohide Yamaguchi (Deputy Governor)

Kiyohiko G. Nishimura (Deputy Governor)

Ryuzo Miyao

Yoshihisa Morimoto

Sayuri Shirai

Koji Ishida

Takehiro Sato

Takahide Kiuchi

(Others present)

From the Ministry of Finance:

Koichi Takemasa, Senior Vice Minister of Finance (9:00-14:07,14:22-14:41)

From the Cabinet Office:

Kenji Matsuyama, Vice-Minister for Policy Coordination (9:00-10:24)

Seiji Maehara, Minister of State for Economic and Fiscal Policy

(10:25-14:07,14:22-14:41)

Release of the minutes:

8:50 on Monday, November 26