

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.

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