

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 As a result of these decisions, the Bank will provide new funds exceeding 50 trillion yen for over twelve months from now under the Asset Purchase Program and the Loan Support Program, and the amount outstanding of these programs will exceed 120 trillion yen (see Attachment 1). Furthermore, the Bank will discuss at the next meeting the medium- to long-term price stability that the Bank aims to achieve in the conduct of monetary policy.

- (1) Decision to increase the total size of the Asset Purchase Program by a unanimous vote

The Bank decided to increase the total size of the Asset Purchase Program by about 10 trillion yen, from about 91 trillion yen to about 101 trillion yen. The increase in the size of the program corresponds with the size of additional purchases of treasury discount bills (T-Bills) by about 5 trillion yen and Japanese government bonds (JGBs) by about 5 trillion yen (see Attachment 2). Additional purchases of financial assets to be made in the next twelve months under the Asset Purchase Program -- inclusive of those purchases that have already been decided -- will amount to about 36 trillion yen. In addition, the Bank regularly purchases JGBs at the pace of 21.6 trillion yen per year.

- (2) Decision on the operational details of the Stimulating Bank Lending Facility by a unanimous vote

The Stimulating Bank Lending Facility aims to provide long-term funds -- up to the amount equivalent to the net increase in lending -- at a low interest rate, without any limit, to financial institutions at their request. The Bank decided the operational details of this facility, including its implementation period, which shall be 15 months until end-March 2014 (see Attachment 3). The fund-provisioning under the Stimulating Bank Lending Facility -- while it depends on a number of factors -- is expected to reach more than 15

¹ At today's meeting, Mr. K. Ishida proposed to set the interest rate applied under Complementary Deposit Facility as 0 percent. The proposal was defeated by a majority vote. Voting for the proposal: Mr. K. Ishida. Voting against the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, Mr. T. Sato, and Mr. T. Kiuchi.

trillion yen, based on the recent lending data.

(3) The chairman's instruction concerning the thinking on price stability

The Bank reviews "the price stability goal in the medium to long term" once a year in principle. At the next Monetary Policy Meeting, it will discuss the medium- to long-term price stability that it aims to achieve in the conduct of monetary policy. The chairman instructed the staff to examine necessary issues for discussion and report back at the next meeting.

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 remain in a deceleration phase. In global financial markets, while investors' risk aversion on the back of the European debt problem has abated recently, particular attention should be given to developments in these markets. Under such circumstances, exports and industrial production have decreased, affecting domestic demand including business fixed investment. Business sentiment -- particularly that in manufacturing -- has become cautious. Against such a background, Japan's economy has added somewhat weak movement and is expected to remain so for the time being. The year-on-year rate of change in the CPI (all items less fresh food) is expected to remain at around 0 percent for the time being.
4. Regarding risks, 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 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.
5. 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.

6. 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 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, while the Bank will provide support for financial institutions' efforts to strengthen the foundations for economic growth and to increase their lending, it will pursue aggressive monetary easing in a continuous manner by conducting its virtually zero interest rate policy as well as steadily increasing the amount outstanding of the Asset Purchase Program. 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.

Size of Respective Programs and Additional Fund-Provisioning

(trillion yen)

		Amount outstanding (as of end-December 2012)	Additional fund- provisioning for over twelve months from now	Program size (intended timescale for completion)
Asset Purchase Program		About 65	 About 36	About 101 ^(Note 1) (end-December 2013)
Loan Support Program	Growth-Supporting Funding Facility	About 3.5		5.5 (end-March 2014) ^(Note 2)
	Stimulating Bank Lending Facility	--	 15+ ^(Note 3)	Unlimited [15+] (end-March 2014) ^(Note 4)
Total size		About 68.5	 <u>50+</u>	<u>120+</u>

- Notes: 1. The size of the Asset Purchase Program at the time of its introduction in October 2010 was about 35 trillion yen.
2. The fund-provisioning under the Growth-Supporting Funding Facility will be made, based on the applications for loans received by end-March 2014.
3. The fund-provisioning under the Stimulating Bank Lending Facility is expected to reach more than 15 trillion yen, based on the recent lending data, while it depends on a number of factors such as financial institutions' efforts to increase lending and firms' credit demand.
4. The fund-provisioning under the Stimulating Bank Lending Facility will be based on the net increase in lending until end-March 2014.

Size of the Asset Purchase Program

(trillion yen)

	Amount outstanding (as of end-November 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	
Intended timescale for completing the purchases		End-December 2012	End-June 2013	End-December 2013	End-December 2013
Total size ^(Note 1)	About 64.6	About 65	About 85.5 (About 78)	About 101 (About 91)	About +10
Asset purchases	37.6	40	60.5 (53)	76 (66)	+10.0
JGBs ^(Note 2)	22.1	24.0	34.0 (31.5)	44.0 (39.0)	+ 5.0
T-Bills	9.0	9.5	19.5 (14.5)	24.5 (19.5)	+ 5.0
CP	1.9	2.1	→	2.2	—
Corporate bonds	3.0	2.9	→	3.2	—
Exchange-traded funds (ETFs)	1.5	1.6	→	2.1	—
Japan real estate investment trusts (J-REITs)	0.11	0.12	→	0.13	—
Fixed-rate funds-supplying operation against pooled collateral	27.0	25.0	25.0	25.0	—

Notes: 1. The amount outstanding of the program is 67.0 trillion yen as of December 10, 2012.

2. In addition to purchases under the program, the Bank regularly purchases JGBs at the pace of 21.6 trillion yen per year.

Outline of the Fund-Provisioning Measure to Stimulate Bank Lending
("Stimulating Bank Lending Facility")

The Stimulating Bank Lending Facility aims to provide long-term funds -- up to the amount equivalent to the net increase in lending -- at a low interest rate, without any limit, to financial institutions at their request, with a view to promoting their aggressive action and helping increase proactive credit demand of firms and households.

The fund-provisioning under this facility is expected to reach more than 15 trillion yen, based on the recent lending data, while it depends on a number of factors such as financial institutions' efforts to increase lending and firms' credit demand.

1. Eligible Counterparties

Financial institutions (including foreign financial institutions' offices in Japan) that are counterparties in the Bank's Funds-Supplying Operations against Pooled Collateral at All Offices¹ and wish to be counterparties in this measure.

Note 1: The Bank's Funds-Supplying Operations against Pooled Collateral at All Offices provide funds against a wide range of financial assets pledged as eligible collateral (pooled collateral), such as Japanese government bonds and non-financial private sector's debt, and are a scheme in which many financial institutions, including regional financial institutions, can participate.

2. Total Amount of Loans

The total amount of loans provided by the Bank and the amount of loans extended to each counterparty under this facility shall be unlimited.

3. Implementation Period and Frequency of New Loan Disbursements

New loans shall be disbursed on a quarterly basis for 15 months. The net increase in lending during these months shall be counted in the calculation of the maximum amount of loans. The disbursements shall span 5 times. The first disbursement shall be scheduled around June 2013, based on the net increase from October-December 2012 (the basic period

prescribed in 6.) to January-March 2013. The last disbursement shall be scheduled around June 2014, based on the net increase from the basic period to January-March 2014.

4. Duration of Loans

The duration of loans shall be 1 year, 2 years, or 3 years, at the request of each counterparty. However, the overall duration of loans -- adding the duration at the first disbursement and the ones at subsequent rollovers -- shall not exceed 4 years.

Even in the case that the amount of loans prescribed in 6. decreases, each counterparty shall not be requested to repay all or part of the loans disbursed by the Bank before the scheduled maturity.

5. Loan Rates

The interest rate on loans shall be the Bank's target for the uncollateralized overnight call rate stipulated in the guideline for money market operations on the offer date of the loans. It is currently 0.1 percent per annum.

6. Maximum Amount of Loans to Each Counterparty

October-December 2012 shall be set as the basic period in the calculation of net increase in lending.

The maximum amount of loans shall be net increase in each counterparty's average amount outstanding of loans, which is calculated by (a) taking the average of the month-end amounts outstanding of loans during the basic period, (b) taking the average of the month-end amounts outstanding of loans during a quarter specified by the Bank, and (c) subtracting the amount specified in (a) from the amount in (b).

With regard to foreign-currency denominated loans, net increase in lending calculated in a foreign currency shall be converted into yen by multiplying the foreign exchange rates as of December 2012.

7. Loans Counted in the Calculation of Net Increase in Lending

All loans provided by each counterparty (excluding lending for the government, municipal governments, and financial institutions²) shall be counted in the calculation.

Note 2: The above-mentioned "financial institutions" mean broadly-defined private financial institutions, public financial institutions, and safety-net entities, such as the Deposit Insurance Corporations of Japan.

All loans extended to firms and households shall be counted in the calculation. There shall be no restriction with respect to the types of borrowers. For Japanese financial institutions, there shall be no restriction concerning whether loans are provided by offices in Japan or overseas. For foreign financial institutions, loans provided by offices in Japan shall be counted. Furthermore, there shall be no restriction in terms of what currencies loans are denominated.

8. Form of Loans

Loans shall be provided in the form of the Bank's Funds-Supplying Operations against Pooled Collateral (the form of electronic lending against pooled collateral).

(Reference) Loan Disbursement Schedule

No.	Period of calculation of net increase in lending	Timing of loan disbursement
1 st	January-March 2013	Around June 2013
2 nd	April-June 2013	Around September 2013
3 rd	July-September 2013	Around December 2013
4 th	October-December 2013	Around March 2014
5 th	January-March 2014	Around June 2014

(Reference)

Meeting hours:

December 19: 14:00-16:32

December 20: 9:00-12:56

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)

December 19

From the Ministry of Finance:

Shinichi Sato, Deputy Vice Minister for Policy Planning and Co-ordination

(14:00-16:32)

From the Cabinet Office:

Kenji Matsuyama, Vice-Minister for Policy Coordination (14:00-16:32)

December 20

From the Ministry of Finance:

Koichi Takemasa, Senior Vice Minister of Finance (9:00-12:37,12:46-12:56)

From the Cabinet Office:

Kenji Matsuyama, Vice-Minister for Policy Coordination (9:00-12:37,12:46-12:56)

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

14:00 on Friday, December 21 (Japanese)

16:30 on Tuesday, December 25 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Friday, December 21

Release of the minutes:

8:50 on Friday, January 25