

February 18, 2014

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 conduct money market operations so that the monetary base will increase at an annual pace of about 60-70 trillion yen.

2. With regard to the asset purchases, the Bank will continue with the following guidelines:
 - a) The Bank will purchase Japanese government bonds (JGBs) so that their amount outstanding will increase at an annual pace of about 50 trillion yen, and the average remaining maturity of the Bank's JGB purchases will be about seven years.
 - b) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at an annual pace of about 1 trillion yen and about 30 billion yen respectively.
 - c) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen respectively.
3. The Policy Board also decided, by a unanimous vote, to double the scale of (i) the Fund-Provisioning Measure to Stimulate Bank Lending (hereafter "Stimulating Bank Lending Facility") and (ii) the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth (hereafter "Growth-Supporting Funding Facility"), and to extend the application period for these facilities by one year.¹ Before today's decision, these were due to expire shortly.

Specifically, under the Stimulating Bank Lending Facility, financial institutions will be able to borrow funds from the Bank up to an amount that is twice as much as the net increase in their lending. As for the Growth-Supporting Funding Facility, the maximum amount of the Bank's fund-provisioning under the main rules will be doubled from 3.5 trillion yen to 7

¹ See Attachment for details.

trillion yen. Under these facilities, financial institutions will be able to borrow funds at a fixed rate of 0.1 percent per annum for 4 years instead of 1-3 years at present.

The Bank expects that these enhancements will further promote financial institutions' actions as well as stimulate firms' and households' demand for credit, with a view to encouraging banks' lending and strengthening the foundations for economic growth.

4. Furthermore, the Policy Board decided, by a unanimous vote, to extend the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas affected by the Great East Japan Earthquake and the Temporary Rules regarding the Eligibility Standards for Debt of Companies in Disaster Areas by one year.
5. Japan's economy has continued to recover moderately, and a front-loaded increase in demand prior to the consumption tax hike has recently been observed. Overseas economies -- mainly advanced economies -- are starting to recover, although a lackluster performance is still seen in part. In this situation, exports have generally been picking up. Business fixed investment has been picking up as corporate profits have improved. Public investment has continued to increase. With improvement in the employment and income situation, housing investment has continued to increase and private consumption has remained resilient; in these segments of the economy, the front-loaded increase in demand prior to the consumption tax hike has also been observed. Reflecting these developments in demand both at home and abroad, industrial production has been increasing moderately. Meanwhile, financial conditions are accommodative. On the price front, the year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) is around 1¼ percent. Inflation expectations appear to be rising on the whole.
6. With regard to the outlook, Japan's economy is expected to continue a moderate recovery as a trend, while it will be affected by the front-loaded increase and subsequent decline in demand prior to and after the consumption tax hike. The year-on-year rate of increase in the CPI, excluding the direct effects of the consumption tax hike, is likely to be around 1¼ percent for some time.
7. Risks to the outlook include developments in the emerging and commodity-exporting economies, the prospects for the European debt problem, and the pace of recovery in the U.S. economy.^[Note 1]

8. The Bank will continue with quantitative and qualitative monetary easing, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate.^[Note 2]

Such conduct of monetary policy will support the positive movements in economic activity and financial markets, contribute to a rise in inflation expectations, and lead Japan's economy to overcome the deflation that has lasted for nearly 15 years.

^[Note 1] Ms. S. Shirai dissented from the description in paragraph 7, suggesting that the pace of improvement in the employment and income situation in Japan should be added.

^[Note 2] Mr. T. Kiuchi proposed that the Bank will aim to achieve the price stability target of 2 percent in the medium to long term and designate quantitative and qualitative monetary easing as an intensive measure with a time frame of about two years. The proposal was defeated by an 8-1 majority vote. Voting for the proposal: Mr. T. Kiuchi. Voting against the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, and Mr. T. Sato.

Outline of the Enhanced Framework for the Stimulating Bank Lending Facility and the Growth-Supporting Funding Facility^[Note 1]

1. Stimulating Bank Lending Facility

- A. The deadline for new applications under the facility shall be extended by one year.^[Note 2]
- B. The maximum amount of the Bank's fund-provisioning to each financial institution shall be an amount that is twice as much as the net increase in its lending.^[Note 3]
- C. The interest rate applied to the facility shall be fixed at 0.1 percent per annum for four years. Financial institutions have an option to make prepayment every year.

2. Growth-Supporting Funding Facility

- A. The deadline for new applications under the main rules as well as special rules for equity investments and asset-based lending, small-lot investments and loans, and the U.S. dollar lending arrangement shall be extended by one year.^[Note 4]
- B. The maximum amount of the Bank's fund-provisioning under the main rules shall be doubled from 3.5 trillion yen to 7 trillion yen. The maximum amount of its fund-provisioning to each financial institution shall be increased from 150 billion yen to 1 trillion yen.

^[Note 1] Amendments to relevant principal terms and conditions will be decided at the next Monetary Policy Meeting.

^[Note 2] The disbursement under the current framework shall end in March 2014. The disbursement after June 2014 shall be based on the new framework (1.B. and C. mentioned above). Unused amount under the current framework cannot be carried over to the new framework. Under the new framework, unused amount at the time of disbursement cannot be carried over to subsequent disbursements.

^[Note 3] Based on the assumption that the growth rate of bank lending and the utilization rate of this facility remain more or less at current levels, the amount outstanding of fund-provisioning under this facility is estimated to be around 30 trillion yen.

^[Note 4] The disbursement under the new framework (2.B. and C. mentioned above) will begin in June 2014.

C. The interest rate applied to the facility under the main rules and special rules for equity investments and asset-based lending, and small-lot investments and loans shall be fixed at 0.1 percent per annum for four years. Financial institutions have an option to make prepayment every year.

(Reference)

Meeting hours:

February 17: 14:00-16:11

February 18: 9:00-12:23

Policy Board members present:

Haruhiko Kuroda (Governor)

Kikuo Iwata (Deputy Governor)

Hiroshi Nakaso (Deputy Governor)

Ryuzo Miyao

Yoshihisa Morimoto

Sayuri Shirai

Koji Ishida

Takehiro Sato

Takahide Kiuchi

(Others present)

February 17

From the Ministry of Finance:

Masatsugu Asakawa, Deputy Vice Minister for Policy Planning and Co-ordination
(14:00-16:11)

From the Cabinet Office:

Kenji Umetani, Vice-Minister for Policy Coordination (14:00-16:11)

February 18

From the Ministry of Finance:

Yoshihisa Furukawa, Senior Vice Minister of Finance (9:00-12:06,12:18-12:23)

From the Cabinet Office:

Yasutoshi Nishimura, Senior Vice-Minister of Cabinet Office
(9:00-12:06,12:18-12:23)

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

14:00 on Wednesday, February 19 (Japanese)

16:30 on Thursday, February 20 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Wednesday, February 19

Release of the minutes:

8:50 on Friday, March 14