Not to be released until 8:50 a.m. Japan Standard Time on Monday, May 28, 2012.

May 28, 2012

Bank of Japan

Minutes of the Monetary Policy Meeting

on April 27, 2012

(English translation prepared by the Bank's staff based on the Japanese original)

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Friday, April 27, 2012, from 8:59 a.m. to 12:41 p.m.[1]

Policy Board Members Present

Mr. M. Shirakawa, Chairman, Governor of the Bank of Japan

Mr. H. Yamaguchi, Deputy Governor of the Bank of Japan

Mr. K. G. Nishimura, Deputy Governor of the Bank of Japan

Mr. R. Miyao

Mr. Y. Morimoto

Ms. S. Shirai

Mr. K. Ishida

Government Representatives Present

Mr. M. Mitani, Parliamentary Secretary of Finance, Ministry of Finance

Mr. H. Ogushi, Parliamentary Secretary of Cabinet Office, Cabinet Office

Reporting Staff

Mr. K. Yamamoto, Executive Director

Mr. H. Nakaso, Executive Director (Assistant Governor)

Mr. M. Amamiya, Executive Director

Mr. N. Kinoshita, Executive Director

Mr. K. Momma, Director-General, Monetary Affairs Department

Mr. T. Umemori, Deputy Director-General, Monetary Affairs Department

Mr. K. Kamiyama, Head of Policy Planning Division, Monetary Affairs Department

Mr. S. Aoki, Director-General, Financial Markets Department

Mr. E. Maeda, Director-General, Research and Statistics Department

Mr. T. Sekine, Head of Economic Research Division, Research and Statistics Department

Mr. H. Ono, Director-General, International Department

[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on May 22 and 23, 2012 as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

Secretariat of the Monetary Policy Meeting

Mr. Y. Iino, Director-General, Secretariat of the Policy Board

Mr. T. Tachibana, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

Mr. H. Chida, Head of Policy Infrastructure Division, Monetary Affairs Department

Mr. H. Kamiguchi, Senior Economist, Monetary Affairs Department

Mr. M. Minegishi, Senior Economist, Monetary Affairs Department

I. Summary of Staff Reports on Economic and Financial Developments[2]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on April 9 and 10, 2012, had been providing ample funds sufficient to meet demand in financial markets and was doing its utmost to ensure stability in the markets.[3] In this situation, the uncollateralized overnight call rate had been in the range of 0.065 to 0.085 percent.

With regard to the Bank's operations, undersubscription had occurred in its fixed-rate funds-supplying operation against pooled collateral with a six-month term on a continuous basis, as well as in the outright purchases of treasury discount bills (T-Bills), as the sense of an abundance of liquidity continued to be strong amid the Bank's provision of ample funds.

B. Recent Developments in Financial Markets

Money market rates, including longer-term ones, had been stable at low levels. General collateral (GC) repo rates had been at around 0.1 percent. As for interest rates on term instruments, yields on T-Bills, including those with longer maturities, had been stable at around 0.1 percent. Rates on longer-term interbank instruments had been more or less unchanged.

The benchmark long-term interest rate had declined to a level as low as around 0.9 percent due to (1) weaker-than-expected U.S. economic indicators, (2) concerns over a deterioration in fiscal conditions in Spain and Italy, and (3) speculation about the Bank's conduct of monetary policy. Although the Nikkei 225 Stock Average had exhibited some nervousness, it had been more or less flat at around 9,500 yen throughout the intermeeting period, underpinned by firming prices in the U.S. stock market. Prices for Japan real estate investment trusts (J-REITs) had been solid, albeit with fluctuations. In the foreign exchange market, the yen temporarily appreciated to around the middle of the 80-81 yen range against the U.S. dollar. It subsequently depreciated, however, and had recently been moving again within a narrow range on both sides of 81 yen to the dollar.

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[2] Reports were made based on information available at the time of the meeting.

[3] The guideline was as follows:

The Bank of Japan will encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 percent.

C. Overseas Economic and Financial Developments

Overseas economies on the whole still had not emerged from a deceleration phase, but some improvement had been observed.

The U.S. economy continued to recover at a moderate pace. Private consumption was increasing, reflecting a modest improvement in the employment situation, but the pace of recovery was generally moderate partly because the balance-sheet repair continued to weigh on the economy. Housing investment remained at a depressed level with housing prices exhibiting weakness. On the other hand, exports continued to gain momentum, and business fixed investment maintained its uptrend. As for prices, while slack in supply and demand conditions in the goods and labor markets continued to exert downward pressure on prices, the year-on-year rate of increase in the consumer price index (CPI) for all items decelerated due to the effects of the significant rise in energy prices a year earlier. Meanwhile, the year-on-year rate of increase in the CPI for all items less food and energy, or the core CPI, had been in the range of 2.0-2.5 percent, with the rise in prices of clothes exhibiting a pause while the moderate rise in the shelter index continued.

Economic activity in the euro area had been sluggish but the situation had stopped deteriorating. Signs of a pick-up in exports were seen mainly in those to the United States and emerging economies. The rate of increase in business fixed investment had slowed, and private consumption was more or less unchanged. Household and business sentiment remained weak in some peripheral countries, but showed signs of a pick-up, mainly in Germany and France. Under these circumstances, production was declining but the pace of decline had moderated somewhat. As for prices, although slack in supply and demand conditions was exerting downward pressure on prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) for all items remained at a relatively high level due in part to the recent rise in crude oil prices. In the United Kingdom, economic activity was more or less unchanged.

With regard to Asia, the Chinese economy continued to show relatively high growth, although the pace had slowed somewhat. The rate of increase in exports was slowing and, within domestic demand, the rates of increase in durable goods consumption and private real estate investment appeared to be slowing. Nevertheless, private consumption and fixed asset investment maintained relatively high growth as a whole, reflecting a favorable employment and income situation. Under these circumstances, the rate of increase in production was decelerating to some extent. In India, the deceleration of economic growth had come to a halt. Regarding the NIEs and the ASEAN countries, the pace of economic growth had begun to pick up. As for domestic demand, while the rate of increase in business fixed investment seemed to be slowing somewhat, private consumption remained firm. In a situation where exports to advanced economies had stopped declining, exports and production were picking up, reflecting the restoration following the damage caused by the flooding in Thailand. As for prices, in many of these Asian economies, core inflation rates were at relatively high levels, mainly reflecting the higher wage inflation caused by tight labor market conditions. On the other hand, inflation rates for all items had fallen, due mainly to a halt in the surge in prices of fresh food, and thus prices were increasing at a reduced pace.

With regard to global financial markets, concerns over the Greek debt problem had generally subsided, whereas market anxiety over the feasibility of fiscal consolidation and structural reforms in Spain and Italy was beginning to resurface. As for the yield spreads of government bonds issued by some European countries over German government bonds, those for Greece, Ireland, and Portugal had generally been unchanged. On the other hand, those for Spain and Italy had been widening again on the back of the fact that Spain was confronted with uncertainty regarding progress toward fiscal consolidation as well as concerns about financial system stability, and Italy was still burdened by uncertainty about its labor market reforms. European stock prices, particularly those of banks, had been declining due in part to uncertainty regarding the outcome of the upcoming French presidential runoff, in addition to concerns about Spanish financial institutions. Amid the heightening of risk aversion among investors, long-term interest rates in the United States and Germany had been declining, and stock prices and currencies in emerging economies had generally been weak. Regardless of these developments, the funding conditions of European financial institutions had been stable on the whole. Spreads between interest rates on euro-denominated term instruments and overnight index swap (OIS) rates had been virtually unchanged as the sense of an abundance of liquidity in the euro remained, backed by the provision of a large amount of funds by the European Central Bank (ECB) through the 36-month longer-term refinancing operations. With regard to U.S. dollar funding conditions, while spreads between interest rates on U.S. dollar-denominated term instruments and OIS rates had been more or less unchanged, the U.S. dollar funding premium in the euro-U.S. dollar basis swaps had declined somewhat. U.S. stock prices had also declined slightly as some economic indicators turned out to be weaker than market expectations.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports remained more or less flat. In the period through March 2012, real exports registered a quarter-on-quarter decrease of 2.8 percent in the October-December quarter of 2011, followed by a decrease of 0.1 percent on a quarter-on-quarter basis in the January-March quarter of 2012.

With regard to public investment, the amount of public construction completed -- which reflected the progress of public works -- had started to increase, having risen by 4.6 percent in the January-February period of 2012 relative to the October-December quarter of 2011, when it registered a quarter-on-quarter decrease of 0.6 percent. The value of public works contracted -- a measure that reflected public works orders -- had increased substantially by 7.8 percent in the January-March quarter of 2012 relative to the October-December quarter of 2011, when it rose by 3.6 percent on a quarter-on-quarter basis.

As for domestic private demand, many indicators showed signs of firming, as evidenced by the fact that the ratio of small firms making business fixed investments had risen in the January-March quarter of 2012. Business sentiment had also begun to improve.

The pace of increase in industrial production remained subdued in March 2012, as the realization ratio in the production forecast index had shown a fairly large decline. Consequently, after correcting for the seasonal adjustment distortions, actual industrial production in the January-March quarter of 2012 turned out to be more or less flat on a quarter-on-quarter basis.

As for prices, international commodity prices had recently been falling back slightly but remained at high levels compared to a while ago. The three-month rate of increase in the domestic corporate goods price index (CGPI) had been rising. The year-on-year rate of change in the CPI (all items less fresh food) was currently around 0 percent.

2. Financial environment

Financial conditions continued to ease.

Inflation expectations of households, economists, and market participants, both in the short term and the medium to long term, had been more or less unchanged. With regard to credit supply, firms continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP continued to be favorable. Those for corporate bonds also remained favorable on the whole. As for credit demand, firms showed signs of increasing their demand mainly for working capital and funds related to mergers and acquisitions. The year-on-year rate of increase in the amount outstanding of bank lending had risen moderately. In these circumstances, firms retained their recovered financial positions on the whole.

II. Summary of Discussions by the Policy Board on Economic and Financial Developments and the April 2012 *Outlook for Economic Activity and Prices*

A. Economic Developments

Members shared the recognition that global financial markets, particularly money markets, had generally been stable. They agreed that a deterioration in fiscal conditions in Spain and Italy had been drawing attention in a situation where ongoing initiatives only went halfway to resolving the European debt problem. They continued, however, that funding conditions for European and U.S. financial institutions had been improving and the risk of the European debt problem causing financial market turmoil had decreased compared to a while ago, as a result of various measures being implemented by governments and central banks such as the provision of a large amount of funds by the ECB. On this basis, members shared the view that it was nevertheless necessary to carefully monitor market developments for the time being, given that uncertainty regarding the European political situation was high due, for example, to the upcoming Greek general election and the French presidential runoff.

Members concurred that overseas economies on the whole still had not emerged from a deceleration phase, but some improvement had been observed recently as the U.S. economy continued to recover at a moderate pace. As for the outlook, they shared the view that the pace of growth was likely to pick up, led by emerging and commodity-exporting economies.

Members agreed that the U.S. economy continued to recover at a moderate pace. In relation to this point, many members referred to the following developments: (1) business fixed investment maintained its uptrend on the back of relatively strong business performance; (2) private consumption continued to improve moderately amid the continued modest improvement in the employment situation; and (3) loans to firms continued to increase and real estate loans had started to rise on a year-on-year basis. As for the outlook, members concurred that the U.S. economy was likely to continue to recover at a moderate pace supported by accommodative financial conditions.

Members shared the recognition that economic activity in the euro area had been sluggish but the situation had stopped deteriorating. They agreed that -- in order to effectively resolve the European debt problem and achieve stability and sustainable growth in the European economy -- it was vital for each government facing debt problems to not only work toward fiscal consolidation but also consistently tackle fundamental structural reforms, such as labor market reforms aimed at enhancing industrial competitiveness. They continued, however, that it would take a considerable amount of time before such reforms produced results. Based on this discussion, members shared the view on the outlook that economic activity in the euro area would continue to be quite sluggish for the time being against the background of continuing fiscal austerity and financial institutions' reduction of their assets.

Members shared the view that the pace of growth in emerging and commodity-exporting economies had moderated somewhat, mainly due to the effects of a decline in real purchasing power incurred by the earlier rise in prices and to the effects of the earlier monetary tightening, but that some of these economies were showing signs of improvement due in part to a decline in inflation rates and a pick-up in exports. Regarding the Chinese economy, they concurred that the rate of increase in exports was slowing and, due in part to the effects of the earlier monetary tightening, the rates of increase in durable goods consumption and private real estate investment appeared to be slowing. They continued, however, that the employment and income situation was favorable and, although the pace of economic growth had slowed somewhat, the economy as a whole continued to show relatively high growth, led mainly by domestic demand. On this basis, one member said that it was necessary to closely monitor whether signs of weakness observed recently were temporary. As for the outlook for emerging and commodity-exporting economies, members concurred that, although downside risks to the Chinese economy were drawing attention, the growth rates of these economies as a whole would increase again, mainly due to a recovery in households' real purchasing power following the decline in inflation rates and the spread of monetary easing effects.

Members concurred that Japan's financial conditions continued to ease.

Members agreed that money market rates had been quite stable, as the Bank had been pursuing powerful monetary easing and the soundness of financial institutions' balance sheets had been maintained. They continued that, under these circumstances, undersubscription had been observed in, for example, the Bank's fixed-rate funds-supplying operation against pooled collateral. Members shared the view that issuing conditions for CP and corporate bonds remained favorable, and that firms' funding costs had declined moderately. As for the outlook, they concurred that the easing trend in financial conditions was likely to continue and support a transition toward a self-sustaining recovery in domestic private demand.

Based on the above deliberations on economic and financial conditions abroad, as well as Japan's financial conditions, members discussed the state of Japan's economy. Many members, referring to (1) the increase in machinery orders, (2) the rise in the ratio of small firms making business fixed investments, and (3) the improvement in business and household sentiment, noted that there were increasing signs of positive developments in business fixed investment and private consumption. Many members said that exports and production were likely to eventually start picking up, but recent figures showed that they remained essentially flat. Based on this discussion, members concurred that, although Japan's economic activity had remained more or less flat, it had recently become increasingly evident that the economy was shifting toward a pick-up phase as positive developments had become widespread.

Members agreed that the year-on-year rate of change in the CPI (all items less fresh food) was likely to stay at around 0 percent for the time being. Referring to developments in the CPI of purchase frequency classes, one member noted that downward pressure on prices was diminishing steadily as the index in every class had either declined at a slower pace or else started to rise.

B. Outlook for Economic Activity and Prices

With regard to the baseline scenario of the outlook for Japan's economic activity for fiscal 2012, members agreed that exports were likely to resume an increasing trend, and a rise in reconstruction-related demand -- in terms of both public and private demand -- would probably contribute to economic growth throughout the fiscal year. They continued that, under these circumstances, the economy was likely to register a relatively high rate of growth, supported by gradually increasing momentum generated from the transmission mechanism in which the strength in production fed through into income and spending. Members concurred that, in fiscal 2013, Japan's economy was likely to keep growing at a pace that was clearly above its potential as overseas economies continued to see relatively high growth, although its growth rate would probably be somewhat lower than that in fiscal 2012 because the positive effects from reconstruction-related demand would gradually diminish. They shared the recognition that growth rates for fiscal 2012 and 2013 were likely to be somewhat higher than the projection in the January 2012 interim assessment, especially for fiscal 2012, mainly due to slightly improved market conditions on the reduced risk of the European debt problem causing financial market turmoil.

Regarding the outlook for the CPI (all items less fresh food), members agreed that -- on the assumption that medium- to long-term inflation expectations would remain stable -- the year-on-year rate of change in the CPI was likely to gradually rise to a range of above 0.5 percent and less than 1 percent toward the latter half of the projection period, which covered fiscal 2012 through fiscal 2013, as the aggregate supply and demand balance improved. They continued that, thereafter, it likely would not be too long before the rate reached the Bank's "price stability goal in the medium to long term," which was 1 percent for the time being. As for international commodity prices, which formed the basis of the outlook for the CPI, members were of the view that there had been a slight rise, especially in crude oil prices, mainly due to a heightening of geopolitical risk, and that international commodity prices were likely to follow a moderate rising trend against the background of an increase in demand for food and energy arising from growth in emerging economies.

With regard to the current projection for the year-on-year rate of change in the CPI being somewhat higher than that in the January 2012 interim assessment, members shared the view that this was because of the correction in the appreciation of the yen and a rise in crude oil prices, as well as a likely improvement in the aggregate supply and demand balance due to the upward revision to the economic projection.

Members also discussed upside and downside risk factors to the baseline scenario.

Regarding economic activity, members noted the following upside and downside risk factors: (1) developments in overseas economies, including those in global financial markets and the impact of international commodity prices on economic activity; (2) uncertainty with regard to reconstruction-related demand; (3) developments in firms' and households' medium- to long-term growth expectations; and (4) various problems regarding Japan's fiscal sustainability. Members pointed to the following as risks stemming from developments in overseas economies: (1) given that various challenges remained before the European debt problem could be resolved, it was possible that strains in global financial markets would intensify once again and be accompanied by a fall in stock prices and appreciation of the yen, thereby exerting downward pressure on the global economy and consequently Japan's economy; (2) with regard to the U.S. economy, there was considerable uncertainty regarding the progress in balance-sheet repair and the future course of fiscal policy, and thus it was possible that the pace of economic recovery would be more moderate than expected; and (3) there remained considerable uncertainty over whether emerging and commodity-exporting economies could realize price stability and economic growth at the same time amid persistent inflationary pressure in some of these economies, and it was possible that the pace of growth would slow. A few members said that it was necessary to pay due attention to the possibility that production would be restrained by electricity supply in summer 2012.

Members pointed to the following as upside and downside risk factors to the outlook for prices: (1) developments in firms' and households' medium- to long-term inflation expectations; and (2) developments in import prices. With regard to the first factor, one member said that inflation expectations for fiscal 2012 and 2013 had been relatively low at around 0 percent, although medium- to long-term inflation expectations remained stable at around 1.0 percent. This member continued that, therefore, there was a risk that the pace at which the rate of inflation converged with the medium- to long-term inflation expectations would slow, as well as a risk that the medium- to long-term inflation expectations themselves could decline. As for developments in import prices, a few members said that a rise in wages in China could exert upward pressure on prices in Japan through a rise in import prices.

With regard to such upside and downside risk factors to the outlook for Japan's economic activity and prices, members shared the view that uncertainty about future economic developments at home and abroad was high. They continued that it was particularly important to continue to pay attention to the effects on Japan's economy from developments in overseas economies, including those in global financial markets and international commodity prices.

Based on the above considerations, members assessed the economic and price situation from two perspectives.

Members made an assessment in terms of <u>the first perspective</u>; that is, they comprehensively assessed the baseline scenario of the outlook for economic activity and prices considered to be the most likely. They shared the view that the year-on-year rate of change in the CPI was likely to gradually rise to a range of above 0.5 percent and less than 1 percent toward the latter half of the projection period. Members continued that, thereafter, it likely would not be too long before the rate reached the Bank's "price stability goal in the medium to long term," which was 1 percent for the time being, and that Japan's economy would likely return to a sustainable growth path with price stability in the longer run.

Members then made an assessment in terms of <u>the second perspective</u>; namely, they examined the risks considered most relevant to the conduct of monetary policy, including risks that had a longer time horizon than the first perspective. In terms of economic activity, they shared the following view: (1) although tail risks arising from the European debt problem had waned, a high degree of uncertainty remained concerning global financial markets and overseas economies; (2) there was a possibility that a further hike in international commodity prices would exert an adverse impact on domestic private demand, mainly through a decline in real purchasing power associated with a deterioration in the terms of trade; and (3) uncertainty was inherent in the reconstruction-related demand in terms of its pace of strengthening and the economic effects. Members reaffirmed that (4) medium- to long-term growth expectations could either rise or fall depending on efforts to strengthen growth potential; (5) efforts to ensure fiscal sustainability could also significantly affect economic developments; and (6) on the price front, careful attention should be paid to future developments in international commodity prices and in medium- to long-term inflation expectations.

III. Summary of Discussions on Monetary Policy for the Immediate Future

Based on the examination from the two perspectives described above, members discussed monetary policy for the immediate future.

Regarding the guideline for money market operations for the intermeeting period ahead, members agreed that it was appropriate to maintain the current guideline that the Bank would encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 percent.

Members then concurred that, with regard to the baseline scenario of the outlook for Japan's economic activity, the economy would likely return to a sustainable growth path with price stability but various uncertainties remained. They agreed that, in order to better ensure the materialization of this scenario, it would be appropriate to firmly support the momentum toward recovery that was currently evident in economic activity and prices, by further enhancing monetary easing at this stage. Specifically, members shared the view that it was appropriate to encourage a decline in longer-term interest rates and risk premiums, mainly through an increase in the total amount of the Asset Purchase Program (hereafter the Program). On this basis, members shared the recognition that these policy measures -- together with the cumulative effects of earlier policy measures -- would better ensure the return of Japan's economy to a sustainable growth path with price stability. One member commented that the effects of monetary easing with the virtually zero interest rate policy pursued by the Bank were likely to strengthen on the back of progress in economic recovery.

As for the specific assets to be purchased under the Program, members agreed that it would be appropriate to earmark the increase in the Program mainly for the purchase of Japanese government bonds (JGBs), taking account of the current situation where (1) risk aversion among investors had eased compared to a while ago and (2) corporate funding was proceeding smoothly, as evidenced by issuing conditions for corporate bonds and CP remaining favorable on the whole. On this basis, members shared the view that it was appropriate to examine the Bank's purchase of risk assets, taking into consideration developments in markets for financial assets, the room left for its additional purchases of these assets, and issues with respect to its financial soundness.

A few members added that, considering that the amount of the Bank's JGB purchases was becoming significantly large in scale, due attention should be paid to preventing the Bank's powerful monetary easing from being misunderstood as monetization. On this point, members shared the view that, given that the Bank was pursuing powerful monetary easing in a severe fiscal situation, it was extremely important that the credibility of fiscal sustainability in financial markets be maintained to ensure the stimulative effects of monetary policy, as well as maintain the stability of the financial system and achieve sustainable economic growth.

Based on this discussion, in order to examine the specifics of <u>an increase in the total size of the Program</u>, the chairman requested that the staff explain developments in markets for financial assets that were being purchased under the Program, the room left for additional purchases of these assets, and issues with respect to the Bank's financial soundness.

In response to the chairman's direction, the staff provided the following explanation.

(1) In view of the current market size of financial assets being purchased under the Program, measures implemented to prevent a concentration of credit to specific firms, and the market environment, constraints on the increase in the amount of purchases were significant with regard to T-Bills, CP, corporate bonds, and J-REITs. However, there was room left for an increase in the purchase of J-REITs, if only by a small amount, partly because their market size had expanded somewhat compared to a while ago. Regarding JGBs, if the amount of purchases were increased substantially while the remaining maturity of JGBs to be purchased continued to be limited to about one to two years, this could undermine the smooth purchase of JGBs in the future.

(2) In terms of the Bank's financial soundness, constraints on additional purchases of T-Bills, JGBs, CP, and corporate bonds were unlikely to be significant for the time being, whereas due attention should be paid to the fact that additional purchases of exchange-traded funds (ETFs) entailed a considerable risk of price volatility.

In response to the staff's explanation, members held discussions. With regard to the recent undersubscription in the Bank's fixed-rate funds-supplying operation against pooled collateral with a six-month term, they shared the view that this could be interpreted as a sign that demand for funds in the market had already been fulfilled and the effects of the Bank's monetary easing had been spreading significantly. However, members continued that, with the aim of operating the Program more smoothly, it would be appropriate to reduce the maximum outstanding amount of the fixed-rate funds-supplying operation against pooled collateral by about 5 trillion yen and instead allocate that amount to the purchase of JGBs. They then concurred that it would be appropriate to significantly increase JGB purchases by about 10 trillion yen in total, including the 5 trillion yen transfer from the fixed-rate funds-supplying operation against pooled collateral. Members shared the recognition that it would be appropriate to increase the purchases of ETFs and J-REITs by about 200 billion yen and 10 billion yen, respectively, with a view to encouraging a decline in risk premiums while taking into account constraints in terms of the size of their markets and the Bank's financial soundness. They also agreed that, given that interest rates of up to two years' maturity had been declining to extremely low levels, it would be appropriate to extend the remaining maturity of JGBs and corporate bonds to be purchased under the Program to up to three years, with the aim of smoothly conducting the large-scale purchases of these assets and effectively encouraging a decline in longer-term interest rates. In relation to this, one member added that, in terms of funding structure, unlike in the United States -- where long-term corporate bonds and mortgage loans accounted for a relatively large proportion of financing -- corporate loans of three years or less accounted for a large share of financing in Japan, and therefore encouraging a decline in interest rates of a roughly equivalent financing term still seemed effective. With regard to the schedule for completing all purchases after increasing the Program's size, members confirmed that the Bank would maintain the existing schedule of increasing the outstanding amount of the Program to about 65 trillion yen by around end-2012. On this basis, they shared the recognition that it was appropriate for the Bank to purchase the remaining 5 trillion yen worth of JGBs from the beginning of 2013 to around end-June, considering that the amount of JGBs to be purchased during 2012 had already become significant.

As for the future conduct of monetary policy, members confirmed that the Bank would aim to achieve its "price stability goal in the medium to long term" 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 Program mainly through the purchase of financial assets. They continued that the Bank would continue with this powerful easing until it judged the 1 percent goal to be in sight, on condition that it identified no significant risk to the sustainability of economic growth, including from the accumulation of financial imbalances. Some members, referring to varied market speculation about the Bank's conduct of monetary policy, said that monetary policy should be conducted in light of its objective to achieve sustainable economic growth with price stability. Members made note of some misunderstanding that the Bank would continue to increase the size of its Program in an automatic manner until it judged the 1 percent goal in terms of the year-on-year rate of increase in the CPI to be in sight. They agreed that the Bank needed to fully explain that it made decisions on its monetary policy stance after carefully assessing the economic and price situation from two perspectives -- namely, examination of the baseline scenario considered to be the most likely, and also of the risks -- to see whether Japan's economy was moving toward sustainable growth with price stability, taking into account that the effects of monetary policy on the economic and price situation would appear with a certain time lag.

With regard to the view regarding the overcoming of deflation, members agreed that, in order to overcome deflation, it was crucial to tackle the long-term structural challenge of declining trend growth rates amid rapid population aging. They concurred that, to meet this challenge and establish a new basis for economic growth, business firms needed to become more innovative, so as to add value to their activities and identify new sources of demand both at home and abroad. In relation to this, one member pointed out that moves to provide high value-added goods and services were recently observed, particularly in nonmanufacturing industries, as a response to the aging of the population, and said that it was important to help such moves spread to other sectors of the economy. Some members said that, although it would likely take considerable time for such efforts by firms to achieve concrete results in Japan, where there was strong resistance to raising prices, it was important that (1) firms continue their activities with a forward-looking stance, (2) the government seek to create a more favorable environment to support such activities, and (3) private financial institutions make efforts to strengthen the foundations for economic growth. Based on this discussion, members agreed that the goal of overcoming deflation would be achieved through such continued efforts by business firms, financial institutions, the government, and the Bank within their respective roles.

IV. Remarks by Government Representatives

The representative from the Ministry of Finance made the following remarks.

(1) Although the Japanese economy was picking up moderately and this trend was expected to take hold, the government remained particularly concerned that there were still downside risks -- mainly stemming from the further slowing down of overseas economies due to the effects of the European debt problem, the rise in crude oil prices, and fluctuations in foreign exchange rates.

(2) The government was currently making its best efforts to work on the comprehensive reform of the social security and taxation systems, in order to secure stable financial resources for social security functions and at the same time achieve fiscal consolidation. It would continue to do its utmost to obtain the Diet's approval of bills related to the comprehensive reform, including those recently submitted to the Diet for the fundamental reform of the tax system -- which primarily aimed to secure stable financial resources for social security functions and contained provisions to raise the consumption tax rate in a phased manner.

(3) The government and the Bank shared the view that overcoming deflation was the top-priority task in Japan. In order to overcome deflation, the government recognized that it was necessary to achieve sustainable economic growth over the medium to long term by accelerating the implementation of the "New Growth Strategy," and by steadily implementing -- jointly by the public and private sectors -- the "Strategy for Rebirth of Japan," for which a concrete roadmap toward new growth would be formulated by around the middle of 2012. At present, measures to be implemented were being discussed at related councils, primarily at the Council on the Economic Situation including the Issue of Overcoming Deflation and the Council for the Promotion of Growth and Finance.

(4) The government welcomed the Bank's proposal made at this meeting on additional monetary easing measures as an action that would contribute to overcoming deflation, in parallel with the government measures. Given that Japan had not yet overcome deflation, the government expected the Bank -- under its policy stance that, for the time

being, it would pursue powerful monetary easing with the aim of achieving the goal of 1 percent in terms of the year-on-year rate of increase in the CPI, and continue to do so until it judged the 1 percent goal to be in sight -- to conduct monetary policy vigorously and decisively, as well as continue to work on its communication to the public in an effort to make its policy stance fully understood.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy continued to exhibit signs of upward movement in domestic demand, mainly due to the effects of the implementation of the "Comprehensive Package Responding to the Yen Appreciation" and a series of supplementary budgets. As for the outlook, the pick-up in the Japanese economy was expected to take hold, reflecting the effects of a range of policy measures. However, downside risks, triggered mainly by a resurgence of the European sovereign debt crisis, required strong vigilance.

(2) Although the rate of decline in prices was moderating, the Japanese economy remained in a mild deflationary situation. With the aim of overcoming deflation -- a task Japan had confronted for over a decade -- the government launched the Council on the Economic Situation including the Issue of Overcoming Deflation as a forum for discussion through fiscal 2013 of the government's economic policy, in order to address the problem of the economic structure in which deflation easily formed while simultaneously working on macroeconomic management. The council would continue to hold a number of active discussions and, by around June 2012, conduct an interim review, thereby reflecting the results in the "Strategy for Rebirth of Japan" and in the process of formulating the budget for fiscal 2013. The government would be prepared to steadily implement the growth strategy and be firmly determined to implement the comprehensive reform of the social security and taxation systems, in order to rebuild the social security system and lay a solid path to fiscal consolidation.

(3) Regarding the April 2012 *Outlook for Economic Activity and Prices*, although the Bank's projections for the year-on-year rate of change in the CPI -- which were 0.3 percent and 0.7 percent for fiscal 2012 and 2013, respectively -- were revised upward from those in the January 2012 interim assessment for both fiscal years, the projected rates were still below 1 percent, the rate the Bank aimed to achieve for the time being.

The government deemed it particularly important to produce visible results by promptly achieving an inflation rate of 1 percent, which was the Bank's price stability goal for the time being.

(4) The government welcomed the Bank's proposal made at this meeting on a series of measures to enhance monetary easing as an appropriate action toward overcoming deflation. It expected the Bank to continue to conduct monetary policy flexibly and decisively, in parallel with the government measures to overcome deflation and stimulate economic activity.

V. Votes

A. Vote on the Guideline for Money Market Operations

Members shared the view that it was appropriate to maintain the current guideline for money market operations, which encouraged the uncollateralized overnight call rate to remain at around 0 to 0.1 percent.

To reflect this view, the chairman formulated the following proposal and put it to a vote.

The Chairman's Policy Proposal on the Guideline for Money Market Operations:

1. The guideline for money market operations for the intermeeting period ahead will be as follows.

> The Bank of Japan will encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 percent.

2. A public statement will be decided separately.

Votes for the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, and Mr. K. Ishida.

Votes against the proposal: None.

B. Vote on "Amendment to 'Principal Terms and Conditions for the Asset Purchase Program'"

In order to better ensure the return of Japan's economy to a sustainable growth path with price stability, members shared the view that it was appropriate to make the following changes with respect to the Program: (1) an increase in the purchase of JGBs, ETFs, and J-REITs, by about 10 trillion yen, 200 billion yen, and 10 billion yen, respectively; (2) a reduction in the maximum outstanding amount of the fixed-rate funds-supplying operation against pooled collateral with a six-month term, by about 5 trillion yen; and (3) an extension of the remaining maturity of both JGBs and corporate bonds to be purchased under the Program from "one to two years" to "one to three years." "Amendment to 'Principal Terms and Conditions for the Asset Purchase Program'" was then put to a vote. Members voted unanimously to approve the amendment and agreed that the decision should be made public accordingly.

VI. Discussion on the Public Statement Entitled Enhancement of Monetary Easing

Members discussed the statement Enhancement of Monetary Easing, which included a description of (1) the guideline for money market operations for the intermeeting period ahead, (2) the increase in the total size of the Program, (3) the future conduct of monetary policy, and (4) the view regarding the overcoming of deflation. The statement was then put to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment 1).

VII. Decision regarding the *Outlook for Economic Activity and Prices*

Members discussed the draft of "The Bank's View" in the *Outlook for Economic Activity and Prices* (consisting of "The Bank's View" and "The Background"), and put it to a vote. The Policy Board decided the text of "The Bank's View" by a unanimous vote. It was confirmed that "The Bank's View" would be made public on April 27, 2012 and the whole report on April 28, 2012.

Votes for the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, and Mr. K. Ishida.

Votes against the proposal: None.

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of April 9 and 10, 2012 for release on May 7, 2012.

Attachment 1

April 27, 2012

Bank of Japan

Enhancement of Monetary Easing

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan made the following decisions, by a unanimous vote, regarding the Asset Purchase Program (hereafter referred to as "the Program").

   (1) The Bank decided to increase the total size of the Program by about 5 trillion yen, from about 65 trillion yen to about 70 trillion yen, with the following changes in its composition.[4]

      (a) An increase in the purchase of Japanese government bonds (JGBs) by about 10 trillion yen

      (b) An increase in the purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) by about 200 billion yen and 10 billion yen, respectively

      (c) A reduction in the maximum outstanding amount of the Bank's fixed-rate funds-supplying operation against pooled collateral with a six-month term, by about 5 trillion yen, taking into account the recent episodes of undersubscription

   (2) With the aim of smoothly conducting the large-scale purchases after today's increase and encouraging a decline in longer-term interest rates effectively, the Bank decided to extend the remaining maturity of JGBs to be purchased under the Program from "one to two years" to "one to three years." It also decided to extend

[4] See Attachment 2 for an overview of the Program.

the remaining maturity of corporate bonds to be purchased under the Program just as is the case of JGBs.

(3) The Bank decided to increase the outstanding amount of the Program to about 70 trillion yen by around end-June 2013, while maintaining the existing schedule of increasing the outstanding amount of the Program to about 65 trillion yen by around end-2012.

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. Looking at economic developments overseas, a risk of the European debt problem causing financial market turmoil has decreased and the U.S. economy has continued to recover at a moderate pace. Against this background, although Japan's economic activity has remained more or less flat, it has become increasingly evident that the economy is shifting toward a pick-up phase as positive developments have become widespread. As examined in the *Outlook for Economic Activity and Prices* (Outlook Report) to be released today, Japan's economy is expected to return to a moderate recovery path as the pace of recovery in overseas economies picks up, led by emerging and commodity-exporting economies, and as reconstruction-related demand after the earthquake disaster gradually strengthens. As the aggregate supply and demand balance improves, the year-on-year rate of change in the CPI is expected to gradually rise to a range of above 0.5 percent and less than 1 percent toward the latter half of the projection period in the Outlook Report. Thereafter, it will likely be not too long before the rate reaches the Bank's "price stability goal in the medium to long term" of 1 percent for the time being. It is likely that Japan's economy will return to a sustainable growth path with price stability in the longer run.

4. The Bank has been pursuing powerful monetary easing, with its virtually zero interest rate policy and implementation of the Program mainly through the purchase of

financial assets. Such measures by the Bank have been supporting economic activity by encouraging a decline in longer-term interest rates and risk premiums, as well as by maintaining financial market stability. By continuing to pursue monetary easing with the virtually zero interest rate policy, easing effects are expected to strengthen on the back of progress in economic recovery. The Bank expects that, together with the cumulative effects of earlier policy measures, today's decision to further enhance monetary easing will better ensure the return of Japan's economy to a sustainable growth path with price stability.

5. In pursuing the above powerful monetary easing, the Bank will verify that there is no significant risk to the sustainability of economic growth, such as from the accumulation of financial imbalances. Given that the Bank pursues powerful monetary easing in a severe fiscal situation, it is extremely important to maintain credibility in fiscal sustainability in financial markets, for the sake of effective transmission of the effects of monetary policy, financial system stability, and sustainable economic growth.

6. In order to overcome deflation, it is crucial to tackle the long-term structural challenge of declining trend growth rates amid rapid population aging. In order to overcome this challenge and establish a new basis for economic growth, business firms need to become more innovative in an effort to add value to their activities and explore new sources of demand both at home and abroad. With the aim of supporting such positive movements by firms, the government should seek to create a more conducive environment and private financial institutions should make efforts to strengthen the foundation for economic growth. As described above, the goal of overcoming deflation will be achieved through such continued efforts by business firms, financial institutions, the government, and the Bank within their respective roles.

Attachment 2

Increase in the Asset Purchase Program

(trillion yen)

	Program size at the time of establishment	Program size before the increase	Program size after the increase		Change in amount
[Intended time to complete the increase]	[End-December 2011]	[End-December 2012]	[End-December 2012]	[End-June 2013]	
		(A)		(B)	(B) - (A)
Total size	**About 35**	**About 65**	**About 65**	**About 70**	**About +5**
Asset purchases	5.0	30.0	35.0	40.0	+10.0
Japanese government bonds[Note 1]	1.5	19.0	24.0	29.0	+10.0
Treasury discount bills	2.0	4.5	4.5	4.5	—
CP	0.5	2.1	2.1	2.1	—
Corporate bonds	0.5	2.9	2.9	2.9	—
Exchange-traded funds (ETFs)[Note 2]	0.45	1.4	1.6	1.6	+0.2
Japan real estate investment trusts (J-REITs)[Note 2]	0.05	0.11	0.12	0.12	+0.01
Fixed-rate funds-supplying operation against pooled collateral	30.0	35.0	30.0	30.0	-5.0
Three-month term	20.0	20.0	20.0	20.0	—
Six-month term	10.0	15.0	10.0	10.0	-5.0

Notes: 1. In addition to purchases under the Asset Purchase Program, the Bank regularly purchases Japanese government bonds at the pace of 21.6 trillion yen per year.

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