Not to be released until 8:50 a.m. Japan Standard Time on Tuesday, April 9, 2013.

April 9, 2013

Bank of Japan

Minutes of the Monetary Policy Meeting

on March 6 and 7, 2013

(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 Wednesday, March 6, 2013, from 2:00 p.m. to 4:38 p.m., and on Thursday, March 7, from 9:00 a.m. to 12:19 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
Mr. T. Sato
Mr. T. Kiuchi

Government Representatives Present

Mr. S. Yamaguchi, Senior Vice Minister of Finance, Ministry of Finance[2]
Mr. S. Sato, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance[3]
Mr. K. Matsuyama, Vice Minister for Policy Coordination, Cabinet Office[2]
Mr. H. Ishii, Director-General, Economic and Fiscal Management, Cabinet Office[3]

Reporting Staff

Mr. H. Nakaso, Executive Director (Assistant Governor)
Mr. N. Kinoshita, Executive Director
Mr. K. Momma, Executive Director
Mr. S. Uchida, Director-General, Monetary Affairs Department

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on April 3 and 4, 2013 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.

[2] Messrs. S. Yamaguchi and K. Matsuyama were present on March 7.

[3] Messrs. S. Sato and H. Ishii were present on March 6.

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. K. Kamada, Head of Economic Research Division, Research and Statistics Department

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

Secretariat of the Monetary Policy Meeting

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

Mr. N. Fukunaga, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

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

Mr. H. Kanno, Head of Policy Infrastructure Division, Monetary Affairs Department[4]

Mr. T. Kawamoto, Senior Economist, Monetary Affairs Department

Mr. T. Sugo, Senior Economist, Monetary Affairs Department

4 Mr. H. Kanno was present on March 7 from 9:00 a.m. to 9:07 a.m.

I. Summary of Staff Reports on Economic and Financial Developments[5]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on February 13 and 14, 2013, had been providing ample funds sufficient to meet demand in financial markets and was doing its utmost to ensure stability in the markets.[6] In this situation, the uncollateralized overnight call rate had been in the range of 0.075 to around 0.095 percent.

With regard to the operation of the Asset Purchase Program, the Bank had been making efforts to prevent undersubscription in the fixed-rate funds-supplying operation against pooled collateral by conducting operations with short maturities, as market participants shared the perception that there was an excess of liquidity in the money market. As for the Bank's outright purchases of treasury discount bills (T-Bills) and Japanese government bonds (JGBs), the lowest accepted bid rates had been at levels below 0.1 percent. Undersubscription had occurred in the Bank's outright purchases of corporate bonds, and the lowest accepted bid rate had declined to 0 percent in the latest purchases.

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, but recently had moved below 0.1 percent. As for interest rates on term instruments, yields on T-Bills including those with longer maturities had declined marginally. Rates on longer-term interbank instruments had declined very slightly.

With regard to long-term interest rates, yields on 2-year JGBs had been more or less unchanged. Yields on 5- and 10-year JGBs had declined, partly due to increased demand from investors as well as expectations for further monetary easing. The Nikkei 225 Stock Average had risen, even though the depreciation of the yen had come to a pause. Prices for Japan real estate investment trusts (J-REITs) had also been increasing. As for yield spreads between corporate bonds and JGBs, although those on some corporate bonds continued to be wide due to concerns over deterioration in issuer companies' business

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

[6] 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.

performance, those on other corporate bonds were more or less unchanged at low levels on the whole, reflecting continued solid demand from investors. The depreciation of the yen against the U.S. dollar since November 2012 had come to a pause and the yen's exchange rate against the dollar had basically been more or less unchanged, albeit with some fluctuations.

C. Overseas Economic and Financial Developments

While overseas economies remained in a deceleration phase, they had shown some signs of picking up.

The U.S. economy had been on a moderate recovery trend, with increasing firmness. The pace of growth in exports continued to slow, but business fixed investment showed signs of picking up as business sentiment, which had been cautious for a while, improved somewhat. Although effects of the expiration of the payroll tax cut had been observed, private consumption had been increasing moderately on the whole as the employment situation followed an improving trend. Housing investment had also been showing clear signs of picking up, albeit at a depressed level. Under these circumstances, production had begun to return to an increasing trend. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items decelerated, mainly as the year-on-year rate of change in energy prices turned negative. However, the year-on-year rate of increase in the CPI for all items less food and energy, or the core CPI, had been more or less flat.

Economic activity in Europe had receded slowly. Both business fixed investment and private consumption had been declining, primarily as a result of continuing fiscal austerity. Growth in exports was sluggish as well. Given these developments, production was decreasing. Nevertheless, further deterioration in business and household sentiment was coming to a halt on the whole, albeit with some differences in degree by country. As for prices, while 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 decelerated, reflecting developments in energy prices. Meanwhile, economic activity in the United Kingdom had been sluggish.

With regard to Asia, the Chinese economy had begun to stabilize in reflection of firm domestic demand. Private consumption had been firm on the back of a favorable employment and income situation. The slowdown in the pace of increase in fixed asset investment had come to a halt due to rises in infrastructure investment and real estate investment. Exports had also shown signs of a bottoming out, albeit with some fluctuations. Reflecting these developments in demand at home and abroad, production had begun to stabilize as well. Regarding the NIEs and the ASEAN countries, these economies had generally been picking up, but the pace continued to be moderate in the corporate sector. Exports and production had shown signs of stabilizing but growth in business fixed investment, particularly in the NIEs, had been sluggish as business sentiment remained cautious. Meanwhile, private consumption had been firm, especially in the ASEAN countries, where consumer sentiment was on a rising trend on the back of the favorable employment and income situation. As for prices, in some of these Asian economies, there remained upward pressure on prices amid the continued wage inflation caused by tight labor market conditions, but inflation rates were more or less flat at present. In India, the economy continued to be in a state of deceleration.

In global financial markets, although there had been a period of somewhat heightened uncertainty regarding such matters as the political situation in Italy, investors' risk aversion remained abated on the whole, mainly due to the fact that initiatives to overcome the European debt problem had been making some progress, as seen in, for example, the introduction of various safety valves such as the modalities by the European Central Bank (ECB) for undertaking Outright Monetary Transactions (OMTs) and the European Stability Mechanism (ESM). Under these circumstances, yields on government bonds issued by peripheral European countries had generally been stable at a markedly reduced level. Interest rates in the United States and Germany had decreased, mainly due to expectations for continued monetary easing. Meanwhile, U.S. stock prices hit record highs, and European stock prices had generally been more or less unchanged. With regard to corporate bond markets in the United States and Europe, credit spreads had been more or less unchanged on the whole, and the issuance of high-yield bonds continued to be steady. The funding conditions of European financial institutions remained stable. Spreads between interest rates on euro-denominated term instruments and overnight index swap (OIS) rates had also remained flat at low levels. Meanwhile, in emerging and commodity-exporting economies, stock prices and currencies had declined somewhat but remained at high levels in a situation where the continued capital inflow into these economies -- through investment funds in particular -- was decreasing.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports appeared to have stopped decreasing. Real exports were up in January 2013 relative to the October-December quarter of 2012, after having declined for two quarters in a row through that quarter on a quarter-on-quarter basis. Exports were expected to start picking up, mainly against the background that overseas economies would gradually emerge from the deceleration phase.

Public investment continued to increase, primarily in that related to reconstruction following the earthquake disaster. The amount of public construction completed -- a measure that reflected the progress of public works -- continued to move up in the October-December quarter, after having risen for three quarters in a row through the July-September quarter on a quarter-on-quarter basis. The value of public works contracted -- a measure that reflected public works orders -- had been more or less flat on average, albeit with large monthly fluctuations, after having surged in the April-June quarter. Public investment was expected to continue trending upward, supported by the effects of various economic measures. However, attention should continue to be paid to the possibility that the actual pace of implementing public works would remain moderate due to the effects of bottlenecks on the supply side, such as a labor shortage in the construction industry.

Business fixed investment had shown some weakness on the whole, as that in manufacturing had declined due to the earlier drop in exports and industrial production, although resilience had been observed in that in nonmanufacturing. Machinery orders remained relatively weak due to the drop in manufacturing, but had recently shown signs that they had stopped decreasing. Construction starts in terms of floor area fell back in January 2013 relative to the October-December quarter of 2012, after having registered a quarter-on-quarter increase for four consecutive quarters through that quarter. Business fixed investment was projected to remain somewhat weak for the time being, mainly in manufacturing, but follow a moderate increasing trend thereafter, partly due to investment related to disaster prevention and energy.

The employment and income situation remained severe, but supply and demand conditions in the labor market seemed to have started heading toward improvement again.

Private consumption remained resilient. The number of new passenger-car registrations, including those for small cars with engine sizes of 660cc or less, fell back significantly through October but continued to generally pick up thereafter since November. In the January-February period, aided partly by the introduction of new models, the number of registrations recovered to the level seen just before the ending of subsidies for purchasers of environmentally friendly cars. Sales at retail stores such as department stores had been resilient on the whole. Private consumption was expected to remain resilient, assisted mainly by an improvement in consumer sentiment. For the meantime, however, downward pressure stemming from the weakness in income could remain.

Housing investment had generally been picking up, supported in part by reconstruction of disaster-stricken homes, and was expected to continue to do so.

Reflecting these developments in demand both at home and abroad, industrial production had stopped decreasing. Specifically, it increased in January 2013 relative to the October-December quarter of 2012, after having declined for three quarters in a row through that quarter. As for the outlook, industrial production was expected to pick up, reflecting developments in demand at home and abroad, as overseas economies gradually emerged from the deceleration phase. Judging from interviews with firms and other relevant information, industrial production for the January-March quarter of 2013 was projected to be almost flat. Although there still was a high level of uncertainty, it seemed likely that industrial production for the April-June quarter would pick up, mainly reflecting a moderate recovery in overseas economies.

As for prices, international commodity prices had been at relatively high levels. The three-month rate of change in the domestic corporate goods price index (CGPI) was rising moderately, reflecting movements in foreign exchange rates. The CGPI was expected to continue rising for the time being. The year-on-year rate of change in the CPI (all items less fresh food) was currently around 0 percent. For the time being, it was expected to turn negative due to the reversal of the previous year's movements in energy-related and durable consumer goods, and thereafter was likely to be around 0 percent again.

2. Financial environment

Financial conditions were accommodative.

The overnight call rate remained at an extremely low level, and firms' funding costs had been hovering at low levels. With regard to credit supply, firms continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP and corporate bonds remained favorable on the whole as demand from investors continued to be solid, although some firms inevitably faced difficulty in issuing corporate bonds and were experiencing a widening of issuance spreads on CP, mainly due to deterioration in business performance. As for credit demand, firms showed signs of increasing their demand mainly for working capital and funds related to mergers and acquisitions. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending had accelerated somewhat. The amount outstanding of CP and corporate bonds had been more or less around the year-ago level. In these circumstances, firms retained their recovered financial positions on the whole. The year-on-year rate of change in the money stock had been positive, within the range of 2.5-3.0 percent. Meanwhile, the medium- to long-term inflation expectations of market participants had been rising somewhat.

3. The fund-provisioning measure to support strengthening the foundations for economic growth

On March 7, 2013, the Bank carried out a new loan disbursement, amounting to 161.1 billion yen, under the main rules for the fund-provisioning measure to support strengthening the foundations for economic growth. The outstanding balance of loans disbursed by the Bank under these rules amounted to 3,235.25 billion yen after the new loan disbursement, and thus exceeded 3 trillion yen, as in the previous loan disbursement. The outstanding balance of loans disbursed by the Bank under the special rules for equity investments and asset-based lending (ABL) came to 115.55 billion yen, and that under the special rules for small-lot investments and loans amounted to 6.167 billion yen. As for the special rules for the U.S. dollar lending arrangement, the Bank implemented its new loan disbursement of 1.219 billion dollars, bringing the outstanding balance of loans to 3.476 billion dollars. The breakdown of investments and loans provided by financial institutions that had received the Bank's loans under the special rules showed that those to be used abroad accounted for the majority of the total.

II. Amendment to Selection Procedure for Trustee regarding Purchases of ETFs and J-REITs Conducted through the Asset Purchase Program

A. Staff Reports

With regard to the purchases of exchange-traded funds (ETFs) and J-REITs conducted through the Asset Purchase Program, the Bank appointed a trust bank as trustee and created a money trust, with which these assets were purchased as trust property. The Bank selected the trustee pursuant to the selection procedure for trustee of the trust prescribed in the Principal Terms and Conditions for Purchases of ETFs and J-REITs Conducted through the Asset Purchase Program, which had been decided at the Monetary Policy Meeting held in November 2010. In the selection procedure, the criterion for creditworthiness of the trustee or the trustee's trustee was the minimum ratio for the capital adequacy rules under the Banking Act.

In view of this, an amendment to administrative notice on the capital adequacy rules for internationally active banks following the introduction of Basel III was scheduled to be implemented on March 31, 2013. In accordance with the timing of the implementation of the new capital adequacy rules, the staff considered it appropriate for the Bank to amend the creditworthiness criterion in the aforementioned selection procedure. The staff proposed making an amendment to the selection procedure so that a minimum common equity Tier 1 capital ratio of 4.5 percent and a minimum Tier 1 capital ratio of 6 percent -- in addition to a minimum total capital ratio of 8 percent, which was equivalent to the existing minimum capital adequacy ratio -- would be set as the criteria for the trustee's creditworthiness, and accordingly making this public.

B. Vote

"Amendment to 'Selection Procedure for Trustee of the Trust Prescribed in the Principal Terms and Conditions for Purchases of ETFs and J-REITs Conducted through the Asset Purchase Program,'" which represented the aforementioned amendment, was put to a vote. Members voted unanimously to approve the amendment. They concurred that the staff should make this public accordingly.

III. Summary of Discussions by the Policy Board on Economic and Financial Developments

A. Economic Developments

In terms of global financial markets, members agreed that, although developments required continued attention given that there had been a period of somewhat heightened uncertainty regarding such matters as the political situation in Italy, investors' risk aversion remained abated on the whole. This was mainly due to the fact that initiatives to overcome the European debt problem had been making some progress, as seen in, for example, the introduction of various safety valves such as the modalities by the ECB for undertaking OMTs and the ESM. Some members said that they would carefully monitor developments regarding the outcome of the February election in Italy from the viewpoint of whether it entailed the following risks: (1) the postponement or unwinding of fiscal and structural reforms there; and (2) retreat from the path of reforms in other European economies where fiscal austerity had been generating public discontent, as seen in Italy. A few members pointed out that it was necessary to pay attention to the risk of heightened uncertainty in the United States -- where automatic spending reductions had taken effect -- regarding the efforts toward overcoming fiscal problems, including the debt ceiling problem.

Members concurred that, while overseas economies as a whole remained in a deceleration phase, as evidenced by the fact that economic activity in Europe continued to recede slowly, they had shown some signs of picking up, mainly in the U.S. and Chinese economies. As for the outlook, members shared the recognition that overseas economies were likely to remain in the deceleration phase for the time being but gradually emerge from that phase and turn to a moderate recovery thereafter, on the assumption that global financial markets would remain stable on the whole.

Members shared the recognition that the U.S. economy had been on a moderate recovery trend, as seen in the fact that the household sector was resilient and the corporate sector had begun to pick up. Some members noted that business fixed investment showed signs of picking up on the back of the deterioration in business sentiment having come to a halt. As for the outlook, members concurred that the economy was likely to continue recovering at a moderate pace, supported by accommodative financial conditions. One member said that the so-called shale gas revolution was expected to support the recovery in manufacturing. On the other hand, a different member commented that medium- to long-term growth expectations of firms and households were likely to have declined amid the prolonged economic downturn, and therefore the member was concerned that it might not be easy for the economy to return to a strong recovery path.

Members shared the recognition that economic activity in the euro area had receded slowly. Some members pointed out that signs of an upswing in business sentiment were observed in Germany, as evidenced by the improvement in the Purchasing Managers' Index (PMI) for new export orders and the Ifo Business Climate Index. As for the outlook, members shared the view that the euro area economy would likely still lack momentum for recovery on the whole as fiscal austerity measures continued to be implemented for the time being, particularly in peripheral countries.

Members shared the recognition that the Chinese economy had begun to stabilize in reflection of firm domestic demand. A few members noted that domestic demand as a whole had been solid, with increases in infrastructure investment and retail sales, and signs of stabilizing had been observed in exports. As for the outlook, members shared the view that the economy would gradually register higher growth. One member, noting that credit expansion and a rise in real estate prices had been seen recently, expressed concern that, if accommodative monetary and fiscal policy measures were modified as a precaution against such developments, future economic activity could be restrained.

Regarding the NIEs and the ASEAN countries, members concurred that, although these economies had generally been picking up, the pace remained moderate in the corporate sector. As for the outlook, one member expressed the view that, in a situation where solid private consumption underpinned these economies, the pace of recovery was likely to increase in turn as exports picked up gradually.

Based on the above deliberations on economic and financial conditions abroad, members discussed the state of Japan's economy.

Members agreed that the economy as a whole had stopped weakening given, for example, that exports appeared to have stopped decreasing and industrial production had stopped decreasing. They also shared the recognition that developments in the economy as a whole were broadly in line with the forecast in the January 2013 interim assessment. Some members raised the following as features of recent developments in the economy: (1) exports of cars and their related goods to the United States had resumed increasing and the decline in those to China had almost come to a halt; (2) business and household sentiment had improved on the back of the depreciation of the yen and the rise in stock prices; and (3) while business fixed investment continued to show some weakness, there were signs that the decrease was coming to a halt, as suggested by the *Financial Statements Statistics of Corporations by Industry, Quarterly* and machinery orders. Members concurred that the employment and income situation remained severe, but supply and demand conditions in the labor market seemed to have started heading toward improvement again. One member noted that the number of new job openings had increased, mainly in the nonmanufacturing sector, such as in medical and social welfare, and the employment situation showed signs of improvement, mainly for female employees and part-time workers.

As for the outlook for the economy, members shared the view that it was likely to level off more or less for the time being, and thereafter return to a moderate recovery path mainly against the background that domestic demand remained resilient, partly due to the effects of various economic measures, and that overseas economies would gradually emerge from the deceleration phase. In relation to this view, some members pointed out that exports were likely to pick up to a considerable degree with an improvement in the external environment surrounding Japan's economy, and that economic activity was likely to be positively affected by the recent depreciation of the yen and rise in stock prices that would bring about improvements in corporate profits as well as in business and household sentiment. With regard to the outlook for business fixed investment, one member, noting that firms' appetite for business fixed investment was being maintained according to the *Annual Survey of Corporate Behavior*, said that the member would monitor whether investment -- which had been curtailed in the last few years -- would indeed be made steadily in the near future.

Regarding prices, members agreed that the year-on-year rate of change in the CPI (all items less fresh food) was currently around 0 percent. They continued that for the time being it was likely to turn negative due to the reversal of the previous year's movements in energy-related and durable consumer goods, and thereafter was likely to be around 0 percent again. With regard to the outlook for prices, a few members said that attention should continue to be paid to the effects on price developments of the low-price strategy by major supermarkets. In relation to the point that the year-on-year rate of change in the CPI was likely to temporarily turn negative due to the reversal of the previous year's movements, a few members said that the rate of decline in the short run was likely to be less than half a percent because of the effects of the recent depreciation of the yen and rise in gasoline prices.

With regard to the mechanism of rising prices, members reaffirmed their view that the inflation rate was likely to rise as the negative output gap gradually narrowed due to the moderate recovery in Japan's economy, reflecting recovery in overseas economies. They concurred that, if prospects for continued sustainable improvement in Japan's economy became widely acknowledged, growth expectations of firms and households would heighten and, accordingly, the actual rate of inflation and inflation expectations would rise further. One member commented that, if economic activity moved in line with the baseline scenario and the yen remained at around the current depreciated level, the possibility that the year-on-year rate of change in the CPI would reach 1 percent at the fiscal year-end in March 2014 was not small. One member -- referring to the results of a survey revealing that, of all responding firms, those that viewed the timing at which the 2 percent inflation rate would be achieved as within either three or five years accounted for about 30 percent each -- noted that the new price stability target and the recognition of its feasibility might have begun to permeate the corporate sector to some extent. One member added that price developments in the past revealed that consumers in Japan had been relatively tolerant of the rise in import prices being passed on to sales prices. This member was therefore paying attention to whether such a rise would be passed on to sales prices in the current phase, as had been done in the past. One member pointed out that, in considering the outlook for the CPI, one key factor was developments in rent, as this accounted for about a 20 percent weighting in the CPI. A few members commented that it was a notable development that wages had recently been discussed broadly in the public realm in the context of overcoming deflation. One of these members said that such an increase in public awareness regarding wages provided an opportunity to examine necessary measures for Japan's economy to overcome deflation, and expressed hope that discussions would take place, not only on wages but also on other various issues. One member -- pointing to the recent signs of a rise in salaries of employees at firms with favorable business performance -- commented that, if improvements in corporate profits led to increases in wages, this would create a virtuous cycle in which the inflation rate would also rise. A different member -- after stating that it was beyond the scope of monetary policy -- noted that, in order to bring about a rise in the inflation rate, it was necessary to create a more favorable environment in which not only a temporary increase in household income but also a sustainable increase in basic salaries could be expected. This member then indicated that, to this end, it was necessary to review employment practices.

With regard to risks to the outlook for Japan's economic activity and prices, members concurred that there remained 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 recent developments in the relations between Japan and China. As for the U.S. economy, some members said that they were closely monitoring whether or not the timing of economic recovery would be delayed due to such factors as the expiration of the payroll tax cut and the implementation of automatic spending reductions. One member pointed to the possibility that, due to a decline in the competitiveness of Japanese products and to the progress in local procurement by Japanese firms operating overseas, the elasticity of Japan's exports to overseas economies and foreign exchange rates had decreased. One member pointed out that attention should continue to be paid to the risk of a delay in the pace at which medium- to long-term inflation expectations would rise.

B. Financial Developments

Members concurred that financial conditions in Japan were accommodative. One member pointed out that, since the "price stability goal" of 1 percent for the time being had been replaced by the "price stability target" of 2 percent, the level of the policy interest rate was associated with a less accommodative condition from the viewpoint of the Taylor rule.

Members agreed that money market rates had been extremely stable and interest rates on term instruments had declined somewhat, as the Bank had been pursuing aggressive monetary easing and the soundness of financial institutions' balance sheets had been maintained. While noting that bank lending rates remained at low levels, they shared the recognition that indicators related to financial institutions' lending attitudes as perceived by firms, as well as to the financial positions of firms, remained at improved levels. Members shared the view that issuing conditions for CP and corporate bonds remained favorable on the whole, as demand from investors continued to be solid. One member pointed out that fund-raising by J-REITs continued to be active amid growing expectations that real estate prices would rise further.

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

Based on the above assessment of economic and price developments, 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.

In relation to monetary policy for the immediate future, members shared the view that, under the "price stability target," the Bank would pursue monetary easing and aim to achieve this target at the earliest possible time. They continued that, in doing so, the Bank would ascertain whether there was any significant risk to the sustainability of economic growth, including from the accumulation of financial imbalances, taking into consideration that it would take considerable time before the effects of monetary policy permeated the economy.

With regard to the operation of the Asset Purchase Program (hereafter the Program), many members expressed the opinion that at present it was appropriate for the Bank, based on the decisions made in December 2012 and January 2013, to increase the amount outstanding of the Program to about 101 trillion yen by the end of 2013, and thereafter continue to purchase financial assets amounting to about 13 trillion yen -- including about 2 trillion yen of JGBs -- per month without setting any termination date. Regarding the fact that undersubscription had been occurring in the Bank's fixed-rate funds-supplying operation against pooled collateral, some members said that substantial undersubscribtion had been prevented as a result of operational adjustments made by the operation desk, such as flexibly setting the duration of funds offered by the Bank. In relation to this point, some members said that accumulation of the amount outstanding of the Program through the fixed-rate funds-supplying operation against pooled collateral would likely become more difficult as the amount of funds the Bank provided increased further. They continued that it was therefore highly likely that the Bank would need to take drastic measures to address this issue at some point. One of these members added that such measures should be considered not in terms of mere technical revisions to the operational method, but as part of future additional monetary easing measures.

Members raised several options for the Bank if it were to conduct additional monetary easing in the future, including the following: (1) lowering the interest rate applied under the complementary deposit facility; (2) purchasing JGBs with longer remaining maturities through the Program; and (3) increasing the size of purchases of risk assets. With regard to the first option, a few members said that the benefits and costs associated with lowering the interest rate should be carefully examined. As for the second option, some members noted that, in order to directly affect long-term interest rates and thereby lower the entire yield curve, one approach might be for the Bank to purchase JGBs with longer remaining maturities. On this basis, these members added that, in a situation where a further tightening was highly likely to occur in the supply and demand conditions of JGBs with remaining maturities of three years or less -- which the Bank currently purchased -- this approach would also lead to a steady accumulation of the amount outstanding of the Program. One member said that, if the Bank were to purchase JGBs with longer remaining maturities, it would need to ensure that the reasoning was consistent with its current explanation of purchasing JGBs with remaining maturities of three years or less. Some members added that, in considering ways to purchase JGBs, it was important for the Bank to ensure the market's confidence that its large-scale purchases were not a form of fiscal dominance, and therefore due attention should be paid to this point when designing a concrete framework. Regarding the third option -- increasing the size of purchases of risk assets -- one member raised the point that it might be possible for the government to share some of the losses if these were incurred from risk assets purchased by the Bank.

Meanwhile, with regard to ways to purchase JGBs through the Program, one member said that, from the viewpoint of (1) presenting more clearly its policy stance of pursuing monetary easing -- aiming to achieve the "price stability target" -- and (2) further supporting from the financial side the improvement recently observed in Japan's economy, the Bank could immediately put into effect the open-ended asset purchasing method and consolidate JGB purchases conducted through the Program with those conducted for facilitating money market operations. This member continued that, specifically, the Bank could do the following: (1) set the longest remaining maturities of JGBs to be purchased through the Program at 30 years and uniformly conduct purchases of JGBs through a multiple-price competitive auction, in which counterparties bid yield spreads that were calculated by subtracting the benchmark market yields from the yield at which counterparties sought to sell JGBs to the Bank; and (2) increase the amount of monthly purchases of JGBs to about 5 trillion yen or more. On this basis, the member added that the member would like to instruct the Bank's staff to examine how the Bank should set the brackets of remaining maturities for JGBs to be purchased and what amount of JGBs should be purchased from each maturity bracket. In response, most members -- while noting that this was one of various options -- expressed the opinion that in the present situation it was appropriate to continue with the Bank's current stance on the operation of the Program. A few of these members said that the consolidation of purchases of JGBs conducted through the Program with those conducted for facilitating money market operations required further examination, since it would affect the current comprehensive monetary easing framework itself. A few members pointed out that, since the decision on the length of remaining maturities of JGBs to be purchased and their amounts was related to the core of monetary policy -- namely, the decision on which duration of interest rate the Bank would aim to influence -- this was a matter that should be decided at the Monetary Policy Meetings, rather than have the Bank's staff examine it. A few members noted that one issue involved how to deal with the "banknote principle" -- that the amount of the Bank's holdings of JGBs purchased to facilitate money market operations should be limited within the amount of banknotes in circulation.

As for the term to pursue aggressive monetary easing through the continuation of purchases of financial assets and a virtually zero interest rate policy, one member reiterated a stance taken at the previous meeting that the virtually zero interest rate policy was an orthodox measure to strengthen monetary easing by influencing market expectations on future short-term interest rates. The member continued that it therefore was appropriate to continue with the virtually zero interest rate policy until the Bank judged that 2 percent in terms of the year-on-year rate of increase in the CPI was in sight, thereby demonstrating the Bank's firmer determination. The member then pointed out the importance of the following process toward achieving the price stability target of 2 percent: first, the Bank would clearly present a course of economic activity and prices; second, the economic and price situation would indeed improve in line with the course presented by the Bank; and third, the general public would expect the economic and price situation to move in line with the course presented by the Bank. This member added that, with such a virtuous cycle in place, the general public's short-term inflation expectations, the medium- to long-term inflation anchor, and the actual rate of inflation would rise by reinforcing each other. In response to this view, a different member said that, since there was a high degree of uncertainty regarding future economic and price developments, a stronger commitment at this point could not be expected to produce positive effects, and it could even heighten the risk of causing significant financial distortions. One member brought up the view stated at the previous meeting that, from the perspective of the transparency of monetary policy, there was room to reconsider the Bank's current policy commitment. This member continued that it would be appropriate for the Bank to take a two-step approach that involved (1) purchasing financial assets toward achieving a year-on-year rate of increase in the CPI of 1 percent, followed by (2) maintaining accommodative financial conditions until it could be judged that an increase in the CPI of 2 percent was in sight. A different member restated the opinion expressed at the previous meeting that one possibility would be to extend the Bank's projection period by one year and continue with the virtually zero interest rate policy, as well as the asset purchases, until the median of the Policy Board members' CPI forecasts exceeded 1.5 percent. However, these two members said that they were simply raising these issues at this meeting and would follow the majority view of the Policy Board. Based on this discussion, with regard to the term for continuing the purchases of financial assets and the virtually zero interest rate policy, many members expressed the view that it was appropriate for the Bank to continue with each respective policy measure as long as it judged appropriate, with the aim of achieving the "price stability target" at the earliest possible time.

With regard to the various points discussed at this meeting -- including the stance on the operation of the Program -- one member added that these should not be discussed simply as technical matters, and that the time might be approaching for the Bank to reconsider the scheme of monetary policy -- that is, the comprehensive monetary easing framework and its concept.

As for <u>the funds-supplying operation to support financial institutions in disaster areas</u>, a few members -- while pointing out that the deadline for new applications for loans, set at April 30, 2013, was approaching -- said that it would be appropriate to make decisions on the future conduct of the operation after examining developments in disaster areas with regard to demand for funds and financial institutions' funding conditions during the run-up to the fiscal year-end.

V. Remarks by Government Representatives

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

(1) The Ministry of Finance would like to express its gratitude to Governor Shirakawa and the two Deputy Governors, as they would leave office on March 19, 2013. They and the staff had made strenuous efforts while committing to sound economic development through the maintenance of price stability amid the difficult economic situation posed by deflation. The Ministry of Finance would like to express its sincere appreciation of their efforts during their terms of office.

(2) The Japanese economy was bottoming out, while weakness could be seen in some areas. As for the outlook, weakness would remain in some areas for the time being, but the economy was expected to resume its recovery gradually, mainly supported by the improvement in export conditions. An upturn in stock prices had recently been observed in expectation of an economic recovery, and the government deemed it important to ensure that these developments, which represented signs of improvement, would lead to realizing economic recovery via appropriate policy management.

(3) Therefore, the government would proceed firmly with its efforts toward implementing a flexible fiscal policy, as well as measures for strengthening the growth potential of the Japanese economy and for fiscal consolidation, as specified in the joint statement by the government and the Bank released on January 22, 2013. The government would swiftly implement the supplementary budget for fiscal 2012, which had been approved by the Diet on February 26, 2013, and steadily implement the fiscal 2013 budget and the fiscal 2013 tax reform. The government would also formulate a growth strategy including bold regulatory and institutional reforms, with a view to reforming the economic structure. Moreover, it would formulate a medium-term fiscal plan by the middle of 2013 to achieve fiscal consolidation targets. The government would do its utmost to implement these policy measures in a seamless manner.

(4) The Bank's bold monetary policy represented a particularly significant aspect of the three-pronged strategy, given that it was also expected to eliminate deflationary

expectations. The government deemed it important for the Bank to achieve the price stability target of 2 percent at the earliest possible time, in line with the joint statement.

(5) The inflation rate remained at around 0 percent and a course toward achieving the price stability target had not yet been envisaged. The government deemed it necessary for the Bank, while keeping fully aware of this situation, to conduct monetary policy vigorously and decisively with a firm resolve, in order to achieve the price stability target of 2 percent at the earliest possible time. While new leadership at the Bank would take effect on March 20, 2013, the government expected the Bank to continue pursuing bold monetary easing in a responsible manner, in line with the joint statement.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was bottoming out, while weakness could be seen in some areas. As for the outlook, weakness would remain in some areas for the time being, but the economy was expected to resume its recovery gradually, supported by the improvement in export conditions and the effect of the policy package and monetary policy, as well as the improvement in confidence. However, it was necessary to closely monitor the situation of the slowing down of overseas economies, which still posed a downside risk to the Japanese economy. Recent price developments indicated that the economy remained in a mild deflationary situation. Nevertheless, signs of a change in households' inflation expectations had been observed recently. Business sentiment had also improved, and some firms had decided to raise their employees' remuneration.

(2) The government, following the Diet's approval of the supplementary budget for fiscal 2012 on February 26, 2013, had decided to manage the progress of the Emergency Economic Measures for the Revitalization of the Japanese Economy at the Council on Economic and Fiscal Policy every month, in principle, for the time being, to ensure that the measures would bear fruit swiftly and steadily. In doing so, the government had decided that it would (1) work to have the effects of the measures appear at the earliest possible time, (2) execute the measures in a transparent manner and clearly present their progress to the public, and (3) ensure that each relevant Cabinet member recognized the progress of the measures and supervised their implementation. Through these efforts, the government would do its utmost to ensure that these measures would steadily lead to economic recovery and a strengthening of the growth potential of the Japanese

economy. Moreover, the government deemed it important for firms to appropriately distribute the fruits of increased corporate profits to their employees. To this end, the Prime Minister had appealed directly to the business community, urging that as many of its members as possible raise workers' remuneration. Furthermore, the government had introduced special measures to allow tax credits for firms that increased wages and salaries under the fiscal 2013 tax reform. Through these efforts, it would aim to achieve economic recovery accompanied by increases in employment and income.

(3) The government expected the Bank to achieve the price stability target of 2 percent at the earliest possible time, as specified in the joint statement by the government and the Bank. Given that Japan was in a deflationary situation, the Bank's efforts were extremely important. The government strongly expected the Bank to pursue bold monetary easing, bearing in mind a course toward achieving the price stability target of 2 percent.

(4) The Governor and the two Deputy Governors had made various strenuous efforts over the past five years, including during the difficult period after the Lehman shock, and the Cabinet Office would like to express its gratitude for their efforts.

VI. Votes

A. Vote on the Guideline for Money Market Operations

Based on the above discussions, 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, Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi.

Votes against the proposal: None.

B. Vote on "Reconsideration of JGB Purchases Conducted through the Program"

With regard to JGB purchases conducted through the Program, Ms. S. Shirai formulated the following proposal: (1) to introduce the open-ended asset purchasing method before completion of purchases under the current purchasing method; (2) to designate the same eligible JGBs, as well as the same method for auctions, for purchases of JGBs through the Program, as with JGB purchases conducted for facilitating money market operations; (3) to temporarily suspend the operation of JGB purchases conducted for facilitating money market operations and consolidate them with those conducted through the Program; (4) to purchase JGBs of about 5 trillion yen per month or more, for the time being; and (5) to instruct the staff to examine operational details and finalize a plan, as early as possible, regarding how the Bank should set the brackets of types and remaining maturities for JGBs to be purchased and what amount of JGBs should be purchased from each bracket. The proposal was then put to a vote.

The proposal was defeated by a majority vote.

Votes for the proposal: Ms. S. Shirai.

Votes against the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. R. Miyao, Mr. Y. Morimoto, Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi.

VII. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy and formed a majority view. One member expressed the view that it was appropriate to set a separate period for which the virtually zero interest rate policy would remain effective, in order to further pursue aggressive monetary easing under the "price stability target," and wished to formulate a proposal. As a result, the following two proposals were submitted.

A. Mr. R. Miyao's Policy Proposal

With regard to the draft of the statement that formed a majority view, Mr. R. Miyao proposed to replace the paragraph regarding the Bank's future monetary policy stance with the following: "The Bank will pursue aggressive monetary easing, aiming to achieve the above-mentioned price stability target, by continuing with (1) a virtually zero interest rate policy until it judges the achievement of the price stability target to be in sight, and (2) purchases of financial assets as long as it judges appropriate. In addition, the Bank will provide support for financial institutions' efforts to strengthen the foundations for economic growth and to increase their lending." The proposal was then put to a vote.

The proposal was defeated by a majority vote.

Votes for the proposal: Mr. R. Miyao.

Votes against the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi.

B. The Chairman's Policy Proposal

The chairman formulated the Statement on Monetary Policy, and put it 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).

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of February 13 and 14, 2013 for release on March 12, 2013.

Attachment

March 7, 2013

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 encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 percent.

2. While overseas economies remain in a deceleration phase, they have shown some signs of picking up. In global financial markets, investors' risk aversion remains abated, although developments require continued attention.

3. Japan's economy has stopped weakening. Exports appear to stop decreasing, mainly against the background of the aforementioned developments in overseas economies. Business fixed investment has shown some weakness on the whole, although resilience has been observed in nonmanufacturing. In contrast, public investment has continued to increase, and housing investment has generally been picking up. Private consumption has remained resilient. Reflecting these developments in demand both at home and abroad, industrial production has stopped decreasing. Meanwhile, financial conditions in Japan are accommodative. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) is around 0 percent.

4. With regard to the outlook, Japan's economy is expected to level off more or less for the time being, and thereafter, it will return to a moderate recovery path mainly against the background that domestic demand remains resilient partly due to the effects of various economic measures and overseas economies gradually emerge from the deceleration phase. For the time being, the year-on-year rate of change in the CPI is expected to turn negative due to the reversal of the previous year's movements in energy-related and durable consumer goods, and thereafter, it is likely to be around 0 percent again.

5. 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.

6. The Bank of Japan conducts monetary policy based on the principle that the policy shall be aimed at achieving price stability, thereby contributing to the sound development of the national economy, and is responsible for maintaining financial system stability. The Bank aims to achieve price stability on a sustainable basis, given that there are various factors that affect prices in the short run.

The Bank recognizes that the inflation rate consistent with price stability on a sustainable basis will rise as efforts by a wide range of entities toward strengthening competitiveness and growth potential of Japan's economy make progress. Based on this recognition, the Bank has set the price stability target at 2 percent in terms of the year-on-year rate of change in the CPI.

Under the price stability target specified above, the Bank will pursue monetary easing and aim to achieve this target at the earliest possible time. Taking into consideration that it will take considerable time before the effects of monetary policy permeate the economy, the Bank will ascertain whether there is any significant risk to the sustainability of economic growth, including from the accumulation of financial imbalances.

The Bank will pursue aggressive monetary easing, aiming to achieve the above-mentioned price stability target, through a virtually zero interest rate policy and purchases of financial assets, as long as the Bank judges it appropriate to continue with each policy measure respectively.[7, 8] In addition, the Bank will provide support for financial institutions' efforts to strengthen the foundations for economic growth and to increase their lending.

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7 With regard to JGB purchases under the Asset Purchase Program, Ms. S. Shirai proposed to immediately put into effect the open-ended asset purchasing method and consolidate them with those conducted for facilitating money market operations. The proposal was defeated by a majority vote. Voting for the proposal: Ms. S. Shirai. Voting against the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. R. Miyao, Mr. Y. Morimoto, Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi.

8 Mr. R. Miyao proposed to continue with a virtually zero interest rate policy until the Bank judges the achievement of the price stability target to be in sight. The proposal was defeated by a majority vote. Voting for the proposal: Mr. R. Miyao. Voting against the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi.