Not to be released until 8:50 a.m. Japan Standard Time on Thursday, May 2, 2013.

May 2, 2013

Bank of Japan

Minutes of the Monetary Policy Meeting

on April 3 and 4, 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, April 3, 2013, from 2:00 p.m. to 4:33 p.m., and on Thursday, April 4, from 8:59 a.m. to 1:35 p.m.[1]

Policy Board Members Present

Mr. H. Kuroda, Chairman, Governor of the Bank of Japan

Mr. K. Iwata, Deputy Governor of the Bank of Japan

Mr. H. Nakaso, 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. A. Amari, Minister of State for Economic and Fiscal Policy, Cabinet Office[2]

Mr. K. Matsuyama, Vice Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

Mr. M. Amamiya, Executive Director

Mr. N. Kinoshita, Executive Director

Mr. K. Momma, Executive Director (Assistant Governor)

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 26, 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 A. Amari were present on April 4.

[3] Messrs. S. Sato and K. Matsuyama were present on April 3.

Mr. T. Umemori, Director-General for Policy Infrastructure, Monetary Affairs Department[4]

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. N. Yoshioka, Director-General, Secretariat of the Policy Board

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

Mr. Y. Komaki, Senior Economist, Monetary Affairs Department

[4] Messrs. T. Umemori and H. Kanno were present on April 3 from 3:07 p.m. to 4:33 p.m., and on April 4 from 10:23 a.m. to 1:35 p.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 March 6 and 7, 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 0.055 to 0.090 percent.

With regard to the operation of the Asset Purchase Program, undersubscription in the fixed-rate funds-supplying operation against pooled collateral had occurred frequently, despite the Bank's efforts to prevent undersubscription by conducting operations with short maturities, as market participants shared the perception that there was an excess of liquidity in the money market. The lowest accepted bid rate for the Bank's outright purchases of treasury discount bills (T-Bills) had been at 0.04-0.05 percent, while that for Japanese government bonds (JGBs) had increased to nearly 0.06 percent in the latest bid.

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 generally been at around 0.1 percent, although they had weakened temporarily. As for interest rates on term instruments, yields on T-Bills including those with longer maturities had been more or less unchanged. Rates on longer-term interbank instruments had been essentially flat.

With regard to long-term interest rates, yields on 2- and 5-year JGBs had been more or less flat at extremely low levels, but had recently been increasing somewhat. Yields on 10- and 20-year JGBs had declined to the lowest levels since around mid-2003, partly due to increased demand from investors as well as expectations for further monetary easing. The Nikkei 225 Stock Average remained firm, although signs of adjustments had been seen recently. Prices for Japan real estate investment trusts (J-REITs) had been increasing significantly, even though they had been volatile. Yield spreads between corporate bonds and JGBs were more or less unchanged at low levels on the whole,

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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.

reflecting continued solid demand from investors. Those on some corporate bonds that had been wide, due to concerns over deterioration in issuer companies' business performance, had shown signs of narrowing. The yen's exchange rate against the U.S. dollar had been rising somewhat, albeit with some fluctuations. The euro had depreciated against the yen due to heightened uncertainty over the European situation, including that regarding the support package for Cyprus.

C. Overseas Economic and Financial Developments

Overseas economies had been moving out of the deceleration phase that had continued since last year and were gradually heading toward a pick-up.

The U.S. economy had been on a moderate recovery trend and improvement had begun to spread to corporate activity as well. Exports were gradually bottoming out. Business sentiment, which had been cautious for a while, was improving and business fixed investment had begun to pick up. 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 picking up steadily, 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 had picked up, mainly as the year-on-year rate of change in energy prices turned positive. 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 continued to recede slowly. Exports had begun to bottom out and further deterioration in business and household sentiment was coming to a halt on the whole, albeit with some differences in degree by country. Nevertheless, both business fixed investment and private consumption had been declining, primarily as a result of continuing fiscal austerity. Given these developments, production continued to decrease. As for prices, while slack in supply and demand conditions was exerting downward pressure on prices, the year-on-year rate of increase in both the Harmonized Index of Consumer Prices (HICP) for all items and the HICP excluding energy and unprocessed food decelerated somewhat. Meanwhile, economic activity in the United Kingdom had been sluggish.

With regard to Asia, the Chinese economy had been stabilizing in reflection of firm domestic demand. Private consumption had been firm on the back of a favorable employment and income situation. The pace of increase in fixed asset investment had been solid due to rises in infrastructure investment and real estate investment. Exports, particularly those to the United States, were heading toward a pick-up. Reflecting these developments in demand at home and abroad, production had been stabilizing as well. Regarding the NIEs and the ASEAN countries, these economies had been picking up on the whole, but the pace continued to be moderate in the corporate sector. Exports were gradually heading toward a pick-up and production had shown signs of stabilizing. Nevertheless, 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, inflation rates had generally been more or less flat, although there were regional differences. In India, the economy continued to be in a state of deceleration.

In global financial markets, some nervousness had been seen, particularly in Europe, due to heightened uncertainty over the political situation in Italy and the European situation regarding the support package for Cyprus. However, 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). European stock prices -- particularly those of banks -- were declining, partly since the support package for Cyprus imposed a burden on large depositors. The funding conditions of European financial institutions were stable on the whole, but some nervousness had been seen. Specifically, while spreads between interest rates on euro-denominated term instruments and overnight index swap (OIS) rates had remained flat at low levels, credit spreads of bank debentures had been widening and the amount of issuance of such debentures had been weak. In peripheral European countries, yields on government bonds had been rising in Cyprus and Greece but were more or less unchanged in other countries, indicating that the spillover of the effects of the problem regarding support for Cyprus was limited to date. Yields on government bonds in Germany and

France had declined. Meanwhile, U.S. stock prices had been rising moderately, partly due to heightened expectations for economic recovery in the United States, and hitting record highs. 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. In emerging and commodity-exporting economies, stock prices and currencies, although remaining at high levels, had generally been declining 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 had stopped decreasing. Real exports increased marginally in the January-February period of 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 pick up mainly against the background that growth rates of overseas economies would gradually pick up.

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 January compared with the October-December quarter, after having risen for four quarters in a row through that quarter on a quarter-on-quarter basis. The value of public works contracted -- a measure that reflected public works orders -- remained more or less flat on average, albeit with large monthly fluctuations, after having surged in the April-June quarter of 2012. Public investment was expected to continue trending upward, supported by the effects of various economic measures. However, there was a 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 sentiment had shown signs of improvement again. Business fixed investment had exhibited 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 had not yet shown clear evidence of bottoming out, as they had fallen sharply again in January relative to the

October-December quarter, after having increased temporarily in that quarter on a quarter-on-quarter basis. Construction starts in terms of floor area rose in the January-February period relative to the October-December quarter, after having registered a quarter-on-quarter increase for four consecutive quarters through that quarter. Business fixed investment was projected to remain somewhat weak in some sectors for the time being, 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 had been increasingly resilient, assisted by the improvement in consumer sentiment. 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, and marked an increase in the January-March quarter from the October-December quarter. Sales at department stores climbed in the January-February period, assisted partly by increased sales of high-end goods, after having risen in the October-December quarter. Resilience in private consumption was expected to increase gradually. For the meantime, however, the weakness in income could remain as a constraining factor.

Housing investment had generally been picking up, and was expected to continue to do so.

Reflecting these developments in demand both at home and abroad, industrial production had stopped decreasing and had shown some signs of picking up. As for the outlook, industrial production was expected to pick up, reflecting developments in demand at home and abroad, as overseas economies gradually exhibited higher growth rates. Judging from interviews with firms and other relevant information, it was projected to be more or less flat for the January-March quarter of 2013. It seemed likely that industrial production for the April-June quarter would pick up, mainly reflecting a moderate recovery in overseas economies, while that for domestic shipments would be firm.

As for prices, international commodity prices had been more or less flat on the whole, despite having exhibited somewhat sluggish movements lately. The three-month rate of change in the domestic corporate goods price index (CGPI) was rising, 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) had been slightly negative, due to the reversal of the previous year's movements in durable consumer goods. For the time being, it was expected to remain negative since the reversal of the previous year's movements was projected in durable consumer goods as well as energy-related 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 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 risen 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.

II. Amendment to Principal Terms and Conditions for the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas and Temporary Rules regarding the Eligibility Standards for Debt of Companies in Disaster Areas

A. Staff Reports

The deadline for new applications for loans under the funds-supplying operation to support financial institutions in disaster areas had been set at April 30, 2013. In a situation where reconstruction-related demand was likely to persist, in order to continue supporting the efforts of financial institutions in disaster areas toward rebuilding, the staff considered it appropriate for the Bank to extend the deadline for new applications for loans under the operation by one year, to April 30, 2014, while keeping the existing 1 trillion yen ceiling for the outstanding balance of loans. In addition, regarding the relaxation of the collateral eligibility standards for the debt of companies in disaster areas, it also would be appropriate for the Bank to extend the application period by one year, through April 30, 2015.

B. Vote

"Amendment to 'Principal Terms and Conditions for the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas' and 'Temporary Rules regarding the Eligibility Standards for Debt of Companies in Disaster Areas,'" which represented the aforementioned amendment, was put to a vote. Members voted unanimously to approve the amendment. They concurred that the staff should accordingly make this public after the meeting.

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 some nervousness had been seen in some parts of the markets in particular, due to heightened uncertainty over the political situation in Italy and the European situation regarding the support package for Cyprus. However, they continued that 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. Some members, while noting that the effects of the problem regarding support for Cyprus on other peripheral countries were limited to date, said that they would carefully monitor developments since market participants were uncertain about future policy actions by the euro area authorities, as a result of the fact that a burden had been imposed on large depositors and holders of senior bonds in resolving the problems with Cypriot banks.

Members concurred that, while economic activity in Europe continued to recede slowly, overseas economies as a whole had been moving out of the deceleration phase that had continued since last year and were gradually heading toward a pick-up, mainly in the U.S. and Chinese economies. As for the outlook, they shared the view that growth rates of overseas economies would gradually pick up, as 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, with the household sector being resilient, and that improvement had begun to spread to the corporate sector as well. One member pointed to the possibility that the mechanism for a self-sustained recovery was starting to operate. As for the outlook, members concurred that the economy was likely to continue recovering at a moderate pace, supported by accommodative financial conditions. A few members expressed the view that wealth effects brought about by the recent rise in housing prices could firmly support private consumption, and thus the U.S. economy. Meanwhile, some members pointed to the risk that the economic recovery would be delayed, due in part to the lack of momentum toward recovery in employment and to uncertainty concerning fiscal policy.

Members shared the recognition that economic activity in the euro area continued to recede slowly amid the prolonged European debt problem. As for the outlook, they shared the view that, on the whole, the euro area economy was likely to continue receding slowly, as fiscal austerity measures continued to be implemented for the time being, particularly in peripheral countries. One member expressed the view that signs of stalling were observed in business sentiment in Germany, reflecting prolonged weakness in domestic demand in peripheral countries, and there was a possibility that economic recovery in the euro area, led by Germany, would be delayed. A different member expressed the recognition that, while time was now being bought with the modalities by the ECB for undertaking OMTs, it was important to steadily proceed with the formation of various unions and structural reforms.

Members shared the recognition that the Chinese economy had been stabilizing in reflection of firm domestic demand. Some members, however, pointed out that the Purchasing Managers' Index (PMI) for manufacturing activity had remained at a level slightly above 50 points and that an increase in electricity consumption had been leveling off, and expressed the view that a full-fledged recovery had not yet materialized. As for the outlook, members shared the view that the economic recovery would become evident as exports would gradually pick up amid firm domestic demand, although the pace of economic growth was likely to be more moderate than before. One member pointed out that the potential growth rate in China might have been declining since signs of tightening in the supply and demand conditions had been observed in prices and the labor market, despite the fact that the Chinese economy was in the early stage of its gradual recovery. A different member was giving careful attention to the effects of a surge in housing prices and an accompanying tightening of regulations by the Chinese authorities as risks to the economy.

Regarding the NIEs and the ASEAN countries, members concurred that these economies had been picking up on the whole, but that the pace of the pick-up remained moderate in the corporate sector. As for the outlook, they shared 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 shared the recognition that the economy as a whole had stopped weakening and had shown some signs of picking up. A few members pointed out that it could not be judged that industrial production had shown some signs of picking up, considering that industrial production for the January-March quarter of 2013 was projected to remain substantially flat. One of these members commented that the economic situation had not changed materially from the previous month -- that is, the economy had stopped weakening. Regarding features of recent developments in the economy, some members noted that business and household sentiment had improved on the back of the depreciation of the yen and the rise in stock prices, leading to the firmness in domestic demand. Many members pointed out that, compared with improvement in the external environment, such as the pick-up in overseas economies and the depreciation of the yen, exports remained weak. Furthermore, as for the employment and income situation, a few members expressed the view that, although a rise in wages had been observed for regular employees at some large firms, more time would be required for overall wages to be raised, including rises in wages at small firms and in those for non-regular employees.

As for the outlook for the economy, members shared the view that it was likely to 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 growth rates of overseas economies would gradually pick up, especially in the United States and China. One member noted that (1) expectations had been changing significantly, as seen in a rise in the expected inflation rates; (2) the yield curve was flattening; and thus (3) expected real interest rates were declining. This member then expressed the view that such developments could affect economic activity, including business fixed investment and consumption, and thereby further invigorate the pick-up in the economy. Meanwhile, some members expressed the recognition that the current improvement in sentiment was basically led by expectations, and therefore they would closely monitor whether economic activity would improve in a balanced manner -- including improvements in corporate profits, employment, and wages. With regard to the outlook for business fixed investment, a few members, noting that machinery orders for January 2013 had fallen and that business fixed investment plans for fiscal 2013 in the March 2013 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) remained cautious -- particularly in manufacturing -- expressed the opinion that they would closely monitor future developments. In response, one member said that the firms' assumed exchange rate for fiscal 2013 in the March *Tankan* was 85 yen against the U.S. dollar -- higher than the actual level -- and thus improvement in business fixed investment could be anticipated if the assumed exchange rate were revised in accordance with the actual level. A few members were of the view that attention should be paid to a channel in which a rise in asset prices, such as stock prices, led to an increase in business fixed investment.

Regarding prices, members agreed that the year-on-year rate of change in the CPI (all items less fresh food) had been slightly negative, due to the reversal of the previous year's movements in durable consumer goods. They continued that, for the time being, the rate of change was likely to remain negative since the reversal of the previous year's movements was projected in durable consumer goods as well as energy-related goods, and thereafter was likely to be around 0 percent again. Members concurred that prices were expected to gradually turn positive on the back of a narrowing of the output gap and a rise in energy prices accompanied by the depreciation of the yen. Many members pointed out that, according to the expected inflation rates calculated from the information content in inflation-indexed bonds, and to the results of various surveys, markets' and households' inflation expectations had been rising recently. One of these members, however, was of the view that it was rather difficult to judge changes in the underlying trend in inflation expectations from these indicators, which therefore should be interpreted carefully. Some members expressed the view that, in order to achieve the "price stability target" of 2 percent at the earliest possible time, it was important that the Phillips curve shift upward through a rise in inflation expectations, and also that its slope steepen, thereby increasing the responsiveness of prices to changes in demand. A few of these members expressed the recognition that, in order to steepen the Phillips curve, it was important to achieve rises in households' and firms' growth expectations as well as inflation expectations, and thereby allow firms to set prices at levels in line with demand and wages; it also was important that an improvement in the income situation -- mainly a rise in wages -- be observed. A different member was of the view that the flattening of the Phillips curve was due to entrenched deflationary expectations, and that the curve would be steepening as deflationary expectations turned into inflationary expectations.

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, future developments in the fiscal deficit problem as well as the momentum toward economic recovery in the United States, and the possibility of emerging and commodity-exporting economies making a smooth transition to the sustainable growth path. Some members 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 degree of increase in Japan's exports in response to the upturn in overseas economies and the depreciation of the yen had lessened. 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 yields on T-Bills had been declining somewhat, as the Bank had been pursuing aggressive monetary easing. 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.

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.

Members shared the recognition once again on the Bank's basic thinking that its mission was to achieve at the earliest possible time the price stability target of 2 percent in terms of the year-on-year rate of change in the CPI, which was decided at the Monetary Policy Meeting held on January 21 and 22, 2013. Many members expressed the view that, as had been discussed up to the previous meeting, it was necessary to reconsider the overall framework of the comprehensive monetary easing policy given that, under such monetary easing policy, undersubscription had occurred frequently in the Bank's operations and there appeared to have been limitations with regard to policy effects it could further pursue. One of these members said that the public regarded the Bank's policy measures up to this point as still being insufficient to achieve the price stability target. On this basis, members shared the recognition that, in order to achieve the price stability target at the earliest possible time, it was necessary for the Bank to enter a new phase of monetary easing both in terms of quantity and quality, given that Japan's economy still had not overcome deflation even though the Bank had thus far been implementing monetary easing of a considerable scale under the comprehensive monetary easing policy. Some members said that, with favorable developments emerging in economic activity and financial markets, a great opportunity existed for the Bank to overcome deflation, and it was necessary that it made use of this opportunity. As for the specific time horizon for achieving the price stability target, many members expressed the view that the Bank would aim at the target with a time horizon of about two years. Against this view, one member noted that, taking into account the uncertainties regarding the achievement of the target, presenting the time horizon of about two years entailed a high risk. Members concurred that the Bank should shift away from its gradualistic approach and stop adopting easing measures in an incremental manner. In relation to this point, some members expressed the view that it was important for the Bank to introduce a policy that would have an impact in terms of scale, so that the markets would perceive that it had decided to take all necessary measures to achieve the price stability target of 2 percent. Moreover, members concurred that it was important for the Bank to communicate to the public in a clear and intelligible manner. In relation to this, one member noted that the Bank's monetary policy framework up to this point was complicated and difficult to comprehend, and its communication to the public was not necessarily effective; thus, policy effects had partly been undermined. Meanwhile, one member pointed out that, in terms of the costs associated with large-scale monetary easing, it was necessary to pay attention to the following possibilities that could occur with an excessive decline in interest rates: (1) financial institutions' willingness to lend could in fact recede; (2) financial institutions could extend the duration of their securities holdings in order to secure profits, and the financial system could become vulnerable to rises in interest rates; and (3) returns on investment of institutional investors such as life insurance companies and pension funds could be restrained. A different member said that it was necessary to fully recognize the following: (1) the possibility of a rise in speculation that the Bank was engaged in financing fiscal deficits; (2) the possibility that market functioning would be impaired considerably; and (3) the possibility that the policy effects would be undermined should doubts in financial markets arise over the feasibility of the Bank's large-scale asset purchases.

Based on the above discussions, members deliberated over the specifics of monetary easing, mainly in relation to the following points: (1) the main operating target for money market operations; (2) the size of increases in the main operating target and JGB purchases; (3) the treatment of the Asset Purchase Program (hereafter the Program) and the "banknote principle" while the Bank pursued these increases; (4) the purchase of risk assets; and (5) the time frame for continuing the new monetary easing measures. In the meantime, in response to the members' questions, the staff provided a supplementary explanation, mainly on the following points: (1) feasibility in terms of the Bank's market operations and the associated amount of risks; (2) the numerical relationship between the monetary base and the amount outstanding of JGBs held by the Bank; and (3) quantitative analysis on the policy effects of monetary easing.

Regarding <u>the main operating target for money market operations</u>, members concurred that, with a view to pursuing quantitative monetary easing, it was appropriate to replace the current target -- the uncollateralized overnight call rate -- with some kind of quantitative indicator. One member -- noting that the Bank's ongoing interest rate target had become somewhat less meaningful in a situation where increases in the size of the Program had effectively become the means of monetary easing -- expressed the view that, by changing the main operating target from an interest rate to a quantitative indicator, the Bank would be able to communicate the message that it had adopted a new policy framework. On this basis, members shared the view on the specific target that, while it was possible for the Bank to employ the size of its balance sheet or the outstanding balance of current accounts at the Bank, it was appropriate to employ the monetary base -- which indicated the amount of currency directly supplied by the Bank -- mainly from the viewpoint of communicating the Bank's policy stance to the markets and the public in a clear and intelligible manner.

Members then discussed the size of increases in the monetary base and JGB purchases required for achieving the price stability target at the earliest possible time, with a time horizon of about two years. They agreed that, to this end, it was necessary to boost demand by exerting influence on long-term interest rates and asset prices, and to drastically change the existing deflationary expectations of markets and economic entities. They continued that the size of increases should be significantly large and unprecedented in scale. A few members expressed the opinion that the size of increases should at least exceed to a considerable extent the amount of JGB purchases that had already been decided under comprehensive monetary easing, as well as the projected amount outstanding of the monetary base under these purchases. A different member expressed the view that, to have the maximum impact on the markets, the Bank should, for example, purchase JGBs at a level that would represent an increase of about 50 trillion yen per annum in the Bank's amount outstanding of its JGB holdings. Another member said that the Bank should refer to the effects of JGB purchases under comprehensive monetary easing, as well as the quantitative relationship between the outstanding balance of current accounts at the Bank and prices under the unconventional policy measures. A different member noted that, according to the existing results of the quantitative analysis, uncertainty was high regarding the effects of asset purchases in terms of raising inflation expectations. Based on this discussion, members shared the recognition that, in order to create a considerable impact on the CPI, it would be necessary for the Bank to implement increases of several tens of trillions of yen in both the monetary base and JGB purchases, although this should be judged with a large degree of latitude since the estimates of the impact differed considerably depending on the methods of analysis. One member expressed an opinion on the medium- to long-term relationship between the monetary base and the expected inflation rate, as well as on the pace of increase in the monetary base from the viewpoint of the McCallum rule. Members then concurred -- while recognizing the necessity of considering the feasibility in terms of the Bank's market operations -- that the Bank could purchase about 7 trillion yen of JGBs on a monthly basis on the premise that all maturities of JGBs were eligible for purchases. Judging from the above discussion on (1) exerting influence on the expectations of markets and economic entities, (2) the results of analysis of the quantitative effects, and (3) the feasibility in terms of the Bank's market operations, members agreed that it was appropriate for the Bank to increase the monetary base so that it would expand at an annual pace of about 60-70 trillion yen, and purchase JGBs so that their amount outstanding would increase at an annual pace of about 50 trillion yen. They also shared the view that, if these increases were carried out, both the monetary base and the Bank's amount outstanding of its JGB holdings would double in two years.

With regard to <u>the length of maturities eligible for JGB purchases</u>, members agreed that, with a view to encouraging a further decline in interest rates across the yield curve, it was appropriate that JGBs of all maturities, including 40-year bonds, be made eligible for purchase. A few members expressed the view that purchasing JGBs of various maturities would likely facilitate the Bank's smooth purchases. Members then concurred that the average remaining maturity of the Bank's JGB purchases could be extended from slightly less than three years at present to about seven years -- that is, equivalent to the average maturity of the amount outstanding of JGBs issued. Some members were of the opinion that, since the average remaining maturity of JGBs to be purchased was subject to fluctuations, depending on bids by financial institutions, it was appropriate to allow for a range of about six to eight years. Some other members pointed out that the Bank should give consideration to purchases of JGBs with super-long maturities, because these were purchased mainly by pension funds and life insurance companies for the purpose of asset-liability management (ALM). A few of these members expressed the view that, based on such consideration, the members could accept an average remaining maturity of the Bank's JGB purchases of less than seven years -- namely, within a range of six to seven years.

Meanwhile, members noted that, in order to facilitate large-scale JGB purchases, it was vital to have <u>the cooperation of market participants</u> -- such as counterparties' active bidding in the Bank's market operations. They then shared the recognition that the Bank should set up forums for enhanced dialogue with those market participants in order to exchange views pertaining to money market operations and market transactions more generally. A few members expressed the view that the Bank could relax the terms and conditions under the Securities Lending Facility (SLF) for the time being in order to ensure that the market liquidity of JGBs was maintained. Regarding the interest rate applied under the complementary deposit facility, most members expressed the recognition that it was appropriate to keep the rate at the current level.

As for the treatment of the Asset Purchase Program, members shared the recognition that, in increasing the amount of JGB purchases, it was appropriate -- from the perspective of communicating to market participants and economic entities in a clear and intelligible manner -- to terminate the Program and then absorb the amount outstanding of JGBs already purchased, together with the purchases of JGBs conducted for facilitating money market operations -- often referred to as *Rinban* operations -- into the JGB purchases discussed at this meeting. One member commented that the Bank could facilitate communication to the public in a clear and intelligible manner if the JGB purchases to be introduced at this meeting were interpreted as simultaneously pursuing the objective of *Rinban* operations -- to supply currency consistent with the underlying steady development of the economy -- and that of the Program -- to overcome deflation. In relation to the treatment of the banknote principle, members -- noting that the total amount of the Bank's holdings of JGBs purchased under *Rinban* operations and those purchased under the Program had already exceeded the outstanding balance of banknotes issued -- agreed that it was difficult to comply with the principle in conducting large-scale purchases of JGBs. On this basis, they shared the recognition that the Bank should maintain the basic thinking of the banknote principle, and that it was appropriate to clarify that it would temporarily suspend, rather than abolish, the principle in its pursuit of the measures to be introduced at this meeting. A few members said that, while measures similar to the Bank's banknote principle were adopted in some countries abroad during normal times, these were temporarily suspended when pursuing large-scale monetary easing. Many members expressed the view that the Bank's JGB purchases were executed for the purpose of conducting monetary policy based on its own judgment, and that it therefore was necessary to provide a thorough explanation to the public so as to avoid raising speculation that the temporary suspension of the banknote principle had been put into place for the purpose of financing fiscal deficits. One of these members said that it was necessary to continue making efforts to seek a more appropriate measure that would replace the principle.

With regard to the purchase of risk assets, members shared the recognition that it was not necessary to take into account constraints in terms of the market size for exchange-traded funds (ETFs), as new arrangements of these assets could be made, while attention should be paid to the limitations to the size of increase in the purchase of J-REITs. On this basis, they agreed that, with a view to lowering risk premia of asset prices, it was appropriate for the Bank to purchase ETFs and J-REITs so that their amounts outstanding would increase at an annual pace of 1 trillion yen and 30 billion yen, respectively. Meanwhile, for purchases of CP and corporate bonds, members concurred that -- given that the credit spreads of these assets had been stable at low levels -- it would be appropriate until end-2013 to accumulate their amounts outstanding with the aim of achieving their pre-announced targets, and thereafter maintain those amounts outstanding.

Members shared the view that, in conducting massive purchases of JGBs and risk assets, maintaining the Bank's financial soundness was important. One member commented that it might be worthwhile to examine the feasibility of an arrangement in which the Bank's losses would be covered by the government.

With regard to the time frame for continuing the new monetary easing measures, most members expressed the view that it was appropriate for the Bank to continue with the measures, aiming to achieve the price stability target of 2 percent, as long as it was necessary for maintaining that target in a stable manner. Counter to this view, one member was of the opinion that, because the Bank's purchases of financial assets would be unprecedented in scale and thus entail a considerably high risk, it was appropriate to introduce the monetary easing measures by setting the time frame of about two years as an intensive period for aiming to achieve the price stability target, thereby ensuring flexibility in policy implementation subsequent to that period. On the other hand, one member noted that, if the time frame of two years were to be set in advance, this would impair the smooth formation of expectations in financial markets. A different member said that an unspecified time frame would be more effective in terms of the forward guidance policy. Based on this discussion, most members concurred that, while the Bank was determined to achieve the 2 percent price stability target with a time horizon of about two years, it was appropriate to set the time frame for continuing monetary easing in relation to achieving the price stability target, rather than restricting it to two years at the outset. Meanwhile, members shared the recognition that, in implementing the monetary easing measures to be decided at this meeting, it was appropriate for the Bank to examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate. One member expressed the view that risk assessment should be conducted even more carefully than before.

Based on this discussion, members agreed that monetary easing to be decided at this meeting represented a completely new phase of such easing, both in terms of quantity and quality that was extremely aggressive, as the Bank would double the monetary base and the Bank's amount outstanding of its JGB and ETF holdings in two years, and more than double the average remaining maturity of JGBs purchased by the Bank. They continued that it was appropriate to call this monetary easing the "quantitative and qualitative monetary easing." Members also shared the view that the quantitative and qualitative monetary easing would underpin the Bank's commitment to achieving the price stability target of 2 percent at the earliest possible time. They continued that, specifically, the quantitative and qualitative monetary easing was expected to (1) have the effect of reducing longer-term interest rates and risk premia of asset prices; (2) create the so-called portfolio rebalancing effect, where both financial institutions and investors investing in JGBs would shift from JGBs to such risk assets as stocks and foreign currency-denominated bonds and/or increase lending within their portfolios; and (3) have the effect of drastically changing deflationary expectations of markets and economic entities. They continued that these effects would support the positive movements that had started to appear in economic activity and financial markets and contribute to a further pick-up in inflation expectations, which appeared to have risen, thereby leading Japan's economy to overcome the deflation that had lasted for nearly 15 years.

V. Remarks by Government Representatives

The representative from the Cabinet Office made the following remarks.

(1) The government expected Governor Haruhiko Kuroda, Deputy Governor Kikuo Iwata, and Deputy Governor Hiroshi Nakaso, who had taken office on March 20, 2013, to exert leadership by showing a firm resolve to overcome deflation and by drawing on

their diverse experiences and accomplishments, and respond to expectations both at home and abroad.

(2) The Japanese economy had been showing signs of picking up recently, 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 mainly by the improvement in export conditions and the effects of the policy package and monetary policy. Recent price developments indicated that the economy remained in a mild deflationary situation. However, households' inflation expectations continued to rise and firms' business condition outlooks were for improvement. In the spring wage negotiations, some firms had increased their employees' remuneration.

(3) At the Council on Economic and Fiscal Policy at end-March 2013, the government confirmed the progress of the emergency economic measures. Almost all projects had started about one month from the Diet's approval of the supplementary budget for fiscal 2012. For more than 40 of these projects, contracts were already concluded and the actual works had started. Of the three-pronged strategy, flexible fiscal policy was starting to get on track smoothly. The government would continue to encourage ministries and agencies to ensure that the effects of the measures emerged at the earliest possible time. Moreover, the Trans-Pacific Partnership (TPP) Agreement, for which the government had decided to take part in the negotiations, was an important pillar for the growth strategy and significant in terms of enabling the Japanese economy to benefit from global economic growth. The government would make the most of its negotiating power and pursue the best path to suit Japan's national interests. The government would steadily promote measures aimed at establishing a sustainable fiscal structure with a view to ensuring the credibility of fiscal management, as specified in the joint statement by the government and the Bank released on January 22, 2013.

(4) The government strongly expected the Bank to pursue bold monetary easing in order to achieve the price stability target of 2 percent at the earliest possible time, as specified in the joint statement. The government expected the Bank to clearly envisage a course toward achieving the target and to fulfill its accountability to the public at the Council on Economic and Fiscal Policy, for example. The government deemed it important to strengthen coordination between the government and the Bank by taking advantage of every opportunity. The government expected the Bank -- under its new leadership --

to aim at achieving price stability, thereby making a substantial contribution to the sound development of the national economy.

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

(1) The government deemed that the role the Bank's monetary policy had to play in overcoming deflation was extremely important, and considered it crucial that the Bank pursue bold monetary easing with the aim of achieving the price stability target of 2 percent at the earliest possible time, as specified in the joint statement. The government expected that the newly appointed Governor and Deputy Governors to exercise firm leadership.

(2) The government would proceed with its efforts toward implementing a flexible fiscal policy, as well as measures for strengthening the growth potential of the Japanese economy, as specified in the joint statement. First of all, the fiscal 2013 tax reform had been approved by the Diet. Next, the government would do its utmost to also obtain the Diet's approval of the fiscal 2013 budget. Furthermore, it would formulate a growth strategy by mid-2013. In pursuing bold monetary easing, the government deemed it important that the credibility of fiscal management be ensured and would therefore formulate a medium-term fiscal plan by mid-2013 to achieve fiscal consolidation targets. Through these policy measures, the government would do its utmost to achieve both the revitalization of the Japanese economy and fiscal consolidation.

(3) The government deemed that the Bank's bold monetary policy comprised a particularly important area of the three-pronged strategy, which aimed at overcoming deflationary recession. However, a course toward achieving the target had not yet been envisaged. In view of these circumstances, the government welcomed that the quantitative and qualitative monetary easing had been proposed, and considered that the Bank had taken an important step under its new leadership toward achieving the price stability target of 2 percent at the earliest possible time. The government would consider carefully the opinion of the Bank on how to maintain its financial soundness.

(4) The government hoped that the Bank would conduct monetary policy vigorously and decisively toward achieving the price stability target, as well as fulfill its accountability

to the public both at home and abroad regarding a course toward achieving the price stability target.

VI. Votes

A. Vote on the Guideline for Money Market Operations

Based on the above discussions, members agreed that it was appropriate to (1) change the main operating target for money market operations from the uncollateralized overnight call rate to the monetary base and (2) conduct money market operations so that the monetary base would increase at an annual pace of about 60-70 trillion yen.

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 main operating target for money market operations will be changed from the uncollateralized overnight call rate to the monetary base.
2. The guideline for money market operations will be as follows.

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

3. A public statement will be decided separately.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, 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 an Increase in JGB Purchases and Their Maturity Extension

To reflect the view of members, the chairman formulated the following proposal and put it to a vote: (1) to purchase JGBs so that their amount outstanding would increase at an annual pace of about 50 trillion yen and (2) to make JGBs with all maturities including 40-year bonds eligible for purchase and extend the average remaining maturity of the Bank's JGB purchases from slightly less than three years at present to about seven years --

equivalent to the average maturity of the amount outstanding of JGBs issued. The Policy Board decided the proposal by a unanimous vote.

C. Vote on an Increase in ETF and J-REIT Purchases

To reflect the view of members, the chairman formulated a proposal to purchase ETFs and J-REITs so that their amounts outstanding would increase at an annual pace of 1 trillion yen and 30 billion yen respectively, and put it to a vote. The Policy Board decided the proposal by a unanimous vote.

D. Vote on the Continuation of the "Quantitative and Qualitative Monetary Easing"

To reflect the majority view of the members, the chairman formulated a proposal to release the following and put it to a vote: "The Bank will continue with the quantitative and qualitative monetary easing, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate." The Policy Board decided the proposal by a majority vote.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, and Mr. T. Sato.

Votes against the proposal: Mr. T. Kiuchi.

E. Vote on the Establishment and Abolishment of Principal Terms and Conditions in accordance with the Introduction of the "Quantitative and Qualitative Monetary Easing"

The chairman formulated a proposal on the establishment and abolishment of principal terms and conditions in accordance with the introduction of the "quantitative and qualitative monetary easing," and put it to a vote. The Policy Board decided the proposal by a unanimous vote, and agreed that the decision should be made public accordingly.

VII. Discussion on the Statement Entitled "Introduction of the 'Quantitative and Qualitative Monetary Easing'"

On the basis of the above discussions, members discussed the statement

"Introduction of the 'Quantitative and Qualitative Monetary Easing'" and formed a majority view. Counter to this, one member expressed the opinion that (1) achieving the price stability target of 2 percent with a time horizon of about two years entailed high uncertainty; and that (2) in such a situation there was concern that, if a rise in expectations -- namely, that the quantitative and qualitative monetary easing would continue for a protracted period -- were to occur, this could lead to a buildup of financial imbalances, for example. On this basis, the member continued that the Bank should make public its thinking that the time frame for continuing such monetary easing should be restricted to about two years, and that when this time frame came to an end, it would review the monetary easing measures in a flexible manner. This member then said that the member wished to formulate a proposal. As a result, the following two proposals were submitted.

A. Mr. T. Kiuchi's Policy Proposal

Mr. T. Kiuchi proposed (1) to delete "with a time horizon of about two years"; (2) to add the following sentence, "The Bank introduces the quantitative and qualitative monetary easing while setting the time frame of about two years as intensive periods for aiming to achieve the price stability target of 2 percent"; and (3) to delete "The continuation of the quantitative and qualitative monetary easing." The proposal was then put to a vote.

The proposal was defeated by a majority vote.

Votes for the proposal: Mr. T. Kiuchi.
Votes against the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, and Mr. T. Sato.

B. The Chairman's Policy Proposal

The chairman formulated the statement "Introduction of the 'Quantitative and Qualitative Monetary Easing,'" 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 1).

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of March 6 and 7, 2013 for release on April 9, 2013.

Attachment 1

April 4, 2013

Bank of Japan

Introduction of the "Quantitative and Qualitative Monetary Easing"

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided upon the following.

(1) The introduction of the "quantitative and qualitative monetary easing"

The Bank will achieve the price stability target of 2 percent in terms of the year-on-year rate of change in the consumer price index (CPI) at the earliest possible time, with a time horizon of about two years.[Note 1] In order to do so, it will enter a new phase of monetary easing both in terms of quantity and quality. It will double the monetary base and the amounts outstanding of Japanese government bonds (JGBs) as well as exchange-traded funds (ETFs) in two years, and more than double the average remaining maturity of JGB purchases.

a) The adoption of the "monetary base control" by a unanimous vote

With a view to pursuing quantitative monetary easing, the main operating target for money market operations is changed from the uncollateralized overnight call rate to the monetary base. Specifically, the guideline for money market operations is set as follows:

The Bank of Japan will conduct money market operations so that the monetary base will increase at an annual pace of about 60-70 trillion yen.[7]

b) An increase in JGB purchases and their maturity extension by a unanimous vote

With a view to encouraging a further decline in interest rates across the yield curve, the Bank will purchase JGBs so that their amount outstanding will increase at an annual pace of about 50 trillion yen.[8]

In addition, JGBs with all maturities including 40-year bonds will be made eligible for purchase, and the average remaining maturity of the Bank's JGB purchases will be

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[7] Under this guideline, the monetary base -- whose amount outstanding was 138 trillion yen at end-2012 -- is expected to reach 200 trillion yen at end-2013 and 270 trillion yen at end-2014 (see Attachment 2).

[8] The monthly flow of JGB purchases is expected to become 7+ trillion yen on a gross basis.

extended from slightly less than three years at present to about seven years -- equivalent to the average maturity of the amount outstanding of JGBs issued.[9, 10]

c) An increase in ETF and J-REIT purchases by a unanimous vote

With a view to lowering risk premia of asset prices, the Bank will purchase ETFs and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at an annual pace of 1 trillion yen and 30 billion yen respectively.[11]

d) The continuation of the quantitative and qualitative monetary easing by an 8-1 majority vote [Note 1] [Note 2]

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

(2) Actions accompanied by the quantitative and qualitative monetary easing

a) The termination of the Asset Purchase Program

The Asset Purchase Program will be terminated. The purchases of JGBs conducted for facilitating money market operations -- including the amount outstanding of JGBs already purchased -- will be absorbed into the aforementioned JGB purchases.

b) The temporary suspension of the "banknote principle"

The aforementioned JGB purchases are executed for the purpose of conducting monetary policy and not for the purpose of financing fiscal deficits. In addition, the government -- in the joint statement released with the Bank in January -- stated that "in strengthening coordination between the Government and the Bank of Japan, the Government will steadily promote measures aimed at establishing a sustainable fiscal structure with a view to ensuring the credibility of fiscal management." Based on such recognition, the Bank

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[9] The average remaining maturity of JGBs purchased under the Asset Purchase Program and JGB purchases conducted for facilitating money market operations was slightly less than three years.

[10] The average remaining maturity of JGBs to be purchased is subject to fluctuations, depending on bids by financial institutions; thus, it is appropriate to allow for its range of about six to eight years.

[11] As for CP and corporate bonds, the Bank will continue with those asset purchases until their amounts outstanding reach 2.2 trillion yen and 3.2 trillion yen respectively; thereafter, it will maintain those amounts outstanding. The upper limits (i.e., the single issuers' amounts outstanding) of CP, corporate bonds, ETFs, and J-REITs to be purchased by the Bank shall be the same as before.

will temporarily suspend the so-called banknote principle as it pursues the quantitative and qualitative monetary easing.[12]

c) Enhanced dialogue with market participants

In order to facilitate the aforementioned massive JGB purchases and significantly large-scale provision of the monetary base, the cooperation of market participants -- such as counterparties' active bidding in the Bank's market operations -- is vital. The Bank will set forums for enhanced dialogue with those market participants in order to exchange views pertaining to money market operations and market transactions more generally. In addition, the terms and conditions under the Securities Lending Facility (SLF) will be relaxed for the time being in order to ensure that the market liquidity of JGBs is maintained.

(3) The extension of the funds-supplying operation to support financial institutions in disaster areas affected by the Great East Japan Earthquake

The periods -- for which (i) the funds-supplying operation to support financial institutions in disaster areas and (ii) the amendment to temporary rules regarding the eligibility standards for debt of companies in disaster areas will remain effective -- will be extended by one year.

2. Japan's economy has stopped weakening and has shown some signs of picking up. With regard to the outlook, it is expected to return to a moderate recovery path against the background of firm domestic demand and a pick-up in growth rates of overseas economies. On the price front, the year-on-year rate of change in the CPI (all items less fresh food) has recently been slightly negative, but some indicators suggest a rise in inflation expectations. In recent months, conditions in financial markets have turned favorable due to the abatement of global investors' risk aversion and expectations for domestic policies.

The Bank of Japan -- in the joint statement released with the government in January -- has made a clear commitment to achieving the price stability target at the earliest possible time. The quantitative and qualitative monetary easing, introduced by the Bank today, will underpin the Bank's commitment, and is expected not only to work through such transmission

[12] This principle indicates that the purchases of JGBs conducted for facilitating money market operations are subject to the limitation that the outstanding amount of long-term government bonds effectively held by the Bank be kept below the outstanding balance of banknotes issued. It was decided at the Monetary Policy Meeting held on March 19, 2001.

channels like longer-term interest rates and asset prices but also to drastically change the expectations of markets and economic entities. These effects will support the positive movements that have started to appear in economic activity and financial markets, contribute to a further pick-up in inflation expectations that appear to have risen, and lead Japan's economy to overcome deflation that has lasted for nearly 15 years.

[Note 1] Mr. T. Kiuchi proposed (i) to delete "with a time horizon of about two years," (ii) to add the following sentence, "The Bank introduces the quantitative and qualitative monetary easing while setting the time frame of about two years as intensive periods for aiming to achieve the price stability target of 2 percent," and (iii) to delete "The continuation of the quantitative and qualitative monetary easing." The proposal was defeated by an 8-1 majority vote. Voting for the proposal: Mr. T. Kiuchi. Voting against the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, and Mr. T. Sato.

[Note 2] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, and Mr. T. Sato. Voting against the action: Mr. T. Kiuchi.

Attachment 2

Monetary Base Target and the Bank's Balance Sheet Projection

(trillion yen)

	End-2012 (actual)	End-2013 (projected)	End-2014 (projected)
Monetary base	138	200	270

Breakdown of the Bank's Balance Sheet

	End-2012 (actual)	End-2013 (projected)	End-2014 (projected)
JGBs	89	140	190
CP	2.1	2.2	2.2
Corporate bonds	2.9	3.2	3.2
Exchange-traded funds (ETFs)	1.5	2.5	3.5
Japan real estate investment trusts (J-REITs)	0.11	0.14	0.17
Loan Support Program	3.3	13	18
Total assets (including others)	158	220	290
Banknotes	87	88	90
Current deposits	47	107	175
Total liabilities and net assets (including others)	158	220	290