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November 26, 2012

Bank of Japan

Minutes of the Monetary Policy Meeting

on October 30, 2012

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

Secretariat of the Policy Board, Bank of Japan
P.O. Box 30, Nihonbashi, Tokyo 103-8660, Japan

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 Tuesday, October 30, 2012, from 9:00 a.m. to 2:41 p.m.[1]

Policy Board Members Present

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

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

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

Mr. R. Miyao

Mr. Y. Morimoto

Ms. S. Shirai

Mr. K. Ishida

Mr. T. Sato

Mr. T. Kiuchi

Government Representatives Present

Mr. K. Takemasa, Senior Vice Minister of Finance, Ministry of Finance

Mr. S. Maehara, Minister of State for Economic and Fiscal Policy, Cabinet Office[2]

Mr. K. Matsuyama, Vice Minister for Policy Coordination, Cabinet Office[2]

Reporting Staff

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

Mr. H. Hayakawa, Executive Director

Mr. N. Kinoshita, Executive Director

Mr. K. Momma, Executive Director

Mr. S. Uchida, Director-General, Monetary Affairs Department

Mr. T. Umemori, Deputy 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 November 19 and 20, 2012 as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

[2] Messrs. S. Maehara and K. Matsuyama were present from 10:25 a.m. to 2:41 p.m. and from 9:00 a.m. to 10:24 a.m., respectively.

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. Ono, Director-General, International Department

Secretariat of the Monetary Policy Meeting

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

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

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

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

Mr. K. Imakubo, Senior Economist, Monetary Affairs Department

I. Summary of Staff Reports on Economic and Financial Developments[3]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on October 4 and 5, 2012, had been providing ample funds sufficient to meet demand in financial markets and was doing its utmost to ensure stability in the markets.[4] In this situation, the uncollateralized overnight call rate had been in the range of 0.075-0.095 percent.

With regard to the operation of the Asset Purchase Program, there was a sufficient amount of bids in the Bank's outright purchases of both Japanese government bonds (JGBs) and treasury discount bills (T-Bills) even into the second half of fiscal 2012, mainly reflecting the effects of financial institutions' profit-taking sales. As for the Bank's fixed-rate funds-supplying operation against pooled collateral, a sufficient amount of bids had generally been observed, as evidenced by the fact that undersubscription had occurred only once since the previous meeting.

B. Recent Developments in Financial Markets

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

With regard to long-term interest rates, yields on 2-year JGBs had been stable at 0.1 percent. Yields on 10-year JGBs continued to move within a narrow range of 0.75-0.80 percent. The Nikkei 225 Stock Average had risen somewhat, due in part to a depreciation of the yen, but remained in the range of 8,500-9,000 yen. Prices for Japan real estate investment trusts (J-REITs) had continued to rise. Yield spreads between corporate bonds and JGBs had continued to be more or less unchanged on the whole, reflecting solid demand from investors for corporate bonds. The yen had depreciated somewhat against the U.S. dollar and had recently been in the range of 79-80 yen. The

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

[4] 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.

yen had also depreciated against the euro.

C. Overseas Economic and Financial Developments

Overseas economies had moved deeper into a deceleration phase.

The U.S. economy generally continued to recover at a moderate pace, particularly in the household sector, although signs of weakness were observed in the corporate sector. The pace of increase in production and business fixed investment had slowed as growth in exports had been sluggish and business sentiment had become cautious. On the other hand, in the household sector, while the balance-sheet repair weighing on the economy had gradually been mitigated, private consumption was increasing moderately, reflecting a modest improving trend in the employment situation. Housing investment had also continued to pick up, albeit at a depressed level, partly supported by the low interest rate. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items picked up due to the effects of the rise in gasoline prices, whereas 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 the euro area had receded slowly. Amid the situation of the protracted European debt problem, the weakening of sentiment had been spreading from firms to households and from peripheral countries to core countries. Under these circumstances, business fixed investment had been declining and signs of weakness were observed in private consumption, particularly of durable goods. Growth in exports was slow. Given such developments in demand, production was on a declining trend. As for prices, although slack in supply and demand conditions was exerting downward pressure on prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) for all items had been relatively large, partly reflecting the rise in gasoline prices. Meanwhile, economic activity in the United Kingdom had been sluggish.

With regard to Asia, the state of economic slowdown in China had been prolonged. Private consumption had been firm on the whole. The slowdown in the pace of increase in fixed asset investment was coming to a halt due to an increase in infrastructure investment. Meanwhile, exports continued to be somewhat weak, reflecting the decrease in those bound for Europe. Given such developments in demand, the growth momentum in production continued to be slow as inventory adjustment pressures persisted. Regarding the NIEs and the ASEAN countries, although the pace of economic growth had picked up, it was moderating, particularly in the corporate sector. Exports and production continued to be somewhat weak, mainly due to the decline in exports bound for Europe, and business sentiment had become cautious. Under these circumstances, growth in business fixed investment had been sluggish. On the other hand, private consumption had been firm. As for prices, in many of these Asian economies, there was still upward pressure on prices, mainly reflecting the continued wage inflation caused by tight labor market conditions, but inflation rates remained more or less flat. In India, the economy continued to be in a state of deceleration.

In global financial markets, while investors had remained somewhat less risk averse on the back of the European debt problem, particular attention should be paid to developments in these markets. Yield spreads of Spanish and Italian government bonds over German government bonds had clearly tightened, reflecting market participants' positive response to the fact that the credit rating of Spanish government bonds was unchanged. U.S. and European stock prices -- mainly in reflection of the developments in Europe and the release of economic indicators -- were showing large fluctuations and had been declining recently. In this situation, long-term interest rates in the United States and Germany were rising marginally, although they remained at low levels. With regard to corporate bond markets in the United States and Europe, credit spreads had been more or less unchanged. The funding conditions of European financial institutions continued to be stable on the whole. Spreads between interest rates on euro-denominated term instruments and overnight index swap (OIS) rates had been on a moderate narrowing trend. Spreads between interest rates on U.S. dollar-denominated term instruments and OIS rates had been on a narrowing trend, and the U.S. dollar funding premium in the foreign exchange swap markets had been more or less unchanged at a low level. Meanwhile, stock prices and currencies in emerging and commodity-exporting economies had been weakening compared with the levels at the time of the previous meeting.

D. Economic and Financial Developments in Japan

1. Economic developments

Real exports in the July-September quarter of 2012 had decreased noticeably, due in part to the increase in the April-June quarter. Monthly figures showed that they had declined for five straight months through September. In the July-September quarter, meanwhile, industrial production had fallen for the second consecutive quarter, and its rate of decline had widened.

According to monthly surveys on business sentiment, it had become somewhat evident that business sentiment at firms in the manufacturing sector had turned cautious. Under such circumstances, although the ratio of small firms making business fixed investments in the July-September quarter and the results of the survey on business fixed investment plans for fiscal 2012 remained firm, signs of weakness were observed in machinery orders, which were susceptible to export-related business.

Although public investment continued to increase, as seen in the statistics on the amount of public construction completed, the value of public works contracted -- a measure that reflected public works orders -- remained flat in the July-September quarter from the previous quarter, which might suggest slower growth in future public investment.

As for the employment situation, a decline in the number of new job offers and sluggish growth in non-scheduled hours worked had recently been seen, mainly in the manufacturing sector.

Private consumption seemed to remain resilient, but it had become increasingly evident that the growth momentum observed through the first half of 2012 had come to a pause.

As for prices, the three-month rate of change in the domestic corporate goods price index (CGPI) had been negative, but the pace of decline had slowed, reflecting the earlier movements in international commodity prices. The year-on-year rate of change in the CPI (all items less fresh food) was currently around 0 percent.

2. Financial environment

Financial conditions were accommodative.

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. The year-on-year rate of increase in the amount outstanding of bank lending had risen somewhat. Firms retained their recovered financial positions on the whole.

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

A. Economic Developments

In terms of global financial markets, members shared the recognition that investors had been somewhat less risk averse on the back of the European debt problem. On this basis, they shared the view that particular attention should be paid to developments in the markets as a number of issues still involved a high degree of uncertainty, including progress in Greece's fiscal and economic structural reform, Spain's potential request for financial support from the European Stability Mechanism (ESM), and efforts to establish the single banking supervisory mechanism.

With regard to overseas economies, members concurred that the negative effects stemming from the European debt problem had spread globally through a trade channel as well as a business sentiment channel since the second half of 2011. They continued that, in fact, many countries and regions had recently moved deeper into a deceleration phase, especially in their manufacturing sectors. As for the outlook, they shared the view that overseas economies were likely to remain in the deceleration phase for the time being but would 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. One member said that attention should be paid to the possibility of either a delay in the timing of recovery in these economies or moderation in the pace of their recovery.

Members shared the recognition that economic activity in the euro area had receded slowly. A few members said that the sluggish European economy was dampening the Chinese economy through trade channels, and was considerably suppressing growth in the volume of global trade. 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 in peripheral countries, although core countries were likely to post higher growth gradually due to an increase in exports to outside the area.

Members shared the recognition that, although infrastructure investment in China had been showing signs of an increase, the Chinese economy had been decelerating at a somewhat faster pace during the past few months as inventory accumulation had continued in a wide range of industries, including materials industries, thereby prolonging the inventory adjustment phase. As for the outlook, they concurred that the economy was likely to remain in a deceleration phase for the time being, but would register higher growth gradually as positive effects of economic stimulus measures on both the monetary and fiscal fronts started to appear and inventory adjustment progressed. Some members said that, given the persisting inventory adjustment pressures and uncertainty regarding policy effects, it would likely take time for the economic growth rate to see a clear recovery.

Members shared the view that, against the background of weakness in final demand in Europe and China, the pick-up in the NIEs and the ASEAN economies had moderated, particularly in the corporate sector -- namely, business fixed investment in manufacturing and exports. As for the outlook, they concurred that this pick-up was likely to become more evident as exports gradually started increasing while domestic demand -- especially private consumption -- maintained firmness.

Members agreed that the U.S. economy had been on a moderate recovery trend on the whole, as was evident in the modest increase in private consumption and signs of a pick-up in the housing market. They continued that, nevertheless, the pace of increase in business fixed investment, exports, and production had slowed as business sentiment had become cautious on the back of heightened uncertainties associated with the deceleration in the global economy and the "fiscal cliff." They concurred that the U.S. economy was likely to continue recovering at a moderate pace, mainly against the background of accommodative financial conditions, albeit with the effects of fiscal austerity policy. One member noted that the member was closely monitoring whether the U.S. economy could continue to recover in a situation where the global economy, including the European and Chinese economies, had moved deeper into a deceleration phase. A few members added that U.S. economic activity might be significantly restrained in the first half of 2013 due to the effects of the "fiscal cliff."

Members concurred that financial conditions in Japan had been accommodative in a situation where the Bank pursued powerful monetary easing in a continuous manner. They shared the view that firms' funding costs had been hovering at low levels, and that issuing conditions for CP and corporate bonds remained favorable on the whole. In terms of the outlook, members concurred that these accommodative financial conditions were likely to support a transition toward a self-sustaining recovery in domestic private demand.

Based on the above deliberations on economic and financial conditions abroad, as well as Japan's financial conditions, members discussed the state of Japan's economy. They concurred that, reflecting the fact that overseas economies had moved deeper into the deceleration phase, exports and industrial production had decreased, and this was starting to affect some areas of domestic demand. One member expressed the view that the deceleration in overseas economies was starting to exert influence on business fixed investment in the manufacturing sector. Members shared the recognition that the economy had weakened further since the Monetary Policy Meeting held in September 2012. One member expressed the view that, although not fully confirmed by hard data, anecdotal information, for example, reported at the meeting of general managers of the Bank's branches suggested that recent developments in the relations between Japan and China were having effects on exports, production, and tourism demand. A few members said that, given developments in production and the Indexes of Business Conditions, there was a possibility that the economy would be acknowledged retroactively to have entered a recessionary phase. Based on this discussion, members concurred that the economy had been weakening somewhat and was likely to level off more or less for the time being.

Members agreed that the year-on-year rate of change in the CPI (all items less fresh food) was currently around 0 percent and likely to stay at this level for the time being.

B. Outlook for Economic Activity and Prices

With regard to the baseline scenario of the outlook for Japan's economic activity, members agreed that growth rates were likely to be lower than those presented in the interim assessment in July 2012, mainly due to the effects of the deceleration of overseas economies. On this basis, they shared the view that, were the Bank to enhance monetary easing further at this meeting, Japan's economy would gradually return to a moderate recovery path underpinned by a pick-up in the pace of recovery in overseas economies and by reconstruction-related demand in a broad sense. Some members stressed that, as efforts proceeded to strengthen the economy's growth potential, such as those by the government, the sustainability of economic recovery was likely to gain momentum.

Regarding developments in economic activity from the second half of fiscal 2012 toward fiscal 2013, members shared the view that both exports and industrial production were likely to remain relatively weak over that period against the background of prolonged deceleration in overseas economies. They agreed that, in fiscal 2013, Japan's economy was likely to grow at a pace that was clearly above its potential as a pick-up in overseas economies gradually became evident and domestic private demand increased at a robust pace, coupled with rising corporate profits and labor income, whereas support from reconstruction-related demand -- in particular, public demand -- would diminish slowly. Members concurred that, in fiscal 2014, the underlying trend of the economy -- that is, the trend excluding the fluctuations stemming from the scheduled hike in the consumption tax -- was projected to grow at a rate somewhat higher than its potential, as overseas economies were likely to register growth above the historical long-term average and the stimulative effects of low interest rates would strengthen on the back of improvement in corporate profits and higher growth expectations, all of which would underpin domestic private demand. With regard to the effects of the consumption tax hike, members shared the recognition that, in the second half of fiscal 2013, a front-loaded increase in demand prior to the hike was likely to take place on a large scale, generating a considerably higher growth rate temporarily. They continued that, nonetheless, the subsequent decline in demand following the front-loaded increase was likely to be seen mostly in the first half of fiscal 2014; thus, the growth rate in fiscal 2014 as a whole would probably be at a somewhat low level, slightly above 0 percent.

In terms of the outlook for prices, excluding the direct effects of the consumption tax hike, most members expressed the view that, based on the assumption that medium- to long-term inflation expectations would remain stable, the year-on-year rate of change in the CPI was likely to hover around 0 percent for the time being and start rising gradually thereafter as the aggregate supply and demand balance improved. These members continued that, in fiscal 2014, it appeared likely that the rate of change would move steadily closer toward the Bank's "price stability goal in the medium to long term" of 1 percent for the time being. As for international commodity prices, which formed the basis of the outlook for the CPI, these members noted that, on average, prices were likely to remain more or less flat for the time being, reflecting the deceleration of overseas economies. These members continued that, thereafter, the prices were likely to follow a moderate rising trend against the background of an increase in demand for food and energy arising from growth in emerging economies. One member pointed to the possibility that the rising trend in unit prices of goods and services consumed by households and the improving trend in the employment conditions for part-time workers could generate a rise in the CPI. In response to such views, a few members pointed out that, considering that the correlation between the aggregate supply and demand balance and the rate of change in the CPI remained mild, the influence of improvement in the aggregate supply and demand balance on the inflation rate should be viewed in a conservative manner. These members continued that, therefore, it might be difficult to assess that the rate of change in the CPI would move steadily closer toward 1 percent. One of these members added that, in considering the outlook for prices, an improvement in the supply and demand balance in the labor market was crucial. This member continued that, taking into account that the unit labor cost had clearly declined in the most recent two quarters, a cautious view regarding the outlook for prices was inevitable.

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

Regarding the outlook for economic activity, members noted the following upside and downside risk factors: (1) developments in global financial markets and overseas economies; (2) uncertainty with regard to firms' and households' medium- to long-term growth expectations; (3) uncertainty with regard to the effect of the consumption tax hike; and (4) various problems regarding Japan's fiscal sustainability. As risks stemming from developments in overseas economies, many members pointed to the possibility that strains in global financial markets would intensify once again in the case of reemerging concern over the implementation of fiscal, financial system, and economic structural reforms in the individual countries in Europe, thereby acting as a downside risk not only to the European economy, but also to the global economy and consequently to Japan's economy. With regard to the U.S. economy, these members -- noting the current situation in which strains from households' balance-sheet adjustments persisted -- commented that, in addition to the negative effects stemming from the European debt problem, it was possible that uncertainty surrounding the future course of fiscal policy, including the issue of the "fiscal cliff," would exert significant restraining pressure on economic activity. As a medium- to long-term risk factor to the Chinese economy, some members pointed to the issue of whether it would manage to succeed in making the transition from a high growth phase to a sustainable stable growth phase by overcoming the problem of excess capacity. In addition, many members noted that, while the effects of recent developments in the relations between Japan and China had already been observed, the risk that these would have widening implications was a matter of concern. Some members pointed out that, while greater attention should be paid to downside risks on the whole, there were also some upside risks. Specifically, these members said that, in the United States, there were upside risks to the economy: (1) an acceleration in the pace of recovery in the housing sector could stimulate private consumption; and (2) the removal of uncertainty surrounding fiscal policy could invigorate corporate activity. These members continued that, in Japan, the better-than-expected results from the government's efforts aimed at raising the economy's growth potential could act as an upside risk.

Members pointed to the following as upside and downside risk factors specific to the outlook for prices: (1) uncertainty associated with the responsiveness of prices to the aggregate supply and demand balance; (2) developments in firms' and households' medium- to long-term inflation expectations; and (3) developments in import prices. With regard to the first factor, some members said that particular attention should be paid to the possibility that firms' low pricing strategies, households' preference for inexpensive goods and services, and weak short-term inflation expectations would lessen the extent to which prices responded to changes in the aggregate supply and demand balance.

Based on this discussion on upside and downside risk factors to the outlook for Japan's economic activity and prices, members shared the recognition that it was necessary to pay greater attention to downside risks in terms of risk balance. Furthermore, they shared the recognition that attention should continue to be paid to the effects of financial and foreign exchange market developments on economic activity and prices.

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

Members made an assessment in terms of <u>the first perspective</u>; that is, an assessment of the baseline scenario of the outlook for economic activity and prices through fiscal 2014. Most members expressed the following view: (1) Japan's economy was likely to level off for the time being and return to a moderate recovery path as domestic demand remained resilient on the whole and overseas economies gradually emerged from the deceleration phase; (2) the year-on-year rate of change in the CPI, excluding the direct effects of the consumption tax hike, was likely to hover around 0 percent for the time being and start rising gradually thereafter as the aggregate supply and demand balance improved; in fiscal 2014, it appeared likely that it would move steadily closer toward the Bank's "price stability goal in the medium to long term" of 1 percent for the time being; and (3) therefore, in assessing comprehensively the baseline scenario considered to be the most likely, these members expected that Japan's economy would return to a sustainable growth path with price stability in the longer run.

Members then made an assessment in terms of the second perspective; namely, the examination of the risks considered most relevant to the conduct of monetary policy, including those that had a longer time horizon than the first perspective. In terms of economic activity, they shared the following view: (1) although tail risks arising from the European debt problem were waning somewhat, a high degree of uncertainty remained concerning global financial markets and overseas economies, and this was still an important downside risk; (2) medium- to long-term growth expectations could move in either the upside or downside direction depending on the outcome of the efforts to strengthen growth potential; (3) the effects of the consumption tax hike on economic activity were highly uncertain in view of experience gained from similar past occurrences at home and abroad; and (4) efforts to ensure fiscal sustainability could also significantly affect economic developments. Members also shared the recognition that, on the price front, careful attention should be paid to the responsiveness of prices to the aggregate supply and demand balance as well as future developments in medium- to long-term inflation expectations and international commodity prices. They examined financial imbalances from the viewpoint of longer-term risks that would significantly impact economic activity and prices when they materialized, although the probability of their appearance was low. Specifically, they reaffirmed that, while the amount outstanding of government debt had accumulated to a substantially high level, financial institutions' lending remained lackluster and their holding of government bonds tended to increase significantly. They continued that due attention therefore needed to be paid to a possibility that some events might trigger a pick-up in long-term interest rates, which would have significant effects on financial institutions and consequently on Japan's economy as a whole.

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

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

Regarding <u>the guideline for money market operations for the intermeeting period ahead</u>, 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.

Regarding the Bank's outlook for economic activity and prices, members concurred that overseas economies, exports, production, and some areas of domestic demand had deteriorated further from that presented in September 2012 when the Bank decided to enhance monetary easing. They continued that it was necessary for the Bank to undertake further aggressive monetary easing policies in order to prevent Japan's economy from deviating from its course of return to a sustainable growth path with price stability. On this basis, members shared the recognition that it was appropriate to substantially increase the total size of the Asset Purchase Program at this meeting, following the increase made in September. With regard to the size of increase in the Asset Purchase Program, many members said that it was appropriate to increase the total size of the Asset Purchase Program by about 10 trillion yen for the purchases of financial assets, including risk assets, in order to make financial conditions for economic entities such as firms and households even more accommodative by further encouraging a decline in longer-term market interest rates and a reduction in risk premiums. One member expressed the recognition that it might be necessary for the Bank to devise further ways to boost inflation expectations, such as exerting influence on foreign exchange rates.

Regarding the effects of the comprehensive monetary easing measures, members discussed the transmission mechanism in which comprehensive monetary easing fed through into economic activity. They shared the recognition that, in terms of the first stage of the transmission mechanism -- namely, the effects of monetary easing permeating financial conditions -- financial conditions surrounding firms and households were accommodative. Meanwhile, in terms of the second stage -- namely, financial conditions permeating economic activity -- they shared the view that, despite the extremely accommodative financial conditions, these were not fully utilized. In order to encourage further permeation of monetary easing effects in the second stage of the transmission mechanism, members shared the recognition that it was necessary for the Bank to devise ways to promote financial institutions' more aggressive action and help increase proactive credit demand of firms and households. A few members added that, although room for a further decline in interest rates was becoming limited, should the current financial conditions be fully utilized, the effects of monetary easing on economic activity and prices could be expected to strengthen.

Based on this discussion, in order to examine the specifics of an increase in the total size of the Asset Purchase Program and of the fund-provisioning measure to stimulate bank lending, the chairman requested that the staff explain the amount of risk and the market size of those financial assets for which purchases could be increased, as well as the framework for the new fund-provisioning measure.

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

(1) In light of the Bank's risk tolerance and the market size, increases in the amount of purchases of T-Bills and JGBs would pose no significant problem. As for risk assets, increases in the amount of purchases of CP, corporate bonds, and J-REITs would face constraints due to their market sizes. Moreover, purchases of exchange-traded funds (ETFs) and J-REITs would entail a relatively large amount of risk.

(2) As for the new fund-provisioning measure, if the Bank were to support financial institutions' efforts by utilizing its functions as a central bank, it would be appropriate to provide long-term funds -- up to an amount equivalent to the net increase in lending -- at a low interest rate to financial institutions, at their request. In doing so, it would be appropriate for the Bank to avoid setting an upper limit to the total amount of funds it provided under this measure -- that is, the total amount should be unlimited. Assuming that the Bank conducted provision of funds under this framework for about one year, the amount was estimated at approximately 15 trillion yen based on past data.

In response to the staff's explanation, members first discussed <u>an increase in the total size of the Asset Purchase Program</u>. They concurred that it was appropriate to increase the total size of the Asset Purchase Program by about 10 trillion yen, in order to make financial conditions for economic entities such as firms and households even more accommodative by further encouraging a decline in longer-term market interest rates and a reduction in risk premiums. Many members said that, together with the increase in the total size of the Asset Purchase Program of about 10 trillion yen decided in September, the size of the overall increase would be quite drastic. As for financial assets purchased under the Asset Purchase Program, members shared the recognition that it would be appropriate to earmark the increase in the Asset Purchase Program for the purchases not only of T-Bills and JGBs but also of a wide range of risk assets, considering the Bank's risk tolerance. One member said that it was appropriate to earmark the increase in the Asset Purchase Program mainly for the purchases of government securities, which could exert wide-ranging influence on lending rates, for example. Some members expressed the view that it was appropriate for the Bank to continue to purchase a wide range of risk assets given that Japan's economy had been weakening somewhat, while the time of completion of the increase in purchases of risk assets was approaching, at end-December 2012. One of these members added that, if the Bank were to earmark the increase in the Asset Purchase Program for the purchases of risk assets, this would be expected to restrain excessive concerns. A few members commented that attention should be paid to the possibility that, if the Bank were to purchase a large amount of risk assets, this would incur losses at the Bank and ultimately result in an increased burden on the taxpayer. One member said that, to make these powerful monetary easing measures more widely recognized, the Bank should explain them to the public thoroughly.

Members next discussed the fund-provisioning measure to stimulate bank lending (hereafter the Stimulating Bank Lending Facility). They agreed that it was appropriate for the Bank to provide long-term funds -- up to an amount equivalent to the net increase in lending -- at a low interest rate to financial institutions, at their request, with a view to promoting their more aggressive action and helping increase proactive credit demand of firms and households. They also shared the recognition that there should be no upper limit -- unlimited -- to the total amount of funds provided by the Bank under this facility, as this would offer substantial support for financial institutions' efforts to increase lending. One member expected that this new facility would encourage financial institutions to explore potential demand for funds through their vigorous efforts. As for the specifics of the framework for the facility, members concurred that, in order to effectively support financial institutions' efforts, it was appropriate to set the period of loan disbursements under the facility at about one year and make depository institutions eligible for the facility. They also agreed that it was appropriate for the purpose of this facility to calculate the net increases in lending, based on credit extended to the nonfinancial private sector, and to include both yen and foreign currency-denominated lending. One member added that, if yen-denominated lending to nonresidents were to be included in calculating the net increases in lending eligible for the facility, this would be expected to produce the side effect of mitigating upward pressure on the yen. Members shared the view that the interest rate charged by the Bank should be a fixed rate -- for up to three years -- equivalent to the Bank's target for the uncollateralized overnight call rate at the time of loan disbursements, and each loan could be rolled over up to four years. They continued that this would enable financial institutions to raise long-term funds at a low interest rate, thereby facilitating these institutions' efforts. In relation to the fund-provisioning measure to support strengthening the foundations for economic growth (hereafter the Growth-Supporting Funding Facility), members concurred that the efforts to strengthen the foundations for economic growth and financial institutions' initiatives to increase the total amount of lending were mutually complementary; therefore, with a view to clarifying the Bank's policy stance, it was appropriate to designate the to-be-established Stimulating Bank Lending Facility, combined with the existing Growth-Supporting Funding Facility, as the Loan Support Program. A few members added that, although the functions of these two facilities overlapped each other to some extent, they would have value in playing their different respective roles. One member said that the criticism of the Growth-Supporting Funding Facility at the early phase of its introduction -- namely, that it intensified lending competition among financial institutions -- had faded as the Bank's policy intentions permeated the markets. This member continued that, given this experience, the Bank needed to clearly explain its policy intentions, as it had done previously.

In order to establish the Loan Support Program, it was necessary to examine specifics such as its terms and conditions, and thus the chairman instructed the staff to examine such specifics and report back at a later Monetary Policy Meeting.

With regard to <u>the wording of the Bank's policy commitment</u>, a few members raised the issue of whether it was possible to further exert influence on interest rates and demonstrate the Bank's clearer stance on monetary easing by changing the current wording -- namely, that the Bank aimed to achieve its goal of 1 percent for the time being in terms of the year-on-year rate of increase in the CPI through the pursuit of powerful monetary easing, conducting its virtually zero interest rate policy and implementing the Asset Purchase Program mainly through the purchase of financial assets, and would continue with this powerful easing until it judged the 1 percent goal to be in sight -- and then presenting a new wording in the statement, which was to be released immediately after the meeting. On the other hand, most members expressed a cautious view regarding making changes to the wording of the policy commitment at this point. These members noted that market rates were at very low levels, even at the medium zone of the yield curve, and it seemed unlikely that the continuation of the Bank's monetary easing was being questioned in the markets; thus, there was no need to change the wording of the policy commitment. A few members said that the time might come when a change in wording would have some positive effects, but this was not the case at this point. In terms of the operation of the Asset Purchase Program, these members added that, under the current policy commitment, it was difficult to imagine that any market participants were projecting that the Bank would reduce the amount outstanding of the Asset Purchase Program immediately after the completion of increased purchases. Some members commented that, if there was any misunderstanding in the markets about the operation of the Asset Purchase Program, the Bank should correct such misunderstanding by reemphasizing to the public that it would implement the Asset Purchase Program in line with its commitment to continuing with powerful monetary easing aiming at achieving the goal of 1 percent even after the completion of increased purchases under the Asset Purchase Program. A few members added that, with the aim of communicating the Bank's recognition of the current situation accurately, it was important to thoroughly explain that the Bank had not yet judged the 1 percent goal to be in sight.

Regarding measures aimed at overcoming deflation, the chairman proposed the following.

(1) Both the Bank and the government had been making efforts to address the critical challenge for Japan's economy of overcoming deflation as early as possible and returning to a sustainable growth path with price stability. However, the economy had recently been weakening somewhat and new risk factors had arisen, such as the widening implications of recent developments in the relations between Japan and China.

(2) The government and the Bank, based on their recognition of severe economic conditions, could take this opportunity to state clearly to the public both the intention to make their utmost efforts to address this challenge and the shared understanding of their respective roles.

In response to the proposal, members agreed that the effectiveness of the Bank's and the government's respective policy measures would be enhanced by the Bank's reaffirmation of its stance of pursuing powerful monetary easing and the government's concurrent presentation of its recognition that -- in order to overcome deflation -- it was essential to reform an economic structure that was predisposed to deflation, as well as conduct appropriate macroeconomic policy management. One member expressed the view that it was important to make public that the Bank and the government had reconfirmed their respective roles in addressing the challenge for the economy of overcoming deflation as early as possible and returning to a sustainable growth path with price stability. A different member said that the Bank would reaffirm its stance of pursuing powerful monetary easing, and at the same time expect the government to vigorously promote measures for strengthening Japan's growth potential. These two members added that it should be ensured that this would not raise any doubt with respect to the Bank's independence.

IV. Remarks by Government Representatives

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was in a weak tone recently due to deceleration of the world economy, although some components still exhibited steady movements. It was likely that progress toward economic recovery would remain paused for the time being. The government judged that uncertainty about the prospects for overseas economies was high, and therefore it was necessary to monitor the situation with great vigilance. Although the rate of decline in prices was moderating, recent price developments indicated that the Japanese economy remained in a mild deflationary situation.

(2) The government welcomed the chairman's proposal to release the "Measures Aimed at Overcoming Deflation," which stated clearly the government's and the Bank's determination and their concerted efforts toward overcoming deflation. In particular, it was unprecedented for the government and the Bank to confirm that overcoming deflation as early as possible was a common challenge, and -- to make this clear to the public at home and abroad -- to announce and release this in the form of a document carrying both entities' names. This would be an important step toward overcoming deflation, which was a challenge Japan had confronted for over a decade.

(3) Setting a course toward the revitalization of the Japanese economy was the greatest task the current Cabinet needed to undertake at present. In order to counter risks of an

economic downturn and to accelerate measures for overcoming deflation as early as possible and realizing economic revitalization, the Cabinet decided on October 26, 2012 to release contingency funds first of all for measures that urgently needed to be implemented. Moreover, the government would formulate economic policy measures by no later than the end of November 2012. Under these measures, it would bring forward the implementation of measures in the three key policy areas presented in the "Comprehensive Strategy for the Rebirth of Japan."

(4) In the October 2012 *Outlook for Economic Activity and Prices*, the forecasts for the year-on-year rate of change in the CPI, excluding the effects of the consumption tax hike, were still below 1 percent over the projection period, and therefore further efforts by the Bank were required. The government, focusing on the period through fiscal 2013, would mobilize optimal policy measures to overcome deflation based on the "Comprehensive Strategy for the Rebirth of Japan." Considering this plan of action, the government expected the Bank to make its utmost efforts in the conduct of monetary policy in order to achieve the price stability goal as promptly as possible. The government deemed the Bank's proposal made at this meeting to increase the total size of the Asset Purchase Program to be a timely action. It expected the Bank to continue with powerful monetary easing until the exit from deflation was ensured.

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

(1) For the third consecutive month, the government had revised downward its assessment of the state of the Japanese economy, judging that it was in a weak tone recently due to deceleration of the world economy. As for the outlook, uncertainty about the prospects for overseas economies, including those of the euro area and Asia -- notably China -- remained high. In this situation, a further slowing down of overseas economies and sharp fluctuations in the financial markets were downside risks to the Japanese economy.

(2) Based on the recognition that countering risks of an economic downturn and accelerating measures for overcoming deflation as early as possible and realizing economic revitalization were pressing challenges, the Cabinet had recently decided to release contingency funds for measures that urgently needed to be implemented, as the

first portion of the economic policy measures. The government would work to formulate the economic policy measures by no later than the end of November 2012.

(3) The government deemed it important that the Bank take appropriate actions without delay. It welcomed the Bank's proposal made at this meeting to increase the total size of the Asset Purchase Program by 11 trillion yen as a timely and appropriate action. Meanwhile, the timing of achieving a CPI inflation rate of 1 percent was highly uncertain. The government expected the Bank to continue to conduct monetary policy vigorously and decisively for the purpose of swiftly achieving the goal of 1 percent -- the rate the Bank aimed to achieve for the time being -- while monitoring developments in economic activity and financial markets at home and abroad as well as working sufficiently on its communication to the public in an effort to make its policy stance fully understood.

(4) Overcoming deflation as early as possible would be achieved only through the combination of (1) the government's macroeconomic policy management and reforming of the economic structure and (2) the Bank's monetary policy conduct. The joint release of the document by the government and the Bank -- stating clearly that overcoming deflation as early as possible was their common challenge, and that they would work together and make their utmost efforts to address this challenge -- would be an important step toward overcoming deflation. The government welcomed this proposal for the joint release, and would steadily carry out its measures as laid out in the document.

V. 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, <u>the chairman</u> 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 "Amendment to 'Principal Terms and Conditions for the Asset Purchase Program'"

With a view to further pursuing aggressive monetary easing, members shared the recognition that it was appropriate to increase the size for each asset category under the Asset Purchase Program as follows: about 5 trillion yen for JGBs; about 5 trillion yen for T-Bills; about 0.1 trillion yen for CP; about 0.3 trillion yen for corporate bonds; about 0.5 trillion yen for ETFs; and about 0.01 trillion yen for J-REITs. "Amendment to 'Principal Terms and Conditions for the Asset Purchase Program'" was then put to a vote. Members voted unanimously to approve the amendment and agreed that the decision should be made public accordingly.

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

Members discussed the draft of "The Bank's View" in the *Outlook for Economic Activity and Prices* (consisting of "The Bank's View" and "The Background"), and formed a majority view. One member, however, proposed changing the expressions regarding (1) the Bank's outlook for prices -- namely, that the year-on-year rate of change in the CPI would move steadily closer toward 1 percent in fiscal 2014 -- and (2) the Bank's policy stance -- namely, that the Bank would continue with powerful monetary easing until it judged the 1 percent goal in terms of the year-on-year rate of increase in the CPI to be in sight. As a result, the following two proposals were submitted.

Mr. T. Sato formulated a proposal to make the following changes. First, with regard to the outlook for prices, he proposed to change the current expression that "the year-on-year rate of change in the CPI is expected to hover around 0 percent for the time being and start rising gradually thereafter as the aggregate supply and demand balance improves. In fiscal 2014, it appears likely that it will move steadily closer toward the Bank's 'price stability goal in the medium to long term' of 1 percent for the time being" to a new expression that "the year-on-year rate of change in the CPI is expected to hover around 0 percent for the time being and start rising gradually thereafter as the aggregate supply and demand balance improves." Second, with regard to the Bank's policy stance, Mr. Sato proposed changing the current expression that "the Bank will continue with this powerful easing until it judges the 1 percent goal to be in sight" to a new expression that "the Bank will continue with this powerful easing until it judges that the 1 percent has been steadily maintained." The proposal was defeated by a majority vote.

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

To reflect the majority view, the chairman formulated a proposal on "The Bank's View" and put it to a vote. The Policy Board decided the text of "The Bank's View" by a majority vote. It was confirmed that "The Bank's View" would be made public on October 30, 2012 and the whole report on October 31, 2012.

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

Mr. T. Sato and Mr. T. Kiuchi dissented for the following reasons: (1) they held a more cautious view of the outlook for prices compared with the expression in the October 2012 *Outlook for Economic Activity and Prices*; and (2) they considered that, in addition to the enhancement of monetary easing decided at this meeting, the wording of the Bank's policy commitment should be changed.

D. Discussion on the Statement Entitled Measures Aimed at Overcoming Deflation

Members then discussed the statement Measures Aimed at Overcoming Deflation, and it was put to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment 4).

E. Discussion on the Statement Entitled Enhancement of Monetary Easing

On the basis of the above discussions, members discussed the statement Enhancement of Monetary Easing, and it was put to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment 1).

VI. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of October 4 and 5, 2012 for release on November 2, 2012.

Attachment 1

October 30, 2012

Bank of Japan

Enhancement of Monetary Easing

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan made the following decisions with a view to further pursuing aggressive monetary easing.

(1) Increase in the total size of the Asset Purchase Program (hereafter referred to as "the Program"): unanimous vote

The Bank decided to increase the total size of the Program by about 11 trillion yen, from about 80 trillion yen to about 91 trillion yen in order to make financial conditions for such economic entities as firms and households even more accommodative by further encouraging a decline in longer-term market interest rates and a reduction in risk premiums. The increase in the size of respective assets under the Program is as follows, and the Bank intends to complete the increased purchases by around end-2013 (see Attachment 2 for an overview of the Program).[5]

Japanese government bonds (JGBs):	about 5 trillion yen
Treasury discount bills (T-Bills):	about 5 trillion yen
CP:	about 0.1 trillion yen
Corporate bonds:	about 0.3 trillion yen
Exchange-traded funds (ETFs):	about 0.5 trillion yen
Japan real estate investment trusts (J-REITs):	about 0.01 trillion yen

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

(2) Establishment of the Framework for the Fund-Provisioning Measure to Stimulate Bank Lending ("Stimulating Bank Lending Facility"): unanimous vote

The Bank decided to provide long-term funds -- up to the amount equivalent to the net increase in lending -- at a low interest rate to financial institutions at their request, with the view to promoting their aggressive action and helping increase proactive credit demand of firms and households. There shall be no upper limit -- unlimited -- to the total amount of funds provided by the Bank under this facility. The Chairman instructed the staff to examine the specifics of establishing the framework for this new facility and report back at a Monetary Policy Meeting (see Attachment 3 for the outline of the preliminary framework).

2. The Policy Board also decided, by a unanimous vote, to set the following guideline for money market operations for the intermeeting period:

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

3. Overseas economies have moved deeper into a deceleration phase. In global financial markets, while investors' risk aversion on the back of the European debt problem has abated somewhat, particular attention should be given to developments in these markets. Under such circumstances, exports and industrial production have decreased, starting to affect domestic demand which has remained firm thus far. As such, Japan's economy has been weakening somewhat. Meanwhile, the year-on-year rate of change in the CPI (all items less fresh food) is around 0 percent.

Going forward, 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 spreading effects of the recent bilateral relationship between Japan and China. Furthermore, attention should continue to be paid to the effects of financial and foreign exchange market developments on economic activity and prices.

4. Based on these economic and price developments, the Bank of Japan judged it appropriate to undertake further aggressive monetary easing policies in order to prevent Japan's economy from deviating from the path of returning to a sustainable growth path with price stability.

5. The Bank recognizes that Japan's economy faces the critical challenge of overcoming deflation as early as possible and returning to the sustainable growth path with price stability. This challenge will be met through the combination of (i) efforts by a wide range of economic agents -- such as business firms and financial institutions -- to strengthen the economy's growth potential and (ii) support from the financial side.

6. In order to address this challenge, it is necessary for the Government and the Bank of Japan to play their respective roles. The Bank, based on the aforementioned recognition, will pursue powerful monetary easing. It strongly expects the Government to vigorously promote measures for strengthening Japan's growth potential, based on the Government's recognition that in order to overcome deflation reforming the economic structure predisposed to deflation is essential in addition to appropriate macroeconomic policy management. In order to state clearly the shared understanding concerning the roles of the Government and the Bank, the Bank decided to release today "Measures Aimed at Overcoming Deflation" along with the Government (see Attachment 4). The Bank believes that this release will contribute to enhancing the effectiveness of respective policy measures.

Attachment 2

Size of the Asset Purchase Program

(trillion yen)

	Amount outstanding (as of end-September 2012)	Program size (Figures in parentheses represent the size before today's decision.)			Change in amount
		End-December 2012	End-June 2013	End-December 2013	End-December 2013
Total size [Notes 1,2]	**About 61.8**	**About 65**	**About 78 (About 75)**	**About 91 (About 80)**	**About +11**
Asset purchases	31. 1	40	53 (50)	66 (55)	+11
JGBs [Note 3]	18. 1	24. 0	31. 5 (29. 0)	39. 0 (34. 0)	+5. 0
T-Bills	7. 4	9. 5	14. 5 (14. 5)	19. 5 (14. 5)	+5. 0
CP	1. 4	2. 1	-->	2. 2 (2. 1)	+0. 1
Corporate bonds	2. 7	2. 9	-->	3. 2 (2. 9)	+0. 3
Exchange-traded funds (ETFs) [Note 4]	1. 4	1. 6	-->	2. 1 (1. 6)	+0. 5
Japan real estate investment trusts (J-REITs) [Note 4]	0. 10	0. 12	-->	0. 13 (0. 12)	+0. 01
Fixed-rate funds-supplying operation against pooled collateral	30. 7	25. 0	25. 0 (25. 0)	25. 0 (25. 0)	—

Notes: 1. The size of the Program at the time of its introduction in October 2010 was about 35 trillion yen.
2. The amount outstanding of the Program is 62.7 trillion yen as of October 20, 2012.
3. In addition to purchases under the Program, the Bank regularly purchases JGBs at the pace of 21.6 trillion yen per year.
4. The increases in the purchases of ETFs and J-REITs are conditional on obtaining authorization in accordance with the Bank of Japan Act.

Attachment 3

Framework for the Fund-Provisioning Measure to Stimulate Bank Lending ("Stimulating Bank Lending Facility")

1. The Bank shall fulfill any request for funds from each counterparty up to the amount equivalent to the net increase in lending from the designated date.

2. The total amount of loans provided by the Bank under this facility shall be "unlimited" (i.e., no upper limit).

3. The interest rate charged by the Bank shall be a long-term fixed rate equivalent to the Bank's target for the uncollateralized overnight call rate at the time of loan disbursement. It is currently 0.1 percent per annum.

4. Duration of loans shall be 1 year, 2 years, or 3 years, at the request of each counterparty. Loans can be rolled over up to 4 years.

5. For about 1 year after the introduction of this facility, the Bank shall provide loans at an interval it deems appropriate.

6. Loans shall be provided against pooled collateral.

7. Counterparties eligible for this facility will be depository institutions.

8. In the calculation of net increases in lending for the purpose of this facility, only credit extended to the non-financial private sector shall be counted and it can be either yen denominated or foreign-currency denominated.

9. Loans under this facility, combined with those under the "Growth-Supporting Funding Facility" (Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth) shall constitute the "Loan Support Program."

(Appendix) Outline of the "Loan Support Program"

Loan Support Program

Total Amount: "unlimited"

Growth-Supporting Funding Facility

Total Amount: 5.5 trillion yen

Main Rules 3.5 trillion yen

Equity investments and ABL

0.5 trillion yen

Small-lot investments and loans

0.5 trillion yen

Loans in the U.S. dollar

U.S. dollar funds equivalent

to 1 trillion yen

Amount Outstanding: 3.4 trillion yen

Stimulating Bank Lending Facility
(New)

Total Amount: "unlimited"

Simply Calculated Amount from the Recent Data: 15 trillion yen

Note: According to the August data, the amount of loans increased by approximately 15 trillion yen in a year for financial institutions whose lending increased.

Attachment 4

October 30, 2012

Measures Aimed at Overcoming Deflation

The Government and the Bank of Japan will carry out the following measures aimed at overcoming deflation in Japan at this juncture.

1. The Government and the Bank share the recognition that the critical challenge for Japan's economy is to overcome deflation as early as possible and to return to a sustainable growth path with price stability. The Government and the Bank will work together and make their utmost efforts to address this challenge.

2. The Bank recognizes that the challenge mentioned above will be met through the combination of (i) efforts by a wide range of economic agents to strengthen the economy's growth potential and (ii) support from the financial side. The Bank strongly expects the Government to vigorously promote measures for strengthening Japan's growth potential.

   The Bank judges "the price stability goal in the medium to long term" to be within a positive range of 2 percent or lower in terms of the year-on-year rate of change in the CPI. The Bank aims to achieve its goal of 1 percent for the time being in terms of the year-on-year rate of increase in the CPI through the pursuit of powerful monetary easing, conducting its virtually zero interest rate policy and implementing the Asset Purchase Program mainly through the purchase of financial assets. The Bank will continue with this powerful easing until it judges the 1 percent goal to be in sight. In doing so, it will ascertain whether there is any significant risk to the sustainability of economic growth, including from the accumulation of financial imbalances.

   In the October 2012 issue of the *Outlook for Economic Activity and Prices* released on October 30, 2012, the Bank presented the projections for the CPI. The Bank will continue with this powerful easing aiming at achieving the goal of 1 percent. The Bank will report the outlook for prices regularly at the Ministerial Council on Exiting Deflation.

   The Bank will also continue to make efforts to explain its thinking on the conduct of monetary policy clearly to the market.

3. The Government strongly expects the Bank to continue powerful easing as outlined in section 2 until deflation is overcome.

In order to overcome deflation, the Government recognizes that reforming the economic structure predisposed to deflation is essential in addition to appropriate macroeconomic policy management. Therefore, based on the Prime Minister's instruction on October 17, 2012, the Government will promptly formulate economic policy measures to counter risks of a downturn that Japan's economy faces at this juncture and to accelerate measures for realizing economic revitalization. In addition, based on the "Comprehensive Strategy for the Rebirth of Japan," which was decided by the Cabinet on July 31, 2012, the Government, focusing on through fiscal 2013, will mobilize optimal policy measures including regulatory and institutional reforms, budget, fiscal investment and loan program, and tax in order to dynamically mobilize "goods," "people," and "money."

The Government will assess the economic developments including the state of deflation and the macroeconomic management regularly at the Ministerial Council on Exiting Deflation.

Masaaki Shirakawa
Governor of the Bank of Japan

Seiji Maehara
Minister of State for Economic and Fiscal Policy

Koriki Jojima
Minister of Finance

Note: English translation is prepared by the Bank's staff based on the Japanese original.