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January 25, 2013

Bank of Japan

Minutes of the Monetary Policy Meeting

on December 19 and 20, 2012

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

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Wednesday, December 19, 2012, from 2:00 p.m. to 4:32 p.m., and on Thursday, December 20, from 9:00 a.m. to 12:56 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[2]

Mr. S. Sato, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance[3]

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

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on January 21 and 22, 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] Mr. K. Takemasa was present on December 20.

[3] Mr. S. Sato was present on December 19.

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. 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[4]

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

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

[4] Messrs. T. Umemori and H. Kanno were present on December 20.

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 November 19 and 20, 2012, 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 generally been in the range of 0.075 to around 0.09 percent.

With regard to the operation of the Asset Purchase Program, there had been active bidding until recently in the Bank's fixed-rate funds-supplying operation against pooled collateral as financial institutions had advanced their fund-raising in view of the decrease in the amount outstanding of the operation toward end-2012; however, undersubscription had recently occurred in the operation as these institutions had made progress in securing funds maturing beyond the year-end. As for the Bank's outright purchases of both Japanese government bonds (JGBs) and treasury discount bills (T-Bills), the amount outstanding of these assets had steadily accumulated.

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 essentially flat at around 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 a level slightly below 0.1 percent. Yields on 10-year JGBs temporarily dipped below the 0.7 percent level, due in part to active investment by some investors. However, they had recently risen to around 0.75 percent, as U.S. long-term interest rates had risen. The Nikkei 225 Stock Average had risen due to firm Chinese economic indicators as well as the depreciation of the yen, in light of increases in U.S. and European stock prices assisted primarily by easing concerns over the situation in Europe, and had recently recovered to the

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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.

10,000 yen level. Prices for Japan real estate investment trusts (J-REITs) had been more or less unchanged. As for yield spreads between corporate bonds and JGBs, although those on some corporate bonds were widening due to concerns over deterioration in business performance, those on other corporate bonds were more or less unchanged on the whole, reflecting continued solid demand from investors. The yen had depreciated against the U.S. dollar, partly because speculation about policies and Japan's trade deficit were regarded as reasons to sell the yen; it was currently moving in the range of 84-85 yen against the dollar.

C. Overseas Economic and Financial Developments

Overseas economies remained in 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 had slowed as growth in exports had been sluggish. These developments, coupled with the fact that business sentiment had become cautious, resulted in relatively weak business fixed investment. In the household sector, on the other hand, while the balance-sheet repair weighing on the economy had gradually been mitigated, the employment situation followed a modest improving trend, thereby underpinning the rising trend in consumer sentiment. In this situation, private consumption continued to increase moderately, and 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 decelerated, reflecting the decline in energy 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. As a result of such weakening of sentiment and the effects of fiscal austerity, business fixed investment had been declining and weakness in private consumption had become pronounced. Growth in exports was sluggish as well. Given these developments in demand, production was on a declining trend. As for prices, while slack in supply and demand conditions was exerting downward pressure on prices, the year-on-year rate of increase in the Harmonized Index of

Consumer Prices (HICP) for all items decelerated somewhat, reflecting the decline in energy 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 back of a favorable employment and income situation. The slowdown in the pace of increase in fixed asset investment was coming to a halt due to a rise in infrastructure investment. Under these circumstances, domestic demand as a whole had been firm. Meanwhile, exports continued to be relatively weak, reflecting the decrease in those bound mainly for Europe. While the developments in demand remained mixed, the growth momentum in production continued to be slow as inventory adjustment pressures persisted, particularly in materials industries, and imports were also relatively weak. Regarding the NIEs and the ASEAN countries, although these economies had been picking up, the pace was moderating, particularly in the corporate sector. Exports and production continued to be relatively 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, particularly in the NIEs, had been sluggish. On the other hand, private consumption had been firm, especially in the ASEAN countries. As for prices, in some of these Asian economies, there was still upward pressure on prices amid 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' risk aversion on the back of the European debt problem had abated recently, particular attention should be given to developments in these markets. Yield spreads for 10-year government bonds issued by European countries over German government bonds narrowed to a relatively large extent, particularly in peripheral countries, mainly reflecting the approval of new disbursement of financial assistance to Greece and the outcome of the debt buyback operation conducted by the Greek government. U.S. and European stock prices had been rising, due mainly to expectations for the Federal Reserve's additional monetary easing and the abating uncertainty about the situation in Europe. Under these circumstances, long-term interest rates in the United States rose, whereas those in Germany were almost unchanged due in part to the downward revision to the GDP growth projections by the European Central Bank and expectations for additional monetary easing due to the revision. With regard to corporate bond markets in the United States and Europe, credit spreads had been more or less unchanged on the whole. The funding conditions of European financial institutions had been stable overall. Spreads between interest rates on euro-denominated term instruments and overnight index swap (OIS) rates had been flat at low levels. The U.S. dollar funding premium in the foreign exchange swap markets had been declining and spreads between interest rates on U.S. dollar-denominated term instruments and OIS rates had been more or less unchanged at low levels. Meanwhile, in emerging and commodity-exporting economies, stock prices had risen and currencies, albeit with some fluctuations, had been relatively strong on the whole.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports and industrial production had decreased, mainly due to the fact that overseas economies remained in a deceleration phase. Real exports continued to decline in the October-November period relative to the July-September quarter of 2012, after having registered a large quarter-on-quarter decrease in that quarter. Industrial production continued to move down in October relative to the July-September quarter, after having declined for two quarters in a row since the April-June quarter. Exports and industrial production were expected to decrease at a reduced pace for the time being and start picking up thereafter as overseas economies gradually emerged from the deceleration phase. Judging from interviews with firms and other relevant information, industrial production as a whole for the October-December quarter was projected to continue decreasing, mainly in that of transport equipment and general machinery. For the January-March quarter of 2013, there was still a high degree of uncertainty, but it seemed likely that production as a whole would become more or less flat.

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 October compared with the July-September quarter, after having risen markedly in that quarter on a quarter-on-quarter basis. The value of public works contracted -- a measure that reflected public works orders -- was flat in the July-September quarter on a quarter-on-quarter basis, after having surged in the April-June quarter. Its growth momentum seemed to have come to a halt, as it had remained flat in the October-November period compared with the July-September quarter. Public investment was expected to continue increasing for the time being, albeit at a slower pace.

Business sentiment -- particularly that in manufacturing -- had become cautious. Business fixed investment had shown some weakness on the whole, as that in manufacturing had declined due to the drop in exports and industrial production, although resilience had been observed in nonmanufacturing. The aggregate supply of capital goods continued to move downward and machinery orders in manufacturing also came down; for nonmanufacturing, on the other hand, machinery orders and construction starts in terms of floor area had been resilient. Business fixed investment was projected to remain relatively weak for the time being, mainly in manufacturing, but to follow a moderate increasing trend thereafter, partly due to investment related to disaster prevention and energy.

The employment and income situation remained severe and the improvement in supply and demand conditions in the labor market had peaked out.

Private consumption continued to be resilient, despite lingering effects of the decline in car sales due to the ending of some measures to stimulate demand for automobiles. Private consumption was expected to remain resilient as a trend, with the effects of the decline in car sales likely to wane.

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

As for prices, international commodity prices had recently been more or less level. The three-month rate of change in the domestic corporate goods price index (CGPI) had been more or less flat. The CGPI was expected to be more or less flat for the time being. The year-on-year rate of change in the corporate services price index (CSPI) for all items excluding international transportation had recently been slightly negative. The year-on-year rate of change in the CPI (all items less fresh food) was currently around 0 percent and was expected to stay at this level for the time being.

2. Financial environment

Financial conditions were accommodative.

The overnight call rate remained at an extremely low level, and firms' funding costs had been hovering at low levels. With regard to credit supply, firms continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP and corporate bonds remained favorable on the whole as demand from investors continued to be solid, although some firms inevitably faced difficulty in issuing corporate bonds and were experiencing a widening of issuance spreads on CP, mainly due to deterioration in business performance. As for credit demand, firms showed signs of increasing their demand mainly for working capital and funds related to mergers and acquisitions. Against this backdrop, the year-on-year rate of change in the amount outstanding of bank lending had been positive. The year-on-year rate of decrease in the amount outstanding of corporate bonds had slowed. In contrast, the year-on-year rate of change in that of CP had turned negative. 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 2-3 percent. Meanwhile, the medium- to long-term inflation expectations of market participants, which had been declining moderately until recently, were rising slightly.

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

On December 7, 2012, the Bank carried out a new loan disbursement, amounting to 215.6 billion yen, under the main rules for the fund-provisioning measure to support strengthening the foundations for economic growth. The outstanding balance of loans disbursed by the Bank under these rules amounted to 3,234.2 billion yen after the new loan disbursement, and thus exceeded 3 trillion yen, as in the previous loan disbursement. Under the special rules for equity investments and asset-based lending (ABL), the Bank's new loan disbursement was 11.5 billion yen and the outstanding balance of loans came to 107.7 billion yen. Regarding the special rules for small-lot investments and loans, the Bank's new loan disbursement amounted to 0.915 billion yen and the outstanding balance of loans came to 5.041 billion yen. As for the special rules for the U.S. dollar lending arrangement, the Bank implemented its first new loan disbursement of 0.711 billion dollars and its second new loan disbursement of 1.546 billion dollars, bringing the outstanding balance of loans to 2.257 billion dollars. The breakdown of investments and loans provided by financial institutions that had received the Bank's loans under the special rules showed that those to be used abroad accounted for the majority of the total.

II. Amendment to Principal Terms and Conditions for U.S. Dollar Funds-Supplying Operations against Pooled Collateral

A. Staff Reports

On December 13, 2012, five central banks -- the Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve, and the Swiss National Bank -- announced an extension of the temporary bilateral liquidity swap arrangements through February 1, 2014, from the previously authorized February 1, 2013. The Bank of Japan had announced that it would consider an extension of these swap arrangements at this Monetary Policy Meeting. In view of recent developments in the global money markets and their potential repercussions on the liquidity of the yen money market, the staff considered it appropriate for the Bank of Japan to extend these swap arrangements through February 1, 2014, with the aim of facilitating money market operations as well as ensuring the smooth functioning and stability of the financial markets. The staff therefore proposed making an amendment to the relevant principal terms and conditions, including those for the U.S. dollar funds-supplying operation against pooled collateral, and accordingly making this public.

B. Vote

"Amendment to 'Principal Terms and Conditions for U.S. Dollar Funds-Supplying Operations against Pooled Collateral,'" which represented the aforementioned extension of the liquidity swap arrangements, was put to a vote. Members voted unanimously to approve the amendment. They concurred that the staff should make this public accordingly.

III. Establishment of Principal Terms and Conditions for the Loan Support Program

A. Staff Reports

At the Monetary Policy Meeting held on October 30, 2012, the chairman instructed the staff to examine the specifics of the establishment of the framework for the fund-provisioning measure to stimulate bank lending (hereafter the Stimulating Bank Lending Facility) and report back at a later Monetary Policy Meeting. In response, the staff -- taking into account the results of interviews with financial institutions and associations -- had examined the specifics of the facility while giving consideration to (1) making it easy for financial institutions to use and (2) enabling financial institutions to appropriately calculate the net increase in their lending that would be used as the basis for determining the amount of funds the Bank would provide. The staff reported the following, based on a concrete plan that it had mapped out for this meeting.

First, regarding the proper calculation of the net increase in financial institutions' lending, it would be appropriate to use the average of the month-end amounts outstanding of loans provided by these institutions during each quarter, in order to alleviate the effects of seasonality in the amount of loans they provided, while giving consideration to the user-friendliness of the facility.

Second, as for the specific implementation period of the facility, with a view to clarifying the Bank's stance of stimulating bank lending through the facility, it would be appropriate to include two fiscal year-ends as credit demand tended to be strong in such periods. Specifically, the Bank could make five disbursements on a quarterly basis for 15 months, from the beginning of 2013 to end-March 2014.

Third, in view of the purpose of the facility, it would be appropriate for the Bank to make a wide range of loans eligible for the facility -- that is, loans extended both at home and abroad, excluding those to (1) national governments, (2) municipal governments, and (3) financial institutions. Specifically, the staff considered it appropriate to make loans extended to investment funds and nonbanks eligible as well.

Fourth, the staff considered it appropriate for the Bank not to request that financial institutions repay before the scheduled maturity all or part of the loans that it disbursed, even in the case of a decrease in the amount outstanding of loans provided by the institutions.

Fifth, it would be appropriate for the Bank to consider the following as eligible counterparties in the facility: those that wished to be counterparties among (1) financial institutions -- including foreign financial institutions' offices in Japan -- that were counterparties in the Bank's funds-supplying operations against pooled collateral; and (2) the Development Bank of Japan.

Based primarily on the aforementioned plan, the staff proposed that the Bank take necessary steps such as establishing the Principal Terms and Conditions for the Loan Support Program. If a decision on such steps were to be made at this meeting, the staff would aim to proceed with operational preparations so that the Bank could implement the first disbursement under the Stimulating Bank Lending Facility around June 2013.

B. Discussion by the Policy Board and Vote

Members asked the staff to address the following points during their discussion: (1) whether financial institutions expressed concern that the Stimulating Bank Lending Facility might encourage competition to lower lending rates; (2) whether there was any possibility that financial institutions would end up using funds disbursed by the Bank to purchase financial assets rather than increase their lending; (3) whether there was any possible overlap with the existing fixed-rate funds-supplying operation against pooled collateral and fund-provisioning measure to support strengthening the foundations for economic growth; and (4) how to consider the inclusion of financial institutions' loans extended to investment funds as eligible for the facility. In response, the staff provided the following respective explanations: (1) some financial institutions did express such concerns, but their competitive efforts were indeed considered to be desirable for firms and households on the premise of financial institutions' appropriate management of credit exposure; (2) although the facility did not specify how the funds disbursed by the Bank would be used, the facility was expected to generate a virtuous cycle in which the funds would be utilized for new lending; (3) there might be some effects caused by the overlap with these existing operations, but the maturity of funds provided through the facility was longer than that of funds provided through these operations; and (4) while there were various types of investment funds, interviews with financial institutions indicated that their loans extended to investment funds were used in most cases for some real economic activity, such as lending for firms. A few members said that the examination of the specifics of the facility had resulted in making it sufficiently easy for financial institutions to use, and the anticipated effect was that the lending stance of financial institutions would become more aggressive. Members then voted unanimously to approve the staff proposal regarding the establishment of the Principal Terms and Conditions for the Loan Support Program. They concurred that the staff should make this public accordingly.

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

A. Economic Developments

In terms of global financial markets, members agreed that, while investors' risk aversion on the back of the European debt problem had abated recently, particular attention should be given to developments in these markets. Some members noted that concerns about the situation in Europe had been alleviated somewhat, mainly against the background of the approval of new disbursement of financial assistance to Greece provided by the European Union (EU) and the International Monetary Fund (IMF), the outcome of the debt buyback by the Greek government, and the progress made toward establishing a single banking supervisory mechanism in the euro area.

Members concurred that overseas economies as a whole remained in a deceleration phase as the European economy had not yet stopped deteriorating, although some positive developments had been observed in parts of the U.S. and Chinese economies. As for the outlook, they shared the recognition 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.

Members shared the recognition that economic activity in the euro area had receded slowly. Some members pointed out that the adverse feedback loop in some peripheral countries among the fiscal situation, the financial system, and economic activity had continued, and that its negative effects had been spreading even to core countries such as Germany. 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 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. Regarding the corporate sector, a few members pointed out that the pace of increase in business fixed investment had slowed as business sentiment had become cautious on the back of uncertainties associated with the "fiscal cliff" and the outlook for the global economy. As for the household sector, some members expressed the view that private consumption, including car sales, was increasing moderately, reflecting the continued improvement in the employment situation, and that housing investment had also continued to pick up, albeit at a depressed level, partly supported by the low interest rate. On this basis, these members noted that the effects of the fiscal cliff had begun to be observed in recent household sentiment, as seen in the plunge in some indicators of consumer confidence, and therefore it was necessary to closely monitor whether or not the issue of the fiscal cliff would exert an adverse impact on private consumption. As for the outlook, members concurred that the U.S. economy was likely to continue recovering at a moderate pace, supported by accommodative financial conditions.

Members shared the view that the state of economic slowdown in China had been prolonged, mainly reflecting the decline in exports to Europe and persisting inventory adjustment pressures, particularly in materials industries. On this basis, many members pointed out that some parts of the economy exhibited signs that its deceleration phase was coming to an end, as seen in the fact that (1) fixed asset investment, including infrastructure investment, and retail sales had recently increased at a faster pace; and (2) the Purchasing Managers' Index (PMI) for manufacturing activity had recovered to the 50-point level. As for the outlook, members shared the view that, although the timing and pace of economic recovery in China continued to be highly uncertain, the economy would register higher growth gradually as the positive effects of such policy measures as monetary easing and the bringing forward of future infrastructure investment plans started to appear and inventory adjustments progressed. One member noted that the aforementioned recent economic recovery was largely dependent on the improvement in the real estate market and the increase in infrastructure investment. On this basis, this member commented that, depending on the future policy conduct, the possibility of excess capacity and inventories reemerging could not be ruled out.

Regarding the NIEs and the ASEAN countries, members concurred that, although these economies had been picking up, the pace was moderating, particularly in the corporate sector. As for the outlook, one member expressed the view that the pace of recovery in these economies was likely to increase on the whole as exports picked up gradually with U.S. and Chinese economies recovering.

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 had added somewhat weak movement, as exports and industrial production had decreased, thereby affecting domestic demand including business fixed investment. Regarding recent developments in the economy, some members noted that activity had been somewhat weaker than the projection presented in the October 2012 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report). As background to the decrease in exports and industrial production, a few members pointed out that the deceleration in overseas economies might be negatively affecting manufacturing's capital goods and parts sectors, for which exports accounted for a large proportion of their business. With regard to business sentiment, a few members expressed concern that sentiment in manufacturing was deteriorating significantly and that the effects of such weak sentiment were spreading to some sectors in nonmanufacturing. Some members said that, although business fixed investment plans in the December 2012 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) turned out to be resilient, business fixed investment itself seemed to show some weakness on the whole, judging from developments in machinery orders and the aggregate supply of capital goods. Some members commented that private consumption as a whole remained resilient. Some members noted that the employment and income situation remained severe, and with regard to the supply and demand conditions in the labor market, the number of job openings and hours worked had been decreasing, notably in manufacturing. These members continued that it was highly likely that winter bonus payments would be somewhat weak. One of these members expressed concern over the fact that the diffusion indexes for both the current and future employment-related conditions in the *Economy Watchers Survey* remained in a state of deterioration. Members shared the view that public investment continued to increase, primarily in that related to reconstruction following the earthquake disaster, and that housing investment had generally been picking up, supported in part by reconstruction of disaster-stricken homes.

As for the outlook for the economy, members agreed that it was likely to remain relatively weak for the time being and thereafter return to a moderate recovery path, as domestic demand remained resilient on the whole and overseas economies gradually emerged from the deceleration phase. On this basis, one member said that (1) it was likely that the economy had been in recession since spring 2012, and (2) attention was being paid to whether the recession would come to a halt by the end of 2012, and thus whether the economy would fall into the category of a "mini-recession" or whether the recession would be somewhat prolonged. As for the timing of when the economy would return to a recovery path, some members commented that it was necessary to note the risk that the timing might be delayed compared to that projected in the October 2012 Outlook Report. One of these members expressed the view that exports and production were likely to exhibit a clear recovery in or after the April-June quarter of 2013. One member said that exports were likely to continue decreasing given that (1) China and the United States, which were Japan's major export destinations, showed no signs of increasing their imports and (2) new export orders in Japan's PMI for November 2012, which was a leading indicator for exports, remained relatively weak. Some members commented that, although the survey of production forecast showed that industrial production would increase significantly in December 2012, this was highly likely to be due to technical factors. These members continued that industrial production would therefore probably stay on a decreasing trend. Some members noted that, while private consumption was likely to remain resilient as a trend, with the waning of effects of the decline in car sales caused by the ending of subsidies for purchasers of environmentally friendly cars, due attention needed to be paid to whether the deterioration in the employment and income situation would exert downward pressure on private consumption.

Regarding prices, members agreed that the year-on-year rate of change in the CPI (all items less fresh food) was currently around 0 percent and likely to stay at this level for the time being. Some members said that, if the economy weakened further, the pace of improvement in the negative output gap might slow, leading to some deceleration in the pace of increase in the CPI. A few members noted that attention needed to be paid to the effects on price developments of the increasing adoption of a low-price strategy by major supermarkets. A few other members said that the ongoing depreciation of the yen would exert upward pressure on the CPI. One member said that the effects of the switch in the survey specifications conducted in early 2012 -- a factor that had pushed up the CPI -- would wane, and that this, among other developments, would likely exert downward pressure on the CPI from the start of 2013. A few members said that, in considering the outlook for prices, developments in the supply and demand balance in the labor market were crucial and that a cautious view regarding the outlook for prices was inevitable, mainly because of developments in wages. One of these members added that, from a medium- to long-term perspective, it was necessary to carefully monitor how future changes in the demographic situation and in labor laws and regulations would affect wages, and in turn prices.

With regard to risks to the outlook for Japan's economic activity and prices, members concurred that there remained a high degree of uncertainty concerning Japan's economy, including the prospects for the European debt problem, the momentum toward recovery for the U.S. economy, the possibility of emerging and commodity-exporting economies making a smooth transition to the sustainable growth path, and the effects of recent developments in the relations between Japan and China. They continued that, furthermore, attention should continue to be paid to the effects of financial and foreign exchange market developments on economic activity and prices. Members shared the concern that, if negotiations on the fiscal cliff in the United States between the president and Congress did not produce a favorable outcome, and the expiration of temporary tax cuts and benefits occurred and automatic spending reductions were carried out for the most part, this could exert significant downward pressure on the U.S. economy through declines in disposable income and public demand. Some members said that, if the fiscal cliff could be avoided, thereby mitigating uncertainty surrounding the future course of fiscal policy, pent-up demand would likely materialize after the turn of the year with regard to business fixed investment that firms had postponed so far. In contrast, some members said that, even if the fiscal cliff was avoided, attention should continue to be paid to downside risks to private consumption and business fixed investment since the implementation of fiscal austerity measures was inevitable. As a medium- to long-term risk factor to the Chinese economy, one member pointed to the issue of whether China 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.

A few members expressed concern that, even in the case where overseas economies emerged from the deceleration phase, if a global deceleration in manufacturing was protracted and firms' stance of restraining business fixed investment continued, exports and production of capital goods and parts -- which accounted for a large proportion of Japanese industry -- might continue to decline. One member noted that it was also necessary to pay attention to the risk that a recovery in overseas economies would not directly lead to a pick-up in Japan's exports and industrial production, partly because of the possibility that the international competitiveness of Japanese exporting firms, on both the price and non-price fronts, was declining.

With regard to the outlook for prices, one member -- noting that the medium- to long-term inflation expectations of economists and market participants had recently been on a moderate declining trend -- said that due attention needed to be paid to whether such developments would exert downward pressure on actual wages and prices by spreading to households' and firms' inflation expectations. A different member said that short-term inflation expectations continued to decline, albeit gradually, and therefore careful attention should also be paid to the risk of a slowdown in the pace at which the rate of inflation converged with the level considered stable from a medium- to long-term perspective; that is, the inflation anchor. One member expressed the intent to continue to pay close attention to whether inflation expectations that were based on firms' and households' growth expectations would rise in the near future, reflecting, for example, the government's implementation of its growth strategy and deregulation measures as well as firms' efforts to boost demand.

B. Financial Developments

Members concurred that financial conditions in Japan were accommodative.

Members agreed that money market rates, including interest rates on term instruments, had been extremely stable, as the Bank had been pursuing powerful monetary easing and the soundness of financial institutions' balance sheets had been maintained. While noting that bank lending rates remained at low levels, they shared the recognition that indicators related to financial institutions' lending attitudes as perceived by firms, as well as to the financial positions of firms, remained at improved levels -- exceeding the average for the period since 2000. Members shared the view that issuing conditions for CP and corporate bonds remained favorable on the whole, as demand from investors continued to be solid.

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

Based on the above assessment of economic and price developments, members discussed monetary policy for the immediate future.

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

With regard to the operation of the Asset Purchase Program, many members expressed the recognition that, considering recent economic and price developments, it was appropriate at this time to increase its total size in order to prevent Japan's economy from deviating from the course toward a return to a sustainable growth path with price stability. Regarding the size of increase, many members said that it was appropriate for the Bank to make a substantial increase, by about 10 trillion yen. Regarding the assets to be purchased, these members acknowledged that, in order to influence the entire yield curve, it was appropriate to earmark the increase for the purchases of T-Bills and JGBs. As for the schedule related to additional purchases under this program, some members noted that it might be appropriate for the Bank to make these during the first half of 2013, with a view to underpinning the economy. A few of these members noted that it was necessary for the Bank to demonstrate its aim to encourage a further decline in short-term interest rates -- thereby narrowing or reversing interest rate differentials between Japan and other economies -- with a view to exerting influence on foreign exchange rates, and they expressed the view that the Bank's purchases of T-Bills should be increased substantially. One member added that, if the Bank concentrated the additional purchases -- not only of T-Bills but also of JGBs -- during the first half of 2013, this would be effective in terms of encouraging a further decline in longer-term interest rates. With regard to the purchases of JGBs, one member commented that it might be necessary to communicate more clearly to the public the relationship between purchases under the Asset Purchase Program and those conducted in terms of money market operations. Some members noted that, if the Bank were to increase the total size of the Asset Purchase Program, it was necessary to effectively communicate to the public the amount of increase in the program's size. These members continued that it was therefore appropriate for the Bank to clearly present in its statement the sum of the amounts of funds it would provide over the next twelve months under the Asset Purchase Program and the Loan Support Program.

Based on the above discussion, the chairman requested that the staff explain the room left for additional purchases of the respective financial assets in view of the Bank's risk tolerance and the market size of these assets. The staff provided the following explanation. First, the Bank would be able to purchase T-Bills and JGBs even after increasing the amount of purchases of those assets, given the stock and flow -- the amount outstanding in the markets and the amount issued -- of these securities. And second, the amount of risk incurred by making additional purchases could be absorbed by the Bank's capital. In response to this explanation, members discussed the specifics of the proposal to further enhance monetary easing. They concurred that it was appropriate for the Bank to increase the total size of the Asset Purchase Program by about 10 trillion yen, which corresponded with the size of additional purchases of about 5 trillion yen each in T-Bills and JGBs. In terms of the completion date for the additional purchases under this program, members shared the recognition that, taking into account the current situation, it was appropriate in terms of underpinning the economy for the time being to (1) complete the additional purchases of T-Bills by around end-June 2013 and (2) purchase JGBs at an even pace throughout 2013, giving consideration to steadily increasing the amount outstanding of the Asset Purchase Program in a well-balanced manner over the course of the year. One member said that vigorously conducting such monetary policy could heighten concerns about monetization or cause further accumulation of financial imbalances, and therefore it was necessary for the Bank to indicate its decisive stance more clearly to the public that it would not conduct purchases of government securities for the purpose of facilitating government financing.

With regard to <u>the interest rate applied under the complementary deposit facility</u>, one member noted the following. First, the payment of interest on excess reserve balances at the Bank served to prevent yields on government securities with a maturity of three years or less -- equivalent to the government securities that were purchased under the Asset Purchase Program -- from declining below 0.1 percent, which was the current level of interest on excess reserve balances at the Bank. This was therefore constraining the stimulative effects of government security purchases under this program, and thus the payment of interest on excess reserve balances should be abolished. Second, such an abolishment was desirable in terms of reducing the attractiveness of the yen as a safe-haven currency. In addition, this member -- noting that, even if such payment were to be abolished, market functioning would be maintained under the current guideline for money market operation -- expressed the view that, in abolishing this payment, it was appropriate to review the interest rates on the loans under the Asset Purchase Program and the Loan

Support Program. In response, most members expressed the opinion that, in the current situation, it was appropriate to continue with the payment of interest on excess reserve balances. In relation to this, some members said that abolishment of the payment of interest on excess reserve balances could instead weaken the effectiveness of the support for the economy from the financial side because (1) if the interest rate applied to excess reserve balances were to be set at 0 percent, there was a risk that liquidity in the short-term funding market could decline markedly, and thus market participants' confidence in their ability to raise funds whenever necessary would be impaired; (2) financial institutions' profits would be adversely affected; (3) a smooth increase in the amount outstanding of the Asset Purchase Program might become difficult, thereby causing a rise in uncertainty regarding its operation; and (4) the impact on foreign exchange rates would be temporary. One member said that it was important to continue examining the benefits and costs associated with the abolishment of the payment of interest on excess reserve balances, but it was premature to carry out such abolishment as this was highly likely to bring about a need to change the current framework of monetary easing policy. A different member noted that the abolishment of the payment was essentially a technical matter, and therefore needed to be preceded by a discussion on whether to lower the policy interest rate -- that is, the Bank's target for the uncollateralized overnight call rate.

In relation to monetary policy for the immediate future, members acknowledged that Japan's economy faced the critical challenge of overcoming deflation as early as possible and returning to the sustainable growth path with price stability. They then shared the recognition that this challenge would be met through the combination of efforts by a wide range of economic agents to strengthen the economy's growth potential and support from the financial side. Based on such recognition, members agreed that, while the Bank would provide support for financial institutions' efforts to strengthen the foundations for economic growth and to increase their lending, it would pursue aggressive monetary easing in a continuous manner by conducting its virtually zero interest rate policy as well as steadily increasing the amount outstanding of the Asset Purchase Program. On this basis, they shared the view that the Bank continued to conduct monetary policy in an appropriate manner and would do its utmost to ensure the stability of Japan's financial system, while giving particular attention to developments in global financial markets.

In the course of this discussion, many members expressed the recognition that, given that the issue regarding the inflation rate had increasingly become a focus of attention recently, it was appropriate to discuss the medium- to long-term price stability that the Bank aimed to achieve in the conduct of monetary policy at the next Monetary Policy Meeting. Many members commented that, since the Bank was going to review "the price stability goal in the medium to long term" -- which had been introduced in February 2012 -- once a year in principle, it was reasonable to review it at the next meeting, when the Bank would conduct an interim assessment of the Outlook Report. One member said that, in order to dispel the clear misunderstanding held by overseas market participants regarding the Bank's stance toward overcoming deflation, it might be desirable to emphasize that the Bank in the long run would aim to achieve an inflation rate similar to those in many other major economies. In relation to this discussion, a different member expressed the opinion that, based on the shared objective of the Bank and the government to achieve sound development of the national economy in the medium to long term, it was important for the Bank to foster a deeper understanding of its stance toward monetary policy conduct through active communication. This member continued that this would be an essential premise for discussing desirable policy cooperation between the two entities. Some members said that the role of the government, such as in terms of its efforts to strengthen the economy's growth potential and of ensuring fiscal discipline, was also important with regard to achieving price stability. In reviewing the Bank's "price stability goal in the medium to long term," members raised the following issues for consideration: (1) what the "price stability" that was stipulated in Article 2 of the Bank of Japan Act represented; (2) how to designate the numerical expression for price stability; (3) how to ensure flexibility in the conduct of monetary policy; (4) what monetary policy measures would need to be considered in order to achieve the level of inflation rate that the Bank should aim for; and (5) how the Bank's independence and its relationship with the government should be taken into account. In relation to this discussion, a few members said that, with a view toward achieving price stability, it might be possible to influence market expectations more effectively by changing the current wording of the Bank's policy commitment -- 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 it would continue with this powerful easing until it judged the 1 percent goal to be in sight. One of these members said that the Bank could further clarify its policy stance by clearly presenting in its statement that it would continue powerful monetary easing mainly through the virtually zero interest rate policy and the purchase of financial assets, without setting any timeframe, until it achieved a CPI inflation rate of 1 percent. On this point, one member -- while noting that the current expression of the Bank's policy commitment was along the lines of the approach of inflation forecast targeting -- added that it was necessary for the Bank to deliberate on a way to better communicate its stance toward achieving its commitment. A few members noted that price stability -- which formed the foundation for the nation's economy and the general public's living -- should be achieved in a balanced manner accompanied by sustainable economic growth. These members continued that thorough consideration should therefore be given, for example, to designating the numerical expression for price stability and ensuring the flexibility necessary to the conduct of monetary policy. In response to this discussion, the chairman instructed the staff to examine necessary issues for discussion and report back at the next meeting.

VI. Remarks by Government Representatives

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

(1) The Japanese economy had shown weakness recently due to deceleration of the world economy. In a situation where uncertainty about the prospects for overseas economies remained high, a further slowing down of overseas economies and sharp fluctuations in the financial markets were downside risks to the Japanese economy.

(2) The government needed to implement policy measures in a seamless manner, in order to make its utmost effort to address concerns over a possible further worsening of economic developments as well as to accelerate measures for overcoming deflation as early as possible and realizing economic revitalization. To address this need, the government released the "Program for Accelerating the Rebirth of Japan" as its economic policy measures at the end of November 2012.

(3) Under these circumstances, the government deemed it important for the Bank to take appropriate actions without delay. It viewed the Bank's proposal made at this meeting to increase the total size of the Asset Purchase Program as a timely and appropriate action. In addition, the operational details of the Stimulating Bank Lending Facility

were presented at this meeting. This facility aimed to provide long-term funds at a low interest rate without any limit, and was likely to generate significant monetary easing effects. The government welcomed the formal decision to implement the facility.

(4) In the "Measures Aimed at Overcoming Deflation," which the government and the Bank had jointly released, both entities confirmed that overcoming deflation as early as possible was a common challenge, and that they would fulfill their respective roles and responsibilities in addressing this challenge. Nevertheless, the rate of increase in the CPI remained at around 0 percent, and a course toward overcoming deflation had not yet been envisaged. The government therefore deemed it important for the Bank to indicate clearly that it was determined to pursue powerful monetary easing in a continuous manner, in order to overcome deflation as early as possible in accordance with the "Measures Aimed at Overcoming Deflation."

(5) The government expected the Bank to continue to conduct monetary policy vigorously and decisively while closely 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.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy had shown weakness recently due to deceleration of the world economy. As for the outlook, weakness would remain for the time being. Uncertainty about the prospects for overseas economies continued to be high, and therefore due attention should be paid to downside risks to the Japanese economy.

(2) With a view to addressing this economic situation, the government released the "Program for Accelerating the Rebirth of Japan" at the end of November 2012, with the aim of accelerating measures for overcoming deflation as early as possible and realizing economic revitalization.

(3) The government strongly expected the Bank to continue with powerful monetary easing until the exit from deflation was ensured, in accordance with the "Measures Aimed at Overcoming Deflation," which the government and the Bank had jointly released. The operational details of the Stimulating Bank Lending Facility were presented at this meeting. The government expected the Bank to work toward ensuring financial

institutions' smooth use of the facility so that it could generate significant monetary easing effects, including those through the foreign exchange markets.

(4) The government deemed the proposal made at this meeting to increase the total size of the Asset Purchase Program to be a timely action. It strongly expected the Bank to continue with powerful monetary easing until the exit from deflation was ensured.

(5) A discussion regarding communication, relations, and cooperation between the government and the Bank occurred at this meeting. The government considered that such a discussion was extremely important.

VII. Votes

A. Vote on the Guideline for Money Market Operations

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

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

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

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

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

2. A public statement will be decided separately.

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

Votes against the proposal: None.

B. Vote on "Amendment to 'Temporary Rules regarding Funds-Supplying Operation against Pooled Collateral'"

Mr. K. Ishida, with a view to encouraging further permeation of monetary easing effects, formulated the following proposal: (1) to set the interest rate applied under the complementary deposit facility as 0 percent; and (2) to set the interest rates on the loans under the fixed-rate funds-supplying operation against pooled collateral, the funds-supplying operation to support financial institutions in disaster areas, the fund-provisioning measure to support strengthening the foundations for economic growth, and the fund-provisioning measure to stimulate bank lending at 0.03 percent per annum. The proposal was then put to a vote.

The proposal was defeated by a majority vote.

Votes for the proposal: Mr. K. Ishida.

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

C. 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 total size of the Asset Purchase Program by about 10 trillion yen, which corresponded to additional purchases of T-Bills of about 5 trillion yen and JGBs of about 5 trillion yen. "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.

VIII. Discussion on the Statement Entitled Enhancement of Monetary Easing

On the basis of the above discussions, members discussed the statement Enhancement of Monetary Easing, which included the following: (1) the decision to increase the total size of the Asset Purchase Program; (2) the decision on the operational details of the Stimulating Bank Lending Facility; and (3) the chairman's instruction concerning the thinking on price stability. The statement was then put to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment 1).

IX. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of November 19 and 20, 2012 for release on December 26, 2012.

X. Approval of the Scheduled Dates of the Monetary Policy Meetings in January-December 2013

At the end of the meeting, the Policy Board approved the dates of the Monetary Policy Meetings to be held in the period of January-December 2013 for immediate release (see Attachment 5).

Attachment 1

December 20, 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.[7] As a result of these decisions, the Bank will provide new funds exceeding 50 trillion yen for over twelve months from now under the Asset Purchase Program and the Loan Support Program, and the amount outstanding of these programs will exceed 120 trillion yen (see Attachment 2). Furthermore, the Bank will discuss at the next meeting the medium- to long-term price stability that the Bank aims to achieve in the conduct of monetary policy.

(1) Decision to increase the total size of the Asset Purchase Program by a unanimous vote

The Bank decided to increase the total size of the Asset Purchase Program by about 10 trillion yen, from about 91 trillion yen to about 101 trillion yen. The increase in the size of the program corresponds with the size of additional purchases of treasury discount bills (T-Bills) by about 5 trillion yen and Japanese government bonds (JGBs) by about 5 trillion yen (see Attachment 3). Additional purchases of financial assets to be made in the next twelve months under the Asset Purchase Program -- inclusive of those purchases that have already been decided -- will amount to about 36 trillion yen. In addition, the Bank regularly purchases JGBs at the pace of 21.6 trillion yen per year.

[7] At today's meeting, Mr. K. Ishida proposed to set the interest rate applied under Complementary Deposit Facility as 0 percent. The proposal was defeated by a majority vote. Voting for the proposal: Mr. K. Ishida. Voting against the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, Mr. T. Sato, and Mr. T. Kiuchi.

(2) Decision on the operational details of the Stimulating Bank Lending Facility by a unanimous vote

The Stimulating Bank Lending Facility aims to provide long-term funds -- up to the amount equivalent to the net increase in lending -- at a low interest rate, without any limit, to financial institutions at their request. The Bank decided the operational details of this facility, including its implementation period, which shall be 15 months until end-March 2014 (see Attachment 4). The fund-provisioning under the Stimulating Bank Lending Facility -- while it depends on a number of factors -- is expected to reach more than 15 trillion yen, based on the recent lending data.

(3) The chairman's instruction concerning the thinking on price stability

The Bank reviews "the price stability goal in the medium to long term" once a year in principle. At the next Monetary Policy Meeting, it will discuss the medium- to long-term price stability that it aims to achieve in the conduct of monetary policy. The chairman instructed the staff to examine necessary issues for discussion and report back at the next meeting.

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 remain in a deceleration phase. In global financial markets, while investors' risk aversion on the back of the European debt problem has abated recently, particular attention should be given to developments in these markets. Under such circumstances, exports and industrial production have decreased, affecting domestic demand including business fixed investment. Business sentiment -- particularly that in manufacturing -- has become cautious. Against such a background,

Japan's economy has added somewhat weak movement and is expected to remain so for the time being. The year-on-year rate of change in the CPI (all items less fresh food) is expected to remain at around 0 percent for the time being.

4. Regarding risks, there remains a high degree of uncertainty concerning Japan's economy, including the prospects for the European debt problem, the momentum toward recovery for the U.S. economy, the possibility of emerging and commodity-exporting economies making a smooth transition to the sustainable growth path, and the effects of the recent bilateral relationship between Japan and China. Furthermore, attention should continue to be paid to the effects of financial and foreign exchange market developments on economic activity and prices.

5. 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.

6. 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 efforts by a wide range of economic agents to strengthen the economy's growth potential and support from the financial side. Based on this recognition, while the Bank will provide support for financial institutions' efforts to strengthen the foundations for economic growth and to increase their lending, it will pursue aggressive monetary easing in a continuous manner by conducting its virtually zero interest rate policy as well as steadily increasing the amount outstanding of the Asset Purchase Program. The Bank continues to conduct monetary policy in an appropriate manner. The Bank will also do its utmost to ensure the stability of Japan's financial system, while giving particular attention to developments in global financial markets.

Attachment 2

Size of Respective Programs and Additional Fund-Provisioning

(trillion yen)

		Amount outstanding (as of end-December 2012)	Additional fund-provisioning for over twelve months from now	Program size (intended timescale for completion)
Asset Purchase Program		About 65	About 36	About 101 (Note 1) (end-December 2013)
Loan Support Program	Growth-Supporting Funding Facility	About 3.5		5.5 (end-March 2014) (Note 2)
	Stimulating Bank Lending Facility	--	15+ (Note 3)	Unlimited [15+] (end-March 2014) (Note 4)
Total size		About 68.5	50+	120+

Notes: 1. The size of the Asset Purchase Program at the time of its introduction in October 2010 was about 35 trillion yen.

2. The fund-provisioning under the Growth-Supporting Funding Facility will be made, based on the applications for loans received by end-March 2014.

3. The fund-provisioning under the Stimulating Bank Lending Facility is expected to reach more than 15 trillion yen, based on the recent lending data, while it depends on a number of factors such as financial institutions' efforts to increase lending and firms' credit demand.

4. The fund-provisioning under the Stimulating Bank Lending Facility will be based on the net increase in lending until end-March 2014.

Attachment 3

Size of the Asset Purchase Program

(trillion yen)

	Amount outstanding (as of end-November 2012)	Program size (Figures in parentheses represent the size before today's decision.)			Change in amount
Intended timescale for completing the purchases		End-December 2012	End-June 2013	End-December 2013	End-December 2013
Total size (Note 1)	**About 64.6**	**About 65**	**About 85.5 (About 78)**	**About 101 (About 91)**	**About +10**
Asset purchases	37.6	40	60.5 (53)	76 (66)	+10.0
JGBs (Note 2)	22.1	24.0	34.0 (31.5)	44.0 (39.0)	+ 5.0
T-Bills	9.0	9.5	19.5 (14.5)	24.5 (19.5)	+ 5.0
CP	1.9	2.1	→	2.2	—
Corporate bonds	3.0	2.9	→	3.2	—
Exchange-traded funds (ETFs)	1.5	1.6	→	2.1	—
Japan real estate investment trusts (J-REITs)	0.11	0.12	→	0.13	—
Fixed-rate funds-supplying operation against pooled collateral	27.0	25.0	25.0	25.0	—

Notes: 1. The amount outstanding of the program is 67.0 trillion yen as of December 10, 2012.

2. In addition to purchases under the program, the Bank regularly purchases JGBs at the pace of 21.6 trillion yen per year.

Attachment 4

Outline of the Fund-Provisioning Measure to Stimulate Bank Lending

("Stimulating Bank Lending Facility")

The Stimulating Bank Lending Facility aims to provide long-term funds -- up to the amount equivalent to the net increase in lending -- at a low interest rate, without any limit, to financial institutions at their request, with a view to promoting their aggressive action and helping increase proactive credit demand of firms and households.

The fund-provisioning under this facility is expected to reach more than 15 trillion yen, based on the recent lending data, while it depends on a number of factors such as financial institutions' efforts to increase lending and firms' credit demand.

1. Eligible Counterparties

   Financial institutions (including foreign financial institutions' offices in Japan) that are counterparties in the Bank's Funds-Supplying Operations against Pooled Collateral at All Offices[1] and wish to be counterparties in this measure.

   Note 1: The Bank's Funds-Supplying Operations against Pooled Collateral at All Offices provide funds against a wide range of financial assets pledged as eligible collateral (pooled collateral), such as Japanese government bonds and non-financial private sector's debt, and are a scheme in which many financial institutions, including regional financial institutions, can participate.

2. Total Amount of Loans

   The total amount of loans provided by the Bank and the amount of loans extended to each counterparty under this facility shall be unlimited.

3. Implementation Period and Frequency of New Loan Disbursements

   New loans shall be disbursed on a quarterly basis for 15 months. The net increase in lending during these months shall be counted in the calculation of the maximum amount of loans. The disbursements shall span 5 times. The first disbursement shall be scheduled around June 2013, based on the net increase from October-December 2012 (the basic period prescribed in 6.) to January-March 2013. The last disbursement shall be scheduled around June 2014, based on the net increase from the basic period to January-March 2014.

4. Duration of Loans

The duration of loans shall be 1 year, 2 years, or 3 years, at the request of each counterparty. However, the overall duration of loans -- adding the duration at the first disbursement and the ones at subsequent rollovers -- shall not exceed 4 years.

Even in the case that the amount of loans prescribed in 6. decreases, each counterparty shall not be requested to repay all or part of the loans disbursed by the Bank before the scheduled maturity.

5. Loan Rates

The interest rate on loans shall be the Bank's target for the uncollateralized overnight call rate stipulated in the guideline for money market operations on the offer date of the loans. It is currently 0.1 percent per annum.

6. Maximum Amount of Loans to Each Counterparty

October-December 2012 shall be set as the basic period in the calculation of net increase in lending.

The maximum amount of loans shall be net increase in each counterparty's average amount outstanding of loans, which is calculated by (a) taking the average of the month-end amounts outstanding of loans during the basic period, (b) taking the average of the month-end amounts outstanding of loans during a quarter specified by the Bank, and (c) subtracting the amount specified in (a) from the amount in (b).

With regard to foreign-currency denominated loans, net increase in lending calculated in a foreign currency shall be converted into yen by multiplying the foreign exchange rates as of December 2012.

7. Loans Counted in the Calculation of Net Increase in Lending

All loans provided by each counterparty (excluding lending for the government, municipal governments, and financial institutions[2]) shall be counted in the calculation.

Note 2: The above-mentioned "financial institutions" mean broadly-defined private financial institutions, public financial institutions, and safety-net entities, such as the Deposit Insurance Corporations of Japan.

All loans extended to firms and households shall be counted in the calculation. There shall be no restriction with respect to the types of borrowers. For Japanese financial institutions, there shall be no restriction concerning whether loans are provided by offices in Japan or overseas. For foreign financial institutions, loans provided by offices in Japan shall be counted. Furthermore, there shall be no restriction in terms of what currencies loans are denominated.

8. Form of Loans

Loans shall be provided in the form of the Bank's Funds-Supplying Operations against Pooled Collateral (the form of electronic lending against pooled collateral).

(Reference) Loan Disbursement Schedule

No.	Period of calculation of net increase in lending	Timing of loan disbursement
1st	January-March 2013	Around June 2013
2nd	April-June 2013	Around September 2013
3rd	July-September 2013	Around December 2013
4th	October-December 2013	Around March 2014
5th	January-March 2014	Around June 2014

Attachment 5

December 20, 2012

Bank of Japan

Scheduled Dates of Monetary Policy Meetings in January 2013-December 2013

	Date of MPM	Publication of MPM Minutes	Publication of Outlook Report (The Bank's View)	(Reference) Publication of Monthly Report
Jan. 2013	21 (Mon.), 22 (Tues.)	Feb. 19 (Tues.)	--	23 (Wed.)
Feb.	13 (Wed.), 14 (Thurs.)	Mar. 12 (Tues.)	--	15 (Fri.)
Mar.	6 (Wed.), 7 (Thurs.)	Apr. 9 (Tues.)	--	8 (Fri.)
Apr.	3 (Wed.), 4 (Thurs.)	May 2 (Thurs.)	--	5 (Fri.)
	26 (Fri.)	May 27 (Mon.)	26 (Fri.)	--
May	21 (Tues.), 22 (Wed.)	June 14 (Fri.)	--	23 (Thurs.)
June	10 (Mon.), 11 (Tues.)	July 17 (Wed.)	--	12 (Wed.)
July	10 (Wed.), 11 (Thurs.)	Aug. 13 (Tues.)	--	12 (Fri.)
Aug.	7 (Wed.), 8 (Thurs.)	Sep. 10 (Tues.)	--	9 (Fri.)
Sep.	4 (Wed.), 5 (Thurs.)	Oct. 9 (Wed.)	--	6 (Fri.)
Oct.	3 (Thurs.), 4 (Fri.)	Nov. 6 (Wed.)	--	7 (Mon.)
	31 (Thurs.)	Nov. 26 (Tues.)	31 (Thurs.)	--
Nov.	20 (Wed.), 21 (Thurs.)	Dec. 26 (Thurs.)	--	22 (Fri.)
Dec.	19 (Thurs.), 20 (Fri.)	To be announced	--	24 (Tues.)

Note: The time of release will be, in principle, as follows.

MPM Minutes will be released at 8:50 a.m.

Outlook for Economic Activity and Prices (Outlook Report):

"The Bank's View" in the Outlook Report will be released at 3:00 p.m., and the full text at 2:00 p.m. on the next business day. As an exception to this principle, the full text of the April 2013 Outlook Report will be released at 2:00 p.m. on April 27 (Sat.), 2013.

Monthly Report of Recent Economic and Financial Developments (Monthly Report):

The Japanese original and the English translation for summary will be released at 2:00 p.m. (the English translation for the full text will be published at 4:30 p.m. on the next business day).