

January 22, 2013

Bank of Japan

**Introduction of the "Price Stability Target" and  
the "Open-Ended Asset Purchasing Method"**

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan took additional steps to provide monetary accommodation decisively. Specifically, the Bank decided to (1) introduce the "price stability target," and (2) introduce the "open-ended asset purchasing method" (i.e., to purchase assets without setting any termination date) under the Asset Purchase Program. Furthermore, the Bank decided to release the joint statement with the Government.

(1) Introduction of the "price stability target"<sup>1</sup>

The Bank held the discussion concerning its thinking on price stability and decided to introduce the "price stability target." In addition, the Bank decided to release "The 'Price Stability Target' under the Framework for the Conduct of Monetary Policy" (see Attachment 1).

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

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

(2) Introduction of the "open-ended asset purchasing method"<sup>2</sup>

The Bank will pursue aggressive monetary easing, aiming to achieve the above-mentioned price stability target, through a virtually zero interest rate policy and purchases of financial assets, as long as the Bank judges it appropriate to continue with each policy measure respectively.<sup>3, 4</sup> With respect to the Asset Purchase Program, after completing the current purchasing method, from January 2014, the Bank will introduce a method of purchasing a certain amount of financial assets every month without setting any termination date. Particularly, for some time, following the introduction of this method, the amount of monthly purchases is specified at about 13 trillion yen, 2 trillion yen of which is JGBs (see Attachment 2 for the purchases of financial assets). As a result of these measures, the total size of the Asset Purchase Program will be increased by about 10 trillion yen in 2014 and is expected to be maintained thereafter.

In the pursuit of monetary easing, taking into consideration that it will take considerable time before the effects of monetary policy permeate the economy, the Bank will ascertain whether there is any significant risk to the sustainability of economic growth, including from the accumulation of financial imbalances.

(3) Joint statement of the Government and the Bank of Japan<sup>5</sup>

The Bank decided to release the statement titled "Joint Statement of the Government and the Bank of Japan on Overcoming Deflation and Achieving Sustainable Economic Growth" with the Government (see Attachment 3).

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, investors' risk aversion has abated, although developments require continued attention.

4. Japan's economy remains relatively weak. Exports and industrial production have decreased, reflecting the aforementioned developments in overseas economies. Business fixed investment has shown some weakness on the whole, although resilience has been observed in nonmanufacturing. In contrast, public investment has continued to increase, and housing investment has generally been picking up. Private consumption has remained resilient and the effects of the decline in car sales due to the ending of some measures to stimulate demand for automobiles have diminished. Meanwhile, financial conditions in Japan are accommodative. On the price front, the year-on-year rate of change in the CPI (all items less fresh food) is around 0 percent.
5. With regard to the outlook, Japan's economy is expected to level off more or less for the time being, and thereafter, it will return to a moderate recovery path as domestic demand remains resilient partly due to the effects of various economic measures and overseas economies gradually emerge from the deceleration phase. For the time being, the year-on-year rate of change in the CPI is expected to turn negative due to the reversal of the previous year's movements in energy-related and durable consumer goods, and thereafter, it is likely to be around 0 percent again.
6. Compared with the forecasts presented in the October 2012 *Outlook for Economic Activity and Prices*, growth prospects will likely be somewhat lower for fiscal 2012, but they will likely be higher for fiscal 2013 partly due to the effects of various economic measures. Growth prospects for fiscal 2014 will likely be broadly in line with the October forecasts. With regard to prices, the year-on-year rate of change in the domestic corporate goods price index will likely be somewhat higher especially for fiscal 2013 mainly due to movements in foreign exchange rates. The year-on-year rate of change in the CPI (all items less fresh food) will likely be broadly in line with the October forecasts.
7. 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.

8. 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 entities to strengthen the economy's growth potential and support from the financial side. Based on this recognition, the Bank will, as mentioned above, pursue aggressive monetary easing. The Bank expects that the Government will surely implement measures, specified in the "Joint Statement," such as carrying out bold regulatory and institutional reforms, and furthermore, steadily promote measures aimed at establishing a sustainable fiscal structure.

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<sup>1</sup> 7-2 majority vote (Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, and Mr. K. Ishida. Voting against the action: Mr. T. Sato and Mr. T. Kiuchi.) Mr. T. Sato and Mr. T. Kiuchi dissented from setting the price stability target at 2 percent in terms of the year-on-year rate of change in the CPI.

<sup>2</sup> The introduction of the "open-ended asset purchasing method" was decided by a unanimous vote.

<sup>3</sup> Mr. T. Sato and Mr. T. Kiuchi dissented from aiming to achieve the price stability target of 2 percent, through a virtually zero interest rate policy and purchases of financial assets, as long as the Bank judges it appropriate to continue with each policy measure respectively.

<sup>4</sup> Mr. Miyao proposed to continue with a virtually zero interest rate policy until the Bank judges 2 percent in terms of the year-on-year rate of increase in the CPI to be in sight. The proposal was defeated by a majority vote. Voting for the proposal: Mr. R. Miyao. Voting against the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi.

<sup>5</sup> 7-2 majority vote (Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, and Mr. K. Ishida. Voting against the action: Mr. T. Sato and Mr. T. Kiuchi.) Mr. T. Sato and Mr. T. Kiuchi dissented from the inclusion of the sentence, "the Bank sets the price stability target at 2 percent in terms of the year-on-year rate of change in the consumer price index."

### Forecasts of the Majority of Policy Board Members

	y/y % chg.		
	Real GDP	Domestic CGPI	CPI (all items less fresh food)
Fiscal 2012	+1.0 to +1.1 [+1.0]	-1.2 to -1.1 [-1.2]	-0.2 to -0.1 [-0.2]
Forecasts made in October 2012	+1.4 to +1.6 [+1.5]	-1.2 to -0.9 [-1.1]	-0.1 to -0.1 [-0.1]
Fiscal 2013	+1.9 to +2.5 [+2.3]	+0.4 to +1.0 [+0.8]	+0.3 to +0.6 [+0.4]
Forecasts made in October 2012	+1.3 to +1.8 [+1.6]	+0.1 to +0.7 [+0.5]	+0.2 to +0.6 [+0.4]
Fiscal 2014	+0.6 to +1.0 [+0.8]	+3.8 to +4.5 [+4.1]	+2.5 to +3.0 [+2.9]
Forecasts made in October 2012	+0.2 to +0.7 [+0.6]	+3.7 to +4.4 [+4.2]	+2.4 to +3.0 [+2.8]
Excluding the effects of the consumption tax hike	/	+0.9 to +1.6 [+1.2]	+0.5 to +1.0 [+0.9]
Forecasts made in October 2012	/	+0.8 to +1.5 [+1.3]	+0.4 to +1.0 [+0.8]

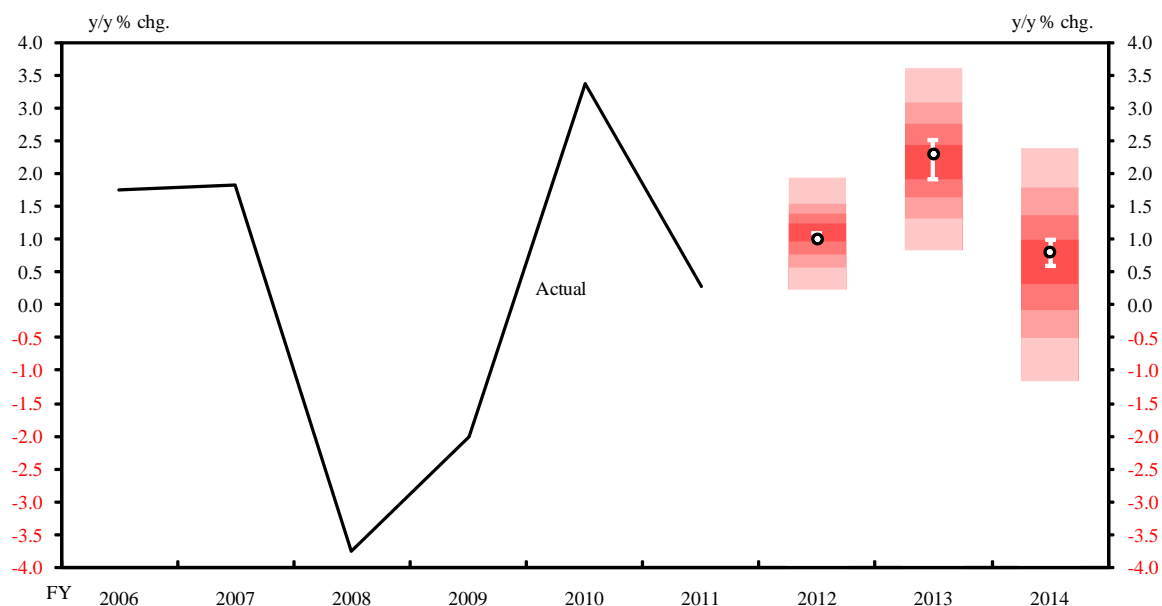
Notes: 1. Figures in brackets indicate the median of the Policy Board members' forecasts (point estimates).

2. The forecasts of the majority of the Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate -- namely, the figure to which he or she attaches the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. The range does not indicate the forecast errors.
3. Individual Policy Board members make their forecasts with reference to the view of market participants regarding the future course of the policy interest rate -- a view that is incorporated in market interest rates.
4. The scheduled consumption tax hikes for 2014 and 2015 -- of 8 percent and 10 percent, respectively -- are incorporated in the forecasts. In terms of the outlook for the CGPI and the CPI, individual Policy Board members make their forecasts based on figures excluding the direct effects of the consumption tax hike.
5. The forecasts for the CGPI and the CPI for fiscal 2014 that incorporate the direct effects of the consumption tax hike are constructed as follows. First, the contribution to prices from the tax hike is mechanically computed on the assumption that the tax increase will be fully passed on for all taxable items. The domestic CGPI will be pushed up by 2.9 percentage points and the CPI by 2.0 percentage points. Second, these figures are added to the forecasts made by the Policy Board members.
6. The CPI using the Chain-Weighted Index Formula has also been released as a reference. Based on this chain-weighted index, the year-on-year rate of change in the CPI toward the latter half of the projection period may be slightly lower than the above forecasts based on the Fix-Weighted Index Formula.
7. The ranges shown below include the forecasts of all Policy Board members.

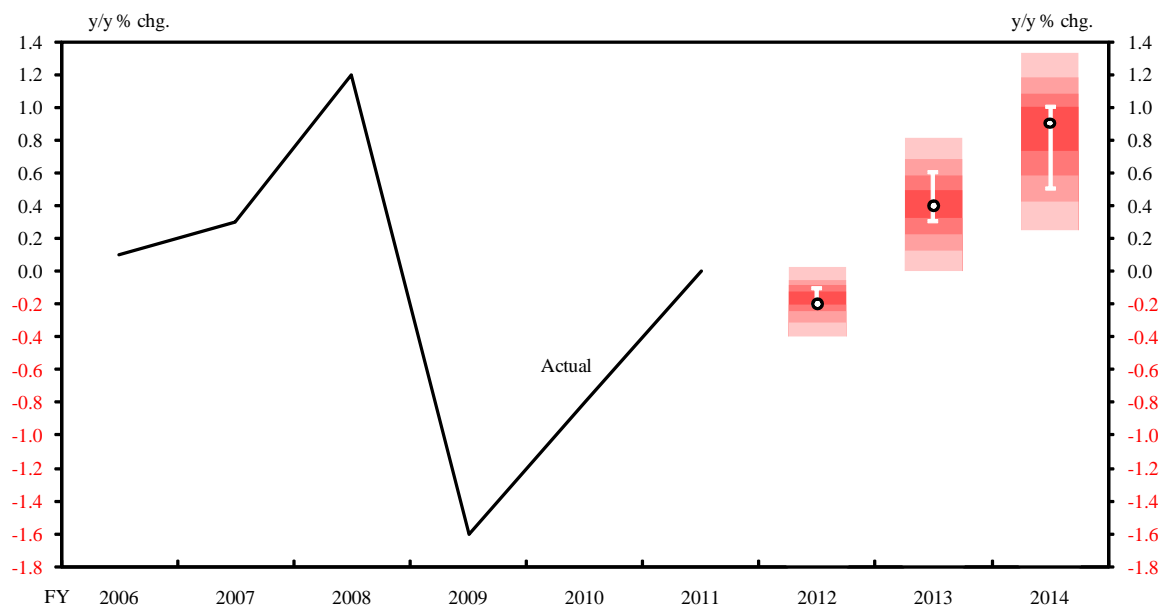
	y/y % chg.		
	Real GDP	Domestic CGPI	CPI (all items less fresh food)
Fiscal 2012	+0.9 to +1.1	-1.2 to -1.1	-0.2 to -0.1
Forecasts made in October 2012	+1.2 to +1.7	-1.3 to -0.8	-0.1 to 0.0
Fiscal 2013	+1.8 to +2.5	+0.3 to +1.1	+0.1 to +0.7
Forecasts made in October 2012	+1.0 to +1.8	-0.2 to +0.8	-0.1 to +0.6
Fiscal 2014	+0.2 to +1.3	+3.3 to +4.7	+2.4 to +3.0
Forecasts made in October 2012	+0.1 to +0.8	+3.3 to +4.5	+2.2 to +3.0
Excluding the effects of the consumption tax hike	/	+0.4 to +1.8	+0.4 to +1.0
Forecasts made in October 2012	/	+0.4 to +1.6	+0.2 to +1.0

### Forecast Distribution Charts of Policy Board Members

(1) Real GDP



(2) CPI (All Items Less Fresh Food)



Notes: 1. Based on the aggregated probability distributions (i.e., the Risk Balance Charts) compiled from the distributions of individual Policy Board members, the Forecast Distribution Charts are compiled as follows. First, upper and lower 10 percentiles of the aggregated distributions are trimmed and second, colors indicated below are used to show the respective percentiles of those distributions.

Upper 40% to lower 40%	Upper 30 to 40% & lower 30 to 40%	Upper 20 to 30% & lower 20 to 30%	Upper 10 to 20% & lower 10 to 20%
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2. For the process of compilation of the Risk Balance Charts, see the box on page 9 of the April 2008 *Outlook for Economic Activity and Prices*.
3. The circles in the bar charts indicate the median of the Policy Board members' forecasts (point estimates). The vertical lines in the bar charts indicate the range of the forecasts of the majority of Policy Board members.
4. The forecast for the CPI excludes the direct effects of the scheduled consumption tax hikes.

**The "Price Stability Target"**  
**under the Framework for the Conduct of Monetary Policy**

1. The Bank of Japan conducts monetary policy based on the principle that the policy shall be aimed at "achieving price stability, thereby contributing to the sound development of the national economy." At the Monetary Policy Meeting held today, the Policy Board reviewed the "price stability goal in the medium to long term" adopted in February 2012, in light of the above-mentioned principle. As a result, it decided to introduce the "price stability target" and restate the framework for the conduct of monetary policy.
2. "Price stability" is defined conceptually as "a state where various economic agents including households and firms may make decisions regarding such economic activities as consumption and investments without being concerned about the fluctuations in the general price level." Therefore, "price stability" must be the one on a sustainable basis.
3. The newly-introduced "price stability target" is the inflation rate that the Bank judges to be consistent with price stability on a sustainable basis. The Bank recognizes that the inflation rate consistent with price stability on a sustainable basis will rise as efforts by a wide range of entities toward strengthening competitiveness and growth potential of Japan's economy make progress. Based on this recognition, the Bank sets the "price stability target" at 2 percent in terms of the year-on-year rate of change in the consumer price index (CPI) -- a main price index.
4. Previously, the "price stability goal in the medium to long term" was in a positive range of 2 percent or lower in terms of the year-on-year rate of change in the CPI and the Bank set a goal at 1 percent for the time being. This time, replacing a "goal" with a "target" and setting that target at 2 percent in terms of the year-on-year rate of change

in the CPI are based on the following recognition.

The Bank recognizes that the inflation rate consistent with price stability on a sustainable basis will rise as efforts by a wide range of entities toward strengthening competitiveness and growth potential of Japan's economy make progress. Today's expected rate of inflation has been shaped over the years. As the strengthening of growth potential makes progress going forward, the actual rate of inflation would gradually rise and accordingly the expected inflation rate of households and firms is likely to rise as well. Going forward, as prices are expected to rise moderately, it is judged appropriate to clearly indicate the target of 2 percent in order to anchor the sustainable rate of inflation.

Switching from a "goal" to a "target" reflects an increasing awareness regarding the importance of flexibility in the conduct of monetary policy in Japan. The effects of monetary policy permeating economic activity and thereafter prices require a considerable and variable time lag. The conduct of monetary policy has to be flexible by examining various risk factors, including those related to financial imbalances, in addition to the assessment of current developments and outlook for economic activity and prices, from the perspective of achieving sustainable growth with price stability. Such understanding has been widely shared around the globe; particularly, in the aftermath of the global financial crisis, major economies of the world have come to emphasize flexibility in the conduct of monetary policy -- by, for example, publicly articulating the importance of paying due attention to financial system stability. Over the last year, there has been an increasing awareness of such understanding in Japan as well. In such circumstances, it is judged transparent and appropriate to use the expression, "target," in order to explain the Bank's thinking on price stability.

5. In order for Japan's economy to overcome deflation as early as possible and return to a sustainable growth path with price stability, efforts by a wide range of entities to strengthen growth potential are crucial. The Bank will continue to thoroughly examine the progress toward strengthening growth potential and the ensuing developments in the expected inflation rate of households and firms. In the meantime, the Government has shown its intention to aggressively pursue steps for strengthening competitiveness and growth potential of Japan's economy and to steadily promote



measures aimed at establishing a sustainable fiscal structure.

6. The Bank will continue to conduct monetary policy, based on its assessment of economic activity and prices from two perspectives, in the context of the "price stability target."

The first perspective is examining, as regards economic activity and prices over the next two years or so, whether the outlook deemed most likely by the Bank of Japan follows a path of sustainable growth under price stability.

The second perspective is examining, in a longer term, various risks that are most relevant to the conduct of monetary policy aimed at achieving sustainable growth under price stability. In particular, financial imbalances will be examined as a risk that will significantly impact economic activity and prices when they materialize, although the probability of their emergence is low.

The Bank of Japan will, in light of deliberations from the two perspectives described above, outline the current view on monetary policy, and disclose it periodically mainly in the *Outlook for Economic Activity and Prices* (Outlook Report).

**Amount of Monthly Purchases under the Asset Purchase Program  
from January 2014**

<b>Total amount:</b>	<b>about 13 trillion yen</b>
JGBs:	about 2 trillion yen
T-Bills:	about 10 trillion yen

- Notes: 1. Based on the average residual maturities of JGBs and T-Bills that have recently been purchased, the total size of the Asset Purchase Program, through the above-mentioned monthly purchases, will be increased by about 10 trillion yen in 2014 and is expected to be maintained thereafter.
2. For financial assets other than JGBs and T-Bills, the Bank will aim to maintain the amount outstanding of those assets.
3. For fixed-rate funds-supplying operation against pooled collateral, the Bank will aim to maintain about 25 trillion yen.
4. In addition to purchases under the program, the Bank regularly purchases JGBs at the pace of 21.6 trillion yen per year.

**Joint Statement of the Government and the Bank of Japan  
on Overcoming Deflation and Achieving Sustainable Economic Growth**

1. In order to overcome deflation early and achieve sustainable economic growth with price stability, the Government and the Bank of Japan will strengthen their policy coordination and work together as follows.
2. The Bank of Japan conducts monetary policy based on the principle that the policy shall be aimed at achieving price stability, thereby contributing to the sound development of the national economy, and is responsible for maintaining financial system stability. The Bank aims to achieve price stability on a sustainable basis, given that there are various factors that affect prices in the short run.

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

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

3. The Government will, in order to revitalize Japan's economy, not only flexibly manage macroeconomic policy but also formulate measures for strengthening competitiveness and growth potential of Japan's economy, and promote them strongly under the leadership of the Headquarters for Japan's Economic Revitalization. Those measures include all possible decisive policy actions for reforming the economic structure, such as concentrating resources on innovative research and development, strengthening the

foundation for innovation, carrying out bold regulatory and institutional reforms and better utilizing the tax system.

In addition, in strengthening coordination between the Government and the Bank of Japan, the Government will steadily promote measures aimed at establishing a sustainable fiscal structure with a view to ensuring the credibility of fiscal management.

4. The Council on Economic and Fiscal Policy will regularly review the progress in the conduct of macroeconomic policies including monetary policy, the current condition and future prospects of prices in the context of the price stability target under those policies, economic and fiscal situation including employment conditions, and progress in economic structural reform.

(Reference)

Meeting hours:

January 21: 14:00-16:52

January 22: 7:59-12:42

Policy Board members present:

Masaaki Shirakawa (Governor)

Hirohide Yamaguchi (Deputy Governor)

Kiyohiko G. Nishimura (Deputy Governor)

Ryuzo Miyao

Yoshihisa Morimoto

Sayuri Shirai

Koji Ishida

Takehiro Sato

Takahide Kiuchi

(Others present)

January 21

From the Ministry of Finance:

Shinichi Sato, Deputy Vice Minister for Policy Planning and Co-ordination

(14:00-16:52)

From the Cabinet Office:

Kenji Matsuyama, Vice-Minister for Policy Coordination (14:00-16:52)

January 22

From the Ministry of Finance:

Shunichi Yamaguchi, Senior Vice Minister of Finance (7:59-12:14,12:32-12:42)

From the Cabinet Office:

Yasutoshi Nishimura, Senior Vice Minister of Cabinet Office (7:59-10:49)

Akira Amari, Minister of State for Economic and Fiscal Policy

(10:55-12:14,12:32-12:42)

Release of the *Monthly Report of Recent Economic and Financial Developments*:

14:00 on Wednesday, January 23 (Japanese)

16:30 on Thursday, January 24 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Wednesday, January 23

Release of the minutes:

8:50 on Tuesday, February 19