

April 4, 2013

Bank of Japan

Introduction of the "Quantitative and Qualitative Monetary Easing"

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

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

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

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

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

The Bank of Japan will conduct money market operations so that the monetary base will increase at an annual pace of about 60-70 trillion yen.¹

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

With a view to encouraging a further decline in interest rates across the yield curve, the Bank will purchase JGBs so that their amount outstanding will increase at an annual pace of about 50 trillion yen.²

In addition, JGBs with all maturities including 40-year bonds will be made eligible for purchase, and the average remaining maturity of the Bank's JGB purchases will be extended from slightly less than three years at present to about seven years -- equivalent

¹ Under this guideline, the monetary base -- whose amount outstanding was 138 trillion yen at end-2012 -- is expected to reach 200 trillion yen at end-2013 and 270 trillion yen at end-2014 (see Attachment).

² The monthly flow of JGB purchases is expected to become 7+ trillion yen on a gross basis.

to the average maturity of the amount outstanding of JGBs issued.^{3, 4}

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

With a view to lowering risk premia of asset prices, the Bank will purchase ETFs and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at an annual pace of 1 trillion yen and 30 billion yen respectively.⁵

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

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

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

- a) The termination of the Asset Purchase Program

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

- b) The temporary suspension of the "banknote principle"

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

³ The average remaining maturity of JGBs purchased under the Asset Purchase Program and JGB purchases conducted for facilitating money market operations was slightly less than three years.

⁴ The average remaining maturity of JGBs to be purchased is subject to fluctuations, depending on bids by financial institutions; thus, it is appropriate to allow for its range of about six to eight years.

⁵ As for CP and corporate bonds, the Bank will continue with those asset purchases until their amounts outstanding reach 2.2 trillion yen and 3.2 trillion yen respectively; thereafter, it will maintain those amounts outstanding. The upper limits (i.e., the single issuers' amounts outstanding) of CP, corporate bonds, ETFs, and J-REITs to be purchased by the Bank shall be the same as before.

and qualitative monetary easing.⁶

c) Enhanced dialogue with market participants

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

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

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

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

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

⁶ This principle indicates that the purchases of JGBs conducted for facilitating money market operations are subject to the limitation that the outstanding amount of long-term government bonds effectively held by the Bank be kept below the outstanding balance of banknotes issued. It was decided at the Monetary Policy Meeting held on March 19, 2001.

expectations of markets and economic entities. These effects will support the positive movements that have started to appear in economic activity and financial markets, contribute to a further pick-up in inflation expectations that appear to have risen, and lead Japan's economy to overcome deflation that has lasted for nearly 15 years.

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

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

Monetary Base Target and the Bank's Balance Sheet Projection

(trillion yen)

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

Breakdown of the Bank's Balance Sheet

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

(Reference)

Meeting hours:

April 3: 14:00-16:33

April 4: 8:59-13:35

Policy Board members present:

Haruhiko Kuroda (Governor)

Kikuo Iwata (Deputy Governor)

Hiroshi Nakaso (Deputy Governor)

Ryuzo Miyao

Yoshihisa Morimoto

Sayuri Shirai

Koji Ishida

Takehiro Sato

Takahide Kiuchi

(Others present)

April 3

From the Ministry of Finance:

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

(14:00-16:33)

From the Cabinet Office:

Kenji Matsuyama, Vice-Minister for Policy Coordination (14:00-16:33)

April 4

From the Ministry of Finance:

Shunichi Yamaguchi, Senior Vice Minister of Finance (8:59-13:08,13:30-13:35)

From the Cabinet Office:

Akira Amari, Minister of State for Economic and Fiscal Policy

(8:59-13:08,13:30-13:35)

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

14:00 on Friday, April 5 (Japanese)

16:30 on Monday, April 8 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Friday, April 5

Release of the minutes:

8:50 on Thursday, May 2