Not to be released until 8:50 a.m. Japan Standard Time on Tuesday, March 12, 2013.

March 12, 2013

Bank of Japan

Minutes of the Monetary Policy Meeting

on February 13 and 14, 2013

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

Please contact the Bank of Japan at the address below in advance to request permission when reproducing or copying the content of this document for commercial purposes.

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

Please credit the source when quoting, reproducing, or copying the content of this document.

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, February 13, 2013, from 2:00 p.m. to 4:33 p.m., and on Thursday, February 14, from 9:00 a.m. to 12:34 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. S. Yamaguchi, Senior Vice Minister of Finance, Ministry of Finance[2]
Mr. S. Sato, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance[3]
Mr. K. Matsuyama, Vice Minister for Policy Coordination, Cabinet Office

Reporting Staff

Mr. H. Nakaso, Executive Director (Assistant Governor)[4]
Mr. H. Hayakawa, Executive Director
Mr. N. Kinoshita, Executive Director
Mr. K. Momma, Executive Director

---

[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on March 6 and 7, 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. S. Yamaguchi was present on February 14.

[3] Mr. S. Sato was present on February 13.

[4] Mr. H. Nakaso was present on February 13.

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

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. N. Fukunaga, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

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

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

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

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 January 21 and 22, 2013, had been providing ample funds sufficient to meet demand in financial markets and was doing its utmost to ensure stability in the markets.[6] In this situation, the uncollateralized overnight call rate had been in the range of 0.075 to around 0.105 percent.

With regard to the operation of the Asset Purchase Program, undersubscription had occurred frequently in the Bank's fixed-rate funds-supplying operation against pooled collateral, mainly in operations with relatively long maturities, as market participants shared the perception that there was an excess of liquidity in the money market and speculated that the interest rate applied under the complementary deposit facility might be lowered. As for the Bank's outright purchases of treasury discount bills (T-Bills), steady accumulation of the amount outstanding of these assets had progressed. Concurrently, the bid rates in the Bank's outright purchases of Japanese government bonds (JGBs) had declined, as financial institutions were becoming less willing to sell them.

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 declined marginally, and had recently been at a level below 0.1 percent. Rates on longer-term interbank instruments had declined very slightly.

With regard to long-term interest rates, yields on 2- and 5-year JGBs had declined due to further downward pressure on interest rates. Yields on 10-year JGBs temporarily rose as stock prices had been steady and U.S. long-term interest rates had increased. However, they had recently been at around 0.75 percent again. The Nikkei 225 Stock Average had risen mainly due to the depreciation of the yen, as U.S. stock prices had increased, and had recently been in the range of 11,000-11,500 yen. Prices for Japan real

---

[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.

estate investment trusts (J-REITs) had also been increasing. As for yield spreads between corporate bonds and JGBs, although those on some corporate bonds continued to be wide due to concerns over deterioration in issuer companies' business performance, those on other corporate bonds were more or less unchanged at low levels on the whole, reflecting continued solid demand from investors. The yen had depreciated against the U.S. dollar and temporarily entered the 94-95 yen range because of speculation about policies and the expansion of Japan's trade deficit -- regarded as a reason to sell the yen -- while U.S. long-term interest rates rose.

C. Overseas Economic and Financial Developments

While overseas economies remained in a deceleration phase, they had shown some signs of picking up.

The U.S. economy had been on a moderate recovery trend, with increasing firmness. The pace of growth in exports continued to slow, but business fixed investment showed signs of picking up as business sentiment, which had been cautious for a while, improved somewhat. Although weakness was observed in consumer sentiment, private consumption had been increasing moderately as the employment situation followed an improving trend. Housing investment had also been showing clear signs of picking up, albeit at a depressed level. Under these circumstances, production had begun to return to an increasing trend. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items decelerated, reflecting developments in energy prices. However, the year-on-year rate of increase in the CPI for all items less food and energy, or the core CPI, had been more or less flat.

Economic activity in Europe had receded slowly. Both business fixed investment and private consumption had been declining, primarily as a result of continuing fiscal austerity. Growth in exports was sluggish as well. Given these developments, production was decreasing. However, further deterioration in business and household sentiment was coming to a halt as financial markets had been stable. 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 developments in energy prices. Meanwhile, economic activity in the United Kingdom had been sluggish.

With regard to Asia, the Chinese economy had begun to stabilize in reflection of firm domestic demand. 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 had come to a halt due to rises in infrastructure investment and real estate investment. Exports, albeit with some fluctuations, had also shown signs of stabilizing. Reflecting these developments in demand at home and abroad, production had begun to stabilize as well. Regarding the NIEs and the ASEAN countries, these economies had generally been picking up, but the pace continued to be moderate in the corporate sector. Exports and production had shown signs of stabilizing but growth in business fixed investment, particularly in the NIEs, had been sluggish as business sentiment remained cautious. Meanwhile, private consumption had been firm, especially in the ASEAN countries. 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, investors' risk aversion had been abating, mainly reflecting two factors. First, following the introduction of various safety valves regarding the European debt problem -- such as the modalities by the European Central Bank (ECB) for undertaking Outright Monetary Transactions (OMTs) and the European Stability Mechanism (ESM) -- the amount of early repayments under the ECB's 36-month longer-term refinancing operations (LTROs) had turned out to be larger than market expectations. And second, in the United States, following the avoidance of the "fiscal cliff" at the beginning of 2013, a bill to temporarily suspend the federal debt ceiling had been passed. While yields on government bonds issued by peripheral European countries had generally been stable at a markedly reduced level, interest rates in the United States and Germany had increased. Meanwhile, U.S. stock prices had been rising and European stock prices had been declining slightly. With regard to corporate bond markets in the United States and Europe, credit spreads had generally narrowed, especially on corporate bonds with low ratings, and the issuance of high-yield bonds had increased. The funding conditions of European financial institutions remained stable. Spreads between interest rates on euro-denominated term instruments and overnight index swap (OIS) rates had also remained flat at low levels. Meanwhile, in emerging and commodity-exporting economies, stock prices had been more or less unchanged at high levels and currencies -- from a relatively long-term perspective -- had been on an appreciating trend in the foreign exchange markets, in a situation where capital inflow into these economies -- through investment funds in particular -- had been showing signs of an increase.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports continued to decrease, but the pace of decrease had been moderating. Real exports continued to decline in the October-December quarter of 2012 on a quarter-on-quarter basis, after having registered a large decrease in the July-September quarter. On a monthly basis, however, they rose -- albeit very slightly -- in November for the first time in seven months, and posted only a tiny decline in December. Exports were expected to stop decreasing and start picking up as overseas economies gradually emerged from the deceleration phase.

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 the October-November period relative to 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 -- had been more or less flat, albeit with monthly fluctuations, after having surged in the April-June quarter. Public investment was expected to continue trending upward, supported by the effects of various economic measures. However, attention should continue to be paid to the possibility that the actual pace of implementing public works would remain moderate due to the effects of bottlenecks on the supply side, such as a labor shortage in the construction industry.

Business 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 that in nonmanufacturing. Machinery orders remained relatively weak due to the drop in manufacturing, but had recently shown signs that they had stopped decreasing. Construction starts in terms of floor area registered a quarter-on-quarter increase for four consecutive quarters through the October-December quarter. Business fixed investment was projected to remain somewhat weak for the time being, mainly in manufacturing, but 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 continued to peak out.

Private consumption remained resilient and the effects of the decline in car sales due to the ending of some measures to stimulate demand for automobiles had fallen off. The number of new passenger-car registrations, including those for small cars with engine sizes of 660cc or less, fell back significantly through October but continued to pick up thereafter since November. In January, aided partly by the introduction of new models, the number of registrations recovered to the level seen just before the ending of subsidies for purchasers of environmentally friendly cars. Sales at department stores and supermarkets were resilient on the whole. Private consumption was expected to remain resilient as a trend.

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

Reflecting these developments in demand both at home and abroad, industrial production appeared to have stopped decreasing. Specifically, it continued to move down in the October-December quarter, after having declined for two quarters in a row since the April-June quarter, but it rose again on a month-on-month basis in December despite the fall in November, after having increased in October for the first time in four months. As for the outlook, industrial production was expected to pick up gradually, in line with the improvements in exports, as domestic demand remained resilient, partly due to the effects of various economic measures. Judging from interviews with firms and other relevant information, industrial production as a whole for the January-March quarter of 2013 was projected to stop decreasing, in view of expectations for the production of transport equipment to turn markedly upward and that of general machinery to decrease at a reduced pace.

As for prices, international commodity prices had moved slightly upward. The three-month rate of change in the domestic corporate goods price index (CGPI) was rising moderately, reflecting movements in foreign exchange rates. The CGPI was expected to continue rising for the time being. The year-on-year rate of change in the CPI (all items less fresh food) was currently around 0 percent. For the time being, it was expected to turn negative due to the reversal of the previous year's movements in energy-related and durable consumer goods, and thereafter was likely to be around 0 percent again.

2. Financial environment

Financial conditions were accommodative.

The overnight call rate remained at an extremely low level, and firms' funding costs had been hovering at low levels. With regard to credit supply, firms continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP and corporate bonds remained favorable on the whole as 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 increase in the amount outstanding of bank lending had accelerated somewhat. The year-on-year rate of change in the amount outstanding of corporate bonds had been positive and that of CP had been 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 2.5-3.0 percent. Meanwhile, the medium- to long-term inflation expectations of market participants had been rising somewhat.

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

A. Economic Developments

In terms of global financial markets, members agreed that, although developments required continued attention, investors' risk aversion had been abating, mainly reflecting two factors. First, following the introduction of various safety valves regarding the European debt problem -- such as the modalities by the ECB for undertaking OMTs and the ESM -- the amount of early repayments under the ECB's 36-month LTROs had turned out to be larger than market expectations. And second, in the United States, following the avoidance of the fiscal cliff at the beginning of 2013, a bill to temporarily suspend the federal debt ceiling had been passed. Some members said that the abatement of investors' risk aversion was a positive movement that reflected the waning of tail risks, but attention should be paid to the possibility that such abatement might unwind partly because developments in markets were considered to be preceding those in economic activity, as well as progress with structural efforts. One of these members added that, if an unwinding of efforts to achieve fiscal consolidation in Europe were to be triggered by the public's reform fatigue, investors' risk aversion might heighten again. This member continued that in such a case there was a risk of destabilizing the financial system -- for example, the observed capital inflow into emerging economies through investment funds might start to unwind -- and therefore, the member was carefully monitoring these developments.

Members concurred that, while overseas economies as a whole remained in a deceleration phase, as evidenced by the fact that economic activity in Europe continued to recede slowly, they had shown some signs of picking up, mainly in the U.S. and Chinese economies. One member said that the Purchasing Managers' Index (PMI) for new export orders and the amount of freight handled suggested that trade activity had begun to pick up in a broad range of regions. As for the outlook, members shared the recognition that overseas economies were likely to remain in the deceleration phase for the time being but gradually emerge from the 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 the U.S. economy generally continued to recover at a moderate pace, as seen in the fact that the household sector was resilient and signs of a pick-up were observed in the corporate sector. Some members noted that business fixed investment showed signs of picking up on the back of the deterioration in business sentiment having come to a halt. As for the outlook, members concurred that the economy was likely to continue recovering at a moderate pace, supported by accommodative financial conditions. A few members added that the so-called shale revolution was expected to exert a positive effect in the longer run, particularly on the corporate sector. Meanwhile, some members said that they were closely monitoring whether or not the timing of economic recovery would be delayed due to the effects of such factors as the expiration of the payroll tax cut. One member commented that, although the pace of increase in private consumption was less likely to slow given that the employment situation had been relatively stable, there were concerns about a possibility that medium- to long-term growth expectations had declined amid the prolonged economic downturn, as well as concerns about the effects of the current rise in long-term interest rates on existing solid housing investment and car sales. A different member noted that, considering that developments in the employment situation entailed a time lag, future developments in the employment situation in the United States might reflect the weak economic activity in the October-December quarter. This member pointed to the fact that, in the U.S. economy at present, the real GDP growth rate, the potential growth rate, the growth rate in wages, and the growth rate of labor productivity were all stable at low levels. On this basis, the member commented that, if the real GDP growth rate rose even slightly from the current level, the unemployment rate would decline and the inflation rate would rise, and this might bring forward the timing of the shift in the Federal Reserve's monetary policy stance. However, this member continued that, if the growth rate of labor productivity or the labor force participation rate rose, the decline in the unemployment rate and the rise in the inflation rate would be delayed, and such a shift might be pushed back; therefore, it was difficult to envisage the outlook.

Members shared the recognition that economic activity in the euro area had receded slowly. One member noted that a further deterioration in the corporate sector had been avoided, as seen in the rise -- albeit at a low level -- in business sentiment. A few members pointed out that the financial system had generally been stable, as evidenced by the abatement of liquidity concerns. 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 for the time being, particularly in peripheral countries. One member said that there was still room for adjustments in housing prices in Spain, and therefore the member was paying attention to whether this might lead to a prolongation of the economic recession or heightening of concerns over the financial system.

Members shared the recognition that the Chinese economy had been in a state of slowdown but had begun to stabilize. One member noted that, while domestic demand as a whole had been solid, with infrastructure investment and retail sales on an increasing trend, exports had begun to stabilize even when taking into account the effects of the Chinese New Year. A different member pointed out that positive signs had been observed, mainly in exports, and that business sentiment was also on a moderate improving trend. As for the outlook, members shared the view that the economy would gradually register higher growth. One member noted that (1) the pace of recovery in the Chinese economy might continue to lack momentum given that the Chinese government was maintaining its cautious stance toward increasing public spending, and (2) the government's preservation of state-owned enterprises with low business efficiency could exert downward pressure on the potential growth rate. A different member added that the recent economic recovery depended on infrastructure investment and real estate investment by local governments, and therefore there were doubts as to whether it was sustainable. Furthermore, another member said that it was necessary for the Chinese economy to improve investment efficiency and shift to high-value-added industries, in order to make a smooth transition to stable growth.

Regarding the NIEs and the ASEAN countries, members concurred that, although these economies had generally been picking up, the pace remained moderate in the corporate sector. As for the outlook, one member expressed the view that these economies were likely to stabilize, particularly in terms of exports, as the Chinese and U.S. economies picked up.

Based on the above deliberations on economic and financial conditions abroad, members discussed the state of Japan's economy.

Members agreed that the economy appeared to have stopped weakening on the whole, as the pace of decrease in exports had been moderating and industrial production appeared to have stopped decreasing. They also shared the recognition that developments in the economy as a whole were broadly in line with the forecast in the January 2013 interim assessment. Most members noted the following as recent positive developments: (1) temporary factors such as the effects of the decline in car sales due to the ending of subsidies for purchasers of environmentally friendly cars and the effects of the recent developments in the relations between Japan and China had fallen off or diminished; (2) uncertainty concerning overseas economies had declined; and (3) business and household sentiment had improved on the back of the depreciation of the yen and the rise in stock prices. A few of these members added that it was necessary to pay attention to these positive developments to make sure that they would not stall. Some members noted that exports of cars and their related goods to the United States had resumed increasing and the decline in those to China had almost come to a halt. These members continued that, with regard to private consumption, services consumption such as that related to travel and eating out had remained resilient, and while business fixed investment continued to show some weakness, there were signs that the decrease in machinery orders was coming to a halt. Members concurred that the employment and income situation remained severe. One member, however, noted that it showed signs of improvement, as seen in the fact that the number of female employees in the area of medical and nursing care exceeded the level seen before the Lehman shock, and that the number of part-time workers was increasing.

As for the outlook for the economy, members shared the view that it was likely to level off more or less for the time being and thereafter return to a moderate recovery path as domestic demand remained resilient, partly due to the effects of various economic measures, and as overseas economies gradually emerged from the deceleration phase. Some members pointed to the following as the background to this view: (1) with an improvement in the external environment surrounding Japan's economy, its exports were likely to pick up to a considerable degree; (2) industrial production would also probably start picking up gradually as exports picked up; and (3) economic activity was likely to be positively affected by the stimulative effects from the implementation of the supplementary budget for fiscal 2012, and by the recent depreciation of the yen and rise in stock prices that would bring about improvements in corporate profits and wealth effects. These members added that signs of a pick-up in the economy were likely to become evident toward the middle of 2013. On the other hand, one member commented that there was still concern regarding whether the signs of a pick-up observed in industrial production would continue to be seen, since the decreasing trend in exports had not come to a clear halt. A different member pointed to the possibility that, due to a decline in the competitiveness of Japanese products and to the progress in local procurement by Japanese firms operating overseas, the elasticity of Japan's exports to overseas economies and foreign exchange rates had decreased.

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. They continued that, for the time being, it was likely to turn negative due to the reversal of the previous year's movements in energy-related and durable consumer goods, and thereafter was likely to be around 0 percent again. With regard to the outlook for prices, a few members said that attention should continue to be paid to the effects on price developments of the low-price strategy by major supermarkets. One of these members added that the member was carefully monitoring whether the rise in import prices would be passed on to domestic prices. In relation to the point that the year-on-year rate of change in the CPI was likely to temporarily turn negative due to the reversal of the previous year's movements, some members said that the rate of decline was likely to be smaller than the initially anticipated rate of 0.5 percent because of the effects of the recent depreciation of the yen and rise in gasoline prices.

With regard to the mechanism of rising prices, members reaffirmed their view that the inflation rate was likely to rise as the negative output gap gradually narrowed due to the moderate recovery in Japan's economy, reflecting recovery in overseas economies. They concurred that, if Japan's economy continued to improve in a sustainable manner, growth expectations of firms and households would heighten and, accordingly, the actual rate of inflation and inflation expectations would rise further. One member pointed out that, although cost cutting by firms, deflation, and the appreciation of the yen had continued in a cyclical manner in Japan, it might be more likely that the inflation rate would rise toward 2 percent, accompanied by an increase in wages, if cost-cutting pressures on exporting firms weakened, reflecting a rise in wages in emerging economies and a depreciation of the yen. Some members said that, if the Bank continued to pursue its aggressive monetary easing even after inflation expectations started to rise, this would strengthen the effects of such easing. Some members added that, in order for the inflation rate to rise in a sustainable manner, temporary economic buoyancy alone was insufficient, and it was therefore necessary to make efforts toward strengthening the growth potential of Japan's economy to achieve sustainable economic growth. Many members said that there was a close correlation between prices and wages. These members continued that prices and wages should improve in a balanced manner as corporate profits would be squeezed if a rise in wages preceded that in prices, or households' purchasing power would decrease if a rise in prices preceded that in wages, and in both cases the economy would be prevented from achieving sustainable growth. In relation to this point, some members commented that it was a notable development that wages had recently been discussed broadly in the public realm in the context of overcoming deflation. A few of these members added that, since discussion on labor policy had so far centered on employment, it would not be easy to realize a rise in wages unless the wage system was reconsidered -- including issues regarding differences in wages between regular and non-regular employees. One member pointed out that it might also be necessary to review employment practices and labor regulations in order for wages to rise. A different member added that it was necessary to gain a deeper understanding of the relationship among wages, prices, and the competitiveness of the economy, taking into account the example of Europe, where the working-age population was declining. Some members remarked that, in any case, it was necessary for the Bank to thoroughly explain to the public the expected course in which prices would rise.

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. One member pointed to the risk of a delay in the pace at which medium- to long-term inflation expectations would rise. One member said that, from the viewpoint of financial imbalances, careful monitoring was required of interest rate risk stemming from financial institutions' large holdings of JGBs. A different member noted that, given the current historically low level of long-term interest rates, attention needed to be paid to a risk of a reversal in such rates. This member added that it was important to maintain the public's confidence in fiscal discipline in order to substantially reduce the possibility of such a risk materializing.

B. Financial Developments

Members concurred that financial conditions in Japan were accommodative. One member said that financial conditions in a broad sense had recently become more accommodative, as interest rates had come under further downward pressure, stock prices had risen, and the yen had been depreciating.

Members agreed that money market rates, including interest rates on term instruments, had been extremely stable, as the Bank had been pursuing aggressive 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.

III. 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 (hereafter the Program), based on the decisions made in December 2012 and January 2013, members concurred that it was appropriate for the Bank to increase the amount outstanding of the Program, which currently stood at the 67-68 trillion yen level, to about 101 trillion yen by the end of 2013, and thereafter continue to purchase financial assets amounting to about 13 trillion yen -- including about 2 trillion yen of JGBs -- per month without setting any termination date. Some members said that the Bank would implement measures that it deemed most desirable on each occasion while examining the outlook for economic activity and prices as well as risk factors and closely monitoring monetary policy effects and their transmission.

Regarding the fact that undersubscription -- that is, aggregate bids falling short of the Bank's offers -- had been occurring frequently in the fixed-rate funds-supplying operation against pooled collateral since the turn of the year, many members noted that they had expected that undersubscription would likely occur as the sense of an excess of liquidity strengthened among financial institutions in a process where the Bank accumulated the amount outstanding of the Program. On this basis, these members expressed the view that, even if the occurrence of undersubscription indicated that the effects of the Bank's aggressive monetary easing had been permeating the financial markets, it was necessary for the operation desk to continue to make operational adjustments that would allow the Bank to accumulate the amount outstanding of the Program as scheduled by, for example, flexibly setting the duration of funds offered by the Bank. One member pointed to the possibility that demand for funds to be provided through the fixed-rate funds-supplying operation might decline further from June 2013 onward, when the loan disbursement under the fund-provisioning measure to stimulate bank lending would be implemented. Many members said that it might be possible to consider, for example, an allocation of funds from the fixed-rate funds-supplying operation to outright purchases of T-Bills in the future. These members continued that, nonetheless, financial institutions' recently observed negative stance toward bidding for the operation was affected not only by their perception that there was an excess of liquidity but also by their speculation that the interest rate applied under the complementary deposit facility might be lowered, and therefore developments in financial institutions' bidding activity should be monitored for some time.

With regard to the purchases of JGBs under the Program, a few members expressed the view that financial institutions were becoming less willing to sell JGBs, and it was possible that the bid rates in the purchases of these assets would decline further as the Bank proceeded with the purchases. One of these members pointed out that, if substantially lower levels of yields on JGBs were maintained, this could instead weaken the effectiveness of the support for the economy from the financial side due to their adverse effects on financial institutions' profits. This member then said that the member was paying attention to the indirect effects of such yield developments on other markets, including the foreign exchange markets. A different member expressed the opinion that it was necessary for the operation desk to review ways to purchase JGBs appropriately, so that the purchases would not be conducted at interest rates that were significantly lower than the market rates. In response, another member commented that, since the rates for purchasing JGBs were determined by bidding, it was difficult to verify whether these rates were deviating from the market rates.

In relation to monetary policy for the immediate future, members confirmed that, under the "price stability target," the Bank would pursue monetary easing and aim to achieve this target at the earliest possible time. They continued that, in doing so, the Bank would ascertain whether there was any significant risk to the sustainability of economic growth, including from the accumulation of financial imbalances, taking into consideration that it would take considerable time before the effects of monetary policy permeated the economy. One member pointed out that, since the "price stability goal" of 1 percent for the time being had been replaced by the "price stability target" of 2 percent, the level of the policy interest rate was associated with a relatively tight condition from the viewpoint of the

Taylor rule, and said that it was necessary to firmly pursue aggressive monetary easing.

Members shared the recognition that (1) firms' and households' growth expectations would heighten, leading to a further rise in the inflation rate, if Japan's economy improved in a sustainable manner; (2) the effects of monetary easing would be further enhanced if -- in parallel with the pursuit of aggressive monetary easing by the Bank -- efforts by a wide range of entities toward strengthening the growth potential of Japan's economy made progress, and firms and households proceeded to make use of the accommodative financial conditions; and (3) the policy coordination between the government and the Bank would support such a virtuous circle. Some members expressed the view that, since market participants had not been able to fully recognize the feasibility of achieving the "price stability target," it was extremely important -- in terms of securing confidence in the Bank's conduct of monetary policy and enhancing the transmission effects of monetary easing -- that the Bank explain in detail how this was indeed feasible. In relation to the point that the year-on-year rate of change in the CPI was likely to temporarily turn negative in the immediate future due to the reversal of the previous year's movements, these members commented that it was necessary to explain thoroughly to the public that this development did not indicate a trend, but rather only represented a temporary situation. One of these members added that, in order to achieve price stability on a sustainable basis, not only improvement in the negative output gap, but also strengthening the economy's growth potential -- through a rise in productivity, for example -- was important, and therefore it was deemed necessary for the Bank to share the same understanding with the government and the public regarding this point. A different member said that, in terms of the Bank's communication to the public, further consideration should be given to providing clarity in its explanation by devising ways to deliver a stronger message by emphasizing the keywords in its statements.

Some members referred to the following as options for the Bank if there was a need for additional monetary easing in the future: (1) lowering the interest rate applied under the complementary deposit facility; (2) purchasing JGBs with longer remaining maturities under the Program; and (3) increasing the size of purchases of risk assets. With regard to the first option, a few members said that the benefits and costs associated with lowering the interest rate should be carefully examined. As for the second option, some members noted that, considering the possibility of a further tightening in the supply and demand conditions of JGBs with remaining maturities that were currently eligible for purchases under the Program, the Bank could decide to purchase JGBs with longer remaining maturities in order to increase the amount outstanding of the Program. A few of these members said that, if JGBs with longer remaining maturities became eligible for purchases, in considering issues such as providing clarity, one approach might be to consolidate purchases of JGBs under the Program with those conducted in terms of money market operations, although careful examination of the benefits and costs accompanying the consolidation was necessary. One of these members added that, if the Bank consolidated these two types of purchases, this would provoke a discussion on how to deal with the "banknote principle." This member continued that, if the Bank were to revise this principle, it was important that the government secure market confidence in fiscal consolidation. Regarding the third option, a few members raised the point that it might be possible for the government to share some of the losses if these were incurred from risk assets purchased by the Bank.

As for the term to pursue aggressive monetary easing through the continuation of purchases of financial assets and a virtually zero interest rate policy, one member was of the view that the virtually zero interest rate policy was an orthodox measure to strengthen monetary easing by influencing market expectations on future short-term interest rates. The member continued that it therefore was appropriate to continue with the virtually zero interest rate policy until the Bank judged that 2 percent in terms of the year-on-year rate of increase in the CPI was in sight, thereby demonstrating the Bank's firmer determination. On this basis, this member added that excessive monetary easing could cause concern over an extreme overshooting of the inflation rate and an asset bubble accompanying credit expansion. However, the member continued that such concern could be dealt with appropriately by ascertaining risks, including from the accumulation of financial imbalances. In response to this view, some members said that there was a high degree of uncertainty regarding future economic and price developments, and that the guidance for the future conduct of monetary policy should fully take this into account. One member said that, from the perspective of the transparency of monetary policy, there was room to reconsider the Bank's policy commitment introduced at the previous meeting. This member continued that it would be appropriate for the Bank to take a two-step approach that involved (1) purchasing financial assets toward achieving a year-on-year rate of increase in the CPI of 1 percent, followed by (2) maintaining accommodative financial conditions until it could be judged that an increase in the CPI of 2 percent was in sight. A different member noted that one possibility would be to immediately put into effect the open-ended asset purchasing method, followed by an extension of the Bank's projection period by one year, and continue with the virtually zero interest rate policy, as well as the asset purchases, until the median of the Policy Board members' CPI forecasts exceeded 1.5 percent. However, these two members said that they were simply raising these issues at this meeting and would follow the majority view of the Policy Board. Based on this discussion, with regard to the term for continuing the purchases of financial assets and the virtually zero interest rate policy, many members expressed the view that it was appropriate for the Bank to continue with each respective policy measure as long as it judged appropriate, with the aim of achieving the "price stability target" at the earliest possible time.

IV. Remarks by Government Representatives

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

(1) While the Japanese economy had shown weakness recently, signs of bottoming out could be seen in some areas and an upturn in stock prices had recently been observed in expectation of an economic recovery. The government deemed it important to ensure that these developments, which represented signs of improvement, would lead to realizing economic recovery via appropriate policy management while continuing to pay attention to developments in the foreign exchange markets.

(2) The government would aim to overcome the prolonged appreciation of the yen and deflationary recession as well as increase employment and income by adopting a three-pronged strategy. As a first step toward this end, it had formulated the "Emergency Economic Measures for the Revitalization of the Japanese Economy," and accordingly had submitted the supplementary budget for fiscal 2012 to the Diet. The government also formulated the budget for fiscal 2013 under the idea of a "15-month budget." In the budget for fiscal 2013, it gave priority to certain areas by reviewing the budget's content, thereby restraining the issuance amount of government securities as much as possible, in order to prevent a possible deterioration in the fiscal conditions. The government would do its utmost to implement policy measures in a seamless manner to revitalize the economy.

(3) The government and the Bank had released a joint statement on January 22, 2013. The government would proceed firmly with its efforts toward implementing a flexible fiscal policy as well as measures for strengthening the growth potential of the Japanese economy, as specified in this joint statement. Nevertheless, given that the Bank's bold monetary policy was expected to eliminate deflationary expectations, this represented a particularly significant aspect of the three-pronged strategy. The government deemed it important to achieve the "price stability target" of 2 percent at the earliest possible time, in line with the joint statement. It expected the Bank to pursue bold monetary easing in a responsible manner.

(4) The inflation rate remained at around 0 percent. As was indicated by the projection presented at the previous meeting, a course toward achieving the price stability target had not yet been envisaged. The government expected the Bank, while keeping fully aware of this situation, to conduct monetary policy vigorously and decisively with a firm resolve, in order to achieve the "price stability target" of 2 percent at the earliest possible time.

The representative from the Cabinet Office made the following remarks.

(1) While the Japanese economy had shown weakness recently, signs of bottoming out could be seen in some areas. The quarter-on-quarter real GDP growth rate for the October-December quarter of 2012 had been negative for the third consecutive quarter, but the rate of decline had decelerated. Weakness would remain for the time being, but the economy was expected to resume its recovery, supported by the improvement in export conditions, the monetary easing, and the effect of the policy package. In the government's economic outlook, real and nominal GDP growth rates and the year-on-year rate of change in the CPI for fiscal 2013 were expected to be around 2.5 percent, 2.7 percent, and 0.5 percent, respectively. However, attention needed to be paid to uncertainty about the prospects of overseas economies, developments in the foreign exchange markets, and electric power supply constraints.

(2) The government would aim for economic recovery accompanying an increase in employment and income by adopting the three-pronged strategy that consisted of bold monetary policy, flexible fiscal policy, and a growth strategy. It would formulate measures for strengthening the competitiveness and growth potential of the Japanese

economy at the meetings of the Industrial Competitiveness Council and the Regulatory Reform Council, both of which had been launched in January 2013. In view of ensuring the credibility of fiscal management, the government would aim to realize the fiscal consolidation targets -- halving the national and local governments' primary balance deficit relative to the GDP by fiscal 2015 from the fiscal 2010 level and achieving a surplus by fiscal 2020.

(3) The government expected the Bank to achieve the "price stability target" of 2 percent at the earliest possible time, as specified in the joint statement. In Japan's current economic situation, in which real interest rates were at high levels due to deflation, both the effects of fiscal policy on the private economy and those of a growth strategy on realizing economic revitalization might be limited. In this regard, the Bank's efforts were extremely important. The government strongly expected the Bank to pursue bold monetary easing, bearing in mind a course toward achieving the price stability target of 2 percent. At the meeting of the Council on Economic and Fiscal Policy held in January 2013, where intensive discussion had taken place regarding monetary policy, prices, and other matters, the Prime Minister had stated that the Bank was expected to clearly present a course toward achieving the price stability target. While discussion regarding the course was being held at this Monetary Policy Meeting, the government hoped that the Bank would respond in accordance with this statement by the Prime Minister at the next intensive discussion at the meeting of the council.

V. Votes

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.

VI. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy and formed a majority view. One member expressed the view that it was appropriate to set a separate period for which the virtually zero interest rate policy would remain effective, in order to further pursue aggressive monetary easing under the "price stability target," and wished to formulate a proposal. As a result, the following two proposals were submitted.

A. Mr. R. Miyao's Policy Proposal

With regard to the draft of the statement that formed a majority view, Mr. R. Miyao proposed to replace the paragraph regarding the Bank's future monetary policy stance with the following: "The Bank will pursue aggressive monetary easing, aiming to achieve the above-mentioned price stability target, by continuing with (1) a virtually zero interest rate policy until it judges the achievement of the price stability target to be in sight, and (2) purchases of financial assets as long as it judges appropriate. In addition, the Bank will provide support for financial institutions' efforts to strengthen the foundations for economic growth and to increase their lending." The proposal was then put to a vote.

The proposal was defeated by a majority vote.

Votes for the proposal: Mr. R. Miyao.

Votes 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.

B. The Chairman's Policy Proposal

The chairman formulated the Statement on Monetary Policy, and put it to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of January 21 and 22, 2013 for release on February 19, 2013.

Attachment
February 14, 2013
Bank of Japan

Statement on Monetary Policy

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

2. While overseas economies remain in a deceleration phase, they have shown some signs of picking up. In global financial markets, investors' risk aversion has abated, although developments require continued attention.

3. Japan's economy appears to stop weakening. Exports continue to decrease, but the pace of decrease has been moderating, 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 fallen off. Reflecting these developments in demand both at home and abroad, industrial production appears to stop decreasing. Meanwhile, financial conditions in Japan are accommodative. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) is around 0 percent.

4. 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.

5. 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.

6. 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 has set the price stability target at 2 percent in terms of the year-on-year rate of change in the 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.

   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.[7] In addition, the Bank will provide support for

[7] Mr. R. Miyao proposed to continue with a virtually zero interest rate policy until the Bank judges the achievement of the price stability target 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.

financial institutions' efforts to strengthen the foundations for economic growth and to increase their lending.