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July 17, 2013

Bank of Japan

Minutes of the Monetary Policy Meeting

on June 10 and 11, 2013

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

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Monday, June 10, 2013, from 1:59 p.m. to 3:54 p.m., and on Tuesday, June 11, from 9:00 a.m. to 11:43 a.m.[1]

Policy Board Members Present

Mr. H. Kuroda, Chairman, Governor of the Bank of Japan

Mr. K. Iwata, Deputy Governor of the Bank of Japan

Mr. H. Nakaso, 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. M. Amamiya, Executive Director

Mr. N. Kinoshita, Executive Director

Mr. K. Momma, Executive Director (Assistant Governor)

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

Mr. K. Kamiyama, Head of Policy Planning Division, Monetary Affairs Department

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on July 10 and 11, 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 June 11.

[3] Mr. S. Sato was present on June 10.

Mr. H. Yamaoka, Director-General, Financial Markets Department

Mr. E. Maeda, Director-General, Research and Statistics Department

Mr. S. Kameda, Head of Economic Research Division, Research and Statistics Department

Mr. H. Toyama, Director-General, International Department

Secretariat of the Monetary Policy Meeting

Mr. N. Yoshioka, Director-General, Secretariat of the Policy Board

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

Mr. R. Hattori, Senior Economist, Monetary Affairs Department

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

I. Summary of Staff Reports on Economic and Financial Developments[4]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on May 21 and 22, 2013, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[5] In this situation, the amount outstanding of the monetary base had been in the range of 155-160 trillion yen.

B. Recent Developments in Financial Markets

Money market rates, including longer-term ones, had been at low levels. The uncollateralized overnight call rate had been at a level below 0.1 percent. General collateral (GC) repo rates had been at around 0.1 percent on the whole, although they had weakened temporarily. As for interest rates on term instruments, yields on treasury discount bills (T-Bills) had fallen slightly, and had been somewhat below the 0.1 percent level for all maturities. Rates on longer-term interbank instruments had been flat.

With regard to long-term interest rates, yields on 10-year JGBs were currently at around 0.85 percent, after having experienced volatility: they had temporarily risen to around 1.0 percent following the rise in U.S. long-term interest rates, mainly reflecting speculation about the direction of U.S. monetary policy, but subsequently declined following the fall in Japanese stock prices. Yields on 5-year JGBs had been decreasing, in part reflecting a positive response to the Bank's decision to increase the allocation of its purchases to JGBs with remaining maturities of more than one year and up to five years, as part of its revision to the operational outline for outright purchases of JGBs. The Nikkei 225 Stock Average -- after having risen at a rapid pace -- had been falling by a substantial degree, mainly in response to profit-taking sales by investors. Prices for Japan real estate investment trusts (J-REITs) had been declining due to market concerns about deterioration in the supply and demand balance in the face of the announced large initial public offering, which was regarded as a reason to sell J-REITs. Yield spreads between corporate bonds and JGBs were more or less unchanged at low levels on the whole, reflecting solid demand from investors, although those on some corporate bonds remained wide due to concerns

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

[5] The guideline was 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.

about deterioration in issuer companies' business performance. In the foreign exchange market, the yen had temporarily depreciated against the U.S. dollar, in response to speculation about the direction of U.S. monetary policy, and then appreciated, partly because it was bought back widely in view of the substantial decline in Japanese stock prices. The U.S. dollar/yen rate had recently been in the range of 98-99 yen.

C. Overseas Economic and Financial Developments

As for overseas economies, while the manufacturing sector continued to show a lackluster performance, they were gradually heading toward a pick-up as a whole.

The U.S. economy had been on a moderate recovery trend against the backdrop of steady private demand, despite downward pressure from the fiscal side. Although effects of the expiration of the payroll tax cut had been observed, private consumption continued to be on a moderate increasing trend as the employment situation followed an improving trend and asset prices rose. Housing investment had also been picking up steadily, partly supported by the low interest rate. Exports were emerging from a leveling-off phase. On the other hand, federal government expenditures -- particularly federal defense spending -- had been declining. This had caused the business sentiment of some firms -- particularly in defense-related industries -- to turn cautious, and the pace of pick-up in production and business fixed investment to slow. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items had decelerated, mainly as a result of the decline in energy prices. The year-on-year rate of increase in the CPI for all items less food and energy, or the core CPI, had also declined somewhat.

Economic activity in Europe continued to recede slowly. Exports had bottomed out and further deterioration in business and household sentiment had come to a halt on the whole. Nevertheless, both business fixed investment and private consumption had been declining, partly due to continuing fiscal austerity amid the protraction of the European debt problem. Production continued to decrease, reflecting sluggish domestic demand. As for prices, while slack in supply and demand conditions was exerting downward pressure on prices, the year-on-year rates of increase in both the Harmonized Index of Consumer Prices (HICP) for all items and the HICP excluding energy and unprocessed food had declined. Meanwhile, economic activity in the United Kingdom had been sluggish.

With regard to Asia, the Chinese economy had been stabilizing in reflection of firm domestic demand. Private consumption had been firm on the back of a favorable employment and income situation. The pace of increase in fixed asset investment had been solid, mainly due to rises in infrastructure investment and real estate investment. Exports were heading toward a pick-up, albeit with some fluctuations. Reflecting these developments in demand at home and abroad, production had been stabilizing as well. The underlying trend in prices had been stable. Regarding the NIEs and the ASEAN countries, these economies had been picking up on the whole, but the pace still continued to be moderate in the corporate sector. Exports were heading toward a pick-up on the whole, although some weakness was observed in a few regions, and production had shown signs of stabilizing. Nevertheless, growth in business fixed investment, particularly in the NIEs, had been sluggish as business sentiment still remained cautious. Meanwhile, private consumption had been firm, especially in the ASEAN countries, where consumer sentiment was on an improving trend on the back of the favorable employment and income situation. As for prices, inflation rates had generally been declining, although there were regional differences. In India, the economy remained in a state of deceleration.

In global financial markets, speculation among investors about the direction of U.S. monetary policy -- namely, that the Federal Reserve would reduce the pace of its asset purchases earlier than expected -- became somewhat heightened. Under these circumstances, in the bond market, yields on government bonds had risen worldwide and yield differentials between sovereign bonds in emerging economies and U.S. Treasuries had widened somewhat. Regarding corporate bond markets in the United States and Europe, yields were rising on high-yield bonds, which had declined to historically low levels. The increased volatility worldwide was also leading investors to reduce their appetite for bonds. Stock prices had generally weakened in the United States and Europe, as well as in emerging economies. With regard to global capital flows, there were outflows of funds from bonds and stocks in emerging economies as well as from U.S. and European high-yield bonds. Meanwhile, international commodity prices had moved slightly downward on the whole, on the back of weaker-than-expected Chinese economic indicators.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had started picking up. Real exports had increased in the January-March quarter of 2013 for the first time in three quarters and kept doing so in April relative to that quarter, following a large decrease in the July-September quarter of 2012 on a quarter-on-quarter basis and a continued decline in the October-December quarter. Exports of motor vehicles and their related goods to China -- which had seen a significant drop -- had picked up, while those to the United States and other regions had been steady, due in part to the effects of developments in foreign exchange rates. Exports of IT-related goods as a whole appeared to be heading for a bottom, with the effects of the downshift in demand for parts for new smartphone products gradually easing. Exports were expected to pick up, mainly against the background that growth rates of overseas economies would gradually pick up, albeit moderately.

Public investment continued to increase. It was expected to continue trending upward, supported by the effects of various economic measures.

Business fixed investment continued to show resilience in nonmanufacturing and appeared to have stopped weakening on the whole. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly*, business fixed investment in nominal terms had fallen marginally in the January-March quarter of 2013, after having risen in the October-December quarter of 2012 on a quarter-on-quarter basis, following a decline since the January-March quarter of 2012 through the July-September quarter. The aggregate supply of capital goods -- a coincident indicator of machinery investment -- had started to increase in the January-March quarter of 2013 on a quarter-on-quarter basis and had also risen in April relative to that quarter. Business fixed investment was projected to follow a moderate increasing trend, partly due to investment related to disaster prevention and energy, as corporate profits headed toward improvement.

The employment and income situation remained severe, but supply and demand conditions in the labor market had been improving moderately.

Private consumption remained resilient, assisted by the improvement in consumer sentiment. Consumption expenditure in the *Family Income and Expenditure Survey* (in real terms; two-or-more-person households) showed that the index of consumption expenditure level excluding housing, automobiles, money gifts, and remittances -- which was compiled to make it similar to items used to estimate GDP -- had been almost flat in April 2013 relative to the January-March quarter, after having advanced significantly in that quarter, mainly due to strong figures for automobiles and services (culture and recreation). Sales at department stores had fallen back in April compared with the January-March quarter, after having climbed in that quarter, assisted partly by higher temperatures; however, the underlying trend had been steady, notably in imports and high-end products. Private consumption was expected to remain resilient, supported in part by improvement in the employment situation.

Housing investment had generally been picking up and was expected to continue to do so.

Reflecting these developments in demand both at home and abroad, industrial production had been picking up. It had risen markedly in April 2013 relative to the January-March quarter in terms of both the released-base and adjusted-base indices.[6] On a quarterly basis, it had increased in that quarter in terms of the released-base index, while it had been almost flat in terms of the adjusted-base index, after having declined for three quarters in a row since the April-June quarter of 2012. Industrial production was expected to increase moderately, mainly reflecting developments in demand at home and abroad. Judging from interviews with firms, production was projected to increase markedly in the April-June quarter of 2013, and it seemed likely that it would continue to rise in the July-September quarter, although there was still a high degree of uncertainty.

As for prices, the domestic corporate goods price index (CGPI) was rising relative to the level of three months ago, reflecting movements in foreign exchange rates. The CGPI was expected to continue rising for the meantime. The year-on-year rate of change in the CPI (all items less fresh food) had been negative, due to the reversal of the previous year's movements in energy-related and durable consumer goods. It was likely to gradually turn positive. Meanwhile, as for inflation expectations, the rise in some market indicators had come to a pause, but indicators including the results of surveys conducted on households and economists suggested a rise on the whole.

[6] The adjusted-base index of industrial production was seasonally adjusted, calculated by detecting large fluctuations after the Lehman shock as outliers (estimation by the Research and Statistics Department, Bank of Japan).

2. Financial environment

Financial conditions were accommodative.

The monetary base had increased significantly as asset purchases by the Bank had progressed, and the year-on-year rate of growth had been at around 30 percent.

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. Although new issuance of bonds by some firms had been temporarily deferred toward the middle of May in response to the rise in long-term interest rates, such developments had not spread thereafter. Firms' credit demand had been increasing moderately, 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 been at around 2 percent. The amount outstanding of CP and corporate bonds had been more or less around the year-ago level. Firms retained their recovered financial positions on the whole. Meanwhile, the year-on-year rate of growth in the money stock had been in the range of 3.0-3.5 percent, mainly due to the increase in bank lending.

3. The fund-provisioning measure to support strengthening the foundations for economic growth and the fund-provisioning measure to stimulate bank lending

On June 7, 2013, the Bank carried out a new loan disbursement, amounting to 309.9 billion yen, under the main rules for the fund-provisioning measure to support strengthening the foundations for economic growth. The outstanding balance of loans disbursed by the Bank under these rules amounted to 3,262.0 billion yen after the new loan disbursement, and thus exceeded 3 trillion yen, as in the previous loan disbursement. The outstanding balance of loans disbursed by the Bank under the special rules for equity investments and asset-based lending (ABL) came to 115.8 billion yen, and that under the special rules for small-lot investments and loans amounted to 6.689 billion yen. As for the special rules for the U.S. dollar lending arrangement, the Bank implemented its new loan disbursement of 1.518 billion dollars, bringing the outstanding balance of loans to 4.980 billion dollars. The breakdown of investments and loans provided by financial institutions that had received the Bank's loans under the special rules for the U.S. dollar lending arrangement showed that those to be used abroad accounted for the majority of the total.

On June 20, the Bank was scheduled to carry out a new loan disbursement, amounting to 3,151.9 billion yen, under the fund-provisioning measure to stimulate bank lending. The breakdown by type of borrower showed that 2,540.0 billion yen was to be disbursed to major banks and 611.9 billion yen to regional banks and other financial institutions. In terms of duration, most of the loans were to be disbursed with a maturity of three years.

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

A. Economic Developments

Members concurred that, while the manufacturing sector continued to show a lackluster performance, overseas economies were gradually heading toward a pick-up as a whole. As for the outlook, they shared the recognition that overseas economies would gradually pick up as downward pressure from the fiscal side was reduced in Europe and the United States, and as business sentiment improved. On this basis, some members expressed the view that the global disinflationary trend was continuing. One of these members expressed the recognition that this trend seemed to partly reflect the current situation in which overseas economies as a whole had not strengthened enough for prices to trend upward, as economic growth in China and the NIEs appeared to lack momentum compared with what had been observed previously, due in part to weakness in the manufacturing sector. One member noted that the disinflation might be somewhat attributable to structural factors such as a decline in the potential growth rate.

Members shared the recognition that the U.S. economy had been on a moderate recovery trend against the backdrop of steady private demand, such as private consumption and housing investment, despite downward pressure from the fiscal side. They shared the view that, nevertheless, the business sentiment of some firms in manufacturing had turned cautious mainly due to the effects of a decline in federal government expenditures, and that the pace of pick-up in production and business fixed investment had slowed. In relation to this, some members pointed out that the Institute for Supply Management (ISM) indices for manufacturing for May 2013 had fallen below 50 percent. One of these members expressed the opinion that the moderate recovery trend in the economy had not been redefined, considering that, according to U.S. employment statistics for May, no substantial change in the underlying trend in manufacturing had been seen, and that demand components such as private consumption, housing investment, and exports had been firm. As for the outlook, members concurred that, although there would be downward pressure from the fiscal side for the time being, the economy was likely to continue recovering at a moderate pace supported by accommodative financial conditions. One member noted that it was becoming increasingly likely that the debt ceiling problem would be delayed until autumn 2013 at the earliest, partly because federal government revenues had recently been higher than expected. This member continued that this was one of the factors that would reduce the immediate tail risk.

Members shared the recognition that economic activity in the euro area continued to recede slowly. As for the outlook, they concurred that this situation would continue for the immediate future but the economy would gradually show signs of bottoming out -- triggered by the pick-up in exports -- as additional downward pressure from the fiscal side was reduced. On this basis, one member expressed the view that the disinflationary trend was continuing, and thus the risk of prolonged economic recession seemed to be increasing. A different member said that, although intra-regional trade in the euro area showed signs of picking up and the stance of fiscal austerity had been softening, wages continued to be reduced -- particularly in peripheral countries -- accompanied by the economic recession, and the disinflationary trend was becoming evident. This member continued that, in this situation, the economy would stay in a trend of mild recession for the time being.

Members concurred that the Chinese economy had been stabilizing in reflection of firm domestic demand. Many members expressed the view that the pace of economic improvement was somewhat slower than expected, as evidenced by some weakness in the manufacturing sector. As for the outlook, members shared the view that domestic demand would remain firm, mainly on the back of a favorable employment and income situation. They concurred that, nevertheless, the economy was less likely to return to a high growth path, as seen in the past, considering that external demand would lack strength for the time being and that the government's policy emphasized "quality-based" growth and targeted well-balanced growth.

Regarding the NIEs and the ASEAN countries, members concurred that these economies had been picking up on the whole, but that the pace of the pick-up remained moderate in the corporate sector, as evidenced by South Korea's and Taiwan's somewhat weak exports. As for the outlook, they shared the view that, in a situation where solid private consumption underpinned these economies -- especially the ASEAN economies -- the pace of recovery was likely to increase gradually as exports picked up moderately.

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

Members concurred that the economy had been picking up, as evidenced by the continued improvement in exports and industrial production in a situation where domestic demand remained resilient. One member expressed the recognition that the pace of the pick-up in the economy had been accelerating. Members shared the view that exports had started picking up, underpinned partly by developments in foreign exchange rates. One member pointed out that, while the pick-up in exports had been led by those of motor vehicles so far, positive developments in exports seemed to be spreading to some other goods, such as capital goods and parts bound for the United States. Members shared the view that business fixed investment continued to show resilience in nonmanufacturing and appeared to have stopped weakening on the whole. A few members pointed out that signs of a pick-up had been observed in the aggregate supply of capital goods -- a coincident indicator of machinery investment. Meanwhile, one member expressed the intent to pay close attention to the extent to which a pick-up in overseas economies and the yen's depreciation since autumn 2012 would support business fixed investment in manufacturing. Members shared the recognition that private consumption remained resilient, assisted by the improvement in consumer sentiment. On this point, some members expressed the view that it was necessary to closely monitor the extent to which the recent decline in stock prices would affect private consumption through its impact on consumer sentiment. Members concurred that industrial production had been picking up, reflecting the fact that exports had started picking up while domestic demand remained resilient.

As for the outlook for the economy, members shared the view that the economy was likely to return to a moderate recovery path, mainly against the background that domestic demand increased its resilience due to the effects of monetary easing as well as various economic measures, and that growth rates of overseas economies gradually picked up, albeit moderately. One member expressed the view that the outlook for business fixed investment was encouraging, given that the results of various surveys indicated firms' strong appetite for business fixed investment and also suggested considerable pent-up demand. Some members said that, in a situation where a virtuous cycle among production, income, and spending started working -- triggered by increases in public investment and exports -- the momentum for Japan's economic recovery was intact and the scenario in which Japan's economy would return to a moderate recovery path was increasingly likely to materialize. On this point, a few members noted that a key factor was whether improvements in exports and industrial production would spread to the income situation, and therefore expressed the intent to monitor this development carefully.

With regard to risks to the outlook for Japan's economy, members concurred that there remained a high degree of uncertainty concerning the economy, including the prospects for the European debt problem and the growth momentum of the U.S. economy as well as the emerging and commodity-exporting economies. One member pointed out that there continued to be considerable uncertainty regarding the outlook for overseas economies, and it was necessary to be aware of the risk that the recovery in Japan's exports might be postponed if that in overseas economies was delayed.

Regarding <u>prices</u>, members agreed that the year-on-year rate of change in the CPI (all items less fresh food) had been negative, due to the reversal of the previous year's movements in energy-related and durable consumer goods. With regard to inflation expectations, they shared the view that, although the rise in some market indicators of inflation expectations had come to a pause, indicators including the results of surveys conducted on households and economists suggested a rise on the whole. A few members expressed the view that inflation expectations were likely to increase if an uptrend in the actual price indicators became evident. In terms of the outlook for prices, members shared the view that the year-on-year rate of change in the CPI (all items less fresh food) was likely to recover clearly, to almost 0 percent for May 2013, because factors that had caused the year-on-year rate of change in the CPI (all items less fresh food) for the Tokyo metropolitan area to turn positive for that month were also likely to exert upward pressure on the CPI for Japan as a whole. They continued that these factors, together with the effects of an improvement in the aggregate supply and demand balance, were likely to lead to a gradual rise in the rate of increase thereafter. On this basis, one member was closely monitoring whether factors specific to Japan could lead to a rise in the rate of increase in the CPI, amid the global disinflationary trend. A different member expressed the view that the year-on-year rate of increase in the CPI would rise somewhat markedly until around summer 2013, due in part to the reversal of the previous year's decline in energy prices, and that the pace of increase might slow thereafter. With regard to the fact that the year-on-year rate of change in the index for televisions turned positive in the CPI for the Tokyo metropolitan area for May, one member was paying attention to whether firms' price-setting behavior had started to change against the background of the rise in wages overseas and of the yen's depreciation since autumn 2012.

B. Financial Developments

Members concurred that financial conditions in Japan were accommodative. They shared the view that the monetary base had increased significantly, reflecting the progress in asset purchases by the Bank, and that firms' funding costs had been hovering at low levels. Members agreed that issuing conditions for CP and corporate bonds remained favorable on the whole, as demand from investors continued to be solid. They also shared the view that firms' credit demand had been increasing moderately, as seen in the fact that the year-on-year rate of increase in the amount outstanding of bank lending had been at around 2 percent.

Some members expressed the view that the recent fall in stock prices and appreciation of the yen reflected adjustments to the substantial rise in stock prices and the yen's depreciation since autumn 2012, against the background of the heightening of investors' risk aversion in global financial markets. One member did not hold the view that the recent fall in stock prices and appreciation of the yen were attributable to a change in expectations about economic fundamentals in Japan. Regarding developments in global financial markets behind the recent volatile movements in Japanese financial markets, members shared the recognition that increased speculation that the Federal Reserve would reduce the pace of its asset purchases earlier than expected had induced the slight heightening of investors' risk aversion, leading to a rise in yields on government bonds worldwide, particularly in the U.S. and European economies, and a general weakening of stock prices in these economies as well as in emerging economies. On this point, one member noted that, in a situation where the U.S. economy was likely to follow a recovery trend, it was possible -- depending on developments in economic indicators -- that speculation about the timing as to when the Federal Reserve would reduce the pace of its asset purchases could repeatedly cause fluctuations in stock prices, interest rates, and foreign exchange rates, as observed recently. A different member expressed the intent to continue monitoring these market developments because they could affect economic developments both at home and abroad. Another member pointed to the possibility that the speculation about a reduction in the pace of the Federal Reserve's asset purchases could cause a reversal in the global flow of funds, thereby exerting adverse effects on funding conditions in Europe and emerging economies. On this basis, most members shared the recognition that, given that Japan's economy was on a steady path toward recovery, Japanese financial markets, which had shown volatile movements recently, were likely to gradually regain stability, reflecting the positive momentum in economic activity.

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

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

Regarding <u>the guideline for money market operations for the intermeeting period ahead</u>, members agreed that it was appropriate to maintain the current guideline that the Bank would conduct money market operations so that the monetary base would increase at an annual pace of about 60-70 trillion yen.

With regard to <u>the asset purchases</u>, members concurred that it was appropriate for the Bank to continue with the guidelines decided when it introduced quantitative and qualitative monetary easing at the meeting on April 3 and 4, 2013. Specifically, they confirmed the following. First, the Bank would purchase JGBs so that their amount outstanding would increase at an annual pace of about 50 trillion yen, and the average remaining maturity of the Bank's JGB purchases would be about seven years. Second, it would purchase exchange-traded funds (ETFs) and J-REITs so that their amounts outstanding would increase at an annual pace of about 1 trillion yen and about 30 billion yen, respectively. And third, as for CP and corporate bonds, the Bank would continue with these asset purchases until their amounts outstanding reached 2.2 trillion yen and 3.2 trillion yen, respectively, by end-2013; thereafter, it would maintain these amounts outstanding. One member -- referring to the results of a recent empirical analysis, which indicated that the Bank's quantitative easing policy adopted from 2001 to 2006 had had a certain effect on the real economy -- expressed expectations for positive effects of the Bank's current monetary policy on economic activity.

With respect to the future conduct of monetary policy, most members shared the view that the Bank would continue with quantitative and qualitative monetary easing, aiming to achieve the price stability target of 2 percent, as long as it was necessary for maintaining this target in a stable manner. These members continued that, in doing so, it would examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate. In response to this view, one member expressed concern that, in a situation where it seemed difficult to achieve the price stability target in about two years, if a rise were to occur in markets' anticipation that quantitative and qualitative monetary easing would continue for a protracted period or extreme additional measures would be implemented, this could lead to economic instability in the medium to long term, such as through a buildup of financial imbalances. On this basis, this member said that it was appropriate to change the expression representing the Bank's commitment by stating that the time frame for continuing quantitative and qualitative monetary easing should be restricted to about two years, and that thereafter the Bank would review the monetary easing measures in a flexible manner. The member continued that this would contribute to the restoration of stability in the bond market. Counter to this, a different member noted that, considering that achieving the price stability target in about two years was assumed to be difficult, it was rather unclear how the Bank would aim to achieve the target of 2 percent in the medium to long term without presenting any specific measures. This member then expressed the view that the current framework did not rule out the possibility of necessary adjustments, and therefore flexibility was sufficiently ensured. Another member said that restricting the time frame for continuing quantitative and qualitative monetary easing to about two years could weaken monetary easing effects.

As for developments in the bond market, members agreed that it had been volatile since the previous meeting, mainly against the background of developments in U.S. long-term interest rates and the fall in Japanese stock prices. They continued, however, that fluctuations in long-term interest rates had recently been subdued, reflecting market participants' positive response to the Bank's revision to the operational outline for outright purchases of JGBs following the meetings with market participants. Members shared the recognition that it was important that the Bank continue to encourage the stable formation of long-term interest rates by conducting operations flexibly. They also agreed that the Bank's massive JGB purchases had the effect of compressing risk premia, and this effect would become increasingly pronounced as the Bank proceeded with the purchases. Meanwhile, some members added that the key was positive effects on economic activity through a decline in real interest rates stemming from a rise in inflation expectations, and therefore attention should also be paid to developments in these rates.

On this basis, members discussed a possible extension of the maximum duration of loans provided through the Bank's funds-supplying operations against pooled collateral in preparation for possible large fluctuations in long-term interest rates. Some members noted the following advantages of the extension: (1) a timely provision of loans with longer duration through such operations could be quite effective in restraining excessive interest rate fluctuations; and (2) an introduction of such operations with a longer loan duration beforehand would in itself enhance confidence in the markets, which in turn was expected to restrain excessive interest rate fluctuations. On the other hand, some members pointed to the possibility that the extension could be misinterpreted by market participants as a revision to the monetary policy framework or a measure conveying a message regarding a change in the policy duration, rather than just an expansion of market operation measures. Moreover, some other members said that the funds-supplying operations against pooled collateral with a loan duration of over one year was to some extent substitutable with the fund-provisioning measure to stimulate bank lending; therefore, if the maximum duration of loans provided through the funds-supplying operations against pooled collateral were to be extended, it was necessary to reconsider the relationship between these two measures. Meanwhile, some members noted that at the moment the Bank's staff was given room for flexibility in the conduct of outright purchases of JGBs, and the maximum duration of loans provided through the funds-supplying operations against pooled collateral was one year. These members then expressed the view that the Bank was therefore able to encourage the stable formation of interest rates by conducting its market operations in a flexible manner under the current framework for the time being. Based on this discussion, members concurred that it was not necessary at this time for the Bank to extend the maximum duration of loans provided through its funds-supplying operations against pooled collateral, considering such factors as the following: (1) the effect of compressing risk premia driven by the Bank's massive JGB purchases was likely to strengthen steadily; and (2) the Bank's flexible conduct of market operations had been effective so far in terms of ensuring stability in the bond market.

Meanwhile, a few members pointed out that the recent fluctuations in long-term interest rates in Japan might be partly attributable to the possibility that there were differences in views among market participants on the prospects for short-term interest rates. In this regard, a few members expressed the view that, in order to reduce such differences and stabilize interest rates, it was vital for the Bank to firmly anchor short-term interest rates at low levels by reiterating its commitment to continuing with quantitative and qualitative monetary easing as long as it was necessary for maintaining the price stability target of 2 percent in a stable manner.

Regarding the fund-provisioning measure to support strengthening the foundations for economic growth, one member commented that the total amount of loans disbursed by the Bank -- especially under the main rules and the special rules for the U.S. dollar lending arrangement -- had been steadily increasing, and the special rules in particular had seen increased use, as evidenced by a rise in the number of borrowers under these rules.

With regard to the fund-provisioning measure to stimulate bank lending, one member, noting that the first new loan disbursement scheduled to be carried out on June 20, 2013 was expected to exceed 3 trillion yen, judged that this reflected financial institutions' efforts to make active use of the measure and increase their lending, partly in view of the current interest rate conditions. A different member said that some major banks had lowered mortgage rates by utilizing this measure, and the member expected that financial institutions' initiatives to increase lending would continue to develop. Moreover, a few members expressed the view that, in addition to the initial aim to encourage financial institutions to increase their lending, this measure would to some extent produce a secondary effect of reducing interest rate risk incurred by financial institutions.

IV. Remarks by Government Representatives

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

(1) The government acknowledged that overcoming prolonged deflation was the top-priority task for the Japanese economy. It deemed that the role the Bank's monetary policy had to play in overcoming deflation was extremely important, and expected the Bank to continue to steadily pursue quantitative and qualitative monetary easing and achieve the price stability target of 2 percent at the earliest possible time.

(2) The joint statement by the government and the Bank released on January 22, 2013, clearly indicated their respective roles in overcoming deflation and achieving sustainable economic growth. In line with this statement, the government would play its role in a responsible manner. In this regard, it had recently released a draft outline of the Japan Revitalization Strategy, which aimed at unleashing the power of the private sector to the fullest extent, as well as a draft proposal for the Basic Policies for Economic and Fiscal Management and Reform (hereafter the Basic Policies). The government would swiftly and steadily implement these initiatives after being decided by the Cabinet by June 14.

(3) Financial markets had recently been exhibiting an increase in volatility, and therefore it was necessary to carefully monitor its effects on the Japanese economy. The government acknowledged that the Bank had taken vigorous actions in response to these circumstances, such as making operational adjustments for outright purchases of JGBs in view of market participants' opinions. The government expected the Bank to engage in continued, thorough communication with the market and conduct market operations flexibly, taking account of market developments. Furthermore, it expected the Bank to fully communicate these stances to the public at home and abroad.

(4) The government would continue to monitor financial market developments closely. Moreover, in order to avoid impairing confidence in fiscal sustainability and thereby inducing a surge in long-term interest rates, it would do its utmost to achieve fiscal consolidation, in particular by steadily formulating by mid-2013 a medium-term fiscal plan to achieve fiscal consolidation targets concurrently with efforts to attain economic revitalization.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy had been picking up slowly. As for the outlook, the economy was expected to resume its recovery gradually, on the back of the improvement in export conditions and the effects of the policy package and monetary policy, and supported by the improvement in confidence. Price developments as a whole indicated that, although the economy still remained in a mild deflationary situation, signs of change had been seen in some areas recently. The government had been closely monitoring recent developments in financial markets and their effects on the

Japanese economy, and deemed it important to respond in a calm manner as the economy was picking up steadily.

(2) At the Council on Economic and Fiscal Policy held on June 6, 2013, the government discussed the draft proposal for the Basic Policies, which was a basic strategy presenting the direction of economic and fiscal policy management toward achieving "a new decade of revival." In the Basic Policies, as a medium- to long-term macroeconomic vision, the government expressed its aim to realize an annual average GDP growth rate of around 2 percent in real terms and around 3 percent in nominal terms, on the premise that the price stability target of 2 percent in terms of the year-on-year rate of increase in the CPI was being achieved. As for fiscal consolidation, it presented broad directions for this, as well as its basic stance for the prioritizing and streamlining of the major expenditure items. Furthermore, the government discussed the draft outline of the Japan Revitalization Strategy at the Industrial Competitiveness Council and compiled a draft report at the Regulatory Reform Council, both of which were held on June 5. It would continue to hold active discussions on these issues so that the Basic Policies, the Japan Revitalization Strategy, and the Regulatory Reform Work Plan would be decided by the Cabinet by June 14, 2013.

(3) The government expected the Bank to achieve the price stability target of 2 percent at the earliest possible time. It acknowledged that the Bank had been making efforts to address the recent increase in market volatility by, for example, taking actions in view of market participants' opinions. The government expected the Bank to continue to take appropriate initiatives by engaging in continued communication with the market.

V. Votes

Based on the above discussions, members shared the view that it was appropriate to maintain the current guideline for money market operations, so that the monetary base would increase at an annual pace of about 60-70 trillion yen.

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

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

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

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

2. A public statement will be decided separately.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, 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, however, formulated a proposal, and thus the following two proposals were submitted.

A. Mr. T. Kiuchi's Policy Proposal

With regard to the draft of the statement that formed a majority view, Mr. T. Kiuchi proposed changing the current expression of the Bank's future monetary policy stance that "the Bank will continue with 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" to a new expression that "the Bank will aim to achieve the price stability target of 2 percent in the medium to long term. On this basis, it will designate quantitative and qualitative monetary easing as an intensive measure with a time frame of about two years, and thereafter will review the monetary easing measures in a flexible manner." The proposal was then put to a vote.

The proposal was defeated by a majority vote.

Votes for the proposal: Mr. T. Kiuchi.

Votes 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.

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 1).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of May 21 and 22, 2013 for release on June 14, 2013.

VIII. Approval of the Scheduled Dates of the Monetary Policy Meetings in July 2013-June 2014

At the end of the meeting, the Policy Board approved unanimously the dates of the Monetary Policy Meetings to be held in the period of July 2013-June 2014 for immediate release (see Attachment 2).

Attachment 1
June 11, 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 conduct money market operations so that the monetary base will increase at an annual pace of about 60-70 trillion yen.

2. With regard to the asset purchases, the Bank will continue with the following guidelines:

   a) The Bank will purchase Japanese government bonds (JGBs) so that their amount outstanding will increase at an annual pace of about 50 trillion yen, and the average remaining maturity of the Bank's JGB purchases will be about seven years.

   b) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at an annual pace of about 1 trillion yen and about 30 billion yen respectively.

   c) 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 by end-2013; thereafter, it will maintain those amounts outstanding.

3. Japan's economy has been picking up. As for overseas economies, while the manufacturing sector continues to show a lackluster performance, they are gradually heading toward a pick-up as a whole. In this situation, exports have started picking up. Business fixed investment continues to show resilience in nonmanufacturing and appears to have stopped weakening on the whole. Public investment has continued to increase, and housing investment has generally been picking up. Private consumption has remained resilient, assisted by the improvement in consumer sentiment. Reflecting these developments in demand both at home and abroad, industrial production has been picking up. Meanwhile, financial conditions are accommodative. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) has been negative, due to the

reversal of the previous year's movements in energy-related and durable consumer goods. Some indicators suggest a rise in inflation expectations.

4. With regard to the outlook, Japan's economy is expected to return to a moderate recovery path, mainly against the background that domestic demand increases its resilience due to the effects of monetary easing as well as various economic measures, and that growth rates of overseas economies gradually pick up, albeit moderately. The year-on-year rate of change in the CPI is likely to gradually turn positive.

5. Regarding risks, there remains a high degree of uncertainty concerning Japan's economy, including the prospects for the European debt problem and the growth momentum of the U.S. economy as well as the emerging and commodity-exporting economies.

6. The Bank will continue with 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.[Note]

   Such conduct of monetary policy will support the positive movements in economic activity and financial markets, contribute to a rise in inflation expectations, and lead Japan's economy to overcome the deflation that has lasted for nearly 15 years.

[Note] Mr. T. Kiuchi proposed that the Bank will aim to achieve the price stability target of 2 percent in the medium to long term and designate quantitative and qualitative monetary easing as an intensive measure with a time frame of about two years. 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.

Attachment 2
June 11, 2013
Bank of Japan

Scheduled Dates of Monetary Policy Meetings in July 2013-June 2014

	Date of MPM	Publication of MPM Minutes	Publication of Outlook Report (The Bank's View)	(Reference) Publication of Monthly Report
July 2013	10 (Wed.), 11 (Thurs.)	Aug. 13 (Tues.)	--	12 (Fri.)
Aug.	7 (Wed.), 8 (Thurs.)	Sep. 10 (Tues.)	--	9 (Fri.)
Sep.	4 (Wed.), 5 (Thurs.)	Oct. 9 (Wed.)	--	6 (Fri.)
Oct.	3 (Thurs.), 4 (Fri.)	Nov. 6 (Wed.)	--	7 (Mon.)
	31 (Thurs.)	Nov. 26 (Tues.)	31 (Thurs.)	--
Nov.	20 (Wed.), 21 (Thurs.)	Dec. 26 (Thurs.)	--	22 (Fri.)
Dec.	19 (Thurs.), 20 (Fri.)	Jan. 27 (Mon.)	--	24 (Tues.)
Jan. 2014	21 (Tues.), 22 (Wed.)	Feb. 21 (Fri.)	--	23 (Thurs.)
Feb.	17 (Mon.), 18 (Tues.)	Mar. 14 (Fri.)	--	19 (Wed.)
Mar.	10 (Mon.), 11 (Tues.)	Apr. 11 (Fri.)	--	12 (Wed.)
Apr.	7 (Mon.), 8 (Tues.)	May 7 (Wed.)	--	9 (Wed.)
	30 (Wed.)	May 26 (Mon.)	30 (Wed.)	--
May	20 (Tues.), 21 (Wed.)	June 18 (Wed.)	--	22 (Thurs.)
June	12 (Thurs.), 13 (Fri.)	To be announced	--	16 (Mon.)

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

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

Outlook for Economic Activity and Prices (Outlook Report):
"The Bank's View" in the Outlook Report will be released at 3:00 p.m., and the full text at 2:00 p.m. on the next business day.

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

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