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Bank of Japan Boosts Easing With 1% Goal for Inflation: Economy  
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By Toru Fujioka and Keiko Ujikane

Feb. 14 (Bloomberg) -- Japan's central bank unexpectedly added 10 trillion yen (\$128 billion) to an asset-purchase program and set an inflation goal after an economic slide fueled criticism it has been slower to act than counterparts.

An asset fund increased to 30 trillion yen, with a credit lending program staying at 35 trillion yen, the Bank of Japan said in Tokyo today. The BOJ also said that it will target 1 percent inflation "for the time being."

Stocks rose and the yen weakened against the dollar as the central bank expanded stimulus for the first time since October to revive an economy that shrank an annualized 2.3 percent last quarter. Lawmakers had urged extra efforts to counter deflation after the Federal Reserve adopted a 2 percent inflation target and the European Central Bank expanded its balance sheet.

Today's decision "shows the BOJ bowed to political pressure," said Hiroaki Muto, a senior economist at Sumitomo Mitsui Asset Management Co. in Tokyo. "There will probably be limited impact on the yen's gains."

The overnight lending rate stayed between zero and 0.1 percent. Twelve of 13 economists surveyed by Bloomberg News had anticipated no change in stimulus or rates.

Japan's bonds rose, sending the yields on five-year securities down two basis points, or 0.02 percentage point, to 0.32 percent as of 6:56 p.m. in Tokyo, matching the lowest since November. The benchmark 10-year yield also declined two basis points to 0.96 percent.

#### 'Overcome Deflation'

The BOJ's price framework is similar to that of the Fed and easing wasn't in response to government pressure, Governor Masaaki Shirakawa said at a press briefing in Tokyo. The central bank aimed to "clarify its monetary policy stance" and wants to "overcome deflation and achieve sustainable growth with price stability," it said in a statement.

The BOJ's stated understanding of price stability has been gains of from above zero to 2 percent, centered on 1 percent.

Today the policy board said it had "decided to set a goal of 1 percent for the time being to clarify the inflation rate which the bank's monetary policy aims to achieve."

The yen fell to 78.12 per dollar as of 6:56 p.m. in Tokyo, from 77.60 before the announcement and compared with a post World War II high of 75.35 in October. The currency's strength is hurting exporters such as Sony Corp., which has more than doubled its annual loss forecast to 220 billion yen. The Nikkei

225 Stock Average closed 0.6 percent higher.

#### Lawmakers' Complaints

Lawmakers renewed criticism of the BOJ after the announcement, with Kozo Yamamoto, of the Liberal Democratic Party, saying the 1 percent target was "too low" and not a substantial change from existing policy. Takeshi Miyazaki, a ruling Democratic Party of Japan lawmaker, said the central

bank's approach seemed half-hearted and may give the impression that Japan tolerates a strong yen.

A group of DPJ lawmakers is seeking a 2 percent to 3 percent inflation target.

"Compared to the ECB's definition of price stability or the Fed's price target, the BOJ's clarification still seems vague," said Junko Nishioka, a Tokyo-based analyst at RBS Securities Japan Ltd.

Prices haven't risen at least 1 percent for any year since 1997 and the economy now faces drags ranging from weakness in global demand to shutdowns of nuclear power plants after last year's March 11 earthquake and tsunami, which left more than 19,000 people dead or missing.

#### 'Bold' Steps

"We welcome the BOJ's policy measures, which are aggressive steps intended to beat deflation," Finance Minister Jun Azumi said in Tokyo today. "I hope the BOJ's bold monetary easing gives a boost to the economy."

Shirakawa and his colleagues acted three times last year to expand asset purchases by a total of 15 trillion yen, efforts that didn't halt yen gains. Today's increase in the asset-purchase facility will fund purchases of more government bonds, the central bank said.

Elsewhere around the world, a report today showed that euro area industrial production fell 1.1 percent in December from November.

Sales at U.S. retailers probably rose in January by the most in four months, led by growing demand for autos, economists said before a report today. The projected 0.8 percent increase would follow a 0.1 percent December advance, according to the median forecast of 82 economists surveyed by Bloomberg News.

#### Shrinking Economy

In Japan, the economy shrank more than analysts forecast in the fourth quarter, a report showed yesterday. RBS Securities Japan Ltd. forecasts that gross domestic product will expand 1.6 percent this quarter and JP Morgan Securities has estimated 1.8 percent growth as reconstruction work kicks in.

This week's BOJ meeting was the first since Economy Minister Motohisa Furukawa said that the central bank may need to improve communication of its stance on prices.

The Fed and BOJ have signaled differences over the ability to control long-run rates of change in prices. Fed policy makers said last month that "the inflation rate over the longer run is primarily determined by monetary policy."

By contrast, Shirakawa has for years indicated that the BOJ cannot achieve its inflation target on its own. He said at a business conference Jan. 29, 2010, that lack of demand was the "root cause of deflation" and there was no "magic wand."

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