

Comprehensive Monetary Easing

1. At the Monetary Policy Meeting held today, in order to further enhance monetary easing, the Policy Board of the Bank of Japan decided to implement a comprehensive monetary easing policy composed of the following three measures.

- (1) Change in the guideline for money market operations (decided by a unanimous vote¹).

The Bank of Japan will encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 percent,² effective immediately (see Attachment 1).

- (2) Clarification of policy time horizon based on the "understanding of medium- to long-term price stability"

The Bank will maintain the virtually zero interest rate policy until it judges, on the basis of the "understanding of medium- to long-term price stability,"³ that price stability is in sight, on condition that no problem will be identified in examining risk factors, including the accumulation of financial imbalances.

- (3) Establishment of an Asset Purchase Program

The Bank will examine establishing, as a temporary measure, a program on its balance sheet to purchase various financial assets, such as government securities, commercial paper (CP), corporate bonds, exchange-traded funds (ETFs), and Japan real estate investment trusts (J-REITs) and to conduct the fixed-rate funds-supplying operation

¹ Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. T. Noda, Mr. S. Nakamura, Mr. H. Kamezaki, Mr. R. Miyao, and Mr. Y. Morimoto. Voting against the action: None.

² Interest rates applied to the Complementary Deposit Facility, the Fixed-Rate Funds-Supplying Operation against Pooled Collateral, and the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth, will be maintained at 0.1 percent.

³ On the basis of a year-on-year rate of change in the CPI, each Policy Board member's "understanding" falls in a positive range of 2 percent or lower, and the midpoints of most Policy Board members' "understanding" are around 1 percent.

against the pooled collateral⁴ (see Attachment 2). To that end, the Chairman has instructed the staff to examine the specifics of establishing an asset purchase program and report at a future Monetary Policy Meeting.

2. Although Japan's economy still shows signs of a moderate recovery, the pace of recovery is slowing down partly due to the slowdown in overseas economies and the effects of the yen's appreciation on business sentiment. While the economic outlook will be examined in the *Outlook for Economic Activity and Prices* at the next Monetary Policy Meeting, mainly due to the waning effects of demand-boosting policy measures, the pace of economic improvement is likely to slow for some time before returning to the moderate recovery path. Comparing with the outlook presented in the Bank's July interim assessment, the economic growth rate is likely to be somewhat lower than expected. In addition, amid heightened uncertainty about the future, especially for the U.S. economy, attention should still be paid to downside risks to Japan's economy. While the year-on-year decline in the CPI (excluding fresh food) has been slowing, a possibility that weaker-than-expected economic activity will affect price developments requires vigilance. Given those circumstances, it has become more likely that the return of Japan's economy to the sustainable growth path with price stability will be delayed.
3. Based on the above assessment of economic activity and prices, the Bank has judged it necessary to further enhance monetary easing as follows.

First, the Bank makes clear that it is pursuing the virtually zero interest rate policy.

Second, the Bank confirms that it will maintain the virtually zero interest rate policy until it judges that price stability is in sight and that the "understanding of medium- to long-term price stability" is the basis for the judgment.

Third, taking into account that there is little room for a further decline in short-term interest rates, the Bank will encourage the decline in longer-term interest rates and various risk premiums to further enhance monetary easing. It is an extraordinary measure for a central bank, particularly the purchase of financial assets to encourage the decline in risk premiums. To be explicit on that point and to extensively influence market interest rates and risk premiums, the Bank judges it necessary to establish a program on its balance sheet through which the Bank will purchase various financial assets, as well as conduct a similarly purposed fixed-rate funds-supplying operation against pooled collateral. The purchase of long-term

⁴ In the main text, in examining the establishment of an asset purchase program, Ms. M. Suda dissented from an inclusion of government securities as assets to be purchased.

government bonds through the program will be conducted as a temporary measure, and will serve a different purpose compared with the existing purchases of long-term government bonds. Therefore, the Bank's holdings of long-term government bonds purchased through the program will be treated differently from the long-term government bonds purchased within the ceiling of the amount of banknotes in circulation.

4. The Bank will continue to carefully examine the outlook for economic activity and prices, and take policy actions in an appropriate manner as a central bank.

October 5, 2010

Bank of Japan

Statement on Monetary Policy

At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by a unanimous vote,⁵ to set the following guideline for money market operations for the intermeeting period, effective immediately:

The Bank of Japan will encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 percent.

⁵ Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. T. Noda, Mr. S. Nakamura, Mr. H. Kamezaki, Mr. R. Miyao, and Mr. Y. Morimoto.
Voting against the action: None.

Asset Purchase Program

1. Assets to Be Purchased

As assets to be purchased, the Bank will examine long-term government bonds, treasury discount bills, commercial paper (CP), asset-backed CP (ABCP), corporate bonds, exchange-traded funds (ETFs), and Japan real estate investment trusts (J-REITs).

As a fund provisioning method other than the purchase of assets, the Bank will utilize the fixed-rate funds-supplying operation against pooled collateral.

-- The purchases of the ETFs and J-REITs are conditional on receiving approval pursuant to the Bank of Japan Act.

2. Size of the Program

- (1) The Bank will examine the size of the program centering on about 35 trillion yen, which is the sum of assets to be newly purchased -- about 5 trillion yen -- and the size of the fixed-rate funds-supplying operation against pooled collateral -- about 30 trillion yen.
- (2) The Bank will examine the new purchase of assets so that, principally, the outstanding balance of the total assets purchased will reach about 5 trillion yen after around one year from the start of the purchase, with about 3.5 trillion yen for long-term government bonds and treasury discount bills and about 1 trillion yen for CP, ABCP, and corporate bonds.

3. Terms and Conditions

- (1) The Bank will consider terms and conditions of the purchases from a viewpoint of encouraging the decline in longer-term interest rates and risk premiums.
- (2) The Bank will purchase long-term government bonds and corporate bonds with a remaining maturity of about one to two years.

(Reference)

Meeting hours:

October 4: 14:00-16:18

October 5: 8:59-13:33

Policy Board members present:

Masaaki Shirakawa (Governor)

Hirohide Yamaguchi (Deputy Governor)

Kiyohiko G. Nishimura (Deputy Governor)

Miyako Suda

Tadao Noda

Seiji Nakamura

Hidetoshi Kamezaki

Ryuzo Miyao

Yoshihisa Morimoto

(Others present)

October 4

From the Ministry of Finance:

Yasushi Kinoshita, Deputy Vice Minister for Policy Planning and Co-ordination
(14:00-16:18)

From the Cabinet Office:

Kenji Umetani, Director-General, Economic and Fiscal Management (14:00-16:18)

October 5

From the Ministry of Finance:

Mitsuru Sakurai, Senior Vice Minister of Finance (8:59-13:20,13:27-13:33)

From the Cabinet Office:

Takashi Wada, Parliamentary Vice-Minister (8:59-13:20,13:27-13:33)

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

14:00 on Wednesday, October 6 (Japanese)

16:30 on Thursday, October 7 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Wednesday, October 6

Release of the minutes:

8:50 on Tuesday, November 2