

March 14, 2011

Bank of Japan

Enhancement of Monetary Easing

1. Since the Tohoku Pacific Earthquake occurred, the Bank of Japan has been trying to gauge its effects on financial markets and financial institutions' business operations, as well as taking all possible measures in order to maintain financial intermediation function and secure smooth fund settlements. In addition, the Bank has been providing funds flexibly through appropriate money market operations.
2. Japan's economy is emerging from the current deceleration phase. The year-on-year rate of decline in the CPI (excluding fresh food) has continued to slow. The Bank has maintained its baseline scenario that Japan's economy is expected to return to a moderate recovery path. The year-on-year rate of change in the CPI is expected to become slightly positive in the near future.¹ However, the damage of the earthquake has been geographically widespread, and thus, for the time being, production is likely to decline and there is also concern that the sentiment of firms and households might deteriorate.
3. In recognition of the current situation, at the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided to take the following measures to further enhance monetary easing.

(1) The Guideline for Money Market Operations for the Intermeeting Period

The Policy Board decided, by a unanimous vote,² to set the following guideline for money market operations for the intermeeting period. Under this guideline, the Bank will provide ample funds sufficient to meet demand in financial markets and will do its utmost to ensure financial market stability.

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

¹ The year-on-year rate of change in the CPI is likely to be revised downward with the base-year change scheduled for August 2011.

² 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) Asset Purchase Program

With a view to preempting a deterioration in business sentiment and an increase in risk aversion in financial markets from adversely affecting economic activity, the Policy Board decided to increase the amount of the Asset Purchase Program, mainly of the purchases of risk assets, by about 5 trillion yen to about 40 trillion yen in total.³

The increase in asset purchases will be made in the following asset categories, and the Bank intends to complete the increased purchases by around the end of June 2012. It should be noted that the purchases of exchange traded funds (ETFs) and Japan real estate investment trusts (J-REITs) are conditional on obtaining authorization in accordance with the Bank of Japan Act.

Japanese government bonds: about 0.5 trillion yen

Treasury discount bills: about 1.0 trillion yen

CP: about 1.5 trillion yen

Corporate bonds: about 1.5 trillion yen

ETFs: about 0.45 trillion yen (conditional on obtaining authorization)

J-REITs: about 0.05 trillion yen (subject to the above condition)

4. In order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, the Bank will continue to consistently make contributions as the central bank through the three-pronged approach of pursuing powerful monetary easing consisting of comprehensive monetary easing, ensuring financial market stability, and providing support to strengthen the foundations for economic growth. The Bank will continue to carefully examine the outlook for economic activity and prices, and, if judged necessary, take policy actions in an appropriate manner.

³ Ms. Suda dissented from the proposal on the ground that the increase in purchases should be made in risk assets only.

(Reference)

Meeting hours:

March 14: 12:01-14:45

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)

From the Ministry of Finance:

Mitsuru Sakurai, Senior Vice Minister of Finance (12:01-14:32,14:41-14:45)

From the Cabinet Office:

Yoshinori Suematsu, Senior Vice Minister for Economic and Fiscal Policy
(12:01-14:32,14:41-14:45)

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

14:00 on Tuesday, March 15 (Japanese)

16:30 on Wednesday, March 16 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Tuesday, March 15

Release of the minutes:

8:50 on Tuesday, April 12