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,¹ 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. Japan's economy continues to face downward pressure, mainly on the production side, due to the effects of the earthquake disaster, but is showing some signs of picking up. After the earthquake, production and exports declined sharply and domestic private demand also weakened. Although such downward pressure remains, production and domestic private demand have recently been showing some signs of picking up, with supply-side constraints starting to ease and household and business sentiment improving somewhat. Meanwhile, financial conditions have generally continued to ease, although weakness has been observed in the financial positions of some firms, mainly small ones, since the earthquake. The year-on-year rate of change in the CPI (excluding fresh food) is slightly positive.
- 3. Japan's economy is likely to continue facing downward pressure for the time being, mainly on the production side. Thereafter, production is likely to regain traction with further easing of supply-side constraints. From the second half of fiscal 2011, the economy is expected to return to a moderate recovery path, backed by an increase in exports reflecting the improvement in overseas economic conditions and by a rise in demand for restoring capital stock. The year-on-year rate of change in the CPI is expected to remain slightly positive.² Based on these assessments, Japan's economy is expected to return to a sustainable growth path with price stability in the longer run.

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

² 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.

- 4. Regarding risks to the economic outlook, there is a high degree of uncertainty about the effects of the earthquake disaster on Japan's economy. With regard to overseas economies, the effects of balance-sheet adjustments on the U.S. economy and the possible consequences of the sovereign risk problems in Europe continue to warrant attention. Despite some signs of deceleration, there is still upside risk to the growth prospect of emerging and commodity-exporting economies. Meanwhile, turning to the implications of the rise in international commodity prices, on the one hand, the high growth in emerging and commodity-exporting economies that lies behind the price rise is likely to provide a boost to Japan's exports; on the other hand, the decline in real purchasing power resulting from the deterioration in the terms of trade could reduce domestic private demand in Japan. While there are various risk factors to be considered, attention should be paid for the time being to the downside risks to economic activity, especially the possible effects of the disaster. Regarding risks to the price outlook, inflation could rise more than expected if international commodity prices increase further, while there is also a possibility that the rate of inflation will deviate downward from the Bank's baseline scenario due, for example, to a decline in medium- to long-term inflation expectations.
- 5. The Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth, which was introduced in the summer of last year, has been playing the role of a catalyst in promoting financial institutions' own initiatives. With a view to further encouraging financial institutions' efforts, the Bank deems it appropriate to focus on supporting their provision of equity-like funds and loans without conventional collateral or guarantees. Based on such consideration, the Bank decided at today's meeting to establish a new line of credit for equity investments and the so-called ABL, or asset-based lending (see Attachment). The Bank expects that today's decision will further enhance financial institutions' efforts to strengthen the foundations for economic growth through the use of a wider range of financial techniques.
- 6. 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, including the effects of the disaster, and take appropriate policy actions as necessary.

Outline of New Line of Credit Established for the "Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth"

1. Eligible Investments and Loans

- (1) Equity investments (investments and loans with equity-like features)
- (2) Loans without real estate collateral or guarantees (including the so-called ABL, or asset-based lending)

2. Eligible Counterparties

Counterparties for the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth

3. Form of Loans

Loans against pooled collateral

4. Duration of Loans

The duration of each loan shall be two years in principle. Loans could be rolled over only once and, consequently, the maximum duration of loans could be effectively four years. New loans are scheduled to be disbursed quarterly.

5. Loan Rates

0.1 percent per annum

6. Total Amount of Loans

500 billion yen

set separate from the 3 trillion yen ceiling in the existing framework

7. Maximum Amount of Loans per Counterparty

(1) The maximum amount outstanding of loans to each counterparty

50 billion yen

set separate from the 150 billion yen ceiling in the existing framework

- (2) The maximum amount to be lent to each counterparty at each loan disbursement The amount outstanding of eligible equity investments and loans including ABL made from April 2010
 - There is no specific requirement with regard to the maturity of individual investments and loans to be covered by the new credit line (The maturity of one year or more is required in the existing framework). The requirement for the minimum amount per investment and loan shall be one million yen, reduced from 10 million yen in the existing framework.
 - As for the treatment of investment funds, counterparties shall be able to receive loans from the Bank when they make investments to the funds, even if the details of investment plans are undecided. Around one year after that, the Bank will check whether the funds have made investments and, if not, counterparties must make repayments before maturity.

8. Deadline for Applications for New Loans

March 31, 2012

The last disbursement of new loans shall take place by June 30, 2012.

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(Reference)
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Meeting hours:

June 13: 14:00-16:32 June 14: 9:00-12:37

Policy Board members present:

Masaaki Shirakawa (Governor)

Hirohide Yamaguchi (Deputy Governor)

Kiyohiko G. Nishimura (Deputy Governor)

Tadao Noda

Seiji Nakamura

Hidetoshi Kamezaki

Ryuzo Miyao

Yoshihisa Morimoto

Sayuri Shirai

(Others present)

June 13

From the Ministry of Finance:

Yasushi Kinoshita, Deputy Vice Minister for Policy Planning and Co-ordination (14:00-16:32)

From the Cabinet Office:

Kenji Umetani, Director-General, Economic and Fiscal Management (14:00-16:32)

June 14

From the Ministry of Finance:

Mitsuru Sakurai, Senior Vice Minister of Finance (9:00-12:25,12:32-12:37)

From the Cabinet Office:

Yoshinori Suematsu, Senior Vice Minister for Economic and Fiscal Policy (9:00-12:25,12:32-12:37)

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

14:00 on Wednesday, June 15 (Japanese)

16:30 on Thursday, June 16 (English)

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

Release of the minutes:

8:50 on Friday, July 15