

August 4, 2011

Bank of Japan

### **Enhancement of Monetary Easing**

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by a unanimous vote,<sup>1</sup> to enhance monetary easing by increasing the total size of the Asset Purchase Program by about 10 trillion yen<sup>2</sup> from about 40 trillion yen to about 50 trillion yen.

2. The Policy Board also decided, by a unanimous vote,<sup>3</sup> 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.

3. Japan's economic activity has been picking up steadily with an easing of the supply-side constraints caused by the Great East Japan Earthquake. As for the outlook, Japan's economy is expected to return to a moderate recovery path with production regaining traction, backed by an increase in exports and a rise in demand for restoring capital stock.

4. However, the above economic outlook entails high uncertainty and recent developments call for closer attention to downside risks. With regard to overseas economies, in the United States, concern over fiscal consolidation has not dissipated in financial markets even after the settlement of the debt ceiling problem and views on the economic outlook have recently become more cautious. In general, global financial markets still face strain from the sovereign debt problem in peripheral European countries. As for emerging and commodity-exporting economies, there remains a high degree of uncertainty about whether price stability and economic growth can be realized at the same time. There is a possibility that these developments in overseas economies and the ensuing fluctuations in the foreign

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<sup>1</sup> Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. S. Nakamura, Mr. H. Kamezaki, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, and Mr. K. Ishida.

Voting against the action: None.

<sup>2</sup> See Attachment for the allocation of the increase in the Program.

<sup>3</sup> Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. S. Nakamura, Mr. H. Kamezaki, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, and Mr. K. Ishida.

Voting against the action: None.

exchange and financial markets may have adverse effects on business sentiment, and consequently on economic activity in Japan. Meanwhile, regarding the outlook for prices, the year-on-year rate of change in the CPI is likely to be revised downward with the base-year change scheduled this month. Apparently it will still take some time to achieve price stability.

5. After considering the recent developments in economic activity and prices as described above, the Bank deemed it necessary to further enhance monetary easing, thereby ensuring a successful transition from the recovery phase following the earthquake disaster to a sustainable growth path with price stability.
6. Japan's economy, which has confronted the longstanding challenge of raising its growth potential amid a rapidly aging population, now faces the additional new challenge of restoration and rebuilding in the wake of the earthquake disaster. To establish a new foundation of economic development, various concerned parties both in the private and government sectors must make vigorous efforts. 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.

### Increase in the Asset Purchase Program

#### 1. Allocation of the Increase

(trillion yen)

	Program size before the increase	Amount of increase	Program size after the increase
<b>Total size</b>	<b>About 40</b>	<b>About +10</b>	<b>About 50</b>
Asset Purchases	10.0	+5.0	15.0
Japanese government bonds <sup>[Note 1]</sup>	2.0	+2.0	4.0
Treasury discount bills	3.0	+1.5	4.5
CP	2.0	+0.1	2.1
Corporate bonds	2.0	+0.9	2.9
Exchange traded funds (ETFs) <sup>[Note 2]</sup>	0.9	+0.5	1.4
Japan real estate investment trusts (J-REITs) <sup>[Note 2]</sup>	0.1	+0.01	0.11
Fixed-rate funds-supplying operation against pooled collateral	30.0	+5.0	35.0
Three-month term	20.0	—	20.0
Six-month term	10.0	+5.0	15.0

Notes: 1. In addition to the purchase under the Asset Purchase Program, the Bank regularly purchases Japanese government bonds at the pace of 21.6 trillion yen per year.

2. The increase in the purchases of ETFs and J-REITs are conditional on obtaining authorization in accordance with the Bank of Japan Act.

2. The Bank intends to complete the increased purchases by around the end of 2012.

(Reference)

Meeting hours:

August 4 : 11:15-13:55

Policy Board members present:

Masaaki Shirakawa (Governor)

Hirohide Yamaguchi (Deputy Governor)

Kiyohiko G. Nishimura (Deputy Governor)

Seiji Nakamura

Hidetoshi Kamezaki

Ryuzo Miyao

Yoshihisa Morimoto

Sayuri Shirai

Koji Ishida

(Others present)

From the Ministry of Finance:

Mitsuru Sakurai, Senior Vice Minister of Finance (11:15-13:43,13:49-13:55)

From the Cabinet Office:

Kenji Umetani, Director-General, Economic and Fiscal Management  
(11:15-13:43,13:49-13:55)

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

14:00 on Friday, August 5 (Japanese)

16:30 on Monday, August 8 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Friday, August 5

Release of the minutes:

8:50 on Monday, September 12