

March 13, 2012

Bank of Japan

Statement on Monetary Policy¹

1. Japan's economy currently confronts the long-term structural challenge of declining trend growth rates amid rapid population aging. Tackling this challenge is crucial for establishing a new basis for economic growth. The goal of overcoming deflation will be achieved through such efforts to strengthen growth potential and via support from the financial side. With this in mind, it is important for business firms, financial institutions, the government, and the central bank each to continue exerting themselves in their respective roles.
2. Based on the above recognition, the Bank of Japan clarified its monetary policy stance and further enhanced monetary easing in February 2012. Subsequent to these decisions, at the Monetary Policy Meeting held today, the Policy Board of the Bank decided to enhance the fund-provisioning measure to support strengthening the foundations for economic growth (hereafter referred to as "the Growth-Supporting Funding Facility") as followings. As a result of today's enhancement both in terms of the yen and a foreign currency, the total amount of loans available through the Growth-Supporting Funding Facility will increase by 2 trillion yen, from 3.5 trillion yen to 5.5 trillion yen.
 - (1) The Bank decided to establish special rules for a new arrangement for loans of 500 billion yen for small-lot investments and loans that had not been deemed eligible in the main rules for the Growth-Supporting Funding Facility (see Attachment 1 for an outline of the new arrangement for small-lot investments and loans).
 - (2) The Bank will establish special rules for a new arrangement for loans in the U.S. dollar of 1 trillion yen equivalent for investments and loans denominated in foreign currencies which should contribute to Japan's economic growth (see Attachment 2 for a preliminary outline of the new arrangement for loans in the U.S. dollar). The new loans will be made using the U.S. dollar reserves already held by the Bank. The chairman instructed

¹ At today's meeting, Mr. Miyao proposed to increase the amount of the Asset Purchase Program by about 5 trillion yen, which would bring the total volume of the Program to about 70 trillion yen. The proposal was defeated by a majority vote. Voting for the proposal: Mr. R. Miyao. Voting against the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. S. Nakamura, Mr. H. Kamezaki, Mr. Y. Morimoto, Ms. S. Shirai, and Mr. K. Ishida.

the staff to examine details of the new rules and report back at the next Monetary Policy Meeting.

- (3) With regard to the main rules for the Growth-Supporting Funding Facility introduced in June 2010, the Bank decided to extend the deadline for applications for new loans by two years to March 31, 2014 and to increase the ceiling for the total amount of loans by 500 billion yen, from 3 trillion yen to 3.5 trillion yen.
 - (4) Regarding the special rules for the arrangement for loans for equity investments and asset-based lending (ABL) established for the Growth-Supporting Funding Facility in June 2011, the Bank decided to extend the deadline for applications for new loans by two years, to March 31, 2014 while keeping the ceiling for the total amount of loans at the current 500 billion yen.
3. Regarding the funds-supplying operation to support financial institutions in disaster areas, the Bank decided to extend the deadline for new applications for loans by one year to April 30, 2013 while keeping the existing 1 trillion yen ceiling for the total amount of loans. As for the relaxation of the collateral eligibility standards for debt of companies in disaster areas, the Bank also extended the application period by one year through April 30, 2014.
 4. The Policy Board also decided, by a unanimous vote,² 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.
 5. Overseas economies still have not emerged from a deceleration phase on the whole but some improvement has recently been observed in the U.S. economy and the sluggish European economy has stopped deteriorating. Global financial markets have also regained some stability.

Japan's economic activity has remained more or less flat, although it has shown some signs of picking up. As for domestic demand, business fixed investment has been on a moderate increasing trend aided by the restoration of disaster-stricken facilities, and private consumption has firmed up due in part to the effects of measures to stimulate demand for

² 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.

automobiles. On the other hand, exports and production have remained more or less flat, mainly due to the effects of the slowdown in overseas economies and the yen's appreciation. Meanwhile, financial conditions in Japan have continued to ease. On the price front, the year-on-year rate of change in the CPI (all items less fresh food) is around 0 percent.

6. As for the outlook, Japan's economy is expected to gradually emerge from the current phase of flat growth and return to a moderate recovery path as the pace of recovery in overseas economies picks up, led by emerging and commodity-exporting economies, and reconstruction-related demand after the earthquake disaster gradually strengthens. In fact, production and public investment have recently begun to show signs of a possible pick-up in the coming period. The year-on-year rate of change in the CPI is expected to remain at around 0 percent for the time being.

Regarding risks to the economic outlook, there remains a high degree of uncertainty about the global economy, especially in terms of prospects for the European debt problem, developments in international commodity prices, and the likelihood of emerging and commodity-exporting economies simultaneously achieving price stability and economic growth. Regarding risks to the price outlook, careful attention should be paid to future developments in international commodity prices and in medium- to long-term inflation expectations.

7. The Bank judges the inflation rate consistent with price stability sustainable over the medium to long term to be within a positive range of 2 percent or lower in terms of the year-on-year rate of change in the CPI. For the time being, the Bank will aim to achieve the goal of 1 percent inflation in terms of the year-on-year rate of increase in the CPI through the pursuit of powerful monetary easing, conducting its virtually zero interest rate policy and implementing the Asset Purchase Program mainly through the purchase of financial assets. The Bank will continue with this powerful easing until it judges the 1 percent goal to be in sight, though on condition that it identifies no significant risk to the sustainability of economic growth, such as from the accumulation of financial imbalances. At the same time, the Bank will engage in efforts to promote Japan's economic growth through the Growth-Supporting Funding Facility enhanced today.

**New Arrangement for Loans for Small-Lot Investments and Loans
Established for the "Fund-Provisioning Measure to Support Strengthening
the Foundations for Economic Growth"**

1. Eligible Investments and Loans

Small-lot investments and loans (1 million yen or more but less than 10 million yen) which should support economic growth

Compared to the main rules,¹ the only difference in eligibility requirements is the size of each investment and loan.

2. Eligible Counterparties

Eligible counterparties for the "Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth"

3. Form of Loans

Loans against collateral²

4. Duration of Loans

The duration of each loan shall be one year. Loans could be rolled over up to three times and, consequently, the maximum duration of loans could be effectively four years.

5. Loan Rates

The loan rate shall be the Bank's target rate³ on the day of disbursement of the loan. The current loan rate is 0.1 percent per annum.

6. Total Amount of Loans

¹ "Principal Terms and Conditions for the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth" (Policy Board Decision on June 15, 2010). Only investments and loans with the size of 10 million yen or more are eligible in the main rules.

² Pooled collateral pledged by the counterparty for various transactions with the Bank

³ The Bank's target rate for the uncollateralized overnight call rate stipulated in the guideline for money market operations which is currently 0 to 0.1 percent

500 billion yen

7. Maximum Amount of Loans per Counterparty

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

The sum of loans made under the main rules and those made using this new arrangement shall not exceed 150 billion yen.

(2) The maximum amount to be lent to each counterparty at each loan disbursement

The amount outstanding of investments and loans with a maturity of one year or more carried out by each counterparty from April 2010

8. Deadline for Applications for New Loans

March 31, 2014

The last disbursement of new loans shall take place by June 30, 2014.

New Arrangement for Loans in the U.S. Dollar
Established for the "Fund-Provisioning Measure to Support Strengthening
the Foundations for Economic Growth"
(A Preliminary Outline)

1. Eligible Investments and Loans

Investments and loans denominated in foreign currencies and made for a period of no less than one year which should support Japan's economic growth

Each counterparty shall submit to the Bank a plan to support Japan's economic growth, and obtain the Bank's confirmation.

2. Eligible Counterparties

Of the eligible counterparties for the "Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth," those having accounts at the FRBNY and those entrusting the settlement of U.S. dollars to the financial institutions that have accounts at the FRBNY

3. Form of Loans

U.S. dollar loans against collateral¹

4. Duration of Loans

The duration of each loan shall be one year. Loans could be rolled over up to three times and, consequently, the maximum duration of loans could be effectively four years.

5. Loan Rates

Prevailing U.S. dollar market interest rate

6. Total Amount of Loans

1 trillion yen equivalent

Loans are made using the U.S. dollar reserves already held by the Bank.

¹ Pooled collateral pledged by the counterparty for various transactions with the Bank

7. Deadline for Applications for New Loans

March 31, 2014

The last disbursement of new loans shall take place by June 30, 2014.

8. Maximum Amount of Loans per Counterparty, etc.

The Bank will consider specifics of the new arrangement including the maximum amount of loans per counterparty and loan rates, taking into account various factors especially details of how financial institutions carry out lending and investment denominated in foreign currencies for Japan's economic growth.

**Overview of the "Fund-Provisioning Measure to Support
Strengthening the Foundations for Economic Growth"**

	Main rules	Special rules for equity investments and asset-based lending	Special rules for small-lot investments and loans	Special rules for loans in the U.S. dollar
Time of establishment	June 2010	June 2011	March 2012	A preliminary outline is released in March 2012.
Total amount of loans	3 trillion yen →increased to 3.5 trillion yen	0.5 trillion yen	0.5 trillion yen	U.S. dollar funds equivalent to 1 trillion yen
Eligible investments and loans	Those with the size of 10 million yen or more	Equity investments and ABL with the size of 1 million yen or more	Those with the size of 1 million yen or more but less than 10 million yen	Those denominated in foreign currencies
Duration of loans	Maximum 4 years (including rollovers)	Maximum 4 years (including rollovers)	Maximum 4 years (including rollovers)	Maximum 4 years (including rollovers)
Loan rates	0.1 percent per annum	0.1 percent per annum	0.1 percent per annum	Prevailing U.S. dollar market interest rate
Deadline for applications for new loans	March 31, 2012 →extended to March 31, 2014	March 31, 2012 →extended to March 31, 2014	March 31, 2014	March 31, 2014
Amount outstanding as of March 13, 2012	2.9998 trillion yen	89.1 billion yen	---	---

*Shadowed parts indicate decisions made at this Monetary Policy Meeting.

(Reference)

Meeting hours:

March 12 : 14:00-16:52

March 13 : 9:00-14:02

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)

March 12

From the Ministry of Finance:

Shinichi Sato, Deputy Vice Minister for Policy Planning and Co-ordination

(14:00-16:52)

From the Cabinet Office:

Kenji Matsuyama, Vice-Minister for Policy Coordination (14:00-16:52)

March 13

From the Ministry of Finance:

Yukihisa Fujita, Senior Vice Minister of Finance (9:00-13:28,13:48-14:02)

From the Cabinet Office:

Hiroshi Ogushi, Parliamentary Secretary of Cabinet Office (9:00-13:28,13:48-14:02)

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

14:00 on Wednesday, March 14 (Japanese)

16:30 on Thursday, March 15 (English)

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

Release of the minutes:

8:50 on Friday, April 13