Not to be released until 8:50 a.m. Japan Standard Time on Friday, June 18, 2010.

June 18, 2010

Bank of Japan

Minutes of the Monetary Policy Meeting

on May 20 and 21, 2010

(English translation prepared by the Bank's staff based on the Japanese original)

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Thursday, May 20, 2010, from 2:00 p.m. to 4:27 p.m., and on Friday, May 21, from 9:00 a.m. to 12:37 p.m.[1]

Policy Board Members Present

Mr. M. Shirakawa, Chairman, Governor of the Bank of Japan

Mr. H. Yamaguchi, Deputy Governor of the Bank of Japan

Mr. K. G. Nishimura, Deputy Governor of the Bank of Japan

Ms. M. Suda

Mr. T. Noda

Mr. S. Nakamura

Mr. H. Kamezaki

Mr. R. Miyao

Government Representatives Present

Mr. S. Kagawa, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance

Mr. K. Umetani, Deputy Director-General, Economic and Fiscal Management, Cabinet Office

Reporting Staff

Mr. A. Horii, Executive Director (Assistant Governor)

Mr. K. Ido, Executive Director

Mr. H. Nakaso, Executive Director

Mr. M. Amamiya, Director-General, Monetary Affairs Department

Mr. N. Yoshioka, Deputy Director-General, Monetary Affairs Department[2]

Mr. T. Kato, Associate Director-General, Monetary Affairs Department

Mr. H. Toyama, Director-General, Financial Markets Department

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on June 14 and 15, 2010 as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

[2] Mr. N. Yoshioka was present on May 21.

Mr. K. Momma, Director-General, Research and Statistics Department

Mr. T. Sekine, Associate Director-General, Research and Statistics Department

Mr. H. Ono, Director-General, International Department

Secretariat of the Monetary Policy Meeting

Mr. Y. Iino, Director-General, Secretariat of the Policy Board

Mr. T. Tachibana, Director, Deputy Head of Secretarial Services for the Board, Secretariat of the Policy Board

Mr. T. Sakamoto, Associate Director-General, Monetary Affairs Department[3]

Mr. K. Nishizaki, Senior Economist, Monetary Affairs Department

Mr. M. Nakashima, Senior Economist, Monetary Affairs Department

[3] Mr. T. Sakamoto was present on May 21 from 10:51 a.m. to 12:37 p.m.

I. Summary of Staff Reports on Economic and Financial Developments[4]

A. Money Market Operations in the Intermeeting Period

The Bank conducted money market operations in accordance with the guideline decided at the previous meetings on April 30 and May 10, 2010.[5] The uncollateralized overnight call rate had been at around 0.1 percent.

With a view to ensuring market stability, the Bank continued to conduct money market operations in a flexible manner, giving consideration to the recent formation of market rates, as evidenced by its continued provision of funds through such operations as the fixed-rate funds-supplying operation against pooled collateral and by its active purchases of Japanese government securities (JGSs) under repurchase agreements. On May 18, the Bank conducted an auction for the U.S. dollar funds-supplying operation, which it had decided to reestablish at the meeting on May 10.

B. Recent Developments in Financial Markets

Money market rates, including longer-term ones, had been stable at low levels on the back of market participants' growing confidence in the Bank's provision of ample funds. General collateral (GC) repo rates had been in the range of 0.10-0.15 percent. As for interest rates on term instruments, yields on treasury discount bills (T-Bills), including those with a one-year maturity, had been stable in the range of 0.10-0.15 percent. Euroyen rates had remained high relative to overnight index swap (OIS) rates, which reflected market expectations about the future policy interest rate. Issuance rates on CP had remained more or less unchanged at low levels. The effects on Japan's money market of the sovereign risk problem in Europe stemming from the Greek problem had remained limited.

Japanese stock prices had dropped, against the background of the decline in U.S. and European stock prices due to concern about sovereign risks in Europe and of the slight appreciation of the yen. The Nikkei 225 Stock Average had recently been in the range of 9,500-10,000 yen. With regard to long-term interest rates in Japan, the benchmark rate had declined somewhat mainly in response to the drop in stock prices, and was in the range of 1.2-1.3 percent.

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[4] Reports were made based on information available at the time of the meeting.

[5] The guideline was as follows:

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

The yen had increasingly been bought as a less risky currency, because investors were becoming more cautious about taking risks amid growing concern over sovereign risks in Europe. The yen had recently been traded at around 90 yen against the U.S. dollar.

C. Overseas Economic and Financial Developments

The world economy had continued to recover moderately.

The U.S. economy was recovering at a moderate pace. Exports were increasing, private consumption was expanding at a moderate rate, and business fixed investment as a whole was picking up. Reflecting such developments in demand, production was recovering moderately. In the labor market, the number of employees was picking up, while the unemployment rate had been more or less unchanged at a high level. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items less energy and food, or the core CPI, had been moderating against the backdrop of slack in supply and demand conditions and slower growth in wages.

Economic activity in the euro area was picking up, with some differences in growth by country. Private consumption had been relatively weak, while production in the manufacturing sector had been increasing gradually as the pace of decline in business fixed investment moderated and exports increased. As for prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) excluding energy and unprocessed food had been declining moderately against the backdrop of slack in supply and demand conditions and slower growth in wages. The U.K. economic activity was picking up.

The Chinese economy had continued to grow at a relatively rapid pace, led mainly by domestic demand. Growth in private consumption had been firm and fixed asset investment had been increasing, although at a slower pace. Exports had also been rising due to the recovery in overseas economies, and production had continued to increase. Economic conditions in the NIEs and the ASEAN countries were recovering. Exports had continued to rise on the back of expanding demand for IT-related goods, and private consumption and business fixed investment had been on an increasing trend. Under these circumstances, production was increasing. The Indian economy had also continued to grow at a relatively rapid pace. With regard to prices, the rate of inflation had been increasing gradually in many of these Asian economies, due to a faster rise in energy and food prices and greater utilization of production factors.

As for global financial markets, interest rates on term instruments had risen somewhat, as market participants had become cautious about taking on counterparty risks in transactions, amid growing concern about sovereign risks in Europe. Against the backdrop of such concern, U.S. and European stock prices, which had plunged in early May, rebounded temporarily subsequent to the European authorities' decision to take countermeasures but then declined again. U.S. and European long-term interest rates had fallen, mainly due to a flight to quality.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had been increasing, due to the improvement in overseas economic conditions. The uptrend in exports was expected to continue, reflecting continued improvement in overseas economic conditions, although the pace of increase was likely to moderate gradually.

Public investment was declining, and this trend was likely to continue.

With regard to domestic private demand, business fixed investment was showing signs of picking up. Although such signs were expected to gradually become evident with the recovery in corporate profits, the improvement in business fixed investment was likely to remain moderate for the time being as the sense of excessive capital stock was strong among firms.

Private consumption, notably durable goods consumption, was picking up partly due to policy measures. It was expected to continue picking up only moderately for the time being amid the continued severe employment and income situation, despite the underpinning effect of policy measures.

Housing investment had leveled out. It was expected to gradually head for a recovery, given the recent developments in housing starts.

Production had been increasing. It was likely to continue rising as a trend in parallel with exports, although the pace of increase was expected to moderate gradually.

On the price front, commodity prices had recently fallen back slightly, but had been on a moderate rising trend on the whole against the background of the improvement in world economic conditions. The three-month rate of change in the domestic corporate goods price index (CGPI) was rising moderately, reflecting the increase in commodity prices, in spite of the persistent slack in supply and demand conditions for products. The CGPI was likely to continue rising moderately for the time being. The CPI (excluding fresh food) was declining on a year-on-year basis due to the substantial slack in the economy as a whole, but the moderating trend in the pace of decline had continued. The year-on-year pace of decline in the CPI was likely to slow as a trend as the aggregate supply and demand balance improved gradually.

2. Financial environment

Financial conditions, with some lingering severity, had continued to show signs of easing. The overnight call rate had remained at an extremely low level, and the declining trend in firms' funding costs had continued. With economic activity and corporate profits at current levels, the stimulative effects from low interest rates were still partly constrained, but the degree of constraint had decreased mainly due to the improvement in corporate profits. With regard to credit supply, although many firms still saw financial institutions' lending attitudes as severe, firms as a whole regarded the situation as improving. Issuing conditions for CP and corporate bonds had remained favorable, and even those for low-rated corporate bonds had shown signs of improvement. As for credit demand, firms' need to fund working capital and fixed investment had declined, and some firms had reduced the on-hand liquidity that they had accumulated. Against this backdrop, bank lending had declined on a year-on-year basis, partly due to the high growth of a year before. The amount outstanding of corporate bonds had exceeded the previous year's level, while that of CP had declined. In these circumstances, although many small firms still saw their financial positions as weak, on the whole financial positions of firms, including small ones, had continued to show signs of easing. Meanwhile, the year-on-year rate of change in the money stock had been at around 3 percent.

II. Summary of Staff Reports on a Fund-Provisioning Measure to Facilitate Strengthening of the Foundations for Economic Growth

The staff reported the following.

At the Monetary Policy Meeting held on April 30, the chairman instructed the staff to examine and report on possible ways to support private financial institutions in terms of fund provisioning with a view to strengthening the foundations for economic growth.

In response to the instruction, the staff began exchanging views with private financial institutions on this matter. This revealed some need by financial institutions for the Bank's provision of long-term funds at a low interest rate that would effectively finance their lending and investment.

As the term of lending and investment by financial institutions toward strengthening the foundations for economic growth was considered to be very long, the Bank's provision of funds to support such lending and investment should have a term longer than the terms of the existing operations to meet financial institutions' needs. Defining and identifying such lending and investment would be a practical issue, and this required further examination. Also, details such as the total amount of the loans and the deadline for new applications for the loans should be determined, taking into account financial institutions' plans for such lending and investment.

Based on the above considerations regarding the fund-provisioning measure to facilitate strengthening of the foundations for economic growth, it was appropriate to compile and announce a preliminary framework, and then further exchange views with financial institutions and promptly draw up concrete plans for the measure. The staff, upon further exchange of views and examination of operational details, would report on the result of deliberations at a future Monetary Policy Meeting.

III. Summary of Discussions by the Policy Board on Economic and Financial Developments

A. Economic Developments

With regard to global financial markets, many members were of the view that European financial markets had remained unstable, although strains stemming from the Greek problem had eased somewhat as a result of a series of policy actions. Some members noted that growing sovereign risks had continued to exert upward pressure on U.S. and European interbank rates. Many members said that the decline in international investors' risk tolerance had led to a flight to quality, resulting in the weakness in stock prices worldwide and a fall in U.S. and German long-term interest rates. Most members said that two major problems lay behind such instability in European financial markets -- namely, undermined market confidence in fiscal sustainability and consolidation in some

European countries, and the decline in the competitiveness of these countries. Many members said that, since it would take some time for European countries to yield results in their economic and fiscal reforms and to recover market confidence, it was necessary to closely examine how developments would affect global financial markets and the world economy. One of these members added that the key to future developments was whether major countries in the euro area could clearly show their determination to maintain the existing currency system and work in concert. Some members said that it was important that the market felt confident that the economic and fiscal problem in some European countries -- the fundamental cause of the market strains -- would improve.

Members shared the view that overseas economies had continued to recover moderately, and this trend was likely to continue led by higher growth in emerging economies. Some members said that the virtuous circle of growth in production, income, and spending had already started to operate in emerging economies, and their growth was stronger than the forecasts by international organizations and the market. A few members said that, considering that some emerging economies were increasingly showing signs of overheating, attention should be paid to whether they were responding to the situation in a timely manner. Most members said that advanced economies had continued to improve, albeit at a moderate pace. Many members said that the probability was small at present that the recovery in advanced economies would come to an end. These members continued that close attention should be paid to the risk that balance-sheet adjustments and events stemming from European countries' fiscal conditions might adversely affect advanced economies through such channels as financial markets and international trade. A few members said that the key to world economic recovery was whether a "decoupling" could occur -- in other words, whether the world economy could establish a virtuous circle that would start off with the rapid growth in emerging economies and maintain a solid recovery in the U.S. and Japanese economies, while containing the adverse effects from the heightened uncertainty in European economies.

Members shared the view that the U.S. economy was recovering at a moderate pace. Some members said that private consumption had continued to expand at a moderate rate across a wide range of items and business fixed investment had been picking up, especially in terms of investment in equipment. Some members referred to the fact that the number of employees increased sharply in April, while the average duration of unemployment had continued to extend its longest record and the unemployment rate had been more or less unchanged at a high level. They continued that, despite some signs of improvement, the assessment remained valid that the employment and income situation was still severe. With regard to developments in the real estate market, many members said that home sales had remained at a low level and home prices had still been more or less unchanged. Members shared the view that the U.S. economy as a whole was likely to continue recovering. However, many members said that the pace of economic recovery would likely remain moderate for the time being, given that the growth in households' disposable income had been sluggish and balance-sheet adjustment pressure had persisted.

Members shared the view that economic activity in the euro area was picking up, with some differences in growth by country. Many members said that, while economic conditions had remained severe in some countries such as Greece, economic activity -- particularly in Germany and France -- had continued to pick up led by the increase in exports to outside the euro area and in production. Many members said that economic activity in the euro area was likely to continue to show signs of moderate recovery. Some members expressed the view that the strains in European financial markets stemming from the Greek problem had not intensified further owing to the European authorities' responses, and the probability was small at present that the strains would interrupt the pick-up in economic activity. A few members, pointing to the fact that some economies that faced the fiscal problem at present represented a relatively small proportion of the euro area economy, said that the impact of the strains in European financial markets stemming from the Greek problem on economic activity in the whole area might be limited. Many members, including these members, said that the momentum for economic recovery in the euro area -- burdened with balance-sheet adjustment pressure and Eastern European economies' excessive debt -- was weaker than in other advanced economies. They continued that attention should therefore be paid to the risk that possible intensification of the financial market strains -- which might arise in the process of fiscal consolidation and economic reforms in countries such as Greece -- might depress economic activity in the whole euro area through various channels. In relation to this, a few members said that, if several European countries conducted fiscal consolidation at the same time, the resultant fiscal drag might be larger than expected. Some members argued that such a result would be more than offset by positive effects from a recovery in market confidence in fiscal sustainability and consequent stabilization of financial markets.

Members agreed that the Chinese economy had continued to grow at a rapid pace, led mainly by domestic demand, and this trend was likely to continue. Some members expressed the view that the continued high growth in private consumption and fixed asset investment indicated strong momentum of domestic demand. A few members said that exports to Europe accounted for a relatively large proportion of Chinese exports, and slower-than-expected growth in European economies could inevitably have a negative impact on the Chinese economy. Many members were of the view that the risk of inflation had increased further in China, as evidenced by the continued rise in real estate prices and acceleration in the CPI inflation rate. Based on this discussion, some members said that full attention should continue to be paid to developments in China's macroeconomic policy, including monetary policy, and their possible effects.

Based on the above discussions on economic and financial conditions abroad, members discussed the state of Japan's economy. They concurred that the economy was starting to recover moderately, induced by improvement in overseas economic conditions, and this was in line with the Bank's projection presented in the April 2010 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report). Most members said that exports and production had been increasing against a backdrop of high growth in emerging economies. They continued that, in these circumstances, business fixed investment was showing signs of picking up, and private consumption, notably durable goods consumption, was also picking up partly due to policy measures. These members expressed the view that signs of self-sustaining recovery were starting to be seen in domestic private demand. Some members pointed to the fact that GDP for the January-March quarter of 2010 marked an annualized growth rate close to 5 percent, underpinned by the increase in exports and the pick-up in private consumption, and said that the figure supported the above economic assessment.

As for the outlook, members expressed the view that Japan's economy was likely to recover moderately, in line with the projection presented in the April 2010 Outlook Report. Many members were of the view that the effects on Japan's economy of the heightened uncertainty in European economies stemming from the Greek problem were limited at present. Some members said that an important factor in forecasting economic developments was whether the momentum in domestic private demand toward a self-sustaining recovery would take hold before the effects of policy measures abated.

Many members were of the view that risk factors for economic activity had essentially remained the same as presented in the April 2010 Outlook Report, but the size of both upside and downside risks had increased somewhat. Most members, pointing to the continued instability in European financial markets, said that close attention should be paid to the risk that strains in global financial markets might intensify due to events stemming from fiscal conditions of some European countries, and this might depress the world economy through various channels. On the other hand, many members expressed the view that the recent growth in emerging and commodity-exporting economies had remained stronger than expected, and this warranted closer attention as an upside risk factor. In this regard, some members added that if a delayed policy response by these economies led to an overheating, a rapid unwinding of economic and financial activity in these economies might occur and this could turn out to be a downside risk factor for Japan's economy.

Turning to developments in each demand component, members agreed that exports had been increasing, mainly due to the continued stronger-than-expected growth in emerging economies. Many members expressed the view that the uptrend was likely to maintain its course, reflecting continued improvement in overseas economic conditions, although the pace of increase was likely to moderate gradually as the growth rate of overseas economies slowed toward a sustainable pace.

Many members said that business fixed investment was showing signs of picking up. Some members said that business fixed investment on a real GDP basis and shipments of capital goods continued to increase in the January-March quarter. Most members pointed to the increase in machinery orders and construction starts in terms of floor area -- leading indicators of business fixed investment -- and expressed the view that signs of a pick-up in business fixed investment were likely to gradually become evident with the improvement in corporate profits. Many members expressed the view that the pace of improvement in business fixed investment was nevertheless likely to remain moderate for the time being, given the strong sense among firms of excessive capital stock.

Members concurred that private consumption was picking up partly due to policy measures. Many members said that sales of electrical appliances climbed further in March, prior to the tightening of the application standards of the eco-point system. Some members expressed the view that the pick-up in private consumption was becoming widespread, as evidenced by the recent improvement in sales of luxury goods at department stores -- whose sales had not been directly affected by policy measures. In relation to this point, a few members said that the improvement in indicators of consumer confidence had recently become evident. In consideration of the continued severe employment and income situation, members shared the view that the pace of pick-up in private consumption was likely to be only moderate for the time being despite the underpinning effect of policy measures.

Many members were of the view that housing investment had leveled out, as evidenced by the fact that the number of housing starts had continued to pick up gradually, albeit remaining at a low level, and inventory adjustments of condominiums in the Tokyo metropolitan area had been progressing.

Members agreed that production had been increasing, mainly reflecting high growth in emerging economies. Many members said that information obtained, for example, from interviews with corporate managers suggested that production was likely to continue rising as a trend reflecting the recovery in overseas economies, although the pace of increase in production would moderate gradually due to the waning effects of policy measures.

Most members expressed the view that the employment and income situation had remained severe but the degree of severity had eased somewhat. Some members said that there were signs of the decline in household income coming to a halt: the pace of decline in the number of employees continued to moderate on a year-on-year basis; and nominal wages per employee, which had previously plunged, registered an increase in March on a year-on-year basis. Many members, however, said that they maintained their assessment that the employment and income situation was severe because firms persistently regarded their workforces as excessive, as evidenced by the fact that a large number of firms continued to apply for employment subsidies, for example.

Members concurred that the CPI (excluding fresh food) was declining on a year-on-year basis due to the substantial slack in the economy as a whole, but the moderating trend in the pace of decline had continued. As for the outlook, they agreed that the year-on-year pace of decline in the CPI was likely to slow as the aggregate supply and demand balance improved gradually. Some members noted that the preliminary year-on-year rates of decline in both the CPI in Tokyo excluding fresh food and that excluding food and energy moderated clearly in April compared with March, when adjusted for the effects of the introduction of a subsidy for high school tuition. They continued that the lagged effects of the narrowing of the negative output gap since 2009 might have started to appear. A few members pointed out that one-year-ahead inflation expectations of households estimated by using the figures in the *Consumer Confidence Survey* had recently been rising. A few members referred to developments in import prices as a risk factor for prices, and pointed to the need to closely monitor how the heightened uncertainty in European economies would affect prices of commodities such as crude oil and foreign exchange rates, and eventually prices in Japan.

B. Financial Developments

Members shared the view that financial conditions, with some lingering severity, had continued to show signs of easing.

As for the money market, most members said that interest rates on term instruments had been stable at low levels. On this point, many members were of the opinion that the Bank's conduct of the fixed-rate funds-supplying operation against pooled collateral had increased market confidence in the Bank's provision of ample funds.

Some members said that long-term interest rates had declined in parallel with those in the United States and Europe, but the decline was marginal. Many members expressed the view that Japanese stock prices had been weak due to the decline in U.S. and European stock prices and the appreciation of the yen.

Members agreed that issuing conditions for CP and corporate bonds had remained favorable. Most members noted that issuing spreads on CP and corporate bonds had been stable at low levels, reflecting solid demand from investors. Many members expressed the opinion that issuing conditions for low-rated corporate bonds continued to improve, as evidenced by the fact that the number of firms issuing BBB-rated corporate bonds continued to increase.

Some members said that several surveys indicated that small firms judged their financial positions as less tight than the average situation since 1990. On this basis, one member said that small firms' financial positions were also easing.

Based on the above discussion, members agreed that the effects on Japan's financial conditions of the increased strains in European financial markets stemming from the Greek problem had so far been limited to developments in the stock market, and financial conditions had continued to show signs of easing. Some members nevertheless underscored the importance of bearing in mind the possibility that financial conditions in Japan might be forced to tighten through various economic and financial channels if European financial markets became more unstable and this resulted in an appreciation of the yen and weaker stock prices. Some members said that, despite the difference between Japan and Greece with respect to the situation and framework of the economy and financial markets, two lessons could be learned from the Greek problem: (1) it was important to make efforts to fully gain market confidence in fiscal sustainability, bearing in mind that market conditions could suddenly change; and (2) it was important for the central bank to firmly maintain its monetary policy stance of aiming to realize sustainable growth with price stability.

IV. Summary of Discussions on Monetary Policy for the Immediate Future

Regarding the guideline for money market operations for the intermeeting period ahead, members agreed that, given the above assessment of economic activity and prices, it was appropriate to maintain the current guideline that the Bank would encourage the uncollateralized overnight call rate to remain at around 0.1 percent.

As for the future conduct of monetary policy, members agreed that, in order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, the Bank should continue to consistently make contributions as central bank. They concurred that, in the conduct of monetary policy, the Bank would continue to aim at maintaining the extremely accommodative financial environment.

Members discussed the fund-provisioning measure to facilitate strengthening of the foundations for economic growth, based on the reports made by the staff earlier in this meeting.

Members first discussed their basic thoughts on the measure.

Members shared the view that Japan's economy faced the major challenge of dealing with the decline in the potential growth rate, as well as the underlying problems of the shrinking of the population and sluggish productivity growth, and that the deflation was also a manifestation of the fundamental problem facing the economy, namely, the decline in growth expectations. They concurred that the Bank should use its central banking functions to support strengthening the growth foundations of the economy from the financial side. In this regard, one member commented that the synergy of networks -- in which the usefulness of a new technology was largely determined by the size of the market for products that used it -- would play a vital role in the development of new fields and revitalization of existing fields, and that financial institutions' constructive efforts to provide funds to specific fields would therefore attract investments in such fields and promote the expansion of their markets, thereby leading to a strengthening of the foundations for economic growth. Some members expressed the opinion that such a strengthening required the efforts of various entities: firms and financial institutions in the private sector should play a primary role in the strengthening, and the government and government financial institutions should extend effective support for the private sector's efforts. These members continued that the Bank could provide a catalyst by supporting private financial institutions in terms of fund provisioning. Many members said that the fund-provisioning measure should be formulated with a view toward (1) maintaining consistency with the Bank's conduct of the interest rate policy and money market operations, (2) avoiding the Bank's involvement in microeconomic resource allocation among individual industries and firms, and (3) ensuring the Bank's financial health. One member said that the Bank should formulate the new measure very carefully so that financial institutions' lending activity would be in line with the intention of the measure.

Based on the above discussion about the basic thoughts on the measure, members next discussed specifics of the measure.

In terms of formulating a basic scheme for the measure, members agreed that it was appropriate to devise one whereby the Bank would provide long-term funds at a low interest rate to effectively finance private financial institutions' lending and investment, in view of the perceived need among such institutions.

Some members expressed the opinion that the type of lending and investment the measure covered should be determined by taking due account of the actual lending and investment activity by financial institutions toward strengthening the foundations for economic growth. Many members were of the view that the scope of such lending and investment seemed to vary, and it was therefore desirable that the measure be formulated to cover a wide range of lending and investment, taking into consideration growth strategies proposed by the government and private-sector organizations.

As for the total amount of the loans provided through the measure, a few members said that an adequate amount should be determined after identifying how much lending and investment financial institutions would make, based on their plans toward strengthening the foundations for economic growth. Some members expressed the view that the total amount of the loans should be determined carefully in order to avoid any constraint on the conduct of interest rate policy, given that the term of the loans would not likely be short. One member said that it was important that a predetermined total amount of the loans not be mistaken for a target.

Members discussed the deadline for new applications for these loans, as well as the possible number of rollovers. In relation to the former, some members -- stating that implementing such a measure was extraordinary for a central bank -- expressed the view that the Bank should emphasize that the measure was a temporary one aimed at effectively supporting financial institutions' efforts toward strengthening the foundations for economic growth. As for the latter, a few members said that, given that it would take a long time for such efforts to bear fruit, the Bank should allow the loans to be rolled over an adequate number of times, so that it would be able to support the institutions' efforts for a relatively long period.

Based on the above discussion, members agreed that it was appropriate to compile and make public a preliminary framework of the measure. Many members commented that the Bank needed to further exchange views with financial institutions based on the preliminary framework to be made public immediately after the meeting, and draw up concrete plans for the measure that included operational details.

V. Remarks by Government Representatives

The representative from the Ministry of Finance made the following remarks.

(1) The Japanese economy had been picking up steadily, but it was only self-sustaining at a weak level and the situation remained difficult, as evidenced by the high unemployment rate. As for short-term prospects, in addition to risk factors such as international financial developments and deflation, there was continued concern that the employment situation could deteriorate further, and the basis for the economy's return to a path of strong private demand-led growth remained fragile.

(2) Faced by the current severe economic conditions, the government, with the aim of overcoming deflation and ensuring economic recovery, would carry out the emergency economic countermeasures and steadily implement the budget for fiscal 2010, and would also draw up concrete plans for the "New Growth Strategy (Basic Policies)" and implement the plans.
(3) Regarding the Bank's new measure to facilitate strengthening of the foundations for economic growth through fund provisioning, which was discussed at this meeting, the government expected the Bank to make the measure an effective one.
(4) The government -- while recognizing that the Bank showed its determination to consistently make contributions to overcome deflation -- expected the Bank to continue to support the economy from the financial side, for example, with a view to overcoming deflation, by conducting monetary policy in an appropriate and flexible manner.

The representative from the Cabinet Office made the following remarks.

(1) According to the first preliminary estimates released on May 20, GDP grew at an annualized quarter-on-quarter rate of 4.9 percent in the January-March quarter, both on real and nominal bases. The task for the Japanese economy in the immediate future was to ensure economic recovery and overcome deflation while securing employment. The year-on-year rate of change in the CPI was likely to continue declining moderately, although the pace of decline was expected to slow. The government considered it important that the government and the Bank work together to achieve a positive inflation rate as early as possible.
(2) The government would implement the emergency economic countermeasures and the measures laid out in the budget for fiscal 2010 in a steady and appropriate manner. To fulfill its responsibility, it would swiftly formulate an overall picture of the "New Growth Strategy (Basic Policies)" and present to the public a path toward sound public finance.
(3) The government recognized the following. First, regarding the level of CPI inflation that the Bank's Policy Board members understood as being consistent with price stability over the medium to long term, or the "understanding," each Policy Board member's "understanding" fell in a positive range of 2 percent or lower and the midpoints of most members' "understanding" were around 1 percent. And second, the

Bank had presented a projection in the April 2010 Outlook Report that the year-on-year rate of change in the CPI was likely to turn positive in fiscal 2011. In view of these facts, the government hoped that the Bank -- for such a projection to be achieved -- would continue to aim at overcoming deflation swiftly and underpin the economy by conducting monetary policy in an appropriate and flexible manner, while sufficiently exchanging views and working together with the government.

(4) Financial markets had recently been volatile. The government hoped that they would stabilize and that the Bank, as had been stated earlier during the meeting, would continue to monitor market developments carefully.

VI. Votes

Based on the above discussions, members agreed that it was appropriate to maintain the current guideline for money market operations, which encouraged the uncollateralized overnight call rate to remain at around 0.1 percent.

To reflect this view, the chairman formulated the following proposal and put it to a vote.

The Chairman's Policy Proposal on the Guideline for Money Market Operations:

1. The guideline for money market operations for the intermeeting period ahead will be as follows.

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

2. A public statement will be decided separately.

Votes for the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. T. Noda, Mr. S. Nakamura, Mr. H. Kamezaki, and Mr. R. Miyao.
Votes against the proposal: None.

VII. Discussion on the Statement on Monetary Policy

Members discussed the Statement on Monetary Policy, and put it to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment 1).

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of April 30, 2010 for release on May 26, 2010.

Attachment 1

May 21, 2010

Bank of Japan

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,[6] 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 0.1 percent.

2. Japan's economy is starting to recover moderately, induced by improvement in overseas economic conditions. Exports and production have been increasing mainly against a backdrop of high growth in emerging economies. In these circumstances, business fixed investment is showing signs of picking up. Private consumption, notably durable goods consumption, is picking up partly due to policy measures. Public investment is declining. Meanwhile, financial conditions, with some lingering severity, have continued to show signs of easing. The CPI (excluding fresh food) is declining on a year-on-year basis due to the substantial slack in the economy as a whole, but the moderating trend in the pace of decline has continued.

3. The Bank's baseline scenario projects that the economy is likely to be on a recovery trend. With regard to prices, based on the assumption that medium- to long-term inflation expectations remain stable, the year-on-year rate of decline in the CPI

[6] 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, and Mr. R. Miyao.
Voting against the action: None.

(excluding fresh food) is expected to slow as the aggregate supply and demand balance improves gradually.

4. With regard to economic activity, while there are some upside risks such as faster growth in emerging and commodity-exporting economies, there are also downside risks such as those related to international financial developments. In this regard, attention should be paid to the effects of developments regarding fiscal conditions in some European economies on international finance and the global economy. With regard to prices, there is a possibility that inflation will rise more than expected due to a rise in commodity prices brought about by higher growth rates in emerging and commodity-exporting economies, while there is also a risk that the rate of inflation might decline due, for example, to a decline in medium- to long-term inflation expectations.

5. The Bank recognizes that Japan's economy faces the critical challenge of overcoming deflation and returning to a sustainable growth path with price stability. To this end, the Bank will continue to consistently make contributions as central bank. In the conduct of monetary policy, the Bank will aim to maintain the extremely accommodative financial environment.

6. At the Monetary Policy Meeting held on April 30, 2010, with a view to strengthening the foundations for economic growth, the Bank announced to support private financial institutions in terms of fund provisioning, and has since been examining possible ways of implementation. At today's Meeting, based on a report from staff, the Bank decided to compile and announce a preliminary framework for the fund provisioning, as in Attachment 2, and to examine further operational details.

Attachment 2

Preliminary Framework for the Fund-Provisioning Measure to Facilitate Strengthening of the Foundations for Economic Growth

1. Eligible Counterparties

Financial institutions that are already counterparties in the Bank's Funds-Supplying Operations against Pooled Collateral at All Offices and wish to be counterparties for this measure.

2. Form of Loans

Loans shall be provided against pooled collateral (the same form as the Bank's Funds-Supplying Operations against Pooled Collateral).

3. Duration of Loans

Duration of each loan shall be 1 year, in principle, and the loan can be rolled over.

4. Loan Rates

The Bank's target for the uncollateralized overnight call rate at the time of loan disbursement.

5. Amount of Loans per Counterparty

Each counterparty shall submit its plan for strengthening the foundations for economic growth to the Bank. The Bank shall provide loans to each counterparty based on its actual amount of lending and investment that were carried out under the plan.

6. Total Amount of Loans, Deadline of New Application for Loans, etc.

The Bank shall determine, at the time of commencement of this measure, the total amount of loans, the deadline of new application for loans, and the number of roll-overs possible, taking into account, for example, financial institutions' approaches to carry out lending and investment for strengthening the foundations for economic growth.