Not to be released until 8:50 a.m. Japan Standard Time on Monday, December 27, 2010.

December 27, 2010

Bank of Japan

Minutes of the Monetary Policy Meeting

on November 4 and 5, 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, November 4, 2010, from 4:00 p.m. to 5:29 p.m., and on Friday, November 5, from 9:00 a.m. to 11:31 a.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

Mr. Y. Morimoto

Government Representatives Present

Mr. M. Sakurai, Senior Vice Minister of Finance, Ministry of Finance[2]

Mr. Y. Kinoshita, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance[3]

Mr. T. Wada, Parliamentary Vice-Minister, Cabinet Office[2]

Mr. K. Umetani, Director-General, Economic and Fiscal Management, Cabinet Office[3]

Reporting Staff

Mr. K. Yamamoto, Executive Director

Mr. H. Nakaso, Executive Director (Assistant Governor)

Mr. M. Amamiya, Executive Director

Mr. N. Kinoshita, Executive Director

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on December 20 and 21, 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] Messrs. M. Sakurai and T. Wada were present on November 5.

[3] Messrs. Y. Kinoshita and K. Umetani were present on November 4.

Mr. S. Kushida, Director-General, Monetary Affairs Department

Mr. T. Umemori, Deputy Director-General, Monetary Affairs Department[4]

Mr. T. Kato, Head of Policy Planning Division, Monetary Affairs Department

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

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

Mr. T. Sekine, Head of Economic Research Division, 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 Planning and Coordination Division, Secretariat of the Policy Board

Mr. H. Chida, Head of Policy Infrastructure Division, Monetary Affairs Department[4]

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

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

[4] Messrs. T. Umemori and H. Chida were present on November 5.

I. Summary of Staff Reports on Economic and Financial Developments[5]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on October 28, 2010 and in consideration of the recent formation of market rates, conducted money market operations in a flexible manner.[6] The uncollateralized overnight call rate had generally been slightly below the 0.1 percent level.

B. Recent Developments in Financial Markets

Japan's money market remained stable due to the Bank's provision of ample funds. General collateral (GC) repo rates had been slightly above 0.1 percent. As for interest rates on term instruments, yields on treasury discount bills (T-Bills), including those with a one-year maturity, had been somewhat above 0.1 percent, and the TIBOR rates had declined somewhat. Issuance rates on CP had remained more or less unchanged at low levels.

Stock prices and long-term interest rates in Japan had been more or less unchanged on the whole. Recently, the Nikkei 225 Stock Average had been at around 9,500 yen and long-term interest rates in Japan in the range of 0.9-1.0 percent.

C. Overseas Economic and Financial Developments

The world economy had been slowing but continued to recover.

The U.S. economy had continued to recover at a slower but moderate pace. Although the pace was decelerating while the effects of fiscal stimulus measures were waning, exports were continuing to increase and business fixed investment was rising moderately. In the labor market, the number of employees was picking up but the unemployment rate had been more or less unchanged at a high level, suggesting that the employment situation had not improved noticeably. In these circumstances, private consumption was increasing only gradually, and housing investment remained at a depressed level. In a situation where the economy faced balance-sheet adjustments and it had therefore remained difficult for the self-sustaining virtuous circle of growth in production, income, and spending to operate properly, economic activity still looked

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

[6] The guideline was as follows:

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

unlikely to turn upward and remained vulnerable to the downside. 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 mainly due to slack in supply and demand conditions and a decline in unit labor costs.

Economic activity in the euro area as a whole was recovering moderately, with some differences in growth by country. Exports and production had continued to increase, although the pace was slowing, and domestic demand components such as private consumption had been rising gradually. As for prices, although the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) excluding energy and unprocessed food had been accelerating somewhat, partly due to a rise in the value-added tax rate in some countries, slack in supply and demand conditions and slower growth in wages continued to exert downward pressure on prices. U.K. economic conditions were recovering at a moderate pace.

The Chinese economy continued to show relatively high growth, although the pace had slowed somewhat. The pace of increase in exports was slowing due to deceleration in overseas economies. Meanwhile, growth in private consumption had been firm due mainly to households' higher income levels. Fixed asset investment had continued to show high growth, although the rate was decelerating partly due to the government's measures to restrain the increase in real estate transactions. Economic conditions in the NIEs and the ASEAN countries, despite the deceleration resulting from slower growth in exports and production, had been on a recovery trend as a whole, as private consumption and business fixed investment had been increasing. The Indian economy had also continued to grow at a relatively rapid pace. In many of these Asian economies, upward pressure on prices had been increasing gradually due to higher food prices and greater utilization of production factors.

As for global financial markets, U.S. stock prices had risen reflecting the Federal Reserve's further easing and U.S. firms' better-than-expected corporate results, and European stock prices rose following the rise in U.S. stock prices. Long-term interest rates in the United States and Europe had remained at a low level. Meanwhile, in some peripheral European countries, the yield spreads of government bonds issued by Greece, Portugal, and Ireland over those issued by Germany had risen again.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had been flat. They were likely to be more or less flat for the time being, but were expected to increase moderately again, reflecting the improvement in overseas economic conditions.

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. Such signs were expected to gradually become more evident as the improvement in corporate profits continued. However, with firms' persistent sense of excessive capital stock, the pace of improvement in business fixed investment was likely to remain moderate.

The employment and income situation had remained severe, but the degree of severity had eased somewhat.

As for recent private consumption, there had been a decline in demand for some goods, such as durable consumer goods, following the sharp increase seen previously. It was expected to pick up again as the decline in demand became less pronounced.

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

Production had recently lost its momentum. It was expected to increase, after showing temporary weakness primarily in durable consumer goods.

As for prices, international commodity prices had increased somewhat. The domestic corporate goods price index (CGPI) had been lower than three months earlier, mainly due to the slack in supply and demand conditions for products and the appreciation of the yen, but the pace of decline had moderated reflecting movements in international commodity prices. The CGPI was expected to be on a moderate uptrend for the time being, mainly due to the uptick in international commodity prices, although the effects of the yen's appreciation to date were likely to remain. 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 slowing 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 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. While stimulative effects from low interest rates were still partly constrained given current developments in economic activity and prices, such effects were beginning to strengthen in light of improved corporate profits. With regard to credit supply, firms saw financial institutions' lending attitudes as improving. Issuing conditions for CP and corporate bonds had remained favorable. 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. The outstanding amount of corporate bonds had exceeded the previous year's level, while that of CP had declined. In these circumstances, firms' financial positions had continued to show signs of improvement as a whole. Meanwhile, the year-on-year rate of increase in the money stock had been in the range of 2.5-3.0 percent.

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

A. Economic Developments

Members discussed <u>the economic and financial conditions abroad</u>, and agreed that overseas economies had been slowing but continued to recover, and that their growth rates were likely to start increasing again led by high growth in emerging and commodity-exporting economies.

Members concurred that the U.S. economy had continued to recover at a slower but moderate pace, and this was likely to continue amid the lingering balance-sheet adjustment pressure. A few members, referring to the fact that the annualized quarter-on-quarter real GDP growth rate for the July-September quarter of 2010 was 2.0 percent, expressed the view that this suggested that the economic recovery had been relatively firm. Some members commented that the economy had been solid, as evidenced by the fact, for example, that the Institute for Supply Management (ISM) indices for manufacturing and nonmanufacturing activities had recently been higher than market expectations. Regarding private consumption, a few members expressed the view that, although consumer sentiment seemed to be somewhat weak, data such as GDP statistics and the number of motor vehicles sold had been relatively firm. One member referred to the fact that business fixed investment had risen for three consecutive quarters, although the pace had slowed, and was of the opinion that one could not rule out the possibility that the recovery might be solid, supported by the improvement in corporate profits. A few members, however, said that the rise in the real GDP growth rate for the July-September quarter was greatly affected by the increase in inventory investment, and the growth rate of final demand, excluding inventory investment, had clearly declined. In addition, one member noted that the real GDP growth rate was still below the potential growth rate, and the pace of economic recovery had been considerably slower than that in past recovery phases. A few members expressed the view that, although concern about a possible double dip was subsiding after the release of the GDP statistics, the pace of economic growth remained very moderate. As background to these developments, these members pointed to an accelerating polarization of sentiment between large firms and small firms/households. In addition, some members said that the housing market remained sluggish and the employment situation had not shown a clear recovery, and these factors were exerting significant downward pressure on private consumption. One member expressed the opinion that consumer sentiment had weakened recently amid continued balance-sheet adjustment pressure and, regarding the outlook for private consumption, careful attention should be paid to developments in year-end sales. As for prices, some members expressed the view that upward pressure on prices had continued to recede due to slack in supply and demand conditions. However, one of these members was of the opinion that one could not rule out the risk that an increase in food and energy prices, reflecting the rise in market prices, would affect overall prices.

Referring to the further easing in the United States decided at the Federal Open Market Committee (FOMC) meeting held on November 2 and 3, members said that it was necessary to pay attention to how this would affect financial and foreign exchange markets, and to what extent it would encourage the proactive spending behavior of firms and households amid the lingering balance-sheet adjustment pressure. In this regard, one member expressed the view that growing expectations about the Federal Reserve's further easing had already contributed to improving household and business sentiment, and since the further easing had in fact been decided at the meeting, downside risks to the U.S.

economy had weakened somewhat. On the other hand, a different member was of the view that the effects of the measure taken by the FOMC were highly uncertain and growth in the U.S. economy was still likely to remain low for some time. Another member expressed the opinion that it was necessary to consider carefully the effects on economic activity of the Federal Reserve's balance-sheet expansion, in itself, through the purchases of Treasury securities. Some members expressed the view that, with regard to the aggressive monetary easing measures taken by advanced economies, one of the significant issues to keep in mind was how these measures would affect the sustainable growth of the world economy via channels such as foreign exchange rates, commodity prices, and capital flows, given the differences in the pace of recovery between advanced and emerging economies. On this point, one member said that some emerging economies were adopting foreign exchange policies of relatively inflexible exchange rates, and in this instance it was important to bear in mind that capital inflows would directly increase inflationary pressure at home.

A few members expressed the view that economic activity in the euro area as a whole was recovering moderately, with some differences in growth by country. Regarding the Chinese economy, one member said that, although the rate of growth in fixed asset investment was decelerating, growth in domestic demand as a whole had been firm, led mainly by consumption. A different member noted that, judging from the rise in China's Purchasing Managers' Index (PMI) for manufacturing activity, growth in production was likely to accelerate again. In this regard, another member commented that attention should be paid to the fact that concern over inflation had increased amid the continued steady growth in the economy. Some members expressed the view that, in the meantime, economic conditions in the NIEs and the ASEAN countries had continued to be on a recovery trend as a whole, as domestic demand had been firm, although growth in exports and production had slowed.

Based on the above deliberations on economic and financial conditions abroad, members discussed the state of Japan's economy. They concurred that, although the economy still showed signs of a moderate recovery, the recovery seemed to be pausing, as evidenced by the fact that exports and production had been more or less flat. As for the economic outlook, members shared the view that Japan's economy was likely to grow at a slower pace for some time, but was likely to return to a moderate recovery path thereafter.

Many members referred to the following as factors behind this outlook: (1) the growth rate of the global economy was likely to start increasing again led by emerging and commodity-exporting economies; and (2) following the sharp increase seen previously, the effects of a decline in demand for some goods, particularly durable consumer goods, were likely to become less pronounced. In this regard, one member expressed the view that the growth rate in GDP was likely to be slightly negative in the October-December quarter compared with the previous quarter, but Japan's economy was likely to return to a growth path thereafter. Members were of the view that the aforementioned outlook was in line with the Bank's baseline scenario presented in the October 2010 *Outlook for Economic Activity and Prices*.

As for risks to the outlook for Japan's economic activity and prices, members agreed that there was a possibility of faster-than-expected growth in emerging and commodity-exporting economies, while on the other hand downside risks remained significant in advanced economies burdened with balance-sheet adjustments. Many members said that careful attention should continue to be paid to the possibility that the appreciation of the yen might exert downward pressure on Japan's economy by negatively affecting business and household sentiment, in addition to depressing growth in exports and corporate profits. In this regard, one member noted that prospects for corporate profits in the second half of fiscal 2010 were severe, particularly for exporters, reflecting the appreciation of the yen. A few members expressed the opinion that careful attention should be paid to the economy's vulnerability to downside risks, particularly when the pace of economic improvement remained slow.

Turning to developments in each demand component, members agreed that exports had been flat, mainly due to the slowdown in overseas economies and to inventory adjustments in some IT-related goods. They shared the view that exports, after remaining more or less flat for the time being, were likely to pick up as the growth rates in overseas economies increased again. Meanwhile, members shared the view that business fixed investment continued to show signs of picking up.

Members shared the view that the employment and income situation had remained severe, but the degree of severity had eased somewhat. In this situation, with regard to private consumption, they concurred that sales of cars had recently been decreasing substantially, mainly due to the ending of the last-minute rise in demand upon the expiration of subsidies for purchasers of environmentally friendly cars. One member commented that the number of new passenger-car registrations should be regarded as even weaker in reality than the actual figures. As a reason for this, the member cited the fact that although the number had decreased substantially in October, it had been partly pumped up due to order backlogs before the expiration of subsidies for purchasers of environmentally friendly cars. Members shared the view, however, that private consumption was likely to pick up again, as the effects of the decline in demand following the sharp increase seen previously, although remaining for the time being, became less pronounced. In this regard, a few members' baseline scenario was that private consumption would pick up in accordance with a moderate improvement in the employment situation, even though it was becoming difficult to assess the actual trend of private consumption due to the sharp increase in demand and its subsequent decline.

Members agreed that <u>production</u> had recently lost its momentum, partly because exports had been flat, and because domestic car sales, in light of the expiration of subsidies for purchasers of environmentally friendly cars, had decreased following the sharp increase. They shared the view that production was likely to remain somewhat weak in the October-December quarter, mainly due to the fact that the effects of the decline in car sales following the sharp increase were likely to persist. They agreed that such developments were broadly in line with the Bank's baseline scenario. Some members, however, expressed the opinion that downside risks remained significant for the time being given the high uncertainty about the possible consequences of inventory adjustments in IT-related goods and about the effects of the ending of the last-minute rise in demand.

Members concurred that <u>the CPI (excluding fresh food)</u> was declining on a year-on-year basis due to the substantial slack in the economy as a whole, but the pace had been slowing and this trend was likely to continue. As a risk factor for the outlook for prices, one member said that, if downside risks to Japan's economy increased, the possibility that weaker-than-expected economic activity would affect price developments required vigilance. Some members raised the possibility of the appreciation of the yen exerting downward pressure on prices as a risk factor unique to price developments. Some members, however, pointed to the possibility that the effects of the rise in international commodity prices might spill over to domestic prices. Many members noted that the preliminary estimates of the year-on-year rate of decline in the CPI for October for Tokyo's

23 wards had moderated significantly. These members continued that such developments were largely attributed to the increase in the tobacco tax, but pointed to the need to closely monitor future price developments on a national level, taking into account the improvement observed across the wider range of other items.

B. Financial Developments

Members shared the view that financial conditions had continued to show signs of easing.

One member said that, with the spread of the effects of the Bank's monetary easing policy measures taken so far, interest rates on term instruments had been declining moderately and continued improvements had been confirmed in banks' lending attitudes, as perceived by small firms and firms in some industries, and in such firms' financial positions. Some members expressed the view that market developments had become stable, partly due to the fact that the further easing decided at the FOMC meeting had been largely in line with market expectations.

III. Staff Reports on the Establishment of "Principal Terms and Conditions for Purchases of ETFs and J-REITs Conducted through the Asset Purchase Program"

The Bank decided at the Monetary Policy Meeting on October 28 that the Policy Board would discuss and decide at this meeting the principal terms and conditions for purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) among the assets to be purchased through the Asset Purchase Program (hereafter the Program), with a view to promptly starting their purchases. As a result of further examination of these purchases in the intermeeting period, the staff reported that, to conduct these purchases, details for implementation guidelines should be decided as follows.

(1) As for ETFs to be purchased, their prices should track a widely used, typical stock market index -- the Tokyo Stock Price Index (TOPIX) or the Nikkei 225 Stock Average -- in consideration of the effects on the entire stock market.

(2) J-REITs to be purchased should be rated AA or higher, in view of the need to assess the adequacy of their structures and the overall creditworthiness of various underlying assets. However, even if they met such a credit rating standard, the Bank should

exclude J-REITs for which there were particular obstacles to eligibility. J-REITs must meet some criteria of market liquidity as a provision for prospective sale by the Bank.

(3) With regard to the method of purchases, the Bank would purchase ETFs and J-REITs as trust property through a trust bank that the Bank appointed as trustee. To encourage declines in various risk premiums as efficiently as possible, purchases of ETFs and J-REITs should be conducted by the trustee pursuant to standards prescribed by the Bank, taking into account the conditions in the market.

(4) In order to ensure the smooth purchase of a large amount of ETFs and J-REITs in view of the market conditions, the purchasing price for each ETF or J-REIT should be, in principle, the volume-weighted average price at the relevant financial instruments exchanges or the price at which the trustee carried out the transaction at the relevant financial instruments exchanges by targeting the volume-weighted average price.

(5) The maximum outstanding amount of each ETF to be purchased should be set so that the Bank's purchases would be roughly proportionate to the total market value of that ETF issued. That of each J-REIT to be purchased should be set so that the Bank's purchases would be roughly proportionate to the total market value of that J-REIT issued, and should not exceed 5 percent of the total amount of that J-REIT issued.

(6) Disposals of ETFs and J-REITs purchased by the Bank should be conducted on an exceptional basis in case, for example, a fractional portion of an ETF or a J-REIT occurred, even during the period of increasing the Bank's holdings of such assets or retaining them at the maximum amounts. In a case where the Bank would be disposing of ETFs or J-REITs based on other grounds, it should establish basic principles to avoid, as much as possible, incurring losses or inducing any destabilization of financial markets. Such disposals should be conducted by the trustee, within the scope of these principles.

(7) Trustee should be decided through a competitive auction.

On the basis of these clarifications, the staff proposed that the Bank take steps such as the establishment of "Principal Terms and Conditions for Purchases of ETFs and J-REITs Conducted through the Asset Purchase Program."

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

Regarding <u>the guideline for money market operations for the intermeeting period</u>

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 to 0.1 percent.

Members discussed asset purchases through the Asset Purchase Program. They concurred that it was important for the Bank to swiftly complete necessary operational procedures and start purchases of assets for which necessary arrangements were completed as promptly as possible. In this regard, some members expressed the view that the prompt implementation of asset purchases through the Program and clearer explanation of the Bank's stance of pursuing monetary easing would reinforce the message that it would take policy actions in a timely and appropriate manner, and this would lead to stabilization of market sentiment. Based on this discussion, members requested that the staff provide an explanation regarding the earliest possible time to commence purchases of each financial asset, in view of the progress in preparing necessary operational procedures.

In response, the staff provided the following explanation.

(1) Necessary operational procedures for purchases of Japanese government bonds and T-Bills had been completed, and the purchases could be started from the beginning of next week at the earliest.

(2) As for purchases of CP and corporate bonds, eligible counterparties were currently being selected and necessary operational procedures were being taken with a view to starting the purchases from early December.

(3) Regarding purchases of ETFs and J-REITs, provided that the principal terms and conditions were decided at this meeting, necessary arrangements such as the selection of a trustee should be swiftly completed so that the purchases could be started from around mid-December.

Following the staff's explanation, members agreed that it would be appropriate to start asset purchases first with Japanese government securities -- whose purchases could be started promptly -- followed by the purchases of other assets, and that it would be preferable to make this point public in advance.

Members concurred that the results of the staff's further examination of the purchases of ETFs and J-REITs were adequate, and that it would be appropriate to decide the principal terms and conditions at this meeting. Regarding the method of purchasing ETFs and J-REITs, many members commented that, in view of the Program's aim of encouraging declines in various risk premiums, it would be desirable to purchase them flexibly by taking into account the conditions in the market, and the staff's report was appropriate in this regard. On this point, one member said that the key element of this measure was not the amount of the purchases but the risk-taking characteristics of the Program; namely, that the Bank, as the central bank, would boldly step in to encourage declines in various risk premiums and therefore should select an optimal purchase method to achieve its goal. Some members expressed the view that, since the Bank would adopt a flexible method of purchase, this should allow it to avoid creating a significant source of disturbance in financial markets. Some members were of the opinion that, since it would be the first time for the Bank to actively purchase these risk assets as part of its conduct of monetary policy, the Bank should take account of market participants' opinions and review the guidelines for the operation of its asset purchases in a flexible manner, as necessary. One member pointed to the possibility that the market size and the conditions in transactions might change following commencement of the Bank's asset purchases, and therefore future developments in the market should be monitored closely. Members shared the view that the Bank should be fully aware of the possibility that purchases of risk assets might have a significant adverse impact on its financial soundness, and therefore the Bank needed to seek the government's understanding of its specific actions regarding purchases of risk assets.

Some members referred to the fund-provisioning measure to support strengthening the foundations for economic growth. A few members expressed the view that the measure was gradually producing positive effects as a catalyst, as anticipated, in that financial institutions were taking a more proactive stance toward strengthening the foundations for economic growth. One member was of the opinion that, with a view to overcoming deflation, it was vital to resolve the fundamental problem of a long-term downtrend in the growth potential of Japan's economy, and the Bank needed to further encourage financial institutions to make increased efforts in line with the measure's aim of resolving this problem.

As for the future conduct of monetary policy, members concurred that, with a view to overcoming deflation and returning Japan's economy to a sustainable growth path with price stability, the Bank should continue to consistently make contributions as the central bank, under the three-pronged approach of pursuing powerful monetary easing through comprehensive monetary easing, ensuring financial market stability, and providing support in strengthening the foundations for economic growth. They also shared the view that the Bank would continue to carefully examine the outlook for economic activity and prices, and take policy actions in an appropriate manner as the central bank.

V. Remarks by Government Representatives

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

(1) The Ministry had promptly authorized the purchases of ETFs and J-REITs, following the Bank's decision at the previous Monetary Policy Meeting. It welcomed the Bank's proposal made at this meeting of the principal terms and conditions for purchases of these assets as a swift response. The government fully recognized that it was important to ensure the Bank's financial soundness as the Bank purchased risk assets.

(2) The economic movements in Japan appeared to be pausing recently. The government considered it necessary to pay attention to the downside risks to the economy, such as a possible slowdown in overseas economies as well as fluctuations in foreign exchange rates and stock prices. In view of the current severe economic conditions, particularly the ongoing appreciation of the yen, the government -- based on the "Three-Step Economic Measures for the Realization of the New Growth Strategy" (hereafter "Three-Step Economic Measures") -- took the first step of making urgent responses to the current situation and decided the economic measures included in the second step. In order to carry out the measures, the government submitted the supplementary budget for fiscal 2010 to the Diet on October 29. The government would do its utmost to promptly obtain the Diet's approval of the supplementary budget.

(3) The government expected the Bank to not only start purchasing assets promptly but also take decisive action without delay in order to respond to any changes that might occur in the economic and financial conditions.

The representative from the Cabinet Office made the following remarks.

(1) The government greatly welcomed that the Bank and the government generally shared the same view on current economic conditions. With downside risks to the economy persisting, the government recognized that it was necessary for both entities to work together based on such a view of the economy.

(2) Based on the "Three-Step Economic Measures," the government submitted the supplementary budget for fiscal 2010 to the Diet and was preparing to implement the second step, namely the "Comprehensive Emergency Economic Measures in Response to the Yen's Appreciation and Deflation." In view of the fact that the Bank was working toward the start of asset purchases, the government acknowledged that it shared a common view with the Bank that it was important to make efforts in a swift manner.

(3) The government expected the Bank to continue to sufficiently exchange views and work together with the government. In addition to providing support in strengthening the foundations for economic growth, with which the Bank had been proceeding, the government expected the Bank to promptly start purchasing assets and noted that it would continue to make efforts in parallel with the Bank, in order to overcome deflation swiftly.

VI. Votes

A. Vote on the Guideline for Money Market Operations

Based on the above discussions, members shared the view 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 to 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 to 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, Mr. R. Miyao, and Mr. Y. Morimoto.

Votes against the proposal: None.

B. Vote on the Establishment of "Principal Terms and Conditions for Purchases of ETFs and J-REITs Conducted through the Asset Purchase Program"

Members voted unanimously to approve the staff proposal regarding the establishment and agreed that the decision should be made public.

VII. Discussion on the Statement on Monetary Policy

Members discussed the Statement on Monetary Policy -- which included the outline of purchases of ETFs and J-REITs and stated that the Bank would purchase assets through the Program sequentially, starting with Japanese government bonds at the beginning of next week -- 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).

Attachment 1

November 5, 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 on the following with regard to the guideline for money market operations and purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs).

(1) Guideline for Money Market Operations

The Policy Board decided, by a unanimous vote,[7] 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) Purchases of ETFs and J-REITs

The Bank decided the principal terms and conditions governing operational details of purchases of ETFs and J-REITs, such as the specifics of those to be purchased and the method of purchase in which the Bank appoints a trust bank as trustee (see Attachment 2).

2. Japan's economy still shows signs of a moderate recovery, but the recovery seems to be pausing. Exports and production have recently been more or less flat. Business fixed investment is showing signs of picking up. The employment and income situation has remained severe, but the degree of severity has eased somewhat. As for private consumption, there has been a decline in durable consumer goods following the

[7] 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.

sharp increase in demand. Meanwhile, financial conditions have continued to show signs of easing. The CPI (excluding fresh food) are declining on a year-on-year basis due to the substantial slack in the economy as a whole, but the slowing trend in the pace of decline has continued.

3. The Bank's baseline scenario projects that Japan's economy is likely to grow at a slower pace for some time, but is expected to return to a moderate recovery path thereafter as the growth rate of the global economy is likely to start increasing again led by emerging and commodity-exporting economies. As for prices, the year-on-year rate of decline in the CPI is expected to continue slowing.

4. In the area of economic activity, there are some upside risks such as faster growth in emerging and commodity-exporting economies. However, amid continued heightened uncertainty about the future, especially for the U.S. economy, attention should also be paid to downside risks to Japan's economy. Regarding the outlook for prices, there is a possibility that inflation will rise more than expected due to an increase in commodity prices brought about by high growth rates in emerging and commodity-exporting economies, while there is also a risk that the rate of inflation will deviate downward from the baseline due, for example, to a decline in medium- to long-term inflation expectations.

5. Today's decision has established the framework for the Asset Purchase Program in total amount of 35 trillion yen that includes the purchases of risk assets. The Bank will purchase assets through the Program sequentially, starting with Japanese government bonds at the beginning of next week and followed by the purchases of other assets, so that the effects of comprehensive monetary easing will quickly spread.

6. 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 by the three-pronged approach of pursuing powerful monetary easing through comprehensive monetary easing, ensuring financial market stability, and providing support in strengthening the foundations for economic growth. The Bank will continue to carefully examine the outlook for economic activity and prices, and take policy actions in an appropriate manner.

Attachment 2

Outline of Purchases of ETFs and J-REITs

1. ETFs and J-REITs to Be Purchased

(1) ETFs whose prices track the Tokyo Stock Price Index (TOPIX) or the Nikkei 225 Stock Average.

(2) J-REITs that are rated AA or higher and for which there are no concerns regarding their creditworthiness.

(3) In addition, purchase and sale of J-REITs shall have been transacted on a financial instruments exchange 200 days or more per annum, with a total trading value of 20 billion yen or more per annum.

2. Method

(1) The Bank will purchase ETFs and J-REITs as trust property through a trust bank that the Bank appoints as trustee.

(2) Purchases of ETFs and J-REITs shall, taking into account the conditions in the market, be conducted by the trustee pursuant to a standard prescribed by the Bank.

3. Purchasing Price

In principle, the purchasing price for each ETF or J-REIT shall be the volume-weighted average price at a financial instruments exchange.

4. Maximum Outstanding Amount of Each ETF and J-REIT to Be Purchased

(1) The maximum amount of each ETF to be purchased shall be set so that the Bank's purchase would roughly be proportionate to the total market value of that ETF issued.

(2) The maximum amount of each J-REIT to be purchased shall not exceed 5 percent of the total amount of that J-REIT issued, and shall be set so that the Bank's purchase would roughly be proportionate to the total market value of that J-REIT issued.

5. Exercise of J-REIT Voting Rights

The Bank shall establish basic principles regarding the exercise of J-REIT voting rights to maximize the benefit of equity holders. Within the scope of such basic principles, the trustee shall exercise such voting rights.

6. Disposal of Purchased ETFs and J-REITs

(1) ETFs and J-REITs purchased by the Bank shall be promptly disposed in cases such as the following.

a. In case the total amount of a J-REIT purchased exceeds 5 percent of the total amount of that J-REIT issued.

b. In case an ETF or a J-REIT is assigned to the supervision post or the liquidation post pursuant to the relevant rules of the financial instruments exchange.

c. In case the Bank accepts tender offers.

(2) In case the Bank is disposing ETFs or J-REITs based on grounds other than provided in (1), the Bank shall establish basic principles to avoid, as much as possible, incurring losses and inducing destabilizing effects on the financial markets. Within the scope of such basic principles, a trustee shall conduct the disposal.

7. Loss Reserve Policy

Provisions for possible losses on ETFs and J-REITs, respectively, shall be the difference between the total market value and the total book value.

8. Others

The Bank will create a system that allows for the control of information related to the purchases of the assets.