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January 28, 2011

Bank of Japan

Minutes of the Monetary Policy Meeting

on December 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 Monday, December 20, 2010, from 2:00 p.m. to 4:50 p.m., and on Tuesday, December 21, from 9:00 a.m. to 12:50 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

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. H. Inoue, Deputy Director-General, Economic and Fiscal Management, Cabinet Office

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 January 24 and 25, 2011 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. M. Sakurai was present on December 21.

[3] Mr. Y. Kinoshita was present on December 20.

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. S. Ohyama, Senior Economist, Monetary Affairs Department

Mr. H. Ichiue, Senior Economist, Monetary Affairs Department

[4] Messrs. T. Umemori and H. Chida were present on December 21 from 9:00 a.m. to 9:13 a.m.

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 November 4 and 5, 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 been slightly below the 0.1 percent level.

B. Recent Developments in Financial Markets

Money market rates had generally been at low levels while those with relatively longer terms had risen somewhat. General collateral (GC) repo rates had recently been at around 0.1 percent, following a slight temporary rise. As for interest rates on term instruments, yields on treasury discount bills (T-Bills), including those with a one-year maturity, had risen somewhat while remaining in the range of 0.1-0.2 percent. Longer-term interbank rates had been more or less unchanged.

Long-term interest rates in Japan had increased somewhat sharply, mainly due to the rise in U.S. long-term interest rates and subsequent position adjustments made by investors; the benchmark rate had recently been in the range of 1.1-1.2 percent. Yield spreads between corporate bonds and Japanese government bonds (JGBs) had been narrowing, particularly those on corporate bonds with a relatively shorter remaining maturity eligible to be purchased by the Bank. Stock prices had risen, partly reflecting the pause in the appreciating trend of the yen, and the Nikkei 225 Stock Average had been in the range of 10,000-10,500 yen.

In the foreign exchange market, the U.S. dollar had been bought back, mainly because market expectations of further monetary easing had receded in the United States. The yen's appreciating trend against the U.S. dollar had come to a halt, and the yen had recently been in the range of 83-84 yen.

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[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.

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 moderate pace. Exports were continuing to increase and business fixed investment was rising moderately. Private consumption had continued to increase, but the pace of recovery remained moderate in a situation where the employment situation had not improved noticeably, as seen in the high unemployment rate, for example. 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 unlikely to accelerate 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 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 pace 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 effects of the earlier depreciation of the euro and of the rise in international commodity prices, 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. Growth in private consumption had been firm due mainly to households' higher income levels, and fixed asset investment had continued to show high growth. Exports were on a rising trend, and the pace of increase in production was accelerating again. The Indian economy had also continued to grow at a relatively rapid pace. Meanwhile, 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. In many of these Asian economies, upward pressure on prices had been increasing gradually due to higher food and materials prices and greater utilization of production factors.

As for global financial markets, U.S. and European stock prices fell temporarily, partly due to the resurgence of the sovereign risk problem in Europe, but rebounded mainly in reflection of improvement in the outlook for the U.S. economy. Amid such improvement, long-term interest rates in the United States and Europe rose substantially following the waning of market expectations of further monetary easing and introduction of additional fiscal stimulus measures in the United States. Meanwhile, financial developments in some peripheral European countries had been volatile, as evidenced by the yield spreads of government bonds issued by some countries over those issued by Germany; specifically, the yield spreads remained at a high level in such countries as Ireland and Portugal.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had been more or less flat. They were likely to remain so 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, corporate profits had continued to grow, albeit at a slower pace, and in this situation business fixed investment had started to pick up. Signs of picking up in business fixed investment 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. In this situation, with regard to private consumption, demand for some goods had suffered a reverse after the sharp increase seen previously. Private consumption was expected to pick up again as the reverse following the sharp increase 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 declined slightly and business sentiment had also been somewhat weak, particularly in the manufacturing sector. It was expected to increase after showing temporary weakness, primarily in durable consumer goods.

As for prices, international commodity prices had increased. The three-month rate of change in the domestic corporate goods price index (CGPI) was rising moderately, mainly due to the increase in international commodity prices. The CGPI was expected to remain on a moderate uptrend for the time being, reflecting movements in international commodity prices. 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 shown further signs of easing, as seen in the declining trend in firms' funding costs and the improvement in lending attitudes of financial institutions. 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 further 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. On the other hand, the outstanding amount of corporate bonds had exceeded the previous year's level, and the pace of decline in that of CP had decelerated. In these circumstances, firms' financial positions had been improving as a whole. Meanwhile, the year-on-year rate of increase in the money stock had been at around 2.5 percent.

II. Extension of the Effective Period of the U.S. Dollar Funds-Supplying Operation against Pooled Collateral

A. Staff Proposal

The Federal Reserve Bank of New York proposed to extend its temporary U.S. dollar liquidity swap arrangements with several central banks including the Bank through

August 1, 2011 and announce the extension at 9:00 a.m. New York time (11:00 p.m. JST) on December 21, 2010. Although there were no particular concerns about Japanese financial institutions' funding in foreign currencies, the staff proposed that the Bank, with the aim of facilitating money market operations and maintaining the smooth functioning of the money market as well as ensuring stability in financial markets, extend the effective period as proposed, as part of the coordinated central bank actions, and take necessary steps such as making amendments to principal terms and conditions relating to the U.S. dollar funds-supplying operation against pooled collateral.

B. Discussion by the Policy Board and Vote

Members voted unanimously to approve the staff proposal, and agreed that the decision should be announced at 9:00 a.m. New York time (11:00 p.m. JST) on December 21 together with the other central banks, in line with the proposal from the Federal Reserve Bank of New York. With regard to the amendments to, for example, principal terms and conditions, they concurred that accordingly the staff should make these public.

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

A. Economic Developments

Members discussed the economic and financial conditions abroad, 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 shared the view that the U.S. economy had continued to recover at a moderate pace. Many members were of the view that the economy was moving out of its deceleration phase and returning to a moderate recovery path, given that most economic indicators released since November had been better than market expectations. Many members said that private consumption had been firm, as suggested by the good start in Christmas sales and continued improvement in consumer sentiment. However, many members said that the pace of recovery in private consumption had remained moderate in a situation where the employment and income situation had not improved noticeably. Meanwhile, many members pointed to the following as factors behind the significant rise in

U.S. long-term interest rates: (1) market participants had revised their pessimistic views about the outlook for the U.S. economy following the release of positive economic indicators; (2) market expectations of further monetary easing had waned; and (3) additional fiscal stimulus measures had been agreed upon. In terms of the outlook, members concurred that the recovery trend would continue on the back of relatively high growth in emerging economies and the accommodative financial environment. Nevertheless, many members were of the view that the pace of recovery in domestic private demand was likely to remain moderate, in a situation where households faced balance-sheet adjustments and the employment and income situation remained severe, and with regard to risks, economic activity still looked unlikely to accelerate and remained vulnerable to the downside. Some members commented on the possibility that downside risks had subsided somewhat due mainly to the fact that additional stimulus measures, both from the monetary and fiscal side, had been implemented and stock prices had been firm. Meanwhile, a few members said that careful attention should be paid to how the recent substantial rise in long-term interest rates would affect developments in the economy, especially in housing investment.

Members agreed that economic activity in the euro area as a whole was recovering moderately, with some differences in pace by country. Some members said that the recovery in the euro area economy was led by Germany, where growth in exports had been strong. As for the outlook, members shared the view that the euro area economy, despite noticeable differences in growth by country, would continue to recover moderately as a whole. Most members, however, expressed the opinion that expected fiscal austerity and possible continuation of instability in financial markets, such as long-term interest rates remaining at a high level amid lurking sovereign risks in some peripheral countries, could weigh on economic recovery for a protracted period.

Members shared the view that the Chinese economy had continued to show relatively high growth. Most members said that various economic indicators released since November had been strong and the pace of economic growth had increased somewhat. A few members expressed concern that, amid the monetary easing adopted among advanced economies, capital was flowing into China, and that not only real estate but also agricultural products were the target of speculation. As for the outlook, members agreed that, although monetary tightening measures had begun to be implemented amid the rise in consumer prices, the economy was likely to continue to grow at a relatively high rate in a situation where the circle of growth in production, income, and spending operated. Many members expressed the view that, while expecting that the shift in the monetary policy stance would allow for adjustments toward a more sustainable pace of economic growth, the economy could grow even faster to subsequently face some significant adjustments barring interest rate rises or the implementation of a more flexible foreign exchange regime.

Some members said that economic conditions in the NIEs and the ASEAN countries, despite the 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. One member said that the economies in Central and South America had grown at a relatively high rate, reflecting a self-sustaining expansion in domestic demand in addition to the increase in global demand for natural resources.

Members agreed that, although investors' risk tolerance had declined temporarily reflecting the resurgence of the sovereign risk problem in Europe, global financial markets were in a lull mainly due to responses taken by authorities. One member, pointing to the significant swings in market sentiment about the U.S. economy -- from the optimistic views observed in spring 2010 to pessimistic ones in summer 2010, and back again to optimism recently -- noted that in this kind of situation it would become difficult for a central bank to communicate to market participants its thinking concerning the conduct of monetary policy. With regard to financial markets in Europe, most members expressed anxiety that the sovereign risk problem in some peripheral countries would remain a potential concern for the time being as it was deep-rooted, and this made it difficult to launch persuasive measures in the short term.

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 significant differences in the pace of recovery between advanced and emerging economies. On this point, one member said that some emerging economies were adopting relatively inflexible foreign exchange rate policies, and in this instance it was important to bear in mind that capital inflows would directly result in economic expansion at home. A different member noted that international commodity prices had remained at a high level overall, due to speculative activities stemming from expectations of monetary easing in advanced economies together with the ongoing high growth in emerging economies. This member continued that future developments in international commodity prices therefore warranted careful attention.

Based on the above deliberations on economic and financial conditions abroad, members discussed the state of Japan's economy. They concurred that the economy still showed signs of a moderate recovery, but the recovery seemed to be pausing. In relation to this, some members said that, although the diffusion index of business conditions among firms in the *Tankan* (Short-Term Economic Survey of Enterprises in Japan) had declined in December 2010 for the first time in seven quarters, it had not declined as substantially as had been forecasted in the September *Tankan* and the decline had only been moderate. As factors behind this, one member pointed to the pause in the ongoing appreciation of the yen in the foreign exchange market and favorable corporate profits in the first half of fiscal 2010. 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 return to a moderate recovery path thereafter. Many members referred to the following as factors behind this outlook: (1) exports were likely to increase moderately again as the growth rate of the global economy started to increase once more; and (2) private consumption was likely to pick up again as the effects of the reverse following the sharp increase in demand seen previously became less pronounced. However, many members noted that the forecast in the December *Tankan* suggested that business conditions, especially in manufacturing industries, were likely to continue deteriorating, and thus expressed concern that the decline in demand following the sharp increase was considerable, and that uncertainty regarding the global economy and foreign exchange market had not yet subsided.

As for risks to the outlook for Japan's economic activity and prices, members concurred that faster growth in emerging and commodity-exporting economies continued to be an upside risk. Members shared the view that there was a possibility that emerging economies would grow faster than expected in the short term because, although these economies had been conducting tighter policies such as adjustments to accommodative monetary policy, the circle of growth in production, income, and spending was operating and capital continued to flow from advanced economies into these economies. They agreed that downside risks remained significant in advanced economies burdened with balance-sheet adjustments. A few members, however, said that concern about a possible slowdown had subsided in the United States after the release of favorable economic indicators and the introduction of additional fiscal stimulus measures, but there was an increasing risk in Europe that the persistent high level of long-term interest rates, brought about by the resurgence of the sovereign risk problem, and fiscal austerity might act as drags on the economy. Meanwhile, one member cited the possibility of prolonged inventory adjustments in IT-related goods on a global basis as a downside risk. A different member expressed concern that a rise in international commodity prices would bring about a worsening of Japan's terms of trade. Another member said that, given that market sentiment had tended to fluctuate in the United States, optimistic views about the outlook for the U.S. economy might eventually dissipate and long-term interest rates might decline, and in such a situation the yen could continue to appreciate in the foreign exchange market, thereby exerting downward pressure on Japan's economy.

Turning to developments in each demand component, members agreed that exports had been more or less flat, mainly due to inventory adjustments in some IT-related goods and the yen's appreciation to date. They shared the view that exports, after remaining more or less flat for the time being, were likely to increase moderately again as the growth rates in overseas economies, particularly emerging economies, started to increase once more. One member, however, said that there was considerable uncertainty regarding the timing of when exports would start to pick up, since this depended partly on the effects of the yen's appreciation to date and the extent of the progress in inventory adjustments in IT-related goods.

Members shared the view that business fixed investment had started to pick up. One member pointed out that, according to the December *Tankan*, business fixed investment plans for fiscal 2010 had been following the usual revision pattern, and that machinery orders -- a leading indicator of business fixed investment -- seemed to have hit bottom. Many members expressed the view that signs of picking up in business fixed investment were likely to gradually become more evident as the improvement in corporate profits continued, but the pace of improvement in business fixed investment was likely to remain moderate with firms' persistent sense of excessive capital stock. One member mentioned that some firms had said that they were maintaining their cautious stance on business fixed investment since a future increase in demand was not yet in prospect --

despite their funding conditions, over which there were no particular concerns.

Members agreed that the employment and income situation had remained severe, but the degree of severity had eased somewhat. In relation to the recent difficult job market conditions, one member expressed concern that a lack of job opportunities for the younger generation would lead to a decline in its future productivity, thereby pushing down the potential growth rate of Japan's economy. In this situation, with regard to private consumption, members shared the view that, while sales of electrical appliances had increased due to the sharp rise in demand ahead of revisions to the eco-point system, sales of passenger cars had been decreasing substantially due to the reverse following the last-minute rise in demand upon the expiration of subsidies for purchasers of environmentally friendly cars. They shared the view that private consumption was likely to pick up again as the reverse following the sharp increase in demand became less pronounced. A few members, however, expressed concern that the outlook for private consumption remained highly uncertain. One member said that housing investment had leveled out, supported by tax measures that effectively promoted housing purchases, but it was still likely to take more time before improvement became evident, mainly because the employment and income situation was likely to remain severe.

Members agreed that production had recently declined slightly, partly because domestic car sales, in light of the expiration of subsidies for purchasers of environmentally friendly cars, had decreased following the sharp increase, in a situation where exports had been flat. They shared the view that production was likely to increase, as inventory adjustments in IT-related goods were making progress and the effects of the reverse following the last-minute rise in demand would dissipate, after showing temporary weakness primarily in durable consumer goods. A few members said that the outlook for production depended largely on the degree of the decrease in sales of durable consumer goods following the sharp increase and the pace of inventory adjustments in IT-related goods at home and abroad. They continued that developments in these areas therefore warranted careful monitoring.

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 slowing trend in the pace of decline had continued and was likely to be maintained. One member said that, in the October CPI data, the figure representing the difference between the number of items for which prices had declined and of items for which prices had risen was smaller than that of the previous month, and this suggested that the spread of price declines to a wider range of goods and services had come to a halt. Many members raised the possibility that the effects of the rise in international commodity prices would spill over to consumer prices as a risk factor for the outlook for prices. On the other hand, members shared the view 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 said that the time was approaching for the Bank to consider possible outcomes of the revision of the base year for the CPI, which was expected to take place in summer 2011, when examining developments in prices.

B. Financial Developments

Members shared the view that financial conditions had shown further signs of easing, as seen in the declining trend in firms' funding costs and the further improvement in lending attitudes of financial institutions as perceived by firms.

As for the money market, a few members said that interest rates on term instruments had generally been at low levels, although some of these rates had increased somewhat with the rise in long-term interest rates. One member commented that such a rise in some of these rates -- despite the clarification of the policy time horizon as part of the Bank's comprehensive monetary easing -- might suggest that the arbitrage function of the money market had begun to be impaired.

Regarding the environment for corporate finance, members agreed that the monetary easing effects had been spreading, as evidenced by the following factors: (1) bank lending rates were on a downtrend; (2) issuing conditions for CP and corporate bonds had been favorable; and (3) the December *Tankan* confirmed that firms saw financial institutions' lending attitudes as further improving and that firms' financial positions had been improving. In addition to these positive changes, one member noted that the stimulative effects from low interest rates were becoming less constrained given current developments in economic activity and prices, and the cumulative effects of monetary easing had been increasing.

Members shared the view that the rise in Japanese long-term interest rates was partly induced by the rise in U.S. long-term interest rates amid the globalization of financial markets. Most members cited, along with such movement, the position adjustments made by financial institutions as an additional factor behind the rise in Japanese long-term interest rates. In relation to this, some members expressed the view that these rates were likely to regain stability if the temporary effect stemming from financial institutions' position adjustments abated. Furthermore, some members commented that long-term interest rates were at around the level observed in spring 2010, and the recent rise could be partly interpreted as an adjustment for the significant decline observed in summer 2010. However, many members expressed the opinion that future developments in and effects of long-term interest rates needed to be examined carefully, since fluctuations in these rates would have an impact particularly on funding costs of firms and households and financial institutions' profits, thereby affecting economic activity and prices as well as financial conditions.

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 to 0.1 percent.

As for the future conduct of monetary policy, members confirmed that the Bank would steadily purchase various financial assets and provide longer-term funds through the 35 trillion yen Asset Purchase Program (hereafter the Program), so that the effects of comprehensive monetary easing would spread. They concurred that, in order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, it was necessary that the Bank continue to consistently make contributions as the central bank through the three-pronged approach of pursuing powerful monetary easing consisting of comprehensive monetary easing, ensuring financial market stability, and providing support to strengthen the foundations for economic growth. They also agreed 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.

Next, members discussed the effects of the Bank's comprehensive monetary easing. As for the effects of encouraging a decline in longer-term interest rates, most members shared the view that purchases of various financial assets and provision of longer-term funds through the Program had been exerting downward pressure on such rates, as evidenced by the decline in interest rates following the introduction of the Program. Many members, however, commented that the effects of encouraging such a decline were difficult to see at present, partly because Japanese long-term interest rates had risen following the rise in overseas long-term interest rates. In relation to this point, some members said that it was important to clearly reaffirm that the clarification of the policy time horizon as part of the Bank's comprehensive monetary easing had the effect of stabilizing short-term market rates at low levels. As for the effects of encouraging a decline in risk premiums, members shared the view that, considering that credit spreads had narrowed on corporate bonds -- especially those with low ratings -- and prices had increased for Japan real estate investment trusts (J-REITs) -- including those not subject to the Bank's purchases through the Program -- the Bank's comprehensive monetary easing had been effective in encouraging investors to take an active stance and in enhancing the financial intermediary function. Moreover, many members expressed the view that corporate financing conditions were also improving steadily as seen in an increased variety of corporate bond issuers, and the Bank's comprehensive monetary easing had been effective in further enhancing accommodative financial conditions overall. Meanwhile, many members commented that it was important for market participants and the public to properly understand the substance of comprehensive monetary easing in order to maximize the policy effects. These members continued that, in order to achieve this, timely and sufficient communication by the Bank was essential.

Members then discussed the fund-provisioning measure to support strengthening the foundations for economic growth. Many members said that the measure clearly was establishing itself, as (1) the total amount of loans disbursed by the Bank and the number of borrower financial institutions had more or less doubled in the second new loan disbursement conducted on December 7, 2010, compared with the first new loan disbursement; and (2) lending or investment covered broad areas for strengthening the foundations for economic growth, as in the first new loan disbursement. Members shared the view that the measure was gradually producing positive effects as a catalyst -- its intended purpose -- as (1) financial institutions were more actively making a range of efforts, taking into account the characteristics of their customer base and the regions they served; and (2) with the introduction of the measure, financial institutions were establishing new dedicated funds and lending schemes, and some of them in certain cases had set a higher ceiling on the total amount of lending or investment than the total amount of the loans that they had obtained from the Bank. One member noted that the introduction of the fund-provisioning measure served as an opportunity to generate widespread awareness of issues related, for example, to productivity and the aging of the population, which were factors behind the decline in the growth rate of Japan's economy. Some members, however, added that some negative effects of the fund-provisioning measure had been raised, in that lending competition among financial institutions had intensified. Meanwhile, a few members said that the Bank should deepen discussions regarding how the fund-provisioning measure should be managed, taking account of the measure's purpose to support voluntary efforts by financial institutions while carefully monitoring the progress made through such efforts.

V. Remarks by Government Representatives

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

(1) The economic movements in Japan appeared to be pausing recently and the situation remained difficult, as evidenced by the high unemployment rate. There was a risk that the economy might be depressed further by a possible slowdown in overseas economies as well as fluctuations in foreign exchange rates and stock prices. It should be noted that there was still a risk of deflation adversely influencing the economy and a concern about a possible deterioration of the employment situation.

(2) 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") -- had decided the economic measures included in the second step. In order for the government to carry out the measures, the Diet approved the supplementary budget for fiscal 2010 on November 26. As part of the third step, the government was doing its utmost to formulate the budget for fiscal 2011 so that the "New Growth Strategy" would be fully implemented. Together with the formulation of the budget, the government -- as stated in the "New Growth Strategy" -- considered it important to, for example, develop regulatory reforms as a means of efficiently and effectively promoting firms' research and development efforts, and to review the supporting framework.

(3) The government regarded the Bank's sequential purchases of assets through the Program as an appropriate action. The government expected that the Bank -- taking into account firms' concerns about their funding conditions toward the calendar and fiscal year-ends -- would support the economy from the financial side by continuing to conduct monetary policy in an appropriate and flexible manner while keeping close contact with the government. The government welcomed, as a swift response, the Bank's proposal made at this meeting to extend the effective period of the U.S. dollar funds-supplying operation against pooled collateral, which would form part of central banks' coordinated measures to ensure financial stability.

The representative from the Cabinet Office made the following remarks.

(1) The economic movements in Japan appeared to be pausing, as evidenced by the decrease in production against the background of weakness in exports. In addition, the economy was faced with significant risks of experiencing further deterioration from the possibility of prolonged appreciation of the yen and a slowdown in overseas economies. As for prices, deflation was in a chronic condition. The government, which placed overcoming deflation as the top-priority task in its macroeconomic policy management, as stated in the "New Growth Strategy," would work together with the Bank to launch vigorous and comprehensive policy efforts.

(2) In view of the current severe economic conditions and concerns about economic deterioration, the government -- based on the "Three-Step Economic Measures" -- had implemented the first step, financed by reserve funds, and was implementing the second step, financed by the supplementary budget for fiscal 2010. Furthermore, as part of the third step, the government would prepare the budget for fiscal 2011, which emphasized achieving economic growth and employment, and would implement a tax reform including corporate tax cuts with a view to overcoming deflation and to revitalizing the economy with a focus on employment. By making such policy efforts in a seamless manner, the government would do its utmost to help the economy overcome deflation and achieve a self-sustaining recovery.

(3) The government expected the Bank to examine the effects of the comprehensive monetary easing policy. At the same time, it expected the Bank to 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 closely with the government. It welcomed the Bank's decision as an appropriate action to extend the effective period of the U.S. dollar funds-supplying operation against pooled collateral -- with a view to ensuring stability in global financial markets -- in coordination with central banks in North America and Europe.

VI. Votes

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.

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 Meetings

The Policy Board approved unanimously the minutes of the Monetary Policy Meetings of October 28, 2010 and November 4 and 5 for release on December 27, 2010.

IX. Approval of Changes in the Scheduled Dates of the Monetary Policy Meetings in July 2010-June 2011 and of the Scheduled Dates in January-December 2011

At the end of the meeting, the Policy Board approved changes in the dates of the Monetary Policy Meetings in July 2010-June 2011 and also approved the dates of the Monetary Policy Meetings to be held in January-December 2011, for immediate release (see attachments 2 and 3).

Attachment 1

December 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,[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. Japan's economy still shows signs of a moderate recovery, but the recovery seems to be pausing. Exports have been more or less flat. Corporate profits have continued to grow, albeit at a slower pace. In this situation, business fixed investment has started to pick up. The employment and income situation has remained severe, but the degree of severity has eased somewhat. As for private consumption, demand for some goods has suffered a reverse after the sharp increase seen previously. Reflecting these developments in demand both at home and abroad, production has recently declined slightly and business sentiment has also been somewhat weak, particularly in the manufacturing sector. Meanwhile, financial conditions have shown further signs of easing, as seen in the declining trend in firms' funding costs and the improvement in lending attitudes of financial institutions. 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 slowing trend in the pace of decline has continued.

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[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.

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 outlook for the U.S. and European economies, 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 Bank's baseline scenario due, for example, to a decline in medium- to long-term inflation expectations.

5. The Bank has started its asset purchases in all the asset categories in the Asset Purchase Program. The Bank will steadily purchase various financial assets and provide longer-term funds through the 35 trillion yen Program, so that the effects of comprehensive monetary easing spread. In order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, the Bank will continue to consistently make contributions as the central bank through the three-pronged approach of pursuing powerful monetary easing consisting of comprehensive monetary easing, ensuring financial market stability, and providing support to strengthen the foundations for economic growth. The Bank will continue to carefully examine the outlook for economic activity and prices, and take policy actions in an appropriate manner.

Attachment 2

December 21, 2010

Bank of Japan

Scheduled Dates of Monetary Policy Meetings in July 2010-June 2011
Revised

Dates underlined are revised dates (those crossed out were released previously on October 28, 2010).

	Date of MPM	Publication of MPM Minutes	Publication of Outlook Report (The Bank's View)	(Reference) Publication of Monthly Report
July 2010	14 (Wed.), 15 (Thurs.)	Aug. 13 (Fri.)	--	16 (Fri.)
Aug.	9 (Mon.), 10 (Tues.)	Sep. 10 (Fri.)	--	11 (Wed.)
	30 (Mon.)	Oct. 8 (Fri.)	--	--
Sep.	6 (Mon.), 7 (Tues.)	Oct. 8 (Fri.)	--	8 (Wed.)
Oct.	4 (Mon.), 5 (Tues.)	Nov. 2 (Tues.)	--	6 (Wed.)
	28 (Thurs.)	Dec. 27 (Mon.)	28 (Thurs.)	--
Nov.	4 (Thurs.), 5 (Fri.)	Dec. 27 (Mon.)	--	8 (Mon.)
Dec.	20 (Mon.), 21 (Tues.)	Jan. 28 (Fri.)	--	22 (Wed.)
Jan. 2011	24 (Mon.), 25 (Tues.)	Feb. 18 (Fri.) ~~Feb. 22 (Tues.)~~	--	26 (Wed.)
Feb.	14 (Mon.), 15 (Tues.) ~~16 (Wed.), 17 (Thurs.)~~	Mar. 18 (Fri.)	--	16 (Wed.) ~~18 (Fri.)~~
Mar.	14 (Mon.), 15 (Tues.)	Apr. 12 (Tues.)	--	16 (Wed.)
Apr.	6 (Wed.), 7 (Thurs.)	May 9 (Mon.)	--	8 (Fri.)
	28 (Thurs.)	May 25 (Wed.)	28 (Thurs.)	--
May	19 (Thurs.), 20 (Fri.)	June 17 (Fri.)	--	23 (Mon.)
June	13 (Mon.), 14 (Tues.)	July 15 (Fri.) ~~To be announced~~	--	15 (Wed.)

Note: The time of release will be, in principle, as follows.

MPM Minutes will be released at 8:50 a.m.

Outlook for Economic Activity and Prices (Outlook Report):
"The Bank's View" in the Outlook Report will be released at 3:00 p.m., and the full text at 2:00 p.m. on the next business day. As an exception to this principle, the full text of *the April 2011 Outlook Report* will be released at 2:00 p.m. on April 29 (Fri.), 2011, which is the national holiday in Japan.

Monthly Report of Recent Economic and Financial Developments (Monthly Report):

The Japanese original and the English translation for summary will be released at 2:00 p.m. (the English translation for the full text will be published at 4:30 p.m. on the next business day).

Attachment 3

December 21, 2010

Bank of Japan

Scheduled Dates of Monetary Policy Meetings in January 2011-December 2011

	Date of MPM	Publication of MPM Minutes	Publication of Outlook Report (The Bank's View)	(Reference) Publication of Monthly Report
Jan. 2011	24 (Mon.), 25 (Tues.)	Feb. 18 (Fri.)	--	26 (Wed.)
Feb.	14 (Mon.), 15 (Tues.)	Mar. 18 (Fri.)	--	16 (Wed.)
Mar.	14 (Mon.), 15 (Tues.)	Apr. 12 (Tues.)	--	16 (Wed.)
Apr.	6 (Wed.), 7 (Thurs.)	May 9 (Mon.)	--	8 (Fri.)
	28 (Thurs.)	May 25 (Wed.)	28 (Thurs.)	--
May	19 (Thurs.), 20 (Fri.)	June 17 (Fri.)	--	23 (Mon.)
June	13 (Mon.), 14 (Tues.)	July 15 (Fri.)	--	15 (Wed.)
July	11 (Mon.), 12 (Tues.)	Aug. 10 (Wed.)	--	13 (Wed.)
Aug.	4 (Thurs.), 5 (Fri.)	Sep. 12 (Mon.)	--	8 (Mon.)
Sep.	6 (Tues.), 7 (Wed.)	Oct. 13 (Thurs.)	--	8 (Thurs.)
Oct.	6 (Thurs.), 7 (Fri.)	Nov. 1 (Tues.)	--	11 (Tues.)
	27 (Thurs.)	Nov. 21 (Mon.)	27 (Thurs.)	--
Nov.	15 (Tues.), 16 (Wed.)	Dec. 27 (Tues.)	--	17 (Thurs.)
Dec.	20 (Tues.), 21 (Wed.)	To be announced	--	22 (Thurs.)

Note: The time of release will be, in principle, as follows.

MPM Minutes will be released at 8:50 a.m.

Outlook for Economic Activity and Prices (Outlook Report):
"The Bank's View" in the Outlook Report will be released at 3:00 p.m., and the full text at 2:00 p.m. on the next business day. As an exception to this principle, the full text of *the April 2011 Outlook Report* will be released at 2:00 p.m. on April 29 (Fri.), 2011, which is the national holiday in Japan.

Monthly Report of Recent Economic and Financial Developments (Monthly Report):

The Japanese original and the English translation for summary will be released at 2:00 p.m. (the English translation for the full text will be published at 4:30 p.m. on the next business day).