Not to be released until 8:50 a.m. Japan Standard Time on Thursday, March 17, 2011.

March 17, 2011

Bank of Japan

Minutes of the Monetary Policy Meeting

on February 14 and 15, 2011

(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, February 14, 2011, from 2:00 p.m. to 4:21 p.m., and on Tuesday, February 15, from 9:01 a.m. to 12:32 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. Y. Suematsu, Senior Vice Minister for Economic and Fiscal Policy, 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

[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on March 14, 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] Messrs. M. Sakurai and Y. Suematsu were present on February 15.

[3] Messrs. Y. Kinoshita and K. Umetani were present on February 14.

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

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. A. Okuno, Senior Economist, Monetary Affairs Department

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

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

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on January 24 and 25, 2011 and in consideration of the recent formation of market rates, conducted money market operations in a flexible manner.[5] In the Bank's funds-supplying operation, undersubscription had occurred, in that bids fell short of the Bank's offers. The uncollateralized overnight call rate had generally been slightly below the 0.1 percent level.

B. Recent Developments in Financial Markets

Money market rates had been stable as a whole amid the Bank's provision of ample funds. General collateral (GC) repo rates had been at around 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 stable in the range of 0.10-0.15 percent. Longer-term interbank rates had been more or less unchanged.

Long-term interest rates, having been more or less flat after the previous meeting, had risen somewhat amid steady stock prices; most recently, the benchmark rate had been at around 1.3 percent. Meanwhile, effects from the downgrading of Japanese government bonds (JGBs) by a credit rating agency had been marginal. Yield spreads between corporate bonds and JGBs had been at low levels and appeared to have narrowed somewhat. Stock prices had dropped on the back of political unrest in Egypt, but subsequently turned upward against the background of a rebound in U.S. stock prices reflecting improvements in economic indicators, and the Nikkei 225 Stock Average had been at around 10,500 yen. In the foreign exchange market, although the yen depreciated temporarily against the U.S. dollar after the downgrading of JGBs, it had generally been more or less unchanged and had recently been in the range of 83-84 yen.

C. Overseas Economic and Financial Developments

The world economy had continued to recover.

The U.S. economy had continued to recover. Exports, particularly to emerging

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

[5] The guideline was as follows:

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

economies, were continuing to increase and business fixed investment was rising moderately. Private consumption had increased at a faster pace recently, mainly due to the rise in stock prices and the effects of the fiscal stimulus measures; nevertheless, balance-sheet adjustments and the slow improvement in the employment situation continued to weigh on household spending. Housing investment remained at a depressed level. As for prices, although the effects of the rise in international commodity prices had been observed, 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 in the goods market 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 had continued to increase, especially to emerging economies, and private consumption and business fixed investment had been rising gradually. As for prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) excluding energy and unprocessed food had risen moderately due to the effects of the earlier depreciation of the euro and of the rise in international commodity prices. However, slack in supply and demand conditions and slower growth in wages continued to exert downward pressure. U.K. economic conditions were recovering at a moderate pace.

The Chinese economy continued to show high growth. Exports and production had been increasing, and growth in private consumption had been firm due mainly to households' higher income levels. Fixed asset investment had continued to show high growth. Economic conditions in the NIEs and the ASEAN countries had been recovering. As domestic and external demand continued to be on an increasing trend, the shipment-inventory balance had improved and production was increasing. The Indian economy had also continued to grow at a relatively rapid pace. In many of these Asian economies, the year-on-year rate of increase in the CPI had risen due to higher food and materials prices, reflecting the effects of the increase in international commodity prices, and to greater utilization of production factors such as labor and capital.

As for global financial markets, U.S. and European stock prices fell temporarily, reflecting heightened uncertainties regarding the situation in the Middle East, but had risen slightly compared with the levels at the time of the previous meeting mainly because economic indicators were generally better than market expectations. Long-term interest rates in the United States had increased on the back of relatively strong economic indicators, and those in Germany had also risen slightly, due in part to the emergence of an upside risk of a rise in the inflation rate brought about by the increase in international commodity prices. The yield spreads of government bonds issued by some peripheral European countries over those issued by Germany had remained at high levels.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports were showing signs of resuming an uptrend. They were expected to increase moderately, 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 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.

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 started to pick up, and was expected to continue to do so at a gradual pace given the recent developments in housing starts.

Production was showing signs of resuming an uptrend, and was expected to increase modestly.

As for prices, with respect to developments in international commodity prices, crude oil prices had climbed, partly due to accommodative financial conditions worldwide and the situation in the Middle East, in an environment where demand from emerging economies had been expected to grow. Prices of nonferrous metals had increased, particularly of copper. Grain prices had also continued to rise reflecting increasing demand for foodstuffs and feedstuffs in emerging economies, as well as adverse weather.

The three-month rate of change in the domestic corporate goods price index (CGPI) was rising, mainly due to the increase in international commodity prices. The CGPI was expected to continue rising for the time being. The year-on-year rate of decline in the CPI (excluding fresh food) had continued to slow as a trend, and this was likely to be maintained as the aggregate supply and demand balance improved gradually.

2. Financial environment

Financial conditions had continued to ease further. 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 had continued to see financial institutions' lending attitudes as improving. Issuing conditions for CP and corporate bonds had become more favorable, as seen in an increased variety of corporate bond issuers. 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 been on a decelerating trend. 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 in the range of 2.0-2.5 percent.

II. 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 continued to recover, led by high growth in emerging and commodity-exporting economies, and that the growth rates of overseas economies had started increasing again.

Members shared the view that the U.S. economy had continued to recover. Many members noted that exports, particularly to emerging economies, were increasing, retail sales and the number of new passenger cars sold remained firm, and production had been increasing moderately. In view of these developments, a few members observed that the U.S. economy had moved out of its deceleration phase. However, a few members expressed the opinion that, while views about the economy were becoming increasingly optimistic, partly reflecting expectations for improvement in private consumption, recent developments in consumption represented a recovery concentrated in high-income households mainly against the backdrop of the rise in U.S. stock prices. These members continued that, therefore, there were some uncertainties as to the sustainability of the recovery in consumption. In this regard, one member noted that assessments of the outlook for the economy, including those by policymakers, seemed to be more cautious than those observed around the spring of 2010, when similar optimism emerged. As background to this, the member raised the possibility that the swings in sentiment had lessened with the occurrence of a learning effect resulting from repeated shifts between optimism and pessimism. Meanwhile, many members said that the housing market and the employment situation still had not shown a clear recovery. Some members expressed the view that, although improvement in the corporate sector had been greater than expected, it had not spread to the household sector smoothly. These members continued that momentum was unlikely to build sufficiently to support a full-fledged recovery for the U.S. economy, barring further improvement in the employment situation and progress in the repairing of household balance sheets.

Members agreed that economic activity in the euro area as a whole was recovering moderately. Many members, however, expressed the view that disparities were growing further between core countries, such as Germany, where exports had continued to increase and domestic demand had been picking up, and some peripheral countries, which faced fiscal problems and difficulties with the conduct of economic policy. One member said that polarization not only of the economic growth rate but also of the inflation rate had begun to progress; specifically, wage levels in Germany had been rising and urban real estate prices had been showing signs of an increase. In view of these factors, this member expressed the opinion that, given the disparities in these various countries' economic activity, prices, and financial conditions, European policymakers faced a difficult situation with regard to determining, for example, the aspects on which the single monetary policy should focus.

Members concurred that the Chinese economy continued to show high growth. Many members said that exports had been increasing and domestic demand continued to enjoy a solid increase, as evidenced by sales at retail stores during the Chinese New Year period having grown by 20 percent over those of a year earlier. Some members noted that, in addition to these developments, prices had been rising in a wide range of items -- particularly food products -- partly due to the increase in international commodity prices and to the drought in China. In this situation, many members expressed the view that achieving a sustainable recovery in the global economy depended on whether the Chinese economy's overheating could be constrained and the economy itself could make a soft landing. Regarding this point, a few members expressed concern about the continued conduct of the expansionary fiscal policy and the possibility that the recent revisions to the accommodative monetary policy were not necessarily sufficient given such factors as the time required for the policy effects to spread to the economy. These members thus pointed to the need to closely monitor future developments in China's policies, including those highlighted above.

Members shared the view that the NIEs and the ASEAN economies had been recovering as a whole, as domestic demand remained firm and the pace of increase in exports started to accelerate again due mainly to the progress in inventory adjustments in IT-related goods. Many members commented that there was growing vigilance with regard to an overheating in the economy and inflationary pressure in these economies as well. One member said that, in addition to buoyant domestic demand, capital had been flowing into the NIEs and the ASEAN economies against the backdrop of accommodative monetary conditions in advanced economies, and thus financial conditions in many of the NIEs and the ASEAN economies remained accommodative despite changes to their accommodative monetary policies, and noted that this was a factor that would further increase inflationary pressure.

Regarding global financial markets, many members pointed out that, in U.S. and European markets, stock prices were picking up amid better-than-expected economic indicators in general, and long-term interest rates had also been on an upward trend reflecting such developments in stock prices and concerns about a higher-than-expected rise in the inflation rates brought about by the increase in international commodity prices. Some members said that vigilance with regard to the sovereign risk problem in some peripheral European countries had subsided somewhat due to expectations for a further support package by the European Union. Many members, however, expressed the view that, since the yield spreads of government bonds issued by some peripheral European countries over those issued by Germany remained at high levels, attention should continue to be paid to actions taken toward fiscal consolidation in the peripheral European countries as well as to future market developments. Most members referred to the increasing political unrest in North Africa and the Middle East since late January as a new factor that might cause instability in global financial markets. Some members nevertheless expressed the view that the effects of such unrest on global financial markets were marginal thus far, given that the size of the economies in these areas was small and that U.S. and European financial institutions' credit exposure to these areas seemed limited.

With regard to international commodity prices, members discussed the continuing price rises in many items such as crude oil, nonferrous metals, and grain. As background to such an increase in international commodity prices, most members pointed to a factor related to actual demand -- namely, high growth rates in emerging economies, where energy and distribution sector efficiencies were low and the share of spending on food within overall consumption was high -- and to concerns about supply owing to adverse weather and natural disasters. Some members commented that, amid financialization of commodities, financial developments that were largely the result of the continuation of large-scale monetary easing in advanced economies were playing a role in accelerating the increase in international commodity prices. Some members added that the recent heightening of geopolitical risks in North Africa and the Middle East was another factor that was pushing up prices of commodities, particularly crude oil. Based on this discussion, many members expressed the view that the recent increase in international commodity prices was caused by a complex array of factors, and thus uncertainties regarding future developments were high. Some members raised the possibility that, depending on future developments in international commodity prices, the sustainable growth of the global economy might be hampered if such developments led to greater fluctuations in economic activity and prices in various countries. As for emerging economies in particular, a few members expressed the view that attention should be paid to the possibility of a substantial rise in the inflation rates adversely affecting these economies and thereby causing capital outflows and political unrest.

Based on the above deliberations on economic and financial conditions abroad, members discussed the state of Japan's economy. They concurred that the economy was gradually emerging from the deceleration phase observed since the early autumn of 2010. As the reason behind this, most members pointed to Japan's exports and production showing signs of resuming an uptrend, as the growth rate of the global economy had started increasing again led by emerging and commodity-exporting economies. As for the outlook, members shared the view that Japan's economy was likely to emerge from the current deceleration phase and return to a moderate recovery path, since it was likely that exports and production would increase moderately and private consumption would pick up again as the reverse following the sharp increase in demand became less pronounced. In this regard, one member expressed the view that it had become more likely that the economy would return to a moderate recovery path around the spring of 2011. A different member commented that the economy was already returning to a recovery path, given the recent improvements in exports and production. Looking further ahead, however, some members -- noting that the effects of the recovery in the corporate sector had not spread to the household sector smoothly, as evidenced by the persistent severity in the employment and income situation -- expressed the opinion that it would take more time for a self-sustaining recovery in domestic private demand to become noticeable.

As for risks to the outlook for Japan's economic activity, many members expressed the view that upside and downside risks remained broadly balanced. Members shared the view that there were some upside risks such as faster growth in emerging and commodity-exporting economies. They also agreed, however, that there were downside risks associated with continued uncertainties about the outlook for the U.S. and European economies and developments in global financial markets. Some members were of the opinion that attention should be paid not only to the upside risk of faster growth in emerging economies in the short term, but also to a risk in the longer term that a delay in the implementation of monetary tightening measures would aggravate the fluctuations in future economic activity and consequently undermine the sustainable growth of these economies. Many members said that the U.S. economy remained vulnerable to the downside due to the downward pressure from the balance-sheet problem. However, one member said that concerns about the U.S. economy had subsided somewhat since the previous meeting, partly due to increases in exports and private consumption, and downside risks had decreased accordingly. Regarding European economies, some members noted that, if the sovereign risk problem in some peripheral European countries led to instability in global financial markets or widespread negative effects on economic activity in and outside Europe, this could adversely affect Japan's economy to a considerable extent. One member added that it was necessary to take note of the market's perception of Japan's fiscal problem given the increasing global attention on fiscal discipline triggered by the sovereign risk problem in some peripheral European countries.

Members also discussed how the rise in international commodity prices would affect economic activity in Japan. Many members expressed the view that, since faster growth in emerging economies was the main factor behind the recent rise in international commodity prices, this would also have positive effects on Japan's economy -- for example, an increase in exports to emerging economies and in return on investment. In response, a few members said that such positive effects could not be expected from the rise in international commodity prices caused by concerns about supply. They continued that, if inflation rates in emerging economies climbed further against the background of the rise in international commodity prices, economic activity in these economies might decelerate due to policy tightening. Many members pointed to the possibility that a continued rise in international commodity prices would have negative effects on Japan's economy by causing decreases in Japanese firms' profits and real income through a deterioration in the terms of trade. With regard to this point, however, a few members said that it was necessary to keep in mind that the yen had been appreciating in comparison with the time when international commodity prices rose in 2008, and this would partly offset the adverse impact of Japan's terms of trade. In discussing risk factors, one member pointed out that the correlation among price fluctuations in various markets, including commodity markets and stock markets, had become high against the background of financial globalization and development of index-linked transactions. This member continued that it was therefore important not only to assess each risk individually but also to bear in mind the possibility that various risks might materialize simultaneously, causing the effects to spread synergistically.

Turning to developments in each demand component, members agreed that <u>exports</u> were showing signs of resuming an uptrend. Many members noted that exports had turned upward in December 2010 from the previous month for the first time in five months, mainly due to the recovery in overseas economies and the progress in inventory adjustments in IT-related goods, and that exports to almost all regions rose substantially. Regarding the outlook, members shared the view that exports were likely to increase moderately as the improvement in economic conditions overseas, particularly emerging economies, was likely to be maintained.

Members concurred that business fixed investment had started to pick up. Some members expressed the view that signs of picking up in business fixed investment were likely to gradually become more evident. However, they continued that, although corporate profits continued to improve, the pace of improvement in business fixed investment was likely to remain moderate with firms' persistent sense of excessive capital stock and the ongoing shift of manufacturers' production to locations in Asia.

Members shared the view that the employment and income situation had remained severe, but the degree of severity had eased somewhat. One member said that the situations for employment and income were mixed, in that the unemployment rate had declined somewhat while there had been a pause in the pace of improvement in nominal wages. In this situation, with regard to private consumption, members agreed that demand for some goods such as electrical appliances had suffered a reverse after the sharp increase seen previously. Some members, however, expressed the opinion that the effects of the reverse following the sharp increase in demand for cars upon the expiration of subsidies for purchasers of environmentally friendly cars were becoming less pronounced, as evidenced by domestic car sales having recovered somewhat at the 2010 year-end and by the year-on-year rate of decrease in car sales having moderated in January 2011. Some members said that sales had been firm at retail stores, such as department stores, and indicators of consumer sentiment had improved on the back of the rise in stock prices and the improvement in business performance. Many members were of the view that, in addition to these recent developments, the effects of the reverse following the sharp increase in demand for some goods were likely to become less pronounced, and therefore private consumption was likely to pick up again, albeit at a moderate pace. Members shared the view that housing investment had started to pick up, especially in owner-occupied homes and houses for sale, and was likely to continue to do so at a gradual pace given the recent developments in housing starts.

Members agreed that production was showing signs of resuming an uptrend on the back of an increase in exports and the waning effects of the reverse following the sharp increase in demand for cars. As for the outlook, they shared the view that production was likely to increase modestly given the likelihood of the continued pick-up in car sales and of progress in inventory adjustments in electronic parts and devices. On this point, a few members expressed the opinion that, based on anecdotal information from firms, production was likely to turn upward in the January-March quarter of 2011 on a quarter-on-quarter basis.

Members concurred that the year-on-year rate of decline in the CPI (excluding fresh food) had continued to slow as a trend, and this was likely to be maintained. Some members said that downward pressure on prices had been decreasing steadily, albeit at a moderate pace, reflecting improvements in the aggregate supply and demand balance. However, one member noted that, despite these improvements, a rapid rise in inflationary pressure was unlikely in view of factors such as a continuation of constrained labor share.

Members discussed the effects of the rise in international commodity prices on prices in Japan. Many members commented that there was a possibility that inflation in Japan would rise more than expected if international commodity prices increased further due to high growth rates in emerging and commodity-exporting economies. On this point, some members expressed the view that the extent to which the rise in international commodity prices would be passed through to prices of final consumer goods was likely to be limited, considering the prolonged substantial slack in the economy as a whole and the severe competitive environment for firms. On the other hand, one member noted that passing through the rise in international commodity prices might proceed to a considerable extent, given that Japan was currently in an economic recovery phase, and it was difficult to assess future price developments at this point. Meanwhile, a different member expressed the opinion that uncertainty regarding international commodity prices was high, and if the prices were to rise excessively and then drop sharply thereafter, there was a possibility that prices in Japan could also fluctuate.

Many members commented on the revision of the base year for the CPI, which was scheduled to take place in August 2011. Some members expressed the view that, judging from the movements in the chained index and forecasts by private-sector economists, it was likely that the year-on-year rate of change in the CPI would be revised downward. These members continued that it was important for the Bank to bear this in mind when examining price developments. A few members commented that the effects of this potential downward revision on the inflation expectations of firms and households also warranted attention. One member expressed the opinion that, since the revision of the base year for the CPI would not cause an abrupt change in the underlying trend of prices, it was important to carefully examine the economic mechanism behind price developments.

B. Financial Developments

Members concurred that financial conditions had continued to ease further. Most members expressed the view that the money market had been stable as a whole amid the Bank's provision of ample funds. Many members commented that long-term interest rates had risen somewhat on the back of steady stock prices. One member noted that, although the rise in long-term interest rates in Japan was largely in parallel with that in the United States, there was also a possibility that it reflected market participants' somewhat improved views of Japan's economic activity and prices. Meanwhile, some members expressed the opinion that there were no particular observed effects from the downgrading of JGBs by a credit rating agency. As for corporate financing, some members expressed the view that issuing conditions for CP and corporate bonds had become more favorable, as seen in a continued increase in the variety of corporate bond issuers. A few members said that bank lending rates had been declining moderately and firms' funding costs had also continued to be on a declining trend. Some members were of the view that firms' financial positions, as well as financial institutions' lending attitudes as perceived by firms, had continued to improve as a whole, although the extent of improvement varied depending on the size of the firm. One member commented that it was necessary to continue to carefully examine whether the expiration of the emergency guarantee program, scheduled at the end of March 2011, might trigger significant disruptions in corporate financing.

III. 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 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.

Members discussed the effects of the Bank's comprehensive monetary easing. Many members pointed to the following as positive effects of asset purchases through the Asset Purchase Program: (1) the narrowing of credit spreads on corporate bonds and the increased variety of corporate bond issuers; and (2) the increase of capital and bonds issued by real estate investment corporations in the Japan real estate investment trust (J-REIT) market. One member said that it was necessary to take policy measures while continuing to examine these positive effects as well as negative effects, such as distortions in resource allocation and a decline in market function. Some members expressed the view that the clarification of the policy time horizon had been effective, as evidenced by the degree of the rise in long-term interest rates in Japan being marginal compared with that in other advanced countries. However, a few members -- referring to the rising trend in yields such as those on two-year JGBs -- said that there was a view within the market that the Bank's commitment to the policy time horizon might not be enough. One member said that, in the course of Japan's economic recovery, the interpretation of the Bank's commitment would be challenged from time to time. In relation to this, many members were of the view that it was important for the Bank to secure the market's understanding of and confidence in the policy time horizon, and in doing so, explain consistently to the public that it would maintain the virtually zero interest rate policy until it judged that price stability was in sight. One member added that it was necessary that the Bank clearly explain the framework of the policy time horizon and the underlying developments in economic activity, prices, and financial conditions, rather than the length of time for which it would maintain its current interest rate level.

Members then discussed the fund-provisioning measure to support strengthening the foundations for economic growth. Some members -- noting that the loans disbursed by the Bank through the measure to date amounted to 1.5 trillion yen -- commented that it was important for the Bank to examine whether the fund-provisioning measure, in light of its objective, was functioning sufficiently as a catalyst toward strengthening the foundations for economic growth. One member referred to a case where efforts had recently been made across financial cooperatives to promote lending in areas with growth potential, and said that such action could be considered one of the positive effects produced by the Bank's fund-provisioning measure in its role as a catalyst. A different member expressed the view that, for the measure to further serve as a catalyst, it was important to deepen discussions regarding the need for private economic entities and policymakers to make efforts toward increasing productivity.

IV. Remarks by Government Representatives

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

(1) Although economic movements in Japan appeared to be pausing, there were some movements toward a pick-up, supported by the effects of the Bank's measures, and the Japanese economy was expected to recover moderately. However, the situation remained difficult, as evidenced by the high unemployment rate. 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. There was also a risk that the economy might be depressed by a possible slowdown in overseas economies as well as fluctuations in global financial markets.

(2) The government had recently submitted the budget for fiscal 2011, which was being deliberated in the Diet, and related bills. The government was doing its utmost to promptly obtain the Diet's approval. Restoring fiscal health was a critical challenge for the government, as had been pointed out for some time by the Policy Board members and others, and it was necessary to achieve a path toward sound public finance. These efforts would also contribute to securing the confidence of market participants. Therefore, the government would continue to work on restoring fiscal health in line with the "Fiscal Management Strategy."

(3) Although there were some movements toward a pick-up in the Japanese economy recently, the government, in order to get the Japanese economy back on a path toward full-scale recovery and to terminate deflation, would support the economy from both the economic and employment sides, based on the "Three-Step Economic Measures for the

Realization of the New Growth Strategy" (hereafter "Three-Step Economic Measures"). Meanwhile, the government expected the Bank to continue pursuing monetary easing consisting of comprehensive monetary easing. The government would continue to work together with the Bank to launch vigorous and comprehensive policy efforts. It also expected the Bank to support the economy from both the economic and financial sides, by continuing to keep close contact with the government.

The representative from the Cabinet Office made the following remarks.

(1) The real GDP growth rate for the October-December quarter of 2010, released on February 14, was down 1.1 percent on an annualized basis from the previous quarter, mainly reflecting the effects of the reverse following the sharp increase in demand ahead of the expiration of subsidies for purchasers of environmentally friendly cars and the increase in the tobacco tax. Although economic movements in Japan appeared to be pausing, there were some movements toward a pick-up. As for prices, although the year-on-year rate of decline in the CPI had continued to slow, partly due to the rise in the prices of petroleum products, the Japanese economy continued to be in a mild deflationary phase.

(2) 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. Therefore, based on the "Three-Step Economic Measures," the government had been supporting the economy from both the economic and employment sides by implementing the first and the second steps. It would continue to further promote these economic measures and work to seamlessly implement the third step, comprising largely the budget and the tax-system revision for fiscal 2011, which placed emphasis on economic growth and employment. The government would also work to ensure the realization of economic growth induced by an overcoming of deflation and improvement in employment.

(3) The government expected the Bank to continue to aim at overcoming deflation swiftly and underpin the economy, by conducting monetary policy -- including the implementation of the comprehensive monetary easing and the fund-provisioning measure to support strengthening the foundations for economic growth -- in an

appropriate and flexible manner while sufficiently exchanging views and keeping close contact with the government.

V. 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.

VI. 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).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of January 24 and 25, 2011 for release on February 18, 2011.

Attachment

February 15, 2011

Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by a unanimous vote,[6] to set the following guideline for money market operations for the intermeeting period:

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

2. Japan's economy is gradually emerging from the current deceleration phase. As the growth rate of the global economy has started increasing again led by emerging and commodity-exporting economies, Japan's exports and production are showing signs of resuming an uptrend. 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. Housing investment has started to pick up. Meanwhile, financial conditions have continued to ease further. The year-on-year rate of decline in the CPI (excluding fresh food) has continued to slow as a trend.

[6] Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. T. Noda, Mr. S. Nakamura, Mr. H. Kamezaki, Mr. R. Miyao, and Mr. Y. Morimoto.
Voting against the action: None.

3. According to the Bank's baseline scenario, Japan's economy is expected to emerge from the current deceleration phase and return to a moderate recovery path. 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 due to robust domestic demand and capital inflows from overseas. However, there are downside risks associated with continued uncertainties about the outlook for the U.S. and European economies and developments in global financial markets. Regarding the outlook for prices, there is a possibility that inflation will rise more than expected if commodity prices increase further due to 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. 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.