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July 15, 2011

Bank of Japan

Minutes of the Monetary Policy Meeting

on June 13 and 14, 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, June 13, 2011, from 2:00 p.m. to 4:32 p.m., and on Tuesday, June 14, from 9:00 a.m. to 12:37 p.m.[1]

Policy Board Members Present

Mr. M. Shirakawa, Chairman, Governor of the Bank of Japan
Mr. H. Yamaguchi, Deputy Governor of the Bank of Japan
Mr. K. G. Nishimura, Deputy Governor of the Bank of Japan
Mr. T. Noda
Mr. S. Nakamura
Mr. H. Kamezaki
Mr. R. Miyao
Mr. Y. Morimoto
Ms. S. Shirai

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on July 11 and 12, 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 June 14.
[3] Messrs. Y. Kinoshita and K. Umetani were present on June 13.

Mr. K. Momma, 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. S. Aoki, Director-General, Financial Markets Department

Mr. E. Maeda, 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

Mr. S. Ohyama, Senior Economist, Monetary Affairs Department

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

[4] Mr. T. Umemori was present on June 14.

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 May 19 and 20, 2011, had been providing ample funds sufficient to meet demand in financial markets and was doing its utmost to ensure stability in the markets.[6] In this situation, the uncollateralized overnight call rate had generally been in the range of 0.06-0.07 percent.

B. Recent Developments in Financial Markets

Money market rates had been stable amid the Bank's provision of ample funds. General collateral (GC) repo rates had been 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 slightly above 0.1 percent. Rates on longer-term interbank instruments had been more or less unchanged.

The benchmark long-term interest rate in Japan had generally been within the narrow range of 1.10-1.15 percent. Although Japanese stock prices rose temporarily, they had been somewhat weak due to the decline in U.S. stock prices, reflecting concern about the economic slowdown in the United States, and to the appreciating trend of the yen. The Nikkei 225 Stock Average had recently been at around 9,500 yen. In the foreign exchange market, the yen appreciated against the U.S. dollar, remaining at around 80 yen to the dollar recently, as U.S. interest rates declined.

C. Overseas Economic and Financial Developments

The world economy continued to recover, but the pace of recovery was slowing.

The U.S. economy continued to recover, but the pace of recovery was slowing. Private consumption continued to increase against the background of a moderate recovery in the employment situation; nevertheless, in a situation where balance-sheet adjustments continued to weigh on the economy, the pace of increase had been slowing recently due to a decline in real purchasing power brought about by the earlier rise in crude oil prices.

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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.

Housing investment remained at a depressed level, while housing prices were weak. On the other hand, exports continued to increase, and business fixed investment rose moderately. In such a situation, production remained on an increasing trend, although the pace of increase was slowing partly due to downward pressure from supply-chain disruptions associated with the Great East Japan Earthquake. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items moved up as a result of the earlier rise in international commodity prices; on the other hand, the rate of increase in the CPI for all items less energy and food, or the core CPI, remained only moderate due to slack in supply and demand conditions in the goods market and the labor market.

Economic activity in the euro area as a whole continued to recover moderately, with some differences in pace by country. Exports continued to increase, especially to emerging economies, and private consumption and business fixed investment rose gradually. As for prices, although slack in supply and demand conditions and slower growth in wages continued to exert downward pressure, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) for all items rose due to the effects of the earlier depreciation of the euro and rise in international commodity prices. Meanwhile, in the United Kingdom, the economy was on a recovery trend, but the pace of recovery was slowing.

The Chinese economy continued to show high growth. Although car sales and production slowed to some extent, domestic demand remained firm overall as fixed asset investment maintained high growth. The Indian economy also continued to grow at a relatively rapid pace. Economic conditions in the NIEs and the ASEAN countries continued to recover, as exports remained on an increasing trend and domestic demand stayed firm, although the pace of increase in production as a whole was slowing partly due to the ramifications of a decline in production by Japanese automakers. In many of these Asian economies, inflationary pressure continued to be strong due to the rise in food and materials prices, reflecting the effects of the hike in international commodity prices, and to the increase in utilization of production factors such as labor and capital.

As for global financial markets, in the United States and Europe, as signs of an economic slowdown were gradually spreading, stock prices had declined from the levels at the time of the previous meeting, as had long-term interest rates, especially in the United

States. Financial markets in some peripheral European countries, however, remained unstable as the yield spreads of government bonds issued by such countries over those issued by Germany were hovering in a historically high range reflecting uncertainties regarding the debt problem in Greece.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had declined sharply since the earthquake. They were expected to turn upward as supply-side constraints eased further, reflecting the continued improvement in overseas economic conditions.

The rate of decline in public investment was decelerating gradually. Public investment was expected to increase gradually, mainly due to the restoration of damaged social capital.

With regard to domestic private demand, business fixed investment had been weak since the earthquake, but leading indicators showed that the investment stance of firms was solid. Business fixed investment was expected to increase gradually, aided partly by the restoration of disaster-stricken facilities.

The employment and income situation became slightly more severe, partly due to the effects of the earthquake disaster.

Although private consumption had been weak since the earthquake, it was showing some signs of picking up as durable goods and services consumption started to show increases with household sentiment improving somewhat. Private consumption was expected to pick up as household sentiment improved in line with the recovery in production.

Housing investment was relatively weak due to the disaster. It was expected to increase gradually as supply-side constraints eased and disaster-stricken homes were rebuilt.

Production had declined sharply since the earthquake due to supply-side constraints, but recently was showing some signs of picking up, with supply-side constraints starting to ease. An increase in production was likely to become more noticeable as supply-side constraints eased further.

As for prices, international commodity prices were flat at high levels. 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 rate of increase in the CGPI was expected to slow for the time being, reflecting movements in international commodity prices. The year-on-year rate of change in the CPI (excluding fresh food) was slightly positive, and it was expected to remain so.

2. Financial environment

Financial conditions generally continued to ease, although weakness had been observed in the financial positions of some firms, mainly small ones, since the earthquake.

The overnight call rate remained at an extremely low level, and the declining trend in firms' funding costs continued. Stimulative effects from low interest rates were still partly constrained given current developments in economic activity and prices. With regard to credit supply, firms continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP continued to be favorable, and those for corporate bonds had improved and become favorable as a whole. As for credit demand, firms had recently shown signs of increasing their demand for working capital. Against this backdrop, the year-on-year rate of decline in bank lending was slowing. The amount outstanding of corporate bonds exceeded the previous year's level and that of CP was around the year-ago level. In these circumstances, firms retained their recovered financial positions on the whole, although weakness had been observed in those of some firms, mainly small ones, since the earthquake. Meanwhile, the year-on-year rate of change in the money stock had been in the range of 2.5-3.0 percent.

3. The fund-provisioning measure to support strengthening the foundations for economic growth

On June 8, the Bank carried out the fourth new loan disbursement, amounting to 829.6 billion yen, under the fund-provisioning measure to support strengthening the foundations for economic growth. This brought the total amount of loans disbursed by the Bank to 2,942.4 billion yen, nearly reaching the maximum amount of loans allowed under this measure (3 trillion yen), with a year left before the term of the last disbursement of new loans. New loan disbursements under the measure had the following characteristics: (1) the total number of financial institutions granted approval to participate had increased to 153; (2) the total amount of investments and loans planned by financial institutions had reached 8.4 trillion yen, a level nearly three times the maximum amount of loans to be disbursed by the Bank; (3) financial institutions' investments and loans covered a wide range of areas beyond the 18 examples listed by the Bank, including the initiatives to support local industries; (4) the average duration of investments and loans provided by financial institutions was 6.4 years, exceeding four years, the maximum duration of loans by the Bank; and (5) many financial institutions that had eased their credit standards for loans to firms pointed to strengthening efforts to growth areas as the reason behind the easing. In view of the above, the measure had been sufficiently playing the role of a catalyst in promoting financial institutions' loans in areas with growth potential. Regarding equity investments, however, the effects of the measure were limited given the small amount of such investments made by financial institutions. Moreover, some financial institutions criticized the measure for having created intensified competition among financial institutions to lower lending rates. With regard to the future conduct of the measure, the following issues should be discussed: (1) whether to let the measure stand unchanged until the term of the last disbursement, in a situation where the Bank had come close to using up the line of credit; and (2) if the Bank were to increase the amount of loans to be disbursed through the measure, what possible revisions could be made to it, taking into account the situation to date.

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 shared the view that, led by high growth in emerging and commodity-exporting economies, overseas economies continued to recover, although the pace of recovery was slowing, and would continue to do so. Many members, however, were of the view that downside risks to the outlook for overseas economies had increased to some extent.

Members concurred that the U.S. economy continued to recover, but the pace of recovery was slowing. Most members expressed the view that, although private consumption continued to increase, the pace of increase had been slowing recently due to a decline in real purchasing power brought about by the earlier rise in crude oil prices in a situation where balance-sheet adjustments continued to weigh on the economy. Many members said that housing prices were weak and housing investment was at a depressed level. Some members noted that, although production was on an increasing trend, the pace of increase was slowing partly due to downward pressure from supply-chain disruptions associated with the disaster in Japan. As for the outlook, members agreed that, as the rise in crude oil prices came to a halt, the U.S. economy was likely to continue to recover supported by high growth in emerging economies and the accommodative financial conditions, if the effects of supply-chain disruptions were eliminated. Some members, however, pointed out that the pace of recovery in the U.S. economy was modest and downside risks warranted attention, considering that the household sector was burdened by balance-sheet adjustments, the adjustment pressure in the housing market was strong, and an uncertainty with regard to developments in crude oil prices was high. Some members made an assessment that market participants' views on the outlook for the U.S. economy had again leaned toward pessimism recently, as evidenced, for example, by the slight decline in long-term interest rates and weak stock prices following the release of weaker-than-expected economic indicators. In this situation, some members said that large fluctuations between optimism and pessimism regarding the outlook for the U.S. economy themselves could increase uncertainty and thereby depress U.S. firms' and households' growth expectations.

Members shared the view that the euro area economy as a whole continued to recover moderately, albeit with large disparities between core countries, such as Germany, and some peripheral countries, which faced sovereign risk problems. A few members, however, noted that the pace of recovery in the euro area economy was likely to remain moderate, considering that fiscal consolidation measures in each euro area country were likely to weigh on the economy. In relation to the sovereign risk problem in Greece, many members said that uncertainties regarding the outlook remained high in financial and foreign exchange markets, mainly due to differences in the stance toward debt restructuring among governments and the European Central Bank (ECB). Some members said that Greece might be able to obtain necessary liquidity for the time being, but this did not mean that the government debt problem itself was being solved. Some members then expressed the view that the ECB faced difficulty in terms of its conduct of monetary policy because, on the one hand, it needed to address rising inflationary pressure, and, on the other, it was required to take measures to respond to demand for liquidity from banks.

Members agreed that the Chinese economy continued to show high growth. Many members pointed out that, although car sales and production had slowed to some extent, domestic demand remained firm overall as fixed asset investment maintained high growth. Most members made the assessment that some deceleration in the growth of the Chinese economy, due mainly to the effects of monetary tightening implemented thus far, was a positive development because this could increase the possibility of the economy moving toward a sustainable growth path. With regard to prices, some members expressed the concern that inflationary pressure remained high despite monetary tightening. A few of these members said that attention should be paid to the possibility that China was entering the phase of an inflationary spiral of prices and wages. As for the risks to the outlook for the Chinese economy, some members expressed the view that, while lagged responses in monetary policy could accelerate growth in the short run, attention should continue to be paid to the possibility that such responses could lead to increased fluctuations in economic activity in the longer run and might undermine sustainable growth. One member added that, for the Chinese economy to achieve sustainable growth, not only were monetary policy responses required, but also fiscal policy and macro-prudential policy responses.

Some members expressed the view that in the NIEs and the ASEAN countries, domestic and external demand was firm on the whole, although production of some goods was adversely affected by the delays in shipment of parts from Japan.

Based on the above deliberations on economic and financial conditions abroad, members discussed the state of Japan's economy. They agreed that the economy continued to face downward pressure, mainly on the production side, due to the effects of the disaster, but was showing some signs of picking up.

Regarding recent developments in the economy, members agreed that economic indicators released after the previous meeting showed that the plunge immediately following the earthquake, in March and April, had been substantial, but production and domestic private demand had recently been showing some signs of picking up, with supply-side constraints starting to ease and household and business sentiment improving somewhat. Most members said that such recovery in production was proceeding at a somewhat faster pace than had been projected immediately after the earthquake. Many members cited the fact that industrial production had turned slightly positive in April on a month-on-month basis, reflecting an easing of electric power supply constraints and the restoration of supply chains, and viewed this as a favorable development. Many members noted that automakers were making full-scale moves toward raising the level of production, based on sources such as information obtained from business contacts. Some members said that firms' growth expectations were unchanged and leading indicators of business fixed investment, such as machinery orders and construction starts, remained firm. With regard to the household sector, many members said that household sentiment was recovering to some extent, as were indicators related to private consumption, such as sales at department stores and sales in the food service industry, as well as the number of new passenger-car registrations. Some members, however, expressed concern that the pace of recovery in indicators related to travel remained sluggish, due partly to the decrease in the number of foreign visitors to Japan. One member said that many economic indicators were recovering recently, but the underlying activity levels remained low.

As for the outlook for the economy, members shared the view that the economy was likely to continue facing downward pressure for the time being, mainly on the production side; thereafter, it was likely to return to a moderate recovery path as production would probably regain traction with further easing of supply-side constraints, backed by an increase in exports reflecting the improvement in overseas economic conditions and by a rise in demand for restoring capital stock. Many members saw an increasing probability of production returning to the level before the earthquake in the July-September quarter of 2011, given the increasing views that the restoration of supply chains would progress and the degree of constraints on economic activity due to electricity shortages this summer would be less significant than had been anticipated. Some members expressed the view that, with a pick-up in production, exports were likely to turn upward reflecting the improvement in overseas economic conditions. Members expressed the recognition that the aforementioned outlook was broadly in line with the Bank's baseline scenario presented in the April 2011 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report).

With regard to risks to the outlook for Japan's economy, members shared the view that attention should be paid for the time being to the downside risks to economic activity, especially the possible effects of the disaster. As for risks to overseas economies, some members said that heightened uncertainty regarding the outlook for the U.S. and European economies and the possible consequences of the sovereign risk problems in Europe warranted attention. Many members said that the possibility of accelerated economic growth in emerging and commodity-exporting economies called for continued monitoring, although these economies had recently shown signs of deceleration. Many members pointed to the possibility that the low level of economic activity compared with the period before the earthquake would exert downward pressure on household incomes. A few members expressed concern about the effects of the yen's appreciating trend on the sentiment of Japan's exporting firms. One member noted the risk that if political tension in the Middle East and North Africa intensified, international commodity prices might rise further and thereby depress domestic private demand. Most members pointed to the risk that, in the longer run, firms' medium- to long-term growth expectations might decline due to a possible prolongation of severe supply constraints, if the resumption of operations at nuclear power plants around Japan were to be delayed following regular inspections. One of these members continued that it might be necessary to make a somewhat conservative estimation of Japan's potential economic growth rate, taking into account that, in addition to the problems related to severe supply constraints, the economy faced issues related to demographic changes even before the disaster. Some members expressed the view that, in the process of restructuring and diversification of supply chains, the share of Japanese products in global markets might decline, and/or that the shift of Japanese firms' production sites to overseas, as well as changes in the procurement of materials and parts from Japan to other countries, might accelerate. On the other hand, one member noted that an increasing number of Japanese firms were recently acquiring foreign firms, prompted by the appreciation of the yen. One member said that the salient point was whether the current recovery momentum would remain intact in and after the latter half of fiscal 2011. This member continued that there was a high likelihood that the recovery path would deviate downward, in terms of the level of economic activity, from that projected prior to the earthquake, and acknowledged having an increasing concern about the downside risks to the economy.

Members agreed that the year-on-year rate of change in the CPI (excluding fresh food) had been in line with the forecast presented in the April 2011 Outlook Report and was likely to remain slightly positive as the aggregate supply and demand balance improved as a trend. A few members, however, noted that the rate of change in the CPI turned positive in April because the effects of subsidies for high school tuition had come to an end, a year after their introduction, and energy prices had risen. They continued that, excluding such factors, the underlying trend of the CPI remained weak and more time would be needed to confirm that price stability was in sight on the basis of the "understanding of medium- to long-term price stability." Members concurred that the assessment of risks to the outlook for prices was unchanged from that presented in the April 2011 Outlook Report. They also shared the view that the year-on-year rate of change in the CPI was likely to be revised downward with the change in the base year for the CPI, scheduled to take place in August 2011.

B. Financial Developments

Members agreed that financial conditions generally continued to ease, although weakness had been observed in the financial positions of some firms, mainly small ones.

Members shared the view that money market rates had been stable amid the Bank's provision of ample funds. Many members expressed the view that the declining trend in firms' funding costs continued and that firms still saw financial institutions' lending attitudes as being on an improving trend. As for corporate financing, many members commented that issuing conditions for CP were favorable and issuance rates had returned to levels seen just before the earthquake. Regarding the corporate bond market, most members noted that issuing conditions had improved and become favorable as a whole, as seen, for example, in the steady increase in the amount of corporate bonds issued, although electric power companies had been unable to issue bonds. With regard to issuance rates on corporate bonds, a few members said that they had returned to more or less the same levels as just before the earthquake. Most members said that close attention should continue to be paid to the weakness observed in the financial positions of some firms, mainly small ones, since the earthquake.

III. Summary of Discussions on Monetary Policy for the Immediate Future and the Conduct of the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth

A. Monetary Policy for the Immediate Future

Regarding the guideline for money market operations for the intermeeting period ahead, members agreed that 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 confirmed that the Bank would continue to carefully examine the outlook for economic activity and prices, including the effects of the disaster, and take appropriate policy actions as necessary.

With regard to the operation of the Asset Purchase Program (hereafter the Program), one member said that, considering the recent pick-up in the economy, there was no urgent need to influence market sentiment by increasing the amount of the Program at this stage. This member, however, continued that the potential need for additional monetary easing by affecting long-term interest rates had not decreased, given that there was a risk that the time necessary to achieve price stability would be prolonged. A different member expressed the opinion that, in view of the current outlook for economic activity and prices, the need for additional monetary easing had not declined from the standpoint of the necessity to maintain the momentum for economic recovery, and it was important to consider the appropriate timing to implement additional measures. Meanwhile, most members expressed the view that it would be appropriate to continue steadily conducting purchases of various financial assets under the framework for additional monetary easing decided immediately after the earthquake, and monitor how the effects of the easing were spreading.

As for the funds-supplying operation to support financial institutions in disaster areas, one member said that it was necessary to examine the policy effects, taking into consideration financial institutions' responses, including their bids for the Bank's second and subsequent funds-supplying operations.

B. The Conduct of the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth

In view of their assessment of the fund-provisioning measure to support strengthening the foundations for economic growth, members agreed that it had played the role of a catalyst in promoting financial institutions' own initiatives toward strengthening the foundations for economic growth. In relation to this, many members noted the following developments: the number of financial institutions granted approval to participate in the measure increased; the total amount of investments and loans planned by financial institutions largely exceeded the maximum amount of loans to be disbursed by the Bank; and the average duration of loans provided by financial institutions exceeded the maximum duration of loans by the Bank. Some members said that the measure also played a significant role in raising public awareness of the need to boost the overall growth potential of Japan's economy. On the other hand, many members pointed to criticism that there was a side effect of the measure; namely, that it had encouraged competition among financial institutions to lower lending rates and induced a takeover of lending from other financial institutions. On this point, one member noted that, amid the Bank's continued conduct of monetary easing, it was a one-sided argument to single out the measure as the only reason behind intensifying competition among financial institutions to lower lending rates. A different member expressed the view that financial institutions' competitive efforts to tap new growth areas while making use of the measure in themselves should not be interpreted negatively, and that encouraging such efforts was in fact part of the aim of the policy measure. Some members pointed to the possibility that criticism of the measure for having encouraged competition suggested that the catalytic effects of the measure were diminishing given the slowdowns in the rates of increase in the number of financial institutions granted approval to participate and the total amount of investments and loans planned by financial institutions. In some members' assessment, the measure produced only limited effects as a catalyst for equity investments made in growth areas, as evidenced by the number and amount of investments.

With regard to the future conduct of the fund-provisioning measure, given that the Bank had almost used up the 3 trillion yen line of credit and might not be able to disburse new loans, members shared the view that it would be appropriate to take a policy action with a view to supporting financial institutions' efforts to strengthen the foundations for economic growth through the use of a wider range of financial techniques. Some members said that it was important for the Bank to implement additional measures partly because this would enable it to continue to communicate the message that raising the growth potential was vital for Japan's economy.

As for the direction to be taken in adopting additional measures, many members said that it would not be appropriate for the Bank to simply increase the amount of loans set in the existing framework, considering that its effects had been waning. These members continued that it would be more appropriate for the Bank to devise ways to encourage provision of equity-like funds, such as equity investments, and of loans without conventional collateral or guarantees.

Given the above considerations, the chairman, with the aim of proceeding with a more specific discussion, requested that the staff -- taking into account the members' views expressed so far -- present a supplementary explanation on what kind of framework might be considered if the Bank were to take some kind of policy action with regard to the existing fund-provisioning measure.

The staff provided the following supplementary explanation.

(1) Taking into account the members' views, it might be appropriate for the Bank to establish a new line of credit, separate from the existing one, for provision of equity-like funds and loans without conventional collateral or guarantees.

(2) Eligible investments and loans could encompass investments and loans with equity-like features and loans without real estate collateral or guarantees (including asset-based lending, or ABL). The provision of equity-like funds would provide growth opportunities for firms constrained by a lack of capital despite their high growth potential. ABL would facilitate (1) smooth financing, particularly of small and emerging firms with insufficient real estate collateral and/or guarantees, and (2) the strengthening of financial institutions' function to assess firms' growth potential and profitability.

(3) The duration of each loan could be set at two years -- which would be twice as long as that for the existing fund-provisioning measure -- in order to keep a good balance between the objective of supporting financial institutions' investments and loans and factors such as the financial soundness of the Bank. It would be appropriate to allow loans to be rolled over once and to set the maximum duration of loans at four years, the same as the existing fund-provisioning measure.

(4) The total amount of loans could be set at 500 billion yen given the actual amount of equity investments and loans including ABL made by financial institutions to date. In

this case, the maximum amount of loans to each financial institution that had been granted approval to participate in the measure could be set at 50 billion yen in order to prevent an extreme concentration of loans at particular institutions.

(5) With a view to making it easier for financial institutions to use a new line of credit, revisions could be made to such factors as the duration of eligible investments and loans and the required minimum amount per investment and loan.

Members further discussed <u>the specifics of a new line of credit for the fund-provisioning measure to support strengthening the foundations for economic growth</u>, and shared the view that it would be appropriate to implement an additional measure based broadly on the aforementioned framework explained by the staff. One member commented that it was not necessary to set the total amount of loans at a significantly large amount given that the actual amount of equity investments covered by the existing fund-provisioning measure had been small. In response to this view, some members expressed the opinion that it was necessary to set the total amount of loans at about 500 billion yen to clearly indicate the Bank's commitment to this measure, and it did not matter if the actual amount of equity investments and loans including ABL turned out to be substantially below the maximum amount. One member said that it would be appropriate to set the duration of the Bank's loans at two years from the viewpoint of supporting financial institutions' investments and loans, but it was necessary to bear in mind that such duration would be extraordinarily long compared with the Bank's funds-supplying operations conducted to date. Many members expressed the view that it would be appropriate to set the deadline for applications for new loans as March 31, 2012, the same as the existing fund-provisioning measure, given that equity investments and loans including ABL had not been excluded under the existing framework for the measure. Some members commented that, in light of the situation of equity investments and loans including ABL, it was necessary to make revisions to the existing terms and conditions of the measure; for example, reduce the required minimum amount per investment and loan, keep track of the amount outstanding of individual investments and loans to be covered by the new line of credit, and include equity investments in funds even if the details of investment plans were not yet fully determined. Some members said that it was necessary for the Bank and other related parties to make efforts to accumulate further expertise regarding the assessment of collateral other than real estate and improve the environment surrounding ABL, with a view to increasing its use in Japan.

Regarding the relevance of the new line of credit for the fund-provisioning measure to the Bank's efforts to support restoration and rebuilding, some members noted a high likelihood that it would take some time before demand for funds related to rebuilding became full-fledged. Based on this view, a few members commented that it would be appropriate for the Bank to examine how it could make contributions as the central bank to support restoration and rebuilding separately from the measure while taking the followinginto consideration: how demand for funds for rebuilding would emerge; how such demand would be met by financial institutions; and how much progress had been made in terms of the government's support.

Based on the above considerations, the chairman expressed the view that a consensus had basically been reached among members with regard to the future conduct of the funds-supplying operation to support strengthening the foundations for economic growth. Since all other members were in agreement with his view, members decided to determine at this meeting the specifics of the new line of credit for the fund-provisioning measure, including principal terms and conditions. In response, the staff drafted principal terms and conditions and provided an explanation. Members then discussed the draft and finalized it as the following proposal: "Establishment of 'Special Rules for Equity Investments and Asset-Based Lending to Enhance the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth.'"

IV. Remarks by Government Representatives

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

(1) The Japanese economy was showing weakness due to the effects of the disaster, and this was expected to continue for a while. Uncertainty was extremely high, including that over the possibility of a further deterioration in sentiment reflecting the effects of the developments at nuclear power plants. In addition, due attention needed to be paid to the downside risks to the economy stemming mainly from developments in overseas economies and fluctuations in foreign exchange rates.

(2) With the first supplementary budget for fiscal 2011, the government was making its utmost efforts to support the living conditions of disaster victims -- for example, by constructing temporary housing and securing employment -- and to remove debris and

restore infrastructure. Furthermore, the government would carefully examine, in tandem with the formulation of the second supplementary budget, whether there was anything more that it should do at this point, and how reconstruction could be achieved.

(3) The government would steadily proceed with ensuring the sustainability of public finance and social security, as well as maintaining confidence in such institutions. With regard to the integrated reform of the social security and tax systems, which was currently being discussed, the Council for Intensive Discussion on Social Security Reform, at its meeting held on June 2, compiled a proposal for social security reform that presented a vision for maintaining and strengthening the social security system as well as securing the necessary fiscal resources. And with a view to finalizing the draft by the end of June, it would proceed with discussions on such reform. In addition, the government would revise the "Medium-Term Fiscal Framework" around the middle of 2011, thereby steadily pursuing fiscal consolidation in an integrated manner with economic growth and the reform of the social security system. Moreover, it would examine innovative energy and environmental strategies from short-, medium-, and long-term perspectives in addition to overcoming constraints on electric power supply and strengthening safety measures.

(4) The Bank indicated that it would take appropriate policy actions as necessary. The government expected the Bank to continue taking decisive monetary policy actions while considering the effects of the disaster on the economy and financial markets, the progress of rebuilding, and developments in overseas economies. The government considered that the Bank's establishment of a new line of credit for the fund-provisioning measure to support strengthening the foundations for economic growth, which was proposed at this meeting, would not only encourage the government's initiatives for achieving new growth but also contribute to revitalizing the Japanese economy through the use of a wider range of financial techniques.

The representative from the Cabinet Office made the following remarks.

(1) The real GDP growth rate for the January-March quarter registered a decrease of 3.5 percent on an annualized basis. After showing weakness for a while, the Japanese economy was expected to pick up as production recovered in line with the continuing steady restoration of supply chains. However, due attention needed to be paid to the

downside risks to the economy stemming mainly from constraints on electric power supply, the developments at nuclear power plants, and developments in overseas economies.

(2) The economy was still in a mild deflationary situation, as evidenced, for example, by the continued fall in price trends, excluding energy prices and other special factors. Amid concerns that weakness in the economy might continue for the time being, due to the effects of the disaster, close attention should be paid to the effects on economic activity of the upward pressure on costs exerted by the supply-side constraints and sharp rise in energy prices.

(3) With a view to achieving a prompt recovery from the disaster, the government was swiftly implementing the first supplementary budget for fiscal 2011 and, taking into account the principles behind reconstruction, steadily considering formulating additional supplementary budgets while determining the necessity and urgency of implementing additional measures. At the same time, based on the "Guideline on Policy Promotion," the government would strengthen the initiatives to restore the growth potential of the Japanese economy. Regarding the integrated reform of the social security and tax systems, the government and the ruling parties would finalize the draft by June 20.

(4) The government expected the Bank to continue steadily carrying out the funds-supplying operation to support financial institutions in disaster areas, in order to support restoration and rebuilding of the disaster areas from the financial side. It welcomed the Bank's proposal made at this meeting to establish a new line of credit for the fund-provisioning measure to support strengthening the foundations for economic growth, as a timely and appropriate action. The government hoped that the Bank would share with it the basic perspectives with regard to the macroeconomic management indicated within the "Guideline on Policy Promotion," and continue to underpin the economy through appropriate and flexible conduct of monetary policy while continuing to sufficiently exchange views and keep close contact with the government.

V. Votes

A. Vote on the Guideline for Money Market Operations

Based on the above discussions, members shared the view that it was appropriate to maintain the current guideline for money market operations, which encouraged the uncollateralized overnight call rate to remain at around 0 to 0.1 percent.

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

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

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

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

2. A public statement will be decided separately.

Votes for the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. T. Noda, Mr. S. Nakamura, Mr. H. Kamezaki, Mr. R. Miyao, Mr. Y. Morimoto, and Ms. S. Shirai.

Votes against the proposal: None.

B. Vote on "Establishment of 'Special Rules for Equity Investments and Asset-Based Lending to Enhance the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth'"

"Establishment of 'Special Rules for Equity Investments and Asset-Based Lending to Enhance the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth'" was put to a vote. Members voted unanimously to approve the establishment and agreed that the decision should be made public.

VI. Discussion on the Statement on Monetary Policy

Members discussed the Statement on Monetary Policy, and it was put 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).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of May 19 and 20, 2011 for release on June 17, 2011.

VIII. Approval of the Scheduled Dates of the Monetary Policy Meetings in July 2011-June 2012

At the end of the meeting, the Policy Board approved the dates of the Monetary Policy Meetings to be held in the period July 2011-June 2012 for immediate release (see Attachment 3).

Attachment 1

June 14, 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,[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 continues to face downward pressure, mainly on the production side, due to the effects of the earthquake disaster, but is showing some signs of picking up. After the earthquake, production and exports declined sharply and domestic private demand also weakened. Although such downward pressure remains, production and domestic private demand have recently been showing some signs of picking up, with supply-side constraints starting to ease and household and business sentiment improving somewhat. Meanwhile, financial conditions have generally continued to ease, although weakness has been observed in the financial positions of some firms, mainly small ones, since the earthquake. The year-on-year rate of change in the CPI (excluding fresh food) is slightly positive.

3. Japan's economy is likely to continue facing downward pressure for the time being, mainly on the production side. Thereafter, production is likely to regain traction with

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

further easing of supply-side constraints. From the second half of fiscal 2011, the economy is expected to return to a moderate recovery path, backed by an increase in exports reflecting the improvement in overseas economic conditions and by a rise in demand for restoring capital stock. The year-on-year rate of change in the CPI is expected to remain slightly positive.[8] Based on these assessments, Japan's economy is expected to return to a sustainable growth path with price stability in the longer run.

4. Regarding risks to the economic outlook, there is a high degree of uncertainty about the effects of the earthquake disaster on Japan's economy. With regard to overseas economies, the effects of balance-sheet adjustments on the U.S. economy and the possible consequences of the sovereign risk problems in Europe continue to warrant attention. Despite some signs of deceleration, there is still upside risk to the growth prospect of emerging and commodity-exporting economies. Meanwhile, turning to the implications of the rise in international commodity prices, on the one hand, the high growth in emerging and commodity-exporting economies that lies behind the price rise is likely to provide a boost to Japan's exports; on the other hand, the decline in real purchasing power resulting from the deterioration in the terms of trade could reduce domestic private demand in Japan. While there are various risk factors to be considered, attention should be paid for the time being to the downside risks to economic activity, especially the possible effects of the disaster. Regarding risks to the price outlook, inflation could rise more than expected if international commodity prices increase further, while there is also a possibility 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 Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth, which was introduced in the summer of last year, has been playing the role of a catalyst in promoting financial institutions' own initiatives. With a view to further encouraging financial institutions' efforts, the Bank deems it appropriate to focus on supporting their provision of equity-like funds and loans without conventional collateral

[8] The year-on-year rate of change in the CPI is likely to be revised downward with the base-year change scheduled for August 2011.

or guarantees. Based on such consideration, the Bank decided at today's meeting to establish a new line of credit for equity investments and the so-called ABL, or asset-based lending (see Attachment 2). The Bank expects that today's decision will further enhance financial institutions' efforts to strengthen the foundations for economic growth through the use of a wider range of financial techniques.

6. 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, including the effects of the disaster, and take appropriate policy actions as necessary.

Attachment 2

Outline of New Line of Credit Established for the "Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth"

1. Eligible Investments and Loans
   (1) Equity investments (investments and loans with equity-like features)
   (2) Loans without real estate collateral or guarantees (including the so-called ABL, or asset-based lending)

2. Eligible Counterparties
   Counterparties for the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth

3. Form of Loans
   Loans against pooled collateral

4. Duration of Loans
   The duration of each loan shall be two years in principle. Loans could be rolled over only once and, consequently, the maximum duration of loans could be effectively four years. New loans are scheduled to be disbursed quarterly.

5. Loan Rates
   0.1 percent per annum

6. Total Amount of Loans
   500 billion yen
   set separate from the 3 trillion yen ceiling in the existing framework

7. Maximum Amount of Loans per Counterparty

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

50 billion yen

set separate from the 150 billion yen ceiling in the existing framework

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

The amount outstanding of eligible equity investments and loans including ABL made from April 2010

・ There is no specific requirement with regard to the maturity of individual investments and loans to be covered by the new credit line (The maturity of one year or more is required in the existing framework). The requirement for the minimum amount per investment and loan shall be one million yen, reduced from 10 million yen in the existing framework.

・ As for the treatment of investment funds, counterparties shall be able to receive loans from the Bank when they make investments to the funds, even if the details of investment plans are undecided. Around one year after that, the Bank will check whether the funds have made investments and, if not, counterparties must make repayments before maturity.

8. Deadline for Applications for New Loans

March 31, 2012

The last disbursement of new loans shall take place by June 30, 2012.

Attachment 3

June 14, 2011

Bank of Japan

Scheduled Dates of Monetary Policy Meetings in July 2011-June 2012

	Date of MPM	Publication of MPM Minutes	Publication of Outlook Report (The Bank's View)	(Reference) Publication of Monthly Report
July 2011	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.)	Jan. 27 (Fri.)	--	22 (Thurs.)
Jan. 2012	23 (Mon.), 24 (Tues.)	Feb. 17 (Fri.)	--	25 (Wed.)
Feb.	13 (Mon.), 14 (Tues.)	Mar. 16 (Fri.)	--	15 (Wed.)
Mar.	12 (Mon.), 13 (Tues.)	Apr. 13 (Fri.)	--	14 (Wed.)
Apr.	9 (Mon.), 10 (Tues.)	May 7 (Mon.)	--	11 (Wed.)
	27 (Fri.)	May 28 (Mon.)	27 (Fri.)	--
May	22 (Tues.), 23 (Wed.)	June 20 (Wed.)	--	24 (Thurs.)
June	14 (Thurs.), 15 (Fri.)	To be announced	--	18 (Mon.)

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 2012 Outlook Report* will be released at 2:00 p.m. on April 28 (Sat.), 2012.

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).