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October 13, 2011

Bank of Japan

Minutes of the Monetary Policy Meeting

on September 6 and 7, 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 Tuesday, September 6, 2011, from 2:00 p.m. to 4:49 p.m., and on Wednesday, September 7, from 9:00 a.m. to 12:16 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. S. Nakamura

Mr. H. Kamezaki

Mr. R. Miyao

Mr. Y. Morimoto

Ms. S. Shirai

Mr. K. Ishida

Government Representatives Present

Mr. Y. Fujita, Senior Vice Minister of Finance, Ministry of Finance[2]

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

Mr. K. Ishida, Senior Vice Minister, Cabinet Office[2]

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

Reporting Staff

Mr. K. Yamamoto, Executive Director

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

Mr. M. Amamiya, Executive Director

Mr. N. Kinoshita, Executive Director

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on October 6 and 7, 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. Y. Fujita and K. Ishida were present on September 7.

[3] Messrs. S. Sato and K. Umetani were present on September 6.

Mr. K. Momma, Director-General, Monetary Affairs Department

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

Mr. K. Hamano, 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 August 4, 2011, had been providing ample funds sufficient to meet demand in financial markets and was doing its utmost to ensure stability in the markets.[5] In this situation, the uncollateralized overnight call rate had been in the range of 0.075-0.090 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 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 declined to 0.1 percent, and the yield curve for T-Bills was flattening. Rates on longer-term interbank instruments had been more or less unchanged.

The benchmark long-term interest rate was seesawing around 1.0 percent in a situation where market participants maintained their cautious investment stance. Japanese stock prices had been declining against the background of the fall in U.S. stock prices and the appreciation of the yen, and the Nikkei 225 Stock Average had recently been below 9,000 yen. In the foreign exchange market, the yen appreciated against the U.S. dollar, being traded recently in the range of 76-77 yen to the dollar, reflecting concern over a slowdown in the U.S. economy.

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. Exports and business fixed investment rose moderately. In this situation, production remained on an increasing trend. On the other hand, in a situation where improvement in the employment situation was slowing and balance-sheet adjustments were weighing on the economy, the pace of increase in private consumption was only slow, although the effects of a decline in real purchasing power brought about by the earlier rise in crude oil prices were

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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.

starting to dissipate. Housing investment remained at a depressed level, while housing prices were weak. As for prices, although slack in supply and demand conditions in the goods and labor markets continued to exert downward pressure on prices, the year-on-year rate of increase in the consumer price index (CPI) for all items was at a somewhat high level, mainly because of the earlier rise in international commodity prices, and the rate of increase in the CPI for all items less energy and food, or the core CPI, moved up.

The improvement in economic activity in the euro area seemed to be pausing. The rate of increase in exports slowed to the extent that it had become more or less flat due to the deceleration in the pace of recovery of the world economy, and the rate of increase in private consumption in major countries such as Germany slowed down. On the other hand, business fixed investment continued to increase moderately. As for prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) for all items slowed somewhat in a situation where slack in supply and demand conditions, as well as the relatively slow growth in wages, continued to exert downward pressure on prices. Meanwhile, economic recovery in the United Kingdom also seemed to be pausing.

The Chinese economy continued to show high growth as a whole. Although the pace of increase in exports seemed to be slowing and the rate of increase in private consumption was decelerating to some extent, fixed asset investment maintained high growth. The Indian economy also continued to grow at a relatively rapid pace, although there were some signs of a slowdown due to the cumulative effects of monetary tightening. Economic conditions in the NIEs and the ASEAN countries continued to recover since domestic demand was firm and exports and production were starting to regain momentum. In many of these Asian economies, inflationary pressure continued to be strong, reflecting the earlier rise in food and materials prices and an acceleration in the pace of wage increases due to tight labor market conditions.

As for global financial markets, risk aversion among investors intensified due to concern over debt problems in the Unites States and Europe. Against this background, U.S. and European stock prices fluctuated considerably, reflecting views regarding the outlook for the U.S. and European economies and speculation about U.S. monetary policy. Compared with the levels at the time of the previous meeting, U.S. stock prices were more or less flat, whereas European stock prices fell as bank stock prices declined in reflection of concern about financial institutions' business conditions. Meanwhile, long-term interest rates in the United States and Germany declined due to concern about the outlook for the U.S. and European economies and investors' preference for safe assets. The yield spreads of government bonds issued by Italy and Spain over those issued by Germany narrowed due to purchases of government bonds through the Securities Markets Programme by the European Central Bank (ECB), while the spreads of those issued by Greece had expanded to a historically high level as a result of rising concern about the effectiveness of the bailout package for Greece.

D. Economic and Financial Developments in Japan

1. Economic developments

Production and exports continued to increase and almost recovered their pre-quake levels while supply-side constraints were mostly resolved. Exports were expected to be on the rise against the background of firm overseas demand. In this situation, production was expected to continue increasing, albeit at a moderate pace.

Public investment had recently stopped declining, albeit with fluctuations. It was expected to increase gradually, mainly due to the restoration of damaged social capital.

Business fixed investment had been picking up, aided partly by the restoration of disaster-stricken facilities, and was expected to increase.

The employment and income situation continued to be severe, partly due to the effects of the disaster.

Private consumption had been picking up on the whole, although weakness remained in some aspects of consumer behavior. It was expected to hold steady as the employment situation gradually headed for improvement.

Housing investment showed signs of a pick-up, aided partly by the removal of supply-side constraints. It was expected to increase gradually, partly because disaster-stricken homes were being rebuilt.

As for prices, international commodity prices were trending flat at high levels, albeit with some fluctuations. The three-month rate of increase in the domestic corporate goods price index (CGPI) was more or less flat, reflecting movements in international commodity prices. The CGPI was expected to remain more or less flat for the time being. The year-on-year rate of decline in the CPI (all items less fresh food) continued to slow and was around 0 percent, although the year-on-year rate of change was revised downward to reflect the base-year change. The year-on-year rate of change in the CPI was expected to remain at around 0 percent for the time being.

2. Financial environment

Financial conditions generally continued to ease, albeit with weakness observed in the financial positions of some firms, mainly small ones.

The overnight call rate remained at an extremely low level, and firms' funding costs declined moderately. 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. Those for corporate bonds were favorable as seen in the increased variety of corporate bond issuers. As for credit demand, firms showed signs of increasing their demand for working capital. Against this backdrop, the year-on-year rate of decline in bank lending was slowing. The amounts outstanding of both corporate bonds and CP exceeded their previous year's levels. In these circumstances, firms retained their recovered financial positions on the whole, albeit with weakness observed at some firms, mainly small ones. Meanwhile, the year-on-year rate of change in the money stock had been at around 3 percent.

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

On September 6, the Bank carried out the fifth new loan disbursement, amounting to 139.5 billion yen, through the existing line of credit under the fund-provisioning measure to support strengthening the foundations for economic growth. As for the new line of credit, established at the Monetary Policy Meeting held in June 2011, the Bank carried out the first new loan disbursement, amounting to 38.1 billion yen, to 17 eligible counterparties. As a result of the fifth loan disbursement, the total amount of loans disbursed by the Bank through the existing line of credit reached the ceiling of 3 trillion yen. Hereafter, the Bank's provision of funds through the existing line of credit would be carried out within the amount of loans that matured and the amount of repayments made before maturity. The first loan disbursement through the new line of credit under the measure had the following features: (1) of a total of 39.4 billion yen of investments and loans made by financial institutions, which could be considered the result of loans disbursed by the Bank, 33.3 billion yen comprised asset-based lending (ABL) -- loans without real estate collateral or guarantees -- and 6.1 billion yen comprised equity investments; (2) among the sorts of ABL collateral, "products" and "accounts receivable" accounted for about 30 percent of the total, respectively, but various other forms of collateral had also been used; and (3) as for the new line of credit, the Bank's efforts to accept small and short-term investments and loans, in view of the characteristics of ABL, facilitated financial institutions' utilization of the measure.

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

A. Economic Developments

Members discussed the economic and financial conditions abroad. They shared the view that overseas economies were decelerating primarily as a result of a decline in real purchasing power brought about by the earlier rise in crude oil prices, supply-chain disruptions associated with the disaster in Japan, and the effects of monetary tightening in the emerging economies. They continued that developments in overseas economies were likely to be firm as a whole, led by high growth in emerging and commodity-exporting economies. However, they also agreed that downside risks to the outlook for overseas economies had increased to some extent, as evidenced by the following points: (1) in the United States, the pace of economic recovery was quite moderate, with balance-sheet adjustments continuing to weigh on the economy; (2) in Europe, effects of the sovereign debt problems were starting to appear in economic activity through disturbances in financial markets and a deterioration in sentiment; and (3) among emerging and commodity-exporting economies, there remained a high degree of uncertainty about whether price stability and economic growth could be realized at the same time.

Members shared the view that the U.S. economy continued to recover, but that signs of a slowdown were becoming more evident. Some members noted that the real GDP growth rate for the April-June quarter of 2011 was relatively low, as in the January-March quarter. These members expressed concern that the pace of increase in private consumption was only slow, owing to factors such as (1) the effects of the earlier rise in gasoline prices, (2) a slowdown in the pace of improvement in the employment situation, and (3) a deterioration in consumer sentiment brought about by concern over government financing and a decline in stock prices. As for the outlook, many members expressed the view that there was a possibility that an economic slowdown in the United States could be prolonged given the limited room to boost the economy from the fiscal and monetary sides in a situation where balance-sheet adjustments continued to weigh on the economy. One member said that if the deceleration phase were to be prolonged, there was some risk that growth expectations might decline, which could cause a lengthy period of low growth. In response, a different member commented that it was not appropriate to be excessively pessimistic about the outlook given the new economic and employment measures being deliberated by the U.S. government. A few members said that close attention should be paid to the following points: (1) a deceleration in growth in the corporate sector that was playing a role of underpinning the U.S. economy could lead to a significant economic slowdown; and (2) there seemed to be a reduction in the supply of risk money, as evidenced by the recent low levels of initial public offerings of stocks and corporate bond issuance.

Members shared the view that the improvement in economic activity in the euro area seemed to be pausing. Many members pointed to the following as the background to this view: (1) the rate of increase in exports slowed to the extent that it had become more or less flat due to the deceleration in the pace of recovery of the world economy; and (2) a planned reduction in fiscal spending, coupled with the deterioration in household and business sentiment, was starting to exert downward pressure on economic activity. Some members expressed concern about a slowdown in private consumption in major countries such as Germany, where it had been rising moderately. With regard to the sovereign debt problems, many members said that anxiety had not yet been relieved by the measures taken by authorities, including the ECB's decision to conduct refinancing operations at fixed rates with full allotment and to purchase government bonds, as well as the introduction of regulations on short selling of stocks. Some members said that prices of government bonds issued by countries that were thought to be having serious problems with regard to fiscal consolidation were declining sharply as a result of a delay in the second bailout package for Greece. These members continued that, in this situation, anxiety over the European financial system as a whole was intensifying, as seen in the increase in U.S. dollar liquidity funding costs -- particularly for European financial institutions that held a large amount of the government bonds -- and a decline in stock prices. Furthermore, these members expressed the opinion that the effects of the sovereign debt problems were starting to appear in economic activity through disturbances in financial markets and a deterioration in sentiment. Based on this discussion, members shared the view that (1) the sovereign debt problems could not be resolved in the short term and the probability that they would continue to pose downside risks to the world economy was not insignificant; and (2) it was necessary to pay more attention to whether the adverse feedback loop among the fiscal situation, the financial system, and economic activity in Europe might intensify further.

Members agreed that, despite the recent deceleration caused by the effects of monetary tightening, emerging and commodity-exporting economies maintained relatively high growth on the whole backed by solid demand. A few members noted that the situation in each of these economies varied, as some remained on an expanding trend while others showed signs of deceleration. As for the outlook, members shared the view that a high degree of uncertainty remained as to whether price stability and economic growth could be realized at the same time in these economies, although their relatively high growth would probably continue to lead the world economy for the time being. Some members said that the Chinese economy continued to show high growth as a whole. They explained that, in China, although the pace of increase in exports seemed to be slowing and the rate of increase in private consumption was decelerating to some extent due to the rise in prices, fixed asset investment maintained high growth. With regard to the NIEs and the ASEAN countries, one member noted that there were signs of a slowdown in the exports of economies such as Taiwan and South Korea, reflecting the deceleration of some advanced economies. A different member said that real GDP growth rates for the NIEs and the ASEAN countries declined in the April-June quarter due partly to the effects of the disaster in Japan, but economic conditions in the countries since July had been firm, led by domestic demand.

Members shared the view that, in a situation where risk aversion among investors had intensified due to concern over debt problems in the United States and Europe, global financial markets were unstable and fluctuating widely, mainly reflecting views regarding the outlook for the U.S. and European economies and speculation about U.S. monetary policy. Many members noted that, against the background of investors' strong preference for safe assets, (1) yield spreads, which represented the difference between stock and government bond yields, were widening considerably; (2) long-term interest rates in the United States, United Kingdom, and Germany were at historically low levels; (3) the yen and Swiss franc were being bought in foreign exchange markets; (4) the price of gold was rising substantially; and (5) Libor-OIS spreads were widening considerably in the interbank market. A few members noted that investors' preference for safe assets reflected heightening uncertainty over the economic outlook. These members continued that the following factors seemed to be amplifying this uncertainty: (1) balance-sheet adjustments were still expected to take some time to complete; and (2) investors appeared to be of the view that room to conduct further expansionary monetary and fiscal policies was narrowing, or that it was difficult to implement necessary policies due to the social environment. These members expressed concern that, based on such understanding, it was highly likely that the unstable situation in the global financial markets would not be easily resolved.

Based on the above deliberations on economic and financial conditions abroad, members discussed the state of Japan's economy.

Regarding recent developments in the economy, members agreed that economic activity had been picking up steadily while the supply-side constraints caused by the disaster had been mostly resolved. They also shared the view that production and exports had almost recovered their pre-quake levels. Some members expressed the view that restoration of supply chains had progressed smoothly and the electric power supply constraints during the summer that had been of concern had not substantially restrained production, owing to various efforts made in the private sector. One of these members said that in some industries, such as general machinery and electrical machinery, production levels had exceeded their pre-quake levels. Members shared the view that business fixed investment and private consumption had been picking up. Some members noted that (1) the rate of increase in large firms' fixed investment plans for fiscal 2011 had turned positive for the first time in four years; (2) the number of new passenger-car registrations, sales of electrical appliances, and sales at department stores were increasing; and (3) there was gradual improvement in business and household sentiment.

As for the outlook for the economy, members shared the view that the economy was likely to return to a moderate recovery path from the second half of fiscal 2011, backed by an increase in exports reflecting firm overseas demand and by a rise in domestic demand for restoring capital stock. Many members said that, based on the production forecast index and information obtained from business contacts, it was highly likely that overall production would continue increasing through the October-December quarter on the back of accelerated production in automobile-related industries geared toward offsetting the decline in sales following the disaster. One member commented that the early termination of the restriction of electricity use based on Article 27 of the Electricity Business Act might also contribute to the increase in overall production.

With regard to risks to the outlook for Japan's economy, members concurred that, in a situation where the supply-side constraints caused by the disaster had been mostly resolved, how Japan's economy would be affected by the uncertainty regarding the developments overseas and by the ensuing fluctuations in the foreign exchange and financial markets warranted the most attention. Many members said that the risk of the sovereign debt problems in Europe putting downward pressure on overseas economies, and consequently on Japan, was increasing. Some members continued that, given the recent weakening in production of electronic parts and devices, due attention needed to be paid to dampening overseas demand for information and communications equipment. A few members noted that, with regard to the accelerated production in automobile-related industries geared toward offsetting the decline in sales following the disaster, firms might be overestimating overseas demand, and thus there was a risk of a buildup in inventory. Many members raised the following as medium- to long-term risk factors: (1) the recent appreciation of the yen would not only exert downward pressure on exports and corporate profits, but should this trend take hold, it could also accelerate Japanese firms' shift of production sites to overseas, leading to the hollowing out of industries; and (2) as it was difficult to anticipate when operations would resume at nuclear power plants following inspections, it was possible that prolonged uncertainty regarding electric power supply would restrain economic activity. One member expressed the view that the appreciation of the yen was not the main reason for the shift of Japanese firms' production sites to overseas, but there was a strong likelihood that it was influencing firms' decisions on the timing of such shifts.

Members agreed that the year-on-year rate of change in the CPI (all items less fresh food) was around 0 percent and likely to remain so for the time being. Many members expressed the view that the year-on-year rate of change in the CPI would probably be at around 0 percent, potentially falling into slightly negative territory, for the time being.

These members assessed that this was due to the following: the positive contribution from the raise in the tobacco tax and charges for accident insurance in 2010 would dissipate from October 2011, although the CPI would probably be underpinned for the time being by the passing of higher costs incurred by the earlier rise in prices of crude energy materials on to prices of final consumer goods. Some members expressed the opinion that, from a relatively long-term perspective, the rate of change in the CPI would increase at a moderate pace reflecting the narrowing of the negative output gap. One of these members said that the economy continued to move toward overcoming deflation as a trend, as evidenced by the steady narrowing in the figure representing the difference between the number of items for which prices had risen and those for which prices had declined, although the figure remained in negative territory.

Some members assessed that the degree of the downward revision to the year-on-year rate of change in the CPI following the base-year change was within the expected range. Some members expressed the view that a range of survey results showed that medium- to long-term inflation expectations among firms and households had not been affected so far by the downward revision. Some other members said that attention should continue to be paid to possible effects on medium- to long-term inflation expectations from the change in the data observed by the public following the base-year change in the CPI. One member expressed the opinion that, if the downward revision resulted in a delay in Japan's overcoming of deflation and consequently caused the public's deflationary expectations to become firmly fixed, there was a greater likelihood that deflation would actually be prolonged, particularly through postponement in spending by the public. A different member commented that, if firms took the stance of enhancing cost cuts to cope with the yen's appreciation, Japan's economy might fall into a vicious circle of a continued appreciation of the yen, in that firms' cost cuts would enable them to maintain their international competitiveness but result in a further appreciation.

Members discussed how changes in the price trend should be assessed, given the recent base-year change in the CPI. Some members expressed the view that it would be useful to employ indicators that were not greatly affected by the base-year change, such as the 10 percent trimmed mean, which excluded the effects of large changes in the prices of items in the CPI basket, as well as the Laspeyres chain index. A different member noted that the current CPI was significantly affected by price declines in several items that were not purchased frequently, such as flat-panel televisions, and that the year-on-year rate of change in the CPI would be in positive territory of slightly below 1 percent if calculated excluding the effects of price declines in these items. In response to this observation, a few members said that caution was warranted in terms of excluding the effects of some items simply because they were not purchased frequently. These members continued, however, that the quality adjustment was likely to have been made to such items as flat-panel televisions and personal computers to a large extent compared with the consumer price indices in overseas economies, and this could have lowered the level of the overall CPI. Based on this discussion, members shared the view that it was important to pay attention to the characteristics of price indices and interpretation of their movements when examining price developments, and that it would be meaningful to continue deliberating on an appropriate understanding of the price trend.

B. Financial Developments

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

Many members expressed the view that money market rates continued to be stable amid the Bank's provision of ample funds. Some members said that the fact that yields on T-Bills, including those with a one-year maturity, remained at 0.1 percent and the yen remained under upward pressure reflected investors' preference for safe assets observed worldwide.

Members shared the view that firms' funding costs had declined moderately reflecting the decline in longer-term interest rates. They concurred that firms continued to see financial institutions' lending attitudes as being on an improving trend and that issuing conditions for both CP and corporate bonds were favorable. One member noted that firms retained their recovered financial positions on the whole, but developments at small firms -- for which the diffusion index of their financial position had recently declined slightly -- warranted careful monitoring, including whether the effects of the yen's appreciation had started to appear.

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 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.

With regard to monetary policy for the immediate future, some members expressed the view that downside risks to economic activity had recently increased somewhat, but the increase was within the range that was anticipated when the Bank decided to expand the size of the Asset Purchase Program (hereafter the Program) at the Monetary Policy Meeting held in August 2011. Some members said that the increase in the Program's size must have made some contribution to the continued stability in the Japanese financial markets regardless of the increased strains in U.S. and European markets. Meanwhile, a few members mentioned that the hardships Japan's economy faced were also significantly attributable to structural factors both at home and abroad, and thus the Bank should implement policy measures while recognizing the distinction between issues that could be addressed by monetary policies and those that could not. A few other members expressed the view that further monetary easing might become necessary depending on future developments given that there remained heightened downside risks to economic activity, as seen in, for example, uncertainty about the possible consequences of the sovereign debt problems in Europe. On this point, one member said that a further enhancement of monetary easing could instead lead to instability in the financial system or prevent monetary policy effects from spreading to the economy through a decline in market liquidity and a decrease in financial institutions' profit opportunities, and therefore careful consideration was required to ensure that such developments did not occur.

Based on this discussion, members shared the view that it was appropriate for the time being to steadily implement the purchase of financial assets and monitor the spread of its effects. They also agreed to make sure that it was important for the Bank to thoroughly explain the following: (1) its decision at the previous meeting, taking full account in advance of various risk factors, that the amount of increase in the Program should be bold in size -- namely, 10 trillion yen, which surpassed the past increase of 5 trillion yen; and (2) its commitment to continuing the virtually zero interest rate policy until it judged that price stability was in sight on the basis of the "understanding of medium- to long-term price stability." They then 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.

Members shared the view that it was important to regularly conduct the U.S. dollar funds-supplying operation against pooled collateral, even though there had been no bids. One member said that, although dollar liquidity funding costs were rising due to the worsening of the sovereign debt problems in Europe, the operation's lending rates contributed to market stability by functioning as the cap on such funding costs.

Regarding 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. One member mentioned that financial institutions provided with loans planned to make a relatively large number of investments and loans that exceeded the duration and the amount of loans provided by the Bank through the fund-provisioning measure. The member continued that this suggested vigorous efforts by financial institutions in terms of investments and loans in areas with growth potential. In view of the fact that the total amount of loans disbursed through the existing line of credit had reached the ceiling of 3 trillion yen, members shared the view that the Bank would maintain the amount outstanding of the measure by providing funds commensurate with the amount of loans that matured and the amount of repayments made before maturity; at the same time, the Bank, through the provision of funds under a new line of credit for the measure decided in June, would encourage financial institutions' efforts to utilize ABL and equity investments. A few members noted that the first disbursement of loans under the new line of credit only amounted to 38.1 billion yen while the ceiling of loans was 500 billion yen, and assessed that the new line of credit had been playing a role in encouraging efforts to make use of ABL, regardless of the amount of loans actually disbursed. One member commented that, since the Bank's announcement to introduce the new line of credit, many financial institutions had moved to establish a scheme to assess collateral other than real estate, with the aim of utilizing ABL. Some members said that the Bank should continue to make various efforts, in addition to fund provisioning, as a means of further raising the degree of recognition of ABL.

Members shared the view that it would be appropriate for the Bank to deliberate at a future meeting <u>the conduct of the funds-supplying operation to support financial institutions in disaster areas subsequent to the scheduled deadline for new application for loans</u> -- specifically, the end of October 2011 -- while taking the following into consideration: the fact that the fourth disbursement amounted to 13.6 billion yen, while the amount of loans disbursed so far totaled about 350 billion yen; how demand for funds for rebuilding would emerge; how such demand would be met by financial institutions; and measures to be taken by the government.

IV. Remarks by Government Representatives

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

(1) The Japanese economy had been picking up, although the situation remained severe. Due attention needed to be paid to the downside risks to the economy stemming mainly from heightened concerns about a further slowdown in overseas economies, the ongoing appreciation of the yen, and volatile fluctuations in stock prices.

(2) The government considered the following as top-priority tasks for the immediate future: making its utmost efforts to achieve restoration and rebuilding following the disaster, and implementing appropriate measures to deal with the appreciating yen in view of the heightened concerns among the public and firms regarding the outlook.

(3) On September 2, the prime minister instructed the ministers of each ministry with regard to the formulation of the third supplementary budget for fiscal 2011, and the ministers were asked to address issues such as the hollowing out of industries, together with the restoration and rebuilding following the disaster. In addition, with the cooperation of relevant ministers, the Minister of State for Economic and Fiscal Policy was instructed to compile measures to deal with the appreciating yen. On August 24, the Ministry of Finance announced an emergency package that included a set of measures to curb the ongoing appreciation of the yen.

(4) Given the continued severe conditions in the Japanese economy, the government deemed it necessary to carefully consider the conduct of future macroeconomic management, and would continue to work closely with the Bank. It hoped that the Bank would share its view on the current severe economic conditions and continue taking decisive monetary policy actions, considering the developments in domestic and

overseas economies as well as the effects of the ongoing appreciation of the yen on the Japanese economy.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy had been picking up. With regard to price trends, it was still in a mild deflationary situation. As for the outlook, the economy was expected to continue to pick up, backed by demand for reconstruction. The forecasts for real GDP released by the Cabinet Office on August 12 suggested that, while the growth rate for fiscal 2011 would be at around 0.5 percent, that for fiscal 2012 was projected to be in the range of 2.5-3.0 percent. Nevertheless, due attention needed to be paid to the downside risks to the economy, such as the rapid appreciation of the yen and concerns about a further slowdown in overseas economies.

(2) In particular, the government regarded the rapid appreciation of the yen as a serious risk with respect to the conduct of macroeconomic management, in that it could (1) exert serious effects on the Japanese economy at a time when it was in the process of recovering from the disaster, and (2) reduce the medium- to long-term growth potential of the Japanese economy as firms increasingly shifted their business activities abroad.

(3) The government would initially focus on making its utmost efforts to achieve rebuilding following the disaster. In order to address issues such as the rapid appreciation of the yen and the risk of a consequent hollowing out of industries, it would promptly compile comprehensive measures against the appreciating yen. Furthermore, the government would work toward achieving the goal set in the "Fiscal Management Strategy" by steadily carrying out the measures laid out in the final draft of the proposal for the comprehensive reform of social security and taxation systems in order to secure market confidence in Japan's fiscal discipline.

(4) The government expected the Bank to continue to sufficiently exchange views and keep closer contact with the government to firmly underpin the economy through appropriate and decisive conduct of monetary policy while taking into account monetary policy in advanced economies, particularly of developments in the monetary easing in the United States, and paying due attention to the downside risks to the economy.

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, Mr. S. Nakamura, Mr. H. Kamezaki, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, and Mr. K. Ishida.

Votes against the proposal: None.

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).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of August 4, 2011 for release on September 12, 2011.

Attachment

September 7, 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 economic activity has been picking up steadily while the supply-side constraints caused by the earthquake disaster have been mostly resolved. Production and exports have continued to increase, almost recovering the pre-quake levels. In this situation, domestic private demand has been picking up. Meanwhile, financial conditions have generally continued to ease, albeit with weakness observed in the financial positions of some firms, mainly small ones. The year-on-year rate of change in the CPI (all items less fresh food) is around 0 percent, revised downward to reflect the base-year change.

3. Japan's economy is expected to return to a moderate recovery path from the second half of fiscal 2011, backed by an increase in exports reflecting firm overseas demand and by a rise in domestic demand for restoring capital stock. The year-on-year rate of change in the CPI is expected to remain at around 0 percent for the time being.

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

4. Regarding risks to the economic outlook, the effects of balance-sheet adjustments on the U.S. economy and the possible consequences of the sovereign debt problems in Europe continue to warrant attention. As for emerging and commodity-exporting economies, there remains a high degree of uncertainty about whether price stability and economic growth can be realized at the same time. It is necessary to carefully monitor how Japan's economy will be affected by the uncertainty regarding the developments overseas and the ensuing fluctuations in the foreign exchange and financial markets. Regarding risks to the price outlook, inflation could rise more than expected if international commodity prices increase, 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. At the previous Monetary Policy Meeting, the Bank decided to increase the size of the Asset Purchase Program by about 10 trillion yen, based on the recognition that downside risks to the economic outlook called for closer attention. The Bank has subsequently been steadily implementing the decision, especially through the purchase of financial assets. The Bank also commits itself to continuing the virtually zero interest rate policy until it judges that price stability is in sight on the basis of the "understanding of medium- to long-term price stability."[7] 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 by pursuing powerful monetary easing through the comprehensive monetary easing measures as described above, ensuring financial market stability, and providing support to strengthen the foundations for economic growth.

[7] The current understanding shows that "on the basis of a year-on-year rate of change in the CPI, it falls in a positive range of 2 percent or lower, centering around 1 percent."