Not to be released until 8:50 a.m. Japan Standard Time on Tuesday, December 27, 2011.

December 27, 2011

Bank of Japan

# Minutes of the Monetary Policy Meeting

on November 15 and 16, 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, November 15, 2011, from 2:00 p.m. to 4:06 p.m., and on Wednesday, November 16, from 9:00 a.m. to 12:44 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**[2]

**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[3]

Mr. S. Sato, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance[4]

Mr. K. Ishida, Senior Vice Minister, Cabinet Office[3]

Mr. K. Umetani, Director-General, Economic and Fiscal Management, Cabinet Office[4]

Reporting Staff

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

Mr. M. Amamiya, Executive Director

Mr. N. Kinoshita, Executive Director

[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on December 20 and 21, 2011 as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

[2] Mr. H. Yamaguchi was absent from 3:12 p.m. to 4:06 p.m. on November 15, to attend a meeting of the Budget Committee of the House of Councillors.

[3] Messrs. Y. Fujita and K. Ishida were present on November 16.

[4] Messrs. S. Sato and K. Umetani were present on November 15.

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. H. Kamiguchi, Senior Economist, Monetary Affairs Department

Mr. K. Hamano, Senior Economist, Monetary Affairs Department

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

### A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on October 27, 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 been in the range of 0.070 to 0.085 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 on the whole had been at around 0.1 percent, but temporarily declined below 0.1 percent. As for interest rates on term instruments, yields on treasury discount bills (T-Bills) had been stable at around 0.1 percent on the whole. Rates on longer-term interbank instruments had been more or less unchanged.

The benchmark long-term interest rate rose to some extent amid somewhat strong stock prices but declined thereafter, partly due to sagging stock prices; it had recently been moving below 1.0 percent. Japanese stock prices, in line with U.S. and European stock prices, showed large fluctuations reflecting concerns over the possible outcome of the sovereign debt problems in Europe. The Nikkei 225 Stock Average, after rising temporarily to above 9,000 yen, dropped sharply and had recently been at around 8,500 yen. In the foreign exchange market, the yen, after appreciating against the U.S. dollar to a historical high in the range of 75.0-75.5 yen, temporarily depreciated to 79-80 yen following the foreign exchange intervention. The yen subsequently appreciated due to the recurrence of heightening concerns about the sovereign debt problems in Europe. It had recently been in the range of 77-78 yen to the dollar.

### 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 remained only moderate. In a situation where balance-sheet adjustments were weighing on it, private

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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.

consumption continued to improve at only a moderate pace, reflecting a slowdown in the improvement in the employment situation and a deterioration in household sentiment. Housing investment remained at a depressed level with housing prices exhibiting weakness. On the other hand, exports and business fixed investment rose moderately. In this situation, production remained on an increasing trend. As for prices, although slack in supply and demand conditions in the goods and labor markets continued to exert downward pressure on prices, factors such as the earlier rise in international commodity prices continued to push up inflation rates.

The level of economic activity in the euro area was more or less unchanged, but signs of weakness were becoming evident on the whole. Growth in exports was sluggish owing to the slowdown in the world economy, and the rate of increase in business fixed investment had slowed. Private consumption was more or less unchanged. A deterioration in household and business sentiment had also spread to major countries such as Germany due to the worsening of the sovereign debt problems in Europe. Under these circumstances, the rate of increase in production was decelerating. As for prices, the slack in supply and demand conditions and the slow growth in wages were exerting downward pressure on prices. However, there was inflationary pressure from the impact of the increase in the value-added tax rate in Italy and the rise in prices of, for example, processed food, due to the continuing pass-through of the earlier increases in international commodity prices. Meanwhile, the level of economic activity in the United Kingdom was also more or less unchanged.

With regard to Asia, the Chinese economy continued to show high growth as a whole. The rate of increase in exports was slowing and, although still high, that in private consumption was decelerating to some extent, reflecting the rise in prices; however, fixed asset investment maintained high growth. The Indian economy also continued to grow at a relatively rapid pace, although its growth rate had decelerated somewhat recently due to the cumulative effects of monetary tightening. Economic conditions in the NIEs and the ASEAN countries on the whole remained on a recovery trend. Growth in exports and production seemed to be losing momentum due to the slowdown in advanced economies, but domestic demand -- private consumption in particular -- remained firm. In many of these Asian economies, inflationary pressure continued to be strong, mainly reflecting the higher wage inflation due to tight labor market conditions, but the surge in prices such as those of fresh food seemed to be pausing.

As for global financial markets, risk aversion among investors intensified again reflecting factors such as the Greek proposal to hold a national referendum on whether to accept the second bailout package, as well as the move toward a change of government in Italy and a subsequent heightening of concerns about the outlook for fiscal consolidation. In this situation, U.S. and European stock prices -- the latter in particular -- declined considerably, and the yield spreads of government bonds issued by European countries over German government bonds widened substantially. The expansion of such spreads for Italy was especially significant due partly to the fact that LCH.Clearnet -- a clearinghouse of assets including securities -- raised margin calls on Italian government bonds. With regard to the credit market, yield spreads between corporate bonds and government bonds were generally on a widening trend in Europe. In the United States, yield spreads between corporate bonds -- low-rated ones in particular -- and government bonds were more or less flat at high levels. As for the funding conditions of European financial institutions, spreads between interest rates on euro-denominated term instruments and overnight index swap (OIS) rates, swap spreads, and basis swaps widened, reflecting growing concerns over counterparty risk. Financial markets in emerging economies continued to be nervous due to concerns about the situation in Europe, but stock prices and currencies were generally more or less unchanged.

## D. Economic and Financial Developments in Japan

### 1. Economic developments

Exports and production continued to increase, due in part to the restocking of inventories abroad that had declined after the earthquake, but at a more moderate pace mainly reflecting the effects of the slowdown in overseas economies. They were expected to be more or less flat for the time being and increase moderately thereafter, mainly reflecting a pick-up in the pace of recovery in overseas economies.

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

Business fixed investment had been increasing moderately, aided partly by the restoration of disaster-stricken facilities. It was expected to basically continue its uptrend, due in part to efforts by firms to restore and reconstruct disaster-stricken facilities as well as to strengthen their earthquake-resistant and business continuity systems.

The employment and income situation continued to be severe, although there were signs of improvement.

Private consumption remained firm, and this situation was expected to continue as the employment situation gradually headed toward improvement.

Housing investment had generally been picking up, aided partly by the removal of supply-side constraints. It was expected to increase gradually, albeit with fluctuations, partly because disaster-stricken homes were being rebuilt.

As for prices, international commodity prices had been more or less flat most recently, after having trended downward from the peak around spring 2011. The three-month rate of change in the domestic corporate goods price index (CGPI) showed that it had been somewhat weak, mainly due to the decline in international commodity prices, and it was expected to remain so for the time being. The year-on-year rate of change in the consumer price index (CPI) for all items less fresh food was currently around 0 percent and was expected to stay at this level for the time being.

2. Financial environment

Financial conditions continued to ease.

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 also remained favorable as seen in the increased variety of corporate bond issuers. As for credit demand, firms showed signs of increasing their demand mainly for working capital and funds related to mergers and acquisitions. Against this backdrop, the year-on-year rate of change in bank lending turned slightly positive. 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. Meanwhile, the year-on-year rate of change in the money stock had been in the range of 2.5-3.0 percent.

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

### A. Economic Developments

Members shared the view that concerns about the sovereign debt problems in Europe remained high in global financial markets. Many members expressed strong concern in particular over the fact that the rise in the yield spreads of government bonds issued by European countries over German government bonds was now evident even in such major European countries as Italy, and that the yield spreads of bonds issued by the European Financial Stability Facility (EFSF) over German government bonds continued to widen. With regard to this situation, one member commented that the request to the private sector to bear a part of the burden of reducing the Greek government's debts on a voluntary basis seemed to have resulted in an acceleration of financial institutions' selling of government bonds. As for the sovereign debt problems in Europe, some members expressed the view that the possibility could not be denied that, under a common currency, even countries with an insufficient mechanism to maintain the balance between wages and labor productivity had benefited from low funding rates, thereby resulting in growing imbalances. On this basis, members reaffirmed the view that -- although the purchases of government bonds and the provision of liquidity by central banks were important -- while these measures were being conducted, it was necessary for the countries concerned to make steady progress with fiscal consolidation and at the same time tackle structural reforms that would raise the medium- to long-term growth potential of these economies by, for example, enhancing industrial competitiveness. One member expressed the view that financial assistance should be governed by appropriate conditions so that it would not in turn delay fiscal consolidation and structural reforms. Some members commented that -- considering that most governments in the euro area, including that of Greece, had been able to raise funds at more or less the same interest rate level until only a few years ago -- the fact that market conditions would change abruptly once confidence deteriorated should be taken seriously.

Regarding the economic and financial conditions abroad, members shared the view that, although the pace of growth had moderated, particularly in advanced economies, overseas economies as a whole continued to be on a modest recovery trend, led by relatively strong growth in emerging and commodity-exporting economies.

Members concurred that the U.S. economy continued to recover, but the pace of recovery remained only moderate. One member noted that, since summer 2011, uncertainties regarding the outlook for economic activity had been increasing amid intensified strains stemming from the sovereign debt problems in Europe, and they were affecting the spending behavior of firms and households through a deterioration in sentiment. In response, some members said that concerns observed around summer over a recession had abated somewhat because car sales had been firm and some other economic indicators had turned out to be better than market expectations. As for the outlook, members shared the view that, although the effects of monetary easing would continue to support economic recovery, the pace of growth in the U.S. economy was likely to remain modest against the background of the limited room for further fiscal and monetary stimulus and the persistent strains from balance-sheet adjustments.

Members shared the view that the euro area economy had shown clear signs of deceleration, reflecting growing concerns about financial system stability triggered by the sovereign debt problems in Europe. They agreed that the effects of unintended monetary tightening were becoming more evident than before, because European financial institutions were intensifying the reduction of their assets, as evidenced by tightening lending attitudes, in a situation where the rise in the yields of government bonds had spread from some peripheral countries even to some major countries in Europe. Some members pointed out that the effects of the sovereign debt problems in Europe were not limited to Europe itself, but were spreading globally through international trade and financial markets. As for the outlook, members shared the view that economic recovery would inevitably be restrained, as the adverse feedback loop could easily operate among the fiscal situation, the financial system, and economic activity in an environment where financial markets remained under persistent strain stemming from the sovereign debt problems in Europe. One member expressed concern that investors' intensified risk aversion might lead to an outflow of funds from emerging economies.

Members agreed that, although the pace of growth in emerging and commodity-exporting economies had moderated somewhat, mainly due to the effects of monetary tightening and the impact of a decline in exports induced by a slowdown in advanced economies, these economies generally continued to see relatively strong growth supported by solid domestic demand. A few members highlighted as a favorable factor that, although the situation differed by economy, room for monetary easing was expanding in these economies as the upward pressure on prices, including food prices, had moderated somewhat due partly to the effects of monetary tightening to date. As for the outlook, members shared the view that, as a gradual decline in inflation rates restored real purchasing power, these economies were likely to achieve relatively strong growth, although many would continue to see some slowdown in growth for the time being. However, they noted that there remained a high degree of uncertainty about whether price stability and economic growth could be realized at the same time in these economies.

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 continued picking up, but at a more moderate pace mainly due to effects of a slowdown in overseas economies. They shared the view that exports and production continued to increase, due in part to the restocking of inventories abroad that had declined after the earthquake, but at a more moderate pace mainly reflecting the effects of the slowdown in overseas economies, which led to relatively weak exports of such items as capital goods and IT-related goods and a weakening in production of general machinery as well as electronic parts and devices. Members concurred that public investment had almost stopped declining and business fixed investment had been increasing moderately. They shared the view that private consumption remained firm as the employment and income situation improved moderately.

As for the outlook for the economy, members agreed that, for the time being, Japan's economy would face an adverse effect from the slowdown in overseas economies and the appreciation of the yen, as well as from the flooding in Thailand. They shared the view that, thereafter, the economy was likely to return to a moderate recovery path as the pace of recovery in overseas economies picked up, led by emerging and commodity-exporting economies, and reconstruction-related demand after the earthquake disaster gradually materialized. Some members said that, while there was considerable uncertainty regarding the effects of the flooding in Thailand, including the extent of the damage, firms in automobile- and electrical machinery-related industries were forced to restrain their production due partly to difficulties in procuring parts from the country, and therefore Japan's exports and production were likely to be visibly reduced in the short run.

Some members noted that machinery orders (private demand, excluding orders for ships and those from electric power companies), a leading indicator of business fixed investment, were projected to decrease in the October-December quarter of 2011, and the number of housing starts, a leading indicator of housing investment, had fallen back somewhat sharply due in part to the ending of the last-minute rise in demand ahead of the expiration of various incentives for home purchasing. These members continued that it was necessary to carefully ascertain whether such developments were temporary. One of these members expressed concern over whether business fixed investment would recover as projected, partly because stock prices, which tended to precede fixed investment, had suffered a substantial drop mainly reflecting ongoing upward pressure on the yen. A different member added that attention should also be paid to the possibility that the fall in stock prices would exert downward pressure on private consumption through a deterioration in consumer sentiment, in a situation where some indicators of private consumption had still been sluggish due partly to adverse weather conditions.

With regard to risks to the outlook for Japan's economy, members concurred that careful attention should continue to be paid to how the economy would be affected by uncertainty regarding financial and economic developments overseas. They shared the view that the sovereign debt problems in Europe in particular could result in weaker growth not only in the European economy but also in the global economy, especially through their effects on global financial markets. Regarding developments in global financial markets for the time being, they agreed that these were likely to remain under heavy strain until a path to the solution of the sovereign debt problems was found. They shared the recognition that in the U.S. economy it was possible that the slowdown would be prolonged mainly due to the effects of balance-sheet repair, and that in 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. With regard to how these developments might affect the future course of Japan's economy, some members commented that some firms, particularly in export-related industries, were revising downward their profit forecasts for fiscal 2011 due to the effects of the earlier appreciation of the yen and the slowdown in overseas economies, and this could lead to weaker growth in business fixed investment and employment. These members expressed concern that signs of deterioration in business sentiment had already been observed in export-related industries. As for public investment, a few members expressed the view that implementation of the budget might be delayed on the back of the mismatch between supply and demand of labor in the disaster areas. Based on this discussion, a few members pointed to the possibility that downside risks to the economy had increased somewhat since the previous meeting.

Members agreed that the year-on-year rate of change in <u>the CPI (all items less fresh food)</u> was currently around 0 percent and likely to stay at this level for the time being. A few members referred to the fact that the year-on-year rate of decline in the CPI (all items less fresh food) for the Tokyo metropolitan area for October 2011 had accelerated because the positive contribution from the rise in the tobacco tax and charges for accident insurance had dissipated. Members shared the view that, in a situation where uncertainty was high regarding financial and economic developments overseas, considerable uncertainty surrounded the outlook for international commodity prices, with potential for movement in either direction. A few members said that careful attention should continue to be paid to how prices in Japan would be affected by the higher wage inflation in emerging economies and the renewed rise in international commodity prices reflecting the increase in demand from these economies.

**B. Financial Developments**

Members agreed that financial conditions in Japan continued to ease despite the continued heavy strains in global financial markets.

Members shared the view that, amid the Bank's provision of ample funds, money market rates continued to be stable, as evidenced by the fact, for example, that the overnight call rate remained at an extremely low level. As for corporate financing, they shared such views as the following: (1) firms' funding costs had declined moderately; (2) firms continued to see financial institutions' lending attitudes as being on an improving trend; and (3) issuing conditions for both CP and corporate bonds remained favorable. They agreed that firms retained their recovered financial positions on the whole, as suggested by survey results in which the diffusion indices of financial positions of firms, including small ones, had generally improved to above the pre-quake level and/or the average level since 2000. Some members pointed to the difference between the financial environment in Japan and that in the United States and Europe, noting that Japan's financial environment remained stable even since summer 2011, when concerns about the sovereign debt problems in Europe heightened. However, some members -- noting, for example, the weakness in prices of stocks and Japan real estate investment trusts (J-REITs), the appreciation of the yen, and the rise in U.S. dollar liquidity funding costs -- commented that instability in global financial markets was affecting Japan's financial markets to some extent. On the point that there were bids in November 2011 for the Bank's U.S. dollar funds-supplying operation against pooled collateral, marking the first time this had happened since July 2010, a few members -- while holding the view that the bids seemed to have been made to serve as a check of the administrative procedures -- pointed to the possibility that the rise in U.S. dollar liquidity funding costs could be another factor. Based on this discussion, members shared the view that attention should continue to be paid to the possibility that the sovereign debt problems in Europe would have stronger adverse effects on Japan's financial markets in the future, given the global financial markets' high correlation with each other.

With regard to the yen's appreciation since summer, members reaffirmed their view that, in a situation where global market participants were intensifying their risk-averse behavior, the yen -- considered a relatively safe asset -- was being bought mainly because there was no better alternative. Based on this view, they discussed the effects of the yen's appreciation on economic activity. Many members expressed the view that there were both positive and negative effects of the yen's appreciation on the economy, and which of the two would dominate depended on the economic conditions at the time of appreciation or on how much time had passed since then. These members continued, however, that where uncertainty regarding the outlook for overseas economies was high -- as in the current situation -- due attention needed to be paid to the possibility that the appreciation of the yen would exert adverse effects through decreases in exports and corporate profits as well as a deterioration in business sentiment. In this regard, one member pointed to the possibility that, although the appreciation of the yen had temporarily come to a halt owing to the foreign exchange intervention conducted at the end of October 2011, it would continue to adversely affect Japan's economy on the whole. Some members commented that Japanese firms' shift of production sites to overseas was basically a part of their growth strategy to respond to the expansion of overseas markets, and that such a shift -- together with that of domestic industries to more value-added activities -- should be regarded as a process in the development toward a more advanced industrial structure, which was essential to achieving economic growth. These members continued, however, that concerns over the hollowing-out of domestic industries reflected the fact that such structural adjustments were not proceeding smoothly. One of these members expressed the view that the yen's appreciation was often said to provide a good opportunity to actively make overseas investment, but such investment was unlikely to occur if there were concerns that the yen would appreciate further. A different member pointed to the possibility that, as a result of the fact that firms had previously invested in production facilities in Japan rather than overseas, in response to the significant depreciation of the yen through the mid-2000s, the adjustment burden stemming from the subsequent appreciation of the yen would weigh heavily on Japanese firms. Moreover, another member highlighted the importance of preventing firms from shifting all their business activities abroad and of firmly maintaining the manufacturing system in Japan. This member continued that attention needed to be paid to the risk that, if Japanese firms' shift of production sites to overseas accelerated sharply in response to the surge in the yen's appreciation, this shift would exceed the pace of development of new businesses and industries in Japan, thereby prolonging adverse effects on domestic employment. One member, noting that only the negative side of the appreciation of the yen tended to be publicly discussed, expressed the view that this could represent a more fundamental problem, namely, that firms' medium- to long-term growth expectations were low.

## 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, members shared the view that it was appropriate to steadily implement the Bank's decisions in August and October to increase the total size of the Asset Purchase Program (hereafter the Program) through the purchase of financial assets, and to monitor the spread of its effects. A few members said that they would carefully examine whether the weakness observed in some economic indicators released after the previous meeting was temporary. Some members expressed the opinion that the repeated expansions made to the size of the Program had been effective to a certain extent, as seen in the fact that financial conditions in Japan continued to ease despite the persisting, heavy strains in global financial markets. With regard to the undersubscription that occurred after the previous meeting in the Bank's outright purchases of corporate bonds under the Program, some members expressed the view that this was attributable to the favorable conditions in the corporate bond market. A different member commented that the undersubscription was also attributable to the fact that, unlike the situation in the period of the Bank's implementation of the quantitative easing policy, business conditions for financial institutions in Japan were generally stable, and that heightening of their precautionary demand for funds, which had been observed in that period, was not seen this time. Moreover, one member said that undersubscription might continue if demand for funds among financial institutions was low, and therefore future developments would warrant due attention. Based on this discussion, members shared the view that the recent undersubscription could also be regarded as evidence that the effects of the Bank's significant monetary easing had been spreading.

## IV. Remarks by Government Representatives

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

(1) The Japanese economy had been picking up, but the pace was decelerating. In this situation, the yen had recently appreciated rapidly to historically high levels due to recent speculative activities and disorderly movements in the foreign exchange market. Moreover, the government was highly concerned that the anxiety over debt problems in Europe had resurfaced, and that such consequences as the slowdown in overseas economies were posing significant downside risks to the Japanese economy. The effects of the flooding in Thailand also warranted careful attention.

(2) The government was doing its utmost to deal with speculative activities and disorderly movements in the foreign exchange market, and had recently intervened in the market to prevent the materialization of downside risks to the Japanese economy. It would continue to monitor market developments and take appropriate actions. The third supplementary budget for fiscal 2011 -- a substantial one for rebuilding -- was being deliberated in the Diet. The government considered it important to obtain the Diet's approval for this budget and related bills and implement them as swiftly as possible, in order to revitalize the Japanese economy at a substantially faster pace by proceeding

with rebuilding of the disaster areas, working to resolve the nuclear power plant problems, and responding to risks such as the hollowing-out of domestic industries caused by the appreciation of the yen.

(3) Considering that the downside risks to the economy were extremely high due to the appreciation of the yen and concerns over stagnant overseas economies, the government deemed it important to continue to give careful consideration to the future conduct of macroeconomic management while making appropriate responses without delay, and it would work closely with the Bank. Furthermore, the government hoped that the Bank would share its view on the current severe economic conditions and take decisive monetary policy actions while considering the effects on the Japanese economy of the developments in overseas economies and disturbances in the financial markets, including the foreign exchange market.

The representative from the Cabinet Office made the following remarks.

(1) The real GDP growth rate for the July-September quarter of 2011, released on November 14, registered an increase of 6.0 percent on an annualized basis, turning positive for the first time in four quarters, mainly reflecting a rapid reconstruction of the supply chain observed through the summer following the earthquake disaster. However, although the Japanese economy continued to pick up, the pace was decelerating. As for the outlook, the economy was expected to continue to pick up, but downside risks to the economy such as unstable international financial developments, the appreciation of the yen, the slowdown in overseas economies, and the damage caused by the flooding in Thailand required strong vigilance. Regarding financial developments in Europe in particular, the sovereign debt crisis had deepened, as seen in the fact that the crisis was spreading even to Italy, and thus risk aversion among investors was intensifying. It was necessary for the government and the Bank to keep closer contact, sharing concerns and a sense of urgency regarding significant downside risks to the global economy.

(2) The government would make its utmost efforts to achieve rebuilding following the disaster by swiftly obtaining the Diet's approval for the third supplementary budget for fiscal 2011. It would also implement in a full-fledged manner the "Comprehensive Package Responding to the Yen Appreciation," recently decided by the Cabinet, and

thereby preemptively respond to the downside risks to the economy and the risk of a hollowing-out of domestic industries, both stemming mainly from the rapid appreciation of the yen. Furthermore, with a view to raising Japan's growth potential, the government would compile a basic strategy for revitalizing Japan by the end of 2011.

(3) As strains in financial markets in Europe were intensifying, amid concerns that the Japanese economy could fall into a vicious circle of appreciation of the yen and deflation, the government expected the Bank to sufficiently exchange views and keep closer contact with the government to firmly underpin the economy through appropriate and decisive conduct of monetary policy.

## 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 October 27, 2011 for release on November 21, 2011.

Attachment

November 16, 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 economic activity has continued picking up, but at a more moderate pace mainly due to effects of a slowdown in overseas economies. As for domestic demand, business fixed investment has been increasing moderately and private consumption has remained firm. On the other hand, exports and production have continued to increase, due in part to the restocking of inventories abroad that had declined after the earthquake, but at a more moderate pace mainly reflecting the effects of the slowdown in overseas economies. Meanwhile, financial conditions in Japan have continued to ease amid the continued heavy strains in global financial markets. The year-on-year rate of change in the CPI (all items less fresh food) is around 0 percent.

3. As for the outlook, for the time being, Japan's economy will face an adverse effect from the slowdown in overseas economies and the appreciation of the yen as well as from the flooding in Thailand. After that, the economy is expected to return to a moderate

[7] 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.

recovery path as the pace of recovery in overseas economies picks up, led by emerging and commodity-exporting economies, and reconstruction-related demand after the earthquake disaster gradually materializes. The year-on-year rate of change in the CPI is expected to remain at around 0 percent for the time being.

4. Regarding risks to the economic outlook, the sovereign debt problem in Europe could result in weaker growth not only in the European economy but also in the global economy particularly through its effects on global financial markets. In the U.S. economy, there is a possibility that a slowdown will be prolonged mainly due to the effects of balance-sheet repair. 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. Careful attention should continue to be paid to how Japan's economy will be affected by the above uncertainty regarding financial and economic developments overseas. Regarding risks to the price outlook, considerable uncertainties surround future developments in international commodity prices, leaving potential for movement in either direction. 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 Bank has repeatedly expanded the size of the Asset Purchase Program on a significant scale, and is steadily implementing the Program mainly through the purchase of financial assets. The Bank has also made it clear that it is committed 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."[8] 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.

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