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 30, 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 Wednesday, November 30, 2011, from 8:31 p.m. to 9:43 p.m.[1]

Policy Board Members Present[2]

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. Y. Morimoto

Ms. S. Shirai

Mr. K. Ishida

Government Representatives Present

Mr. Y. Fujita, Senior Vice Minister of Finance, Ministry of Finance

Mr. H. Ogushi, Parliamentary Secretary of Cabinet Office, Cabinet Office

Reporting Staff

Mr. K. Yamamoto, Executive Director

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

Mr. M. Amamiya, Executive Director

Mr. N. Kinoshita, Executive Director

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

Mr. T. Umemori, Deputy Director-General, Monetary Affairs Department

Mr. K. Kamiyama, Head of Policy Planning Division, Monetary Affairs Department

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[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] An absent member of the Policy Board, Mr. R. Miyao, submitted via the chairman his written opinion on matters related to the meeting's agenda, in accordance with Article 5, paragraph 2 of the Rules concerning Policy Board Meetings.

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. M. Minegishi, Senior Economist, Monetary Affairs Department

Mr. T. Kawamoto, Senior Economist, Monetary Affairs Department

I. Remarks on the Purpose of the Unscheduled Monetary Policy Meeting

The chairman first provided the following explanation for calling an unscheduled Monetary Policy Meeting.

(1) Global financial markets were under heavy strain on the back of the sovereign debt problems in Europe, and central banks had been exchanging views on how to respond to this situation. As a result of these discussions, central banks had judged that it was desirable to take coordinated action consisting of the following: lowering the interest rates on the U.S. dollar funds-supplying operations and extending the effective period of such operations, as well as expanding the network of currency swap agreements to include non-domestic currencies other than the U.S. dollar. The coordinated action would be made public today, November 30, 2011.

(2) Financial conditions in Japan continued to ease and Japanese financial institutions were not facing difficulty with funding in foreign currencies. However, with a correlation between domestic and overseas markets increasing, the possibility could not be ruled out that Japan's financial system, and consequently financial conditions, would be adversely affected should conditions in global financial markets deteriorate further. In this situation, it would be appropriate for the Bank to take coordinated action to address pressures in financial markets together with other central banks.

II. Summary of Staff Reports on Financial Market Developments

Global financial markets continued to be under heavy strain since the previous Monetary Policy Meeting held on November 15 and 16, 2011, on the back of the sovereign debt problems in Europe.

Long-term interest rates and sovereign credit default swap (CDS) premiums in Europe had been rising even for countries other than those peripheral ones facing serious fiscal concerns. Long-term interest rates in the Unites States remained more or less flat due mainly to firm demand for U.S. government bonds that were regarded as safe assets, despite the fact that an increasing number of economic indicators turned out to be better than the market had expected. Long-term interest rates in Japan had been rising somewhat, reflecting the effects of financial institutions' profit-taking sales of Japanese government bonds.

With regard to U.S. dollar funding conditions through foreign exchange swap markets, the three-month cost of swapping euros into U.S. dollars had risen to the 1.5-2.0 percent range, significantly exceeding interest rates on the U.S. dollar funds-supplying operations, as there were concerns about counterparty risks in relation to European financial institutions that held a large amount of government bonds issued by those countries facing serious fiscal concerns. Japanese financial institutions were not facing difficulty with funding in foreign currencies despite the gradual rise in the three-month cost of swapping yen into U.S. dollars.

Stock prices were picking up somewhat in Japan, the United States, and Europe reflecting expectations of policy responses by the European authorities. In the foreign exchange market, however, the nominal effective exchange rate of the euro had been somewhat weak on the back of the sovereign debt problems in Europe.

III. Summary of Staff Reports on Coordinated Central Bank Action and the Bank of Japan's Action

The staff explained that the Bank's decision at this meeting to take the following three actions, in cooperation with the Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve, and the Swiss National Bank, could be deemed effective in maintaining financial market stability at home and abroad through the enhancement of the central banks' capacity to provide liquidity to the global financial system.

The first action would involve lowering the rates on the U.S. dollar liquidity swap arrangements and on the U.S. dollar funds-supplying operations by 0.5 percentage point for operations to be conducted from December 5, 2011. The new lending rate on the operations would therefore be the prevailing U.S. dollar overnight index swap (OIS) market rate that corresponds to the lending duration, plus 0.5 percentage point. It had been pointed out that, in some countries abroad, since the spread between interest rates on the U.S. dollar funds-supplying operations and market rates was relatively wide, not a few financial institutions were reluctant to use the operations for fear of incurring reputational risk, namely, that their creditworthiness might be regarded as having deteriorated to the extent that they would have difficulty with funding in markets should it be revealed that they had participated in the bidding of the operations. In view of such developments abroad, the aim of lowering the interest rates on the U.S. dollar funds-supplying operations would be to strengthen their effectiveness in stabilizing the U.S. dollar funding rates, by enhancing their role as a backstop.

The second action would be to extend the effective period of the U.S. dollar liquidity swap arrangements, due to expire on August 1, 2012, by six months through to February 1, 2013. In order to do so, it was necessary for the Bank to make amendments at this meeting to relevant principal terms and conditions, including those for its U.S. dollar funds-supplying operation against pooled collateral.

The third action, as a contingency measure, would be to expand currency swap arrangements to include U.S. dollars, Canadian dollars, pounds sterling, yen, euros, and Swiss francs, and thereby establish bilateral liquidity swap arrangements among the six central banks -- that is, the aforementioned five central banks and the Bank of Japan. Such arrangements would enable the Bank to provide yen to the five central banks if required. They would also allow the Bank to receive liquidity, should it be needed, in the five foreign currencies including the already available U.S. dollar. At present, there was no need to offer liquidity in non-domestic currencies other than the U.S. dollar, but it was deemed prudent to make the necessary swap arrangements so that liquidity support operations could be put into place quickly should the need arise. The Bank would work to establish the swap arrangements with the other five central banks, taking into account the market conditions.

IV. Summary of Discussions by the Policy Board

A. Discussions on Coordinated Central Bank Action and the Bank of Japan's Action

Members agreed that global financial markets were under heavy strain on the back of the sovereign debt problems in Europe, and that the funding conditions of European financial institutions were deteriorating. They shared the view that, considering the difficulty in solving the sovereign debt problems in Europe, it was likely that pressures in the markets would persist over a protracted period. Members were of the view that financial conditions in Japan continued to ease and Japanese financial institutions were not facing difficulty with funding in foreign currencies. They continued that, with an increasing correlation between domestic and overseas markets, the possibility could not be ruled out that Japan's financial system, and consequently financial conditions, would be adversely affected should conditions in global financial markets deteriorate further. Based on this discussion, members concurred that, in order to maintain financial market stability at home and abroad, it was appropriate at this time for central banks to take coordinated action to enhance their capacity to provide liquidity to the global financial system before the year-end, when demand for funds tended to increase. A few members said that the Bank should take great care in its communication with markets, so that the announcement of coordinated action would not arouse unnecessary suspicions regarding foreign currency funding conditions for Japanese financial institutions.

Members agreed that the lowering of interest rates on the U.S. dollar funds-supplying operations would strengthen the operations' ability to stabilize the U.S. dollar funding rates and enhance their role as a backstop. With regard to the problem that not a few financial institutions overseas were reluctant to make use of such operations by central banks for fear of reputational risk, a few members were of the view that the lowering of interest rates on the operations would make financial institutions less reluctant to use them, because the merits of doing so would increase even for those financial institutions that did not face problems in terms of creditworthiness. In response, some members expressed the view that reputational risk associated with the use of the operations was likely to diminish to some extent, but that the degree was highly uncertain. A different member noted that it was also necessary to pay attention to the possibility that financial institutions would become casually dependent on the operations with the lowering of interest rates on them.

Regarding the extensions of the effective periods of the U.S. dollar liquidity swap arrangements and the U.S. dollar funds-supplying operations, some members said that they would have a certain effect in terms of relieving funding concerns in the market because they would enable the financial institutions to continue to use the operations for more than a year.

Regarding the establishment of bilateral liquidity swap arrangements among the central banks that would enable the provision of liquidity in any of their currencies in addition to the already available U.S. dollar, members shared the view that at present there was no need in Japan for the Bank to offer liquidity in foreign currencies other than the U.S. dollar, such as the euro, nor was there a need for overseas central banks to offer liquidity in yen. They continued that there was in fact no demand from market participants for such funds provision. Members then shared the view that establishing bilateral liquidity swap arrangements among the central banks would help to maintain market stability as a contingency measure.

B. 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. They shared the view that it would be appropriate to hold thorough discussions on the economic and price situation at the next Monetary Policy Meeting to be held on December 20 and 21, 2011, after closely examining important indicators to be released such as the *Financial Statements Statistics of Corporations by Industry, Quarterly*, the revised estimates of GDP, and the *Tankan* (Short-Term Economic Survey of Enterprises in Japan).

V. Remarks by Government Representatives

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

(1) The government was highly concerned that the rise in anxiety over debt problems in Europe was posing significant downside risks to the Japanese economy.

(2) The government welcomed the Bank's proposal made at this meeting to enhance the U.S. dollar funds-supplying operation against pooled collateral as an appropriate measure that would form part of central banks' coordinated action to ensure financial stability, in view of the current situation where strains in U.S. dollar short-term funding markets in Europe were intensifying.

(3) The government hoped that the Bank would continue taking decisive actions while paying close attention to developments in the financial markets at home and abroad, as well as considering the effects on the Japanese economy of the developments in overseas economies and the foreign exchange market.

The representative from the Cabinet Office made the following remarks.

(1) Taking into account the recent fiscal problems in Europe and the situation in global financial markets, the government viewed the proposed coordinated action by the six central banks as appropriate measures that would contribute to maintaining market stability. The government deemed it important that the Bank provide a sufficient

explanation to the market of the background to the decision on the coordinated action and its aim.

(2) The government would continue to pay close attention to the developments in global financial markets as well as their effects on the Japanese economy, and would respond appropriately as necessary.

(3) The government also expected the Bank to underpin the economy through appropriate and decisive conduct of monetary policy while sharing concerns with it regarding the situation as well as sufficiently exchanging views and keeping close contact.

VI. Votes

A. Vote on "Amendment to 'Principal Terms and Conditions for U.S. Dollar Funds-Supplying Operations against Pooled Collateral'"

Based on the above discussions, "Amendment to 'Principal Terms and Conditions for U.S. Dollar Funds-Supplying Operations against Pooled Collateral,'" which was necessary to extend the effective periods of the existing U.S. dollar liquidity swap arrangement with the Federal Reserve and the U.S. dollar funds-supplying operation against pooled collateral, was put to a vote. Members voted unanimously to approve the amendment and agreed that the decision should be made public.

B. Discussion on the Public Statement Entitled Coordinated Central Bank Action to Address Pressures in Global Money Markets

Members discussed the statement Coordinated Central Bank Action to Address Pressures in Global Money Markets, which included a description of the coordinated central bank action and the Bank's action, and put it to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released at the same time as those by the other central banks (see Attachment 1).

C. Vote on the Guideline for Money Market Operations

To reflect the view of members, <u>the chairman</u> formulated the following proposal and put it to a vote:

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

The guideline for money market operations for the intermeeting period ahead will be as follows, and will be made public by the attached statement (see Attachment 2).

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

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

Votes against the proposal: None.

Absent: Mr. R. Miyao.

VII. Timing for Approval of the Minutes of the Monetary Policy Meeting

The minutes of this meeting would be approved at and released after the Monetary Policy Meeting to be held on December 20 and 21, 2011. The Policy Board confirmed that the minutes of the previous Monetary Policy Meeting held on November 15 and 16, 2011 would also be approved at and released after the Monetary Policy Meeting to be held on December 20 and 21, 2011, as originally scheduled.

Attachment 1

November 30, 2011

Bank of Japan

Coordinated Central Bank Action to Address Pressures in Global Money Markets

The Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve, and the Swiss National Bank are today announcing coordinated actions to enhance their capacity to provide liquidity support to the global financial system. The purpose of these actions is to ease strains in financial markets and thereby mitigate the effects of such strains on the supply of credit to households and businesses and so help foster economic activity.

These central banks have agreed to lower the pricing on the existing temporary U.S. dollar liquidity swap arrangements by 50 basis points so that the new rate will be the U.S. dollar overnight index swap (OIS) rate plus 50 basis points.[3] This pricing will be applied to all operations conducted from December 5, 2011. The authorization of these swap arrangements has been extended to February 1, 2013. In addition, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank will continue to offer three-month tenders until further notice.

As a contingency measure, these central banks have also agreed to establish temporary bilateral liquidity swap arrangements so that liquidity can be provided in each jurisdiction in any of their currencies should market conditions so warrant. At present, there is no need to offer liquidity in non-domestic currencies other than the U.S. dollar, but the central banks judge it prudent to make the necessary arrangements so that liquidity support operations could be put into place quickly should the need arise. These swap lines are authorized through February 1, 2013.

[3] Overnight index swap is a type of swap arrangement that exchanges the overnight interest rate over a specified period for a certain fixed rate. Its rate reflects market perception of the future overnight interest rates over the corresponding period on average.

Bank of Japan Action

At the unscheduled Monetary Policy Meeting held today, the Bank of Japan, in cooperation with the aforementioned central banks, decided to take measures to address recent pressures in global money markets. Specifically, interest rates on the fixed-rate U.S. Dollar funds-supplying operations currently conducted by the Bank of Japan will be reduced by 0.5 percentage points, for operations conducted from December 5. The new rate will be a prevailing U.S. dollar overnight index swap market rate that corresponds to the duration of the loan plus 0.5 percentage points.[4] The expiration of the existing U.S. dollar liquidity swap arrangement with the Federal Reserve and the concomitant U.S. Dollar funds-supplying operations has been extended by six months through to February 1, 2013. In addition, the Bank of Japan will establish reciprocal currency swap arrangements with these central banks that will be available until February 1, 2013. Such arrangements will enable the Bank of Japan to provide Japanese yen to these five central banks if required. They will also allow the Bank of Japan to receive liquidity, should it be needed, in five currencies including the already available U.S. dollars.

Financial conditions in Japan have continued to ease and Japanese financial institutions do not face difficulty with funding in foreign currencies. There is, however, a possibility that Japan will be adversely affected, should conditions in global financial markets deteriorate further. The Bank of Japan will continue to maintain financial market stability in close cooperation with other central banks.

Information on Related Actions Being Taken by Other Central Banks

Information on the actions to be taken by other central banks is available on the following websites:

Bank of Canada (http://www.bankofcanada.ca)
Bank of England (http://www.bankofengland.co.uk)
European Central Bank (http://www.ecb.int)
Federal Reserve (http://www.federalreserve.gov)
Swiss National Bank (http://www.snb.ch)

[4] Interest rates on fixed-rate U.S. Dollar funds-supplying operations are set by the Federal Reserve Bank of New York taking account of a prevailing U.S. dollar overnight index swap market rate that corresponds to the duration of the loan. These are the same interest rates that apply to the aforementioned swap agreement.

Attachment 2

November 30, 2011

Bank of Japan

Statement on Monetary Policy

At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by a unanimous vote,[5] 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.

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