Not to be released until 8:50 a.m. Japan Standard Time on Friday, April 13, 2012.

April 13, 2012

Bank of Japan

Minutes of the Monetary Policy Meeting

on March 12 and 13, 2012

(English translation prepared by the Bank's staff based on the Japanese original)

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Monday, March 12, 2012, from 2:00 p.m. to 4:52 p.m., and on Tuesday, March 13, from 9:00 a.m. to 2:02 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. H. Ogushi, Parliamentary Secretary of Cabinet Office, Cabinet Office[2]

Mr. K. Matsuyama, Vice Minister for Policy Coordination, 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 April 9 and 10, 2012 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 H. Ogushi were present on March 13.

[3] Messrs. S. Sato and K. Matsuyama were present on March 12.

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

Mr. T. Umemori, Deputy Director-General, Monetary Affairs Department[4]

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. Chida, Head of Policy Infrastructure Division, Monetary Affairs Department[4]

Mr. H. Kamiguchi, Senior Economist, Monetary Affairs Department

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

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[4] Messrs. T. Umemori and H. Chida were present on March 13.

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 February 13 and 14, 2012, 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 0.075 to around 0.095 percent.

With a view to proceeding smoothly with the purchase of financial assets and the disbursement of loans through the funds-supplying operation against pooled collateral under the Asset Purchase Program (hereafter the Program), the Bank redefined the set of issues of Japanese government bonds (JGBs) to be purchased and revised the maximum bidding amount in the operation.

B. Recent Developments in Financial Markets

In the money market, interest rates had been stable as the sense of an abundance of liquidity continued to be strong 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 longer maturities, had been stable at around 0.1 percent. Rates on longer-term interbank instruments had been more or less unchanged.

Strains in U.S. dollar and euro funding conditions were abating as European financial institutions' funding concerns had receded, due in part to the second round of the 36-month longer-term refinancing operations conducted by the European Central Bank (ECB), and because risk aversion among investors had eased in reflection of a decrease in uncertainty regarding the bailout package for Greece. The U.S. dollar funding premium in the foreign exchange swap markets -- that is, the spread between the FX swap-implied U.S. dollar rate and U.S. dollar LIBOR -- had been at around zero for funding from the yen while that for funding from the euro had been on a narrowing trend, although it remained at a relatively high level.

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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.

As for long-term interest rates, yields on government bonds with short- to medium-term maturities had declined further, reflecting the Bank's decisions at the previous meeting, such as to increase the amount of JGB purchases under the Program. On the other hand, yields on those with long-term maturities had been more or less unchanged as market participants paid heed to the rise in stock prices and the possibility of a rise in interest rates following increases in U.S. long-term interest rates. The Nikkei 225 Stock Average had risen amid the easing of risk aversion among investors, and had been at around 10,000 yen. Prices for Japan real estate investment trusts (J-REITs) increased due in part to buybacks by foreign investors. In the foreign exchange market, the yen depreciated against the U.S. dollar as market participants focused on the turn in Japan's trade balance to a deficit and the widening interest rate differential between Japan and the United States, amid continued improvement in the U.S. economic indicators, as reasons to sell the yen. The yen had recently been in the range of 82-83 yen to the dollar.

C. Overseas Economic and Financial Developments

The world economy still had not emerged from a deceleration phase on the whole, but some improvement had recently been observed in the U.S. economy, and the European economy -- which had been sluggish -- had stopped deteriorating.

The U.S. economy continued to recover at a moderate pace. Private consumption was increasing, reflecting a modest improvement in the employment situation, but the pace of recovery was generally moderate partly because the balance-sheet repair continued to weigh on the economy. Housing investment remained at a depressed level with housing prices exhibiting weakness. On the other hand, exports and business fixed investment rose moderately. Under these circumstances, production continued to increase moderately. As for prices, in a situation where 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 decelerated due to a decline in the year-on-year rate of increase in energy prices. Meanwhile, the year-on-year rate of increase in the CPI for all items less food and energy, or the core CPI, accelerated to some extent because the shelter index continued to rise moderately.

Regarding the euro area, economic activity had been sluggish but the situation had stopped deteriorating. 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. Under these circumstances, production was declining. Meanwhile, the deterioration in household and business sentiment was coming to a halt, and there had been signs of a pick-up in sentiment, mainly in Germany. As for prices, although slack in supply and demand conditions was exerting downward pressure on prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) for all items remained at a relatively high level due in part to the recent rise in crude oil prices. Meanwhile, the level of economic activity in the United Kingdom was 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 indicators of private consumption seemed to be somewhat weak after the turn of the year. Under these circumstances, the pace of increase in production was decelerating to some extent. However, fixed asset investment maintained high growth. The growth rate of the Indian economy had decelerated due to the cumulative effects of monetary tightening. Regarding the NIEs and the ASEAN countries, the pace of economic growth was slowing to some extent. Although private consumption remained firm and some improvement had recently been observed in exports and production, the rate of increase in business fixed investment seemed to be slowing. As for prices, in many of these Asian economies, core inflation rates were at relatively high levels, mainly reflecting the higher wage inflation caused by tight labor market conditions. On the other hand, inflation rates for all items were declining at a moderate pace due mainly to a halt in the surge in prices of fresh food.

Tensions in global financial markets regarding the European debt problem had abated. In particular, European financial institutions' funding concerns eased further due to the progress with the Greek bailout and because the effects of the 36-month longer-term refinancing operations conducted by the ECB had become pronounced. As for the funding conditions of European financial institutions, spreads between interest rates on euro-denominated term instruments and overnight index swap (OIS) rates continued to narrow. With regard to U.S. dollar funding conditions, spreads between interest rates on U.S. dollar-denominated term instruments and OIS rates had been contracting moderately, and the U.S. dollar funding premium in the euro-U.S. dollar basis swaps had been at a reduced level. Regarding funding conditions for long-term credit, credit spreads of bank debentures were tightening, and their issuance -- including by banks in some peripheral countries -- was increasing. Long-term interest rates in the United States were more or less unchanged, while those in Germany declined. The yield spreads of government bonds issued by European countries over German government bonds widened when uncertainty regarding negotiations over Greek debt exchange drew the attention of the market, but tightened thereafter, and government bond yields in Italy were clearly declining. With regard to the credit markets in Europe and the United States, yield spreads between corporate bonds and government bonds were narrowing moderately, although they remained at high levels. U.S. and European stock prices had risen, mainly reflecting U.S. economic indicators that were stronger than market expectations, amid the easing of risk aversion among investors. Stock prices and currencies in emerging economies had generally been more or less unchanged against the background of continued expectations for monetary easing on a global basis, despite uncertainties persistently held by market participants regarding the situation in the Middle East and the European debt problem.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports and production remained more or less flat, mainly due to the effects of a slowdown in overseas economies and the yen's appreciation. However, signs of a possible pick-up in the coming period had begun to be observed as the production forecast index continued to increase toward March. Exports were expected to gradually emerge from the current phase of flat growth and increase moderately, mainly reflecting a pick-up in the pace of recovery in overseas economies. Production was expected to increase moderately as domestic demand stayed firm, and as the pace of recovery in overseas economies picked up gradually.

Public investment had stopped declining. It was expected to increase gradually, mainly due to the restoration of damaged social capital. The value of public works contracted -- a measure that reflected public works orders -- had seen an acceleration in the pace of increase both in the October-December quarter of 2011 on a quarter-on-quarter basis and in January 2012 relative to the October-December quarter of 2011, after having turned to an increase in the July-September quarter of 2011; it was considered that this development would eventually lead to an increase in public investment.

Business fixed investment had been on a moderate increasing trend, aided by the restoration of disaster-stricken facilities. It was expected to continue on this moderate uptrend, partly due to efforts by firms to restore and reconstruct disaster-stricken facilities as well as to strengthen earthquake resistance and business continuity systems, although such effects as the slowdown in overseas economies would remain for the time being.

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

Private consumption had firmed up due in part to the effects of measures to stimulate demand for automobiles. It was expected to remain firm as the employment situation gradually headed toward improvement.

Housing investment had generally been picking up. It was expected to increase gradually, mainly due to the reconstruction of disaster-stricken homes.

As for prices, international commodity prices had increased somewhat recently. The three-month rate of change in the domestic corporate goods price index (CGPI) had been more or less flat. The CGPI was expected to move slightly upward for the time being, mainly reflecting movements in international commodity prices. The year-on-year rate of change in the CPI (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 on the whole. 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 increase in the amount outstanding of bank lending had risen. The year-on-year rate of change in the amount outstanding of CP had been positive while that of corporate bonds had recently been slightly negative, partly because some issuers had shifted to the CP market. 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 positive at around 3 percent.

II. Summary of Staff Reports on the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth and the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas

At the Monetary Policy Meeting (MPM) held on February 13 and 14, 2012, members noted that -- in addition to the pursuit of powerful monetary easing by the Bank -- in order for Japan's economy to overcome deflation, it was crucial to strengthen its growth potential; thus, it was imperative that the Bank, as the central bank, continue to support financial institutions' own efforts toward strengthening the foundations for economic growth. With regard to the fund-provisioning measure to support strengthening the foundations for economic growth (hereafter the Growth-Supporting Funding Facility), some members expressed the view that it was appropriate to consider extending the deadline for applications for new loans, and in doing so, examine whether further refinement in the formulation of the measure was possible. On this basis, it was decided that the staff would report back at this MPM, primarily on the results of their examination of whether it was necessary to extend the deadline for applications for new loans under the Growth-Supporting Funding Facility. The staff had deliberated on this matter in the intermeeting period and reported the results. Specifically, the staff considered that the following decisions could be made at this MPM.

First, with regard to the main rules for the Growth-Supporting Funding Facility introduced in June 2010, given that there had been a considerable number of requests from financial institutions for loans -- even after the outstanding balance of funds provided through the facility had reached the ceiling of 3 trillion yen -- it would be appropriate for the Bank to extend the deadline for applications for new loans by two years to March 31, 2014 and increase the ceiling for the outstanding balance of loans by 500 billion yen, from 3 trillion yen to 3.5 trillion yen.

Second, regarding the special rules for the lending arrangement for equity investments and asset-based lending (ABL) established for the Growth-Supporting Funding Facility in June 2011, it would be appropriate for the Bank to extend the deadline for applications for new loans by two years, to March 31, 2014, while keeping the ceiling for the outstanding balance of loans at the current 500 billion yen.

Third, with the aim of further enhancing financial institutions' efforts to strengthen the foundations for economic growth across a wide range of areas, it would be appropriate for the Bank to establish special rules for a new lending arrangement of 500 billion yen for small-lot investments and loans that had not been deemed eligible under the main rules for the Growth-Supporting Funding Facility. The deadline for applications for new loans could be March 31, 2014.

Fourth, in order to support financial institutions' own efforts to help Japanese firms respond to increasing global demand, it would be appropriate for the Bank to establish special rules for a new U.S. dollar lending arrangement using the U.S. dollar reserves already held by the Bank, equivalent to 1 trillion yen, for foreign currency-denominated investments and loans that should contribute to Japan's economic growth. However, since examination of further operational details was necessary, the staff considered it appropriate for the Bank to announce only a basic framework as a preliminary outline at this MPM, and it would report back at the next MPM on the results of deliberations based on an exchange of views with financial institutions and examination of operational details.

The staff also considered it appropriate for the Bank to make the decision at this MPM to extend the deadline -- initially set at April 30, 2012 -- for new applications for loans under the funds-supplying operation to support financial institutions in disaster areas. In order to continue to support financial institutions in disaster areas in their efforts to meet demand for funds for restoration and rebuilding, it would be appropriate for the Bank to extend the deadline for new applications for loans under the operation by one year, to April 30, 2013, while keeping the existing 1 trillion yen ceiling for the outstanding balance of loans. In addition, regarding the relaxation of the collateral eligibility standards for the debt of companies in disaster areas, it would also be appropriate for the Bank to extend the application period by one year, through April 30, 2014.

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

A. Economic Developments

Members shared the recognition that global financial markets had regained some stability. As background to this, many members noted the following factors: (1) the funding conditions of European financial institutions continued to improve due in part to the effects of the provision of a large amount of funds by the ECB -- mainly through the 36-month longer-term refinancing operations; (2) the debt restructuring in Greece was making some progress; and (3) U.S. economic indicators showed some improvement. Members shared the view that, although the effects of deleveraging by European financial institutions had been observed mainly in regions and lending sectors where those institutions had a large market share, these had been marginal so far.

Members concurred that overseas economies still had not emerged from a deceleration phase on the whole, but some improvement had recently been observed in the U.S. economy, and the European economy -- which had been sluggish -- had stopped deteriorating. As for the outlook, they shared the view that the pace of growth would pick up, led by emerging and commodity-exporting economies. On this basis, one member noted that, since a significant recovery in advanced economies could not be expected, it was necessary to conduct a careful examination of how the global economy would manage to increase the pace of growth in a self-sustaining manner. A different member expressed the view that, as the slowdown in the global economy since the second half of 2011 mainly stemmed from tensions in global financial markets regarding the European debt problem, the waning of such downward pressure was behind the recent improvement.

Members concurred that economic activity in the euro area had been sluggish but the situation had stopped deteriorating. A few members pointed to the fact that the Purchasing Managers' Index (PMI) for manufacturing activity had been showing moderate improvement and there had been signs of a pick-up in consumer sentiment in Germany and France. As for the outlook, members shared the view that economic activity in the euro area would continue to be quite sluggish for the time being against the background of continuing fiscal austerity and financial institutions' reduction of their assets. Looking further ahead, one member expressed the opinion that the sluggishness would gradually become less pronounced as exports and production picked up in core European countries, mainly reflecting the effects of the depreciation of the euro to date.

Members agreed that the U.S. economy continued to recover at a moderate pace. Many members commented that private consumption was increasing amid a moderate improvement in the employment and income situation, and that household and business sentiment was improving. A few members noted that the recent improvement in the number of employees could be the result of an artificial spike from a distortion in seasonal adjustments, and the pace of economic recovery was moderate compared to that in the employment indicators. As for the outlook, members concurred that the U.S. economy was likely to continue to recover at a moderate pace supported by accommodative financial conditions. As factors that would restrain the recovery to only a moderate pace, many members cited the increase in prices, due mainly to the rise in gasoline prices, and the associated decline in households' real purchasing power, in addition to weak housing prices and a further reduction in fiscal spending.

Members concurred that the pace of growth in emerging and commodity-exporting economies had moderated somewhat, mainly due to the impact of a decrease in exports induced by a slowdown in European economies, as well as the effects of a decline in real purchasing power -- incurred by the earlier rise in prices -- and of the cumulative effects of monetary tightening. On this basis, some members noted that some improvement had recently been observed in exports and production in the NIEs and the ASEAN countries, as the Chinese economy continued to show high growth as a whole and the effects of the flooding in Thailand were waning. Regarding the fact that indicators related to private consumption in China showed signs of weakness after the turn of the year, one member said that it was becoming difficult to accurately grasp the underlying trend of private consumption due to the effects of the Chinese New Year, and therefore indicators released in and after March should also be considered in assessing the trend. As for the outlook for emerging and commodity-exporting economies, members agreed that the growth rates would increase again because room for monetary easing was expanding following a decline in inflation rates and domestic demand was likely to remain firm, mainly due to a recovery in households' real purchasing power.

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 -- in line with the interim assessment made in January 2012 -- Japan's economic activity had remained more or less flat, although it had shown some signs of picking up. They shared the view that exports and production continued to be more or less flat, mainly due to the effects of the slowdown in overseas economies and the yen's appreciation. They concurred that business fixed investment had been on a moderate increasing trend, aided by the restoration of disaster-stricken facilities. As a favorable factor, a few members pointed out that business sentiment had improved recently in a situation where stock prices were rising and the yen was depreciating. One of these members added that the level of business fixed investment relative to firms' cash flow was still constrained, and this member was paying attention to whether investment would increase amid the improvement in business sentiment. Members shared the view that private consumption had firmed up due in part to the effects of measures to stimulate demand for automobiles. They agreed that housing investment had generally been picking up and public investment had stopped declining.

As for the outlook for the economy, members shared the view that -- in line with the interim assessment made in January 2012 -- Japan's economy was likely to gradually emerge from the current phase of flat growth and return to a moderate recovery path as the pace of recovery in overseas economies picked up, led by emerging and commodity-exporting economies, and as reconstruction-related demand after the earthquake disaster gradually strengthened. Many members noted that production and public investment had recently begun to show signs of a possible pick-up in the coming period. One of these members said that one year had passed since the earthquake and economic activity had almost returned to the pre-quake level. The member continued that this marked an important phase for the economy, in which the momentum for self-sustained recovery would be tested.

With regard to risks to the outlook for Japan's economy, members agreed that there remained a high degree of uncertainty about the global economy, including the prospects for the European debt problem, developments in international commodity prices, and the likelihood of emerging and commodity-exporting economies simultaneously achieving price stability and economic growth. As for the European debt problem, they shared the view that, although it appeared less likely at present that tail risks akin to the Lehman shock would materialize, it was nevertheless necessary to continue to pay attention to the possibility of a sudden change in market participants' views on the European debt problem. They then concurred that there was no major change in the landscape indicating that this problem would continue to weigh on the global economy. Many members commented that more time would be needed to overcome the more fundamental challenges, such as (1) strengthening the financial firewall, (2) enhancing fiscal governance, and (3) regaining competitiveness of the economy. One of these members added that anxiety would sweep through financial markets whenever some kind of problem materialized, and if the financial firewall was inadequate and it took time to address this situation, it was highly likely that instability in financial markets would reemerge. Many members pointed to various factors behind the rise in crude oil prices, including the heightening of geopolitical risks associated with the situation surrounding Iran, abating tensions regarding the European debt problem, some improvement observed in the U.S. economy, and the implementation of monetary easing around the world. On this basis, some members said that, if the rise in crude oil prices were largely attributable to the heightening of geopolitical risks associated with the situation surrounding Iran, not only could overseas economies decelerate, but also Japan's economic activity could weaken as a result of declines in corporate profits and households' purchasing power caused by a deterioration in the terms of trade, and thus it was necessary to carefully monitor future developments. Some members noted that attention should continue to be paid to uncertainty regarding electric power supply in Japan.

Members agreed that the year-on-year rate of change in the CPI (all items less fresh food) was currently around 0 percent and likely to stay at this level for the time being. One member expressed concern that the year-on-year rate of decline in the CPI (all items less energy and food) remained relatively large. In response, a different member said that, in the current 2010-base CPI, the weight of digital appliances -- for which the rate of decline in prices was large -- had increased because the eco-point system had encouraged the purchases of such appliances, and that it was necessary to take into account that this was pushing down the year-on-year rate of change in the CPI. A few members -- referring to the fact that there was an uptrend in the figure representing the difference between the percentage share of items in the CPI for which prices had risen from the previous year and those for which prices had declined, as well as in the trimmed mean CPI -- expressed the view that prices were beginning to increase as a trend, albeit moderately. A few members said that it was necessary to carefully monitor how the recent rise in crude oil prices would be reflected in developments in the price indicators.

With regard to risks to the outlook for prices, members shared the recognition that careful attention should be paid to future developments in international commodity prices and in medium- to long-term inflation expectations.

B. Financial Developments

Members agreed that financial conditions in Japan continued to ease.

Members agreed that money market rates had been extremely stable, as the Bank had been pursuing powerful monetary easing and the soundness of financial institutions' balance sheets had been maintained. They shared the view that issuing conditions for CP remained favorable, as did those for corporate bonds on the whole. They were of the view that firms' funding costs had declined moderately, and that the availability of funds remained on an improving trend. One member, noting that short-term inflation expectations continued to be at a low level, expressed the opinion that careful attention should be paid to such developments, since they could lead to a slowdown in the pace at which the rate of inflation converged with the level considered stable from a medium- to long-term perspective, that is, the inflation anchor.

IV. Summary of Discussions on Monetary Policy for the Immediate Future

A. The Conduct of the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth and the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas

Members agreed that it was appropriate to enhance <u>the Growth-Supporting Funding Facility</u>, in line with the staff proposal. Most members shared the view that -- in light of the Bank's recognition that the goal of overcoming deflation would be achieved through the efforts to strengthen growth potential and via support from the financial side -- the following measures should be regarded as one policy package: the Bank's clarification of its monetary policy stance and further enhancement of monetary easing at the previous meeting; and enhancement of the Growth-Supporting Funding Facility at this meeting. One member added that it was important for the Bank to launch the measures and clearly explain the factors underlying deflation that Japan's economy faced. A few members expressed the view that the Growth-Supporting Funding Facility had been producing some positive effects as a catalyst. Some members expressed the opinion that, given that financial institutions continued to proceed with their efforts to establish frameworks to strengthen the foundations for economic growth, it was appropriate for the Bank to firmly support such efforts. These members continued that the set of measures presented by the

Bank's staff at this meeting would be appropriate policy responses, since the measures were in line with financial institutions' stated needs to date. With regard to the main rules for the Growth-Supporting Funding Facility, a few members noted that, even after the outstanding balance of funds provided through the facility had reached the ceiling of 3 trillion yen, each time the Bank announced disbursement of new loans, there were requests from financial institutions for loans exceeding the amount that became available for new loan disbursement through repayments of the existing loans, and thus it was necessary for the Bank to adequately respond to such requests. These members continued that a 500 billion yen increase in the ceiling for the outstanding balance of loans would be appropriate considering that it was necessary to avoid a resurgence of concerns about intensified competition among financial institutions to lower lending rates. Regarding the special rules for the lending arrangement for equity investments and ABL, members agreed that, in a situation where financial institutions' efforts to utilize ABL were spreading, it was appropriate to continue to support these institutions so that the efforts would firmly take hold. With regard to special rules for a new lending arrangement for small-lot investments and loans, a few members expressed the view that some small firms, including very small ones -- which had found it difficult to qualify for investments and loans under the main rules for the Growth-Supporting Funding Facility, since the Bank had only targeted large-lot investments and loans -- had growth potential, and it was therefore appropriate for the Bank to support financial institutions, with a view to identifying such firms. These members commented that it was appropriate to set the ceiling for the outstanding balance of loans at 500 billion yen given the small size of investments and loans provided to these firms. Regarding special rules for a new U.S. dollar lending arrangement, members shared the view that it was important to (1) make certain that the arrangement would lead to the strengthening of the foundations for Japan's economic growth; (2) deliberate on the specifics so that the arrangement would be used in a wide range of investments and loans, including small and medium-sized ones, thereby producing positive effects as a catalyst; (3) apply an appropriate market interest rate; (4) clearly differentiate the arrangement from the measures taken by such institutions as government financial institutions; and (5) give due consideration to avoiding any misunderstanding that this arrangement would affect the level of the foreign exchange rate. Members concurred that it was appropriate to set the ceiling for the outstanding balance of loans at 1 trillion yen equivalent, taking account of the balance with the ceilings for the outstanding balance of other loans and of the amount outstanding of foreign currency-denominated assets held by the Bank. They agreed that it was appropriate for the chairman to instruct the staff to examine details of the scheme of the special rules for the U.S. dollar lending arrangement -- including operational details -- through an exchange of views with financial institutions, and to report back on the results of deliberations at the next MPM so that members could discuss the scheme in view of the aforementioned set of necessary considerations. They concurred that it was also appropriate to compile a preliminary outline for the special rules for the U.S. dollar lending arrangement at this meeting and make it public.

Regarding the funds-supplying operation to support financial institutions in disaster areas, members agreed that it was appropriate to extend the deadline for new applications for loans and continue to support financial institutions in disaster areas in their efforts to meet demand for funds for restoration and rebuilding, by making effective use of undisbursed funds for loans originally committed for the operation. They shared the recognition that the deadline for new applications for loans -- together with the application period for the relaxation of the collateral eligibility standards for the debt of companies in disaster areas -- should be extended by one year given that considerable uncertainty remained as to the timing of an increase in reconstruction-related demand and in view of the need to fully utilize the amount that became available for new loan disbursement through repayments of disbursed loans -- the duration of which was one year under the operation. Based on this recognition, members concurred that, since the basic stance for the operation was set, it was appropriate to make a decision regarding the operation at this MPM and accordingly make it public. One member commented that it would be pertinent for the Bank to deliberate, as necessary, on appropriate actions to take as the central bank while considering factors such as developments in demand for funds needed for reconstruction.

B. 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 confirmed that, for the time being, the Bank would aim to achieve the goal of 1 percent inflation in terms of the year-on-year rate of increase in the CPI through the pursuit of powerful monetary easing, conducting its virtually zero interest rate policy and implementing the Program mainly through the purchase of financial assets. They continued that the Bank would continue to do so until it judged that the 1 percent goal was in sight, though on condition that it identified no significant risk to the sustainability of economic growth, such as from the accumulation of financial imbalances.

With regard to the Program, members agreed that yields on government bonds with short- to medium-term maturities had declined further since the previous meeting, and that the repeated expansions made to the total size of the Program had brought about some positive effects on financial markets. Moreover, many members expressed the view that the recent developments in stock prices and foreign exchange rates seemed to be reflecting the fact that risk aversion among global investors had receded in response to abating tensions regarding the European debt problem and some economic indicators that suggested recovery in the U.S. economy. These members continued that the Bank's decision at the previous meeting might have led to supporting such developments. One member noted that, in a situation where a correction in the yen's appreciation and a pick-up in stock prices were being observed, it was desirable to help engender potential demand, such as with regard to firms' business fixed investment, by further spreading the understanding of the Bank's policy stance -- which was clarified at the previous meeting -- throughout the markets. This member continued that, from this viewpoint, it was appropriate to increase the total size of the Program and earmark this increase for the purchase of JGBs, as was done at the previous meeting. In response to this view, most members expressed the opinion that, considering the current economic and price situation, it was appropriate to steadily implement the Bank's decisions at the February meeting and past meetings to increase the total size of the Program through the purchase of financial assets, and to monitor the spread of their effects. With regard to the fact that the amount of JGB purchases had increased due to the repeated expansions made to the total size of the Program, some members commented that it was important for the Bank to continue to clearly explain to the public the purpose of these JGB purchases, so as to avoid any deterioration in financial market stability caused by arousing suspicions that the Bank had been engaged in monetization. Some members -- referring to the undersubscription that had recently occurred in the Bank's fixed-rate funds-supplying operation against pooled collateral with a six-month term, as well as a decline in the bid-to-cover ratios of that operation with a three-month term -- said that the undersubscription indicated that the effects of the Bank's significant monetary easing had been spreading to financial markets. However, these members continued that it was nevertheless necessary that the Bank make further efforts to complete the purchases by the end of December 2012, when the term for accumulating the outstanding amount of the Program was due to terminate. One member noted that, regarding the Bank's U.S. dollar funds-supplying operation against pooled collateral, although demand for funds supplied through the operation had declined in light of the abating tensions in global financial markets, it was important that the Bank continue to regularly conduct the operation and ensure financial market stability against the risk of a reemergence of strains in U.S. dollar funding conditions.

V. Remarks by Government Representatives

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

(1) The Japanese economy was expected to continue to pick up moderately. However, the government remained highly concerned about downside risks to the economy -- mainly stemming from future developments in the European sovereign debt crisis, the rise in crude oil prices, and fluctuations in foreign exchange rates.

(2) The budget for fiscal 2012 was approved by the House of Representatives on March 8. The government would do its utmost to promptly obtain the Diet's approval of the budget and related bills. Furthermore, the Cabinet had decided an outline for the comprehensive reform of the social security and taxation systems on February 17. The government would accelerate preparations for submitting related bills, primarily those on fundamental reform of the tax system, to the Diet by the end of fiscal 2011. Furthermore, it had been indicated in the outline that the government would also work actively on administrative and political reforms. It would aim to realize a positive feedback loop between a reliable social security system and the economy by accelerating the implementation of the growth strategy, in line with such reforms.

(3) The government was of the view that the extension of the deadline for new applications for loans under the funds-supplying operation to support financial institutions in disaster

areas would contribute to rebuilding following the disaster. The government and the Bank were of the view that overcoming deflation was the top-priority task, but the year-on-year rate of change in the CPI remained negative. The government welcomed the Bank's efforts aimed at strengthening growth potential -- such as providing funds through the Growth-Supporting Funding Facility -- as appropriate steps that would contribute to overcoming deflation, and expected the Bank to continue to take appropriate policy actions.

(4) The government welcomed the deciding of measures at the previous meeting as a timely action. It expected that the Bank -- in order to overcome deflation -- would continue to conduct monetary policy vigorously and decisively, in accordance with the policy stance clarified at the previous meeting, and make efforts such as appropriately communicating to the public while sufficiently exchanging views and keeping close contact with the government.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was picking up moderately. As for the outlook, it was expected to continue to do so, supported by the effects of policy measures. However, downside risks to the economy, triggered mainly by the European sovereign debt crisis and surge in crude oil prices, required strong vigilance.

(2) The government would make its utmost efforts toward rebuilding following the disaster and avoiding an economic slowdown, as well as decisively work to overcome deflation. The government deemed it important for the government and the Bank to work closely while continuing to keep close contact, especially on the goal of overcoming deflation -- a task Japan had confronted for over a decade. In order to achieve this aim, it was necessary to narrow the negative output gap, increase firms' expectations for economic growth, and raise the expected inflation rate in the private sector.

(3) In order to overcome deflation, the government had been making efforts to narrow the negative output gap by swiftly and steadily implementing the third and fourth supplementary budgets for fiscal 2011 -- which together would bring about positive effects of around 2 percent in terms of real GDP growth rates -- and to promptly obtain the Diet's approval of the budget for fiscal 2012. Furthermore, with a view to raising the potential growth rate and increasing the private sector's appetite for investment, the

government advanced its efforts to strengthen Japan's growth potential by accelerating the implementation of the "New Growth Strategy" and drawing up concrete plans for the "Strategy for Rebirth of Japan."

(4) In response to the measures decided at the previous meeting, positive developments were observed in financial markets such as the rise in stock prices and correction in the excessive appreciation of the yen. The government expected the Bank -- in parallel with the government -- to continue to make its utmost efforts in the conduct of monetary policy, in order to firmly sustain such developments and overcome deflation swiftly. At the previous meeting, the Bank decided that it would aim to achieve an inflation rate of 1 percent, for the time being, in terms of the year-on-year rate of increase in the CPI. The government deemed it particularly important to produce visible results first of all, and expected the Bank to conduct monetary policy flexibly and decisively, including the purchase of financial assets under the Program.

(5) The government viewed as timely actions such Bank measures as the enhancement of the Growth-Supporting Funding Facility and extension of the deadline for new applications for loans under the funds-supplying operation to support financial institutions in disaster areas. As for a new U.S. dollar lending arrangement, the government deemed it important to communicate appropriately with the market regarding this measure while considering the respective roles of the government and the Bank, so that the intention and purpose of this measure would be properly understood.

VI. Votes

A. Vote on the Guideline for Money Market Operations

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

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

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

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

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

2. A public statement will be decided separately.

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

Votes against the proposal: None.

B. Vote on the Increase in the Amount of the Asset Purchase Program

Mr. R. Miyao formulated a proposal to increase the total size of the Program, and it was put to a vote.

The proposal was defeated by a majority vote.

Votes for the proposal: Mr. R. Miyao.

Votes against 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.

C. Vote on "Establishment of 'Special Rules for Small-Lot Investments and Loans to Enhance the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth'"

Members voted unanimously to approve the staff proposal and agreed that the decision should be made public.

D. Vote on "Amendment to 'Principal Terms and Conditions for the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas' and 'Temporary Rules regarding the Eligibility Standards for Debt of Companies in Disaster Areas'"

Members voted unanimously to approve the staff proposal and agreed that the decision should be made public.

VII. Discussions on the Public Statement

On the basis of the above deliberations, members discussed the Statement on Monetary Policy, which included the following: (1) a description of the enhancement of the Growth-Supporting Funding Facility; (2) a description of the extension of the deadline for new applications for loans under the funds-supplying operation to support financial institutions in disaster areas; and (3) a preliminary outline of the new U.S. dollar lending arrangement established as part of the Growth-Supporting Funding Facility. The statement was then put to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment 1).

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of February 13 and 14, 2012 for release on March 16, 2012.

Attachment 1

March 13, 2012

Bank of Japan

Statement on Monetary Policy[7]

1. Japan's economy currently confronts the long-term structural challenge of declining trend growth rates amid rapid population aging. Tackling this challenge is crucial for establishing a new basis for economic growth. The goal of overcoming deflation will be achieved through such efforts to strengthen growth potential and via support from the financial side. With this in mind, it is important for business firms, financial institutions, the government, and the central bank each to continue exerting themselves in their respective roles.

2. Based on the above recognition, the Bank of Japan clarified its monetary policy stance and further enhanced monetary easing in February 2012. Subsequent to these decisions, at the Monetary Policy Meeting held today, the Policy Board of the Bank decided to enhance the fund-provisioning measure to support strengthening the foundations for economic growth (hereafter referred to as "the Growth-Supporting Funding Facility") as followings. As a result of today's enhancement both in terms of the yen and a foreign currency, the total amount of loans available through the Growth-Supporting Funding Facility will increase by 2 trillion yen, from 3.5 trillion yen to 5.5 trillion yen.

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[7] At today's meeting, Mr. Miyao proposed to increase the amount of the Asset Purchase Program by about 5 trillion yen, which would bring the total volume of the Program to about 70 trillion yen. The proposal was defeated by a majority vote. Voting for the proposal: Mr. R. Miyao. Voting against 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.

(1) The Bank decided to establish special rules for a new arrangement for loans of 500 billion yen for small-lot investments and loans that had not been deemed eligible in the main rules for the Growth-Supporting Funding Facility (see Attachment 2 for an outline of the new arrangement for small-lot investments and loans).

(2) The Bank will establish special rules for a new arrangement for loans in the U.S. dollar of 1 trillion yen equivalent for investments and loans denominated in foreign currencies which should contribute to Japan's economic growth (see Attachment 3 for a preliminary outline of the new arrangement for loans in the U.S. dollar). The new loans will be made using the U.S. dollar reserves already held by the Bank. The chairman instructed the staff to examine details of the new rules and report back at the next Monetary Policy Meeting.

(3) With regard to the main rules for the Growth-Supporting Funding Facility introduced in June 2010, the Bank decided to extend the deadline for applications for new loans by two years to March 31, 2014 and to increase the ceiling for the total amount of loans by 500 billion yen, from 3 trillion yen to 3.5 trillion yen.

(4) Regarding the special rules for the arrangement for loans for equity investments and asset-based lending (ABL) established for the Growth-Supporting Funding Facility in June 2011, the Bank decided to extend the deadline for applications for new loans by two years, to March 31, 2014 while keeping the ceiling for the total amount of loans at the current 500 billion yen.

3. Regarding the funds-supplying operation to support financial institutions in disaster areas, the Bank decided to extend the deadline for new applications for loans by one year to April 30, 2013 while keeping the existing 1 trillion yen ceiling for the total amount of loans. As for the relaxation of the collateral eligibility standards for debt of companies in disaster areas, the Bank also extended the application period by one year through April 30, 2014.

4. The Policy Board also decided, by a unanimous vote,[8] 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.

5. Overseas economies still have not emerged from a deceleration phase on the whole but some improvement has recently been observed in the U.S. economy and the sluggish European economy has stopped deteriorating. Global financial markets have also regained some stability.

Japan's economic activity has remained more or less flat, although it has shown some signs of picking up. As for domestic demand, business fixed investment has been on a moderate increasing trend aided by the restoration of disaster-stricken facilities, and private consumption has firmed up due in part to the effects of measures to stimulate demand for automobiles. On the other hand, exports and production have remained more or less flat, mainly due to the effects of the slowdown in overseas economies and the yen's appreciation. Meanwhile, financial conditions in Japan have continued to ease. On the price front, the year-on-year rate of change in the CPI (all items less fresh food) is around 0 percent.

6. As for the outlook, Japan's economy is expected to gradually emerge from the current phase of flat growth and return to a moderate 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 strengthens. In fact, production and public investment have recently begun to show signs of a possible pick-up in the coming period. The year-on-year rate of change in the CPI is expected to remain at around 0 percent for the time being.

[8] 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.

Regarding risks to the economic outlook, there remains a high degree of uncertainty about the global economy, especially in terms of prospects for the European debt problem, developments in international commodity prices, and the likelihood of emerging and commodity-exporting economies simultaneously achieving price stability and economic growth. Regarding risks to the price outlook, careful attention should be paid to future developments in international commodity prices and in medium- to long-term inflation expectations.

7. The Bank judges the inflation rate consistent with price stability sustainable over the medium to long term to be within a positive range of 2 percent or lower in terms of the year-on-year rate of change in the CPI. For the time being, the Bank will aim to achieve the goal of 1 percent inflation in terms of the year-on-year rate of increase in the CPI through the pursuit of powerful monetary easing, conducting its virtually zero interest rate policy and implementing the Asset Purchase Program mainly through the purchase of financial assets. The Bank will continue with this powerful easing until it judges the 1 percent goal to be in sight, though on condition that it identifies no significant risk to the sustainability of economic growth, such as from the accumulation of financial imbalances. At the same time, the Bank will engage in efforts to promote Japan's economic growth through the Growth-Supporting Funding Facility enhanced today.

Attachment 2

New Arrangement for Loans for Small-Lot Investments and Loans Established for the "Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth"

1. Eligible Investments and Loans

Small-lot investments and loans (1 million yen or more but less than 10 million yen) which should support economic growth

Compared to the main rules,[9] the only difference in eligibility requirements is the size of each investment and loan.

2. Eligible Counterparties

Eligible counterparties for the "Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth"

3. Form of Loans

Loans against collateral[10]

4. Duration of Loans

The duration of each loan shall be one year. Loans could be rolled over up to three times and, consequently, the maximum duration of loans could be effectively four years.

5. Loan Rates

The loan rate shall be the Bank's target rate[11] on the day of disbursement of the loan. The current loan rate is 0.1 percent per annum.

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9 "Principal Terms and Conditions for the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth" (Policy Board Decision on June 15, 2010). Only investments and loans with the size of 10 million yen or more are eligible in the main rules.

10 Pooled collateral pledged by the counterparty for various transactions with the Bank

11 The Bank's target rate for the uncollateralized overnight call rate stipulated in the guideline for money market operations which is currently 0 to 0.1 percent

6. Total Amount of Loans

500 billion yen

7. Maximum Amount of Loans per Counterparty

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

The sum of loans made under the main rules and those made using this new arrangement shall not exceed 150 billion yen.

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

The amount outstanding of investments and loans with a maturity of one year or more carried out by each counterparty from April 2010

8. Deadline for Applications for New Loans

March 31, 2014

The last disbursement of new loans shall take place by June 30, 2014.

Attachment 3

New Arrangement for Loans in the U.S. Dollar
Established for the "Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth"
(A Preliminary Outline)

1. Eligible Investments and Loans

Investments and loans denominated in foreign currencies and made for a period of no less than one year which should support Japan's economic growth

Each counterparty shall submit to the Bank a plan to support Japan's economic growth, and obtain the Bank's confirmation.

2. Eligible Counterparties

Of the eligible counterparties for the "Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth," those having accounts at the FRBNY and those entrusting the settlement of U.S. dollars to the financial institutions that have accounts at the FRBNY

3. Form of Loans

U.S. dollar loans against collateral[12]

4. Duration of Loans

The duration of each loan shall be one year. Loans could be rolled over up to three times and, consequently, the maximum duration of loans could be effectively four years.

5. Loan Rates

Prevailing U.S. dollar market interest rate

12 Pooled collateral pledged by the counterparty for various transactions with the Bank

6. Total Amount of Loans

1 trillion yen equivalent

Loans are made using the U.S. dollar reserves already held by the Bank.

7. Deadline for Applications for New Loans

March 31, 2014

The last disbursement of new loans shall take place by June 30, 2014.

8. Maximum Amount of Loans per Counterparty, etc.

The Bank will consider specifics of the new arrangement including the maximum amount of loans per counterparty and loan rates, taking into account various factors especially details of how financial institutions carry out lending and investment denominated in foreign currencies for Japan's economic growth.

Appendix

Overview of the "Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth"

	Main rules	Special rules for equity investments and asset-based lending	Special rules for small-lot investments and loans	Special rules for loans in the U.S. dollar
Time of establishment	June 2010	June 2011	March 2012	A preliminary outline is released in March 2012.
Total amount of loans	3 trillion yen →increased to 3.5 trillion yen	0.5 trillion yen	0.5 trillion yen	U.S. dollar funds equivalent to 1 trillion yen
Eligible investments and loans	Those with the size of 10 million yen or more	Equity investments and ABL with the size of 1 million yen or more	Those with the size of 1 million yen or more but less than 10 million yen	Those denominated in foreign currencies
Duration of loans	Maximum 4 years (including rollovers)	Maximum 4 years (including rollovers)	Maximum 4 years (including rollovers)	Maximum 4 years (including rollovers)
Loan rates	0.1 percent per annum	0.1 percent per annum	0.1 percent per annum	Prevailing U.S. dollar market interest rate
Deadline for applications for new loans	March 31, 2012 →extended to March 31, 2014	March 31, 2012 →extended to March 31, 2014	March 31, 2014	March 31, 2014
Amount outstanding as of March 13, 2012	2.9998 trillion yen	89.1 billion yen	---	---

*Shadowed parts indicate decisions made at this Monetary Policy Meeting.