Not to be released until 8:50 a.m. Japan Standard Time on Monday, May 7, 2012.

May 7, 2012

Bank of Japan

Minutes of the Monetary Policy Meeting
on April 9 and 10, 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, April 9, 2012, from 2:00 p.m. to 4:08 p.m., and on Tuesday, April 10, from 8:59 a.m. to 12:04 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. R. Miyao
Mr. Y. Morimoto
Ms. S. Shirai
Mr. K. Ishida

Government Representatives Present

Mr. Y. Fujita, Senior Vice Minister of Finance, Ministry of Finance[2]
Mr. S. Sato, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance[3]
Mr. K. Ishida, Senior Vice Minister, Cabinet Office[2]
Mr. K. 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
Mr. K. Momma, Director-General, 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 April 27, 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 K. Ishida were present on April 10.

[3] Messrs. S. Sato and K. Matsuyama were present on April 9.

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. A. Okuno, Senior Economist, Monetary Affairs Department

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

[4] Messrs. T. Umemori and H. Chida were present on April 10 from 8:59 a.m. to 9:31 a.m.

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 March 12 and 13, 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 0.065 to 0.090 percent.

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.

U.S. dollar and euro funding conditions continued to generally improve, mainly because risk aversion among investors had eased. 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 generally been narrowing, although it remained at a relatively high level.

As for long-term interest rates, yields on government bonds with short-term maturities had been more or less unchanged and those with medium- to long-term maturities remained in a similar situation, although they exhibited developments that followed yields on government bonds in the United States. The Nikkei 225 Stock Average temporarily rose above the 10,000 yen level for the first time since July 2011, in reflection of the easing of risk aversion among investors and accompanying depreciation of the yen, but had recently been moving at around 9,500 yen, partly because the depreciation had come to a halt. Prices for Japan real estate investment trusts (J-REITs) increased somewhat, albeit

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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.

with profit taking. In the foreign exchange market, the yen temporarily depreciated against the U.S. dollar, due to receding expectations of further monetary easing in the United States. It subsequently appreciated, however, and had recently been in the range of around 81-82 yen to the dollar as U.S. interest rates had declined, partly reflecting somewhat weak economic indicators.

C. Overseas Economic and Financial Developments

Overseas economies on the whole still had not emerged from a deceleration phase, but the U.S. economy continued to improve moderately 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 continued to gain momentum, and business fixed investment maintained its uptrend. Under these circumstances, production continued to increase moderately. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items declined somewhat, reflecting the significant rise in energy prices a year earlier. The year-on-year rate of increase in the CPI for all items less food and energy, or the core CPI, was virtually unchanged, with the rise in prices of automobiles and clothes exhibiting a pause while the moderate rise in the shelter index continued.

Regarding the euro area, economic activity had been sluggish but the situation had stopped deteriorating. Growth in exports was sluggish, but signs of a pick-up were seen mainly in exports to the United States and emerging economies. The rate of increase in business fixed investment had slowed, and private consumption was more or less unchanged. Under these circumstances, production was declining but the pace of decline had moderated somewhat. Household and business sentiment showed signs of a pick-up, mainly in Germany and France. 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 and energy 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 that in production was decelerating to some extent, whereas private consumption and fixed asset investment maintained high growth. The growth rate of the Indian economy had decelerated, but the pace of deceleration had been moderating. Regarding the NIEs and the ASEAN countries, the pace of economic growth had begun to pick up. Although the rate of increase in business fixed investment seemed to be slowing somewhat, private consumption remained firm and exports and production were picking up. 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.

Global financial markets had recently been generally stable, and it appeared less likely that the tail risk of a malfunctioning of global financial markets stemming from the European debt problem would materialize and exert serious effects on the world economy. 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 due to a growing sense of an abundance of liquidity in euros backed by the 36-month longer-term refinancing operations conducted by the European Central Bank (ECB). With regard to U.S. dollar funding conditions, while spreads between interest rates on U.S. dollar-denominated term instruments and OIS rates had been more or less unchanged, the U.S. dollar funding premium in the euro-U.S. dollar basis swaps continued to decline. Regarding funding conditions for long-term credit, while credit spreads of bank debentures were more or less unchanged, their issuance -- including by banks in some peripheral countries -- had been firm. Long-term interest rates in the United States and Germany had risen temporarily due to the reduced expectations for further monetary easing but were recently on a declining trend, mainly reflecting relatively weak economic indicators and concerns over the European debt problem. Reflecting the reemergence of concerns over the problem, the yield spreads of government bonds issued by some peripheral European countries over German government bonds had recently begun to widen.

With regard to the credit markets in Europe and the United States, yield spreads between corporate bonds and government bonds continued to narrow moderately. U.S. stock prices had temporarily exceeded their highest level since the Lehman shock, mainly reflecting the upward revision to the economic assessment by the Federal Open Market Committee (FOMC), but had been weakening thereafter as risk aversion among investors had increased somewhat again, mainly reflecting relatively weak economic indicators and concerns over debt problems in Spain. Developments in European stock prices had generally been in line with those in U.S. stock prices. As for financial markets in emerging economies, developments in stock prices had differed among countries and regions while those in currencies had generally been more or less unchanged.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports so far remained more or less flat. They 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.

Public investment had recently begun to increase. The amount of public construction completed -- which reflected the progress of public works -- had started to increase in January 2012 relative to the October-December quarter of 2011, after having registered a quarter-on-quarter decrease in that quarter. Public investment was expected to be on the rise, mainly due to the restoration of damaged social capital. The value of public works contracted -- a measure that reflected public works orders -- had increased at a faster pace in the January-February period of 2012 relative to the October-December quarter of 2011, after having moved upward in that quarter on a quarter-on-quarter basis.

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, as corporate profits improved gradually.

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 and was expected to continue to do so, mainly due to the reconstruction of disaster-stricken homes.

Production, though still more or less flat, had shown some signs of picking up. It was expected to increase moderately as domestic demand stayed firm and as exports picked up gradually.

As for prices, international commodity prices had increased slightly compared to a while ago. 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 amount outstanding of CP was around its year-ago level, partly due to an increase in redemptions toward the end of March. The year-on-year rate of change in the amount outstanding of corporate bonds had recently been slightly negative. 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. Establishment of "Special Rules for the U.S. Dollar Lending Arrangement to Enhance the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth"

A. Staff Proposal

At the Monetary Policy Meeting (MPM) held on March 12 and 13, 2012, the chairman instructed the staff to examine details of the scheme of the special rules for the U.S. dollar lending arrangement and to report back on the results of deliberations at this MPM. In response to the chairman's instruction, the staff -- taking into account the views held by private financial institutions and economic organizations -- examined details of the scheme based on the preliminary outline compiled at the previous MPM and mapped out a concrete plan, which was reported as follows.

First, regarding eligible investments and loans, it would be appropriate for the Bank to treat them differently depending on the place where the funds ultimately would be used. With regard to investments and loans to be used in Japan, the staff considered it appropriate to treat them the same as those provided under the main rules for the fund-provisioning measure to support strengthening the foundations for economic growth (hereafter the Growth-Supporting Funding Facility). As for investments and loans to be used abroad, it would be appropriate for the Bank to request that financial institutions explain in their plans beforehand what kind of effects could be brought about through their investments and loans in terms of strengthening Japan's growth potential -- rather than how funds provided by the Bank would be spent -- to avoid intensification of the hollowing-out of domestic industries. When examining financial institutions' investments and loans, projects that became eligible for loans provided by the Japan Bank for International Cooperation (JBIC) through the emergency facility to respond to the yen's appreciation could be excluded so as to avoid any possible competition or overlap among policy measures.

Second, as for addressing the risk associated with fluctuations in the foreign exchange rate during the provision of funds, it would be appropriate for the Bank to set the benchmark yen value of the collateral to be pledged by each counterparty at the yen value of loans multiplied by the factor that took account of the risk associated with fluctuations in the foreign exchange rate over the course of one year.

Third, with regard to loan rates, in view of the operational procedures for lending by private financial institutions and government financial institutions, and giving consideration to the smooth conduct of monetary policy in the United States, the 6-month U.S. dollar LIBOR could be applied to loan rates and the rates could be renewed every six months according to the prevailing 6-month U.S. dollar LIBOR.

Fourth, regarding the ceiling for the outstanding balance of loans, the Bank had set this at 1 trillion yen equivalent, using the U.S. dollar reserves already held by the Bank, when it decided the preliminary outline of the arrangement at the previous meeting. However, since the Bank would provide and manage loans on a U.S. dollar-denominated basis, the staff considered it appropriate to set the ceiling at 12 billion U.S. dollars, taking account of recent foreign exchange rates. The Bank could disburse new loans quarterly, and the ceiling for each loan disbursement could be set at about 2 billion U.S. dollars, so as to allow the Bank to provide loans for as long as possible throughout the coming two years.

Fifth, as for the maximum amount of loans per counterparty, this could be set at 1 billion U.S. dollars in order to ensure that a wide range of financial institutions would have the opportunity to use the arrangement, taking account of their anticipated needs.

In order for the Bank to implement the U.S. dollar lending arrangement based primarily on the aforementioned plan, the staff proposed that the Bank take necessary steps such as establishing special rules for the U.S. dollar lending arrangement to enhance the fund-provisioning measure to support strengthening the foundations for economic growth. If a decision was made regarding the special rules for the U.S. dollar lending arrangement at this meeting, the staff aimed to proceed with preparations that would enable the Bank to start providing loans under the arrangement from around the end of August 2012.

B. Discussion by the Policy Board and Vote

With regard to the staff proposal, members asked the staff to address the following points during their discussion: (1) whether there was any possible overlap or competition with policy-based financing; (2) in formulating the loan rates, whether it was necessary to add the risk premium to the 6-month U.S. dollar LIBOR; (3) whether or not the ceiling for the outstanding balance of loans of 1 trillion yen equivalent would impede any other use of external assets held by the Bank; and (4) whether or not the maximum amount of loans per counterparty of 1 billion U.S. dollars would hinder the use of the arrangement by a wide range of financial institutions. In response, the staff provided the following respective explanations: (1) projects that became eligible for loans provided by JBIC through the emergency facility to respond to the yen's appreciation should be excluded from the Bank's U.S. dollar lending arrangement under the special rules; (2) loan rates were considered to be at an appropriate level in view of the burden of required collateral; (3) there would still be a sufficient amount of the Bank's external assets left to take actions in terms of international cooperation or to take emergency measures to address a shortage of funds faced by financial institutions; and (4) there would still be scope for the Bank's provision of loans even if potential major users of the arrangement borrowed the maximum amount. Members then voted unanimously to approve the staff proposal regarding the establishment of special rules for the U.S. dollar lending arrangement to enhance the fund-provisioning measure to support strengthening the foundations for economic growth. They concurred that the staff should make this public accordingly.

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

A. Economic Developments

Members agreed that global financial markets had generally been stable. They concurred that, although ongoing initiatives only went halfway to resolving the European debt problem, the materialization of the tail risk that the problem would trigger a global financial crisis appeared less likely, mainly against the background of the provision of a large amount of funds by the ECB and the implementation of financial assistance to Greece. Many members then pointed out that risk aversion among investors had increased somewhat in a situation where a deterioration in fiscal conditions in Italy and Spain was drawing attention. They continued that it was necessary to continue to carefully monitor developments in the European debt problem given that yields on government bonds of countries with fiscal problems were rising again, including those of Greece, where they had declined at one point. One member commented that, although a rise in government bond yields was observed in some European countries, it could be judged that global financial markets had generally been stable considering the current stability in interbank funding markets.

Members concurred that overseas economies on the whole still had not emerged from a deceleration phase, but U.S. economic conditions continued to improve moderately 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.

Members agreed that U.S. economic conditions continued to improve moderately. As background to the continued moderate improvement in private consumption despite the effects of balance-sheet adjustments, many members cited moderate improvement in the employment and income situation that reflected relatively strong corporate profits. In relation to the deceleration in the pace of increase in the number of employees for March, some members noted that the employment indicators, including the number of initial claims for unemployment insurance, continued to recover, and that the improvement in the number of employees thus far could be the result of an artificial spike from a distortion in seasonal adjustments. These members then expressed the view that signs of improvement in this category remained intact. A few members commented that the continued increase in loans to firms supported the view that the U.S. economy was on an improving trend. As for the outlook, members concurred that it was likely to continue to recover at a moderate pace supported by accommodative financial conditions. On this basis, a few members pointed out that it was necessary to pay attention to the risk that the surge in gasoline prices would exert downward pressure on consumption through a decline in households' real purchasing power. One member noted that, given that the pace of recovery for the U.S. economy was only moderate, it was necessary to continue to monitor closely whether the recovery would be interrupted by the decline in households' real purchasing power or the effects of balance-sheet adjustments.

Members shared the recognition that economic activity in the euro area had been sluggish but the situation had stopped deteriorating. Some members noted that economic disparities between major and peripheral countries were generally widening, as evidenced by the fact that the unemployment rate continued to decline in Germany while that for the overall area had reached its highest peak. 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. A few members commented that attention should be paid to the widening of economic disparities between major and peripheral countries, as this could become a factor that might cause instability in the euro area economy.

Members shared the view that the pace of growth in emerging and commodity-exporting economies had moderated somewhat, mainly due to the effects of a decline in real purchasing power incurred by the earlier rise in prices and to the cumulative effects of monetary tightening, but that some of these economies were showing signs of improvement due in part to a decline in inflation rates and a pick-up in exports. Regarding the Chinese economy, some members noted that both private consumption and fixed asset investment maintained strong growth, and that the economy continued to show high growth as a whole. These members, however, expressed concern over the lingering impact observed in the Chinese economy of a decrease in exports induced by a slowdown in European economies. One member added that attention should be paid to whether the recent rise in gasoline prices would lower real purchasing power, which in turn could adversely affect private consumption. With regard to the fact that exports in the NIEs and the ASEAN countries had started to pick up, some members attributed this not only to the restoration following the damage caused by the flooding in Thailand but also to the worldwide progress in inventory adjustments in IT-related goods. As for the outlook, members concurred that, although downside risks to the Chinese economy were drawing attention, the growth rates of emerging and commodity-exporting economies as a whole would increase again, mainly due to a recovery in households' real purchasing power following the decline in inflation rates and the spread of monetary easing effects.

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 Japan's economic activity had shown some signs of picking up, although it had remained more or less flat. They shared the view that exports so far remained more or less flat. Members also concurred that business fixed investment had been on a moderate increasing trend, aided by the restoration of disaster-stricken facilities. They shared the recognition that private consumption had firmed up due in part to the effects of measures to stimulate demand for automobiles, and that housing investment had generally been picking up. They concurred that public investment -- which had been expected to be one of the important factors that would support the scenario for economic recovery -- had begun to increase on the back of reconstruction-related demand after the earthquake disaster, as shown in the statistics on the amount of public construction completed. They shared the view that production, though still more or less flat, had shown some signs of picking up, as evidenced by the increasingly firm developments in the production forecast index. Members agreed that, reflecting recent developments in demand at home and abroad, business sentiment had been more or less unchanged on the whole, with continued improvement in domestic demand-oriented sectors and lingering cautiousness in export-oriented ones.

As for the outlook for the economy, members shared the view that it 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 as reconstruction-related demand after the earthquake disaster gradually strengthened. Many members expressed the view that exports and production were likely to start picking up mainly due to the recovery in overseas economies. One of these members added that the extent to which the virtuous circle in the economy, starting from exports and production, would strengthen was an important factor that would determine the pace of future economic recovery. One member pointed to the fact that business fixed investment plans for fiscal 2012 in the March 2012 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) had exhibited a relatively large increase for plans formulated at the beginning of a fiscal year. This member continued that due attention needed to be paid to whether this increase would firmly support economic activity.

With regard to risks to the outlook for Japan's economy, members shared the view that the materialization of the tail risk that the European debt problem would trigger a global financial crisis appeared less likely. On this basis, they 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. A few members noted that, if the pace of growth in the Chinese economy were to decelerate noticeably, this would affect the Bank's economic outlook, which assumed a rise in overseas economic growth. A few other members added 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. Regarding the fact that the rate of change had turned slightly positive in February 2012, a few members said that this was partly attributable to a switch in the survey specifications, and there was no significant change in the trend of the CPI in the absence of the effects from that switch. One member commented that, looking at the CPI by group, the year-on-year rate of change for "clothes and footwear" -- prices of which were susceptible to downward pressure due in part to price competition with imports -- had recently turned positive, and this might be a sign that firms were regaining their pricing power. Members shared the view that the price situation was improving steadily, and a positive trend in the year-on-year rate of change in the CPI was likely to gradually take hold in the longer run as the aggregate supply and demand balance improved in a situation where the economy started to pick up. On this basis, a few members expressed the opinion that a situation in which the inflation rate did not rise easily in Japan might have been prompted by the perception that prices would not rise, which had taken hold in the public over time. In response, one member added that, while acknowledging that such a perception of price developments existed among the public, its effects were not immutable and could change fairly significantly, triggered by some kind of change in the social and economic environments. A few members said that firms tended to avoid passing the improvement in quality and increase in costs on to prices of their goods and services, but instead maintained price levels by raising productivity and reducing wages. One of these members commented that whether firms' behavior with regard to setting prices and wages would change was an important factor in considering the outlook for prices.

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. Some members said that there was a risk that crude oil prices might rise further depending on developments in the Middle East, although there was not a considerable likelihood for the time being that upward pressure on commodity prices would intensify given that the world economy still had not emerged from a deceleration phase.

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 noted that it was necessary, from the viewpoint of ascertaining whether the momentum for economic recovery would be maintained, to closely monitor the current situation where the rise in stock prices and the correction in the yen's appreciation had come to a halt. With regard to the fact that the year-on-year growth rate of the monetary base for March had turned negative, a few members said that this was because the outstanding balance of current accounts at the Bank had increased significantly in March 2011 as a result of the Bank's massive provision of funds immediately after the earthquake to ensure stability in financial markets. They continued that, therefore, the monetary base remained at a high level, reflecting the Bank's continued provision of ample funds. One of these members -- referring to the view that the year-on-year decline in the monetary base represented a weakening of the Bank's stance of maintaining the monetary easing -- added that this view was a complete misunderstanding.

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

Regarding <u>the guideline for money market operations for the intermeeting period ahead</u>, 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 <u>monetary policy for the immediate future</u>, 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 Asset Purchase Program (hereafter 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. Members agreed that, in order to explicitly convey the Bank's current monetary policy stance to the public, it was vital that the Bank clearly explain its confirmed basic thinking, as mentioned above, on the conduct of monetary policy. Moreover, they shared the recognition that it was also important for the Bank to emphasize the need to both strengthen the growth potential of Japan's economy and provide support from the financial side so that the economy could overcome deflation and achieve sustainable growth with price stability. Some members, noting that the first *Outlook for Economic Activity and Prices* to be released after the introduction of "the price stability goal in the medium to long term" was scheduled to be discussed at the next MPM, stressed that it was necessary to carefully examine (1) how the Bank should interpret the price outlook in relation to its 1 percent goal, which the Bank aimed to achieve for the time being; and (2) how it should explain its policy conduct based on the interpretation.

As for the Growth-Supporting Funding Facility, members agreed that the Bank's provision of funds through the facility to date had been producing some positive effects as a catalyst, and that enhancement of the facility this time was likely to support private financial institutions in their efforts to strengthen the economy's growth potential. One member commented that, as a result of the decision made at this meeting, the set of measures that the Bank could develop for the time being in an effort to contribute to strengthening the foundations for Japan's economic growth -- namely, the lending arrangements for (1) yen and foreign currency-denominated investments and loans, (2) small- and large-lot investments and loans, and (3) asset-based lending (ABL) -- was now complete. This member continued that it was crucial that recognition of the importance of strengthening the economy's growth potential be widely shared through the Bank's implementation of this set of measures.

In terms of the Program, members agreed that the repeated expansions made to its total size had brought about some positive effects on financial markets. Many members commented that, although the effects of monetary policy were seen in short-term changes in financial markets, such as those in stock prices and foreign exchange rates, they should be examined based on how they fed through to economic activity and prices. On this basis, members agreed that, at this point, 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 their effects. One member said that, although the Bank's purchase under the Program was an unconventional policy measure, its transmission mechanism was no different from that of a conventional measure, in that the purchase would affect interest rates and risk premiums and subsequently feed through to economic activity. In terms of the state of the Bank's purchase of financial assets, many members pointed out that, since late March 2012, when large-scale redemption of Japanese government bonds (JGBs) was made, the sense of an abundance of liquidity had grown further and the bid-to-cover ratios of the Bank's fixed-rate funds-supplying operation against pooled collateral had been declining again.

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, a few 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. One of these members expressed the view that, in order to avoid raising such suspicions, it was important for the Bank to explain the state of its JGB holdings in a highly transparent manner, and that it ultimately was essential that fiscal sustainability be maintained. This member added that fiscal sustainability was a prerequisite for the functioning of monetary policy, in that any undermining of confidence in fiscal sustainability would have a serious adverse impact on the stability of the financial system, as well as price stability.

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 that there were still downside risks to the economy -- mainly stemming from the further slowing down of overseas economies, the rise in crude oil prices, and fluctuations in foreign exchange rates.

(2) On April 5, the government obtained the Diet's approval of the budget for fiscal 2012. It would continue to do its utmost to also obtain the Diet's approval of the related bills. Furthermore, the government finalized the drafts of the related bills for the comprehensive reform of the social security and taxation systems and submitted them to

the Diet on March 30. It would do its utmost to work on the comprehensive reform, together with administrative reforms.

(3) The "Special Rules for the U.S. Dollar Lending Arrangement to Enhance the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth," the details of which were presented by the Bank at this meeting, was a measure that would contribute to strengthening growth potential, and the government expected the Bank to steadily proceed with implementing the lending arrangement.

(4) The government and the Bank -- sharing the view that overcoming deflation was the top-priority task in Japan -- had been making policy efforts while sufficiently exchanging views and keeping close contact, but the overcoming of deflation was not yet in sight. In this situation, on February 14, the Bank clarified its policy stance as follows: for the time being, the Bank would pursue powerful monetary easing with the aim of achieving the goal of 1 percent in terms of the year-on-year rate of increase in the CPI, and continue to do so until it judged that the 1 percent goal was in sight. The government expected the Bank to continue to conduct monetary policy vigorously and decisively, while maintaining its policy stance and working on its communication to the public in an effort to make the stance fully understood.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was exhibiting signs of upward movement in domestic demand, partly due to the effects of the implementation of supplementary budgets, and the pick-up in the economy was expected to take hold. However, downside risks, triggered mainly by the rise in crude oil prices and resurgence of the European sovereign debt crisis, required strong vigilance.

(2) The Japanese economy was still in a mild deflationary situation. As the economy had been facing difficulty in overcoming deflation for a long period, an economic structure that lacked a virtuous circle of production, income, and private demand, and that consequently prolonged deflation, had become deeply rooted; therefore, it was necessary to tackle this problem comprehensively while also implementing fiscal and monetary policy measures in order to overcome deflation.

(3) From this viewpoint, with the aim of overcoming deflation and stimulating economic activity, the government decided to launch the Council on the Economic Situation

including the Issue of Overcoming Deflation, in response to the instruction by Prime Minister Yoshihiko Noda, in order for the government to establish economic policy effectively and systematically as well as review such economic circumstances as price developments. Based on discussions at the council, the government would systematically work to correct the economic structure in which deflation easily formed.

(4) The government expected the Bank to continue to make its utmost efforts in the conduct of monetary policy in parallel with the government measures, in order to overcome deflation swiftly. Specifically, the government deemed it particularly important to produce visible results first of all, by promptly achieving an inflation rate of 1 percent, the rate the Bank aimed to achieve for the time being, in terms of the year-on-year rate of increase in the CPI. In order to do so, the government expected the Bank to work to spread the understanding of the Bank's policy stance throughout the markets and conduct monetary policy flexibly and decisively, including the purchase of financial assets under the Program.

VI. 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. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, and Mr. K. Ishida.

Votes against the proposal: None.

VII. Discussion on the Public Statement

Members discussed the Statement on Monetary Policy, which included the outline of the new U.S. dollar lending arrangement established as part of the Growth-Supporting Funding Facility, and it was put to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment 1).

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of March 12 and 13, 2012 for release on April 13, 2012.

Attachment 1

April 10, 2012

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. Overseas economies on the whole still have not emerged from a deceleration phase but U.S. economic conditions have continued to improve moderately and the sluggish European economy has stopped deteriorating. Global financial markets have generally been stable.

3. Japan's economic activity has shown some signs of picking up, although it has remained more or less flat. Exports have so far remained more or less flat. As for domestic demand, business fixed investment has been on a moderate increasing trend aided by the restoration of disaster-stricken facilities. Private consumption has firmed up due in part to the effects of measures to stimulate demand for automobiles, and housing investment has generally been picking up. Public investment has recently turned to an increase. Reflecting these developments in demand at home and abroad, production has shown some signs of picking up, although it has remained more or less

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

flat. In these circumstances, business sentiment has been more or less unchanged on the whole, with continued improvement in domestic demand-oriented sectors and lingering cautiousness in export-oriented ones. 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.

4. As for the outlook, Japan's economy is expected to return to a moderate recovery path as the pace of recovery in overseas economies picks up, led by emerging and commodity-exporting economies, and as reconstruction-related demand after the earthquake disaster gradually strengthens. The year-on-year rate of change in the CPI is expected to remain at around 0 percent for the time being.

5. Regarding risks to the economic outlook, there remains 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. 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.

6. The Bank recognizes that Japan's economy faces the critical challenge of overcoming deflation and returning to a sustainable growth path with price stability. The goal of overcoming deflation will be achieved both through efforts to strengthen the economy's growth potential and support from the financial side. With this in mind, the Bank will pursue powerful monetary easing, and will support private financial institutions in their efforts to strengthen the foundations for Japan's economic growth via the fund-provisioning measure to support strengthening the foundations for economic growth. At today's meeting, as shown in Attachment 2, the Bank established detailed rules for a new U.S. dollar lending arrangement equivalent to 1 trillion yen, of which a preliminary outline was released at the previous meeting in March.

Attachment 2

A New U.S. Dollar Lending Arrangement
Established as part of the "Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth"

1. Eligible Investments and Loans

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

-- Each counterparty shall submit to the Bank a plan for relevant investments and loans, which will be checked by the Bank.

-- With regard to the investments and loans used overseas, they should contribute to strengthening the foundations for Japan's economic growth, for example, through the following effects.

(1) An increase in the production of goods and services, business fixed investment, or employment in Japan

(2) The promotion of an international division of labor to enhance domestic economic activities; for example, by shifting more resources to the areas of business planning and research and development, the launch of new businesses, and boosting capacity for business continuity

(3) Stable procurement of raw materials consumed in Japan

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 financial institutions that have accounts at the FRBNY

3. Form of Loans

U.S. dollar loans against collateral[8]

4. Duration of Loans

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

5. Loan Rates

6-month U.S. dollar LIBOR (London InterBank Offered Rate)
Loan rates shall be renewed every six months.

6. Total Amount of Loans

12 billion U.S. dollars
- -- Loans are made using the U.S. dollar reserves already held by the Bank.
- -- New loans are scheduled to be disbursed quarterly. The total amount of loans at each disbursement is scheduled to be about 2 billion U.S. dollars.

7. Maximum Amount of Loans per Counterparty

The total amount outstanding of loans to each counterparty shall not exceed 1 billion U.S. dollars. The maximum amount to be lent to each counterparty at each loan disbursement shall be the amount outstanding of investments and loans carried out by each counterparty from April 2012.

8. Deadline for Applications for New Loans

March 31, 2014
The last disbursement of new loans shall take place by June 30, 2014.

[8] Pooled collateral pledged by the counterparty for various transactions with the Bank