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June 18, 2010.

June 18, 2010

Bank of Japan

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# **Minutes of the Monetary Policy Meeting**

on May 10, 2010

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

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Secretariat of the Policy Board, Bank of Japan

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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, May 10, 2010, from 11:00 a.m. to 12:06 p.m.<sup>1</sup>

**Policy Board Members Present**

**Mr. H. Yamaguchi, Chairman, Deputy Governor of the Bank of Japan<sup>2</sup>**

**Mr. K. G. Nishimura, Deputy Governor of the Bank of Japan**

**Ms. M. Suda**

**Mr. T. Noda**

**Mr. S. Nakamura**

**Mr. H. Kamezaki**

**Mr. R. Miyao**

Government Representatives Present

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

Mr. K. Umetani, Deputy Director-General, Economic and Fiscal Management, Cabinet Office

Reporting Staff

Mr. K. Ido, Executive Director

Mr. M. Amamiya, Director-General, Monetary Affairs Department

Mr. N. Yoshioka, Deputy Director-General, Monetary Affairs Department

Mr. T. Kato, Associate Director-General, Monetary Affairs Department

Mr. H. Toyama, Director-General, Financial Markets Department

Mr. K. Momma, Director-General, Research and Statistics Department

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<sup>1</sup> The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on June 14 and 15, 2010 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.

<sup>2</sup> Mr. M. Shirakawa was absent, as he was attending a meeting of central bank governors at the Bank for International Settlements (BIS) held in Basel, Switzerland. Due to his absence, Mr. H. Yamaguchi performed the duties of the chairman pursuant to Article 16, paragraph 5 of the Bank of Japan Act.

Mr. T. Sekine, Associate Director-General, 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 Secretarial Services for the Board,  
Secretariat of the Policy Board

Mr. T. Sakamoto, Associate Director-General, Monetary Affairs Department

Mr. Y. Nakaone, Director, Head of Monetary Operations Planning, Monetary Affairs  
Department

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

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

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

- (1) The instability in global financial markets stemming from the fiscal problem in some European countries such as Greece had recently heightened further, and the strains in U.S. dollar short-term funding markets in Europe had reemerged. The authorities held discussions over the May 8-9 weekend about how to respond to this situation in various forums, such as a G-7 conference call, a meeting of the Economic and Financial Affairs Council of the European Union, and a BIS meeting of central bank governors in Basel. Governor Shirakawa conveyed the message that the following commitments were made at the BIS meeting, which he was attending: (1) central banks in major economies would work together as needed to address pressures in funding markets; and (2) to this end, five central banks in North America and Europe -- namely, the Bank of Canada, the Bank of England, the European Central Bank (ECB), the Federal Reserve, and the Swiss National Bank -- would reestablish facilities to provide U.S. dollar funds. The governor gave instructions that the Bank should consider a possible measure in response.
- (2) In this situation, in a joint statement released on May 10 JST, these five central banks announced the reestablishment of temporary U.S. dollar liquidity swap facilities and the Bank announced that it would consider a similar measure soon.
- (3) The chairman decided to call an unscheduled Monetary Policy Meeting pursuant to Article 17, paragraph 3 of the Bank of Japan Act to consider the reestablishment of a temporary U.S. dollar swap agreement with the Federal Reserve and a scheme that would make it possible to provide U.S. dollar funds as needed.

## **II. Summary of Staff Reports on Financial Market Developments**

Strains in global financial markets had been increasing since the previous Monetary Policy Meeting held on April 30, 2010, as evidenced by the decline in U.S. dollar liquidity, particularly in Europe. Yield spreads between government bonds issued by some European countries and those issued by Germany had widened, stock prices in major economies -- particularly of U.S. and European financial institutions -- had fallen considerably, and the euro had depreciated substantially against the U.S. dollar and the yen.

In U.S. dollar short-term funding markets, the federal funds rate and Libor had risen, and U.S. dollar and euro Libor-OIS three-month spreads had significantly widened. Three-month spreads between FX swap-implied U.S. dollar rates and U.S. dollar Libor had also widened, reflecting the difficulty in dollar funding.

Japanese banks' funding in foreign currencies had not suffered any disruptions, and there had been no large impacts on the funding by foreign banks in the Tokyo market. However, some financial institutions had become less willing to invest in markets, and therefore it was necessary to monitor how the strains in global financial markets would affect the Tokyo market.

### **III. Staff Proposal on the Reestablishment of the U.S. Dollar Funds-Supplying Operation against Pooled Collateral**

With the aim of further facilitating money market operations and maintaining the smooth functioning of the money market, as well as ensuring stability in financial markets, and in view of the recent situation in the global financial markets and its possible impact on liquidity in Japan's financial markets, the staff made the following proposal to reestablish a U.S. dollar funds-supplying operation against pooled collateral as a temporary measure effective through January 31, 2011: the Bank should reestablish the Principal Terms and Conditions for U.S. Dollar Funds-Supplying Operations against Pooled Collateral and the procedure for selection of eligible counterparties in the operation, as well as a U.S. dollar-yen swap agreement with the Federal Reserve Bank of New York.

The staff explained that the reestablishment of the operation would form part of coordinated measures announced on May 10 JST by six central banks, including the Bank of Japan, to address the elevated pressures in U.S. dollar short-term funding markets in Europe.

## **IV. Summary of Discussions by the Policy Board**

### **A. Discussions on the Staff Proposal**

Members first discussed recent developments in global financial markets, and confirmed that, reflecting the further worsening of the Greek problem, strains in U.S. dollar short-term funding markets in Europe reemerged after the previous Monetary Policy Meeting held on April 30, and there were concerns that these might spread to other markets

and financial centers. Based on discussions regarding the staff proposal, members agreed that the effects on Japan's financial markets of the strains in European financial markets had been limited, and there had not been disruptions in Japanese banks' funding. However, they also agreed that it would be appropriate to reestablish the U.S. dollar funds-supplying operation as a preemptive measure, given that such a move would form part of internationally coordinated measures. Some members said that strains in financial markets were partly attributable to the fact that policy responses to the Lehman shock and the subsequent recession had worsened fiscal conditions around the world, and the deterioration in these conditions could not be settled quickly. They underscored the need not only to implement monetary policy measures but also to make continued efforts toward fiscal consolidation while recognizing the importance of fiscal discipline. One member commented that the Securities Markets Programme, which the ECB had announced in response to the current situation, was a measure to address the malfunctioning of securities markets.

#### **B. Discussions on Monetary Policy for the Immediate Future**

Regarding the guideline for money market operations until the next meeting to be held on May 20 and 21, 2010, 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 0.1 percent, as only a limited number of economic and price indicators had been released since the previous meeting.

#### **V. Remarks by Government Representatives**

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

- (1) The government welcomed the Bank's swift response, which would form part of coordinated measures of G-7 central banks to ensure stability in financial markets.

The representative from the Cabinet Office made the following remarks.

- (1) The government welcomed the Bank's measure, as a swift and appropriate action, that it would reestablish the U.S. dollar funds-supplying operation -- with a view to stabilizing rapidly changing financial markets -- in coordination with central banks in North America and Europe.
- (2) The government would continue to carefully monitor developments in global financial

markets as well as their effects on the Japanese economy, and respond appropriately to the situation.

- (3) The government hoped that the Bank would continue to aim at overcoming deflation swiftly and underpin the economy by conducting monetary policy in an appropriate and flexible manner, while sufficiently exchanging views and working together with the government.

## **VI. Votes**

### **A. Vote on the Reestablishment of the Principal Terms and Conditions for U.S. Dollar Funds-Supplying Operations against Pooled Collateral**

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

### **B. Vote on the Guideline for Money Market Operations**

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

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

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

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

Votes for the proposal: Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. T. Noda, Mr. S. Nakamura, Mr. H. Kamezaki, and Mr. R. Miyao.

Votes against the proposal: None.

Absent: Mr. M. Shirakawa.

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

Taking into account practical constraints, the minutes of this meeting would be approved at and released after the Monetary Policy Meeting to be held on June 14 and 15, 2010.



Attachment

May 10, 2010

Bank of Japan

At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by a unanimous vote,<sup>3</sup> 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 0.1 percent.

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<sup>3</sup> Voting for the action: Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. T. Noda, Mr. S. Nakamura, Mr. H. Kamezaki, and Mr. R. Miyao.

Voting against the action: None.

Absent: Mr. M. Shirakawa.