Not to be released until 8:50 a.m. Japan Standard Time on Tuesday, April 12, 2011.

April 12, 2011

Bank of Japan

# Minutes of the Monetary Policy Meeting

## on March 14, 2011

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

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Monday, March 14, 2011, from 12:01 p.m. to 2:45 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**

**Ms. M. Suda**

**Mr. T. Noda**

**Mr. S. Nakamura**

**Mr. H. Kamezaki**

**Mr. R. Miyao**

**Mr. Y. Morimoto**

Government Representatives Present

Mr. M. Sakurai, Senior Vice Minister of Finance, Ministry of Finance

Mr. Y. Suematsu, Senior Vice Minister for Economic and Fiscal Policy, Cabinet Office

Reporting Staff

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

Mr. M. Amamiya, Executive Director

Mr. N. Kinoshita, Executive Director

Mr. S. Kushida, Director-General, Monetary Affairs Department

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

Mr. T. Kato, Head of Policy Planning Division, Monetary Affairs Department

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

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

Mr. T. Sekine, Head of Economic Research Division, Research and Statistics 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 6 and 7, 2011 as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

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. T. Miyazaki, Secretariat of the Policy Board

Mr. H. Chida, Head of Policy Infrastructure Division, Monetary Affairs Department

Mr. A. Okuno, Senior Economist, Monetary Affairs Department

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

## I. Approval of the Change in Date for the Monetary Policy Meeting

The chairman began the meeting by expressing the view that, given the considerable damage from the Tohoku-Pacific Ocean Earthquake on March 11, in order to ensure stability in public sentiment and financial markets, it was important for the Bank to examine the effects of the earthquake on Japan's economic and financial developments, as well as swiftly decide on a monetary policy stance and accordingly make its decision public. The chairman then proposed that the meeting, which was originally scheduled to be held over two days, proceed with the intention of concluding within a day. The proposal was unanimously approved by the members.

## II. Summary of Staff Reports on Economic and Financial Developments[2]

### A. The Effects of the Tohoku-Pacific Ocean Earthquake on Payment and Settlement Systems and the Financial System

Following the earthquake, some financial institutions' business premises had been damaged and some automated teller machines (ATMs) had stopped operating, mainly on the Pacific coast of the Tohoku region. However, an increasing number of financial institutions conducted business operations during the weekend as part of their efforts to maintain financial services, such as repayment of deposits, that served as a lifeline for the public. In order to support these efforts, the Bank provided cash to the financial institutions at its Head Office and some of its branches over the weekend. Meanwhile, the Bank of Japan Financial Network System (BOJ-NET) and the funds settlement system for major financial institutions had been operating properly, and there had not been any significant disruptions in the settlement of funds and securities. Immediate challenges for the Bank included (1) ensuring business continuity arrangements at the Bank's branches located in the disaster-stricken areas and making preparations for the exchange of damaged banknotes, and (2) responding to planned blackouts resulting from damage caused to an electric power company's facilities.

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

The Bank, in accordance with the guideline decided at the previous meeting on February 14 and 15, 2011 and in consideration of the recent formation of market rates,

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[2] Reports were made based on information available at the time of the meeting.

conducted money market operations in a flexible manner.[3] In the Bank's funds-supplying operations, undersubscription had continued to occur, in that bids fell short of the Bank's offers. Meanwhile, the uncollateralized overnight call rate had been slightly below the 0.1 percent level.

On March 14, Japanese financial markets opened for the first time since the earthquake. Given that market participants' precautionary demand for funds had surged, the Bank, with a view to ensuring financial market stability, decided to conduct funds-supplying operations totaling 21.8 trillion yen, including same-day funds-supplying operations totaling 15 trillion yen, from the morning through the afternoon of March 14. The money market had been regaining stability due in part to the Bank's provision of a large amount of funds.

## C. Recent Developments in Financial Markets

With regard to financial market developments prior to the earthquake, the money market had been stable as a whole. Japanese stock prices fell slightly with some fluctuations, mainly against the backdrop of heightened uncertainties regarding the situation in North Africa and the Middle East. Long-term interest rates declined somewhat reflecting such developments in stock prices.

Turning to financial market developments since the earthquake, stock prices had declined considerably, and the Nikkei 225 Stock Average had been in the range of 9,500-10,000 yen. The Tokyo Stock Exchange REIT Index had also declined substantially. While there were few transactions in the secondary market for corporate bonds, selling pressure looked likely to be high. Japan's sovereign credit default swap (CDS) premiums and CDS premiums for private firms rose significantly. These developments reflected investors' heightened risk aversion with respect to financial markets. In the foreign exchange market, the yen had been volatile against the U.S. dollar, and, after temporarily appreciating to around the middle of the 80-81 yen range, had moved into the range of 82-83 yen.

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[3] 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.

## D. Overseas Economic and Financial Developments

Regarding global financial markets, flow of capital into emerging economies had been decelerating recently, reflecting vigilance concerning increased inflationary pressure in emerging economies and heightened uncertainties regarding the situation in North Africa and the Middle East. On the other hand, capital had continued to flow into international commodity markets, and this, as well as concerns about geopolitical risks, had caused crude oil prices to climb significantly. The rise in international commodity prices had pushed up inflation rates both in advanced and emerging economies, and had caused income transfers from resource-consuming countries to resource-producing countries.

In the aftermath of the earthquake in Japan, prices of commodities such as crude oil and grain had declined somewhat against the backdrop of heightened risk aversion among investors. In the stock and bond markets as a whole, a wait-and-see stance was prevailing. Meanwhile, the stock prices of Asian emerging economies that had close economic ties with Japan had generally been declining.

Many of the economic indicators released in the intermeeting period were favorable as a whole, suggesting that the world economy had continued to recover.

## E. Economic and Financial Developments in Japan

### 1. Economic developments

Regarding recent economic developments, data prior to the earthquake indicated that exports and production were showing signs of resuming their uptrend and business fixed investment was picking up. The employment and income situation had remained severe, but the degree of severity had eased somewhat. Private consumption was showing signs of picking up. Housing investment had started to pick up. Meanwhile, public investment was declining.

However, the damage from the earthquake had been widespread, and although it was difficult to quantitatively assess its effects at this point, Japan's economy was likely to come under downward pressure, at least in the short term. The Tohoku region had accounted for a large share of Japan's total production value for information and communications equipment as well as electronic parts and devices. Production was expected to be negatively impacted for the time being as many factories -- located both in and beyond the Tohoku region -- had shut down, partly due to problems caused by supply-chain disruptions, and as the supply of electricity had been constrained. With regard to private demand, while demand for facility reconstruction and daily necessities such as food products was likely to increase, there was concern that business sentiment might deteriorate and household spending might become restrained. As for the outlook, demand for reconstruction by the public sector was expected, but the scale was highly uncertain.

As for prices, the three-month rate of change in the domestic corporate goods price index (CGPI) was rising, mainly due to the increase in international commodity prices. The year-on-year rate of decline in the consumer price index (CPI) for all items excluding fresh food had continued to slow, while substantial slack remained in the economy as a whole.

2. Financial environment

Although financial conditions had continued to ease further, the earthquake could exert a certain influence over them. Attention should be paid to the following points: whether financial institutions would tighten lending standards and firms' financial positions would deteriorate, reflecting a decline in firms' creditworthiness; whether the declining trend in firms' funding costs would continue; and whether issuing conditions for CP and corporate bonds would change due to heightened risk aversion among investors.

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

Regarding the state of Japan's economy, members agreed that, since there was insufficient information to quantitatively assess the effects of the Tohoku-Pacific Ocean Earthquake at this point, it was appropriate to judge that, while maintaining the assessment that Japan's economy was emerging from the current deceleration phase, uncertainty regarding the outlook for economic activity and prices was heightening significantly.

Regarding the effects of the earthquake, some members said that considerable damage had been caused, especially in the Tohoku region, to production and distribution facilities as well as the social infrastructure. Many members commented that, in addition to direct damage from the earthquake, constraints on the supply of electricity caused by damage to power plants were also highly likely to affect economic activity. Some members -- pointing to the fact that many factories producing materials and parts were located in the disaster-stricken areas -- noted that the effects of sluggish production in these areas might spread to domestic and overseas economies through the supply chain. On the other hand, one member said that, considering the present low level of capacity utilization in Japan, there was a possibility that the extent of decline in production in the economy as a whole would be relatively small because of a shift of production to other locations and manufacturers. A different member noted that consumer demand for daily necessities would likely increase due to, for example, hoarding of goods.

Many members were of the opinion that attention should be paid to the possibility of deterioration in the sentiment of firms and households due to such factors as the present grave situation and growing concern over a stable supply of electricity. A few members commented that downside risks to the economy associated with a possible worsening in the sentiment of firms and households had increased further given that the earthquake had occurred amid concerns about deterioration in the terms of trade resulting from a further rise in international commodity prices. Some members said that, while the money market had remained stable, stock prices and long-term interest rates had declined reflecting increased uncertainties regarding the outlook, and risk aversion in financial markets could heighten further.

With regard to the effects of the earthquake in the medium term, some members expressed the view that, although public- and private-sector activities aimed at reconstruction could boost the economy, the scale and timing were highly uncertain.

Based on the above discussion, members concurred that the effects of the earthquake on Japan's economic activity, particularly production, would be significant, and that Japan's economic activity could be adversely affected through possible deterioration in the sentiment of firms and households. Some members added that, although it would take time, Japan's economy would be able to overcome the adverse effects of the earthquake.

With regard to prices, members were of the view that the year-on-year rate of decline in the CPI (excluding fresh food) had continued to slow. They concurred that the year-on-year rate of change was likely to become slightly positive in the near future considering the fact that, excluding the effects of subsidies for high school tuition, which started in April 2010, the CPI had already become slightly positive. However, members shared the view that, with the revision of the base year for the CPI to 2010, which was scheduled to take place in August 2011, it was likely that the year-on-year rate of change in the CPI would be revised downward. One member pointed out that close attention should be paid to the risk that the public's medium- to long-term inflation expectations would decline as a result of the revision. A few members commented that it was important for the Bank to bear in mind the effects of the revision of the base year on the inflation rate when communicating with the public.

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

In recognition of the above economic and financial developments, the chairman considered it appropriate for the Bank to make monetary policy responses. The chairman expressed the view that, given the increase in the public's anxiety, deterioration in business sentiment, and heightening of risk aversion in financial markets observed since the earthquake, the Bank could increase the amount of the Asset Purchase Program (hereafter the Program), mainly of the purchases of risk assets. With regard to the increase in the amount of the Program, the chairman requested that the staff explain which specific responses could be considered, taking into account such related factors as the market size of financial assets subject to the Bank's purchases through the Program as well as market developments, and the Bank's financial soundness.

In response to the chairman's direction, the staff provided the following explanation.

(1) Taking account of the market size of financial assets subject to purchases through the Program and the effects of the Bank's purchases on its financial soundness, the staff considered that if the Bank were to increase the amount of the Program, mainly of the purchases of risk assets, by about 5 trillion yen -- equivalent to the amount of the Program previously decided -- it should reverse the respective amounts previously purchased for each asset category, specifically, about 3.5 trillion yen for Japanese government bonds (JGBs) and treasury discount bills (T-Bills) combined, and about 1.5 trillion yen for risk assets. In such a case, the Bank should increase the amount for each asset category as follows: about 0.5 trillion yen for JGBs; about 1.0 trillion yen for T-Bills; about 1.5 trillion yen for CP and corporate bonds, respectively; about 0.45 trillion yen for exchange-traded funds (ETFs); and about 0.05 trillion yen for Japan real estate investment trusts (J-REITs). Moreover, increasing the amount of purchases of

ETFs and J-REITs was conditional on obtaining authorization once more for the purchases in accordance with the Bank of Japan Act.

(2) If the Bank increased the amount of the Program by about 5 trillion yen and proceeded with its purchases, it was likely to take about a year to carry them out, as was the case with the existing Program, under which purchases had amounted to 5 trillion yen.

Many members shared the view that it would be appropriate to increase the amount of the Program, mainly of the purchases of risk assets, and further enhance monetary easing, with a view to preventing any deterioration in the sentiment of firms and households and heightening of risk aversion in financial markets from adversely affecting economic activity. One member commented that such action would be consistent with the Bank's communication to date that an increase in the amount of the Program was one option, if deemed necessary in light of developments in economic activity and prices. A different member expressed the opinion that an increase in the purchases of risk assets might have some negative effects, in that it might impair market functioning and would weigh on the Bank's financial soundness, but that recent economic developments meant its positive effects would more than offset the negative effects.

Regarding the extent to which the Bank should increase the amount of the Program, one member commented that a considerable amount would be necessary to fully reassure market participants with regard to stability. A few members expressed the opinion that the Bank should thoroughly communicate its intention, so that its implementation of such an extraordinary measure would not increase the public's anxiety about the state of Japan's economy.

Meanwhile, one member expressed the view that the increase in purchases should be made in risk assets only, given the possibility that if the Bank increased the purchases of Japanese government securities (JGSs) through the Program when longer-term interest rates were on a declining trend, this might create suspicion that such an increase was monetization.

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. Some members said that it was important to reassure market participants about their funding by providing ample funds flexibly based on this guideline in response to the market situation, in order to ensure market stability.

As for the future conduct of monetary policy, members concurred that, in order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, it was necessary that the Bank continue to consistently make contributions as the central bank through the three-pronged approach of pursuing powerful monetary easing consisting of comprehensive monetary easing, ensuring financial market stability, and providing support to strengthen the foundations for economic growth. They also agreed that the Bank would continue to carefully examine the outlook for economic activity and prices, and, if judged necessary, take policy actions in an appropriate manner.

## V. Remarks by Government Representatives

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

(1) The Tohoku-Pacific Ocean Earthquake had resulted in extensive damage, centered on the Tohoku region. The government was exerting every possible effort to provide emergency disaster responses, including the rescue of disaster victims, and was doing its utmost to achieve an early recovery in the normal routines of people's lives and of economic activity. In terms of countermeasures, it was first necessary for the related ministries and agencies to promptly assess the current situation. As necessary measures became clear, the government would do its utmost to implement them by releasing contingency funds and formulating a supplementary budget. The government, taking into account detailed information about the extent of the damage and the decisions made by its Headquarters for Emergency Disaster Response, would continue to promptly take the necessary steps.

(2) The government acknowledged that the Bank would do its utmost to ensure stability in the financial markets and secure smooth settlement of funds, including the provision of liquidity. The government regarded the Bank's provision of a large amount of funds, conducted on March 14, as an appropriate means of responding to the current conditions in financial markets. Moreover, the government would like to express its appreciation for the Bank's proposal to further enhance monetary easing by increasing the amount of purchases of risk assets.

(3) The government would do its utmost to achieve an early recovery in the normal routines of people's lives and of economic activity, and to provide countermeasures for the

disaster. The government expected the Bank to take decisive action without delay in order to respond to any changes that might occur in economic and financial conditions, while keeping close contact with the government.

The representative from the Cabinet Office made the following remarks.

(1) The Tohoku-Pacific Ocean Earthquake had resulted in extensive damage to the disaster-stricken areas. The government would exert every possible effort to provide emergency disaster responses, including rescuing and providing relief to disaster victims, and do its utmost to achieve an early recovery in the normal routines of people's lives and of economic activity.

(2) The government expressed its appreciation for the fact that the Bank had already been taking swift responses. The government hoped that the Bank would continue to take all possible measures to support living in the disaster-stricken areas, as well as the economic activity of small and medium enterprises, and to ensure stability in financial markets and the financial system while continuing to keep close contact with the government.

## 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, Ms. M. Suda, Mr. T. Noda, Mr. S. Nakamura, Mr. H. Kamezaki, Mr. R. Miyao, and Mr. Y. Morimoto.

Votes against the proposal: None.

**B. Amendment to "Principal Terms and Conditions for the Asset Purchase Program"**

Many members shared the view that, in line with the staff's explanation provided above, it was appropriate to increase the maximum outstanding amount for each financial asset to be purchased through the Program as follows: about 0.5 trillion yen for JGBs; about 1.0 trillion yen for T-Bills; about 1.5 trillion yen for CP and corporate bonds, respectively; about 0.45 trillion yen for ETFs; and about 0.05 trillion yen for J-REITs. One member, however, proposed that the increase in purchases be made in risk assets only. As a result, the following two policy proposals were submitted.

Ms. M. Suda formulated a proposal to increase the maximum outstanding amount for financial assets to be purchased through the Program by about 5 trillion yen, and to make such an increase only in purchases of risk assets such as CP, corporate bonds, ETFs, and J-REITs. The proposal was then put to a vote.

The proposal was defeated by a majority vote.

Votes for the proposal: Ms. M. Suda.

Votes against the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. T. Noda, Mr. S. Nakamura, Mr. H. Kamezaki, Mr. R. Miyao, and Mr. Y. Morimoto.

To reflect the majority view, the chairman formulated a proposal based on the staff's explanation, and put it to a vote.

The proposal was decided by a majority vote.

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

Votes against the proposal: Ms. M. Suda.

Ms. M. Suda dissented from the chairman's proposal on the following grounds: (1) in a situation where market participants were becoming more cautious about taking risks, an increase in the amount of purchases should be made only in risk assets and not in JGSs, for which interest rates were recently declining; and (2) purchases of JGSs as a response to the emergency conditions did not fit the purpose of the Program.

**VII. Discussion on the Public Statement Entitled Enhancement of Monetary Easing**

On the basis of the above discussions, members discussed the statement Enhancement of Monetary Easing, which included the following: (1) the monetary policy stance that, under the current guideline for money market operations, the Bank would provide ample funds sufficient to meet demand in financial markets and would do its utmost to ensure financial market stability, and with a view to preventing any deterioration in business sentiment and heightening of risk aversion in financial markets from adversely affecting economic activity, the Bank would increase the amount of the Program, mainly of the purchases of risk assets, by about 5 trillion yen to about 40 trillion yen in total; and (2) Ms. M. Suda's dissent regarding asset categories for which an increase in purchases should be made. 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).

**VIII. Approval of the Minutes of the Monetary Policy Meeting**

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of February 14 and 15, 2011 for release on March 17, 2011, one day ahead of schedule, in accordance with the change in date of this meeting.

Attachment

March 14, 2011
Bank of Japan

**Enhancement of Monetary Easing**

1. Since the Tohoku Pacific Earthquake occurred, the Bank of Japan has been trying to gauge its effects on financial markets and financial institutions' business operations, as well as taking all possible measures in order to maintain financial intermediation function and secure smooth fund settlements. In addition, the Bank has been providing funds flexibly through appropriate money market operations.

2. Japan's economy is emerging from the current deceleration phase. The year-on-year rate of decline in the CPI (excluding fresh food) has continued to slow. The Bank has maintained its baseline scenario that Japan's economy is expected to return to a moderate recovery path. The year-on-year rate of change in the CPI is expected to become slightly positive in the near future.[4] However, the damage of the earthquake has been geographically widespread, and thus, for the time being, production is likely to decline and there is also concern that the sentiment of firms and households might deteriorate.

3. In recognition of the current situation, at the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided to take the following measures to further enhance monetary easing.

   (1) The Guideline for Money Market Operations for the Intermeeting Period

   The Policy Board decided, by a unanimous vote,[5] to set the following guideline for money market operations for the intermeeting period. Under this guideline, the

[4] The year-on-year rate of change in the CPI is likely to be revised downward with the base-year change scheduled for August 2011.

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

Bank will provide ample funds sufficient to meet demand in financial markets and will do its utmost to ensure financial market stability.

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

(2) Asset Purchase Program

With a view to preempting a deterioration in business sentiment and an increase in risk aversion in financial markets from adversely affecting economic activity, the Policy Board decided to increase the amount of the Asset Purchase Program, mainly of the purchases of risk assets, by about 5 trillion yen to about 40 trillion yen in total.[6]

The increase in asset purchases will be made in the following asset categories, and the Bank intends to complete the increased purchases by around the end of June 2012. It should be noted that the purchases of exchange traded funds (ETFs) and Japan real estate investment trusts (J-REITs) are conditional on obtaining authorization in accordance with the Bank of Japan Act.

Japanese government bonds: about 0.5 trillion yen
Treasury discount bills: about 1.0 trillion yen
CP: about 1.5 trillion yen
Corporate bonds: about 1.5 trillion yen
ETFs: about 0.45 trillion yen (conditional on obtaining authorization)
J-REITs: about 0.05 trillion yen (subject to the above condition)

4. In order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, the Bank will continue to consistently make contributions as the central bank through the three-pronged approach of pursuing powerful monetary easing consisting of comprehensive monetary easing, ensuring financial market stability, and providing support to strengthen the foundations for economic growth. The Bank will continue to carefully examine the outlook for economic activity and prices, and, if judged necessary, take policy actions in an appropriate manner.

[6] Ms. Suda dissented from the proposal on the ground that the increase in purchases should be made in risk assets only.