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May 25, 2011

Bank of Japan

Minutes of the Monetary Policy Meeting

on April 28, 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 Thursday, April 28, 2011, from 9:00 a.m. to 1:26 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. T. Noda

Mr. S. Nakamura

Mr. H. Kamezaki

Mr. R. Miyao

Mr. Y. Morimoto

Ms. S. Shirai

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. K. Yamamoto, Executive Director

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

Mr. M. Amamiya, Executive Director

Mr. N. Kinoshita, Executive Director

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

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

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

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

Mr. E. Maeda, Director-General, 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 May 19 and 20, 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. T. Sekine, Head of Economic Research Division, Research and Statistics Department

Mr. H. Ono, Director-General, International Department

Secretariat of the Monetary Policy Meeting

Mr. Y. Iino, Director-General, Secretariat of the Policy Board

Mr. T. Tachibana, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

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

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

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

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

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on April 6 and 7, 2011, had been providing ample funds sufficient to meet demand in financial markets and was doing its utmost to ensure stability in the markets.[3] In this situation, the uncollateralized overnight call rate had been in the range of 0.060-0.065 percent.

B. Recent Developments in Financial Markets

Money market rates had been stable amid the Bank's provision of ample funds. General collateral (GC) repo rates on the whole had been around 0.1 percent. As for interest rates on term instruments, yields on treasury discount bills (T-Bills), including those with a one-year maturity, had been in the range of 0.10-0.15 percent. Rates on longer-term interbank instruments had been more or less unchanged.

The benchmark long-term interest rates in Japan had been in the range of 1.20-1.25 percent after declining somewhat in line with U.S. long-term interest rates. Despite uncertainties held by market participants regarding firms' business performance, particularly those arising from the effects of the disaster caused by the Great East Japan Earthquake, Japanese stock prices had been more or less unchanged overall while U.S. stock prices rose albeit with fluctuations. The Nikkei 225 Stock Average had recently been in the range of 9,500-10,000 yen. In the foreign exchange market, the yen appreciated to some extent against the U.S. dollar, recently remaining at around 82 yen to the dollar, as U.S. long-term interest rates declined somewhat.

C. Overseas Economic and Financial Developments

The world economy continued to recover.

The U.S. economy continued to recover. Exports continued to increase, especially to emerging economies, and business fixed investment rose moderately. Private consumption had been firm mainly due to the effects of the fiscal stimulus measures; nevertheless, balance-sheet adjustments continued to weigh on household spending.

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

[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.

Housing investment remained at a depressed level. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items moved up due to the rise in international commodity prices, although the rate of increase in the CPI for all items less energy and food, or the core CPI, remained relatively low as slack in supply and demand conditions in the goods market and the labor market continued to exert downward pressure.

Economic activity in the euro area as a whole continued to recover moderately, with some differences in pace by country. Exports continued to increase, and private consumption and business fixed investment rose gradually. As for prices, although slack in supply and demand conditions and slower growth in wages continued to exert downward pressure, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) for all items rose due to the effects of the earlier depreciation of the euro and the rise in international commodity prices.

The Chinese economy continued to show high growth. Exports and production continued increasing, and growth in private consumption remained firm due mainly to households' increased income levels. Economic conditions in the NIEs and the ASEAN countries continued to recover. In many of these Asian economies, inflationary pressure remained high, reflecting greater utilization of production factors and the increase in international commodity prices.

As for the effects of the disaster that hit Japan, it was likely that supply-chain disruptions of automobiles and electrical machinery would exert a certain amount of downward pressure on production in the short term, particularly in the U.S. economy and Asian economies. Although there was a widely held view that the effects of the disaster would not last for a protracted period and would remain marginal, as restoration of production lines and a shift to substitutes proceeded, this view seemed to be attended by a high degree of uncertainty.

As for international commodity prices, while prices of nonferrous metals and grain showed some signs of adjustments, crude oil prices climbed due to growing demand from emerging economies, a continuation of accommodative financial conditions, and uncertainty about the situation in North Africa and the Middle East.

D. Economic and Financial Developments in Japan

1. Economic developments

Production had declined significantly since the earthquake, particularly in certain industries, mainly because production facilities were damaged, the supply chain was disrupted, and electric power supply was constrained. Production was expected to remain at a low level for the time being, but was likely to start increasing as supply-side constraints were mitigated.

Exports dropped sharply since the earthquake against the backdrop of supply-side constraints. They were likely to remain at low levels for the time being, but were expected to turn upward as supply-side constraints were mitigated, reflecting the continued improvement in overseas economic conditions.

The rate of decline in public investment was decelerating gradually. Public investment was expected to increase gradually, mainly due to the restoration of damaged social capital.

With regard to domestic private demand, business fixed investment -- which had been picking up until the earthquake -- was likely to have weakened somewhat temporarily as business sentiment deteriorated after the earthquake. As for private consumption, while demand for some daily necessities had increased following the earthquake, consumption related to eating out, travel, and clothes seemed to be restrained due to deterioration in sentiment.

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, and was expected to continue rising for the time being. The year-on-year rate of change in the CPI (excluding fresh food) had recently turned slightly positive, when excluding the effects of subsidies for high school tuition, partly due to the rise in international commodity prices. The year-on-year rate of change in the CPI was expected to remain slightly positive.

2. Financial environment

Financial conditions generally continued to ease, while weakness had been observed in the financial positions of some firms, mainly small ones, since the earthquake.

The overnight call rate remained at an extremely low level, and the declining trend in firms' funding costs continued. With regard to credit supply, firms continued to see financial institutions' lending attitudes as improving. In the corporate bond market, firms had gradually started issuing bonds again as credit spreads on corporate bonds declined somewhat, while issuing conditions for CP continued to be favorable. As for credit demand after the earthquake, firms, particularly large ones, showed signs of increasing their demand for working capital as well as accumulating on-hand liquidity, and applications for bank loans increased. The financial positions of firms improved as a whole, although weakness had been observed in those of some firms, mainly small ones, since the earthquake. Meanwhile, the year-on-year rate of change in the money stock had been in the range of 2.5-3.0 percent.

II. Summary of Staff Reports on Establishment of "Principal Terms and Conditions for the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas" and "Temporary Rules regarding the Eligibility Standards for Debt of Companies in Disaster Areas"

Based on the framework decided at the Monetary Policy Meeting (MPM) held on April 6 and 7, the staff examined the specifics of the funds-supplying operation to support financial institutions in disaster areas and of the relaxation of the collateral eligibility standards. Based on this examination, the staff reported the following.

While a preliminary framework for <u>the funds-supplying operation to support financial institutions in disaster areas</u> was formulated at the previous MPM, the staff deliberated three additional points. The first concerned the method of providing funds to financial cooperatives. The staff considered it appropriate for the Bank to provide funds through the central organization of each financial cooperative, which was a counterparty of the Bank. The second point revolved around determining the maximum amount of loans to each counterparty. The staff considered that, while adhering to the principle of allocating the total amount of loans of 1 trillion yen based on the share of the total amount of each counterparty's lending outstanding, it would be appropriate for the Bank to set the maximum amount of loans to each counterparty at 150 billion yen in order to avoid excessive concentrations of loans at certain counterparties. The third point concerned the deadline for new applications for loans. The staff considered that, in light of the Bank's aim to make its utmost efforts to support financial institutions in disaster areas in their initial efforts to meet the demand for funds for restoration and rebuilding, it would be appropriate to designate the next six months, ending on October 31, 2011, as the period for new applications for loans. In such a case, by adding the loan duration of one year to the aforementioned period, the funds-supplying operation to support financial institutions in disaster areas would be effective over the next year and a half, through October 31, 2012.

As for the relaxation of the collateral eligibility standards, the staff -- based on the instruction given at the previous meeting -- examined five points that needed to be specified. First, eligible financial institutions could be limited to those in disaster areas. Second, relaxation of eligibility standards could be applied to pooled collateral, which could be used for the Bank's various forms of credit extension, with a view to securing sufficient financing capacity at financial institutions in disaster areas, enhancing efficiency in the use of collateral, and ensuring the smooth conduct of business operations of the Bank and its counterparties. Third, the relaxed collateral eligibility standards could be applied over the next year and a half, through October 31, 2012 -- namely, the same period in which the funds-supplying operation to support financial institutions in disaster areas would remain effective. Fourth, eligible collateral could be such items as corporate bonds, bills, and loans on deeds issued by companies in disaster areas, taking into account the assets held by financial institutions in disaster areas. Fifth, certain new arrangements could be introduced for the purpose of making the relaxation of eligibility and risk management by the Bank more effective. Specifically, for debtor companies that had not obtained external credit ratings, it would be appropriate for the Bank to accept as eligible collateral bills and loans on deeds where debtor companies were classified as "normal" borrowers in the latest self-assessment by financial institutions in disaster areas. For debtor companies that had obtained external credit ratings, it would be appropriate for the Bank to relax the collateral eligibility standards from "rated A or higher," the standards adopted at normal times, to "rated BBB or higher." At the same time, the Bank should take measures to maintain its financial soundness including more conservative margin tables for such collateral.

As for the schedule, the staff considered it appropriate to proceed with preparations so that the Bank's funds-supplying operation to support financial institutions in disaster areas would be implemented from around the latter half of May, following the completion of necessary arrangements such as the selection of eligible counterparties of the operation and conclusion of contracts. With regard to the relaxation of the collateral eligibility standards, the staff considered it appropriate to proceed with preparations so that the Bank would be able to start accepting collateral before the end of May.

III. Summary of Discussions by the Policy Board on Economic and Financial Developments and the April 2011 *Outlook for Economic Activity and Prices*

A. Economic Developments

Members discussed the economic and financial conditions abroad, and shared the view that overseas economies continued to recover, led by high growth in emerging and commodity-exporting economies, and would continue to do so.

Members shared the view that the U.S. economy continued to recover, despite the continued balance-sheet adjustment pressure. Some members expressed the view that, although the Federal Open Market Committee (FOMC) had decided to complete its large-scale purchases of longer-term Treasury securities by the end of June, it was cautious about monetary tightening by reducing its holding of purchased assets and/or raising its policy rate. These members were of the view that it was therefore likely that accommodative financial conditions would be maintained, thereby underpinning economic recovery. Meanwhile, many members noted that the possible impact of the recent rise in energy prices on private consumption and overall prices warranted attention.

Members shared the view that, although there were some differences in growth by country, economic activity in the euro area as a whole was recovering moderately, led by a few countries, especially Germany. Some members, however, expressed the view that risks had heightened in financial markets again with rising expectations about debt restructuring in Greece, as witnessed by the recurrence of the widening of the yield spreads of government bonds issued by some peripheral European countries over those issued by Germany.

Regarding emerging and commodity-exporting economies, members concurred that strong growth continued amid robust domestic demand and capital inflows from abroad. Many members, referring to the heightened inflationary pressure caused by the rise in international commodity prices on top of economic overheating, expressed the view that, although monetary tightening had continued, this had not sufficiently calmed concern over overheating or inflation.

Members agreed that, while financial conditions in Japan generally continued to ease, the financial positions of some firms, mainly small ones, had deteriorated. Many members noted that financial markets remained stable as the Bank continued to provide ample funds. As for firms' funding conditions, some members said that issuing conditions for CP remained favorable. Many members noted that in the corporate bond market although new issuance of bonds had come to a halt after the earthquake, firms gradually started issuing bonds again recently. A few members said that while recent surveys confirmed that the financial positions of small firms, including very small ones, had deteriorated somewhat, financial institutions' lending stance was active.

Based on the above deliberations on developments in overseas economies and the financial environment at home and abroad, members discussed the state of Japan's economy. They agreed that it faced strong downward pressure, mainly on the production side, due to the disaster. Many members said that some economic indicators for March, including industrial production, exports in real terms, and electricity demand volume for large entities -- as well as anecdotal information such as that reported at the meeting of general managers of the Bank's branches -- confirmed that production had dropped substantially, due mainly to supply-side constraints, especially supply-chain disruptions. A few members pointed to surveys that showed business and household sentiment had also deteriorated significantly. With regard to developments in private consumption, a few members said that a dampening of consumption had become noticeable, especially in service-related categories such as eating out and travel, reflecting deterioration in sentiment and harmful rumors related to the accident at the nuclear power plant in Fukushima Prefecture, as well as voluntary restraint in consumer spending. One member said that, judging from information obtained from business contacts in particular, there seemed to be a risk that demand would decline through an adverse feedback loop between business and household sentiment. On the other hand, some members noted that declines in production and spending had been expected at the time of the previous meeting. One member expressed the view that, judging from the increase in anecdotal evidence regarding firms' resumption of production as well as the continued recovery in overseas economies, it had become more likely that the economy had reached its bottom in March. This member noted that on this basis the current situation therefore differed from that following the Lehman shock, when demand had evaporated worldwide and production and exports had declined substantially over several months. A different member said that it did not seem that the pace of deterioration in sentiment was accelerating, as voluntary restraints in consumer spending were gradually being corrected and anecdotal information suggested that customers were now returning to stores, including department stores, which had resumed normal business hours following the end to planned rolling blackouts.

Members agreed that, with the aggregate supply and demand balance improving, the year-on-year rate of change in the CPI (excluding fresh food) had turned slightly positive, when excluding the effects of subsidies for high school tuition, partly due to the rise in international commodity prices.

B. Outlook for Economic Activity and Prices

With regard to the baseline scenario of the outlook for Japan's economic activity, members shared the view that, although the economy would continue to face strong downward pressure in the first half of fiscal 2011, it was likely to recover at a faster pace sometime over the course of the second half as supply-side constraints were mitigated. They continued that the economy was likely to grow at a pace above its potential growth rate in fiscal 2012.

Regarding economic developments in the first half of fiscal 2011, some members expressed the opinion that, in addition to the supply-side constraints, the decline in demand caused mainly by deterioration in sentiment following the accident at the nuclear power plant would also exert downward pressure on the economy. As for electric power, a few members noted that supply-side constraints expected in the summer were increasingly likely to be less severe than anticipated, as electric power companies would proceed to restore supply capacity. One member noted an increase in the amount of information suggesting that restructuring of the supply chain would proceed faster than had been initially expected. On the other hand, another member commented that business contacts indicated that supply-side constraints would remain for parts with limited substitutability, and therefore it would be difficult for some factories to begin operating fully again until around the year-end. With regard to economic developments over the course of fiscal 2011, members shared the view that, if supply-side constraints were mitigated, improvements in overseas economies would likely lead to increases in Japan's exports and production. A few members were of the view that, after fiscal 2012 began, it was likely that the transmission mechanism by which the strength in exports and production fed through into income and spending would become more firmly established. Many members expressed the opinion that demand for restoring capital stock was likely to continue increasing. Meanwhile, a few members said that deterioration in the terms of trade due to the significant rise in commodity prices was likely to exert downward pressure on the economy. One of these members took the view that the supply-side constraints were likely to persist for a certain period, exerting continuous downward pressure on corporate profits and household income. The member continued that, due in part to this factor, the economy as a whole would deviate downward from the recovery path projected prior to the earthquake. A different member noted that the Bank's projection for fiscal 2011 had been revised significantly downward from that in the interim assessment in January, implying that economic recovery was likely to be delayed, and further downside risks were considerable.

Regarding the outlook for the CPI (excluding fresh food), members shared the view that the year-on-year rate of change was likely to remain slightly positive throughout the projection period as the aggregate supply and demand balance improved as a trend, under the assumption that medium- to long-term inflation expectations would remain stable and international commodity prices would continue increasing moderately. One member expressed the view that, while in fiscal 2011 the year-on-year rate of change in the CPI was likely to be pushed upward due to the earlier significant rise in international commodity prices, it was likely to decline somewhat in fiscal 2012 under the assumption that the rise in such prices had moderated. On the other hand, a different member was of the opinion that the rate of increase in the CPI was likely to rise over the course of fiscal 2012 as the aggregate supply and demand balance improved, after deteriorating temporarily reflecting a decline in household sentiment. Another member commented that, although the year-on-year rate of change was likely to be revised downward with the change in the base year for the CPI, scheduled to take place in August 2011, the trend toward overcoming deflation would remain unchanged.

Members also discussed upside and downside risk factors to the baseline scenario.

Regarding economic activity, upside and downside risk factors pointed out by members were (1) the possible effects of the disaster on Japan's economy, (2) a possible change in firms' and households' medium- to long-term growth expectations triggered by the disaster, (3) developments in overseas economies, and (4) the effects brought about by a possible further rise in international commodity prices.

With regard to the effects of the disaster, members shared the view that it was highly uncertain when supply-side constraints would be resolved. Some members commented that due attention needed to be paid to the impact of the disaster, particularly developments at the nuclear power plant, on Japan's economy through deterioration in public sentiment. A few members said that it had not been expected the accident at the nuclear power plant would develop into such a serious and lingering problem, and that uncertainty regarding economic activity had heightened as a result. On the other hand, many members expressed the view that uncertainty, while remaining high, had started to diminish because prospects for the restoration of the supply chain were gradually becoming more certain, preemptive measures were being taken from both the supply and demand sides against electricity shortages expected in the summer, and strains in financial markets looked less likely to intensify.

As for the effects of the disaster examined from a long-term perspective, one member said that concerns about nuclear power might lead to changes in future energy policy resulting in significant changes in the costs incurred by Japan's economy as a whole. Some members said that, if responses to supply-chain disruptions were delayed considerably or confidence in the stable supply of Japanese products became impaired, it was likely that the shift to overseas production would be accelerated and/or parts manufacturers in Japan would lose their customers to overseas firms. On the other hand, one member noted that economic activity in Japan might turn out to be stronger than projected if the causes for concern that had arisen since the disaster were resolved at an early stage. A different member said that diversification of production sites and energy-saving measures induced by the disaster might create new business fixed investment.

As for the U.S. economy, members shared the view that balance-sheet adjustment pressure continued to warrant attention as a downside risk to the economy. A few members added that attention should also be paid to the possible effects of the growing number of voices within Congress calling for reduced fiscal spending. With regard to European economies, some members said that attention needed to be paid to whether concern about sovereign risk problems in some peripheral countries would work to reduce economic activity through disturbances in financial markets and, if this happened, whether an adverse feedback loop would occur. As for emerging and commodity-exporting economies, some members expressed the view that it was possible that economic activity would be enhanced partly due to robust domestic demand and capital inflows from abroad. One member said that there was a heightened risk that fluctuations in activity might grow in the economies where concern about overheating and inflation had not calmed sufficiently. Some members warned that due attention needed to be paid to the possibility of a further significant rise in international commodity prices due to, for example, the heightened geopolitical risks in North Africa and the Middle East.

Members pointed to the following as upside and downside risk factors to the outlook for prices: (1) the materialization of upside or downside risks affecting economic activity; (2) possible changes in firms' and households' medium- to long-term inflation expectations; and (3) developments in import prices. With regard to the second risk factor, one member pointed to the risk that, if the year-on-year rate of change in the CPI was revised downward with the change in the base year, this might lead to a decline in inflation expectations. A few members said that the possibility that the global environment surrounding prices was shifting toward inflation could not be ignored, and therefore it was necessary to carefully monitor how this would affect prices in Japan.

Based on the above considerations, members assessed the economic and price situation from two perspectives.

Members made an assessment in terms of <u>the first perspective</u>; that is, they assessed the scenario for the outlook for economic activity and prices considered to be the most likely through fiscal 2012. They shared the view that, although more time would be needed to confirm that price stability was in sight on the basis of the "understanding of medium- to long-term price stability" (hereafter "understanding"), Japan's economy would eventually return to a sustainable growth path with price stability in the longer run.

Members then made an assessment in terms of <u>the second perspective</u>; namely, they examined the risks considered most relevant to the conduct of monetary policy, including risks that had a longer time horizon than the first perspective. In the area of economic activity, they shared the view that there was a high degree of uncertainty about the effects of the disaster on Japan's economy, and due attention still needed to be paid to developments in overseas economies and international commodity prices. They concurred that prices could rise more than expected if international commodity prices increased further, while there was also a risk that the rate of inflation would deviate downward from the Bank's baseline scenario due, for example, to a decline in medium- to long-term inflation expectations.

Based on the examination from the two perspectives described above, members agreed that Japan's economy was likely to return to a sustainable growth path with price stability in the longer run. They also shared the view that for the time being attention should be paid to the downside risks to economic activity, especially the possible effects of the disaster.

IV. Review of the "Understanding of Medium- to Long-Term Price Stability"

In March 2006, the Bank announced in "The Bank's Thinking on Price Stability" that the "understanding" (the level of inflation that each member of the Policy Board understood, when conducting monetary policy, as being consistent with price stability over the medium to long term) would in principle be reviewed annually.

Members exchanged views regarding points that should be discussed in examining the "understanding." Some members said that there continued to be no large measurement bias in the CPI in Japan. A few members expressed the view that, given that a measurement bias tended to become larger as time elapsed from the base year for the CPI, the Bank needed, for example, to supplementally use the CPI as computed by the Laspeyres chain index method, in which such a tendency did not appear markedly. Many members said that it was necessary to accept some inflation as a "safety margin" that acted as a buffer against the risk of falling into a vicious circle of declining prices and deteriorating economic activity. One member expressed the opinion that it was important to retain some degree of a "safety margin," since Japan's potential economic growth rate was low and there was limited room for the government to take fiscal policy action in the medium to long term. A different member, while agreeing that a "safety margin" was necessary, said that it was difficult to deal with serious problems such as a financial crisis *ex post* even with a relatively large "safety margin" and that it was important to instead aim at preventing any accumulation of financial imbalances *ex ante*. One member said that, because Japan's level of inflation had stayed stable at a low level for a long time, the level that the public perceived as consistent with price stability was lower than that in overseas economies. This member added that, when the year-on-year rate of increase in the CPI exceeded 2 percent in the summer of 2008, it seemed that the public deemed a higher inflation rate intolerable. A few members noted that it was useful for a central bank to indicate a level of inflation that would be considered consistent with price stability, in order to facilitate the public's formation of expectations regarding future developments in the policy interest rate;

however, if the specific figure attracted too much attention, thereby restricting the central bank's monetary policy action, this would induce large fluctuations in prices. These members continued that in this regard the Bank's current framework for the conduct of monetary policy was appropriate, because it expressed the "understanding" as a range.

Based on the above considerations, members exchanged views regarding the figures that would represent the "understanding" in terms of the year-on-year rate of change in the CPI. The figure representing some members' "understanding" was around 1 percent, with a range of about 1 percentage point in either direction. Some other members' "understanding" was around 1 percent, with a range of about 0.5 percentage point in either direction. A few of these members added that their midpoints were slightly over 1 percent. One member's "understanding" was expressed as a range from 0.5 to 2 percent, and the midpoint was slightly over 1 percent. After stating their individual views, members agreed on the following expression: each Policy Board member's "understanding" fell in a positive range of 2 percent or lower, centering around 1 percent.

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

Regarding the guideline for money market operations for the intermeeting period ahead, members agreed that it was appropriate to maintain the current guideline that the Bank would encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 percent. A few members said that it was important for the Bank to do its utmost to ensure stability in financial markets by continuing to provide ample funds sufficient to meet demand in the markets based on this guideline. Some members were of the view that it was important for the Bank to secure the markets' understanding of and confidence in the policy time horizon, and in doing so, explain consistently to the public that it would maintain the virtually zero interest rate policy until it judged that price stability was in sight.

As for the future conduct of monetary policy, members concurred that the Bank -- in order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, and based on the examination of economic and price developments from the two perspectives -- would continue to consistently make its utmost contribution 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 confirmed that the Bank would continue to carefully examine the outlook for economic activity and prices, including the effects of the disaster, and take appropriate policy actions as necessary.

Meanwhile, one member expressed the opinion that it would be appropriate to increase the amount of the Asset Purchase Program (hereafter the Program). This member said that the accident at the nuclear power plant had turned out to be a long-term problem, and this, combined with the damage caused by the tsunami and the decline in capacity to generate electricity, meant there was a heightened risk that business and consumer sentiment would deteriorate further and consequently amplify the adverse effects on the real economy. The member continued that it would therefore be appropriate to increase the amount of the Program by about 5 trillion yen. A different member expressed the view that the need for additional monetary easing had increased, taking into account the current outlook for economic activity and prices. Having expressed this view, the member continued that at this stage it was important to examine the specifics and timing of additional measures considering the following points: (1) whether there was room left for additional purchases of risk assets, taking into account factors including their market size; (2) the effects and transmission mechanisms of each policy measure included in the comprehensive monetary policy, which had been effective as a whole; (3) the side effects accompanying the unconventional policy measures; and (4) the appropriate timing of policy action, taking into account the time lag before the effects materialized. Many members referred to the fact that when the Bank had decided additional easing at the March MPM by substantially increasing the amount of the Program, mainly of the purchases of risk assets, it recognized the coming economic slowdown and increased uncertainty. These members continued that at this point it was therefore appropriate to monitor how the effects of the easing were spreading.

Members agreed that the staff proposal regarding the funds-supplying operation to support financial institutions in disaster areas and the relaxation of the collateral eligibility standards was appropriate and reflected what had been discussed at the previous MPM. They continued that it was appropriate to decide, on the basis of the proposal, the principal terms and conditions for operational details, such as the maximum amount of loans and eligible collateral. As for the funds-supplying operation to support financial institutions in disaster areas, many members were of the view that, considering the objective of the Bank's operation -- to support the financial institutions in their initial efforts to meet the demand for funds for restoration and rebuilding -- it would be appropriate to designate the next six months as the period for new applications for loans. Having expressed this view, these members continued that it was important for the Bank to pay attention to developments in demand for funds for rebuilding and, if necessary, examine new measures to support rebuilding efforts. Some of these members noted that some challenges involved in the issue of rebuilding following the disaster overlapped those associated with a prolonged problem facing Japan's economy -- namely, a long-term downtrend in the growth potential -- and one option for the Bank would be to examine, for example, whether there was room to utilize the existing framework for the funds-provisioning measure to support strengthening the foundations for economic growth. With regard to the relaxation of the collateral eligibility standards, one member noted that, since assets that would qualify as eligible collateral would not only have low creditworthiness but also represent debts issued by firms with business offices in disaster areas, it was necessary for the Bank to carefully manage risks in order to ensure its financial soundness.

VI. Remarks by Government Representatives

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

(1) The Japanese economy was showing weakness due to such problems as supply-side constraints caused by the effects of the disaster. This was expected to continue for a while and uncertainty was extremely high, including that over the possibility of further deterioration in sentiment reflecting the effects of the problem at the nuclear power plant.

(2) In addition to rescuing people and evacuating disaster victims safely, the government had been making its utmost efforts to secure necessities such as water, food, and fuels for disaster victims and to provide the disaster areas with immediate remedies. It would continue to do its utmost to, for example, remove debris and construct temporary housing, as well as restore electricity, gas, and water supplies as quickly as possible. Accordingly, on April 28 the government would submit to the Diet a supplementary budget for fiscal 2011 and put forth efforts to promptly obtain approval. The government would manage to secure the financial resources for the supplementary budget mainly by reallocating and reducing predetermined expenditures rather than issuing additional government securities. Moreover, it would consider formulating

additional supplementary budgets, taking into account, for example, the roadmap for reconstruction being discussed in the government.

(3) While the government had been implementing various measures in order to secure smooth financial functions, particularly in the disaster areas, it considered that the funds-supplying operation to support financial institutions in disaster areas and the relaxation of the collateral eligibility standards, which were discussed at this meeting, would contribute to restoration and rebuilding. The government would also continue to exert every possible effort to achieve restoration and rebuilding of the disaster areas as early as possible. It expected the Bank to continue taking decisive monetary policy actions while considering, for example, the effects of the disaster on the economy and markets, as well as the progress of rebuilding.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy had been showing weakness recently due to the effects of the disaster, and this was expected to continue for a while. Subsequently, as production recovered, the economy was expected to pick up, mainly reflecting improvement in overseas economies. However, there would be downside risks stemming mainly from constraints on electric power supply, a slow recovery in the supply chain, the problem at the nuclear power plant, and the rise in crude oil prices. The economy was currently in a mild deflationary situation. The government considered it necessary to carefully monitor, for the time being, the effects of the upward pressure on costs exerted by, for example, the disaster and the sharp rise in crude oil prices amid concerns that weakness in the real economy, as seen in the decline in exports, among others, might continue.

(2) The government would submit to the Diet on April 28 the fiscal 2011 supplementary budget for national expenditure, totaling 4 trillion yen mainly for supporting disaster victims, restoring infrastructure, and implementing employment measures, and would put forth efforts to promptly obtain approval. In line with these responses to the disaster, the government considered it important to make efforts to maintain fiscal discipline and achieve economic growth in an integrated manner, and to secure market confidence in Japan. Bearing this in mind, the government would present an overall policy designed to revitalize Japan in numerous ways, including macroeconomic aspects.

(3) The Bank had been responding swiftly since the earthquake. The government expected that the funds-supplying operation to support financial institutions in disaster areas, which was proposed at this meeting, would firmly support restoration and rebuilding of the disaster areas from the financial side. The government hoped that the Bank would continue to work to ensure stability in financial markets and the financial system, as well as underpin the economy through appropriate and swift responses while continuing to sufficiently exchange views and keep close contact with the government.

VII. Votes

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

Mr. K. G. Nishimura formulated a proposal to increase the amount of the Program, and it was put to a vote.

The proposal was defeated by a majority vote.

Voting for the proposal: Mr. K. G. Nishimura.

Voting against the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. T. Noda, Mr. S. Nakamura, Mr. H. Kamezaki, Mr. R. Miyao, Mr. Y. Morimoto, and Ms. S. Shirai.

B. Vote on the Guideline for Money Market Operations

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:

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 to 0.1 percent.

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, Mr. Y. Morimoto, and Ms. S. Shirai.
Votes against the proposal: None.

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

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

VIII. Decision regarding the *Outlook for Economic Activity and Prices*

Members discussed the draft of the *Outlook for Economic Activity and Prices* (consisting of "The Bank's View" and "The Background"), and put "The Bank's View" to a vote. The Policy Board decided, by a unanimous vote, the text of "The Bank's View." It was confirmed that "The Bank's View" would be made public on April 28, 2011 and the whole report on April 29, 2011.

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, Mr. Y. Morimoto, and Ms. S. Shirai.
Votes against the proposal: None.

IX. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of April 6 and 7, 2011 for release on May 9, 2011.

Attachment

April 28, 2011

Bank of Japan

Statement on Monetary Policy[4]

At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by a unanimous vote,[5] to set the following guideline for money market operations for the intermeeting period:

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

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4 At today's meeting, Mr. Nishimura proposed to increase the amount of the Asset Purchase Program by about 5 trillion yen, which would bring the total volume of the Program to about 45 trillion yen. The proposal was defeated by majority vote. Voting for the proposal: Mr. K. G. Nishimura. Voting against the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. T. Noda, Mr. S. Nakamura, Mr. H. Kamezaki, Mr. R. Miyao, Mr. Y. Morimoto, and Ms. S. Shirai.

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