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July 18, 2012

Bank of Japan

Minutes of the Monetary Policy Meeting

on June 14 and 15, 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 Thursday, June 14, 2012, from 2:00 p.m. to 4:14 p.m., and on Friday, June 15, from 9:00 a.m. to 11:47 a.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. H. Nakaso, Executive Director (Assistant Governor)

Mr. H. Hayakawa, Executive Director

Mr. N. Kinoshita, Executive Director

Mr. K. Momma, Executive Director

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

Mr. K. Kamiyama, Head of Policy Planning Division, 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 July 11 and 12, 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 June 15.

[3] Messrs. S. Sato and K. Matsuyama were present on June 14.

Mr. S. Aoki, Director-General, Financial Markets Department

Mr. E. Maeda, Director-General, Research and Statistics Department

Mr. K. Kamada, 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. M. Kasai, Senior Economist, Monetary Affairs Department

Mr. T. Kawamoto, Senior Economist, Monetary Affairs Department

I. Summary of Staff Reports on Economic and Financial Developments[4]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on May 22 and 23, 2012, had been providing ample funds sufficient to meet demand in financial markets and was doing its utmost to ensure stability in the markets.[5] In this situation, the uncollateralized overnight call rate had been in the range of 0.070 to 0.095 percent.

With regard to the Bank's operations, undersubscription had occurred in its fixed-rate funds-supplying operation against pooled collateral (hereafter the fixed-rate operation) with a six-month term on a continuous basis, as well as in the fixed-rate operation with a three-month term, as the sense of an abundance of liquidity continued to be strong in the money market amid the Bank's provision of ample funds. In this situation, with the aim of operating the Asset Purchase Program (hereafter the Program) smoothly, the Bank raised the maximum bidding amount for each counterparty and set the date of repayment flexibly in order to increase market participants' incentive to bid in the Bank's fixed-rate operation.

B. Recent Developments in Financial Markets

Money market rates, including longer-term ones, had been stable at low levels. General collateral (GC) repo rates, which had temporarily risen somewhat, had generally 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.

Amid the continued risk aversion among global investors caused by concern over the European debt problem, the closing price of the Nikkei 225 Stock Average temporarily dropped to the range of 8,200-8,300 yen -- the lowest level since the start of 2012. However, as risk aversion among investors abated somewhat, due mainly to the announcement of financial assistance to Spain by the Eurogroup, the Nikkei 225 Stock Average recovered to around 8,500 yen. Prices for Japan real estate investment trusts

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

[5] 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.

(J-REITs) had also declined temporarily and recovered thereafter, in line with movements in stock prices. The benchmark long-term interest rate was seesawing around 0.8-0.9 percent after temporarily falling below the 0.8 percent level. Yield spreads between corporate bonds and Japanese government bonds (JGBs) continued to be more or less unchanged on the whole, reflecting solid demand from investors for corporate bonds. The yen temporarily appreciated to the 77-78 yen range against the U.S. dollar, and to the 95-96 yen range against the euro -- the latter representing the highest level since December 2000. It subsequently depreciated, however, and had recently been in the range of 79-80 yen against the dollar and at around 100 yen against the euro.

C. Overseas Economic and Financial Developments

Overseas economies on the whole still had not emerged from a deceleration phase, but had shown some, albeit moderate, improvement.

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 weakness in housing prices. Exports continued to gain momentum, and business fixed investment maintained its uptrend. Under these circumstances, production continued to increase moderately. As for prices, while slack in supply and demand conditions in the goods and labor markets continued to exert downward pressure on prices, the year-on-year rate of increase in the consumer price index (CPI) for all items decelerated due to a gradual decline in energy prices, such as those of gasoline.

Economic activity in the euro area had been sluggish. Signs of a pick-up in exports were seen mainly in those to the United States and emerging economies. On the other hand, business fixed investment had been declining, and private consumption was more or less unchanged. In some countries, such as Germany and France, household sentiment continued picking up, but business sentiment was weakening, albeit moderately. On the other hand, in some peripheral countries, both household and business sentiment remained weak. Under these circumstances, production was declining moderately. As for prices, in a situation where 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 decelerated somewhat, reflecting the decline in gasoline prices. Meanwhile, economic activity in the United Kingdom had been sluggish as well.

With regard to Asia, although the Chinese economy continued to show relatively high growth, the pace was slowing. Signs of a pick-up in exports were seen mainly in those to the United States. In terms of domestic demand, the rates of increase in fixed asset investment and private consumption had decelerated, although they remained at relatively high levels. These slowdowns resulted from the deceleration in private real estate investment for the former and in the consumption of durable goods such as electrical appliances for the latter. Given such developments, the rate of increase in production was decelerating. Regarding the NIEs and the ASEAN countries, the pace of economic growth had begun to pick up. As for domestic demand, business fixed investment had been increasing moderately and private consumption had been firm. Exports and production were picking up, reflecting the restoration following the damage caused by the flooding in Thailand, but the pace remained only moderate, mainly due to sluggish growth in exports to Europe and China. As for prices, in many of the NIEs and the ASEAN countries, core inflation rates had been at relatively high levels, mainly reflecting the wage inflation caused by tight labor market conditions. On the other hand, inflation rates for all items had declined at a moderate pace, due mainly to a halt in the surge in food prices. In India, the deceleration of economic growth had come to a halt.

In global financial markets, some nervousness continued to be seen, mainly reflecting concern over the European debt problem. With regard to the yield spreads of government bonds issued by European countries over German government bonds, those for Greece remained at high levels on the back of the political turmoil. Those for Spain had been widening due to increased concern over the financial system and resurgence of the problem regarding local government finance, and those for Italy had also been widening accordingly. U.S. and European stock prices declined substantially following increased concern over the European debt problem and the release of some economic indicators that turned out to be weaker than market expectations, such as the employment statistics in the United States. They had recovered, however, due to the announcement of financial assistance to Spain by the Eurogroup and heightened expectations for additional monetary easing. Long-term interest rates in the United States and Germany had been more or less unchanged after they marked new record lows due to the prolonged monetary easing and heightened demand for safe assets. With regard to corporate bond markets in the United States and Europe, credit spreads on corporate bonds had been widening somewhat, particularly for those issued by firms with low credit ratings. Developments in stock prices and currencies in emerging and commodity-exporting economies had differed among countries and regions, but had declined noticeably in China, as well as in Hong Kong, Taiwan, and Singapore, where economic ties with China were strong. While risk aversion continued globally, the funding conditions of European financial institutions had been stable on the whole, due in part to the various measures taken by central banks so far. Spreads between interest rates on euro-denominated term instruments and overnight index swap (OIS) rates had been more or less unchanged. Spreads between interest rates on U.S. dollar-denominated term instruments and OIS rates had been virtually unchanged, and the U.S. dollar funding premium in the foreign exchange swap markets was also more or less unchanged from the level at the time of the previous meeting, after having risen temporarily.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had shown signs of a pick-up. Real exports registered high growth of 6.2 percent in April 2012 relative to the January-March quarter, after having been more or less flat. Exports were expected to increase moderately as overseas economies emerged from the deceleration phase.

Public investment had been increasing, primarily in that related to reconstruction following the earthquake disaster, and was expected to be on the rise.

Business fixed investment had been on a moderate increasing trend, with corporate profits improving. It was expected to continue on this 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.

The employment and income situation, although it remained severe, had generally been improving, as evidenced partly by the fact that (1) the ratio of job offers to applicants continued to improve and (2) the unemployment rate had been trending downward.

Against the background of improvement in consumer sentiment, private consumption continued to increase moderately due to the effects of measures to stimulate demand for automobiles. It was expected to remain firm as the employment situation was on an improving trend.

Housing investment had generally been picking up, supported in part by reconstruction of disaster-stricken homes, and was expected to continue to do so.

Production had started picking up moderately and was expected to increase moderately as domestic demand stayed firm and as exports picked up gradually. According to interviews with firms, although many continued to hold conservative views on their production plans for the time being, production was expected to increase moderately both in the April-June and July-September quarters of 2012.

As for prices, international commodity prices had been falling back recently. The three-month rate of increase in the domestic corporate goods price index (CGPI) was slowing, mainly because international commodity prices had been falling back. The CGPI was expected to be somewhat weak for the time being, mainly reflecting movements in international commodity prices. The year-on-year rate of change in the corporate services price index (CSPI) for all items excluding international transportation, having seen a deceleration in the pace of decline, turned positive in April 2012 for the first time in three and a half years. 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. The short-term real interest rate -- calculated by subtracting the CPI inflation rate from the call rate -- had recovered to a more or less neutral level relative to the growth rate of the real GDP trend or the potential growth rate. 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 change in the amount outstanding of bank lending had been positive. The year-on-year rate of change in the total amount outstanding of corporate bonds and CP had been moving around 0 percent, while that of corporate bonds had 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 2 percent.

3. The fund-provisioning measure to support strengthening the foundations for economic growth

On June 8, 2012, the Bank carried out a new loan disbursement, amounting to 289.6 billion yen, under the main rules for the fund-provisioning measure to support strengthening the foundations for economic growth. The outstanding balance of loans disbursed by the Bank under these rules amounted to 3,131.4 billion yen after the new loan disbursement, thus exceeding 3 trillion yen for the first time, following the Bank's decision to increase the ceiling for the outstanding balance of loans from 3 trillion yen to 3.5 trillion yen in March 2012. Under the special rules for equity investments and asset-based lending (ABL), the Bank's new loan disbursement was 21.4 billion yen, and the outstanding balance of loans came to 106.9 billion yen, thus slightly exceeding 100 billion yen. Regarding the newly introduced special rules for small-lot investments and loans, the first loan disbursement was only 3 billion yen, partly due to the fact that financial institutions had not completed preparations for applying to the Bank for loans under the special rules. The breakdown by area of loans provided by financial institutions that had received the Bank's loans under the special rules for small-lot investments and loans showed that "business reorganization" and "setting up a new business" accounted for large proportions. This suggested that the Bank's provision of loans under the special rules could be effective in terms of exploring new sources of demand for funds, aside from the major areas covered by the loans provided under the main rules.

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

A. Economic Developments

In terms of <u>global financial markets</u>, members agreed that some nervousness continued to be seen on the back of concern about Spanish banks' impaired assets and the

Greek political situation, and therefore particular attention should be paid to developments in these markets for the time being. Many members commented that, although risk aversion among investors had temporarily eased following the announcement of financial assistance to Spain by the Eurogroup, the likelihood that tensions in the markets could further intensify was not small, as there remained a high degree of uncertainty about the European debt problem -- including how fiscal consolidation and economic structural reforms in Greece following its election in June would develop -- and consequently the global economy. On this point, a few members expressed the view that tensions in the markets regarding the European debt problem had intensified and eased repeatedly, and that this cycle was shortening gradually. Regarding the policy conditionality for financial assistance to Spain, one member noted that it was not easy to strike a balance between the conditionalities for Spain and those for countries that were already receiving assistance. Some members commented that heightened risk aversion among investors was partly attributable to somewhat more cautious views on the outlook for the global economy. Meanwhile, members noted that the situation of interbank funding markets was of importance in terms of ensuring the stability of the financial system, and shared the recognition that the markets remained generally stable at present, mainly due to the effects of the provision of a large amount of funds by the European Central Bank (ECB). On this basis, some members said that due attention needed to be paid to the risk that stability of the financial markets, including funding markets, would deteriorate suddenly, triggered by an unforeseeable event.

With regard to overseas economies, members concurred that the pace of recovery had been somewhat delayed. They were of the view that these economies on the whole still had not emerged from a deceleration phase, but had shown some, albeit moderate, improvement. As for the outlook, they shared the view that overseas economies were likely to gradually emerge from this deceleration phase. Some members expressed the opinion that, rather than emerging and commodity-exporting economies being the sole driving force of global recovery, there was a possibility that the U.S. economy as well as emerging economies would become driving forces.

As for the U.S. economy, members agreed that it continued to recover at a moderate pace and was likely to continue to do so. A few members commented that the economic assessments of each district presented in the Federal Reserve's June Beige Book were generally positive, suggesting that the economy continued to recover moderately. Regarding the fact that the growth in nonfarm payroll employment had slowed and the decline in the unemployment rate had paused, many members expressed the view that the employment situation could be viewed as maintaining a modest improving trend, judged together with the average of these figures over the past six months or so and other employment indicators. A few of these members expressed the opinion that private consumption would be firm for the time being, as the employment situation improved moderately and real income increased reflecting a decline in gasoline prices. On this basis, many members said that, in addition to the adverse impact of the European debt problem, it was necessary to carefully monitor the situation surrounding the "fiscal cliff" -- a state in which fiscal spending cuts and tax increases would be implemented simultaneously at the beginning of 2013 -- and its effects on the U.S. economy amid persisting strains from balance-sheet adjustments.

As for the economic activity in the euro area, members shared the view that it had been sluggish, despite signs of a pick-up in exports, because domestic demand in the area had been stagnant. In terms of the outlook, they agreed that the economy was likely to remain sluggish for the time being given that fiscal austerity continued and financial conditions were unlikely to improve. Some members -- noting the pronounced disparities observed until recently regarding economic sentiment between peripheral countries and core countries such as Germany -- pointed out that weak domestic demand and a deterioration in financial conditions in peripheral countries were starting to exert downward pressure on production and business sentiment in core countries. Some members noted that a vicious cycle of a worsening fiscal balance, increasing tensions in the financial system, and a dampening of economic activity had been operating in peripheral countries. These members expressed the view that, if no effective measures were taken to prevent this cycle from intensifying, not only was there a risk that European economies, especially peripheral countries, would weaken further but also that this would have an extremely adverse impact on the global economy through instability in financial markets. Many members pointed to the risk that a weakening in the euro area economy would exert downward pressure not only on economic activity in countries that were largely dependent on exports to the euro area -- such as China -- but also on Japan and other countries that were indirectly linked with the euro area through exports and imports with the former set of countries.

Members shared the view that, although the Chinese economy continued to show relatively high growth, the pace was slowing. Most members, referring to economic indicators released recently, expressed the view that, while signs of a pick-up were observed in external trade and in provision of new loans, the growth rates in domestic demand-related indicators such as fixed asset investment and retail sales were slowing. As for the outlook, members agreed that the economy was likely to gradually show clear signs of recovery through the second half of 2012 on the back of the implementation of a range of policy measures, although the timing of such recovery was being delayed slightly. On this basis, some members added that implementation of drastic stimulus measures might be difficult given that the pace of increase in labor supply was slowing and the growth rate in wages stood at an elevated level despite the ongoing economic slowdown. These members expressed the view that, even in the longer run, the economy was unlikely to return to the high growth path observed in the recent past. One of these members expressed the opinion that fixed asset investment could continue to increase, especially in the inland area, but the effects of developments in such investment on the entire economy were diminishing.

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, although a recovery in overseas demand was somewhat delayed, Japan's economic activity had started picking up moderately as domestic demand remained firmer than expected, mainly supported by reconstruction-related demand. They concurred that public investment had been increasing with the progress in the execution of the budget related to the earthquake disaster, and business fixed investment had been on a moderate increasing trend with corporate profits improving. Members shared the recognition that, against the background of improvement in consumer sentiment, private consumption had continued to increase moderately due to the effects of measures to stimulate demand for automobiles, and that housing investment had generally been picking up. As the background to the firmness in domestic demand, many members cited (1) reconstruction-related demand, (2) the effects of policy measures such as subsidies for purchasers of environmentally friendly cars, and (3) the effects of the improvement in corporate profits and the employment and income situation. One of these members added that the fact that firms' efforts to explore new sources of demand from the elderly were producing results, and that real purchasing power was increasing due to the appreciation of the yen, could also be considered as factors behind the firmness in domestic demand. This member said that reconstruction-related demand varied widely, ranging not only over public investment, pent-up demand following the earthquake disaster, and demand related to the rebuilding of daily lives in the disaster areas, but also over firms' and households' demand related to the establishment of premises for business continuity plans, strengthening of the earthquake resistance of buildings and houses, and purchasing of disaster kits. Members shared the recognition that exports had shown signs of a pick-up. As for the high growth in real exports registered in April, most members expressed the view that, although it was likely that the figure had been relatively strong due to a statistical anomaly, a confirmed increase without large regional disparities was nevertheless a positive development. Members shared the recognition that production had started picking up moderately, reflecting these developments in demand at home and abroad.

As for the outlook for the economy, members agreed that it was likely to return to a moderate recovery path as domestic demand remained firm and overseas economies emerged from the deceleration phase. Many members expressed the recognition that the key factor was whether domestic demand would remain firm until a recovery in external demand became evident. On this point, some members expressed the view that further improvement in corporate profits was likely to lead to an increase in business fixed investment and an improvement in the employment and income situation, thereby underpinning private consumption. A few members, however, said that it was necessary to pay attention to whether private consumption would be dampened by the following factors: (1) the budget allocated for subsidies for purchasers of environmentally friendly cars would run out before long, (2) the cuts in the salaries of government employees were likely to exert negative effects, and (3) the level of summer bonus payments in 2012 was projected to be somewhat weak. One of these members added that, while the ratio of job offers to applicants was improving recently, the number of unemployed persons remained at an elevated level, suggesting the possibility of a growing mismatch between supply and demand of labor in some industries. This member continued that there should be close monitoring of whether such a mismatch would delay an improvement in household income and private consumption. Regarding business fixed investment, one member pointed out that, in the *Business Outlook Survey*, plans for investment in plant and equipment for fiscal 2012 were solid in both the manufacturing and nonmanufacturing industries. On this basis, this member said that it was necessary to closely monitor whether such a positive attitude toward investment would also be observed in the June *Tankan* (Short-Term Economic Survey of Enterprises in Japan), and whether these plans would indeed be implemented.

With regard to risks to the outlook for Japan's economy, members concurred that there remained a high degree of uncertainty about the global economy, including the prospects for the European debt problem, the momentum toward recovery for the U.S. economy, and the likelihood of emerging and commodity-exporting economies simultaneously achieving price stability and economic growth. Regarding the European debt problem, they shared the view that instability in global financial markets and a deceleration in overseas economies stemming from the worsening of the problem were risks that should be of the most concern. Some members, noting that concern about the European debt problem was becoming chronic and that the effects of such a development tended to result in an appreciation of the yen and a fall in stock prices, said that this might negatively affect business and household sentiment, thereby exerting downward pressure on business fixed investment and private consumption 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. Some members said that there was a possibility that the rate of change in the CPI (all items less fresh food) would be around 0 percent for a longer period than expected, partly reflecting the recent decline in international commodity prices. A few members added that the rate of change in the CPI (all items less fresh food) for the Tokyo metropolitan area for May suggested the possibility that the decline in prices of liquid crystal display televisions could be a downside factor for prices for the time being. Some members expressed the view that, even if prices were somewhat weak for the time being due to the decline in international commodity prices, the outlook was unchanged, in that the price situation was likely to be on a moderate improving trend while the negative output gap narrowed steadily.

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. A few members said that, if international commodity prices continued to follow the current downtrend, this could cause a weakening in prices, even in the longer run. One of these members, noting that the short-term inflation expectations remained at a low level, expressed the opinion that careful attention should be paid to the effects of this situation on future price developments.

B. Financial Developments

Members agreed that financial conditions in Japan continued to ease.

Members agreed that the money market 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. A few members noted that it was necessary to pay attention to the fact that the most recently released statistics showed that the funding conditions of small firms remained favorable but had deteriorated slightly, and the number of corporate bankruptcies, although at a low level, had come to exceed the year-ago figure.

III. 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.

In relation to <u>monetary policy for the immediate future</u>, members shared the view that Japan's economy faced the critical challenge of overcoming deflation and returning to a sustainable growth path with price stability. They continued that, based on the recognition that this challenge would be met through efforts by a wide range of economic agents to strengthen the economy's growth potential and support from the financial side, the Bank had been providing support to strengthen the foundations for economic growth and pursuing powerful monetary easing. They agreed that the Bank would continue to conduct monetary policy in an appropriate manner. On this basis, they reaffirmed the view that it was necessary for the Bank to do its utmost to ensure the stability of Japan's financial system while paying particular attention to developments in global financial markets, where some nervousness persisted, reflecting the European debt problem. A few members raised the possibility that Japan's economy would be adversely affected through various channels if a substantial risk materialized, stemming from the European debt problem, for example. These members said that the Bank should therefore stand ready to take appropriate actions without ruling out any options in advance.

With regard to the fact that the long-term interest rate in Japan had temporarily fallen below the 0.8 percent level, many members expressed the view that this was attributable to the heightening of demand for JGBs that were regarded as safe assets, reflecting concern over the European debt problem. A few of these members noted that demand for safe assets could decline with the progress in addressing the European debt problem, although concern over the problem would not dissipate immediately. These members continued that, in such a case, long-term interest rates in the United States, Germany, and Japan could rebound.

In terms of the Program, members agreed that it was appropriate at this point to steadily implement the purchases of financial assets under the Program, which was expanded as a result of the decision made at the April 27 meeting, and to monitor the effects of these purchases. Some members said that the effects of monetary easing had been permeating the financial markets steadily as the Bank proceeded with asset purchases within the current total size of the Program. Regarding the fact that undersubscription -- where the total amount of bids fell short of the amount the Bank offered -- had been occurring frequently in the fixed-rate operation, many members expressed the view that, although undersubscription indicated that the effects of the Bank's powerful monetary easing had been permeating the financial markets, it was necessary for the operation desk to continue to make operational adjustments that would allow the Bank to accumulate the outstanding amount of the Program as scheduled. A few of these members added that undersubscription had been expected to occur as the effects of monetary easing transmitted. These members continued that, bearing in mind that undersubscription might be possible, the Bank decided at the April 27 meeting to extend the remaining maturity of JGBs and corporate bonds to be purchased under the Program, and to reduce the maximum outstanding amount of the fixed-rate operation.

Regarding the main rules for the fund-provisioning measure to support strengthening the foundations for economic growth, some members said that there was a reasonable amount of demand for the Bank's new loan disbursement in accordance with the increase in the ceiling for the outstanding balance of loans, and therefore the intended effects were being generated. Regarding the special rules for small-lot investments and loans, many members noted that, although the amount of loans at the first disbursement was relatively small, the breakdown by area of loans provided by financial institutions that had received the Bank's loans showed that the proportions were large for areas such as "medical and nursing care," "business reorganization," "setting up a new business," "agriculture, forestry, and fisheries business," and "business serving the needs of senior citizens." These members continued that, since these areas were not pronounced in the loans provided under the main rules, such large proportions were an encouraging sign that the Bank's provision of loans under the special rules was contributing to the exploration of new sources of demand for funds unique to small-lot investments and loans. One member said that the Bank's loan disbursement under the special rules for small-lot investments and loans was more accessible to regional financial institutions. This member expressed hope that the use of this type of fund-provisioning measure would therefore promote these institutions' efforts to stimulate regional economies.

IV. Remarks by Government Representatives

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

(1) The government was currently making its best efforts to work on the comprehensive reform of the social security and taxation systems. It would continue to do its utmost to promptly obtain the Diet's approval of bills related to the comprehensive reform, which were being deliberated in the Diet.

(2) The Japanese economy was on the way to recovery at a moderate pace, partly supported by reconstruction demand. As for the outlook, movement toward sound recovery was expected to take hold. However, against the background of heightened concern over the European debt problem, downside risks to the Japanese economy had increased as a result of sharp swings between risk-on and risk-off in financial markets, such as the stock and foreign exchange markets, and because of growing concern over the further slowdowns in overseas economies including emerging and commodity-exporting economies. The government regarded the European debt problem as a risk that warranted the most attention, and was greatly concerned about this issue. It expected the Bank to carefully monitor how this risk would affect the Japanese economy and

make every effort to avoid a slowdown. Furthermore, the government expected the Bank to fully communicate such efforts to the public at home and abroad.

(3) The government and the Bank shared the view that overcoming deflation was the top-priority task in Japan, and had been making policy efforts while sufficiently exchanging views and keeping close contact; however, Japan had not yet overcome deflation. The government expected the Bank -- under its policy stance that, for the time being, it 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 the 1 percent goal to be in sight -- to continue to conduct monetary policy vigorously and decisively while closely monitoring developments in financial markets at home and abroad and working sufficiently on its communication -- including the dissemination of information -- to the public in an effort to make its policy stance fully understood.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy had recently been facing severe conditions, such as sharp fluctuations in the financial markets stemming from uncertainty about the prospects for the European sovereign debt crisis. Nevertheless, it was on the way to recovery at a moderate pace, reflecting the effects of a range of policy measures. As for the outlook, many private research institutes projected that the real GDP growth rate would remain at around slightly less than 2 percent for the time being. The current circumstances provided a good opportunity for the economy to overcome deflation, since the rate of decline in prices was moderating and the negative output gap was expected to continue to narrow.

(2) The government deemed it extremely important to seize this opportunity and deal with the structural factors in the Japanese economy that tended to generate deflation, while making its best efforts to avoid an economic slowdown through the appropriate conduct of macroeconomic management. With the aim of overcoming deflation by enhancing the flow of goods, people, and capital, the government had been proceeding with discussions on policy areas and other issues to be considered at the ministerial-level Council on the Economic Situation including the Issue of Overcoming Deflation, and would conduct an interim review in the near future.

(3) The government expected the Bank to make its utmost efforts in the conduct of monetary policy in parallel with the government measures, taking account of the downside risks to the Japanese economy. The government deemed it important for the Bank to promptly achieve a CPI inflation rate of 1 percent and produce visible results. In order to ensure completion of the asset purchases as scheduled, it also expected the Bank to conduct monetary policy flexibly and decisively by, for example, deliberating on the portfolio of assets being purchased under the Program while taking account of the market situation of heightened risk aversion among investors.

(4) The government hoped that the Bank would conduct policy with vigilance, giving due consideration to the fact that the risks of turmoil in global financial markets and a global economic downturn -- both stemming from the European sovereign debt crisis, including the problems in Greece and Spain -- were increasing significantly.

V. 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.

VI. Discussion on the Statement on Monetary Policy

Members discussed the Statement on Monetary Policy, 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).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of May 22 and 23, 2012 for release on June 20, 2012.

VIII. Approval of the Scheduled Dates of the Monetary Policy Meetings in July 2012-June 2013

At the end of the meeting, the Policy Board approved the dates of the Monetary Policy Meetings to be held in the period of July 2012-June 2013 for immediate release (see Attachment 2).

Attachment 1

June 15, 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, 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 have shown some, albeit moderate, improvement. In global financial markets, some nervousness continues to be seen, mainly due to concern about the European debt problem. Particular attention should therefore be given to developments in these markets for the time being.

3. Japan's economic activity has started picking up moderately as domestic demand remains firm mainly supported by reconstruction-related demand. Public investment has been increasing. Business fixed investment has been on a moderate increasing trend with corporate profits improving. Against the background of improvement in consumer sentiment, private consumption has continued to increase moderately due to the effects of measures to stimulate demand for automobiles. Housing investment has generally been picking up. Exports have shown signs of a pick-up. Reflecting these developments in demand at home and abroad, production has started picking up moderately. 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 domestic demand remains firm and overseas economies emerge from the deceleration phase. 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, the momentum toward recovery for the U.S. economy, 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. This challenge will be met through efforts by a wide range of economic agents to strengthen the economy's growth potential and support from the financial side. Based on this recognition, the Bank has been providing support to strengthen the foundations for economic growth and pursuing powerful monetary easing. The Bank continues to conduct monetary policy in an appropriate manner. The Bank will also do its utmost to ensure the stability of Japan's financial system, while giving particular attention to developments in global financial markets.

Attachment 2

June 15, 2012

Bank of Japan

Scheduled Dates of Monetary Policy Meetings in July 2012-June 2013

	Date of MPM	Publication of MPM Minutes	Publication of Outlook Report (The Bank's View)	(Reference) Publication of Monthly Report
July 2012	11 (Wed.), 12 (Thurs.)	Aug. 14 (Tues.)	--	13 (Fri.)
Aug.	8 (Wed.), 9 (Thurs.)	Sep. 24 (Mon.)	--	10 (Fri.)
Sep.	18 (Tues.), 19 (Wed.)	Oct. 11 (Thurs.)	--	20 (Thurs.)
Oct.	4 (Thurs.), 5 (Fri.)	Nov. 2 (Fri.)	--	9 (Tues.)
	30 (Tues.)	Nov. 26 (Mon.)	30 (Tues.)	--
Nov.	19 (Mon.), 20 (Tues.)	Dec. 26 (Wed.)	--	21 (Wed.)
Dec.	19 (Wed.), 20 (Thurs.)	Jan. 25 (Fri.)	--	21 (Fri.)
Jan. 2013	21 (Mon.), 22 (Tues.)	Feb. 19 (Tues.)	--	23 (Wed.)
Feb.	13 (Wed.), 14 (Thurs.)	Mar. 12 (Tues.)	--	15 (Fri.)
Mar.	6 (Wed.), 7 (Thurs.)	Apr. 9 (Tues.)	--	8 (Fri.)
Apr.	3 (Wed.), 4 (Thurs.)	May 2 (Thurs.)	--	5 (Fri.)
	26 (Fri.)	May 27 (Mon.)	26 (Fri.)	--
May	21 (Tues.), 22 (Wed.)	June 14 (Fri.)	--	23 (Thurs.)
June	10 (Mon.), 11 (Tues.)	To be announced	--	12 (Wed.)

Note: The time of release will be, in principle, as follows.

MPM Minutes will be released at 8:50 a.m.

Outlook for Economic Activity and Prices (Outlook Report):

"The Bank's View" in the Outlook Report will be released at 3:00 p.m., and the full text at 2:00 p.m. on the next business day. As an exception to this principle, the full text of the April 2013 Outlook Report will be released at 2:00 p.m. on April 27 (Sat.), 2013.

Monthly Report of Recent Economic and Financial Developments (Monthly Report):

The Japanese original and the English translation for summary will be released at 2:00 p.m. (the English translation for the full text will be published at 4:30 p.m. on the next business day).