

June 15, 2010

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,¹ to set the following guideline for money market operations for the intermeeting period:

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

2. Japan's economy shows further signs of a moderate recovery, induced by improvement in overseas economic conditions. Exports and production have been increasing mainly against a backdrop of high growth in emerging economies. In these circumstances, business fixed investment is showing signs of picking up. The employment and income situation has remained severe, but the degree of severity has eased somewhat. Private consumption, notably durable goods consumption, is picking up partly due to policy measures. Public investment is declining. Meanwhile, financial conditions, with some lingering severity, have continued to show signs of easing. The CPI (excluding fresh food) is declining on a year-on-year basis due to the substantial slack in the economy as a whole, but the slowing trend in the pace of decline has continued.
3. The Bank's baseline scenario projects that the economy is likely to be on a recovery trend. With regard to prices, based on the assumption that medium- to long-term inflation expectations remain stable, the year-on-year rate of decline in the CPI (excluding fresh food) is expected to slow as the aggregate supply and demand balance improves gradually.
4. With regard to economic activity, while there are some upside risks such as faster growth in emerging and commodity-exporting economies, there are also downside risks such as those related to international financial developments. In this regard, attention should be paid to the effects of developments in fiscal conditions in some European economies on international finance and the global economy. With regard to prices, there is a possibility that inflation will rise more than expected due to a rise in commodity prices brought about by higher growth

¹ Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. T. Noda, Mr. S. Nakamura, Mr. H. Kamezaki, and Mr. R. Miyao. Voting against the action: None.

rates in emerging and commodity-exporting economies, while there is also a risk that the rate of inflation might decline due, for example, to a decline in medium- to long-term inflation expectations.

5. The Bank recognizes that Japan's economy faces the critical challenge of overcoming deflation and returning to a sustainable growth path with price stability. To this end, the Bank will continue to consistently make contributions as central bank. In the conduct of monetary policy, the Bank will aim to maintain the extremely accommodative financial environment. Moreover, today, the Bank decided the introduction of the fund-provisioning measure to support strengthening the foundations for economic growth (see the Attachment). Through this measure, the Bank expects that the efforts of firms and financial institutions to support Japan's economic growth will be further stimulated.

June 15, 2010

Bank of Japan

**Fund-Provisioning Measure to Support
Strengthening the Foundations for Economic Growth**

1. The most critical challenge the Japanese economy is currently facing is to raise the potential economic growth rate and productivity. In this regard, it is private economic agents, such as firms and financial institutions, that primarily take the lead in economic growth. However, policy authorities also need to play their respective roles in order to provide an environment that promotes innovative economic activity by private economic agents. Aiming to rid Japan's economy of deflation and achieve sustainable growth with price stability, the Bank has been examining ways in which it can contribute in this regard. As a result, today, the Bank decided, as a temporary measure, to introduce a new fund-provisioning framework to support, from the financial side, private financial institutions' efforts of their own accord toward strengthening the foundations for economic growth (for an outline of this measure, refer to the Annex).
2. The fund-provisioning measure supplies long-term funds at a low interest rate against eligible collateral to financial institutions in accordance with their efforts in terms of lending and investment toward strengthening the foundations for economic growth. As for financial institutions that utilize the measure, the Bank expects that they will utilize the fund-provisioning measure appropriately and effectively, taking it as an opportunity to expand lending and investment to businesses that will contribute to raising productivity or creating new demand.
3. The fund-provisioning measure aims to act as a catalyst for financial institutions in making efforts toward strengthening the foundations for economic growth and to support, as broadly as possible, financial institutions' various efforts of their own accord. At the same time, in deciding the framework of the measure, the Bank was attentive to ensuring that it does not directly involve itself in the allocation of funds to individual firms and industries and that, in terms of the amount and the duration of funds provided, the measure will not hamper the

smooth conduct of interest rate policy and money market operations.

4. The Bank will make necessary preparations so as to be able to start providing funds by around the end of August, 2010. Through this measure, the Bank expects that the efforts of firms and financial institutions to support Japan's economic growth will be further stimulated. The Bank, as the central bank, will continue to contribute toward, for example, the development of financial markets that support strengthening the foundations for economic growth.

**Outline of the Fund-Provisioning Measure to Support
Strengthening the Foundations for Economic Growth**

1. Eligible Counterparties

- Financial institutions that are counterparties in the Bank's Funds-Supplying Operations against Pooled Collateral at All Offices¹ and wish to be counterparties in this measure.

Note 1: The Bank's Funds-Supplying Operations against Pooled Collateral at All Offices provide funds against a wide range of financial assets pledged as eligible collateral (pooled collateral), such as Japanese government bonds, and is a scheme in which many financial institutions, including regional financial institutions, can participate.

- Each counterparty shall submit to the Bank a plan to support strengthening the foundations for economic growth, and obtain the Bank's confirmation that the plan satisfies the conditions set forth in the Appendix.

2. Form of Loans

- Loans shall be provided in the form of electronic lending against pooled collateral (the same form as the Bank's Funds-Supplying Operations against Pooled Collateral).

3. Duration of Loans, Maximum Number of Times for Rollover of Loans

- The duration of each loan shall be one year in principle, and the loan can be rolled over up to three times (the maximum duration of the loan shall be four years). New loans are scheduled to be disbursed quarterly.

4. Loan Rates

- The loan rate will be the Bank's target for the uncollateralized overnight call rate on the day of disbursement of the loan.

5. Maximum Amount of Loan

(1) Total Amount of Loans

- The total amount of loans shall not exceed 3 trillion yen; the total amount of loans at each loan disbursement shall not exceed 1 trillion yen.

(2) Maximum Amount of Loan to Each Counterparty

- The total amount of loans to each counterparty shall not exceed 150 billion yen.
- The maximum amount of loan to each counterparty at each loan disbursement shall be the actual amount of lending and investment carried out during each quarter under the counterparty's plan prescribed in 1.

6. Deadline for New Applications for Loans

- The deadline for new applications for loans shall be March 31, 2012 (The last disbursement of new loans shall take place by June 30, 2012).

**Conditions that Plans to Support Strengthening the Foundations
for Economic Growth Shall Meet**

<p>Eligible loans or investment</p>	<p>The use of funds by borrowing firms, etc., shall support strengthening the foundations for economic growth in, for example, one of the following areas:</p> <ul style="list-style-type: none"> (1) Research and development (2) Setting up a new business (3) Business reorganization (4) Investment and business deployment in Asian and other countries (5) Science and technology research at universities and research institutions (6) Development and upgrading of social infrastructure (7) Environment and energy business (8) Business for securing and developing natural resources (9) Medical, nursing care, and other health-related business (10) Business serving the needs of senior citizens (11) Business in the content creation industry (12) Tourism business (13) Regional and urban revitalization business (14) Agriculture, forestry, and fisheries business; Business linking agriculture, commerce, and industry (15) Business which supports the creation of housing stock (16) Disaster prevention business (17) Employment support and human resources development business (18) Childcare services business <p>-- Funds may also be used in areas not listed above as long as their use supports strengthening the foundations for economic growth.</p>
<p>Borrower / Investee</p>	<p>-- Domestic residents (excluding the government, municipal governments, financial institutions, etc.).</p>

	-- Foreign corporations with a business establishment in Japan and carrying out a business in the areas identified as contributing to strengthening the foundations for economic growth.
Maturity of the lending or investment	One year or more.
Others	The Bank shall be under no obligation to provide funds where, for whatever reasons, it considers this to be inappropriate.

(Reference)

Meeting hours:

June 14: 14:00-16:21

June 15: 9:01-12:51

Policy Board members present:

Masaaki Shirakawa (Governor)

Hirohide Yamaguchi (Deputy Governor)

Kiyohiko G. Nishimura (Deputy Governor)

Miyako Suda

Tadao Noda

Seiji Nakamura

Hidetoshi Kamezaki

Ryuzo Miyao

(Others present)

June 14

From the Ministry of Finance:

Shunsuke Kagawa, Deputy Vice Minister for Policy Planning and Co-ordination
(14:00-16:21)

From the Cabinet Office:

Kenji Umetani, Deputy Director-General, Economic and Fiscal Management
(14:00-16:21)

June 15

From the Ministry of Finance:

Motohisa Ikeda, Senior Vice Minister of Finance (9:01-12:38,12:44-12:51)

From the Cabinet Office:

Kenji Umetani, Deputy Director-General, Economic and Fiscal Management
(9:01-12:38,12:44-12:51)

Release of the *Monthly Report of Recent Economic and Financial Developments*:

14:00 on Wednesday, June 16 (Japanese)

16:30 on Thursday, June 17 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Wednesday, June 16

Release of the minutes:

8:50 on Wednesday, July 21