

November 5, 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 on the following with regard to the guideline for money market operations and purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs).

- (1) Guideline for Money Market Operations

The Policy Board decided, by a unanimous vote,<sup>1</sup> to set the following guideline for money market operations for the intermeeting period:

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

- (2) Purchases of ETFs and J-REITs

The Bank decided the principal terms and conditions governing operational details of purchases of ETFs and J-REITs, such as the specifics of those to be purchased and the method of purchase in which the Bank appoints a trust bank as trustee (see Attachment).

2. Japan's economy still shows signs of a moderate recovery, but the recovery seems to be pausing. Exports and production have recently been more or less flat. 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. As for private consumption, there has been a decline in durable consumer goods following the sharp increase in demand. Meanwhile, financial conditions have continued to show signs of easing. The CPI (excluding fresh food) are 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 Japan's economy is likely to grow at a slower pace for some time, but is expected to return to a moderate recovery path thereafter as the growth

---

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

rate of the global economy is likely to start increasing again led by emerging and commodity-exporting economies. As for prices, the year-on-year rate of decline in the CPI is expected to continue slowing.

4. In the area of economic activity, there are some upside risks such as faster growth in emerging and commodity-exporting economies. However, amid continued heightened uncertainty about the future, especially for the U.S. economy, attention should also be paid to downside risks to Japan's economy. Regarding the outlook for prices, there is a possibility that inflation will rise more than expected due to an increase in commodity prices brought about by high growth rates in emerging and commodity-exporting economies, while there is also a risk that the rate of inflation will deviate downward from the baseline due, for example, to a decline in medium- to long-term inflation expectations.
5. Today's decision has established the framework for the Asset Purchase Program in total amount of 35 trillion yen that includes the purchases of risk assets. The Bank will purchase assets through the Program sequentially, starting with Japanese government bonds at the beginning of next week and followed by the purchases of other assets, so that the effects of comprehensive monetary easing will quickly spread.
6. For Japan's economy to overcome deflation and return to a sustainable growth path with price stability, the Bank will continue to consistently make contributions as the central bank by the three-pronged approach of pursuing powerful monetary easing through comprehensive monetary easing, ensuring financial market stability, and providing support in strengthening the foundations for economic growth. The Bank will continue to carefully examine the outlook for economic activity and prices, and take policy actions in an appropriate manner.

## **Outline of Purchases of ETFs and J-REITs**

### 1. ETFs and J-REITs to Be Purchased

- (1) ETFs whose prices track the Tokyo Stock Price Index (TOPIX) or the Nikkei 225 Stock Average.
- (2) J-REITs that are rated AA or higher and for which there are no concerns regarding their creditworthiness.
- (3) In addition, purchase and sale of J-REITs shall have been transacted on a financial instruments exchange 200 days or more per annum, with a total trading value of 20 billion yen or more per annum.

### 2. Method

- (1) The Bank will purchase ETFs and J-REITs as trust property through a trust bank that the Bank appoints as trustee.
- (2) Purchases of ETFs and J-REITs shall, taking into account the conditions in the market, be conducted by the trustee pursuant to a standard prescribed by the Bank.

### 3. Purchasing Price

In principle, the purchasing price for each ETF or J-REIT shall be the volume-weighted average price at a financial instruments exchange.

### 4. Maximum Outstanding Amount of Each ETF and J-REIT to Be Purchased

- (1) The maximum amount of each ETF to be purchased shall be set so that the Bank's purchase would roughly be proportionate to the total market value of that ETF issued.
- (2) The maximum amount of each J-REIT to be purchased shall not exceed 5 percent of the total amount of that J-REIT issued, and shall be set so that the Bank's purchase would roughly be proportionate to the total market value of that J-REIT issued.

#### 5. Exercise of J-REIT Voting Rights

The Bank shall establish basic principles regarding the exercise of J-REIT voting rights to maximize the benefit of equity holders. Within the scope of such basic principles, the trustee shall exercise such voting rights.

#### 6. Disposal of Purchased ETFs and J-REITs

- (1) ETFs and J-REITs purchased by the Bank shall be promptly disposed in cases such as the following.
  - a. In case the total amount of a J-REIT purchased exceeds 5 percent of the total amount of that J-REIT issued.
  - b. In case an ETF or a J-REIT is assigned to the supervision post or the liquidation post pursuant to the relevant rules of the financial instruments exchange.
  - c. In case the Bank accepts tender offers.
- (2) In case the Bank is disposing ETFs or J-REITs based on grounds other than provided in (1), the Bank shall establish basic principles to avoid, as much as possible, incurring losses and inducing destabilizing effects on the financial markets. Within the scope of such basic principles, a trustee shall conduct the disposal.

#### 7. Loss Reserve Policy

Provisions for possible losses on ETFs and J-REITs, respectively, shall be the difference between the total market value and the total book value.

#### 8. Others

The Bank will create a system that allows for the control of information related to the purchases of the assets.

(Reference)

Meeting hours:

November 4: 16:00-17:29

November 5: 9:00-11:31

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

Yoshihisa Morimoto

(Others present)

November 4

From the Ministry of Finance:

Yasushi Kinoshita, Deputy Vice Minister for Policy Planning and Co-ordination  
(16:00-17:29)

From the Cabinet Office:

Kenji Umetani, Director-General, Economic and Fiscal Management (16:00-17:29 )

November 5

From the Ministry of Finance:

Mitsuru Sakurai, Senior Vice Minister of Finance (9:00-11:15,11:21-11:31)

From the Cabinet Office:

Takashi Wada, Parliamentary Vice-Minister (9:00-11:15,11:21-11:31)

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

14:00 on Monday, November 8 (Japanese)

16:30 on Tuesday, November 9 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Monday, November 8

Release of the minutes:

8:50 on Monday, December 27