

April 7, 2011

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,<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. Since the Great East Japan Earthquake occurred, the Bank, with a view to ensuring stability in financial markets, has been providing ample funds sufficient to meet demand in the markets. It further strengthened monetary easing by increasing the amount of the Asset Purchase Program, mainly of the purchases of risk assets, by about 5 trillion yen.

In addition to such measures, at today's meeting, the Bank judged it necessary to introduce a funds-supplying operation that provides financial institutions in disaster areas with longer-term funds in order to support their initial response efforts to meet the future demand for funds for restoration and rebuilding. The Bank accordingly compiled a preliminary framework for the operation as in the Attachment. It also judged it appropriate to broaden the range of eligible collateral for money market operations with a view to securing sufficient financing capacity of financial institutions in disaster areas. The Chairman instructed the staff to examine the specifics of these two measures and report back at the next Monetary Policy Meeting.

3. Japan's economy is under strong downward pressure, mainly on the production side, due to the effects of the earthquake disaster. Specifically, the earthquake has sharply dampened production in some areas by damaging production facilities, disrupting the supply chain, and constraining electric power supply; exports and domestic private demand have been affected accordingly. The year-on-year rate of decline in the CPI (excluding fresh food) has continued to slow. As for financial developments since the earthquake, the financial

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<sup>1</sup> 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.

intermediation function has been maintained and smooth fund settlement has also been secured. Financial markets have been stable as a whole. Meanwhile, financial conditions have generally continued to ease, while weakness has been observed in the financial positions of some firms, mainly small ones, since the earthquake.

4. According to the Bank's baseline scenario, Japan's economy is likely to remain under strong downward pressure, mainly on the production side, for the time being, but is expected to return to a moderate recovery path -- as supply-side constraints are mitigated and production regains traction -- backed by an increase in exports reflecting the improvement in overseas economic conditions and by a rise in demand for restoring capital stock. The year-on-year rate of change in the CPI is expected to become slightly positive in the near future.<sup>2</sup>
5. In the area of economic activity, there are some upside risks such as faster growth in emerging and commodity-exporting economies due to robust domestic demand and capital inflows from overseas. However, there are downside risks associated with developments in global financial markets and uncertainties, albeit reduced, about the outlook for the U.S. and European economies. Moreover, there is high uncertainty about the possible effects of the earthquake disaster on Japan's economy. Meanwhile, as for the rise in international commodity prices, the high growth in emerging and commodity-exporting economies that lies behind the price rise would lead to an increase in Japan's exports, while a decline in real purchasing power reflecting deterioration in the terms of trade could reduce private domestic demand in Japan. Regarding the outlook for prices, there is a possibility that inflation will rise more than expected if international commodity prices increase further, while there is also a risk that the rate of inflation will deviate downward from the Bank's baseline scenario due, for example, to a decline in medium- to long-term inflation expectations.
6. The Bank will continue to carefully examine the outlook for economic activity and prices, including the possible effects of the disaster, and take appropriate policy actions as necessary.

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<sup>2</sup> The year-on-year rate of change in the CPI is likely to be revised downward with the base-year change scheduled for August 2011.

**Preliminary Framework for the "Funds-Supplying Operation to Support Financial Institutions in Disaster Areas"**

1. Eligible Counterparties

Financial institutions that have business offices in disaster areas and are already counterparties in the Bank of Japan's "funds-supplying operations against pooled collateral at all offices" and wish to be counterparties for this operation.

For financial cooperatives that are not counterparties of the "funds-supplying operations against pooled collateral at all offices" nor hold current accounts at the Bank, the Bank will consider to provide them with funds through counterparty financial institutions.

Note that disaster areas are areas designated under the Disaster Relief Act, No. 118, 1947, with regard to the Great East Japan Earthquake -- that is, the whole areas of Iwate, Miyagi, and Fukushima prefectures and some areas of Aomori, Ibaraki, Tochigi, and Chiba prefectures.

2. Form of Loans

Loans shall be provided against pooled collateral.

3. Duration of Loans

The duration of each loan shall be one year.

4. Loan Rates

The loan rate shall be 0.1 percent per annum.

5. Total Amount of Loans

The total amount of loans shall be 1 trillion yen.

6. Maximum Amount of Loans per Counterparty and Deadline for New Applications for Loans

The Bank shall determine the maximum amount of loans to each counterparty and the deadline for new applications for loans, taking into account, for example, counterparties' lending conditions in disaster areas.

(Reference)

Meeting hours:

April 6 : 14:00-16:47

April 7 : 9:00-13:05

Policy Board members present:

Masaaki Shirakawa (Governor)

Hirohide Yamaguchi (Deputy Governor)

Kiyohiko G. Nishimura (Deputy Governor)

Tadao Noda

Seiji Nakamura

Hidetoshi Kamezaki

Ryuzo Miyao

Yoshihisa Morimoto

Sayuri Shirai

(Others present)

April 6

From the Ministry of Finance:

Yasushi Kinoshita, Deputy Vice Minister for Policy Planning and Co-ordination  
(14:00-16:47)

From the Cabinet Office:

Kenji Umetani, Director-General, Economic and Fiscal Management (14:00-16:47)

April 7

From the Ministry of Finance:

Mitsuru Sakurai, Senior Vice Minister of Finance (9:00-12:52,13:00-13:05)

From the Cabinet Office:

Yoshinori Suematsu, Senior Vice Minister for Economic and Fiscal Policy  
(9:00-12:52,13:00-13:05)

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

14:00 on Friday, April 8 (Japanese)

16:30 on Monday, April 11 (English)

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

Release of the minutes:

8:50 on Monday, May 9