

April 10, 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,<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. Overseas economies on the whole still have not emerged from a deceleration phase but U.S. economic conditions have continued to improve moderately and the sluggish European economy has stopped deteriorating. Global financial markets have generally been stable.
3. Japan's economic activity has shown some signs of picking up, although it has remained more or less flat. Exports have so far remained more or less flat. As for domestic demand, business fixed investment has been on a moderate increasing trend aided by the restoration of disaster-stricken facilities. Private consumption has firmed up due in part to the effects of measures to stimulate demand for automobiles, and housing investment has generally been picking up. Public investment has recently turned to an increase. Reflecting these developments in demand at home and abroad, production has shown some signs of picking up, although it has remained more or less flat. In these circumstances, business sentiment has been more or less unchanged on the whole, with continued improvement in domestic demand-oriented sectors and lingering cautiousness in export-oriented ones. 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 the pace of recovery in overseas economies picks up, led by emerging and commodity-exporting economies, and as reconstruction-related demand after the earthquake disaster gradually strengthens. The year-on-year rate of change in the CPI is expected to remain at around 0

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<sup>1</sup> Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, and Mr. K. Ishida.

Voting against the action: None.

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, developments in international commodity prices, 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. The goal of overcoming deflation will be achieved both through efforts to strengthen the economy's growth potential and support from the financial side. With this in mind, the Bank will pursue powerful monetary easing, and will support private financial institutions in their efforts to strengthen the foundations for Japan's economic growth via the fund-provisioning measure to support strengthening the foundations for economic growth. At today's meeting, as shown in the Attachment, the Bank established detailed rules for a new U.S. dollar lending arrangement equivalent to 1 trillion yen, of which a preliminary outline was released at the previous meeting in March.

**A New U.S. Dollar Lending Arrangement  
Established as part of the "Fund-Provisioning Measure to Support Strengthening  
the Foundations for Economic Growth"**

1. Eligible Investments and Loans

Investments and loans denominated in foreign currencies, made for a period of no less than one year, and which should support strengthening the foundations for Japan's economic growth

-- Each counterparty shall submit to the Bank a plan for relevant investments and loans, which will be checked by the Bank.

-- With regard to the investments and loans used overseas, they should contribute to strengthening the foundations for Japan's economic growth, for example, through the following effects.

(1) An increase in the production of goods and services, business fixed investment, or employment in Japan

(2) The promotion of an international division of labor to enhance domestic economic activities; for example, by shifting more resources to the areas of business planning and research and development, the launch of new businesses, and boosting capacity for business continuity

(3) Stable procurement of raw materials consumed in Japan

2. Eligible Counterparties

Of the eligible counterparties for the "Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth," those having accounts at the FRBNY and those entrusting the settlement of U.S. dollars to financial institutions that have accounts at the FRBNY

3. Form of Loans

U.S. dollar loans against collateral<sup>1</sup>

#### 4. Duration of Loans

The duration of each loan shall be one year. Loans may be rolled over up to three times and, consequently, the maximum duration of loans could be effectively four years.

#### 5. Loan Rates

6-month U.S. dollar LIBOR (London InterBank Offered Rate)

Loan rates shall be renewed every six months.

#### 6. Total Amount of Loans

12 billion U.S. dollars

-- Loans are made using the U.S. dollar reserves already held by the Bank.

-- New loans are scheduled to be disbursed quarterly. The total amount of loans at each disbursement is scheduled to be about 2 billion U.S. dollars.

#### 7. Maximum Amount of Loans per Counterparty

The total amount outstanding of loans to each counterparty shall not exceed 1 billion U.S. dollars. The maximum amount to be lent to each counterparty at each loan disbursement shall be the amount outstanding of investments and loans carried out by each counterparty from April 2012.

#### 8. Deadline for Applications for New Loans

March 31, 2014

The last disbursement of new loans shall take place by June 30, 2014.

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<sup>1</sup> Pooled collateral pledged by the counterparty for various transactions with the Bank

(Reference)

Meeting hours:

April 9 : 14:00-16:08

April 10 : 8:59-12:04

Policy Board members present:

Masaaki Shirakawa (Governor)

Hirohide Yamaguchi (Deputy Governor)

Kiyohiko G. Nishimura (Deputy Governor)

Ryuzo Miyao

Yoshihisa Morimoto

Sayuri Shirai

Koji Ishida

(Others present)

April 9

From the Ministry of Finance:

Shinichi Sato, Deputy Vice Minister for Policy Planning and Co-ordination

(14:00-16:08)

From the Cabinet Office:

Kenji Matsuyama, Vice-Minister for Policy Coordination (14:00-16:08)

April 10

From the Ministry of Finance:

Yukihisa Fujita, Senior Vice Minister of Finance (8:59-11:53,11:57-12:04)

From the Cabinet Office:

Katsuyuki Ishida, Senior Vice Minister for Cabinet Office (8:59-11:53,11:57-12:04)

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

14:00 on Wednesday, April 11 (Japanese)

16:30 on Thursday, April 12 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Wednesday, April 11

Release of the minutes:

8:50 on Monday, May 7