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July 21, 2010

Bank of Japan

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# **Minutes of the Monetary Policy Meeting**

on June 14 and 15, 2010

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(English translation prepared by the Bank's staff based on the Japanese original)

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Secretariat of the Policy Board, Bank of Japan

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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 Monday, June 14, 2010, from 2:00 p.m. to 4:21 p.m., and on Tuesday, June 15, from 9:01 a.m. to 12:51 p.m.<sup>1</sup>

#### **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**

**Ms. M. Suda**

**Mr. T. Noda**

**Mr. S. Nakamura**

**Mr. H. Kamezaki**

**Mr. R. Miyao**

#### Government Representatives Present

Mr. M. Ikeda, Senior Vice Minister of Finance, Ministry of Finance<sup>2</sup>

Mr. S. Kagawa, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance<sup>3</sup>

Mr. K. Umetani, Deputy Director-General, Economic and Fiscal Management, Cabinet Office

#### Reporting Staff

Mr. K. Ido, Executive Director

Mr. K. Yamamoto, Executive Director

Mr. M. Amamiya, Executive Director

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

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<sup>1</sup> The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on July 14 and 15, 2010 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.

<sup>2</sup> Mr. M. Ikeda was present on June 15.

<sup>3</sup> Mr. S. Kagawa was present on June 14.

Mr. N. Yoshioka, Deputy Director-General, Monetary Affairs Department<sup>4</sup>

Mr. T. Kato, Associate Director-General, Monetary Affairs Department

Mr. H. Toyama, Director-General, Financial Markets Department

Mr. K. Momma, Director-General, Research and Statistics Department

Mr. T. Sekine, Associate Director-General, 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 Secretarial Services for the Board,  
Secretariat of the Policy Board

Mr. T. Sakamoto, Associate Director-General, Monetary Affairs Department<sup>5</sup>

Mr. K. Nakamura, Senior Economist, Monetary Affairs Department

Mr. A. Okuno, Senior Economist, Monetary Affairs Department

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<sup>4</sup> Mr. N. Yoshioka was present on June 15.

<sup>5</sup> Mr. T. Sakamoto was present on June 15 from 10:33 a.m. to 12:51 p.m.

## **I. Summary of Staff Reports on Economic and Financial Developments<sup>6</sup>**

### **A. Money Market Operations in the Intermeeting Period**

The Bank conducted money market operations in accordance with the guideline decided at the previous meeting on May 20 and 21, 2010.<sup>7</sup> The uncollateralized overnight call rate had been at around 0.1 percent.

With a view to ensuring market stability, the Bank continued to conduct money market operations in a flexible manner, giving consideration to the recent formation of market rates, as evidenced by its continued provision of funds through such operations as the fixed-rate funds-supplying operation against pooled collateral and by its active purchases of Japanese government securities (JGSs) under repurchase agreements. On June 15, the Bank conducted an auction for the U.S. dollar funds-supplying operation.

### **B. Recent Developments in Financial Markets**

Money market rates, including longer-term ones, had been stable at low levels due to the Bank's provision of ample funds. General collateral (GC) repo rates had generally been in the range of 0.10-0.15 percent. As for interest rates on term instruments, yields on treasury discount bills (T-Bills), including those with a one-year maturity, had been stable in the range of 0.10-0.15 percent. Euroyen rates had been somewhat high relative to yields on T-Bills and overnight index swap (OIS) rates amid the continued thin trade in the euroyen market. Issuance rates on CP had remained more or less unchanged at low levels. The effects on Japan's money market of the sovereign risk problem in Europe stemming from the Greek problem had remained limited.

Japanese stock prices had shown somewhat large fluctuations in response to developments in U.S. and European stock prices and in the yen's exchange rates. The Nikkei 225 Stock Average had recently been in the range of 9,500-10,000 yen. With regard to long-term interest rates in Japan, the benchmark rate had declined slightly, and was in the range of 1.20-1.25 percent.

The yen had continued to appreciate against the euro on concerns over sovereign risks in Europe, and had recently been at around 111 yen. The value of the yen against the

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<sup>6</sup> Reports were made based on information available at the time of the meeting.

<sup>7</sup> The guideline was as follows:

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

U.S. dollar remained more or less unchanged and had recently been in the range of 91-92 yen.

### **C. Overseas Economic and Financial Developments**

The world economy had continued to recover moderately.

The U.S. economy was recovering at a moderate pace. Exports were increasing, private consumption was expanding at a moderate rate, and business fixed investment as a whole was picking up. Reflecting such developments in demand, production was recovering moderately. In the labor market, the number of employees was picking up, while the unemployment rate had been more or less unchanged at a high level. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items less energy and food, or the core CPI, had been moderating against the backdrop of slack in supply and demand conditions and slower growth in wages.

Economic activity in the euro area was picking up, with some differences in growth by country. Private consumption had been relatively weak, while production in the manufacturing sector had been increasing gradually as the pace of decline in business fixed investment moderated and exports increased. As for prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) excluding energy and unprocessed food had been declining moderately against the backdrop of slack in supply and demand conditions and slower growth in wages. The U.K. economic activity was picking up.

The Chinese economy had continued to grow at a relatively rapid pace, led mainly by domestic demand. Growth in private consumption had been firm and fixed asset investment had been increasing, although at a slower pace. Exports had also been rising due to the recovery in overseas economies, and production had continued to increase. Economic conditions in the NIEs and the ASEAN countries were recovering steadily. Exports had continued to rise on the back of expanding demand for IT-related goods, and private consumption and business fixed investment had been on an increasing trend. Under these circumstances, production was increasing. The Indian economy had also continued to grow at a relatively rapid pace. With regard to prices, many of these Asian economies showed a faster rise in energy and food prices and greater utilization of production factors such as labor and capital. However, appreciation of their home

currencies had been constraining a rise in import prices to date.

As for global financial markets, sovereign risks in Europe had continued to be a concern. In the money market, participants had become cautious about taking on counterparty risks in transactions, and there was upward pressure on interest rates on term instruments. U.S. and European stock prices had continued to be volatile due to effects of the fiscal problem in Europe and uncertainties about the financial soundness of financial institutions. Long-term interest rates in the United States had been more or less unchanged. Those in Germany had fallen mainly due to a flight to quality, while those in some other European countries, which had temporarily declined in the middle of May, had been placed under upward pressure again.

#### **D. Economic and Financial Developments in Japan**

##### 1. Economic developments

Exports had been increasing, due to the improvement in overseas economic conditions. The uptrend in exports was expected to continue, reflecting continued improvement in overseas economic conditions, although the pace of increase was likely to moderate gradually.

Public investment was declining, and this trend was likely to continue.

With regard to domestic private demand, business fixed investment was showing signs of picking up. Although such signs were expected to gradually become evident with the continued recovery in corporate profits, the improvement in business fixed investment was likely to remain moderate for the time being as the sense of excessive capital stock was strong among firms.

Private consumption, notably durable goods consumption, was picking up partly due to policy measures. Meanwhile, the employment and income situation had remained severe, but the degree of severity had eased somewhat. Despite the underpinning effect of policy measures, private consumption was likely to continue picking up only moderately for the time being amid the continued severe employment and income situation.

Housing investment had leveled out. It was expected to gradually head for a recovery, given the recent developments in housing starts.

Production had been increasing. It was likely to continue rising as a trend in parallel with exports, although the pace of increase was expected to moderate gradually.

On the price front, commodity prices had been more or less unchanged. The three-month rate of change in the domestic corporate goods price index (CGPI) was rising moderately, reflecting the earlier increase in commodity prices, in spite of the persistent slack in supply and demand conditions for products. The CGPI was likely to remain on a moderate uptrend for the time being. The CPI (excluding fresh food) was 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 had continued. The year-on-year pace of decline in the CPI was likely to slow as a trend as the aggregate supply and demand balance improved gradually.

## 2. Financial environment

Financial conditions, with some lingering severity, had continued to show signs of easing. The overnight call rate had remained at an extremely low level, and the declining trend in firms' funding costs had continued. With economic activity and corporate profits at current levels, the stimulative effects from low interest rates were still partly constrained, but the degree of constraint had decreased mainly due to the improvement in corporate profits. With regard to credit supply, although many firms still saw financial institutions' lending attitudes as severe, firms as a whole regarded the situation as improving. Issuing conditions for CP and corporate bonds had remained favorable as a whole. As for credit demand, firms' need to fund working capital and fixed investment had declined, and some firms had reduced the on-hand liquidity that they had accumulated. Against this backdrop, bank lending had declined on a year-on-year basis, partly due to the high growth of a year before. The amount outstanding of corporate bonds had exceeded the previous year's level, while that of CP had declined. In these circumstances, although many small firms still saw their financial positions as weak, on the whole financial positions of firms, including small ones, had continued to show signs of easing. Meanwhile, the year-on-year rate of change in the money stock had been at around 3 percent.

## **II. Summary of Staff Reports on the Framework of the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth**

The staff reported the following.

On May 21, the Bank announced the preliminary framework of the



fund-provisioning measure to support strengthening the foundations for economic growth. Since then, the staff had been exchanging views with such entities as private financial institutions on this matter and working out the details of the new fund-provisioning framework.

In line with discussions within the Policy Board so far, the fund-provisioning measure should (1) act as a catalyst for financial institutions to make efforts toward strengthening the foundations for economic growth, and (2) offer support as broadly as possible for the various efforts that financial institutions would make on their own initiative. At the same time, in deciding the framework of the measure, the Bank should take care to ensure that it would not become directly involved in the allocation of funds to individual firms and industries and that, in terms of the amount and duration of funds provided, the measure would not hamper the smooth conduct of interest rate policy and money market operations.

In view of these considerations, the outline of the fund-provisioning measure should be as follows. As for lending or investment that was eligible for funding by the Bank via the measure, each counterparty should submit to the Bank a plan to support strengthening the foundations for economic growth, and obtain the Bank's confirmation that the plan satisfied certain conditions set forth by the Bank. The conditions should be as follows. First, the eligible lending or investment should be lending or investment used in areas that would support strengthening the foundations for economic growth, such as research and development and the establishment of new businesses, as illustrated in the material distributed at this meeting. Second, borrowers or investees of the eligible lending or investment should be either domestic residents or foreign corporations with a business establishment in Japan, and should carry out business in the areas identified as contributing to strengthening the foundations for economic growth. Third, the term of the eligible lending or investment should be one year or longer. And fourth, the Bank should be under no obligation to provide funds where, for whatever reason, it considered fund provision to be inappropriate. The duration of each loan provided by the Bank should be one year in principle, and it should be possible to roll over such loans up to three times. The maximum duration of the loans should be four years. The total amount of the loans should not exceed 3 trillion yen, and the total amount of the loans to each counterparty should not exceed 150 billion yen. New loans should be disbursed on a quarterly basis, and the

deadline for new applications for the loans should be the end of March 2012.

To conduct the new measure, some steps needed to be taken, such as establishment of the Principal Terms and Conditions for the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth and amendments to the rules for conducting the Bank's business operations. If decisions were to be made at this meeting, necessary preparations would be made in an effort to start providing funds by around the end of August 2010.

### **III. Summary of Discussions by the Policy Board on Economic and Financial Developments**

#### **A. Economic Developments**

Many members expressed the view that strains in global financial markets remained heightened on the back of the fiscal problem in Europe. These members said that, although successive expeditious policy measures were taken in early May, the concern that originated in Greece about sovereign risks had spread to some other European countries, thereby inducing a price decline in government bonds of these countries. They noted that there was concern that European financial institutions might incur further losses due to the price decline, and this caused market participants to take a severe view of these institutions' financial soundness. They continued that, amid the consequent deep concern over counterparty risks among market participants, interbank rates had remained high. Some members commented that investors' risk appetite had declined and the issuance of corporate bonds had been at low levels.

Members shared the view that overseas economies had continued to recover moderately, and this trend was likely to continue led by higher growth in emerging economies. Some members were of the opinion that, while growth in European economies was likely to be somewhat weaker than expected, reflecting their fiscal austerity measures and the strains in financial markets, emerging economies continued to be growing somewhat faster than expected. These members continued that the Bank's assessment of global economic growth was therefore broadly unchanged from that presented in the April 2010 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report). Many members said that attention should be paid to the possibility that the fiscal problem in Europe would spread to other regions through various channels.

Many members expressed the view that the U.S. economy was recovering at a moderate pace. These members said that private consumption had continued to expand at a moderate rate across a wide range of items amid the moderate recovery in consumer confidence, and that business fixed investment had been picking up, especially in terms of investment in equipment. However, some members, referring to the fact that the average duration of unemployment had continued to extend its longest record and the unemployment rate had been at a high level, said that the employment and income situation was still severe. A few members commented that home sales had remained at a low level and home prices had been more or less unchanged. Members shared the view that the U.S. economy as a whole was likely to continue recovering. However, many members said that the pace of economic recovery would likely remain moderate for the time being, given that balance-sheet adjustment pressure had persisted in the household sector. Some members expressed the opinion that attention should be paid to the effects of the recent instability in stock prices on private consumption.

Members shared the view that economic activity in the euro area was picking up, with some differences in growth by country. Many members said that the depreciation of the euro was underpinning the euro area economy through the increase in exports. Some members, however, commented that private consumption had been relatively weak. Many members raised the possibility that the growth in the euro area economy might be somewhat weaker than expected partly reflecting the effects of the fiscal austerity measures to be taken in the area. They continued that the possibility could not be ruled out, if the strains in financial markets continued, that the pace of growth in the euro area economy might slow further due to an adverse feedback loop that might operate between financial and economic activity.

Members agreed that the Chinese economy had continued to grow at a rapid pace, led mainly by domestic demand, and this trend was likely to continue. Some members said that private consumption and fixed asset investment continued to show high growth. Many members expressed the view that measures to restrain the rise in real estate prices had started to produce positive effects, and therefore the sense of overheating in the Chinese economy was likely to diminish. However, one member said that, despite the policy tightening, bank lending for housing continued to grow rapidly and this warranted attention. A few members said that attention should also be paid to the possibility that monetary

policy tightening might excessively restrain economic activity. One member -- noting a decline in prices of some commodities such as steel products due to accumulated inventories -- said that some considered this as suggesting a change in the trend of the Chinese economy, and therefore close monitoring was required of future developments. Some members were of the view that the risk of inflation had increased in China, as evidenced by the acceleration in the CPI inflation rate and the substantial rise in wages across the country on the back of increased labor disputes. Based on this discussion, some members said that full attention should continue to be paid to developments in China's macroeconomic policy, including monetary policy, and their effects.

Based on the above deliberations on economic and financial conditions abroad, members discussed the state of Japan's economy. They concurred that the economy showed further signs of a moderate recovery, induced by improvement in overseas economic conditions, and signs of self-sustaining recovery were starting to be seen in both the corporate and household sectors. As for the outlook, members expressed the view that Japan's economy was likely to recover at a moderate pace, broadly in line with the Bank's projection presented in the April 2010 Outlook Report.

Many members were of the view that risk factors for economic activity had essentially remained the same as presented in the Outlook Report, but the size of both upside and downside risks had increased. These members said that, although the effects of the heightened uncertainty in European economies on Japan's economy were considered to be limited at present, close attention should be paid to the risk that such uncertainty might depress the world economy through various channels such as financial markets and international trade. One member expressed greater concern over the downside risks in the second half of fiscal 2010, when the effects of various measures were expected to wane. On the other hand, some members expressed the view that growth in emerging and commodity-exporting economies had remained stronger than expected, and that this might continue. A few members noted the possibility that accommodative monetary policies in advanced economies would be prolonged on the back of heightened uncertainty in European economies, and that monetary tightening in emerging and commodity-exporting economies would be delayed. They continued that this could lead to overheating of emerging and commodity-exporting economies and a subsequent rapid unwinding of economic and financial activity, and that such a risk warranted attention. One member

said that Japan's expansionary macroeconomic policy, should it be maintained for longer than necessary, would create a risk of delay with the progress in structural changes and consequent further decline in expectations for Japan's medium- to long-term economic growth.

Turning to developments in each demand component, members agreed that exports had been increasing, mainly due to the continued stronger-than-expected growth in emerging economies. A few members said that the recent growth in exports had been stronger than assumed in the projection in the April 2010 Outlook Report. Many members expressed the view that the uptrend was likely to maintain its course, reflecting continued improvement in overseas economic conditions, although the pace of increase was likely to moderate gradually as the growth rate of overseas economies slowed toward a sustainable pace.

Many members said that business fixed investment was showing signs of picking up. Some members -- noting that (1) various surveys suggested that business fixed investment in fiscal 2010 was likely to exceed the previous year's level and (2) machinery orders, a leading indicator of business fixed investment, had been increasing -- expressed the view that signs of a pick-up in business fixed investment were likely to gradually become evident with the improvement in corporate profits. Many members expressed the view that the pace of improvement in business fixed investment was nevertheless likely to remain moderate for the time being, given the strong sense among firms of excessive capital stock. One member commented that some IT-related manufacturers were considering expanding production capacity in view of a significant increase in demand for semiconductor-related products, but even these firms were not confident about the sustainability of such demand and thus were hesitant to expand their facilities.

Members shared the view that the employment and income situation had remained severe but the degree of severity had eased somewhat. Some members said that they maintained their assessment that the employment and income situation was severe, citing supporting factors such as (1) the unemployment rate had been high, although at a lower level than the recent peak, and (2) firms persistently regarded their workforces as excessive, as evidenced by the fact that a large number of firms continued to apply for employment subsidies. Many members said that signs of improvement were nevertheless seen in the income situation, such as the fact that nominal wages per employee exceeded the previous

year's level for the second consecutive month, mainly reflecting an increase in overtime payments associated with rising production.

Members concurred that private consumption was picking up partly due to policy measures. Some members said that, while sales of electrical appliances had shown some weakness following a last-minute increase ahead of the tightening of the application standards of the eco-point system, car sales had increased again partly due to the extension of subsidies for purchasers of environmentally friendly cars. A few members, however, commented that Japanese stock prices had recently been volatile on the back of the sovereign risk problem in Europe, and this could have a negative impact on private consumption through deterioration in consumer confidence. In consideration of the continued severe employment and income situation, members shared the view that the pace of pick-up in private consumption was likely to be only moderate for the time being despite the underpinning effect of policy measures. A few members said that attention should be paid to a possible decline in private consumption following the termination of policy measures such as the subsidies for purchasers of environmentally friendly cars.

Members agreed that housing investment had recently leveled out and was likely to gradually head for a recovery.

Members agreed that production had been increasing, mainly reflecting high growth in emerging economies. One member explained that the worldwide increase in demand for semiconductors was attributable to a structural factor of increasing use of smartphones and liquid crystal display televisions on a global basis, in addition to a cyclical factor of the world economy starting to recover after a significant downturn. A different member, on the other hand, expressed concern about the increase in inventories in the NIEs and the ASEAN economies, where production sites for IT-related goods were concentrated. Some members, including this member, said that past experience suggested that orders for IT-related goods tended to increase significantly because duplicate orders were intentionally placed when demand for such goods was strong. They continued that there consequently was a risk that large-scale inventory adjustments might occur, even with a slight change in developments in final demand for these goods. Many members said that information obtained, for example, from interviews with corporate managers suggested that production was likely to continue rising as a trend reflecting the recovery in overseas economies, although the pace of increase in production would moderate gradually due to the waning

effects of policy measures.

Members concurred that the CPI (excluding fresh food) was declining on a year-on-year basis due to the substantial slack in the economy as a whole, but excluding high school tuition, the slowing trend in the pace of decline had continued. One member said that items for which prices had declined still outnumbered those for which prices had risen, and this indicated persistent downward pressure on prices. As for the outlook, members agreed that the year-on-year pace of decline in the CPI was likely to slow as the aggregate supply and demand balance improved gradually.

## **B. Financial Developments**

Members shared the view that financial conditions, with some lingering severity, had continued to show signs of easing.

As for the money market, many members said that interest rates on term instruments had been stable at low levels due mainly to the effects of the Bank's fixed-rate funds-supplying operation. These members expressed the view that the declining trend in firms' funding costs had continued amid the recovery in corporate profits, and therefore the stimulative effects from low interest rates were increasing.

A few members said that long-term interest rates in Japan had declined slightly despite the intensified strains in global financial markets. Some members commented that Japanese stock prices had been volatile mainly due to developments in U.S. and European stock prices, and attention should be paid to the effects of such volatility on consumer and business confidence indicators.

Members agreed that issuing conditions for CP and corporate bonds had remained favorable as a whole. Some members expressed the view that issuing conditions for CP continued to be favorable in a situation where firms' demand for external funds was weak. Many members said that issuing conditions for corporate bonds also remained good as a whole. Some members, however, noted that the instability in global financial markets stemming from the sovereign risk problem in Europe had exerted some effects on the corporate bond market. These members said that developments in the corporate bond market warranted monitoring since spreads on low-rated bonds in the secondary market were widening -- although marginally, compared to the United States and Europe -- and some firms were cancelling issuance of corporate bonds.

#### **IV. Summary of Discussions on Monetary Policy for the Immediate Future**

Regarding the guideline for money market operations for the intermeeting period ahead, members agreed that, given the above assessment of economic activity and prices, it was appropriate to maintain the current guideline that the Bank would encourage the uncollateralized overnight call rate to remain at around 0.1 percent.

As for the future conduct of monetary policy, members agreed that, in order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, the Bank should continue to consistently make contributions as central bank. They concurred that, in the conduct of monetary policy, the Bank would continue to aim at maintaining the extremely accommodative financial environment.

Members discussed the fund-provisioning measure to support strengthening the foundations for economic growth.

Members first discussed the aims of the fund-provisioning measure. They concurred that these were as follows: (1) act as a catalyst for financial institutions to make efforts toward strengthening the foundations for economic growth; and (2) offer support as broadly as possible for the various efforts that financial institutions would make on their own initiative. Some members said that the Bank should leave the details of financial institutions' lending and investment plans to their own initiative as much as possible and provide support for their efforts through the new measure. In this regard, a few members -- noting that the Bank would provide examples of areas and types of business for which financial institutions' lending or investment would be funded by the new measure -- expressed the opinion that, even if financial institutions submitted plans for lending and investment in areas and types of business other than those given in the examples, based on requests by private firms, it was desirable that the Bank flexibly respond to such submissions and examine whether the plans satisfied the conditions set forth by the Bank. One member said that the measure should be able to support the efforts made by a wide range of financial institutions -- not only major banks but also regional financial institutions. Some members expressed the view that the Bank should provide funding only for new lending and investment by financial institutions. These members underscored the need to examine closely whether submitted plans, including such details, were consistent with the objective of the measure.

Members then discussed points to be kept in mind regarding the new measure.



They shared the view that, in conducting the measure, the Bank should take care to ensure that it would not become directly involved in the allocation of funds to individual firms and industries and that, in terms of the amount and duration of funds provided, the measure would not hamper the smooth conduct of interest rate policy and money market operations. Many members said that central banks should avoid their direct involvement in specific allocation of funds, and the Bank should therefore leave the selection of lending and investment plans to be funded by the Bank to private financial institutions' own initiative. Some members said that, taking into consideration the objective of supporting strengthening the foundations for economic growth, the term of each loan extended to financial institutions through the measure should be of a relatively long duration. These members continued that, on the other hand, the term should naturally be limited in view of maintaining consistency with the conduct of interest rate policy and money market operations. A few members expressed the opinion that the new measure should be a temporary one and the period during which financial institutions could apply for the loans should be set at about two years, so that they could accelerate their implementation of lending and investment as rapidly as possible. Members agreed that, with a view to ensuring transparency in the implementation of the new measure, the Bank should disclose information regarding its management of the measure in an appropriate way.

Members agreed that the Bank should make clear the difference between the new measure and policy-based financing implemented by government financial institutions. One member pointed to a notable difference: the areas for lending and investment as well as eligible counterparties were decided, and credit risks were borne, by private financial institutions for the former but by government financial institutions for the latter. Some members underscored the fact that, because the new measure was intended to act as a catalyst, the term of the loans extended through the measure would not need to cover a full maturity of financial institutions' lending and investment, and would be four years at the longest.

Based on these considerations, members shared the view that necessary procedures for deciding on the specifics of the scheme for the new measure should be completed at this meeting, and it was desirable to start implementing the measure as promptly as possible. Some members pointed to the opinion -- which prevailed after the Bank announced at the end of April that it would work out a fund-provisioning measure -- that implementing the

measure meant that the Bank would go beyond the bounds of central banking. These members -- while admitting that the new measure was an extraordinary one for a central bank to implement -- said that the current deflation was a manifestation of the fundamental problem facing the economy, namely, the decline in growth expectations, and a strengthening of the foundations for economic growth as a result of this measure would eventually lead to price stability. Many members commented that the new measure was one that would utilize the screening function of private financial institutions while avoiding the Bank's direct involvement in specific resource allocation among individual industries and firms, and this meant that the Bank could support private financial institutions' efforts by using central banking functions. Based on this discussion, members shared the view that the new measure would be consistent with the monetary policy mission stipulated in the Bank of Japan Act that the Bank should aim at achieving price stability, thereby contributing to the sound development of the national economy. They agreed that the Bank should explain these points clearly to the public. A few members said that there could be other ways, such as active support of market participants' initiatives to improve market infrastructure and practice, to underpin strengthening the foundations for economic growth by using central banking functions. These members expressed the view that the Bank should continue to constructively examine a wide range of possible measures.

## **V. Remarks by Government Representatives**

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

- (1) The Japanese economy had been picking up steadily, but it was only self-sustaining at a weak level and the situation remained difficult, as evidenced by the high unemployment rate. As for short-term prospects, in addition to risk factors such as international financial developments and deflation, there was continued concern that the employment situation could deteriorate further, and the basis for the economy's return to a path of strong private demand-led growth remained fragile.
- (2) Faced by the current severe economic conditions, the government, with the aim of overcoming deflation and ensuring economic recovery, would carry out the emergency economic countermeasures and steadily implement the budget for fiscal 2010. It would also work on formulating the "New Growth Strategy" in order to draw up concrete plans for achieving future growth.

- (3) The government considered the Bank's fund-provisioning measure to support strengthening the foundations for economic growth, which was discussed at this meeting, as being consistent with the government's efforts.
- (4) The Bank presented its view that it would maintain the extremely accommodative financial environment, based on the recognition that the critical challenge for Japan's economy was to overcome deflation. The government expected the Bank to continue to support the economy from the financial side, for example, with a view to overcoming deflation, by conducting monetary policy in an appropriate and flexible manner, while working together with the government.

The representative from the Cabinet Office made the following remarks.

- (1) The new Cabinet led by Prime Minister Kan would aim at extricating the country from the economic stagnation and overall sense of gloom through bringing about a strong economy, robust public finance, and a strong social security system. A vital and pressing challenge was to overcome deflation in an effort to generate a strong economy and robust public finance. The government would work together with the Bank, which projected a CPI inflation rate of 0.1 percent for fiscal 2011 in its Outlook Report, to achieve a positive inflation rate as early as possible.
- (2) In order to realize sustainable economic growth and a higher quality of life for Japan's people, the government would complete by the end of June its plans for the "New Growth Strategy," which would provide a medium- to long-term picture of the Japanese economy, and then carry them out. To fulfill its responsibility, the government would also present to the public a path toward sound public finance within a fiscal management strategy and a medium-term fiscal framework.
- (3) Regarding the level of CPI inflation that the Bank's Policy Board members understood as being consistent with price stability over the medium to long term, or the "understanding," each Policy Board member's "understanding" fell in a positive range of 2 percent or lower and the midpoints of most members' "understanding" were around 1 percent. In view of this, the government hoped that the Bank would continue to aim at achieving price stability as swiftly as possible by conducting monetary policy in an appropriate and flexible manner, while sufficiently exchanging views and working together with the government. The government expected the Bank to recognize that

overcoming deflation was a policy objective that both entities shared. Once again, it hoped that the Bank would conduct monetary policy in an appropriate and flexible manner.

- (4) The government hoped that the Bank would formulate the new fund-provisioning measure such that it would steadily support private financial institutions' efforts toward strengthening the foundations for economic growth and be effective in overcoming deflation.

## **VI. Votes**

### **A. Vote on the Guideline for Money Market Operations**

Based on the above discussions, members agreed that it was appropriate to maintain the current guideline for money market operations, which encouraged the uncollateralized overnight call rate to remain at around 0.1 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 0.1 percent.

2. A public statement will be decided separately.

Votes for the proposal: 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.

Votes against the proposal: None.

**B. Vote on the Establishment of the Principal Terms and Conditions for the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth**

Members voted unanimously to approve the staff proposal and agreed that the decision should be made public.

**VII. Discussion on the Statement on Monetary Policy**

Members discussed the Statement on Monetary Policy, which included an outline of the fund-provisioning measure to support strengthening the foundations for economic growth, and put it 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).

**VIII. Approval of the Minutes of the Monetary Policy Meetings**

The Policy Board approved unanimously the minutes of the Monetary Policy Meetings of May 10, 2010 and May 20 and 21 for release on June 18, 2010.

**IX. Approval of the Scheduled Dates of the Monetary Policy Meetings in July 2010-June 2011**

At the end of the meeting, the Policy Board approved the dates of the Monetary Policy Meetings to be held in the period July 2010-June 2011 for immediate release (see Attachment 3).

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,<sup>8</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 0.1 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.

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<sup>8</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, and Mr. R. Miyao.  
Voting against the action: None.

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 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 Attachment 2). 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 Offices<sup>1</sup> 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**

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

June 15, 2010

Bank of Japan

**Scheduled Dates of Monetary Policy Meetings in July 2010-June 2011**

	Date of MPM	Publication of MPM Minutes	Publication of Outlook Report (The Bank's View)	(Reference) Publication of Monthly Report
July 2010	14 (Wed.), 15 (Thurs.)	Aug. 13 (Fri.)	--	16 (Fri.)
Aug.	9 (Mon.), 10 (Tues.)	Sep. 10 (Fri.)	--	11 (Wed.)
Sep.	6 (Mon.), 7 (Tues.)	Oct. 8 (Fri.)	--	8 (Wed.)
Oct.	4 (Mon.), 5 (Tues.)	Nov. 2 (Tues.)	--	6 (Wed.)
	28 (Thurs.)	Nov. 19 (Fri.)	28 (Thurs.)	--
Nov.	15 (Mon.), 16 (Tues.)	Dec. 27 (Mon.)	--	17 (Wed.)
Dec.	20 (Mon.), 21 (Tues.)	Jan. 28 (Fri.)	--	22 (Wed.)
Jan. 2011	24 (Mon.), 25 (Tues.)	Feb. 22 (Tues.)	--	26 (Wed.)
Feb.	16 (Wed.), 17 (Thurs.)	Mar. 18 (Fri.)	--	18 (Fri.)
Mar.	14 (Mon.), 15 (Tues.)	Apr. 12 (Tues.)	--	16 (Wed.)
Apr.	6 (Wed.), 7 (Thurs.)	May 9 (Mon.)	--	8 (Fri.)
	28 (Thurs.)	May 25 (Wed.)	28 (Thurs.)	--
May	19 (Thurs.), 20 (Fri.)	June 17 (Fri.)	--	23 (Mon.)
June	13 (Mon.), 14 (Tues.)	To be announced	--	15 (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 2011 Outlook Report* will be released at 2:00 p.m. on April 29 (Fri.), 2011.

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).