Not to be released until 8:50 a.m. Japan Standard Time on Monday, December 27, 2010.

December 27, 2010

Bank of Japan

Minutes of the Monetary Policy Meeting

on October 28, 2010

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

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 Thursday, October 28, 2010, from 9:00 a.m. to 1:26 p.m.[1]

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

Mr. Y. Morimoto

Government Representatives Present

Mr. M. Sakurai, Senior Vice Minister of Finance, Ministry of Finance

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

Reporting Staff

Mr. K. Yamamoto, Executive Director

Mr. H. Nakaso, Executive Director (Assistant Governor)

Mr. M. Amamiya, Executive Director

Mr. N. Kinoshita, Executive Director

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

Mr. T. Umemori, Deputy Director-General, Monetary Affairs Department

Mr. T. Kato, Head of Policy Planning Division, Monetary Affairs Department[2]

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on December 20 and 21, 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.

[2] Mr. T. Kato was present from 10:37 a.m. to 1:26 p.m.

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

Mr. T. Sekine, Head of Economic Research Division, 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 Planning and Coordination Division, Secretariat of the Policy Board

Mr. H. Chida, Head of Policy Infrastructure Division, Monetary Affairs Department

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

Mr. H. Ichiue, Senior Economist, Monetary Affairs Department

I. Summary of Staff Reports on Economic and Financial Developments[3]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on October 4 and 5, 2010 and in consideration of the recent formation of market rates, conducted money market operations in a flexible manner.[4] The uncollateralized overnight call rate had been slightly below the 0.1 percent level.

B. Recent Developments in Financial Markets

In Japan's money market, interest rates, particularly longer-term ones, had been declining somewhat in response to the Bank's decision to introduce the comprehensive monetary easing policy. General collateral (GC) repo rates had been slightly above 0.1 percent. As for interest rates on term instruments, yields on treasury discount bills (T-Bills), particularly those with a one-year maturity, declined slightly and had been somewhat above 0.1 percent, and the TIBOR rates had been on a moderate declining trend. Issuance rates on CP had generally been on a moderate downtrend.

While stock prices of Japanese firms within the real estate and financial industries had been firm amid rises in U.S. and European stock prices, Japanese stock prices as a whole had been more or less unchanged because stock prices of firms within the export-related industry, for example, had been slightly weak. Long-term interest rates in Japan rose temporarily following the rise in U.S. and European long-term interest rates; however, due to the Bank's comprehensive monetary easing policy, downward pressure had increased on Japanese long-term interest rates, particularly those in the medium- to long-term zone, where there remained relatively more room for further declines, and the benchmark rate had recently been at around 0.9 percent.

In the foreign exchange market, the U.S. dollar had tended to depreciate, in part because uncertainty about the U.S. economy remained high. The yen's value had recently been in the range of 81-82 yen against the dollar.

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[3] Reports were made based on information available at the time of the meeting.

[4] The guideline was as follows:

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

C. Overseas Economic and Financial Developments

The world economy had been slowing but continued to recover.

The U.S. economy had continued to recover at a slower but moderate pace. Although the pace was decelerating while the effects of fiscal stimulus measures were waning, exports were continuing to increase and business fixed investment was rising moderately. In the labor market, the number of employees was picking up but the unemployment rate had been more or less unchanged at a high level, suggesting that the employment situation had not improved noticeably. In these circumstances, private consumption was increasing only gradually, and housing investment remained at a depressed level. In a situation where the economy faced balance-sheet adjustments and it had therefore remained difficult for the self-sustaining virtuous circle of growth in production, income, and spending to operate properly, economic activity still looked unlikely to turn upward and remained vulnerable to the downside. 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 mainly due to slack in supply and demand conditions.

Economic activity in the euro area as a whole was recovering moderately, with some differences in growth by country. Exports and production had continued to increase, although the pace was slowing, and domestic demand components such as private consumption had been rising gradually. As for prices, although the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) excluding energy and unprocessed food had been accelerating somewhat, partly due to a rise in the value-added tax rate in some countries, slack in supply and demand conditions continued to exert downward pressure on prices. U.K. economic conditions were recovering at a moderate pace.

The Chinese economy continued to show relatively high growth, although the pace had slowed somewhat. The pace of increase in exports was slowing due to deceleration in overseas economies. Meanwhile, growth in private consumption had been firm due mainly to households' higher income levels. Fixed asset investment had continued to show high growth, although the rate was decelerating partly due to the government's measures to restrain the increase in real estate transactions. Economic conditions in the NIEs and the ASEAN countries, despite the deceleration resulting from slower growth in exports and production, had been on a recovery trend as a whole, as private consumption and business fixed investment had been increasing. The Indian economy had continued to grow at a relatively rapid pace. In many of these Asian economies, upward pressure on prices had been increasing gradually against the backdrop of higher food prices and greater utilization of production factors.

As for global financial markets, U.S. and European stock prices had risen primarily reflecting U.S. firms' better-than-expected corporate results. Long-term interest rates in the United States had remained at a low level, mainly reflecting the sluggish pace of economic recovery. In Europe, German long-term interest rates had risen as the flight to quality caused by deterioration in fiscal conditions in some peripheral European countries was losing momentum.

D. Economic and Financial Developments in Japan

1. Economic developments

Growth in exports had been decelerating against the backdrop of a slowdown in overseas economies, inventory adjustments in IT-related goods, and the appreciation of the yen. Exports were expected to increase moderately again amid continued improvement in overseas economic conditions.

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, with machinery orders -- a leading indicator of machinery investment -- displaying a clear increase. Such signs were expected to gradually become more evident as the improvement in corporate profits continued. However, with firms' persistent sense of excessive capital stock, the pace of improvement in business fixed investment was likely to remain moderate.

With regard to private consumption, sales figures at chain stores and in the food service industry, which were released after the previous meeting, had increased, buoyed chiefly by the extremely hot weather. Meanwhile, consumer sentiment had recently been weak, reflecting concerns about possible deterioration in corporate profits due to the appreciation of the yen, the expiration of subsidies for purchasers of environmentally friendly cars, and sluggish stock prices. Private consumption was likely to weaken temporarily mainly due to the ending of the boost from the extremely hot weather and the expiration of subsidies for purchasers of environmentally friendly cars, but was expected to pick up again thereafter.

As for prices, international commodity prices had increased slightly, primarily on the back of the rise in prices of nonferrous metals and grain. The domestic corporate goods price index (CGPI) had continued to be lower than three months earlier, mainly due to the slack in supply and demand conditions for products and the appreciation of the yen, but the pace of decline had moderated somewhat in September. The CGPI was expected to basically remain more or less unchanged mainly due to the slight increase in international commodity prices, although the effects of the yen's appreciation to date were likely to remain.

2. Financial environment

Financial conditions had continued to show signs of easing. The declining trend in firms' funding costs had continued. With regard to credit supply, firms saw financial institutions' lending attitudes as improving. Issuance spreads on CP had been more or less unchanged. Yield spreads on corporate bonds in the secondary market had slightly narrowed, particularly on corporate bonds with relatively wide spreads. 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. The outstanding amount of corporate bonds had exceeded the previous year's level, while that of CP had declined. In these circumstances, firms' financial positions had continued to show signs of improvement as a whole. Meanwhile, the year-on-year rate of increase in the money stock continued to be in the range of 2.5-3.0 percent.

II. Summary of Staff Reports on the Operation of the Asset Purchase Program

Following the Bank's policy decided at the Monetary Policy Meeting held on October 4 and 5, the staff examined the basic framework for carrying out the Asset Purchase Program (hereafter the Program). Based on this examination, the staff reported the following.

The Policy Board instructed the staff at the previous meeting to examine whether it was appropriate to set the total amount of the Program at about 35 trillion yen, of which purchases of assets amounted to about 5 trillion yen and the fixed-rate funds-supplying operation against pooled collateral totaled about 30 trillion yen. The staff considered the amounts to be appropriate. The staff also found it appropriate for the Bank to set the maximum outstanding amount for each financial asset to be purchased by taking into account the size of respective markets and the amount of risks associated with such purchases, in view of the Program's aim of encouraging declines in longer-term interest rates and various risk premiums. Specifically, the staff considered it appropriate for the maximum outstanding amount for each asset to be purchased to be about 1.5 trillion yen for Japanese government bonds (JGBs), about 2 trillion yen for T-Bills, about 0.5 trillion yen for CP, asset-backed CP, and CP issued by real estate investment corporations, about 0.5 trillion yen for corporate bonds and bonds issued by real estate investment corporations, about 0.45 trillion yen for exchange-traded funds (ETFs), and about 0.05 trillion yen for Japan real estate investment trusts (J-REITs).

In view of the aim of the Program, the staff found it appropriate for the Bank to (1) expand the range of credit ratings for CP and corporate bonds eligible for purchases and increase the maximum amount to be purchased from each issuer compared with when it previously purchased such assets, to ensure stability in financial markets; (2) include CP and bonds issued by real estate investment corporations in the range of assets to be purchased; and (3) conduct a multiple-price competitive auction in which counterparties' bid spreads, calculated by subtracting the minimum yield (0.1 percent per annum) from the yields at which counterparties desired to sell assets to the Bank, would not be negative. Moreover, as the Bank's purchase of JGBs through the Program would be conducted as a temporary measure with a purpose different from conventional purchases, which were conducted in accordance with the rising trend in demand for banknotes, it would be appropriate to treat the Bank's holdings of JGBs purchased through the Program differently from conventional purchases, which were subject to the ceiling on the amount of banknotes in circulation.

In terms of risk management, it would be appropriate to (1) segregate assets purchased through the Program from those obtained through other money market operations; (2) set a purchase limit for each issuer and type of financial asset, as necessary; and (3) record, as provisions for possible losses on ETFs and J-REITs, the difference between the market and book values.

As for asset purchases, the staff considered that the Bank should start purchases of assets for which necessary arrangements were completed, and conduct the purchases so that the outstanding amount of total assets purchased, including those through the fixed-rate funds-supplying operation against pooled collateral, would be about 35 trillion yen by around the end of 2011. In order to begin purchases of assets under the Program as soon as possible -- with the exception of ETFs and J-REITs, for which authorization from the government was required -- the Bank should take the necessary steps at this meeting on October 28 and decide the principal terms and conditions for operational details, such as the maximum outstanding amount for each asset to be purchased and the method of purchase. Moreover, in order to conduct purchases of ETFs and J-REITs, the Bank should formulate implementation guidelines according to which such purchases would be conducted, and seek authorization from the government.

It would be appropriate for the Bank to purchase ETFs and J-REITs through a trust bank that it appointed as a trustee; in this case, deciding the method of auction, type of contract, and operational procedures would take a relatively long time. Therefore, if the principal terms and conditions were to be decided at the next Monetary Policy Meeting scheduled on November 15 and 16, there was a possibility that the Bank's purchases of ETFs and J-REITs would start after the turn of the year.

III. Summary of Discussions by the Policy Board on Economic and Financial Developments and the October 2010 *Outlook for Economic Activity and Prices*

A. Economic Developments

Members agreed that overseas economies had continued to recover, but the pace of recovery had been slowing. As for the outlook, they shared the view that the economies would probably grow at a slower pace for the time being, but the recovery trend itself was not likely to be interrupted, and the growth rate was likely to start to increase again on the back of high growth in emerging and commodity-exporting economies. Some members expressed the opinion that from 2011 the recovery in advanced economies was likely to gain momentum on the back of the continued high growth in emerging and commodity-exporting economies.

Many members shared the view that the U.S. economy had continued to recover at a slower but moderate pace. Some members noted that business performance had been favorable and the effects had been seen in the rise in stock prices. Some members said that private consumption had been firm, according to statistics related to retail sales and the number of new vehicles sold, and to the Federal Reserve's Beige Book. A few members, however, commented that the pace of increase in exports and production was slowing. Many members expressed the opinion that the pace of improvement in employment and housing remained slow, and this was likely to constrain the economic recovery. Regarding prices, some members commented that the inflation rate was trending down.

As for the course of the U.S. economy in the near future, most members shared the view that the pace of recovery in the U.S. economy would probably start increasing as exports were likely to increase on the back of the high growth in emerging and commodity-exporting economies. On this point, many members added that the pace of recovery was likely to remain moderate due in part to the severe employment situation amid balance-sheet adjustment pressure. Some members expressed the opinion that home foreclosure documentation problems at financial institutions might further delay recovery in the housing market. Some members said that, if the Federal Reserve were to provide additional accommodation in early November, as was anticipated by market participants, the measure was expected to help underpin the U.S. economy.

Many members expressed the view that, although there were some differences in growth by country, economic activity in the euro area as a whole was recovering moderately, led by Germany and other major economies. Some members said that while the euro area was likely to continue recovering moderately reflecting the improvement in the world economy, attention should be paid to the possibility that economic activity in the euro area might be adversely affected, for example, by measures toward sound public finance to be taken in each country in the area.

Some members noted that the Chinese economy continued to show high growth, although the real GDP growth rate for the July-September quarter of 2010 declined somewhat. Some members expressed the opinion that various policy measures, such as the recent rise in the policy interest rate, would help contain an overheating in the economy, thereby ensuring the sustainability of the economic growth.

With regard to economic conditions in the NIEs and the ASEAN countries, some members expressed the view that, although growth in exports and production had slowed due to deceleration of the world economy, domestic demand had been firm against the backdrop of capital flows from advanced economies, and therefore the recovery trend of the NIEs and the ASEAN countries was likely to continue.

Members shared the view that financial conditions in Japan had continued to show signs of easing due mainly to the effects of the Bank's powerful monetary easing policy. A few members commented that issuing conditions for CP and corporate bonds had been favorable, and the results of the survey conducted by the Japan Finance Corporation (JFC) showed that small firms' financial positions had improved.

With regard to the effects of the Bank's comprehensive monetary easing policy decided at the previous meeting, most members expressed the view that the policy would help reduce downside risks to economic activity and prices. Many members said that, since the Bank had taken a step to implement such an extraordinary measure and had demonstrated its strong determination to overcome deflation, this was likely to positively affect business and household sentiment. Some members noted that the policy had already shown certain positive effects, as evidenced by a decline in interest rates on longer-term instruments and a narrowing of credit spreads on corporate bonds, especially those with low ratings. One member said that it was difficult to assess the effects of the comprehensive monetary easing policy at this point, and therefore the member was taking a cautious view about the effects. A few members pointed out that the policy would become more effective as the purchase of various financial assets through the Program proceeded. A few members said that clarification of the policy time horizon would have stronger effects on the economy as it recovered further.

Based on the above deliberations on overseas economies and financial conditions in Japan, members discussed the current state of Japan's economy. They concurred that, although the economy still showed signs of a moderate recovery, the pace was slowing down due to the decline in demand following the last-minute rise ahead of the expiration of subsidies for purchasers of environmentally friendly cars and the decline in demand following the boost from the extremely hot summer, in addition to the deceleration of growth in exports and production. Some members said that the economic growth rate had been somewhat lower than the projection presented in the July 2010 interim assessment, due mainly to the effects of the yen's appreciation on business sentiment. As factors behind the deceleration of growth in exports, members pointed to the effects of the appreciation of the yen, in addition to deceleration in overseas economies and inventory adjustments in IT-related goods. A few members, however, were of the opinion that business fixed investment was increasingly showing signs of picking up, referring to the fact that machinery orders continued to display an increase and that the JFC's survey of small firms showed that the aggregated amount of all industries' business fixed investment plans had been revised upward, marking a significant increase.

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 the pace of decline had been slowing.

B. Outlook for Economic Activity and Prices

With regard to the baseline scenario of the outlook for economic activity, many members expressed the following view: all members agreed at the previous Monetary Policy Meeting on October 5 that it had become more likely that the return of Japan's economy to a sustainable growth path with price stability would be delayed compared to what had been projected earlier; however, the economy was likely to continue making steady progress toward sustainable growth with price stability, although some more time was needed, due mainly to the introduction of the Bank's comprehensive monetary easing and the launch of the government's "Comprehensive Emergency Economic Measures in Response to the Yen's Appreciation and Deflation." Members concurred that the economy was expected to return to a moderate recovery path from fiscal 2011. Some members explained the background to this view, namely, that as the growth rate of overseas economies started to increase again, it was expected that exports would regain momentum and corporate profits would continue to improve. They added that, against this background, business fixed investment was expected to continue to improve and private consumption was expected to pick up again with the improving trend in the employment and income situation.

Regarding the outlook for the CPI (excluding fresh food), many members were of the view that, under the assumption that medium- to long-term inflation expectations remained stable, the year-on-year pace of decline was expected to continue slowing as the aggregate supply and demand balance improved gradually. They added that the year-on-year rate of change in the CPI was likely to enter positive territory sometime in fiscal 2011, and thereafter the rate of increase was expected to rise through fiscal 2012. In relation to this, a few members said that commodity prices were projected to increase on the back of the continued relatively strong growth in emerging and commodity-exporting economies, and this would exert upward pressure on prices in Japan. Some members expressed the view that the clarification of the policy time horizon as part of the Bank's comprehensive monetary easing would stabilize medium- to long-term inflation expectations and encourage a rise in the inflation rate. A few members held a cautious view regarding the momentum in terms of bringing the inflation rate closer to the level of medium- to long-term inflation expectations.

Members also discussed <u>upside and downside risks</u> to the baseline scenario.

Members said that, regarding economic activity, upside and downside risks were (1) developments in advanced economies, (2) developments in emerging and commodity-exporting economies, (3) developments in business and household sentiment, and (4) firms' medium- to long-term growth expectations.

Many members noted that there was heightened uncertainty about the future of advanced economies, including the United States. A few members commented that there was uncertainty about the effects on U.S. economic activity and prices of the additional accommodation that the Federal Reserve was expected to provide, although the U.S. stock market had factored in such effects and this had caused stock prices to rise. One member expressed the view that there was also uncertainty with regard to financial markets' reaction to the additional accommodation, as there were signs that U.S. long-term interest rates were starting to rise, following a downward trend. Some members pointed to the risk that fiscal consolidation in the United States and European countries might exert greater-than-expected downward pressure on these countries' economies.

Many members said that the continued large-scale monetary easing in advanced economies and the projection that it would be protracted might accelerate capital inflows to emerging and commodity-exporting economies. One member said that domestic demand had been robust in emerging and commodity-exporting economies and there was no significant uncertainty about the immediate future. However, this member continued that one possible risk could be a deceleration in exports due to a slowdown in advanced economies. A different member pointed to the risk that Japan's terms of trade might worsen if commodity prices rose further on the back of an increase in demand from emerging economies.

With regard to business and household sentiment, some members said that there was a risk that the economy might slow down if pessimism became widespread in response to the slowdown in overseas economies, the yen's appreciation, and the fall in stock prices. One member noted that pessimistic media reports might undermine overall public sentiment. Another member, however, expressed the view that the Bank's comprehensive monetary easing would have a strong, positive effect on business and household sentiment, thereby playing an effective role in reducing downside risks to the economy.

Regarding firms' medium- to long-term expectations for future economic growth, members shared the view that if firms accelerated their moves, for example, to develop new products and expand their sales network in order to capture demand in emerging and commodity-exporting economies, there was a possibility that their medium- to long-term growth expectations would rise and economic activity, particularly business fixed investment and exports, would become stronger than projected. One member, however, noted that growth expectations could decline, particularly if the financial and capital markets became unstable. A different member pointed to the risk of corporate managers shifting their focus toward negative aspects such as a low birth rate and population aging, as well as a delay in structural adjustments, which might in turn lower the economy's equilibrium level. One member expressed a strong expectation that efforts by economic entities in the private sector, together with those by the government, would make steady progress toward strengthening the economy's growth potential.

Members were of the view that, regarding the outlook for prices, upside and downside risks were (1) materialization of the upside or downside risks affecting economic activity, (2) a possible decline in firms' and households' medium- to long-term inflation expectations, (3) uncertainty in gauging the aggregate supply and demand balance and its impact on prices, and (4) changes in import prices. Regarding import prices, some members raised the possibility of surges in commodity prices brought about by high growth rates in emerging and commodity-exporting economies and by monetary easing in advanced economies. A few of these members, however, pointed to the risk that import prices might fall due to the appreciation of the yen. Some members said that attention should be paid to the possibility that the year-on-year rate of change in the CPI could be revised downward as a result of the revision of the base year for the CPI, which was expected to take place in summer 2011. In relation to this, one member pointed to the risk that a downward revision would lead to a decline in inflation expectations.

Based on the above considerations, members assessed the economic and price situation from two perspectives.

Members made an assessment in terms of the first perspective; that is, they assessed the baseline scenario of the outlook for economic activity and prices considered to be the most likely through fiscal 2012. They agreed that Japan's economy was expected to continue making steady progress toward sustainable growth with price stability, although some more time was needed.

Members then made an assessment in terms of the second perspective; namely, they examined the risks considered most relevant to the conduct of monetary policy, including risks that had a longer time horizon than the first perspective. In the area of economic activity, they shared the view that, while there were some upside risks such as faster growth in emerging and commodity-exporting economies, attention should also be paid to downside risks to Japan's economy amid continued heightened uncertainty about the future, especially for the U.S. economy. Regarding the outlook for prices, they concurred that there was a possibility that inflation would 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 was also a risk that the rate of inflation would deviate downward from the baseline due, for example, to a decline in medium- to long-term inflation expectations.

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 it was appropriate to maintain the current guideline that the Bank would encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 percent.

As for the future conduct of monetary policy, members concurred, based on the examination of economic and price developments from the two perspectives, that the Bank would continue to consistently make contributions as the central bank so that Japan's economy would overcome deflation and return to a sustainable growth path with price stability, by implementing three measures: further enhancing monetary easing through the conduct of the comprehensive monetary easing policy; ensuring stability in financial markets; and providing support in strengthening the foundations for economic growth.

Most members agreed that the staff proposal regarding the Asset Purchase Program was fitting and that it would be appropriate to decide, on the basis of the proposal, principal terms and conditions for operational details of the Program, such as the total amount of the Program, the maximum outstanding amount for each financial asset to be purchased, and the method of purchase.

With regard to the size of asset purchases to be conducted under the Program, most members shared the view that, in consideration of the Program's aim of encouraging declines in longer-term interest rates and various risk premiums, it would be appropriate to conduct purchases totaling about 5 trillion yen in view of the size of respective markets. A few members -- referring to the fact that some views focused only on the total amount to be purchased -- said that the Bank should thoroughly explain matters such as the significant difference in the amount of risks associated with Japanese government securities (JGSs) and ETFs. A few members were of the opinion that, since there was also a view that focused only on asset purchases to be made under the Program, the Bank needed to explain that additional funds of about 10 trillion yen would be provided through the fixed-rate funds-supplying operation against pooled collateral -- through which the total amount of funds to be provided was about 30 trillion yen -- and, in terms of asset purchases, the Bank continued to conduct conventional purchases of JGBs for about 21.6 trillion yen a year with a view to providing funds in a stable manner. A few members said that the Bank could consider, for example, front-loading of its asset purchases conducted under the Program or an increase in the total purchase amount of the Program in the future, if necessary.

As for purchases of JGSs under the Program, some members indicated that there was a need to deliberate on the management of the Bank's bond purchases, for example, so that the purchases would not be misunderstood as monetization, given that they would not be subject to the ceiling set on the amount of banknotes in circulation. One member said that, in view of these issues, it was not desirable to include JGSs in the range of assets to be purchased under the Program. Regarding purchases of CP and corporate bonds, a few members said that, in light of the measure's objective of encouraging declines in various risk premiums, it would be appropriate to (1) expand the range of credit ratings for CP and corporate bonds eligible for purchases and increase the maximum amount to be purchased from each issuer compared with when the Bank previously purchased such assets to ensure stability in financial markets, and (2) include CP and bonds issued by real estate investment corporations in the range of assets to be purchased. A few members commented that the Bank's purchases of ETFs and J-REITs directly from the markets, rather than from financial institutions, would also be effective in that the Bank could show its intention of spreading the effects of its purchases widely across the markets. One of these members noted that, to ensure fairness in the purchases of ETFs and J-REITs, it would be appropriate for the Bank to appoint a trustee.

Members agreed that the Bank should ensure its financial soundness by managing risks stemming from the purchases of financial assets under the Program and by properly recording loss provisions and appropriately treating losses, if they were incurred. Some members expressed their expectation that the government would understand the Bank's thinking on ensuring its financial soundness.

Members concurred that the Bank should swiftly start purchases of assets for which necessary arrangements were completed. As for purchases of ETFs and J-REITs, for which the completion of necessary arrangements was expected to take a relatively long time, many members commented that, in view of increased market expectations about the efficacy of the Bank's Program, it would be desirable to begin purchasing them soon after the commencement of the purchases of other assets. A few members expressed the view that, if it was necessary for the purpose of beginning purchases of ETFs and J-REITs as early as possible, it would be desirable to bring forward the next Monetary Policy Meeting to discuss and decide the principal terms and conditions for purchases of ETFs and J-REITs. All other members agreed with this view.

V. Remarks by Government Representatives

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

(1) The government greatly welcomed the Bank's decision at the previous meeting to implement drastic measures. The government perceived that the measures had also been well received by the market.

(2) The economic movements in Japan appeared to be pausing recently and the situation remained difficult, as evidenced by the high unemployment rate. There were concerns that the economy might be depressed further by a possible slowdown in overseas economies as well as fluctuations in foreign exchange rates and stock prices. It should

be noted that there was still a risk of deflation adversely influencing the economy and a concern about a possible deterioration of the employment situation.

(3) In order to deal with the severe economic conditions, and to ensure the overcoming of deflation as well as secure steps toward economic recovery, the Cabinet decided the "Three-Step Economic Measures for the Realization of the New Growth Strategy" (hereafter "Three-Step Economic Measures") on September 10. Based on this, the Cabinet decided on October 8 the economic measures included in the second step. In order to carry out the measures, the government was preparing to submit the supplementary budget for fiscal 2010 to the Diet on October 29.

(4) The government expected that the Bank would continue to support the economy from the financial side, for example, with a view to overcoming deflation. The government greatly welcomed the Bank's proposal made at this meeting to establish the principal terms and conditions for the Asset Purchase Program and expedite its preparation in an effort to begin purchases under the Program, and the Bank's swift and appropriate response to bring forward the date of the next meeting, with a view to promptly starting purchases of ETFs and J-REITs.

(5) Due consideration would be given to the fact that the Bank was paying close attention to ensuring its financial soundness in conducting the Program. The Ministry of Finance would like to thoroughly consult with the Bank on this and other issues.

The representative from the Cabinet Office made the following remarks.

(1) The economic movements in Japan appeared to be pausing recently, and the economy was faced with significant risks of experiencing further deterioration from the possibility of prolonged appreciation of the yen and a slowdown in overseas economies. If these downside risks were to materialize, the goal of overcoming deflation and achieving a self-sustaining recovery might be delayed.

(2) In view of the current severe economic conditions and concerns about economic deterioration, the government -- based on the "Three-Step Economic Measures" -- continued to make policy efforts in a swift and seamless manner. Following the first step of making urgent responses, the Cabinet, as the second step, decided the "Comprehensive Emergency Economic Measures in Response to the Yen's Appreciation and Deflation" on October 8 and the supplementary budget for fiscal 2010 on October

26.

(3) In the October 2010 *Outlook for Economic Activity and Prices*, the Bank had projected a CPI inflation rate of 0.6 percent for fiscal 2012, following that of 0.1 percent for fiscal 2011. These projected figures were considered to be small compared to the "understanding of medium- to long-term price stability" (hereafter "understanding"), which showed that each Policy Board member's "understanding" fell in a positive range of 2 percent or lower and the midpoints of most members were around 1 percent.

(4) The government expected the Bank to continue to aim at overcoming deflation swiftly and underpin the economy, by conducting monetary policy in an appropriate and flexible manner while sufficiently exchanging views and working together with the government.

VI. Votes

A. Vote on the Guideline for Money Market Operations

Based on the above discussions, members shared the view 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 to 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 to 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, Mr. R. Miyao, and Mr. Y. Morimoto.

Votes against the proposal: None.

B. Vote on the Establishment of "Principal Terms and Conditions for the Asset Purchase Program"

Members approved the staff proposal regarding the Establishment of "Principal Terms and Conditions for the Asset Purchase Program" by a majority vote and agreed that it should be made public. Ms. Suda, however, dissented from the proposal and said that the Bank should exclude JGSs from assets to be purchased in the Program, mainly for the following reasons. First, the Bank's purchases could be misunderstood as monetization. Second, the financial intermediary function could be impaired by the lower returns of financial institutions. And third, this could lead to the risk of a bubble in the bond market.

Votes for the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. T. Noda, Mr. S. Nakamura, Mr. H. Kamezaki, Mr. R. Miyao, and Mr. Y. Morimoto.

Votes against the proposal: Ms. M. Suda.

VII. Approval of the Change in Schedule for the Monetary Policy Meeting

Members unanimously approved bringing forward the date of the next Monetary Policy Meeting, which was scheduled for November 15 and 16, to November 4 and 5, 2010, in order to discuss and decide the principal terms and conditions for the purchases of ETFs and J-REITs with a view to promptly starting their purchases. Although the minutes of this meeting were initially scheduled to be approved at the next Monetary Policy Meeting, taking into account practical constraints due to the shortness of the intermeeting period ahead, members voted unanimously for approval of the minutes at the Monetary Policy Meeting to be held on December 20 and 21, 2010. It was confirmed that these matters would be released immediately after the meeting, as in Attachment 1.

VIII. Discussion on the Statement on Monetary Policy

Members discussed the Statement on Monetary Policy, which included the Operational Guidelines for "Asset Purchase Program" together with Ms. Suda's opinion on her dissent, 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 2).

IX. Decision Regarding the *Outlook for Economic Activity and Prices*

Members discussed the draft of the *Outlook for Economic Activity and Prices* (consisting of "The Bank's View" and "The Background"), and put "The Bank's View" to a vote. The Policy Board decided, by a majority vote, the text of "The Bank's View." It was confirmed that "The Bank's View" would be made public on October 28, 2010 and the whole report on October 29, 2010. Ms. Suda, however, dissented for the following reasons. First, she held a more cautious view about the outlook for prices compared with the projections presented in the *Outlook for Economic Activity and Prices* because she held a conservative opinion regarding the influence of improvement in the aggregate supply and demand balance on the inflation rate, and regarding the effects of comprehensive monetary easing. And second, she considered that it was necessary for the Bank, in its communication to the public, to give particular consideration to the uncertainties associated with the revision of the base year for the CPI, for example.

Votes for the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. T. Noda, Mr. S. Nakamura, Mr. H. Kamezaki, Mr. R. Miyao, and Mr. Y. Morimoto.

Votes against the proposal: Ms. M. Suda.

X. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of October 4 and 5, 2010 for release on November 2, 2010.

Attachment 1

October 28, 2010

Bank of Japan

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

The date of the meeting scheduled on November 15-16 is changed to November 4-5, 2010, to discuss and decide the principal terms and conditions for the purchases of ETFs and J-REITs with a view to promptly starting their purchases.

	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.)
	30 (Mon.)	Oct. 8 (Fri.)	--	--
Sep.	6 (Mon.), 7 (Tues.)	Oct. 8 (Fri.)	--	8 (Wed.)
Oct.	4 (Mon.), 5 (Tues.)	Nov. 2 (Tues.)	--	6 (Wed.)
	28 (Thurs.)	Dec. 27 (Mon.) ~~Nov. 19 (Fri.)~~	28 (Thurs.)	--
Nov.	4 (Thurs.), 5 (Fri.) ~~15 (Mon.), 16 (Tues.)~~	Dec. 27 (Mon.)	--	8 (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, which is the national holiday in Japan.

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).

Attachment 2

October 28, 2010

Bank of Japan

Statement on Monetary Policy

At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided on the conduct of monetary policy and the Asset Purchase Program.

1. Monetary Policy

The Policy Board decided, by a unanimous vote,[5] 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. Asset Purchase Program

・ The Bank decided the principal terms and conditions for operational details of the Asset Purchase Program, such as the total amount of the Program, the maximum outstanding amount for each asset to be purchased, and the method of purchase.[6] Of the assets to be purchased, the Bank formulated implementation guidelines for the purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs), and decided to seek authorization for the purchases in accordance with the Bank of Japan Act. The Bank will promptly conduct the purchases of the assets (see Attachments 3 and 4).

(1) Total amount of the Program: about 35 trillion yen

Purchases of assets: about 5 trillion yen

[5] 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.

[6] Ms. M. Suda dissented from the inclusion of Japanese government bonds and treasury discount bills as assets to be purchased in the Program.

The fixed-rate funds-supplying operation against pooled collateral: about 30 trillion yen

(2) The maximum outstanding amount for each asset to be purchased

Japanese government bonds (JGBs) and treasury discount bills (T-bills): about 3.5 trillion yen (of which about 1.5 trillion yen for JGBs)

CP and corporate bonds: about 0.5 trillion yen, respectively

ETFs: about 0.45 trillion yen (conditional on obtaining authorization)

J-REITs: about 0.05 trillion yen (same as the above)

・ The Bank intends to ensure its financial soundness by managing risks stemming from the purchases of various financial assets under the Program and by properly recording loss provisions and appropriately treating losses if they are incurred. The Bank seeks for the government's understanding in this regard.

3. Change in Schedule for the Next Monetary Policy Meeting

At today's Monetary Policy Meeting, the Bank decided to change the date of the next meeting scheduled on November 15-16 to November 4-5, 2010, to discuss and decide the principal terms and conditions for the purchases of ETFs and J-REITs with a view to promptly starting their purchases.

Attachment 3

Operational Guidelines for "Asset Purchase Program"

1. Purpose

Taking into account that there is little room for a further decline in short-term interest rates, the Bank will encourage the decline in longer-term interest rates and various risk premiums to further enhance monetary easing. To this end, the Bank will establish, as a temporary measure, a program on its balance sheet to conduct outright purchases of various financial assets and the fixed-rate funds-supplying operation against pooled collateral.

2. Assets to Be Purchased, etc.

(1) Assets to be purchased

Japanese government bonds (JGBs), treasury discount bills (T-Bills), CP (commercial paper, asset-backed commercial paper, and commercial paper issued by real estate investment corporations), corporate bonds (corporate bonds and bonds issued by real estate investment corporations), exchange-traded funds (ETFs), and Japan real estate investment trusts (J-REITs).

(2) The fund provisioning method other than the purchase of assets

The fixed-rate funds-supplying operation against pooled collateral.

3. Maximum Outstanding Amount of Purchases and Loans

(1) Total amount: about 35 trillion yen

Asset purchasing: about 5 trillion yen

The fixed-rate funds-supplying operation against pooled collateral: about 30 trillion yen

(2) The maximum outstanding amount for each asset to be purchased

JGBs: about 1.5 trillion yen

T-Bills: about 2 trillion yen

CP: about 0.5 trillion yen

Corporate bonds: about 0.5 trillion yen

ETFs: about 0.45 trillion yen (conditional on obtaining authorization)

J-REITs: about 0.05 trillion yen (same as the above)

(3) The Bank shall start purchases of assets for which necessary arrangements are completed, and shall conduct purchases so that the outstanding amount of total assets purchased will be around 5 trillion yen by around the end of 2011.

4. Outline of the Purchases by Asset

(1) See Annex 1 for the outline of outright purchases of JGBs and T-Bills and Annex 2 for the outline of outright purchases of CP and corporate bonds.

(2) See Attachment 4 for the outline of the implementation guidelines for the purchases of ETFs and J-REITs.

(3) The fixed-rate funds-supplying operation against pooled collateral shall be managed under the program hereafter.

5. Others

(1) The assets purchased through the program will be segregated from the assets obtained through other money market operations.

(2) The Bank's holdings of JGBs purchased through the program shall be treated differently from those purchased subject to the ceiling on the amount of banknotes in circulation.

Annex 1

Outline of Outright Purchases of Japanese Government Bonds and Treasury Discount Bills

1. Bonds and Bills to Be Purchased
   - Japanese government bonds (JGBs) issued on or before the auction date with a remaining maturity of 1 to 2 years.
   - Treasury discount bills (T-Bills) issued on or before the auction date.

2. Eligible Counterparties
   - Eligible counterparties shall be selected from financial institutions that are users of the BOJ-NET at the Bank's Head Office and the JGB Book-Entry System and those for which there are no concerns regarding their creditworthiness.

3. Method
   - A multiple-price competitive auction in which counterparties' bid spreads, which shall not be negative, above the minimum yield (0.1 percent per annum).

4. Others
   - Eligible counterparties may participate in auctions of both JGBs and T-Bills. Auctions of JGBs and T-Bills shall be conducted respectively.

Annex 2

Outline of Outright Purchases of CP and Corporate Bonds

1. CP and Corporate Bonds to Be Purchased

- Commercial paper rated a-2 or higher and asset-backed commercial paper and commercial paper issued by real estate investment corporations rated a-1 that are issued on or before the auction date, and for which there are no concerns regarding creditworthiness.
- Corporate bonds rated BBB or higher and bonds issued by real estate investment corporations rated AA or higher that are issued on or before the auction date, with a remaining maturity of 1 to 2 years, and for which there are no concerns regarding creditworthiness.

2. Eligible Counterparties

- Eligible counterparties shall be selected from financial institutions that are users of the BOJ-NET at the Bank's Head Office and those for which there are no concerns regarding their creditworthiness.

3. Method

- A multiple-price competitive auction in which counterparties' bid spreads, which shall not be negative, above the minimum yield (0.1 percent per annum).

4. Maximum Outstanding Amount of a Single Issuer's CP or Corporate Bonds

- The outstanding amount of a single issuer's CP and corporate bonds purchased by the Bank shall not exceed 100 billion yen, respectively. In addition, if the outstanding amount of a single issuer's CP or corporate bonds purchased by the Bank at the time of purchase exceeds 25 percent of the total amount of CP or corporate bonds issued by the particular issuer, such CP or corporate bonds shall be excluded from the list of CP and corporate bonds to be purchased.

5. Others

- Eligible counterparties may participate in auctions of both CP and corporate bonds. Auctions of CP and corporate bonds shall be conducted respectively.

Attachment 4

Outline of the Implementation Guidelines[7] for the Purchases of ETFs and J-REITs

1. ETFs and J-REITs to Be Purchased
   (1) ETFs whose prices shall be set according to the index prescribed in the relevant rules of the Bank.
   (2) J-REITs for which there are no concerns regarding the creditworthiness of issuers.

2. Method
   The Bank will purchase ETFs and J-REITs as trust property through a trust bank that the Bank appoints as a trustee.

3. Price
   At market prices.

4. Duration
   The Bank will conduct outright purchases so that the outstanding amount of ETFs and J-REITs purchased will reach the maximum outstanding amount by around the end of 2011.

5. Maximum Outstanding Amount of ETFs and J-REITs to Be Purchased
   (1) The maximum outstanding amount of ETFs to be purchased shall be about 450 billion yen and that of J-REITs shall be about 50 billion yen.
   (2) The Bank may set a purchase limit for each ETF from a viewpoint of portfolio diversification.
   (3) The outstanding amount of each J-REIT purchased by the Bank shall not exceed 5 percent of the total amount of each J-REIT issued. The Bank may set a purchase limit for each J-REIT from a viewpoint of portfolio diversification.

[7] The whole text of the Guidelines is available only in Japanese.

6. Exercise of Voting Rights of J-REITs

The Bank shall set basic principles regarding the exercise of voting rights of J-REITs with the aim of maximizing returns on investment and shall let the trustee exercise such rights.

7. Disposal of Purchased ETFs and J-REITs

In case the Bank sells the purchased ETFs and J-REITs, the Bank shall set basic principles to avoid, as much as possible, incurring losses and inducing destabilizing effects on the financial markets.

8. Loss Reserve Policy

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

9. Others

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