Not to be released until 8:50 a.m. Japan Standard Time on Monday, September 12, 2011.

September 12, 2011

Bank of Japan

Minutes of the Monetary Policy Meeting

on August 4, 2011

(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, August 4, 2011, from 11:15 a.m. to 1:55 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

Mr. S. Nakamura

Mr. H. Kamezaki

Mr. R. Miyao

Mr. Y. Morimoto

Ms. S. Shirai

Mr. K. Ishida

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. K. Momma, Director-General, Monetary Affairs Department

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

Mr. K. Kamiyama, Head of Policy Planning Division, Monetary Affairs Department

Mr. S. Aoki, Director-General, Financial Markets Department

Mr. E. Maeda, Director-General, Research and Statistics Department

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on September 6 and 7, 2011 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.

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. M. Kasai, Senior Economist, Monetary Affairs Department

I. Approval of the Change in Date for the Monetary Policy Meeting

The chairman began the meeting by stating that, recently, the yen had been appreciating against the U.S. dollar and stock prices had been volatile, on the back of considerable uncertainty regarding the outlook for overseas economies, and that on August 4 the Ministry of Finance had been intervening in the foreign exchange market since the morning, as the one-sided trend of the appreciating yen could exert negative effects on economic and financial stability. The chairman continued that, given this situation, it was important for the Bank -- from the standpoint of ensuring stability in the foreign exchange and financial markets and thereby preventing business sentiment from deteriorating -- to swiftly decide on a monetary policy stance and make its decision public accordingly after examining economic and financial developments in Japan. The chairman then proposed that the meeting, which was originally scheduled to be held over two days, proceed with the intention of concluding within a day. The proposal was unanimously approved by the members.

II. Summary of Staff Reports on Economic and Financial Developments[2]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on July 11 and 12, 2011, had been providing ample funds sufficient to meet demand in financial markets and was doing its utmost to ensure stability in the markets.[3] In this situation, the uncollateralized overnight call rate had generally been in the range of 0.07-0.08 percent.

B. Recent Developments in Financial Markets

Money market rates had been stable amid the Bank's provision of ample funds. General collateral (GC) repo rates had been at around 0.1 percent. As for interest rates on term instruments, yields on treasury discount bills (T-Bills), including those with a one-year maturity, had been at around 0.1 percent on the whole. Rates on longer-term interbank instruments had been more or less unchanged.

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2 Reports were made based on information available at the time of the meeting.

3 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.

The benchmark long-term interest rate had declined as the yield curve was flattening on the whole, and was recently at around 1.0 percent. Japanese stock prices had recently been somewhat weak against the background of declining U.S. stock prices and the appreciation of the yen, and the Nikkei 225 Stock Average had been in the range of 9,500-10,000 yen. In the foreign exchange market, the yen appreciated against the U.S. dollar, reaching the range of 76.0-76.5 yen to the dollar in early August -- the highest level since March 2011 -- as U.S. interest rates declined against the background of rising concern over a slowdown in the U.S. economy. However, the yen depreciated following the intervention in the foreign exchange market on August 4 and most recently was being traded in the range of 79-80 yen to the dollar.

C. Overseas Economic and Financial Developments

The world economy continued to recover, but the pace of recovery was slowing.

The U.S. economy continued to recover, but the pace of recovery was slowing. Exports continued to increase, and business fixed investment rose moderately. In this situation, production remained on an increasing trend, although the pace of increase was slowing. On the other hand, in a situation where balance-sheet adjustments continued to weigh on the economy, the pace of increase in private consumption slowed to the extent that it had become more or less flat due to a decline in real purchasing power brought about by the earlier rise in crude oil prices. Housing investment remained at a depressed level, while housing prices were weak. As suggested by these developments, the risk of a prolonged economic slowdown seemed to have heightened in the face of continuing balance-sheet adjustments in the household sector. As for prices, the rate of increase in the consumer price index (CPI) for all items less energy and food, or the core CPI, remained only moderate due to slack in supply and demand conditions in the goods and labor markets. The year-on-year rate of increase in the CPI for all items moved up as a result of the earlier rise in international commodity prices.

Economic activity in the euro area as a whole continued to recover moderately, with some differences in pace by country. Although the rate of increase in exports slowed due to the deceleration in the pace of recovery of the world economy, private consumption and business fixed investment continued to increase moderately. As for prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) for all items slowed somewhat in a situation where slack in supply and demand conditions, as well as the relatively slow growth in wages, continued to exert downward pressure on prices. Meanwhile, in the United Kingdom, the economy was on a recovery trend but the pace of recovery was slowing.

The Chinese economy continued to show high growth. Although the pace of increase in exports seemed to be slowing recently, domestic demand remained firm overall as fixed asset investment maintained high growth. The Indian economy also continued to grow at a relatively rapid pace. Economic conditions in the NIEs and the ASEAN countries continued to be on a recovery trend backed by firm domestic demand, although production decreased recently partly due to the slower growth in exports. In many of these Asian economies, inflationary pressure continued to be strong due to the rise in food and materials prices, reflecting the effects of the hike in international commodity prices, and to the increase in utilization of production factors such as labor and capital.

As for global financial markets, U.S. and European stock prices fell compared with the levels at the time of the previous meeting and long-term interest rates declined -- especially in the United States -- mainly due to uncertainties regarding the sovereign debt problems in some peripheral European countries and the federal debt ceiling problem in the United States, and to heightening concern about the risk of a prolonged slowdown in the U.S. economy. After an agreement had been reached regarding measures for providing further financial support to Greece, yields on government bonds issued by Greece, Ireland, and Portugal fell while yields on those issued by Italy and Spain continued to rise.

D. Economic and Financial Developments in Japan

1. Economic developments

After declining sharply following the earthquake, production and exports continued to increase with the easing of supply-side constraints. Production was expected to continue picking up as supply-side constraints eased further. In this situation, exports were also expected to continue increasing against the background of the improvement in overseas economic conditions.

Public investment had recently stopped declining, albeit with fluctuations. It was expected to increase gradually, mainly due to the restoration of damaged social capital.

Business fixed investment had been generally picking up, aided partly by the restoration of disaster-stricken facilities, and was expected to increase.

The employment and income situation continued to be severe, partly due to the effects of the disaster.

Private consumption began to pick up on the whole, although weakness remained in evidence with regard to some aspects of consumer behavior, against the background that production had recovered and household sentiment had improved somewhat. Private consumption was expected to continue picking up, with a recovery in production and improvement in household sentiment.

Housing investment, which had been relatively weak due to the disaster, recently showed signs of picking up. It was expected to increase gradually as supply-side constraints eased and disaster-stricken homes were rebuilt.

As for prices, international commodity prices were flat at high levels after falling back slightly. The three-month rate of increase in the domestic corporate goods price index (CGPI) was slowing as international commodity prices fell back. The CGPI was expected to be more or less flat for the time being, reflecting the developments in international commodity prices. The year-on-year rate of change in the CPI (excluding fresh food) was slightly positive. However, it was likely to be revised downward with the base-year change scheduled in August 2011, and in the new index was expected to be at around 0 percent, potentially falling into slightly negative territory, for the time being.

2. Financial environment

Financial conditions generally continued to ease, albeit with weakness observed in the financial positions of some firms, mainly small ones.

As the overnight call rate remained at an extremely low level, the levels of firms' funding costs also continued to be low. Stimulative effects from low interest rates were still partly constrained given current developments in economic activity and prices. With regard to credit supply, firms continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP continued to be favorable. Those for corporate bonds were favorable as a whole, leading to an increased variety of corporate bond issuers. As for credit demand, firms showed signs of increasing their demand for working capital. Against this backdrop, the year-on-year rate of decline in bank lending was slowing. The amounts outstanding of both corporate bonds and CP exceeded their previous year's levels. In these circumstances, firms retained their recovered financial positions on the whole, albeit with weakness observed at some firms, mainly small ones. Meanwhile, the year-on-year rate of change in the money stock had been at around 3 percent.

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

A. Economic Developments

Members discussed the economic and financial conditions abroad, and shared the view that overseas economies were still recovering at a slower but moderate pace, led by high growth in emerging and commodity-exporting economies, and would continue to recover. They then agreed on the following points: (1) in the United States, concern over fiscal consolidation had not dissipated in financial markets even after the settlement of the federal debt ceiling problem, and worries about economic deceleration had recently been increasing; (2) in general, global financial markets still faced strain from the sovereign debt problems in some peripheral European countries; and (3) as for emerging and commodity-exporting economies, there remained a high degree of uncertainty about whether price stability and economic growth could be realized at the same time.

Members concurred that the U.S. economy continued to recover but the pace of recovery slowed recently. Many members expressed the view that signs of a slowdown were becoming more evident, as many of the economic indicators released recently were somewhat weak -- for example, the growth rate for real GDP had been revised downward significantly for the January-March quarter of 2011, to 0.4 percent from 1.9 percent on an annualized basis, and had increased only 1.3 percent for the April-June quarter. In relation to the federal debt ceiling problem, some members pointed to the possibility that economic activity would be dampened due to future reductions in fiscal expenditures.

Members shared the view that economic activity in the euro area as a whole continued to recover moderately, with some differences in pace by country. One member expressed the opinion that there seemed to be some signs of an economic slowdown. Many members said that, even though an agreement had been reached regarding measures to provide further financial support to Greece, concerns over fiscal conditions had not been dispelled in Greece or in other countries, and the risk remained high that sovereign debt problems in peripheral countries would spread beyond these countries.

Regarding emerging and commodity-exporting economies, members agreed that the pace of growth had been decelerating, due to a decline in exports and the effects of monetary tightening, but as a whole maintained relatively high growth backed by solid demand. They shared the view that, in many of these economies, inflationary pressure caused by the increases in international commodity prices and in utilization of production factors had not been sufficiently contained, and there remained a high degree of uncertainty about whether price stability and economic growth could be realized at the same time.

Based on the above deliberations on economic and financial conditions abroad, members discussed the state of Japan's economy. They agreed that economic activity had been picking up steadily with an easing of the supply-side constraints caused by the disaster. As for the outlook, they shared the view that the economy was likely to return to a moderate recovery path with production regaining traction, backed by an increase in exports and a rise in demand for restoring capital stock.

With regard to risks to the outlook for Japan's economy, members shared the view that the economic outlook entailed high uncertainty and recent developments called for closer attention to downside risks. They referred to the fiscal problem and the economic deceleration in the United States, the sovereign debt problems in Europe, and uncertainty about whether price stability and economic growth could be realized at the same time in emerging and commodity-exporting economies, and agreed that there was a possibility that these overseas economic and fiscal developments, as well as the ensuing fluctuations in the foreign exchange and financial markets, might have adverse effects on business sentiment, and consequently on economic activity in Japan. Many members said that the possibility warranted attention that, in the longer run, uncertainty about electricity supply and further appreciation of the yen could accelerate the shift of Japanese firms' production sites to overseas as well as the shift in procurement of materials and parts from Japan to other countries. A few members said that the ongoing appreciation of the yen, especially at a time when the economy was overcoming the supply-side constraints caused by the disaster, could lead to significant deterioration in business sentiment. A different member said that the appreciation of the yen could lead to a decline in growth expectations for Japan's economy.

Members agreed that the year-on-year rate of change in the CPI (excluding fresh food) was likely to remain slightly positive as the aggregate supply and demand balance improved as a trend. They shared the view that the year-on-year rate of change in the CPI was likely to be revised downward with the base-year change scheduled in August, and that it would temporarily return to around 0 percent, potentially falling into slightly negative territory. They also shared the view that, with the new index, given that the year-on-year rate of change in the CPI was likely to be revised downward, it would still take some time to reach the stage at which it could be judged that price stability was in sight on the basis of the "understanding of medium- to long-term price stability." Many members said that a downward revision in the CPI might affect the public's view on prices. Some members expressed the opinion that it was necessary to explain carefully that the change in the base year would not affect the underlying trend of prices, and thus the economy was moving toward overcoming deflation as the output gap narrowed.

B. Financial Developments

Members agreed that financial conditions generally continued to ease, albeit with weakness observed in the financial positions of some firms, mainly small ones.

Members shared the view that money market rates had been stable amid the Bank's provision of ample funds. As for corporate financing, they agreed that issuing conditions for both CP and corporate bonds were favorable as a whole and the year-on-year rate of decline in bank lending was slowing. They shared the view that firms retained their recovered financial positions on the whole, albeit with weakness observed at some firms, mainly small ones.

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.

With regard to the operation of the Asset Purchase Program (hereafter the Program), members concurred that -- in view of current and future developments in economic activity and prices -- it was necessary to further enhance monetary easing by increasing the total size of the Program, in order to encourage further declines in longer-term interest rates and risk premiums with a view to ensuring a successful transition from the recovery phase following the disaster to a sustainable growth path with price stability. Regarding the extent to which the Bank should increase the amount of the Program, members agreed that this should be of enough size to have a notable impact, with the aim of clearly presenting the Bank's policy stance that it would sufficiently enhance monetary easing at this point, taking into account various potential risk factors. Many members expressed the view that it would be appropriate for the increase in the amount of the Program to surpass the past increase of 5 trillion yen and reach 10 trillion yen.

The chairman requested that the staff explain what specific proposals could be considered if the Bank were to increase the amount of the Program based on the members' views.

In response to the chairman's direction, the staff provided the following explanation.

(1) The staff considered that, if the Bank were to increase the total size of the Program by about 10 trillion yen, it should boost the amount for the fixed-rate funds-supplying operation against pooled collateral (hereafter the fixed-rate operation) and asset purchases by about 5 trillion yen, respectively, from the perspective of encouraging further declines in longer-term interest rates and risk premiums. With regard to the fixed-rate operation, the Bank should increase the amount for the six-month term operation given the demand from eligible counterparties. As for the asset purchases, it should increase the amount by about 3.5 trillion yen for Japanese government bonds (JGBs) and T-Bills combined, and about 1.5 trillion yen for risk assets -- equivalent to the proportion of funds allocated for each asset category at the time the Program was initially introduced. With regard to the allocation of funds between JGBs and T-Bills, considering the significant decline in short-term interest rates, the Bank should allocate slightly more funds to the JGBs, with an increase of about 2 trillion yen for JGBs and about 1.5 trillion yen for T-Bills. Regarding the amount of increase in the purchases of risk assets, the amount for CP and corporate bonds combined should be about 1 trillion yen, as was the case at the time the Program was introduced. However, since there was only a little room left for additional purchases of CP, the Bank should allocate more funds to corporate bonds, with an increase of about 0.9 trillion yen, while CP should

receive a boost of about 0.1 trillion yen. The Bank should increase the amount for exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) combined by about 0.5 trillion yen, equivalent to the amount at the time the Program was introduced. In this case, however, since there was only a little room left for additional purchases of J-REITs, the Bank should only increase the amount by about 0.01 trillion yen for J-REITs and add about 0.5 trillion yen for ETFs. Moreover, increasing the amount of purchases of ETFs and J-REITs was conditional on obtaining authorization once more for the purchases in accordance with the Bank of Japan Act.

(2) If the Bank were to increase the total size of the Program by about 10 trillion yen, the term for accumulating the outstanding amount of the Program should be extended by about six months, such that the total amount would be reached by around the end of December 2012.

In response to the staff's explanation, many members expressed the view that, with regard to the allocation of funds for each asset category, it would be appropriate for the Bank to expand the fixed-rate operation and purchase various assets while taking into account the market size of financial assets subject to the Program and the Bank's financial soundness.

As for the future conduct of monetary policy, members shared the view that, in order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, it was necessary that the Bank continue to consistently make contributions as the central bank through the three-pronged approach of pursuing powerful monetary easing consisting of comprehensive monetary easing, ensuring financial market stability, and providing support to strengthen the foundations for economic growth. A few members said that if the Bank were to further enhance monetary easing at this meeting, they would like to reconfirm that it would implement measures that were considered sufficient, taking full account in advance of various potential risk factors, including those regarding overseas economies.

V. Remarks by Government Representatives

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

(1) The Japanese economy had been exhibiting signs of upward movement recently, although the situation remained severe. Due attention still needed to be paid to the

downside risks to the economy stemming mainly from the effects of electric power supply constraints, the slowdown in overseas economies, and developments in financial markets. In particular, the government was greatly concerned that the ongoing appreciation of the yen might negatively affect corporate profits and business sentiment. It intervened in the foreign exchange market earlier in the day because the recent one-sided trend of the appreciating yen could exert negative effects on economic and financial stability at a time when the Japanese economy was finally heading toward rebuilding after the disaster.

(2) The second supplementary budget for fiscal 2011 was recently approved by the Diet. The government would work toward realizing restoration and rebuilding as early as possible, by steadily implementing the supplementary budget. Moreover, on July 29, it decided the Basic Guidelines for Reconstruction in response to the Great East Japan Earthquake (hereafter the Basic Guidelines). The government would promptly proceed with conducting an examination among relevant ministries and agencies of the specifics of reconstruction projects based on the Basic Guidelines, and formulate a full-fledged budget for rebuilding.

(3) The government welcomed the Bank's proposal made at this meeting to increase the total size of the Asset Purchase Program as an appropriate and prompt response to the recent changes in the economic and financial situation. The government deemed it necessary to carefully consider the conduct of future macroeconomic management given the continued severe conditions in the Japanese economy caused by the effects of the disaster. The government hoped that the Bank would share its view on the current severe economic conditions and continue taking decisive monetary policy actions, considering the developments in domestic and overseas economies as well as in the financial markets.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy had been exhibiting signs of upward movement recently and was expected to pick up as production recovered. Nevertheless, due attention needed to be paid to downside risks to the economy such as concerns about deterioration in overseas economies, the heightening risks in financial developments in the United States and European countries, and the rapid appreciation of the yen.

(2) As for prices, the year-on-year rate of increase in the CPI for all items excluding fresh food, or the core CPI, had been positive for the past three consecutive months. However, due attention needed to be paid to the possibility that the rate of change would be revised downward with the base-year change scheduled in August. The economy was still in a mild deflationary situation, as evidenced, for example, by the continued fall in price trends excluding energy prices and other special factors. In this situation, close attention should continue to be paid to the effects on economic activity of the upward pressure on costs exerted by supply-side constraints and the sharp rise in energy prices in particular.

(3) The government would make its utmost efforts to achieve rebuilding based on the Basic Guidelines for Reconstruction in response to the Great East Japan Earthquake while swiftly implementing the first and second supplementary budgets for fiscal 2011. Moreover, it would take all possible measures in response to electric power constraints from both the demand and supply sides, and work toward restoring the growth potential of the Japanese economy by strengthening its initiatives to bring about new growth. Furthermore, the government would steadily carry out the measures laid out in the final draft of the proposal for the comprehensive reform of social security and taxation systems in order to secure confidence in public finance.

(4) The government welcomed the Bank's proposal made at this meeting to increase the total size of the Asset Purchase Program as a timely and appropriate action, taking into account the current downside risks to the economy. It expected the Bank to continue to steadily carry out the funds-supplying operation to support financial institutions in disaster areas, and to underpin the economy through appropriate and flexible conduct of monetary policy while continuing to sufficiently exchange views and keep close contact with the government in order to overcome deflation.

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, Mr. S. Nakamura, Mr. H. Kamezaki, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, and Mr. K. Ishida.

Votes against the proposal: None.

B. Vote on "Amendment to 'Principal Terms and Conditions for the Asset Purchase Program'"

Members shared the view that, as explained by the staff, it was appropriate to increase the outstanding amount for each financial asset to be purchased through the Program by the following amounts: about 2.0 trillion yen for JGBs; about 1.5 trillion yen for T-Bills; about 0.1 trillion yen for CP; about 0.9 trillion yen for corporate bonds; about 0.5 trillion yen for ETFs; about 0.01 trillion yen for J-REITs; and about 5.0 trillion yen for the six-month term fixed-rate operation. "Amendment to 'Principal Terms and Conditions for the Asset Purchase Program'" was then put to a vote. The Policy Board approved the amendment by a unanimous vote. It was confirmed that the amendment should be made public after the meeting.

VII. Discussion on the Public Statement Entitled Enhancement of Monetary Easing

On the basis of the above discussions, members discussed the statement Enhancement of Monetary Easing, which included the Bank's monetary policy stance that it would enhance monetary easing by increasing the total size of the Program by about 10 trillion yen, from about 40 trillion yen to about 50 trillion yen, based on the recognition that the economic outlook entailed high uncertainty and recent developments called for closer attention to downside risks. The statement was then put 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 Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of July 11 and 12, 2011 for release on August 9, 2011.

Attachment 1

August 4, 2011

Bank of Japan

Enhancement of Monetary Easing

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by a unanimous vote,[4] to enhance monetary easing by increasing the total size of the Asset Purchase Program by about 10 trillion yen[5] from about 40 trillion yen to about 50 trillion yen.

2. The Policy Board also decided, by a unanimous vote,[6] 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.

3. Japan's economic activity has been picking up steadily with an easing of the supply-side constraints caused by the Great East Japan Earthquake. As for the outlook, Japan's economy is expected to return to a moderate recovery path with production regaining traction, backed by an increase in exports and a rise in demand for restoring capital stock.

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[4] Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. S. Nakamura, Mr. H. Kamezaki, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, and Mr. K. Ishida. Voting against the action: None.

[5] See Attachment 2 for the allocation of the increase in the Program.

[6] Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. S. Nakamura, Mr. H. Kamezaki, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, and Mr. K. Ishida. Voting against the action: None.

4. However, the above economic outlook entails high uncertainty and recent developments call for closer attention to downside risks. With regard to overseas economies, in the United States, concern over fiscal consolidation has not dissipated in financial markets even after the settlement of the debt ceiling problem and views on the economic outlook have recently become more cautious. In general, global financial markets still face strain from the sovereign debt problem in peripheral European countries. As for emerging and commodity-exporting economies, there remains a high degree of uncertainty about whether price stability and economic growth can be realized at the same time. There is a possibility that these developments in overseas economies and the ensuing fluctuations in the foreign exchange and financial markets may have adverse effects on business sentiment, and consequently on economic activity in Japan. Meanwhile, regarding the outlook for prices, the year-on-year rate of change in the CPI is likely to be revised downward with the base-year change scheduled this month. Apparently it will still take some time to achieve price stability.

5. After considering the recent developments in economic activity and prices as described above, the Bank deemed it necessary to further enhance monetary easing, thereby ensuring a successful transition from the recovery phase following the earthquake disaster to a sustainable growth path with price stability.

6. Japan's economy, which has confronted the longstanding challenge of raising its growth potential amid a rapidly aging population, now faces the additional new challenge of restoration and rebuilding in the wake of the earthquake disaster. To establish a new foundation of economic development, various concerned parties both in the private and government sectors must make vigorous efforts. The Bank will continue to consistently make contributions as the central bank through the three-pronged approach of pursuing powerful monetary easing consisting of comprehensive monetary easing, ensuring financial market stability, and providing support to strengthen the foundations for economic growth.

Attachment 2

Increase in the Asset Purchase Program

1. Allocation of the Increase

(trillion yen)

		Program size before the increase	Amount of increase	Program size after the increase
Total size		**About 40**	**About +10**	**About 50**
Asset Purchases		10.0	+5.0	15.0
	Japanese government bonds[Note 1]	2.0	+2.0	4.0
	Treasury discount bills	3.0	+1.5	4.5
	CP	2.0	+0.1	2.1
	Corporate bonds	2.0	+0.9	2.9
	Exchange traded funds (ETFs)[Note 2]	0.9	+0.5	1.4
	Japan real estate investment trusts (J-REITs)[Note 2]	0.1	+0.01	0.11
Fixed-rate funds-supplying operation against pooled collateral		30.0	+5.0	35.0
	Three-month term	20.0	—	20.0
	Six-month term	10.0	+5.0	15.0

Notes: 1. In addition to the purchase under the Asset Purchase Program, the Bank regularly purchases Japanese government bonds at the pace of 21.6 trillion yen per year.

2. The increase in the purchases of ETFs and J-REITs are conditional on obtaining authorization in accordance with the Bank of Japan Act.

2. The Bank intends to complete the increased purchases by around the end of 2012.