Not to be released until 8:50 a.m. Japan Standard Time on Tuesday, November 1, 2011.

November 1, 2011

Bank of Japan

Minutes of the Monetary Policy Meeting

on October 6 and 7, 2011

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

Please contact the Bank of Japan at the address below in advance to request permission when reproducing or copying the content of this document for commercial purposes.

Secretariat of the Policy Board, Bank of Japan
P.O. Box 30, Nihonbashi, Tokyo 103-8660, Japan

Please credit the source when quoting, reproducing, or copying the content of this document.

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 6, 2011, from 2:01 p.m. to 4:31 p.m., and on Friday, October 7, from 9:01 a.m. to 12:32 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[2]

Mr. S. Nakamura

Mr. H. Kamezaki

Mr. R. Miyao

Mr. Y. Morimoto

Ms. S. Shirai

Mr. K. Ishida

Government Representatives Present

Mr. Y. Fujita, Senior Vice Minister of Finance, Ministry of Finance[3]

Mr. S. Sato, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance[4]

Mr. H. Ogushi, Parliamentary Secretary of Cabinet Office, Cabinet Office[3]

Mr. K. Umetani, Director-General, Economic and Fiscal Management, Cabinet Office[4]

Reporting Staff

Mr. K. Yamamoto, Executive Director

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

Mr. M. Amamiya, Executive Director

---

[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on October 27, 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.

[2] Mr. K. G. Nishimura was present on October 7.

[3] Messrs. Y. Fujita and H. Ogushi were present on October 7.

[4] Messrs. S. Sato and K. Umetani were present on October 6.

Mr. N. Kinoshita, Executive Director

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

Mr. T. Umemori, Deputy Director-General, Monetary Affairs Department[5]

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

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[5]

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

Mr. M. Kasai, Senior Economist, Monetary Affairs Department

Mr. K. Masaki, Head of Market Operations Division, Financial Markets Department[6]

[5] Messrs. T. Umemori and H. Chida were present on October 7.

[6] Mr. K. Masaki was present on October 7 from 9:01 a.m. to 9:14 a.m.

I. Summary of Staff Reports on Economic and Financial Developments[7]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on September 6 and 7, 2011, had been providing ample funds sufficient to meet demand in financial markets and was doing its utmost to ensure stability in the markets.[8] In this situation, the uncollateralized overnight call rate had been in the range of around 0.075 to around 0.085 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 0.1 percent, and the yield curve for T-Bills remained flat. Rates on longer-term interbank instruments had been more or less unchanged.

The benchmark long-term interest rate had been at around 1.0 percent. Japanese stock prices dropped to their lowest level since the start of 2011 as sharp adjustments were observed in U.S. and European stock prices, but they had since picked up. The Nikkei 225 Stock Average had recently been at around 8,500 yen. In the foreign exchange market, while U.S. interest rates remained at a low level, the yen had moved within a narrow range against the U.S. dollar due in part to persistent anxiety over a possible foreign exchange intervention. It had recently been in the range of 76-77 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 remained only moderate. Exports and business fixed investment rose moderately. In this situation, production remained on an increasing trend. On the other hand, in a situation where balance-sheet adjustments were weighing on it, private consumption continued to improve at only a moderate pace, reflecting a slowdown in the improvement in the employment

---

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

[8] 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.

situation and a deterioration in household sentiment. Housing investment remained at a depressed level, while housing prices were weak. As for prices, although slack in supply and demand conditions in the goods and labor markets continued to exert downward pressure on prices, the year-on-year rate of increase in the consumer price index (CPI) for all items accelerated to some extent, mainly because of the earlier rise in international commodity prices, and the rate of increase in the CPI for all items less energy and food, or the core CPI, moved up.

The level of economic activity in the euro area was more or less unchanged. Growth in exports was sluggish owing to the deceleration in the pace of recovery of the world economy, and private consumption was more or less unchanged. A deterioration in consumer sentiment had also spread to major countries such as Germany due to the worsening of the sovereign debt problems in Europe. On the other hand, 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 on a quarterly basis slowed somewhat from the previous quarter, but the rate of increase on a monthly basis accelerated to some extent in September. Slack in supply and demand conditions, as well as the slow growth in wages, continued to exert downward pressure on prices, while there was inflationary pressure from the rise in prices of, for example, processed food. Meanwhile, the level of economic activity in the United Kingdom was also more or less unchanged.

The Chinese economy continued to show high growth as a whole. Although the pace of increase in exports seemed to be slowing and the rate of increase in private consumption was decelerating to some extent, fixed asset investment maintained high growth. The Indian economy also continued to grow at a relatively rapid pace, although with some deceleration recently due to the effects of monetary tightening. Economic conditions in the NIEs and the ASEAN countries continued to recover since domestic demand was firm and exports and production were increasing, albeit moderately. In many of these Asian economies, inflationary pressure continued to be strong, reflecting the earlier rise in food and materials prices and an acceleration in the pace of wage increases due to tight labor market conditions.

As for global financial markets, risk aversion among investors intensified owing to concerns about the sovereign debt problems in Europe and uncertainty regarding the outlook for the world economy. Against this background, strains in global financial markets remained intense, as evidenced by the continued large fluctuations in stock prices around the world. Long-term interest rates in the United States and Germany were at low levels, reflecting investors' preference for safe assets, while the yield spreads of government bonds issued by European countries over those issued by Germany generally remained at high levels. With regard to the credit market, yield spreads between corporate bonds -- low-rated ones in particular -- and government bonds were on a widening trend. As for the interbank market, interest rates on term instruments had been at high levels, reflecting concerns about counterparty risk. Regarding financial markets in emerging economies, as risk aversion among investors intensified, stock prices declined and their currencies were weak on the whole, due in part to the unwinding of speculative positions.

D. Economic and Financial Developments in Japan

1. Economic developments

Production and exports continued to increase, although their paces moderated after going through the recovery phase immediately following the quake-induced plunge. The underlying trend in overseas economic growth was expected to remain firm, although the pace was expected to slow for the time being. Against this background, exports were expected to trend up moderately, due in part to the restocking of inventories abroad. In this situation, production was expected to continue increasing at a moderate pace.

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

Business fixed investment had been increasing moderately, aided partly by the restoration of disaster-stricken facilities, and was expected to continue climbing.

The employment and income situation continued to be severe, although there were some signs of improvement.

Private consumption had been picking up on the whole, although weakness remained in some aspects of consumer behavior. It was expected to hold steady as the employment situation gradually headed toward improvement.

Housing investment showed clear signs of picking up, aided partly by the removal of supply-side constraints. It was expected to increase gradually, partly because disaster-stricken homes were being rebuilt.

As for prices, international commodity prices had recently declined. The three-month rate of increase in the domestic corporate goods price index (CGPI) was more or less flat, reflecting movements in international commodity prices. The CGPI was expected to be somewhat weak for the time being. The year-on-year rate of change in the CPI (all items less fresh food) was currently around 0 percent and was expected to remain so for the time being.

2. Financial environment

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

The overnight call rate remained at an extremely low level, and firms' funding costs declined moderately. 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 also remained favorable as seen in the 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 gradually 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 still being observed at some firms, mainly small ones. Meanwhile, the year-on-year rate of change in the money stock had been in the range of 2.5-3.0 percent.

With regard to financial conditions in disaster areas, the financial positions of firms were on an improving trend, and the number of corporate bankruptcies was significantly below the previous year's level. Financial institutions in disaster areas were not facing funding problems since the amount of their deposits had increased substantially, due mainly to receipt of insurance claim payments and financial donations, while credit demand for rebuilding had not become full-fledged yet. Against this background, loans provided through the Bank's funds-supplying operation to support financial institutions in disaster areas amounted to 450 billion yen, slightly less than half of its ceiling of 1 trillion yen set in April 2011.

II. Amendment to Guidelines on Eligible Collateral

A. Staff Proposal

The staff proposed that the Bank make necessary amendments, including amendments to its Guidelines on Eligible Collateral and the principal terms and conditions for repo operations and securities lending, in view of the results of the Bank's annual review of appropriate margins reflecting recent developments in financial markets.

B. Discussion by the Policy Board and Vote

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

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

A. Economic Developments

Members shared the view that risk aversion among investors had intensified further owing to concerns about the sovereign debt problems in Europe and uncertainty regarding the outlook for the world economy, and that strains in global financial markets remained intense against this background. They agreed that investors' funds recently tended to be concentrated in assets and currencies considered safe, such as U.S. Treasuries, German government bonds, and the yen, reflecting investors' strong preference for safe assets.

With regard to the sovereign debt problems, many members expressed the view that concerns over the financial soundness of European financial institutions that held a large amount of European government bonds were heightening in a situation where fiscal consolidation and structural reforms in Greece were not proceeding smoothly. These members said that anxiety over the European financial system as a whole was intensifying, partly because it was taking time to expand the functions and size of the European Financial Stability Facility. A few members noted that concerns about European financial institutions had materialized in the credit market as an increase in credit default swap (CDS) premiums and a tightening of the corporate bond market conditions. Some members expressed concern over the recent capital outflow from emerging economies due to a further intensification of risk aversion among investors. One member commented on the recent situation in Europe, stating that it was facing difficulty in the following regards: the emergence of doubt with respect to the credibility of government bonds, which were widely used in financial transactions as risk-free assets in normal circumstances; the length of time to implement policies since agreement and approval by many countries were required; and the limited room to conduct additional monetary and fiscal policies. This member continued, however, that there were also positive developments, in that progress had been made in establishing frameworks for provision of liquidity to financial institutions and for strengthening their capital bases after the Lehman shock.

Regarding the economic conditions abroad, members shared the view that economic growth had recently been decelerating, particularly in advanced economies. They continued, however, that the underlying trend in overseas economic growth was likely to remain firm, led by growth in emerging economies, although the pace was likely to slow for the time being.

Members shared the view that the U.S. economy continued to recover, but the pace of recovery remained only moderate. Many members pointed to the following as the background to the sluggish growth in private consumption: the depressed housing market; a slowdown in the pace of improvement in the employment situation; and a deterioration in consumer sentiment brought about by a decline in stock prices. Some members expressed the view that movements toward economic recovery had been maintained, particularly in the corporate sector, as production, corporate profits, and business fixed investment had been firm. As for the outlook, members shared the view that the pace of economic recovery was likely to remain only moderate for the time being given the limited room to boost the economy from the fiscal and monetary sides in a situation where balance-sheet adjustments continued to weigh on the economy. A few members said that it might still take time to resolve the problems caused by the housing bubble, in view of an expected increase in mortgage-related losses at some financial institutions. One member said that, if the duration of unemployment became more prolonged, there was a risk that growth expectations for the U.S. economy might decline, which could cause a lengthy period of low growth. A different member commented that it was not appropriate to be excessively pessimistic about the outlook given the adjustments in international commodity prices, which had previously been rising, and economic and employment measures being deliberated by the U.S. government.

Members shared the view that the level of economic activity in the euro area was more or less unchanged. Many members commented that economic growth was also slowing in major countries, such as Germany, which had been leading European economies, with somewhat weak private consumption caused by the deterioration in household sentiment, in addition to the sluggish growth in exports owing to the deceleration in the pace of recovery of the world economy. Regarding this situation, these members expressed the view that the sovereign debt problems were starting to affect economic activity through a deterioration in sentiment. As for the outlook, members concurred that, in a situation where the strains stemming from the sovereign debt problems remained in financial markets, economic conditions in the euro area were likely to remain weak against the background of a planned reduction in fiscal spending and the deterioration in business and household sentiment.

Members agreed that, despite the recent deceleration caused by a decrease in exports and the effects of monetary tightening implemented thus far, emerging and commodity-exporting economies maintained relatively high growth in general backed by solid demand. As for the outlook, they shared the view that a high degree of uncertainty remained as to whether price stability and economic growth could be realized at the same time in these economies, although in principle their relatively high growth would probably continue to lead the world economy. One member, referring to the suspension of monetary tightening in some emerging economies despite the elevated inflation rates, said that this seemed to be a materialization of the difficulty in realizing price stability and economic growth at the same time in these economies. Some members said that investors' recent withdrawal of funds from emerging economies reflected their risk aversion. These members continued that a widespread occurrence of such moves could exert downward pressure on economic activity in emerging economies from the financial side. One member commented that, in the longer run, China was about to experience structural changes -- for example, an additional supply of low-wage workers from rural areas would become limited -- and attention should therefore be paid to a possible decline in China's growth potential.

Based on the above discussion, members agreed that the outlook for overseas economies continued to warrant attention in view of the following points: (1) in Europe, there was a risk that the adverse feedback loop among the fiscal situation, the financial system, and economic activity might intensify further, as the effects of the sovereign debt problems became more serious; (2) in the United States, an upward bounce of economic activity was still less likely and there remained vulnerability on the downside against the background that the pace of improvement in the employment situation remained slow and adjustments in households' balance sheets, as well as in the housing market, were prolonged; and (3) in emerging and commodity-exporting economies, a high degree of uncertainty remained as to 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.

Regarding recent developments in the economy, members agreed that economic activity continued picking up. They also shared the view that production and exports continued to increase, although their paces moderated after going through the recovery phase immediately following the quake-induced plunge. Some members added that there were signs of sluggishness in the momentum of exports of some goods such as IT-related products. Members shared the view that business fixed investment had been increasing moderately and private consumption had been picking up. Some members said that the results of the September 2011 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) showed that business fixed investment plans for fiscal 2011 were firm. Members agreed that housing investment showed clear signs of picking up and public investment had almost stopped declining.

As for the outlook for the economy, members shared the view that the economy was likely to return to a moderate recovery path mainly because (1) the underlying trend in overseas economic growth would remain firm, although the pace would slow for the time being; (2) against this background, exports would trend up moderately; and (3) domestic demand for restoring capital stock would increase.

With regard to risks to the outlook for Japan's economy, members concurred that how Japan's economy would be affected by the uncertainty regarding the developments overseas and by the ensuing fluctuations in the foreign exchange and financial markets continued to warrant the most attention. Many members expressed the view that there was an increasing risk that growth in Japan's exports might become weaker than expected, as the sovereign debt problems in Europe were putting downward pressure on overseas economies as a whole. A few of these members added that due attention needed to be paid in particular to a possible dampening in overseas demand for automobiles as well as information and communications equipment. Some members noted that it was necessary to pay attention to the possibility that the yen's appreciation to date would not only decrease exports and corporate profits, but also affect a wider range of areas of the economy through a deterioration in business and household sentiment. One of these members said that, if the shift of Japanese firms' key factories and research and development bases to overseas accelerated due in part to the prolonged appreciation of the yen, this could lead to the hollowing out of domestic industries and cause a decline in growth expectations for Japan's economy. A different member commented that the recent sharp increase in acquisitions of foreign firms by utilizing the yen's appreciation could be regarded as a favorable development in terms of prompting an increase in the growth potential of Japan's economy. A few members said that it was necessary to continue monitoring the effects of the electric power supply constraints. Based on this discussion, members agreed that the uncertainty regarding Japan's economy remained high and attention should be paid to downside risks to economic activity.

Members agreed that the year-on-year rate of change in the CPI (all items less fresh food) was currently around 0 percent and likely to remain so for the time being, partly because the positive contribution from the raise in the tobacco tax and charges for accident insurance in 2010 would dissipate from October 2011. Some members pointed to the possibility that the fall in international commodity prices, which had previously been rising, and the appreciation of the yen to date would exert downward pressure on prices for the time being. Members shared the view that, from a relatively long-term perspective, the rate of change in the CPI would increase at a moderate pace reflecting the narrowing of the negative output gap. One member noted that the pricing power of domestic firms had increased temporarily following the disaster but seemed to be declining again recently. This member continued that attention should be paid to the risk of a delay in achieving price stability, partly due to the decline in the pricing power as well as the deterioration in business sentiment caused by the yen's appreciation.

Members also discussed what kind of index should be used in assessing the underlying trend of the CPI. Some members said that the decline in the year-on-year rate of change in the CPI (all items less fresh food) following the recent base-year change did not mean that the underlying trend of prices had changed, and thus the economy continued to move toward overcoming deflation as the negative output gap narrowed. One member said that the year-on-year rate of change in the CPI excluding items that were not purchased frequently was clearly in positive territory, and this showed that the level of inflation as perceived by the public might not be as low as the level indicated by the headline CPI. One member expressed the view that there was difficulty in creating a perfect index for assessing changes in the price trend, and that examining various indicators in a comprehensive manner was important. This member continued that it was therefore necessary to continue deliberating on an appropriate way to assess the price trend.

B. Financial Developments

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

Members shared the view that money market rates continued to be stable amid the Bank's provision of ample funds. Regarding liquidity conditions in U.S. dollar funding markets, some members expressed the view that, despite heightened concerns about counterparty risk in relation to European financial institutions, the funding conditions for Japanese banks remained stable. Some members, noting the weakness in stock prices and the appreciation of the yen, expressed the opinion that attention should continue to be paid to the effects on Japan's financial markets of intensified strains in global financial markets. As for corporate financing, members shared the view that firms continued to see financial institutions' lending attitudes as being on an improving trend, and that issuing conditions for both CP and corporate bonds remained favorable. They agreed that firms retained their recovered financial positions on the whole, albeit with weakness still being observed at some firms, mainly small ones. A few members noted that these conditions could also be confirmed by the rises in the diffusion indices of financial institutions' lending attitudes as perceived by firms and of financial positions of firms in the September 2011 *Tankan*.

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 monetary policy for the immediate future, members shared the view that it was appropriate to steadily implement the Bank's decision in August to further enhance monetary easing through the purchase of financial assets, and monitor the spread of its effects. Some members added that downside risks to economic activity and prices could have increased to some extent compared with the time of the previous meeting, mainly reflecting the fact that global financial markets had become unstable due to the worsening of the sovereign debt problems in Europe. Some members expressed the view that it was important for the Bank to continue to take actions in an appropriate manner, as necessary. One of these members added that further monetary easing might become necessary depending on future developments, a view this member maintained from the previous meeting. A few members said that the Bank's U.S. dollar funds-supplying operation against pooled collateral, which had been conducted in coordination with central banks in North America and Europe, was playing a vital role in ensuring the stability in global financial markets, and that such coordination among central banks continued to be important.

With regard to the funds-supplying operation to support financial institutions in disaster areas, members agreed that it was appropriate to extend the deadline for new applications for loans -- which was initially set at October 31, 2011 -- and continue to support financial institutions in disaster areas in their efforts to meet demand for funds for restoration and rebuilding by making effective use of undisbursed funds for loans originally committed for the operation. Most members said that, in order to fully support funding of financial institutions in disaster areas during the run-up to the calendar and fiscal year-ends, it was appropriate to extend the deadline to April 30, 2012. Some members expressed the opinion that the effective period of the relaxation of the collateral eligibility standards for debt of companies in disaster areas, which was initially set to be consistent with the period in which the operation would remain effective, should also be extended by six months, up to April 30, 2013. As for the future course of action, a few members commented that it would be appropriate for the Bank to deliberate, as necessary, on appropriate actions to take as the central bank while considering the following: how demand for funds for rebuilding would develop; how such demand would be met by financial institutions; and how much progress had been made in terms of the government's support.

Based on the above considerations, the chairman judged that a consensus had been reached among members with regard to such matters as the extension of the deadline for new applications for loans under the funds-supplying operation. Since all other members were in agreement with his judgment, members decided to determine amendments to principal terms and conditions at this meeting. In response, the staff drafted amendments to principal terms and conditions and provided an explanation. Members then discussed the draft and finalized it as the following proposal: "Amendment to 'Principal Terms and Conditions for the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas' and 'Temporary Rules regarding the Eligibility Standards for Debt of Companies in Disaster Areas.'"

V. Remarks by Government Representatives

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

(1) The Japanese economy had been picking up. The government, however, was highly concerned that the rapid appreciation of the yen and stagnation in the U.S. and European economies were posing significant downside risks to the Japanese economy.

(2) In order to prevent the hollowing out of domestic industries, the government deemed it important to promptly proceed with the following, by utilizing such means as the third supplementary budget for fiscal 2011: (1) mitigate the pain caused by the appreciation of the yen by further expanding financial support to small firms; (2) take such measures as a decisive increase in location subsidies to firms, to prevent the hollowing out of domestic industries and build a robust economy that was resilient to risks; and (3) make the maximum use of merits of the yen's appreciation through Japanese firms' acquisitions of foreign firms and interests in natural resources. The government would finish compiling as swiftly as possible the "Comprehensive Package Responding to the Yen Appreciation" -- for which an interim proposal had been released on September 20. Furthermore, the government deemed it important to promptly take measures that could be conducted ahead of obtaining the Diet's approval for the third supplementary budget,

and therefore would immediately proceed with relaxing the requirements of the employment adjustment subsidies as a response to the appreciation of the yen, and with promoting foreign mergers and acquisitions by Japanese firms and acquisition of natural resources.

(3) The government welcomed the Bank's proposal made at this meeting to continue the funds-supplying operation to support financial institutions in disaster areas as an effort that would contribute to restoration and rebuilding following the disaster. Considering that the downside risks to the economy were heightening rapidly due to the appreciation of the yen and concerns over stagnant U.S. and European economies, the government deemed it necessary to give further careful consideration to the conduct of future macroeconomic management, and would continue to work closely with the Bank. Furthermore, it hoped that the Bank would share its view on the current severe economic conditions and continue taking decisive monetary policy actions while considering the effects on the Japanese economy of the developments in the U.S. and European economies and fluctuations in the financial markets, including the foreign exchange market.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy had been picking up, mainly owing to progress in the restoration of supply chains. As for the outlook, the economy was expected to continue to pick up, backed by demand for reconstruction, but due attention needed to be paid to the intensifying downside risks to the economy; in particular, unstable international financial developments due to fiscal problems in Europe, concerns over a slowdown in overseas economies, and the rapid appreciation of the yen.

(2) As for prices, although the year-on-year rate of increase in the CPI for all items less fresh food, or the core CPI, had been slightly positive for the past two consecutive months, the economy was still in a mild deflationary situation, as evidenced, for example, by the continued fall in price trends. In this situation, the government considered it important to prevent the economy from falling into a vicious circle in which the appreciation of the yen would magnify deflation, in turn leading to further appreciation.

(3) With the aim of acting preemptively against the downside risks to the economy and the risks of hollowing out of domestic industries, both stemming mainly from the rapid appreciation of the yen, the government would swiftly finish compiling the "Comprehensive Package Responding to the Yen Appreciation," which focused on mitigating the pain caused by the appreciation, building a robust economy that was resilient to risks, and making the maximum use of merits of the yen's appreciation. The government would aim to promptly obtain the Diet's approval for the third supplementary budget for fiscal 2011, which included issues addressed in the package, and make its utmost efforts to achieve rebuilding following the disaster, as well as endeavor to minimize the downside risks to the economy through prompt conduct of measures in the package, and thereby secure a sustainable growth path for the Japanese economy.

(4) The Japanese economy was facing difficulties such as unstable international financial developments, intensified risk aversion among investors, heightened downside risks to the economy, and concerns over a vicious circle of appreciation of the yen and deflation. The government expected the Bank to continue to support restoration and rebuilding of the disaster areas from the financial side and sufficiently exchange views and keep closer contact with the government to firmly underpin the economy through appropriate and decisive conduct of monetary policy.

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 Funds-Supplying Operation to Support Financial Institutions in Disaster Areas' and 'Temporary Rules regarding the Eligibility Standards for Debt of Companies in Disaster Areas'"

"Amendment to 'Principal Terms and Conditions for the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas' and 'Temporary Rules regarding the Eligibility Standards for Debt of Companies in Disaster Areas'" was put to a vote. Members voted unanimously to approve the amendment and agreed that the decision should be made public.

VII. Discussion on the Statement on Monetary Policy

Members discussed the Statement on Monetary Policy, and it was 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).

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of September 6 and 7, 2011 for release on October 13, 2011.

Attachment

October 7, 2011

Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by a unanimous vote,[9] 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. Japan's economic activity has continued picking up. Production and exports have continued to increase, although their paces have moderated after going through the recovery phase immediately following the quake-induced plunge. In this situation, business fixed investment has been increasing moderately, and private consumption has been picking up on the whole. Meanwhile, financial conditions have continued to ease, albeit with weakness still being observed in the financial positions of some firms, mainly small ones. The year-on-year rate of change in the CPI (all items less fresh food) is around 0 percent.

3. The underlying trend in overseas economic growth is expected to remain firm, led by emerging economies, although the pace is expected to slow for the time being. In this situation, Japan's economy is expected to return to a moderate recovery path, backed by a moderate increasing trend in exports and by a rise in domestic demand for restoring

[9] 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.

capital stock. The year-on-year rate of change in the CPI is expected to remain at around 0 percent for the time being.

4. Regarding risks to the economic outlook, the possible consequences of the sovereign debt problems in Europe and the effects of balance-sheet adjustments on the U.S. economy continue to warrant attention. 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. It is necessary to continue carefully monitoring how Japan's economy will be affected by the uncertainty regarding the developments overseas and by the ensuing fluctuations in the foreign exchange and financial markets. Regarding risks to the price outlook, considerable uncertainties surround future developments in international commodity prices, leaving potential for movement in either direction. There is also a possibility that the rate of inflation will deviate downward from the Bank's baseline scenario due, for example, to a decline in medium- to long-term inflation expectations.

5. The Bank decided to extend the deadline for new applications for loans under the "Funds-Supplying Operation to Support Financial Institutions in Disaster Areas" by six months, up to April 30, 2012. It also decided to extend the effective period of the "Relaxation of the Collateral Eligibility Standards for Debt of Companies in Disaster Areas" by six months, up to April 30, 2013.

6. The Bank is steadily implementing its decision in August to further enhance monetary easing, especially through the purchase of financial assets. The Bank is also committed to continuing the virtually zero interest rate policy until it judges that price stability is in sight on the basis of the "understanding of medium- to long-term price stability."[10] In order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, the Bank will continue to consistently make contributions as the central bank by pursuing powerful monetary easing through the comprehensive monetary easing measures as described above, ensuring financial

[10] The current understanding shows that "on the basis of a year-on-year rate of change in the CPI, it falls in a positive range of 2 percent or lower, centering around 1 percent."

market stability, and providing support to strengthen the foundations for economic growth. The Bank will continue to carefully examine the outlook for economic activity and prices, and take actions in an appropriate manner.