

## On Monetary Policy Decisions

1. Adjustments in the world economy stemming from financial crises in the United States and Europe have further increased in severity. Under these circumstances, increased sluggishness in Japan's economic activity will likely remain over the next several quarters with exports leveling off and the effects of earlier increases in energy and materials prices persisting. As for prices, consumer price inflation is likely to decline gradually reflecting the recent fall in commodity prices, although it remains relatively high to date. The outlook for economic activity and prices is attended by increased downside risks to economic activity but also by decreased upside risks to inflation relative to the recent past.
2. The Bank, while strains in global financial markets have mounted, has undertaken various prompt and decisive measures in providing liquidity, bearing in mind that the most important contribution a central bank can make in this situation is to ensure stability in financial markets. In addition, at the Monetary Policy Meeting held today, the Bank judged that a reduction in policy interest rates and a further increase in the flexibility of money market operations were necessary to maintain accommodative financial conditions. Respective decisions are as follows.
  - (1) Change in the guideline for money market operations (decided by the chairman's final decision after a split vote<sup>[Note 1]</sup>)

Lower the Bank's target for the uncollateralized overnight call rate by 20 basis points and encourage it to remain at around 0.3 percent (effective immediately) (Attachment 1).

---

<sup>[Note 1]</sup> Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, and Mr. T. Noda.  
Voting against the action: Ms. M. Suda, Mr. A. Mizuno, Mr. S. Nakamura, and Mr. H. Kamezaki.

(2) Change in the basic loan rate<sup>[Note 2]</sup> (decided by a unanimous vote<sup>[Note 3]</sup>)

Lower the basic loan rate applicable under the complementary lending facility by 25 basis points to 0.5 percent (effective immediately).

(3) Introduction of Complementary Deposit Facility (decided by a unanimous vote<sup>[Note 4]</sup>)

To ensure stability in money markets, a temporary measure will be introduced to pay interest on excess reserve balances in order to further facilitate the provisioning of sufficient liquidity toward the year-end and the fiscal year-end. This measure will be effective from the November reserve maintenance period to the March 2009 reserve maintenance period, and the interest rate applied will be 0.1 percent (Attachment 2).

3. Currently, the world economy is undergoing a process of correcting various imbalances that accumulated during the past several years, and this will likely weigh on economic activity for some time to come. Against this background, it will likely take some time for the necessary conditions for Japan's economic recovery to be satisfied. The Bank will continue to do its utmost to facilitate a return of Japan's economy to its sustainable growth path with price stability through maintaining accommodative financial conditions.

---

<sup>[Note 2]</sup> The basic loan rate is stipulated in Article 15, paragraph 1, item (ii) of the Bank of Japan Act. The basic discount rate in item (i) in the same paragraph is also set at 0.5 percent (discounting of bills has currently been suspended).

<sup>[Note 3]</sup> Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. A. Mizuno, Mr. T. Noda, Mr. S. Nakamura, and Mr. H. Kamezaki.

Voting against the action: None.

<sup>[Note 4]</sup> Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. A. Mizuno, Mr. T. Noda, Mr. S. Nakamura, and Mr. H. Kamezaki.

Voting against the action: None.

October 31, 2008  
Bank of Japan

At the Monetary Policy Meeting held today, the Bank of Japan decided, by the chairman's final decision after a split vote,<sup>[Note]</sup> to set the following guideline for money market operations for the intermeeting period (effective immediately):

The Bank of Japan will encourage the uncollateralized overnight call rate to be at around 0.3 percent.

---

<sup>[Note]</sup> Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, and Mr. T. Noda.  
Voting against the action: Ms. M. Suda, Mr. A. Mizuno, Mr. S. Nakamura, and Mr. H. Kamezaki.

October 31, 2008  
Bank of Japan

**Introduction of Complementary Deposit Facility  
as a Temporary Measure to Facilitate Supplying of Funds**

1. The Bank of Japan, based on the announcement released on October 8, has been reviewing the Bank's reserve system as a step to further improve the workings of money market operations in order to ensure stability in financial markets. As a conclusion has been drawn, the Policy Board of the Bank decided, at the Monetary Policy Meeting held today, to introduce Complementary Deposit Facility.<sup>[Note]</sup>
2. Global financial markets continue to remain under increased strains and their influences are beginning to be felt in Japanese financial markets. Under these circumstances, the Bank intends to provide sufficient liquidity toward the year-end and the fiscal year-end to ensure stability in financial markets. Provisioning of sufficient liquidity, however, may induce the uncollateralized overnight call rate (the policy interest rate) to sharply fall below its targeted level.
3. Complementary Deposit Facility is a temporary measure under which the Bank pays interest, calculated by the interest rate set below the targeted level of the policy interest rate, on excess reserve balances (balances held at the account with the Bank in excess of required reserves under the reserve deposit requirement system). This facility is expected to further

---

<sup>[Note]</sup> For details, see "Establishment of Principal Terms and Conditions of Complementary Deposit Facility as a Temporary Measure to Facilitate Supplying of Funds."

increase the flexibility of the Bank's money market operations by enabling sufficient provision of liquidity while maintaining the policy interest rate at around its targeted level.

4. In view of maintaining the smooth functioning of money markets, the Bank has set the interest rate applied to excess reserve balances as 0.1 percent, 20 basis points below the Bank's target rate (0.3 percent). This measure will be effective from the November reserve maintenance period to the March 2009 reserve maintenance period.
5. The Bank will continue to do its utmost to ensure the stability of financial markets through money market operations complemented by the use of this facility.

(Reference)

Meeting hours:

October 31: 8:30-13:53

Policy Board members present:

Masaaki Shirakawa (Governor)  
Hirohide Yamaguchi (Deputy Governor)  
Kiyohiko G. Nishimura (Deputy Governor)  
Miyako Suda  
Atsushi Mizuno  
Tadao Noda  
Seiji Nakamura  
Hidetoshi Kamezaki

(Others present)

From the Ministry of Finance:

Wataru Takeshita, Senior Vice Minister of Finance  
(8:30-12:48,12:53-13:22,13:30-13:53)

From the Cabinet Office:

Yoichi Miyazawa, Senior Vice-Minister  
(8:30-12:48,12:53-13:22,13:30-13:53)

Release of the minutes:

8:50 on Thursday, November 27