Not to be released until 8:50 a.m. Japan Standard Time on Wednesday, May 26, 2010.

May 26, 2010

Bank of Japan

Minutes of the Monetary Policy Meeting

on April 30, 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 Friday, April 30, 2010, from 9:00 a.m. to 1:13 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

Government Representatives Present

Mr. Y. Noda, Senior Vice Minister of Finance, Ministry of Finance

Mr. K. Tsumura, Parliamentary Vice-Minister, Cabinet Office

Reporting Staff

Mr. A. Horii, Executive Director (Assistant Governor)

Mr. K. Ido, Executive Director

Mr. H. Nakaso, Executive Director

Mr. M. Amamiya, Director-General, Monetary Affairs Department

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

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

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

Mr. T. Sekine, Associate Director-General, Research and Statistics Department

Mr. H. Ono, Director-General, International Department

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

Secretariat of the Monetary Policy Meeting

Mr. Y. Iino, Director-General, Secretariat of the Policy Board

Mr. T. Tachibana, Director, Deputy Head of Secretarial Services for the Board, Secretariat of the Policy Board

Mr. N. Yoshioka, Deputy Director-General, Monetary Affairs Department[2]

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

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

[2] Mr. N. Yoshioka was present from 11:46 a.m. to 1:13 p.m.

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

A. Money Market Operations in the Intermeeting Period

The Bank conducted money market operations in accordance with the guideline decided at the previous meeting on April 6 and 7, 2010.[4] The uncollateralized overnight call rate had been at around 0.1 percent.

With a view to ensuring market stability, the Bank continued to conduct money market operations in a flexible manner in response to changes in the market situation, as evidenced by its continued provision of ample funds through such operations as the fixed-rate funds-supplying operation against pooled collateral.

B. Recent Developments in Financial Markets

Japan's money market remained stable on the back of market participants' confidence in the Bank's provision of ample funds. Money market rates, including longer-term ones, had been stable at low levels. General collateral (GC) repo rates, which had temporarily risen somewhat to around 0.15 percent, had been broadly in the range of 0.10-0.15 percent. As for interest rates on term instruments, yields on treasury discount bills (T-Bills), including those with a one-year maturity, had been in the range of 0.10-0.15 percent, and the TIBOR rates had declined somewhat.

Japanese stock prices declined several times against the backdrop of the appreciation of the yen, and fell again around the end of April, reflecting developments in U.S. and European stock prices. The Nikkei 225 Stock Average had recently been at around 11,000 yen. With regard to long-term interest rates in Japan, the benchmark rate had declined somewhat and had recently been at around 1.3 percent.

The yen appreciated somewhat against the U.S. dollar mainly due to a decline in U.S. interest rates, but then depreciated and had recently been at around 94 yen against the dollar.

C. Overseas Economic and Financial Developments

The world economy had continued to recover moderately.

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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 0.1 percent.

The U.S. economy was recovering, albeit at a moderate pace. Exports were increasing, private consumption was expanding at a moderate rate, and the decline in business fixed investment as a whole was leveling out. Reflecting such developments in demand, production was recovering, albeit moderately. In the labor market, the decline in the number of employees was coming to a halt, and the unemployment rate had been more or less unchanged at a high level. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items had been in the range of 2.0-3.0 percent, with some fluctuations caused by changes in energy prices. The year-on-year rate of increase in the CPI for all items less energy and food, or the core CPI, had been moderating against the backdrop of slack in supply and demand conditions and slower growth in wages.

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

The Chinese economy had continued to grow at a relatively rapid pace, led mainly by domestic demand. Growth in private consumption had been firm and fixed asset investment had been increasing, although at a slower pace. Exports had also been rising. Under these circumstances, production had continued to increase. Economic conditions in the NIEs and the ASEAN countries were recovering. Exports and production, notably of IT-related goods, had continued to rise. In addition, private consumption and business fixed investment had been on an increasing trend. The Indian economy had also continued to grow at a relatively rapid pace. With regard to prices, the year-on-year rates of increase in the CPI had risen in many Asian economies, indicating an increase in inflationary pressure.

As for global financial markets, interest rates on term instruments had been more or less unchanged at low levels. U.S. stock prices had risen slightly, mainly because some economic indicators and some corporate results were better than market expectations, but most recently had declined, mainly reflecting the downgrading of some European countries' sovereign debt. Stock markets in Europe had been nervous due to concerns about the consequences and possible impact of the fiscal deficit problem in countries such as Greece, and stock prices had most recently declined sharply triggered by the downgrading of some sovereign debt. U.S. and German long-term interest rates had fallen, mainly due to expectations for continued accommodative monetary policy and a flight to quality on the back of the fiscal deficit problem in countries such as Greece.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports, especially to emerging and commodity-exporting economies, had continued to increase at a relatively rapid pace. In the January-March quarter of 2010, real exports to the United States and Europe decreased for the first time in four quarters, but those to East Asia and other regions continued to rise. In terms of goods, there had been increases in IT-related goods, capital goods and parts, and motor vehicles and their related goods, particularly those exported to emerging and commodity-exporting economies.

As for public investment, the value of contracted public works -- an indicator of the amount of public works orders -- declined significantly in the October-December quarter of 2009 and the January-March quarter of 2010.

With regard to business fixed investment, machinery orders -- a leading indicator of machinery investment -- had been more or less unchanged of late.

Private consumption on the whole had continued to pick up; for example, sales at department stores exceeded the previous quarter's level in the January-March quarter of 2010 for the first time since the October-December quarter of 2007. Consumer confidence, after decreasing significantly at the end of 2009, had also shown signs of improvement recently.

Production increased by 6.7 percent in the January-March quarter from the previous quarter, registering a rise for the fourth consecutive quarter. The production forecast index for April onward suggested that production was likely to continue increasing, mainly due to strong growth in exports to emerging economies.

The employment and income situation had remained severe, as seen in the continued high unemployment rate. However, there were some positive indications: the number of employees rose in March from the previous year and nominal wages increased on a year-on-year basis, with the latter reflecting a rise in overtime and special payments.

On the price front, commodity prices as a whole were on a moderate rising trend against the background of the improvement in global economic conditions. The three-month rate of change in the domestic corporate goods price index (CGPI) had risen somewhat, reflecting the increase in commodity prices, in spite of the persistent slack in supply and demand conditions for products. The CGPI was likely to rise somewhat for the time being. The CPI (excluding fresh food) was declining on a year-on-year basis due to the substantial slack in the economy as a whole, but the moderating trend in the pace of decline had continued.

2. Financial environment

Financial conditions, with some lingering severity, had shown increasing signs of easing. The declining trend in firms' funding costs had continued. Issuing conditions for CP and corporate bonds had remained favorable, and even those for low-rated corporate bonds had continued to show signs of improvement. As for credit demand, the amount of funding by the private sector had declined as firms' need to fund working capital and fixed investment had continued to decline. In these circumstances, firms' financial positions had continued to show signs of easing on the whole, as evidenced by signs of improvement even among very small firms.

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

A. Economic Developments

Members shared the view that overseas economies had continued to recover moderately, and this trend was likely to continue. Some members were of the opinion that the world economy was growing somewhat more rapidly than expected, led by higher growth in emerging economies. Many members said that it was necessary to continue to carefully watch factors such as the risk of an overheating in emerging economies and the possible consequences of the fiscal deficit problem in some European countries. With regard to global financial markets, some members said that investors were becoming more cautious about taking on risks amid heightened concerns about fiscal risks in countries such as Greece, and close attention should be paid to developments in the markets.

Many members were of the view that the U.S. economy was recovering at a moderate pace. Some members said that, in addition to the leveling out of business fixed investment against the background of favorable business performance, private consumption was recovering at a moderate rate, partly reflecting wealth effects stemming from the rise in stock prices. Meanwhile, some members expressed the view that the slow improvement in housing and employment indicators suggested that balance-sheet adjustment pressure still weighed on households. These members continued that it would therefore take considerable time for the recovery in the U.S. economy to gain momentum.

With regard to the economy of the euro area, many members said that economic activity was picking up, led mainly by an increase in exports to outside the euro area and in production, and would likely continue to pick up. These members, however, pointed to the possibility that economic activity in the euro area might be adversely affected, for example, by the heightened uncertainty arising from concerns about the fiscal deficit problem in some euro area countries and by measures toward sound public finance to be taken in each country in the area.

Some members expressed the view that the Chinese economy had continued to grow at a rapid pace, led mainly by domestic demand, and this trend was likely to continue. Some members said that, since developments in the Chinese economy would have a significant impact on the world economy, attention should be paid to the effects of the measures being implemented by the Chinese authorities to prevent an overheating.

Based on the above discussions on economic and financial conditions abroad, members discussed the state of Japan's economy. They concurred that the economy had been picking up. Many members expressed the view that the economic growth rate had been somewhat higher than that projected in the October 2009 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report) and the interim assessment in January 2010. Many members said that, in addition to the increase in exports and production and the continuing pick-up in private consumption, business fixed investment was leveling out more clearly. Some members -- referring to some positive indications for spending by households and firms -- expressed the view that signs of self-sustaining recovery were starting to be seen. One member expressed the opinion that there had been clearer evidence of a recovery trend in overseas economies, especially the U.S. economy, and thus prospects for a self-sustaining recovery in Japan's economy were improving against the background of firms' expectations for economic growth remaining stable. On the other hand, one member noted that the level of economic activity remained low and differences in the degree of recovery persisted among industries and firms. A different member said that Japan's economy remained greatly dependent on growth in exports and various policy measures, and the economy could not yet be judged to have returned to a self-sustaining recovery path.

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 moderating trend in the pace of decline had continued and the year-on-year pace of decline was likely to keep moderating. One member said that, although consumers generally continued to show a preference for inexpensive goods and services, some signs of improvement seen in sales of luxury goods, for example, suggested that the economy was starting to move toward overcoming deflation.

B. Financial Developments

Members shared the view that financial conditions, with some lingering severity, had shown increasing signs of easing. As for the money market, some members said that, partly because the Bank expanded the measure to encourage a decline in longer-term interest rates in March, the TIBOR rates had declined further and bank lending rates had also fallen. A few members were of the view that issuing conditions for CP and corporate bonds had remained favorable on the whole, as reflected in spreads on corporate bonds having narrowed and corporate bond issuance being at a high level.

C. Outlook for Economic Activity and Prices

With regard to the outlook for economic activity, members agreed that Japan's economy was likely to be on a recovery trend. A few members expressed the view that the demand-boosting effects of various policy measures targeted at durable goods consumption -- which had supported the pick-up in the economy -- were likely to wane upon completion of the policy measures in fiscal 2010. Many members, including these members, said that Japan's exports and production were nevertheless likely to continue increasing, given that the world economy was likely to grow moderately, led by strong growth in emerging and commodity-exporting economies. They continued that the recovery in corporate profits resulting from the increases in exports and production was likely to not only stimulate business fixed investment but also lead to improvements in the employment and income situation, thereby positively affecting the household sector. However, one member added that there was great uncertainty regarding the future pace of Japan's economic recovery due to structural factors, such as firms' stances on restraining wages amid global competition.

Many members commented that, from a short-term cyclical perspective, Japan's economy had emerged from the sharp deterioration observed since the outbreak of the financial crisis and had been on a recovery trend. However, they expressed the opinion that, from a medium- to long-term perspective, the economy faced the critical challenge of raising real economic growth and productivity amid a shrinking population, a low birth rate and further population aging, and changes in the global demand structure. A few members said that the diminished medium- to long-term growth potential of the economy was the underlying cause of the current deflation. Some members, including these members, were of the view that, in order to solve the challenge, not only did firms need to explore and capture potential demand, as well as steadily work on improving productivity and the capacity for creating value added, but also the authorities should support such constructive efforts by firms.

Regarding <u>the outlook for prices</u>, members agreed on the following assessment: the CGPI was expected to be positive on a year-on-year basis from fiscal 2010 onward due mainly to the improvement in the aggregate supply and demand balance and to developments in commodity prices; under the assumption that medium- to long-term inflation expectations remained stable, the year-on-year rate of decline in the CPI (excluding fresh food) was expected to slow as the aggregate supply and demand balance gradually improved, and there were prospects that the rate of change in the CPI could enter positive territory in fiscal 2011. Some members said that the CPI would likely be boosted by a moderate rise in commodity prices against the background of strong growth in emerging economies. A few members -- referring to the fact that market participants were focusing on whether the midpoint of Policy Board members' forecasts for the CPI in fiscal 2011 would be in positive territory -- said that the Bank should clearly explain that (1) specific figures in the members' forecasts were merely supplements and (2) the underlying economic mechanism was most important.

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

Members said that, regarding economic activity, upside and downside risk factors were (1) developments in emerging and commodity-exporting economies, (2) developments in advanced economies, (3) various international financial developments, and (4) firms' medium- to long-term expectations for future economic growth. One member added that, if households increasingly felt anxious about the future and developed a sense of stagnation, and if the employment and income situation worsened due to sluggish business activity, there was a possibility that household spending would grow only slowly.

Many members said that emerging and commodity-exporting economies had been recovering more rapidly than expected, and, if the authorities were slow to take appropriate policy responses, there was a certain risk that economic activity might overheat. They also said that an overheating in these economies would lead to faster-than-expected economic growth for Japan in the short term, but in the longer term it might be a downside risk as it could cause an unwinding of excessive economic and financial activity in these economies. One member was of the opinion that any policy tightening in emerging economies might be insufficient to constrain such excessive activity, because funds would continue to flow into these economies from advanced economies, where the extremely accommodative monetary policy stance had been maintained. A different member pointed to the possibility that, if commodity prices rose further on the back of an increase in demand from emerging economies and terms of trade consequently worsened further, this might slow the pace of increase in firms' spending.

As for advanced economies, some members said that continued balance-sheet adjustments and declining bank lending in the United States and Europe might weigh on economic activity for a prolonged period in these economies. One member commented that there would inevitably be a policy shift in advanced countries toward sound public finance, and such action might suppress their economic growth. One member said that attention should be paid to the possibility that maintaining accommodative financial conditions for longer than necessary could lead to large swings in economic activity and prices.

Some members said that there were various downside risk factors that could emerge from events in international financial markets, such as developments in the Greek problem, the review of regulation and supervision of the financial sector, and the possible consequences of implementation of measures to prevent an overheating in emerging countries. A few members commented that governments' fiscal conditions had worsened not only in Greece but also in a number of advanced economies, including Japan, and heightening fiscal risks warranted more careful attention.

Regarding firms' medium- to long-term expectations for future economic growth, some members said that, if such growth expectations declined, domestic business fixed investment and employment might be constrained considerably. One member -- who took the view that the key to Japan's continued growth amid a shrinking population lay in whether Japan could tap demand from emerging and commodity-exporting countries -- said that competition to attract such demand might be extremely intense as there were many rivals to Japan around the world.

Members were of the view that, regarding the outlook for prices, upside and downside risk factors were (1) materialization of the upside or downside risks affecting the level of economic activity; (2) a possible decline in firms' and households' medium- to long-term inflation expectations; (3) changes in import prices, which might be caused by factors such as a larger-than-expected rise in primary commodity prices brought about by fast growth in emerging economies; and (4) uncertainty with respect to gauging the degree of slack in the economy or the state of utilization of labor and production capacity. One member added that there was also uncertainty regarding the degree and time lag of the effects of the improvement in the aggregate supply and demand balance spreading to prices. A few 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 the middle of 2011.

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

Members made an assessment in terms of <u>the first perspective</u>; that is to say, they assessed the most likely outlook for economic activity and prices through fiscal 2011. Members agreed that Japan's economy was likely to be on a recovery trend. They shared the view that, based on the assumption that medium- to long-term inflation expectations remained stable, the year-on-year rate of decline in the CPI was likely to slow as the aggregate supply and demand balance improved gradually, and there were prospects that the rate of change in the CPI could enter positive territory in fiscal 2011. They agreed that the economy was likely to return to a sustainable growth path with price stability in the longer term.

Members then made an assessment in terms of the second perspective; that is to say, they examined the risks that they 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, members shared the view that, while there were some upside risks such as faster growth in emerging and commodity-exporting economies, there were also downside risks such as those related to international financial developments. 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 higher growth rates in emerging and commodity-exporting economies, while there was also a risk that the rate of inflation might fall due, for example, to a decline in medium- to long-term inflation expectations.

With regard to the balance of upside and downside risks to the outlook for economic activity, many members expressed the view that they had generally become more balanced. One member, however, still saw risks as tilted to the downside. On the other hand, a different member saw risks as tilted to the upside in the short term, mainly due to the possibility of increased momentum to support a self-sustaining recovery in domestic private demand, but took a somewhat cautious view about the balance of risks in the medium term because the pace of recovery in the financial intermediary function in the United States and Europe was sluggish and because there were concerns about consequences of the fiscal deficit problem in some countries. Furthermore, from a longer-term perspective, the member did not have confidence in the growth potential of Japan's economy.

III. Review of the "Understanding of Medium- to Long-Term Price Stability"

In March 2006, the Bank announced, in "The Bank's Thinking on Price Stability," that the "understanding of medium- to long-term price stability" (the level of inflation that each member of the Policy Board understood, when conducting monetary policy, as being consistent with price stability over the medium to long term; hereafter "understanding") would be, in principle, reviewed annually.

Members exchanged views regarding points that should be discussed in examining the "understanding." Many members expressed the view that no large measurement bias remained in the CPI in Japan. Many members said that it was necessary to accept some inflation as a "safety margin" that acted as a buffer against the risk of falling into a vicious circle of declining prices and deteriorating economic activity. One member was of the opinion that inflation of only slightly over 0 percent was too small to constitute a "safety margin." A different member -- noting that intense competition among firms continued to weigh on wages, the potential economic growth rate was low, and the fiscal deficit was widening significantly -- expressed the view that it was becoming more necessary to have a "safety margin." Some members referred to a view outside the Bank that the experience of the recent financial crisis suggested that it was necessary to have a large "safety margin." These members then said that, as a buffer against problems as considerable as a financial crisis or a long-term downtrend in the growth potential of the economy, some degree of "safety margin" was of limited importance. They continued that, considering the cost incurred by having a large "safety margin" in normal times, such a margin would be unnecessary. In relation to the level of inflation perceived by firms and households, some members were of the opinion that medium- to long-term inflation expectations had generally remained stable. One member said that, partly because prices in Japan had stayed stable at low levels for a long time, the level of inflation that the public perceived as consistent with price stability was lower than in overseas economies. A different member said that there seemed to be a change in the public's perception of prices, as evidenced by a survey in which the proportion of respondents taking a favorable view of the price decline had decreased. This member continued that it was important that the public's perception of the level of inflation remain stable.

Based on the above considerations, members exchanged views regarding the figures that would represent the "understanding" in terms of the year-on-year rate of change in the CPI. The figure representing many members' "understanding" was around 1 percent, with a range of 0.5 or 1 percentage point in each direction attached. One member's "understanding" was expressed as a range from 0.5 to 2 percent, and the midpoint was slightly over 1 percent. A different member said that the member's "understanding" could be best expressed by a positive number closer to 0 percent than to 1 percent. The member noted that, while the midpoints of most Policy Board members' "understanding" were around 1 percent, this should not be overly emphasized. After stating their individual views, members agreed that the following expression, made clearer in December 2009, should be maintained: each Policy Board member's "understanding" fell in a positive range of 2 percent or lower, and the midpoints of most Policy Board members' "understanding" were around 1 percent.

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 0.1 percent.

As for the future conduct of monetary policy, members agreed that, in order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, the Bank should continue to consistently make contributions as central bank. They concurred that, in the conduct of monetary policy, the Bank would continue to aim at maintaining the extremely accommodative financial environment. One member raised the possibility that an upward revision of Policy Board members' forecasts might cause speculation about a possible change in the Bank's accommodative monetary policy, and the Bank should therefore clearly explain its stance on monetary policy -- namely, that it would maintain the extremely accommodative financial environment. A few members expressed the opinion that the experience of the recent global financial crisis suggested that, in the conduct of monetary policy, it was necessary to make wide-ranging assessments of not only stability in prices measured by the price index but also accumulation of financial imbalances observed in, for example, asset prices and credit aggregates.

Members also discussed the effects of the expansion of the measure to encourage a decline in longer-term interest rates in March. A few members said that the intended purpose of the expansion had been achieved, in that interest rates on term instruments had declined, and it had promoted the further spread of monetary easing effects. However, a few members commented that there was a view in the market that, against the background of a steady increase in the amount outstanding of funds provided by the fixed-rate funds-supplying operation against pooled collateral, money market transactions had contracted and market participants' confidence that they could acquire sufficient funds whenever necessary had weakened as a result. A few members said that attention should be paid to the possibility that smooth financial intermediation might be impaired if the expansion of the measure squeezed financial institutions' profits through the decline in their lending rates. Some members expressed the view that, in the conduct of money market operations, the Bank should continue to give due consideration to ensuring the functioning of the market while continuing to provide ample funds.

Members discussed how to tackle the economy's medium- to long-term challenge of strengthening the foundations for economic growth, based on the recognition that, although the economy had been on a recovery trend from a short-term cyclical perspective, from a longer-term perspective it faced downward pressure on domestic demand against the backdrop of a low birth rate, population aging, and a shrinking population. Some members raised the issue that, although efforts to increase productivity and strengthen economic growth potential should be made primarily by firms and other economic entities in the private sector, there might be room for the Bank to support such efforts from the financial side by making use of its central bank functions. One member -- noting that the ordinary scope of the conduct of monetary policy was to tackle issues regarding short-term cyclical developments -- added that, since the underlying cause of the current deflation lay in the reduced growth potential of the economy, it was necessary that the Bank find a way to make contributions from the central bank's perspective, in light of its mission to achieve price stability and thereby contribute to sustainable economic growth.

In response to the issue raised, the staff explained that, if the Bank were to support firms' efforts to strengthen the foundations for economic growth by making use of central bank functions, one possibility was to focus on financial institutions' lending activity and provide such institutions with funds to support their lending to those industries with growth potential.

Some members said that, if the Bank were to implement such a new measure to support financial institutions, it should ensure consistency with its mission as stipulated in the Bank of Japan Act and with the need to ensure its financial health. A few members expressed the view that the new measure should be formulated carefully so as not to constrain the regular conduct of monetary policy. A few members commented that, in formulating the new measure, the Bank should devise ways to avoid its excessive involvement in resource allocation among individual firms. A few members noted that it was financial institutions that actually extended loans to firms, and therefore the Bank needed to gain a clear understanding of such institutions' needs in formulating the new measure.

Based on the discussion, members concurred that a new measure to support strengthening the foundations for economic growth should be examined in detail from a practical perspective by taking account of the following: (1) preventing any constraint on the regular conduct of monetary policy; (2) avoiding the Bank's excessive involvement in microeconomic resource allocation among individual firms; and (3) ensuring the Bank's financial health. The chairman instructed the staff to (1) devise a possible scheme for, evaluate the efficacy of, and focus on the relevant points of the new measure to support private financial institutions in terms of fund provisioning with a view to strengthening the foundations for economic growth; (2) exchange views with financial institutions about issues regarding the formulation of the new measure; and (3) report their findings.

V. Remarks by Government Representatives

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

(1) The Japanese economy had been picking up steadily, but it was only self-sustaining at a weak level and the situation remained difficult, as evidenced by the high unemployment rate. As for short-term prospects, in addition to risk factors such as international financial developments and deflation, there was continued concern that the employment situation could deteriorate further, and the basis for the economy's return to a path of strong private demand-led growth remained fragile.

(2) Faced by the current severe economic conditions, the government, with the aim of overcoming deflation and ensuring economic recovery, would carry out the emergency economic countermeasures and steadily implement the recently approved budget for fiscal 2010, and would also draw up concrete plans for the "New Growth Strategy (Basic Policies)" and implement the plans.

(3) The government -- while recognizing that the Bank showed its determination to consistently make contributions to overcome deflation -- expected the Bank to continue to support the economy from the financial side, for example, with a view to overcoming deflation, by conducting monetary policy in an appropriate and flexible manner, while working together with the government. In releasing the April Outlook Report, the government expected the Bank to clearly explain that the Bank would continue to maintain the extremely accommodative financial environment.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy had been picking up steadily, but it was only self-sustaining at a weak level and the situation remained difficult, as evidenced by the high unemployment rate. The year-on-year rate of change in the CPI was likely to continue declining moderately, although the pace of decline was expected to slow. The task for the Japanese economy in the immediate future was to ensure economic recovery and overcome deflation while securing employment. The government considered it important that the government and the Bank work together to achieve a positive inflation rate as early as possible.

(2) The government would implement the emergency economic countermeasures and the measures laid out in the budget for fiscal 2010 in a steady and appropriate manner. To fulfill its responsibility, it would also put forward additional measures for the "New Growth Strategy (Basic Policies)" and draw up concrete plans for it, thereby showing a clear picture of future economic growth, and present to the public a path toward sound public finance.

(3) The government considered it important to show how the content of the April Outlook Report -- for which the text would be decided later in this meeting -- could be assessed in light of the Bank's "understanding" regarding price stability, and also to ensure consistency between the content and this "understanding." The government hoped that the Bank would continue to aim at overcoming deflation swiftly and underpin the economy.

VI. Votes

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

To reflect this view, <u>the chairman</u> formulated the following proposal and put it to a vote.

The Chairman's Policy Proposal on the Guideline for Money Market Operations:

1. The guideline for money market operations for the intermeeting period ahead will be as follows.

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

2. A public statement will be decided separately.

Votes for the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. T. Noda, Mr. S. Nakamura, Mr. H. Kamezaki, and Mr. R. Miyao.
Votes against the proposal: None.

VII. Discussion on the Statement on Monetary Policy

Members shared the view that, given the current economic conditions in Japan, it would be necessary to strengthen the foundations for economic growth, and that, based on this recognition, it was necessary for the Bank to make new efforts to contribute to such a strengthening. They discussed and put to a vote the text of a Statement on Monetary Policy that included the chairman's instruction to the staff to examine and report on possible ways to support private financial institutions in terms of fund provisioning with a view to strengthening the foundations for economic growth. 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. Discussion on 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 unanimous vote, the text of "The Bank's View." It was confirmed that "The Bank's View" would be published on April 30, 2010 and the whole report on May 1, 2010.

Votes for the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. T. Noda, Mr. S. Nakamura, Mr. H. Kamezaki, and Mr. R. Miyao.
Votes against the proposal: None.

IX. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of April 6 and 7, 2010 for release on May 10, 2010.

Attachment

April 30, 2010

Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by a unanimous vote,[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 0.1 percent.

2. At the Meeting, Policy Board members examined the *Outlook for Economic Activity and Prices*. Based on the recognition that Japan's economy faces the critical challenge of overcoming deflation and returning to a sustainable growth path with price stability, it was confirmed at the Meeting that, in the conduct of monetary policy, the Bank would aim to maintain the extremely accommodative financial environment. It was also confirmed that it would be necessary to strengthen the foundations for economic growth given the current economic conditions in Japan. Based on this recognition, members shared the view that it was necessary for the Bank to make new efforts to contribute to strengthening the foundations for economic growth.

   In light of these discussions, the Chairman has instructed the staff to examine and report on another occasion, on possible ways to support private financial institutions in terms of fund provisioning with a view to strengthening the foundations for economic growth.

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[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, and Mr. R. Miyao.
Voting against the action: None.