Not to be released until 8:50 a.m. Japan Standard Time on Tuesday, February 23, 2010.

February 23, 2010

Bank of Japan

Minutes of the Monetary Policy Meeting

on January 25 and 26, 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 Monday, January 25, 2010, from 2:00 p.m. to 4:17 p.m., and on Tuesday, January 26, from 9:00 a.m. to 12:21 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

Government Representatives Present

Mr. Y. Noda, Senior Vice Minister of Finance, Ministry of Finance[2]

Mr. S. Kagawa, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance[3]

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on February 17 and 18, 2010 as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

[2] Mr. Y. Noda was present on January 26.

[3] Mr. S. Kagawa was present on January 25.

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

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. K. Nakamura, Senior Economist, Monetary Affairs Department

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

I. Summary of Staff Reports on Economic and Financial Developments[4]

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 December 17 and 18, 2009.[5] 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 ample provision of funds maturing over the calendar year-end. The Bank also steadily conducted the fixed-rate funds-supplying operation against pooled collateral, which was introduced in December 2009. Meanwhile, outright purchases of corporate bonds and CP were completed at the end of December 2009 as scheduled.

B. Recent Developments in Financial Markets

In Japan's money market, interest rates, including longer-term ones, had declined further as the effects of the Bank's measure to enhance easy monetary conditions spread. General collateral (GC) repo rates had been stable in the range of 0.10-0.15 percent. Interest rates on term instruments showed the following developments. Yields on government bills, including those with a one-year maturity, had been in the range of 0.10-0.15 percent. In the CP market, issuance rates had been more or less unchanged at low levels. Euroyen rates with longer maturities had been on a declining trend, although the rates had remained at relatively elevated levels compared with the yields on government bills.

Japanese stock prices rose by a fairly large extent, against the backdrop that the value of the yen had been somewhat lower than the recent high level and U.S. and European stock prices had been firm. The Nikkei 225 Stock Average had been in the range of 10,500-11,000 yen. With regard to long-term interest rates in Japan, the benchmark rate had risen somewhat and had recently been in the range of 1.30-1.35 percent.

The yen temporarily depreciated to the range of 93-94 yen against the U.S. dollar. It then appreciated somewhat and had recently been traded at around 91 yen.

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

[5] The guideline was as follows:

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

C. Overseas Economic and Financial Developments

The world economy was recovering moderately.

U.S. economic activity was picking up. Private consumption was increasing, albeit moderately, amid reduced downward pressure on home prices. Exports were increasing, and the rate of decrease in business fixed investment was slowing. Reflecting such developments in demand, production had been increasing due to progress in inventory adjustments. In the labor market, although the number of employees had continued to decline and the unemployment rate had been on an uptrend, the pace of decrease in the number of employees was slowing. As for prices, the year-on-year rate of change in the consumer price index (CPI) for all items had turned positive as the effects of the drop in energy prices had dissipated. The year-on-year rate of increase in the CPI for all items less energy and food, or the core CPI, had been in the range of 1.5-2.0 percent.

Economic conditions in the euro area had started to pick up. Private consumption had been relatively weak as a whole, while production had started to increase as exports improved and the pace of decline in business fixed investment moderated. As for prices, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) excluding unprocessed food and energy had been around 1.0 percent. Economic conditions in the United Kingdom had stopped worsening. Regarding prices, the year-on-year rate of increase in the CPI had risen, mainly due to the dissipating effects of the reduction in the rate of the value-added tax and to the rise in gasoline prices.

The Chinese economy had continued to grow at a relatively rapid pace, led mainly by domestic demand. Growth in private consumption had been firm, fixed asset investment had been increasing strongly, and exports had been rising. Under these circumstances, production had continued to increase. With regard to prices, the year-on-year pace of increase in the CPI had accelerated. Economic conditions in the NIEs and the ASEAN countries were recovering. Exports and private consumption had risen, business fixed investment had picked up, and production had increased. The Indian economy had also continued to grow at a relatively rapid pace.

As for global financial markets, money markets were regaining stability, as evidenced by the fact that Treasury-Eurodollar (TED) spreads had been at around the levels seen in summer 2007. In the United States and Europe, stock prices had increased, mainly reflecting improvement in some economic indicators. Long-term interest rates in the

United States had risen slightly, while those in Germany had declined. Meanwhile, the market had started to direct its attention to governments' fiscal conditions and their impact on financial markets, as well as potential effects of the regulation of financial institutions that had been newly proposed in the United States.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had been increasing, due to the improvement in overseas economic conditions. The uptrend in exports was expected to continue, reflecting continued improvement in overseas economic conditions, although the pace of increase was likely to moderate gradually.

Public investment had started to level off and was likely to decrease gradually.

With regard to domestic private demand, the decline in business fixed investment had been coming to a halt. Although business fixed investment was expected to pick up gradually, it was likely to remain more or less unchanged for the time being, with corporate profits remaining at a low level and the sense of excessive capital stock being strong.

Private consumption, notably durable goods consumption, was picking up mainly due to policy measures, despite the continued severe employment and income situation, and this trend was likely to continue for the time being.

There were some signs that housing investment had stopped decreasing. It was likely to gradually start showing clearer evidence of leveling out, given the recent developments in housing starts.

Production had been increasing, reflecting progress in inventory adjustments and policy effects, both at home and abroad. It was likely to continue rising as a trend in parallel with exports, although the pace of increase was expected to moderate gradually.

The employment and income situation had remained severe, with a high unemployment rate and a significant decline in household income. Household income was likely to continue decreasing substantially for the time being, considering the lagged effects from developments in corporate profits and production.

On the price front, commodity prices had been on a moderate rising trend, albeit with some fluctuations. The three-month rate of change in the domestic corporate goods price index (CGPI) had been slightly negative, mainly due to the slack in supply and demand conditions for products. Despite the continuation of such slack, the CGPI was likely to remain more or less unchanged for the time being, as the rise in commodity prices was expected to exert upward pressure. The CPI (excluding fresh food) had been declining on a year-on-year basis due to the substantial slack in the economy as a whole, but the pace of decline had been moderating mainly because the effects of fluctuations in the prices of petroleum products had been dissipating. Although the substantial slack in the economy as a whole was expected to persist, the year-on-year pace of decline in the CPI was likely to moderate, mainly because the prices of petroleum products were expected to exert upward pressure.

2. Financial environment

The financial environment, with some lingering severity, had continued to show signs of improvement. The overnight call rate had remained at an extremely low level, and the declining trend in the firms' funding costs had continued. The stimulative effects from low interest rates were still constrained by the low levels of economic activity and corporate profits, but the degree of constraint had begun to moderate. With regard to credit supply, although many firms still saw financial institutions' lending attitudes as severe, firms as a whole regarded the situation as improving. Issuing conditions for CP and corporate bonds had remained favorable, except for low-rated corporate bonds. As for credit demand, firms' need to fund working capital and fixed investment had declined, and some firms had reduced the on-hand liquidity that they had accumulated. Against this backdrop, bank lending had turned to a decline on a year-on-year basis, partly due to the high growth of a year before. The amount outstanding of corporate bonds had exceeded the previous year's level, while that of CP had declined. In these circumstances, although many firms, mainly small ones, still saw their financial positions as weak, on the whole firms' financial positions had continued to improve. Meanwhile, the year-on-year rate of change in the money stock had been around 3 percent.

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

A. Economic Developments

Members shared the view that <u>overseas economies</u> were recovering moderately.

Many members said that regional differences in the pace of economic growth had become more evident: the pace remained slow in advanced economies, while it continued to be more rapid than expected in emerging economies, especially the Chinese economy.

Regarding the outlook for overseas economies as a whole, members concurred that they were likely to continue recovering moderately. Many members said that the pace of recovery in advanced economies was likely to decelerate temporarily due to the waning effects of inventory restocking and various demand-boosting policy measures. One member noted that, from a broad perspective, the economic downturn after the failure of Lehman Brothers and the ensuing economic recovery could be attributable, respectively, to the tightening of financial conditions caused by the sharp financial contraction and to the subsequent improvement in the financial environment as a result of an improvement in market conditions and monetary easing. This member continued that, with the financial environment remaining accommodative, the world economy was less likely to stop recovering. Regarding risks to the outlook for overseas economies, some members noted the importance of recognizing the possibility that an increase in capital inflow from advanced economies that maintained their accommodative monetary policy stance might lead to overheating and a subsequent downturn in emerging economies. Some members said that the pace of progress in balance-sheet adjustments was key to the sustainability of recovery in the U.S. economy and European advanced economies.

On the state of global financial markets, some members were of the view that stock prices and foreign exchange rates, after becoming volatile in response to Dubai's debt crisis in late November 2009, had recently regained stability. Some members said that the issues of fiscal deficit and fiscal discipline had started to attract market attention as economic conditions and financial markets regained stability. In relation to this, some members expressed the view that for individual countries -- including Japan, for which the fiscal situation was serious -- to be able to conduct appropriate policies while ensuring market stability, it had become all the more important to maintain market confidence in the conduct of both fiscal policy and monetary policy. Some members added that various discussions regarding a review of financial regulation and supervision had brought more market attention to the future progress and possible impact of such a review. Based on this discussion, members shared the view that developments in various issues concerning global financial markets and their possible effects continued to warrant close attention.

Many members were of the view that U.S. economic activity was picking up. Some members said that exports and production were increasing, and the rate of decrease in business fixed investment was slowing. Some members were of the opinion that consumer confidence had improved and private consumption was expanding at a moderate rate, as evidenced by solid Christmas sales results. A few members expressed the view that the improvement in housing-related indicators, such as home prices and housing starts, had recently slowed and future developments warranted monitoring. One member said that improvement in the employment and income situation was significantly lagging behind that in production. As for the outlook, some members were of the opinion that, amid the waning of the effects of inventory restocking and fiscal spending, the pace of U.S. economic recovery was likely to remain moderate, constrained by households' excessive debt. These members continued that deterioration in the quality of consumer loans and declines in commercial real estate prices warranted close attention, as these might reintensify an adverse feedback loop between financial and economic activity.

With regard to the economy of the euro area, members said that economic conditions had started to pick up on the back of an increase in exports to outside the euro area and stimulus measures by governments in the area. Many members expressed the view that the pace of economic recovery in the euro area remained slower than that in the United States and other countries, since the recovery in domestic demand of the area still lacked momentum. Some members said that attention should continue to be paid to some financial developments, such as the decrease in the growth rates in bank lending and the broad monetary aggregate M3, and the possible effects of these developments on economic activity in the euro area.

Members agreed that the Chinese economy had continued to grow at a relatively rapid pace, led mainly by domestic demand, and this trend was likely to continue. Many members -- noting that growth in bank lending and fixed asset investment remained elevated and the pace of increase in consumer prices had started to accelerate -- said that attention should be paid to the risk of overheating in financial and economic activity. These members continued that attention should also be paid to whether recent measures to restrain overheating would reduce such risk and lead to sustainable economic growth. One member expressed the view that the Chinese economy was experiencing a rapid development process whereby accumulation of capital stock, technology, and human capital was taking place concurrently thanks to the progress in information technology and economic globalization in recent years, and thus differed from the staged process that advanced economies had previously experienced. This member added that, with such a process, growth differentials in economic activity among regions and industries tended to persist and economic fluctuations tended to be large, and therefore whether the Chinese economy would achieve sustainable growth warranted close examination.

Based on the above discussions on economic and financial conditions abroad, members discussed the state of Japan's economy. They concurred that Japan's economy was picking up, against the background of an increase in exports and production and a pick-up in private consumption. They also agreed that the improvement in the economy had been underpinned by various policy measures taken at home and abroad and by inventory restocking, and there was not yet sufficient momentum to support self-sustaining recovery in private demand. Some members noted that the pace and extent of the improvement in economic activity varied by region, industry, and firm size. Some members said that improvement in business confidence had lagged behind that in business conditions. These members continued that this situation might reflect that firms had not yet been able to find a way to achieve medium- to long-term growth, and attention should be paid to the possible impact of subdued business confidence on business fixed investment and other business activity.

As for the outlook, members expressed the view that the pace of improvement of the economy was likely to moderate temporarily due to the waning effects of inventory restocking and various demand-boosting policy measures. One member said that it was uncertain how fast and to what extent the effects of such measures would wane, and therefore developments required careful examination. Members concurred that, from around the middle of fiscal 2010, the economic growth rate was likely to rise gradually, as improvements in the corporate sector -- particularly evident in exports and production -- were likely to continue and spill over to the household sector.

Regarding developments in each demand component, many members were of the view that exports had been increasing, mainly due to the improvement in overseas economic conditions, and the uptrend was likely to continue.

Some members said that public investment had recently started to level off and was likely to decrease gradually.

Members agreed that the decline in business fixed investment had been coming to a halt. Many members said that they would maintain their assessment that machinery orders, after declining considerably, had recently been leveling out, but that whether weakness in machinery orders from nonmanufacturing firms for November 2009 indicated their cautious investment stance warranted close examination. Some members noted the importance of carefully examining how firms perceived the domestic business environment, how they evaluated the differences between Japan's economy and emerging economies in rates of growth, and how they envisaged systems for providing emerging economies with their products, and how these factors would impact domestic business fixed investment.

Some members expressed the view that private consumption, notably durable goods consumption, continued to pick up mainly due to policy measures, despite the continued severe employment and income situation. A few members, however, said that the future pace of increase in private consumption should be viewed conservatively because consumer confidence had deteriorated, partly reflecting the large decline in winter bonus payments and the discussions about deflation. One member was of the opinion that the mechanism of improvements in the corporate sector gradually spilling over to the household sector might not operate as smoothly as expected, as firms were taking a strict stance on wages amid intense global competition.

Members agreed that production had been increasing, reflecting progress in inventory adjustments and policy effects, both at home and abroad, and was likely to remain on an uptrend, although the pace of increase was likely to moderate.

Members shared the view that the employment and income situation had remained severe, with a high unemployment rate and a significant decline in household income. One member -- noting that firms had been retaining a considerable number of workers and regarded their workforces as excessive, and that corporate managers appeared to be taking a strict stance on wages -- said that a further improvement in economic conditions might not immediately lead to an increase in the number of employees and household income.

Many members said that the CPI (excluding fresh food) had been declining on a year-on-year basis due to the substantial slack in the economy as a whole, but the pace of decline had been moderating mainly because the effects of fluctuations in the prices of petroleum products had been dissipating. Members shared the view that, although the pace of decline in the CPI was likely to continue moderating as the supply and demand balance improved, downward pressure on prices was likely to persist for an extended period because the pace of economic recovery would probably be only moderate. Members also discussed medium- to long-term inflation expectations and firms' price-setting behavior as factors that would affect future price developments. Some members noted that, according to recent survey results, consumers' short-term inflation expectations had declined. A few members attributed this to the possibility that the acceleration in price declines through summer 2009 and an increase in discussions about deflation after autumn might have affected consumers' views on prices. A few members, however, commented that consumers' medium- to long-term inflation expectations had not yet declined by a significant degree. In relation to firms' price-setting behavior, some members noted a gradual increase in the number of firms that had adopted a strategy of avoiding intense price competition and increasing their competitiveness in terms of elements other than prices. Members shared the view that factors such as medium- to long-term inflation expectations and firms' price-setting behavior, in addition to the supply and demand balance, should continue to be closely monitored.

B. Financial Developments

Members concurred that the financial environment, with some lingering severity, had continued to show signs of improvement.

Some members said that, in the money market, the sense of an abundance of liquidity had grown further due to the Bank's provision of ample funds, and interest rates, including longer-term ones, had been on a moderate declining trend. A few members commented that nothing of particular note happened in the money market during the run-up to the calendar year-end and the risk premium embedded in interest rates on term instruments maturing beyond the fiscal year-end had been marginal so far.

Many members said that issuing conditions for CP and corporate bonds had generally remained favorable. A few members noted that CP issuance rates had gradually started to better reflect the differences in issuers' creditworthiness since the Bank announced that it would complete outright purchases of CP as scheduled. One member said that yields on government bills had been declining, reflecting the enhancement of easy monetary conditions by the Bank, and that an unusual situation in which yields on government bills had exceeded issuance rates on some high-rated CP was being corrected gradually. Many members said that issuing conditions for corporate bonds had remained favorable, as seen in the narrowing of credit spreads and the increase in the number of firms issuing bonds.

As for corporate funding activity, many members said that, amid reduced demand for funds among firms, the amount outstanding of bank lending was significantly below the level of a year before, when it was growing rapidly. Members shared the view that firms' financial positions had continued to improve, although many firms, mainly small ones, still saw their financial positions as weak. A few members -- noting that small firms, particularly very small ones, regarded their financial positions as having deteriorated -- commented that differences in funding conditions according to firm size were widening.

C. Interim Assessment

Given the above assessment of recent developments, members agreed with the following baseline scenario for Japan's economy: the pace of improvement of the economy was likely to remain moderate until around the middle of fiscal 2010, and thereafter the growth rate of the economy was likely to rise gradually. Many members said that, compared with the scenario presented in the October 2009 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report), growth in overseas economies had been somewhat stronger than expected, especially in emerging economies. However, members shared the view that the baseline scenario for Japan's economy remained broadly unchanged from that presented in the October 2009 Outlook Report.

Members then concurred that the year-on-year rates of change in the CGPI and the CPI (excluding fresh food) would likely be somewhat higher than the October projections, due mainly to the rise in crude oil prices against the backdrop of faster growth in emerging economies. They also agreed that the following basic view of prices remained unchanged: the year-on-year rate of decline in prices was likely to continue to moderate as the output gap narrowed; however, the year-on-year rate of change in the CPI was likely to continue declining even in fiscal 2011 because the pace of the output gap's narrowing would probably remain only moderate.

In relation to numerical forecasts of prices, members discussed how various measures laid out by the government in the budget for fiscal 2010, such as making high school tuition effectively free, should be taken into account. They agreed that, since the specific way to reflect the effects of these measures in the CPI had not yet been announced, it would be appropriate, in the interim assessment, not to factor in the effects of these measures into the Bank's numerical forecasts of the CPI. On this basis, some members said, given that the numerical forecasts would need to be revised significantly downward should the effects be reflected in the CPI with the implementation of these measures, the Bank should explain that its forecasts in the interim assessment had not factored in such effects. One member commented that, in the context of monetary policy conduct, it was important to gauge the underlying price trends, which excluded the effects of one-time events such as institutional changes, and the Bank should explain this point clearly.

With regard to risk factors for economic activity, members concurred that, while there were some upside risks such as faster growth in emerging and commodity-exporting economies, there remained downside risks such as the possible consequences of balance-sheet adjustments in the United States and Europe as well as potential changes in firms' medium- to long-term growth expectations. They also agreed that attention should be paid to the effects of various recent international financial developments on Japan's economy, such as increased concerns about sovereign risk and developments in financial regulation and supervision around the globe. Many members were of the view that, compared with the risk assessment presented in the October 2009 Outlook Report, upside and downside risks had started to become more balanced due to faster growth in emerging economies. As for risks to the outlook for prices, members shared the view that, while there was a possibility that inflation would rise more than expected due to an increase in commodity prices, there was also a risk that the rate of inflation might fall due to a decline in medium- to long-term inflation expectations.

III. 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, given the above assessment of economic activity and prices, 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 its conduct of monetary policy the Bank was determined to maintain the extremely accommodative financial environment by providing ample funds to meet market demand and maintaining the extremely low interest rates.

Members discussed the effects of the two actions the Bank took in December 2009: the introduction of a fixed-rate funds-supplying operation against pooled collateral, and the announcement of a clearer expression of 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). Many members said that these actions had helped to further spread the strong effects of monetary easing, thereby inducing a decline in interest rates on term instruments. Some members commented that the risk that international financial developments and foreign exchange market instability might undermine business confidence had increased rapidly from late November 2009, but the two December actions had effectively reduced such risk. One member was of the view that the Bank should monitor how the effects of the decline in interest rates on term instruments spilled over to funding costs in the private sector.

IV. Remarks by Government Representatives

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

(1) The Japanese economy had been picking up, but the recovery was not autonomous and the situation remained difficult. As for short-term prospects, there were risk factors such as international financial developments, further worsening of the employment situation, and deflation, and the basis for the economy's return to a path of strong private demand-led growth remained fragile.

(2) Based on the aforementioned assessment of economic conditions, in December 2009, the Cabinet decided the "Emergency Economic Countermeasures for Future Growth and Security." On January 18, 2010, the government submitted the related supplementary budget for fiscal 2009 to the Diet. The government aimed to obtain the Diet's approval of this supplementary budget as early as possible to overcome deflation and ensure economic recovery.

(3) The government 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.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy had been picking up, but the situation remained difficult. In fiscal 2010, the Japanese economy was expected to grow by about 1.4 percent on a real basis and about 0.4 percent on a nominal basis, and 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.
(2) Given that deflation had a considerable negative impact on the economy and eventually on people's lives, it was important that the government, with the aim of overcoming deflation, work together with the Bank to achieve a positive inflation rate as early as possible.
(3) The government was working to fulfill its responsibility by, for example, steadily implementing the "Emergency Economic Countermeasures for Future Growth and Security" and formulating the basic policies of a new growth strategy. It hoped that the Bank would aim at overcoming deflation and continue to underpin the economy by conducting monetary policy in an appropriate and flexible manner, while sufficiently exchanging views and working together with the government.

V. 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, 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 0.1 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, and Mr. H. Kamezaki.
Votes against the proposal: None.

VI. Discussion on the Statement on Monetary Policy

Members discussed the Statement on Monetary Policy, and put it to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment).

VII. Approval of the Minutes of the Monetary Policy Meetings

The Policy Board approved unanimously the minutes of the Monetary Policy Meetings of December 1, 2009 and December 17 and 18 for release on January 29, 2010.

Attachment

January 26, 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,[6] to set the following guideline for money market operations for the intermeeting period:

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

2. Japan's economy is picking up mainly due to various policy measures taken at home and abroad, although there is not yet sufficient momentum to support a self-sustaining recovery in domestic private demand. Exports and production have been increasing against a backdrop of progress in inventory adjustments both at home and abroad as well as an improvement in overseas economies, especially, fast growth in emerging economies. The decline in business fixed investment has been coming to a halt. Private consumption, notably durable goods consumption, is picking up mainly due to policy measures, despite the continued severe employment and income situation. Public investment has started to level off. Meanwhile, the financial environment, with some lingering severity, has continued to show signs of improvement. The CPI (excluding fresh food) has been declining on a year-on-year basis due to the substantial slack in the economy as a whole, but the rate of decline has been moderating mainly because the effects of fluctuations in the prices of petroleum products have been dissipating.

[6] Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. T. Noda, Mr. S. Nakamura, and Mr. H. Kamezaki.
Voting against the action: None.

3. The Bank's baseline scenario projects that the pace of improvement of the economy is likely to remain moderate until around the middle of fiscal 2010. Thereafter, as improvements in the corporate sector originating from exports are expected to spill over to the household sector, the growth rate of the economy is likely gradually to rise. With regard to prices, assuming that medium- to long-term inflation expectations remain stable, the year-on-year rate of decline in the CPI (excluding fresh food) is likely to moderate as the aggregate supply and demand balance improves gradually.

4. Compared with the projections presented in the October 2009 *Outlook for Economic Activity and Prices*, growth prospects remain broadly unchanged. With regard to prices, the year-on-year rates of change in the domestic corporate goods price index and the CPI (excluding fresh food) will likely be somewhat higher than the October projections due mainly to the rise in crude oil prices.

5. With regard to economic activity, while there are some upside risks, such as faster growth in emerging and commodity-exporting economies, there remain downside risks, although somewhat diminished; downside risk factors include the possible consequences of balance-sheet adjustments in the United States and Europe as well as potential changes in firms' medium- to long-term growth expectations. Attention should continue to be paid to recent various international financial developments and their effects. With regard to prices, there is a possibility that inflation will rise more than expected due to a rise in commodity prices brought about by higher growth rates in emerging and commodity-exporting economies. On the other hand, there is also a risk that the rate of inflation might decline due, for example, to a decline in medium- to long-term inflation expectations.

6. The Bank recognizes that it is a critical challenge for Japan's economy to overcome deflation and return to a sustainable growth path with price stability. To this end, the Bank will continue to consistently make contributions as central bank. In the conduct of monetary policy, the Bank will aim to maintain the extremely accommodative financial environment.

Appendix 1

Forecasts of the Majority of Policy Board Members

y/y % chg.

	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2009	-2.5 to -2.5 [-2.5]	-5.3 to -5.2 [-5.3]	-1.5 to -1.5 [-1.5]
Forecasts made in October 2009	-3.3 to -3.2 [-3.2]	-5.3 to -5.0 [-5.2]	-1.5 to -1.5 [-1.5]
Fiscal 2010	+1.2 to +1.4 [+1.3]	-0.5 to -0.4 [-0.5]	-0.6 to -0.5 [-0.5]
Forecasts made in October 2009	+0.8 to +1.3 [+1.2]	-1.5 to -1.0 [-1.4]	-0.9 to -0.7 [-0.8]
Fiscal 2011	+1.7 to +2.4 [+2.1]	-0.5 to 0.0 [-0.4]	-0.3 to -0.1 [-0.2]
Forecasts made in October 2009	+1.6 to +2.4 [+2.1]	-1.0 to -0.3 [-0.7]	-0.7 to -0.4 [-0.4]

Notes: 1. Figures in brackets indicate the median of the Policy Board members' forecasts (point estimates).

2. The forecasts of the majority of Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate, namely, the figure to which he or she attaches the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. It should be noted that the range does not indicate the forecast errors.

3. Individual Policy Board members make their forecasts with reference to the view of market participants regarding the future course of the policy interest rate -- a view that is incorporated in market interest rates.

4. The revised forecasts for real GDP in fiscal 2009 is largely attributable to the revision of past GDP statistics.

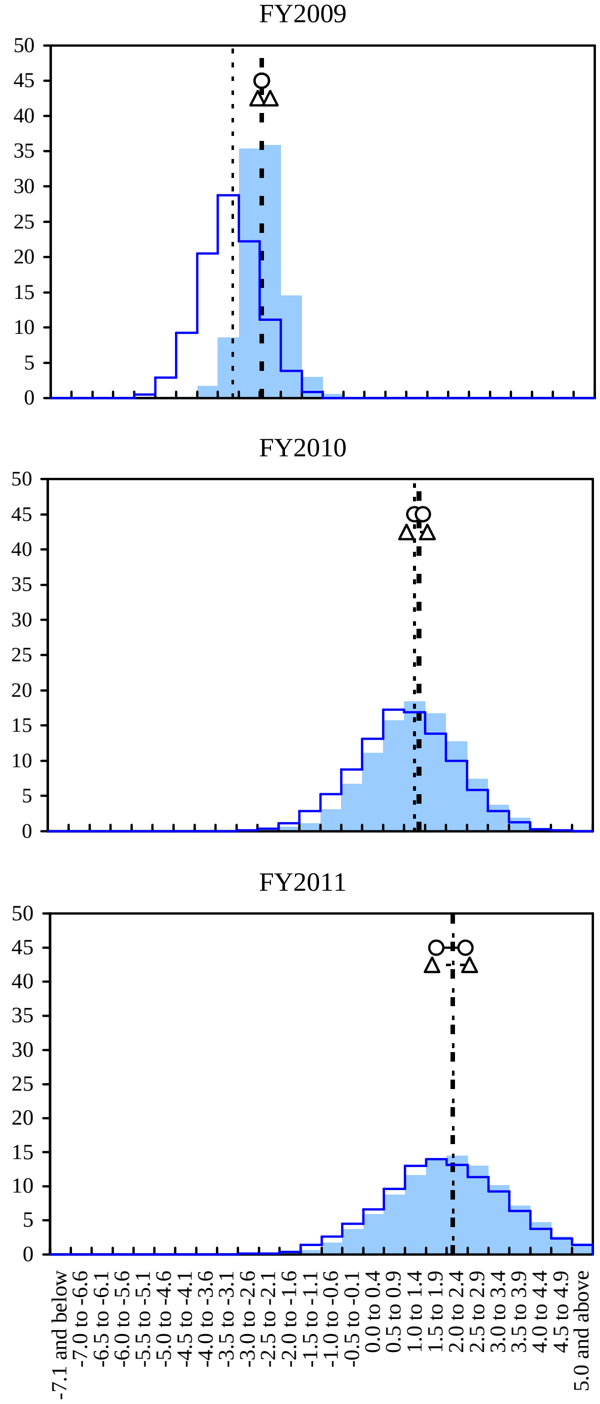
5. The range shown below includes the forecasts of all Policy Board members.

y/y % chg.

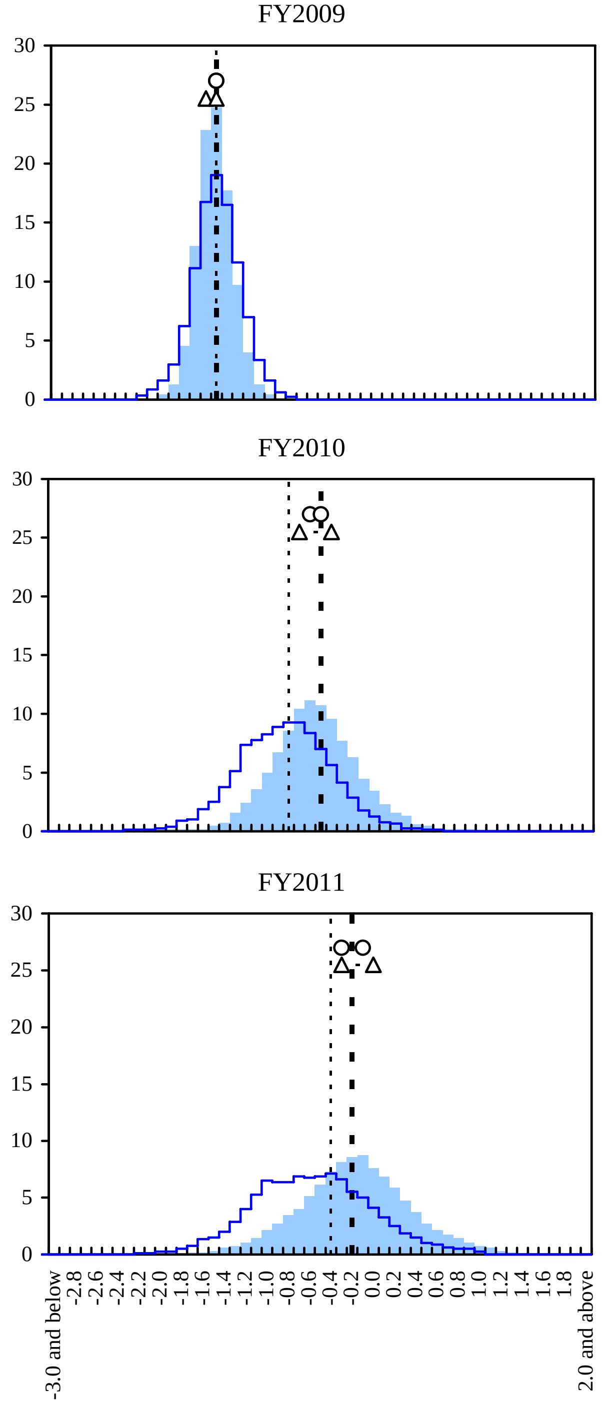
	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2009	-2.6 to -2.3	-5.5 to -5.0	-1.6 to -1.5
Forecasts made in October 2009	-3.4 to -3.0	-5.4 to -5.0	-1.6 to -1.4
Fiscal 2010	+1.0 to +1.5	-0.9 to -0.4	-0.7 to -0.4
Forecasts made in October 2009	+0.7 to +1.5	-1.5 to -0.9	-1.2 to -0.7
Fiscal 2011	+1.6 to +2.5	-0.5 to +0.2	-0.3 to 0.0
Forecasts made in October 2009	+1.4 to +2.5	-1.1 to +0.2	-1.0 to -0.3

Risk Balance Charts

(1) Real GDP



(2) CPI (Excluding Fresh Food)



Notes: 1. Vertical axes in the charts represent probability (%), while horizontal axes represent the year-on-year percentage changes in the respective indicators. Bar charts represent the probability distributions in January 2010, and solid lines represent those in October 2009.

2. Vertical dashed heavy lines indicate the median of the Policy Board members' forecasts (point estimates). ○——○ indicates the range of the forecasts of the majority of Policy Board members. △- - -△ indicates the range of the forecasts of all Policy Board members.

3. Vertical dashed thin lines indicate the median of the Policy Board members' forecasts (point estimates) in October 2009.

4. For the process of compilation of the Risk Balance Charts, see the box on page 9 of the April 2008 *Outlook for Economic Activity and Prices.*