Not to be released until 8:50 a.m. Japan Standard Time on Tuesday, September 25, 2007.

September 25, 2007

Bank of Japan

Minutes of the Monetary Policy Meeting

on August 22 and 23, 2007

(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 Wednesday, August 22, 2007, from 2:00 p.m. to 4:49 p.m., and on Thursday, August 23, from 9:00 a.m. to 12:31 p.m.[1]

Policy Board Members Present

Mr. T. Fukui, Chairman, Governor of the Bank of Japan

Mr. T. Muto, Deputy Governor of the Bank of Japan

Mr. K. Iwata, Deputy Governor of the Bank of Japan

Ms. M. Suda

Mr. A. Mizuno

Mr. K. G. Nishimura

Mr. T. Noda

Mr. S. Nakamura

Mr. H. Kamezaki

Government Representatives Present

Mr. K. Tanaka, Senior Vice Minister of Finance, Ministry of Finance[2]

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

Mr. H. Ohmura, Senior Vice Minister for Economic and Fiscal Policy, Cabinet Office[2]

Mr. J. Hamano, Vice Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

Mr. N. Inaba, Executive Director

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

Mr. K. Ido, Executive Director

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

---

[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on September 18 and 19, 2007 as "a document which contains an outline of the discussion at the meeting" stipulated in Article 20, Paragraph 1 of the Bank of Japan Law of 1997. Those present are referred to by their titles at the time of the meeting.

[2] Messrs. K. Tanaka and H. Ohmura were present on August 23.

[3] Messrs. M. Suzuki and J. Hamano were present on August 22.

Mr. M. Ayuse, Associate Director-General, Monetary Affairs Department[4]

Mr. S. Uchida, Associate Director-General, Monetary Affairs Department

Mr. T. Sekine, Senior Economist, Monetary Affairs Department

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

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

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

Mr. T. Idesawa, Director-General, International Department

Secretariat of the Monetary Policy Meeting

Mr. K. Osugi, Director-General, Secretariat of the Policy Board

Mr. K. Shigyoh, Director, Deputy Head of Secretarial Services for the Board, Secretariat of the Policy Board

Mr. T. Kato, Director, Head, Monetary Operations Planning, Monetary Affairs Department[4]

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

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

[4] Messrs. M. Ayuse and T. Kato were present on August 23 from 9:00 a.m. to 9:14 a.m.

I. Summary of Staff Reports on Economic and Financial Developments[5]

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 July 11 and 12, 2007.[6] Toward the end of the reserve maintenance period ending August 15, upward pressure on interest rates increased reflecting financial markets' reaction to the U.S. subprime mortgage problem, and the Bank provided ample funds to stabilize money market rates. As a result, the uncollateralized overnight call rate had been at around 0.5 percent on the whole, although it had shown temporary fluctuations.

B. Recent Developments in Financial Markets

In the money market, Euroyen TIBOR and yields on three-month financing bills (FBs) had been more or less unchanged. Interest rates on Euroyen futures, particularly those with distant contract months, had edged down.

As for Japanese stock prices, the Nikkei 225 Stock Average fell temporarily to the 15,000-15,500 yen range reflecting increased global uncertainties stemming from the U.S. subprime mortgage problem and the resulting drop in global stock prices. It then recovered somewhat and had recently been at around 16,000 yen. The decline in stock prices was greater in Japan than in the United States and Europe, and this seemed to be due to a change in foreign investors' attitude as well as the appreciation of the yen.

Long-term interest rates had dropped, mainly in response to long-term interest rate movements in the United States and Europe, and had recently been in the range of 1.55-1.60 percent.

The yen, after having appreciated temporarily to the range of 112-113 yen against the U.S. dollar, had recently been traded in the range of 114-116 yen due mainly to the recovery in U.S. stock prices.

---

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

[6] The guideline was as follows:

The Bank of Japan will encourage the uncollateralized overnight call rate to remain at around 0.5 percent.

C. Overseas Economic and Financial Developments

The U.S. economy continued to be in a moderate adjustment phase. Housing investment continued to decrease. Business fixed investment remained on a gradual uptrend, although the pace of increase was decelerating. Private consumption had continued to be on an increasing trend, but mainly due to earlier rises in energy prices, growth had been slowing from the rapid pace observed until recently. In this situation, the pace of increase in the number of employees had been showing a very moderate slowdown. As for prices, while the year-on-year rate of increase in the consumer price index (CPI) for all items had been declining due to the drop in energy prices, that in the core CPI (the CPI for all items less food and energy) had been slightly over 2 percent. Underlying inflation pressures had not subsided yet as labor market conditions had continued to be tight.

In the euro area, the economy continued to expand with domestic and external demand well in balance. Business fixed investment and private consumption remained on an upward trend while exports continued to grow steadily. The U.K. economy continued to show relatively high growth, led mainly by domestic demand.

In China, both domestic and external demand continued to expand strongly. Exports continued to show a substantial increase, and the rate of increase in fixed asset investment remained high. The year-on-year rate of increase in the CPI for all items had been increasing due to the surge in food prices. India's economy continued to show high growth, led mainly by domestic demand. The NIEs and ASEAN economies continued to expand at a moderate pace on the whole.

In global financial markets, the effects of the U.S. subprime mortgage problem became widespread in the intermeeting period. In the United States, downgrading of securitized products backed by subprime mortgage loans and the emergence of subprime mortgage-related losses at some financial institutions had led to a considerable drop in stock prices. Long-term interest rates had declined substantially due to a "flight to quality." Liquidity concerns grew in markets for asset-backed securities and asset-backed commercial paper, and the federal funds rate came under upward pressure. Given this situation, the Federal Reserve Board approved a reduction in the primary credit rate of its discount window facility, a standing facility, and announced that the financing term had been made flexible.

In Europe, the emergence of financing difficulties at some financial institutions and the temporary suspension by some financial institutions of the redemption of their investment funds triggered growing concerns about subprime mortgage-related losses, and this had made it difficult for deals to be carried out in financial markets. In this situation, stock prices dropped as in the United States. Long-term interest rates also declined sharply due to the "flight to quality."

In many emerging economies, stock prices and currencies had fallen significantly due to an increase in risk aversion among investors similar to that seen in the U.S. and European financial markets. Yield differentials between their sovereign bonds and U.S. Treasuries had expanded markedly.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had continued to increase against the background of the expansion of overseas economies. They remained more or less unchanged in the April-June quarter from the previous quarter due partly to the weakness in exports to the United States, but in July they exceeded the average level of the April-June quarter, returning to relatively high growth. Exports were expected to continue to rise as overseas economies taken as a whole continued to expand.

As for domestic private demand, business fixed investment had continued to increase and was expected to keep increasing since the growth in domestic and external demand and the high level of corporate profits were likely to be maintained.

Private consumption had been firm. With regard to durable consumer goods, while the number of new passenger-car registrations had been on a downward trend, in the area of electrical appliances, sales of digital appliances such as flat-panel televisions and of new game consoles had been strong, and those of cellular phones had also increased. Sales at department stores and supermarkets, which primarily sold nondurable and semi-durable consumer goods, had continued to be susceptible to weather conditions. Sales at department stores in June rose due to favorable weather, but declined in July due to adverse weather conditions. As for services consumption, sales in the food service industry had continued to trend upward and outlays for travel had generally been firm. Indicators of consumer sentiment had generally been at favorable levels, although some had shown a slight deterioration most recently due to the rise in prices of daily necessities such as gasoline. Private consumption was expected to follow a gradual uptrend, mainly reflecting the gradual increase in household income.

Production had been flat most recently, but was likely to turn upward, reflecting the rise in domestic and external demand. Inventories had been more or less in balance with shipments in the industrial sector as a whole, although inventories of electronic parts and devices had remained elevated relative to shipments.

As for employment and income, in a situation where labor market conditions had continued to tighten, household income had continued rising moderately, supported by the increase in the number of employees. The gradual increase in household income was likely to continue against the background that firms were increasingly feeling a shortage of labor and corporate profits were expected to remain high.

On the price front, international commodity prices showed the following developments: crude oil prices had been high, mainly due to a heightening of concerns over geopolitical risks and to the tightening of supply and demand conditions, while prices of nonferrous metals had also been high on the whole, albeit with fluctuations. The three-month rate of change in the domestic corporate goods price index (CGPI) had been positive, mainly due to the rise in international commodity prices, and the CGPI was expected to continue increasing in the immediate future. The year-on-year rate of change in the CPI (excluding fresh food) had been around 0 percent, and it was expected to continue to be around 0 percent in the short run. From a longer-term perspective, however, it was projected to continue to follow a positive trend, as the output gap continued to be positive.

2. Financial environment

The environment for corporate finance was accommodative. Credit demand in the private sector had been more or less flat lately, since ample cash flow had slowed the increase in corporate demand for external funds and some weakness in credit demand had been observed in, for example, consumer finance companies. However, the issuing environment for CP and corporate bonds had been favorable, and the lending attitudes of private banks had continued to be accommodative. Under these circumstances, the amount outstanding of lending by private banks had been increasing moderately, and the amount outstanding of CP and corporate bonds issued had been above the previous year's level. Funding costs for firms had risen slightly. The year-on-year rate of growth in the money stock (M_2+CDs) was around 2 percent.

II. Termination of the Contract with Japan Post Relating to Its Maintenance of a Designated Minimum Balance with the Bank

A. Staff Proposal

Given that Japan Post would be dissolved on October 1, 2007 and Japan Post Bank Co., Ltd. would take over its postal savings business, the staff proposed that the Bank terminate the contract with Japan Post relating to its maintenance of a designated minimum balance with the Bank and also take measures necessary for Japan Post Bank to take over some of the contractual obligations of Japan Post.

B. Discussion by the Policy Board and Vote

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

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

A. Economic Developments

On the current state of Japan's economy, members concurred that it continued to expand moderately, and was likely to continue its sustained expansion with a virtuous circle of production, income, and spending in place. They agreed that, since there continued to be large swings in global financial markets, their movements as well as global economic developments behind them should be watched carefully.

Members agreed that overseas economies taken as a whole continued to expand with momentum being gained across a wide range of economies. Members referred to recent developments in global financial markets stemming from the U.S. subprime mortgage problem and concurred that they basically reflected the fact that market participants were reassessing and repricing risk and as a result adjusting their positions in stock, credit, and foreign exchange markets. Members continued that, reflecting this situation, U.S. and European money markets were still potentially unstable but were currently in a lull mainly due to the provision of ample liquidity by central banks. A few members said that since risk diversification made possible by financial innovation had progressed in favorable global economic conditions, risk assessment by investors might have become inadequate. A few other members commented that they had repeatedly said that overextended positions taken by investors might result in large swings in financial markets, and they were thus of the view that adjustments of such positions were appropriate in the long run. Many members, however, expressed the view that the impact of adjustments in financial markets on the global economy depended on their extent and pace and should therefore continue to be monitored carefully. Some members added that overseas economies were likely to keep expanding but this was becoming less certain.

Members concurred that the U.S. economy continued to expand, but the pace of growth was decelerating moderately with the continuing adjustments in the housing market. Members agreed that there was still uncertainty about adjustments in the housing market, including developments with regard to the subprime mortgage problem. Many members said that the subprime mortgage problem and the associated swings in financial markets observed recently could affect the U.S. economy via the following routes: (1) a further decline in housing investment due to a tightening of lending standards relating to housing finance; (2) deterioration in financial market conditions, particularly in loan and credit markets; and (3) deterioration in household and corporate sentiment. Some members expressed the view that, although the decline in the functioning of credit markets and the fall in stock prices had not caused further credit contraction so far, corporate finance would be affected if the weakened functioning of the market became prolonged as risk reassessment progressed. They added that problems such as the slowdown in private consumption could become more pronounced depending on developments in housing and stock prices, and there was increasing uncertainty with regard to developments in the U.S. economy. Some other members said that, although a "flight to quality" and a "flight to liquidity" continued in financial markets, uncertainties had decreased compared with some time ago due to measures taken by central banks, and therefore the impact on economic activity via corporate finance might be limited. One of these members expressed the view that the effect of deterioration in a segment of financial markets was unlikely to spread throughout the financial system given the continuing high profitability and strong capital bases of major financial institutions. As for prices, some members said that, although the rate of increase in the CPI had been declining, it was too early to conclude that inflation pressures had subsided, since utilization of resources such as labor was at high levels. In view of the points made in the discussion, members shared the view concerning the outlook for the U.S. economy that, although the standard scenario that it was likely to realize a soft landing remained valid, both upside and downside risks continued to warrant attention.

With regard to European economies, members shared the view that the economy of the euro area continued to expand with domestic and external demand well in balance and that the U.K. economy also continued to show relatively high growth. Members agreed that attention should be paid to the possibility of negative effects of recent swings in financial markets spreading to economic activity via the financial environment and sentiment of economic entities.

On Asian economies, members concurred that in China both domestic and external demand continued to expand strongly, and that the NIEs and ASEAN economies continued to expand at a moderate pace on the whole. One member expressed the view that Asian economies had become less sensitive to developments in the U.S. economy.

Regarding Japan's economy, members concurred that <u>exports</u> had continued to increase, reflecting the expansion of overseas economies, and were likely to continue to increase. One member said that, since the recent upturn of the yen had been somewhat sharp, its effects on exports required careful monitoring in addition to the effects of the U.S. subprime mortgage problem on overseas economies.

As for domestic private demand, members agreed that <u>business fixed investment</u> continued to increase, and was likely to keep increasing reflecting the ongoing growth in domestic and external demand and also the continuing high level of corporate profits. Many members said that developments in recent economic indicators, such as machinery orders, construction starts (floor area), and the Development Bank of Japan's capital spending survey, were broadly in line with the Bank's projection that business fixed investment was likely to keep rising -- although its rate of growth was likely to fall gradually -- with momentum being gained across a wider range of industries. Some members said that attention should be paid to the fact that an increasing number of small firms had been facing downward pressure on their profits as they had been unable to fully pass on higher production costs resulting from the rise in materials prices and the earlier depreciation of the yen to sales prices. One of these members added that the ongoing polarization of corporate performance required careful monitoring.

Members concurred that private consumption had been firm and was likely to follow a gradual uptrend, mainly reflecting the gradual increase in household income. One member expressed the view that consumption seemed to have been sluggish in July due to earlier-than-usual summer clearance sales and adverse weather conditions, but it seemed to have been firm in terms of the average of June and July. With regard to the fact that some indicators of consumer sentiment had shown a slight deterioration most recently, some members said that consumer confidence might be being negatively affected by the following factors: (1) discontinuation of the special income tax reduction; (2) the increase in the local tax burden; (3) problems related to the pension system; and (4) concerns over higher gasoline prices. They continued that careful attention should be paid to developments in consumer confidence.

Members agreed that, although production had been flat most recently, it had continued to be on an increasing trend and was likely to remain so reflecting the rise in domestic and external demand. One member said that the production forecast index and interviews with firms suggested that production was likely to regain momentum in the July-September quarter or thereafter in a wider range of industries. Members concurred that, while inventories had been more or less in balance with shipments in the industrial sector as a whole, inventories of electronic parts and devices had remained at a high level. One member said that inventory adjustment in IT-related sectors had continued somewhat longer than expected but was proceeding steadily toward completion. A different member added that, despite the progress in inventory adjustment, developments in global supply and demand conditions of IT-related goods still required close monitoring since there was a high degree of uncertainty with regard to them.

As for employment and income, members concurred that, in a situation where labor market conditions had continued to tighten as evidenced, for example, by the decline in the unemployment rate to 3.7 percent, household income had continued rising moderately, supported by the increase in the number of employees. They also agreed that the gradual increase in household income was likely to continue against the background that firms were increasingly feeling a shortage of labor and corporate profits were expected to remain high. Some members referred to the sluggishness in the growth of wages per worker. A few of these members noted the following as factors behind it: a change in the composition of the workforce due to retirements in the baby-boomer generation; a reduction in salaries of local government employees; and an increase in part-time employment mainly of the elderly and women. A different member said that the sluggishness in the growth of wages could also be due to the flattening of the age-wage profile and to the deceleration of growth in corporate profits reflecting the surge in materials prices. This member continued that attention should be paid to the fact that growth in wages paid by small firms had tended to be weaker, although this might be partly due to sampling factors. Against this view, a different member said that, according to a survey conducted by the Ministry of Health, Labour and Welfare on small firms, those that raised wages substantially outnumbered those that cut them. Another member commented on wage developments that attention should be paid to how they were affected by raises in the minimum wage, the salaries of government employees, and the starting salaries of new graduates.

As for prices, members said that the three-month rate of change in the CGPI had been positive, mainly due to the rise in international commodity prices, and the CGPI was expected to continue increasing in the immediate future.

Members concurred that the year-on-year rate of change in the CPI (excluding fresh food) was likely to be around 0 percent in the short run, but from a longer-term perspective it was likely to continue to follow a positive trend as the output gap continued to be positive. With regard to the fact that the year-on-year rate of change in the CPI had been around 0 percent despite upward pressure stemming from high petroleum product prices, one member said that this was because prices of some of those items that had a large weight in the basket of the CPI such as digital appliances had been exerting downward pressure. This member continued that prices of an increasing number of goods and services related to consumers' daily life had been rising, and among the items in the basket of the CPI (excluding fresh food), items whose prices had risen had outnumbered those whose prices had declined for eleven consecutive months. Against this point, some members said that firms continued to have difficulty in passing on higher costs to retail prices as they faced intense price competition, and this factor was contributing greatly to the current price situation. These members also commented that stronger economic activity might not lead to a rise in the inflation rate for some time due partly to the ongoing price competition in cellular phone charges. A few other members commented that, given the fact that firms' capacity to absorb higher costs had lessened, attention should be paid to a risk that inflation pressures might start to grow stronger than expected.

B. Financial Developments

On the financial front, members concurred that the financial environment remained accommodative as seen in the fact that the lending attitudes of private banks and the issuing conditions in capital markets were favorable. With regard to the fact that credit demand in the private sector had been more or less flat lately, one member said that this was mainly because the increase in corporate demand for external funds had not been strong due to ample cash flow. As another reason, this member added that firms that had difficulty in passing on higher production costs to sales prices might be restraining not only personnel expenses but also capital spending.

With regard to the effect of the U.S. subprime mortgage problem on Japan's corporate finance, members agreed that Japanese financial institutions' exposure to credit products including subprime-related ones was not significant, and that developments in the corporate bond and CP markets suggested that the accommodative environment for corporate finance was unlikely to change markedly. Some members said that the money market was generally stable and the Bank had been able to supply sufficient liquidity under the current framework of money market operations. Members agreed that attention should be paid to movements in financial markets as well as global economic developments behind them.

IV. Summary of Discussions on Monetary Policy for the Immediate Future

Given the economic and financial situation, members concurred that their basic thinking remained unchanged on <u>the monetary policy stance for the immediate future</u>: while confirming that Japan's economy remained likely to follow a path of sustainable growth under price stability in light of the "understanding of medium- to long-term price stability" and assessing relevant risk factors, the Bank would adjust the level of interest rates gradually in accordance with improvements in the economic and price situation.

On <u>the guideline for money market operations for the intermeeting period ahead</u>, one member said that it would be appropriate to raise the uncollateralized overnight call rate target from around 0.5 percent to around 0.75 percent.

Against this view, most members said that it would be appropriate to maintain the current guideline for money market operations that the Bank would encourage the uncollateralized overnight call rate to remain at around 0.5 percent. They expressed the following view: economic indicators suggested that Japan's economy was likely to continue sustainable growth under price stability in line with the projection presented in the April 2007 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report); however, there had been large swings in global financial markets, and their movements as well as global economic developments behind them should be watched closely; and the Bank should therefore continue to examine upcoming economic indicators and other relevant information as well as financial market conditions carefully to be more certain about the economic and financial situation.

Some members said that adjustment of the level of interest rates should not be postponed when the Bank became confident, based on careful analysis of economic data and other relevant information, that financial markets had regained stability and economic activity and prices would develop in line with the projection in the April Outlook Report. A few members said that the Bank should conduct forward-looking monetary policy but it should pay due attention to developments in financial markets given that the financial environment could affect economic activity. One of these members added that, although the provision of liquidity in the short term to stabilize the market should be implemented from a different perspective from the conduct of monetary policy in the medium to long term based on the projection for economic activity and prices, it was important to give due consideration to the fact that shocks stemming from financial developments could affect economic activity. Based on the above discussion, most members agreed that the Bank should, with a wide-ranging perspective, continue to examine whether the projection was likely to materialize and to monitor risk factors.

V. Remarks by Government Representatives

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

(1) Japan's economy continued to recover, as evidenced by the first preliminary estimates of real GDP for the April-June quarter of 2007, which showed an increase of 0.1 percent on a quarter-on-quarter basis and 0.5 percent on an annualized basis. Corporate goods prices had been rising, while consumer prices had been more or less unchanged.

(2) Given the current developments in economic activity and prices, the government would like the Bank to continue to support the economy from the financial side so as to ensure

the sustainability of the ongoing economic recovery.

(3) Stock and foreign exchange markets had been somewhat volatile due to the subprime mortgage problem. The government would like the Bank to carefully monitor overall financial market developments and continue to deal appropriately with changes in market conditions. The Ministry of Finance would also give due consideration to developments in financial markets both at home and abroad.

(4) Furthermore, in order to prevent financial markets from becoming unstable due to speculation regarding the future conduct of monetary policy, the government would like the Bank to clearly explain to market participants and the public its view regarding the current situation and future course of Japan's economy and its thinking on the future conduct of monetary policy.

The representative from the Cabinet Office made the following remarks.

(1) Although Japan's economy was recovering, production in some sectors had been weak, and a comprehensive review of developments in prices suggested that the economy had not yet overcome deflation. However, the rate of change in consumer prices was likely to eventually turn positive reflecting tight domestic supply-demand conditions, and therefore price developments should be monitored carefully, paying close attention to when the upturn occurred.

(2) Given the current volatility in stock prices and exchange rates in global financial markets, due attention should be paid to downside risks to Japan's economy such as the possibility of overseas economic developments negatively affecting it, rather than to the possibility of firms and financial institutions overextending themselves.

(3) In order to ensure sustainable economic growth led by private demand and achieve a stable inflation rate that would be compatible with that growth, it was important for the government and the Bank to implement their policies based on the shared basic perspective on macroeconomic management described in "Economic and Fiscal Reform 2007."

(4) The government would like to request the Bank to implement effective monetary policy that was consistent with the government's policy efforts and outlook for the economy, and to firmly support the economy from the financial side in a responsible manner by maintaining the accommodative financial conditions ensuing from very low interest

rates, taking into account downside risks to the outlook for economic activity and prices. In addition, the government would like the Bank to fulfill its accountability by ensuring that the public fully understood the Bank's assessment of developments in economic activity and prices in the short to medium term and also its view regarding the economy's path toward price stability.

VI. Votes

Based on the above discussions, most 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 0.5 percent.

One member, however, said that the member would like to propose that the Bank should raise the uncollateralized overnight call rate target from around 0.5 percent to around 0.75 percent.

As a result, the following proposal was submitted and put to the vote.

Mr. A. Mizuno proposed the following guideline for money market operations for the intermeeting period ahead:

> The Bank of Japan will encourage the uncollateralized overnight call rate to remain at around 0.75 percent.

The proposal was defeated by a majority vote.

Votes for the proposal: Mr. A. Mizuno.

Votes against the proposal: Mr. T. Fukui, Mr. T. Muto, Mr. K. Iwata, Ms. M. Suda, Mr. K. G. Nishimura, Mr. T. Noda, Mr. S. Nakamura, and Mr. H. Kamezaki.

To reflect the majority view, the chairman formulated the following proposal and put it to the vote.

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

The guideline for money market operations for the intermeeting period ahead will be as follows, and will be made public by the attached statement (see Attachment).

> The Bank of Japan will encourage the uncollateralized overnight call rate to remain at around 0.5 percent.

> Votes for the proposal: Mr. T. Fukui, Mr. T. Muto, Mr. K. Iwata, Ms. M. Suda, Mr. K. G. Nishimura, Mr. T. Noda, Mr. S. Nakamura, and Mr. H. Kamezaki.
> Votes against the proposal: Mr. A. Mizuno.

Mr. A. Mizuno dissented from the above proposal for the following reasons. First, developments in Japan's economy had been in line with the projection in the April Outlook Report. Second, the impact of swings in financial markets triggered by the U.S. subprime mortgage problem on Japan's financial system and economy would be limited. And third, postponing the decision to raise the policy interest rate target might leave interest rates at levels inconsistent with economic fundamentals even longer.

VII. Discussion on the Bank's View of Recent Economic and Financial Developments

Members discussed "The Bank's View" in the *Monthly Report of Recent Economic and Financial Developments* (consisting of "The Bank's View" and "The Background"), and put it to the 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 August 23, 2007 and the whole report on August 24, 2007.[7]

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of July 11 and 12, 2007 for release on August 28, 2007.

---

[7] The English version of the whole report was published on August 27, 2007.

Attachment

August 23, 2007

Bank of Japan

At the Monetary Policy Meeting held today, the Bank of Japan decided, by an 8-1 majority vote,[Note] 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 0.5 percent.

[Note] Voting for the action: Mr. T. Fukui, Mr. T. Muto, Mr. K. Iwata, Ms. M. Suda, Mr. K. G. Nishimura, Mr. T. Noda, Mr. S. Nakamura, and Mr. H. Kamezaki.

Voting against the action: Mr. A. Mizuno.