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November 5, 2007

Bank of Japan

Minutes of the Monetary Policy Meeting

on September 18 and 19, 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 Tuesday, September 18, 2007, from 2:00 p.m. to 4:33 p.m., and on Wednesday, September 19, from 9:00 a.m. to 1:17 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. H. Moriyama, 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. J. Hamano, Vice Minister for Policy Coordination, Cabinet Office

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on October 31, 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] Mr. H. Moriyama was present on September 19.

[3] Mr. M. Suzuki was present on September 18.

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. S. Yamaguchi, Senior Economist, Monetary Affairs Department

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

Mr. H. Kanno, Director, Deputy Head, Monetary Operations Planning, Monetary Affairs Department[4]

[4] Messrs. M. Ayuse and H. Kanno were present on September 19 from 9:00 a.m. to 9:16 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 August 22 and 23, 2007.[6] As a result, the uncollateralized overnight call rate had been at around 0.5 percent.

B. Recent Developments in Financial Markets

In the money market, interest rates on term instruments, such as yields on financing bills (FBs) and treasury bills (TBs), had edged down. Interest rates on Euroyen futures had been essentially unchanged.

Japanese stock prices plunged temporarily and surged back thereafter, in response to developments in U.S. and European stock prices as well as foreign exchange rates. The Nikkei 225 Stock Average had been at around 16,000 yen recently.

Long-term interest rates dropped, mainly in response to long-term interest rate movements in the United States and Europe, but then increased, 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 114-117 yen.

C. Overseas Economic and Financial Developments

The U.S. economy continued to be in a moderate adjustment phase. Housing investment continued to decrease. Credit conditions in mortgage markets tightened further, due mainly to the subprime mortgage problem affecting a wider range of U.S. financial markets. Business fixed investment remained on a gradual uptrend, although the pace of increase was decelerating. Private consumption had continued to increase, albeit at a slower pace. In this situation, growth in the number of employees had been flattening out at a slightly faster pace recently. 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

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[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.

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 remained widespread in the intermeeting period. Credit spreads had remained wide, especially in U.S. and European financial markets. The supply-demand conditions for funds had been tightening in money markets, mainly due to growing concerns about financial institutions' subprime mortgage-related losses and to the increase in their demand for liquidity as backup funding for asset-backed commercial paper (ABCP) programs. In particular, liquidity had decreased substantially and interest rates had risen in the market for term instruments.

Under these circumstances, the following developments were observed in the U.S. financial market. Developments in stock prices had been mixed: prices of financial stocks fell given concerns about subprime mortgage-related losses, while those of energy-related stocks rose against the background of the rise in crude oil prices. Long-term interest rates continued to fall due to a "flight to quality."

In Europe, as in the United States, developments in stock prices had been mixed and long-term interest rates had declined. In this situation, the European Central Bank and the Bank of England provided ample funds in response to upward pressures on short-term interest rates.

In many emerging economies, stock prices rose in August reflecting strong economic indicators and favorable corporate earnings reports, but had fallen somewhat since the beginning of September. Most currencies had been more or less unchanged on the whole against the U.S. dollar, but many had fallen against the yen reflecting the latter's appreciating trend. Yield differentials between their sovereign bonds and U.S. Treasuries, which had fluctuated widely, had expanded recently.

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 against the background of the expansion of overseas economies as a whole.

As for domestic private demand, business fixed investment had continued to trend upward and was expected to continue to do so 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, the number of new passenger-car registrations, which previously was declining, increased in August, and 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, reflecting the gradual increase in household income.

Production had continued to be on an increasing trend, although it had been flat most recently. It was expected to follow an increasing trend, 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 somewhat 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 some 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 likely to continue increasing for the time being, although the pace of increase was expected to slow. 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. Amendments to Principal Terms and Conditions for Money Market Operations and the Complementary Lending Facility

A. Staff Proposal

In order to reflect the introduction of the Financial Instruments and Exchange Law, which abolished the legal categories referred to as domestic and foreign securities companies, the staff proposed that the Bank make necessary amendments to its principal terms and conditions for money market operations and the complementary lending facility, which recognized domestic and foreign securities companies as eligible counterparties.

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 growth in production, income, and spending in place. They also agreed, however, that as global financial markets continued to be unstable and uncertainty regarding global economic developments was heightening due mainly to increasing downside risks to the U.S. economy, developments in global financial markets and the global economy continued to warrant attention.

Members agreed that overseas economies taken as a whole continued to expand with momentum being gained across a wide range of economies.

Members shared the view that global financial markets remained unsettled due to the U.S. subprime mortgage problem. Many members commented that the functioning of markets for securitized products, mainly collateralized debt obligations (CDOs) and ABCP, had deteriorated significantly, and in the money market, interest rates on term instruments had risen as financial institutions' demand for funds to back up the liquidity of issuers of such products had increased. One member said that market participants were nervous about the magnitude and distribution of potential losses associated with the U.S. subprime mortgage problem as such information had not been available, and therefore it was important that financial institutions disclose it. One member expressed the view that, in a situation where the liquidity of securitized products remained low, the market would take time to settle through repricing of such products. On the other hand, a different member commented that there were signs of global financial markets regaining stability, such as a slowdown in the decline in the amount outstanding of ABCP and a rise in stock prices. Based on the discussion, members shared the view that developments in global financial markets required careful monitoring, particularly developments in the rollover of ABCP, in liquidity and credit backing by financial institutions, and in financial institutions' profits and balance-sheet situation.

Members concurred that the U.S. economy continued to expand moderately, led mainly by private consumption and business fixed investment, although the pace of growth was decelerating. A few members expressed the view that the subprime mortgage problem and the associated unsettledness in financial markets had not affected the U.S. economy negatively so far, as corporate balance sheets had remained sound and the decline in the functioning of credit markets had not caused credit contraction. Most members expressed the view, however, that downside risks to the outlook for the U.S. economy had been increasing. A few members said that there was a growing risk of a protracted correction in the housing market. One of these members added that, in the recent correction in the housing market, unlike in the past, a decline in inflation-adjusted housing prices deflated by the CPI had been observed widely across the United States. Many members said that private consumption could be negatively affected depending on developments in the number of employees and housing prices as well as the degree of tightening in the lending attitudes of financial institutions. In relation to this, one member pointed out that private consumption was more sluggish in the areas where housing prices were declining. Some members said that careful attention should be paid to the effect of the reduction in the policy interest rate by the Federal Reserve, including the reaction of financial markets. As for prices, many members said that, although the year-on-year rate of change in the CPI had recently been declining moderately, it would not be appropriate to conclude that underlying inflation pressures had subsided as labor market conditions had continued to be tight.

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. Many members expressed the view, however, that global financial markets continued to be unsettled and therefore due attention should be paid to the impact on economic activity. A few members commented that in Europe the U.S. subprime mortgage problem had affected some financial institutions, causing them financial difficulties. One member said that, if the turbulence in financial markets were to continue, downside risks to European economies might emerge because the high level of economic activity had been supported by the strong performance of the financial sector.

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.

Regarding Japan's economy, members concurred that exports had continued to increase, reflecting the expansion of overseas economies, and were likely to continue to increase. One member commented that it should be taken into account that materialization of any downside risk to the U.S. economy might negatively affect Japan's exports, given the strong correlation between the economic growth rates of the United States and Japan. Against this view, one member said that the ongoing expansion of the BRICs economies would offset the effects of a deceleration of the U.S. economy, and therefore it was unlikely that the U.S. subprime mortgage problem would directly affect Japan's economy through exports. A different member expressed the view that, due to the diversification of Japan's exports in terms of destinations and types of goods, the effects of a U.S. economic slowdown on Japan's exports would be limited unless it became very sharp.

As for domestic private demand, members agreed that business fixed investment 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 the reason that the growth of business fixed investment in the second preliminary estimate of real GDP for the April-June quarter had turned negative on a quarter-on-quarter basis was a statistical anomaly in the *Financial Statements Statistics of Corporations by Industry, Quarterly*, on which the estimate was based. They continued that other indicators such as shipments of capital goods and machinery orders suggested that fixed investment was on an upward trend. One member commented that business fixed investment by small firms had been sluggish as evidenced, for example, by the fact that machinery orders received through agencies, regarded as reflecting trends in fixed investment by small firms, had been decreasing. This member continued that developments in fixed investment by small firms required careful monitoring in addition to their profits and sentiment. A different member referred to the possibility of the recent rise in crude oil prices exerting downward pressure on profits of small firms that had difficulty in passing on higher production costs to sales prices, and said that careful attention should therefore be paid to developments in small firms' profits. Members agreed that the results of the September *Tankan* (Short-Term Economic Survey of Enterprises in Japan), to be released in early October, needed to be studied to confirm the situation in the corporate sector.

Members concurred that private consumption had been firm and was likely to follow a gradual uptrend, reflecting the gradual increase in household income. Many members expressed the view that private consumption had been firm in terms of the average of July and August, as seen in the following developments: consumption, which was sluggish in July due to adverse weather conditions, recovered in August due to the extremely hot weather; and sales of passenger cars, which previously were declining, increased in August.

Members agreed that housing investment had temporarily dropped sharply, affected by the revised Building Standard Law coming into force. One member said that housing investment was expected to regain its firmness in due course against the background of the rise in household income and the accommodative financial environment. A few members, however, said that developments in housing investment warranted attention, referring to the fact that the ratio of sales of newly built condominiums to supply in the Tokyo metropolitan area had been declining and investment by real estate funds had been decreasing.

Members agreed that, although production had been flat most recently due to the earthquake in Niigata Prefecture, it had continued to be on an increasing trend and was likely to remain so reflecting the rise in domestic and external demand. Some members expressed the view that the production forecast index and interviews with firms suggested that production was likely to show a large increase in the July-September quarter. Members concurred that inventories had been more or less in balance with shipments in the industrial sector as a whole and the supply-demand conditions for electronic parts and devices had been improving. One member noted, however, that there remained uncertainty regarding future developments in inventories of electronic parts and devices given that the book-to-bill ratio of semiconductor manufacturing equipment was below one and semiconductor orders were below the previous year's level. A different member added that attention should be paid to the risk that inventories might increase sharply if the growth in private consumption in the United States decelerated rapidly.

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 3.6 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. Many members referred to the sluggishness in the growth of wages per worker as seen, for example, in a year-on-year decline in special payments. They noted the following as factors behind this sluggishness: retirements in the baby-boomer generation; the rise in the ratio of part-time workers; and the deceleration of growth in profits of small firms. One of these members commented that the growth of wages per worker was likely to be restrained as long as changes in lifestyles, as seen in an increase in part-time employment of women and the elderly, continued and employment patterns continued to diversify through developments such as the introduction of flexible working hours. This member continued, however, that these changes did not reflect an economic downturn.

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

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 since resource utilization had been rising. A few members expressed the view that the pace of increase in the CPI was likely to be slow because it was not easy to pass on higher materials prices to final goods prices and also because the growth in wages had been sluggish. A few members said that, while prices had been basically stable, price rises had been spreading among goods and services related closely to the everyday life of consumers. One of these members commented that price raises by price leaders had been observed recently, and if price rises were to spread to a wider range of goods and services, there was a possibility that prices might rise higher than expected.

B. Financial Developments

On financial developments in Japan, 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 effect of the U.S. subprime mortgage problem on Japan's corporate finance, members made the following overall assessment: the widening of yield spreads between corporate bonds and government bonds had been smaller than in the United States and Europe; also, Japanese financial institutions' exposure to credit products, including U.S. subprime mortgage-related ones, was not significant and the issuance of corporate bonds had gone smoothly in the market. Members also agreed that the lending attitudes of private banks had been accommodative and at present there was no large negative impact on financing by firms.

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 broadly in line with the projection presented in the April 2007 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report); however, global financial markets continued to be unstable, and uncertainty regarding global economic developments was heightening due mainly to increasing downside risks to the U.S. economy; and therefore the Bank should continue to examine upcoming economic indicators and other relevant information as well as financial market conditions carefully.

One member said that although Japan's economy was likely to continue sustainable growth under price stability and any policy change should be made in accordance with improvements in the economic and price situation, at present there was time to carefully assess developments in financial markets and the global economy as well as their effects on Japan's economy. A few members said that, as part of that process, it was important to examine how the effects of developments in global financial markets and the U.S. economy would affect the Bank's baseline scenario and confidence regarding the likelihood of the scenario materializing. One of these members said that once the Bank became confident with reasonable certainty, judging from economic indicators and other supporting evidence, that the baseline scenario was likely to materialize, the Bank should not hesitate to implement a policy change. Based on the above discussion, members agreed, with regard to the relationship between overseas financial markets and economies and Japan's monetary policy, that the latter should be conducted focusing on how the former would affect the projection for and risks to Japan's economic activity and prices. They also agreed that it would be important that the Bank explain this approach in its communication.

On the subprime mortgage problem, members discussed the fundamental nature of the problem and how it would affect monetary policy. Some members expressed the view that the problem was caused by a bringing back into line of excessive financial behavior in the long period of monetary easing, and that it was considered as a case where the risk of "possible larger swings in financial and economic activity based on optimistic assumptions regarding, for example, financial conditions," described in the April Outlook Report, had materialized. One member said that it was important that the Bank conduct monetary policy taking into consideration the long-run consequences of economic and financial activity before they emerged. A few other members expressed the view that excessive positions in markets had already been reduced, and as a result the upside risk arising from excessive monetary easing seemed to have decreased at present. They continued that it was nevertheless appropriate that the Bank maintain the stance of adjusting the level of interest rates in accordance with improvements in the economic and price situation in order to prevent a misallocation of resources in the long run.

V. Remarks by Government Representatives

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

(1) The second preliminary estimates of real GDP for the April-June quarter of 2007 showed negative growth, decreasing by 0.3 percent on a quarter-on-quarter basis. However, private consumption had continued to increase gradually, showing an increase of 0.3 percent on a quarter-on-quarter basis in the same quarter. Japan's economy as a whole continued to experience a sustained recovery. 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 continued to be somewhat volatile due to the subprime mortgage problem. In the United States, there was a policy change, with the policy interest rate being lowered by 0.5 percentage point. The government would like the Bank to carefully monitor developments in the Japanese and the global economy, particularly the U.S. economy, and also in financial markets, and continue to react appropriately to changes in trends. The Ministry of Finance would also give due consideration to developments in the economy and financial markets, both at home and abroad.

(4) Furthermore, 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) Japan's economy was recovering, although some weaknesses had been seen recently. A comprehensive review of developments in prices suggested that the economy had not yet overcome deflation. Improvement in consumer prices was slower than expected,

and the year-on-year rate of change in the CPI had recently been negative. Inflation pressures stemming from domestic factors had still been weak as seen in the fact that there had recently been little slackening in the pace of the continued decline in unit labor costs. However, the rate of change in consumer prices was likely to eventually turn positive, 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 that developments in overseas economies, particularly in the United States, and in crude oil prices might negatively affect Japan's economy.

(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.

(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.

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, a change in the projection for Japan's economy was not necessary because swings in financial markets triggered by the U.S. subprime mortgage problem were at present only one of the risks to Japan's economy. Third, postponing the decision to raise the policy interest rate target might leave interest rates at levels inconsistent with economic fundamentals even longer. And fourth, the consistency between the Bank's assessment that developments in Japan's economy had been broadly in line with the projection in the April Outlook Report and the policy decision maintaining the current policy guideline would be difficult for market participants to understand.

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 September 19, 2007 and the whole report on September 20, 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 August 22 and 23, 2007 for release on September 25, 2007.

[7] The English version of the whole report was published on September 21, 2007.

Attachment

September 19, 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.