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February 20, 2008

Bank of Japan

Minutes of the Monetary Policy Meeting

on January 21 and 22, 2008

(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 21, 2008, from 2:00 p.m. to 4:18 p.m., and on Tuesday, January 22, from 9:00 a.m. to 12:15 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

Mr. S. Uchida, Associate 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 February 14 and 15, 2008 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 January 22.

[3] Mr. M. Suzuki was present on January 21.

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. Sekine, Senior Economist, Monetary Affairs Department

Mr. S. Yamaguchi, Senior Economist, Monetary Affairs Department

Mr. K. Suzuki, 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 19 and 20, 2007.[5] The Bank conducted operations flexibly, providing the market with sufficient funds to meet strong demand for funds maturing beyond the year-end. 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, Euroyen rates and interest rates on term instruments, such as yields on financing bills (FBs) and treasury bills (TBs), had been more or less flat. Interest rates on Euroyen futures, particularly those with distant contract months, had fallen further.

Japanese stock prices fell, against the background of concerns about a further slowdown in the U.S. economy and of the appreciation of the yen. The Nikkei 225 Stock Average had recently been at around 13,000 yen.

Long-term interest rates declined following those in the United States and Europe, and had recently been in the range of 1.3-1.4 percent.

The yen appreciated against the U.S. dollar, mainly due to weaker-than-expected U.S. economic indicators, and had recently been traded in the range of 105-108 yen against the dollar.

C. Overseas Economic and Financial Developments

A slowdown in the U.S. economy was becoming more evident. Housing investment continued to decrease substantially. Business fixed investment remained on a gradual uptrend as a whole due to the steady growth in construction investment, although a deceleration of growth in machinery investment had recently become more evident. Private consumption continued to be on an increasing trend, albeit with a somewhat clearer slowing of the pace of increase. In this situation, growth in the number of employees had

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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 0.5 percent.

been decelerating at a slightly faster pace recently. The labor market had continued to be tight, but there were signs of a gradual softening. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items was at the 4.0-5.0 percent level, mainly reflecting the rise in energy prices, and that in the CPI for all items less energy and food, or the core CPI, had remained slightly over 2 percent. These facts suggested that underlying inflation pressures had not subsided yet.

In the euro area, both domestic and external demand continued to expand on the whole. Business fixed investment and exports remained on an upward trend. However, the pace of increase in some indicators relating to production seemed to be slowing, and some indicators relating to private consumption, such as retail sales, had started to decrease recently mainly reflecting a deterioration in consumer sentiment. As for prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) for all items was at the 3.0-4.0 percent level, reflecting the rise in energy and food prices. The U.K. economy continued to show relatively high growth, led mainly by domestic demand, but growth in housing investment and private consumption had been decelerating.

In China, both domestic and external demand continued to expand strongly. 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. On the price front, the year-on-year rate of increase in the overall CPI remained high in many Asian economies, reflecting the rise in energy and food prices.

In global financial markets, widespread adjustments stemming from the U.S. subprime mortgage problem continued. In money markets, interest rates on term instruments, which previously were rising substantially, had declined due mainly to measures taken by five central banks in North America and Europe to provide liquidity to the markets. Meanwhile, repricing of securitized products had continued, and credit spreads such as credit default swap (CDS) premiums and corporate bond spreads had widened further. Under these circumstances, U.S. stock prices had fallen substantially starting from the year-end, due to growing market concerns about the outlook for the U.S. economy and possible further losses that financial institutions might incur. Long-term interest rates in the United States had also decreased substantially, due mainly to a "flight to quality." In Europe, developments in stock prices and long-term interest rates had basically followed those in the United States. Developments in stock prices in emerging economies had generally reflected those in the United States and Europe.

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 rose substantially in the July-September quarter from the previous quarter, and the average of October and November was higher than the July-September quarter average. By region, although exports to the United States had remained relatively weak, those to other regions had continued to grow. Exports overall 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 picked up from August, supported mainly by strong sales of new models, but fell back considerably in December. Sales of electrical appliances had continued to increase reflecting the continuing strong sales of digital appliances such as flat-panel televisions and of game consoles. Sales at department stores and supermarkets, which primarily sold nondurable and semi-durable consumer goods, had been more or less unchanged, with fluctuations caused by the weather. As for services consumption, sales in the food service industry and outlays for travel had generally been firm. Indicators of consumer sentiment suggested that it had become generally cautious, due mainly to rises in prices of daily necessities, such as petroleum products and food products. Private consumption was expected to follow a gradual uptrend, reflecting the gradual increase in household income.

As for housing investment, housing starts had dropped substantially, affected by the coming into force of the revised Building Standard Law. However, the number of housing starts had recently started to show signs of recovery, primarily in small-scale properties. Housing investment was likely to be sluggish for the time being, but was expected to regain its firmness in due course against the background of the rise in household income and the accommodative financial environment.

Production had continued to increase and was expected to continue to follow an increasing trend, reflecting the rise in domestic and external demand. Inventories had been more or less in balance with shipments.

As for employment and income, in a situation where firms were increasingly feeling a shortage of labor, household income had continued rising moderately, supported by the increase in the number of employees. Nominal wages per worker, however, had remained somewhat weak. The gradual increase in household income was likely to continue against the background that firms continued to feel a shortage of labor and corporate profits were expected to remain high.

On the price front, international commodity prices had remained high. Crude oil prices had continued to be strong, partly due to the speculative inflow of funds in addition to the tightening of supply and demand conditions. Prices of crops such as wheat had also continued to increase, due to the ongoing rise in global demand and adverse weather in major producing areas. On the other hand, prices of nonferrous metals had been softening, partly due to concerns about a further slowdown in the U.S. economy. 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. The year-on-year rate of change in the CPI (excluding fresh food) was 0.4 percent in November, after turning positive in October. It was projected to follow a positive trend due to the rise in prices of petroleum products and food products in the short run and the positive output gap in the longer run.

2. Financial environment

The environment for corporate finance was accommodative. Credit demand in the private sector had been more or less flat, since ample cash flow had slowed the increase in corporate demand for external funds. The issuing environment for CP and corporate bonds had been favorable as a whole, although issuance spreads on those issued by firms with low credit ratings had expanded slightly. The lending attitudes of private banks had continued to be accommodative, and the amount outstanding of lending by private banks had been increasing moderately. The amount outstanding of CP and corporate bonds issued had been above the previous year's level. Funding costs for firms had been more or less unchanged. The year-on-year rate of growth in the money stock (M_2+CDs) was around 2 percent.

II. 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 the economy was expanding moderately as a trend, although the pace of growth seemed to be slowing temporarily mainly due to the drop in housing investment. They also agreed that the virtuous circle of growth in production, income, and spending remained basically intact, and the economy was likely to continue expanding moderately, although the pace of growth was likely to slow for the time being. Members, however, shared the view that developments in global financial markets and the global economy continued to warrant attention, because global financial markets remained unstable and global economic developments were becoming more uncertain due, for example, to the surge in international commodity prices, particularly crude oil prices, and to growing downside risks to the U.S. economy. One member said that the rise in materials prices and the coming into force of the revised Building Standard Law were squeezing corporate profits, and developments should continue to be monitored because they could negatively affect wages and in turn private consumption. Some members commented that reports at the meeting of general managers of the Bank's branches generally confirmed the above assessment of Japan's economy, although there were regional differences.

Members agreed that overseas economies taken as a whole continued to expand with momentum being gained across a wide range of economies. They also agreed, however, that overseas economic developments had become more uncertain due to, for example, the fact that a slowdown in the U.S. economy was becoming more evident. Many members said that attention needed to be paid to the fact that inflation pressures were strong worldwide against the background of the rises in energy and food prices.

With regard to global financial markets, some members said that interest rates on term instruments had regained some stability, due mainly to measures taken by five central banks in North America and Europe to provide liquidity to money markets. Members, however, agreed that the functioning of markets for securitized products had continued to be impaired. Many members said that credit spreads such as corporate bond spreads and

CDS premiums were widening. As for stock markets worldwide, many members noted that stock prices continued to fall substantially after the turn of the year, reflecting concerns about possible further losses that U.S. and European financial institutions might incur and weaker-than-expected U.S. economic indicators. Some members said that the downgrading of monoline insurers might lead to a broader downgrading of securities guaranteed by them, and this might negatively affect financial institutions' income and stock prices. Many members remarked that market participants were still highly concerned about possible further losses that U.S. and European financial institutions might incur and that attention should be paid to developments in the capital planning of financial institutions. Based on the discussion, members agreed that global financial markets taken as a whole remained unstable.

With regard to the U.S. economy, members concurred that housing investment continued to decrease substantially and a slowdown in the economy was becoming more evident. Many members noted sluggish housing starts and sales as well as the continuing large fall in housing prices, and said that there had been no signs that the adjustments in the housing market were nearing completion. Some members added that it was highly probable that the adjustments would take more time than had been expected.

Members agreed that private consumption and business fixed investment in the United States continued to increase moderately, albeit with a somewhat clearer slowing of the pace of increase. With regard to the corporate sector, some members noted that the PMI, compiled by the Institute for Supply Management (ISM), fell below 50 percent in December for the first time in eleven months. A few members then said that a slowdown in business fixed investment, particularly machinery investment, was becoming somewhat more evident. Many members, however, noted that the financial condition of firms was sound, shipments and inventories were well balanced, and exports were still increasing, and said that there had been no signs of the corporate sector undergoing a severe adjustment.

Regarding the U.S. household sector, many members noted slower growth in retail sales, including sluggish holiday sales, and said that the pace of increase in private consumption seemed to be slowing. A few members said that consumer sentiment was weak due partly to high gasoline prices and the fall in stock prices, and this was likely to negatively affect private consumption. Some members noted that delinquency rates on consumer loans, for example auto loans and credit card loans, were increasing, and a few of these members continued that possible effects on private consumption and repricing of securitized products warranted attention. Regarding the employment situation, many members noted the significantly slower growth in the number of employees. They expressed the view that, even taking into account the fact that this indicator tended to fluctuate from month to month, its slower growth, as well as a higher unemployment rate, might be indicating some softening in the labor market. Against this view, one member said that the number of initial claims for unemployment insurance and layoffs did not suggest a rapid employment adjustment. A different member also said that it was too early to conclude from indicators relating to employment released so far that the labor market was softening.

As for the financial environment, some members noted that financial institutions had tightened their stance with regard to providing loans, and said that attention should be paid to possible effects on economic activity.

Based on the discussion, members agreed that a slowdown in the U.S. economy was becoming more evident, although in the longer term its growth was likely to accelerate to around its potential growth rate. Some members added that downside risks to the U.S. economy had increased and there was uncertainty of the timing of it realizing a soft landing. One member said that the U.S. subprime mortgage problem was essentially a nonperforming-loan problem and it would be some time before it was resolved. A few members, however, commented that the extent of the recent slowdown in the economy was within expectation. Many members said that they would be following closely the progress of tax cuts and other new policies of the U.S. government, and their effects.

As for prices, many members' assessment was that underlying inflation pressures in the United States had not yet subsided as the labor market had continued to be tight and energy and food prices had risen. They added that due attention should continue to be paid to both downside risks to the U.S. economy and upside risks to prices in the United States.

With regard to European economies, members shared the view that the economy of the euro area continued to expand. A few members, however, noted some weakness in indicators relating to production and private consumption. Some members said that attention should be paid to possible effects on economic activity of the tightened lending stance of financial institutions. As for prices, some members said that the possibility should be noted that increasing upward pressure on wages might lead to a higher inflation rate.

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 said that attention should continue to be paid to the effects of monetary tightening in China.

Members concurred that Japan's exports had continued to increase, reflecting the expansion of overseas economies, and were likely to continue to increase. Some members noted that, although exports to the United States had remained relatively weak as a trend, those to other regions, especially emerging economies, had been growing.

As for domestic private demand, members shared the view that business fixed investment had continued to trend upward, and was likely to keep increasing, albeit at a slower pace, since the growth in domestic and external demand and high corporate profits were likely to be maintained. One member, however, said that attention should be paid to the possibility that downward pressure on corporate profits caused by higher materials prices might affect fixed investment by firms, particularly small firms. A different member expressed the view that, although construction starts in terms of floor area had increased for two consecutive months partly due to a rush of demand just before the coming into force of one of the three revised laws on urban development, it was still likely that the revised Building Standard Law, which had recently come into force, would continue to exert downward pressure on business fixed investment for the time being.

Members concurred that private consumption had been firm and was likely to follow a gradual uptrend, reflecting the gradual increase in household income. Most members, however, noted that consumer sentiment had become cautious due to the rise in prices of petroleum-related products and food products, and said that attention should be paid to the effects of this cautiousness and the fall in stock prices on consumer spending.

As for employment and income, members agreed that, in a situation where the labor market had continued to tighten, household income was likely to continue rising moderately, supported by the increase in the number of employees. They also concurred that wages had remained somewhat lackluster. In relation to this, some members said that whether the positive stance of an employers' association on wage increases would contribute to a rise in wages was a matter that warranted attention. One of these members commented that demand for wage increases might become stronger with higher inflation expectations. Another member, however, expressed the view that wage increases were unlikely to rapidly become widespread amid, in addition to the appreciation of the yen and higher materials prices, a heightening of uncertainty regarding global economic developments.

Members agreed that housing investment had dropped sharply, affected by the coming into force of the revised Building Standard Law. Some members said that the number of housing starts had recently started to show signs of recovery, primarily in small-scale properties. Many members expressed the view that housing investment was likely to be sluggish for the time being but recover gradually and regain its firmness in due course against the background of the rise in household income and the accommodative financial environment. A few members, however, noted that it was uncertain whether applications for building permits would be processed swiftly and smoothly given the limited number of staff. Many members said that the rise in prices of condominiums had exerted downward pressure on housing demand. As for developments in the real estate market as a whole, one member noted that the Japanese market in office space and commercial real estate seemed to be experiencing an inflow of capital that had been invested in the U.S. and European markets.

Members agreed that production had been increasing recently and was likely to be on an upward trend reflecting the rise in domestic and external demand. They also concurred that inventories, including those of electronic parts and devices, had been more or less in balance with shipments. With regard to electronic parts and devices, one member, however, commented that while competition among manufacturers to expand production capacity was intensifying, the risk of deceleration of growth in U.S. private consumption was increasing, and therefore, future developments in the balance between shipments and inventories required close monitoring.

As for prices, members said that the CGPI had been increasing, mainly due to the rise in international commodity prices, and was likely to continue increasing for the time being.

Members concurred that the year-on-year rate of change in the CPI (excluding fresh food) was likely to follow a positive trend due to the rise in prices of petroleum products and food products in the short run and the positive output gap in the longer run. Some members said that households were increasingly expecting higher prices since rises in prices of daily necessities had been increasing. One of these members commented that consumers seemed to be showing some degree of acceptance of the price rises. Another member said that careful attention should be paid to the possibility that a rise in inflation expectations among households might lead to a higher-than-expected rate of inflation, as well as higher wages. A different member was, however, of the opinion that it would be some time before a wide range of firms passed on higher costs to sales prices, given consumers' aversion to price rises and the ongoing severe competition among firms, for example in the distribution sector.

B. Financial Developments

On financial developments in Japan, members concurred that the financial environment remained accommodative. A few members commented that the effects of the instability in global financial markets on the domestic financial environment remained limited so far. One member said that the issuing environment for CP and corporate bonds had been accommodative as a whole, although issuance spreads on those issued by firms with low credit ratings had expanded slightly. The member also said that the lending attitudes of financial institutions had continued to be accommodative.

C. Interim Assessment

Given the above assessment of economic activity, prices, and financial developments, members agreed that developments in Japan's economy had so far deviated somewhat downward from the projection presented in the *Outlook for Economic Activity and Prices* (hereafter the Outlook Report) released in October 2007, mainly due to the protracted decline in housing investment, and that as a result the rate of real GDP growth in fiscal 2007 was likely to be slightly lower than the potential growth rate. As for the outlook, members concurred that, with a virtuous circle of growth in production, income, and spending remaining basically intact, in fiscal 2008 the rate of real GDP growth was likely to be broadly as projected and slightly higher than the potential growth rate, as housing investment was expected to recover gradually. They shared the view that due attention should be paid to factors that would affect this outlook, such as uncertainties regarding future developments in overseas economies and global financial markets, as well as the effects of high energy and materials prices.

Regarding prices, members agreed that the rate of increase in domestic corporate goods prices for both fiscal 2007 and 2008 was likely to be higher than the projection in the Outlook Report, mainly due to the rise in international commodity prices.

Members agreed that the rate of increase in consumer prices for fiscal 2007 was likely to be somewhat higher than the projection in the Outlook Report due to the increase in prices of petroleum products and food products. They also concurred that in fiscal 2008 consumer prices were likely to be broadly as projected, since it was likely that the effects of the increase in prices of petroleum products and food products would remain while the effects of a temporary slowdown in the economy would emerge.

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

On the guideline for money market operations for the intermeeting period ahead, members agreed that, given the economic and financial situation, it would be appropriate to maintain the current guideline that the Bank would encourage the uncollateralized overnight call rate to remain at around 0.5 percent. They shared the following view: (1) global financial markets continued to be unstable, and there was uncertainty of global economic developments due, for example, to the surge in international commodity prices, particularly crude oil prices, and to downside risks to the U.S. economy; (2) the pace of growth of Japan's economy was slowing temporarily mainly due to the drop in housing investment; (3) however, the mechanism of Japan's economic growth basically remained in place, and the economy was likely to continue expanding moderately under price stability; and (4) in this situation, it was appropriate to carefully examine economic and financial developments at home and abroad to grasp the situation more accurately.

Members concurred that their basic thinking on the monetary policy stance for the future remained unchanged. Some members noted the possibility in the short run of slower economic growth and a higher rate of increase in the CPI, and said that it was important not to be swayed too much by short-term developments but to make forward-looking projections of economic and price trends and clearly explain them based on the mechanism underlying economic and price developments.

In addition to the above discussion, members discussed, as in the previous meeting, how the rise in domestic prices triggered by the surge in international commodity prices, particularly crude oil prices, should be understood and how it should be reflected in the conduct of monetary policy. Some members expressed the view that not only supply shocks but also the growth of emerging economies, a demand-side factor, was placing stronger inflation pressure on the global economy, and the degree to which each was contributing should be assessed. In relation to this, one member said that Japan's economy was faced with both negative and positive factors: while suffering from the outflow of income resulting from the deterioration in the terms of trade, the economy was enjoying a rise in exports due to the expansion of global demand. This member continued that it was essential to determine to what extent these factors would affect economic and price developments. Another member said that the recent rises in prices were due, not only to the surge in international commodity prices, but also to the fact that the continuing positive output gap had started to affect prices. Meanwhile, a different member noted the importance of thoroughly examining whether the recent price rises would lead to higher inflation expectations among firms and households and affect their outlook for prices. In this regard, some members said that recent surveys suggested that the inflation expectations of private economic entities might be changing, and any changes should be watched closely. One member, however, expressed the view that at the moment the risk of higher inflation expectations leading to higher inflation might not be great, as the rate of inflation expected by households in the recent surveys might have been strongly influenced by the most recent changes in prices and might therefore be a little too high.

IV. Remarks by Government Representatives

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

(1) Japan's economy as a whole continued to experience a sustained recovery, although some weaknesses had been seen as evidenced by the fact that housing construction remained at a low level and business sentiment was somewhat cautious. Domestic corporate goods prices had been rising due to increased materials prices. The trend of consumer prices had been flat although prices, particularly those of petroleum products, had been rising recently. Developments in global financial markets, especially stock markets, had been volatile due mainly to concerns about a further slowdown in the U.S. economy.

(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) Developments in the U.S. subprime mortgage problem, in crude oil prices, and in the global economy, particularly the U.S. economy, should continue to be watched closely. The government would like the Bank to carefully monitor both the effects of developments in these areas on Japan's economy and developments 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. Housing construction remained at a low level, although it was picking up. Due attention should be paid to the fact that downside risks to Japan's economy -- such as the possibility that developments in the U.S. economy, swings in global financial markets, and developments in crude oil prices might negatively affect it -- had increased. In this economic situation, the trend of consumer prices had been flat although prices, particularly those of petroleum products, had been rising due to the surge in crude oil prices. There had been little slackening in the pace of the continued year-on-year decrease in the GDP deflator, suggesting that inflation pressures stemming from domestic factors had still been weak.

(2) With regard to the Bank's interim assessment of the October 2007 Outlook Report about to be made in a situation where economic growth had deviated below the projection, the government would like the Bank to clearly explain how it assessed the underlying trend in prices, that is, the price trend excluding the effects of the surge in crude oil prices, and what the risks were to the outlook for economic activity and prices.

(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. On January 18, 2008, the Cabinet

approved "Direction and Strategy for the Japanese Economy" and "Fiscal 2008 Economic Outlook and Basic Stance for Economic and Fiscal Management." The government submitted the budget for fiscal 2008 to the Diet on the same day. The government would promote reforms based on both "Direction and Strategy for the Japanese Economy" and "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, paying due attention to economic and price developments in view of downside risks to the outlook for economic activity and prices.

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 0.5 percent.

To reflect this 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. A. Mizuno, Mr. K. G. Nishimura, Mr. T. Noda, Mr. S. Nakamura, and Mr. H. Kamezaki.

Votes against the proposal: None.

VI. 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 January 22, 2008 and the whole report on January 23, 2008.[6]

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of December 19 and 20, 2007 for release on January 25, 2008.

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6 The English version of the whole report was published on January 24, 2008.

Attachment

January 22, 2008

Bank of Japan

At the Monetary Policy Meeting held today, the Bank of Japan decided, by a unanimous 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. A. Mizuno, Mr. K. G. Nishimura, Mr. T. Noda, Mr. S. Nakamura, and Mr. H. Kamezaki.
Voting against the action: None.