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August 22, 2008

Bank of Japan

Minutes of the Monetary Policy Meeting

on July 14 and 15, 2008

(English translation prepared by the Bank's staff based on the Japanese original)

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Secretariat of the Policy Board, Bank of Japan

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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, July 14, 2008, from 2:00 p.m. to 4:31 p.m., and on Tuesday, July 15, from 9:00 a.m. to 1:19 p.m.¹

Policy Board Members Present

Mr. M. Shirakawa, Chairman, Governor of the Bank of Japan

Mr. K. G. Nishimura, Deputy Governor of the Bank of Japan

Ms. M. Suda

Mr. A. Mizuno

Mr. T. Noda

Mr. S. Nakamura

Mr. H. Kamezaki

Government Representatives Present

Mr. C. Kawakita, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance

Mr. B. Fujioka, Vice Minister for Policy Coordination, Cabinet Office

Reporting Staff

Mr. H. Yamaguchi, Executive Director²

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

Mr. K. Ido, Executive Director

Mr. K. Yamamoto, Executive Director

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

Mr. M. Ayuse, Associate Director-General, Monetary Affairs Department³

¹ The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on August 18 and 19, 2008 as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

² Mr. H. Yamaguchi was present on July 14 from 2:00 p.m. to 2:26 p.m. and from 4:00 p.m. to 4:31 p.m., and on July 15 for the whole of the session.

³ Mr. M. Ayuse was present on July 15 from 12:33 p.m. to 1:19 p.m.

Mr. S. Uchida, Associate Director-General, Monetary Affairs Department⁴
Mr. T. Sekine, Associate Director-General, 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. Nunami, 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. K. Nakamura, Senior Economist, Monetary Affairs Department
Mr. K. Fujita, Director, Deputy Head, Monetary Operations Planning, Monetary Affairs Department⁵

⁴ Mr. S. Uchida was present on July 14 for the whole of the session, and on July 15 from 9:00 a.m. to 1:01 p.m.

⁵ Mr. K. Fujita was present on July 15 from 12:33 p.m. to 1:19 p.m.

I. Summary of Staff Reports on Economic and Financial Developments⁶

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 June 12 and 13, 2008.⁷ 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 on the whole. Interest rates on Euroyen futures, particularly those with distant contract months, had decreased.

Japanese stock prices had fallen, following U.S. and European stock prices. The Nikkei 225 Stock Average had been moving at around 13,000 yen recently.

Long-term interest rates had declined against the background that those in the United States had declined and market participants' views regarding the outlook for Japan's economy had become cautious. They had recently been in the 1.6-1.7 percent range.

The yen had been more or less unchanged against the U.S. dollar, albeit with some fluctuations, and had recently been traded in the range of 107-108 yen against the dollar.

C. Overseas Economic and Financial Developments

Growth in the U.S. economy had remained sluggish. In the housing market, significant adjustments were still continuing. Private consumption had continued to be more or less unchanged, and business fixed investment had decelerated noticeably. Industrial production and the number of employees had continued to decline. As for prices, the year-on-year rate of increase in consumer prices had been elevated, not only in terms of the consumer price index (CPI) for all items but also the CPI for all items less energy and food, or the core CPI, which registered a year-on-year rate of increase of 2.0-2.5 percent.

The economy of the euro area continued to grow, although the pace of growth was

⁶ Reports were made based on information available at the time of the meeting.

⁷ The guideline was as follows:

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

slowing moderately. Business fixed investment remained on an upward trend. Exports had been on a moderate uptrend, but survey results suggested that their growth was likely to slow. In addition, housing investment had been on a declining trend, and the pace of growth in private consumption had slowed. As for prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) had risen further, reflecting the rise in energy and food prices. At the regular meeting of the Governing Council on July 3, 2008, the European Central Bank (ECB) had increased its key interest rate by 25 basis points to 4.25 percent. The U.K. economy had been decelerating mainly due to significant adjustments in the housing market.

In China, both domestic and external demand continued to expand strongly. India's economy continued to show relatively high growth, although it was slowing moderately. The NIEs and ASEAN economies as a whole continued to expand at a moderate pace, but exports continued to decelerate and some signs of a slowdown in domestic demand had been observed recently. As for prices, the year-on-year rate of increase in the CPI for all items had risen in many Asian economies due to the rise in energy and food prices.

Global financial markets remained unstable due mainly to the rekindling of market concerns about further losses that U.S. and European financial institutions might incur as well as to concerns over global inflation. In the U.S. and European financial markets, stock prices had dropped sharply and long-term interest rates had fallen. Stock prices in emerging economies had also dropped significantly, due mainly to the rise in inflation. Monetary policy had been tightened in many emerging economies due to increasing inflationary pressures.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had continued to be on an increasing trend, although the pace of increase had slowed lately. They were expected to stay on an increasing trend, as overseas economies were likely to expand although at a slower pace.

In relation to domestic private demand, corporate profits had been decreasing mainly due to the deterioration in the terms of trade, and business sentiment had become more cautious. In this situation, the pace of increase in business fixed investment had

become slower. Growth in business fixed investment was projected to remain somewhat sluggish for the time being but gradually gain firmness thereafter, since the global economy was expected to continue expanding and since corporate profits were projected to return to an upward trend as the rise in energy and materials prices moderated.

Growth in private consumption had recently been somewhat sluggish against the background of the continued increase in prices mainly of petroleum products and food. Sales of electrical appliances had continued to increase steadily, assisted by strong sales of digital appliances such as flat-panel televisions. Growth in the number of new passenger-car registrations had recently been sluggish partly due to high gasoline prices. As for nondurable and semi-durable consumer goods, sales at department stores had continued to be relatively weak, notably in apparel and general merchandise. Sales at supermarkets had remained more or less flat, while those at convenience stores had recently increased somewhat partly due to a rise in cigarette sales. As for services consumption, outlays for travel seemed to have peaked out, while growth in sales in the food service industry had continued to be sluggish. Consumer sentiment had become more cautious as a result of widespread rises in prices of petroleum products and food. Growth in private consumption was likely to be somewhat sluggish for the time being, but with household income on a gradual uptrend, it was expected to gradually gain firmness thereafter as the rise in prices came to a halt.

The recovery in housing investment had come to a halt. The number of housing starts, a leading indicator of housing investment, continued to pick up until January 2008, but the recovery then stalled. This seemed to be mainly due to the softness in sales of condominiums and further increases in prices of structural steel. Housing investment was expected to be more or less flat for the time being, given the stalling of housing starts.

Production had recently been somewhat weak and, in light of developments in demand both at home and abroad, was expected to be more or less flat in the short run and return to an increasing trend thereafter. Inventories had been more or less in balance with shipments.

As for employment and income, in a situation where firms continued to feel a shortage of labor, household income had been rising moderately. The year-on-year rate of change in nominal wages per worker had been positive lately. Household income was expected to follow a moderate rising trend, as it was expected that the labor shortage would

persist and production would gradually return to an increasing trend after being flat.

On the price front, international commodity prices had been rising. Crude oil prices had continued to rise, reaching record highs, and prices of nonferrous metals and crops, which had been soft some time ago, had strengthened again. The three-month rate of change in the domestic corporate goods price index (CGPI) was likely to continue to be positive for the time being, mainly due to the rise in international commodity prices. The year-on-year rate of change in the CPI (excluding fresh food) was around 1.5 percent. It was projected to be positive at around the current level or somewhat higher for the time being, due to the rise in prices of petroleum products and food, in a situation where aggregate supply and demand in the economy were more or less balanced.

2. Financial environment

The environment for corporate finance was accommodative. Credit demand in the private sector had been increasing moderately. 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 remained relatively high. The lending attitudes of private banks had continued to be generally accommodative, and the amount outstanding of lending by private banks had been increasing. 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 financial positions of firms as a whole had continued to be favorable, but those of small firms had deteriorated somewhat. The year-on-year rate of growth in the money stock (M2) was around 2 percent.

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

A. Economic Developments

Members agreed on the following assessment of the current state of Japan's economy: economic growth was slowing further reflecting weaker growth in business fixed investment and private consumption against the backdrop of high energy and materials prices; while growth would likely remain slow for the time being, the economy was expected to gradually return onto a moderate growth path thereafter.

Members agreed that, although overseas economies taken as a whole continued to

expand, downside risks remained elevated, mainly reflecting the disruptions in global financial markets and sluggish growth in the U.S. economy.

Members shared the view that global financial markets remained unstable, mainly due to market concerns about further losses that U.S. and European financial institutions might incur and to rising global inflationary pressures.

Members concurred that growth in the U.S. economy had remained sluggish and that there was considerable uncertainty regarding when and how the negative feedback loop between financial markets, asset prices, and economic activity would diminish. They agreed that adjustments in the housing market were still continuing as seen in a faster pace of decline in home prices, and there were no signs of the housing market bottoming out. Some members said that, although retail sales had picked up recently owing to tax rebates, they could not confirm improvement in the underlying trend of private consumption given that the employment situation continued to deteriorate and consumer sentiment had become more cautious. These members were of the view that attention should be paid to the possibility that private consumption would weaken as the effects of tax rebates dissipated.

With regard to European economies, members shared the view that the economy of the euro area continued to grow, although the pace of growth was slowing moderately. A few members, however, added that the difference in economic growth between euro area countries had been widening. A few other members said that survey results suggested a possible further slowdown in economic growth of the euro area.

On Asian economies, members concurred that China and India continued to show high growth. They also agreed that, although the pace of growth in exports in the NIEs and ASEAN economies had started to slow and there had been signs of a slowdown in domestic demand against the backdrop of the rise in energy and food prices, these economies as a whole continued to expand at a moderate pace.

Regarding global price developments, members agreed that inflationary pressures were increasing further globally, reflecting the rise in international commodity prices, particularly crude oil prices. Some members said that general prices had increased in some economies due not only to the rise in energy and materials prices but also to second-round effects, and expressed the view that the tightening of monetary policy might be insufficient in these economies.

Members concurred that Japan's exports had continued to be on an increasing

trend against the background of the expansion of overseas economies, although the pace of increase had slowed lately, and that they were likely to stay on an increasing trend. Some members, however, said that the deceleration of overseas economic growth seemed to be starting to affect Japan's exports, and therefore due attention should be paid to the degree of the deceleration.

In relation to domestic private demand, members agreed that corporate profits had been decreasing mainly due to the deterioration in the terms of trade, and business sentiment had become more cautious. They also concurred that the pace of increase in business fixed investment had become slower. Many members commented on the results of the June 2008 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) that while fixed investment plans of small firms and large nonmanufacturing firms were somewhat weak, those of large manufacturers were relatively firm. These members were of the view that large manufacturers might be increasing investment aimed at, for example, meeting medium- to long-term demand for their products and energy saving in view of the rise in energy prices. They added, however, that attention should be paid to the risk that, depending on future economic developments, firms might postpone implementation of their fixed investment.

Members concurred that growth in private consumption had recently been somewhat sluggish against the background of the continued increase in prices of petroleum products and food. Some members noted that it was reported at the meeting of general managers of the Bank's branches held on July 7, 2008 that many regions' economic assessments had been revised downward from the previous assessments, reflecting the sluggish growth in private consumption due to price rises. Members agreed that growth in private consumption was likely to be somewhat sluggish for the time being, but was likely to gradually gain firmness thereafter as the rise in prices came to a halt.

As for employment and income, members shared the view that household income had been rising moderately. A few members, however, said that firms were keeping bonus payments down given the decrease in their profits. A few other members expressed the view that marginal demand for labor might be weakening somewhat, noting the fact that the pace of increase in the number of employees in the *Labour Force Survey* had been slowing recently and the ratio of job offers to applicants had continued to decline.

Members concurred that the recovery in housing investment had come to a halt,

and housing investment was likely to be more or less flat for the time being. Some members said that the stalling of the recovery in housing investment was mainly due to the softness in sales of condominiums and the rise in prices of building materials.

Members agreed that production had recently been somewhat weak and was likely to be more or less flat in the short run and return to an increasing trend thereafter.

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 likely to continue increasing for the time being.

Members concurred that the year-on-year rate of increase in the CPI (excluding fresh food) was rising mainly due to the rise in prices of petroleum products and food. As in the previous meeting, members exchanged views regarding the effects on general prices of the rise in energy and materials prices. Many members said that wages had not risen markedly in Japan and to date there had been no sign of second-round effects from the rise in prices of petroleum products and food. Some members remarked that firms had increasingly been linking changes in wages, especially bonuses, to corporate performance and were likely to maintain their stance of restraining wages for the time being given the current decrease in their profits. One member commented that consumers were becoming accustomed to price increases and firms were gradually becoming more inclined to pass on higher costs to sales prices. The member continued that the Bank should keep close watch for any sign of second-round effects. A different member said that the possibility of second-round effects emerging depended on inflation expectations of households and firms, but these were difficult to measure and a wide range of indicators should therefore be carefully monitored, paying attention especially to developments in wages. Some members said that the high global inflation in the 1970s seemed to be partly attributable to failure to correctly estimate the output gap and expansionary monetary policy, and the lessons learned from this experience should always be borne in mind. Based on these assessments of the situation, members agreed that factors affecting prices such as consumers' inflation expectations and firms' price-setting behavior should be watched even more closely amid the continuing surge in international commodity prices.

With regard to the interim assessment of the projection presented in the *Outlook for Economic Activity and Prices* (hereafter the Outlook Report) released in April 2008, members concurred that energy and materials prices had been higher than assumed in the

April Outlook Report, and this was having effects on both economic activity and prices. They also agreed that, compared with the projection in the April Outlook Report, growth prospects had shifted somewhat downward, mainly for fiscal 2008, while prospects for inflation, in terms of both the CGPI and the CPI (excluding fresh food), had shifted upward, again mainly for fiscal 2008.

B. Financial Developments

Members concurred that financial conditions in Japan remained accommodative. They also agreed that 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 remained relatively high, and that the lending attitudes of financial institutions had been generally accommodative. They noted, however, that while the financial positions of firms as a whole had continued to be favorable, those of small firms and firms in some industries had deteriorated somewhat as evidenced by the June *Tankan* and other survey results.

III. Summary of Discussions on the Bank's Strategy for Communication regarding the Conduct of Monetary Policy

Members reviewed the Bank's strategy for communication regarding its conduct of monetary policy. They had recognized at previous meetings that the Bank should always strive to ensure it employed effective tools for communicating with market participants, and at this meeting they discussed comprehensively the Bank's communication strategy. They agreed that the Bank should consider adopting measures to better provide timely and thorough explanation of its thinking in line with the "Framework for the Conduct of Monetary Policy" introduced in March 2006.

Members were in agreement on the following four measures. The first measure was the release of the assessment of the economic and price situation from the "two perspectives" after each meeting, rather than releasing it only after the Bank made a change in policy. This would enable the Bank to explain its thinking concerning the conduct of monetary policy swiftly in response to changes in the situation. The second was the extension of the forecast horizon for projections in the Outlook Report -- specifically, the release of projections for economic activity and prices and the Risk Balance Charts

covering an average of about two fiscal years ahead -- given that the effects of monetary policy appeared with a long and variable lag. The third was the provision of the forecasts of Policy Board members and the Risk Balance Charts not only in the Outlook Reports released in April and October but also at the time of the interim assessments in January and July. This would enable the Bank to describe a change in the situation in a more timely and clear manner. And the fourth was the release of the minutes of the Monetary Policy Meeting following approval at the first subsequent meeting, because the minutes should be released as soon as possible to provide information in a timely manner.

Members agreed that it was appropriate that the Bank take the above four measures in order to improve the effectiveness of monetary policy as well as its accountability to the public as an independent central bank. Many members said that the forecasts of Policy Board members and the Risk Balance Charts were merely reference materials supplementary to the written explanations of the mechanisms behind developments in the economy and prices, and this should be understood by the public, including market participants. Many members expressed the view that a quarterly release of the forecasts of Policy Board members and the Risk Balance Charts seemed appropriate in terms of frequency, taking into account the practice of other central banks. As regards this frequency, some members said that, although it was important that the Bank react swiftly to a change in the economic and price situation, reviewing the forecasts of Policy Board members every time monthly economic data were released, for example, would only confuse market participants.

The Policy Board decided, by a unanimous vote, to make public the measures to further enhance the Bank's communication strategy by the attached statement (see Attachment 1).

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

Members shared the following view: (1) Japan's economic growth was slowing further reflecting weaker growth in business fixed investment and private consumption against the backdrop of high energy and materials prices; (2) while growth would likely remain slow for the time being, the economy was expected to gradually return onto a moderate growth path thereafter; and (3) the CPI inflation rate (excluding fresh food) was currently around 1.5 percent year on year due to increased prices of petroleum products and

food, and was expected to gradually moderate after becoming somewhat elevated in coming months. Based on the discussion, members made an assessment in terms of the first perspective, that is to say, they assessed the most likely outlook for economic activity and prices. They agreed that the probability of Japan's economy remaining on a sustainable growth path with price stability was relatively high.

Members then made an assessment in terms of the second perspective, that is to say, they examined the risks that they considered most relevant to the conduct of monetary policy, including risks that had a longer time horizon than the first perspective. Regarding economic developments, members shared the following view: (1) global financial markets remained unstable as evidenced by the fact that, due mainly to market concerns about further losses that U.S. and European financial institutions might incur, various credit spreads had been widening again and stock prices had fallen; (2) there were downside risks to the world economy, mainly reflecting sluggish growth in the U.S. economy; and (3) weaker income generation due to the upsurge in international commodity prices had the potential to weigh on domestic private demand. As for prices, members agreed on the following view: (1) inflationary pressures were increasing further globally given the high international commodity prices, particularly crude oil prices; and (2) in Japan, it was necessary to be mindful of upside risks to inflation due to changes in, for example, the inflation expectations of households and the price-setting behavior of firms in addition to developments in energy and materials prices.

Some members were of the opinion that, if the downside risks to the economy turned out to decrease, this would increase the risk of possible swings in economic activity and prices due to a prolonged period of accommodative financial conditions, and this risk should therefore always be borne in mind. Some members expressed the view that at present the Bank should pay attention to both downside risks to economic growth and upside risks to inflation and carefully assess economic and price developments focusing on whether Japan's economy would achieve sustainable growth with price stability.

As a result of the assessment of economic activity and prices described above, members concurred that the following thinking on the monetary policy stance for the future remained unchanged: the Bank, while maintaining the smooth functioning of the money market, would carefully assess the future outlook for economic activity and prices, closely considering the likelihood of its projections materializing as well as factors posing upside or

downside risks, and would implement appropriate policies in an accordingly flexible manner.

Regarding the guideline for money market operations for the intermeeting period ahead, members agreed that 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.

V. Remarks by Government Representatives

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

- (1) Although Japan's economy was expected to resume its moderate recovery, attention should be paid to the fact that downside risks to the economy had increased, mainly due to concerns about a further slowdown in the U.S. economy, swings in stock prices and exchange rates, and developments in crude oil prices.
- (2) Given this economic situation, the government would like the Bank to continue to support the economy from the financial side so as to ensure the sustainability of the economic recovery.
- (3) Developments in prices such as crude oil prices, the effects of the U.S. subprime mortgage problem, and developments 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) As it had mentioned in previous meetings, the government would like the Bank to continue to clearly explain to market participants and the public its view regarding the future course of Japan's economy and its thinking on the conduct of monetary policy.

The representative from the Cabinet Office made the following remarks.

- (1) There appeared to be a pause in the recovery of Japan's economy taken as a whole, and some weakness had been seen lately. Although the economy was expected to resume its moderate recovery, future developments warranted careful attention since the downside risks to the economy were increasing. With regard to the Bank's interim

assessment of the April 2008 Outlook Report about to be made, the government would like the Bank to clearly explain the deviation from the April projection of and future outlook for economic activity and prices, giving due consideration to the underlying trend in prices, in other words, the price trend excluding the effects of, for example, developments in crude oil prices.

- (2) The government had set out "Emergency Measures for the Surge in the Crude Oil Price." The Cabinet had approved "Basic Policies 2008," which indicated the course of economic and fiscal reforms aimed at boosting the growth potential of the economy and realizing for Japan's people a prosperous life free from anxiety. In accordance therewith, the government would accelerate and deepen the reforms.
- (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 monetary policy in a timely and appropriate manner that was consistent with the government's policy efforts and its 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 the economy and risks to the outlook for prices.

VI. Votes

Based on the above discussions, members agreed that it was appropriate to maintain the current guideline for money market operations, which encouraged the uncollateralized overnight call rate to remain at around 0.5 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:

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

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

2. A public statement will be decided separately.

Votes for the proposal: Mr. M. Shirakawa, Mr. K. G. Nishimura, Ms. M. Suda, Mr. A. Mizuno, Mr. T. Noda, Mr. S. Nakamura, and Mr. H. Kamezaki.

Votes against the proposal: None.

VII. Discussion on the Public Statement "Statement on Monetary Policy"

Members discussed the "Statement on Monetary Policy," and put it to the vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment 2).

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of June 12 and 13, 2008 for release on July 18, 2008.

IX. Discussion on the Maintenance of a Designated Minimum Balance by the Shoko Chukin Bank with the Bank

A. Staff Proposal

Given that the Shoko Chukin Bank was scheduled to be converted into a joint-stock company on October 1, 2008, the staff proposed that, in order to ensure smooth conduct of monetary policy, the Bank enter into a contract with the Shoko Chukin Bank, whereby the latter would undertake to maintain a designated minimum balance in a current account with the Bank.

B. Discussion by the Policy Board and Vote

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

July 15, 2008

Bank of Japan

**Further Enhancement of Communication Strategy
under the "Framework for the Conduct of Monetary Policy"**

At the Monetary Policy Meeting (MPM) held today, the Bank of Japan decided to adopt following enhancements to its communication strategy under the "Framework for the Conduct of Monetary Policy" (hereafter "Framework") introduced in March 2006. Given that economic situation is ever-changing, future outlook always entails uncertainties, and monetary policy works with a lag, these enhancements are introduced to better provide timely and thorough explanation regarding the current situation and future course of the economy and prices as well as risk factors in line with the "Framework."

1. Release of the Assessment from "Two Perspectives" after Each MPM

Under the "Framework," the conduct of monetary policy is decided at each MPM through assessing economic and price situation from "two perspectives." Previously, in the announcement following the meeting, the policy decision and its background were communicated when there was a change in policy, whereas in cases when there was no change in policy, only the decision was communicated. Hereafter, following each meeting, a summary of the assessment of economic and price situation from "two perspectives," and the Bank's thinking on the future conduct of monetary policy will be communicated along with the policy decision.

Meanwhile, the *Monthly Report of Recent Economic and Financial Developments* will be released on the first business day (second business day for English translation) following the MPM as a background document.

2. Extension of the Forecast Horizon for Projections in the *Outlook for Economic Activity and Prices*

The Forecast horizon for projections in the *Outlook for Economic Activity and Prices* (Outlook Report) had been two fiscal years (current and the following fiscal year). Starting this October, however, projections in the October Outlook Report will extend to the fiscal year after next.

3. Quarterly Publication of the Forecasts of Policy Board Members and the Risk Balance Charts

The Risk Balance Charts introduced in the April 2008 Outlook Report will be provided regularly in the semi-annual Outlook Report. In addition, the forecasts of Policy Board members and the Risk Balance Charts will also be provided at the time of interim assessment in January and July as references.

4. Release of the Minutes of the MPM after the Subsequent Meeting upon Approval

Minutes of the MPM will be released after the subsequent meeting upon approval, whereas they were previously approved either at the subsequent meeting or meeting after next depending on the meeting schedule.

July 15, 2008

Bank of Japan

Statement on Monetary Policy

1. 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.

2. Economic growth is slowing further reflecting weaker growth in business fixed investment and private consumption against the backdrop of high energy and materials prices. While growth will likely remain slow for the time being, it is expected to gradually return onto a moderate growth path thereafter. CPI inflation rate (excluding fresh food) is currently around 1.5 percent due to increased prices of petroleum products and food. CPI inflation is expected to gradually moderate after becoming somewhat elevated in coming months. These suggest that the possibility of the economy remaining on a sustainable growth path with price stability is relatively high.
3. Compared with the projections presented in the April *Outlook for Economic Activity and Prices* (Outlook Report), growth prospects have shifted somewhat lower, while prospects for inflation, in terms of both CGPI and CPI (excluding fresh food), have shifted higher, mainly for fiscal 2008.

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

4. With regard to risk factors, global financial markets remain unstable and there are downside risks to the U.S. and the world economy. In addition, weaker income generation due to upsurge in commodity prices has the potential to weigh on domestic private demand. These downside risks to the economy demand attention. On prices, inflationary pressures are increasing globally. In Japan, it is necessary to be mindful of upside risks due to changes in the inflation expectations of households and the price-setting behavior of firms in addition to developments in energy and materials prices. Meanwhile, if the downside risks to the economy turn out to decrease, this will increase the risk of possible swings in economic activity and prices due to prolonged period of accommodative financial conditions.

5. The Bank, while maintaining the smooth functioning of the money market, will carefully assess the future outlook for economic activity and prices, closely considering the likelihood of its projections as well as factors posing upside or downside risks, and will implement its policies in an accordingly flexible manner.

Forecasts of the Majority of Policy Board Members

y/y % chg.

	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2008	+1.2 to +1.4 [+1.2]	+4.7 to +5.0 [+4.8]	+1.7 to +1.9 [+1.8]
Forecasts made in April 2008	+1.4 to +1.6 [+1.5]	+2.4 to +2.8 [+2.5]	+0.9 to +1.1 [+1.1]
Fiscal 2009	+1.4 to +1.6 [+1.5]	+1.8 to +2.0 [+1.8]	+1.0 to +1.2 [+1.1]
Forecasts made in April 2008	+1.6 to +1.8 [+1.7]	+1.3 to +1.8 [+1.5]	+0.8 to +1.0 [+1.0]

Notes: 1. Figures in brackets indicate forecast medians.

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

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

4. The forecasts of all Policy Board members may be summarized as follows.

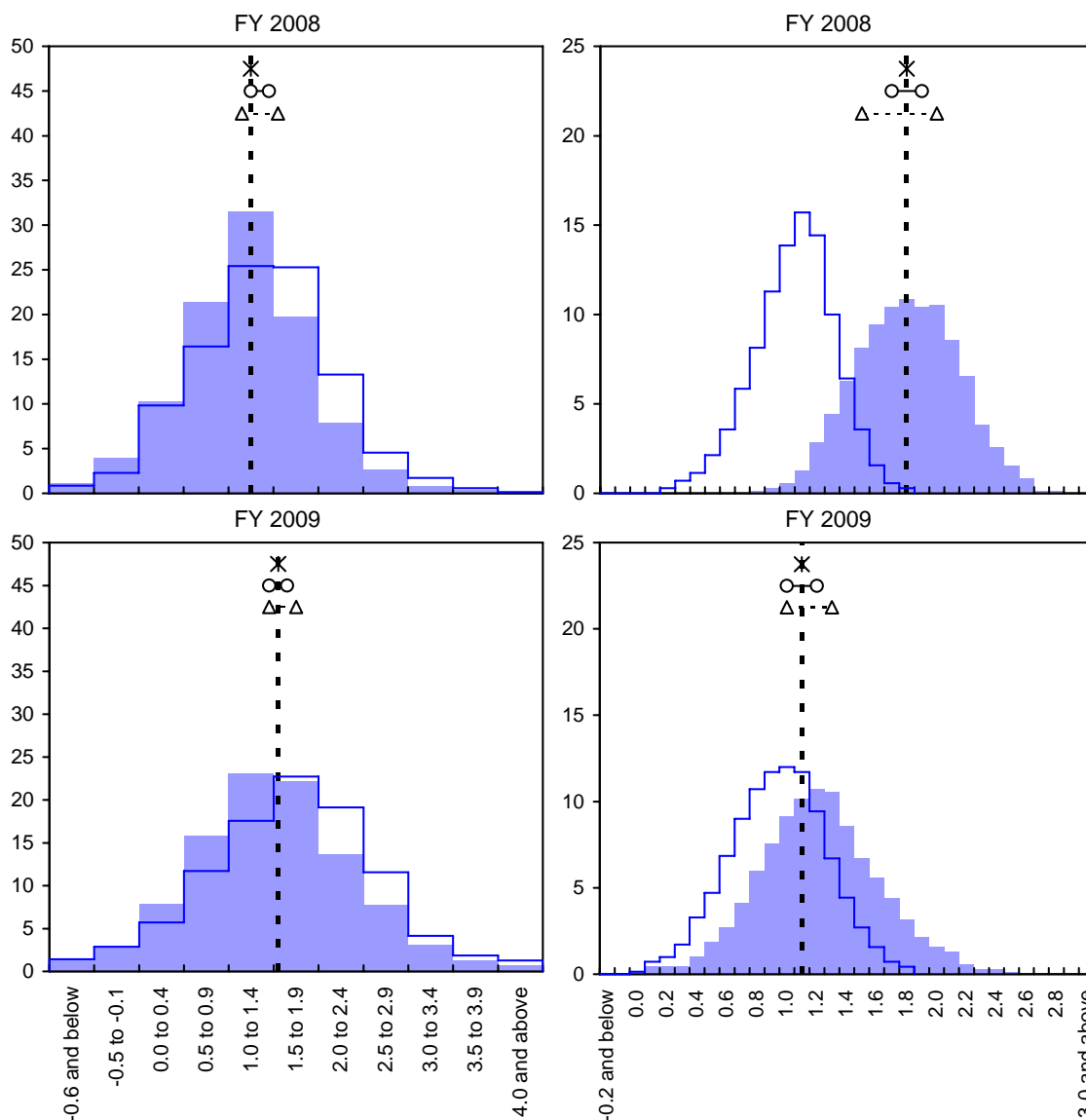
y/y % chg.

	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2008	+1.1 to +1.5	+4.6 to +5.2	+1.5 to +2.0
Forecasts made in April 2008	+1.4 to +1.8	+2.3 to +2.9	+0.9 to +1.2
Fiscal 2009	+1.4 to +1.7	+1.7 to +2.4	+1.0 to +1.3
Forecasts made in April 2008	+1.5 to +1.9	+1.3 to +1.9	+0.8 to +1.1

Risk Balance Charts

(1) Real GDP

(2) CPI (Excluding Fresh Food)



Notes: 1. Vertical axes in the charts represent probability (%), while horizontal axes represent the year-on-year percentage changes in the respective indicators. Bar charts represent the probability distributions in July 2008, and solid lines represent those in April 2008.

2. X on the dashed line indicates the median of the Policy Board member's forecasts (point estimates). O—O indicates the range of the forecasts of the majority of Policy Board members. Δ---Δ indicates the range of the forecasts of all Policy Board members.

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