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October 10, 2008.

October 10, 2008

Bank of Japan

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# **Minutes of the Monetary Policy Meeting**

on September 18, 2008

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(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 Thursday, September 18, 2008, from 3:00 p.m. to 3:42 p.m.<sup>1</sup>

**Policy Board Members Present**

**Mr. M. Shirakawa, Chairman, 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. W. Takeshita, Senior Vice Minister of Finance, Ministry of Finance

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

Reporting Staff

Mr. H. Yamaguchi, Executive Director

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

Mr. K. Yamamoto, Executive Director

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

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

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

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<sup>1</sup> The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on October 6 and 7, 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.

Mr. T. Sekine, Associate Director-General, Monetary Affairs Department

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

Mr. T. Sakamoto, Director, Head, Monetary Operations Planning, Monetary Affairs  
Department

Mr. Y. Nakaone, Director, Deputy Head, Monetary Operations Planning, Monetary Affairs  
Department

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

## **I. Remarks on the Purpose of the Unscheduled Monetary Policy Meeting**

The chairman first explained the reason for calling the unscheduled Monetary Policy Meeting as follows.

- (1) Instability in global financial markets stemming from the subprime mortgage problem had lately been increasing. In particular, most recently financial institutions had been facing difficulty in obtaining U.S. dollar funds following the failure of a major U.S. investment bank, and this difficulty, in its turn, had generated an increased risk of a negative impact on liquidity conditions in the yen funding markets.
- (2) Given this situation, central banks in major economies would today take coordinated measures to facilitate the provision of U.S. dollar liquidity. In the Bank's case, one appropriate response to the situation would be the introduction of U.S. dollar funds-supplying operations against pooled collateral.

## **II. Summary of Staff Reports on Financial Market Developments**

The staff reported that liquidity conditions in U.S. dollar funding markets had deteriorated significantly worldwide. More specifically, with the failure of Lehman Brothers Holdings Inc. on September 15, concerns about the soundness of U.S. and European financial institutions had intensified again, and as a result stock prices had plunged and credit default swap (CDS) premiums had widened markedly. Against this background, interest rates on both overnight and term instruments in U.S. dollar funding markets had surged, and were continuing to show significant intraday fluctuations. Concerns about obtaining U.S. dollar funds maturing beyond the year-end had also become more pronounced, with the result that U.S. dollar Libor-OIS spreads had reached unprecedented highs. Many market participants in Japan had said that, although they had so far been able to obtain the U.S. dollar funds needed, there had been indications that the functioning of U.S. dollar funding markets had declined considerably, and conditions for obtaining such funds through foreign exchange swaps had deteriorated appreciably. Costs of funding U.S. dollars in exchange for yen had surged recently, with significant fluctuations.

### **III. Staff Proposal on the Introduction of U.S. Dollar Funds-Supplying Operations against Pooled Collateral**

With the aim of further facilitating money market operations and maintaining the smooth functioning of the money market as well as ensuring stability in financial markets in view of the possible impact of recent liquidity pressures in the U.S. dollar money market on liquidity in the yen money market, the staff made the following proposal to introduce U.S. dollar funds-supplying operations against pooled collateral as a temporary measure effective through January 30, 2009: the Bank should establish the Principal Terms and Conditions for U.S. Dollar Funds-Supplying Operations against Pooled Collateral and the procedure for selection of eligible counterparties in those operations, and enter into a U.S. dollar-yen swap agreement with the Federal Reserve Bank of New York.

The staff explained that the introduction of the operations would be part of coordinated measures to be announced by central banks in major economies designed to address the continued elevated pressures in short-term funding markets.

### **IV. Summary of Discussions by the Policy Board**

#### **A. Discussions on the Staff Proposal**

Members first discussed recent developments in global financial markets, and confirmed that liquidity pressures in U.S. dollar short-term funding markets had intensified considerably. Members then discussed the following points concerning the staff proposal to introduce U.S. dollar funds-supplying operations against pooled collateral: the Bank's management of foreign exchange risks; selection criteria for eligible counterparties; and specific procedures to be employed as well as other details of the operations. The discussion concluded with members in agreement that it would be appropriate to introduce the operations at the current juncture, taking into account also the fact that the introduction would be part of coordinated measures of central banks in major economies. Some members stressed the importance of the following points when informing the public about the introduction of the operations. A few of these members commented that the Bank should explain clearly that the measures were not intended directly to support Japanese financial institutions in obtaining U.S. dollar funds. Another observed that, in order to prevent such a misunderstanding, it would be important to make clear that the operations would be introduced as part of coordinated measures of central banks in major economies.

## **B. Discussions on Monetary Policy for the Immediate Future**

On monetary policy for the intermeeting period ahead, members agreed 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, as there had been no additional economic data or other information since the Monetary Policy Meeting held on the preceding day.

## **V. Remarks by Government Representatives**

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

- (1) The government would respect the Bank's decision at this meeting, since the action proposed as part of coordinated measures of central banks in major economies would not require approval in advance by the Minister of Finance under the terms of the Bank of Japan Act, and would be an emergency measure that would contribute to addressing the present elevated pressures in financial markets, with the aim of facilitating money market operations and maintaining the smooth functioning of the money market as well as ensuring stability in financial markets.
- (2) To respond to the situation, the government would monitor carefully developments in financial markets both at home and abroad as well as their effects on the Japanese economy and the world economy as a whole. The government would also like the Bank to continue to react appropriately to ensure stability in financial markets.

The representative from the Cabinet Office made the following remarks.

- (1) Participants of the Council on Economic and Fiscal Policy also confirmed, at their meeting on September 17, 2008, that it was important for the authorities to work together closely in cooperation with their overseas counterparts and to do their utmost to ensure financial system stability.
- (2) The government welcomed the measures proposed at this meeting as a swift and appropriate response to address the current situation.

## **VI. Votes**

### **A. Vote on the Introduction of U.S. Dollar Funds-Supplying Operations against Pooled Collateral**

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

### **B. Vote on the Guideline for Money Market Operations**

To reflect the view of members, 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. M. Shirakawa, Ms. M. Suda, Mr. A. Mizuno, Mr. T. Noda, Mr. S. Nakamura, and Mr. H. Kamezaki.

Votes against the proposal: None.

Absent: Mr. K. G. Nishimura.

## **VII. Schedule for Approval of the Minutes of the Monetary Policy Meeting**

The Policy Board discussed whether it would be appropriate to approve at this unscheduled meeting the minutes of the Monetary Policy Meeting held on September 16 and 17, 2008, in accordance with the Rules concerning Policy Board Meetings, which stipulated that the Policy Board should approve the minutes of Monetary Policy Meetings at the first subsequent meeting. The Policy Board then decided to follow the original schedule, approving the minutes at the following Monetary Policy Meeting to be held on October 6 and 7, 2008 and releasing them after the meeting.



Attachment

September 18, 2008

Bank of Japan

At the Monetary Policy Meeting held today, the Bank of Japan decided, by a unanimous vote,<sup>[Note]</sup> 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.

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