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November 6, 2008.

November 6, 2008

Bank of Japan

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# **Minutes of the Monetary Policy Meeting**

on September 29, 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 Monday, September 29, 2008, from 10:00 p.m. to 10:45 p.m.<sup>1</sup>

**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. 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. 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 31, 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) To address the increased strains in global financial markets stemming from the subprime mortgage problem, the Bank decided at the unscheduled Monetary Policy Meeting held on September 18, 2008 to introduce U.S. dollar funds-supplying operations against pooled collateral as part of coordinated measures by central banks in major economies.
- (2) In U.S. dollar money markets, including the Tokyo market, pressures for U.S. dollar liquidity had been elevated. They were expected to remain so for some time, continuing to affect money markets in other currencies.
- (3) Given this situation, central banks in major economies would today take further coordinated measures to expand the capacity to provide U.S. dollar liquidity. In order to facilitate money market operations and maintain the smooth functioning of the money market as well as ensure stability in financial markets, one appropriate response by the Bank to the situation would be to implement measures such as an increase in the supply of liquidity through U.S. dollar funds-supplying operations against pooled collateral.

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

The staff reported that, with the failure of Lehman Brothers Holdings Inc. on September 15, stock prices of U.S. and European financial institutions had plunged and credit default swap (CDS) premiums had widened markedly. Stock prices and CDS premiums continued to be extremely volatile due to concerns regarding the feasibility of the emergency measures for economic stabilization in the United States and to concerns about the financial condition of U.S. and European financial institutions.

In U.S. dollar funding markets, interest rates had surged in response to the failure of Lehman Brothers Holdings Inc. However, interest rates on overnight instruments had recently declined, due mainly to central banks' coordinated measures to expand U.S. dollar funds-supplying operations. Meanwhile, interest rates on term instruments had not declined significantly, remaining at the same elevated level as seen since the surge, and the liquidity of these markets had declined considerably. In foreign exchange swap markets, interest rates for U.S. dollar funding had risen, particularly on term instruments, and

transactions for funds with longer maturities had become difficult. Yen funding markets had been affected by the above situation, as seen in the fact that, in the call market, there had been a significant difference in funding costs between Japanese banks and foreign banks since the failure of Lehman Brothers Holdings Inc. With regard to the availability of funds maturing beyond the year-end, strains in U.S. dollar funding markets had been increasing, and interest rates on U.S. dollar funds had been rising significantly.

In central banks' U.S. dollar funds-supplying operations thus far, both the bid-to-cover ratios and the bid rates of the European Central Bank (ECB) operations were relatively high, reflecting strong demand for U.S. dollar funds in Europe. In the Bank's first U.S. dollar funds-supplying operation against pooled collateral, a slight undersubscription was observed. This seemed to be in part because financial institutions that were counterparties in the operations were not fully prepared at the time of the Bank's operation. In addition, having already obtained U.S. dollar funds maturing beyond the end of September, they did not need to submit bids for funds maturing in one month. In contrast, it was expected that financial institutions would submit substantial bids in response to the Bank's second U.S. dollar funds-supplying operation against pooled collateral, for funds with a maturity of three months, scheduled to take place on October 7, 2008, partly because this would provide funds maturing beyond the year-end, for which there was likely to be strong demand.

### **III. Staff Proposal of an Increase in the Supply of Liquidity through 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 recent liquidity pressures in the U.S. dollar money markets and their possible impact on liquidity in the yen money market, the staff proposed that the following measures be taken and the Principal Terms and Conditions for U.S. Dollar Funds-Supplying Operations against Pooled Collateral be amended accordingly: increase the maximum aggregate amount under the U.S. dollar-yen swap agreement with the Federal Reserve Bank of New York to 120 billion from 60 billion U.S. dollars; extend the term of the U.S. dollar funds-supplying operations against pooled collateral through April 30, 2009, from January 30, 2009; and expand the range of eligible counterparties in the operations.

#### **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 continued to be elevated in short-term funding markets worldwide, including the Tokyo market, and U.S. dollar liquidity had declined considerably, particularly in markets for term instruments. Members then discussed the following points concerning the staff proposal: the extent of the increase in the maximum aggregate amount of the U.S. dollar swap facility; the length of the extension of the U.S. dollar funds-supplying operations; and the extent of the expansion of the range of eligible counterparties in the operations. The discussion concluded with members in agreement that it would be appropriate to approve the staff proposal as an emergency measure to be implemented as part of the coordinated measures of central banks. Many members expressed the view that it was necessary to take action to address the undercapitalization of financial institutions, as merely expanding the supply of U.S. dollar liquidity would not solve the problems in financial markets. They also said that it was essential that central banks and financial authorities in all the countries concerned share this view.

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

The Policy Board decided at the previous unscheduled Monetary Policy Meeting held on September 18, 2008 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. Since another unscheduled Monetary Policy Meeting was being held today, it was necessary for the Policy Board to once again decide the guideline for money market operations for the intermeeting period. Members agreed that, although some indicators such as the consumer price index had been released since the previous meeting, it would be appropriate to maintain the current guideline until the next Monetary Policy Meeting to be held on October 6 and 7, 2008, as it would be appropriate to hold thorough discussions at that meeting, closely examining the various upcoming monthly indicators and the September *Tankan* (Short-Term Economic Survey of Enterprises in Japan).

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

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

- (1) The government and the Bank had been communicating closely and addressing the recent turmoil in global financial markets in a flexible manner. The government would continue to respond appropriately to the situation.
- (2) The government would respect the Bank's decision at this meeting, since the proposal was made, in response to current developments in the financial markets, to expand the Bank's measures decided on September 18 as part of the Coordinated Measures Designed to Address Elevated Pressures in Short-Term Funding Markets.

The representative from the Cabinet Office made the following remarks.

- (1) The government welcomed the measures proposed at this meeting as they would be part of timely coordinated measures of central banks in major economies to address a surge of pressures in U.S. dollar short-term funding markets.
- (2) The government would like to continue to monitor carefully developments in the global economy and financial markets worldwide as well as their effects on the Japanese economy.
- (3) The government would like to request the Bank to continue to implement monetary policy in a timely and appropriate manner, and to firmly support the economy from the financial side in view of downside risks to the outlook for the economy.

## **VI. Votes**

### **A. Vote on Amendments to the Principal Terms and Conditions for 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, 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. Timing for Approval of the Minutes of the Monetary Policy Meeting**

The Policy Board discussed when to approve the minutes of this unscheduled meeting, as the Rules concerning Policy Board Meetings stipulated that the Policy Board should approve the minutes of Monetary Policy Meetings at the first subsequent meeting. The Policy Board then decided to approve the minutes of this meeting at the Monetary Policy Meeting to be held on October 31, 2008 and release them after the meeting, instead of approving them at the first subsequent meeting on October 6 and 7, 2008, taking into account practical constraints due to the shortness of the intermeeting period ahead. The Policy Board also confirmed that, as had been previously announced, they would approve the minutes of the previous unscheduled meeting held on September 18, 2008 at the meeting on October 6 and 7, 2008 and release them after the meeting.

Attachment

September 29, 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, 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.