Not to be released until 8:50 a.m. Japan Standard Time on Thursday, November 6, 2008.

November 6, 2008

Bank of Japan

Minutes of the Monetary Policy Meeting

on October 6 and 7, 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, October 6, 2008, from 2:00 p.m. to 4:55 p.m., and on Tuesday, October 7, from 9:00 a.m. to 12:53 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. W. Takeshita, Senior Vice Minister of Finance, Ministry of Finance[2]

Mr. C. Kawakita, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance[3]

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. Ido, Executive Director

Mr. K. Yamamoto, Executive Director

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

[1] 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.

[2] Mr. W. Takeshita was present on October 7.

[3] Mr. C. Kawakita was present on October 6.

Mr. M. Ayuse, Associate Director-General, Monetary Affairs Department[4]

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. T. Kato, Senior Economist, Monetary Affairs Department

Mr. T. Sakamoto, Director, Head, Monetary Operations Planning, Monetary Affairs Department[4]

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

Mr. R. Hattori, Senior Economist, Monetary Affairs Department

Mr. H. Chida, Director, Head of Market Infrastructure and Operations Planning, Financial Markets Department[4]

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[4] Messrs. M. Ayuse, T. Sakamoto, and H. Chida were present on October 7 from 9:00 a.m. to 9:15 a.m.

I. Summary of Staff Reports on Economic and Financial Developments[5]

A. Money Market Operations in the Intermeeting Period

The Bank conducted money market operations in accordance with the guideline decided at the previous meeting on September 29, 2008, and as a result, the uncollateralized overnight call rate had been at around 0.5 percent.[6] Since the middle of September, dispersion and intraday fluctuations of the rates at which individual call transactions were made had increased as market participants had become increasingly risk averse. In this situation, the Bank had actively injected liquidity into the money market through both same-day-start and future-day-start operations to ensure market stability. Meanwhile, the Bank had conducted U.S. dollar funds-supplying operations against pooled collateral as part of coordinated measures by central banks in major economies amid elevated pressures for U.S. dollar liquidity in global financial markets.

B. Recent Developments in Financial Markets

Japan's money market had remained relatively stable compared to its U.S. and European counterparts, but had been increasingly nervous. Regarding interest rates on term instruments, yields on treasury bills (TBs) and financing bills (FBs) had risen somewhat, and Euroyen rates remained at an elevated level compared with yields on TBs and FBs and had been edging up since the middle of September as the transaction volume decreased.

Japanese stock prices had been on a downtrend amid growing concerns about the stability of the U.S. and European financial systems and about a possible further slowdown of the world economy. Since late September, Japanese stock prices had dropped considerably following the plunge in U.S. stock prices. The Nikkei 225 Stock Average had been moving at around 10,000 yen recently.

As for long-term interest rates, while those in the United States swung widely mainly due to a flight to quality in markets and concerns about a possible increase in the fiscal deficit, those in Japan moved within a relatively narrow range partly because market

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[5] Reports were made based on information available at the time of the meeting.

[6] The guideline was as follows:

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

participants' views regarding the Bank's policy stance were broadly unchanged. They had recently been in the 1.40-1.45 percent range.

The yen appreciated against the U.S. dollar reflecting growing concerns about the stability of the U.S. financial system, and had recently been traded in the range of 101-103 yen to the dollar.

C. Overseas Economic and Financial Developments

Growth in the U.S. economy had been sluggish. Housing investment had been declining substantially, and home prices had been falling. Private consumption had continued to be more or less unchanged. The deceleration in business fixed investment had also continued. In this situation, industrial production had been on a downward trend and the number of employees had been declining. Meanwhile, funding conditions for firms and households had deteriorated further as concerns about the financial soundness of financial institutions became more serious. 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 2.5 percent.

The slowdown in the economy of the euro area had become more evident. The pace of increase in business fixed investment had decelerated, and that in exports had also slowed. In addition, housing investment had been on a declining trend, and private consumption had decreased reflecting the earlier rise in energy and food prices and uncertainty about the outlook for the economy. As for prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) remained at a high level, due to the earlier rise in energy and food prices. 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. The NIEs and the ASEAN economies had been decelerating as exports continued to decelerate and the slowdown in domestic demand, particularly private consumption, had become more evident. As for prices, the year-on-year rate of increase in the CPI had remained elevated in many Asian economies.

With regard to global financial markets, concerns about the financial soundness of U.S. and European financial institutions had grown further due to the failure of Lehman Brothers Holdings Inc., and this had led to failure of some other U.S. financial institutions. Similar events followed in Europe, and a number of financial institutions, for example in the United Kingdom and Germany, had had to be rescued in quick succession. Reflecting these developments, credit spreads and money market spreads had widened considerably. U.S. and European stock prices had been declining, with large fluctuations. Long-term interest rates in the United States had swung widely, while those in Europe had been more or less unchanged.

D. Economic and Financial Developments in Japan

1. Economic developments

The pace of increase in exports had slowed. They were expected to remain more or less flat for the time being as the slowdown in overseas economies became more evident.

In relation to domestic private demand, corporate profits had continued to decrease mainly due to the deterioration in the terms of trade, and business sentiment had become even more cautious. In this situation, business fixed investment had declined. It was likely to remain relatively weak for the time being, as corporate profits were expected to continue decreasing.

Private consumption had been relatively weak, mainly due to sluggish growth in household income and the increase in prices of energy and food. Sales of electrical appliances had continued to increase steadily: sales of air conditioners and refrigerators had surged due to the extremely hot weather, and sales of flat-panel televisions and other products demand for which was partly associated with the Beijing Olympics had increased. New passenger-car registrations had become more sluggish, partly due to high gasoline prices. Sales at department stores and supermarkets picked up in July assisted partly by the extremely hot weather, but dropped in August partly due to the heavy rain in the later part of the month. On balance, they had remained relatively weak, especially at department stores. As for services consumption, outlays for travel, especially overseas travel, had been weak recently against the background of further increases in fuel surcharges added to airfares, while growth in sales in the food service industry had continued to be sluggish, albeit with some fluctuations. Consumer sentiment had become more cautious, mainly due to the rise in prices of energy and food. Growth in private consumption was likely to be sluggish for the time being, as household income was expected to continue to be more or less flat and the effects of the rise in prices were likely to remain.

Housing investment had been more or less flat. The number of housing starts, a leading indicator of housing investment, continued to pick up until January 2008 and had since been more or less flat. Housing investment was expected to be more or less flat for the time being, given the stalling of the recovery in housing starts.

Production had been relatively weak and, in light of developments in demand both at home and abroad, was expected to remain so for the time being. Inventories had been more or less flat. However, the shipment-inventory balance had deteriorated slightly of late, since shipments had continued to be relatively weak.

As for employment and income, growth in household income had recently been sluggish. The year-on-year rate of increase in nominal wages per worker had declined somewhat. Household income was projected to remain more or less level for the time being.

On the price front, commodity prices generally had been at a high level, although they had softened compared with the summer. The three-month rate of increase in the domestic corporate goods price index (CGPI) had declined somewhat, due to the setback in commodity prices. The pace of increase in the CGPI was expected to slow for the time being. The year-on-year rate of increase in the CPI (excluding fresh food) was around 2.5 percent against the background of the increase in prices of energy and food. It was expected to remain at around the current level over the coming months but to moderate gradually thereafter.

2. Financial environment

Financial conditions had remained generally accommodative, but the financial positions of small firms and firms in certain industries had shown deterioration. The uncollateralized overnight call rate, the policy interest rate, had been at a low level relative to the state of economic activity and price developments. In line with this, funding costs for firms had remained more or less flat at low levels. The funding of firms had increased, reflecting an increase in their demand for working capital to cover the rise in materials prices and generally accommodative lending attitudes maintained by financial institutions. However, an increasing number of small firms had reported that their financial positions were weak and lending attitudes of financial institutions were severe. In addition, firms in certain industries had faced a worsening in funding conditions, as conditions for their bond issuance had deteriorated and financial institutions had become more cautious in extending credit. Since mid-September, credit spreads on CP and corporate bonds had widened and issuance of corporate bonds had declined. The year-on-year rate of growth in the money stock (M2) was in the range of 2-3 percent.

II. Amendment to Guidelines on Eligible Collateral

A. Staff Proposal

The staff proposed that the Bank make necessary amendments to its Guidelines on Eligible Collateral and the principal terms and conditions for repo operations and securities lending in view of the results of the Bank's annual review of appropriate margins reflecting recent developments in financial markets.

B. Discussion by the Policy Board and Vote

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

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

A. Economic Developments

Members agreed on the following assessment of <u>the current state of Japan's economy</u>: growth had been sluggish due to the effects of earlier increases in energy and materials prices and weaker growth in exports, and it would likely remain sluggish for the time being as the slowdown in overseas economies became more evident; although the economy, in the longer run, was expected to return gradually onto a moderate growth path as the effects of earlier increases in energy and materials prices abated and overseas economies moved out of their deceleration phase, uncertainty about the outlook had been growing.

Members agreed that the pace of growth in overseas economies had been slowing. They also concurred that, as strains in global financial markets had intensified, the downward pressure on the U.S. and European economies from the financial side had grown, and downside risks to these economies had increased.

Members shared the view that strains in global financial markets had intensified in the wake of failures and rescues of U.S. and European financial institutions. One member said that market participants' awareness of counterparty risk associated with U.S. and European financial institutions had heightened, and their aversion to risk had grown as evidenced by the increasing flight to quality and liquidity. Many members noted that liquidity in U.S. dollar funding markets had been extremely low worldwide, and market functioning had declined considerably. One member added that central banks in major economies had taken coordinated measures to provide U.S. dollar liquidity, but strains in the markets had not eased so far. Some members noted that spreads on CP and corporate bonds had widened considerably.

Members then exchanged views regarding measures to be taken in view of the financial crisis. Many members said that financial institutions needed to assess the market value of impaired assets, remove them from their balance sheets, and raise sufficient capital. One of these members referred to Japan's experience at the time when concerns arose about financial system stability and said that a financial system did not stabilize unless individual financial institutions' capital shortage was solved, and such a shortage might grow larger as time passed because of the negative feedback loop between financial markets and economic activity. This member then expressed the view that although a real-time accurate grasp of the capital shortage was difficult, financial authorities should at some point assess the amount of capital required. With regard to the recent passage of the Emergency Economic Stabilization Act of 2008 in the United States, a different member said that future developments depended on whether the U.S. government's purchases of impaired assets succeeded in promoting price discovery in the markets for these assets.

Members concurred that growth in the U.S. economy had remained sluggish. One member said that there were some signs of improvement in the housing market as seen in a slowdown in the three-month rate of decrease in home prices. Some members, however, expressed the opinion that the continued decline in home prices suggested that the housing market had not started to bottom out yet. A few members said that the pace of growth in private consumption had slowed noticeably, mainly due to the abatement of the effects of tax rebates and the deterioration in the employment situation. A few members expressed the view that the U.S. corporate sector, previously relatively firm, was also negatively affected, as seen in tighter funding conditions for firms due to a more cautious stance among financial institutions on lending and in weaker growth in exports due to the slowdown in overseas economies. Based on these assessments, members shared the view that the negative feedback loop between financial markets and economic activity had become more evident recently, and considerable uncertainty remained regarding when and how it would diminish.

With regard to European economies, members shared the view that the slowdown in the economy of the euro area had become more evident. Some members said that downside risks to the economy of the area had increased, as many indicators had shown deterioration recently and concerns about financial system stability had been increasing.

On Asian economies, members concurred that, while China and India continued to show high growth, the NIEs and the ASEAN economies had been decelerating, mainly because their exports had decelerated and the slowdown in their domestic demand had become more evident reflecting the rise in energy and food prices. One member said that there was a possibility that intensified strains in global financial markets would adversely affect some Asian economies. A different member noted that a cut in the benchmark lending rates by the Chinese monetary authority might suggest that China's economic growth had been slowing faster than indicated by statistics. Another member said that the deceleration in the growth of production in the summer might have reflected temporary restrictions imposed on production and distribution by road for the Beijing Olympics, and future developments in the Chinese economy warranted close monitoring.

Regarding global price developments, members agreed that, although commodity prices had fallen back, global inflation remained high. One member said that it was necessary to continue to be mindful of upside risks to inflation, since financial conditions had been accommodative worldwide and in addition interest rates had started to be lowered in an increasing number of economies. A different member said that commodity prices were unlikely to rise again to the high level marked in the summer, because they were falling in tandem with the slowdown in the global economy. Another member, however, said that, from a longer-term perspective, commodity prices seemed to be on an upward trend, because the earlier rise in commodity prices was due to steady growth in global demand, particularly demand from emerging economies.

Members exchanged views regarding Japan's economic situation. Members concurred that the pace of increase in exports had slowed, and that they were likely to remain more or less flat for the time being as the slowdown in overseas economies became more evident. One member said that future developments in exports should be projected more conservatively than before, as the September *Tankan* (Short-Term Economic Survey of Enterprises in Japan) indicated slower growth in export plans for fiscal 2008. Referring to the decrease in exports of automobile-related goods, some members said that developments warranted close monitoring as they would significantly affect domestic production and employment.

Members agreed that business fixed investment had declined lately as corporate profits had decreased mainly due to the earlier deterioration in the terms of trade. They also concurred that it was likely to remain relatively weak for the time being, as corporate profits were expected to continue decreasing. One member said that some large firms had continued to exhibit a strongly positive attitude toward investment aimed at, for example, energy and resource saving. Some members noted that firms' capital stock did not seem to be excessive. On the other hand, some members said that fixed investment plans might be revised downward, since firms in the automobile and electrical machinery industries had started to postpone implementing their investment. One member expressed the view that attention should be paid to the possibility that firms might start to see their production capacity as excessive if downside risks to overseas economies materialized and firms' expected rates of economic growth both at home and abroad fell.

Members concurred that private consumption had been relatively weak, mainly due to sluggish growth in household income and the increase in prices of energy and food. A few members said that consumer sentiment had become more cautious due to deterioration in consumers' view of the economy and the rise in prices. Members concurred that growth in private consumption was likely to be relatively weak for the time being, as household income was likely to continue to be more or less flat and the effects of the rise in prices were likely to remain.

As for employment and income, members shared the view that growth in household income had recently been sluggish and that household income was likely to remain more or less level. One member said that the pace of increase in nominal wages had declined due to firms' stance of cutting back spending. A different member noted that an employment adjustment was likely to be implemented more easily and quickly than in past phases of economic sluggishness, since the proportion of non-regular employees had increased.

Members concurred that housing investment had been more or less flat, and was likely to remain so for the time being, given the stalling of the recovery in housing starts.

Members agreed that production had been relatively weak and was likely to remain so for the time being. One member said that adjustments in production had been progressing rapidly, as seen in the fact that the index of production for August declined sharply and the projected figures for the following months were relatively weak. A different member noted that attention should be paid to the possibility that adjustment pressure on inventories might increase, since the shipment-inventory balance had deteriorated.

As for prices, members said that the three-month rate of increase in the CGPI had declined somewhat due to the setback in commodity prices, and the pace of increase was likely to slow for the time being.

Members noted that the year-on-year rate of increase in the CPI (excluding fresh food) was currently around 2.5 percent against the background of the increase in prices of energy and food, and concurred that the CPI inflation rate was likely to remain at around the current level over the coming months but to moderate gradually thereafter. Some members said that there had been no signs of second-round effects of the earlier rise in energy and materials prices to date, as was evidenced by developments in wages. One member expressed the view that the momentum of the rise in prices had decreased slightly with the recent fall in energy and materials prices. On the other hand, some members said that the pass-through of the earlier rise in energy and materials prices on to sales prices continued, as seen in the fact that items whose prices had risen outnumbered greatly those whose prices had declined. One member expressed the view that attention to inflationary risks should not be relaxed just because crude oil prices had been declining recently and there had been no signs of a wage-price spiral developing. Based on these discussions, members concurred that due attention should continue to be paid to developments in prices, including factors affecting them such as the inflation expectations of households and the price-setting behavior of firms.

B. Financial Developments

Members concurred that financial conditions in Japan had remained generally accommodative, but the financial positions of small firms and firms in certain industries had shown deterioration. A few members said that although credit markets in Japan had been stable compared with those in the United States and Europe, intensified strains in global financial markets had affected the domestic markets as seen in, for example, the widening of credit spreads and the postponement of corporate bond issuance. Some members also expressed the view that financial institutions' lending attitudes toward construction and real estate firms as well as small firms had become cautious and that developments required close monitoring.

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

Based on the above discussions on economic and financial developments, 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 although in the longer run, the probability of Japan's economy returning onto a sustainable growth path with price stability was relatively high, uncertainty about the outlook had been growing. Many members said that opinion surveys and anecdotal information suggested that households and firms were increasingly noticing sluggishness in the economy. Some of these members added that the timing of the economy's return onto a sustainable growth path was highly uncertain and that it would be later than previously expected.

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 noted the following points: (1) strains in global financial markets had intensified in the wake of failures and rescues of U.S. and European financial institutions; (2) there were downside risks to the world economy, reflecting sluggish growth in the U.S. economy and a clearer slowdown in European and Asian economies; and (3) weaker income generation in Japan reflecting the earlier deterioration in the terms of trade could potentially weigh on domestic private demand. On this basis, members shared the view that, although the economy was under no pressure to adjust production capacity and labor, downside risks demanded attention. One member added that, from a medium- to long-term perspective, if the world economy expanded at a higher-than-sustainable rate again, a possible resurgence in commodity prices might pose downside risks to Japan's economy. Some members said that downside risks to the economy had increased, partly because the negative feedback loop between financial markets and economic activity had become more evident in the United States and business sentiment of Japanese firms had deteriorated rapidly.

As for prices, members shared the following view: (1) global inflation remained high although commodity prices had fallen back; 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. A few members expressed the view that attention should continue to be paid to inflationary risks, given that financial conditions had been accommodative worldwide.

A few members were of the opinion that, if the downside risks to the economy turned out to decrease, there would be an increased risk that prolonging the period of accommodative financial conditions would lead to swings in economic activity and prices. In relation to this, one member said that the Bank should continually examine whether the level of the policy interest rate was appropriate, employing various methods, for instance, assessing the relationship between the real short-term interest rate and the potential growth rate.

Based on the above discussions, members agreed that, in conducting monetary policy, the Bank should continue to pay attention to both downside risks to economic growth and upside risks to inflation.

On the guideline for money market operations for the intermeeting period ahead, members agreed that, given the assessment of economic activity and prices described above, 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. A few members said that in Japan's money market, dispersion and intraday fluctuations of the rates at which individual call transactions were made had increased, and that the weighted average of the call rate had temporarily deviated somewhat from 0.5 percent, but this temporary deviation was consistent with the current guideline for money market operations.

Members concurred that the following thinking on the monetary policy stance for the future remained unchanged: the Bank 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 conduct monetary policy in an accordingly flexible manner. On this basis, they shared the view that it was becoming even more important for the Bank to be attentive to developments in global financial markets and to continue to strive to ensure market stability. One member expressed the view that it was necessary to discuss how the Bank could enhance the effectiveness of money market operations so as to provide ample liquidity to the market.

V. Remarks by Government Representatives

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

(1) The government considered that the Bank's measures decided at the Monetary Policy Meetings on September 18 and 29 as part of the coordinated measures by central banks in major economies were appropriate to address the present elevated pressures in global financial markets with the aim of facilitating money market operations. The government would like the Bank to cooperate closely with other central banks, for example when implementing measures prepared as part of the coordinated measures, and to react appropriately to maintain the smooth functioning of the money market and ensure stability in financial markets.

(2) Furthermore, the government considered that it was important for the soundness of the Japanese financial system that financial authorities in Japan and abroad continue to cooperate closely.

(3) Japan's economy was weakening against the background of the slowdown in the global economy, including the U.S. economy, and it was likely to continue to be weak for the time being. It might weaken further reflecting growing concerns about the stability of the U.S. financial system. Turning to prices, the year-on-year rates of increase in both domestic corporate goods prices and consumer prices were recently more or less flat. The recent drop in commodity prices, such as crude oil prices in the futures markets, would affect overall price developments in the near future.

(4) The government would like the Bank to pay close attention to developments in the economy and financial markets, and support the economy from the financial side by conducting monetary policy in a flexible manner.

The representative from the Cabinet Office made the following remarks.

(1) Japan's economy was weakening as evidenced by the fact that production continued to decrease moderately, and it appeared to be in a contraction phase. The economy was likely to remain weak for the time being, against the background of the growing uncertainty caused by the strains in global financial markets. There were also downside risks stemming from growing concerns about the stability of the U.S. financial system and also from developments in the stock and foreign exchange markets. As for prices, although the pass-through of the rise in oil prices had been observed, upward pressure on prices had not noticeably increased since the economy was weakening. Close attention should therefore be paid to developments in prices, together with those in economic activity.

(2) In order to ensure sustainable economic growth led by private demand and achieve a stable inflation rate, it was important for the government and the Bank to implement their policies based on the shared basic perspective on macroeconomic management, paying close attention to economic and financial developments at home and abroad. In view of the strains in global financial markets, the government, together with the Bank, should be actively involved in close international cooperation and make every effort to grasp the situation and to ensure smooth corporate financing.

(3) The government aimed to steadily implement the "Comprehensive Immediate Policy Package," which was released in view of the impact of the global economic slowdown and the surge in prices of resources and food.

(4) 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

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 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).

VIII. Approval of the Minutes of the Monetary Policy Meetings

The Policy Board approved unanimously the minutes of the Monetary Policy Meetings of September 16 and 17, 2008 and September 18 for release on October 10, 2008.

Attachment

October 7, 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 has been sluggish due to the effects of earlier increases in energy and materials prices and weaker growth in exports, and it will likely remain sluggish for the time being as a slowdown in overseas economies becomes more evident. Although there are substantial uncertainties, the economy, in the longer run, is expected to return gradually onto a moderate growth path as the effects of earlier increases in energy and materials prices abate and overseas economies move out of their deceleration phase. The CPI inflation rate (excluding fresh food) is currently around 2.5 percent, its highest since the first half of the 1990s, due to increased prices of energy and food. It is expected to remain at around this level over the coming months but to moderate gradually thereafter. Thus, in the longer run, the economy is likely to return onto a sustainable growth path with price stability.

[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.

3. With regard to risk factors, strains in global financial markets have intensified in the wake of failures and rescues of U.S. and European financial institutions and there are downside risks to the world economy. In addition, weaker income generation reflecting earlier deterioration in the terms of trade could potentially weigh on domestic private demand. Downside risks to the economy demand attention, although there is currently no pressure to adjust production capacity or labor. Turning to prices, global inflation remains high. 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, there will be an increased risk that prolonging the period of accommodative financial conditions will lead to swings in economic activity and prices.

4. The Bank 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. The Bank will also continue to strive to maintain market stability while closely monitoring developments in global financial markets.