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Japan Standard Time on Tuesday,  
January 27, 2009.

January 27, 2009

Bank of Japan

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# **Minutes of the Monetary Policy Meeting**

on December 2, 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 Tuesday, December 2, 2008, from 1:00 p.m. to 2:29 p.m.<sup>1</sup>

**Policy Board Members Present**

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

**Mr. H. Yamaguchi, Deputy 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. Y. Miyazawa, Senior Vice Minister, Cabinet Office

Reporting Staff

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 Department

Mr. M. Nomura, Associate 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

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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 January 21 and 22, 2009 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.

Secretariat of the Monetary Policy Meeting

Mr. K. Osugi, Director-General, Secretariat of the Policy Board

Mr. K. Shigyoh, Director, Deputy Head of Secretarial Services for the Board, Secretariat of the Policy Board

Mr. T. Sekine, 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. R. Hattori, 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) At the Monetary Policy Meeting held on November 20 and 21, 2008, the chairman instructed the Bank's staff to examine possible changes in the treatment of corporate debt as collateral and possible ways to enhance flexibility in funds-supplying operations collateralized by corporate debt in order to facilitate corporate financing, and report at a future Monetary Policy Meeting.
- (2) Today, in accordance with Article 17, paragraph 3 of the Bank of Japan Act, the chairman had decided to call an unscheduled Monetary Policy Meeting to receive the staff's report.

## **II. Summary of Staff Reports on Major Money Market Operation Measures Taken after the Failure of Lehman Brothers Holdings Inc.**

As a measure to stabilize U.S. dollar funding markets, the Bank introduced U.S. dollar funds-supplying operations against pooled collateral on September 18, 2008. Interest rates on overnight instruments had settled down to the stable state that prevailed before the failure of Lehman Brothers Holdings Inc., mainly due to the provision of ample U.S. dollar liquidity by central banks including the Bank of Japan. Rates on term instruments had declined rapidly since the introduction on October 14, 2008 of U.S. dollar funds-supplying operations whereby an unlimited amount of funds would be provided at a fixed rate set for each operation against pooled collateral.

As a measure to contribute to stabilizing the Japanese government bond (JGB) repo market, the Bank had purchased government securities under repurchase agreements almost every day since the failure of Lehman Brothers Holdings Inc., and the outstanding balance of such purchases was more than three times higher than the previous year's level. As a result, some positive effects on repo rates had started to be seen. On October 14, 2008, some types of JGBs such as floating-rate bonds were added to the list of JGBs eligible for the Bank's purchases with repurchase agreements, and it seemed that this had contributed to facilitating the funding of individual financial institutions.

In line with the announcement on October 14, 2008 that it would work to ensure that sufficient funds maturing beyond the year-end would be available, the Bank had

provided more funds than the previous year by increasing the frequency and size of operations. As a result, although interest rates on yen term instruments had recently edged up, they had been stable relative to those on U.S. dollar and euro instruments. With the complementary deposit facility, the pace of progress in satisfying reserve requirements for the November reserve maintenance period had been nearly as fast as for the September period, which started immediately after the failure of Lehman Brothers Holdings Inc.

In accordance with the decisions regarding facilitation of corporate financing announced on October 14 and November 21, 2008, the Bank had increased the frequency and size of CP repo operations. As a result, although CP issuance rates had remained at a high level, the issuance amount of CP with high credit ratings had started to pick up. This suggested that CP repo operations had helped dealers obtain liquidity.

### **III. Staff Proposal of Introduction of Money Market Operation Measures to Facilitate Corporate Financing**

The Bank's staff reported the result of deliberations conducted in response to the instruction by the chairman at the Monetary Policy Meeting held on November 20 and 21, 2008. Financial conditions in Japan had recently become less accommodative on the whole, as the financial positions of small firms had deteriorated and an increasing number of large firms had faced a worsening in funding conditions in the markets. In view of these developments, the staff would like to propose that, in order to facilitate corporate financing, the Bank take measures to change the treatment of corporate debt as collateral and to enhance flexibility in funds-supplying operations collateralized by corporate debt.

First, the Bank should ease the eligibility criteria for corporate debt to be accepted as collateral, from a credit rating of "A-rated or higher" to "BBB-rated or higher," effective from December 9, 2008. And second, the Bank should introduce a new operation that would provide funds over the fiscal year-end at an interest rate equivalent to the target for the uncollateralized overnight call rate. This new operation would be conducted for an unlimited amount against the value of corporate debt pledged to the standing pool of eligible collateral. A draft of the principal terms and conditions for the new operation would be submitted for approval at the Monetary Policy Meeting to be held on December 18 and 19, 2008, and the staff would immediately examine operational issues so as to be able to implement the operation in January 2009. Both measures should be introduced as

temporary ones effective through April 30, 2009.

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

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

Members first discussed recent developments in financial markets. Members agreed on the following view: Japan's financial markets remained relatively stable compared to those in the United States and Europe against the backdrop of various money market operation measures taken by the Bank; however, strains in global financial markets were increasing, and as a result financial conditions in Japan had become less accommodative. Members then concurred that, with a view to facilitating corporate financing during the run-up to the calendar and fiscal year-ends, it would be appropriate to approve all the measures proposed by the staff and explain them to the public so that the purpose and effectiveness of these proposed measures, and also of actions that the Bank had already taken, would be understood properly by market participants.

One member said that behind the current situation lay three factors, namely, liquidity constraints faced by financial institutions, concern about counterparty credit risk, and capital constraints of financial institutions, and the measures proposed at this meeting were mainly intended to ease liquidity constraints. This member expressed the view that the Bank should hold internal discussions about possible implementation of outright purchases of CP, and that it would be necessary to make public at an early stage the fact that such discussions were being held. Some members, however, were of the opinion that it would be appropriate to determine whether additional measures would be necessary after closely examining the effects of the measures that the Bank had already taken and future developments in financial markets. A few of these members said that acceptance by a central bank of credit risk of individual firms through, for example, outright purchases of CP was exceptional and that the Bank should be particularly cautious about taking such action. Many members expressed the view that, although additional measures should be discussed internally as necessary, the progress or results of such discussions should only be made public at an appropriate time. A different member said that in examining the effects of the proposed measures on the current financial market conditions, it was appropriate to consider also the effects of the measures that the Bank had taken so far. This member also commented that the new operation, which was to be implemented from January 2009, could

start to have positive effects on financial markets even before the end of 2008, due to its announcement effect.

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

The Policy Board decided at the previous Monetary Policy Meeting held on November 20 and 21, 2008 to maintain the guideline for money market operations that the Bank would encourage the uncollateralized overnight call rate to remain at around 0.3 percent. Since an 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 it would be appropriate to maintain the current guideline until the next Monetary Policy Meeting to be held on December 18 and 19, 2008, as it would be appropriate to hold thorough discussions on the economic and price situation at the next meeting, based on the results of the various indicators released since the previous meeting and the December *Tankan* (Short-Term Economic Survey of Enterprises in Japan) to be released on December 15.

## **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 proposed measures would facilitate corporate financing in a situation where there was a risk that financial conditions, as reflected in lending attitudes of financial institutions and issuing conditions in the corporate bond and CP markets, might increase in severity during the run-up to the calendar year-end.
- (2) The government would like to request that, once the proposal was approved at this meeting, the Bank implement the measures as swiftly as possible in view of the current economic and financial situation.
- (3) The government would like to request the Bank to continue to implement monetary policy in an appropriate and flexible manner so as to firmly support the economy from the financial side, taking account of the current severe economic and financial conditions and at the same time closely monitoring developments in corporate financing over the calendar and fiscal year-ends.



The representative from the Cabinet Office made the following remarks.

- (1) The government considered that it was important to ensure smooth short-term funding of firms, not only over the fiscal year-end but also over the calendar year-end. The material for discussion prepared by the Bank's staff aroused some concern as it explained that the proposed new operation was aimed at provision of liquidity over the fiscal year-end. Such concern, however, disappeared when it was indicated in the discussion that the proposed new operation would start to have positive effects on financial markets even before the end of 2008, due to its announcement effect. The government considered that swiftness would be crucial in ensuring the efficacy of the proposed measures, and therefore hoped that the Bank would implement them as soon as possible.

## **VI. Votes**

### **A. Vote on the Establishment of Temporary Rules regarding the Eligibility Standards for Corporate Bonds and Loans on Deeds to Companies**

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 0.3 percent.

Votes for the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, 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 January 21 and 22, 2009 and release them after the meeting, instead of approving them at the first subsequent meeting on December 18 and 19, 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 scheduled meeting on November 20 and 21, 2008 at the meeting on December 18 and 19, 2008 and release them after the meeting.

Attachment

December 2, 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 0.3 percent.

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<sup>[Note]</sup> Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, 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.