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March 24, 2009

Bank of Japan

Minutes of the Monetary Policy Meeting

on February 18 and 19, 2009

(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

P.O. Box 30, Nihonbashi, Tokyo 103-8660, 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 Wednesday, February 18, 2009, from 2:00 p.m. to 4:54 p.m., and on Thursday, February 19, from 9:00 a.m. to 1:47 p.m.¹

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 Finance²

Mr. C. Kawakita, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance³

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

Reporting Staff

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

Mr. K. Ido, Executive Director

Mr. K. Yamamoto, Executive Director

Mr. H. Nakaso, Executive Director⁴

¹ The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on March 17 and 18, 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.

² Mr. W. Takeshita was present on February 19.

³ Mr. C. Kawakita was present on February 18.

⁴ Mr. H. Nakaso concurrently held the post of Director-General of the Financial Markets Department.

Mr. M. Amamiya, Director-General, Monetary Affairs Department
Mr. M. Ayuse, Associate Director-General, Monetary Affairs Department⁵
Mr. T. Sekine, Associate Director-General, Monetary Affairs 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 Department⁶
Mr. T. Sakamoto, Director, Head, Monetary Operations Planning, Monetary Affairs Department⁵
Mr. A. Okuno, Senior Economist, Monetary Affairs Department
Mr. R. Hattori, Senior Economist, Monetary Affairs Department

⁵ Messrs. M. Ayuse and T. Sakamoto were present on February 19.

⁶ Mr. T. Kato was present on February 18 for the whole of the session, and on February 19 from 10:18 a.m. to 1:47 p.m.

I. Summary of Staff Reports on Economic and Financial Developments⁷

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 January 21 and 22, 2009.⁸ The uncollateralized overnight call rate had been at around 0.1 percent.

To ensure market stability in Japan, the Bank increased the provision of funds maturing over the fiscal year-end and actively purchased Japanese government securities (JGSs) and CP under repurchase agreements. The Bank continued to conduct special funds-supplying operations to facilitate corporate financing and U.S. dollar funds-supplying operations against pooled collateral. Moreover, on January 30, 2009, the Bank commenced outright purchases of CP, and on February 2, it started outright purchases of Japanese government bonds (JGBs) based on a revised framework whereby it set the amounts of JGBs to buy annually according to their types and residual maturities.

B. Recent Developments in Financial Markets

Japan's money market had been nervous. The general collateral (GC) repo rates had been susceptible to changes in the stance of funds providers. Yields on government bills rose temporarily with market concerns about the deterioration in the supply-demand balance caused by an increase in their issuance, but had decreased somewhat recently. The risk premium on Euroyen rates remained at an elevated level. Interest rates on CP with high ratings had declined to below their levels immediately before the failure of Lehman Brothers Holdings Inc., but those on CP with low ratings had remained at relatively high levels.

Japanese stock prices had been unstable at low levels, mainly reflecting a significant decrease in corporate profits. The Nikkei 225 Stock Average had declined to around 7,500 yen recently. Long-term interest rates had been unstable both at home and abroad, affected by both the deterioration in the outlook for the world economy and concerns about the increasing fiscal deficit. The benchmark rate in Japan had recently

⁷ Reports were made based on information available at the time of the meeting.

⁸ The guideline was as follows:

The Bank of Japan will encourage the uncollateralized overnight call rate to remain at around 0.1 percent.

been moving at around 1.25 percent.

The yen had been volatile against the U.S. dollar reflecting concerns over a possible prolongation of the U.S. recession on one hand and expectations about the U.S. government's economic stimulus plan and financial stabilization measures on the other. It had recently depreciated to the range of 93-94 yen.

C. Overseas Economic and Financial Developments

U.S. economic conditions had deteriorated significantly. A substantial decline in housing investment continued, and home prices continued to fall. With business fixed investment contracting noticeably and private consumption also falling, industrial production had been decreasing and the number of employees had been declining considerably. Funding conditions for firms and households had remained tight. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items had declined significantly, to close to 0 percent, due to a fall in energy prices and a leveling-off of increases in food prices; that in the CPI for all items less energy and food, or the core CPI, had also declined.

Economic conditions in the euro area had deteriorated significantly. Exports had declined sharply, while private consumption, business fixed investment, and housing investment had decreased. As for prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) had been declining. Economic conditions in the United Kingdom had also deteriorated significantly, mainly reflecting the considerable adjustments in the housing market and a decrease in private consumption.

The Chinese economy had decelerated significantly: although domestic demand continued to show high growth, exports had declined. Economic growth in India had decelerated, and economic conditions in the NIEs and the ASEAN countries had been deteriorating. As for prices, the year-on-year rate of increase in the CPI had declined in many Asian economies.

Global financial markets generally remained under strain, although there was a slight improvement in some, such as money markets. Although Treasury-Eurodollar (TED) spreads and credit spreads on CP had narrowed to close to their levels immediately before the failure of Lehman Brothers Holdings Inc., credit spreads on corporate bonds, particularly those with low ratings, had remained relatively wide. U.S. and European

stock prices had been more or less unchanged, with downward and upward factors -- deterioration in economic indicators and somewhat weak corporate results on one hand, and expectations about economic stimulus plans on the other -- canceling each other out. U.S. long-term interest rates had trended upward due to concerns about a possible increase in the issuance of government bonds, while European long-term interest rates had been more or less unchanged, albeit with some fluctuations.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had decreased substantially. They were expected to continue decreasing for the time being, due to the slowdown in overseas economies and the appreciation of the yen.

With regard to domestic private demand, business fixed investment had declined substantially, mainly due to the faster decrease in corporate profits. It was likely to continue declining significantly for the time being, given the ongoing decrease in corporate profits, the continuing deterioration in firms' funding conditions, and the increase in the number of firms that saw their capital stock as excessive.

Private consumption had weakened, as the employment and income situation had become increasingly severe. The decrease in the number of new passenger-car registrations had accelerated. Sales at department stores had softened further, since consumers had further curtailed their purchases. Consumer sentiment had deteriorated further, mainly due to the drop in stock prices and growing employment uncertainty; indicators of consumer sentiment had fallen below their levels at the time of the previous economic downturn. Private consumption was likely to continue weakening for the time being, as the employment and income situation would become increasingly severe.

Housing investment had been more or less flat. The number of housing starts, a leading indicator of housing investment, had recently begun decreasing again. Housing investment was expected to weaken somewhat for the time being, given the sluggishness in housing starts.

Production had decreased at a much faster pace. It was likely that production would continue to decrease for the time being, since the weakness in domestic and external demand had become more evident and inventory adjustment pressures had increased.

Inventories had risen noticeably, while shipments had decreased substantially; the shipment-inventory balance had therefore deteriorated rapidly.

The employment and income situation had become increasingly severe, as the labor market had slackened and household income had been relatively weak. Household income was likely to continue declining for the time being in response to the decrease in corporate profits and production.

On the price front, commodity prices, which peaked in summer 2008 and dropped substantially thereafter, had recently been essentially flat at low levels. The three-month rate of decrease in the domestic corporate goods price index (CGPI) had been large and the CGPI was likely to continue decreasing for the time being, mainly due to the declines in commodity prices. The year-on-year rate of increase in the CPI (excluding fresh food) had moderated to around 0 percent, mainly reflecting the declines in the prices of petroleum products and the stabilization of food prices. It was expected to become negative by the spring, mainly due to the above factors and also to increasing slackness in supply and demand conditions in the overall economy.

2. Financial environment

Financial conditions had remained tight. The overnight call rate had been at an extremely low level, but the stimulative effects from this had become increasingly limited given the significant deterioration in economic activity. It seemed that funding costs had declined compared to their levels around the end of 2008, mainly reflecting the reductions in the policy interest rate, although credit spreads on corporate debt had generally remained wide. In response to various policy measures, some firms had increased issuance of CP, and the amount outstanding of bank lending, particularly to large firms, had continued to increase rapidly. However, the amount outstanding of CP and corporate bonds issued by firms with low credit ratings had been below the previous year's level, and an increasing number of firms, especially small firms, had reported that their financial positions were weak and lending attitudes of financial institutions were severe. The year-on-year rate of change in the money stock had been around 2 percent.

II. Inclusion of Government-Guaranteed Dematerialized CP as Eligible Collateral

A. Staff Proposal

Given that government-guaranteed dematerialized CP would start to be issued soon, the staff would like to propose, with a view to further facilitating the Bank's money market operations, that the Bank take the necessary steps to include government-guaranteed dematerialized CP as eligible collateral for the Bank's provision of credit and to add such CP to the list of CP eligible to be purchased with repurchase agreements.

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. Broadening of the Range of JGSs Offered under the Securities Lending Facility

A. Staff Proposal

With a view to further facilitating the Bank's money market operations and contributing to smooth settlement of both JGSs and funds, the staff would like to propose that the Bank broaden the range of JGSs that it offered under the securities lending facility by adding 30-year bonds, floating-rate bonds, and inflation-indexed bonds.

B. Discussion by the Policy Board and Vote

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

IV. Staff Proposal of Introduction of Outright Purchases of Corporate Bonds

In accordance with the decision made at the Monetary Policy Meeting held on January 21 and 22, 2009 to introduce outright purchases of corporate bonds, the staff would like to propose that the Bank take the necessary steps, such as establishment of Principal Terms and Conditions for Outright Purchases of Corporate Bonds.

V. Staff Proposal to Extend Various Temporary Measures

As for the various temporary measures regarding money market operations that had been introduced since autumn 2008, the staff would like to propose that the Bank take

the necessary steps to extend the effective periods of these measures, with a view to further strengthening their effects in order to ensure stability in financial markets and facilitate corporate financing through the fiscal year-end and also with a view to ensuring that the measures would produce similar effects through September 30, 2009, the end of a semiannual book closing period for many firms.

VI. Staff Proposal of Expansion of Special Funds-Supplying Operations to Facilitate Corporate Financing

With a view to facilitating a decline in longer-term interest rates, the rates actually applied when firms raised funds, and to relieving firms' funding concerns, the staff would like to propose that the Bank take the necessary steps to expand special funds-supplying operations to facilitate corporate financing.

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

A. Economic Developments

Members shared the view that overseas economies had been slowing markedly as a whole in a situation where the adverse feedback loop between financial and economic activity had been intensifying further on a global basis. Many members expressed the view that the plunge in recently released GDP growth rates of various countries for the October-December quarter of 2008 was clear evidence of a simultaneous and rapid downturn in economies around the world. One member said that world trade and the cross-border flow of funds were contracting and economies worldwide were decelerating, and that the continued contraction of financial and economic activity was a cause for concern. Another member expressed the opinion that a downward spiral of declining production, income, and spending had been developing on a global scale and any appreciable recovery in the world economy was therefore unlikely for the time being. Members then discussed, from a longer-term perspective, the mechanism whereby overseas economies might move out of their deceleration phase. One member's view was that, on a global basis, large-scale production adjustments were being made and aggressive monetary and fiscal measures were being taken, and this was likely to diminish extremely high uncertainties gradually. However, some members including this member were of the

opinion that, although it was likely that the policy measures in individual countries would produce positive effects, it would be some time before they would be seen clearly and it was very uncertain how great they would be.

Members agreed that global financial markets generally remained under strain, although there was a slight improvement in some, such as money markets. Some members expressed the view that, in a situation where policy measures involving a fiscal burden were being implemented worldwide, concerns about a possible increase in the issuance of government bonds were gradually pushing up long-term interest rates, particularly in the United States, and that attention should be paid to the risk that the upward trend in long-term interest rates might depress economic activity. A few members, however, added that the rise in long-term interest rates might be in part a correction of their decline in late December 2008 due to a flight to quality.

Turning to the U.S. economy, members concurred that economic conditions had deteriorated significantly as the adverse feedback loop between financial and economic activity worsened amid the significant fall in the risk-taking capacity of financial institutions and investors. With regard to the housing market, one member was of the opinion that the recently observed developments -- such as an increase in existing home sales and a decrease in housing inventories -- amid a decline in mortgage rates supported the view that adjustments in the housing market were making progress. A different member, however, said that the U.S. housing market was unlikely to move out of its adjustment phase for the time being, because the number of housing starts and sales prices of homes had not begun bottoming out yet despite the launch of a comprehensive policy package for housing. Regarding private consumption, one member expressed the view that, although retail sales for January were higher than the previous month, consumption indicators in general had deteriorated, with car sales showing no signs of improvement. The member continued that this and the rapid deterioration in the employment and income situation suggested that U.S. consumption would likely continue decreasing for the time being. With regard to successive policy measures of the U.S. government, many members said that, while they expected the measures would produce positive effects, it remained uncertain when they would be implemented and how great their effects would be. A few of these members said in relation to the financial stabilization measures that they would pay close attention to specifics to be announced, such as how prices for purchasing

nonperforming assets would be determined and how contributions by the private sector would be encouraged.

With regard to the economy of the euro area, some members expressed the view that economic conditions had deteriorated significantly, as exports had declined sharply and domestic demand, especially private consumption and business fixed investment, had also decreased. A few members pointed out as background to these developments that, as in the U.S. economy, the adverse feedback loop between financial and economic activity had been intensifying further, as seen in the tightening of financial institutions' lending standards leading to weak domestic demand. Meanwhile, one member noted that there were further downside risks to the outlook for the economy of the euro area, because the economies of its major export destinations, such as Central and Eastern European countries and Russia, had been slowing further.

Members concurred that the Chinese economy had decelerated significantly due to a decrease in exports and production. Some members expressed the view with regard to domestic demand that the large-scale economic stimulus package and successive monetary easing measures had succeeded in encouraging an increase in bank lending, progress in the adjustment of materials inventories, and an increase in iron and steel production. A few members said that it seemed highly uncertain whether the economy would recover soon in view of the continued deterioration in real estate prices and the employment situation, and close attention should therefore be paid to developments.

Based on the above discussion on economic and financial conditions abroad, members discussed the state of Japan's economy. They shared the view that economic conditions had deteriorated significantly and were likely to continue deteriorating for the time being given the following factors: (1) exports had been decreasing substantially reflecting the slowdown in overseas economies; (2) domestic demand had become weaker against the background of declining corporate profits and the worsening employment and income situation in the household sector; and (3) financial conditions had remained tight. Members agreed that the drop in real GDP for the October-December quarter of 2008 -- the annualized quarter-on-quarter decline of more than 10 percent -- was severe and was in line with the above assessment. As background to the sharp economic deterioration in Japan, worse than that in the United States and Europe, which were more directly affected by the financial crisis, many members raised the following factors: (1) Japan's industrial structure

was susceptible to a downturn in the world economy, due to the predominance of industries that were vulnerable to a decrease in exports, such as transport equipment, electrical machinery, and general machinery; and (2) the real effective exchange rate of the yen had appreciated rapidly.

As for the outlook, members agreed that, assuming that expectations about medium- to long-term growth would remain generally unchanged, the economy was likely to start recovering, at the earliest, from the latter half of fiscal 2009 as global financial markets regained stability and overseas economies moved out of their deceleration phase, although it was highly uncertain whether developments in the economy would be in line with this projection. With regard to risk factors to the economy, one member noted that the large-scale production adjustments and the consequent significant decline in the economic growth rate might cause a downward revision of expectations about medium- to long-term growth, which in turn might further increase pressures to adjust capital stocks and employment. Some members said that, given the recent substantial decline in business fixed investment, the possibility that growth expectations of firms had already weakened warranted careful examination. One member, however, expressed the view that it was too early to conclude at this point that firms' expectations about medium- to long-term growth had weakened, as many in corporate management continued to take an active stance on research and development and mergers and acquisitions. A different member commented that, given the current industrial structure in Japan, future economic recovery would continue to depend largely on developments in overseas economies, and therefore uncertainty regarding the outlook for Japan's economy was high.

With regard to developments in each demand component, many members expressed the view that exports had decreased substantially, and were likely to continue decreasing for the time being. In relation to this, some members said that the economic stimulus plans being launched in countries around the world included some measures with protectionist characteristics, and this might reduce to some extent the positive effects on Japan's exports of any recovery in overseas economies. One of these members added that, depending on developments in exchange rates, there might be an accelerated shift of manufacturers' production to overseas locations, which might further limit growth in Japan's exports.

Some members expressed the view that business fixed investment was likely to

continue declining significantly for the time being, mainly due to the slowdown in overseas economies, the decrease in corporate profits, and the deterioration in firms' funding conditions. Some members said that an increasing number of firms had started to cancel their investment projects aimed at expanding production capacity and had also started to consolidate production facilities.

A few members expressed the view that private consumption was likely to continue weakening for the time being, as firms, which had been reducing overtime working hours, were likely to start adjusting wages and the number of employees.

Members agreed that production had decreased at a much faster pace, and was likely to continue to decrease for the time being since the weakness in domestic and external demand had become more evident and inventory adjustment pressures had increased. Some members said that firms, in response to the rapid decrease in demand at home and abroad, were trying to reduce their inventories by cutting production significantly, but thus far the decrease in demand had exceeded the pace of reduction in production, giving rise to a risk of protracted adjustments.

Members agreed that the year-on-year rate of increase in the CPI (excluding fresh food) had moderated recently, due to the declines in the prices of petroleum products and the stabilization of food prices, and was likely to become negative by the spring for the same reasons and due also to increasing slackness in supply and demand conditions in the overall economy. Members then discussed risks to the outlook for prices. Some members said that the risk of a decline in firms' and households' expectations about medium- to long-term inflation would warrant attention when the rate of change in prices became negative. A few members noted that, although items whose prices had risen still outnumbered those whose prices had declined, the difference between the two figures had narrowed and the increase in a wide range of prices had slowed. One member said that, given the ongoing severe economic conditions, increased awareness of the cost of living -- and a consequent preference for inexpensive goods and services and reduced spending -- and intensified competition among firms in the distribution sector might exert further downward pressure on prices. A different member expressed the view that, from a longer perspective, attention should be paid to the risk that a worldwide monetary easing might cause a speculative inflow of funds to the commodity markets and in turn a recurrence of rising commodity prices. Another member said that inflationary risks had not dissipated,

as evidenced by, for example, the recent rise in crop prices due to the recovery in China's imports and adverse weather in major producing areas.

B. Financial Developments

Members concurred that financial conditions in Japan had remained tight. Many members said that, although bank lending rates and CP issuance rates had declined, interbank rates on term instruments had remained at high levels and credit spreads on CP and corporate bonds had remained wide on the whole, weakening the effects of the policy interest rate reductions. Many members expressed the view that, due partly to the effects of the Bank's outright purchases of CP, some firms had increased issuance of CP. Some members said, however, that firms had continued to face difficulties in issuing corporate bonds, as seen in the fact that the amount outstanding of corporate bonds had been below the previous year's level. A few members were of the view that availability of funds had declined, as shown by, for example, a significant increase in the number of firms reporting that lending attitudes of financial institutions were severe. These members continued that the significant deterioration in economic activity had worsened business performance and had reduced financial institutions' risk-taking capacity, and this in turn had led to the tightening of their lending standards.

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

Regarding the guideline for money market operations for the intermeeting period ahead, members agreed that it was appropriate to maintain the current guideline that the Bank would encourage the uncollateralized overnight call rate to remain at around 0.1 percent. Many members expressed the view that, given that the overnight rate had already declined to an extremely low level, it was important to facilitate a decline in longer-term interest rates, the rates actually applied when firms raised funds, and to relieve firms' funding concerns.

Members discussed how to work upon longer-term interest rates. Some members expressed the view that it was difficult to directly affect the TIBOR rates -- which provided a basis for the rates applied to spread lending -- given that (1) the TIBOR rates were not actual trading rates and the volume of uncollateralized short-term money transactions was small, and (2) credit risks incorporated in the TIBOR rates could not be directly controlled

through money market operations. A few members said that the Bank's special funds-supplying operations to facilitate corporate financing commenced in January 2009 had already provided about 4 trillion yen of funds, an amount that exceeded initial expectations, and this suggested that the operations had been effective in improving conditions for corporate financing. Some members said that the Bank should affect interest rates on term instruments, by making more effective use of the special funds-supplying operations to facilitate corporate financing and also by conducting its daily money market operations -- including operations with relatively long maturity as necessary -- while maintaining the proper functioning of the market mechanism. Based on the above discussion, members shared the view that it was appropriate for the Bank to expand the special funds-supplying operations to facilitate corporate financing and at the same time to make use of its existing liquidity provision measures, thereby encouraging interest rates on term instruments overall to decline.

Members then discussed details concerning expansion of special funds-supplying operations to facilitate corporate financing. They shared the view that it was appropriate to (1) standardize the duration of all such loans to three months, the long end of the previous range (one month to three months) and (2) increase the frequency of the operations (previously twice a month) to once a week. They also agreed that it was appropriate to offer such loans (previously to be offered through the end of March 2009) through the end of September 2009. A few members added that, given that financial markets remained nervous, it was necessary that the Bank continue to conduct money market operations flexibly through the fiscal year-end, giving due consideration to firms' financial positions and market developments.

Members next examined outright purchases of corporate bonds, which the Bank decided to introduce at the previous Monetary Policy Meeting held on January 21 and 22, 2009, based on the basic principles described in Outright Purchases of Corporate Financing Instruments. One member expressed the view that the corporate financing situation did not fulfill the necessary conditions for implementation of outright purchases of corporate bonds because (1) there had not been a decline in the functioning of the corporate bond market severe enough to lead to overall tightness in corporate financing, judging from the fact that the amount of corporate bonds issued was only slightly smaller than in the past and credit spreads on them had not generally widened significantly; and (2) outright purchases

of corporate bonds with a residual maturity of up to one year could only be expected to have a limited effect as a means of facilitating corporate financing. Against this view, most members said that it was appropriate for the Bank to conduct outright purchases of corporate bonds for the following reasons: (1) the functioning of the corporate bond market had declined so significantly that it seemed to be leading to overall tightness in corporate financing, as evidenced by the fact that credit spreads on corporate bonds continued to widen and the issuance of corporate bonds with low ratings remained difficult; and (2) outright purchases of corporate bonds even with a residual maturity of up to one year would be able to contribute to facilitating corporate financing by encouraging securities companies and investors to trade corporate bonds, thus supporting a recovery in market functioning, and by boosting financial institutions' capacity to extend loans. These members then expressed their view regarding the specifics of outright purchases of corporate bonds as follows. First, the upper limit of the total outstanding amount of corporate bonds to be purchased should be 1 trillion yen, given that (1) the amount should be sufficiently large to support a recovery in the functioning of the corporate bond market, and (2) on the other hand, excessive intervention by the Bank in markets should be avoided. Second, corporate bonds to be purchased should be those with a residual maturity of up to one year at the end of the month of purchase, in view of the fact that corporate bonds were usually actively traded just before their residual maturities became less than one year. And third, such purchases would be conducted as a temporary measure through September 30, 2009, the day to which the effective periods of some other temporary measures would be extended, since the purchasing period should be sufficiently long.

Members then discussed the possible extension of the effective periods of the various temporary measures regarding money market operations. With a view to ensuring stability in financial markets and facilitating corporate financing through September 30, 2009, members agreed that -- given that developments in financial markets and conditions for corporate financing remained severe -- it was appropriate to extend the effective periods of various temporary measures so that the Bank would be able to provide funds with a maturity of up to three months maturing after September 30, 2009. Many members were of the opinion that firms' anxiety about possible difficulties in rolling over their borrowings after the turn of the fiscal year might make funding over the fiscal year-end even more difficult, and, to avoid such a situation, it was appropriate to decide on the extension at this

meeting rather than to wait until the next Monetary Policy Meeting in March. Some members expressed the view that retaining such exceptional measures for a long time would make market participants take them for granted and consequently terminating them smoothly might become difficult, and it was therefore necessary to carefully consider an exit strategy in advance. A few members pointed out the risk that losses incurred on financial instruments purchased might impair the soundness of the Bank's assets, which provided the backing for the currency, and consequently undermine confidence in the neutrality of the central bank and in the currency in the long run. They said that due attention should be paid to this risk, which tended to be disregarded in a situation where policy responses to the financial crisis and the economic downturn demanded priority.

IX. Remarks by Government Representatives

Following the staff reports on the financial environment, the representative from the Ministry of Finance said that the government had been making swift preparations for the issuance of government-guaranteed dematerialized CP since the passing of the second supplementary budget for fiscal 2008.

Following the submission of policy proposals on the guideline for money market operations, the representative from the Ministry of Finance made the following remarks.

- (1) The Bank seemed to assess Japan's current and future economic conditions as very severe.
- (2) The government also regarded Japan's economic conditions as severe, and had announced economic measures amounting to about 75 trillion yen in total. With the aim of overcoming the economic downturn ahead of other affected countries, the government would continue to implement various measures.
- (3) Recent financial market developments reflected increased uncertainty, as suggested by the fact that market participants had been holding extra funds due to growing concerns about difficulties in funding over the fiscal year-end on March 31. In this situation, the government would like the Bank to support the economy from the financial side by providing funds more actively. The government would also like the Bank to take particular care in its communication in order to further enhance the effects of the Bank's various measures. Regarding outright purchases of corporate bonds, the government would like the Bank to consider expanding the scope of the measure.

The representative from the Cabinet Office made the following remarks.

- (1) Japan's economy had worsened rapidly as seen in the very substantial decrease in exports and production. Looking ahead, it was likely to continue worsening for the time being, and the possibility that the rapid reduction in production might result in a significant employment adjustment was a cause for concern. Furthermore, attention should be paid to risk factors that might make economic conditions more severe, such as the possibility of a further slowdown in overseas economies.
- (2) The government would conduct economic and fiscal policies through a three-step approach: economic stimulus in the near term, fiscal consolidation in the medium term, and economic growth enhancement through reforms in the medium to long term. With a view to stimulating the economy as the top priority, the government would steadily implement economic measures amounting to about 75 trillion yen in total. The government would make an effort to ensure that the initial budget for fiscal 2009 was approved by the Diet soon, and considered that it was necessary to swiftly put the measures into action from the beginning of fiscal 2009.
- (3) Given the recent severe economic and financial conditions at home and abroad, the government would like to request the Bank to support the economy by conducting monetary policy in an appropriate and flexible manner, taking account of the government's policy efforts, and sharing the basic perspective on macroeconomic management with the government.
- (4) In the most severe economic downturn since World War II, firms' financial positions were weakening, causing concerns about a possible rise in corporate bankruptcies and unemployment. Therefore, the government would like the Bank to appropriately conduct the measures the Bank had introduced thus far, such as outright purchases of corporate bonds. The government would also like the Bank to closely examine the situation in corporate financing and flexibly consider any possible enhancements of these measures as necessary.

X. Votes

A. Vote on the Guideline for Money Market Operations

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 0.1 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 0.1 percent.

2. A public statement will be decided separately.

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.

B. Vote on Establishment of Principal Terms and Conditions for Outright Purchases of Corporate Bonds

The staff proposal was approved by a majority vote. It was confirmed that the decision would be made public. In relation to this decision, it was confirmed that a statement, Outline of Outright Purchases of Corporate Bonds, would also be released (see Attachment 1).

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

Votes against the proposal: Ms. M. Suda.

Ms. M. Suda dissented from the above proposal for the following reasons. First, the Bank had already commenced sufficient measures, such as special funds-supplying operations to facilitate corporate financing and outright purchases of CP, and the decline in

the functioning of the corporate bond market had not led to overall tightness in corporate financing at this point. And second, outright purchases of corporate bonds with a residual maturity of up to one year could only be expected to have a limited effect as a means of facilitating corporate financing.

C. Vote on Amendments to Principal Terms and Conditions for Money Market Operations

Members voted unanimously to approve the staff proposal and agreed that the decision should be made public. In relation to this decision, it was also agreed that the details of the expansion of special funds-supplying operations to facilitate corporate financing, and the schedule of the operations for the immediate future, would be made public (see Attachment 2).

XI. 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 3).

XII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of January 21 and 22, 2009 for release on February 24, 2009.

February 19, 2009

Bank of Japan

Outline of Outright Purchases of Corporate Bonds

1. Corporate Bonds to be Purchased

Corporate bonds that are eligible as the Bank's collateral, A rated or higher, and with a residual maturity of up to 1 year at the end of the month in which the purchase is conducted.

2. Eligible Counterparties

Financial institutions that wish to be counterparties in this operation and that are also among those who are to borrow funds from the Bank's Head Office in the Bank's Funds-Supplying Operations against Pooled Collateral.

3. Method for Auctions

A multiple-price competitive auction in which a minimum yield applied to corporate bonds is set according to their residual maturity, as detailed below, and counterparties bid a non-negative spread above the minimum yield. Minimum yields are subject to change.

(Residual maturity of up to 6 months)

The targeted uncollateralized overnight call rate plus 40 bps

(Residual maturity of more than 6 months)

The targeted uncollateralized overnight call rate plus 60 bps

4. Amount to be Purchased

The outstanding amount of corporate bonds purchased by the Bank shall not exceed 1 trillion yen.

The outstanding amount of a single issuer's corporate bonds purchased by the Bank shall not exceed 50 billion yen. In addition, if the outstanding amount of a single issuer's corporate bonds purchased by the Bank exceeds 25 percent of the "upper limit" (the highest end-of-the-month figure for a given issuer's corporate bonds between July 2008 and January 2009), the corporate bonds would be excluded from the eligible list of corporate bonds until redemptions bring the outstanding amount of the issuer's corporate bonds purchased by the Bank back below the upper limit.

5. Duration of Purchases

All outright purchases of corporate bonds will be conducted by September 30, 2009.

6. Schedule, etc.

The first auction will be offered on March 4, the second on April 6, and the third on May 11.

The amount of each purchase is planned to be 150 billion yen.

The schedule and the amount of purchases are subject to change.

The schedule for the fourth and subsequent auctions will be released at a later date.

February 19, 2009

Bank of Japan

Expansion of Special Funds-Supplying Operations to Facilitate Corporate Financing

At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, given recent financial and economic conditions, to expand special funds-supplying operations to facilitate corporate financing,¹ with a view to facilitating a decline in longer-term interest rates, which are rates actually applied to firms' fund-raising, and to relieving firms' funding concerns, as follows.

1. The frequency of the operations will be increased to once a week (previously twice a month).
2. The duration of each loan will be extended to three months (previously one to three months).

This applies only to the loans provided in the operations underlined in the table shown below.

3. Loans will be offered through end-September 2009 (previously through end-March 2009).

Reference: Schedule of the Operations for the Immediate Future
Underlined dates have been added.

Date of Offer	Date of Exercise	Date of Repayment
<u>Feb. 23 (Mon.)</u>	<u>Feb. 26 (Thur.)</u>	<u>May 26 (Tue.)</u>
Feb. 27 (Fri.)	Mar. 4 (Wed.)	Apr. 15 (Wed.)
<u>Mar. 4 (Wed.)</u>	<u>Mar. 9 (Mon.)</u>	<u>June 5 (Fri.)</u>
Mar. 10 (Tue.)	Mar. 13 (Fri.)	Apr. 21 (Tue.)
Mar. 16 (Mon.)	Mar. 19 (Thur.)	Apr. 27 (Mon.)
<u>Mar. 23 (Mon.)</u>	<u>Mar. 26 (Thur.)</u>	<u>June 18 (Thur.)</u>
<u>Mar. 31 (Tue.)</u>	<u>Apr. 3 (Fri.)</u>	<u>June 25 (Thur.)</u>
<u>Apr. 7 (Tue.)</u>	<u>Apr. 10 (Fri.)</u>	<u>July 8 (Wed.)</u>
<u>Apr. 16 (Thur.)</u>	<u>Apr. 21 (Tue.)</u>	<u>July 15 (Wed.)</u>
<u>Apr. 22 (Wed.)</u>	<u>Apr. 27 (Mon.)</u>	<u>July 22 (Wed.)</u>
<u>Apr. 28 (Tue.)</u>	<u>May 7 (Thur.)</u>	<u>July 27 (Mon.)</u>
<u>May 7 (Thur.)</u>	<u>May 12 (Tue.)</u>	<u>July 30 (Thur.)</u>
<u>May 12 (Tue.)</u>	<u>May 15 (Fri.)</u>	<u>Aug. 6 (Thur.)</u>
<u>May 21 (Thur.)</u>	<u>May 26 (Tue.)</u>	<u>Aug. 19 (Wed.)</u>
<u>May 26 (Tue.)</u>	<u>May 29 (Fri.)</u>	<u>Aug. 24 (Mon.)</u>

-- The schedule in and after June will be released upon decision. The above schedule is subject to change, and will be revised and released accordingly.

¹ Operations that provide funds at a fixed rate (currently 0.1 percent) for an unlimited amount against the value of corporate debt pledged to the standing pool of eligible collateral.

February 19, 2009

Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by a unanimous vote,^[Note 1] 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 0.1 percent.

2. Given the severe financial and economic conditions described below, the Bank decided to take the following measures with a view to facilitating corporate financing and ensuring stability in financial markets^[Note 2] (see Attachment 4).
 - a. Expansion of the measures to facilitate corporate financing
 - (1) Special funds-supplying operations to facilitate corporate financing were expanded to ensure stable provision of funds with longer duration of 3 months at low interest rates.
 - (2) The specifics of outright purchases of corporate bonds were decided and the operation will commence in March.
 - (3) Outright purchases of CP will be conducted for an extended period and the duration of expansion in the range of corporate debt eligible as collateral was extended.

^[Note 1] 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.

^[Note 2] Ms. M. Suda voted against the introduction of outright purchases of corporate bonds.

- b. Expansion of the measures to ensure financial market stability
 - (1) U.S. dollar funds-supplying operations will be conducted for an extended period.
 - (2) Complementary deposit facility will be provided for an extended period.
 - (3) Government-guaranteed dematerialized commercial paper was included in eligible collateral, and the range of Japanese government securities offered in the security lending facility was broadened.

- 3. Exports have been decreasing substantially reflecting a slowdown in overseas economies, and domestic demand has become weaker against the background of declining corporate profits and the worsening employment and income situation in the household sector. Financial conditions have remained tight. Under these circumstances, economic conditions have deteriorated significantly and are likely to continue deteriorating for the time being. Meanwhile, CPI inflation (excluding fresh food) has recently moderated reflecting the declines in the prices of petroleum products and the stabilization of food prices, and, with increasing slackness evident in supply and demand conditions, will likely become negative by the spring. The Bank's baseline scenario through fiscal 2010, in which expectations of both medium- to long-term growth and inflation are assumed to remain generally unchanged, projects that the economy will start recovering from the latter half of fiscal 2009, with price declines abating as global financial markets regain stability and overseas economies move out of their deceleration phase. Although this scenario offers the prospect of the economy returning to a sustainable growth path with price stability in the latter half of the projection period, uncertainty is high.

- 4. With regard to risk factors, much depends on global financial conditions as well as developments in overseas economies, and attention will need to be paid to the downside risks posed to economic activity. In addition, there is the risk of a further weakening in domestic private demand through a decline in firms' medium- to long-term growth expectations, raising pressures to adjust capital stocks and employment. If financial conditions should tighten further, pressures acting to depress economic activity from the financial side may become more marked and the adverse

feedback loop between financial and economic activity may intensify. Turning to prices, there is a possibility that the inflation rate will decline further if downside risks to economic activity materialize or commodity prices fall. In this case, the risk of a decline in the medium- to long-term inflation expectations of firms and households warrants attention.

5. The Bank, in order to support the economy from the financial side, has implemented various measures since last fall including those exceptional for a central bank, in addition to reductions in the policy interest rate and sufficient provision of liquidity. Today, the Bank decided to take additional measures which, together with the effective use of existing facilities to provide liquidity, are expected to contribute to further ensuring stability in financial markets and facilitating corporate financing. The Bank will continue to carefully assess the future outlook for economic activity and prices, closely considering the likelihood of its projections as well as risk factors, and to exert its utmost efforts as a central bank to facilitate the return of Japan's economy to a sustainable growth path with price stability.

Policy Decisions

1. Expansion of special funds-supplying operations to facilitate corporate financing (see Document 1)
2. Introduction of outright purchases of corporate bonds (see documents 2 and 3)
3. Extensions of various temporary measures (see Document 4)
 - a. Outright purchases of CP (extended to September 30, 2009 from March 31, 2009)
 - b. Expansion in the range of corporate debt eligible as collateral (extended to December 31, 2009 from April 30, 2009)
 - c. Expansion in the range of asset-backed commercial paper eligible as collateral (extended to December 31, 2009 from April 30, 2009)
 - d. Complementary deposit facility (extended to October 15, 2009 from April 15, 2009)
 - e. U.S. dollar funds-supplying operations (extended to October 30, 2009 from April 30, 2009)
4. Inclusion of government-guaranteed dematerialized commercial paper in eligible collateral and in the list of CP purchased with repurchase agreements (see Document 5)
5. Broadening of the range of Japanese government securities offered in the security lending facility (see Document 6)

Document 1: Expansion of Special Funds-Supplying Operations to Facilitate Corporate Financing

Document 2: Outline of Outright Purchases of Corporate Bonds

Document 3: Establishment of "Principal Terms and Conditions for Outright Purchases of Corporate Bonds"

Document 4: Amendments to Principal Terms and Conditions for Money Market Operations

Document 5: Amendments to "Guidelines on Eligible Collateral"

Document 6: Amendments to "Principal Terms and Conditions for the Sale of Japanese Government Securities with Repurchase Agreements to Provide the Markets with a Secondary Source of Japanese Government Securities"