Not to be released until 8:50 a.m. Japan Standard Time on Friday, April 10, 2009.

April 10, 2009

Bank of Japan

Minutes of the Monetary Policy Meeting

on March 17 and 18, 2009

(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 Tuesday, March 17, 2009, from 2:00 p.m. to 4:44 p.m., and on Wednesday, March 18, from 9:00 a.m. to 12:22 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 Finance[2]

Mr. Y. Miyauchi, Deputy Director-General Minister's Secretariat, Ministry of Finance[3]

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

Reporting Staff

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

Mr. K. Ido, Executive Director[4]

Mr. H. Nakaso, Executive Director

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

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

Mr. H. Toyama, Director-General, Financial Markets Department

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on April 6 and 7, 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 March 18.

[3] Mr. Y. Miyauchi was present on March 17.

[4] Mr. K. Ido was present on March 17.

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[5]

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

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

[5] Mr. T. Sakamoto was present on March 18.

I. Summary of Staff Reports on Economic and Financial Developments[6]

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 February 18 and 19, 2009.[7] The uncollateralized overnight call rate had been at around 0.1 percent.

To ensure market stability in Japan, the Bank further 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 outright purchases of CP, special funds-supplying operations to facilitate corporate financing, and U.S. dollar funds-supplying operations against pooled collateral. Moreover, on March 4, 2009 the Bank commenced outright purchases of corporate bonds.

B. Recent Developments in Financial Markets

Japan's money market had been nervous. The general collateral (GC) repo rates had declined slightly compared with the time of the previous meeting, but had been highly volatile. Yields on government bills had been more or less unchanged. Euroyen rates had declined partly due to the expansion of funds-supplying measures taken by the Bank, but the risk premium embedded in them remained at a relatively elevated level. Interest rates on CP with low ratings had been at relatively high levels, but those on CP with high ratings had declined to below their levels immediately before the failure of Lehman Brothers Holdings Inc.

Japanese stock prices plunged temporarily due to concerns about economic prospects, but had recovered. The Nikkei 225 Stock Average had been moving in the range of 7,500-8,000 yen recently. Long-term interest rates had been more or less unchanged. The benchmark rate in Japan had recently been moving in the range of 1.30-1.35 percent.

The yen had been depreciating against the U.S. dollar mainly reflecting significant deterioration in Japan's economic conditions, and was recently as low as 98-99 yen.

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

[7] The guideline was as follows:

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

C. Overseas Economic and Financial Developments

U.S. economic conditions had continued to deteriorate significantly. A substantial decline in housing investment continued, and home prices continued to fall. With business fixed investment contracting noticeably and private consumption on a declining trend, industrial production had also been decreasing. The number of employees had been declining considerably, and the unemployment rate had been rising. 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, 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 been in the range of 1.5-2.0 percent.

Economic conditions in the euro area had continued to deteriorate significantly. In addition to the continuing decline in exports, 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 more or less unchanged. Economic conditions in the United Kingdom had also continued to deteriorate significantly, mainly reflecting the considerable adjustments in the housing market and a declining trend in private consumption.

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

Global financial markets remained under strain. While Treasury-Eurodollar (TED) spreads and credit spreads on CP had been more or less unchanged, credit spreads on corporate bonds, particularly those with low ratings, had widened slightly. U.S. and European stock prices plunged temporarily due to concerns about the performance of financial institutions and firms, but had rebounded. U.S. and European long-term interest rates had been more or less unchanged, with concerns about a possible increase in the issuance of government bonds on one hand and about further economic deterioration on the other.

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 deterioration in overseas economic conditions and the strong 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 deterioration in corporate profits and firms' funding conditions, as well as the growing sense of excessive capacity.

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 continued to be relatively weak, since consumers had further curtailed their purchases. Indicators of consumer sentiment had stayed at extremely low levels, mainly due to the drop in stock prices and growing employment uncertainty, although they seemed to have stopped declining, mainly reflecting the decline in gasoline prices. 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, but 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, reflecting the decline in domestic and external demand and the increase in adjustment pressures on inventories. It was likely that production would continue to decrease reflecting the decline in domestic and external demand, but the pace of decrease was expected to moderate gradually as adjustment pressures on inventories waned. The increase in inventories was coming to a halt due to the substantial reduction in production, but with the much faster pace of decrease in shipments the shipment-inventory balance had continued to deteriorate.

The employment and income situation had become increasingly severe, as seen in the slacker labor market and relatively weak household income. 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 change in the domestic corporate goods price index (CGPI) had continued to be negative 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 declined to 0 percent, reflecting the declines in the prices of petroleum products and the stabilization of food prices. It was expected to become negative, 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. Firms' funding costs had declined compared to their levels at the end of 2008 following the reductions in the policy interest rate and improvements in issuance conditions in the CP market. The amount outstanding of CP and corporate bonds issued had been increasing since a while ago, and that of bank lending, especially to large firms, had continued to increase rapidly. However, issuance of corporate bonds by firms with low credit ratings had remained subdued, 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. Summary of Discussions by the Policy Board on Economic and Financial Developments

A. Economic Developments

Members shared the view that overseas economic conditions had been deteriorating as a whole in a situation where the adverse feedback loop between financial and economic activity had been intensifying further around the world. Many members expressed the view that not only the U.S. and European economies, but also emerging and commodity-exporting economies were experiencing a significant downturn. Some members said that indicators of manufacturers' business sentiment seemed to be showing signs of leveling out against the background of progress in inventory adjustments worldwide, and the large-scale cutbacks in production might have started to produce positive effects. However, many members including these members commented that the spending behavior of firms and households remained cautious around the world. Many members were therefore of the opinion that a recovery in final demand was still not in prospect given the severity of the employment and income situation and financial conditions, and downside risks to overseas economies continued to warrant attention.

Many members expressed the view that, although there was for a while a slight improvement in some financial markets, such as money markets, strains in global financial markets had again increased somewhat recently due to the worsening performance of firms and growing uncertainties about the financial soundness of financial institutions.

Turning to the U.S. economy, members concurred that economic conditions had continued to deteriorate 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. Many members expressed the view that adjustments in the housing market were likely to continue for the time being, given the continuing fall in home prices. Many members said that the employment situation had deteriorated markedly, and the effects on private consumption were cause for concern. One member, however, said that some positive developments were starting to be observed: for example, the first month-on-month increase in the number of housing starts in several months.

With regard to the economy of the euro area, members concurred that economic conditions had deteriorated significantly. A few members commented that there was a risk that the deterioration in economic conditions would persist, given that even though in the euro area the adverse feedback loop between financial and economic activity had been intensifying further, there was less room for large-scale fiscal expenditure than in other economies. Some members noted as a matter of concern that the significant downturn in Central and Eastern European economies might cause a further decline in exports from the euro area, which was their major trading partner, and might also negatively affect euro area financial institutions, whose exposures to Central and Eastern European economies were large.

Some members expressed the view that the Chinese economy had decelerated significantly due to a decrease in exports and production. Many members commented with regard to domestic demand that the large-scale economic stimulus package and successive monetary easing measures had succeeded in encouraging a significant increase in bank lending and progress in inventory adjustments. A few members, however, said that the probability of an early economic recovery should be viewed conservatively because China's export environment had not improved yet. One member said that the severity of the state of exports and domestic demand was also intensifying in the NIEs and the ASEAN countries.

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 deterioration in overseas economic conditions; (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. Some members noted that positive factors were starting to be observed: for example, information pointing to progress in inventory adjustments was gradually increasing and indicators of consumer sentiment seemed to be showing signs of leveling out. However, many members including these members were of the opinion that downside risks to the economy warranted careful attention for the time being, because economic conditions had thus far become increasingly severe and the effects of the worsening employment and income situation on economic activity might increase. Some members said that, looking at the change in economic indicators available since the Bank's interim assessment in January of the projections presented in the October 2008 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report), the economy had become weaker than anticipated, and the projection of the economic growth rate was likely to be revised downward in the April 2009 Outlook Report.

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 this projection was attended by a significant level of uncertainty. With regard to risks to the economy, some members noted that if a recovery of the global economy was delayed, expectations about medium- to long-term growth might be revised downward, further increasing pressures to adjust capital stock and employment in Japan.

With regard to developments in each demand component, members agreed that exports had decreased substantially, and were likely to continue decreasing for the time being. Some members said that, although in China some positive movements had been observed in domestic demand reflecting monetary and fiscal policy measures, it was uncertain whether this would lead to an immediate increase in Japan's exports. A different member commented that if manufacturers' inventory adjustments progressed on a global basis, particularly in the automobile industry, the decrease in Japan's exports might come to a halt by around the summer. Some members including this member, however, shared the view that there was considerable uncertainty regarding developments in global final demand, an increase in which was a precondition for Japan's exports to recover.

Some members expressed the view that business fixed investment was likely to continue declining significantly for the time being, mainly due to the deterioration in overseas economic conditions, the decrease in corporate profits, and the deterioration in firms' funding conditions. A few members expressed concern that a possible decline in expectations about medium- to long-term growth caused by a prolonged economic downturn might exert further downward pressure on business fixed investment.

Many members said that private consumption was likely to continue weakening. One member noted that firms, which had been reducing overtime working hours and the number of non-regular employees, had recently started to adjust the number of regular employees.

Members agreed that production had decreased at a much faster pace, reflecting the decline in domestic and external demand and the increase in adjustment pressures on inventories. As for the outlook, many members said that signs of leveling out in production had gradually become evident: the production forecast index for March had become positive; and some firms were reportedly planning to slow the pace of reduction in production or to increase production by around the summer. Some members, however, said that the Bank's baseline scenario already assumed a leveling out in production, and given the developments in global demand, attention should continue to be paid to downside risks.

Members agreed that the year-on-year rate of increase in the CPI (excluding fresh food) had declined to 0 percent recently, reflecting the declines in the prices of petroleum products and the stabilization of food prices, and was likely to become negative for the same reasons and due also to increasing slackness in supply and demand conditions in the overall economy. Some members said that the risk of a decline in firms' and households' expectations about medium- to long-term inflation would warrant attention, as downward pressure on prices would strengthen in tandem with a further widening of the output gap. A few members noted that the difference between the number of items whose prices had risen and those whose prices had declined had continued to narrow. Some members 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, and such movements had in fact started to be observed. However, from a longer perspective, one member expressed the view that, unless appropriate policy actions were taken as the global economy recovered, there was a risk of a recurrence of the rise in commodity prices leading to a higher-than-expected rate of inflation worldwide.

B. Financial Developments

Members concurred that financial conditions in Japan had remained tight. Many members said that CP issuance rates had declined and interbank rates on term instruments had also declined gradually, due partly to the policy measures taken by the Bank. Many members expressed the view that firms' funding conditions had been recovering since a while ago, as seen in improved issuing conditions for CP due partly to the effects of the Bank's outright purchases and in large-scale issuance of corporate bonds. Many members, however, 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. One member said that attention should be paid to the fact that firms' cash flow had declined and firms had become less resilient to changes in their financial positions.

III. 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. They also shared the view that various measures to facilitate corporate financing had been steadily producing positive effects on relevant financial markets, and it was important to continue to implement them appropriately. One member said that the Bank's special funds-supplying operations to facilitate corporate financing seemed to have so far brought more positive effects than initially expected.

Members discussed policy measures to be taken in view of the outlook for the financial markets in the new fiscal year. Many members agreed that funding over the fiscal year-end had mostly been completed, but it was likely that financial markets would remain under stress after the turn of the fiscal year given the severe economic and financial conditions. In view of this situation, members concurred that continued provision of substantial liquidity was required to ensure stability in financial markets.

Based on the above discussion, members discussed outright purchases of Japanese government bonds (JGBs). Many members expressed the view that it was appropriate that the Bank increase the amount of outright purchases of JGBs in order to make greater use of its long-term funds-supplying operations and thereby facilitate smooth money market operations. Some members said that, when increasing the amount of outright purchases of JGBs, the Bank should increase such purchases as much as possible while keeping to the "banknote principle" -- that the amount of the Bank's JGB holdings should be limited within the amount of banknotes in circulation -- in order to demonstrate the Bank's firm intention to ensure stability in financial markets after the turn of the fiscal year. One member said that, at a rough estimate, under this principle the Bank could increase the amount of outright purchases of JGBs by as much as about 5 trillion yen per year. Members then asked the staff's view.

The staff made the following remarks. The framework for JGB outright purchases revised in January, whereby the Bank set the amounts of JGBs to buy annually according to their residual maturities, had enabled the Bank to control, if not fully, the maturity composition of its JGB holdings. As a result, the Bank was now able, under the banknote principle, to increase such purchases by an amount greater than past increases. Specifically, the Bank would be able to increase the annual amount of its JGB outright purchases by 4.8 trillion yen -- from the current 16.8 trillion yen to 21.6 trillion yen -- if the Bank were to increase the amount to the level that would eventually eliminate the difference between the amount of banknotes in circulation and that of the Bank's JGB holdings while avoiding large swings in operations caused by, for example, selling soon after purchasing. However, if the Bank continued to purchase JGBs outright at this pace, the amount of its JGB holdings was likely to reach a level close to the amount of banknotes in circulation in several years, although this projection would depend on the pace of increase in banknotes. In that case, the room for additional outright purchases would be limited considerably.

Based on the staff's explanation, most members said that it was appropriate to increase outright purchases of JGBs to 21.6 trillion yen per year. Many members then expressed the view that the Bank should explain its outright purchases of JGBs to the public carefully. Members agreed that the banknote principle was important for the following reasons: (1) the principle made it clear that the sole aim of the Bank's outright purchases of JGBs was to facilitate smooth money market operations; and (2) it also made it clear that such purchases were not intended to support JGB prices or government financing. A few members elaborated on the banknote principle in connection with facilitation of smooth money market operations as follows: banknotes, which were regarded as long-term liabilities of the Bank, should be backed by JGBs, which were long-term assets; and similarly, reserve deposits and other liabilities the amount of which changed in the short term should be backed by short-term financial assets. They continued that the point they had just made was essential to ensure the timeliness and flexibility of the Bank's conduct of monetary policy, and therefore the Bank should take every opportunity to explain it carefully.

IV. Remarks by Government Representatives

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

(1) The government understood that the Bank continued to assess Japan's economic and financial conditions, both current and future, as very severe.

(2) The government also regarded Japan's economic and financial conditions as severe, and

would steadily implement the measures in the recently passed second supplementary budget for fiscal 2008. The government was also striving to ensure that the budget for fiscal 2009 would be approved by the Diet before the fiscal year began.

(3) Regarding recent financial market developments, funding over the fiscal year-end on March 31 had mostly been completed, but the government was of the view that, even after the turn of the fiscal year, the severe economic and financial conditions were likely to continue and it would face very difficult decisions regarding economic policy. The government would like the Bank to support the economy from the financial side by actively providing funds through, for example, an increase in the amount of outright purchases of JGBs, which was discussed at this meeting.

The representative from the Cabinet Office made the following remarks.

(1) With a view to stimulating Japan's economy, which was worsening rapidly, as the top priority, the government would steadily implement economic measures amounting to about 75 trillion yen in total. The government would, taking into account the opinions of people in all social groups, do its best to prevent further economic deterioration and to help the economy overcome the current crisis.

(2) Given the recent severe economic and financial conditions at home and abroad, the government would like to request the Bank -- taking account of the government's policy efforts and sharing the basic perspective on macroeconomic management with the government -- to support the economy by conducting monetary policy in an appropriate and flexible manner and to secure stability in the financial system.

(3) The government considered that an increase in the amount of outright purchases of JGBs by the Bank was an appropriate response to the current situation, because it would enable the Bank to provide more liquidity to bolster the economy. In the most severe economic downturn since World War II, the government would also like the Bank to continue to take appropriate measures so that firms could secure sufficient funds.

V. 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 0.1 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.

VI. 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).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of February 18 and 19, 2009 for release on March 24, 2009.

Attachment

March 18, 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] 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. Fund raising in financial markets for funds over the fiscal year-end has mostly been completed, but it is likely that the markets will remain under stress in the new fiscal year given the severe financial and economic conditions described below. In light of this situation, the Bank judged that continued provision of substantial liquidity is required to ensure stability in financial markets. To put this into action, the Bank decided to further utilize its long-term funds-supplying operations by increasing its outright purchases of Japanese government bonds (JGBs), thereby facilitating smooth money market operations.

   The amount of outright purchases of JGBs will be increased by 4.8 trillion yen to 21.6 trillion yen per year (1.8 trillion yen per month) from 16.8 trillion yen per year (1.4 trillion yen per month), effective from this month.

[Note] 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.

3. Exports have been decreasing substantially reflecting the deterioration in overseas economic conditions, 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 on the whole, despite improvements in issuing conditions for CP and corporate bonds. 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. 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 if firms' medium- to long-term growth expectations decline and pressures to adjust capital stocks and employment increase. 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. In order to support the economy, the Bank has taken various monetary policy actions since last fall in three main areas: reducing the policy interest rate; ensuring stability in financial markets; and facilitating corporate financing. In addition, to secure stability in the financial system, the Bank resumed its purchases of stocks held by banks, and decided yesterday to explore a framework to provide subordinated loans to banks. The Bank will continue 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.