Not to be released until 8:50 a.m. Japan Standard Time on Wednesday, May 27, 2009.

May 27, 2009

Bank of Japan

Minutes of the Monetary Policy Meeting

on April 30, 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 Thursday, April 30, 2009, from 9:00 a.m. to 1:32 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
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. 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
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

[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on May 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. Y. Iino, 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. K. Nakamura, Senior Economist, Monetary Affairs Department

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

I. Summary of Staff Reports on Economic and Financial Developments[2]

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 April 6 and 7, 2009.[3] The uncollateralized overnight call rate had been at around 0.1 percent.

To ensure market stability in Japan, the Bank 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.

B. Recent Developments in Financial Markets

Japan's money market had generally been nervous, although upward pressure on interest rates was moderating gradually. Yields on government bills had been more or less unchanged. The general collateral (GC) repo rates had been volatile. Meanwhile, Euroyen rates had declined moderately partly due to the expansion of funds-supplying measures taken by the Bank, although they remained at a relatively elevated level, particularly those on term instruments with longer maturities. Interest rates on CP, particularly with high ratings, continued declining, although investors remained highly selective about the issues they purchased.

As for Japanese stock prices, the Nikkei 225 Stock Average had generally been slightly below 9,000 yen recently. After the previous meeting, long-term interest rates in Japan rose slightly and then leveled off. They had recently declined to the 1.40-1.45 percent range.

The yen had appreciated somewhat against the U.S. dollar, and had recently been at around 97 yen to the dollar.

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

[3] 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. Housing investment declined substantially, and home prices continued to be on a declining trend. Business fixed investment had been contracting noticeably. Private consumption had been on a declining trend, but the pace of decrease was moderating. In this situation, production had been decreasing, but there were indications of some progress in inventory adjustments. 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 become negative, as increases in food prices had been leveling off and energy prices had been low. 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. Private consumption, business fixed investment, and housing investment had decreased, in addition to the continuing decline in exports. As for prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) had declined substantially. Economic conditions in the United Kingdom had also continued to deteriorate significantly, mainly reflecting the ongoing considerable adjustments in the housing market and a declining trend in private consumption.

In China, the economic deceleration had come to a halt: although exports had declined, domestic demand continued to show high growth. Economic growth in India had 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. Treasury-Eurodollar (TED) spreads and credit spreads on CP had been more or less unchanged at relatively high levels. Credit spreads on corporate bonds also remained at high levels. Meanwhile, U.S. and European stock prices had increased somewhat recently, although remaining volatile reflecting both positive and negative information on the financial soundness of financial institutions. U.S. long-term interest rates had risen recently due partly to the rise in stock prices, while European long-term interest rates had been more or less unchanged.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports decreased substantially in the January-March quarter from the previous quarter, mainly due to the deterioration in overseas economic conditions. Looking at monthly developments, however, in March exports were more or less unchanged from February, when the month-on-month pace of decline moderated considerably. Exports were likely to level out or pick up somewhat against the background of the increase in orders from China and progress in adjustments in overseas inventories of automobiles and electronic parts.

Business fixed investment had declined substantially, mainly reflecting the deterioration in corporate profits. Average machinery orders per month dropped significantly in the January-February period compared with the October-December quarter of 2008, following significant drops in the July-September and October-December quarters.

Private consumption had remained weak, as evidenced by a relatively large decline in sales at department stores in March, since consumers had further curtailed their purchases. Indicators of consumer sentiment had stayed at extremely low levels, mainly due to employment uncertainty, although they had recently recovered somewhat, underpinned mainly by the expectation of positive effects from various policy measures.

Regarding public investment, the implementation of the supplementary budget for fiscal 2008 had started to produce positive effects, and the value of public works contracted increased in the January-March quarter on a quarter-on-quarter basis.

Production had decreased substantially in the January-March quarter from the previous quarter, reflecting weaker domestic and overseas demand and the adjustment pressures on inventories. Looking at monthly developments, however, production in March was higher than in February, when the month-on-month pace of decline moderated somewhat. The production forecast index for April onward suggested that production was leveling out against the background of the progress in inventory adjustments at home and abroad.

On the price front, commodity prices, which peaked in summer 2008 and dropped substantially thereafter, had since remained more or less flat at low levels, although they had recently been rising slightly. The three-month rate of change in the domestic corporate goods price index (CGPI) had continued to be negative due to the earlier fall in commodity prices as well as the easing of supply-demand conditions for products, but the pace of decline had moderated. The CGPI was likely to continue decreasing moderately for the time being.

2. Financial environment

Issuing conditions for CP and corporate bonds continued to improve gradually, as seen in the fact that issuance rates on CP declined further and a wider range of firms were issuing bonds. The amount outstanding of lending by private banks continued to increase at a relatively rapid pace, despite a drop in the demand for loans to compensate for the decline in the issuance of CP and corporate bonds. These favorable developments notwithstanding, financial conditions in Japan had remained tight as a whole, as shown by the fact that an increasing number of firms saw their financial positions as weak and lending attitudes of financial institutions as severe and that the number of corporate bankruptcies was on an increasing trend.

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

A. Economic Developments

Members concurred that, although overseas economic conditions had continued deteriorating as a whole, signs of a leveling out of economic activity had begun to appear. Some members said that there were indications of a slowing of the pace of deterioration: for example, inventories worldwide were being adjusted and policy measures in China were starting to have an effect. Many members, however, expressed the view that a high degree of uncertainty remained regarding the outlook for the global economy, as both the adverse feedback loop between financial and economic activity and a vicious circle of decrease in production, income, and spending continued to develop in many countries such as the United States, European countries, and emerging economies. One member added that the adverse feedback loop between financial and economic activity had been operating strongly through various channels -- inter-company credit, trade financing, and inventory financing -- in addition to those normally expected, such as bank lending and financing through capital markets. A different member expressed the opinion that it would take some time to adjust various excesses that had accumulated over the past several years, and therefore, even when the world economy started to recover, the recovery would inevitably be weak.

Many members expressed the view that global financial markets remained unstable as concerns about the U.S. and European financial systems had not dissipated and investors remained cautious. Some members said that careful attention should be paid to how the results of a stress test of the largest U.S. bank holding companies and the outcome of governments' support for major U.S. automobile manufacturers affected developments in global financial markets.

Turning to the U.S. economy, members concurred that economic conditions had continued to deteriorate significantly as evident in the fact that the GDP growth rate for the January-March quarter had been below market expectations, as the adverse feedback loop between financial and economic activity had not diminished yet. Regarding the housing market, one member noted some improvement in sentiment among construction companies. However, some members expressed the view that it would still be some time before the housing market bottomed out, given the sluggishness in housing starts and the continuing fall in home prices. A few members said that the spending behavior of households might be becoming increasingly cautious due to the further deterioration in the employment situation and considerable uncertainty about the economic outlook. Some members said that, unlike some time ago when every economic indicator was deteriorating, signs of a slowing in the pace of economic contraction, such as progress in inventory adjustments, had begun to appear.

With regard to the economy of the euro area, many members expressed the view that economic conditions had continued to deteriorate significantly. One member said that business fixed investment and private consumption had been weak, mainly due to the tightening of financial institutions' lending standards and the deterioration in the employment situation. A few members commented that careful attention should be paid to the possibility that the sluggish growth in Central and Eastern European economies might act as a constraint on the economy of Europe as a whole.

Members concurred that moderation of the economic slowdown in China was now in prospect, with domestic demand being the driving force, mainly due to positive effects produced by the large-scale economic stimulus package and successive monetary easing measures. One member, however, expressed the view that if the recovery of advanced economies was delayed, growth in overseas demand would remain weak, making it unlikely, for the time being, that the Chinese economy would recover fully enough to return to its past rates of high growth. One member said that, in the NIEs and the ASEAN countries, the pace of decline in exports and production had continued to slow due to progress in inventory adjustments of IT-related goods.

Based on the above discussion on economic and financial conditions abroad, members discussed the state of Japan's economy. They concurred that economic conditions had deteriorated significantly given that (1) domestic demand had become weaker against the background of declining corporate profits and the worsening employment and income situation in the household sector, although the pace of decline in exports had started to slow due to progress in adjustments in overseas inventories; and (2) financial conditions had remained tight as a whole. As for the outlook for the near future, members agreed that, while domestic private demand was likely to continue weakening, the pace of decline in exports and production was likely to decelerate as inventory adjustments made progress both at home and abroad.

With regard to developments in each demand component, many members noted that the month-on-month pace of decline in exports moderated rapidly in February and March. They attributed these developments to the fact that exports, particularly of automobiles to the United States and of electronic parts to East Asia, had started to pick up with the progress in adjustments in overseas inventories.

Many members said that business fixed investment had continued to decline substantially reflecting the severe situation in corporate profits, and was likely to continue declining for the time being. One member noted that machinery orders from manufacturers continued to drop substantially in February. This member continued that the rapid weakening in overseas demand since autumn 2008 and uncertainty about the economic outlook had been strongly discouraging firms from engaging in fixed investment.

Members agreed that private consumption had weakened as the employment and income situation had become increasingly severe. A few members said that it should be noted that the consumer confidence index had rebounded somewhat, albeit at a low level. Many members including these members, however, shared the view that private consumption was likely to remain relatively weak for the time being as the adjustment in employment and wages was likely to intensify.

Regarding public investment, some members referred to the fact that the value of public works contracted increased in the January-March quarter on a quarter-on-quarter basis, and expressed the view that the implementation of the supplementary budget for fiscal 2008 had started to produce positive effects. Many members said that the amount was likely to increase further if the policy package to address the economic crisis whose details were under discussion was adopted.

Some members noted that the month-on-month change in production had become positive in March, and expressed the view that the completion of inventory adjustments at home and abroad was now in prospect due to the substantial reduction in production. Some members said that production, particularly in the automobile and electrical machinery industries, was likely to level out, mainly due to the progress in inventory adjustments and steady orders from China. One member added that, although production had almost stopped declining, the outlook remained highly uncertain as a full-fledged recovery largely depended on developments in overseas economies.

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 decline further for the same reasons and due also to increasing slackness in supply and demand conditions in the overall economy.

B. Financial Developments

Many members shared the view that financial conditions in Japan had remained tight as a whole despite improved issuing conditions for CP and corporate bonds. One member noted that, although firms had lingering concerns about funding against the background of the sluggishness in corporate profits, corporate financing conditions might gradually become less tight for several reasons: on the demand side, it was likely that firms' credit demand would decrease due to progress in inventory adjustments and the drop in materials prices; and on the supply side, the amount outstanding of bank lending continued to increase relatively rapidly and issuing conditions for CP were improving. A different member, however, commented that, given the successive downward revisions in firms' earnings forecasts for fiscal 2008, releases of corporate results for fiscal 2008 in May might trigger downgrading of many firms. Some members including this member then said that it should be examined closely how economic activity would be affected if business performance worsened and this caused financial institutions' lending attitudes to become more cautious. One member added that it was necessary to pay attention to how a future increase in Japanese government bond (JGB) issuance would affect the bond market.

C. Outlook for Economic Activity and Prices

With regard to the outlook for economic activity, members agreed on the following assessment. In the first half of fiscal 2009, the pace of deterioration in economic conditions would likely moderate gradually and start to level out as inventory adjustments made progress both at home and abroad. From the latter half of fiscal 2009 onward, global financial markets would likely regain stability and overseas economies start recovering, supported by the positive effects of policy actions taken in various countries and by the gradual adjustment of various excesses in financial and economic activity. Japan's economy was also likely to recover gradually, and return to a growth rate above its potential in the latter half of the projection period, supported partly by the positive effects of various policy measures in addition to a recovery in overseas economies and improvements in conditions in global financial markets. Many members said that fiscal policy measures already taken by the government and the policy package to address the economic crisis whose details were under discussion were likely to be effective in preventing effective demand from plunging. In this regard, a few members commented that, when estimating the size of the positive effects that the latter would produce, some degree of error would be unavoidable as the effects of some measures in the package were uncertain. Some members added that attention should be paid to whether government actions would lead to a sustainable recovery in private final demand.

As for the outlook for prices, members agreed on the following assessment. The CGPI was likely to decline sharply in fiscal 2009 due to the earlier fall in commodity prices as well as the deterioration in demand conditions. It was likely to continue declining in fiscal 2010 due to the persistence of the negative output gap, but the rate of decline was likely to moderate because of a moderate rise in commodity prices. The year-on-year rate of decline in the CPI for all items excluding fresh food was likely to accelerate through the middle of fiscal 2009, reflecting the decline in the prices of petroleum products and the deterioration in aggregate demand conditions. Thereafter, however, assuming that medium- to long-term inflation expectations remained stable, the rate of decline in the CPI (excluding fresh food) was likely to moderate as the effects of, for example, the fall in the prices of petroleum products abated.

In relation to the outlook for economic activity and prices, some members were of the opinion that, since the annualized quarter-on-quarter rate of economic growth of a quarter might differ substantially from the year-on-year growth rate for the whole fiscal year when -- as in the current situation -- fluctuations in economic activity were extremely large, it was important not only to show Policy Board members' forecast figures but also to explain more clearly their qualitative view on the mechanism underlying economic and price developments.

Members then discussed upside and downside risks to the baseline scenario. Many members expressed the view that considerable uncertainty remained surrounding the outlook: it was especially uncertain how the restructuring of the U.S. and European financial systems would proceed and how rapidly the world economy, including emerging economies, would recover. One member said that, since it would take time for Japan's economy to achieve a full-fledged recovery, it was uncertain whether the currently assumed recovery mechanism was sufficiently resilient to various shocks that might occur in the meantime, and therefore both upside and downside risks should continue to be assessed frequently.

On this basis, members shared the view that upside and downside risks that could be anticipated at present were as follows. In relation to economic activity, they were (1) the outcome of the adverse feedback loop operating globally between financial and economic activity, (2) the impact of various policy measures being implemented around the globe, (3) firms' medium- to long-term expectations of future growth, and (4) developments in financial conditions in Japan. In relation to the outlook for prices, they were (1) fluctuations in prices caused by changes in economic activity, (2) changes in the medium- to long-term inflation expectations of households and the price-setting behavior of firms, and (3) developments in import prices.

With regard to the outcome of the adverse feedback loop operating globally between financial and economic activity, members concurred that should declines in asset prices and the downturn in economic activity continue, the adverse feedback loop might worsen and result in a further weakening of overseas economies or a delay in the timing of their recovery. Many members said that, in the United States, while home prices had continued to fall and downgradings of firms had grown in number due to the deteriorating environment for corporate profits, the possibility could not be ruled out that possible slower-than-anticipated disposal of impaired assets might aggravate the adverse feedback loop and cause the economic downturn to persist. In relation to this, one member referred to Japan's experience in the 1990s to describe the difficulty entailed in the disposal of impaired assets, and said that U.S. and European market participants might be overestimating the effects of policy measures. Some members said that, in the euro area, a weakening of Central and Eastern European economies might undermine the financial strength of European financial institutions, exerting further downward pressure on the economy of the euro area. A different member noted, as a risk factor that might exert further downward pressure on the world economy, some measures with protectionist characteristics taken in some countries, which might aggravate the decrease in the volume of trade and of capital flow on a global scale.

As for firms' medium- to long-term expectations of future growth, many members were of the view that, if the adjustments in overseas economies should deepen further or become prolonged, they might decline further, causing economic developments to deviate downward from the projection through a further increase in adjustment pressures on capital stock and employment. In relation to this, some members noted that the results of a recent survey of corporate behavior indicated that firms' medium-term forecasts of the economic growth rate were significantly lower than in the previous year. One member expressed the view that the survey results might have been affected to too great an extent by the recent rapid deterioration in business sentiment. Many members said that how firms revised their medium- to long-term growth expectations should continue to be examined closely.

Regarding the outlook for prices, members concurred that there were considerable uncertainties surrounding inflation that could cause it to deviate either upward or downward from the projection. First, there was the possibility that inflation would decline more than expected if the downside risks to the economy materialized or medium- to long-term inflation expectations declined. And second, in the medium to long run, should the current extremely stimulative economic measures be maintained amid a recovery of the world economy, the rate of inflation in Japan might rise higher than projected due, for example, to another rise in commodity prices. Some members said that developments in medium- to long-term inflation expectations warranted particular attention. One member said that, although inflation expectations appeared to be generally unchanged at present judging from survey results and movements in long-term interest rates, the risk of a decline in medium- to long-term inflation expectations of firms and households could not be ruled out since slack demand conditions would continue to exert downward pressure on prices. A different member added that if demand for services started to plunge, a possible consequent fall in services prices, which had remained stable for a long time, might cause households' medium- to long-term inflation expectations to fall considerably.

Members then discussed the impact of the recent outbreak of the new type of influenza on economic activity. Some members said that if it became widespread, the movement of people and production, sales, and financial activities might be hindered. Members agreed that it was difficult to assess the impact of influenza on the macroeconomy at present, but it should be monitored carefully as a potential risk.

III. Review of the "Understanding of Medium- to Long-Term Price Stability"

In March 2006, the Bank announced, in "The Bank's Thinking on Price Stability," that the "understanding of medium- to long-term price stability" (the level of inflation that each Policy Board member understood, when conducting monetary policy, as being consistent with price stability over the medium to long term, hereafter "understanding") would be, in principle, reviewed annually. Because approximately one year had passed since the last time, in April 2008, a review was conducted at this meeting.

With regard to points that should be discussed in examining the "understanding," a few members expressed the view that no large measurement bias remained in the CPI in Japan. Some members were of the opinion that, given that Japan had experienced a prolonged period of low inflation -- the year-on-year rate of increase was, on average, somewhat below 1 percent -- the level of inflation perceived by households and firms as consistent with price stability was lower than in major overseas economies, and economic decisions were still likely to be guided by the low level of inflation. One member noted that, in last year's quarterly survey, most respondents answered -- when the year-on-year rate of increase in the CPI was around 1 to 2 percent -- that prices had "gone up" and many said further that they viewed the price rise unfavorably. This member continued that this suggested that the level of inflation perceived by the public as consistent with price stability had remained low. Some members were of the opinion that, given that the potential economic growth rate was on a declining trend and financial conditions were severe, it was necessary to accept some price rises as a "safety margin" that acted as a buffer against the risk of falling into a vicious circle of declining prices and deteriorating economic activity. Some members said that it should be borne in mind that, given the recent significant changes in economic conditions, the question of a "safety margin" might be of limited importance.

Based on the above considerations, members exchanged views regarding the figures that would represent the "understanding" in terms of the year-on-year rate of change in the CPI. The figure representing many members' "understanding" was 1 percent, with a range of 0.5 or 1 percentage point in each direction attached. The figure presented by one member was 0.8 percent, with a range of 0.5 percentage point in each direction attached. A different member's "understanding" was expressed as a range from 0.5 to 1 percent. Another member said that the member's "understanding" could be best expressed by a positive number closer to 0 percent than to 1 percent. After stating their individual views, members agreed that they could be summarized as follows: the "understanding," expressed in terms of the year-on-year rate of change in the CPI, currently fell in a range approximately between 0 and 2 percent, with most members' median figures at around 1 percent.

Some members expressed their views regarding consistency between this "understanding" and members' forecast that the year-on-year rate of change in the CPI was likely to remain negative throughout the projection period. One member said that the actual inflation rate would inevitably deviate downward from the "understanding" for the time being as the shock to the economy was significant and, in the current situation, what was important was whether there were prospects of the economy returning to a sustainable growth path with price stability in the longer run. This member continued that, from a long-term perspective, there was no inconsistency between members' CPI forecast and the "understanding." A few other members added that, in the United States and major European countries including those that had adopted inflation targeting, inflation rates would also, throughout their central banks' projection periods, be likely to deviate downward from the levels deemed to be appropriate. Moreover, one member said that, given that the effects of monetary policy usually took time to work through the economy, central banks should conduct monetary policy based on forecasting developments in economic activity from a sufficiently long-term perspective. This member continued that, in the current period of significant changes in economic conditions, it was becoming even more important that the "understanding" had a "medium- to long-term" time horizon.

IV. 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.

Members concurred that the Bank should continue to conduct monetary policy steadily in line with measures taken so far, which could be divided into three areas: reducing the policy interest rate, ensuring stability in financial markets by providing ample liquidity, and facilitating corporate financing. A few members said that, although it would take some time for Japan's economy to achieve a full-fledged recovery, it was likely to recover gradually and the rate of decline in prices was likely to moderate gradually, as the current monetary and fiscal measures would gradually produce positive effects, and therefore it was not necessary, at this point, to adopt additional monetary policy measures. One member, referring to the fact that the member saw downside risks to economic activity and prices, said that the Bank's various measures, such as outright purchases of CP and corporate bonds, purchases of stocks held by banks, and provision of subordinated loans to banks, were providing a safety net in case such downside risks materialized. A few members added that it was important to continue to explain carefully the Bank's thinking regarding such matters as the purpose and size of outright purchases of JGBs.

As for the future conduct of monetary policy, some members expressed the view that, if market conditions or corporate financing conditions became more severe than expected, it would be appropriate for the Bank to respond flexibly to changes in the situation and examine additional measures as necessary. One member said that, when the economy started to recover in line with the baseline scenario, it might be necessary to examine how to terminate the temporary and exceptional measures that had been adopted.

V. 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 price conditions, both current and future, as very severe.

(2) Strongly determined to prevent the economy from falling into a negative spiral, the government had formulated a policy package to address the economic crisis of approximately 57 trillion yen, approximately 15 trillion yen of which would be budgeted for fiscal expenditures. On April 27, 2009, the government submitted to the Diet a supplementary budget for fiscal 2009 that financed expenditures related to the policy package. The government expected that the policy package would prevent the real GDP growth rate for fiscal 2009 from falling to slightly below minus 5 percent and push it up to about minus 3.3 percent. The government understood that the effects of the policy package were reflected to some degree in each Policy Board member's forecast.

(3) The government would like the Bank to continue to conduct monetary policy in an appropriate and flexible manner under the current severe economic and financial conditions.

The representative from the Cabinet Office made the following remarks.

(1) With a view to addressing rapid deterioration in Japan's economy, on April 10, 2009 the government formulated a policy package to address the economic crisis of approximately 57 trillion yen, approximately 15 trillion yen of which would be budgeted for fiscal expenditures. In the policy package, all available policy tools were employed: (1) those to strengthen support to employment and those to facilitate corporate financing, both of which aimed at achieving the package's top priority of preventing the economy from falling into a negative spiral; and (2) investment in infrastructure to enhance the growth potential of the economy.

(2) In the preliminary economic outlook for fiscal 2009 released on April 27, 2009, the government anticipated that the policy package would prevent the economy from falling into a negative spiral and the real GDP growth rate would be about minus 3.3 percent. The government would steadily implement the policy package under the ongoing severe economic and financial conditions.

(3) The government would like to request the Bank to continue ensuring stability in financial markets and facilitating corporate financing. Given the recent severe economic and financial conditions at home and abroad, the government would also like the Bank to continue to support the economy by conducting monetary policy in an appropriate and flexible manner, taking account of the government's policy efforts.

VI. Votes

Based on the above discussions, members agreed that it was appropriate to maintain the current guideline for money market operations, which encouraged the uncollateralized overnight call rate to remain at around 0.1 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:

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 0.1 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. Discussion on the *Outlook for Economic Activity and Prices*

Members discussed the draft of the *Outlook for Economic Activity and Prices* (consisting of "The Bank's View" and "The Background"), and put "The Bank's View" to the vote. The Policy Board decided, by a unanimous vote, the text of "The Bank's View." It was confirmed that "The Bank's View" would be published on April 30, 2009 and the whole report on May 1, 2009.

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.

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of April 6 and 7, 2009 for release on May 8, 2009.

Attachment

April 30, 2009

Bank of Japan

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.

[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.