Not to be released until 8:50 a.m. Japan Standard Time on Friday, September 25, 2009.

September 25, 2009

Bank of Japan

Minutes of the Monetary Policy Meeting

on August 10 and 11, 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 Monday, August 10, 2009, from 2:00 p.m. to 4:13 p.m., and on Tuesday, August 11, from 9:00 a.m. to 11:46 a.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. S. Kagawa, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance
Mr. K. Umetani, Deputy Director-General, Economic and Fiscal Management, Cabinet Office

Reporting Staff

Mr. A. Horii, Executive Director (Assistant Governor)
Mr. K. Ido, Executive Director
Mr. H. Nakaso, Executive Director[2]
Mr. M. Amamiya, Director-General, Monetary Affairs Department

[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on September 16 and 17, 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. H. Nakaso was present on August 10 for the whole of the session, and on August 11 from 9:00 a.m. to 9:56 a.m. and from 11:27 a.m. to 11:46 a.m.

Mr. T. Kato, Associate Director-General, Monetary Affairs Department[3]

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

Mr. K. Momma, Director-General, Research and Statistics Department

Mr. T. Sekine, Associate Director-General, Research and Statistics Department

Mr. H. Ono, Director-General, International Department

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. Tachibana, Director, Deputy Head of Secretarial Services for the Board, Secretariat of the Policy Board

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

Mr. M. Nakashima, Senior Economist, Monetary Affairs Department

[3] Mr. T. Kato was present on August 10 for the whole of the session, and on August 11 from 11:27 a.m. to 11:46 a.m.

I. Summary of Staff Reports on Economic and Financial Developments[4]

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 July 14 and 15, 2009.[5] The uncollateralized overnight call rate had been at around 0.1 percent.

With a view to ensuring market stability, the Bank continued to conduct money market operations in a flexible manner in response to changes in the market situation, as evidenced by its active purchases of Japanese government securities (JGSs) and CP under repurchase agreements. The Bank also continued to conduct outright purchases of CP and corporate bonds, special funds-supplying operations to facilitate corporate financing, and U.S. dollar funds-supplying operations against pooled collateral. In outright purchases of CP and corporate bonds and in U.S. dollar funds-supplying operations against pooled collateral, bidding was sluggish, as financial institutions' demand for liquidity had declined reflecting a recovery in market functioning.

B. Recent Developments in Financial Markets

In Japan's money market, interest rates had been stable at low levels as there was a growing sense of an abundance of liquidity in the market. Nevertheless, the market as a whole had remained nervous, as seen in the continuation of low liquidity in some segments of it. General collateral (GC) repo rates had been in the range of 0.10-0.15 percent. Interest rates on term instruments showed the following developments. Yields on government bills, including those with a one-year maturity, had been stable in the range of 0.1-0.2 percent recently. Euroyen rates had declined slightly but had remained at relatively elevated levels, especially those with longer maturities, amid the continued lower volume of transactions. In the CP market, issuing conditions had been improving and issuance rates on some CP with high ratings had been below yields on government bills. CP maturing beyond end-September 2009 -- the end of a semiannual book closing period for many Japanese firms -- had been issued at the usual pace, and issuance rates on such CP

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

[5] The guideline was as follows:

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

had not risen noticeably.

Japanese stock prices had risen along with U.S. and European stock prices. The Nikkei 225 Stock Average had recently been slightly above 10,000 yen. Long-term interest rates in Japan had increased slightly, partly because views on the economic outlook had become somewhat less cautious. The benchmark rate had recently been at around 1.45 percent.

The yen had depreciated somewhat against the U.S. dollar and had recently been traded at around 97 yen to the dollar, amid waning concerns about business performance in the United States.

C. Overseas Economic and Financial Developments

Global economic conditions had stopped worsening.

U.S. economic conditions had continued to deteriorate, but the pace of deterioration was moderating. The rates of decline in business fixed investment and housing investment were slowing while the rate in home prices was moderating. Meanwhile, the level of private consumption was broadly unchanged, owing partly to the effects of fiscal stimulus measures. Cutbacks in production had continued, but at a decelerating pace due to progress in inventory adjustments. In the labor market, although the unemployment rate had been on a rising trend and the number of employees had continued to decline considerably, there were signs that the pace of decline in the number of employees was slowing. As for prices, the year-on-year rate of change in the consumer price index (CPI) for all items had been negative, as energy prices had been low and food prices had been more or less unchanged. The year-on-year rate of increase 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, but the pace of deterioration was slowing gradually. The rates of decline in exports and production were moderating. Domestic demand had continued to decrease, but the pace of decline in private consumption was slowing due to the effects of economic stimulus measures. As for prices, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) had declined. Regarding economic conditions in the United Kingdom, the pace of deterioration had been moderating partly reflecting progress in housing market adjustments.

The Chinese economy was growing at a faster rate, led mainly by domestic demand. The pace of decrease in exports was moderating, and production was increasing at a faster rate. Growth in private consumption had been firm, and fixed asset investment had been increasing strongly. Economic growth in the NIEs and the ASEAN countries had turned upward, as seen in the fact that exports had increased, the pace of decline in business fixed investment had slowed, and private consumption had shown some improvement. Meanwhile, economic growth in India had started to accelerate. With regard to prices, the year-on-year rate of change in the CPI had been on a declining trend in many Asian economies.

As for global financial markets, money markets were regaining stability, as seen in the fact that Treasury-Eurodollar (TED) spreads and credit spreads on CP had generally been at their levels in around August 2007. Credit spreads on corporate bonds had generally been on a decreasing trend, although those on low-rated bonds remained at high levels. U.S. and European stock prices had risen, reflecting firm economic indicators and better-than-expected corporate results. Long-term interest rates in the United States had increased slightly against the background of firm economic indicators.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports, after falling substantially from autumn 2008, had recently picked up, mainly due to the effects of various countries' policy measures and to progress in adjustments in overseas inventories. They were expected to continue recovering, on the back of this progress and improvement in overseas economic conditions.

Public investment had increased and was likely to continue increasing due to the implementation of various economic measures.

With regard to domestic private demand, business fixed investment had declined substantially. It was likely to gradually stop worsening but be relatively weak for the time being, given the severe situation in corporate profits and firms' funding and the strong sense of excessive capital stock among firms.

Private consumption had remained generally weak, although there had been some signs of picking up with the support of various measures and price declines. Sales at department stores had continued to decrease significantly, reflecting further curtailment of purchases by consumers. On the other hand, the number of new passenger-car registrations had recovered noticeably, mainly due to the reduction in automobile taxes and to subsidies. Meanwhile, indicators of consumer sentiment had remained at low levels but were generally recovering on the back of various demand-boosting policy measures, in addition to the decline in retail prices. Private consumption was likely to remain generally weak amid the worsening employment and income situation.

Housing investment had decreased and was expected to continue decreasing for the time being, given the sluggishness in housing starts.

Production, after falling substantially from autumn 2008, had picked up recently, reflecting progress in inventory adjustments both at home and abroad as well as the policy effects. It was expected to continue recovering for the time being due to the same factors.

The employment and income situation had become increasingly severe, with the substantial slackening of the labor market and the significant decrease in household income. Household income was likely to continue decreasing substantially for the time being, mainly due to the lagged effects of the earlier drop in corporate profits and production.

On the price front, commodity prices had been more or less flat recently. The three-month rate of change in the domestic corporate goods price index (CGPI) had continued to be slightly negative, mainly due to the easing of supply and demand conditions for products. The CGPI was likely to continue decreasing gradually for the time being, as supply and demand conditions for products were likely to remain slack. The year-on-year decline in the CPI (excluding fresh food) had accelerated, mainly due to the prices of petroleum products being lower than the high levels of a year earlier, in addition to the substantial slack persisting in the economy as a whole. The decline in the CPI (excluding fresh food) was expected to continue accelerating for the time being, mainly due to the prices of petroleum products being lower than the high levels of a year earlier.

2. Financial environment

Financial conditions, while remaining generally tight, had continued to show signs of improvement. The overnight call rate had remained at an extremely low level, and firms' funding costs had remained more or less unchanged at low levels. However, the stimulative effects from low interest rates had been limited given the low level of economic activity and corporate profits. With regard to credit supply, although many firms still saw financial institutions' lending attitudes as severe, firms as a whole regarded the situation as improving somewhat. Issuing conditions for CP and corporate bonds, although remaining severe for firms with low credit ratings, had continued to improve on the whole, as reflected in the narrowing of credit spreads and the increase of firms issuing corporate bonds. As for credit demand, firms' demand for working capital and funds for fixed investment had declined, and some firms had reduced on-hand liquidity that they had accumulated. Against such a backdrop, the pace of increase in bank lending had slowed. Issuance of corporate bonds had been at a high level, while that of CP had declined. In these circumstances, firms' financial positions, although many firms still saw them as weak, had continued to improve. Meanwhile, the year-on-year rate of change in the money stock had been at around 2.5 percent.

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

A. Economic Developments

Members concurred that overseas economic conditions had stopped worsening. As for the outlook, they agreed that such conditions were likely to recover gradually against the background of further progress in inventory adjustments and the positive effects of fiscal and monetary policy measures. Many members, however, said that the pace and sustainability of overseas economic recovery after inventory adjustments had been completed and the initial effects of the policy measures had abated remained highly uncertain. One member cited (1) adjustments to corporate and household balance sheets and (2) credit contraction stemming from the liquidity crisis as the two channels through which the recent bursting of a credit bubble had affected economic activity. The member was of the view that the recent improvement in economic conditions reflected the easing of the latter on the back of the policy measures taken in various countries. This member continued that it would take time for the remaining issue -- balance-sheet adjustments -- to be resolved, and therefore the pace of economic recovery would inevitably be moderate but also uncertain. A different member said that balance-sheet adjustments would indeed take some time to be completed, but regarding their impact on the economy, there was room for debate over whether it was appropriate to make a pessimistic forecast based on Japan's experience of similar adjustments in the 1990s. Meanwhile, some members expressed the view that, in the longer run, aggressive fiscal and monetary policy measures taken in various countries might pose the risks of inducing excessive swings in the world economy and of creating another economic distortion.

Many members said that the state of global financial markets had been improving since early spring 2009. Many members, however, noted that concerns about the U.S. and European financial systems persisted and uncertainty about future developments had not been dispelled. One member said that growth in bank lending in the United States and Europe had slowed, and this suggested that financial institutions had not yet fully restored their financial intermediary function.

Turning to the U.S. economy, members concurred that economic conditions had continued to deteriorate but the pace of deterioration was moderating. Many members noted that an increasing number of indicators suggested a leveling out of the U.S. economy: for example, the rate of decline in real GDP moderated significantly in the April-June quarter of 2009, and housing starts and home sales figures had started to rise on a quarter-on-quarter basis. As for the outlook, members agreed that the U.S. economy was likely to level out and start recovering on the back of progress in inventory adjustments. However, many members said that the pace of recovery warranted conservative forecasting given the strength of adjustment pressures on household balance sheets, the deterioration in the employment and income situation, and the severe situation in corporate profits. Meanwhile, one member noted that, since firms' pessimism and anxiety had intensified to a considerable degree, improved sentiment might prompt firms to spend more than in the usual rebound from the downturn.

With regard to the economy of the euro area, many members said that economic conditions had continued to deteriorate but the pace of deterioration was slowing gradually. Some members said that car sales had started to increase on the back of the effects of policy measures, and various indicators of business and consumer confidence had been improving. However, these members also noted that the pace of improvement in economic conditions was moderate compared with that in the United States and other countries, since the spending behavior of households in the euro area had remained cautious against the background of continued worsening in the employment and income situation.

Members concurred that the Chinese economy was growing at a faster rate, led mainly by domestic demand. Many members said that fixed asset investment had been increasing strongly and growth in private consumption had been firm following implementation of the large-scale stimulus package. Some members, noting the sharp increase in bank loans and the money stock, expressed concern that an overheating in financial and economic activity might have started to emerge in China. A different member said that although both upside and downside risks to the Chinese economy existed, more attention should be paid to upside risks of overheating than downside risks of stalling. Some members said that economic growth in the NIEs and the ASEAN countries as a whole had turned upward, as evidenced by growing exports to China and recent signs of an uptick in domestic demand.

Based on the above discussions on economic and financial conditions abroad, members discussed the state of Japan's economy. They concurred that Japan's economic conditions had stopped worsening. They also agreed that although business fixed investment had declined substantially and private consumption had remained generally weak, public investment had increased and exports and production had picked up.

With regard to the outlook for economic activity in the latter half of fiscal 2009 onward, members agreed that Japan's economy was likely to start recovering with medium- to long-term expectations of future growth generally unchanged, supported partly by the positive effects of measures to stabilize the financial system and of fiscal and monetary policy measures, in addition to a recovery in overseas economies and improvements in conditions in global financial markets. However, they shared the view that, against the background of progress in inventory adjustments both at home and abroad, economic activity would be greatly influenced by developments in final demand, and therefore the outlook was attended by a significant level of uncertainty stemming mainly from developments in overseas economies and global financial markets.

Regarding developments in each demand component, members agreed that exports had recently picked up on the back of positive effects of policy measures taken in various countries and progress in adjustments in overseas inventories. As for the outlook, they concurred that exports were likely to continue recovering for the time being.

Members said that business fixed investment had declined substantially, reflecting the strong sense of excessive capital stock among firms and the significant deterioration in corporate profits, and was likely to continue declining for the time being. Some members noted that leading indicators of business fixed investment, such as machinery orders and construction starts in terms of floor area, had been on a decreasing trend and that the capacity utilization rate was likely to remain substantially below its recent peak even if it recovered.

Many members said that private consumption had remained generally weak, although there had been signs of an uptick in sales of some items, such as cars and electrical appliances, primarily attributable to the positive effects of various policy measures. A few members noted that, if the level of economic activity remained low even after having recovered, firms, which had already made various cost-cutting efforts, might be forced to step up adjustments in employment and wages, including those of regular employees, making the employment and income situation even more severe. Members agreed that private consumption was likely to remain generally weak for the time being as households were persistently curtailing spending against the background of the severe employment and income situation.

Members agreed that production had picked up recently, reflecting progress in inventory adjustments both at home and abroad as well as the policy effects. One member said that the member was previously concerned about the possibility that the recovery in production might slow in summer 2009, but acknowledged that production had turned out to be slightly stronger than previously anticipated, reflecting the pick-up in iron and steel production, which had lagged behind. A different member also expressed the view that the pace of recovery in production was slightly faster than expected. Members agreed that production was likely to continue recovering for the time being with further progress in inventory adjustments. However, many members said that the pace of recovery in production from autumn 2009 onward remained highly uncertain given firms' conservative production plans.

Many members said that the year-on-year decline in the CPI (excluding fresh food) had accelerated mainly due to the prices of petroleum products being lower than the high levels of a year earlier, in addition to the substantial slack persisting in the economy as a whole. As for the outlook, members agreed that the year-on-year decline in the CPI was likely to continue accelerating for the time being mainly due to the prices of petroleum products being lower than the high levels of a year earlier, but then moderate from the latter half of fiscal 2009. Many members exchanged views on key factors to the outlook for prices. Some members commented that one key factor was developments in wages and ensuing changes in services prices. Many members saw another key factor in the impact on prices from changes in the supply-demand balance of the economy. Some members, referring to the increasing number of items for which prices had declined, expressed the view that attention should be paid to the possibility that the impact of the deterioration in the supply-demand balance on prices might be gradually growing. On this point, one member noted Japan's experience from the latter half of the 1990s, when swings in the year-on-year rate of change in the CPI were marginal despite considerable changes in the supply-demand balance, and said that the correlation between the supply-demand balance and prices should be interpreted with care. Some members expressed the view that upside risks to prices also warranted attention in the longer term, amid central banks around the world maintaining an accommodative policy stance. One member expressed the view that another key in assessing price developments was how to interpret the seemingly contradictory developments of a decline in prices and a recovery in exports and production, both of which were proceeding at a slightly faster rate than expected.

One member noted that the year-on-year rate of change in the CPI in major industrial countries had declined substantially over the past year, and had become negative in many of them. This member continued that, since the current economic crisis had given the world economy an unprecedentedly large shock, it was likely to be some time before inflation rates in the economies around the world, including Japan, returned to a level consistent with price stability.

B. Financial Developments

Members agreed that financial conditions, while remaining generally tight, had continued to show signs of improvement. Some members commented that, in a situation of ample liquidity, funding costs of firms had continued to decrease, as seen in further declines in issuance rates on corporate bonds and CP as well as the small risk premium embedded in interest rates on term instruments maturing beyond end-September 2009. A few members noted that issuance rates on some CP with high ratings had again fallen below yields on government bills. As for corporate funding activity, some members said that the level of corporate bond issuance was elevated, with the number of issuers increasing, and that financial institutions' lending attitudes were becoming less cautious. Many members noted that the improvement in funding conditions of large firms was significant, but that of small firms and firms with low credit ratings remained limited. Some members also said that firms remained anxious about uncertainties regarding the outlook for business and funding conditions.

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, given the above assessment of economic activity and prices as well as financial conditions, 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. As for the future conduct of monetary policy, they concurred that the Bank should be attentive to downside risks to economic activity and prices for the time being and continue to exert its utmost efforts as the central bank to facilitate the return of Japan's economy to a sustainable growth path with price stability.

Members also discussed various temporary measures regarding money market operations. Some members commented that the Bank's decision at the previous meeting to extend the effective periods of these measures was appropriate, as firms were still concerned about funding despite the continued improvement in financial conditions. In relation to this, a few members noted that some market participants regarded a decision by the Bank to terminate the measures, or review them for revisions, as a signal indicating an end to monetary easing policy. These members emphasized that the Bank should carefully explain that such a view was not appropriate. One member added that the Bank should also be mindful of the fact that the involvement of central banks in microeconomic resource allocation had started to draw criticism, particularly in the United States, that specific financial institutions and firms were being treated favorably.

A few members noted encouraging signs of improvement in market functioning: namely, financial institutions' lessened reliance on the Bank's funds-supplying operations, and the consequent decline in the balance of current accounts at the Bank and slight increase in the amount of funds outstanding in the uncollateralized call market. One of these members said that, in its conduct of money market operations, the Bank should continue to provide ample liquidity while being careful not to hinder the self-sustaining recovery in market functioning.

IV. Remarks by Government Representatives

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

(1) Japan's economic conditions had stopped worsening as a whole, as exports and production had picked up. However, the economy was still in a difficult situation: business fixed investment was decreasing substantially, reflecting the severe situation in corporate profits; private consumption had remained relatively weak as the employment and income situation had become increasingly severe; and housing investment was decreasing. A similar assessment was made at this meeting.

(2) The government was steadily implementing the policy package to address the economic crisis and other measures.

(3) The government expected the Bank to continue to support the economy from the financial side by conducting monetary policy in an appropriate and flexible manner, taking account of Japan's economic conditions and the government's policy efforts described above.

The representative from the Cabinet Office made the following remarks.

(1) Japan's economy, while in a difficult situation, was showing signs of picking up recently, reflecting the effects of the policy package. Regarding short-term prospects, attention should be paid to the risks of continued deterioration in the employment situation and of another slowdown in overseas economies. Moreover, the risk of deflation also warranted attention, as the negative output gap had widened substantially.

(2) The government would continue to steadily implement the policy package to address the economic crisis and other measures, in order to pursue its top priority of achieving economic recovery in the near term. The government considered it important that the government and the Bank make thorough assessments of economic and financial developments, frequently exchange and share views on the outlook for economic growth and inflation in the medium to long term as well as on the state of the financial system, and jointly address the crisis.

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 a 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 a 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 July 14 and 15, 2009 for release on August 14, 2009.

Attachment

August 11, 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,[6] 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. Japan's economic conditions have stopped worsening. Public investment is increasing and exports and production are picking up. On the other hand, business fixed investment is declining sharply mainly reflecting weak corporate profits. Private consumption, while there are some signs of a pick-up mainly attributable to the effects of various policy measures, remains generally weak amid the worsening employment and income situation. Meanwhile, financial conditions, while remaining generally tight, have continued to show signs of improvement. The year-on-year rate of decline in the CPI (excluding fresh food) has accelerated mainly due to the prices of petroleum products being lower than the high levels of a year earlier, in addition to the substantial slack persisting in the economy as a whole.

3. With noticeable progress having already been made in inventory adjustments both at home and abroad, economic activity will be greatly influenced by developments in

[6] 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.

final demand. The Bank's baseline scenario through fiscal 2010, in which expectations of medium- to long-term growth are assumed to remain generally unchanged, projects that the economy will start recovering from the latter half of fiscal 2009; this recovery will be supported partly by the positive effects of measures to stabilize the financial system and of fiscal and monetary policy measures, as well as by a recovery in overseas economies and improvements in conditions in global financial markets. With regard to prices, the year-on-year rate of decline in the CPI will likely accelerate for the time being. However, assuming that medium- to long-term inflation expectations remain stable, the rate of decline in the CPI is expected to moderate from the latter half of fiscal 2009 as the effects of the changes in the prices of petroleum products abate. If these developments continue, there are prospects for Japan's economy to return to a sustainable growth path with price stability in the longer run. However, the outlook is attended by a significant level of uncertainty stemming mainly from developments in overseas economies and global financial markets.

4. Risk factors that demand attention in the area of economic activity are the continued high downside risks to the economy stemming from future developments in the global financial and economic situation, changes in firms' medium- to long-term growth expectations, and financial conditions in Japan. With regard to prices, there is a possibility that inflation will decline more than expected, if the downside risks to the economy materialize or medium- to long-term inflation expectations decline.

5. The Bank, paying attention for the time being to the downside risks to economic activity and prices, will continue to exert its utmost efforts as the central bank to facilitate the return of Japan's economy to a sustainable growth path with price stability.