Not to be released until 8:50 a.m. Japan Standard Time on Monday, October 19, 2009.

October 19, 2009

Bank of Japan

Minutes of the Monetary Policy Meeting

on September 16 and 17, 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 Wednesday, September 16, 2009, from 2:00 p.m. to 4:29 p.m., and on Thursday, September 17, from 9:00 a.m. to 12:34 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. 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)[2]

Mr. K. Ido, Executive Director

Mr. H. Nakaso, Executive Director

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

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

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

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on October 13 and 14, 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. A. Horii was present on September 17.

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

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

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

I. Summary of Staff Reports on Economic and Financial Developments[3]

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 August 10 and 11, 2009.[4] 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, the bidding amount had decreased further, 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 strong sense of an abundance of liquidity in the market. 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. In the CP market, issuing conditions had been improving: issuance rates on high-rated CP had been below yields on government bills, and those on low-rated CP had generally decreased to their levels before the failure of Lehman Brothers. Issuance rates on CP maturing beyond end-September 2009 -- the end of a semiannual book closing period for many Japanese firms -- had remained stable at low levels, and the pace of CP issuance had been steady, with no evidence of front-loaded issuance in view of the situation at end-September. Euroyen rates with longer maturities had remained at relatively elevated levels but had been declining gradually.

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

[4] The guideline was as follows:

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

Japanese stock prices had stopped rising, partly reflecting the appreciation of the yen, while U.S. and European stock prices had hovered in a narrow range. The Nikkei 225 Stock Average had recently been moving in the range of 10,000-10,500 yen. Long-term interest rates in Japan had declined slightly, partly because views on the economic outlook had become somewhat more cautious. The benchmark rate had recently been at around 1.35 percent.

The yen had appreciated against the U.S. dollar and had recently been traded at around 91 yen to the dollar.

C. Overseas Economic and Financial Developments

Global economic conditions had started to improve.

U.S. economic conditions had stopped worsening. Housing investment had picked up, and the rate of decline in home prices was moderating. The rate of decrease in business fixed investment was slowing and private consumption had been boosted by growth in car sales as a result of fiscal stimulus measures. Production had stopped declining due to progress in inventory adjustments. In the labor market, although the unemployment rate had been rising and the number of employees had continued to decline, the pace of decrease in the number of employees was slowing. As for prices, the year-on-year rate of decline in the consumer price index (CPI) for all items had accelerated, mainly because of a substantial drop in energy prices. The year-on-year rate of increase in the CPI for all items less energy and food, or the core CPI, had fallen moderately to around 1.5 percent.

Economic conditions in the euro area had begun to stop worsening. Private consumption had been boosted by growth in car sales as a result of stimulus measures taken by governments in the area. Against the background of slower falls in exports and business fixed investment, the rate of decline in production was moderating. As for prices, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) had declined moderately. Economic conditions in the United Kingdom had begun to stop worsening, partly reflecting a slower pace of decline in private consumption and progress in housing market adjustments.

The Chinese economy had continued to grow at a relatively rapid pace, led mainly by domestic demand. Growth in private consumption had been firm, and fixed asset investment had been increasing strongly. The decline in exports was coming to a halt. Under these circumstances, production had continued to increase. Economic conditions in the NIEs and the ASEAN countries were improving. Exports and private consumption had risen, the pace of decline in business fixed investment had slowed, and production had increased due to progress in inventory adjustments. Meanwhile, the Indian economy had also continued to grow at a relatively rapid pace. With regard to prices, the downward trend in the year-on-year rate of change in the CPI for all items was coming to a halt in many Asian economies.

As for global financial markets, money markets were regaining stability, as evidenced by the fact that Treasury-Eurodollar (TED) spreads had fallen to around the levels seen in summer 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 hovered in a narrow range, mainly reflecting mixed economic indicators, and had recently increased somewhat. Long-term interest rates in the United States had declined, partly because banks had been purchasing Treasuries with excess funds that had resulted from sluggish growth in lending. Long-term interest rates in Europe had also declined, following their U.S. counterparts.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had risen, mainly due to the effects of various countries' policy measures and to progress in adjustments in overseas inventories. They were expected to continue increasing as overseas economic conditions improved.

Public investment had continued to increase and was likely to keep rising due to the implementation of various economic measures.

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

Private consumption had remained relatively weak as a whole, with the exception of durable goods consumption, which had picked up mainly due to the effects of various measures. 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 rapidly, 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 relatively weak amid the worsening employment and income situation, with the exception of durable goods consumption, which would be supported by the effects of various policy measures for the time being.

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

Production had risen, reflecting progress in inventory adjustments and policy effects both at home and abroad. It was expected to continue increasing for the time being, mainly due to said policy effects.

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, with some fluctuations, had generally been on a rising trend. The three-month rate of change in the domestic corporate goods price index (CGPI) had been around 0 percent, with a rise in commodity prices offsetting the persistent slack in supply and demand conditions. The CGPI was likely to remain more or less unchanged for the time being. The year-on-year decline in the CPI (excluding fresh food) had accelerated mainly due to the prices of petroleum products, which were lower than their higher levels of a year before, in addition to the substantial slack persisting in the economy as a whole. The year-on-year decline in the CPI (excluding fresh food), after accelerating somewhat, was expected to moderate over time as the effects of the lower prices of petroleum products abated.

2. Financial environment

Financial conditions, with some lingering severity, were increasingly showing 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 levels 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 had continued to improve, as reflected in the narrowing of credit spreads and the increased number of firms issuing corporate bonds. However, firms with low credit ratings had continued to face severe conditions for bond issues. As for credit demand, firms' needs to fund working capital and fixed investment had declined, and some firms had reduced the 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, mainly small ones, still saw them as weak -- had continued to improve as a whole. Meanwhile, the year-on-year rate of change in the money stock had been in the range of 2.5-3.0 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 started to improve against the background of further progress in inventory adjustments and the positive effects of monetary and fiscal policy measures, and were likely to continue improving. 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. A few members added that the extent to which private final demand would recover in a self-sustaining manner during a period when various policy measures were producing positive effects would be an important factor in making a forecast. One member said that the liquidity crisis triggered by the failure of Lehman Brothers and the resulting panic-driven contraction of financial and economic activity had almost fully abated, and downside tail risks that many economic agents confronted had diminished significantly. Some members, including this member, however, expressed the view that lingering balance-sheet adjustments of firms, households, and financial institutions were likely to prevent the world economy from achieving an early and full-fledged recovery, and risks to the outlook were still tilted to the downside. A few members, noting that protectionist actions for domestic industry had increased recently in some countries, expressed concern that this might exert downward pressure on the world economy. Meanwhile, some members said that the faster-than-expected recovery in emerging economies, especially those in East Asia, might pose an upside risk to the outlook for the world economy. One member gave the following reasons for this view: considering the limited need for balance-sheet adjustments in emerging economies, the impact on them of stimulus measures around the world was larger than on advanced economies; and, in emerging economies, increased capital inflow from advanced economies had enhanced credit provision and pushed up asset prices, thereby significantly improving the financial environment.

Many members said that the state of global financial markets had been improving. One member was of the view that the narrowing of credit spreads in the U.S. and European markets and the rise in stock prices worldwide were attributable to an abatement of the tail risks, which had increased following the failure of Lehman Brothers. Some members, however, said that although the strong sense of crisis in financial markets had subsided to some extent, concerns about the U.S. and European financial systems persisted and market participants' confidence in them had not been restored fully. In relation to this, a few members, referring to the rise in delinquency rates on household loans and the significant fall in commercial real estate prices in the United States, expressed the view that attention should be paid to the risk of an adverse feedback loop between financial and economic activity intensifying again in the United States and Europe. On the other hand, one member said that a preference for risk assets had returned, especially in emerging economies, and that a search for yield, which had been evident in the past, had reemerged in some markets. In addition, some members expressed the view that the expansionary fiscal and monetary policy, in the longer run, might pose the risks of creating another economic distortion and of inducing excessive swings in economic and financial developments.

Turning to the U.S. economy, members concurred that economic conditions had stopped worsening. Many members noted that housing starts and home sales figures remained on an uptrend and that the significant growth in car sales had boosted private consumption. Some members said that positive signs were observed in a wider range of production-related indicators; for example, industrial production rose in August and thus realized growth for two consecutive months, mainly due to progress in inventory adjustments. As for the outlook, many members expressed the view that the U.S. economy was likely to recover moderately, mainly reflecting increased implementation of public works projects and further progress in inventory adjustments. However, some members said that the improvement in the housing and automobile sectors was largely attributable to the effects of policy measures, and the sustainability of recovery therefore warranted conservative forecasting that took into account a possible downturn after the completion of demand-boosting policy measures. A few members, noting that the number of employees had been falling significantly and the amount outstanding of consumer credit had been declining due to financial institutions' cautious lending attitudes, said that attention should be paid to the downward pressure on the economy, mainly on private consumption, from those factors.

With regard to the economy of the euro area, many members shared the view that economic conditions had begun to stop worsening as a whole, as evidenced by real GDP in Germany and France, which started to grow in the April-June quarter of 2009. Some members expressed the opinion that the rate of decline in exports and production was moderating, reflecting progress in inventory adjustments, and that private consumption was improving on the back of stimulus measures by governments in the area, as evidenced by the recovery in car sales in particular. However, a few members were of the view that the pace of recovery in the economy of the euro area was likely to remain moderate, given that car sales were expected to decrease after the current strong sales and that Central and Eastern European economies, which were the euro area's major export destinations, had remained sluggish.

Members concurred that the Chinese economy had continued to grow at a relatively rapid pace, 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 vigorous fiscal and monetary policy measures. One member expressed the view that there was only a limited risk of the Chinese economy decelerating in the near future, given that the Chinese government had recently indicated that it would firmly maintain the current macroeconomic policy. In this regard, some members, noting the sharp rise in bank loans and the money stock, as well as the increased share of public-sector investment and consumption, expressed the opinion that careful attention should be paid to whether an overheating in financial and economic activity would lead to new accumulation of excesses. Members concurred that economic conditions in the NIEs and the ASEAN countries were improving, mainly due to a significant increase in exports owing to demand growth from China. Some members said that real GDP in the April-June quarter of 2009 marked a double-digit annualized quarter-on-quarter increase in many of the NIEs and the ASEAN countries, and private consumption and business fixed investment in the region were increasingly showing signs of improvement. A few members added that the economies of commodity-exporting countries and grain-exporting countries such as those in the Middle East and Central and South America, as well as Australia, showed signs of recovery on the back of growing demand for commodities and food from China. They commented that this situation and the aforementioned developments suggested that growth in China and other Asian emerging economies was stronger than expected.

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 were showing signs of recovery. They also agreed that although business fixed investment had continued to decline and private consumption had remained generally weak, public investment had continued to increase and exports and production had risen.

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 the outlook continued to be attended by a significant level of uncertainty. A few members said that the effects of inventory restocking and of fiscal stimulus measures both at home and abroad were projected to diminish gradually, but there were still no signs of a self-sustaining recovery in private final demand. However, some members commented that the balance of upside and downside risks had changed somewhat from the time of the previous meeting with the emergence of an additional upside factor -- a better-than-projected recovery in emerging economies. Ultimately, many members shared the view that, even taking into account this upside factor, it still appeared likely that risks to Japan's economy were on the downside, stemming from future developments in the global financial and economic situation, as well as from changes in firms' medium- to long-term growth expectations.

Regarding developments in each demand component, members agreed that exports had risen on the back of progress in adjustments in overseas inventories and of improvement in overseas economies, especially emerging economies. As for the outlook, many members were of the view that the pace of increase in exports might slow somewhat mainly due to an abatement of the effects of inventory restocking, but that exports were likely to continue increasing for the time being as overseas economic conditions improved. One member said that it was worth noting that exports to the Middle East and Central and South America had started to improve. Meanwhile, some members expressed the opinion that attention should be paid to how the recent yen appreciation trend would affect Japan's economy, especially in terms of exports.

Members concurred that business fixed investment had continued to decline, mainly reflecting weak corporate profits, albeit at a slower pace. A few members expressed the view that the risk of further cuts in business fixed investment was declining, noting that business fixed investment had already fallen below the level of depreciation costs and that the pace of decrease in machinery orders -- a leading indicator of business fixed investment -- had been moderating. Many members, however, expressed the opinion that business fixed investment was likely to remain relatively weak for the time being in a situation where a recovery in domestic and overseas economies remained moderate and the severe situation in corporate profits continued.

Members agreed that private consumption had remained generally weak, although sales had picked up for some durable consumer goods such as cars and electrical appliances, primarily as a result of the positive effects of various policy measures. As for the outlook, they concurred 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. A few members said that the effects of various measures to encourage purchases of cars and electrical appliances were expected to support private consumption for the time being, but that sales of those items were likely to weaken in the next fiscal year because those policy effects would abate and because the current firm sales seemed partly attributable to front-loaded demand. They concluded that developments in private consumption warranted conservative forecasting. A few members expressed the opinion that attention should continue to be paid to the impact of the H1N1 influenza virus, which was projected to spread further.

Members agreed that production had risen, reflecting progress in inventory adjustments and policy effects both at home and abroad. As for the outlook, they shared the view that production was expected to continue increasing for the time being, mainly due to said policy effects and the recovery in emerging economies. Some members expressed the view that interviews with firms suggested that production was likely to rise at a relatively fast pace in the July-September quarter, as in the previous quarter, and continue increasing in the October-December quarter. However, a few members said that future developments with respect to production in 2010 onward -- following the completion of inventory restocking and the end of policy measures encouraging car purchases -- remained highly uncertain, and that firms were still cautious regarding their future business environment.

Members also exchanged views regarding the recent employment and income situation. One member said that whereas real wages in Japan had declined due to a substantial decrease in nominal wages, those in the United States had continued to rise, and, when hit by a large shock, there were economies where wages were primarily adjusted flexibly -- such as Japan -- and economies where the number of employees was primarily adjusted -- such as the United States and European countries. A different member said that there was a prevalent view that the high flexibility of wages enabled Japan's economy to achieve a relatively strong performance at the time of the second oil crisis, but it was uncertain if the same could be expected to occur in the current situation. Some members, including this member, expressed the opinion that the different manners in which the two adjustment mechanisms for employment and income would affect economic activity and prices in the respective economies should continue to be examined.

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, which were lower than their high levels of a year before, in addition to the substantial slack persisting in the economy as a whole. A few members expressed the view that the recent pace of decline had been somewhat faster than expected. Regarding this point, some members said that the gradual acceleration in the year-on-year decline in the CPI for all items less energy and food suggested deterioration in the supply-demand balance. As for the outlook, members agreed that the year-on-year decline in the CPI (excluding fresh food) was likely to accelerate somewhat for the time being, but then moderate from the latter half of fiscal 2009 as the effects of the prices of petroleum products abated. With regard to other major economies, one member said there was a consensus view that, as was the case in Japan, these economies were facing significant deterioration in the supply-demand balance and therefore a considerable period of time was likely to elapse before the balance improved and inflation rates returned to desirable levels. Some members commented that, besides developments in the supply-demand balance, changes in households' expectations about medium- to long-term inflation, firms' price-setting behavior, foreign exchange rates, primary commodity prices, and wages should be monitored as factors that could well affect future price developments.

B. Financial Developments

Members agreed that financial conditions, with some lingering severity, were increasingly showing signs of improvement. Many members said that issuing conditions for CP for firms with low credit ratings had improved, given that issuance spreads on CP rated a-2 had narrowed to levels comparable with those seen before the failure of Lehman Brothers, and that the amount outstanding of low-rated CP had risen substantially since the end of 2008. One member added that the policy effects on the CP market remained overly strong in some aspects, as suggested by issuance rates on some CP with high ratings, which had been below yields on government bills.

Many members expressed the view that issuing conditions for corporate bonds, although still 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 in the number of firms issuing corporate bonds. Based on this understanding, members discussed how to assess the polarization of the corporate bond market, focusing particularly on the severity of issuing conditions for BBB-rated corporate bonds. One member said that spreads on BBB-rated corporate bonds, with some exceptions, had recently been narrowing in the secondary market as investors had been increasingly active in purchasing corporate bonds with wide spreads. Some members noted that issuance of BBB-rated corporate bonds was indeed lower than the level seen before the failure of Lehman Brothers. However, they attributed this partly to the existence of only a few investors with high risk-taking capacity, and to a lack of strong demand by Japanese firms with low credit ratings for bond issuance owing to the high funding costs compared with borrowing from banks. One member was of the view that firms and financial institutions, having experienced the financial market turmoil from autumn 2008, had become increasingly aware of the importance of indirect financing. The member continued that the corporate bond market therefore would not necessarily be able to return to its former state even if its conditions had sufficiently improved. Based on these discussions, many members expressed the opinion that, given the situation of Japan's corporate bond market, it might not be appropriate to consider that Japan's financial conditions remained severe just because the issuance of low-rated corporate bonds had been limited.

Members agreed that firms' financial positions -- although many firms, mainly small ones, still saw them as weak -- had continued to improve as a whole. Some members said that the recent improvement owed much to a decrease in firms' needs to fund working capital and fixed investment, and therefore prospects for their financial positions could not be viewed optimistically. In relation to this, one member, while admitting that there still were concerns among firms about the dim outlook for the economy and their sales, expressed the view that the current nature of their anxiety over cash availability seemed to be different from the time until around spring 2009, when they experienced difficulty in satisfying daily operational expenses and short-term debt.

Members discussed whether it was appropriate to view Japan's financial conditions as a downside risk factor for the outlook for the economy. Some members expressed the opinion that Japan's financial conditions should be considered a downside risk factor for the economy for the time being, given that (1) firms were still concerned about their future cash availability against the backdrop of considerable uncertainty regarding the economic outlook, and (2) there remained the risk that another economic downturn would increase financial institutions' credit costs and push down stock prices, thereby causing an adverse feedback loop between financial and economic activity. Some other members argued that risk factors for the economy should be defined as what might trigger upward or downward deviations of economic developments from forecasts. On this basis, many members said that the steady improvement in Japan's funding conditions and stability of its financial system as a whole indicated a decrease in the risk that developments in domestic financial markets and financial conditions would trigger a downward deviation. Based on this discussion, members concurred that it was appropriate to properly communicate the following consensus views to the public. First, the recent financial conditions indicated that the need to emphasize developments in domestic financial conditions as a downside risk factor for the economy had declined. Second, however, there was a risk that potentially unstable developments in overseas economies and global financial markets might worsen Japan's financial conditions, which in turn could pose a downside risk to its economy. And third, amid considerable uncertainty regarding the outlook for the economy, firms were still concerned about their future cash availability.

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, 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. Regarding "exit strategies" being discussed around the world, one member commented that it was important to deal with individual policy measures separately, based on their purposes and roles, as was confirmed in the communiqué of the meeting of the Group of Twenty (G-20) Finance Ministers and Central Bank Governors held in early September. With regard to the Bank's measures to facilitate corporate financing, such as outright purchases of CP and corporate bonds, many members said that the manner of dealing with these temporary measures -- which were introduced as a response to the panic in financial markets that began in autumn 2008 -- should be decided appropriately in light of the degree of improvement in financial conditions. As for the role of extraordinary measures, a few members were of the view that the positive effects these measures could produce were on the wane, as evidenced by the fact that the amount of CP and corporate bonds purchased by the Bank had declined significantly and that interest rates in funds-supplying operations, which were determined by conventional auction, had been stable at low levels. Meanwhile, a different member said it was important to bear in mind that these measures to facilitate corporate financing were expected to perform the role of a safety net.

IV. Remarks by Government Representatives

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

(1) Japan's economy, while showing signs of picking up recently, was still in a difficult situation, as evidenced by the fact that business fixed investment continued to decrease and the employment situation was becoming increasingly severe.

(2) 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.

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. 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.

(2) The government expected the Bank to continue to conduct monetary policy in an appropriate and flexible manner.

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 August 10 and 11, 2009 for release on September 25, 2009.

Attachment

September 17, 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,[5] 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 are showing signs of recovery. Public investment is increasing, and exports and production are also increasing against a backdrop of progress in inventory adjustments both at home and abroad as well as a recovery in overseas economies, especially emerging economies. On the other hand, business fixed investment is declining 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, with some severity lingering, are increasingly showing 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, which are lower than their high levels a year ago, in addition to the substantial slack persisting in the economy as a whole.

[5] 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. 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 somewhat 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. While there are signs of a better-than-projected recovery in emerging economies, risks to the economy are still on the downside, stemming from future developments in the global financial and economic situation, as well as from changes in firms' medium- to long-term growth expectations. 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.