Not to be released until 8:50 a.m. Japan Standard Time on Thursday, November 5, 2009.

November 5, 2009

Bank of Japan

Minutes of the Monetary Policy Meeting

on October 13 and 14, 2009

(English translation prepared by the Bank's staff based on the Japanese original)

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Tuesday, October 13, 2009, from 2:00 p.m. to 5:00 p.m., and on Wednesday, October 14, from 9:00 a.m. to 1:09 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. H. Ogushi, Parliamentary Secretary for Finance, Ministry of Finance[2]

Mr. S. Kagawa, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance[3]

Mr. K. Tsumura, Parliamentary Vice-Minister, 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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on October 30, 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. Ogushi was present on October 14.

[3] Mr. S. Kagawa was present on October 13.

Mr. N. Yoshioka, Deputy Director-General, Monetary Affairs Department[4]

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

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. T. Sakamoto, Associate Director-General, Monetary Affairs Department[4]

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

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

Mr. E. Fukuda, Director, Head of Operations Planning, Financial Markets Department[4]

[4] Messrs. N. Yoshioka, T. Sakamoto, and E. Fukuda were present on October 14 from 9:00 a.m. to 9:16 a.m.

I. Summary of Staff Reports on Economic and Financial Developments[5]

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 September 16 and 17, 2009.[6] 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 further provision of funds maturing beyond end-September 2009 -- the end of a semiannual book closing period for many Japanese firms -- and 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. In particular, there was no bidding in two recently conducted outright purchases of CP.

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 temporarily edged up but had generally 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. In the CP market, issuing conditions had been favorable: 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. Euroyen rates with longer maturities had been stable, albeit at relatively elevated levels.

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

[6] 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 declined, partly reflecting concerns about negative effects of the appreciation of the yen on corporate profits. The Nikkei 225 Stock Average had recently been moving at around 10,000 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 1.25 percent.

The yen had appreciated against the U.S. dollar and had recently been traded at around 89 yen to the dollar.

C. Overseas Economic and Financial Developments

The world economy had picked up.

U.S. economic activity was showing signs of recovery. Private consumption as a whole had been more or less unchanged, although car sales had fallen back after the end of sales promotion measures by the government. Housing investment had picked up, and the decline in home prices was coming to a halt. The rate of decrease in business fixed investment was slowing. Production had started to increase due to progress in inventory adjustments. In the labor market, although the unemployment rate had been rising, the pace of decrease 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 was around minus 1.5 percent, 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.

Economic conditions in the euro area had stopped worsening. Private consumption had been relatively weak as a whole, despite growth in car sales as a result of stimulus measures taken by governments in the area. The falls in exports and production had generally come to a halt. 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 stopped worsening, partly reflecting a slower pace of decline in private consumption, a pick-up in production, 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 had recently come 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 decline in business fixed investment was coming to a halt, 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 had come 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 had been more or less flat, with relatively weak economic indicators offsetting expectations for recovery in business performance. 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 been rising, due to the improvement in overseas economic conditions, and were expected to continue increasing on the back of this improvement trend.

Public investment had been increasing and was expected to continue increasing for the time being due to the implementation of various economic measures.

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

Private consumption had remained generally weak, with the exception of durable goods consumption, which had been firm mainly due to the effects of various policy measures. 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 improving 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 severe 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 been rising, 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 the policy effects.

The employment and income situation had remained 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 remained more or less unchanged. The three-month rate of change in the domestic corporate goods price index (CGPI) had been around 0 percent, with the past 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 pace of decline in the CPI (excluding fresh food) was expected to stabilize at around the current level of the year-on-year rate, and moderate over time as the effects of the lower prices of petroleum products abated.

2. Financial environment

The financial environment, with some lingering severity, was 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. Issuing conditions for CP and corporate bonds had been favorable, except for low-rated corporate bonds. As for credit demand, firms' need 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 at around 3.0 percent.

II. Amendment to Guidelines on Eligible Collateral

A. Staff Proposal

The staff proposed that the Bank make necessary amendments to its Guidelines on Eligible Collateral and the principal terms and conditions for repo operations and securities lending in view of the results of the Bank's annual review of appropriate margins reflecting recent developments in financial markets.

B. Discussion by the Policy Board and Vote

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

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

A. Economic Developments

Members shared the view that <u>overseas economies</u> had picked up, mainly reflecting the positive effects of fiscal and monetary policy measures, and were likely to continue improving. Based on this understanding, many members noted a growing difference in the pace of economic recovery between advanced and emerging economies; specifically, the recovery in the former remained only modest, whereas that in the latter was somewhat stronger than expected. Some members highlighted factors behind such developments in emerging economies, as follows. First, considering the limited need for balance-sheet adjustments in emerging economies, unlike advanced ones, the impact of vigorous stimulus measures was strong. Second, capital inflow from advanced economies had increased, and asset prices had also risen. And third, many emerging economies had adopted fixed or nearly fixed exchange rate systems, and foreign exchange intervention to maintain their currencies' exchange rates had brought additional monetary easing effects to these economies.

Regarding risks to the outlook for overseas economies, many members said that the pace and sustainability of economic recovery after the effects of the policy measures had abated remained highly uncertain. As an upside risk factor, some members raised the issue of an overheating in emerging economies due to the expansionary macroeconomic policy taken worldwide. On the other hand, as downside risk factors, some members raised the possibility that, in the United States and Europe, (1) balance-sheet adjustment pressures might constrain spending by households and firms more than expected, and (2) deterioration in the quality of commercial real estate loans and a delay in disposal of impaired assets at banks might reintensify an adverse feedback loop between financial and economic activity. A few members said that, in the analysis of the effects of balance-sheet adjustments on the U.S. and European economies, it was important to bear in mind that Japan's experience might not be applicable directly because the course of the economic cycle differed each time, and because the pace of such adjustments could vary depending on medium- to long-term growth expectations, which mainly were determined by the population growth rate of respective economies. Meanwhile, one member said that if growth in advanced economies became weaker than expected, emerging economies might be adversely affected through a decrease in capital inflow from, and exports to, advanced economies.

Many members said that the state of global financial markets had been improving. A few members said that spreads on U.S. dollar-denominated term instruments had narrowed to close to the level seen just before the BNP Paribas shock, although various types of liquidity support, including provision of U.S. dollar liquidity conducted in some countries, had been reduced gradually. Some members, however, were of the view that global financial markets remained somewhat unstable given that the outlook for the world economy was still highly uncertain and U.S. and European financial institutions' credit costs were increasing.

Members concurred that U.S. economic activity was showing signs of recovery and was likely to continue improving. Many members said that home prices, housing starts, and production continued to rise. Some members, however, said that the momentum for economic recovery was still weak, as evidenced by the significant fall in car sales after the end of sales promotion measures by the government, and the lower-than-expected PMI, an indicator of manufacturing activity compiled by the Institute for Supply Management (ISM), and number of employees. As for the outlook, many members said that the strength of economic recovery after the effects of policy measures had abated warranted conservative forecasting, considering the severe employment and income situation as well as adjustment pressures on the balance sheets of households and financial institutions.

With regard to the economy of the euro area, many members shared the view that economic conditions had stopped worsening due to a recovery in exports to outside the euro area and stimulus measures by governments in the area. A few members, however, said that the underlying trend of private consumption was weak, as evidenced by a relatively large decline in car sales in Germany following the end of sales promotion measures by the government. A different member said that a delay in the recovery of financial stability and sluggishness in European emerging economies posed a significant downside risk to the economy of the euro area.

As for emerging economies, many members said that the Chinese economy had continued to grow at a relatively rapid pace, led mainly by domestic demand, and economic conditions in the NIEs and the ASEAN countries were improving reflecting the increase in exports to China. A few members said there might be an overheating in part of the Chinese economy, as seen in the form of surging asset prices and excessive production capacity, partly due to the effects of stimulus measures.

Based on the above discussions on economic and financial conditions abroad, members discussed the state of Japan's economy. They concurred that Japan's economy had started to pick up. They also agreed that exports and production had been rising against a backdrop of progress in inventory adjustments both at home and abroad as well as a recovery in overseas economies, especially emerging economies, and that business sentiment, especially at large manufacturing firms, was showing some improvement. Based on this understanding, many members said that it was important to bear in mind that, despite the pick-up in economic activity, its level remained low because the degree of recovery had remained small to offset the previous decline.

As for the outlook, members concurred that Japan's economic conditions were likely to improve gradually, supported partly by the positive effects of various policy measures as well as by a recovery in overseas economies and improvements in conditions in global financial markets. However, they also agreed that the outlook continued to be attended by a significant level of uncertainty since it would be greatly dependent on the improvement in overseas economies. Many members said that risks to Japan's economy remained on the downside, as a downside risk factor of strong balance-sheet adjustment pressures in the United States and Europe would more than offset an upside risk factor of robust emerging economies. Some members said that prospects for a self-sustaining recovery of private final demand amid the waning effects of the policy measures toward the fiscal year-end remained highly uncertain.

Regarding developments in each demand component, members agreed that exports had been rising, mainly due to the improvement in overseas economic conditions, and were likely to continue increasing. One member, however, expressed the view that the pace of increase in exports was slowing as the rebound caused by inventory restocking was coming to an end.

Many members said that public investment had been increasing and was likely to continue increasing for the time being. A few members, however, said that the effects of the ongoing review of public investment plans were highly uncertain at this point.

Many members were of the view that the decline in business fixed investment, which mainly reflected weak corporate profits, had been moderating. Many members expressed the view that business fixed investment was likely to be relatively weak for the time being, referring to the fact that, in a continued serious situation in corporate profits, firms still had a strong sense of excessive capital stock and were drawing up conservative fixed investment plans. One member expressed the opinion that developments in business fixed investment needed to be examined from a viewpoint that changes in foreign exchange rates might facilitate firms' transfer of production to overseas.

Members agreed that private consumption had remained generally weak, although sales of some durable consumer goods had continued to rise 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, as households were persistently curtailing spending and the severe employment and income situation was continuing.

Many members commented that sales had come to differ noticeably between goods to which the government's sales promotion measures were applied, and other goods and services. One member expressed the view that the weakness in private consumption might become more evident after the end of sales promotion measures by the government, partly because these measures had boosted front-loaded demand.

Members agreed that production had been rising, reflecting progress in inventory adjustments and policy effects both at home and abroad. As for the outlook, they shared the view that production was likely to continue increasing for the time being, mainly due to the policy effects and overseas economic improvement. Some members said that interviews with firms suggested a rising likelihood that production would continue increasing in the October-December quarter. A few members added that firms nonetheless were still cautious regarding future developments with respect to production in 2010 onward, and that the pace and sustainability of improvement remained highly uncertain.

Members concurred that the employment and income situation had remained severe. A few members commented that, although developments such as the leveling-off of the unemployment rate indicated that further deterioration in the overall situation was coming to a halt, wages continued to decline substantially and firms' perception of excess labor remained strong. One member expressed the opinion that firms' wide use of employment adjustment subsidies had created a circumstance whereby they retained many otherwise potentially unemployed workers, and that the employment situation therefore might again deteriorate further, with a reduced number of recruitment of new graduates in spring 2010 onward.

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 higher levels of a year before, in addition to the substantial slack persisting in the economy as a whole. Some members expressed the view that the impact of the deterioration in the supply and demand balance had started to appear as an increase in the number of items for which prices had declined and a continuation of the year-on-year decline in the CPI for all items less energy and food. One member said that the faster pace of decline in the average price per purchase suggested that consumers had a stronger preference for inexpensive goods and services. As for the outlook, members were of the view that the pace of decline in the CPI (excluding fresh food) was likely to stabilize at around the current level of the year-on-year rate, and moderate over time as the effects of the lower prices of petroleum products abated. As background to the above view, some members noted that survey results suggested that households' inflation expectations in the medium term had not declined. One of these members, referring to the fact that Japan's financial system had been stable, said there was only a small risk that a decline in prices would induce downward pressure on the economy. On this basis, members shared the view that the environment surrounding price developments -- namely, changes in the economic slack, wages, and foreign exchange rates -- should continue to be examined closely, given that downward pressure on prices was likely to remain strong for the time being despite the stability in inflation expectations and the financial system.

B. Financial Developments

Members agreed that the financial environment, with some lingering severity, was increasingly showing signs of improvement.

Members concurred that issuing conditions for CP and corporate bonds had been favorable, except for low-rated corporate bonds. Many members were of the view that issuing conditions for CP had been favorable on the whole, as reflected in the fact that issuance spreads -- even on low-rated CP -- had narrowed to levels comparable with those seen before the failure of Lehman Brothers and that the risk premium embedded in interest rates on term instruments maturing beyond the year-end had been relatively small. Meanwhile, members agreed that issuing conditions for corporate bonds had also been favorable, with the amount of bond issuance in the first half of fiscal 2009 reaching a historical high. A few members noted an increase in the number of cases in which bond issuance exceeded the initially planned amount and those in which bonds were issued at the bottom of the marketing range -- particularly among corporate bonds rated A or higher. By contrast, one member -- noting that recently investors had been cautious about the risk of corporate bonds being downgraded and spreads on them in the secondary market had widened somewhat -- expressed the view that it was necessary to determine how long such developments would continue and to what extent they would expand. Many members said that factors unique to Japan's corporate bond market, in addition to the severe situation in corporate profits and ensuing increase in credit risk, had been contributing to the sluggish issuance of low-rated corporate bonds. These members pointed to some of the factors as weak demand by Japanese firms with low credit ratings for bond issuance, bank lending rates set at levels far below interest rates on bond issuance, and the existence of only a few investors willing to purchase low-rated bonds. Based on this discussion, many members expressed the view that it might not be appropriate to interpret the sluggish issuance of low-rated corporate bonds as an indication of the severity in Japan's financial environment.

Members agreed that financial positions had improved noticeably at large firms, partly due to improvement in the CP and corporate bond markets. At the same time, they concurred that many small firms still saw their financial positions as weak. One member said that the degree of recovery depended greatly on firm size: the smaller the firm, for instance, the weaker its financial position. Regarding this point, a different member commented that the extent of weakening of financial positions following the failure of Lehman Brothers was more considerable at large firms, and that this had partly affected the disparity in recovery. One member was of the view that firms' demand for external funds had been decreasing, as their need to fund working capital and fixed investment, as well as unexpected spending, had decreased while their cash inflow had leveled out in accordance with an increase in sales. On this point, a different member advised close examination of whether favorable funding conditions of firms could be maintained even when their demand for external funds increased in tandem with economic recovery.

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, 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, many members were of the view that the Bank needed to steadily implement measures to maintain the accommodative financial environment given that Japan's economy had just started to pick up. One member said that "exit strategies" were discussed in the context of the expansionary macroeconomic policy at recent international conferences and consensus was reached that, although the timing and sequencing of actions would vary across countries and by type of policy measures, necessary financial support measures and expansionary monetary and fiscal policies should continue to be implemented until recovery was secured. This member continued that the

Bank's thinking on the conduct of monetary policy was considered to be in line with international consensus.

Members exchanged views on the manner of dealing with various temporary measures regarding money market operations. They concurred that it was appropriate to review the temporary measures -- which were introduced in response to the extremely rapid contraction in financial markets following the failure of Lehman Brothers -- in accordance with the degree of improvement in market functioning. On this basis, one member said that it was appropriate to assess the necessity of these measures based on their roles and impact as well as on substitutability by other market operation tools. This view was shared by all other members.

With regard to the impact of various temporary measures, many members said that these measures had produced much of their intended effects. Many members said that issuing conditions for CP and corporate bonds had generally been favorable, and that the recent decrease in the bidding amount in the Bank's outright purchases of CP and corporate bonds had reflected the improvement in market functioning, suggesting that the temporary measures' contribution to the improvement in market conditions was on the wane. However, one member expressed the opinion that the corporate bond market remained somewhat unstable, and that the Bank's outright purchases of corporate bonds continued to make a significant contribution to securing market stability. Some members noted that special funds-supplying operations to facilitate corporate financing had been producing positive effects, such as a decline in interest rates on term instruments and in liquidity premiums in the market. A few members, however, said that the effects of the temporary measures were overly strong in some aspects, as suggested by issuance rates on some CP with high ratings, which had been below yields on government bills. One member added that the temporary measures also produced the negative effect of impairing the intrinsic functioning of financial markets, particularly smooth price formation, and that the necessity of the measures should be assessed by weighing positive as well as negative effects.

Members then discussed the substitutability of various temporary measures and conventional tools for market operations. Many members said that the conventional funds-supplying operations against pooled collateral and the temporary special funds-supplying operations to facilitate corporate financing -- where the range of collateral for the former included that for the latter -- were becoming less different in character as a result of the recent decline in the interest rates for the former to near the fixed rate applied to the latter. Some members added that the latter entailed costs to manage private-debt collateral and that its maturity was less flexible compared with the former. A few members said that, in a situation where firms were still concerned about their cash availability toward the fiscal year-end, careful examination was needed to judge whether other market operation tools would be able to make substitutes for the special funds-supplying operations to facilitate corporate financing, which allowed financial institutions to obtain liquidity at predetermined times as much as necessary up to the amount of pledged collateral, and thus had alleviated anxiety in markets. Meanwhile, a few members expressed the view that, with financial markets being stable and market functioning having improved substantially compared with the heightened strains in financial markets until the previous fiscal year-end, how to deal with temporary measures was gradually becoming more of a technical matter in the choice of appropriate tools for market operations, rather than forming part of an exit strategy.

Members also discussed the process for and timing of deciding how to deal with various temporary measures. As for the process, some members expressed the view that it was appropriate to deal with individual temporary measures separately, taking into account that these measures had complemented each other in producing positive effects to some extent. Regarding the timing, members raised the following three points. First, a decision to scale down or terminate only a single measure might prompt speculation about how the Bank might deal with other measures. Second, it was important to make public decisions on individual temporary measures concurrently, such that the Bank would be able to reveal its thinking on the conduct of monetary policy in a comprehensive manner. And third, it was appropriate that the Bank make decisions after examining the situation of transactions maturing beyond the calendar and fiscal year-ends and reviewing the corporate financing environment from a longer-term perspective. Based on this discussion, members concurred that it was appropriate to examine the impact and necessity of individual temporary measures as comprehensively as possible, and make decisions on individual temporary measures concurrently at a future Monetary Policy Meeting.

Members discussed the Bank's communication regarding its conduct of monetary policy. First, many members said that, regardless of the manner of dealing with temporary measures, it was most important that the Bank clearly explain its basic policy stance of steadily implementing measures to maintain the accommodative financial environment. And second, a few members, referring to the possibility that the size of the Bank's balance sheet might shrink when its intervention in markets became less necessary with improvement in market functioning, said that the Bank, to avoid a possible misunderstanding, should carefully explain that the contraction in the size of its balance sheet did not mean a shift in its monetary easing stance.

V. Remarks by Government Representatives

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

(1) The government would like to always maintain close contact with the Bank, in view of Article 4 of the Bank of Japan Act of 1997.

(2) Japan's economy had been picking up recently, but attention should be paid to the factors that posed downside risks to the economy -- for example, the further deterioration in the employment situation, the adverse effects of the global financial crisis, and the possibility of weaker-than-expected growth of the world economy -- and also to price developments. The financial positions of small firms remained weak, whereas those of large ones were improving.

(3) In this situation, 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, carefully examining economic activity, prices, and the situation in corporate financing.

(4) The government also expected the Bank to continue to clearly explain to the public and market participants its view on economic activity, prices, and financial developments, as well as its thinking on the conduct of monetary policy.

The representative from the Cabinet Office made the following remarks.

(1) The representative, speaking on behalf of the government, would first like to convey the government's deep understanding of and respect for the importance of central bank independence.

(2) Japan's economy had been picking up, but remained in a difficult situation. The government, targeting economic growth led by domestic demand, would carry out policies to (1) stimulate private consumption by supporting households' living

conditions, to which the government attached the greatest importance, and (2) create industry and employment in a new field. The government would pay due attention to the severe employment situation and respond swiftly with appropriate measures, as necessary. Moreover, amid high downside risks to the economy, the government would continue to carefully monitor economic developments and the employment situation and act decisively whenever necessary.

(3) The government expected the Bank to pay due attention to the risk of deflation and continue to support the economy through the conduct of monetary policy. The government also expected the Bank to carefully examine market developments and take appropriate measures in order to facilitate flow of funds to firms, because they continued to face a severe business environment and difficulty in funding.

(4) It was important that the Bank and the government frequently exchange views regarding economic and financial developments in order to appropriately conduct their respective policies. The government would like to always maintain close contact with the Bank and exchange views sufficiently, in view of Article 4 of the Bank of Japan Act of 1997.

The representative from the Cabinet Office asked for opinions from Policy Board members about the course of the government's economic and fiscal policy. Some members expressed the view that (1) it was desirable that the government swiftly present the overall picture and its view of the new economic and fiscal policy, and (2) it was necessary to be aware of the possibility that the review of the budget might adversely affect the economy, at least in the short run. The representative responded that the new administration was planning a strategy whereby policies to stimulate private consumption would achieve economic growth led by domestic demand.

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 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.

VII. 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).

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of September 16 and 17, 2009 for release on October 19, 2009.

Attachment

October 14, 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,[7] 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 economy has started to pick up. Public investment has been increasing, and exports and production have also been rising against a backdrop of progress in inventory adjustments both at home and abroad as well as a recovery in overseas economies, especially emerging economies. In these circumstances, business sentiment, especially at large manufacturing firms, is showing some improvement. The decline in business fixed investment, which mainly reflects weak corporate profits, has been moderating. Private consumption, while there have been some signs of a pick-up mainly attributable to the effects of various policy measures, remains generally weak amid the severe employment and income situation. Meanwhile, the financial environment, with some lingering severity, is 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

[7] 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.

high levels a year ago, in addition to the substantial slack persisting in the economy as a whole.

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 recover; this recovery will be supported partly by the positive effects of measures to stabilize the financial system and those 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 pace of decline in the CPI is expected to stabilize at around the current level of the year-on-year rate for the time being. Thereafter, assuming that medium- to long-term inflation expectations remain stable, the rate of decline in the CPI is likely to moderate 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 remain 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.