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January 29, 2010

Bank of Japan

Minutes of the Monetary Policy Meeting

on December 1, 2009

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

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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, December 1, 2009, from 2:00 p.m. to 3:33 p.m.¹

Policy Board Members Present²

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. 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

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

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

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

¹ The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on January 25 and 26, 2010 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 An absent member of the Policy Board, Mr. T. Noda, submitted via the chairman his written opinion on matters related to the meeting's agenda, in accordance with Article 5, paragraph 2 of the Rules concerning Policy Board Meetings.

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

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

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

I. Remarks on the Purpose of the Unscheduled Monetary Policy Meeting

The chairman first provided the following explanation for calling an unscheduled Monetary Policy Meeting.

- (1) There seemed to be an increased risk that recent international financial developments and foreign exchange market instability might adversely affect economic activity through an impact on such factors as business sentiment.
- (2) Given this situation, the chairman decided to call an unscheduled Monetary Policy Meeting, in accordance with Article 17, paragraph 3 of the Bank of Japan Act, to receive the staff's report on recent developments in financial markets and consider how money market operations should be implemented.

II. Summary of Staff Reports on Recent Financial Market Developments

Some instability had recently been observed in global financial markets. European stock prices had declined substantially due to the effects of Dubai's debt crisis, and currency values and stock prices had fallen significantly in some emerging economies. In foreign exchange markets, the yen had strengthened further since the occurrence of Dubai's debt crisis.

Partly due to these developments in global financial markets, Japanese stock prices, particularly of firms in export-related manufacturing industries such as electrical machinery and automobiles, continued to decline. There were growing concerns among market participants about possible deterioration in business sentiment reflecting the instability in financial markets.

III. Staff Proposal of Introduction of a New Funds-Supplying Operation

With a view to further spreading the effects of monetary easing and encouraging a decline in longer-term interest rates in the money market, the staff proposed that the Bank introduce a new funds-supplying operation whereby funds would be provided at a fixed rate against pooled collateral. In this new operation, conditions such as eligible counterparties, the form of loans, and eligible collateral would be the same as in the existing funds-supplying operation against pooled collateral -- whereby the interest rates to be applied were determined by a multiple-rate competitive auction -- and funds with a term of three months would be provided at a fixed interest rate equivalent to the target for the

uncollateralized overnight call rate. This new operation, should it be introduced, would for the time being provide funds amounting to 800 billion yen once a week, with the amount outstanding of funds provided to reach approximately 10 trillion yen.

IV. Summary of Discussions by the Policy Board

A. Discussions on the Staff Proposal

Members discussed recent developments in financial markets and their impact on economic activity. Many members expressed the view that, while Japan's economy was picking up, the pace of economic improvement was likely to remain moderate until around the middle of fiscal 2010. These members continued that, in this situation, there was an increased risk that recent international financial developments and foreign exchange market instability might adversely affect economic activity through an impact on such factors as business sentiment. One member expressed the concern that the recent widespread discussions about deflation might have negative effects on household and business confidence and in turn could intensify the downward pressure on economic activity.

Based on these observations, members shared the view that the Bank should implement an additional monetary policy measure to provide support for Japan's economy to overcome deflation and return to a sustainable growth path with price stability. Many members said that, specifically, given that the overnight call rate had been virtually at 0 percent, encouraging a further decline in interest rates on term instruments in the money market would be most effective in further supporting the economic recovery from the financial side. Some members said that, to this end, the new funds-supplying operation proposed by the staff -- whereby funds with a term of three months would be provided at an extremely low interest rate -- could be introduced to further spread the strong effects of monetary easing. One member expressed the opinion that, in addition to the new funds-supplying operation's potential effect of encouraging a decline in interest rates on term instruments, clearly presenting the Bank's stance of enhancing easy monetary conditions in response to the increased downside risks to economic activity might have its own effect of alleviating economic entities' anxiety. A different member, referring to the fact that the government had been formulating an economic policy package, commented that the implementation of an additional measure by the Bank would be effective, together with the government's efforts, in bolstering business and household confidence.

Based on the above discussion, members agreed that, in supporting the economic recovery from the financial side, it was most effective at present to further spread the strong effects of monetary easing and encourage a further decline in longer-term interest rates in the money market through provision of ample longer-term funds at an extremely low interest rate, by introducing the new funds-supplying operation, whereby funds would be provided at a fixed rate. One member commented that the Bank should take measures that would be most appropriate on each occasion, in view of the degree of likelihood that its baseline scenario for economic activity and prices would be realized, as well as factors posing upside or downside risks.

Members discussed issues that should be duly taken into account in the Bank's communication to the public when introducing the new operation. Many members noted that some market participants were speculating that the Bank might introduce a quantitative easing policy. On this point, many members, referring to the fact that the Bank had already made clear its stance of fully satisfying financial institutions' liquidity demands, expressed the opinion that the Bank should clearly show to the market that it was determined to continue providing ample funds, by making use of various tools including the new operation. These members said that the Bank should present this stance in a manner that would not cause any misunderstanding. One member said it was necessary, in the Bank's communication to the public, to make clear the intention of the new operation of encouraging a decline in interest rates on term instruments, and to avoid the misunderstanding that the new operation was a measure targeting a specific quantitative indicator. A different member expressed the view that, in a broad sense, the term quantitative easing could be applied to a policy that provided a massive amount of funds to meet demand from the market and created a situation in which the amount of funds provided by the Bank did not constrain financial institutions' activity.

B. Discussions on Monetary Policy for the Immediate Future

Regarding the guideline for money market operations until the next meeting to be held on December 17 and 18, members agreed that it was appropriate to maintain the current guideline that the Bank would encourage the uncollateralized overnight call rate to remain at around 0.1 percent.

V. Remarks by Government Representatives

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

- (1) The government welcomed the measure proposed at this meeting as an appropriate and swift response to recent changes in economic conditions, to be made in parallel with the formulation of an economic policy package by the government.
- (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, while working together with the government.

The representative from the Cabinet Office made the following remarks.

- (1) The Japanese economy was in a mild deflationary phase, and recent volatile movements in currency markets might exert a detrimental influence on trends toward economic recovery. The government approved today the formulation of a new economic policy package, while closely monitoring movements in the currency markets. It anticipated that the Bank would support the economy from the financial side, in a manner consistent with the government's efforts.
- (2) The government considered the Bank's introduction of a new funds-supplying operation as an important measure to support the economy. It expected the Bank to continue to conduct monetary policy in an appropriate and flexible manner, while working together with the government, in order to facilitate the return of the Japanese economy to a sustainable growth path with price stability.

VI. Votes

A. Vote on the Guideline for Money Market Operations

To reflect the view of members, 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, effective immediately from the announcement of the decision.

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. S. Nakamura, and Mr. H. Kamezaki.

Votes against the proposal: None.

Absent: Mr. T. Noda.

B. Vote on the Amendment to Principal Terms and Conditions for Funds-Supplying Operations against Pooled Collateral

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

VII. Discussion on the Public Statement Entitled Enhancement of Easy Monetary Conditions

Members discussed the statement Enhancement of Easy Monetary Conditions, 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. Timing for Approval of the Minutes of the Monetary Policy Meeting

Taking into account practical constraints, the minutes of this meeting would be approved at and released after the Monetary Policy Meeting to be held on January 25 and 26, 2010.

December 1, 2009

Bank of Japan

Enhancement of Easy Monetary Conditions

1. At the unscheduled Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided to further enhance easy monetary conditions by introducing a new funds-supplying operation to encourage a further decline in longer-term interest rates.
2. While Japan's economy is picking up, there is not yet sufficient momentum to support self-sustaining recovery in business fixed investment and private consumption. As for the outlook, the pace of economic improvement is likely to remain moderate until around the middle of fiscal 2010. On the price front, downward pressures on prices are expected to remain even after the year-on-year decline in the CPI (excluding fresh food) becomes fairly moderate toward the beginning of next year. On the financial front, corporate finance, with some lingering severity, has continued to show signs of improvement. However, there is a risk that recent international financial developments and foreign exchange market instability might pose adverse effects on economic activity through impacts on business sentiment and others, and this warrants attention.
3. The Bank has judged that, in supporting the economic recovery from the financial side, it is most effective at present to further spread the strong effects of monetary easing and encourage a further decline in longer-term interest rates in the money market through provision of ample longer-term funds at an extremely low interest rate. Therefore, the

Policy Board of the Bank of Japan decided, by a unanimous vote,³ to introduce a new funds-supplying operation as follows.

- a. Loan rate: Fixed interest rate (the target for the uncollateralized overnight call rate: 0.1 percent).
 - b. Duration: Three months.
 - c. Collateral: Any eligible collateral for the Bank's funds-supplying operations, such as Japanese government securities, corporate bonds, CP, and loans on deeds (pooled collateral).
4. The Policy Board of the Bank of Japan decided, by a unanimous vote,⁴ 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.

5. The Bank believes that the decision made today, together with the government's efforts, will firmly support Japan's economic developments toward recovery.
6. The Bank recognizes that it is a critical challenge for Japan's economy to overcome deflation and return to a sustainable growth path with price stability. To this end, the Bank will continue to do its utmost as central bank.

³ Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. A. Mizuno, Mr. S. Nakamura, and Mr. H. Kamezaki.

Voting against the action: None.

Absent: Mr. T. Noda.

⁴ Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. A. Mizuno, Mr. S. Nakamura, and Mr. H. Kamezaki.

Voting against the action: None.

Absent: Mr. T. Noda.