Not to be released until 8:50 a.m. Japan Standard Time on Friday, January 29, 2010.

January 29, 2010

Bank of Japan

Minutes of the Monetary Policy Meeting

on December 17 and 18, 2009

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

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Thursday, December 17, 2009, from 2:00 p.m. to 4:27 p.m., and on Friday, December 18, from 9:00 a.m. to 12:08 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. 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. Tsumura, Parliamentary Vice-Minister, Cabinet Office[2]
Mr. K. Umetani, Deputy Director-General, Economic and Fiscal Management, Cabinet Office[3]

Reporting Staff

Mr. A. Horii, Executive Director (Assistant Governor)
Mr. K. Ido, Executive Director
Mr. H. Nakaso, Executive Director
Mr. M. Amamiya, Director-General, Monetary Affairs Department
Mr. T. Kato, Associate Director-General, Monetary Affairs Department
Mr. H. Toyama, Director-General, Financial Markets Department

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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 Mr. K. Tsumura was present on December 18.
3 Mr. K. Umetani was present on December 17.

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. K. Nakamura, Senior Economist, Monetary Affairs Department

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

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

A. Money Market Operations in the Intermeeting Period

The Bank conducted money market operations in accordance with the guideline decided at the previous meetings on November 19 and 20, and on December 1, 2009.[5] The uncollateralized overnight call rate had been at around 0.1 percent.

With a view to ensuring market stability, the Bank continued to conduct money market operations in a flexible manner in response to changes in the market situation, starting to provide funds maturing over the fiscal year-end and actively purchasing Japanese government securities (JGSs) and CP under repurchase agreements. Moreover, on December 10 the Bank started to conduct a new funds-supplying operation, whereby funds were provided at a fixed rate against pooled collateral, and 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 corporate bonds and in U.S. dollar funds-supplying operations against pooled collateral, the bidding activity was low as financial institutions' demand for liquidity had declined reflecting a recovery in market functioning. The recent trend of no bidding in outright purchases of CP continued.

B. Recent Developments in Financial Markets

In Japan's money market, interest rates, including longer-term interest rates, had declined further in response to the new measure decided at the meeting on December 1 to enhance easy monetary conditions. 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 in the range of 0.10-0.15 percent. In the CP market, issuance rates had been more or less unchanged at low levels. The pace of decline in Euroyen rates with longer maturities had accelerated somewhat, although the rates had remained at relatively elevated levels compared with the yields on government bills.

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

[5] The guideline was as follows:

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

Following a considerable drop against the background of appreciation of the yen, Japanese stock prices had rebounded, partly due to a halt in the yen's appreciating trend. The Nikkei 225 Stock Average had recently been at around 10,000 yen. With regard to long-term interest rates in Japan, the benchmark rate, after declining temporarily to the 1.1-1.2 percent level, had risen somewhat as stock prices had turned to an increase, and had recently been in the range of 1.2-1.3 percent.

After appreciating to the range of 84-85 yen against the U.S. dollar amid growing uncertainties surrounding the global financial system, the yen had turned toward depreciation as such uncertainties had moderated, and had recently been traded at around 89 yen to the dollar.

C. Overseas Economic and Financial Developments

The world economy was recovering moderately.

U.S. economic activity was picking up. Private consumption as a whole was increasing, albeit very moderately: car sales, which fell temporarily after the end of sales promotion measures by the government, had again started to increase, and consumer spending other than car purchases had continued to rise. 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 been increasing due to progress in inventory adjustments. In the labor market, although the unemployment rate had been on an uptrend, 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 had turned positive as the effects of the drop in energy prices had abated. The year-on-year rate of increase in the CPI for all items less energy and food, or the core CPI, had been in the range of 1.5-2.0 percent.

Economic conditions in the euro area had started to pick up. Private consumption had been relatively weak as a whole, while production had started to increase as exports improved and the pace of decline in business fixed investment moderated. As for prices, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) for all items had turned positive. 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. Exports had started to rise. Under these circumstances, production had continued to increase. Economic conditions in the NIEs and the ASEAN countries were recovering. Exports and private consumption had risen, business fixed investment had picked up, and production had increased. The Indian economy had also continued to grow at a relatively rapid pace. With regard to prices, the year-on-year rate of change in the CPI for all items had started to increase in some Asian economies.

As for global financial markets, money markets were regaining stability, as evidenced by the fact that Treasury-Eurodollar (TED) spreads had been at 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. In the United States and Europe, stock prices had fallen temporarily due to the effects of Dubai's debt crisis, and then rose, mainly reflecting the release of relatively strong economic indicators. Long-term interest rates in the United States and the United Kingdom had risen, while those in Germany had declined slightly.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had been increasing, due to the improvement in overseas economic conditions. The uptrend in exports was expected to continue, reflecting continued improvement in overseas economic conditions, although the pace of increase was likely to moderate gradually.

Public investment had started to level off and was likely to decrease gradually.

With regard to domestic private demand, the decline in business fixed investment had been coming to a halt. Although business fixed investment was expected to pick up gradually, it was likely to remain more or less unchanged for the time being, with corporate profits remaining at a low level and the sense of excessive capital stock being strong.

Private consumption, notably durable goods consumption, was picking up mainly due to policy measures, despite the continued severe employment and income situation. Meanwhile, the pace of improvement in indicators of consumer confidence had recently been decelerating, and some indicators had deteriorated. Private consumption, notably durable goods consumption, was likely to continue to pick up for the time being mainly due to policy measures, despite the severe employment and income situation.

Housing investment had decreased. The decline was expected to come to a halt at a gradual pace, given the recent developments in housing starts.

Production had been increasing, reflecting progress in inventory adjustments and policy effects, both at home and abroad. It was likely to continue rising as a trend in parallel with exports, although the pace of increase was expected to moderate gradually.

The employment and income situation had remained severe, with a high unemployment rate and a significant decline in household income. Household income was likely to continue decreasing substantially for the time being, considering the lagged effects from developments 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 slightly negative, mainly due to the slack in supply and demand conditions for products. The CGPI was likely to be soft for the time being due to the persistent slack in supply and demand conditions for products, although the rise in commodity prices was expected to exert an upward pressure. The year-on-year rate of change in the CPI (excluding fresh food) had declined, 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. The pace of decline in the CPI (excluding fresh food) was expected to moderate as the effects of the lower prices of petroleum products abated.

2. Financial environment

The financial environment, with some lingering severity, had continued to show signs of improvement. The overnight call rate had remained at an extremely low level, and firms' funding costs had declined somewhat. The stimulative effects from low interest rates were still constrained by the low levels of economic activity and corporate profits, but the degree of constraint had begun to moderate. 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 remained 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 this backdrop, the year-on-year rate of increase in bank lending had declined, partly due to the high growth of a year before. The amount outstanding of corporate bonds had exceeded the previous year's level, while that of CP had declined. In these circumstances, although many firms, mainly small ones, still saw their financial positions as weak, on the whole firms' financial positions had continued to improve. Meanwhile, the year-on-year rate of change in the money stock had been in the range of 3.0-3.5 percent.

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

A. Economic Developments

Members shared the view that overseas economies were recovering moderately and this trend was likely to continue. Some members said that the pace of economic growth showed regional differences: it remained rapid in emerging economies, especially those in Asia, while it was noticeably sluggish in European economies.

Regarding risks to the outlook for overseas economies, some members noted the importance of recognizing the possibility that an increase in capital inflow from advanced economies that maintained their accommodative monetary policy stance might lead to stronger-than-expected growth and a subsequent downturn in emerging economies. Some members expressed the view that, particularly in the United States and European advanced economies burdened with balance-sheet adjustments, the pace and sustainability of economic recovery after the effects of policy measures had abated remained highly uncertain.

On the state of global financial markets, one member, referring to narrow spreads on U.S. dollar-denominated term instruments, said that U.S. and European money markets remained stable. Many members expressed the view that stock prices and foreign exchange rates were temporarily volatile in response to Dubai's debt crisis in late November, but recently regained stability partly because market uncertainty about debt repayment had subsided. One member was of the opinion that capital inflow to emerging economies was likely to continue for the time being, as investors had not lost much of their risk appetite.

Meanwhile, some members pointed to the downgrading of Greece's sovereign debt ratings and the sluggishness in Central and Eastern European economies as factors that might make global financial markets unstable. These members commented that a potential return to a situation in which market participants became increasingly risk averse might result in financial developments adversely affecting economies with weak fundamentals.

Members concurred that U.S. economic activity was picking up and was likely to continue improving. Many members said that home sales continued to increase and home prices continued to pick up. One member added that the housing market was likely to remain on a recovery trend for the time being, partly due to the extended deadline of the tax credit for first-time homebuyers until end-June 2010. Meanwhile, a different member, noting that housing inventories remained elevated, said that it was necessary to pay due attention to whether the housing market would continue recovering steadily. Many members commented that private consumption was increasing, albeit moderately, backed by the rise in stock prices and the pick-up in home prices. Some members said that some indicators suggested improvement in the employment situation: production had continued to increase mainly due to progress in inventory adjustments, and the pace of decrease in the number of employees moderated noticeably in November. Many members expressed a cautious view, however, saying that the pace at which improvement in the corporate sector would spill over to the household sector was likely to remain moderate, given that the employment and income situation remained severe, with the average duration of unemployment marking a historical high. Some members said that deterioration in the quality of consumer loans and declines in commercial real estate prices continued to warrant close attention, as these might reintensify an adverse feedback loop between financial and economic activity.

With regard to the economy of the euro area, many members said that economic conditions had started to pick up on the back of an increase in exports to outside the euro area and stimulus measures by governments in the area. Many members, however, were of the view that economic recovery in the euro area was lagging behind that in the United States and other countries, as private consumption, business fixed investment, and other domestic demand in the area had remained weak. Some members expressed the view that the pace of economic recovery was likely to remain moderate, mainly due to the continued lack of momentum to support self-sustaining recovery in private demand and to low expectations for additional stimulus measures by the governments within the euro area in a severe fiscal situation. Some members noted that the growth rates in bank lending and the broad monetary aggregate M3 had decreased substantially. These members expressed the opinion that careful attention should be paid to the possible effects of these developments on economic activity in the euro area, given the significance of indirect financing.

Members agreed that the Chinese economy had continued to grow at a relatively rapid pace, led mainly by domestic demand. Some members said that the rapid growth of the economy was likely to continue for the time being, given that the Chinese authorities had explicitly stated their intention to maintain the current expansionary macroeconomic policy in 2010. Meanwhile, some members expressed the opinion that the risk could not be ruled out that an overheating in financial and economic activity might lead to a surge in home prices and a rise in inflation. In this regard, a few members, noting that the Chinese authorities had started to take some stronger measures to prevent the emergence of an economic bubble, such as a review of tax exemption on private home sales, said that attention should be paid to China's future policy conduct.

Members were of the view that economic conditions in the NIEs and the ASEAN countries had continued to recover as private consumption and business fixed investment, in addition to exports and production, had clearly been on an uptrend. One member said that the self-sustaining virtuous circle of growth in production, income, and spending appeared to have begun, reflecting progress in inventory adjustments both at home and abroad and expansion of trade.

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 was picking up, against the background of an increase in exports and production and a pick-up in private consumption. They also agreed that the results of the December 2009 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) indicated that firms, especially large manufacturers, saw their business conditions as having improved moderately. Many members, however, attributed the pick-up in the economy to large-scale demand-boosting policy measures and progress in inventory adjustments, both at home and abroad, and said that there was not yet sufficient momentum to support self-sustaining recovery in domestic private demand.

As for the outlook, members agreed that the economy was likely to continue improving as exports and production would probably remain on an uptrend. Some members, however, said that the pace of improvement was likely to slow through the middle of fiscal 2010, since the effects of inventory restocking and economic stimulus measures were likely to wane. In relation to this, one member expressed the view that the slowdown in the pace of economic growth had already been projected in the October 2009 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report), and therefore did not imply a revision to the scenario for economic recovery at this stage. This member continued that, taking into account the fact that the production level had recovered to only about 80 percent of its peak, and that many firms had not yet been able to find a way to achieve medium- to long-term growth, it should be kept in mind that the economy would be highly vulnerable to negative shocks through the middle of fiscal 2010.

Meanwhile, some members referred to the market's and the media's relatively subdued reaction to the results of the December *Tankan*. One member said that interviews with managers of firms surveyed hinted at a lack of confidence, even though in the December *Tankan* they responded that they saw their business conditions as having improved. Some members said that these issues and the recent deterioration in the results of the *Economy Watchers Survey* suggested that developments in global financial markets and widespread discussions about deflation might be negatively affecting business and consumer confidence. A few members said that the lack of business and consumer confidence might be reflecting the anxiety regarding their inability to envisage the future of Japan's economy and find business growth strategies. In this regard, some members underscored the importance of tackling the fundamental issue of strengthening the growth potential of Japan's economy, which would also contribute to overcoming deflation.

Regarding developments in each demand component, members agreed that <u>exports</u> had been increasing, mainly due to the improvement in overseas economic conditions, and the uptrend was likely to continue.

Many members shared the view that <u>public investment</u> had recently started to level off, as evidenced by the amounts committed to completed and newly contracted public works, and was likely to decrease gradually.

Members agreed that the decline in <u>business fixed investment</u> had been coming to a halt. Many members referred to the fact that, although the results of the December

Tankan indicated that firms, especially manufacturers, were maintaining a cautious investment stance, the aggregate supply of capital goods -- a coincident indicator of business fixed investment -- had started to pick up and machinery orders and construction starts in terms of floor area -- leading indicators of business fixed investment -- had stopped declining. As for the outlook, some members were of the view that business fixed investment was likely to remain more or less unchanged for the time being, with corporate profits remaining at a low level and the sense of excessive capital stock being strong. One member added that the recent appreciation of the yen was one reason for firms, especially manufacturers, to keep their cautious stance on domestic investment.

Members concurred that private consumption, notably durable goods consumption, continued to pick up mainly due to policy measures, despite the continued severe employment and income situation. Some members were of the view that this trend was likely to continue for the time being. Some members said that it was important to examine closely the extent to which the large decline in winter bonus payments and recent deterioration in consumer confidence would affect year-end sales and private consumption thereafter.

Members agreed that production had been increasing, reflecting progress in inventory adjustments and policy effects, both at home and abroad. Some members said that interviews with firms suggested that production as a whole was likely to increase noticeably in the October-December quarter, although the pace of improvement in production of some goods, such as cars and electronic parts, would probably be moderate. With respect to production after the turn of the year, some members said that, although an uptrend was likely to continue, the pace of increase would probably slow temporarily reflecting the waning effects of inventory restocking and various policy measures. One member said that the extent of the slowdown was still highly uncertain since it largely depended on the results of Christmas and year-end sales.

Members shared the view that the employment and income situation had remained severe, with a high unemployment rate and a significant decline in household income. A few members said that firms still saw the number of their employees as excessive -- although to a lesser extent, according to the results of the December *Tankan* -- and it would take time for employment to recover even with a continued pick-up in the economy.

Many members said that the year-on-year rate of change in the CPI (excluding fresh food) had declined, 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 were of the view that the impact of the deterioration in the supply and demand balance in the economy as a whole had been observed in the form of a marginally faster year-on-year decline in the CPI for all items less energy and food, and of a continued decline in prices of wide-ranging items. As for the outlook, some members were of the view that the pace of decline in the CPI (excluding fresh food) was likely to moderate significantly, to a range of minus 1.0 to minus 1.5 percent, toward the year-end as the effects of the lower prices of petroleum products abated. On the subject of price developments after the year-end, many members commented that deceleration in the decline in the CPI was likely to be very slow because economic recovery would probably be only moderate. One member said that private-sector economists had revised their medium- to long-term inflation forecasts slightly downward. A few members said this did not mean that firms' and households' medium- to long-term inflation expectations were on a similar downtrend, but recent economic and price developments stressed the importance of continuing to closely monitor developments in their inflation expectations.

B. Financial Developments

Members concurred that the financial environment, with some lingering severity, had continued to show signs of improvement.

As for interest rates on term instruments, many members noted that longer-term interest rates, such as yields on government bills and longer-term interbank rates, had declined further since the unscheduled Monetary Policy Meeting on December 1. Some members added that the risk premium embedded in interest rates on term instruments maturing beyond the calendar year-end and fiscal year-end had been stable. Many members said this demonstrated that the new funds-supplying operation, whereby funds were provided at a fixed rate against pooled collateral, had already begun to take effect. A few members commented that a close monitoring of how such monetary easing effects impacted on firms' funding costs was necessary.

Many members said that issuing conditions for CP had remained favorable as a whole, with an increase in the amount outstanding of CP of all ratings, although issuance rates on CP of some industries such as construction had risen somewhat due to the effects of Dubai's debt crisis. Many members said that issuing conditions for corporate bonds had remained favorable, except for low-rated bonds, as seen in the narrowing of credit spreads and the increase in the number of firms issuing bonds. One member was of the opinion that, in light of this situation, the market seemed to have smoothly accepted the advance notice provided in October about the completion of outright purchases of CP and corporate bonds.

Members shared the view that firms' financial positions had continued to improve, although many firms, mainly small ones, still saw their financial positions as weak.

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, many members expressed the view that, in order for Japan's economy to return to a sustainable growth path with price stability, the Bank should continue to consistently make contributions as central bank. Members concurred that in its conduct of monetary policy the Bank should aim to maintain the extremely accommodative financial environment.

Members discussed the "understanding of medium- to long-term price stability" (the level of inflation that each member of the Policy Board understood, when conducting monetary policy, as being consistent with price stability over the medium to long term; hereafter "understanding"), which was expressed in terms of the year-on-year rate of change in the CPI. One member said that, in order for the new measure decided at the previous meeting on December 1 to be fully effective in enhancing easy monetary conditions, the public needed to gain an accurate and solid understanding of the Bank's underlying thinking on price stability. This member then noted the possibility that the current "understanding," which fell in the range of "approximately between 0 and 2 percent," might have given an impression that the Bank tolerated a year-on-year rate of change in the CPI equal to or below 0 percent. A different member added that the phrase specifying that most Policy Board members' median figures were at around 1 percent -- which formed part of the current "understanding" -- was also somewhat unclear to the public and market, although such a phrase might not be avoidable in light of the need to summarize each member's "understanding" under the Policy Board's collegial decision-making system. Based on this discussion, members concurred that clearer expression of the "understanding" would enable the public and market to gain sufficient insight into the Bank's thinking on price stability and its conduct of monetary policy.

Members discussed the specific wording of the "understanding." Many members said that the main points to be considered in discussing the figures that represented the "understanding" had not significantly changed from the previous discussion in April: measurement bias in the CPI; a "safety margin" that acted as a buffer against the risk of falling into a vicious circle of declining prices and deteriorating economic activity; and the level of inflation that firms and households perceived as consistent with price stability. These members then said that they had not changed the level of inflation each of them understood as being consistent with price stability over the medium to long term. One of these members added that, in the current deflationary situation, the CPI inflation rate that the member considered favorable in the relatively short run would be higher than the rate that fell within the range of the "understanding." Some members emphasized that an inflation rate of 0 percent or below was not included in their "understanding." Based on this discussion, some members advocated a clear statement that the Policy Board did not tolerate a year-on-year rate of change in the CPI equal to or below 0 percent and the midpoints of most Policy Board members' "understanding" were around 1 percent. On this basis, members agreed that it was appropriate to use the following clearer expression: each Policy Board member's "understanding" fell in a positive range of 2 percent or lower and the midpoints of most Policy Board members' "understanding" were around 1 percent.

One member said that the clearer expression of the "understanding" might strengthen the functioning of the "understanding" in terms of anchoring medium- to long-term inflation expectations. A different member said that the public's more solid understanding of the Bank's thinking on price stability -- and of the Bank's outlook for economic activity and prices presented in the Outlook Report and the future conduct of monetary policy announced after each Monetary Policy Meeting -- would have some impact on the formation of interest rates in financial markets. On this point, another member said that use of the clearer expression was intended to better express Policy Board members' current thinking on price stability and was not aimed at the so-called policy duration effect, and that there was uncertainty regarding the degree to which use of the clearer expression would affect interest rates. On the other hand, some members expressed the view that the clearer expression of the "understanding" might be effective in stabilizing interest rate formation in financial markets in a way different from the Bank's commitment in terms of policy duration during the period of quantitative easing. They continued that the market might see use of the clearer expression as having some effect on its expectations regarding policy duration, and that such a view might be acceptable.

In addition to the aforementioned discussion, many members said the Bank should explicitly state that use of the clearer expression of the "understanding" did not represent a change in the current monetary policy framework: the Bank, while keeping in mind the "understanding," would conduct monetary policy based on assessments of economic and price developments from the "two perspectives." Regarding this point, some members expressed the view that, based on the experience of the recent global financial crisis, it was necessary not only to attach importance to securing stability in prices measured by the CPI but also to make wide-ranging assessments of risk factors, including accumulation of financial imbalances observed in, for example, asset prices and credit aggregates.

IV. Remarks by Government Representatives

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

(1) The Japanese economy had been picking up, but the situation remained difficult as evidenced by the high unemployment rate and the downtrend in prices. As for short-term prospects, causes for concern included the further worsening of the employment situation and increasing downward pressure on the economy from the appreciation of the yen and deflation.

(2) The government had set out the "Emergency Economic Countermeasures for Future Growth and Security," and the Cabinet decided the related supplementary budget for fiscal 2009 on December 15. The government would implement the supplementary budget and the budget for fiscal 2010 in an integrated and seamless manner to prevent another economic downturn and achieve a steady economic recovery.

(3) The government expected the Bank to continue to support the economy from the financial side by conducting monetary policy in an appropriate and flexible manner,

while working together with the government.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy had been picking up, but the situation remained difficult.

(2) On December 8, the Cabinet decided the "Emergency Economic Countermeasures for Future Growth and Security." On December 15, it also decided the guidelines for formulating the budget, specifying the areas of priority in the budget allocation for fiscal 2010 and making clear its plan to formulate a new growth strategy by the end of 2009. The government would thereupon tackle the difficult economic and employment situation to secure economic recovery, and strengthen the growth potential of the economy and maintain fiscal discipline, with the aim of achieving sustainable economic growth.

(3) In order to gain public acknowledgement that an economic recovery was underway, the government recognized the importance of overcoming deflation. Holding this view jointly with the Bank, the government would work together with the Bank to ensure economic recovery and overcome deflation.

(4) The government hoped that the Bank would continue to underpin the economy by conducting monetary policy in an appropriate and flexible manner, while sufficiently exchanging views and working together with the government.

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. 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 1).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of November 19 and 20, 2009 for release on December 24, 2009.

VIII. Approval of the Scheduled Dates of the Monetary Policy Meetings in January-December 2010

At the end of the meeting, the Policy Board approved the dates of the Monetary Policy Meetings to be held in the period January-December 2010 for immediate release (see Attachment 2).

Attachment 1

December 18, 2009

Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by a unanimous vote,[6] to set the following guideline for money market operations for the intermeeting period:

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

2. Japan's economy is picking up mainly due to various policy measures taken at home and abroad, although there is not yet sufficient momentum to support a self-sustaining recovery in domestic private demand. Exports and production have been increasing against a backdrop of progress in inventory adjustments both at home and abroad as well as an improvement in overseas economies, especially a recovery in emerging economies. Business sentiment, especially at large manufacturing firms, has been improving moderately. The decline in business fixed investment has been coming to a halt. Private consumption, notably durable goods consumption, is picking up mainly due to policy measures, despite the continued severe employment and income situation. Public investment has started to level off. Meanwhile, the financial environment, with some lingering severity, has continued to show signs of improvement. The year-on-year rate of change in the CPI (excluding fresh food) has declined, mainly due to the prices of petroleum products, which are lower than their high levels a year ago,

[6] Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. T. Noda, Mr. S. Nakamura, and Mr. H. Kamezaki.
Voting against the action: None.

in addition to the substantial slack persisting in the economy as a whole.

3. The Bank's baseline scenario projects that the pace of improvement of the economy is likely to remain moderate until around the middle of fiscal 2010. Thereafter, as improvements in the corporate sector originating from exports are expected to spill over to the household sector, the growth rate of the economy is likely gradually to rise. With regard to prices, assuming that medium- to long-term inflation expectations remain stable, the year-on-year rate of decline in the CPI (excluding fresh food) is likely to moderate as the effects of the changes in the prices of petroleum products abate.

4. With regard to economic activity, while there are some upside risks, such as economic developments in emerging and commodity-exporting economies, there remain downside risks, although somewhat diminished; downside risk factors include the possible consequences of balance-sheet adjustments in the United States and Europe as well as potential changes in firms' medium- to long-term growth expectations. For the time being, attention should continue to be paid to the risk that international financial developments might adversely affect economic activity, for example through their impact on business sentiment. With regard to prices, there is a possibility that inflation will rise more than expected due to a rise in commodity prices brought about by higher growth rates in emerging and commodity-exporting economies. On the other hand, there is also a risk that the rate of inflation might decline due, for example, to a decline in medium- to long-term inflation expectations.

5. 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 consistently make contributions as central bank. In the conduct of monetary policy, the Bank will aim to maintain the extremely accommodative financial environment.

6. Based on the above recognition, the Policy Board discussed the "understanding of medium- to long-term price stability" (hereafter "understanding"[7]), which is expressed in terms of the year-on-year rate of change in the CPI. The Policy Board has concluded that it is appropriate to further disseminate the Bank's thinking on price stability, by stating more clearly that the Policy Board does not tolerate a year-on-year rate of change in the CPI equal to or below 0 percent and that the midpoints of most Policy Board members' "understanding" are around 1 percent.

7. On this basis, the Policy Board has agreed that each Policy Board member's "understanding" falls in a positive range of 2 percent or lower, and the midpoints of most Policy Board members' "understanding" are around 1 percent.

8. Based on the experience of the recent global financial crisis, it has been increasingly recognized around the world that, in order to realize sustainable economic growth with price stability, it is necessary to make wide-ranging assessments of risk factors, including accumulation of financial imbalances observed in, for example, asset prices and credit aggregates. The Bank, while keeping in mind the above "understanding," will strive for proper conduct of monetary policy, based on assessments of the economic and price developments from the "two perspectives"[8] with due attention to various risk factors.

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[7] The "understanding," reviewed in April 2009, was expressed in terms of the year-on-year rate of change in the CPI and fell in the range approximately between 0 and 2 percent, with most Policy Board members' median figures at around 1 percent.

[8] The first perspective involves assessing the most likely outlook for economic activity and prices. The second perspective assesses the risks considered most relevant to the conduct of monetary policy, including risks that have a longer time horizon than the first perspective.

Attachment 2

December 18, 2009

Bank of Japan

Scheduled Dates of Monetary Policy Meetings in January-December 2010

	Date of MPM	Publication of MPM Minutes	Publication of Outlook Report (The Bank's View)	(Reference) Publication of Monthly Report
Jan. 2010	25 (Mon.), 26 (Tue.)	Feb. 23 (Tue.)	--	27 (Wed.)
Feb.	17 (Wed.), 18 (Thur.)	Mar. 23 (Tue.)	--	19 (Fri.)
Mar.	16 (Tue.), 17 (Wed.)	Apr. 12 (Mon.)	--	18 (Thur.)
Apr.	6 (Tue.), 7 (Wed.)	May 10 (Mon.)	--	8 (Thur.)
	30 (Fri.)	May 26 (Wed.)	30 (Fri.)	--
May	20 (Thur.), 21 (Fri.)	June 18 (Fri.)	--	24 (Mon.)
June	14 (Mon.), 15 (Tue.)	July 21 (Wed.)	--	16 (Wed.)
July	14 (Wed.), 15 (Thur.)	Aug. 13 (Fri.)	--	16 (Fri.)
Aug.	9 (Mon.), 10 (Tue.)	Sep. 10 (Fri.)	--	11 (Wed.)
Sep.	6 (Mon.), 7 (Tue.)	Oct. 8 (Fri.)	--	8 (Wed.)
Oct.	4 (Mon.), 5 (Tue.)	Nov. 2 (Tue.)	--	6 (Wed.)
	28 (Thur.)	Nov. 19 (Fri.)	28 (Thur.)	--
Nov.	15 (Mon.), 16 (Tue.)	Dec. 27 (Mon.)	--	17 (Wed.)
Dec.	20 (Mon.), 21 (Tue.)	To be announced	--	22 (Wed.)

Note: The time of release will be, in principle, as follows.

MPM Minutes will be released at 8:50 a.m.

Outlook for Economic Activity and Prices (Outlook Report):

"The Bank's View" in the Outlook Report will be released at 3:00 p.m., and the full text at 2:00 p.m. on the next business day. As an exception to this principle, the full text of *the April 2010 Outlook Report* will be released at 2:00 p.m. on May 1 (Sat.), 2010.

Monthly Report of Recent Economic and Financial Developments (Monthly Report):

The Japanese original and the English translation for summary will be released at 2:00 p.m. (the English translation for the full text will be published at 4:30 p.m. on the next business day).