Not to be released until 8:50 a.m. Japan Standard Time on Tuesday, March 23, 2010.

March 23, 2010

Bank of Japan

Minutes of the Monetary Policy Meeting

on February 17 and 18, 2010

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

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Wednesday, February 17, 2010, from 2:00 p.m. to 4:27 p.m., and on Thursday, February 18, from 9:00 a.m. to 11:40 a.m.[1]

Policy Board Members Present

Mr. M. Shirakawa, Chairman, Governor of the Bank of Japan
Mr. H. Yamaguchi, Deputy Governor of the Bank of Japan
Mr. K. G. Nishimura, Deputy Governor of the Bank of Japan
Ms. M. Suda
Mr. T. Noda
Mr. S. Nakamura
Mr. H. Kamezaki

Government Representatives Present

Mr. S. Kagawa, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance
Mr. K. Umetani, Deputy Director-General, Economic and Fiscal Management, Cabinet Office

Reporting Staff

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

[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on March 16 and 17, 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.

Secretariat of the Monetary Policy Meeting

Mr. Y. Iino, Director-General, Secretariat of the Policy Board

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

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

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

I. Summary of Staff Reports on Economic and Financial Developments[2]

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 January 25 and 26, 2010.[3] 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 steady provision of funds maturing over the fiscal year-end through such operations as the fixed-rate funds-supplying operation against pooled collateral.

B. Recent Developments in Financial Markets

In Japan's money market, interest rates, including longer-term ones, had been stable at low levels, amid increased market confidence in the Bank's provision of ample funds. General collateral (GC) repo rates had been stable in the range of 0.10-0.15 percent. Interest rates on term instruments showed the following developments. Yields on treasury discount bills (T-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 stable at low levels. Euroyen rates with longer maturities had been on a declining trend, although the rates had remained at relatively elevated levels compared with the yields on T-Bills.

Japanese stock prices declined, reflecting weak U.S. and European stock prices. 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 had been more or less unchanged and had recently been in the range of 1.30-1.35 percent.

The value of the yen remained more or less unchanged against the U.S. dollar and had recently been around 90 yen to the dollar.

C. Overseas Economic and Financial Developments

The world economy had continued to recover moderately.

The U.S. economy was recovering, albeit at a moderate pace. Private

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

[3] The guideline was as follows:

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

consumption was increasing moderately, amid reduced downward pressure on home prices. Exports were increasing, and the decline in business fixed investment as a whole was coming to a halt. Reflecting such developments in demand, production was recovering moderately. In the labor market, the pace of decrease in the number of employees was slowing, and upward pressure on the unemployment rate was weakening. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items had risen as the effects of the drop in energy prices had dissipated. The year-on-year rate of increase in the CPI for all items less energy and food, or the core CPI, had declined moderately against the backdrop of slack in supply and demand conditions and slower growth in wages.

Economic activity in the euro area was picking up, with some differences in growth by country. Private consumption had been relatively weak as a whole, while production had been picking up as exports improved and the pace of decline in business fixed investment moderated. As for prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) for all items had risen slightly, reflecting developments in the energy prices. The U.K. economic activity had started to pick up.

The Chinese economy had continued to grow at a relatively rapid pace, led mainly by domestic demand. Growth in private consumption had been firm, fixed asset investment had been increasing although at a slower pace, and exports had been rising. Under these circumstances, production had continued to increase. With regard to prices, the year-on-year pace of increase in the CPI had accelerated. 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.

As for global financial markets, interest rates on term instruments had been more or less unchanged at low levels. In the United States and Europe, stock prices had fallen, partly reflecting increased concerns about fiscal deficits in some European countries, and long-term interest rates had declined due to a flight to quality but rose thereafter.

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 was leveling 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. It was likely to remain more or less unchanged for the time being amid the severe employment and income situation, despite the underpinning effect of policy measures.

There were some signs that housing investment had stopped decreasing. It was likely to gradually start showing clearer evidence of leveling out, given the recent developments in housing starts.

Production had been increasing. 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 had been on a rising trend since the beginning of 2009, but had recently fallen slightly. The three-month rate of change in the domestic corporate goods price index (CGPI) had recently risen somewhat, reflecting the earlier increase in commodity prices, in spite of the persistent slack in supply and demand conditions for products. The CGPI was likely to rise somewhat or remain more or less unchanged for the time being. The CPI (excluding fresh food) had been declining on a year-on-year basis due to the substantial slack in the economy as a whole, but the pace of decline had been moderating mainly reflecting developments in the prices of petroleum products. The year-on-year pace of decline in the CPI was likely to remain more or less unchanged for the time being, and then moderate as the aggregate supply and demand balance improved gradually.

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 the declining trend in the firms' funding costs had continued. 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, bank lending had declined on a year-on-year basis, 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 at around 3 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 expressed the opinion that the recovery in advanced economies was brought about by the effects of inventory restocking and policy measures, and that there was not yet sufficient momentum to support self-sustaining recovery. These members said that the pace of recovery in those economies was likely to remain only moderate as balance-sheet adjustment pressure continued to weigh on economic activity. Some members were of the view that emerging economies were growing at a rapid pace as the virtuous circle of growth in production, income, and spending remained intact, and this trend was likely to continue.

On the state of global financial markets, many members commented that risk aversion had increased among investors mainly due to the fiscal deficit problem in some

European countries, developments in the international review of financial regulation, and adjustments to accommodative monetary policy in emerging economies, and that this had led to a decline in stock prices and widening of corporate bond spreads. One member said that investors were becoming more cautious about taking on risks and were purchasing financial instruments with shorter maturities, and thus there was a risk that even a small shock might trigger a series of price falls in many markets, as market liquidity had not fully recovered. Some members expressed the view that the emergence of the fiscal deficit problem in some European countries had directed market attention to fiscal conditions worldwide, including Japan, and it had become crucial for every country to maintain market confidence in the future course of fiscal consolidation in the medium to long term. Based on this discussion, members shared the view that developments in various issues concerning global financial markets and their possible effects continued to warrant close attention.

Many members were of the view that the U.S. economy was recovering, albeit at a moderate pace. Some members said that exports and production were increasing, and the decline in business fixed investment was coming to a halt. Some members were of the opinion that private consumption was expanding at a moderate rate. A few members noted that, although housing starts increased in January, housing investment could not be judged to have leveled out clearly, given the high level of housing inventories. Some members said that there were signs of improvement in the employment situation, such as the smaller decrease in the number of employees and the leveling-off of the unemployment rate, but the deterioration in employment conditions had not come to a halt, as evidenced, for example, by a historically high average duration of unemployment. As for the outlook, many members were of the view that the U.S. economy would continue to recover. At the same time, these members expressed the opinion that the pace of recovery would remain only moderate due to the following factors: (1) it would take considerable time for employment conditions to recover; (2) adjustment pressure on households' balance sheets would persist; and (3) financial institutions' lending attitudes would remain severe due to slow progress in their balance-sheet adjustments amid the continued declines in commercial real estate prices. Meanwhile, one member noted that attention should be paid to possible effects that the scheduled completion of the Federal Reserve's purchases of agency mortgage-backed securities might have on mortgage rates. As for prices, one member expressed the view that housing costs had been declining significantly, reflecting the fall in home prices, and that the impact this would have on overall prices warranted attention. A different member, pointing to goods prices, said that they might restrain a fall in overall prices because U.S. manufacturers had been setting prices with a focus on maintaining profitability.

With regard to the economy of the euro area, members said that economic activity was picking up on the back of an increase in exports to outside the euro area and stimulus measures by governments in the area. Many members expressed the view that the pace of economic recovery in the euro area had lagged even behind the moderate pace in the United States and other countries, since the recovery in domestic demand of the area still lacked momentum. Some members said that there was a risk that the fiscal deficit problem in some European countries might lead to a reduction in fiscal expenditures for the purpose of fiscal consolidation, as well as to disruptions in financial markets, thereby slowing the pace of growth in the area, where momentum for recovery remained weak.

Members agreed that the Chinese economy had continued to grow at a relatively rapid pace, led mainly by domestic demand, and this trend was likely to continue. Some members, however, said that there were concerns about an overheating in the economy, as exemplified by the fact that the pace of increase in consumer prices had accelerated and real estate prices had risen further on the back of the continued rapid growth in the amounts outstanding of bank lending and monetary aggregates. One of these members added that recent developments in real estate prices in China -- where the prices were rising faster inland than in the coastal area -- resembled the situation in Japan during the final phase of a bubble in the late 1980s, when the rise in land prices was faster in areas other than the Tokyo metropolitan area. Regarding China's macroeconomic policy, one member expressed the opinion that local governments continued to actively promote development projects even after the People's Bank of China had raised the reserve requirement ratio, and thus there was a risk that a shift in the macroeconomic policy taken as a whole would fall behind the timing considered to be appropriate. Based on this discussion, some members said that careful attention should be paid to developments in China's macroeconomic policy, including monetary policy, and their possible effects.

Based on the above discussions on economic and financial conditions abroad, members discussed the state of Japan's economy. They concurred that the 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 improvement in the economy had been underpinned by various policy measures taken at home and abroad and by inventory restocking, and there was not yet sufficient momentum to support self-sustaining recovery in private demand. Some members commented that these economic developments were generally in line with the interim assessment made in January 2010. However, a few members were of the view that growth prospects for fiscal 2009 had shifted slightly upward compared with the assessment, reflecting strong exports to Asia.

As for the outlook, members shared the view that the pace of improvement of the economy was likely to moderate temporarily due to the waning effects of inventory restocking and various demand-boosting policy measures. They concurred that the economic growth rate was likely to rise gradually from around the middle of fiscal 2010 as a virtuous circle of growth, originating from growth in exports, operated in production, income, and spending. Meanwhile, a few members said that close attention should be paid to the developments and possible impact on the economy of a major automaker's recall problem.

With regard to the balance of risks, some members were of the view that upside and downside risks were becoming balanced. A few members noted that there were considerable downside risks to the economy. One of these members said that the economy would remain highly vulnerable to negative shocks, particularly until around summer 2010, and this warranted attention. Some members commented that there was a risk that the virtuous circle would not operate smoothly, contrary to expectation, because firms might reduce domestic fixed investment for the sake of increasing outward direct investment and also because their persistent stance of restraining wages might lead to sluggish growth in household income. One member expressed the view that upside and downside risks were balanced as a whole, and said that not only downside risks but also a bubble in emerging economies and upside risks to commodity prices warranted attention.

Turning to developments in each demand component, many members were of the view that <u>exports</u> had been increasing, mainly due to the improvement in overseas economic conditions, and the uptrend was likely to continue, reflecting continued improvement in overseas economic conditions, although the pace of increase was likely to moderate gradually.

Some members said that <u>public investment</u> was leveling off and was likely to decrease gradually.

Members agreed that the decline in business fixed investment had been coming to a halt. Some members said that business fixed investment showed clearer evidence of leveling out: machinery orders, which had decreased significantly in November 2009, increased more than expected in December, and the figure for business fixed investment in the first preliminary estimates of GDP rose in the October-December quarter of 2009 from the previous quarter. However, a few members raised the possibility that firms might be less willing than anticipated to increase capital spending within Japan, given the decrease in fixed investment by nonmanufacturing firms and the expansion of outward fixed investment by manufacturing firms.

Some members expressed the view that private consumption, notably durable goods consumption, continued to pick up mainly due to policy measures. A few members expressed the opinion that the policy effects of boosting consumer spending had been decreasing, as evidenced by the decline in car sales. One member said that consumer spending would have decreased in the absence of the policy effects, and that the underlying trend of consumer spending had not improved. As for the outlook, a few members held the view that private consumption was likely to lack momentum for recovery amid the severe employment and income situation.

Members agreed that production had been increasing, and was likely to continue rising as a trend, although the pace of increase was likely to moderate gradually.

Many 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 noted that a clear increase in household income was unlikely, given that firms would probably maintain their stance of restraining labor costs.

Members said that the CPI (excluding fresh food) had been declining on a year-on-year basis due to the substantial slack in the economy as a whole, but the pace of decline had been moderating mainly reflecting developments in the prices of petroleum products. They shared the view that the pace of decline in the CPI was likely to remain more or less unchanged for the time being, and then moderate as the aggregate supply and demand balance improved gradually. Many members referred to the fact that the year-on-year decline in the CPI for all items less energy and food accelerated in December 2009. A few of these members, noting an increase in the number of items for which prices had declined, said it was possible that price declines were becoming widespread. A few members said that recent movements in the CPI were slightly weaker than expected in the interim assessment of January 2010. As factors behind this, one member cited the possibility that the impact of the output gap's narrowing on prices was smaller than expected and that medium- to long-term inflation expectations had declined as a result of increased media reports about deflation. A different member argued that medium- to long-term inflation expectations had not declined so far. Based on this discussion, members shared the view that developments in the CPI and medium- to long-term inflation expectations still demanded close monitoring.

B. Financial Developments

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

Some members said that, in the money market, the sense of an abundance of liquidity had grown further due to the Bank's provision of ample funds, and interest rates on term instruments had been more or less unchanged at low levels. A few of these members commented that the risk premium embedded in interest rates on term instruments maturing beyond the fiscal year-end had been marginal. One member expressed the view that the Bank's provision of ample funds had boosted market participants' confidence that they could acquire sufficient funds whenever necessary, and this was reflected in the form of undersubscription in funds-supplying operations against pooled collateral conducted in February.

Members agreed that issuing conditions for CP and corporate bonds had remained favorable, except for low-rated corporate bonds. One member said that differences in issuance spreads on CP among various issuers had recently narrowed again and the average issuance rate on CP had been declining moderately, due to tighter supply and demand conditions for CP. Some members were of the opinion that issuing conditions for low-rated corporate bonds had shown signs of improvement, as evidenced by moderate narrowing of spreads on low-rated bonds in the secondary market and a manufacturer's issuance of such bonds that had been deferred.

As for corporate funding activity, a few members said that bank lending had continued to decline on a year-on-year basis, partly due to the high growth of a year before and reduced demand for funds among firms. 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. Some members -- noting that small firms, particularly very small ones, regarded their financial positions as having deteriorated -- commented that differences in funding conditions according to firm size were widening. One member added that due attention should be paid to developments in funding of very small firms, including possible deterioration.

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. With regard to the effects of such an interest rate policy, a few members expressed the opinion that -- against the background of maintenance of the policy rate at 0.1 percent -- the level of real interest rates was falling due to the slower price declines, and this, along with a recovery in corporate profits, was enhancing the effects of monetary easing. In relation to this argument, some members commented that the size of a central bank's balance sheet did not reflect the degree of monetary easing by the central bank, but rather the magnitude of its country's financial crisis. Based on this discussion, some members underscored the need for the Bank to explain clearly that maintaining the level of nominal interest rates did not mean a pause in the conduct of monetary policy, and that policy effects had become stronger due to improvements in the economic and price situations.

As for the future conduct of monetary policy, members agreed that, in order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, the Bank should continue to consistently make contributions as central bank. They concurred that, in its conduct of monetary policy, the Bank was determined to maintain the extremely accommodative financial environment by providing ample funds to meet market demand and maintaining the extremely low interest rates. Meanwhile, a few members said that corporate managers -- who had not yet been able to establish a medium- to long-term growth strategy, and had grown increasingly frustrated -- had come to attach their expectations to monetary policy. In this regard, some members expressed the view that boosting productivity was vital to achieving a full-fledged economic recovery. These members continued that, to provide support via monetary policy so that the economy could achieve such a recovery, the Bank needed to act swiftly and decisively when such action was deemed necessary.

Members exchanged views on the relationship between the Bank's current framework for the conduct of monetary policy and inflation targeting. Some members said that the experience of the recent financial crisis had provoked a worldwide discussion on how to overcome the bias that, under the framework for inflation targeting, monetary policy tended to be formulated with a focus on short-term price developments. A few of these members expressed the view that monetary policy frameworks employed by individual central banks had come to share common features that had greater flexibility, regardless of whether they adopted inflation targeting, in terms of (1) making public a numerical value regarding price stability, such as a target, a definition, or policymakers' understanding; (2) releasing economic and price forecasts for the subsequent few years; and (3) demonstrating an increased awareness of the need to put more emphasis on achieving stability in economic activity, prices, and the financial system in the medium to long term. In this regard, a few other members added that the Bank's current framework for the conduct of monetary policy could be regarded as a step forward from inflation targeting, as the framework made it possible not only to focus on ensuring price stability but also to take into account various risk factors, including accumulation of financial imbalances, and therefore had already incorporated the points at issue in the recent international discussions.

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 recovery was not autonomous and the situation remained difficult. As for short-term prospects, there were risk factors such as international financial developments, further worsening of the employment situation, and deflation, and the basis for the economy's return to a path of strong private demand-led growth remained fragile.

(2) Faced by the current severe economic conditions, the government, with the aim of overcoming deflation and ensuring economic recovery, would implement the second supplementary budget for fiscal 2009 and the budget for fiscal 2010, which was being deliberated in the Diet, in an integrated and seamless manner.

(3) The government -- while recognizing that the Bank showed its determination to overcome deflation, by making clear at the Monetary Policy Meeting on December 17 and 18, 2009 that it did not tolerate a negative inflation rate -- expected the Bank to continue to support the economy from the financial side, for example, with a view to overcoming deflation, 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) Although the recently released first preliminary estimates of GDP for the October-December quarter of 2009 reflected the pick-up in the Japanese economy, the economic situation remained difficult. As for short-term prospects, attention should be paid to the risks, for example, of further worsening of the employment situation and persistent sluggishness in demand caused by increased deflationary pressure.
(2) It was important that the Bank and the government, with the aim of overcoming deflation, work together to achieve a positive inflation rate as early as possible.
(3) The government would implement the second supplementary budget for fiscal 2009 and the budget for fiscal 2010, in an integrated and seamless manner, in addition to steadily carrying out the "Emergency Economic Countermeasures for Future Growth and Security." It would also put forward additional measures for, as well as draw up concrete plans for, the new growth strategy to create new demand and employment. The government hoped that the Bank -- which had announced at the Monetary Policy Meeting on December 17 and 18, 2009 that it did not tolerate an inflation rate equal to or below 0 percent -- would aim at overcoming deflation and 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).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of January 25 and 26, 2010 for release on February 23, 2010.

Attachment

February 18, 2010

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,[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.

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, fast growth in emerging economies. 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 is leveling off. Meanwhile, the financial environment, with some lingering severity, has continued to show signs of improvement. The CPI (excluding fresh food) has been declining on a year-on-year basis due to the substantial slack in the economy as a whole, but the rate of decline has been moderating mainly reflecting developments in the prices of petroleum products.

[4] 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.

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 aggregate supply and demand balance improves gradually.

4. With regard to economic activity, while there are some upside risks, such as faster growth 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. Attention should continue to be paid to various recent international financial developments and their effects. 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.