Not to be released until 8:50 a.m. Japan Standard Time on Monday, April 12, 2010.

April 12, 2010

Bank of Japan

Minutes of the Monetary Policy Meeting

on March 16 and 17, 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 Tuesday, March 16, 2010, from 2:00 p.m. to 4:13 p.m., and on Wednesday, March 17, from 9:00 a.m. to 12:44 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. 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[2]

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

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on April 6 and 7, 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. T. Kato was present on March 16 for the whole of the session, and on March 17 from 10:44 a.m. to 12:44 p.m.

Mr. T. Sekine, Associate Director-General, Research and Statistics Department

Mr. H. Ono, Director-General, International Department

Secretariat of the Monetary Policy Meeting

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

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

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

Mr. K. Nakamura, Senior Economist, Monetary Affairs Department

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

A. Money Market Operations in the Intermeeting Period

The Bank conducted money market operations in accordance with the guideline decided at the previous meeting on February 17 and 18, 2010.[4] The uncollateralized overnight call rate had been at around 0.1 percent.

With a view to ensuring market stability, the Bank continued to conduct money market operations in a flexible manner in response to changes in the market situation, as evidenced by its 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 as confidence in the Bank's provision of ample funds took hold among market participants. General collateral (GC) repo rates had been stable on the whole at around 0.1 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 rose somewhat, reflecting developments in U.S. and European stock prices. The Nikkei 225 Stock Average had recently been in the range of 10,500-11,000 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. The decline in

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

[4] The guideline was as follows:

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

business fixed investment as a whole was leveling out as exports were increasing and private consumption was expanding at a moderate rate. Reflecting such developments in demand, production was recovering, albeit moderately. In the labor market, the unemployment rate had been more or less unchanged at a high level, and the pace of decrease in the number of employees was slowing. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items had been in the range of 2.5-3.0 percent mainly due to the rise in the year-on-year rate of increase in energy prices. The year-on-year rate of increase in the CPI for all items less energy and food, or the core CPI, had continued to be on a gradual downtrend 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 increased 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) excluding energy and unprocessed food had been declining moderately against the backdrop of slack in supply and demand conditions and slower growth in wages. 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. Partly due to the positive effects of expansionary macroeconomic policy, growth in private consumption had been firm and fixed asset investment had been increasing, although at a slower pace; exports had also been rising. Under these circumstances, production had continued to increase. With regard to prices, the year-on-year rate of increase in the CPI had been on a rising trend due to faster growth in prices of food and energy-related goods. Economic conditions in the NIEs and the ASEAN countries were recovering. Exports and production, notably of IT-related goods, had continued to rise. In addition, private consumption and business fixed investment had been on an increasing trend. 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 risen mainly because some economic indicators were better than market expectations. U.S. and European long-term interest rates had been more or less unchanged.

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 declining, and this trend was likely to continue.

With regard to domestic private demand, business fixed investment was leveling out on the whole. Although business fixed investment was expected to pick up gradually with the improvement in corporate profits, it was likely to remain more or less unchanged for the time being as the sense of excessive capital stock was strong among firms.

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.

The decline in housing investment had been coming to a halt. 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. Household income was likely to continue decreasing for the time being, considering the lagged effects from developments in corporate profits and production.

On the price front, commodity prices, which had fallen through early February, were on a rising trend again. The three-month rate of change in the domestic corporate goods price index (CGPI) had recently risen somewhat, reflecting the increase in commodity prices, in spite of the persistent slack in supply and demand conditions for products. The CGPI was likely to rise somewhat for the time being. The CPI (excluding fresh food) was declining on a year-on-year basis due to the substantial slack in the economy as a whole, but the moderating trend in the pace of decline had continued. 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. With economic activity and corporate profits at current levels, the stimulative effects from low interest rates were still partly constrained, but the degree of constraint had decreased mainly due to the improvement in corporate profits. With regard to credit supply, although many firms still saw financial institutions' lending attitudes as severe, firms as a whole regarded the situation as improving. Issuing conditions for CP and corporate bonds had 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 in the range of 2.5-3.0 percent.

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

A. Economic Developments

Members shared the view that overseas economies had continued to recover moderately, and this trend was likely to continue. Many members said that the world economy had been growing somewhat more rapidly than expected against the background of continued strong growth in emerging economies. Some members expressed the opinion that the recovery in advanced economies had continued to be underpinned by the effects of inventory restocking and policy measures, and that there was not yet sufficient momentum to support self-sustaining recovery in private demand. 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.

Many members were of the view that global financial markets had started to regain stability, mainly because market concerns about the fiscal deficit problem in some European countries had somewhat subsided. However, these members added that the same problem in advanced economies continued to be a matter of concern and financial markets in those economies could remain unstable. Some members, referring to changes in the monetary policy stance in those emerging and commodity-exporting economies for which concerns about overheating had arisen, said that close attention should be paid to how these developments would affect global financial markets.

Many members were of the view that the U.S. economy was recovering, albeit at a moderate pace. Some members said that, in addition to the fact that exports and production were increasing and private consumption was expanding at a moderate rate, the decline in business fixed investment as a whole was leveling out. Many members, however, pointed to weak housing-related indicators, particularly the recent decrease in home sales. These members continued that such developments warranted close attention amid continued severity in the employment and income situation, although they might be temporary against the background of factors such as a drop in demand following a last-minute increase ahead of the expiration of the tax credits for homebuyers, as well as adverse weather conditions. One member commented that weakness among indicators of consumer confidence had been observed recently. 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 severe employment situation had been largely unchanged, as evidenced in particular by the average duration of unemployment remaining more or less in a historically high range. As for the outlook, many members expressed the view that the U.S. economy would continue to be on a recovery trend, but adjustment pressure on balance sheets would persist. As for prices, one member commented that the year-on-year rate of increase in the CPI for all items less food and energy, or the core CPI, had been declining moderately against the backdrop of slack in supply and demand conditions and weak unit labor costs.

With regard to the economy of the euro area, members said that economic activity was picking up, led mainly by an increase in exports to outside the euro area. However, many members expressed the view that the pace of economic recovery in the euro area had remained only moderate, because, amid the continued lack of momentum to support self-sustaining recovery in domestic demand, domestic demand showed some weakness after the policy effects began to wane. 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. Based on this discussion, many members said that careful attention should continue to 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, while these economic developments were generally in line with the interim assessment made in January 2010, recovery had been somewhat more rapid compared with the assessment, reflecting strong exports to Asia.

As for the outlook, many members expressed the view that, considering the strength of the world economy and sustained policy effects, Japan's economic growth -- which they had previously projected could decelerate through the first half of fiscal 2010, against the background of the completion of inventory adjustments and waning of policy effects -- now looked less likely to be significantly slower in the first half of fiscal 2010. Some members said that the basis for a self-sustaining recovery in private demand might be established if the economy achieved relatively high growth in the first half of fiscal 2010.

A few members, however, commented that car production could decrease after provision of subsidies for purchasers of environmentally friendly cars was completed, and that the extent of self-sustaining recovery in private demand at such time remained highly uncertain.

With regard to risk factors for economic activity, some members cited the continuing risk of a possible decline in firms' medium- to long-term growth expectations. A few members commented that there was a risk of slow improvement in business fixed investment and employment because firms might shift more of their production overseas. Meanwhile, some members pointed to an upside factor that exports and production would grow much faster than expected against a backdrop of rapid growth in emerging and commodity-exporting economies.

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.

Members shared the view that <u>public investment</u> was declining, and this trend was likely to continue.

Members agreed that <u>business fixed investment</u> was leveling out on the whole, according to the *Financial Statements Statistics of Corporations by Industry, Quarterly* and the second preliminary estimates of GDP, both for the October-December quarter of 2009. A few members said that machinery orders, excluding those for cellular phones, had started to increase. However, many members, including these members, noted that considerable uncertainty remained regarding firms' stance on capital spending within Japan, given the severe business environment surrounding small firms and the expansion of outward fixed investment by large firms.

Many members expressed the view that <u>private consumption</u>, notably durable goods consumption, continued to pick up mainly due to policy measures. A few members said that the policy effects of boosting consumer spending might be decreasing, as evidenced by the decline in car sales. Some members, however, noted that sales of electrical appliances had continued to increase as a result of such policy effects. As for the outlook, many members held the view that private consumption 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.

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. Some members said that production had recently been growing somewhat faster than expected on the back of steady growth in exports to Asia.

Members shared the view that the employment and income situation had remained severe. Many members said that positive developments had started to be observed: for example, the unemployment rate had been leveling off and the ratio of job offers to applicants had been on an improving trend. At the same time, however, these members said that attention should continue to be paid to the employment situation as these positive developments might be attributable to the effects of policy measures such as employment adjustment subsidies, as well as to month-to-month statistical fluctuations. Many members noted that a clear increase in household income was unlikely, given that firms would probably maintain their stance of restraining labor costs.

Members concurred that the CPI (excluding fresh food) was declining on a year-on-year basis due to the substantial slack in the economy as a whole, although the moderating trend in the pace of decline had continued, and that these developments were broadly in line with the forecast in the interim assessment in January 2010. A few members commented that the year-on-year rate of decline in the trimmed mean CPI, regarded as an indicator of the underlying trend, had been moderating lately. However, one member, noting a continued increase in the number of items for which prices had declined, said that price declines were becoming widespread. As for the outlook, members agreed that 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. One member -- pointing to a considerable time lag before the effects of a recovery in economic activity spread to prices -- said that such effects were likely to become apparent in the near future. Some members, however, said that the pace of price declines would decelerate only moderately, given the modest improvement in supply and demand conditions. One member -- noting that historically prices soared within a short period only at times of surges in commodity prices and changes in the tax system -- commented that it would take time for an improvement in supply and demand conditions to lead to price rises. Regarding risks to prices, some members said that attention should continue to be paid to a possible decline in medium- to long-term inflation expectations. One member expressed the view that attention should also be paid to the upside risk that a surge in commodity prices due to an overheating of emerging and commodity-exporting economies could lead to a higher-than-expected rate of change in Japan's CPI.

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. Some members commented that Euroyen rates with longer maturities had remained at relatively elevated levels compared with the yields on T-Bills, although the rates had been on a declining trend.

Members agreed that issuing conditions for CP and corporate bonds had remained favorable, except for low-rated corporate bonds.

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. One member said that corporate bond issuance and public offering of stocks had subsided amid 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 continuing to be weak -- commented that differences in funding conditions according to firm size were widening. One member noted the possibility that the tight funding conditions of very small firms might reflect a continued severe business environment caused by structural factors.

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, some 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 clear recovery in corporate profits, was enhancing the effects of monetary easing.

Members then discussed <u>the Bank's measure to encourage a decline in longer-term interest rates</u>.

Many members noted the following developments after the introduction of a fixed-rate funds-supplying operation against pooled collateral (hereafter the fixed-rate operation) in December 2009: (1) longer-term interest rates in the money market had generally declined and bank lending rates had fallen further; and (2) there was a somewhat positive effect of preventing deterioration in business confidence. These members continued that (1) taking an additional measure to enhance easy monetary conditions at this point -- when the economy was picking up and the pace of price declines was moderating -- would be effective, and (2) expanding the measure to encourage a decline in longer-term interest rates by substantially increasing the amount of funds to be provided through the fixed-rate operation would contribute to underpinning improvement in economic activity and prices. Some members raised the question of a possible measure of conducting the fixed-rate operation, on the assumption that the Bank would increase the provision of funds through the fixed-rate operation in a situation where the amount outstanding of funds provided by the special funds-supplying operation to facilitate corporate financing (hereafter the special operation) would gradually decline from April as a result of completion of the operation at the end of March.

In response to this question, the staff explained that (1) the amount outstanding of funds provided by the special operation, currently about 5 trillion yen, would gradually decline from April and become nil in June, and (2) the Bank's purchases of CP under repurchase agreements, of which the amount outstanding was about 2 trillion yen, should be brought to normal in the near future given the recent improvement in the CP market. The staff added that one measure that could substitute for these measures and encourage a decline in longer-term interest rates would be an increase by about 10 trillion yen in the total amount of funds to be provided through the fixed-rate operation, to approximately 20 trillion yen.

Many members said that increasing the amount of funds provided through the fixed-rate operation to approximately 20 trillion yen would reaffirm the Bank's stance of continuing to consistently make contributions as central bank in order to return Japan's economy to a sustainable growth path with price stability. Some members were of the view that -- in a situation where the amount outstanding of funds provided by the special operation would gradually decline from April as a result of completion of the operation at the end of March -- a substantial increase in the amount of funds provided through the fixed-rate operation would enhance easy monetary conditions. A few members argued that it was inappropriate to decide an additional measure for such enhancement at this meeting because, for example, recently released economic data were broadly in line with the Bank's economic outlook and Japan's economy was picking up. One of these members said that careful examination was required before taking an additional measure, given the potential impact such a measure would have on the functioning of the market.

Members discussed the Bank's communication to the public. Many members noted that, well before this meeting was held, there were media reports that the Bank was examining an additional measure, prompting various speculations in the market. Some members were of the opinion that media reports made ahead of the meeting and a consequent increase in market speculation might eventually undermine the credibility of the central bank's conduct of monetary policy, irrespective of whether or not the decision made at the meeting was in line with market expectations. Many members expressed the view that (1) monetary policy should be conducted solely based on the assessment of economic activity and prices in the medium to long term, and (2) even if the Bank made a decision contrary to prior media reports and market speculation, it could secure public confidence by clearly explaining its assessment of economic activity and prices and its thinking behind the conduct of monetary policy. Based on this discussion, members concurred that the Bank should be even more careful in its communication to the public.

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. Many members said that the expansion of the measure to encourage a decline in longer-term interest rates was also in line with this principle. Members concurred that, in the conduct of monetary policy, the Bank would continue to aim at maintaining the extremely accommodative financial environment.

IV. Remarks by Government Representatives

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

(1) The Japanese economy had been picking up steadily, but it was only self-sustaining at a weak level and the situation remained difficult, as evidenced by the high employment rate. As for short-term prospects, in addition to risk factors such as international financial developments and deflation, there was continued concern that the employment situation could deteriorate further, 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 made clear 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.

(4) The special operation was scheduled to expire at the end of March, and the Bank's stance on the provision of funds had been attracting public and market attention. In this situation, the government expected the Bank to provide more ample funds steadily, and thereby clearly articulate that the Bank was determined to overcome deflation.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy had been picking up steadily, but it was only self-sustaining at a weak level and the situation remained difficult, as evidenced by the high employment rate. As for short-term prospects, attention should be given to the risks of a possible slowdown in overseas economies and of deflation. It should also be noted that there was still concern that the employment situation could deteriorate further.

(2) The task for the Japanese economy in the immediate future was to ensure economic recovery and overcome deflation while securing employment. The year-on-year rate

of change in the CPI was likely to continue declining moderately in fiscal 2010, although the pace of decline was expected to slow. The government considered it important that the government and the Bank work together to achieve a positive inflation rate as early as possible.

(3) In order to overcome deflation and ensure a steady pick-up in the economy, the government would implement the second supplementary budget for fiscal 2009 and the budget for fiscal 2010, in an integrated and seamless manner. To fulfill its responsibility, the government would also put forward additional measures for the new growth strategy and draw up concrete plans for it, thereby showing a clear picture of future economic growth, and present to the public a path toward sound public finance.

(4) During this meeting, there was a suggestion of increasing the provision of funds through the fixed-rate operation, which was introduced in December 2009. The government considered the measure an important means of swiftly overcoming deflation and ensuring a steady pick-up in the economy. The government hoped that the Bank would continue to aim at overcoming deflation swiftly and 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

The majority of the members was in favor of increasing the provision of funds through the fixed-rate operation to further enhance easy monetary conditions. Members discussed the text of a Statement on Monetary Policy that included a description of such an increase, and put it to a vote. The Policy Board decided the text by a majority vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment). Ms. M. Suda and Mr. T. Noda, however, dissented from the expansion of the measure to encourage a decline in longer-term interest rates by substantially increasing the amount of funds to be provided through the fixed-rate operation.

Votes for the proposal: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. S. Nakamura, and Mr. H. Kamezaki.
Votes against the proposal: Ms. M. Suda and Mr. T. Noda.

Ms. M. Suda dissented from the proposal because, from a long-term perspective, she considered that the proposed measure would undermine the Bank's communication with the public, for the following reasons. First, there was no solid justification for enhancing easy monetary conditions, because recently released economic data were broadly in line with the Bank's economic outlook. Second, a misunderstanding might become widespread in the market that the degree of monetary easing could be measured by the amount of funds provided through a certain type of market operation, despite the Bank's focus on interest rate levels in its conduct of monetary policy. And third, there was a risk that the market might increasingly come to consider that the Bank would take whatever policy action the market had anticipated.

Mr. T. Noda, while holding the view that action should be taken swiftly and decisively when deemed necessary, dissented from the proposal mainly for the following reasons. First, enhancing easy monetary conditions at this time -- when economic activity was somewhat stronger than, and price developments were broadly in line with, the interim assessment in January 2010 and there had been no sudden change in financial markets -- would make it difficult to maintain good communication with the market because such action was inconsistent with the monetary policy framework adopted so far. And second, while such action would have only limited effects in lowering interest rates and was unlikely to have an announcement effect, there was a concern that it might heighten the erroneous impression that monetary policy had been strongly influenced by media reports, and thus have a side effect of undermining the credibility of the Bank's monetary policy.

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of February 17 and 18, 2010 for release on March 23, 2010.

Attachment

March 17, 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,[5] to set the following guideline for money market operations for the intermeeting period:

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

2. In December 2009, the Bank newly introduced a fixed-rate funds-supplying operation against pooled collateral (hereafter the fixed-rate operation) to further enhance easy monetary conditions, and has been implementing such measure to encourage a decline in longer-term interest rates. Given that the amount outstanding of funds provided by special funds-supplying operations to facilitate corporate financing will gradually decline from April 2010 onward, the Bank will expand the measure to encourage a decline in longer-term interest rates by substantially increasing the amount of funds to be provided through the fixed-rate operation.[6]

3. 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

[5] 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.

[6] In the main text, Ms. M. Suda and Mr. T. Noda dissented from the expansion of the measure to encourage a decline in longer-term interest rates by substantially increasing the amount of funds to be provided through the fixed-rate operation.

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 improvement in overseas economies, especially, fast growth in emerging economies. Business fixed investment is leveling out on the whole. 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 declining. Meanwhile, the financial environment, with some lingering severity, has continued to show signs of improvement. The CPI (excluding fresh food) is declining on a year-on-year basis due to the substantial slack in the economy as a whole, but the moderating trend in the pace of decline has continued.

4. 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.

5. 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.

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 consistently make contributions as central bank. The expansion of the measure to encourage a decline in longer-term interest rates was also in line with this principle, and, in the conduct of monetary policy, the Bank will continue to aim to maintain the extremely accommodative financial environment.