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May 10, 2010

Bank of Japan

Minutes of the Monetary Policy Meeting

on April 6 and 7, 2010

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

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Secretariat of the Policy Board, Bank of Japan

P.O. Box 30, Nihonbashi, Tokyo 103-8660, Japan

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A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Tuesday, April 6, 2010, from 2:00 p.m. to 4:56 p.m., and on Wednesday, April 7, from 8:59 a.m. to 11:58 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

Mr. R. Miyao

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

¹ The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on April 30, 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.

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. Okuno, Senior Economist, Monetary Affairs Department

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

I. Summary of Staff Reports on Economic and Financial Developments²

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 March 16 and 17, 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 and its active purchases of Japanese government securities (JGSs) under repurchase agreements. On March 23, the Bank started to increase the amount of funds to be provided through the fixed-rate funds-supplying operation against pooled collateral. The special funds-supplying operation to facilitate corporate financing was completed at the end of March as scheduled.

B. Recent Developments in Financial Markets

In Japan's money market, interest rates, including longer-term ones, had been 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 at around 0.1 percent. Interest rates on term instruments on the whole had declined somewhat. 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. Euroyen rates had declined somewhat. In the CP market, issuance rates had remained at low levels.

Japanese stock prices rose, reflecting the depreciation of the yen against the U.S. dollar and the firmness in U.S. and European stock prices. The Nikkei 225 Stock Average had been in the range of 11,000-11,500 yen. With regard to long-term interest rates in Japan, the benchmark rate had risen somewhat and had recently been at around 1.4 percent.

The yen had recently been around 94 yen against the U.S. dollar, which had gained strength following the rise in U.S. interest rates.

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.

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. Exports were increasing, private consumption was expanding at a moderate rate, and the decline in business fixed investment as a whole was leveling out. 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 2.0-3.0 percent, with some fluctuations caused by changes 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 been moderating 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. 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. 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. With regard to prices, the year-on-year rate of increase in the CPI had been on a rising trend in many Asian economies.

As for global financial markets, interest rates on term instruments had been more or less unchanged at low levels. U.S. stock prices had risen slightly, mainly because some economic indicators were better than market expectations. European stock prices had also

risen slightly, mainly because leaders within the euro area agreed to a rescue package for Greece. U.S. long-term interest rates had risen against the background of concern about deterioration in the supply-demand balance of U.S. Treasuries, and their European counterparts 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. Although business fixed investment was likely to remain more or less unchanged for the time being as the sense of excessive capital stock was strong among firms, it was expected to pick up gradually with the improvement in corporate profits.

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.

On the price front, commodity prices were on a moderate rising trend. 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 moderate

as a trend as the aggregate supply and demand balance improved gradually.

2. Financial environment

Financial conditions, with some lingering severity, had shown increasing signs of easing. The overnight call rate had remained at an extremely low level, and the declining trend in 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, and even those for low-rated corporate bonds had shown signs of improvement. 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 small firms still saw their financial positions as weak, on the whole financial positions of firms, including small ones, had continued to show signs of easing. 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. Some members said that the world economy had been growing somewhat more rapidly than expected, led by higher growth in emerging economies. With regard to emerging economies, a few members commented that the virtuous circle of growth in production, income, and spending remained intact. Some members, referring to the fact that some emerging economies were increasingly showing signs of overheating, expressed the view that the key to sustainable global economic growth lay in whether their authorities could restrain overheating. Some

members expressed the opinion that the pace of recovery in advanced economies was likely to remain only moderate, as there was not yet sufficient momentum to support self-sustaining recovery in private demand and balance-sheet adjustment pressure continued to weigh on economic activity. With regard to overseas price developments, a few members said that (1) in Europe and the United States, the year-on-year rates of increase in the core CPI had been moderating because of the downward pressure exerted by slack in supply and demand conditions, as in Japan; and (2) in emerging economies, on the other hand, the rates of price increases had started to climb, giving rise to strong concerns about inflation among some economies.

Many members were of the view that global financial markets had regained stability on the whole, mainly reflecting the fact that the world economy had been on a recovery trend and market concerns about the fiscal deficit problem in some European countries had subsided. A few members pointed to developments that suggested the start of a recovery in investors' risk tolerance, such as a rise in various countries' stock prices, the appreciation of emerging and commodity-exporting economies' currencies, and a substantial increase in the issuance of U.S. high-yield bonds. Some members, however, said that there were a number of concerns in global financial markets, including the fiscal deficit problem in advanced economies, and that attention should be paid to the possibility that the market might become unstable again if some particular event sharply unsettled investors. A few members, referring to changes in the monetary easing stance in emerging and commodity-exporting economies, said that close attention should be paid to how these developments would affect global financial markets.

Members concurred that the U.S. economy was recovering, albeit at a moderate pace. Many members commented that the Institute for Supply Management (ISM) indices for manufacturing and nonmanufacturing activities were at high levels in March, and many indicators of business fixed investment and private consumption had continued to improve. Regarding the employment and income situation, some members noted a clear increase in the number of employees in March, and one member said that the U.S. economy might be approaching a turning point at which employment would start to grow. Many members, however, were of the view that the employment and income situation remained severe, as exemplified by the persistently high unemployment rate and the extension of the longest average duration of unemployment. Many members pointed to the recent decrease in

home sales and low home prices. Some members said that it would still take some time for the housing market to show clear signs of recovery, and that some concerns had arisen about the risk of a double dip in the housing market. One member said that banks were reducing loans in a situation where adjustments in the real estate market continued to adversely affect the quality of their assets. As for the outlook for the U.S. economy, members shared the view that the recovery trend was likely to continue as a whole. Many members, however, commented that the pace of recovery was likely to be moderate for the time being, with gradual abatement of various policy effects and with persistent adjustment pressure on balance sheets. One member said that a decline in home prices had restrained workers from moving from one place to another, perpetuating a mismatch between the supply and demand of labor on a regional basis. This member continued that, if the housing market deteriorated again, an adverse feedback loop between employment and housing might occur and become a downside risk to the U.S. economy.

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 and in production, and was likely to show a moderate recovery. A few members, however, commented that the momentum for economic recovery was weaker than in other advanced economies, mainly because of relatively weak private consumption amid a lack of positive signs in the employment and income situation. Some members pointed to the risk that such factors as continuing balance-sheet adjustments in the banking sector and the fiscal deficit problem in some European countries might further slow the pace of economic recovery.

Members agreed that the Chinese economy had continued to grow at a rapid pace, led mainly by domestic demand, and this trend was likely to continue. One member added that, although growth in bank lending and fixed asset investment had recently slowed slightly due to the Chinese authorities' moderate policy tightening, the trend of economic growth had not changed. A few members expressed the view that the risk of inflation had increased further against the backdrop of the continued rise in real estate prices, wage increases in the coastal area, and the rise in food prices resulting from droughts in southwest China. Based on this discussion, some members said that full 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 had been picking up. Many members said that, in addition to the increase in exports and production and the continuing pick-up in private consumption, business fixed investment was leveling out more clearly. Many members commented that, according to the March 2010 *Tankan* (Short-Term Economic Survey of Enterprises in Japan), improvement in business confidence continued, among not only large manufacturers but also nonmanufacturing and small firms. Some members said that in Japan's economy, signs of a self-sustaining recovery might have finally started to appear, given, for example, the fact that corporate profits had increased and deterioration in the employment situation was coming to a halt. Some members expressed the view that the trend of sustainable improvement in the economy, assumed in the interim assessment as of January 2010, was becoming more evident. A few members were of the opinion that recovery had been somewhat more rapid compared with the assessment. However, many members, including these members, commented that the recent improvement in the economy had been underpinned by better overseas economic conditions and various policy measures, and there was not yet sufficient momentum to support self-sustaining recovery in domestic private demand.

As for the outlook, many members said that the pace of improvement of Japan's economy was likely to be moderate for the time being, given the waning effects of various policy measures. Some members, however, expressed the view that the earlier concern among market participants about a possible double dip had dissipated considerably as overseas economies, especially emerging economies, continued to recover. One member commented that a significant point in projecting economic developments was whether the signs of the self-sustaining economic recovery, which had just appeared, would grow steadily before various policy effects disappeared. In relation to this, a different member said that attention should be paid to how structural factors, such as firms' stances on restraining wages amid global competition, would affect economic conditions.

With regard to risk factors for economic activity, some members mentioned that firms' medium- to long-term growth expectations had not shown clear improvement, and this continued to be a downside risk factor. In relation to this, a few members said that many firms inevitably remained cautious about changing the size of capital stock and the

number of employees, because the level of economic activity was still low and they were not yet able to clearly envisage a path toward economic recovery and the future state of Japan's economy in the longer run. Some members expressed the view that faster growth in emerging economies might be an upside risk factor for Japan's economy, but it could turn out to be a downside risk factor if emerging economies' policy measures caused an economic slowdown or a significant unwinding of economic activity following the overheating.

Turning to developments in each demand component, members agreed that exports had been increasing, mainly due to the faster-than-expected growth in emerging economies. Many members expressed the view that the uptrend was likely to continue, reflecting continued improvement in overseas economic conditions.

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

Many members said that business fixed investment was leveling out more clearly. Some members noted that shipments of capital goods -- a coincident indicator of business fixed investment -- continued to increase, and large firms' fixed investment plans for fiscal 2010 provided in the March 2010 *Tankan* were at a level where the annual rate of change was around 0 percent, matching their historical average in past March surveys. Many members expressed the view that, although the strong sense of excessive capital stock among firms warranted due attention, business fixed investment was likely to pick up gradually on the back of the improvement in corporate profits and reduced strains on funding. One member, noting that in the March 2010 *Tankan* the perception of future business conditions among firms in the capital goods-related industry had improved considerably, said that firms' fixed investment plans for fiscal 2010 might exceed the previous year's level in the June 2010 *Tankan*.

Members concurred that private consumption, notably durable goods consumption, continued to pick up. Some members noted that there had recently been some improvement in industries not having been directly affected by policy measures, such as retailing, accommodations, and eating and drinking services. In relation to this, a few members raised the possibility that the recent rise in stock prices and reduced anxiety about losing jobs might be underpinning consumer confidence. Many members expressed the view that private consumption largely depended on the pace of abatement in the policy

effects and the degree of improvement in the employment and income situation, and attention should continue to be paid to developments in private consumption.

Some members were of the view that the decline in housing investment had been coming to a halt, as evidenced by the fact that the number of housing starts had picked up, albeit remaining at a low level, and inventory adjustments of condominiums in the metropolitan area had been progressing.

Members agreed that production had been increasing, mainly reflecting high growth in emerging economies. Some members said that information obtained, for example, from interviews with corporate managers suggested that production was likely to continue rising as a trend reflecting the recovery in overseas economies, although the pace of increase in production would moderate gradually due to the waning effects of various policy measures.

Some members were of the view that the employment and income situation was exiting the worst phase, as evidenced by a slower pace of decline in nominal wages, a leveling-off of the unemployment rate, and an improving trend in the ratio of job offers to applicants. Many members, however, said that they maintained their assessment that the employment and income situation was severe because firms continued to regard their workforces as excessive, as evidenced by the fact that a large number of firms continued to apply for employment subsidies, for example.

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, but the moderating trend in the pace of decline had continued. Some members commented that the year-on-year rate of decline in the trimmed mean CPI, regarded as an indicator of the underlying trend, continued to moderate, and that the difference between the number of items for which prices had declined and of items for which prices had risen narrowed in February compared with the previous month, for the first time since November 2008. Some members said that the effects of the narrowing of the negative output gap since spring 2009 might have started to appear on prices, with some time lag. As for the outlook, members agreed that the year-on-year pace of decline in the CPI was likely to moderate as the aggregate supply and demand balance improved gradually. Some members, however, said that the pace of price declines would decelerate only moderately, given the modest improvement in supply and demand conditions. Meanwhile, some members noted the

following as factors that might exert upward pressure on prices: a possible rise in commodity prices brought about by higher growth in emerging economies, and a possible abatement of downward pressure on domestic prices caused by a rise in prices of imports from emerging economies that were experiencing inflation. Based on this, one member said that the year-on-year rate of change in the CPI (excluding fresh food) might turn positive slightly earlier than the member had previously expected. Some members said that, although the related data and survey results suggested that medium- to long-term inflation expectations had been generally stable recently, careful monitoring was necessary to detect any decline in such expectations. Regarding the effects of the introduction of a subsidy for high school tuition and other policy measures, members agreed that, in assessing the trend in price developments, it was appropriate to exclude such one-off factors that would disappear in twelve months.

B. Financial Developments

Members shared the view that financial conditions, with some lingering severity, had recently seen further improvement and shown increasing signs of easing.

As for the money market, many members commented that, due to the Bank's provision of ample funds, interest rates had been stable at low levels and the market was not under stress during the run-up to the fiscal year-end. Some members said that interest rates on term instruments had declined further since the introduction of a fixed-rate funds-supplying operation against pooled collateral (hereafter the fixed-rate operation) in December 2009, and on the whole had recently declined somewhat. A few members added that the completion of the special funds-supplying operation to facilitate corporate financing at the end of March had not caused any market disruptions.

Members agreed that issuing conditions for CP and corporate bonds had remained favorable. Some members said that issuing spreads on BBB-rated corporate bonds, which investors had been hesitant to purchase, were narrowing and the number of firms issuing such bonds was increasing gradually. Many members expressed the opinion that, in view of these developments, signs of improvement in issuing conditions for low-rated corporate bonds were also becoming more evident.

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 reduced demand for funds among

firms and the high growth of such lending a year before. Some members commented that the declining trend in firms' funding costs, including those for issuing CP and corporate bonds, had continued. Many members expressed the view that there were continued signs of easing on the whole in lending attitudes of financial institutions as perceived by firms and in firms' financial positions, albeit with differences in funding conditions according to firm size.

Based on the above discussion, some members noted that, from a macroeconomic perspective, financial conditions were not putting downward pressure on economic activity, including spending by firms. In this regard, some members expressed the opinion that many small firms, including very small ones, still saw their financial positions as weak, and it was necessary to continue examining the situation faced by these firms, including their business environment and the structure of their industries.

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, one member expressed the opinion that maintenance of the policy rate at the extremely low level of 0.1 percent in a situation where corporate profits were recovering clearly was enhancing the stimulative effects of monetary easing on Japan's economy.

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 the conduct of monetary policy, the Bank would continue to aim at maintaining the extremely accommodative financial environment.

Members discussed the effects of the expansion of the fixed-rate operation conducted in March, which was a move that involved increasing the amount of funds to be provided through such operation. One member expressed the view that additional effects on interest rates on term instruments had been marginal so far, partly because room for a further decline in these interest rates had already been limited. With regard to the effects

on longer-term interest rates, some members pointed to the fact that interest rates on term instruments on the whole had declined somewhat: yields on T-Bills had been stable at low levels and Euroyen rates, which had previously been more or less unchanged, had decreased. Some members expressed the view that the expansion of the fixed-rate operation conducted in March had reaffirmed the Bank's stance of continuing to consistently make contributions as central bank, and this had helped underpin business confidence. A few members said that such reaffirmation of the Bank's stance and the consequent improvement in business confidence might have affected, to some extent, stock prices and foreign exchange rates recently. One member commented that close examination was necessary with regard to how the recent policy measures affected bank lending rates. Some members expressed the opinion that the Bank should continue to conduct funds-supplying operations appropriately, with due consideration to ensuring the functioning of the market, even when continuing to provide ample funds through, for example, the fixed-rate operation.

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 unemployment 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) On March 24, the Diet approved the budget for fiscal 2010. 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 in an integrated and seamless manner. In addition, it would draw up concrete plans for the "New Growth Strategy (Basic Policies)" and implement those plans.
- (3) The government recognized that the Bank had made clear that it did not tolerate a negative inflation rate. It 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) 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 unemployment rate.
- (2) The task for the Japanese economy in the immediate future was to ensure economic recovery and overcome deflation while securing employment. The government considered it important that the government and the Bank work together to achieve a positive inflation rate as early as possible.
- (3) The government would implement the emergency economic countermeasures and the measures laid out in the recently approved budget for fiscal 2010 in an integrated and seamless manner. To fulfill its responsibility, it would also put forward additional measures for the "New Growth Strategy (Basic Policies)" 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. It would conduct economic and fiscal policy measures to create new jobs and increase employment.
- (4) The government recognized that the Bank was conducting monetary policy in an appropriate manner, as evident from the Bank's decision made at the previous meeting to increase the amount of funds to be provided through the fixed-rate operation, while working together with the government. The government also recognized that, regarding the level of CPI inflation that the Bank's Policy Board members understood as being consistent with price stability over the medium to long term, or the "understanding," they had adopted a clearer expression that they did not tolerate a year-on-year rate of change in the CPI equal to or below 0 percent and that each Policy Board member's "understanding" fell in a positive range of 2 percent or lower and the midpoints of most members' "understanding" were around 1 percent. The government hoped that the Bank, bearing this in mind, 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, Mr. H. Kamezaki, and Mr. R. Miyao.

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 March 16 and 17, 2010 for release on April 12, 2010.

Attachment

April 7, 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 has been picking up mainly due to improvement in overseas economic conditions and to various policy measures, although there is not yet sufficient momentum to support a self-sustaining recovery in domestic private demand. Exports and production have been increasing mainly against a backdrop of high growth in emerging economies. Business sentiment has been improving. Business fixed investment is leveling out. 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, financial conditions, with some lingering severity, have shown increasing signs of easing. 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 Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. T. Noda, Mr. S. Nakamura, Mr. H. Kamezaki, and Mr. R. Miyao.
Voting against the action: None.

3. The Bank's baseline scenario projects that the pace of improvement of the economy is likely to be moderate for the time being. 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
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.

⁵ The year-on-year rate of change in the CPI will fluctuate substantially for a year following the introduction of subsidy for high school tuition and other policy measures in fiscal 2010. In assessing the trend of price developments, it is deemed appropriate to exclude such one-off factors that will disappear in 12 months.