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

October 8, 2010

Bank of Japan

Minutes of the Monetary Policy Meeting
on September 6 and 7, 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 Monday, September 6, 2010, from 2:00 p.m. to 4:29 p.m., and on Tuesday, September 7, from 9:00 a.m. to 12:34 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

Mr. R. Miyao

Mr. Y. Morimoto

Government Representatives Present

Mr. M. Ikeda, Senior Vice Minister of Finance, Ministry of Finance[2]

Mr. Y. Kinoshita, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance[3]

Mr. K. Tsumura, Parliamentary Vice-Minister, Cabinet Office[2]

Mr. K. Umetani, Director-General, Economic and Fiscal Management, Cabinet Office[3]

Reporting Staff

Mr. K. Yamamoto, Executive Director

Mr. H. Nakaso, Executive Director (Assistant Governor)

Mr. M. Amamiya, Executive Director

---

[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on October 4 and 5, 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] Messrs. M. Ikeda and K. Tsumura were present on September 7: from 9:21 a.m. to 12:34 p.m. and for the whole of the session, respectively.

[3] Messrs. Y. Kinoshita and K. Umetani were present on September 6.

Mr. N. Kinoshita, Executive Director

Mr. S. Kushida, Director-General, Monetary Affairs Department

Mr. T. Kato, Head of Policy Planning Division, Monetary Affairs Department

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

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

Mr. T. Sekine, Head of Economic Research Division, 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 Planning and Coordination Division, Secretariat of the Policy Board

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

Mr. H. Ichiue, Senior Economist, Monetary Affairs Department

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

A. Money Market Operations in the Intermeeting Period

The Bank conducted money market operations in accordance with the guideline decided at the previous meetings on August 9 and 10 and on August 30, 2010.[5] The uncollateralized overnight call rate had been at around 0.1 percent.

The Bank, in consideration of the recent formation of market rates, conducted money market operations in a flexible manner. On September 3, it provided funds with a six-month term through the fixed-rate funds-supplying operation against pooled collateral, and on September 6 disbursed the first new loans under the fund-provisioning measure to support strengthening the foundations for economic growth.

B. Recent Developments in Financial Markets

Money market rates -- particularly longer-term ones -- had declined, albeit very slightly, partly because the Bank decided at the previous meeting on August 30 to introduce an additional monetary easing measure. General collateral (GC) repo rates on the whole had been broadly stable in the range of 0.10-0.15 percent, although they exhibited some volatility. As for interest rates on term instruments, yields on treasury discount bills (T-Bills) had declined, and the TIBOR rates had been on a moderate declining trend. Issuance rates on CP had been on a moderate downtrend due in part to the fall in overall money market rates against the backdrop of the ongoing favorable supply and demand conditions.

Japanese stock prices, after declining amid the continued appreciation of the yen and weak U.S. and European stock prices as a whole, had recovered somewhat. The Nikkei 225 Stock Average had recently been in the range of 9,000-9,500 yen. With regard to long-term interest rates in Japan, the benchmark rate, which temporarily fell below 0.9 percent due to the downtrend in overseas long-term interest rates amid concern about a possible slowdown in the U.S. economy, had recently been in the range of 1.1-1.2 percent partly due to profit-taking sales by such entities as banks.

The yen had remained under upward pressure amid concern about possible

---

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

[5] The guideline was as follows:

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

deceleration in the U.S. economy, and its value had recently been at around 84 yen.

C. Overseas Economic and Financial Developments

The world economy had been slowing but continued to recover.

The U.S. economy had been recovering at a slower but moderate pace. The pace was decelerating partly due to slower growth in inventory investment, although exports were continuing to increase and business fixed investment was rising moderately. In the labor market, although the number of employees was picking up, the unemployment rate had been more or less unchanged at a high level, and this suggested that the employment situation had not improved noticeably. Private consumption was increasing only gradually, and housing investment remained at a depressed level. In this situation, downside risks to the economy associated with balance-sheet adjustments had drawn greater attention from the market. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items less energy and food, or the core CPI, had been moderating partly due to slack in supply and demand conditions and slower growth in wages.

Economic activity in the euro area as a whole was recovering moderately, with some differences in growth by country. Exports had been firm partly due to the depreciation of the euro; in addition, domestic demand components such as private consumption were picking up and production had been increasing gradually. 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 partly due to slack in supply and demand conditions and slower growth in wages. U.K. economic conditions were recovering at a moderate pace.

The Chinese economy continued to show relatively high growth, although the pace had slowed somewhat. Growth in overall private consumption had been firm due to households' higher income levels. Exports had been increasing, although the pace of increase was slowing due to deceleration in overseas economies. Fixed asset investment had continued to show high growth, although the rate was decelerating partly due to the government's measures to restrain the increase in real estate transactions. Economic conditions in the NIEs and the ASEAN countries had continued to recover steadily. Growth in exports and production had recently slowed, while 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. In many of these Asian economies, upward pressure on prices had been increasing due to higher food prices and greater utilization of production factors.

As for global financial markets, U.S. stock prices and long-term interest rates declined until around the end of August because released economic indicators were weaker than market expectations, but had rebounded since the release in early September of stronger-than-expected indicators such as the employment data. In Europe, developments in stock prices had followed those in the United States. Long-term interest rates in Germany and the United Kingdom had fallen due mainly to a flight to quality triggered by the resurgence of the fiscal problem in Ireland. Financial developments in some peripheral European countries had been volatile, as evidenced by the fact that yield spreads between government bonds issued by Germany and those issued by these other countries, which narrowed after publication of the results of the stress test exercise conducted on European financial institutions, were under pressure to expand again as a result of the resurgence of the fiscal problem in Ireland.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had been increasing, albeit at a slower pace. They were expected to continue increasing, albeit moderately for the time being, reflecting continued improvement in overseas economic conditions.

Public investment was declining, and this trend was likely to continue.

With regard to domestic private demand, business fixed investment was showing signs of picking up. Such signs were expected to gradually become more evident as the improvement in corporate profits continued. However, with firms' persistent sense of excessive capital stock, the pace of improvement in business fixed investment was likely to remain moderate for the time being.

Private consumption had been generally picking up and had recently been boosted by the extremely hot weather and a last-minute increase in demand for durable consumer goods ahead of the expiration of subsidies. Meanwhile, the employment and income situation had remained severe, but the degree of severity had eased somewhat. Private consumption was expected to remain on a recovery trend, despite a likely temporary weakening mainly due to the ending of the boost from the extremely hot weather and the expiration of subsidies for purchasers of environmentally friendly cars.

Housing investment had leveled out. It was expected to gradually head for a recovery, given the recent developments in housing starts.

Production had been increasing, albeit at a slower pace. It was expected to continue to trend upward, although it was likely to temporarily show weakness primarily in durable consumer goods.

On the price front, commodity prices, which started decreasing in May, leveled out and were recently more or less flat. The domestic corporate goods price index (CGPI) had been somewhat lower than three months earlier, mainly due to the earlier decrease in commodity prices, amid the persistent slack in supply and demand conditions for products. The CGPI was expected to be somewhat weak for the time being, since the effects of the earlier decrease in commodity prices were likely to continue. 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 slowing trend in the pace of decline had continued. The year-on-year pace of decline in the CPI was likely to slow as a trend as the aggregate supply and demand balance improved gradually.

2. Financial environment

Financial conditions had continued to show signs of easing. The overnight call rate had remained at an extremely low level, and the declining trend in firms' funding costs had continued. While stimulative effects from low interest rates were still partly constrained given current developments in economic activity and prices, such effects were beginning to strengthen in light of improved corporate profits. With regard to credit supply, firms saw financial institutions' lending attitudes as improving. Issuing conditions for CP and corporate bonds had remained favorable. 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. The amount outstanding of corporate bonds had exceeded the previous year's level, while that of CP had declined. In these circumstances, firms' financial positions had continued to show signs of improvement as a whole. 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 been slowing but continued to recover, and were likely to continue recovering led by high growth in emerging economies. Many members expressed the opinion that the pace of recovery in advanced economies would probably remain moderate amid the lingering severity in balance-sheet adjustments. Some members said that developments in economic indicators and financial markets suggested that uncertainty about the outlook had heightened. Many members noted that the pace of recovery in emerging economies, which had previously been rapid, was somewhat slowing mainly reflecting tighter policies such as adjustments to accommodative monetary policy. In this regard, some members said that the slowdown should basically be considered as a shift toward a more sustainable and steady pace, although future developments continued to require close monitoring.

Members shared the view that the U.S. economy had been recovering at a slower but moderate pace. Some members said that not a few economic indicators released in August were weak, particularly those of retail sales and housing, and this indicated that the pace was clearly decelerating. A few members commented that the pace of deceleration was faster than expected, although the economic state could not be described as a recession yet. Many members said, however, that the economy was unlikely to decelerate significantly because production was on the rise against the backdrop of firm growth in exports and the number of employees in the private sector was picking up. Members agreed that, although the U.S. economy was likely to continue recovering, there was considerable uncertainty regarding the outlook. Some members expressed the opinion that, since the economy faced a problem of balance-sheet adjustments similar to that observed during the post-bubble period in Japan, it had become difficult for the self-sustaining virtuous circle of growth in production, income, and spending to operate properly, and the economy was susceptible to downside risk factors.

Many members expressed the view that economic activity in the euro area as a whole was recovering moderately, with some differences in growth by country. Many members were of the opinion that the earlier depreciation of the euro had boosted exports and production in major euro area countries, thereby underpinning income and spending.

Some members said that financial markets were unstable in Greece and other peripheral euro area countries, in a situation where both the public and private sectors were mired in excessive debt, and economic disparities among euro area countries had recently widened further. Many members were of the view that, although the earlier depreciation of the euro would continue to boost production, the euro area economy would likely recover only moderately because economic activity would be constrained by balance-sheet adjustments and moves toward fiscal austerity.

Members agreed that the Chinese economy continued to show relatively high growth, although the pace had slowed somewhat. Many members noted that growth in fixed asset investment and industrial production had decelerated, partly due to the government's measures to restrain the increases in real estate transactions and in energy consumption, but not at a rapid pace. As for the measures to restrain the increase in real estate transactions, a few members regarded the deceleration caused by the measures as favorable for the Chinese economy's sustainable growth over the medium to long term. Some members expressed the view that private consumption indicators such as retail sales had been firm on the whole due to households' higher income levels. Many members shared the view that, although the slowing trend in production would continue on the back of the decelerated growth in fixed asset investment and exports, the economy as a whole was likely to continue to show relatively high growth on the back of the continued uptrend in private consumption.

Regarding global financial markets, most members agreed that foreign exchange, stock, and bond markets remained extremely susceptible to developments in economic indicators against the background of increased uncertainty regarding the outlook for the world economy. Many members expressed the view that global investors had become increasingly risk averse, against the background that U.S. economic indicators released until around the end of August were weaker than market expectations and the fiscal problem in European countries such as Ireland had drawn attention. Some members pointed to increased demand in foreign exchange markets for relatively safe currencies in that currencies such as the yen and Swiss franc were bought while others, such as the euro, were sold. A few members expressed the opinion that a flight to quality had weakened stock prices and exerted downward pressure on long-term interest rates around the world. In relation to long-term interest rates in some peripheral euro area countries, some members --

noting the widening of yield spreads between government bonds issued by Germany and those issued by these countries -- said that the sovereign risk problem had been lurking as a downside risk to the world economy, although, unlike in spring 2010, it had not caused major disruptions recently in global financial markets.

Based on the above deliberations on economic and financial conditions abroad, members discussed the state of Japan's economy. They concurred that the economy showed further signs of a moderate recovery. Many members expressed the view that, although growth in exports and production had been decelerating due to a slowdown in the pace of overseas economic growth, the momentum for economic recovery had been sustained as a whole, supported by the improvement in the employment and income situation and most recently by the boost to private consumption induced by the extremely hot weather and a last-minute increase in demand for durable consumer goods ahead of the expiration of subsidies. In this regard, a few members -- referring to the first preliminary estimate of real GDP for the April-June quarter, for which the annualized rate of growth was extremely low at 0.4 percent -- were of the opinion that the results of the *Financial Statements Statistics of Corporations by Industry, Quarterly* that were released following the first preliminary GDP estimate suggested that the second preliminary GDP estimate was likely to be revised upward and indicate a moderate recovery of Japan's economy, as the Bank had projected in its interim assessment. As for the outlook, members agreed that the economy was likely to be on a moderate recovery trend. Many members added, however, that the pace of improvement was likely to slow temporarily in the latter half of fiscal 2010 because of the negative impact from the deceleration in overseas economies and the waning effects of temporary factors, such as the boost to consumption from the extremely hot weather and a last-minute increase in demand for durable consumer goods ahead of the expiration of subsidies.

With regard to risks for economic activity, some members again cited the possibility of even faster growth in emerging and commodity-exporting economies as an upside risk. A few of these members expressed the view that the short-term risk of overheating in these economies still warranted attention because, although a growing number of these economies had been conducting tighter policies such as adjustments to accommodative monetary policy, capital continued to flow from advanced economies into these economies, in which the level of economic activity was already considerably high.

On the other hand, members agreed that attention should be paid to downside risks to Japan's economy since uncertainty about the future, especially for the U.S. economy, had heightened and foreign exchange rates and stock prices had consequently been unstable. In this regard, one member referred to a possibility that Japan's economic growth might be slightly weaker than expected in the interim assessment, in view of economic data released since then and developments in financial markets. This member continued that such a possibility should be borne in mind when examining developments in economic activity and prices for the upcoming *Outlook for Economic Activity and Prices*. Some members expressed the view that weakness in some U.S. economic indicators, such as those of retail sales and housing, was becoming prominent and therefore closer attention should be paid to downside risks to overseas economies. In relation to this, a few members pointed to the risk of the U.S. economy growing only slowly over a prolonged period, in view of the possibility that the decline in U.S. long-term interest rates might indicate a decrease in the expected nominal economic growth rate over the long term. With regard to recent developments in foreign exchange markets, most members raised the possibility that the appreciation of the yen might depress growth in exports and corporate profits. Many members were of the opinion that attention should be paid to how the appreciation and a consequent weakness in stock prices affected business and consumer confidence. One member -- referring to the strong correlation between the recent developments in the dollar-yen exchange rate and Japanese stock prices -- said that, if the pace of recovery in emerging economies accelerated again, this might underpin Japanese stock prices and weaken the correlation.

Turning to developments in each demand component, members shared the view that exports had been increasing, albeit at a slower pace. As factors behind the slower export growth, many members noted that the pace of recovery in emerging economies, which had previously been rapid, was somewhat slowing, especially in China. Some members commented that the growth in demand for some IT-related goods was slowing around the world. As for the outlook, most members agreed that exports were likely to continue increasing, albeit moderately for the time being, reflecting continued improvement in overseas economic conditions. Many members pointed to the need to pay attention to the effects on exports of the recent developments in overseas economies and appreciation of the yen.

Members agreed that business fixed investment was showing signs of picking up. Many members said that, according to the *Financial Statements Statistics of Corporations by Industry, Quarterly*, business fixed investment started to increase in the April-June quarter on a seasonally adjusted quarter-on-quarter basis. Many members concurred that signs of a pick-up were likely to gradually become more evident as the improvement in corporate profits continued, but the pace of improvement was likely to remain moderate for the time being. Regarding effects on firms' fixed investment plans of the recent appreciation of the yen and uncertainty about future developments in foreign exchange rates, some members raised the possibility that, although corporate profits had become less affected by appreciation of the yen and firms had a considerable number of fixed investment plans to implement, the recent appreciation might undermine business confidence and thereby cause firms to postpone implementing their investment plans.

Members shared the view that the employment and income situation had remained severe, but the degree of severity had eased somewhat. Some members were of the opinion that firms, which still regarded their workforces as excessive, had maintained their stance of restraining labor costs. Many members, including these members, commented that the employment and income situation nevertheless continued to show signs of improvement, such as the continued rise in the ratio of job offers to applicants and summer bonus payments exceeding the previous year's level.

Members agreed that private consumption had been generally picking up and had recently been boosted by the extremely hot weather and a last-minute increase in demand for durable consumer goods ahead of the expiration of subsidies. Some members expressed the opinion that the effects of the extremely hot weather could be seen in the increases in sales of air conditioners and sales at convenience stores in July. Many members said that the number of new passenger-car registrations spiked in August, boosted by the last-minute increase in demand ahead of the expiration of subsidies for purchasers of environmentally friendly cars. Members concurred that, amid the waning effects of temporary factors that boosted demand, the pace at which the employment and income situation improved would be the key to recovery in private consumption. Many members were of the view that private consumption was likely to remain on a recovery trend, despite a likely temporary weakening mainly due to the ending of the boost from the extremely hot weather and the expiration of subsidies for purchasers of environmentally friendly cars.

Members agreed that production had been increasing, albeit at a slower pace. Some members said that, according to the analysis of industrial production data using information obtained, for example, from interviews with corporate managers, the actual trend of production appeared to be as follows: there was some strength, particularly in transport equipment, due partly to the last-minute increase in demand for cars ahead of the expiration of subsidies, and in air conditioners and beverages, boosted by the extremely hot weather; however, the pace of increase in production taken as a whole had been decelerating mainly due to the slower export growth. As for the outlook, members shared the view that production was likely to continue to trend upward, although it was likely to temporarily show weakness primarily in durable consumer goods. Many members said that attention should be paid to possible effects on production activity of the recent developments in overseas economies and appreciation of the yen, in a situation where downward pressure on production would likely rise following the ending of the boost from the last-minute increase in demand ahead of the expiration of subsidies and from the extremely hot weather.

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 excluding the effects of subsidies for high school tuition, the slowing trend in the pace of decline had continued. One member said that the year-on-year rate of decline in the trimmed mean CPI -- which eliminated large relative price fluctuations -- had been narrowing mildly. A different member expressed the view that, in the July CPI data, the figure representing the difference between the number of items for which prices had declined and of items for which prices had risen fell for the second consecutive month, and this might suggest that the spread of price declines to a wider range of goods and services had come to a halt. As for the outlook, members agreed that the year-on-year pace of decline in the CPI was likely to slow as the aggregate supply and demand balance improved gradually. Many members referred to developments in import prices as a risk factor for the outlook for prices, and pointed to the need to closely monitor the degree to which the recent appreciation of the yen exerted downward pressure on consumer prices. One member raised the possibility that the spread of discussion regarding disinflation or deflation, which was of concern with regard to advanced economies, might lower inflation expectations.

B. Financial Developments

Members shared the view that financial conditions had continued to show signs of easing.

As for the money market, many members -- noting that interest rates on term instruments had declined somewhat since the previous meeting -- commented that the Bank's introduction of the additional monetary easing measure decided at the previous meeting was starting to facilitate further spreading of the effects of monetary easing.

Members agreed that the declining trend in firms' funding costs had continued. Some members referred to the fact that the average contracted interest rates on new loans and discounts declined significantly in July, to a level close to the record low, and said that the effects of the aggressive monetary easing measures taken so far had been steadily spreading to the corporate sector. A few members expressed the opinion that, given that the *Financial Statements Statistics of Corporations by Industry, Quarterly* for the April-June quarter confirmed the continued recovery trend of corporate profits, stimulative effects from low interest rate had strengthened further.

Members agreed that issuing conditions for CP and corporate bonds had remained favorable, even those for low-rated bonds. Some members said that spreads on BBB-rated bonds in the secondary market had continued to narrow. A few members noted the increase in the number of firms issuing bonds, and also pointed to the fact that firms that had previously deferred bond issuance had restarted it in view of the instability in global financial markets stemming from the heightened sovereign risks in Europe.

Members concurred that firms' financial positions had continued to show signs of improvement. Many members -- noting that the results of several surveys conducted on small firms and released in August showed that these firms judged their financial positions to have improved -- expressed the view that the financial environment small firms faced had also continued to show signs of improvement.

III. Summary of Discussions on Monetary Policy for the Immediate Future

Regarding the guideline for money market operations for the intermeeting period ahead, members agreed that, given the above assessment of economic activity and prices, it was appropriate to maintain the current guideline that the Bank would encourage the uncollateralized overnight call rate to remain at around 0.1 percent.

As for the future conduct of monetary policy, members acknowledged that, in order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, the Bank had been striving to pursue powerful monetary easing, ensure financial market stability, and support strengthening the foundations for economic growth, and shared the view that it should continue to consistently make such contributions as central bank. They concurred that, in the conduct of monetary policy, the Bank would maintain the extremely accommodative financial environment. Furthermore, they confirmed that their thinking regarding the future conduct of monetary policy remained the same in that the Bank should carefully examine the outlook for economic activity and prices and, if judged necessary, take policy actions in a timely and appropriate manner. They agreed that the Bank should clearly present this thinking to the public.

Members discussed the fund-provisioning measure to support strengthening the foundations for economic growth, under which the Bank disbursed the first new loans on September 6. The chairman instructed the staff to report the results of the first new loan disbursement.

In response, the staff reported the following: (1) notification and the loan disbursement were carried out on August 31 and September 6, respectively; (2) the total amount of loans disbursed by the Bank was 462.5 billion yen and the average amount per lending or investment project to be financed by such loans was 360 million yen; (3) by area for strengthening the foundations for economic growth, large amounts of funds were provided to "environment and energy business" and "others," followed by "development and upgrading of social infrastructure" and "medical, nursing care, and other health-related business"; (4) the average duration of lending or investment projects was 8.2 years; and (5) there were 47 borrower financial institutions and 1,342 lending or investment projects.

Some members -- noting that borrowers included various types of financial institutions and their lending or investment covered broad areas for strengthening the foundations for economic growth, including "others" -- expressed the opinion that financial institutions, taking into account the characteristics of their customer base and the regions they served, were making a range of efforts. A few members said that the measure was producing positive effects as a catalyst, as evidenced by the number of financial institutions qualified for the measure increasing toward the second new loan disbursement, and by several financial institutions having established -- with the introduction of the measure --

new dedicated funds and lending schemes. Based on this discussion, many members expressed the view that, in order to continue to offer support as broadly as possible for the efforts that private financial institutions were making on their own initiative toward strengthening the foundations for economic growth, the Bank should continue to sufficiently exchange views with them and provide funds in accordance with the measure's objective.

IV. Remarks by Government Representatives

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

(1) In the "New Growth Strategy," the government stated that it regarded overcoming deflation as the top-priority task in its macroeconomic policy management; in overcoming deflation, it aimed to make the CPI inflation rate positive by the end of fiscal 2011, and quickly achieve and maintain a positive inflation rate.

(2) The situation of the Japanese economy remained difficult. While the foundation for a self-sustaining recovery remained fragile -- as seen in the fact that the employment situation remained severe, especially for new graduates and younger people, and many regions were suffering from continued difficulties -- the Japanese economy faced heightened risks of experiencing negative impacts from the possibility of further and prolonged appreciation of the yen and a possible slowdown in overseas economies.

(3) In order to respond flexibly to downside risks to the economy and accelerate the implementation schedule of the policies in the "New Growth Strategy," the government had decided to implement carefully selected policies that would produce an immediate impact and high effectiveness in boosting demand and employment. For this purpose, the Cabinet had recently decided the "Basic Policy for a New Economic Stimulus Package" consisting of five main pillars, such as measures for employment. The government would endeavor to properly carry out its economic stimulus package in line with the "Basic Policy for a New Economic Stimulus Package."

(4) The Bank recognized, as did the government, that overcoming deflation was a policy objective that both entities shared, and expressed its determination in the unscheduled Monetary Policy Meeting held on August 30 that it would further enhance easy monetary conditions and continue to consistently make its utmost contributions as central bank by working together with the government, which would proceed with its

economic stimulus package. The government expected the Bank to conduct monetary policy in an appropriate and flexible manner in response to economic and financial developments. It also expected the Bank to clearly explain to market participants and the public its thinking on the future conduct of monetary policy.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy faced heightened risks of experiencing negative impacts from the possibility of further and prolonged appreciation of the yen and a possible slowdown in overseas economies, especially the U.S. economy. As for prices, deflation continued, as evidenced by the fact that the year-on-year rate of change in the CPI for July was minus 1.1 percent, which included the effects of subsidies for high school tuition of about minus 0.5 percentage point, marking the 17th consecutive month of negative figures. Overcoming deflation was the government's primary target for the time being in its economic policy management.

(2) In order to respond flexibly to downside risks to the economy caused by such factors as the appreciation of the yen and to help build the foundation for swiftly overcoming deflation, the Cabinet would decide a new economic stimulus package on September 10, to be financed by the economic crisis response and regional revitalization reserve funds. Depending on the economic and employment conditions, the government was prepared to make swift and flexible responses if necessary, including preparing a supplementary budget.

(3) The government expected the Bank to remain well aware that overcoming deflation was a policy objective that both entities shared, and to 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, Mr. R. Miyao, and Mr. Y. Morimoto.
>
> 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 August 9 and 10, 2010 for release on September 10, 2010.

Attachment

September 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,[6] to set the following guideline for money market operations for the intermeeting period:

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

2. Japan's economy shows further signs of a moderate recovery. Exports and production have been increasing, albeit at a slower pace. Business fixed investment is showing signs of picking up. The employment and income situation has remained severe, but the degree of severity has eased somewhat. In these circumstances, private consumption has been generally picking up and has recently been boosted by the extremely hot weather and a last-minute increase in demand for durable consumer goods ahead of the expiration of the policy measure. Public investment is declining. Meanwhile, financial conditions have continued to show 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 slowing trend in the pace of decline has continued.

3. The Bank's baseline scenario projects that the economy is likely to be on a recovery trend. With regard to prices, based on the assumption that medium- to long-term

[6] 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, Mr. R. Miyao, and Mr. Y. Morimoto.
Voting against the action: None.

inflation expectations remain stable, the year-on-year rate of decline in the CPI (excluding fresh food) is expected to slow as the aggregate supply and demand balance improves gradually.

4. With regard to economic activity, there are some upside risks such as faster growth in emerging and commodity-exporting economies. On the other hand, against the backdrop of increased uncertainty about the future, especially for the U.S. economy, and associated instability in the foreign exchange and stock markets, attention should be paid to downside risks to Japan's economy. 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, while 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 Japan's economy faces the critical challenge of overcoming deflation and returning to a sustainable growth path with price stability. To this end, the Bank has been striving to pursue powerful monetary easing, ensure financial market stability, and support strengthening the foundations for economic growth, and it will continue to consistently make such contributions as central bank. In the conduct of monetary policy, the Bank will maintain the extremely accommodative financial environment. The Bank will carefully examine the outlook for economic activity and prices, and, if judged necessary, take policy actions in a timely and appropriate manner.