Not to be released until 8:50 a.m. Japan Standard Time on Friday, May 8, 2009.

May 8, 2009

Bank of Japan

Minutes of the Monetary Policy Meeting

on April 6 and 7, 2009

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

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Monday, April 6, 2009, from 2:00 p.m. to 4:31 p.m., and on Tuesday, April 7, from 9:00 a.m. to 12:17 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. A. Mizuno

Mr. T. Noda

Mr. S. Nakamura

Mr. H. Kamezaki

Government Representatives Present

Mr. W. Takeshita, Senior Vice Minister of Finance, Ministry of Finance[2]

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

Mr. B. Fujioka, Vice Minister for Policy Coordination, 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. M. Ayuse, Associate Director-General, Monetary Affairs Department[4]

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on April 30, 2009 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. W. Takeshita was present on April 7.

[3] Mr. C. Kawakita was present on April 6.

[4] Mr. M. Ayuse was present on April 7 from 9:00 a.m. to 9:19 a.m.

Mr. T. Sekine, Associate Director-General, Monetary Affairs Department

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

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

Mr. E. Maeda, Associate Director-General, Research and Statistics Department

Mr. T. Nunami, Director-General, International Department

Secretariat of the Monetary Policy Meeting

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

Mr. K. Shigyoh, Director, Deputy Head of Secretarial Services for the Board, Secretariat of the Policy Board

Mr. T. Kato, Senior Economist, Monetary Affairs Department

Mr. T. Sakamoto, Director, Head, Monetary Operations Planning, Monetary Affairs Department[5]

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

Mr. R. Hattori, Senior Economist, Monetary Affairs Department

[5] Mr. T. Sakamoto was present on April 7 from 9:00 a.m. to 9:19 a.m.

I. Summary of Staff Reports on Economic and Financial Developments[6]

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 17 and 18, 2009.[7] The uncollateralized overnight call rate had been at around 0.1 percent.

With the fiscal year-end approaching, the Bank further increased the provision of funds maturing over the fiscal year-end and actively purchased Japanese government securities (JGSs) and CP under repurchase agreements. The Bank continued to conduct outright purchases of CP and corporate bonds, special funds-supplying operations to facilitate corporate financing, and U.S. dollar funds-supplying operations against pooled collateral.

B. Recent Developments in Financial Markets

Japan's money market had been nervous toward the fiscal year-end, but strains had eased somewhat since the turn of the fiscal year. Specifically, the general collateral (GC) repo rates and yields on government bills increased toward the fiscal year-end, but then declined. Meanwhile, Euroyen rates had declined partly due to the expansion of funds-supplying measures taken by the Bank, but remained at a relatively elevated level, particularly those on term instruments with longer maturities. Interest rates on CP with low ratings had been at relatively high levels as investors were highly selective about the issues they purchased, but those on CP with high ratings had declined, generally to below the TIBOR rates.

Japanese stock prices had risen, mainly in response to the rebound in U.S. stock prices. The Nikkei 225 Stock Average had been moving in the range of 8,500-9,000 yen recently. Long-term interest rates in Japan had risen, and the benchmark rate had recently been at around 1.45 percent.

The yen temporarily appreciated against the U.S. dollar, but dropped thereafter, and had recently been in the range of 100-101 yen to the dollar.

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

[7] 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

U.S. economic conditions had continued to deteriorate significantly. Housing investment declined substantially, and home prices continued to fall. With business fixed investment contracting noticeably and private consumption on a declining trend, production had been decreasing. The number of employees had been declining considerably, and the unemployment rate had been rising. Funding conditions for firms and households had remained tight. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items had increased somewhat due to the recent increase in energy prices, although increases in food prices had been leveling off. That in the CPI for all items less energy and food, or the core CPI, had been in the range of 1.5-2.0 percent.

Economic conditions in the euro area had continued to deteriorate significantly. Private consumption, business fixed investment, and housing investment had decreased, in addition to the continuing decline in exports. As for prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) had declined substantially. Economic conditions in the United Kingdom had also continued to deteriorate significantly, mainly reflecting the ongoing considerable adjustments in the housing market and a declining trend in private consumption.

The Chinese economy had decelerated significantly as a whole due to the decline in exports, although domestic demand continued to show high growth. Economic growth in India had also decelerated significantly, and economic conditions in the NIEs and the ASEAN countries had deteriorated significantly. As for prices, the year-on-year rate of increase in the CPI had been on a declining trend in many Asian economies.

Global financial markets remained under strain. Treasury-Eurodollar (TED) spreads and credit spreads on CP had been more or less unchanged at relatively high levels. Credit spreads on corporate bonds also remained at high levels. Meanwhile, U.S. and European stock prices increased somewhat in response to the announcement of financial stabilization measures by the U.S. authorities. U.S. and European long-term interest rates had been unstable, with concerns about a possible increase in the issuance of government bonds on one hand and about downside risks to the economy on the other.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had decreased substantially. They were expected to remain on a downtrend for the time being, but the pace of decline was expected to moderate as adjustment pressures on Japanese firms' overseas inventories waned.

With regard to domestic private demand, business fixed investment had declined substantially, mainly due to the faster decrease in corporate profits and the significant deterioration in business sentiment. It was likely to continue declining significantly for the time being, given the continuing severe situation in corporate profits and firms' funding, as well as the growing sense of excessive capital stock among firms.

Private consumption had weakened, as the employment and income situation had become increasingly severe. The decrease in the number of new passenger-car registrations had accelerated. Sales at department stores and supermarkets had continued to be relatively weak, since consumers had further curtailed their purchases. Indicators of consumer sentiment had stayed at extremely low levels, mainly due to weak stock prices and growing employment uncertainty, although they seemed to have stopped declining, mainly reflecting the decline in gasoline prices. Private consumption was likely to continue weakening for the time being, as the employment and income situation would become increasingly severe.

Housing investment had decreased. It was expected to continue decreasing for the time being, given the sluggishness in housing starts.

Production had decreased substantially, reflecting weaker domestic and overseas demand and the adjustment pressures on inventories. It was likely that production would remain on a downtrend reflecting weaker domestic and overseas demand, but the pace of decline was expected to moderate as adjustment pressures on inventories waned. Inventories had started to decrease due to the substantial reduction in production, but with the faster pace of decrease in shipments the shipment-inventory balance had still continued to deteriorate as a whole.

The employment and income situation had become increasingly severe, with the labor market slackening substantially and household income decreasing noticeably. Household income was likely to continue declining for the time being in response to the decrease in corporate profits and production.

On the price front, commodity prices, which peaked in summer 2008 and dropped substantially thereafter, had since been essentially flat at low levels on the whole. The three-month rate of change in the domestic corporate goods price index (CGPI) had continued to be negative and the CGPI was likely to continue decreasing for the time being, mainly due to the declines in commodity prices. The year-on-year rate of increase in the CPI (excluding fresh food) had declined to 0 percent, reflecting the declines in the prices of petroleum products and the stabilization of food prices. It was expected to become negative, mainly due to the above factors and also to increasing slackness in supply and demand conditions in the overall economy.

2. Financial environment

Financial conditions had remained tight. The overnight call rate had been at an extremely low level, but the stimulative effects from this had become increasingly limited given the significant deterioration in economic activity. Firms' funding costs had declined compared to their levels at the end of 2008, following the reductions in the policy interest rate and improvements in issuance conditions in the CP market. The amount outstanding of CP and corporate bonds issued had been increasing since a while ago, and that of bank lending, especially to large firms, had continued to increase rapidly. However, issuance of corporate bonds by firms with low credit ratings had remained subdued, and an increasing number of firms had reported that their financial positions were weak and lending attitudes of financial institutions were severe. The year-on-year rate of change in the money stock had been around 2 percent.

II. Expansion of the Range of Loans on Deeds to the Public Sector to Be Accepted as Eligible Collateral

A. Staff Proposal

With a view to ensuring stability in financial markets by further facilitating the Bank's money market operations, the staff would like to propose that the Bank take the necessary steps, such as amendments to Guidelines on Eligible Collateral, to enable the Bank to accept, as eligible collateral for the Bank's provision of credit, a wider range of loans on deeds extended by financial institutions to the public sector. Specifically, the Guidelines should be amended to (1) expand the range of loans on deeds to the government and loans on deeds with government guarantees and (2) include loans on deeds to municipal governments.

B. Discussion by the Policy Board and Vote

A few members expressed the view that this measure would contribute to ensuring stability in financial markets as it would expand the range of assets that could be used as collateral by financial institutions. One of these members said that the Bank should carefully explain the purpose of this measure so as to prevent misunderstanding, as it might be thought incorrectly that financial institutions were already facing difficulties in putting up collateral.

Some members said that loans on deeds to the public sector that the Bank would accept as collateral should be those whose loan conditions were competitively determined through, for example, auctions, as it was important to ensure the marketability of assets the Bank would accept as collateral.

Based on the above discussion, members voted unanimously to approve the proposal and agreed that the decision should be made public.

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

A. Economic Developments

Members shared the view that <u>overseas economic conditions</u> had been deteriorating as a whole. Many members said that signs of a slowing of the pace of deterioration had been seen in some economies: for example, the effects of expansion of fiscal spending starting to manifest themselves, and production leveling out with the progress in inventory adjustments. Members nevertheless agreed that there was a high degree of uncertainty regarding the outlook for the global economy, in a situation where the adverse feedback loop between financial and economic activity had been operating around the world and a vicious circle of decrease in production, income, and spending had been continuing. Some members expressed the view that overseas economies were currently experiencing adjustments of excesses that had accumulated over the past several years, and it would take time for these adjustments to be completed. These members continued that, even when they were completed, the growth rates of overseas economies would be lower than the high rates in the past.

Many members said that global financial markets remained unstable. One member noted that, amid persisting concerns about the financial soundness of U.S. and European financial institutions, in money markets TED spreads remained elevated. Some members said that, in credit markets, credit spreads on corporate bonds were also high. Some members were of the view that market sentiment had improved somewhat, as evidenced by, for example, the rise in stock prices, due to the fact that the launch of the Public-Private Investment Program by the U.S. government had raised expectations of progress in financial institutions' disposal of impaired assets and a consequent improvement in their financial soundness. Some members, however, commented that whether disposal of impaired assets would progress depended on sales prices of these assets. They continued that it was therefore necessary to pay close attention to how those prices would be set.

Turning to the U.S. economy, members concurred that economic conditions had continued to deteriorate significantly as the adverse feedback loop between financial and economic activity worsened. One member pointed out that positive signs had been seen in the housing market, such as the release of indicators that were stronger than market expectations. Against this view, some members said that, given the ongoing deterioration in the employment and income situation, the improvement in housing-related indicators was likely to be a temporary matter of a single month's figures. Moreover, a few members were of the opinion that adjustments in the housing market had not been completed yet given the continuing fall in home prices.

With regard to the economy of the euro area, some members expressed the view that economic conditions had deteriorated significantly. One member said that, although sales of passenger cars had shown a large increase recently reflecting the impact of government policy incentives, private consumption as a whole was weakening as the employment and income situation deteriorated. A different member commented that the financial crisis had significantly worsened the condition of Central and Eastern European economies -- the euro area's major trading partners -- and this had also been affecting the economy of the euro area adversely.

Some members expressed the view that the Chinese economy had decelerated significantly. Many members, however, commented that the large-scale economic stimulus package and successive monetary easing measures had produced positive effects, as seen in, for example, a significant increase in bank lending and a substantial rise in fixed investment. Some members said that, in the NIEs and the ASEAN countries, production had leveled out due mainly to progress in inventory adjustments of IT-related goods.

Based on the above discussion on economic and financial conditions abroad, members discussed the state of Japan's economy. They shared the view that economic conditions had deteriorated significantly given the following factors: (1) exports had been decreasing substantially reflecting the deterioration in overseas economic conditions; (2) domestic demand had become weaker against the background of declining corporate profits and the worsening employment and income situation in the household sector; and (3) financial conditions had remained tight. Based on this view, members shared the following assessment: the pace of decline in exports and production was expected to moderate as inventory adjustments progressed both at home and abroad, and deceleration of the rapid economic deterioration since autumn 2008 was now in prospect; nonetheless, factors such as the worsening employment and income situation were expected to weaken domestic private demand further; and as a result, economic conditions were likely to continue deteriorating for the time being. One member noted that the deterioration in the diffusion indices for business conditions in the March *Tankan* (Short-Term Economic Survey of Enterprises in Japan) was in line with the above assessment. A few members commented that recent developments in economic indicators suggested that Japan's economy had been weaker than anticipated in the interim assessment in January of the projections presented in the October 2008 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report).

As for the outlook, members agreed that -- assuming that expectations about medium- to long-term growth would remain generally unchanged -- the economy was likely to start recovering, at the earliest, from the latter half of fiscal 2009 as global financial markets regained stability and overseas economies moved out of their deceleration phase, although this projection was attended by a significant level of uncertainty. One member pointed out the possibility that, given the growing perception among firms of having excessive capital stock and labor, future adjustments might be on a large scale, and economic recovery might be delayed, with its pace more modest than anticipated.

With regard to developments in each demand component, members agreed that exports had decreased substantially. A few members referred to the fact that the month-on-month pace of decline in real exports moderated in February. These members continued that Japan's export environment had started to improve, as shown by, for example, the slight improvement in Japanese manufacturers' forecasts of future overseas supply-demand conditions for products in the March *Tankan*, against the background that orders from China and the NIEs had increased and there had been progress in adjustments of Japanese firms' overseas inventories. Based on this view, members concurred that the pace of decline in exports was likely to continue to moderate for the time being. Some members added, however, that with regard to the more distant future, the outlook for Japan's export environment, such as developments in overseas economies, remained highly uncertain.

Some members said that business fixed investment had declined substantially. Some members, referring to the growing perception among firms of having excessive capital stock, expressed the view that if economic adjustments lasted for a long time and consequently the economy's resiliency weakened, firms' expectation of medium- to long-term growth might decline, depressing business fixed investment further. One member was of the opinion that business fixed investment in nonmanufacturing firms might decrease further, as deterioration in manufacturers' performance would eventually affect nonmanufacturing firms.

Some members said that private consumption had weakened as the employment and income situation had become increasingly severe. A few members expressed the view that private consumption was likely to weaken further, as the rise in the share of labor in income distribution would inevitably cause firms to reduce wages and the number of employees to a greater extent, worsening the employment and income situation further.

Members agreed that production had decreased substantially, reflecting weaker domestic and overseas demand and the adjustment pressures on inventories. As for the outlook, they concurred that the pace of decline in production was expected to moderate, as the production forecast index had leveled out reflecting the progress in inventory adjustments in the IT- and automobile-related industries. One member said that there was a high degree of uncertainty regarding the outlook for domestic and overseas demand, and distributors' inventories might increase if sales declined, and due attention should therefore be paid to the risk that inventory adjustment pressures might increase.

Members agreed that the year-on-year rate of increase in the CPI (excluding fresh food) had declined to 0 percent recently, reflecting the declines in the prices of petroleum products and the stabilization of food prices, and was likely to become negative for the same reasons and due also to increasing slackness in supply and demand conditions in the overall economy. Some members said that the risk of a decline in firms' and households' expectations about medium- to long-term inflation would warrant attention, as downward pressure on prices would strengthen in tandem with a widening of the negative output gap. Some members noted that consumers had a stronger preference for inexpensive goods and services, and firms, especially retailers, had reduced sales prices. These members continued that the difference between the number of items whose prices had risen and those whose prices had declined had continued to narrow. However, from a longer-term perspective, one member expressed the view that, unless appropriate policy actions were taken as the global economy recovered, there was a risk that the rate of inflation worldwide might become higher than expected.

B. Financial Developments

Members concurred that financial conditions in Japan had remained tight as a whole despite improved issuing conditions for CP and corporate bonds. One member said that although the pace of the weakening of firms' financial positions, which had been rapid until recently, seemed to have moderated, firms had remained highly cautious about future availability of funds because of worsening business performance and anxiety about the future environment for corporate financing. A few members expressed the view that corporate financing conditions were likely to become less tight for the following reasons: on the demand side, it was likely that firms' credit demand for working capital would decrease due to progress in inventory adjustments and the drop in materials prices and that demand for equipment funds would also decrease; on the supply side, the amount outstanding of bank lending continued to increase rapidly and issuing conditions for CP were improving. Many members including these members then raised three risks that should be kept in mind with regard to future developments in corporate financing: (1) the possibility that corporate results for fiscal 2008 might cause financial institutions and the market to see firms' credit risk as having increased; (2) the risk that issuing conditions of corporate bonds might worsen given that large amounts were due for redemption in the near future; and (3) the risk that financial institutions' capital constraints might tighten due to a fall in stock prices. One member added that, if these risks materialized, the consequent tightening in corporate financing might increase downward pressures on economic activity.

IV. 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 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.

Members discussed the effects of the policy measures taken so far to facilitate corporate financing. First, regarding the Bank's special funds-supplying operations to facilitate corporate financing, one member noted that provision of funds through these operations had been increasing, producing positive effects, such as lowering of interest rates on term instruments. And second, with regard to outright purchases of CP and corporate bonds, many members said that such purchases had been steadily producing positive effects, as evidenced by improvements in issuing conditions for these instruments. One member expressed the view that the Bank's outright purchases of CP had been contributing to improvements in issuing conditions not only for CP with high ratings but also for CP with low ratings and corporate bonds. A different member pointed out that, due partly to the effects of the Bank's outright purchases of CP, the issuance rates of some CP with high ratings had fallen below yields on government bills. The member then raised the possibility that, if this situation continued for a long time, market participants would be deprived of investment opportunities and this might have negative effects on market functioning. As for the call from the market for the Bank to purchase larger amounts of corporate bonds and those with longer residual maturities, some members commented that it would not be appropriate for the Bank to partially take over the function of the corporate bond market, and that the Bank's purchases of corporate bonds were satisfactorily fulfilling their purpose of providing a safety net.

As in the previous meeting, members discussed the basic principle of outright purchases of Japanese government bonds (JGBs) based on which the Bank decided at that meeting to increase the amount of such purchases. One member emphasized the importance of carefully explaining that the Bank had decided to increase the amount of outright purchases of JGBs in order to make greater use of its long-term funds-supplying operations, thereby facilitating smooth funds-supplying operations, and that the purpose of the Bank's purchases was therefore different from that of the outright purchase of government bonds that the Federal Reserve and the Bank of England had recently introduced. In relation to this, a few members expressed the opinion that, if a central bank were to purchase government bonds to stabilize long-term interest rates, the volatility of long-term interest rates would in fact increase. Members then discussed the "banknote principle" and some members commented that, since the meaning and role of the principle were not fully understood by the public, the Bank should explain carefully the significance of it. One of these members said that in Japan, where demand for short-term funds tended to fluctuate greatly due to institutional and seasonal factors, the Bank should, in order to avoid volatility in interest rates reflecting fluctuations in demand for short-term funds, ensure smooth money market operations based on the following thinking: reserve deposits and other liabilities the amount of which changed in the short term should be backed by short-term financial assets obtained by the Bank through its funds-supplying operations; and the Bank's holdings of JGBs -- long-term assets of the Bank -- should be limited within the amount outstanding of banknotes, which were regarded as long-term liabilities. Based on these discussions, members shared the view that the banknote principle was essential for smooth money market operations.

As for the future conduct of monetary policy, members agreed that the Bank should continue to conduct monetary policy in line with measures taken so far, which could be divided into three areas: reductions in the policy interest rate, provision of ample liquidity to ensure stability in financial markets, and steps to facilitate corporate financing. A few members said that, if forecasts for economic growth were revised downward in the upcoming April 2009 Outlook Report, expectations for additional policy measures might increase. They continued, however, that the recent policy measures were decided in a forward-looking manner at the February and March meetings, at which Policy Board members shared the view that the state of the economy was becoming increasingly severe, and the Bank should explain this carefully to the public. Some members said, however, that if corporate financing conditions became more severe than expected, the Bank might, depending on the situation, need to take additional measures to facilitate corporate financing.

V. Remarks by Government Representatives

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

(1) The government understood that the Bank continued to assess Japan's economic and financial conditions as very severe.

(2) Under instructions from the Prime Minister relating to economic measures, the government was working to formulate plans for measures with new fiscal outlays (the so-called "fresh water" portion) amounting to over 2 percent of GDP, and doing its utmost to finalize them as early as possible.

(3) The current severe economic conditions should continue to be addressed by both monetary and fiscal policy measures. The government would like the Bank to continue to support the economy by conducting monetary policy in an appropriate and flexible manner.

The representative from the Cabinet Office made the following remarks.

(1) With a view to addressing rapid deterioration in Japan's economy, the government was implementing economic measures amounting to 75 trillion yen in total and working to advance projects included in the budget for fiscal 2009 ahead of schedule. Moreover, on March 31, the Prime Minister had given instructions to swiftly formulate a "Policy Package to Address Economic Crisis," which was a comprehensive economic package aimed at (1) preventing the economy from falling into a negative spiral, (2) securing employment and giving support to people in their daily lives, and (3) paving the way for future growth.

(2) The government would like to request the Bank to ensure stability in financial markets. Given the recent severe economic and financial conditions at home and abroad, the government would also like the Bank to support the economy by conducting monetary policy in an appropriate and flexible manner, taking account of the government's policy efforts.

(3) The government understood that the expansion of the range of eligible collateral for the Bank's provision of credit, decided at this meeting, would be effective in preventing disruptions in the flow of credit.

VI. 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 the 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. A. Mizuno, Mr. T. Noda, Mr. S. Nakamura, and Mr. H. Kamezaki.
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> Votes against the proposal: None.

VII. Discussion on the Statement on Monetary Policy

Members discussed the Statement on Monetary Policy, and put it to the 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).

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of March 17 and 18, 2009 for release on April 10, 2009.

Attachment

April 7, 2009

Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by a unanimous vote,[Note] 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. The Bank also decided to expand the range of eligible collateral for its provision of credit to further facilitate money market operations as follows (see "Amendments to 'Guidelines on Eligible Collateral'"):

    a. Expand the range of eligible collateral for loans on deeds to the government and those with government guarantees

    b. Accept loans on deeds to municipal governments as eligible collateral

3. Exports have been decreasing substantially reflecting the deterioration in overseas economic conditions, and domestic demand has become weaker against the background of declining corporate profits and the worsening employment and income situation in the household sector. Financial conditions have remained tight on the whole, despite improvements in issuing conditions for CP and corporate bonds. Under these

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

circumstances, economic conditions have deteriorated significantly. The pace of decline in exports and production is expected to moderate as inventory adjustments progress both at home and abroad, but economic conditions are likely to continue deteriorating for the time being due to a further weakening in domestic private demand. Meanwhile, CPI inflation (excluding fresh food) has recently moderated reflecting the declines in the prices of petroleum products and the stabilization of food prices, and, with increasing slackness evident in supply and demand conditions, will likely become negative. The Bank's baseline scenario through fiscal 2010, in which expectations of both medium- to long-term growth and inflation are assumed to remain generally unchanged, projects that the economy will start recovering from the latter half of fiscal 2009, with price declines abating as global financial markets regain stability and overseas economies move out of their deceleration phase. Although this scenario offers the prospect of the economy returning to a sustainable growth path with price stability in the latter half of the projection period, uncertainty is high.

4. With regard to risk factors, much depends on global financial conditions as well as developments in overseas economies, and attention will need to be paid to the downside risks posed to economic activity. In addition, there is the risk of a further weakening in domestic private demand if firms' medium- to long-term growth expectations decline and pressures to adjust capital stocks and employment increase. If financial conditions should tighten further, pressures acting to depress economic activity from the financial side may become more marked and the adverse feedback loop between financial and economic activity may intensify. Turning to prices, there is a possibility that the inflation rate will decline further if downside risks to economic activity materialize or commodity prices fall. In this case, the risk of a decline in the medium- to long-term inflation expectations of firms and households warrants attention.

5. In order to support the economy, since last fall the Bank has taken various monetary policy actions in three main areas: reducing the policy interest rate; ensuring stability in financial markets; and facilitating corporate financing. Today's decision to expand the range of eligible collateral was made with a view to ensuring stability in financial

markets. In addition, to secure stability in the financial system, the Bank resumed its purchases of stocks held by banks, and is examining the specifics of providing subordinated loans to banks. The Bank will continue to exert its utmost efforts as a central bank to facilitate the return of Japan's economy to a sustainable growth path with price stability.