Not to be released until 8:50 a.m. Japan Standard Time on Thursday, November 26, 2009.

November 26, 2009

Bank of Japan

Minutes of the Monetary Policy Meeting

on October 30, 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 Friday, October 30, 2009, from 9:00 a.m. to 1:00 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. Y. Noda, Senior Vice Minister of Finance, Ministry of Finance

Mr. K. Tsumura, Parliamentary Vice-Minister, Cabinet Office

Reporting Staff

Mr. A. Horii, Executive Director (Assistant Governor)

Mr. K. Ido, Executive Director

Mr. H. Nakaso, Executive Director

Mr. M. Amamiya, Director-General, Monetary Affairs Department

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

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

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

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

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

[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on November 19 and 20, 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.

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. T. Sakamoto, Associate Director-General, Monetary Affairs Department[2]

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

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

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[2] Mr. T. Sakamoto was present from 11:25 a.m. to 1:00 p.m.

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

A. Money Market Operations in the Intermeeting Period

The Bank conducted money market operations in accordance with the guideline decided at the previous meeting on October 13 and 14, 2009.[4] The uncollateralized overnight call rate had been at around 0.1 percent.

With a view to ensuring market stability, the Bank continued to conduct money market operations in a flexible manner in response to changes in the market situation, as evidenced by its continued provision of ample funds and its active purchases of Japanese government securities (JGSs) and CP under repurchase agreements. The Bank also continued to conduct outright purchases of CP, special funds-supplying operations to facilitate corporate financing, and U.S. dollar funds-supplying operations against pooled collateral. In outright purchases of CP and U.S. dollar funds-supplying operations against pooled collateral, the bidding amounts had decreased further, as financial institutions' demand for liquidity had declined reflecting a recovery in market functioning. In particular, there was no bidding in three recently conducted outright purchases of CP.

B. Recent Developments in Financial Markets

In Japan's money market, interest rates had been stable at low levels as there was a strong sense of an abundance of liquidity in the market. General collateral (GC) repo rates had generally been stable in the range of 0.10-0.15 percent. Interest rates on term instruments showed the following developments. Yields on government bills, including those with a one-year maturity, had been stable in the range of 0.1-0.2 percent. In the CP market, issuing conditions had been favorable: issuance rates on some high-rated CP had been below yields on government bills, and those on low-rated CP had been below their levels seen just before the failure of Lehman Brothers. Euroyen rates with longer maturities had generally been stable, albeit at relatively elevated levels compared with the yields on government bills.

Japanese stock prices rose moderately, partly reflecting U.S. firms' solid earnings reports, but then declined slightly. The Nikkei 225 Stock Average had recently been

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

[4] The guideline was as follows:

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

moving at around 10,000 yen, roughly the same level observed at the time of the previous meeting. Long-term interest rates in Japan had risen slightly, partly because of the rise in U.S. and European long-term interest rates. The benchmark rate had recently been at around 1.4 percent.

The yen had depreciated slightly against the U.S. dollar and had recently been traded at around 91 yen to the dollar.

C. Overseas Economic and Financial Developments

The world economy had picked up.

U.S. economic activity had started to pick up. Private consumption as a whole had been more or less unchanged, although car sales had fallen after the end of sales promotion measures by the government. Housing investment had picked up, and the decline in home prices was coming to a halt. Production had been increasing due to progress in inventory adjustments. As for prices, the year-on-year rate of change in the consumer price index (CPI) for all items was in the range of minus 1.0 to minus 1.5 percent, mainly because of a substantial drop 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 fallen moderately.

Economic conditions in the euro area were showing signs of recovery. Economic conditions in the United Kingdom had stopped worsening, partly reflecting a slower pace of decline in private consumption, a pick-up in production, and progress in housing market adjustments.

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 strongly. Exports had recently picked up. Under these circumstances, production had continued to increase. The Indian economy had also continued to grow at a relatively rapid pace. With regard to prices, the downward trend in the year-on-year rate of change in the CPI for all items had come to a halt in many Asian economies.

As for global financial markets, money markets were regaining stability, as evidenced by the fact that Treasury-Eurodollar (TED) spreads had fallen to around the levels seen in summer 2007. Credit spreads on corporate bonds had generally been on a decreasing trend, although those on low-rated bonds remained at high levels. In the

United States and Europe, stock prices had been more or less flat, while long-term interest rates had risen somewhat.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had been rising, due to the improvement in overseas economic conditions. In July-September, real exports realized a double-digit increase on a quarter-on-quarter basis for the second consecutive quarter. In terms of goods, exports of all types -- including capital goods and parts, which fell in the April-June quarter -- rose in the July-September quarter.

Public investment had been increasing, albeit with some fluctuations. It was expected to level off and start decreasing gradually, mainly reflecting the reduction in the supplementary budget for fiscal 2009.

The decline in business fixed investment had been moderating. Shipments of capital goods (excluding transport equipment) picked up in the July-September quarter for the first time in about two years.

Production had been rising, reflecting progress in inventory adjustments and policy effects both at home and abroad. The index of production rose in September for the seventh consecutive month and was expected to continue increasing for the time being, mainly due to the policy effects.

On the price front, the year-on-year decline in the CPI (excluding fresh food) moderated slightly in September.

2. Financial environment

The financial environment, with some lingering severity, was increasingly showing signs of improvement.

According to the indicators that had become available since the previous meeting held on October 13 and 14, issuance spreads on low-rated CP had declined to a level below those seen just before the failure of Lehman Brothers, and the number of firms issuing corporate bonds had continued to increase. Issuing conditions for CP and corporate bonds had remained favorable, except for low-rated corporate bonds. Meanwhile, financial positions at small firms had remained weak.

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

A. Economic Developments

Members shared the view that overseas economies had picked up, mainly reflecting the positive effects of policy measures taken around the world, and were likely to continue improving.

Many members said that the state of global financial markets had been improving. A few members said that spreads on U.S. dollar-denominated term instruments had been stable, at around the level seen just before the BNP Paribas shock. Some members, however, were of the view that global financial markets remained somewhat unstable, since U.S. and European financial institutions still held significant amounts of impaired assets and the outlook for the world economy was highly uncertain.

Members concurred that U.S. economic activity had started to pick up and was likely to continue improving. Many members, noting that the real GDP growth rate became positive in the July-September quarter for the first time in five quarters, pointed to the evident positive effects of the government's car sales promotion measures and the tax credit for first-time homebuyers. As for the outlook, some members said that, although economic activity was likely to continue improving, mainly as a result of the progress in inventory adjustments and the positive policy effects, the pace of economic recovery was likely to be only moderate since the policy effects were expected to abate in a situation where balance-sheet adjustments had been weighing on the economy.

With regard to the economy of the euro area, members shared the view that economic conditions were showing signs of recovery due to an increase in exports to outside the euro area and a rise in production, and were likely to continue improving, albeit at a moderate pace.

As for emerging economies, many members said that the Chinese economy had continued to grow at a relatively rapid pace, led mainly by domestic demand, and economic conditions in the NIEs and the ASEAN countries were improving reflecting the increase in exports to China. One member attributed the favorable economic conditions in China partly to the success of the measures taken by the government in recent years to redistribute income from urban areas to agricultural areas. Some other members said that there might be an overheating in the Chinese economy, as exemplified by a significant surge in asset prices and robust growth in fixed asset investment.

Based on the above discussions on economic and financial conditions abroad, members discussed the state of Japan's economy. They concurred that, as with other economies, it had moved out of the phase of rapid and significant deterioration observed in the second half of fiscal 2008, and had started to pick up on the back of increases in exports and production. Many members, however, referred to the fact that domestic private demand continued to be weak, due in particular to the continued severity in the employment and income situation. Some members commented that, although the economy had started to pick up, it should be borne in mind that the level of economic activity was still low.

Regarding developments in each demand component, many members said that exports had been rising, mainly due to the improvement in overseas economic conditions, and were likely to continue increasing. A few members, however, raised the possibility that abatement of the policy effects abroad might adversely affect exports, especially of automobiles and automobile-related goods.

Members shared the view that public investment had been increasing, albeit with some fluctuations, but was expected to level off and start decreasing gradually.

Many members were of the view that the decline in business fixed investment, which mainly reflected weak corporate profits, had been moderating. A few members added that the pick-up in shipments of capital goods in the July-September quarter supported such a view. One member, however, highlighted the fact that domestic orders for machine tools in September were less than half of the year-earlier level, and expressed the opinion that the level of business fixed investment remained very low.

Most members expressed the view that private consumption had remained generally weak, although sales of some durable consumer goods had continued to rise primarily as a result of the positive effects of various policy measures.

Members agreed that production had been rising, reflecting progress in inventory adjustments and policy effects both at home and abroad. As for the outlook, they shared the view that production was likely to continue increasing for the time being, mainly due to the policy effects and overseas economic improvement. Some members said that firms were still cautious regarding future developments with respect to production in 2010 onward because developments in final demand remained highly uncertain.

Members concurred that the employment and income situation had remained severe. Some members, noting that the number of workers deemed more than necessary was increasing at firms, expressed the opinion that firms' perception of excess labor remained strong.

Many members said that the year-on-year decline in the CPI (excluding fresh food) moderated slightly in September, after accelerating somewhat mainly due to the prices of petroleum products, which were lower than their high levels of a year before, in addition to the substantial slack persisting in the economy as a whole.

B. Financial Developments

Members agreed that the financial environment, with some lingering severity, was increasingly showing signs of improvement.

Members concurred that issuing conditions for CP and corporate bonds had been favorable, except for low-rated corporate bonds. Many members were of the view that issuing conditions for CP had been favorable on the whole, as reflected in the fact that the issuance spreads on CP of all ratings, including those rated a-2, had narrowed to levels seen just before the failure of Lehman Brothers in autumn 2008. Regarding issuing conditions for corporate bonds, some members commented that there seemed to be some overheating in the market because investors had continued to be willing to purchase bonds rated A or higher, as evidenced by many cases in which bonds were issued at the bottom of the marketing range and those in which bond issuance exceeded the initially planned amount. Many members expressed the view that the continued sluggish issuance of low-rated corporate bonds was mainly attributable to the increase in credit risk due to weak business performance and also to structural factors -- such as weak demand by Japanese firms with low credit ratings for bond issuance -- rather than the market dysfunction. Based on this discussion, most members agreed that functioning of the CP and corporate bond markets taken as a whole had improved greatly. One member, however, expressed the opinion that the corporate bond market would likely continue to be nervous, given that the possibility of firms' downgradings could not be dismissed as there remained uncertainty about developments in corporate profits in the period approaching spring 2010, and that the Alternative Dispute Resolution -- a system that could be used for the revitalization and/or reorganization of firms -- was likely to be increasingly adopted by large firms.

As for firms' financial positions, members agreed that it had become much easier for large firms to satisfy their funding needs, while small firms had continued to have difficulty in doing so. A few members, referring to the fact that some firms had reduced the on-hand liquidity that they had accumulated for unexpected events, expressed the view that funding, not only for the run-up to the calendar year-end but also the fiscal year-end, had mostly been completed, at least among large firms. Some other members commented that uncertainty about corporate financing had decreased as Japan's economy had started to pick up. These members added that, nevertheless, attention should be paid to the fact that firms were still concerned about their cash availability -- especially during the run-up to the fiscal year-end, when credit demand increased -- partly because of their experience of the financial crisis since autumn 2008.

C. Outlook for Economic Activity and Prices

With regard to the outlook for economic activity, members agreed on the following assessment. Japan's economy was likely to improve gradually in the second half of fiscal 2009 on the back of improvements in overseas economies as well as the effects of economic policy measures. While the economy was expected to remain on a recovery trend in fiscal 2010, the pace of improvement was likely to be moderate until the middle of fiscal 2010. This was because the pace of recovery of the global economy was likely to remain moderate and also because, in Japan, pressures to adjust employment and wages were likely to remain, while effects of demand-boosting policy measures waned. Thereafter, as balance-sheet adjustments in the United States and Europe made fair progress, improvements in the corporate sector originating from exports were likely to spill over to the household sector. Therefore, in fiscal 2011 the growth rate of the economy was likely to reach a level clearly above the potential growth rate.

With regard to this future economic growth path, some members expressed the view that economic activity would likely continue to lack strength until the middle of fiscal 2010 -- when economic growth was likely to slow -- partly because improvement in the employment and income situation would probably be gradual. Some members said that economic recovery in Japan and overseas would not be smooth in a situation where the United States and Europe continued to suffer from balance-sheet adjustments and vulnerability in their financial systems. These members added that attention should be paid to the high probability that market developments would remain susceptible to changes in economic indicators.

Regarding the outlook for prices, members agreed on the following assessment. While the domestic corporate goods price index (CGPI) was expected to continue declining on a year-on-year basis in the second half of fiscal 2009 due to the deterioration in the aggregate supply and demand balance, the pace of decline would likely slow down reflecting the earlier rise in commodity prices. The rate of decline in the CGPI was likely to gradually moderate from fiscal 2010 onward as the slack in the economy dissipated. The year-on-year rate of decline in the CPI (excluding fresh food) was expected to slow down significantly in the second half of fiscal 2009, reflecting the waning effects of the drop in the prices of petroleum products from a year before. From fiscal 2010 onward, with medium- to long-term inflation expectations likely to remain stable, the rate of decline in the CPI (excluding fresh food) was likely to continue to moderate as the aggregate supply and demand balance improved.

Members shared the view that the upside and downside risks that could be anticipated at present were as follows. In relation to economic activity, they were (1) the possible consequences of balance-sheet adjustments in the United States and Europe, (2) developments in emerging and commodity-exporting economies, (3) future developments in the various policy measures taken by countries around the globe, and (4) firms' medium- to long-term expectations of future economic growth. In relation to the outlook for prices, such risks were (1) firms' and households' medium- to long-term inflation expectations, (2) uncertainty with respect to gauging the degree of slack in the economy or the state of utilization of labor and production capacity, and (3) developments in import prices.

With regard to the possible consequences of balance-sheet adjustments in the United States and Europe, many members noted the possibility that adjustment pressures might constrain households' and firms' spending more than expected and lead to weaker-than-projected growth of these economies. Some members, raising the possibility that further deterioration in the quality of commercial real estate loans might delay disposal of impaired assets at banks, said that the risk that an adverse feedback loop between financial and economic activity might reintensify had decreased but could not be ruled out yet. On the other hand, one member said that the recent recovery in profits of major overseas financial institutions and firms suggested that balance-sheet adjustments might progress faster than expected.

Many members expressed the view that developments in emerging and commodity-exporting economies and future developments in the various policy measures taken by countries around the globe were closely related to each other. On this point, some members commented that emerging and commodity-exporting economies might grow at a faster rate than expected as a result of large-scale stimulus measures taken in these economies coupled with capital inflow from advanced economies reflecting monetary easing there. These members added that an overheating in emerging and commodity-exporting economies was likely to induce a rise in commodity prices, which would in turn bring about a worsening of Japan's terms of trade and pose a downside risk to the country's economy.

As for firms' medium- to long-term expectations of future economic growth, many members said that it was possible that economic activity, particularly business fixed investment, might deviate downward from the projected growth path if there was a decline in such expectations, triggered for example by a decline in overseas economies. Some members commented that, if the growth rate gap between Japan and emerging economies widened, Japanese firms might accelerate their shift to overseas production and domestic business fixed investment consequently might become weaker than projected. One member said that some firms' revisions to their sales projections -- upward for the first half of fiscal 2009 but downward for the full fiscal year -- suggested that the risk of a decline in firms' medium- to long-term growth expectations might have increased. Meanwhile, a different member expressed the view that there was also a possibility that such expectations would increase if new policy measures to be taken by the new administration produced positive effects.

Regarding upside and downside risks to prices, many members said that attention should continue to be paid to the risk that, in a situation where the substantial slack in the economy was likely to persist, prices might become weaker than expected if firms' and households' medium- to long-term inflation expectations declined. On the other hand, some members expressed the opinion that an overheating in emerging economies and the resultant rise in commodity prices might cause prices to become stronger than expected through an increase in import prices.

Based on the above considerations, members assessed the economic and price situation from two perspectives.

Members made an assessment in terms of the first perspective, that is to say, they assessed the most likely outlook for economic activity and prices through fiscal 2011. They agreed that Japan's economy was likely to continue improving and the decline in prices was likely to moderate gradually. They shared the view that, if these developments continued, there were prospects for the economy to return to a sustainable growth path with price stability in the longer term.

Members then made an assessment in terms of the second perspective, that is to say, they examined the risks that they considered most relevant to the conduct of monetary policy, including risks that had a longer time horizon than the first perspective. In the area of economic activity, members shared the view that, while there were some upside risk factors, such as economic developments in emerging and commodity-exporting economies, there were still downside risk factors, although somewhat diminished, such as the possible negative consequences of balance-sheet adjustments in the United States and Europe or potential changes in firms' medium- to long-term growth expectations. Regarding the outlook for prices, they concurred that, while there was a possibility that inflation would rise more than expected due to an increase in commodity prices brought about by higher growth rates in emerging and commodity-exporting economies, there was a risk that the rate of inflation might fall due, for example, to a decline in medium- to long-term inflation expectations.

With regard to the balance of upside and downside risks to economic activity, many members expressed the view that they were generally more balanced compared with the time when the April 2009 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report) was released. However, one member commented that, in assessing the balance of the risks, not only a comparison with the previous assessment but also examination from various aspects was necessary, citing the following examples of such aspects: the distinction between the short-term and long-term risk balances, a comparison between the periods of large economic swings and ordinary economic cycles, and a comparison of views with those of the overseas authorities. A few members followed this argument with their view that -- while seeing risks as tilted to the downside in the short term, especially taking into account the possible negative consequences of balance-sheet adjustments in the United States and Europe -- they saw risks as somewhat tilted to the upside in the longer term in view of the strength in emerging and commodity-exporting economies. On this point, some other members said that they viewed risks as balanced or somewhat tilted to the downside even in the latter half of the projection period.

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 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 exchanged views on the manner of dealing with various temporary measures regarding money market operations, which had been introduced since autumn 2008. They concurred that Japan's financial environment, with some lingering severity, had been increasingly showing signs of improvement. They also agreed that, in order to ensure market stability and thereby facilitate corporate financing, it would become necessary to adopt the most effective method for money market operations that conformed to changes in financial markets.

Based on this understanding, members discussed the details as follows.

As for outright purchases of CP and corporate bonds, many members said that issuing conditions for CP and corporate bonds had been favorable, except for low-rated corporate bonds, and the bidding amounts in the Bank's outright purchases were very small or nonexistent -- suggesting in both cases that the intended purpose of restoring market functioning had been fully achieved. Some members noted that the Bank's purchases of CP had produced non-negligible negative side effects in the market; for example, the pricing that relied on the Bank's purchases had made issuance rates on CP less dispersed. Based on this discussion, most members expressed the view that it was appropriate to complete outright purchases of CP and corporate bonds at the end of 2009 as scheduled. However, one member expressed the opinion that the Bank's purchases of corporate bonds had continued to function as a safety valve for unexpected events and had not caused any major market distortion, and that outright purchases of corporate bonds should be continued given concerns that corporate bonds might be downgraded.

Members concurred that special funds-supplying operations to facilitate corporate financing had supported financial institutions' smooth funding through a decline in liquidity premiums in financial markets, where transactions experienced an extremely rapid contraction in the period immediately after autumn 2008, and had been highly effective in securing market stability. Some members said that the effects of the conventional funds-supplying operations against pooled collateral and the temporary special funds-supplying operations to facilitate corporate financing were becoming less different as financial markets stabilized and the bid rates in the former declined to about the same level as the fixed rate of 0.1 percent applied to the latter. These members expressed the opinion that this special measure had largely served its intended purpose, but the Bank nevertheless should continue with its implementation through the fiscal year-end to fully ensure market stability. Based on this discussion, members agreed that the effective period of this special measure should be extended to March 2010.

Members also exchanged views on the way to conduct market operations from April 2010 onward. Some members said that the special funds-supplying operations to facilitate corporate financing had produced a negative side effect, in that issuance rates on some high-rated CP were below yields on government bills. Some members, in view of this side effect, were of the opinion that, with less of a difference in the impact between the conventional funds-supplying operations against pooled collateral and the temporary special funds-supplying operations to facilitate corporate financing, using the former was more appropriate than the latter for the purpose of ensuring market stability and facilitating corporate financing. In their view, this was because for the former the range of eligible collateral was wider and the maturity could be changed more flexibly to meet liquidity demand in financial markets. Based on this discussion, most members shared the view that the special funds-supplying operations to facilitate corporate financing should be completed at the end of March 2010, and that from April 2010 onward, in place of this special measure, the Bank should make full use of conventional operation tools such as the funds-supplying operations against pooled collateral -- for which a wider range of collateral was eligible -- to provide ample liquidity. One member added that, during this transition, the Bank should make efforts to curb interest rates on term instruments. Subsequently, most members said that providing advance notice about the completion of the special measure and the Bank's thinking on its conduct of market operations thereafter would increase the predictability in the markets of the future course of market operations, and thereby alleviate market anxiety. Counter to this view, one member said that announcing the future completion of the special measure at this point entailed the risks of impacting market stability and undermining the clarity of the Bank's stance to maintain the accommodative financial environment. Meanwhile, a different member expressed the view that, when judged necessary, the Bank should employ appropriate measures -- including reutilization of the special funds-supplying operations to facilitate corporate financing -- in a flexible and timely manner. All other members agreed with this view.

Some members were of the opinion that the expansion in the range of corporate debt and asset-backed CP (ABCP) eligible as collateral had contributed to a certain extent in relieving concerns about corporate financing, given that a considerable amount of such debt had still been pledged as collateral for the Bank's funds-supplying operations. Some other members expressed the view that, because most of the underlying assets of ABCP were of types such as firms' receivables and credits extended by firms, the expansion in the range of eligible collateral was also contributing to the facilitation of financing of small firms. Based on this discussion, many members said that, in view of some lingering severity in overall corporate financing conditions, the expansion in the range of eligible collateral should be extended through the end of 2010 so that the Bank could provide longer-term funds maturing beyond end-September 2010 -- the end of a semiannual book closing period for many Japanese firms.

Many members expressed the view that the complementary deposit facility had been effective in controlling interest rates while also providing ample liquidity. Members concurred that the facility should remain in effect for the time being, because it was necessary in order to provide ample funds sufficient to meet liquidity demand in financial markets for securing market stability.

After examining and discussing the impact and necessity of individual temporary measures comprehensively, members concurred that, for the purpose of increasing predictability in the markets, it was desirable to make decisions on individual temporary measures concurrently at this meeting and make them public immediately thereafter.

Some members were of the view that, if the Bank were to make public decisions on individual temporary measures immediately after this meeting, it would have to clearly explain to the markets that any announced changes regarding such measures did not indicate a shift in its monetary easing stance. Following this suggestion, members agreed to clearly decide the future course of monetary policy and announce it together with decisions on temporary measures.

As for the future conduct of monetary policy, members said that there were prospects for Japan's economy to return to a sustainable growth path with price stability in the longer term, but noted that the economy at this point was still on its way toward such a path. They also said that it was important to acknowledge that, while there were some upside risk factors to the economy, such as economic developments in emerging economies, there still were downside risk factors, such as the possible negative consequences of balance-sheet adjustments in the United States and Europe. Based on this view, they concurred that, in the conduct of monetary policy, the Bank would aim to maintain the extremely accommodative financial environment and also provide steady support for Japan's economy to return to a sustainable growth path with price stability, and that this consensus view would be presented in the October Outlook Report. With respect to the conduct of monetary policy for some time ahead, members agreed that the Bank should maintain the extremely accommodative financial environment by holding interest rates at their current low levels and providing ample funds sufficient to meet demand in financial markets, and that this consensus view would be presented in the statement to be released immediately after the meeting.

IV. Remarks by Government Representatives

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

(1) The Bank's October Outlook Report, for which the text would be decided later in this meeting, would for the first time present the outlook for economic activity and prices for fiscal 2011; thus, its content and the future course of the Bank's policy actions were drawing attention. As the rate of inflation was projected to be negative for an extended period, the government expected the Bank to put particular focus on clearly presenting its stance on, for example, how it would address elevated real interest rates and a possible decline in inflation expectations.

(2) Regarding the manner of dealing with the Bank's various temporary measures, the government expected the Bank to make decisions that would place an emphasis on alleviating anxiety, since Japan's economy continued to face various downside risks. The government expected the Bank to clearly explain not only the decreasing need for its outright purchases of CP and corporate bonds but also possible adverse effects that might be caused by continuing the purchases. It also expected the Bank to deliberate

on the manner of dealing with special funds-supplying operations to facilitate corporate financing by taking into account firms' concerns about their cash availability toward the fiscal year-end and the need for the Bank's provision of ample funds.

(3) In a situation where the manner of dealing with unconventional policy measures by central banks around the world was drawing attention, the government expected the Bank to clearly explain the consistency between the Bank's judgment regarding the manner of dealing with various temporary measures and its cautious outlook for economic activity and prices, which would be presented in the October Outlook Report, such that the Bank's intention and thinking would be communicated accurately.

The representative from the Cabinet Office made the following remarks.

(1) In the government's assessment, the Japanese economy had been picking up but the recovery was not autonomous, and the situation remained difficult as evidenced by the high unemployment rate. The government believed that this was broadly in line with the Bank's assessment to be presented in the Outlook Report, and thus there was a generally shared understanding about the economic conditions between the government and the Bank.

(2) As the Prime Minister stated in his policy speech on October 26, 2009, the government considered the following challenges to be of importance: (1) to put the Japanese economy on a recovery track driven by autonomous private-sector demand, while paying careful attention to economic trends and addressing such issues as the further deterioration of the employment situation, stagnant consumption, and the severe difficulties faced by local economies and cash-strapped small and medium-sized enterprises; and (2) to ensure sustainable growth while heeding the need for international policy coordination. The government would swiftly implement the "Emergency Employment Measures" announced on October 23, 2009, continue to pay attention to economic developments and the employment situation, and take decisive actions, using political leadership, in response to these developments.

(3) The government expected the Bank to pay attention to the risk of deflation and continue to support the economy through the conduct of monetary policy. It also expected the Bank to carefully examine market developments and take appropriate measures in order to facilitate flow of funds to firms, because they continued to face a severe business

environment and difficulty in funding.

(4) It was important that the Bank and the government frequently exchange views regarding economic and financial developments in order to appropriately conduct their respective policies. The government would like to propose that the two entities hold meetings, in view of Article 4 of the Bank of Japan Act of 1997.

In response to the remarks made by the representative from the Cabinet Office, the chairman expressed the following view with regard to the Bank's communication with the government: (1) in accordance with the Bank of Japan Act, the Bank had been engaged in exchanging views in an appropriate manner with the government and would continue to do so; and (2) the conduct of monetary policy would ultimately be discussed and decided by the Bank's Policy Board at the Monetary Policy Meetings pursuant to the Bank of Japan Act, but the Bank would like to continue engaging in an appropriate exchange of views with the government, as part of the basis for discussions at the Monetary Policy Meetings, regarding assessment of economic and financial developments.

V. Votes

A. Vote on the Guideline for Money Market Operations

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. A. Mizuno, Mr. T. Noda, Mr. S. Nakamura, and Mr. H. Kamezaki.

Votes against the proposal: None.

B. Vote on Amendment to Temporary Rules regarding Eligibility Standards for Asset-Backed Commercial Paper and Dematerialized Asset-Backed Commercial Paper

With regard to the manner of dealing with various temporary measures regarding money market operations, most members expressed the view that outright purchases of CP and corporate bonds should be completed as scheduled, while special funds-supplying operations to facilitate corporate financing, the expansion in the range of corporate debt and ABCP eligible as collateral, and the complementary deposit facility should be continued.

To reflect the majority view, the chairman formulated a proposal and put it to a vote. No amendments were necessary to complete outright purchases of CP and corporate bonds as scheduled, and only amendments required for the purpose of extending the effective periods of other measures were to be voted on. Such amendments were put together to form a single proposal.

Members voted unanimously to approve the chairman's proposal and agreed that the decision should be made public.

C. Vote on Amendment to Principal Terms and Conditions for Outright Purchases of Corporate Bonds

Mr. A. Mizuno considered that outright purchases of corporate bonds should be continued in a situation where recovery in corporate profits lacked strength and issuers as well as investors were worried that credit rating agencies might downgrade corporate bonds. He therefore formulated a proposal to extend the effective period of outright purchases of corporate bonds to the end of March 2010, and put it to a vote.

The proposal was defeated by a majority vote.

Votes for the proposal: Mr. A. Mizuno.

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

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. Discussion on the *Outlook for Economic Activity and Prices*

Members discussed the draft of the *Outlook for Economic Activity and Prices* (consisting of "The Bank's View" and "The Background"), and put "The Bank's View" to the vote. The Policy Board decided, by a unanimous vote, the text of "The Bank's View." It was confirmed that "The Bank's View" would be published on October 30, 2009 and the whole report on November 2, 2009.

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.

Votes against the proposal: None.

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of October 13 and 14, 2009 for release on November 5, 2009.

Attachment

October 30, 2009

Bank of Japan

Statement on Monetary Policy

At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan made the following decisions on the future conduct of monetary policy and various temporary measures regarding money market operations.

1. Monetary policy

   The Bank will maintain the extremely accommodative financial environment for some time by holding interest rates at their current low levels and providing ample funds sufficient to meet demand in financial markets.

   The Policy Board decided, by a unanimous vote,[5] to set the following guideline for money market operations for the intermeeting period:

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

2. Temporary measures regarding money market operations[6]

   In order to address extreme contraction of financial markets, the Bank introduced various temporary measures, including extraordinary ones for a central bank such as

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[5] 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.

[6] Mr. A. Mizuno voted against the expiration of special funds-supplying operations to facilitate corporate financing at the end of March 2010 and that of outright purchases of corporate bonds at the end of 2009.

outright purchases of CP and corporate bonds, since the autumn of 2008. Japan's financial environment, with some lingering severity, has been increasingly showing signs of improvement, particularly in the CP and corporate bond markets. Going forward, in order to ensure financial market stability and thereby facilitate corporate financing, it becomes necessary to adopt the most effective method for money market operations that conforms to changes in financial markets. Based on this understanding, the Bank made the following decisions on the temporary measures.

(1) Special funds-supplying operations to facilitate corporate financing

Special funds-supplying operations to facilitate corporate financing will remain in effect until the end of March 2010, in order to ensure financial market stability toward the end of the fiscal year, and will expire. From April 2010 onward, the Bank will be prepared to provide ample liquidity mainly through funds-supplying operations against pooled collateral, which accept a wider range of collateral.

(2) Outright purchases of CP and corporate bonds

Outright purchases of CP and corporate bonds will expire at the end of 2009 as scheduled, given that issuing conditions in the CP and corporate bond markets have been improving markedly and thus the purpose of the purchases to restore market functioning has been achieved.

(3) Expansion in the range of eligible collateral

Expansion in the range of corporate debt and asset-backed commercial paper eligible as collateral will remain in effect until the end of 2010, given that it is serving an important role in facilitating corporate financing.

(4) Complementary deposit facility

The complementary deposit facility will remain in effect for the time being, from a viewpoint of ensuring smooth conduct of money market operations while providing ample funds sufficient to meet liquidity demand in financial markets.