Not to be released until 8:50 a.m. Japan Standard Time on Thursday, December 25, 2008.

December 25, 2008

Bank of Japan

Minutes of the Monetary Policy Meeting

on November 20 and 21, 2008

(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 Thursday, November 20, 2008, from 2:00 p.m. to 4:33 p.m., and on Friday, November 21, from 9:00 a.m. to 12:29 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. K. Yamamoto, Executive Director

Mr. H. Nakaso, Executive Director[4]

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on December 18 and 19, 2008 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 November 21.

[3] Mr. C. Kawakita was present on November 20.

[4] Mr. H. Nakaso concurrently held the post of Director-General of the Financial Markets Department.

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

Mr. T. Sekine, Associate Director-General, Monetary Affairs 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. K. Osugi, 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. A. Otani, Senior Economist, Monetary Affairs Department

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

I. Summary of Staff Reports on Economic and Financial Developments[5]

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 31, 2008, and as a result, the uncollateralized overnight call rate had been at around 0.3 percent.[6]

To ensure market stability in Japan, the Bank provided sufficient funds maturing over the year-end and actively purchased Japanese government securities and CP under repurchase agreements. In addition, the Bank continued to provide U.S. dollar liquidity through U.S. dollar funds-supplying operations.

B. Recent Developments in Financial Markets

Japan's money market had remained relatively stable compared to its U.S. and European counterparts, but had been nervous. Interest rates on CP, particularly with low credit ratings, had surged since October, and the general collateral (GC) repo rate had remained high at the 0.4-0.5 percent level. Regarding interest rates on term instruments, yields on treasury bills (TBs) and financing bills (FBs) had been relatively high, and Euroyen rates remained at an elevated level compared with yields on TBs and FBs.

Japanese stock prices dropped considerably in October, and had since been unstable mainly reflecting overseas stock price movements. The Nikkei 225 Stock Average had been moving at around 8,000 yen recently. Long-term interest rates in Japan had stayed within a relatively narrow range, and had recently been in the 1.4-1.5 percent range.

The yen had been volatile against the U.S. dollar and had recently been traded at around 95 yen to the dollar.

C. Overseas Economic and Financial Developments

U.S. economic conditions had deteriorated. A substantial decline in housing investment continued, and home prices continued to fall. Private consumption had

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

[6] The guideline was as follows:

The Bank of Japan will encourage the uncollateralized overnight call rate to be at around 0.3 percent.

decreased, and business fixed investment was more or less unchanged. In this situation, industrial production had been on a downward trend and the number of employees had declined considerably. Funding conditions for firms and households had deteriorated further. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items had started to decline, due to a fall in energy prices and a leveling-off of increases in food prices; that in the CPI for all items less energy and food, or the core CPI, had been in the 2-3 percent range.

Economic conditions in the euro area had deteriorated. Exports and business fixed investment were more or less unchanged. Housing investment and private consumption had decreased. As for prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) had started to decline, due to a fall in energy prices and a leveling-off of increases in food prices. Economic conditions in the United Kingdom had also deteriorated, mainly reflecting the significant adjustments in the housing market.

Among Asian economies, China and India continued to show relatively high growth, although it was slowing. In the NIEs and the ASEAN economies, the deceleration in exports had become more evident and domestic demand, particularly private consumption, had continued to slow. As for prices, the year-on-year rate of increase in the CPI for all items had declined in many Asian economies, due to a fall in energy prices and a leveling-off of increases in food prices.

With regard to global financial markets, although there was some improvement, the markets as a whole remained under increased strain. In money markets, Treasury-Eurodollar (TED) spreads had narrowed due to the various measures taken by governments and central banks, although they remained at a high level particularly for periods that included the calendar and fiscal year-ends. In credit markets, credit spreads on corporate bonds had been wide and new funding of firms had been low. U.S. and European stock prices had declined reflecting relatively weak economic indicators and business performance. U.S. and European long-term interest rates had also declined due to concerns about economic deterioration and to the decline in stock prices.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had decreased. They were expected to continue decreasing for the time being, due to the slowdown in overseas economies and the appreciation of the yen.

With regard to domestic private demand, business fixed investment had declined, mainly due to the decrease in corporate profits. It was likely to continue declining for the time being, mainly due to the slowdown in overseas economies and the decrease in corporate profits.

Private consumption had been relatively weak, mainly due to sluggish growth in household income and the increase in prices of energy and food. While sales of electrical appliances had continued to increase steadily, the number of new passenger-car registrations had dropped sharply. Sales at department stores and supermarkets had remained relatively weak, especially at department stores, since consumers had further curtailed their purchases. As for services consumption, outlays for travel, especially overseas travel, had continued to be weak against the background of further increases in fuel surcharges added to airfares. Consumer sentiment had become more cautious partly due to the rise in prices of energy and food as well as to the drop in stock prices. Growth in private consumption was likely to be sluggish for the time being, as household income was expected to weaken somewhat and the effects of the rise in prices were likely to persist.

Housing investment had been more or less flat. The number of housing starts, a leading indicator of housing investment, continued to pick up until January 2008 and had since been more or less flat. Housing investment was expected to be more or less flat for the time being, given the stalling of the recovery in housing starts.

Production had continued to decrease. It was likely that production would continue decreasing and that the pace of decrease would be faster in the immediate future, since the weakness in domestic and external demand had become more evident and inventory adjustment pressures had increased slightly. Inventories had risen to some extent, while shipments had decreased; and the shipment-inventory balance had therefore deteriorated.

As for employment and income, growth in household income had been sluggish, as the year-on-year rate of increase in nominal wages per worker diminished. Household income was likely to weaken somewhat for the time being, in response to the decrease in corporate profits and production.

On the price front, commodity prices had fallen significantly. The three-month rate of change in the domestic corporate goods price index (CGPI) had become negative and the CGPI was likely to continue decreasing for the time being, mainly due to the fall in commodity prices. The year-on-year rate of increase in the CPI (excluding fresh food) was around 2.5 percent against the background of the increase in prices of energy and food. It was expected to moderate for the time being reflecting the declines in the prices of petroleum products and the stabilization of food prices.

2. Financial environment

Financial conditions had become less accommodative on the whole, as the financial positions of small firms had deteriorated and an increasing number of large firms had faced a worsening in funding conditions in the markets. The overnight call rate had been at a low level relative to the state of economic activity and price developments. However, funding conditions in the markets had deteriorated, as suggested by the fact that credit spreads on CP and corporate bonds had widened and an increasing number of firms had postponed issuing them. As a result, the amount outstanding of CP and corporate bonds issued had fallen below the previous year's level. Large firms had increased their borrowing from banks to cover the decline in the issuance of CP and corporate bonds, although credit demand for working capital had stopped increasing due to the drop in materials prices. As for small firms, an increasing number had reported that their financial positions were weak and lending attitudes of financial institutions were severe. This related to the expansion in the year-on-year rate of decline in the amount outstanding of lending to them. The money stock (M2) had increased by around 2 percent from a year earlier.

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

A. Economic Developments

Members agreed on the following assessment of Japan's economy: economic activity had been increasingly sluggish due to the effects of earlier increases in energy and materials prices and the decrease in exports, and this situation would likely persist over the next several quarters; in the longer run, the economy was most likely to return onto a sustainable growth path with price stability; however, the outlook remained highly uncertain and given the slowdown in overseas economies and the turmoil in global financial markets, it would likely take some time for the necessary conditions for Japan's economic recovery to be satisfied. Some members expressed the view that, although incoming information since the previous meeting offered no grounds for greatly changing the current assessment of the economy, it seemed that the likelihood of downside risks to the outlook for economic activity and prices materializing was increasing, in view of developments in overseas economies and the rapid changes in domestic financial conditions.

Members agreed that downside risks to overseas economies remained elevated, given that the downward pressure on the U.S. and European economies from the financial side had grown amid the continued intense strains in global financial markets.

Members shared the view that global financial markets remained under intense strain as a whole, although there had been some improvement in money markets in response to the various measures taken by governments and central banks. Some members noted that credit spreads had narrowed for very short-term transactions, while those for longer-term transactions, for example over the calendar and fiscal year-ends, remained wide. These members continued that there had been no improvement in funding conditions for firms, as indicated by the fact that corporate bond spreads and credit default swap (CDS) premiums remained elevated.

Turning to the U.S. economy, members concurred that overall economic conditions had deteriorated as the negative feedback loop between financial markets and economic activity worsened. Many members said that housing investment and private consumption had decreased against the background of reduced availability of consumer credit and mortgage loans, in addition to deterioration in the employment and income situation and consumer confidence. Some members expressed the view that, under these circumstances, Christmas sales were likely to be poor. As for the corporate sector, a few members said that firms had restrained spending, especially on fixed capital, because, in addition to weakening demand at home and abroad, funding conditions for them had deteriorated further with financial institutions' tightening of lending standards. Based on these assessments, members were of the view that considerable uncertainty remained regarding when and how the negative feedback loop between financial markets and economic activity would diminish.

With regard to European economies, members shared the view that economic conditions in the euro area had also deteriorated. Some members expressed the view that a negative feedback loop between financial markets and economic activity might have started to operate in the economy of the euro area and neighboring economies.

On Asian economies, members concurred that, while China and India continued to show high growth, the slowdown in growth had become more evident. A few members said that, in China, the monetary and fiscal policy stance had shifted toward stimulating economic growth, and this was expected to boost the economy. Some other members said, however, that the effects of the global economic slowdown had started to appear also in China, and that downside risks to its economy might be increasing. Members concurred that the NIEs and the ASEAN economies had been decelerating with their exports decelerating and their domestic demand continuing to slow.

Members exchanged views regarding Japan's economic situation. They concurred that exports had decreased against the background of the slowdown in overseas economies and were likely to continue decreasing for the time being. One member said that, as exports to the United States and Europe had continued to decline and those to Asia and other regions were somewhat weak, future developments warranted careful attention.

Members agreed that business fixed investment had declined and was likely to continue declining for the time being, mainly due to the slowdown in overseas economies and the decrease in corporate profits. Some members expressed concern that an increasing number of firms might postpone implementing their fixed investment plans, as many export-related manufacturers, particularly in the automobile and electrical machinery industries, had revised their earnings forecasts downward. Some members expressed the view that attention should be paid to the possibility that firms might start to see their production capacity as excessive if the slowdown in overseas economies became protracted and rates of economic growth expected by firms fell. Some other members, however, said that the terms of trade had improved due to the recent significant fall in commodity prices, and this improvement would support corporate profits. One of these members said that it was highly uncertain whether the downward pressure from weaker external demand due to the world economic slowdown, which caused the fall in commodity prices, would outweigh the positive effects of improvement in trading gains/losses or vice versa, and to what extent.

Members concurred that private consumption had been relatively weak, mainly due to sluggish growth in household income and the increase in prices of energy and food. A few members said that consumer sentiment had become more cautious due to concerns about employment and income prospects. Members agreed that growth in private consumption was likely to be sluggish for the time being, as household income was likely to weaken somewhat and the effects of the rise in prices were likely to persist.

As for employment and income, members shared the view that growth in household income had been sluggish and that household income was likely to weaken somewhat for the time being, in response to the decrease in corporate profits and production. One member noted that an increasing number of manufacturers had been implementing an employment adjustment, mainly of non-regular employees, due to the decrease in production, and that wages had been relatively weak.

Members concurred that housing investment had been more or less flat, and was likely to remain so for the time being, given the stalling of the recovery in housing starts.

Members agreed that production had decreased in many industries. They also concurred that it was likely that the pace of decrease would be faster in the immediate future, since the weakness in domestic and external demand had become more evident and inventory adjustment pressures had increased slightly.

As for prices, members said that the three-month rate of change in the CGPI had become negative and the CGPI was likely to continue decreasing for the time being, mainly due to the fall in commodity prices.

Members noted that the year-on-year rate of increase in the CPI (excluding fresh food) was around 2.5 percent against the background of the increase in prices of energy and food, but said that it was likely to moderate reflecting the declines in the prices of petroleum products and the stabilization of food prices.

Members then discussed risks to the outlook for prices. Some members said that the declines in prices of items such as petroleum products might become larger due to the significant fall in commodity prices, and if this happened, the year-on-year rate of increase in the CPI (excluding fresh food) might decline faster. Many members were of the view that it was likely that the negative output gap would widen and wages would be relatively weak given the outlook for economic activity, and said that therefore attention should be paid to the possibility that prices might turn out weaker than expected if downside risks to the economy materialized. One member added that firms might have changed their price-setting behavior in the course of the recent increases in energy and materials prices and might now tend to revise their sales prices in response to external shocks more quickly than before. This member continued that any significant fall in energy or materials prices might therefore affect sales prices immediately. A different member said that, just as general prices being pushed up as a second-round effect warranted attention when energy and materials prices surged, it was similarly necessary to pay attention to general prices being pushed down as a second-round effect of energy and materials prices falling faster than expected.

On the other hand, one member said that, given that items whose prices had risen still outnumbered greatly those whose prices had declined, there was a possibility that the pass-through of the earlier rise in energy and materials prices on to sales prices might continue and the inflation rate might stay at a higher level than expected. A different member noted that the relationship between the output gap and price changes had been unstable for years, and changes in supply-demand conditions had not necessarily led to an immediate change in prices. Some members said that, in the medium to long term, the world economy was still likely to grow led by emerging economies, and therefore it was reasonable to expect that commodity prices would increase moderately in parallel. They continued that how such a medium- to long-term rise in commodity prices would affect prices in Japan continued to warrant attention. On this point, one member said that attention should be paid to the risk that, if the world economy recovered supported by the various policy measures, commodity prices might surge again.

Based on these discussions, members concurred that due attention should continue to be paid to the following factors affecting prices: developments in commodity prices; domestic supply-demand conditions and wage developments; and consumers' inflation expectations and firms' price-setting behavior. Many members said that, since a medium- to long-term perspective was important in assessing whether prices were stable, it was necessary to frequently assess whether medium- to long-term inflation expectations of consumers and firms were well anchored. On this basis, members agreed that, although the inflation rate might temporarily fall sharply in the future due to the decline in energy and materials prices, it was important to continue assessing price stability from a medium-to long-term perspective, and that the Bank should explain this point appropriately.

B. Financial Developments

Members concurred that financial conditions in Japan had become less accommodative on the whole, as the financial positions of small firms had deteriorated and an increasing number of large firms had faced a worsening in funding conditions in the markets. They shared the view that the turmoil in global financial markets and the slowdown in the world economy had started to have a significant impact on Japan's financial conditions through various channels, and that it was therefore becoming necessary to be aware of the possibility that a negative feedback loop between financial markets and economic activity might start to operate.

Members agreed that funding conditions in the CP and corporate bond markets had deteriorated, as suggested by the fact that credit spreads on CP and corporate bonds had widened and an increasing number of firms had postponed issuing them. Many members noted that investors, including investment trusts, were less willing to purchase CP, as not only had they become cautious about taking on credit risk, but also they had increased their cash holdings in preparation for withdrawals by clients. These members said that the cancellations and postponements of corporate bond issuance had continued since the middle of September, and only a small number of firms with high credit ratings, such as electric power companies, had issued bonds. Some members said, however, that from a macroeconomic perspective a credit crunch as large in scale as that of 1999 had not occurred as the decline in firms' funding through the issuance of CP and corporate bonds was covered by bank loans, although funding conditions varied with the firm.

Many members said that an increasing number of small firms had reported that their financial positions were weak and lending attitudes of financial institutions were severe, and also said that the year-on-year rate of decline in the amount outstanding of lending to them had increased. Some members said that some financial institutions were becoming increasingly aware of capital constraints due to the fall in stock prices and the growing number of corporate bankruptcies, and careful attention should therefore be paid to any shift in their risk-taking behavior.

Based on these discussions, members agreed that although financial conditions in Japan were still less severe than in the United States and Europe, they had become less accommodative than before and the possible effects on Japan's economic activity had started to give cause for concern.

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

Based on the above discussions on economic and financial developments, 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. They agreed that Japan's economic activity had been increasingly sluggish due to the effects of earlier increases in energy and materials prices and the decrease in exports, and this situation would likely persist over the next several quarters. They also agreed that, in the longer run, the economy was most likely to return onto a sustainable growth path with price stability, but the outlook remained highly uncertain.

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. Regarding economic activity, members concurred that (1) there were further downside risks to economic activity depending on financial conditions in the United States and Europe as well as developments in overseas economies, and (2) if financial conditions, as reflected in lending attitudes of financial institutions and issuing conditions in the corporate bond and CP markets, should increase in severity, pressures acting to depress economic activity from the financial side might become more marked.

As for prices, members shared the view that upside risks had decreased compared with the past, and that there was a possibility that the inflation rate would decline further if downside risks to economic activity materialized or commodity prices fell further.

On the guideline for money market operations for the intermeeting period ahead, members agreed that, given the assessment of economic activity and prices described above, it would be appropriate to maintain the current guideline that the Bank would encourage the uncollateralized overnight call rate to be at around 0.3 percent. Many members said that at present the Bank should examine the effects of the Bank's measures taken at the previous meeting held on October 31, 2008, namely, the reduction in policy interest rates and the introduction of the complementary deposit facility. One member noted that, for the time being, top priority should be given to ensuring market stability so that extremely low interest rates would produce their maximal monetary easing effect.

A few members said that there might be some room for improvement in the Bank's announcements of the result of votes, given the financial market reaction to its announcement of the result of a vote at the previous meeting.

Members concurred that the following thinking on the monetary policy stance for the future remained unchanged: the Bank would carefully assess the future outlook for economic activity and prices, closely considering the likelihood of its projections materializing as well as factors posing upside or downside risks, and would conduct monetary policy appropriately. They agreed that it was important that the Bank continue to do its utmost to ensure market stability by conducting appropriate money market operations such as the provision of sufficient funds during the run-up to the calendar and fiscal year-ends, while monitoring developments in global financial markets.

Members also discussed measures to facilitate corporate financing. They agreed that financial conditions in Japan had become less accommodative, reflecting the ongoing turmoil in global financial markets and the increased sluggishness in economic activity, and that it was therefore necessary that the Bank take specific measures to facilitate corporate financing during the run-up to the calendar and fiscal year-ends, when demand for funds would increase. One member said that, since stability in both direct and indirect financing markets was necessary to ensure smooth functioning of corporate financing, the Bank should consider appropriate measures for each market.

Many members said that it was important, first of all, to reaffirm the following principles. First, extension of credit to firms was a role of private financial institutions, and even when policy action was necessary, a central bank should act carefully, taking into account the desirable division of roles with the government and the soundness of the central bank's balance sheet. And second, the action that a central bank could take to facilitate corporate financing was basically provision of liquidity. In addition, some members said that Japan's current financial conditions might not be so severe as to require the central bank to directly take on credit risk. Some members expressed the view that, to facilitate corporate financing when the financial system was under stress, policy measures that acted directly on credit risk, such as an expansion of the credit guarantee system, and measures that eased financial institutions' capital constraints were also crucial. One member said that, depending on future developments, it might become necessary for the central bank to consider adopting a measure to take on credit risk regardless of the above principles.

Based on the above discussions, members agreed that, for the time being, the Bank would purchase CP under repurchase agreements more flexibly to improve liquidity in the CP market. They also agreed that, in order to facilitate corporate financing, it was necessary to examine specific measures to change the treatment of corporate debt as collateral and to enhance flexibility in funds-supplying operations collateralized by corporate debt. The chairman instructed the Bank's staff to swiftly examine such measures and report at a future Monetary Policy Meeting.

IV. Remarks by Government Representatives

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

(1) Japan's economy had weakened further, and the downward trend was likely to continue for the time being amid the global economic slowdown. There was a risk that the economic situation in Japan would become severer, due to the worsening financial crises in the United States and Europe, concerns over possible further slowdown in their economies, and large fluctuations in the stock and foreign exchange markets. The inflation rate had moderated reflecting a fall in prices, for example, those of crude oil futures. The money market remained under strain as seen in the fact that the amount outstanding of CP issued had decreased and issuance rates on CP with low credit ratings had increased, and careful attention should therefore be paid to the market conditions during the run-up to the year-end.

(2) At the Summit on Financial Markets and the World Economy held on November 15, 2008, the leaders of the Group of Twenty (G-20) declared that they would continue their vigorous efforts and take whatever further actions were necessary to stabilize the financial system, and would recognize the importance of monetary policy support, as deemed appropriate to domestic conditions.

(3) The government would like the Bank to continue to conduct monetary policy in an appropriate and flexible manner so as to support the economy from the financial side, based on the Bank's experience of taking various measures in the post-bubble economic and financial conditions. The government would also like the Bank to make efforts to ensure market stability through provision of more ample liquidity over the calendar and fiscal year-ends, now that the Bank had introduced a complementary deposit facility for

this purpose.

The representative from the Cabinet Office made the following remarks.

(1) Japan's economy had weakened further, as evidenced by the fact that production was decreasing, and it appeared to be in a contraction phase. The downward trend of the economy was likely to continue for the time being amid the global economic slowdown. There was also a risk that the economic situation in Japan would become severer, due to the worsening financial crises in the United States and Europe. As the economy had weakened further, the employment situation had worsened, and commodity prices had declined, close attention should be paid to developments in prices, together with economic developments.

(2) The government would continue its efforts to ensure the stability of the financial markets and underpin the economy by steadily implementing the "Comprehensive Immediate Policy Package" and taking a set of economic measures, "Measures to Support People's Daily Lives."

(3) In order to ensure sustainable economic growth led by private demand and achieve a stable inflation rate, it was important for the government and the Bank to conduct their policies based on the shared basic perspective on macroeconomic management, paying close attention to economic and financial developments at home and abroad.

(4) The government would like to request the Bank to continue to implement monetary policy in an appropriate and flexible manner so as to firmly support the economy from the financial side taking account of the recent severe economic and financial conditions at home and abroad and efforts taken by 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 be at around 0.3 percent.

To reflect this view, <u>the chairman</u> 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 0.3 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.

VI. 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).

VII. Approval of the Minutes of the Monetary Policy Meetings

The Policy Board approved unanimously the minutes of the Monetary Policy Meetings of October 14 and October 31, 2008 for release on November 27, 2008.

Attachment

November 21, 2008

Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, 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 0.3 percent.

2. Economic activity has been increasingly sluggish due to the effects of earlier increases in energy and materials prices and the decrease in exports, and this situation will likely persist over the next several quarters. The CPI inflation rate (excluding fresh food), currently around 2.5 percent, is expected to moderate reflecting the declines in the prices of petroleum products and stabilization in the prices of food. In the longer run, the economy is most likely to return onto a sustainable growth path with price stability. However, the outlook remains highly uncertain and given the slowdown in overseas economies and the turmoil in global financial markets, it will likely take some time for the necessary conditions for Japan's economic recovery to be satisfied.

3. With regard to risk factors, attention needs to be paid to the further downside risks to economic activity depending on financial conditions in the United States and Europe as well as developments in overseas economies. In addition, if financial conditions, as

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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.

reflected in lending attitudes of financial institutions and issuing conditions in the corporate bond and CP markets, should increase in severity, pressures acting to depress economic activity from the financial side may become more marked. Turning to prices, upside risks have decreased compared with the past, while there is a possibility that the inflation rate will decline further if downside risks to economic activity materialize or commodity prices fall further.

4. The Bank will carefully assess the future outlook for economic activity and prices, closely considering the likelihood of its projections as well as factors posing upside or downside risks, and will implement monetary policy appropriately. In addition, the Bank, while monitoring developments in global financial markets, will continue to make efforts to ensure market stability by conducting appropriate money market operations such as the provision of sufficient funds over the year-end and the fiscal year-end.

   Given the aforementioned financial conditions, the Bank will carry out purchases of CP under repurchase agreements more flexibly to facilitate corporate financing. Also, in this regard, the Chairman has instructed Bank staff to swiftly examine and report at the Monetary Policy Meeting possible changes in the treatment of corporate debt as collateral, as well as possible ways to enhance flexibility in funds-supplying operations collateralized by corporate debt.