

Not to be released until 8:50 a.m.  
Japan Standard Time on Tuesday,  
January 27, 2009.

January 27, 2009

Bank of Japan

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# **Minutes of the Monetary Policy Meeting on December 18 and 19, 2008**

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

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Secretariat of the Policy Board, Bank of Japan

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A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Thursday, December 18, 2008, from 2:00 p.m. to 5:06 p.m., and on Friday, December 19, from 9:00 a.m. to 2:00 p.m.<sup>1</sup>

#### **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<sup>2</sup>

Mr. C. Kawakita, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance<sup>3</sup>

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<sup>4</sup>

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<sup>1</sup> The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on January 21 and 22, 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.

<sup>2</sup> Mr. W. Takeshita was present on December 19.

<sup>3</sup> Mr. C. Kawakita was present on December 18.

<sup>4</sup> Mr. H. Nakaso concurrently held the post of Director-General of the Financial Markets Department.

Mr. M. Amamiya, Director-General, Monetary Affairs Department  
Mr. M. Ayuse, Associate Director-General, Monetary Affairs Department<sup>5</sup>  
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. T. Sakamoto, Director, Head, Monetary Operations Planning, Monetary Affairs Department<sup>5</sup>  
Mr. A. Otani, Senior Economist, Monetary Affairs Department  
Mr. K. Nakamura, Senior Economist, Monetary Affairs Department

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<sup>5</sup> Messrs. M. Ayuse and T. Sakamoto were present on December 19 from 9:00 a.m. to 9:26 a.m.

## **I. Summary of Staff Reports on Economic and Financial Developments<sup>6</sup>**

### **A. Money Market Operations in the Intermeeting Period**

The Bank conducted money market operations in accordance with the guideline decided at the previous meetings on November 20 and 21 and December 2, 2008.<sup>7</sup> The uncollateralized overnight call rate had recently been at around 0.3 percent: it was above 0.3 percent through the end of November and had been in the 0.2-0.3 percent range since the beginning of December due to the provision of ample funds by the Bank.

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.

### **B. Recent Developments in Financial Markets**

Japan's money market had been increasingly nervous. Interest rates on CP declined somewhat in late November due to an increase in the Bank's purchases of CP under repurchase agreements, but since the beginning of December they had been on an upward trend as investors had become more selective about the issues they purchased and demand for liquidity had risen with the year-end approaching. The general collateral (GC) repo rates had remained high. Regarding interest rates on term instruments, yields on treasury bills (TBs) and financing bills (FBs) had been at high levels, and Euroyen rates for periods that included the year-end rose substantially.

Japanese stock prices dropped considerably in October, and had since been unstable at low levels mainly reflecting overseas stock price movements and concern about lower corporate profits. The Nikkei 225 Stock Average had been moving in the range of 8,000-9,000 yen recently. Long-term interest rates in Japan had declined, reflecting decreases in U.S. and European long-term interest rates due mainly to deterioration in the outlook for the world economy. The benchmark rate had recently been at around 1.3 percent.

The yen appreciated against the U.S. dollar, reflecting heightened concern about

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<sup>6</sup> Reports were made based on information available at the time of the meeting.

<sup>7</sup> The guideline was as follows:

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

the risk that the downturn in the U.S. economy might be longer and deeper than expected and also reflecting the policy decisions by the Federal Reserve. It had recently been traded in the range of 89-90 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 been decreasing, and business fixed investment had started to decline. In this situation, industrial production had been decreasing and the number of employees had declined considerably. 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 been declining, 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 declined to 2 percent.

Economic conditions in the euro area had deteriorated. Exports were more or less unchanged, while private consumption, business fixed investment, and housing investment had decreased. As for prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) had been declining, 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.

Deceleration in the Chinese economy had become evident: although domestic demand continued to show high growth, exports had declined sharply. Economic growth in India, the NIEs, and the ASEAN countries had also decelerated. 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.

Global financial markets remained under increased strain. In money markets, Treasury-Eurodollar (TED) spreads had narrowed, but they remained wide, particularly for periods that included the year-end. In credit markets, credit spreads on corporate bonds had widened and new funding of firms had been low. U.S. and European stock prices had been volatile, reflecting both concerns about economic deterioration and increased expectations about government stimulus packages. U.S. and European long-term interest rates had declined mainly due to concerns about economic deterioration.

## **D. Economic and Financial Developments in Japan**

### **1. Economic developments**

Exports had decreased. They were expected to decrease substantially for the time being, due to the further 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 and the deterioration in business sentiment. It was likely to decline significantly for the time being, mainly due to the further slowdown in overseas economies, the decrease in corporate profits, and the deterioration in firms' funding conditions.

Private consumption had weakened, as the employment and income situation had become increasingly severe. The number of new passenger-car registrations had dropped further, and sales at department stores and supermarkets had remained relatively weak. Consumer sentiment had deteriorated mainly due to the drop in stock prices and growing employment uncertainty. Private consumption was likely to continue weakening, as the employment and income situation would become increasingly severe for the time being.

Housing investment had been more or less flat. The number of housing starts, which was a leading indicator of housing investment and had been more or less flat from January 2008 until recently, had dropped. Housing investment was expected to be flat or weaken somewhat for the time being, given the sluggishness in housing starts.

Production had decreased substantially. It was likely that production would continue to register substantial declines, since the weakness in domestic and external demand had become more evident and inventory adjustment pressures had increased. Inventories had risen noticeably, while shipments had decreased substantially; 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 change in nominal wages per worker had been around 0 percent. Household income was likely to weaken somewhat for the time being, in response to the decreases in corporate profits and production.

On the price front, commodity prices had fallen significantly. The three-month rate of decrease in the domestic corporate goods price index (CGPI) had been large 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 moderated to around 2 percent, mainly due to the declines in the prices of petroleum products. It was expected to continue 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 deteriorated sharply on the whole: funding conditions in the CP and corporate bond markets had tightened; and an increasing number of firms, not only small but also large ones, had reported that their financial positions were weak and lending attitudes of financial institutions were severe. The overnight call rate had been at a low level given the state of economic activity and price developments. However, it seemed that funding costs for firms had recently edged up, as indicated by the wider credit spreads on CP and corporate bonds. The amount outstanding of CP and corporate bonds issued had been below the previous year's level, as investors continued to be selective in their purchases of them. The amount outstanding of bank lending had increased, particularly to large firms, reflecting their need to compensate for the decline in the issuance of CP and corporate bonds and to secure more liquidity, although lending to small firms had remained below the previous year's level. Despite the overall increase in bank lending, an increasing number of firms, including large ones, had reported that their financial positions were weak and lending attitudes of financial institutions were severe. The money stock (M2) had been increasing at a somewhat slower pace than previously.

## **II. Establishment of Principal Terms and Conditions of the Special Funds-Supplying Operations to Facilitate Corporate Financing**

### **A. Staff Proposal**

In accordance with the decision made at the Monetary Policy Meeting held on December 2, 2008 to introduce a new operation utilizing corporate debt, the staff would like to propose that the Bank take the necessary steps to introduce Special Funds-Supplying Operations to Facilitate Corporate Financing, such as establishment of Principal Terms and Conditions of the Special Funds-Supplying Operations to Facilitate Corporate Financing.



## **B. Discussion by the Policy Board and Vote**

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

## **III. Establishment of Temporary Rules regarding the Bank's Transactions with the Development Bank of Japan Inc. (DBJ) Related to Money Market Operations**

### **A. Staff Proposal**

The DBJ, which would start outright purchases of CP in accordance with the measures taken by the government, had recently requested that it be allowed to become a counterparty in the Bank's funds-supplying operations collateralized by CP. As it would be appropriate, with the aim of facilitating corporate financing, to include the DBJ as a counterparty in the Bank's funds-supplying operations against pooled collateral, purchases of CP under repurchase agreements, and special funds-supplying operations to facilitate corporate financing, the staff would like to propose that the Bank take the necessary steps.

## **B. Discussion by the Policy Board and Vote**

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

## **IV. Amendment to Principal Terms and Conditions for U.S. Dollar Funds-Supplying Operations against Pooled Collateral**

### **A. Staff Proposal**

In view of the recent liquidity conditions in the U.S. dollar money market, the staff would like to propose, with the aim of ensuring stability in financial markets by conducting appropriate money market operations, that the Bank take the necessary actions to extend the effective period of the U.S. dollar funds-supplying operations against pooled collateral.

## **B. Discussion by the Policy Board and Vote**

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

## **V. Summary of Discussions by the Policy Board on Economic and Financial Developments**

### **A. Economic Developments**

With regard to economic and financial conditions abroad, members shared the view that, in a situation where the effects of financial crises in the United States and Europe had been spreading even to emerging economies, the adverse feedback loop between financial and economic activity had been operating globally, making the slowdown in overseas economies more pronounced. One member said that the recent sharp deterioration in economic and financial conditions abroad reflected both (1) the adverse feedback loop between financial and economic activity and (2) the downward spiral of declining production, income, and spending stemming from the decrease in exports. The member added that both these underlying negative factors were growing rapidly on a global scale. A different member expressed the view that an inter-regional adverse feedback loop between industrialized and emerging economies was operating: the economic downturn in the United States and Europe was adversely affecting emerging economies and the consequent slowdown in emerging economies was reducing exports to them from industrialized economies, thereby depressing the latter in turn.

Turning to the U.S. economy, members concurred that economic conditions had deteriorated as the adverse feedback loop between financial and economic activity worsened. One member noted that new mortgage applications had increased owing to the recent decline in mortgage rates. In contrast, some members said that adjustments in the housing market continued and there were no signs of improvement. Some members noted that private consumption had decreased against the background of deterioration in the employment and income situation and consumer confidence. One member added that, although retail sales during the early part of the holiday season were above the previous year's level because of price discounts, the final results were likely to be weak. A few members said that business fixed investment had also declined due to weakening demand at home and abroad and financial institutions' tightening of lending standards. Based on these assessments, members agreed that considerable uncertainty remained regarding when and how the adverse feedback loop between financial and economic activity would diminish.

On Asian economies, some members said that deceleration in the Chinese

economy had become evident. A few members commented that, in China, given that some indicators such as tax revenues and imports had recently fallen significantly below the previous year's levels, the economy might be decelerating faster than the GDP figure suggested. A different member noted that Japanese firms in China had recently been suffering sharp declines in domestic and international orders, and said that closer attention should therefore be paid to future developments in the Chinese economy, including effects of monetary and fiscal policies. Some members were of the view that the NIEs and the ASEAN economies had been decelerating further, with their exports decreasing sharply and their domestic demand decelerating.

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 in Japan had been deteriorating due mainly to the decrease in exports caused by the slowdown in overseas economies and to the weakening of domestic demand, as well as to the sharp deterioration in financial conditions, and that they were likely to increase in severity for the immediate future. Many members noted the following as factors behind the recent rapid change in the state of Japan's economy: (1) there had been declines in production, income, and spending stemming from the decrease in exports; (2) an adverse feedback loop between financial and economic activity had started to operate; and (3) the sharp deterioration in business and consumer sentiment had exerted downward pressure on economic activity. One member said that the performance of the automobile and electrical machinery industries, which supported the economic expansion until recently, had deteriorated substantially due to the significant change in the state of overseas economies, and the negative effects of this deterioration were spreading to other industries.

As for the outlook, many members expressed the following view: there was growing uncertainty regarding the outlook for Japan's economy that it would return onto a sustainable growth path with price stability; 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 said that the economy was likely to register negative growth for both fiscal 2008 and 2009. One member expressed the view that there was an increasing risk that the economy might not start to pick up in the middle of fiscal 2009 as had been expected. A few members said

that due attention should be paid to the risk that the adverse feedback loop between financial and economic activity might also intensify in Japan.

With regard to developments in each demand component, members concurred that exports had decreased against the background of the slowdown in overseas economies, and were likely to decrease substantially due to the further slowdown in overseas economies and the appreciation of the yen. One member said that exports not only to the United States and Europe but also to Asia had started to decrease, and that future developments therefore warranted careful attention.

Members agreed that business fixed investment had declined, and was likely to decline significantly for the time being mainly due to the further slowdown in overseas economies, the decrease in corporate profits, and the deterioration in firms' funding conditions. One member noted that proactive investment, for example in development of solar batteries, continued to be observed. Some members, on the other hand, said that weakening demand at home and abroad, tightening of funding conditions for firms, and the sharp deterioration in business sentiment had been causing cancellation or postponement of firms' capital investment plans. As for the outlook, many members said that, since the December *Tankan* (Short-Term Economic Survey of Enterprises in Japan) showed a significant increase in the number of firms reporting excessive production capacity, future developments, including the risk that medium- to long-term growth expectations of firms might weaken, required closer attention.

Members concurred that private consumption had weakened as the employment and income situation had become increasingly severe, and was likely to continue weakening. Some members said that given the recent increase in the number of firms that felt their employment level was excessive, careful attention should be paid to possible further deterioration in the employment situation and its effects on private consumption.

Many members expressed the view that production had decreased substantially and was likely to continue to register substantial declines. One member commented that the decrease in exports had caused a substantial decrease in production of processing industries such as the automobile industry, and this in turn was depressing production in materials industries. Some members explained, as background to the sharp decrease in production, that an increase in inventories caused by a decrease in sales at home and abroad tended to lead to an immediate decrease in production due to the wide application of

improved supply chain management.

As for prices, members agreed that the year-on-year rate of increase in the CPI (excluding fresh food) had started to moderate, mainly due to the declines in the prices of petroleum products, and was likely to moderate further reflecting the declines in the prices of petroleum products and the stabilization of food prices. Many members expressed the view that the year-on-year rate of change in the CPI was likely to become negative in fiscal 2009, given that energy and materials prices had fallen and the negative output gap was expected to widen. One member said that it was necessary to bear in mind that, in the long run, the worldwide monetary easing might cause a recurrence of the surge in crude oil prices.

## **B. Financial Developments**

Members concurred that financial conditions in Japan had deteriorated sharply on the whole. A few members said that funding costs for firms had recently edged up, as increased credit spreads had led to higher issuance rates of CP and corporate bonds and banks' lending rates also seemed to have risen slightly. Some members commented that firms were increasingly suffering from difficult funding conditions, especially limited availability of funds, as shown by, for example, the continuing decrease in the issuance of CP and corporate bonds and by the December *Tankan*, which indicated that the number of firms that saw financial institutions' lending attitudes as "severe" -- not only small firms but also large ones -- exceeded those that saw them as "accommodative." A few members said that financial institutions had been increasing lending to large firms against the background of the deterioration in the issuing environment for CP and corporate bonds, and this, coupled with their difficulty in increasing lending further due to capital constraints, had been worsening funding conditions for small firms.

Based on these discussions, members agreed that funding conditions for firms had tightened further, and it was becoming difficult for the effects of low interest rates to permeate the economy.

## **VI. Summary of Discussions on Monetary Policy for the Immediate Future**

Based on the above discussion of economic and financial developments, members discussed the guideline for money market operations for the intermeeting period ahead.

One member expressed the opinion that the Bank should maintain the policy interest rate at its current level for the following reasons: it was already very accommodative; and while reducing the policy interest rate to 0.1 percent would produce a marginal stimulative effect on the economy, it was likely to cause substantial deterioration in the functioning of the market mechanism as it would discourage financial institutions from offering funds to the money market and make the market inactive. Many members, however, were of the view that the policy interest rate should be reduced to 0.1 percent, since the current sharp deterioration in economic conditions was an emergency and practicable policy measures should therefore be taken immediately. One member said, with regard to the thinking on the monetary policy stance, that the current situation required the Bank to take measures to deal with firms' difficulty in financing, and that when deciding whether or not to reduce the policy interest rate, the Bank should weigh both positive effects -- the effect that monetary easing would have even in the current corporate financing situation -- and negative effects -- further deterioration in the functioning of the market mechanism -- of reducing the policy interest rate. As for the efficacy of a policy rate reduction, one member said that despite the reduction on October 31, 2008, interbank rates on term instruments had risen, and therefore a further reduction at this juncture would not necessarily push down these rates to any great extent amid banks' heightened concerns about counterparty risk. On this point, a different member commented that introducing policy measures aimed at lowering interest rates on term instruments, which remained at high levels, would be more appropriate than reducing the policy interest rate to 0.1 percent. Against this view, some members said that if the Bank further reduced the policy interest rate and took measures to facilitate corporate financing at the same time, the monetary easing effect was likely to smoothly and effectively permeate the economy. A few members added that this combination of measures could also be expected to buoy business and consumer sentiment, which had recently been deteriorating rapidly. Based on these discussions, most members agreed that the Bank should reduce the policy interest rate to 0.1 percent.

Members next discussed the appropriate levels of the basic loan rate and the interest rate applied to the complementary deposit facility. Many members said that, in parallel with the reduction in the policy interest rate, the basic loan rate should be lowered to 0.3 percent. As for the interest rate applied to the complementary deposit facility, some members said that it should remain at the current level of 0.1 percent. One member,

however, expressed the view that it should be lowered to 0 percent.

Members then discussed the future conduct of monetary policy. Regarding the scope for further reducing the policy interest rate, some members expressed the view that 0.1 percent was the lowest possible level that would not impair the proper functioning of the market mechanism. One member expressed the opinion that, given that economic conditions were very likely to deteriorate further, a policy option of reducing the policy interest rate further from 0.1 percent should not be ruled out.

As for possible additional policy measures when the scope for reducing the policy interest rate was very limited, one member said that the Bank should shift its emphasis to working upon longer-term interest rates and to facilitating corporate financing. Some members commented that since interest rates on term instruments remained at high levels, one possibility was to take measures that would have stronger downward impact on these rates.

Members considered measures to facilitate corporate financing. They concurred that, given the current economic situation, the tightness in corporate financing could increase further during the run-up to the fiscal year-end, and thus more drastic measures to facilitate corporate financing were necessary. They then agreed that the Bank should introduce outright purchases of CP as a temporary measure. One member said that, since an outright purchase of CP from a financial institution would ease its capital constraint, such purchases were expected to increase lending to firms, including small ones, that were encountering severe lending attitudes at financial institutions. The member continued that, as the positive effects of the Bank's outright purchases of CP would be brought about by financial institutions' lending activity, it was important that the Bank's policy intention be clearly communicated to them. A few members expressed the view that such purchases of CP could become a catalyst for the market liquidity of CP to recover. One member added that outright purchases of CP by the Bank would also enhance the price-discovery function in the CP market.

Members shared the view that it was an exceptional step for a central bank to take policy measures that involved taking on the credit risk of individual firms. Many members said that some safeguards were needed to ensure the maintenance of the Bank's financial health as well as public confidence in the currency. In relation to these points, members agreed that it was important to examine what conditions for measures that involved taking

on the credit risk of individual firms were necessary and appropriate, in terms of the range of corporate debt to be accepted, the degree of risk involved, and the duration of the measures, and also to investigate ways, including the involvement of the government, to avoid impairing the Bank's financial health or public confidence in the currency.

Members also discussed measures regarding outright purchases of Japanese government bonds (JGBs). They agreed that while the amount outstanding of banknotes issued had recently been at a high level, the amount of JGBs held by the Bank had been declining as, in the Bank's purchases of government securities, the proportion of those with short remaining maturities had increased, and as a result the burden of short-term funds-supplying operations was increasing. Given this situation, they agreed that, for the smooth conduct of money market operations, the burden of short-term funds-supplying operations should be reduced by increasing the amount of outright purchases of JGBs to provide longer-term funds. Specifically, they agreed to increase the amount from 1.2 trillion yen to 1.4 trillion yen per month, in view of the amount outstanding of JGBs held by the Bank relative to that of banknotes issued. They also concurred that it was appropriate to add 30-year bonds, floating-rate bonds, and inflation-indexed bonds to the list of JGBs eligible for the Bank's operations, in view of the expansion of the markets for these bonds. They also agreed that the Bank should purchase JGBs from specific maturity segments in order to prevent the remaining maturities of JGBs purchased from becoming too short or too long.

## **VII. Remarks by Government Representatives**

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

- (1) Economic conditions in Japan were worsening, and conditions for corporate financing had become increasingly severe.
- (2) The government, whose immediate priority was to stimulate the economy, was drawing up the second supplementary budget for fiscal 2008 and the budget for fiscal 2009, with a view to making these and the first supplementary budget for fiscal 2008 work together. The total amount of the additional fiscal measures for fiscal 2008 was equivalent to about 2 percent of GDP, and the budget for fiscal 2009 was likely to be approximately 88.5 trillion yen. The government would continue to give priority to stimulating the economy.



- (3) The government would like the Bank to promptly implement outright purchases of CP and increase its outright purchases of JGBs, as these would be very timely measures in the current situation.
- (4) 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 representative from the Cabinet Office made the following remarks.

- (1) Japan's economy had weakened further, and it appeared to be in a contraction phase. Looking ahead, there was a risk that the economic situation in Japan would become more severe, given the worsening global financial crisis and the possibility of a further slowdown in overseas economies. The government expected that Japan's real GDP growth rate for fiscal 2009 would be around 0.0 percent, and there was a risk that the deflationary pressure would increase.
- (2) Based on the "Immediate Policy Package to Safeguard People's Daily Lives," the government would take prompt and bold action. As the year-end was approaching, the government was determined to take all possible measures to support employment and corporate financing.
- (3) The Prime Minister expected the Bank to take measures to provide ample liquidity to the market. Given the recent severe economic and financial conditions at home and abroad, the government would like to request the Bank to support the economy by conducting monetary policy in an appropriate and flexible manner, taking account of the government's policy efforts and its outlook for the economy and sharing the basic perspective on macroeconomic management with the government.
- (4) The government welcomed the proposed reduction in the policy interest rate as an appropriate response to address the current severe economic and financial conditions. The government considered that the policy action was also consistent with the government's basic thinking that international cooperation was important. From the viewpoint of facilitating corporate financing, for which conditions were tightening sharply, it was important that the Bank swiftly implement outright purchases of CP.

## **VIII. Votes**

### **A. Vote on the Guideline for Money Market Operations**

Based on the above discussions, most members expressed the view that it would be appropriate to lower the Bank's target for the uncollateralized overnight call rate from around 0.3 percent to around 0.1 percent.

To reflect the majority 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, effective immediately from the announcement of the decision.

The Bank of Japan will encourage the uncollateralized overnight call rate to be 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. S. Nakamura, and Mr. H. Kamezaki.

Votes against the proposal: Mr. T. Noda.

Mr. T. Noda dissented from the above proposal for the following reasons. First, since market functioning had already weakened, the Bank should avoid taking a policy action that would lead to further weakening. Specifically, to maintain the proper functioning of the market mechanism, the interest rate applied to the complementary deposit facility and the spread between it and the policy interest rate should each be kept above a certain level. Reducing the policy interest rate to 0.1 percent would eliminate the spread between the two rates, posing the risk of discouraging financial institutions from offering funds to the money market and making the market inactive. And second, the current level of the policy interest rate was already very accommodative. While reducing the policy interest rate to 0.1 percent would produce a marginal stimulative effect on the economy, it was likely to cause substantial deterioration in the functioning of the market mechanism.

Introducing policy measures aimed at lowering interest rates on term instruments, which remained at high levels, was more appropriate than reducing the policy interest rate.

**B. Votes on a Change in the Basic Discount Rate and the Basic Loan Rate and on the Setting of the Interest Rate to Be Applied to the Complementary Deposit Facility**

To reflect the view of members, the chairman formulated the following two policy proposals and put them to the vote: (1) a change in the basic discount rate and the basic loan rate; and (2) setting of the interest rate to be applied to the complementary deposit facility.

**The Chairman's Policy Proposal on a Change in the Basic Discount Rate and the Basic Loan Rate:**

1. The basic discount rate for discounting of bills pursuant to Article 33, paragraph 1, item (i) of the Bank of Japan Act and the basic loan rate for loans made pursuant to Article 33, paragraph 1, item (ii) of the Act will be as follows, effective immediately from the announcement of the decision.

The basic loan rate and the basic discount rate are set at 0.3 percent.

2. A public statement will be decided separately.

**The Chairman's Policy Proposal on the Setting of the Interest Rate to Be Applied to the Complementary Deposit Facility:**

1. The spread between the uncollateralized overnight call rate target decided as the guideline for money market operations and the interest rate to be applied under Principal Terms and Conditions of the Complementary Deposit Facility as a Temporary Measure to Facilitate Supplying of Funds will be as follows.

The spread is set at 0 percentage point.

2. A public statement will be decided separately.

The chairman's policy proposal on a change in the basic discount rate and the basic

loan rate was approved by a unanimous vote.

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.

The chairman's policy proposal on the setting of the interest rate to be applied to the complementary deposit facility was approved by a majority vote.

Votes for 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.

Votes against the proposal: Mr. A. Mizuno.

Mr. A. Mizuno dissented from the above proposal for the following reason. Policy action to affect interest rates on term instruments more strongly might be taken in the future, and the Bank's provision of ample liquidity as necessary would exert downward pressure on the uncollateralized overnight call rate. To avoid impairing the market's natural formation of interest rates, it would be appropriate to set the interest rate applied to the complementary deposit facility at 0 percent.

#### **IX. Discussions on the Public Statements On Monetary Policy Decisions and Additional Measures regarding Money Market Operation Tools**

Members discussed the statements On Monetary Policy Decisions and Additional Measures regarding Money Market Operation Tools, and put them to the vote. The Policy Board decided the texts by a unanimous vote. It was confirmed that the statements would be released immediately after the meeting (see attachments 1 and 5).

#### **X. Approval of the Minutes of the Monetary Policy Meeting**

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of November 20 and 21, 2008 for release on December 25, 2008.

**XI. Approval of the Scheduled Dates of the Monetary Policy Meetings in January-December 2009**

At the end of the meeting, the Policy Board approved the dates of the Monetary Policy Meetings to be held in the period January-December 2009 for immediate release (see Attachment 7).

December 19, 2008

Bank of Japan

### On Monetary Policy Decisions

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided to reduce policy interest rates as below and also approved "Additional Measures regarding Money Market Operation Tools" (see Attachment 5) by a unanimous vote.<sup>[Note 1]</sup>
  - a. Change in the guideline for money market operations (decided by a 7-1 majority vote<sup>[Note 2]</sup>)

Lowering of the Bank's target for the uncollateralized overnight call rate by 20 basis points; it will be encouraged to remain at around 0.1 percent (effective immediately) (Attachment 2).
  - b. Change in the basic loan rate<sup>[Note 3]</sup> (decided by a unanimous vote<sup>[Note 4]</sup>)

Lowering of the basic loan rate applicable under the complementary lending facility by 20 basis points to 0.3 percent (effective immediately) (Attachment 3).

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<sup>[Note 1]</sup> 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.

<sup>[Note 2]</sup> Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. A. Mizuno, Mr. S. Nakamura, and Mr. H. Kamezaki.

Voting against the action: Mr. T. Noda.

<sup>[Note 3]</sup> The basic loan rate is stipulated in Article 15, paragraph 1, item (ii) of the Bank of Japan Act. The basic discount rate in item (i) in the same paragraph is also set at 0.3 percent (discounting of bills has currently been suspended).

<sup>[Note 4]</sup> 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.

- c. Interest rate applied to the complementary deposit facility (decided by a 7-1 majority vote<sup>[Note 5]</sup>)

Interest rate applied to the complementary deposit facility will be 0.1 percent (effective immediately) (Attachment 4).

2. Exports have been decreasing reflecting a slowdown in overseas economies, and domestic demand has become weaker against the background of the declining corporate profits and the worsening employment and income situation in the household sector. Financial conditions have deteriorated sharply on the whole. Under these circumstances, economic conditions have been deteriorating and are likely to increase in severity for the immediate future. Meanwhile, the CPI inflation rate (excluding fresh food), currently around 2 percent, is expected to moderate reflecting the declines in the prices of petroleum products and the stabilization of food prices. Looking further ahead, uncertainty in the outlook for the economy to return to a sustainable growth path with price stability has increased. 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, much depends on financial conditions in the United States and Europe as well as developments in overseas economies, and attention will need to be paid to the further downside risks posed to economic activity. In addition, 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 may become more marked. 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 further.

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<sup>[Note 5]</sup> Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. T. Noda, Mr. S. Nakamura, and Mr. H. Kamezaki.

Voting against the action: Mr. A. Mizuno.

4. The Bank will continue to do its utmost as a central bank to facilitate the return of Japan's economy to a sustainable growth path with price stability. It strongly expects private financial institutions to respond appropriately by taking full advantage of low interest rates and various money market operation measures introduced.



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At the Monetary Policy Meeting held today, the Bank of Japan decided, by a 7-1 majority vote,<sup>[Note]</sup> to set the following guideline for money market operations for the intermeeting period (effective immediately):

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

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<sup>[Note]</sup> Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. A. Mizuno, Mr. S. Nakamura, and Mr. H. Kamezaki.  
Voting against the action: Mr. T. Noda.

December 19, 2008

Bank of Japan

### **Changes in the Basic Loan Rate and the Basic Discount Rate**

At the Monetary Policy Meeting held today, the Bank of Japan decided, by a unanimous vote,<sup>[Note]</sup> to set the basic loan rate which is stipulated in Article 33, paragraph 1, item (ii) of the Bank of Japan Act, and the basic discount rate which is stipulated in item (i) in the same paragraph as follows (effective immediately).

The basic loan rate and the basic discount rate are set at 0.3 percent.

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<sup>[Note]</sup> 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.

December 19, 2008

Bank of Japan

**Setting of the Interest Rate to Be Applied  
to the Complementary Deposit Facility**

At the Monetary Policy Meeting held today, the Bank of Japan decided, by a 7-1 majority vote,<sup>[Note]</sup> to set the spread between the uncollateralized overnight call rate target decided as the guideline for money market operations and the interest rate to be applied under the Principal Terms and Conditions of Complementary Deposit Facility as a Temporary Measure to Facilitate Supplying of Funds as follows (effective immediately).

The spread is set at 0 percentage point.

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<sup>[Note]</sup> Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. T. Noda, Mr. S. Nakamura, and Mr. H. Kamezaki.  
Voting against the action: Mr. A. Mizuno.

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Bank of Japan

### **Additional Measures regarding Money Market Operation Tools**

The Bank, in addition to today's reduction in policy interest rates, judged that additional measures regarding money market operation tools were necessary for the effects of extremely low policy interest rates to prevail in financial markets and corporate financing. Specifically, the Bank has decided to take the following measures to further facilitate corporate financing in addition to measures regarding outright purchases of Japanese government bonds (JGBs).

1. Measures regarding outright purchases of JGBs

To reduce the burden of short-term funds-supplying operations, the Bank will increase its outright purchases of JGBs to provide longer-term funds, and will also expand the range of eligible JGBs to be accepted.

a. Increase in outright purchases of JGBs

The amount of outright purchases of JGBs will be increased from 14.4 trillion yen per year (1.2 trillion yen per month) to 16.8 trillion yen per year (1.4 trillion yen per month), effective immediately.

b. Expansion in the range of JGBs accepted in outright purchases and introduction of purchases from specific maturity segments

The Bank will add 30-year bonds, floating-rate bonds, and inflation-indexed bonds to the list of eligible JGBs. In order to prevent the remaining maturities of JGBs purchased from becoming too short or too long, it will also introduce a scheme to purchase JGBs from specific maturity segments (maturity segments are defined as 1 year or less, more than 1 year through 10 years, and more than 10 years). The Chairman has instructed Bank staff to

examine ways to actually implement these measures and map out a concrete plan as swiftly as possible.

2. Measures to facilitate corporate financing

- a. Introduction of "Special Funds-Supplying Operations to Facilitate Corporate Financing" (decided by a unanimous vote<sup>[Note 1]</sup>)

The terms and conditions of the new operation utilizing corporate debt, of which introduction had been decided at the Monetary Policy Meeting held on December 2, were decided. This operation will commence on January 8, 2009 (Attachment 6).

- b. Introduction and examination of additional measures to facilitate corporate financing including outright purchases of CP

Given that the tightness in corporate financing may increase further during the run-up to the fiscal year-end, the Bank will introduce outright purchases of CP as a temporary measure. In addition, the Bank decided to investigate how other corporate financing instruments may be employed, and the Chairman has instructed Bank staff to report the results at the Monetary Policy Meeting as swiftly as possible. Since these measures essentially undertake credit risks of individual firms, they will be an exceptional step taken by a central bank. Taking this into account, the Chairman has asked Bank staff to examine the scope of undertakings, in terms of the range of corporate financing instruments, the degree of risk taking, and the duration of these measures, that are necessary and appropriate for a central bank, and to investigate ways, including the involvement of the government, to ensure the Bank's financial health as well as confidence in the currency.

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<sup>[Note 1]</sup> 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.

- c. Inclusion of the Development Bank of Japan Inc. (DBJ) as a counterparty in operations such as CP repo operations (decided by a unanimous vote<sup>[Note 2]</sup>)
- Since the DBJ, in accordance with the measures taken by the government, is starting outright purchases of CP as a temporary measure, the Bank decided to include the DBJ as a counterparty in operations such as CP repo operations.

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<sup>[Note 2]</sup> 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.

**Schedule of Special Funds-Supplying Operations  
to Facilitate Corporate Financing**

Date of Offer	Date of Exercise	Date of Repayment
Jan. 8 (Thur.)	Jan. 14 (Wed.)	Apr. 3 (Fri.)
Jan. 20 (Tue.)	Jan. 23 (Fri.)	Apr. 8 (Wed.)
Feb. 10 (Tue.)	Feb. 16 (Mon.)	Apr. 10 (Fri.)
Feb. 27 (Fri.)	Mar. 4 (Wed.)	Apr. 15 (Wed.)
Mar. 10 (Tue.)	Mar. 13 (Fri.)	Apr. 21 (Tue.)
Mar. 16 (Mon.)	Mar. 19 (Thur.)	Apr. 27 (Mon.)

Note: All dates are in 2009. The above schedule is subject to change, and will be revised and released accordingly.

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**Scheduled Dates of Monetary Policy Meetings in January-December 2009**

	Date of MPM	Publication of MPM Minutes	Publication of Outlook Report (The Bank's View)	(Reference) Publication of Monthly Report
Jan. 2009	21 (Wed.), 22 (Thur.)	Feb. 24 (Tue.)	--	23 (Fri.)
Feb.	18 (Wed.), 19 (Thur.)	Mar. 23 (Mon.)	--	20 (Fri.)
Mar.	16 (Mon.), 17 (Tue.)	Apr. 10 (Fri.)	--	18 (Wed.)
Apr.	6 (Mon.), 7 (Tue.)	May 8 (Fri.)	--	8 (Wed.)
	30 (Thur.)	May 27 (Wed.)	30 (Thur.)	--
May	21 (Thur.), 22 (Fri.)	June 19 (Fri.)	--	25 (Mon.)
June	15 (Mon.), 16 (Tue.)	July 21 (Tue.)	--	17 (Wed.)
July	14 (Tue.), 15 (Wed.)	Aug. 14 (Fri.)	--	16 (Thur.)
Aug.	10 (Mon.), 11 (Tue.)	Sep. 25 (Fri.)	--	12 (Wed.)
Sep.	16 (Wed.), 17 (Thur.)	Oct. 19 (Mon.)	--	18 (Fri.)
Oct.	13 (Tue.), 14 (Wed.)	Nov. 5 (Thur.)	--	15 (Thur.)
	30 (Fri.)	Nov. 26 (Thur.)	30 (Fri.)	--
Nov.	19 (Thur.), 20 (Fri.)	Dec. 24 (Thur.)	--	24 (Tue.)
Dec.	17 (Thur.), 18 (Fri.)	To be announced	--	21 (Mon.)

Note: The time of release will be, in principle, as follows.

MPM Minutes will be released at 8:50 a.m.

Outlook for Economic Activity and Prices (Outlook Report):

"The Bank's View" in the Outlook Report will be released at 3:00 p.m., and the full text at 2:00 p.m. on the next business day.

Monthly Report of Recent Economic and Financial Developments (Monthly Report):

The Japanese original and the English translation for summary will be released at 2:00 p.m. (the English translation for the full text will be published at 4:30 p.m. on the next business day).