

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 Annex) 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 1).
  - 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 2).
  - 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 3).
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

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[Note 1] 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.

[Note 2] 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.

[Note 3] 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).

[Note 4] 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.

[Note 5] 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.

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.
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.

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## 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.

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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.

## **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 (Appendix).

- 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.

- 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 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. T. Noda, Mr. S. Nakamura, and Mr. H. Kamezaki. Voting against the action: None.

(Appendix)

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.

(Reference)

Meeting hours:

December 18: 14:00-17:06

December 19: 9:00-14:00

Policy Board members present:

Masaaki Shirakawa (Governor)  
Hirohide Yamaguchi (Deputy Governor)  
Kiyohiko G. Nishimura (Deputy Governor)  
Miyako Suda  
Atsushi Mizuno  
Tadao Noda  
Seiji Nakamura  
Hidetoshi Kamezaki

(Others present)

December 18

From the Ministry of Finance:

Chikara Kawakita, Deputy Vice Minister for Policy Planning and  
Co-ordination (14:00-17:06)

From the Cabinet Office:

Bunshichi Fujioka, Vice-Minister for Policy Coordination (14:00-17:06)

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From the Ministry of Finance:

Wataru Takeshita, Senior Vice Minister of Finance (9:00-13:40,13:49-14:00)

From the Cabinet Office:

Bunshichi Fujioka, Vice-Minister for Policy Coordination  
(9:00-13:40,13:49-14:00)

Release of the *Monthly Report of Recent Economic and Financial Developments*:

14:00 on Monday, December 22 (Japanese)

16:30 on Wednesday, December 24 (English)

-- The English translation of the summary of the Monthly Report will be  
released at 14:00 on Monday, December 22

Release of the minutes:

8:50 on Tuesday, January 27, 2009