

May 20, 2011

Bank of Japan

### Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by a unanimous vote,<sup>1</sup> 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 to 0.1 percent.

2. Japan's economy faces strong downward pressure, mainly on the production side, due to the effects of the earthquake disaster. Production has declined sharply due to the supply-side constraints caused by the disaster. As a result, exports have decreased substantially, and domestic private demand has also been weak partly affected by a deterioration in business and household sentiment. Meanwhile, financial conditions have generally continued to ease, although weakness has been observed in the financial positions of some firms, mainly small ones, since the earthquake. The year-on-year rate of decline in the CPI (excluding fresh food) has continued to slow, and has been around 0 percent.
3. According to the Bank's baseline scenario, Japan's economy is likely to continue facing strong downward pressure, mainly on the production side, for the time being; however, backed by an increase in exports reflecting the improvement in overseas economic conditions and by a rise in demand for restoring capital stock, the economy is expected to return to a moderate recovery path from the second half of fiscal 2011 as supply-side constraints ease and production regains traction. The year-on-year rate of change in the CPI is expected to become slightly positive.<sup>2</sup> Based on these assessments, Japan's economy is expected to return to a sustainable growth path with price stability in the longer run.
4. In the area of economic activity, there is a high degree of uncertainty about the effects of the earthquake disaster on Japan's economy. With regard to overseas economies, on the one

---

<sup>1</sup> Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. T. Noda, Mr. S. Nakamura, Mr. H. Kamezaki, Mr. R. Miyao, Mr. Y. Morimoto, and Ms. S. Shirai.  
Voting against the action: None.

<sup>2</sup> The year-on-year rate of change in the CPI is likely to be revised downward with the base-year change scheduled for August 2011.

hand, growth in emerging and commodity-exporting economies could turn out to be stronger than expected due to robust domestic demand and capital inflows from abroad; on the other hand, the effects of balance-sheet adjustments on the U.S. economy and the possible consequences of the sovereign risk problems in Europe continue to warrant attention. Meanwhile, turning to the implications of the rise in international commodity prices, on the one hand, the high growth in emerging and commodity-exporting economies that lies behind the price rise is likely to provide a boost to Japan's exports; on the other hand, the decline in real purchasing power resulting from the deterioration in the terms of trade could reduce domestic private demand in Japan. In particular, for the time being, attention should be paid to the downside risks to economic activity, especially the possible effects of the disaster. Regarding the outlook for prices, there is a possibility that inflation will rise more than expected if international commodity prices increase further, while there is also a risk that the rate of inflation will deviate downward from the Bank's baseline scenario due, for example, to a decline in medium- to long-term inflation expectations.

5. In order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, the Bank will continue to consistently make contributions as the central bank through the three-pronged approach of pursuing powerful monetary easing consisting of comprehensive monetary easing, ensuring financial market stability, and providing support to strengthen the foundations for economic growth. The Bank will continue to carefully examine the outlook for economic activity and prices, including the effects of the disaster, and take appropriate policy actions as necessary.

(Reference)

Meeting hours:

May 19 : 14:00-16:19

May 20 : 9:00-12:09

Policy Board members present:

Masaaki Shirakawa (Governor)

Hirohide Yamaguchi (Deputy Governor)

Kiyohiko G. Nishimura (Deputy Governor)

Tadao Noda

Seiji Nakamura

Hidetoshi Kamezaki

Ryuzo Miyao

Yoshihisa Morimoto

Sayuri Shirai

(Others present)

May 19

From the Ministry of Finance:

Yasushi Kinoshita, Deputy Vice Minister for Policy Planning and Co-ordination  
(14:00-16:19)

From the Cabinet Office:

Kenji Umetani, Director-General, Economic and Fiscal Management (14:00-16:19)

May 20

From the Ministry of Finance:

Mitsuru Sakurai, Senior Vice Minister of Finance (9:00-12:00,12:05-12:09)

From the Cabinet Office:

Kenji Umetani, Director-General, Economic and Fiscal Management  
(9:00-12:00,12:05-12:09)

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

14:00 on Monday, May 23 (Japanese)

16:30 on Tuesday, May 24 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Monday, May 23

Release of the minutes:

8:50 on Friday, June 17