

November 16, 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 economic activity has continued picking up, but at a more moderate pace mainly due to effects of a slowdown in overseas economies. As for domestic demand, business fixed investment has been increasing moderately and private consumption has remained firm. On the other hand, exports and production have continued to increase, due in part to the restocking of inventories abroad that had declined after the earthquake, but at a more moderate pace mainly reflecting the effects of the slowdown in overseas economies. Meanwhile, financial conditions in Japan have continued to ease amid the continued heavy strains in global financial markets. The year-on-year rate of change in the CPI (all items less fresh food) is around 0 percent.
3. As for the outlook, for the time being, Japan's economy will face an adverse effect from the slowdown in overseas economies and the appreciation of the yen as well as from the flooding in Thailand. After that, the economy is expected to return to a moderate recovery path as the pace of recovery in overseas economies picks up, led by emerging and commodity-exporting economies, and reconstruction-related demand after the earthquake disaster gradually materializes. The year-on-year rate of change in the CPI is expected to remain at around 0 percent for the time being.
4. Regarding risks to the economic outlook, the sovereign debt problem in Europe could result in weaker growth not only in the European economy but also in the global economy particularly through its effects on global financial markets. In the U.S. economy, there is a

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

possibility that a slowdown will be prolonged mainly due to the effects of balance-sheet repair. As for emerging and commodity-exporting economies, there remains a high degree of uncertainty about whether price stability and economic growth can be realized at the same time. Careful attention should continue to be paid to how Japan's economy will be affected by the above uncertainty regarding financial and economic developments overseas. Regarding risks to the price outlook, considerable uncertainties surround future developments in international commodity prices, leaving potential for movement in either direction. There is also a possibility 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. The Bank has repeatedly expanded the size of the Asset Purchase Program on a significant scale, and is steadily implementing the Program mainly through the purchase of financial assets. The Bank has also made it clear that it is committed to continuing the virtually zero interest rate policy until it judges that price stability is in sight on the basis of the "understanding of medium- to long-term price stability."<sup>2</sup> 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 by pursuing powerful monetary easing through the comprehensive monetary easing measures as described above, ensuring financial market stability, and providing support to strengthen the foundations for economic growth.

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<sup>2</sup> The current understanding on the basis of a year-on-year rate of change in the CPI is "a positive range of 2 percent or lower, centering around 1 percent."

(Reference)

Meeting hours:

November 15 : 14:00-16:06

November 16 : 9:00-12:44

Policy Board members present:

Masaaki Shirakawa (Governor)

Hirohide Yamaguchi (Deputy Governor)<sup>1</sup>

Kiyohiko G. Nishimura (Deputy Governor)

Seiji Nakamura

Hidetoshi Kamezaki

Ryuzo Miyao

Yoshihisa Morimoto

Sayuri Shirai

Koji Ishida

<sup>1</sup> Mr. Yamaguchi was absent from 3:12 p.m. to 4:06 p.m. on November 15, to attend a meeting of the Budget Committee of the House of Councillors.

(Others present)

November 15

From the Ministry of Finance:

Shinichi Sato, Deputy Vice Minister for Policy Planning and Co-ordination  
(14:00-16:06)

From the Cabinet Office:

Kenji Umetani, Director-General, Economic and Fiscal Management (14:00-16:06)

November 16

From the Ministry of Finance:

Yukihisa Fujita, Senior Vice Minister of Finance (9:00-12:35, 12:40-12:44)

From the Cabinet Office:

Katsuyuki Ishida, Senior Vice Minister for Cabinet Office (9:00-12:35, 12:40-12:44)

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

14:00 on Thursday, November 17 (Japanese)

16:30 on Friday, November 18 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Thursday, November 17

Release of the minutes:

8:50 on Tuesday, December 27