

December 21, 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,¹ 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. The pick-up in Japan's economic activity has paused, mainly due to the effects of a slowdown in overseas economies and of the appreciation of the yen. As for domestic demand, business fixed investment has been on a moderate increasing trend and private consumption has remained firm. On the other hand, exports and production have remained more or less flat, due in part to the effects of the slowdown in overseas economies and of the yen's appreciation as well as of the flooding in Thailand. Improvement in business sentiment has slowed on the whole despite steady improvement in domestic demand-oriented sectors. Meanwhile, although global financial markets remain under heavy strain, financial conditions in Japan have continued to ease. The year-on-year rate of change in the CPI (all items less fresh food) is around 0 percent.
3. As for the outlook, Japan's economic activity will remain more or less flat for the time being. 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

¹ 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 the 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."² 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.

² 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:

December 20: 14:00-16:32

December 21: 9:00-12:11

Policy Board members present:

Masaaki Shirakawa (Governor)

Hirohide Yamaguchi (Deputy Governor)

Kiyohiko G. Nishimura (Deputy Governor)

Seiji Nakamura

Hidetoshi Kamezaki

Ryuzo Miyao

Yoshihisa Morimoto

Sayuri Shirai

Koji Ishida

(Others present)

December 20

From the Ministry of Finance:

Shinichi Sato, Deputy Vice Minister for Policy Planning and Co-ordination
(14:00-16:32)

From the Cabinet Office:

Hiroyuki Inoue, Deputy Director-General, Economic and Fiscal Management
(14:00-16:32)

December 21

From the Ministry of Finance:

Yukihisa Fujita, Senior Vice Minister of Finance (9:00-12:02,12:06-12:11)

From the Cabinet Office:

Katsuyuki Ishida, Senior Vice Minister for Cabinet Office (9:00-12:02,12:06-12:11)

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

14:00 on Thursday, December 22 (Japanese)

16:30 on Monday, December 26 (English)

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

Release of the minutes:

8:50 on Friday, January 27