

May 23, 2012

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, 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. Overseas economies on the whole still have not emerged from a deceleration phase, but some improvement has been observed, including the continued recovery, albeit at a moderate pace, of the U.S. economy. In global financial markets, some nervousness has recently been seen, mainly due to concern about the European debt problem. Close attention should therefore be paid to developments in these markets for the time being.
3. It has become increasingly evident that Japan's economy is shifting toward a pick-up phase, although its economic activity has remained more or less flat. Exports have so far remained more or less flat. As for domestic demand, public investment has been increasing. Business fixed investment has been on a moderate increasing trend with some improvement in business sentiment. Against the background of improvement in consumer sentiment, private consumption has been increasing moderately due to the effects of measures to stimulate demand for automobiles. Housing investment has generally been picking up. Production has shown some signs of picking up reflecting these developments in demand at home and abroad, although it has remained more or less flat. Meanwhile, financial conditions in Japan have continued to ease. On the price front, the year-on-year rate of change in the CPI (all items less fresh food) is around 0 percent.
4. As for the outlook, Japan's 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 as reconstruction-related demand after the earthquake disaster gradually strengthens. The year-on-year rate of change in the CPI is expected to remain at around 0 percent for the time being.

5. Regarding risks to the economic outlook, there remains a high degree of uncertainty about the global economy, including the prospects for the European debt problem, the momentum toward recovery for the U.S. economy, and the likelihood of emerging and commodity-exporting economies simultaneously achieving price stability and economic growth. Regarding risks to the price outlook, careful attention should be paid to future developments in international commodity prices and in medium- to long-term inflation expectations.
6. The Bank recognizes that Japan's economy faces the critical challenge of overcoming deflation and returning to a sustainable growth path with price stability. This challenge will be met through efforts to strengthen the economy's growth potential and support from the financial side. The Bank continues to conduct policy in an appropriate manner.

(Reference)

Meeting hours:

May 22: 14:00-16:25

May 23: 9:00-11:32

Policy Board members present:

Masaaki Shirakawa (Governor)

Hirohide Yamaguchi (Deputy Governor)

Kiyohiko G. Nishimura (Deputy Governor)

Ryuzo Miyao

Yoshihisa Morimoto

Sayuri Shirai

Koji Ishida

(Others present)

May 22

From the Ministry of Finance:

Shinichi Sato, Deputy Vice Minister for Policy Planning and Co-ordination

(14:00-16:25)

From the Cabinet Office:

Kenji Matsuyama, Vice-Minister for Policy Coordination (14:00-16:25)

May 23

From the Ministry of Finance:

Yukihisa Fujita, Senior Vice Minister of Finance (9:00-11:23,11:27-11:32)

From the Cabinet Office:

Katsuyuki Ishida, Senior Vice Minister for Cabinet Office (9:00-11:23,11:27-11:32)

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

14:00 on Thursday, May 24 (Japanese)

16:30 on Friday, May 25 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Thursday, May 24

Release of the minutes:

8:50 on Wednesday, June 20