

January 24, 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,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. Japan's economic activity has been more or less flat, mainly due to the effects of a slowdown in overseas economies and 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 to the slowdown in overseas economies and the yen's appreciation as well as the remaining effects of the flooding in Thailand. 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. Compared with the forecasts presented in the October 2011 *Outlook for Economic Activity and Prices*, growth prospects will likely be lower for fiscal 2011, due to the revision of past GDP statistics in addition to the slowdown in overseas economies. Nevertheless, growth prospects for fiscal 2012 and 2013 will likely remain broadly unchanged because the economy is expected to gradually return to a moderate recovery path in the first half of fiscal

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.

2012. With regard to prices, the year-on-year rates of change in the domestic corporate goods price index and the CPI (all items less fresh food) are expected to be broadly in line with the October forecasts.

5. 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 United States, strains from balance-sheet repair continue to weigh on the economy despite some firmness observed recently. 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 including the effects of geopolitical risk surround future developments in international commodity prices. 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.
6. The Bank 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 It has also enhanced monetary easing by repeatedly expanding the size of the Asset Purchase Program on a significant scale, and is steadily implementing the Program mainly through the purchase of financial assets. 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."

Forecasts of the Majority of Policy Board Members

y/y % chg.

	Real GDP	Domestic CGPI	CPI (all items less fresh food)
Fiscal 2011	-0.4 to -0.3 [-0.4]	+1.8 to +1.9 [+1.8]	-0.1 to 0.0 [-0.1]
Forecasts made in October 2011	+0.2 to +0.4 [+0.3]	+1.7 to +2.0 [+1.8]	0.0 to 0.0 [0.0]
Fiscal 2012	+1.8 to +2.1 [+2.0]	-0.1 to +0.2 [+0.1]	0.0 to +0.2 [+0.1]
Forecasts made in October 2011	+2.1 to +2.4 [+2.2]	+0.1 to +0.3 [+0.2]	0.0 to +0.2 [+0.1]
Fiscal 2013	+1.4 to +1.7 [+1.6]	+0.6 to +1.0 [+0.8]	+0.4 to +0.5 [+0.5]
Forecasts made in October 2011	+1.3 to +1.6 [+1.5]	+0.7 to +0.9 [+0.8]	+0.4 to +0.6 [+0.5]

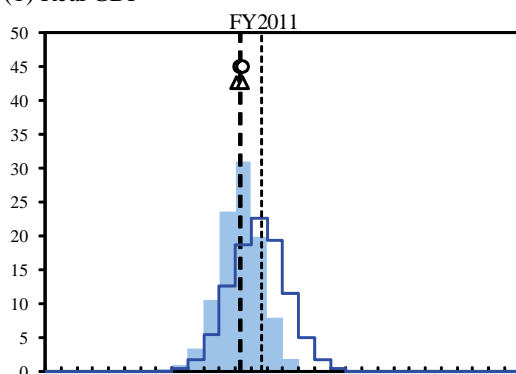
- Notes: 1. Figures in brackets indicate the median of the Policy Board members' forecasts (point estimates).
2. The forecasts of the majority of the Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate, namely, the figure to which he or she attaches the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. The range does not indicate the forecast errors.
3. Individual Policy Board members make their forecasts with reference to the view of market participants regarding the future course of the policy interest rate -- a view that is incorporated in market interest rates.
4. The revision in the forecasts for real GDP in fiscal 2011 is also attributable to a smaller carry-over effect from fiscal 2010 on GDP growth for fiscal 2011, reduced by approximately 0.5 percentage points, in accordance with the revision of past GDP statistics.
5. CPI using the Chain-weighted Index Formula has also been released as a reference. Based on this chain-weighted index, the year-on-year rate of change in the CPI around fiscal 2013 may be slightly lower than the above forecasts based on the Fix-weighted Index Formula.
6. The ranges shown below include the forecasts of all Policy Board members.

y/y % chg.

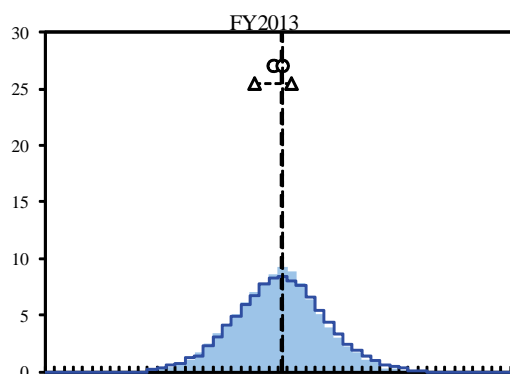
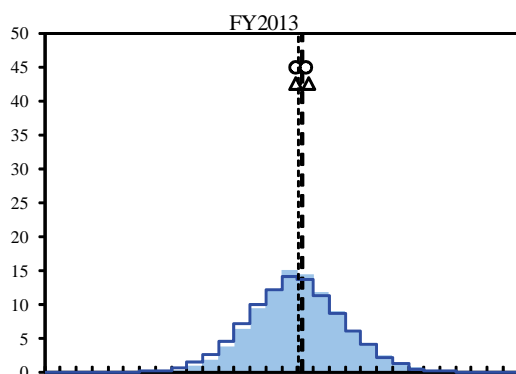
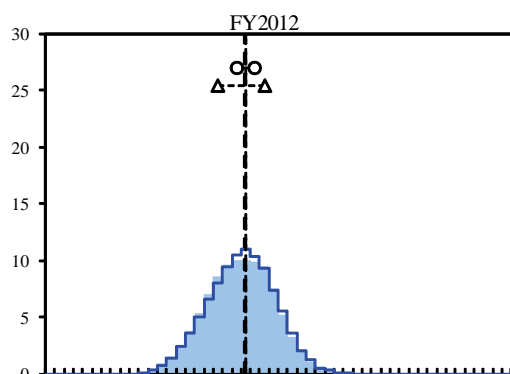
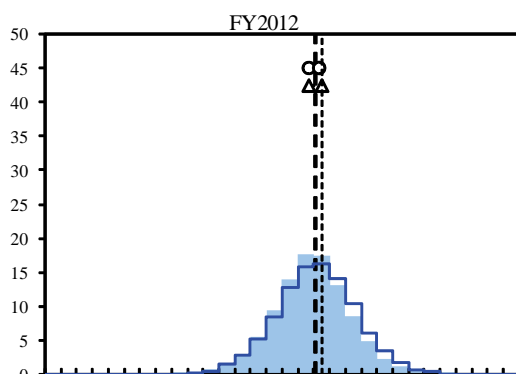
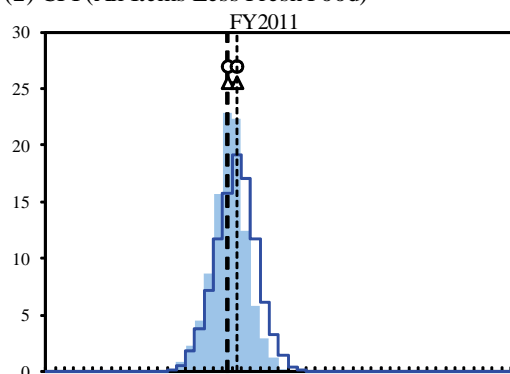
	Real GDP	Domestic CGPI	CPI (all items less fresh food)
Fiscal 2011	-0.5 to -0.3	+1.7 to +1.9	-0.1 to 0.0
Forecasts made in October 2011	+0.2 to +0.4	+1.7 to +2.1	-0.1 to +0.1
Fiscal 2012	+1.8 to +2.2	-0.2 to +0.2	-0.2 to +0.3
Forecasts made in October 2011	+2.0 to +2.4	+0.1 to +0.4	-0.1 to +0.3
Fiscal 2013	+1.4 to +1.8	+0.5 to +1.0	+0.2 to +0.6
Forecasts made in October 2011	+1.2 to +1.7	+0.6 to +1.0	+0.3 to +0.7

Risk Balance Charts

(1) Real GDP



(2) CPI (All Items Less Fresh Food)



-6.1 and below
-6.0 to -5.6
-5.5 to -5.1
-5.0 to -4.6
-4.5 to -4.1
-4.0 to -3.6
-3.5 to -3.1
-3.0 to -2.6
-2.5 to -2.1
-2.0 to -1.6
-1.5 to -1.1
-1.0 to -0.6
-0.5 to -0.1
0.0 to 0.4
0.5 to 0.9
1.0 to 1.4
1.5 to 1.9
2.0 to 2.4
2.5 to 2.9
3.0 to 3.4
3.5 to 3.9
4.0 to 4.4
4.5 to 4.9
5.0 to 5.4
5.5 to 5.9
6.0 to 6.4
6.5 to 6.9
7.0 to 7.4
7.5 to 7.9
8.0 and above

-2.0 and below
-1.8
-1.6
-1.4
-1.2
-1.0
-0.8
-0.6
-0.4
-0.2
0.0
0.2
0.4
0.6
0.8
1.0
1.2
1.4
1.6
1.8
2.0
2.2
2.4
2.6
2.8
3.0 and above

Notes: 1. Vertical axes in the charts represent probability (%), while horizontal axes represent the year-on-year percentage changes in the respective indicators. Bar charts represent the probability distributions in January 2012, and solid lines represent those in October 2011.

2. Heavy vertical dashed lines indicate the median of the Policy Board members' forecasts (point estimates). indicates the range of the forecasts of the majority of Policy Board members. indicates the range of the forecasts of all Policy Board members.

3. Thin vertical dashed lines indicate the median of the Policy Board members' forecasts (point estimates) in October 2011.

4. For the process of compilation of the Risk Balance Charts, see the box on page 9 of the April 2008 *Outlook for Economic Activity and Prices*.

(Reference)

Meeting hours:

January 23 : 14:00-16:14

January 24 : 9:00-12:26

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)

January 23

From the Ministry of Finance:

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

(14:00-16:14)

From the Cabinet Office:

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

January 24

From the Ministry of Finance:

Yukihisa Fujita, Senior Vice Minister of Finance (9:00-12:10,12:15-12:26)

From the Cabinet Office:

Hiroshi Ogushi, Parliamentary Secretary of Cabinet Office (9:00-12:10,12:15-12:26)

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

14:00 on Wednesday, January 25 (Japanese)

16:30 on Thursday, January 26 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Wednesday, January 25

Release of the minutes:

8:50 on Friday, February 17