

July 14, 2006
Bank of Japan

Change in the Guideline for Money Market Operations

1. At the Monetary Policy Meeting held today, the Bank of Japan decided, by a unanimous vote, to change the guideline for money market operations for the intermeeting period, effective immediately from the announcement of the decision.

The Bank of Japan will encourage the uncollateralized overnight call rate to remain at around 0.25 percent.

2. With respect to the complementary lending facility, the Bank decided, by a 6-3 majority vote, to change the basic loan rate^[Note] applicable under the facility to 0.4 percent, effective immediately from the announcement of the decision, and maintain the temporary waiver of add-on rates for frequent users of the facility. With respect to the outright purchases of long-term interest-bearing Japanese government bonds, purchases will continue at the current amounts and frequency for some time, with due regard for future conditions of the balance sheet of the Bank.
3. Japan's economy continues to expand moderately, with domestic and external demand and also the corporate and household sectors well in balance. The economy is likely to expand for a sustained period. Developments are broadly in line with the projection in the *Outlook for Economic Activity and Prices* (hereafter the Outlook Report) released on April 28, 2006. The year-on-year rate of change in consumer prices is projected to continue to follow a positive trend.

^[Note] The basic loan rate is stipulated in Article 15, Paragraph 1, Clause 2 of the Bank of Japan Law. The basic discount rate in Clause 1 in the same paragraph is also set at 0.4 percent (Discounting bills has been suspended).

4. The Bank has maintained zero interest rates for an extended period, and the stimulus from monetary policy has been gradually amplified against the backdrop of steady improvements in economic activity and prices. In this environment, maintaining the previous level of the policy interest rate may result in large swings in economic activity and prices in the future. Taking account of the current assessment of economic activity and prices from the two perspectives outlined in the New Framework for the Conduct of Monetary Policy (March 2006), the Bank judged it appropriate to adjust the level of the policy interest rate at this juncture so that a desirable course of economic activity and prices was to be maintained. Today's policy decision will contribute to ensuring price stability and achieving sustainable growth in the medium to long term.

5. On the future path of monetary policy, the Bank will conduct monetary policy by carefully assessing economic activity and prices. The Bank will adjust the level of the policy interest rate gradually in the light of developments in economic activity and prices if they follow the projection presented in the Outlook Report. In this process, an accommodative monetary environment ensuing from very low interest rates will probably be maintained for some time.

(Reference)

- Meeting hours :

July 13th : 14:00-16:04

July 14th : 9:00-13:30

- Members present :

Toshihiko Fukui (Governor)

Toshiro Muto (Deputy Governor)

Kazumasa Iwata (Deputy Governor)

Miyako Suda

Hidehiko Haru

Toshikatsu Fukuma

Atsushi Mizuno

Kiyohiko G. Nishimura

Tadao Noda

(Others present)

July 13th:

From Ministry of Finance:

Kazuyuki Sugimoto, Deputy Vice Minister for Policy Planning and Co-ordination

(14:00-16:04)

From Cabinet Office:

Yoshiro Nakajo, Vice-Minister for Policy Coordination

(14:00-16:04)

July 14th:

From Ministry of Finance:

Kazuyoshi Akaba, Senior Vice Minister of Finance

(9:00-13:06,13:14-13:30)

From Cabinet Office:

Yoshiro Nakajo, Vice-Minister for Policy Coordination

(9:00-13:06,13:14-13:30)

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

(Consisting of "The Bank's View" and "The Background")

"The Bank's View"

3:00 p.m. on Friday, July 14

Full text (Consisting of "The Bank's View" and "The Background")

2:00 p.m. on Tuesday, July 18 (Japanese)

4:30 p.m. on Wednesday, June 19 (English)

- Release of minutes :

2:00 p.m. on Wednesday, August 16, 2006