

January 22, 2009

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,^[Note] 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 0.1 percent.

2. Exports have been decreasing substantially reflecting a slowdown in overseas economies, and domestic demand has become weaker against the background of declining corporate profits and the worsening employment and income situation in the household sector. Financial conditions have become tighter. Under these circumstances, economic conditions have been deteriorating significantly and are likely to continue deteriorating for the time being. Meanwhile, CPI inflation (excluding fresh food) has recently moderated reflecting the declines in the prices of petroleum products and the stabilization of food prices, and will likely become negative by this spring with increasing slackness in supply and demand conditions. The Bank's baseline scenario through fiscal 2010 expects that, with the assumption of medium- to long-term growth expectations and inflation expectations remaining generally unchanged, the economy will, from the latter half of fiscal 2009, start recovering and price declines will abate as global financial markets regain stability and overseas economies move out of their deceleration phase. Although this scenario offers prospects for the economy to return to a sustainable growth path with price stability in the latter half of the projection period, uncertainty is high.
3. Compared with the projections presented in the October 2008 *Outlook for Economic Activity and Prices*, growth prospects for fiscal 2008 and fiscal 2009 have shifted significantly downward and the growth rates are expected to be negative. In fiscal 2010, the growth rate is projected to recover to around 1.5 percent. Turning to prices, the year-on-year rates of change in domestic corporate goods prices are expected to be lower, notably for fiscal 2009,

^[Note] Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. A. Mizuno, Mr. T. Noda, Mr. S. Nakamura, and Mr. H. Kamezaki. Voting against the action: None.

than the October projection. The year-on-year rates of change in consumer prices (excluding fresh food) are also expected to be lower than the October projection; recording a decline of around 1 percent in fiscal 2009 and somewhat less in fiscal 2010.

4. With regard to risk factors, much depends on global financial conditions as well as developments in overseas economies, and attention will need to be paid to the downside risks posed to economic activity. In addition, there is a risk of a further weakening in domestic private demand through a decline in firms' medium- to long-term growth expectations, raising pressures for adjusting capital stock and employment. If financial conditions should tighten further, pressures acting to depress economic activity from the financial side may become more marked and an adverse feedback loop between financial and economic activities may intensify. Turning to prices, there is a possibility that the inflation rate will decline further if downside risks to economic activity materialize or commodity prices fall. In this case, the risk of a decline in medium- to long-term inflation expectations of firms and households warrants attention.
5. Since last fall, the Bank, in addition to reductions in the policy interest rates, has been conducting various measures to support Japan's economy from the financial side such as the substantial provision of liquidity and implementation of measures to facilitate corporate financing. Today, the Bank, among other policy decisions, outlined its principles regarding outright purchases of corporate financing instruments, and decided on the specifics of outright purchases of CP as well as agreed to examine outright purchases of corporate bonds (see Attachment). The Bank will continue to carefully assess the future outlook for economic activity and prices, closely considering the likelihood of its projections as well as risk factors, and to exert its utmost efforts as a central bank to facilitate the return of Japan's economy to a sustainable growth path with price stability.

Forecasts of the Majority of Policy Board Members

y/y % chg.

	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2008	-2.0 to -1.7 [-1.8]	+3.0 to +3.2 [+3.1]	+1.1 to +1.2 [+1.2]
Forecasts made in October 2008	+0.1 to +0.2 [+0.1]	+4.3 to +4.8 [+4.6]	+1.5 to +1.6 [+1.6]
Fiscal 2009	-2.5 to -1.9 [-2.0]	-7.0 to -6.0 [-6.4]	-1.2 to -0.9 [-1.1]
Forecasts made in October 2008	+0.3 to +0.7 [+0.6]	-1.4 to -0.4 [-0.8]	-0.2 to +0.2 [0.0]
Fiscal 2010	+1.3 to +1.8 [+1.5]	-1.5 to -0.8 [-0.9]	-0.6 to 0.0 [-0.4]
Forecasts made in October 2008	+1.5 to +1.9 [+1.7]	-0.3 to +0.5 [+0.3]	+0.1 to +0.5 [+0.3]

Notes: 1. Figures in brackets indicate forecast medians.

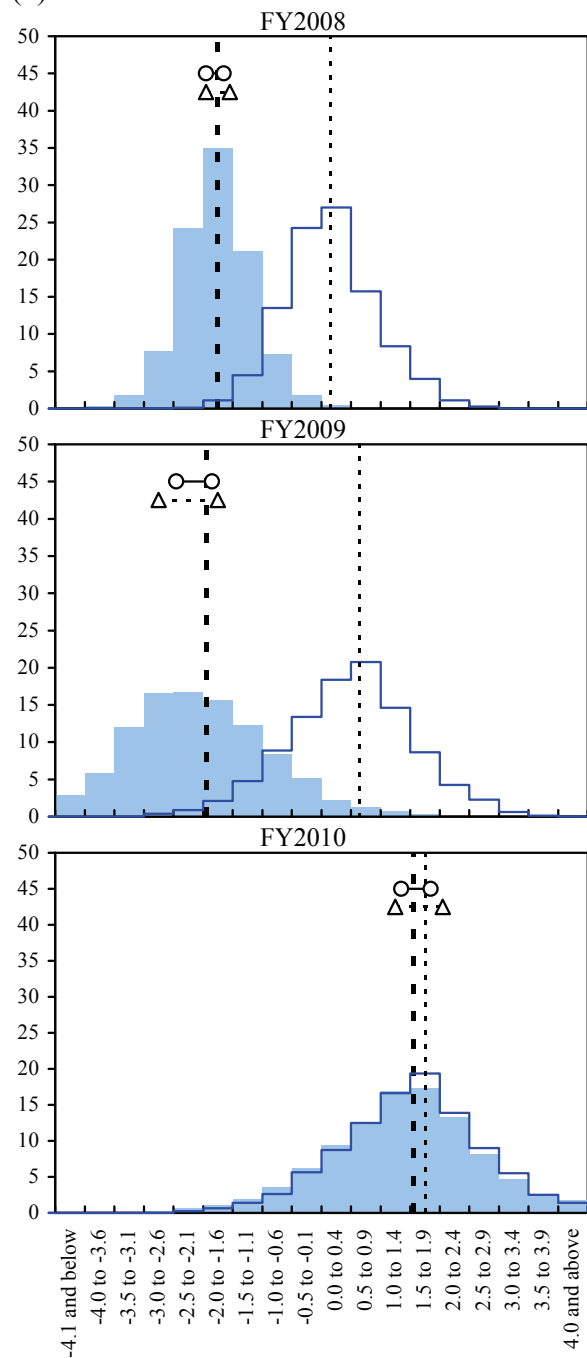
- The forecasts of the majority of Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate, namely the figure to which he or she attaches the highest probability of realization. These forecasts are then shown as a range, with the highest and lowest figures excluded. It should be noted that the range does not indicate the forecast errors.
- Individual Policy Board members make the above 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.
- The forecasts of all Policy Board members may be summarized as follows.

y/y % chg.

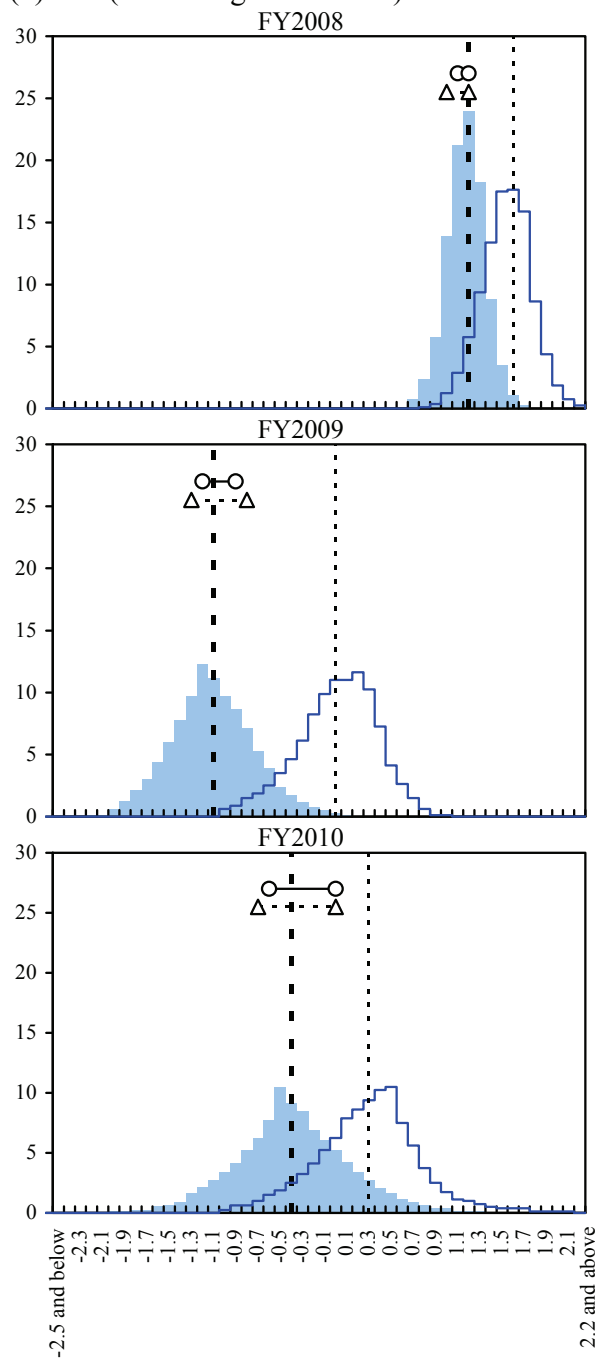
	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2008	-2.0 to -1.6	+2.8 to +3.2	+1.0 to +1.2
Forecasts made in October 2008	-0.4 to +0.3	+4.0 to +4.8	+1.5 to +1.7
Fiscal 2009	-2.8 to -1.8	-7.0 to -5.0	-1.3 to -0.8
Forecasts made in October 2008	+0.3 to +0.8	-1.5 to -0.2	-0.3 to +0.3
Fiscal 2010	+1.2 to +2.0	-1.8 to -0.5	-0.7 to 0.0
Forecasts made in October 2008	+1.3 to +2.0	-0.3 to +0.6	-0.1 to +0.5

Risk Balance Charts

(1) Real GDP



(2) CPI (Excluding Fresh Food)



- 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 2009, and solid lines represent those in October 2008.
2. Vertical dashed heavy 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. Δ- - - Δ indicates the range of the forecasts of all Policy Board members.
3. Vertical dashed thin lines indicate the median of the Policy Board members' forecasts (point estimates) in October 2008.
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*.

Policy Decisions

1. Basic principles regarding outright purchases of corporate financing instruments (see Document 1)
2. Outright purchases of CP (see documents 1 and 2)
3. Examination of outright purchases of corporate bonds with a residual maturity of up to one year (see Document 1)
4. Acceptance of debt instruments issued by real estate investment corporations as eligible collateral (see Document 3)
5. Expansion in the range of Japanese government bonds accepted in outright purchases and introduction of purchases from specific brackets classified by bond type and residual maturity (see documents 4 and 5)

Document 1: Outright Purchases of Corporate Financing Instruments

Document 2: Establishment of "Principal Terms and Conditions for Outright Purchases of CP"

Document 3: Amendments to "Guidelines on Eligible Collateral"

Document 4: Outline of Outright Purchases of Japanese Government Bonds

Document 5: Amendments to "Principal Terms and Conditions for the Outright Purchase/Sale of Japanese Government Bonds"

(Reference)

Meeting hours:

January 21: 14:00-17:17

January 22: 8:30-13:38

Policy Board members present:

Masaaki Shirakawa (Governor)

Hirohide Yamaguchi (Deputy Governor)

Kiyohiko G. Nishimura (Deputy Governor)

Miyako Suda

Atsushi Mizuno

Tadao Noda

Seiji Nakamura

Hidetoshi Kamezaki

(Others present)

January 21

From the Ministry of Finance:

Chikara Kawakita, Deputy Vice Minister for Policy Planning and Co-ordination
(14:00-17:17)

From the Cabinet Office:

Bunshichi Fujioka, Vice-Minister for Policy Coordination (14:00-17:17)

January 22

From the Ministry of Finance:

Wataru Takeshita, Senior Vice Minister of Finance (8:30-13:03,13:10-13:38)

From the Cabinet Office:

Bunshichi Fujioka, Vice-Minister for Policy Coordination (8:30-13:03,13:10-13:38)

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

14:00 on Friday, January 23 (Japanese)

16:30 on Monday, January 26 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Friday, January 23

Release of the minutes:

8:50 on Tuesday, February 24