

February 19, 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 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 0.1 percent.

2. Given the severe financial and economic conditions described below, the Bank decided to take the following measures with a view to facilitating corporate financing and ensuring stability in financial markets^[Note 2] (see Attachment).

- a. Expansion of the measures to facilitate corporate financing

- (1) Special funds-supplying operations to facilitate corporate financing were expanded to ensure stable provision of funds with longer duration of 3 months at low interest rates.
- (2) The specifics of outright purchases of corporate bonds were decided and the operation will commence in March.
- (3) Outright purchases of CP will be conducted for an extended period and the duration of expansion in the range of corporate debt eligible as collateral was extended.

- b. Expansion of the measures to ensure financial market stability

- (1) U.S. dollar funds-supplying operations will be conducted for an extended period.
- (2) Complementary deposit facility will be provided for an extended period.
- (3) Government-guaranteed dematerialized commercial paper was included in eligible collateral, and the range of Japanese government securities offered in the security lending facility was broadened.

3. Exports have been decreasing substantially reflecting a slowdown in overseas economies, and domestic demand has become weaker against the background of declining corporate profits

^[Note 1] 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.

^[Note 2] Ms. M. Suda voted against the introduction of outright purchases of corporate bonds.

and the worsening employment and income situation in the household sector. Financial conditions have remained tight. Under these circumstances, economic conditions have deteriorated 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, with increasing slackness evident in supply and demand conditions, will likely become negative by the spring. The Bank's baseline scenario through fiscal 2010, in which expectations of both medium- to long-term growth and inflation are assumed to remain generally unchanged, projects that the economy will start recovering from the latter half of fiscal 2009, with price declines abating as global financial markets regain stability and overseas economies move out of their deceleration phase. Although this scenario offers the prospect of the economy returning to a sustainable growth path with price stability in the latter half of the projection period, uncertainty is high.

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 the risk of a further weakening in domestic private demand through a decline in firms' medium- to long-term growth expectations, raising pressures to adjust capital stocks and employment. If financial conditions should tighten further, pressures acting to depress economic activity from the financial side may become more marked and the adverse feedback loop between financial and economic activity 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 the medium- to long-term inflation expectations of firms and households warrants attention.
5. The Bank, in order to support the economy from the financial side, has implemented various measures since last fall including those exceptional for a central bank, in addition to reductions in the policy interest rate and sufficient provision of liquidity. Today, the Bank decided to take additional measures which, together with the effective use of existing facilities to provide liquidity, are expected to contribute to further ensuring stability in financial markets and facilitating corporate financing. 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.

Policy Decisions

1. Expansion of special funds-supplying operations to facilitate corporate financing (see Document 1)
2. Introduction of outright purchases of corporate bonds (see documents 2 and 3)
3. Extensions of various temporary measures (see Document 4)
 - a. Outright purchases of CP (extended to September 30, 2009 from March 31, 2009)
 - b. Expansion in the range of corporate debt eligible as collateral (extended to December 31, 2009 from April 30, 2009)
 - c. Expansion in the range of asset-backed commercial paper eligible as collateral (extended to December 31, 2009 from April 30, 2009)
 - d. Complementary deposit facility (extended to October 15, 2009 from April 15, 2009)
 - e. U.S. dollar funds-supplying operations (extended to October 30, 2009 from April 30, 2009)
4. Inclusion of government-guaranteed dematerialized commercial paper in eligible collateral and in the list of CP purchased with repurchase agreements (see Document 5)
5. Broadening of the range of Japanese government securities offered in the security lending facility (see Document 6)

Document 1: Expansion of Special Funds-Supplying Operations to Facilitate Corporate Financing

Document 2: Outline of Outright Purchases of Corporate Bonds

Document 3: Establishment of "Principal Terms and Conditions for Outright Purchases of Corporate Bonds"

Document 4: Amendments to Principal Terms and Conditions for Money Market Operations

Document 5: Amendments to "Guidelines on Eligible Collateral"

Document 6: Amendments to "Principal Terms and Conditions for the Sale of Japanese Government Securities with Repurchase Agreements to Provide the Markets with a Secondary Source of Japanese Government Securities"

(Reference)

Meeting hours:

February 18: 14:00-16:54

February 19: 9:00-13:47

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)

February 18

From the Ministry of Finance:

Chikara Kawakita, Deputy Vice Minister for Policy Planning and Co-ordination (14:00-16:54)

From the Cabinet Office:

Bunshichi Fujioka, Vice-Minister for Policy Coordination (14:00-16:54)

February 19

From the Ministry of Finance:

Wataru Takeshita, Senior Vice Minister of Finance (9:00-13:24,13:39-13:47)

From the Cabinet Office:

Bunshichi Fujioka, Vice-Minister for Policy Coordination
(9:00-13:24,13:39-13:47)

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

14:00 on Friday, February 20 (Japanese)

16:30 on Monday, February 23 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Friday, February 20

Release of the minutes:

8:50 on Tuesday, March 24