

March 18, 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. Fund raising in financial markets for funds over the fiscal year-end has mostly been completed, but it is likely that the markets will remain under stress in the new fiscal year given the severe financial and economic conditions described below. In light of this situation, the Bank judged that continued provision of substantial liquidity is required to ensure stability in financial markets. To put this into action, the Bank decided to further utilize its long-term funds-supplying operations by increasing its outright purchases of Japanese government bonds (JGBs), thereby facilitating smooth money market operations.

The amount of outright purchases of JGBs will be increased by 4.8 trillion yen to 21.6 trillion yen per year (1.8 trillion yen per month) from 16.8 trillion yen per year (1.4 trillion yen per month), effective from this month.

3. Exports have been decreasing substantially reflecting the deterioration in overseas economic conditions, 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 remained tight on the whole, despite improvements in issuing conditions for CP and corporate bonds. 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. The Bank's baseline scenario through fiscal 2010, in which expectations of both medium- to

^[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.

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 if firms' medium- to long-term growth expectations decline and pressures to adjust capital stocks and employment increase. 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. In order to support the economy, the Bank has taken various monetary policy actions since last fall in three main areas: reducing the policy interest rate; ensuring stability in financial markets; and facilitating corporate financing. In addition, to secure stability in the financial system, the Bank resumed its purchases of stocks held by banks, and decided yesterday to explore a framework to provide subordinated loans to banks. The Bank will continue 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.

(Reference)

Meeting hours:

March 17: 14:00-16:44

March 18: 9:00-12:22

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)

March 17

From the Ministry of Finance:

Yutaka Miyauchi, Deputy Director-General Minister's Secretariat

(14:00-16:44)

From the Cabinet Office:

Bunshichi Fujioka, Vice-Minister for Policy Coordination (14:00-16:44)

March 18

From the Ministry of Finance:

Wataru Takeshita, Senior Vice Minister of Finance (9:00-12:12,12:16-12:22)

From the Cabinet Office:

Bunshichi Fujioka, Vice-Minister for Policy Coordination (9:00-12:12,12:16-12:22)

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

14:00 on Thursday, March 19 (Japanese)

16:30 on Monday, March 23 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Thursday, March 19

Release of the minutes:

8:50 on Friday, April 10