

May 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. The Bank, among other actions, had expanded the range of eligible collateral since last autumn to ensure stability in financial markets by further facilitating money market operations. In this process, the Bank, in coordination with other central banks, examined the feasibility of accepting the so-called cross-border collateral and decided today to accept bonds issued by the governments of the United States, the United Kingdom, Germany, and France as eligible collateral (see "Collateral Guidelines on Eligible Foreign Bonds").
3. Economic conditions have been deteriorating, but exports and production are beginning to level out against the backdrop of progress in inventory adjustments both at home and abroad. Financial conditions have remained tight, although there has been some easing of tension compared to some time ago. Going forward, although domestic private demand is likely to continue to weaken, exports and production, after leveling out, are expected to start recovering and public investment to increase. Therefore, the pace of deterioration in economic conditions is likely to moderate gradually, leading to a leveling out of the economy. 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.
4. 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 and the rate of decline in prices will moderate from the latter half of fiscal 2009, supported partly by the positive effects of measures to stabilize the

^[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.

financial system and of fiscal and monetary policy measures, in addition to a recovery in overseas economies and improvements in conditions in global financial markets. If these developments continue, there are prospects for Japan's economy to return to a sustainable growth path with price stability in the longer run. However, given that economic activity and prices are likely to be largely affected by developments in overseas economies and global financial markets, the outlook is attended by a significant level of uncertainty.

5. With regard to risk factors, those that demand attention in the area of economic activity are the continued high downside risks to the economy stemming from future developments in the global financial and economic situation, changes in medium- to long-term growth expectations, and financial conditions in Japan. Regarding the outlook for prices, there is a possibility that inflation will decline more than expected, if the downside risks to the economy materialize or medium- to long-term inflation expectations decline.
6. The Bank, paying attention for the time being to the downside risks to economic activity and prices, will continue to exert its utmost efforts as the central bank to facilitate the return of Japan's economy to a sustainable growth path with price stability.

(Reference)

Meeting hours:

May 21: 14:00-16:14

May 22: 9:00 -12:28

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)

May 21

From the Ministry of Finance:

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

From the Cabinet Office:

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

May 22

From the Ministry of Finance:

Wataru Takeshita, Senior Vice Minister of Finance (9:00-12:19,12:23-12:28)

From the Cabinet Office:

Bunshichi Fujioka, Vice-Minister for Policy Coordination (9:00-12:19,12:23-12:28)

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

14:00 on Monday, May 25 (Japanese)

16:30 on Tuesday, May 26 (English)

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

Release of the minutes:

8:50 on Friday, June 19