

August 11, 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,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. Japan's economic conditions have stopped worsening. Public investment is increasing and exports and production are picking up. On the other hand, business fixed investment is declining sharply mainly reflecting weak corporate profits. Private consumption, while there are some signs of a pick-up mainly attributable to the effects of various policy measures, remains generally weak amid the worsening employment and income situation. Meanwhile, financial conditions, while remaining generally tight, have continued to show signs of improvement. The year-on-year rate of decline in the CPI (excluding fresh food) has accelerated mainly due to the prices of petroleum products being lower than the high levels of a year earlier, in addition to the substantial slack persisting in the economy as a whole.
3. With noticeable progress having already been made in inventory adjustments both at home and abroad, economic activity will be greatly influenced by developments in final demand. The Bank's baseline scenario through fiscal 2010, in which expectations of medium- to long-term growth are assumed to remain generally unchanged, projects that the economy will start recovering from the latter half of fiscal 2009; this recovery will be supported partly by the positive effects of measures to stabilize the financial system and of fiscal and monetary policy measures, as well as by a recovery in overseas economies and improvements in conditions in global financial markets. With regard to prices, the year-on-year rate of decline in the CPI will likely accelerate for the time being. However, assuming that medium- to long-term inflation expectations remain stable, the rate of decline in the CPI is expected to moderate from the latter half of fiscal 2009 as the effects of the changes in the prices of

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.

petroleum products abate. 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, the outlook is attended by a significant level of uncertainty stemming mainly from developments in overseas economies and global financial markets.

4. Risk factors 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 firms' medium- to long-term growth expectations, and financial conditions in Japan. With regard to 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.
5. 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:

August 10: 14:00-16:13

August 11: 9:00-11:46

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)

August 10

From the Ministry of Finance:

Shunsuke Kagawa, Deputy Vice Minister for Policy Planning and Co-ordination
(14:00 - 16:13)

From the Cabinet Office:

Kenji Umetani, Deputy Director-General, Economic and Fiscal Management (14:00 -
16:13)

August 11

From the Ministry of Finance:

Shunsuke Kagawa, Deputy Vice Minister for Policy Planning and Co-ordination
(9:00-11:35,11:39-11:46)

From the Cabinet Office:

Kenji Umetani, Deputy Director-General, Economic and Fiscal Management
(9:00-11:35,11:39-11:46)

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

14:00 on Wednesday, August 12 (Japanese)

16:30 on Thursday, August 13 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Wednesday, August 12

Release of the minutes:

8:50 on Friday, September 25