

December 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,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 economy is picking up mainly due to various policy measures taken at home and abroad, although there is not yet sufficient momentum to support a self-sustaining recovery in domestic private demand. Exports and production have been increasing against a backdrop of progress in inventory adjustments both at home and abroad as well as an improvement in overseas economies, especially a recovery in emerging economies. Business sentiment, especially at large manufacturing firms, has been improving moderately. The decline in business fixed investment has been coming to a halt. Private consumption, notably durable goods consumption, is picking up mainly due to policy measures, despite the continued severe employment and income situation. Public investment has started to level off. Meanwhile, the financial environment, with some lingering severity, has continued to show signs of improvement. The year-on-year rate of change in the CPI (excluding fresh food) has declined, mainly due to the prices of petroleum products, which are lower than their high levels a year ago, in addition to the substantial slack persisting in the economy as a whole.
3. The Bank's baseline scenario projects that the pace of improvement of the economy is likely to remain moderate until around the middle of fiscal 2010. Thereafter, as improvements in the corporate sector originating from exports are expected to spill over to the household sector, the growth rate of the economy is likely gradually to rise. With regard to prices, assuming that medium- to long-term inflation expectations remain stable, the year-on-year rate of decline in the CPI (excluding fresh food) is likely to moderate as the effects of the changes in the prices of petroleum products abate.

¹ Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Ms. M. Suda, Mr. T. Noda, Mr. S. Nakamura, and Mr. H. Kamezaki. Voting against the action: None.

4. With regard to economic activity, while there are some upside risks, such as economic developments in emerging and commodity-exporting economies, there remain downside risks, although somewhat diminished; downside risk factors include the possible consequences of balance-sheet adjustments in the United States and Europe as well as potential changes in firms' medium- to long-term growth expectations. For the time being, attention should continue to be paid to the risk that international financial developments might adversely affect economic activity, for example through their impact on business sentiment. With regard to prices, there is a possibility that inflation will rise more than expected due to a rise in commodity prices brought about by higher growth rates in emerging and commodity-exporting economies. On the other hand, there is also a risk that the rate of inflation might decline due, for example, to a decline in medium- to long-term inflation expectations.
5. The Bank recognizes that it is a critical challenge for Japan's economy to overcome deflation and return to a sustainable growth path with price stability. To this end, the Bank will continue to consistently make contributions as central bank. In the conduct of monetary policy, the Bank will aim to maintain the extremely accommodative financial environment.
6. Based on the above recognition, the Policy Board discussed the "understanding of medium- to long-term price stability" (hereafter "understanding"²), which is expressed in terms of the year-on-year rate of change in the CPI. The Policy Board has concluded that it is appropriate to further disseminate the Bank's thinking on price stability, by stating more clearly that the Policy Board does not tolerate a year-on-year rate of change in the CPI equal to or below 0 percent and that the midpoints of most Policy Board members' "understanding" are around 1 percent.
7. On this basis, the Policy Board has agreed that each Policy Board member's "understanding" falls in a positive range of 2 percent or lower, and the midpoints of most Policy Board members' "understanding" are around 1 percent.
8. Based on the experience of the recent global financial crisis, it has been increasingly recognized around the world that, in order to realize sustainable economic growth with price stability, it is necessary to make wide-ranging assessments of risk factors, including accumulation of financial imbalances observed in, for example, asset prices and credit

² The "understanding," reviewed in April 2009, was expressed in terms of the year-on-year rate of change in the CPI and fell in the range approximately between 0 and 2 percent, with most Policy Board members' median figures at around 1 percent.

aggregates. The Bank, while keeping in mind the above "understanding," will strive for proper conduct of monetary policy, based on assessments of the economic and price developments from the "two perspectives"³ with due attention to various risk factors.

³ The first perspective involves assessing the most likely outlook for economic activity and prices. The second perspective assesses the risks considered most relevant to the conduct of monetary policy, including risks that have a longer time horizon than the first perspective.

(Reference)

Meeting hours:

December 17: 14:00-16:27

December 18: 9:00-12:08

Policy Board members present:

Masaaki Shirakawa (Governor)

Hirohide Yamaguchi (Deputy Governor)

Kiyohiko G. Nishimura (Deputy Governor)

Miyako Suda

Tadao Noda

Seiji Nakamura

Hidetoshi Kamezaki

(Others present)

December 17

From the Ministry of Finance:

Shunsuke Kagawa, Deputy Vice Minister for Policy Planning and Co-ordination

(14:00-16:27)

From the Cabinet Office:

Kenji Umetani, Deputy Director-General, Economic and Fiscal Management

(14:00-16:27)

December 18

From the Ministry of Finance:

Shunsuke Kagawa, Deputy Vice Minister for Policy Planning and Co-ordination

(9:00-11:59,12:03-12:08)

From the Cabinet Office:

Keisuke Tsumura, Parliamentary Vice-Minister(9:00-11:59,12:03-12:08)

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

14:00 on Monday, December 21 (Japanese)

16:30 on Tuesday, December 22 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Monday, December 21

Release of the minutes:

8:50 on Friday, January 29, 2010