

January 26, 2010

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, fast growth in emerging economies. 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 CPI (excluding fresh food) has been declining on a year-on-year basis due to the substantial slack in the economy as a whole, but the rate of decline has been moderating mainly because the effects of fluctuations in the prices of petroleum products have been dissipating.
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 aggregate supply and demand balance improves gradually.

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. Compared with the projections presented in the October 2009 *Outlook for Economic Activity and Prices*, growth prospects remain broadly unchanged. With regard to prices, the year-on-year rates of change in the domestic corporate goods price index and the CPI (excluding fresh food) will likely be somewhat higher than the October projections due mainly to the rise in crude oil prices.
5. With regard to economic activity, while there are some upside risks, such as faster growth 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. Attention should continue to be paid to recent various international financial developments and their effects. 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.
6. 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.

Forecasts of the Majority of Policy Board Members

y/y % chg.

	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2009	-2.5 to -2.5 [-2.5]	-5.3 to -5.2 [-5.3]	-1.5 to -1.5 [-1.5]
Forecasts made in October 2009	-3.3 to -3.2 [-3.2]	-5.3 to -5.0 [-5.2]	-1.5 to -1.5 [-1.5]
Fiscal 2010	+1.2 to +1.4 [+1.3]	-0.5 to -0.4 [-0.5]	-0.6 to -0.5 [-0.5]
Forecasts made in October 2009	+0.8 to +1.3 [+1.2]	-1.5 to -1.0 [-1.4]	-0.9 to -0.7 [-0.8]
Fiscal 2011	+1.7 to +2.4 [+2.1]	-0.5 to 0.0 [-0.4]	-0.3 to -0.1 [-0.2]
Forecasts made in October 2009	+1.6 to +2.4 [+2.1]	-1.0 to -0.3 [-0.7]	-0.7 to -0.4 [-0.4]

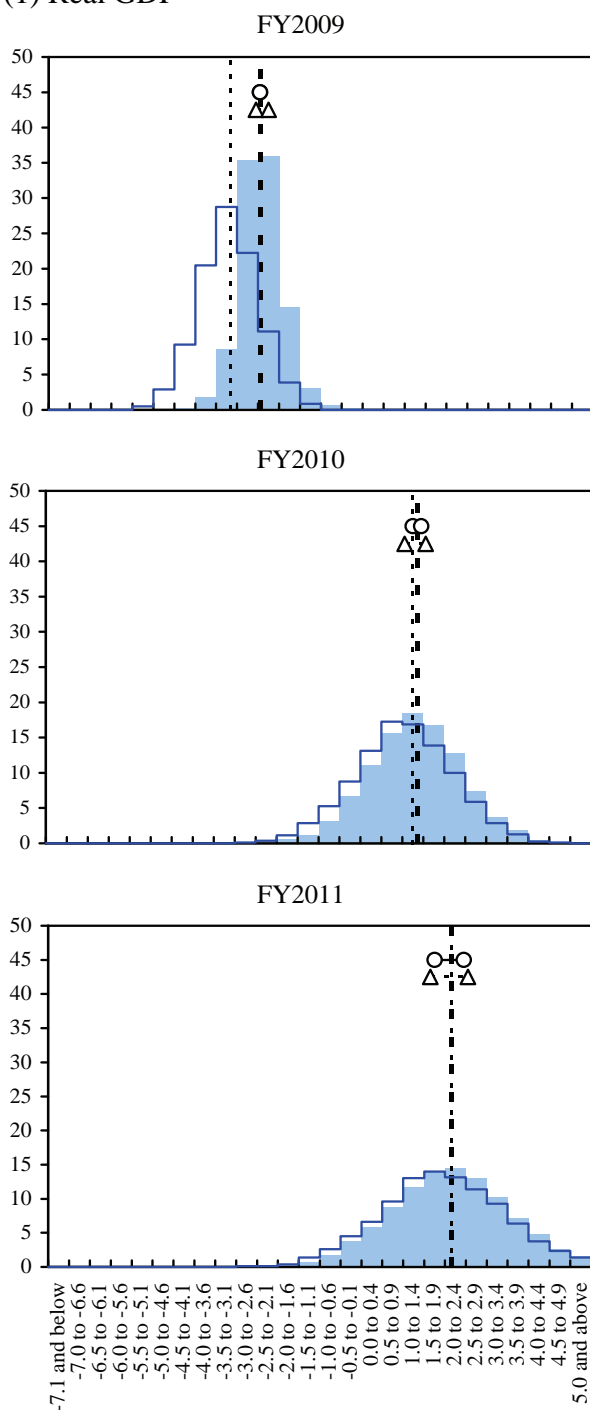
- Notes: 1. Figures in brackets indicate the median of the Policy Board members' forecasts (point estimates).
2. The forecasts of the majority of Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate, namely, the figure to which he or she attaches the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. It should be noted that the range does not indicate the forecast errors.
3. Individual Policy Board members make their forecasts with reference to the view of market participants regarding the future course of the policy interest rate -- a view that is incorporated in market interest rates.
4. The revised forecasts for real GDP in fiscal 2009 is largely attributable to the revision of past GDP statistics.
5. The range shown below includes the forecasts of all Policy Board members.

y/y % chg.

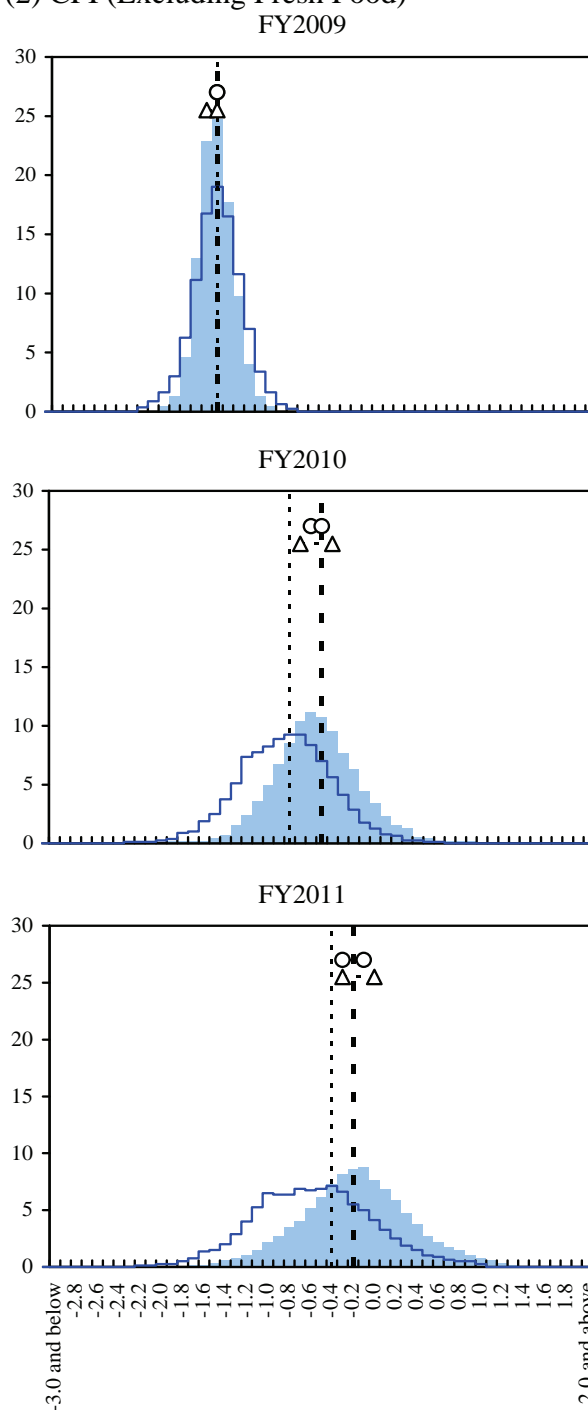
	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2009	-2.6 to -2.3	-5.5 to -5.0	-1.6 to -1.5
Forecasts made in October 2009	-3.4 to -3.0	-5.4 to -5.0	-1.6 to -1.4
Fiscal 2010	+1.0 to +1.5	-0.9 to -0.4	-0.7 to -0.4
Forecasts made in October 2009	+0.7 to +1.5	-1.5 to -0.9	-1.2 to -0.7
Fiscal 2011	+1.6 to +2.5	-0.5 to +0.2	-0.3 to 0.0
Forecasts made in October 2009	+1.4 to +2.5	-1.1 to +0.2	-1.0 to -0.3

Risk Balance Charts

(1) Real GDP



(2) CPI (Excluding Fresh Food)



Notes: 1. Vertical axes in the charts represent probability (%), while horizontal axes represent the year-on-year percentage changes in the respective indicators. Bar charts represent the probability distributions in January 2010, and solid lines represent those in October 2009.

2. Vertical dashed heavy lines indicate the median of the Policy Board members' forecasts (point estimates).
 ○—○ indicates the range of the forecasts of the majority of Policy Board members. Δ—Δ indicates the range of the forecasts of all Policy Board members.

3. Vertical dashed thin lines indicate the median of the Policy Board members' forecasts (point estimates) in October 2009.

4. For the process of compilation of the Risk Balance Charts, see the box on page 9 of the April 2008 *Outlook for Economic Activity and Prices*.

(Reference)

Meeting hours:

January 25: 14:00-16:17

January 26: 9:00-12:21

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)

January 25

From the Ministry of Finance:

Shunsuke Kagawa, Deputy Vice Minister for Policy Planning and Co-ordination
(14:00-16:17)

From the Cabinet Office:

Kenji Umetani, Deputy Director-General, Economic and Fiscal Management (14:00-
16:17)

January 26

From the Ministry of Finance:

Yoshihiko Noda, Senior Vice Minister of Finance (9:00-12:10,12:14-12:21)

From the Cabinet Office:

Kenji Umetani, Deputy Director-General, Economic and Fiscal Management
(9:00-12:10,12:14-12:21)

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

14:00 on Wednesday, January 27 (Japanese)

16:30 on Thursday, January 28 (English)

-- The English translation of the summary of the Monthly Report will be
released at 14:00 on Wednesday, January 27

Release of the minutes:

8:50 on Tuesday, February 23