

March 17, 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. In December 2009, the Bank newly introduced a fixed-rate funds-supplying operation against pooled collateral (hereafter the fixed-rate operation) to further enhance easy monetary conditions, and has been implementing such measure to encourage a decline in longer-term interest rates. Given that the amount outstanding of funds provided by special funds-supplying operations to facilitate corporate financing will gradually decline from April 2010 onward, the Bank will expand the measure to encourage a decline in longer-term interest rates by substantially increasing the amount of funds to be provided through the fixed-rate operation.²
3. 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 improvement in overseas economies, especially, fast growth in emerging economies. Business fixed investment is leveling out on the whole. Private consumption, notably durable goods consumption, is picking up mainly due to policy measures, despite the continued severe employment and income situation. Public investment is declining. Meanwhile, the financial environment, with some lingering severity, has continued to show signs of improvement. The CPI (excluding fresh food) is declining on a year-on-year basis due to the

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.

² In the main text, Ms. M. Suda and Mr. T. Noda dissented from the expansion of the measure to encourage a decline in longer-term interest rates by substantially increasing the amount of funds to be provided through the fixed-rate operation.

substantial slack in the economy as a whole, but the moderating trend in the pace of decline has continued.

4. 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.
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 various recent 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. The expansion of the measure to encourage a decline in longer-term interest rates was also in line with this principle, and, in the conduct of monetary policy, the Bank will continue to aim to maintain the extremely accommodative financial environment.

(Reference)

Meeting hours:

March 16: 14:00-16:13

March 17: 9:00-12:44

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)

March 16

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)

March 17

From the Ministry of Finance:

Shunsuke Kagawa, Deputy Vice Minister for Policy Planning and Co-ordination
(9:00-12:30,12:39-12:44)

From the Cabinet Office:

Kenji Umetani, Deputy Director-General, Economic and Fiscal Management
(9:00-12:30,12:39-12:44)

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

14:00 on Thursday, March 18 (Japanese)

16:30 on Friday, March 19 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Thursday, March 18

Release of the minutes:

8:50 on Monday, April 12