

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 has been picking up mainly due to improvement in overseas economic conditions and to various policy measures, although there is not yet sufficient momentum to support a self-sustaining recovery in domestic private demand. Exports and production have been increasing mainly against a backdrop of high growth in emerging economies. Business sentiment has been improving. Business fixed investment is leveling out. 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, financial conditions, with some lingering severity, have shown increasing signs of easing. The CPI (excluding fresh food) is declining on a year-on-year basis due to the substantial slack in the economy as a whole, but the moderating trend in the pace of decline has continued.
3. The Bank's baseline scenario projects that the pace of improvement of the economy is likely to be moderate for the time being. 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

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

improves gradually.²

4. 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.
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.

² The year-on-year rate of change in the CPI will fluctuate substantially for a year following the introduction of subsidy for high school tuition and other policy measures in fiscal 2010. In assessing the trend of price developments, it is deemed appropriate to exclude such one-off factors that will disappear in 12 months.

(Reference)

Meeting hours:

April 6: 14:00-16:56

April 7: 8:59-11:58

Policy Board members present:

Masaaki Shirakawa (Governor)

Hirohide Yamaguchi (Deputy Governor)

Kiyohiko G. Nishimura (Deputy Governor)

Miyako Suda

Tadao Noda

Seiji Nakamura

Hidetoshi Kamezaki

Ryuzo Miyao

(Others present)

April 6

From the Ministry of Finance:

Shunsuke Kagawa, Deputy Vice Minister for Policy Planning and Co-ordination
(14:00-16:56)

From the Cabinet Office:

Kenji Umetani, Deputy Director-General, Economic and Fiscal Management
(14:00-16:56)

April 7

From the Ministry of Finance:

Shunsuke Kagawa, Deputy Vice Minister for Policy Planning and Co-ordination
(8:59-11:43,11:49-11:58)

From the Cabinet Office:

Kenji Umetani, Deputy Director-General, Economic and Fiscal Management
(8:59-11:43,11:49-11:58)

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

14:00 on Thursday, April 8 (Japanese)

16:30 on Friday, April 9 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Thursday, April 8

Release of the minutes:

8:50 on Monday, May 10