

May 21, 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 starting to recover moderately, induced by improvement in overseas economic conditions. Exports and production have been increasing mainly against a backdrop of high growth in emerging economies. In these circumstances, business fixed investment is showing signs of picking up. Private consumption, notably durable goods consumption, is picking up partly due to policy measures. Public investment is declining. Meanwhile, financial conditions, with some lingering severity, have continued to show 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 economy is likely to be on a recovery trend. With regard to prices, based on the assumption that medium- to long-term inflation expectations remain stable, the year-on-year rate of decline in the CPI (excluding fresh food) is expected to slow as the aggregate supply and demand balance improves gradually.
4. With regard to economic activity, while there are some upside risks such as faster growth in emerging and commodity-exporting economies, there are also downside risks such as those related to international financial developments. In this regard, attention should be paid to the effects of developments regarding fiscal conditions in some European economies on international finance and the global economy. 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, while there is also a

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.

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 Japan's economy faces the critical challenge of overcoming deflation and returning 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. At the Monetary Policy Meeting held on April 30, 2010, with a view to strengthening the foundations for economic growth, the Bank announced to support private financial institutions in terms of fund provisioning, and has since been examining possible ways of implementation. At today's Meeting, based on a report from staff, the Bank decided to compile and announce a preliminary framework for the fund provisioning, as in the Attachment, and to examine further operational details.

**Preliminary Framework for the Fund-Provisioning Measure to
Facilitate Strengthening of the Foundations for Economic Growth**

1. Eligible Counterparties

Financial institutions that are already counterparties in the Bank's Funds-Supplying Operations against Pooled Collateral at All Offices and wish to be counterparties for this measure.

2. Form of Loans

Loans shall be provided against pooled collateral (the same form as the Bank's Funds-Supplying Operations against Pooled Collateral).

3. Duration of Loans

Duration of each loan shall be 1 year, in principle, and the loan can be rolled over.

4. Loan Rates

The Bank's target for the uncollateralized overnight call rate at the time of loan disbursement.

5. Amount of Loans per Counterparty

Each counterparty shall submit its plan for strengthening the foundations for economic growth to the Bank. The Bank shall provide loans to each counterparty based on its actual amount of lending and investment that were carried out under the plan.

6. Total Amount of Loans, Deadline of New Application for Loans, etc.

The Bank shall determine, at the time of commencement of this measure, the total amount of loans, the deadline of new application for loans, and the number of roll-overs possible, taking into account, for example, financial institutions' approaches to carry out lending and investment for strengthening the foundations for economic growth.

(Reference)

Meeting hours:

May 20: 14:00-16:27

May 21: 9:00-12:37

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)

May 20

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)

May 21

From the Ministry of Finance:

Shunsuke Kagawa, Deputy Vice Minister for Policy Planning and Co-ordination
(9:00-12:27,12:32-12:37)

From the Cabinet Office:

Kenji Umetani, Deputy Director-General, Economic and Fiscal Management
(9:00-12:27,12:32-12:37)

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

14:00 on Monday, May 24 (Japanese)

16:30 on Tuesday, May 25 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Monday, May 24

Release of the minutes:

8:50 on Friday, June 18