

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 shows further signs of a moderate recovery, induced by improvement in overseas economic conditions. Exports and production have been increasing mainly due to high growth in emerging economies and increased global demand for IT-related goods. Corporate profits and business sentiment have been improving, and business fixed investment is showing signs of picking up. The employment and income situation has remained severe, but the degree of severity has eased somewhat. In these circumstances, private consumption has been generally picking up. Public investment is declining. Meanwhile, financial conditions 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 slowing 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. Compared with the projections presented in the April 2010 *Outlook for Economic Activity and Prices*, growth prospects will likely be higher for fiscal 2010 mainly due to acceleration of growth in emerging economies, but remain broadly unchanged for fiscal 2011. With regard to prices, the year-on-year rates of change in the domestic corporate goods price index and the CPI (excluding fresh food) are expected to be broadly in line with the projections presented in

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, Mr. R. Miyao, and Mr. Y. Morimoto. Voting against the action: None.

April.

5. With regard to economic activity, there are some upside risks such as even faster growth in emerging and commodity-exporting economies. On the other hand, 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 in fiscal and financial 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 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 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.

Forecasts of the Majority of Policy Board Members

y/y % chg.

	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2010	+2.5 to +2.7 [+2.6]	+1.2 to +1.3 [+1.2]	-0.5 to -0.2 [-0.4]
Forecasts made in April 2010	+1.6 to +2.0 [+1.8]	+1.1 to +1.5 [+1.3]	-0.5 to -0.2 [-0.5]
Fiscal 2011	+1.8 to +2.1 [+1.9]	+0.5 to +0.9 [+0.8]	0.0 to +0.2 [+0.1]
Forecasts made in April 2010	+2.0 to +2.2 [+2.0]	+0.5 to +0.8 [+0.7]	-0.1 to +0.2 [+0.1]

Notes: 1. Figures in brackets indicate the median of the Policy Board members' forecasts (point estimates).

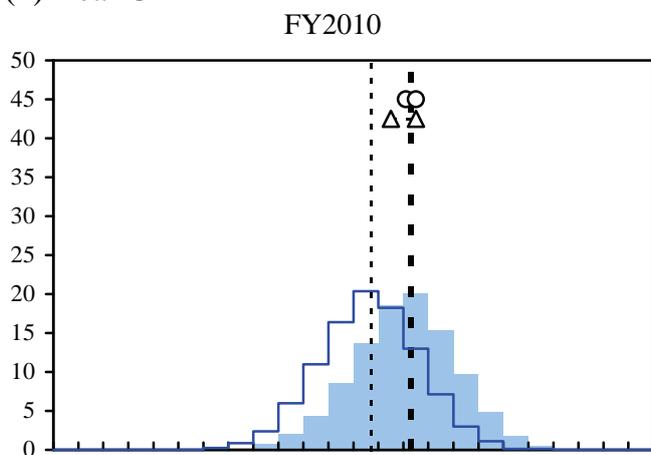
2. The forecasts of the majority of Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate, namely, the figure to which he or she attaches the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. 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 CPI for fiscal 2010 excludes the effects of the introduction of subsidies for high school tuition fees, a factor that will substantially lower the year-on-year rate of change in the CPI for the year. This measure is estimated to lower the year-on-year rate of change in the CPI (excluding fresh food) by approximately 0.5 percentage points.
5. The range shown below includes the forecasts of all Policy Board members.

y/y % chg.

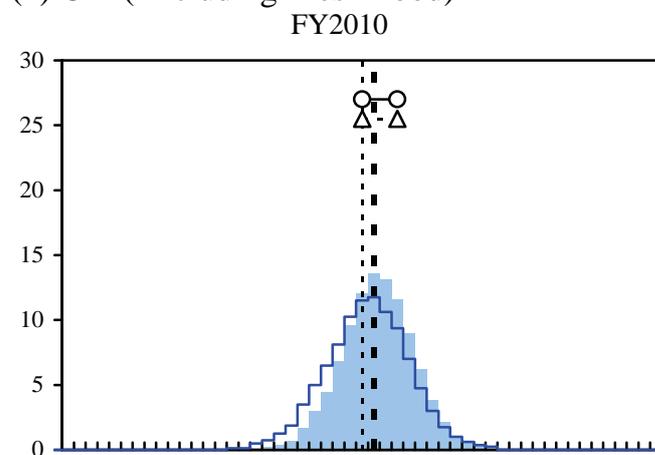
	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2010	+2.2 to +2.7	+1.0 to +1.4	-0.5 to -0.2
Forecasts made in April 2010	+1.5 to +2.0	+1.0 to +1.6	-0.6 to -0.2
Fiscal 2011	+1.8 to +2.1	+0.5 to +1.0	-0.1 to +0.3
Forecasts made in April 2010	+1.9 to +2.4	+0.4 to +1.0	-0.1 to +0.3

Risk Balance Charts

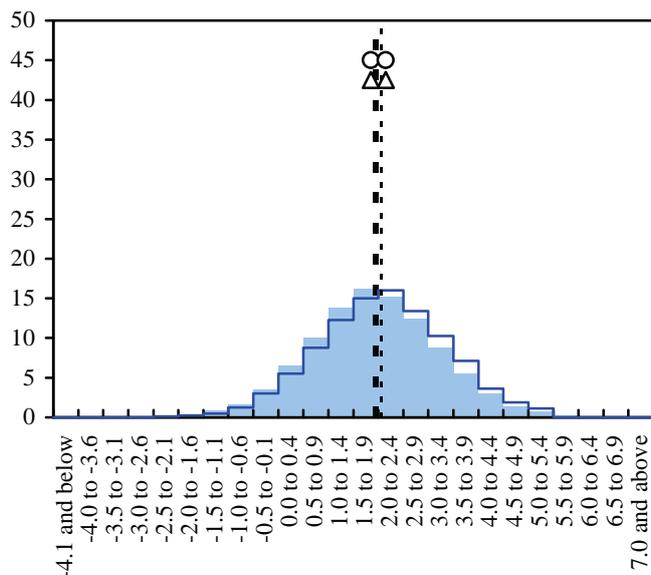
(1) Real GDP



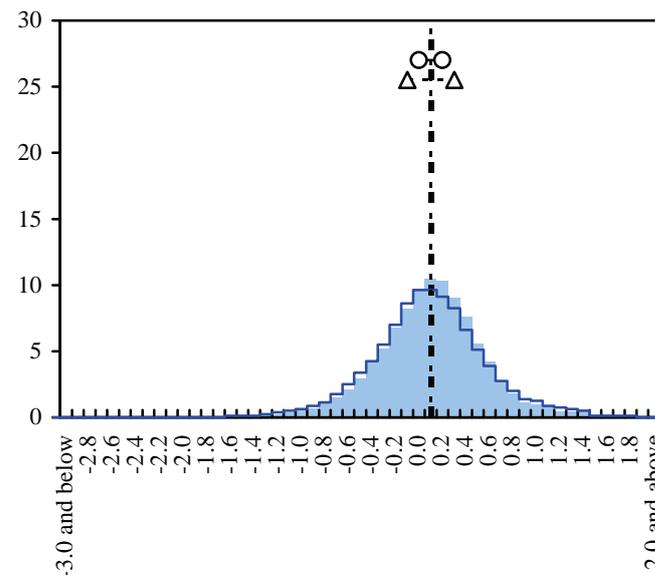
(2) CPI (Excluding Fresh Food)



FY2011



FY2011



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 July 2010, and solid lines represent those in April 2010.

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 April 2010.

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:

July 14: 14:00-16:39

July 15: 9:02-12:40

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

Yoshihisa Morimoto

(Others present)

July 14

From the Ministry of Finance:

Shunsuke Kagawa, Deputy Vice Minister for Policy Planning and Co-ordination
(14:00-16:39)

From the Cabinet Office:

Kenji Umetani, Deputy Director-General, Economic and Fiscal Management
(14:00-16:39)

July 15

From the Ministry of Finance:

Motohisa Ikeda, Senior Vice Minister of Finance (9:02-12:27,12:32-12:40)

From the Cabinet Office:

Keisuke Tsumura, Parliamentary Vice-Minister (9:02-12:27,12:32-12:40)

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

14:00 on Friday, July 16 (Japanese)

16:30 on Tuesday, July 20 (English)

-- The English translation of the summary of the Monthly Report will be released
at 14:00 on Friday, July 16

Release of the minutes:

8:50 on Friday, August 13