

September 7, 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 shows further signs of a moderate recovery. Exports and production have been increasing, albeit at a slower pace. 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 and has recently been boosted by the extremely hot weather and a last-minute increase in demand for durable consumer goods ahead of the expiration of the policy measure. 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. With regard to economic activity, there are some upside risks such as faster growth in emerging and commodity-exporting economies. On the other hand, against the backdrop of increased uncertainty about the future, especially for the U.S. economy, and associated instability in the foreign exchange and stock markets, attention should be paid to downside risks to Japan's economy. With regard to prices, there is a possibility that inflation will rise

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.

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.

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 has been striving to pursue powerful monetary easing, ensure financial market stability, and support strengthening the foundations for economic growth, and it will continue to consistently make such contributions as central bank. In the conduct of monetary policy, the Bank will maintain the extremely accommodative financial environment. The Bank will carefully examine the outlook for economic activity and prices, and, if judged necessary, take policy actions in a timely and appropriate manner.

(Reference)

Meeting hours:

September 6: 14:00-16:29

September 7: 9:00-12:34

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)

September 6

From the Ministry of Finance:

Yasushi Kinoshita, Deputy Vice Minister for Policy Planning and Co-ordination
(14:00-16:29)

From the Cabinet Office:

Kenji Umetani, Director-General, Economic and Fiscal Management (14:00-16:29)

September 7

From the Ministry of Finance:

Motohisa Ikeda, Senior Vice Minister of Finance (9:21-12:21,12:26-12:34)

From the Cabinet Office:

Keisuke Tsumura, Parliamentary Vice-Minister (9:00-12:21,12:26-12:34)

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

14:00 on Wednesday, September 8 (Japanese)

16:30 on Thursday, September 9 (English)

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

Release of the minutes:

8:50 on Friday, October 8