

December 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 to 0.1 percent.

2. Japan's economy still shows signs of a moderate recovery, but the recovery seems to be pausing. Exports have been more or less flat. Corporate profits have continued to grow, albeit at a slower pace. In this situation, business fixed investment has started to pick up. The employment and income situation has remained severe, but the degree of severity has eased somewhat. As for private consumption, demand for some goods has suffered a reverse after the sharp increase seen previously. Reflecting these developments in demand both at home and abroad, production has recently declined slightly and business sentiment has also been somewhat weak, particularly in the manufacturing sector. Meanwhile, financial conditions have shown further signs of easing, as seen in the declining trend in firms' funding costs and the improvement in lending attitudes of financial institutions. 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 Japan's economy is likely to grow at a slower pace for some time, but is expected to return to a moderate recovery path thereafter as the growth rate of the global economy is likely to start increasing again led by

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.

emerging and commodity-exporting economies. As for prices, the year-on-year rate of decline in the CPI is expected to continue slowing.

4. In the area of economic activity, there are some upside risks such as faster growth in emerging and commodity-exporting economies. However, amid continued heightened uncertainty about the outlook for the U.S. and European economies, attention should also be paid to downside risks to Japan's economy. Regarding the outlook for prices, there is a possibility that inflation will rise more than expected due to an increase in commodity prices brought about by high growth rates in emerging and commodity-exporting economies, while there is also a risk that the rate of inflation will deviate downward from the Bank's baseline scenario due, for example, to a decline in medium- to long-term inflation expectations.
5. The Bank has started its asset purchases in all the asset categories in the Asset Purchase Program. The Bank will steadily purchase various financial assets and provide longer-term funds through the 35 trillion yen Program, so that the effects of comprehensive monetary easing spread. In order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, the Bank will continue to consistently make contributions as the central bank through the three-pronged approach of pursuing powerful monetary easing consisting of comprehensive monetary easing, ensuring financial market stability, and providing support to strengthen the foundations for economic growth. The Bank will continue to carefully examine the outlook for economic activity and prices, and take policy actions in an appropriate manner.

(Reference)

Meeting hours:

December 20: 14:00-16:50

December 21: 9:00-12:50

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)

December 20

From the Ministry of Finance:

Yasushi Kinoshita, Deputy Vice Minister for Policy Planning and Co-ordination
(14:00-16:50)

From the Cabinet Office:

Hiroyuki Inoue, Deputy Director-General, Economic and Fiscal Management
(14:00-16:50)

December 21

From the Ministry of Finance:

Mitsuru Sakurai, Senior Vice Minister of Finance (9:00-12:41,12:46-12:50)

From the Cabinet Office:

Hiroyuki Inoue, Deputy Director-General, Economic and Fiscal Management
(9:00-12:41,12:46-12:50)

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

14:00 on Wednesday, December 22 (Japanese)

16:30 on Friday, December 24 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Wednesday, December 22

Release of the minutes:

8:50 on Friday, January 28