

January 25, 2011

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. 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. Housing investment is showing signs of picking up. On the other hand, exports have been somewhat weak. With these developments in demand both at home and abroad, production has declined slightly. Meanwhile, financial conditions have continued to ease further. 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 expected to gradually overcome the deceleration in the pace of improvement and return to a moderate recovery path as the growth rate of the global economy is likely to start increasing again led by emerging and commodity-exporting economies. As for prices, the year-on-year rate of decline in the CPI is expected to continue slowing.
4. Compared with the projections presented in the October 2010 *Outlook for Economic Activity and Prices*, growth prospects will likely be higher for fiscal 2010 mainly due to the revision of past GDP statistics, but remain broadly unchanged for fiscal 2011 and 2012. With regard to prices, the year-on-year rates of change in the domestic corporate goods price index and

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.

the CPI (excluding fresh food) will likely be somewhat higher in fiscal 2011 mainly due to the rise in commodity prices, but broadly in line with the October projections for fiscal 2012.

5. In the area of economic activity, there are some upside risks such as faster growth in emerging and commodity-exporting economies due to robust domestic demand and capital inflows from overseas. However, although concerns about the U.S. economy have subsided, there are downside risks associated with uncertainties about the outlook for the U.S. and European economies and developments in global financial markets. Regarding the outlook for prices, there is a possibility that inflation will rise more than expected if commodity prices increase further due to 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.
6. 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.

Forecasts of the Majority of Policy Board Members

y/y % chg.

	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2010	+3.3 to +3.4 [+3.3]	+0.5 to +0.6 [+0.5]	-0.4 to -0.3 [-0.3]
Forecasts made in October 2010	+2.0 to +2.3 [+2.1]	+0.7 to +0.9 [+0.9]	-0.5 to -0.3 [-0.4]
Fiscal 2011	+1.4 to +1.7 [+1.6]	+0.7 to +1.2 [+1.0]	0.0 to +0.4 [+0.3]
Forecasts made in October 2010	+1.5 to +1.9 [+1.8]	+0.4 to +0.7 [+0.5]	0.0 to +0.3 [+0.1]
Fiscal 2012	+1.9 to +2.2 [+2.0]	+0.5 to +0.8 [+0.7]	+0.2 to +0.8 [+0.6]
Forecasts made in October 2010	+2.0 to +2.4 [+2.1]	+0.3 to +0.8 [+0.6]	+0.2 to +0.8 [+0.6]

- Notes: 1. Figures in brackets indicate the median of the Policy Board members' forecasts (point estimates).
2. The forecasts of the majority of the 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 revised forecasts for real GDP in fiscal 2010 are largely attributable to the revision of past GDP statistics.
5. The CPI forecasts for fiscal 2010 exclude the effects of subsidies for high school tuition, a factor that will significantly push down the year-on-year rate of change in the index for twelve months. This measure is estimated to push down the CPI (excluding fresh food) by about 0.5 percentage points.
6. The CPI forecasts are predicated on the 2005-base CPI. The statistics authority has announced that the base year for the CPI is scheduled to be changed to 2010 in August 2011, and year-on-year figures as far back as January 2011 are scheduled to be revised retroactively. This rebasing is likely to cause the year-on-year rate of increase in the CPI to be revised downward.
7. The range shown below includes the forecasts of all Policy Board members.

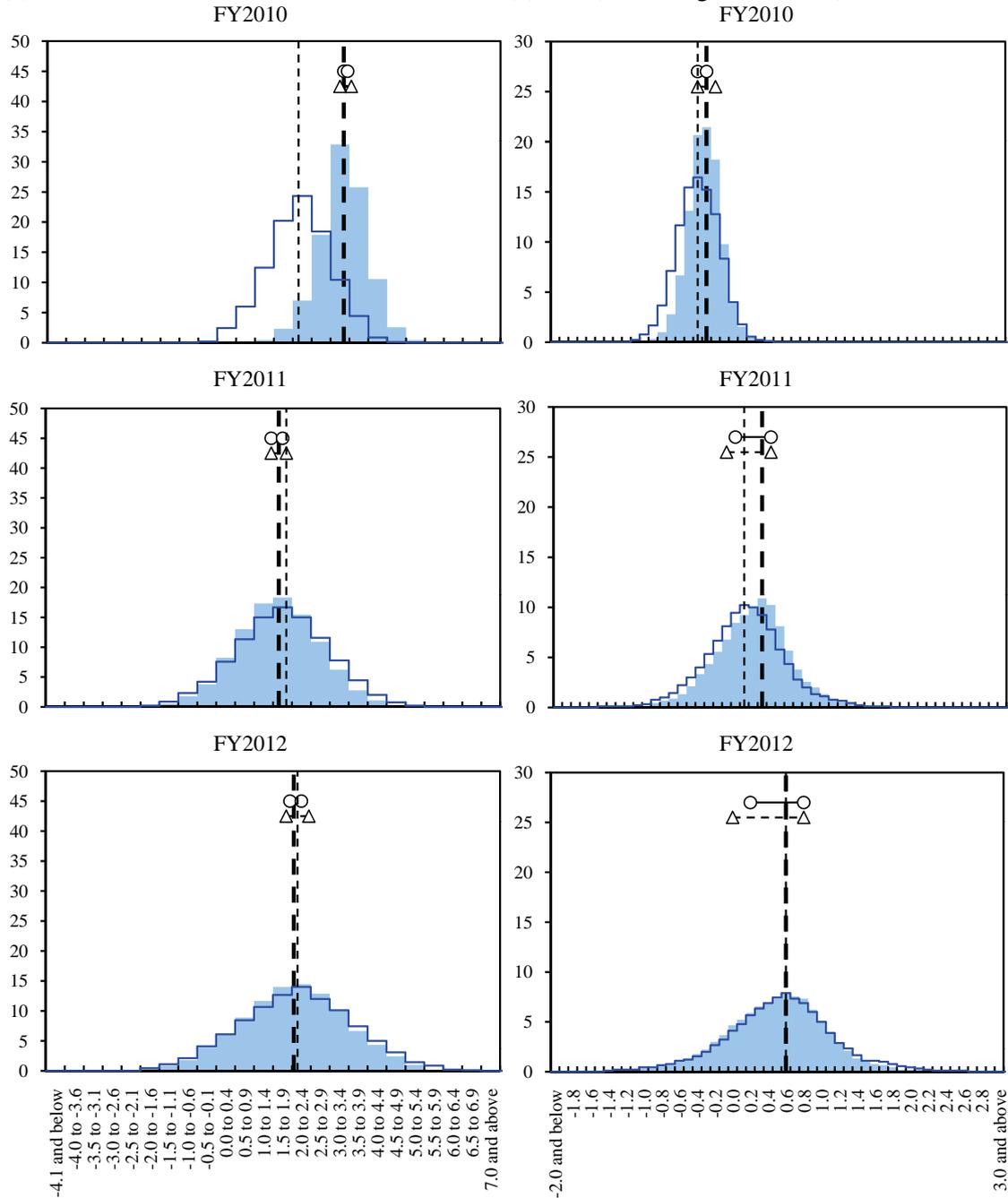
y/y % chg.

	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2010	+3.2 to +3.5	+0.4 to +0.6	-0.4 to -0.2
Forecasts made in October 2010	+2.0 to +2.3	+0.5 to +0.9	-0.5 to -0.2
Fiscal 2011	+1.4 to +1.8	+0.6 to +1.2	-0.1 to +0.4
Forecasts made in October 2010	+1.5 to +1.9	+0.4 to +1.0	-0.2 to +0.4
Fiscal 2012	+1.8 to +2.4	+0.3 to +1.0	0.0 to +0.8
Forecasts made in October 2010	+2.0 to +2.4	+0.3 to +1.0	0.0 to +0.8

Risk Balance Charts

(1) Real GDP

(2) CPI (Excluding Fresh Food)



- 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 January 2011, and solid lines represent those in October 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. △ - - - △ 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 October 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:

January 24 : 14:00-16:31

January 25: 9:02-12:24

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)

January 24

From the Ministry of Finance:

Yasushi Kinoshita, Deputy Vice Minister for Policy Planning and Co-ordination
(14:00-16:31)

From the Cabinet Office:

Kenji Umetani, Director-General, Economic and Fiscal Management (14:00-16:31)

January 25

From the Ministry of Finance:

Mitsuru Sakurai, Senior Vice Minister of Finance (9:02-12:11,12:16-12:24)

From the Cabinet Office:

Yoshinori Suematsu, Senior Vice Minister for Economic and Fiscal Policy
(9:02-12:11,12:16-12:24)

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

14:00 on Wednesday, January 26 (Japanese)

16:30 on Thursday, January 27 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Wednesday, January 26

Release of the minutes:

8:50 on Friday, February 18