

### Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Bank of Japan decided, by a unanimous vote,<sup>[Note]</sup> 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 0.5 percent.

2. Economic growth is slowing further reflecting weaker growth in business fixed investment and private consumption against the backdrop of high energy and materials prices. While growth will likely remain slow for the time being, it is expected to gradually return onto a moderate growth path thereafter. CPI inflation rate (excluding fresh food) is currently around 1.5 percent due to increased prices of petroleum products and food. CPI inflation is expected to gradually moderate after becoming somewhat elevated in coming months. These suggest that the possibility of the economy remaining on a sustainable growth path with price stability is relatively high.
3. Compared with the projections presented in the April Outlook for Economic Activity and Prices (Outlook Report), growth prospects have shifted somewhat lower, while prospects for inflation, in terms of both CGPI and CPI (excluding fresh food), have shifted higher, mainly for fiscal 2008.
4. With regard to risk factors, global financial markets remain unstable and there are downside risks to the U.S. and the world economy. In addition, weaker income generation due to upsurge in commodity prices has the potential to weigh on domestic private demand. These downside risks to the economy demand attention. On prices, inflationary pressures are increasing globally. In Japan, it is necessary to be mindful of upside risks due to changes in the inflation expectations of households and the price-setting behavior of firms in addition to developments in energy and materials prices. Meanwhile, if the downside risks to the economy turn out to decrease, this will increase the risk of possible swings in economic activity and prices due to prolonged period of accommodative financial conditions.
5. The Bank, while maintaining the smooth functioning of the money market, will carefully assess the future outlook for economic activity and prices, closely considering the likelihood of its projections as well as factors posing upside or downside risks, and will implement its policies in an accordingly flexible manner.

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<sup>[Note]</sup> Voting for the action: Mr. M. Shirakawa, Mr. K. G. Nishimura, Ms. M. Suda, Mr. A. Mizuno, Mr. T. Noda, Mr. S. Nakamura, and Mr. H. Kamezaki. Voting against the action: None.

### Forecasts of the Majority of Policy Board Members

y/y % chg.

|                                 | Real GDP               | Domestic CGPI          | CPI (excluding fresh food) |
|---------------------------------|------------------------|------------------------|----------------------------|
| Fiscal 2008                     | +1.2 to +1.4<br>[+1.2] | +4.7 to +5.0<br>[+4.8] | +1.7 to +1.9<br>[+1.8]     |
| Forecasts made in<br>April 2008 | +1.4 to +1.6<br>[+1.5] | +2.4 to +2.8<br>[+2.5] | +0.9 to +1.1<br>[+1.1]     |
| Fiscal 2009                     | +1.4 to +1.6<br>[+1.5] | +1.8 to +2.0<br>[+1.8] | +1.0 to +1.2<br>[+1.1]     |
| Forecasts made in<br>April 2008 | +1.6 to +1.8<br>[+1.7] | +1.3 to +1.8<br>[+1.5] | +0.8 to +1.0<br>[+1.0]     |

Notes: 1. Figures in brackets indicate forecast medians.

2. Individual Policy Board members make the above 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.

3. 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. These forecasts are then shown as a range, with the highest and lowest figures excluded. It should be noted that the range does not indicate the forecast errors.

4. The forecasts of all Policy Board members may be summarized as follows.

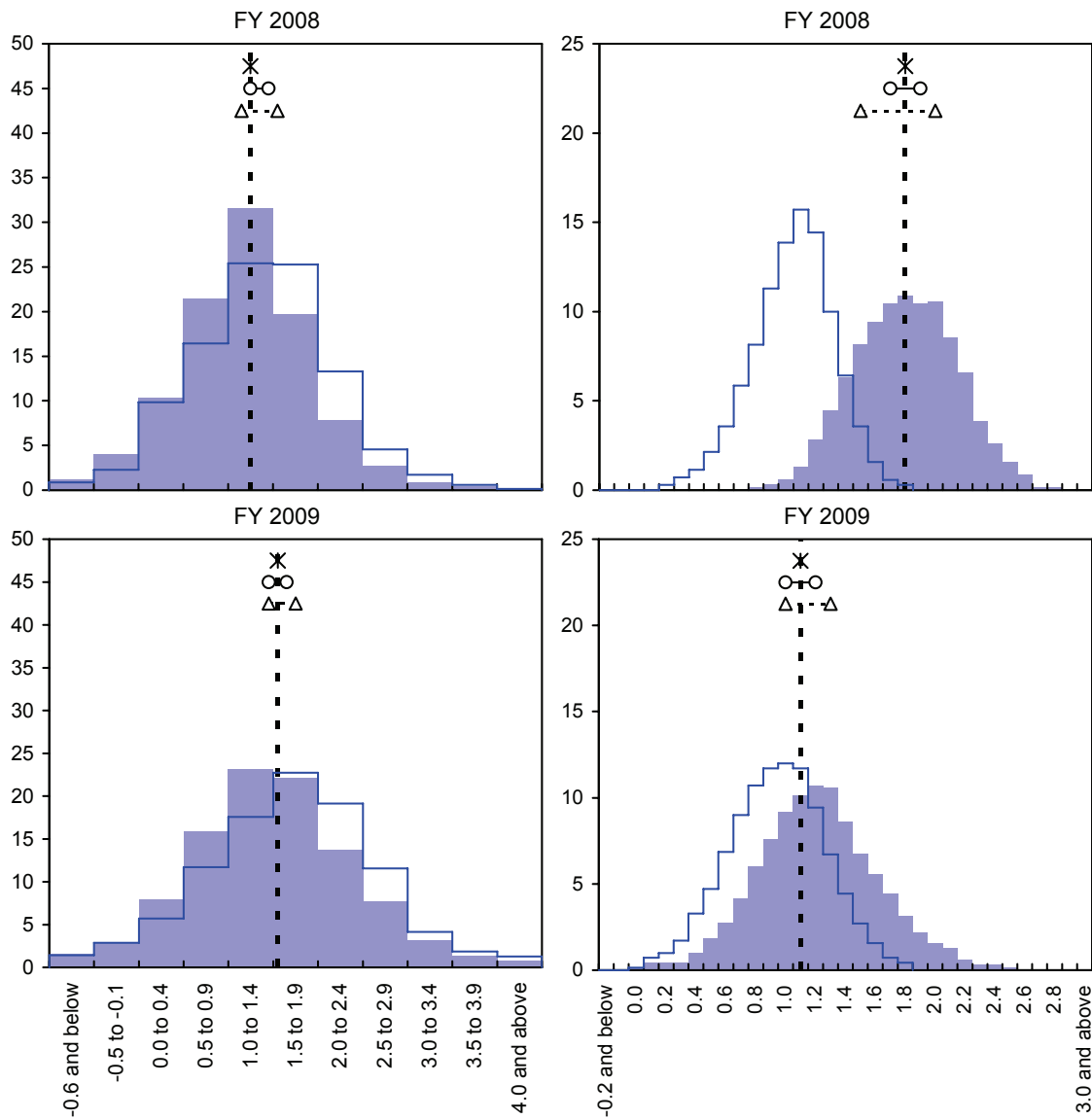
y/y % chg.

|                                 | Real GDP     | Domestic CGPI | CPI (excluding fresh food) |
|---------------------------------|--------------|---------------|----------------------------|
| Fiscal 2008                     | +1.1 to +1.5 | +4.6 to +5.2  | +1.5 to +2.0               |
| Forecasts made in<br>April 2008 | +1.4 to +1.8 | +2.3 to +2.9  | +0.9 to +1.2               |
| Fiscal 2009                     | +1.4 to +1.7 | +1.7 to +2.4  | +1.0 to +1.3               |
| Forecasts made in<br>April 2008 | +1.5 to +1.9 | +1.3 to +1.9  | +0.8 to +1.1               |

### 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 July 2008, and solid lines represent those in April 2008.
2. X on the dashed line indicates the median of the Policy Board member's forecasts (point estimates). O—O 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. 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: 14:00-16:31

July 15: 9:00-13:19

Policy Board members present:

Masaaki Shirakawa (Governor)

Kiyohiko G. Nishimura (Deputy Governor)

Miyako Suda

Atsushi Mizuno

Tadao Noda

Seiji Nakamura

Hidetoshi Kamezaki

(Others present)

July 14

From the Ministry of Finance:

Chikara Kawakita, Deputy Vice Minister for Policy Planning and  
Co-ordination

(14:00-16:31)

From the Cabinet Office:

Bunshichi Fujioka, Vice-Minister for Policy Coordination (14:00-16:31)

July 15

From the Ministry of Finance:

Chikara Kawakita, Deputy Vice Minister for Policy Planning and  
Co-ordination

(9:00-12:20, 12:22-13:19)

From the Cabinet Office:

Bunshichi Fujioka, Vice-Minister for Policy Coordination

(9:00-12:20, 12:22-13:19)

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

2:00 p.m. on Wednesday, July 16 (Japanese)

4:30 p.m. on Thursday, July 17 (English)

Release of the minutes:

8:50 a.m. on Friday, August 22