

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Bank of Japan decided, by a unanimous vote,^[Note] 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 has been sluggish against the backdrop of high energy and materials prices and weaker growth in exports. While growth will likely remain sluggish for the time being, it is expected to return gradually onto a moderate growth path as commodity prices stabilize and overseas economies move out of their deceleration phase. The CPI inflation rate (excluding fresh food) is currently around 2.5 percent, its highest since the first half of 1990s, due to increased prices of energy and food. It is expected to remain at around this level over the coming months but to moderate gradually thereafter. Thus it is likely that the economy will return onto a sustainable growth path with price stability.
3. With regard to risk factors, tensions in global financial markets have increased and there are downside risks to the world economy. In addition, weaker income generation reflecting deterioration in the terms of trade could potentially weigh on domestic private demand. Although the economy is under no pressure to adjust production capacity and labor, these downside risks to the economy demand attention. Turning to prices, global inflationary pressures remain high. 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, there will be an increased risk that prolonging the period of accommodative financial conditions will lead to swings in economic activity and prices.
4. The Bank 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.

While Japan's money market has been functioning well, the Bank will continue to strive to ensure smooth settlement of funds and maintain market stability taking into account the recent developments among U.S. financial institutions and their impact.

^[Note] 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.

(Reference)

Meeting hours:

September 16: 14:00-16:47

September 17: 9:00-12:42

Policy Board members present:

Masaaki Shirakawa (Governor)

Kiyohiko G. Nishimura (Deputy Governor)

Miyako Suda

Atsushi Mizuno

Tadao Noda

Seiji Nakamura

Hidetoshi Kamezaki

(Others present)

September 16

From the Ministry of Finance:

Chikara Kawakita, Deputy Vice Minister for Policy Planning and
Co-ordination (14:00-16:47)

From the Cabinet Office:

Bunshichi Fujioka, Vice-Minister for Policy Coordination (14:00-16:47)

September 17

From the Ministry of Finance:

Wataru Takeshita, Senior Vice Minister of Finance (9:00-12:34,12:38-12:42)

From the Cabinet Office:

Bunshichi Fujioka, Vice-Minister for Policy Coordination
(9:00-12:34,12:38-12:42)

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

14:00 on Thursday, September 18 (Japanese)

16:30 on Friday, September 19 (English)

-- The English translation of the summary of the Monthly Report will be
released at 14:00 on Thursday, September 18

Release of the minutes:

8:50 on Friday, October 10