

October 7, 2008

Bank of Japan

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 due to the effects of earlier increases in energy and materials prices and weaker growth in exports, and it will likely remain sluggish for the time being as a slowdown in overseas economies becomes more evident. Although there are substantial uncertainties, the economy, in the longer run, is expected to return gradually onto a moderate growth path as the effects of earlier increases in energy and materials prices abate 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 the 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, in the longer run, the economy is likely to return onto a sustainable growth path with price stability.
3. With regard to risk factors, strains in global financial markets have intensified in the wake of failures and rescues of U.S. and European financial institutions and there are downside risks to the world economy. In addition, weaker income generation reflecting earlier deterioration in the terms of trade could potentially weigh on domestic private demand. Downside risks to the economy demand attention, although there is currently no pressure to adjust production capacity or labor. Turning to prices, global inflation remains 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. The Bank will also continue to strive to maintain market stability while closely monitoring developments in global financial markets.

^[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:

October 6: 14:00-16:55

October 7: 9:00-12:53

Policy Board members present:

Masaaki Shirakawa (Governor)

Kiyohiko G. Nishimura (Deputy Governor)

Miyako Suda

Atsushi Mizuno

Tadao Noda

Seiji Nakamura

Hidetoshi Kamezaki

(Others present)

October 6

From the Ministry of Finance:

Chikara Kawakita, Deputy Vice Minister for Policy Planning and Co-ordination (14:00-16:55)

From the Cabinet Office:

Bunshichi Fujioka, Vice-Minister for Policy Coordination (14:00-16:55)

October 7

From the Ministry of Finance:

Wataru Takeshita, Senior Vice Minister of Finance (9:00-12:41,12:45-12:53)

From the Cabinet Office:

Bunshichi Fujioka, Vice-Minister for Policy Coordination (9:00-12:41,12:45-12:53)

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

14:00 on Wednesday, October 8 (Japanese)

16:30 on Thursday, October 9 (English)

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

Release of the minutes:

8:50 on Thursday, November 6