

September 17, 2009

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,<sup>1</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 0.1 percent.

2. Japan's economic conditions are showing signs of recovery. Public investment is increasing, and exports and production are also increasing against a backdrop of progress in inventory adjustments both at home and abroad as well as a recovery in overseas economies, especially emerging economies. On the other hand, business fixed investment is declining mainly reflecting weak corporate profits. Private consumption, while there are some signs of a pick-up mainly attributable to the effects of various policy measures, remains generally weak amid the worsening employment and income situation. Meanwhile, financial conditions, with some severity lingering, are increasingly showing signs of improvement. The year-on-year rate of decline in the CPI (excluding fresh food) has accelerated mainly due to the prices of petroleum products, which are lower than their high levels a year ago, in addition to the substantial slack persisting in the economy as a whole.
3. The Bank's baseline scenario through fiscal 2010, in which expectations of medium- to long-term growth are assumed to remain generally unchanged, projects that the economy will start recovering from the latter half of fiscal 2009; this recovery will be supported partly by the positive effects of measures to stabilize the financial system and of fiscal and monetary policy measures, as well as by a recovery in overseas economies and improvements in conditions in global financial markets. With regard to prices, the year-on-year rate of decline in the CPI will likely accelerate somewhat for the time being. However, assuming that medium- to long-term inflation expectations remain stable, the rate of decline in the CPI is expected to moderate from the latter half of fiscal 2009 as the effects of the changes in the

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<sup>1</sup> Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, 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.

prices of petroleum products abate. If these developments continue, there are prospects for Japan's economy to return to a sustainable growth path with price stability in the longer run. However, the outlook is attended by a significant level of uncertainty stemming mainly from developments in overseas economies and global financial markets.

4. While there are signs of a better-than-projected recovery in emerging economies, risks to the economy are still on the downside, stemming from future developments in the global financial and economic situation, as well as from changes in firms' medium- to long-term growth expectations. With regard to prices, there is a possibility that inflation will decline more than expected, if the downside risks to the economy materialize or medium- to long-term inflation expectations decline.
5. The Bank, paying attention for the time being to the downside risks to economic activity and prices, will continue to exert its utmost efforts as the central bank to facilitate the return of Japan's economy to a sustainable growth path with price stability.

(Reference)

Meeting hours:

September 16: 14:00-16:29

September 17: 9:00-12:34

Policy Board members present:

Masaaki Shirakawa (Governor)

Hirohide Yamaguchi (Deputy 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:

Shunsuke Kagawa, Deputy Vice Minister for Policy Planning and Co-ordination  
(14:00-16:29)

From the Cabinet Office:

Kenji Umetani, Deputy Director-General, Economic and Fiscal Management  
(14:00-16:29)

September 17

From the Ministry of Finance:

Shunsuke Kagawa, Deputy Vice Minister for Policy Planning and Co-ordination  
(9:00-12:23,12:28-12:34)

From the Cabinet Office:

Kenji Umetani, Deputy Director-General, Economic and Fiscal Management  
(9:00-12:23,12:28-12:34)

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

14:00 on Friday, September 18 (Japanese)

16:30 on Thursday, September 24 (English)

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

Release of the minutes:

8:50 on Monday, October 19