

October 7, 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,<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 to 0.1 percent.

2. Japan's economic activity has continued picking up. Production and exports have continued to increase, although their paces have moderated after going through the recovery phase immediately following the quake-induced plunge. In this situation, business fixed investment has been increasing moderately, and private consumption has been picking up on the whole. Meanwhile, financial conditions have continued to ease, albeit with weakness still being observed in the financial positions of some firms, mainly small ones. The year-on-year rate of change in the CPI (all items less fresh food) is around 0 percent.
3. The underlying trend in overseas economic growth is expected to remain firm, led by emerging economies, although the pace is expected to slow for the time being. In this situation, Japan's economy is expected to return to a moderate recovery path, backed by a moderate increasing trend in exports and by a rise in domestic demand for restoring capital stock. The year-on-year rate of change in the CPI is expected to remain at around 0 percent for the time being.
4. Regarding risks to the economic outlook, the possible consequences of the sovereign debt problems in Europe and the effects of balance-sheet adjustments on the U.S. economy continue to warrant attention. As for emerging and commodity-exporting economies, there remains a high degree of uncertainty about whether price stability and economic growth can be realized at the same time. It is necessary to continue carefully monitoring how Japan's economy will be affected by the uncertainty regarding the developments overseas and by the

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<sup>1</sup> Voting for the action: Mr. M. Shirakawa, Mr. H. Yamaguchi, Mr. K. G. Nishimura, Mr. S. Nakamura, Mr. H. Kamezaki, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, and Mr. K. Ishida.  
Voting against the action: None.

ensuing fluctuations in the foreign exchange and financial markets. Regarding risks to the price outlook, considerable uncertainties surround future developments in international commodity prices, leaving potential for movement in either direction. There is also a possibility 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.

5. The Bank decided to extend the deadline for new applications for loans under the "Funds-Supplying Operation to Support Financial Institutions in Disaster Areas" by six months, up to April 30, 2012. It also decided to extend the effective period of the "Relaxation of the Collateral Eligibility Standards for Debt of Companies in Disaster Areas" by six months, up to April 30, 2013.
6. The Bank is steadily implementing its decision in August to further enhance monetary easing, especially through the purchase of financial assets. The Bank is also committed to continuing the virtually zero interest rate policy until it judges that price stability is in sight on the basis of the "understanding of medium- to long-term price stability."<sup>2</sup> 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 by pursuing powerful monetary easing through the comprehensive monetary easing measures as described above, 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 actions in an appropriate manner.

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<sup>2</sup> The current understanding shows that "on the basis of a year-on-year rate of change in the CPI, it falls in a positive range of 2 percent or lower, centering around 1 percent."

(Reference)

Meeting hours:

October 6 : 14:01-16:31

October 7 : 9:01-12:32

Policy Board members present:

Masaaki Shirakawa (Governor)

Hirohide Yamaguchi (Deputy Governor)<sup>1</sup>

Kiyohiko G. Nishimura (Deputy Governor)

Seiji Nakamura

Hidetoshi Kamezaki

Ryuzo Miyao

Yoshihisa Morimoto

Sayuri Shirai

Koji Ishida

<sup>1</sup> Mr. Nishimura was present only on October 7.

(Others present)

October 6

From the Ministry of Finance:

Shinichi Sato, Deputy Vice Minister for Policy Planning and Co-ordination  
(14:01-16:31)

From the Cabinet Office:

Kenji Umetani, Director-General, Economic and Fiscal Management (14:01-16:31)

October 7

From the Ministry of Finance:

Yukihisa Fujita, Senior Vice Minister of Finance (9:01-12:22,12:28-12:32)

From the Cabinet Office:

Hiroshi Ogushi, Parliamentary Secretary of Cabinet Office (9:01-12:22,12:28-12:32)

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

14:00 on Tuesday, October 11 (Japanese)

16:30 on Wednesday, October 12 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Tuesday, October 11

Release of the minutes:

8:50 on Tuesday, November 1