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Statement on Monetary Policy

Bank of Japan/Central Bank of Japan

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July 15, 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,^[Note 1] 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. In order to continue facilitating corporate financing and ensuring market stability, the Bank decided, by a unanimous vote,^[Note 2] to extend the period for which temporary measures, such as outright purchases of CP and corporate bonds and special funds-supplying operations to facilitate corporate financing, will remain in effect (see Attachment).
3. Japan's economic conditions have stopped worsening. Public investment is increasing and exports and production are picking up. Business sentiment, especially of large manufacturing firms, has stopped deteriorating. On the other hand, business fixed investment is declining sharply mainly reflecting weak corporate profits. Private consumption, while there are some signs of a pick-up due mainly to the effects of various policy measures, remains generally weak amid the worsening employment and income situation. Meanwhile, financial conditions, while remaining generally tight, have continued to show signs of improvement. The year-on-year rate of change in the CPI (excluding fresh food) has turned negative mainly due to the prices of petroleum products lower than the high levels of a year earlier, in addition to the ongoing substantial slack in the overall economy.
4. With noticeable progress having already been made in inventory adjustments both at home and abroad, economic activity will be greatly influenced by developments in final demand. 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

^[Note 1] 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.

^[Note 2] 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.

start recovering from the latter half of fiscal 2009, supported partly by the positive effects of measures to stabilize the financial system and of fiscal and monetary policy measures, in addition to 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 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 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.

5. Compared with the projections presented in the April 2009 *Outlook for Economic Activity and Prices*, growth prospects remain broadly unchanged. With regard to prices, the year-on-year rate of change in the domestic corporate goods price index and the CPI (excluding fresh food) will likely be somewhat higher in fiscal 2009 than the April projections due mainly to the rise in crude oil prices, but is expected to be broadly as projected in fiscal 2010.
6. With regard to risk factors, those that demand attention in the area of economic activity are the continued high downside risks to the economy stemming from future developments in the global financial and economic situation, changes in firms' medium- to long-term growth expectations, and financial conditions in Japan. Regarding the outlook for 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.
7. 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.

Forecasts of the Majority of Policy Board Members

y/y % chg.

	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2009	-3.7 to -3.0 [-3.4]	-6.0 to -5.8 [-5.9]	-1.5 to -1.2 [-1.3]
Forecasts made in April 2009	-3.7 to -3.0 [-3.1]	-7.6 to -6.9 [-7.5]	-1.6 to -1.4 [-1.5]
Fiscal 2010	+0.6 to +1.1 [+1.0]	-2.1 to -1.5 [-2.1]	-1.2 to -0.7 [-1.0]
Forecasts made in April 2009	+0.8 to +1.5 [+1.2]	-2.4 to -1.4 [-1.8]	-1.1 to -0.8 [-1.0]

Notes: 1. Figures in brackets indicate forecast medians.

- 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 of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. It should be noted that the range does not indicate the forecast errors.
- Individual Policy Board members make their 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.
- The range shown below includes the forecasts of all Policy Board members.

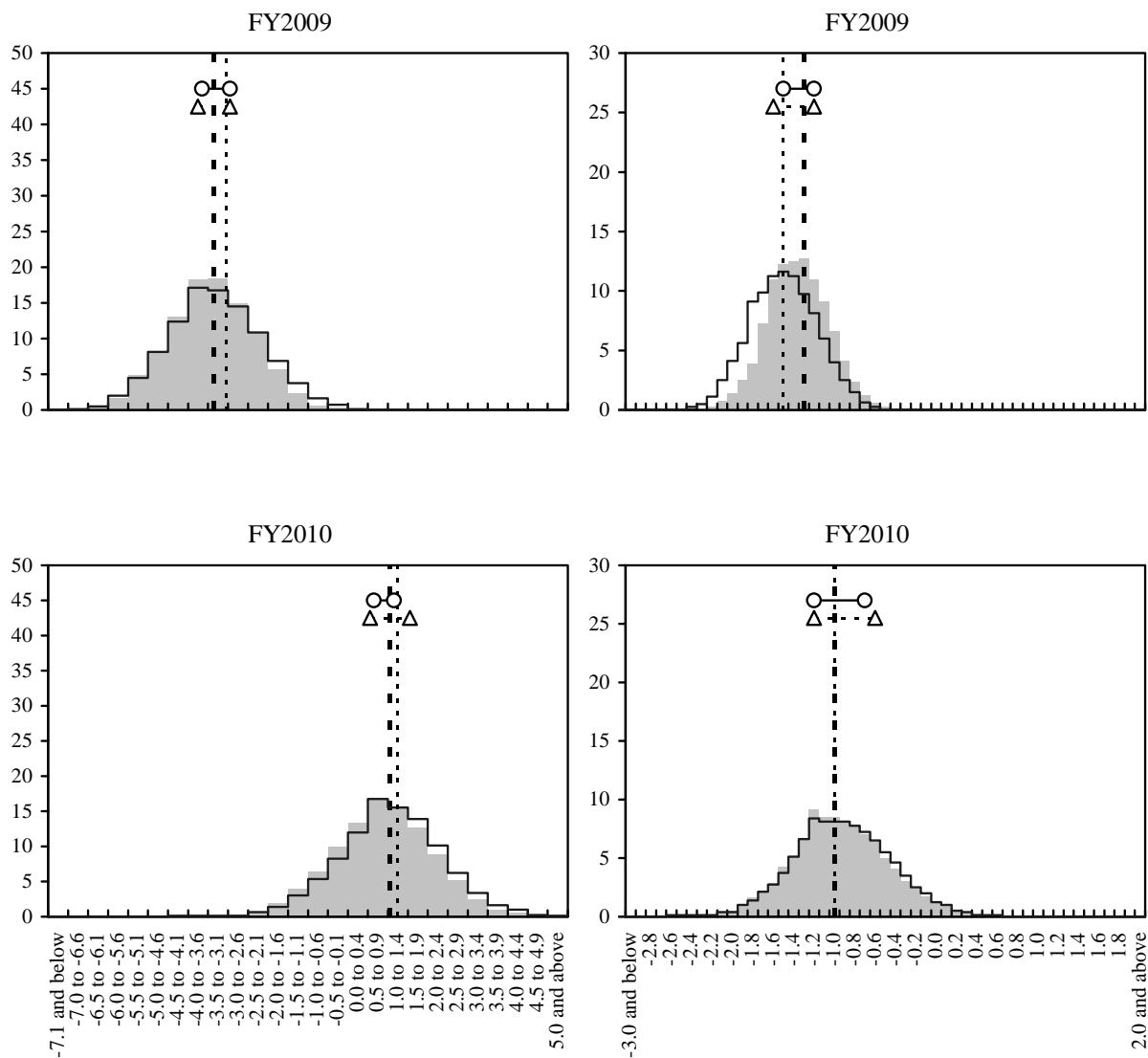
y/y % chg.

	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2009	-3.8 to -3.0	-6.2 to -5.7	-1.6 to -1.2
Forecasts made in April 2009	-3.8 to -2.5	-7.8 to -6.8	-1.8 to -1.2
Fiscal 2010	+0.5 to +1.5	-2.1 to -1.4	-1.2 to -0.6
Forecasts made in April 2009	+0.7 to +1.5	-2.6 to -1.3	-1.2 to -0.4

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 2009, and solid lines represent those in April 2009.

2. Vertical dashed heavy lines indicate the median of the Policy Board members' forecasts (point estimates).
 ○—○ 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. Vertical dashed thin lines indicate the median of the Policy Board members' forecasts (point estimates) in April 2009.

4. 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*.

Extensions of Various Temporary Measures

1. Outright purchases of CP (extended to December 31, 2009 from September 30, 2009)
2. Outright purchases of corporate bonds (extended to December 31, 2009 from September 30, 2009)
3. Special funds-supplying operations to facilitate corporate financing (extended to December 31, 2009 from September 30, 2009)
4. Expansion in the range of corporate debt eligible as collateral (extended to March 31, 2010 from December 31, 2009)
5. Expansion in the range of asset-backed commercial paper eligible as collateral (extended to March 31, 2010 from December 31, 2009)
6. Complementary deposit facility (extended to January 15, 2010 from October 15, 2009)
7. U.S. dollar funds-supplying operations (extended to February 1, 2010 from October 30, 2009)

(Reference)

Meeting hours:

July 14: 14:00-16:05

July 15: 9:00-13:30

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)

July 14

From the Ministry of Finance:

Shunsuke Kagawa, Deputy Vice Minister for Policy Planning and Co-ordination
(14:00-16:05)

From the Cabinet Office:

Bunshichi Fujioka, Vice-Minister for Policy Coordination (14:00-16:05)

July 15

From the Ministry of Finance:

Shunsuke Kagawa, Deputy Vice Minister for Policy Planning and Co-ordination
(9:00-13:17,13:23-13:30)

From the Cabinet Office:

Bunshichi Fujioka, Vice-Minister for Policy Coordination (9:00-13:17,13:23-13:30)

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

14:00 on Thursday, July 16 (Japanese)

16:30 on Friday, July 17 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Thursday, July 16

Release of the minutes:

8:50 on Friday, August 14