

February 21, 2007

Bank of Japan

Change in the Guideline for Money Market Operations

1. At the Monetary Policy Meeting held today, the Bank of Japan decided, by a 8-1 majority vote,^[Note 1] to change the guideline for money market operations for the intermeeting period as stated below (effective immediately).

The Bank of Japan will encourage the uncollateralized overnight call rate to remain at around 0.5 percent.

2. With respect to the complementary lending facility, the Bank decided, by a 8-1 majority vote,^[Note 2] to change the basic loan rate^[Note 3] applicable under the facility to 0.75 percent (effective immediately). With respect to the outright purchases of long-term interest-bearing Japanese government bonds, purchases will continue at the current amount and frequency for some time, with due regard for future conditions of the Bank's balance sheet.
3. Reviewing the outlook for Japan's economy based on incoming data and information, both on domestic and overseas economies, the Bank judged that our economy is likely to continue its moderate expansion with a virtuous circle of production, income, and

^[Note 1] Voting for the action: Mr. T. Fukui, Mr. T. Muto, Ms. M. Suda, Mr. H. Haru, Mr. T. Fukuma, Mr. A. Mizuno, Mr. K. G. Nishimura, and Mr. T. Noda.

Voting against the action: Mr. K. Iwata.

^[Note 2] Voting for the action: Mr. T. Fukui, Mr. T. Muto, Ms. M. Suda, Mr. H. Haru, Mr. T. Fukuma, Mr. A. Mizuno, Mr. K. G. Nishimura, and Mr. T. Noda.

Voting against the action: Mr. K. Iwata.

^[Note 3] The basic loan rate is stipulated in Article 15, Paragraph 1, Clause 2 of the Bank of Japan Law. The basic discount rate in Clause 1 in the same paragraph is also set at 0.75 percent (Discounting bills has been suspended).

spending in place. Uncertainties over the future course of overseas economies, including that of the United States, are abating, and this is likely to reinforce the prospects of continued increase in corporate profits and business fixed investment. With respect to private consumption, the weakness observed in the last summer seems temporary, and it is judged that private consumption is on a moderate increasing trend.

On the price front, consumer prices (excluding fresh food) have been registering small increases on a year-on-year basis, and it is possible that the rate of change will be around zero in the short run, depending, for example, on developments in the prices of crude oil. From a longer-term perspective, however, consumer prices are likely to increase as a trend, since the utilization of resources such as production capacity and labor has been increasing and the economic expansion is expected to continue.

4. With the prospects of the economic and price situation improving, the stimulative effect of monetary policy, if the policy interest rate were kept at the current level, could gradually increase. If expectation takes hold, in such a situation, that interest rates will remain low for a long time regardless of economic activity and prices, there is a possibility that sustained economic growth will be hampered by misallocation of funds and resources through excess financial and economic activities. The Bank judged that, taking account of the current assessment of economic activity and prices from the two perspectives outlined in the New Framework for the Conduct of Monetary Policy (March 2006), it is appropriate to adjust the level of the policy interest rate at this juncture so that a desirable course of economic activity and prices was to be maintained. Today's policy action will still keep monetary environment very accommodative and the Bank believes that it will contribute to ensuring price stability and achieving sustainable growth in the medium to long term.
5. With regard to the future course of monetary policy, the Bank will adjust the level of interest rates gradually in the light of developments in economic activity and prices, while maintaining the accommodative financial conditions ensuing from very low interest rates for some time.

(Reference)

Meeting hours:

February 20: 14:00-16:03

February 21: 9:00 -14:15

Policy Board members present:

Toshihiko Fukui (Governor)

Toshiro Muto (Deputy Governor)

Kazumasa Iwata (Deputy Governor)

Miyako Suda

Hidehiko Haru

Toshikatsu Fukuma

Atsushi Mizuno

Kiyohiko G. Nishimura

Tadao Noda

(Others present)

February 20

From the Ministry of Finance:

Eijiro Katsu, Deputy Vice Minister for Policy Planning and Co-ordination
(14:00-16:03)

From the Cabinet Office:

Jun Hamano, Vice-Minister for Policy Coordination (14:00-16:03)

February 21

From the Ministry of Finance:

Kazunori Tanaka, Senior Vice Minister of Finance
(9:00-13:30, 13:38-14:15)

From the Cabinet Office:

Jun Hamano, Vice-Minister for Policy Coordination (9:00-13:30, 13:38-14:15)

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

(Consisting of "The Bank's View" and "The Background")

"The Bank's View"

3:00 p.m. on Wednesday, February 21

Full text (Consisting of "The Bank's View" and "The Background")

2:00 p.m. on Thursday, February 22 (Japanese)

4:30 p.m. on Friday, February 23 (English)

Release of the minutes:

2:00 p.m. on Monday, March 26