

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by an 8-1 majority vote, to set the following guideline for money market operations for the intermeeting period:^[Note 1]

The Bank of Japan will conduct money market operations so that the monetary base will increase at an annual pace of about 80 trillion yen.

2. With regard to the asset purchases, the Bank decided, by an 8-1 majority vote, to continue with the following guidelines:^[Note 1]
 - a) The Bank will purchase Japanese government bonds (JGBs) so that their amount outstanding will increase at an annual pace of about 80 trillion yen. With a view to encouraging a decline in interest rates across the entire yield curve, the Bank will conduct purchases in a flexible manner in accordance with financial market conditions. The average remaining maturity of the Bank's JGB purchases will be about 7-10 years.
 - b) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 3 trillion yen and about 90 billion yen respectively.
 - c) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen respectively.
3. Japan's economy has continued to recover moderately. Overseas economies -- mainly advanced economies -- have been recovering, albeit with a lackluster performance still seen in part. In this situation, exports and industrial production have been picking up, albeit with some fluctuations. As corporate profits have improved and business sentiment has generally stayed at a favorable level, business fixed investment has been on a moderate increasing trend. Against the background of steady improvement in the employment and income situation, private consumption has been resilient and housing investment has started to pick up. Meanwhile, public investment has entered a moderate declining trend, although it remains at a high level. Financial conditions are accommodative. On the price front, the year-on-year

rate of increase in the consumer price index (CPI, all items less fresh food) is about 0 percent. Inflation expectations appear to be rising on the whole from a somewhat longer-term perspective.

4. With regard to the outlook, Japan's economy is expected to continue recovering moderately. The year-on-year rate of increase in the CPI is likely to be about 0 percent for the time being, due to the effects of the decline in energy prices.
5. Compared with the forecasts presented in the April 2015 *Outlook for Economic Activity and Prices*, the growth rate will likely be somewhat lower for fiscal 2015, but will likely be more or less unchanged for fiscal 2016 and 2017. The year-on-year rate of increase in the CPI will likely be broadly in line with the April forecast.¹
6. Risks to the outlook include developments in the emerging and commodity-exporting economies, the prospects regarding the debt problem and the momentum of economic activity and prices in Europe, and the pace of recovery in the U.S. economy.
7. Quantitative and qualitative monetary easing (QQE) has been exerting its intended effects, and the Bank will continue with QQE, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate.^[Note 2]

¹ Individual Policy Board members make their forecasts based on the following assumption about crude oil prices. Dubai crude oil prices are expected to rise moderately from the recent 60 U.S. dollars per barrel to about 70 dollars per barrel toward the end of the projection period. Under this assumption, the contribution of energy items to the year-on-year rate of change in the CPI (all items less fresh food) is estimated to be mostly in the range of minus 0.7 to minus 0.8 percentage point for fiscal 2015, and mostly in the range of plus 0.1 to plus 0.2 percentage point for fiscal 2016. More specifically, this contribution is expected to fall further into negative territory for the time being, followed by a narrowing in the negative contribution in the second half of fiscal 2015; in the first half of fiscal 2016, the contribution is estimated to be around 0 percentage point.

[Note 1] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo. Voting against the action: Mr. T. Kiuchi. Mr. T. Kiuchi proposed that the Bank will conduct money market operations and asset purchases so that the monetary base and the amount outstanding of its JGB holdings will increase at an annual pace of about 45 trillion yen, respectively. The proposal was defeated by a majority vote.

[Note 2] Mr. T. Kiuchi proposed that the Bank will, with the aim to achieve the price stability target of 2 percent in the medium to long term, continue with asset purchases and a virtually zero interest rate policy as long as each of these policy measures is deemed appropriate under flexible policy conduct based on the examination from the two perspectives of the monetary policy framework. The proposal was defeated by an 8-1 majority vote. Voting for the proposal: Mr. T. Kiuchi. Voting against the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo.

Forecasts of the Majority of Policy Board Members

y/y % chg.

	Real GDP	CPI (all items less fresh food)	Excluding the effects of the consumption tax hikes
Fiscal 2015	+1.5 to +1.9 [+1.7]	+0.3 to +1.0 [+0.7]	
Forecasts made in April 2015	+1.5 to +2.1 [+2.0]	+0.2 to +1.2 [+0.8]	
Fiscal 2016	+1.5 to +1.7 [+1.5]	+1.2 to +2.1 [+1.9]	
Forecasts made in April 2015	+1.4 to +1.8 [+1.5]	+1.2 to +2.2 [+2.0]	
Fiscal 2017	+0.1 to +0.5 [+0.2]	+2.7 to +3.4 [+3.1]	+1.4 to +2.1 [+1.8]
Forecasts made in April 2015	+0.1 to +0.5 [+0.2]	+2.7 to +3.4 [+3.2]	+1.4 to +2.1 [+1.9]

Notes: 1. Figures in brackets indicate the median of the Policy Board members' forecasts (point estimates).

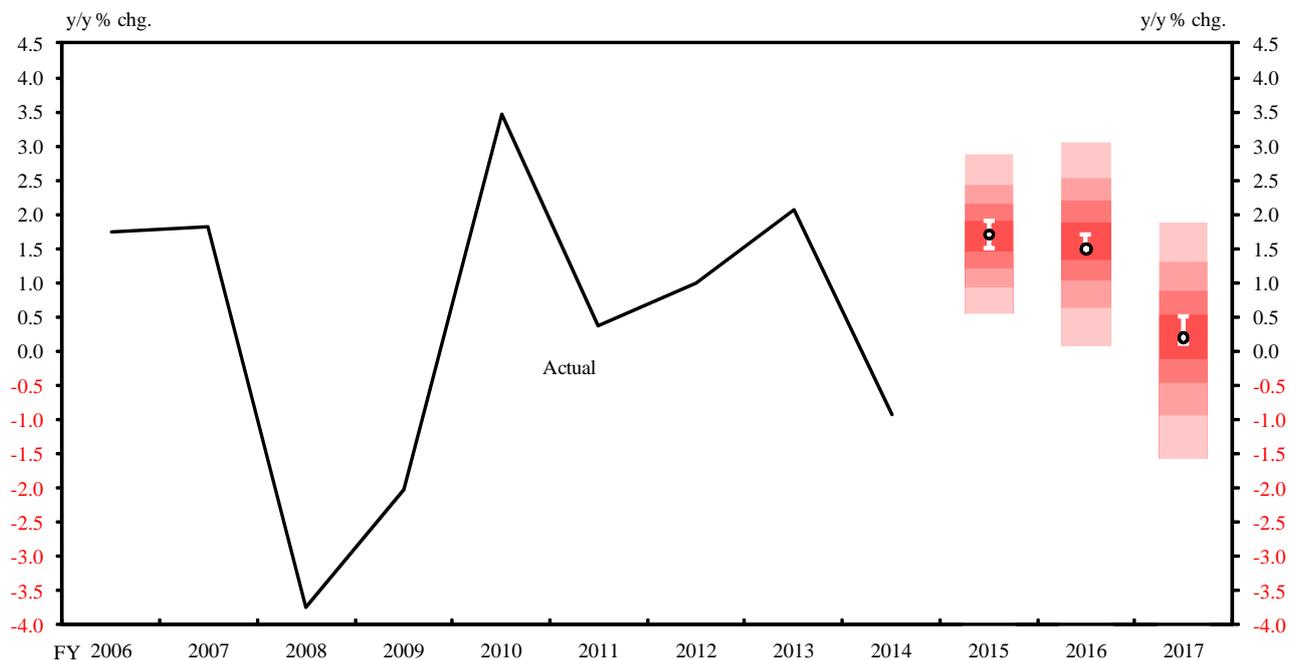
- The forecasts of the majority of the Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate -- namely, the figure to which he or she attaches the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. The range does not indicate the forecast errors.
- Individual Policy Board members make their forecasts assuming the effects of past policy decisions and with reference to views incorporated in financial markets regarding future policy.
- Dubai crude oil prices are expected to rise moderately from the recent 60 U.S. dollars per barrel to about 70 dollars per barrel toward the end of the projection period. Under this assumption, the contribution of energy items to the year-on-year rate of change in the CPI (all items less fresh food) is estimated to be mostly in the range of minus 0.7 to minus 0.8 percentage point for fiscal 2015, and mostly in the range of plus 0.1 to plus 0.2 percentage point for fiscal 2016. More specifically, this contribution is expected to fall further into negative territory for the time being, followed by a narrowing in the negative contribution in the second half of fiscal 2015; in the first half of fiscal 2016, the contribution is estimated to be around 0 percentage point.
- The consumption tax hike scheduled to take place in April 2017 -- to 10 percent -- is incorporated in the forecasts, but individual Policy Board members make their forecasts of the CPI based on figures excluding the direct effects of the consumption tax hike. The forecasts for the CPI for fiscal 2017 that incorporate the direct effects of the consumption tax hike are constructed as follows. First, the contribution to prices from each tax hike is mechanically computed on the assumption that the tax increase will be fully passed on for all taxable items. The CPI will be pushed up by 1.3 percentage points. Second, this figure is added to the forecasts made by the Policy Board members.
- The ranges shown below include the forecasts of all Policy Board members.

y/y % chg.

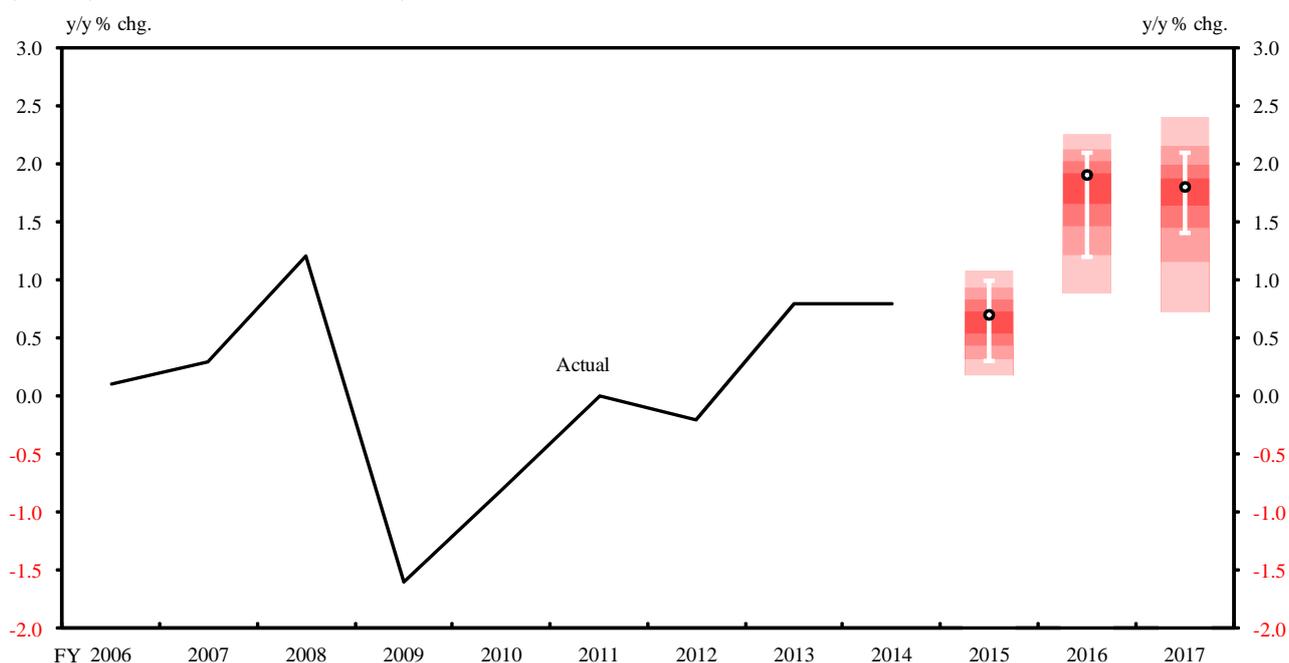
	Real GDP	CPI (all items less fresh food)	Excluding the effects of the consumption tax hikes
Fiscal 2015	+1.0 to +2.0	+0.2 to +1.0	
Forecasts made in April 2015	+0.8 to +2.2	+0.2 to +1.3	
Fiscal 2016	+0.9 to +1.8	+0.8 to +2.1	
Forecasts made in April 2015	+0.8 to +1.8	+0.8 to +2.3	
Fiscal 2017	0.0 to +0.5	+2.0 to +3.5	+0.7 to +2.2
Forecasts made in April 2015	-0.1 to +0.6	+2.0 to +3.5	+0.7 to +2.2

Forecast Distribution Charts of Policy Board Members

(1) Real GDP



(2) CPI (All Items Less Fresh Food)



Notes: 1. The Forecast Distribution Charts are based on the aggregated probability distributions (i.e., the Risk Balance Charts) compiled from the distributions of individual policy board members, and constructed as follows. First, the upper and lower 10 percentiles of the aggregated distributions are trimmed. Second, the various percentiles of the aggregated distributions are color-coded as below.

Upper 40% to lower 40%	Upper 30% to 40% and lower 30% to 40%	Upper 20% to 30% and lower 20% to 30%	Upper 10% to 20% and lower 10% to 20%
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- 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*.
- The circles in the bar charts indicate the median of the Policy Board members' forecasts (point estimates). The vertical lines indicate the range of the forecasts of the majority of Policy Board members.
- The forecast for the CPI excludes the direct effects of the scheduled consumption tax hikes.

(Reference)

Meeting hours:

July 14 : 14:00-15:57

July 15 : 9:00-12:13

Policy Board members present:

Haruhiko Kuroda (Governor)
Kikuo Iwata (Deputy Governor)
Hiroshi Nakaso (Deputy Governor)
Sayuri Shirai
Koji Ishida
Takehiro Sato
Takahide Kiuchi
Yutaka Harada
Yukitoshi Funo

(Others present)

July 14

From the Ministry of Finance:

Mitsuru Ota, Deputy Vice Minister for Policy Planning and Co-ordination (14:00-15:57)

From the Cabinet Office:

Mamoru Maekawa, Director-General, Economic and Fiscal Management (14:00-15:57)

July 15

From the Ministry of Finance:

Ichiro Miyashita, State Minister of Finance (9:00-11:53, 12:05-12:13)

From the Cabinet Office:

Yasutoshi Nishimura, State Minister of Cabinet Office (9:00-11:53, 12:05-12:13)

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 Wednesday, August 12