Not to be released until 8:50 a.m. Japan Standard Time on Tuesday, September 10, 2013.

September 10, 2013

Bank of Japan

Minutes of the Monetary Policy Meeting

on August 7 and 8, 2013

(English translation prepared by the Bank's staff based on the Japanese original)

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Wednesday, August 7, 2013, from 2:00 p.m. to 4:24 p.m., and on Thursday, August 8, from 9:01 a.m. to 11:54 a.m.[1]

Policy Board Members Present

Mr. H. Kuroda, Chairman, Governor of the Bank of Japan

Mr. K. Iwata, Deputy Governor of the Bank of Japan

Mr. H. Nakaso, Deputy Governor of the Bank of Japan

Mr. R. Miyao

Mr. Y. Morimoto

Ms. S. Shirai

Mr. K. Ishida

Mr. T. Sato

Mr. T. Kiuchi

Government Representatives Present

Mr. S. Yamaguchi, Senior Vice Minister of Finance, Ministry of Finance[2]

Mr. M. Asakawa, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance[3]

Mr. Y. Nishimura, Senior Vice Minister, Cabinet Office[2]

Mr. K. Umetani, Vice Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

Mr. M. Amamiya, Executive Director

Mr. N. Kinoshita, Executive Director

Mr. K. Momma, Executive Director (Assistant Governor)

Mr. S. Uchida, Director-General, Monetary Affairs Department

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on September 4 and 5, 2013 as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

[2] Messrs. S. Yamaguchi and Y. Nishimura were present on August 8.

[3] Messrs. M. Asakawa and K. Umetani were present on August 7.

Mr. K. Masaki, Head of Policy Planning Division, Monetary Affairs Department

Mr. H. Yamaoka, Director-General, Financial Markets Department

Mr. E. Maeda, Director-General, Research and Statistics Department

Mr. S. Kameda, Head of Economic Research Division, Research and Statistics Department

Mr. H. Toyama, Director-General, International Department

Secretariat of the Monetary Policy Meeting

Mr. N. Yoshioka, Director-General, Secretariat of the Policy Board

Mr. N. Fukunaga, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

Mr. T. Sugo, Senior Economist, Monetary Affairs Department

Mr. M. Higashi, Senior Economist, Monetary Affairs Department

I. Summary of Staff Reports on Economic and Financial Developments[4]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on July 10 and 11, 2013, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[5] In this situation, the amount outstanding of the monetary base had been in the range of 167-174 trillion yen.

B. Recent Developments in Financial Markets

Money market rates, including longer-term ones, had been at low levels. The uncollateralized overnight call rate had been at a level below 0.1 percent. General collateral (GC) repo rates had generally been at around 0.1 percent, although they had temporarily weakened somewhat. As for interest rates on term instruments, yields on treasury discount bills (T-Bills) had been somewhat below the 0.1 percent level for all maturities. Rates on longer-term interbank instruments had been flat.

Long-term interest rates in Japan had generally been more or less flat throughout the intermeeting period, although they had temporarily decreased somewhat following the decline in U.S. long-term interest rates, mainly reflecting the waning of speculation about the direction of U.S. monetary policy. While being supported by such factors as the rise in U.S. stock prices, the Nikkei 225 Stock Average had fluctuated mainly in response to corporate results of Japanese firms, resulting in a drop below the level reached at the start of the intermeeting period. Prices for Japan real estate investment trusts (J-REITs) had been more or less unchanged. Yield spreads between corporate bonds and JGBs had been narrowing on the whole, albeit very moderately, reflecting solid demand from investors. In the foreign exchange market, the yen had appreciated against the U.S. dollar compared to the level reached at the start of the intermeeting period, mainly reflecting the waning effects of speculation about the direction of U.S. monetary policy and developments in Japanese stock prices. The U.S. dollar/yen rate had recently been in the range of 96-97 yen.

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[4] Reports were made based on information available at the time of the meeting.

[5] The guideline was as follows:

The Bank of Japan will conduct money market operations so that the monetary base will increase at an annual pace of about 60-70 trillion yen.

C. Overseas Economic and Financial Developments

Overseas economies as a whole were gradually heading toward a pick-up, although a lackluster performance was partly seen.

The U.S. economy had been on a moderate recovery trend against the backdrop of steady private demand, despite downward pressure from the fiscal side. Although effects of the expiration of the payroll tax cut continued to be observed, private consumption remained on a moderate increasing trend as the employment situation followed an improving trend and asset prices rose. Housing investment also continued to pick up. Exports were emerging from a leveling-off phase. On the other hand, federal government expenditures -- particularly federal defense spending -- had been declining, and this was affecting defense-related industries. The pace of pick-up in production and business fixed investment therefore remained slow, but business sentiment had been improving. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items less food and energy, or the core CPI, had been more or less flat at a relatively low level. In this situation, the year-on-year rate of increase in the CPI for all items had risen somewhat, mainly as a result of the increase in energy prices.

Economic activity in Europe continued to recede slowly. While business fixed investment had been declining, exports had bottomed out. Private consumption had been heading for a bottom, with a gradual improvement in consumer sentiment, although the employment and income situation remained severe. Reflecting these developments in demand, the decrease in production was coming to a halt. As for prices, while slack in supply and demand conditions had been exerting downward pressure on prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) for all items excluding energy and unprocessed food was on a declining trend. Annual HICP inflation for all items, on the other hand, was unchanged due to the rise in food prices. Meanwhile, economic activity in the United Kingdom was starting to pick up.

With regard to Asia, the Chinese economy continued to see stable growth, albeit at a somewhat lower level than before, as the government engaged in a variety of reforms. Private consumption had been firm on the back of a favorable employment and income situation, although effects of the government's frugality campaign continued to be observed in some areas. The pace of increase in fixed asset investment had been solid, mainly due to rises in infrastructure investment and real estate investment, although the pace had become somewhat slower in manufacturing. Exports had been heading toward a moderate pick-up, but some weakness had been observed recently. Production growth had slowed now that it was affected by developments in exports as well as continued inventory adjustments in materials industries. As for prices, the year-on-year rate of increase in the CPI had been somewhat low. Regarding the NIEs and the ASEAN countries, these economies had been picking up on the whole, but the pace still continued to be moderate, especially in the corporate sector. Despite the waning of policy effects on car sales, private consumption had been firm, especially in the ASEAN countries, where the employment and income situation remained favorable. Nevertheless, moves toward a pick-up in both exports and production had come to a pause, with some weakness in exports continuing to be observed. Growth in business fixed investment, particularly in machinery investment, had been sluggish, as business sentiment still remained cautious. As for prices, inflation rates generally continued to be at somewhat low levels, although there were regional differences. In India, the economy remained in a state of deceleration.

Global financial markets were starting to regain stability due to the waning of speculation about the direction of U.S. monetary policy. In this situation, stock prices in the United States, Europe, and emerging economies had bounced back, but the recovery in stock prices in emerging economies was relatively modest. In the bond market, U.S. Treasury yields had risen somewhat most recently, mainly in response to favorable economic indicators. Longer-term interest rates in the major euro area countries and the United Kingdom had been more or less flat at slightly higher levels than in previous months. Yield differentials between sovereign bonds in emerging economies and U.S. Treasuries had narrowed somewhat. Regarding the flow of funds into the stock market, the recovery in inflows of funds was apparent in advanced economies, while in emerging markets net outflows were coming to a halt, suggesting that investors' expectations for growth in emerging economies had turned cautious. Meanwhile, international commodity prices had been more or less flat on the whole, although they continued to be weak from a relatively longer-term perspective in a situation where recovery in emerging economies lacked momentum.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had been picking up. Real exports had turned upward in the January-March quarter of 2013 on a quarter-on-quarter basis and had grown at an accelerated rate in the April-June quarter. Exports of motor vehicles and their related goods -- due in part to the effects of developments in foreign exchange rates -- had resumed an uptrend, assisted by a pick-up in those to China -- which had seen a significant drop -- while those to the United States and other regions had been steady. Exports of capital goods and parts had recently been moving toward a pick-up, as evidenced, for example, by increases in exports to the United States and East Asia, disregarding the fluctuations in ships. Exports of IT-related goods as a whole had bottomed out, primarily those of parts for smartphones. Exports were expected to increase moderately, mainly against the background of the pick-up in overseas economies.

Public investment continued to increase. It was expected to continue trending upward, supported by the effects of various economic measures.

Business fixed investment had stopped weakening and shown some signs of picking up as corporate profits had improved. The aggregate supply of capital goods -- a coincident indicator of machinery investment -- had kept rising in the April-June quarter on a quarter-on-quarter basis, after having turned upward in the January-March quarter. Construction starts (floor area, private, nondwelling use) -- a leading indicator of construction investment -- continued to trend upward on average. Business fixed investment was projected to follow a moderate increasing trend, partly due to investment related to disaster prevention and energy, as corporate profits continued to improve.

Despite some lingering severity in the employment and income situation, employee income had shown signs of moving toward a pick-up as supply and demand conditions in the labor market continued to improve moderately.

Private consumption remained resilient, assisted by the improvement in consumer sentiment. Sales at retail stores in real terms had risen in both the January-March and April-June quarters on a quarter-on-quarter basis, after having been more or less level. Sales at department stores had been firm, notably in imports and high-end products, as seen, for example, in the fact that they had been up for three quarters in a row since the October-December quarter of 2012; June 2013, in particular, had seen an upsurge in sales, affected partly by temperature rises as well as by front-loading of summer discount sales. Sales at convenience stores continued to trend moderately upward, and had recently shown somewhat accelerated growth. Sales in the food service industry as a whole stayed steady, and had recently exhibited somewhat strong movement. Private consumption was expected to remain resilient, supported by improvement in the employment and income situation.

The pick-up in housing investment had become evident, and such investment was expected to increase.

Reflecting these developments in demand both at home and abroad, industrial production was increasing moderately. On a quarterly basis, it had turned upward -- albeit marginally -- in the January-March quarter of 2013, and somewhat accelerated its pace of increase in the April-June quarter, after having declined for three quarters in a row since the April-June quarter of 2012. Industrial production was expected to continue increasing moderately, mainly reflecting developments in demand at home and abroad. Judging from interviews with firms, production was likely to continue rising in the July-September quarter of 2013.

As for prices, the three-month rate of increase in the domestic corporate goods price index (CGPI) was declining against the backdrop of movements in international commodity prices and foreign exchange rates. The CGPI was expected to rise moderately for the time being. The year-on-year rate of change in the CPI (all items less fresh food) had turned positive, and was likely to rise gradually. Meanwhile, inflation expectations appeared to be rising on the whole, considering developments in market indicators and the results of surveys conducted on firms, households, and economists.

2. Financial environment

Financial conditions were accommodative.

The monetary base had increased significantly as asset purchases by the Bank had progressed, and the year-on-year rate of growth had been in the range of 35-40 percent.

Firms' funding costs had been hovering at low levels. With regard to credit supply, firms continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP continued to be favorable. Those for corporate bonds also remained favorable on the whole. Firms' credit demand had been increasing moderately, mainly for working capital and funds related to mergers and acquisitions. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending had been in the range of 2.0-2.5 percent. The year-on-year rate of change in the amount outstanding of CP and corporate bonds had been positive. Firms retained their recovered financial positions on the whole. Meanwhile, the year-on-year rate of growth in the money stock had been in the range of 3.5-4.0 percent, mainly due to the increase in bank lending.

II. Summary of Discussions by the Policy Board on Economic and Financial Developments

A. Economic Developments

Members shared the recognition that global financial markets were starting to regain stability due to the waning of speculation about the direction of U.S. monetary policy. One member said that the Federal Reserve's policy intention was gradually permeating the markets. On the other hand, a different member noted the possibility that fluctuations in medium- to long-term interest rates would increase due to developments in U.S. monetary policy and divergence in market participants' views on the policy. Another member expressed the view that speculation about the direction of U.S. monetary policy was also playing a role in the rising volatility of the yen's exchange rate against the U.S. dollar and of Japanese stock prices. However, this member continued that the volatility in Japanese financial markets would eventually decrease as market participants recognized the difference in the direction of monetary policy between Japan and the United States. Some members said that it was necessary to continue to pay attention to the effects of outflows of funds from emerging economies on economic developments in these economies. One of these members pointed out that, among emerging economies, while outflows of funds from those with a current account surplus were not being observed, there were continued outflows from those with a current account deficit. Meanwhile, one member noted that speculation that the Federal Reserve would reduce the pace of its asset purchases earlier than expected seemed to reflect the view that it appeared to recognize a risk of overheating in some areas of financial markets, as evidenced by inflows of funds to financial assets with relatively high risk, such as high-yield bonds.

Members concurred that overseas economies as a whole were gradually heading toward a pick-up, although a lackluster performance was partly seen. As for the outlook, they shared the recognition that overseas economies, particularly advanced economies, would gradually pick up as downward pressure from the fiscal side was reduced in Europe and the United States. One member said that downside risks to overseas economies were gradually being contained. Nevertheless, many members expressed the view that attention should be paid to various uncertainties regarding the outlook, as observed, for example, in the differences in the pace of improvement in economic activity by region and industry.

Members agreed that the U.S. economy had been on a moderate recovery trend against the backdrop of steady private demand, such as private consumption and housing investment, despite downward pressure from the fiscal side. One member noted that, in addition to such developments in private consumption and housing investment, business fixed investment had been on an uptrend in a situation of strong improvement in business sentiment, and therefore the mechanism for a self-sustained recovery appeared to be strengthening on the whole. As for the outlook, members concurred that the pace of economic recovery would gradually rise, albeit moderately, as accommodative financial conditions would probably continue amid a gradual easing of downward pressure from the fiscal side. Meanwhile, some members expressed the recognition that it was necessary to pay attention to the effects of the recent rise in long-term interest rates on, for example, housing investment. One of these members added that a rise in housing prices and a decline in potential housing inventories -- including foreclosed properties -- indicated a steady recovery trend in the housing market. A different member pointed out that it would be necessary to pay attention to whether, amid the disinflationary trend, a decline in short-term expected inflation rates would lead to a decline in medium- to long-term expected inflation rates, which were currently anchored.

Members shared the recognition that economic activity in the euro area continued to recede slowly. As for the outlook, they concurred that the economy would gradually show signs of bottoming out -- triggered by an improvement in economic entities' sentiment and the pick-up in exports -- as additional downward pressure from the fiscal side was reduced. However, one member, noting that international organizations were pointing to the concern that Greece might face a shortage of funds again through 2014, said that downside risks to the European economy remained significant. On the other hand, a different member pointed out that, in a situation where economic activity showed signs of bottoming out, risks to the European economy, although continuing to be tilted to the downside, had been diminishing gradually. On this basis, members shared the recognition that there remained a high degree of uncertainty concerning the prospects for the European debt problem.

Members agreed that the Chinese economy continued to see stable growth, albeit at a somewhat lower level than before, as the government engaged in a variety of reforms. As for the outlook, they shared the view that domestic demand would remain firm, mainly on the back of a favorable employment and income situation. Some members noted that the Chinese government had reaffirmed that the GDP growth target for 2013 was 7.5 percent and had announced that it would take measures, as necessary, to address a weakening in economic activity. These members continued that the risk of a severe economic downturn was therefore not large. One of these members added that such a risk had diminished somewhat. As background to this, a few other members pointed to the fact that there was still room to conduct additional fiscal policies. On the other hand, one member noted that it would be difficult for the government to simultaneously achieve structural reforms and stable economic growth. A different member said that some indicators of manufacturers' business sentiment were at levels similar to those observed in the deceleration phase in 2012, and therefore future developments warranted attention.

Regarding the NIEs and the ASEAN countries, members concurred that these economies had been picking up on the whole, but that the pace still continued to be moderate, especially in the corporate sector. As for the outlook, they shared the view that, in a situation where solid private consumption underpinned these economies -- especially the ASEAN economies -- the pace of recovery was likely to rise gradually as exports to advanced economies picked up moderately.

Based on the above deliberations on economic and financial conditions abroad, members discussed the state of Japan's economy.

Members agreed that the economy was starting to recover moderately, since a virtuous cycle from income to spending appeared to have gradually started operating as the level of economic activity had been rising moderately on the back of the resilience in domestic demand together with the pick-up in exports.

Specifically, members shared the recognition that, as the U.S. economy recovered moderately, Japan's exports had been picking up, underpinned partly by developments in foreign exchange rates. They concurred that business fixed investment had stopped weakening and shown some signs of picking up as corporate profits had improved. They also shared the recognition that private consumption remained resilient, assisted by the improvement in consumer sentiment. A few members noted that private consumption had been on the rise, reflecting wealth effects stemming from the rise in stock prices, and that it had recently shown increased resilience supported by improvement in the employment and income situation. One of these members pointed out that improvement in perceptions of permanent income seemed to be the underlying factor for the improvement in consumption, and thus there was a possibility that favorable private consumption would continue. Meanwhile, a different member noted that the momentum for private consumption observed since the start of the year had slowed, according to the *Family Income and Expenditure Survey* for the April-June quarter of 2013, suggesting the possibility that wealth effects stemming from the rise in stock prices were waning. This member continued that the sustainability of the resilience in private consumption therefore warranted attention. Members agreed that the pick-up in housing investment had become evident. They shared the view that industrial production was increasing moderately, reflecting the fact that exports had been picking up while domestic demand remained resilient. Some members pointed out that industrial production was increasing moderately, albeit with monthly fluctuations; it had decreased in June 2013, but the production forecast index suggested a rise in July.

As for the outlook for the economy, members shared the view that the economy was likely to recover moderately on the back of the resilience in domestic demand and the pick-up in overseas economies. On this basis, they shared the intent to examine forthcoming actual figures -- including those of business fixed investment and employee income -- to assess the sustainability of the virtuous cycle from income to spending, which had gradually started operating. Regarding business fixed investment, some members -- noting that firms' fixed investment plans for fiscal 2013 were at relatively high levels, as evidenced by the June 2013 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) and survey results released by the Development Bank of Japan -- said that they wanted to examine incoming actual figures, including those in the *Financial Statements Statistics of Corporations by Industry, Quarterly* and those on the aggregate supply of capital goods following the rebasing. In relation to this, one member expressed the view that attention needed to be paid to the possibility that growth in business fixed investment would be restrained if the slow pace of improvement in exports was attributed to such structural factors as a decline in the competitiveness of Japanese firms. Regarding employee income, many members -- noting that special cash earnings for June 2013, which comprised about 60 percent of summer bonuses, posted an increase for the first time in three years on a year-on-year basis -- said that they wanted to confirm the improvement in the income situation with actual figures from incoming data, which would include the remaining portion of summer bonuses. In relation to this view, one member pointed out that further improvement in the income situation required progress in the employment situation, as firms -- especially small ones -- were cautious about raising their employees' scheduled cash earnings, even though some of them had already raised special cash earnings for employees. A different member said that it was necessary to take into account the rising trend in the ratio of part-time workers when assessing developments in scheduled cash earnings.

Regarding prices, members concurred that the year-on-year rate of change in the CPI (all items less fresh food) had recently turned positive and was likely to rise gradually. Many members expressed the view that the year-on-year rate of change in the CPI having turned positive in June 2013 was attributable to not only upward pressure from movements in energy-related goods but also the price rise observed across a wide range of items. One member raised the possibility that, if favorable private consumption continued, sales would increase for a wide range of firms, especially in nonmanufacturing, thereby exerting positive effects on prices. In response to this, a few members expressed the recognition that the year-on-year rate of increase in the CPI would rise through summer, due in part to the reversal of the previous year's decline in energy prices, but that this rise might come to a pause thereafter. As for inflation expectations, members shared the recognition that, considering developments in market indicators and the results of surveys conducted on firms, households, and economists, such expectations appeared to be rising on the whole. One member noted that people's inflation expectations were likely to heighten further as they acknowledged an actual rise in consumer prices. A different member expressed the view that it remained difficult to identify the effects of perceptions regarding the likelihood of the consumption tax hikes.

B. Financial Developments

Members concurred that financial conditions in Japan were accommodative. They shared the view that the monetary base had increased significantly, reflecting the progress in asset purchases by the Bank, and that firms' funding costs had been hovering at low levels. Members agreed that firms continued to see financial institutions' lending attitudes as being on an improving trend, issuing conditions for CP continued to be favorable, and those for corporate bonds also remained favorable on the whole. They concurred that firms' credit demand had been increasing moderately, as seen in the fact that the year-on-year rate of increase in the amount outstanding of bank lending had been in the range of 2.0-2.5 percent and the year-on-year rate of change in the amount outstanding of CP and corporate bonds had been positive. Some members pointed out that there was a wider range of positive movements that made use of accommodative financial conditions, as evidenced, for example, by the recent developments in equity financing, which was at a much higher level than in normal years. These members also pointed out that the average contract interest rates on new loans and discounts had declined to historically low levels. One of these members said that such favorable funding conditions of firms reflected the stability in long-term interest rates. With regard to financial institutions' lending attitudes as perceived by firms, a few members expressed the view that not only large firms but also small firms, including very small ones, viewed these as being on an improving trend.

III. Summary of Discussions on Monetary Policy for the Immediate Future

Based on the above assessment of economic and financial developments, members discussed monetary policy for the immediate future.

Regarding the guideline for money market operations for the intermeeting period ahead, members agreed that it was appropriate to maintain the current guideline that the Bank would conduct money market operations so that the monetary base would increase at an annual pace of about 60-70 trillion yen.

With regard to the asset purchases, members concurred that it was appropriate for the Bank to continue with the guidelines decided when it introduced quantitative and qualitative monetary easing at the meeting on April 3 and 4, 2013. Specifically, they confirmed the following. First, the Bank would purchase JGBs so that their amount outstanding would increase at an annual pace of about 50 trillion yen, and the average remaining maturity of the Bank's JGB purchases would be about seven years. Second, it would purchase exchange-traded funds (ETFs) and J-REITs so that their amounts outstanding would increase at an annual pace of about 1 trillion yen and about 30 billion yen, respectively. And third, for CP and corporate bonds, the Bank would continue with these asset purchases until their amounts outstanding reached 2.2 trillion yen and 3.2 trillion yen, respectively, by end-2013; thereafter, it would maintain these amounts outstanding.

With respect to the future conduct of monetary policy, most members shared the view that the Bank would continue with quantitative and qualitative monetary easing, aiming to achieve the price stability target of 2 percent, as long as it was necessary for maintaining this target in a stable manner. These members continued that, in doing so, it would examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate. One of these members pointed out that, in order to achieve the price stability target of 2 percent, it was essential that people's expectations for inflation rates be anchored at around 2 percent, and therefore the Bank needed to make efforts to gain their deeper understanding that achieving the price stability target of 2 percent was important. In response to these views, one member expressed concern that, in a situation where it seemed difficult to achieve the price stability target in about two years, if a rise were to occur in markets' anticipation that quantitative and qualitative monetary easing would continue for a protracted period or extreme additional measures would be implemented, this could lead to economic instability in the medium to long term, such as through a buildup of financial imbalances. On this basis, this member said that it was appropriate to change the expression representing the Bank's commitment by stating that the time frame for continuing quantitative and qualitative monetary easing should be restricted to about two years, and that thereafter the Bank would review the monetary easing measures in a flexible manner. In response to this, one member pointed out that the Bank had made clear that it intended to examine risks, including those stemming from the accumulation of financial imbalances, at each Monetary Policy Meeting and make adjustments as appropriate under the current framework of quantitative and qualitative monetary easing. A different member said that the Bank should continue to communicate with the public to raise further understanding that the current quantitative and qualitative monetary easing was not a temporary measure with a duration of two years and that the Bank was committed to continuing with quantitative and qualitative easing until it was able to maintain the price stability target of 2 percent in a stable manner. Meanwhile, one member noted market participants' increasing understanding that quantitative and qualitative monetary easing was characterized by a marked shift in the Bank's monetary policy through an initial bold move, not by adopting easing measures in an incremental manner.

With regard to the effects of quantitative and qualitative monetary easing, members shared the recognition that these were firmly taking hold, and financial conditions were easing steadily to underpin firms' and households' spending. They agreed that, in this situation, there was a wider range of positive movements in economic activity and financial markets, and people's expectations for economic activity and prices had turned favorable. One member said that positive developments were taking place in wider areas in asset markets, as evidenced, for example, by the fact that individual investors and investment trusts had become net buyers of stocks in late July 2013 and that improvement had been observed broadly in the real estate market.

Regarding how much of an effect could be exerted on longer-term interest rates, many members expressed the view that long-term interest rates in Japan had been stable. On this basis, these members noted that the Bank's massive JGB purchases were significantly restraining upward pressure on long-term interest rates that stemmed from the rise in overseas interest rates and an improvement in perceived business conditions. As for liquidity in the bond market, one member pointed out that the ratio of the daily price range to the transaction volume in the JGB futures market remained at a relatively high level. A different member said that potential instability continued to exist in the bond market, and the effects of developments in domestic prices and U.S. interest rates warranted attention. In relation to this, many members expressed the recognition that it also was important that the credibility of fiscal management be maintained in order to ensure the stability of interest rates, and they therefore expected the government to steadily promote measures aimed at achieving fiscal consolidation. One of these members pointed out that, if the government's stance in terms of its efforts to achieve fiscal consolidation were to weaken, mainly reflecting overly heightened expectations that the Bank would keep interest rates stable at low levels by purchasing JGBs, long-term interest rates could rise due to the undermining of market confidence in JGBs, and the effects of the Bank's policy measures consequently could be constrained.

With regard to effects brought about through fundamental changes in economic entities' expectations, many members expressed the view that, in a situation where nominal interest rates had been stable, real interest rates were declining on the back of a rise in inflation expectations. One of these members pointed out that there was a time lag between the permeation of monetary policy effects into asset markets and that into economic activity -- particularly into business fixed investment. This member added that a rise in inflation expectations and an accompanying decline in real interest rates would progress further, as inflation expectations were in the process of rising toward 2 percent. Meanwhile, one member expressed the view that the portfolio rebalancing effect would gradually permeate the economy -- for example, lending by financial institutions would increase as credit demand in the corporate sector rose, such as for business fixed investment.

IV. Remarks by Government Representatives

The representative from the Ministry of Finance made the following remarks.

(1) The government acknowledged that recent price developments as a whole indicated that deflation was easing. It deemed that the role the Bank's monetary policy had to play in overcoming deflation was extremely important. Furthermore, it expected the Bank to continue to steadily pursue quantitative and qualitative monetary easing and realize the price stability target of 2 percent at the earliest possible time.

(2) The joint statement by the government and the Bank released on January 22, 2013 clearly indicated their respective roles in overcoming deflation and achieving sustainable economic growth. In line with this statement, the government would play its role in a responsible manner. Accordingly, it would continue to swiftly and steadily implement the Japan Revitalization Strategy as well as the Basic Policies for Economic and Fiscal Management and Reform.

(3) On August 8, 2013, the government had compiled the Medium-Term Fiscal Plan and the guidelines for budget requests for fiscal 2014. The Medium-Term Fiscal Plan demonstrated the need to improve the primary balance of national and local governments by around 17 trillion yen to achieve the target of halving the primary deficit by fiscal 2015, and specifically presented the future policy direction, including improving the primary balance of the national government's general account -- which

comprised a large part of the primary deficit of national and local governments -- by around 4 trillion yen each in fiscal 2014 and 2015.

(4) As a first step toward realizing the aforementioned target, the government introduced a new method with respect to the guidelines for budget requests for fiscal 2014. Specifically, it would decide the total final budget based on the expected tax revenues for this fiscal year, which would become clear in December 2013. In doing so, the government would review the priorities of policy measures and primarily focus on these measures with high priority in deciding the budget's content while reducing wasteful expenditure to the maximum extent. Through these initiatives, it would work toward achieving both private demand-led economic growth and fiscal consolidation.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was picking up steadily and showing some movement toward self-sustained recovery. Recent price developments as a whole indicated that deflation was easing. The government would work on the three-pronged strategy in an integrated manner and aim to create steady demand and employment through improvement in the income situation at the earliest possible time. In the midyear economic projection for fiscal 2013 by the Cabinet Office, based on current laws, the real GDP growth rate was projected to be approximately 2.8 percent, while the nominal growth rate was expected to be about 2.6 percent. The year-on-year rate of change in the CPI was expected to turn positive for the first time in five years, with an increase of around 0.5 percent, as a result of further progress in the economic recovery as well as the effects of the Bank's quantitative and qualitative monetary easing. The midyear economic projection for fiscal 2014 included that for the real GDP growth rate of around 1.0 percent.

(2) The government had compiled a budget overview for fiscal 2014 at the Council on Economic and Fiscal Policy held on August 2, 2013. It had approved the Medium-Term Fiscal Plan on August 8. In this plan, the government aimed to reduce the national and local governments' primary deficit to GDP ratio from the current rate of around 7 percent to 3.3 percent in fiscal 2015. To this end, it would need to improve the primary balance of national and local governments by around 17 trillion yen, and would improve the primary balance of the national government's general account by

around 4 trillion yen in each of the coming two fiscal years. Taking these into account, it would work to formulate the budget for fiscal 2014. Furthermore, the government would prepare to listen thoroughly to the opinions of experts and specialists, with a view to giving the necessary comprehensive consideration to the economic situation in relation to the raising of consumption tax. It should also be noted that the Trans-Pacific Partnership (TPP) Agreement was an important pillar for the growth strategy. The government had officially joined the TPP negotiations on July 23, and this had been welcomed by other participants. The government would engage actively in the negotiations.

(3) At the intensive discussion within the Council on Economic and Fiscal Policy held on July 30, the government had reviewed the progress toward overcoming deflation and promoting economic revitalization. On this occasion, Governor Kuroda had shown that efforts to overcome deflation were steadily advancing. The government expected the Bank to continue its efforts to realize the price stability target of 2 percent.

V. Votes

Based on the above discussions, members shared the view that it was appropriate to maintain the current guideline for money market operations, so that the monetary base would increase at an annual pace of about 60-70 trillion yen.

To reflect this view, the chairman formulated the following proposal and put it to a vote.

The Chairman's Policy Proposal on the Guideline for Money Market Operations:

1. The guideline for money market operations for the intermeeting period ahead will be as follows.

> The Bank of Japan will conduct money market operations so that the monetary base will increase at an annual pace of about 60-70 trillion yen.

2. A public statement will be decided separately.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi.

Votes against the proposal: None.

VI. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy and formed a majority view. One member, however, formulated a proposal, and thus the following two proposals were submitted.

A. Mr. T. Kiuchi's Policy Proposal

With regard to the draft of the statement that formed a majority view, Mr. T. Kiuchi proposed changing the current expression of the Bank's future monetary policy stance that "the Bank will continue with quantitative and qualitative monetary easing, 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" to a new expression that "the Bank will aim to achieve the price stability target of 2 percent in the medium to long term. On this basis, it will designate quantitative and qualitative monetary easing as an intensive measure with a time frame of about two years, and thereafter will review the monetary easing measures in a flexible manner." The proposal was then put to a vote.

The proposal was defeated by a majority vote.

Votes for the proposal: Mr. T. Kiuchi.

Votes against the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, and Mr. T. Sato.

B. The Chairman's Policy Proposal

The chairman formulated the Statement on Monetary Policy, and put it to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of July 10 and 11, 2013 for release on August 13, 2013.

Attachment
August 8, 2013
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, to set the following guideline for money market operations for the intermeeting period:

   The Bank of Japan will conduct money market operations so that the monetary base will increase at an annual pace of about 60-70 trillion yen.

2. With regard to the asset purchases, the Bank will continue with the following guidelines:

   a) The Bank will purchase Japanese government bonds (JGBs) so that their amount outstanding will increase at an annual pace of about 50 trillion yen, and the average remaining maturity of the Bank's JGB purchases will be about seven 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 an annual pace of about 1 trillion yen and about 30 billion yen respectively.

   c) As for CP and corporate bonds, the Bank will continue with those asset purchases until their amounts outstanding reach 2.2 trillion yen and 3.2 trillion yen respectively by end-2013; thereafter, it will maintain those amounts outstanding.

3. Japan's economy is starting to recover moderately. Overseas economies as a whole are gradually heading toward a pick-up, although a lackluster performance is partly seen. In this situation, exports have been picking up. Business fixed investment has stopped weakening and shown some signs of picking up as corporate profits have improved. Public investment has continued to increase, and the pick-up in housing investment has become evident. Private consumption has remained resilient, assisted by the improvement in consumer sentiment. Reflecting these developments in demand both at home and abroad, industrial production is increasing moderately. Meanwhile, financial conditions are accommodative. On the price front, the year-on-year rate of change in the consumer price

index (CPI, all items less fresh food) has turned positive. Inflation expectations appear to be rising on the whole.

4. With regard to the outlook, Japan's economy is expected to recover moderately on the back of the resilience in domestic demand and the pick-up in overseas economies. The year-on-year rate of increase in the CPI is likely to rise gradually.

5. Regarding risks, there remains a high degree of uncertainty concerning Japan's economy, including the prospects for the European debt problem, developments in the emerging and commodity-exporting economies, and the pace of recovery in the U.S. economy.

6. The Bank will continue with quantitative and qualitative monetary easing, 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]

   Such conduct of monetary policy will support the positive movements in economic activity and financial markets, contribute to a rise in inflation expectations, and lead Japan's economy to overcome the deflation that has lasted for nearly 15 years.

[Note] Mr. T. Kiuchi proposed that the Bank will aim to achieve the price stability target of 2 percent in the medium to long term and designate quantitative and qualitative monetary easing as an intensive measure with a time frame of about two years. 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, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, and Mr. T. Sato.