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April 11, 2014

Bank of Japan

Minutes of the Monetary Policy Meeting

on March 10 and 11, 2014

(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 Monday, March 10, 2014, from 2:00 p.m. to 4:21 p.m., and on Tuesday, March 11, from 9:00 a.m. to 11:55 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. Y. Furukawa, 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 April 7 and 8, 2014 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. Y. Furukawa and Y. Nishimura were present on March 11.

[3] Messrs. M. Asakawa and K. Umetani were present on March 10.

Mr. M. Nomura, Deputy Director-General, Monetary Affairs Department[4]

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. H. Kamiguchi, Head of Policy Infrastructure Division, Monetary Affairs Department[4]

Mr. R. Hattori, Senior Economist, Monetary Affairs Department

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

[4] Messrs. M. Nomura and H. Kamiguchi were present on March 11 from 9:00 a.m. to 9:18 a.m.

I. Summary of Staff Reports on Economic and Financial Developments[5]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on February 17 and 18, 2014, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[6] In this situation, the amount outstanding of the monetary base had been in the range of 200-205 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 temporarily risen somewhat, but had recently declined marginally. As for interest rates on term instruments, yields on treasury discount bills (T-Bills) had declined slightly for all maturities. Rates on longer-term interbank instruments had fallen, albeit marginally.

Yields on 10-year JGBs had been more or less flat, partly since U.S. long-term interest rates had been generally unchanged. The Nikkei 225 Stock Average had risen mainly as a positive response to the decision made at the previous meeting to extend and enhance the fund-provisioning measure to stimulate bank lending (hereafter the Stimulating Bank Lending Facility) and other measures, but had fluctuated thereafter, mainly due to the effects of the situation in Ukraine. However, it had recently risen to a level higher than that at the time of the previous meeting. Yield spreads between corporate bonds and JGBs had been narrowing on the whole, albeit very moderately, reflecting solid demand from investors, although some corporate bond spreads had been wide. In the foreign exchange market, the yen had appreciated slightly against the U.S. dollar, reflecting concern over the situation in Ukraine, but had moved within a narrow range against the dollar throughout the intermeeting period. The U.S. dollar/yen rate had recently been at almost the same level as at the time of the previous meeting.

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

[6] 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 -- mainly advanced economies -- were starting to recover, although a lackluster performance was still seen in part.

The U.S. economy remained on a moderate recovery despite the continued effects of a winter snowstorm, and the recovery had gradually become widespread. Housing investment continued to generally pick up, although the pace had become moderate. Private consumption had been firm, reflecting not only wealth effects but also the continued improving trend in the employment situation. Exports also remained on an increasing trend. Reflecting these developments in demand, business sentiment and production had been on an improving trend, and business fixed investment was picking up, albeit moderately. 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. In this situation, the year-on-year rate of increase in the CPI for all items had climbed somewhat, mainly because the year-on-year rate of increase in energy prices had accelerated.

The European economy had been picking up. Private consumption had been picking up moderately, with consumer sentiment continuing to improve, although the employment and income situation remained severe. Business fixed investment had bottomed out. In addition, there were movements toward a pick-up in exports. Reflecting these developments in demand, production was starting to pick up. As for prices, slack in supply and demand conditions in the goods and labor markets continued to exert downward pressure on prices, and the year-on-year rates of increase in both the Harmonized Index of Consumer Prices (HICP) excluding energy and unprocessed food and the HICP for all items had been on a moderate declining trend. Meanwhile, economic activity in the United Kingdom continued to recover, particularly in domestic demand.

With regard to Asia, the Chinese economy continued to see stable growth on the back of firm domestic demand. Stable growth in private consumption continued against the background of a favorable employment and income situation, although effects of the government's frugality campaign continued to be observed in some areas. Fixed asset investment also remained firm. Moreover, exports had been picking up, particularly those to Europe and the United States. With these developments in demand, production had continued to mark relatively high growth, particularly in the machinery industry, including motor vehicles. Regarding the NIEs and the ASEAN countries, while economic developments in the NIEs were picking up somewhat on the back of recovery in external demand, growth momentum in the ASEAN countries remained weak, particularly in domestic demand. In India, the economy remained in a state of deceleration, particularly in domestic demand. As for prices, there were differences by country and region. Specifically, the year-on-year rate of increase in the CPI had been somewhat low as a trend in China and the NIEs, while that in Indonesia and India continued to be relatively high, mainly reflecting the rise in administered prices.

As for global financial markets, in emerging economies, the Ukrainian and Russian markets had become unstable, reflecting the situation in Ukraine. Markets in some emerging economies that faced structural problems such as current account deficits remained nervous as their currencies had depreciated and stock prices had declined. On the other hand, markets in other emerging economies that were making progress in addressing structural problems seemed to be regaining their calmness. Markets in advanced economies had temporarily showed some nervousness due to the effects of the situation in Ukraine, but stabilized thereafter. International commodity prices had been weak from a relatively longer-term perspective in a situation where emerging economies lacked growth momentum. However, these prices had recently bounced back, reflecting a winter snowstorm in the United States, the drought in South America, and geopolitical risks.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had recently leveled off more or less. On a quarter-on-quarter basis, real exports had fallen in the July-September quarter of 2013 but risen again in the October-December quarter. They then decreased somewhat significantly in January 2014 from the October-December quarter, due in part to temporary factors such as the effects of a winter snowstorm in the United States and of the Lunar New Year holidays in East Asia, as well as supply constraints driven by the front-loaded increase in demand prior to the consumption tax hike. Thus, the lack of momentum in real exports had been somewhat prolonged. Exports were expected to increase moderately, mainly against the background of the recovery in overseas economies. Meanwhile, imports continued to increase moderately against the backdrop of firm domestic demand, and the effects of the front-loaded increase in demand prior to the consumption tax hike had recently been observed.

Public investment continued to increase. It was expected to trend upward for the time being and then become more or less flat at a high level.

The pick-up in business fixed investment had become increasingly evident as corporate profits had improved. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly*, business fixed investment in nominal terms on a basis excluding software fell marginally in the July-September and October-December quarters of 2013 on a quarter-on-quarter basis, while that on a basis including software rose in the October-December quarter. Business fixed investment on a GDP basis continued to increase for three quarters in a row through the October-December quarter. The aggregate supply of capital goods (excluding transport equipment), a coincident indicator of machinery investment, exhibited high growth in January 2014 relative to the October-December quarter of 2013. In addition, machinery orders (private sector, excluding orders for ships and those from electric power companies) -- a leading indicator of machinery investment -- and construction starts (floor area, private, nondwelling use) -- a leading indicator of construction investment -- continued to increase as a trend, albeit with monthly fluctuations.

As for the employment and income situation, supply and demand conditions in the labor market continued to improve steadily, as evidenced by the continued rise in the job openings-to-applicants ratios and the declining trend in the unemployment rate. Regarding wages, although the year-on-year rate of change in scheduled cash earnings had still been slightly negative, the year-on-year rate of change in non-scheduled cash earnings had clearly been in positive territory, and winter bonuses (special cash earnings in the November 2013-January 2014 period) continued to increase markedly following summer bonuses. In this situation, employee income had picked up moderately, as it had recently continued to register year-on-year increases.

Private consumption remained resilient, with improvement in the employment and income situation, and a front-loaded increase in demand prior to the consumption tax hike had also been observed. Regarding consumption of durable goods, the number of new passenger-car registrations had turned upward since around summer 2013, and had marked a further increase in the past few months, albeit with fluctuations. In addition, sales of household electrical appliances had been steady, albeit with fluctuations. Private consumption was expected to remain resilient as a trend, supported mainly by improvement in the employment and income situation, albeit with some fluctuations caused by the front-loaded increase and subsequent decline in demand.

Housing investment continued to increase, and the effects of the front-loaded increase in demand prior to the consumption tax hike had been clear. It was expected to remain resilient as a trend, albeit with some fluctuations.

Industrial production had been increasing at a somewhat accelerated pace, due in part to the effects of the front-loaded increase in demand prior to the consumption tax hike. Inventories had declined, reflecting the front-loaded increase in demand. Industrial production was expected to follow a moderate increasing trend, mainly reflecting developments in demand at home and abroad, albeit with some fluctuations.

As for prices, domestic corporate goods prices were rising moderately relative to three months earlier, mainly against the backdrop of movements in international commodity prices and foreign exchange rates. The year-on-year rate of increase in the CPI (all items less fresh food) was around 1¼ percent. With regard to the outlook, excluding the direct effects of the consumption tax hike, domestic corporate goods prices were expected to continue rising moderately for the time being, and the year-on-year rate of increase in the CPI (all items less fresh food) was likely to be around 1¼ percent for some time. Meanwhile, inflation expectations appeared to be rising on the whole.

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 at around 55 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 and corporate bonds continued to be favorable. 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 at around 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. Meanwhile, the year-on-year rate of growth in the money stock had been at around 4 percent, mainly due to the increase in bank lending.

3. The fund-provisioning measure to support strengthening the foundations for economic growth

On March 7, 2014, the Bank carried out a new loan disbursement, amounting to 186.6 billion yen, under the main rules for the fund-provisioning measure to support strengthening the foundations for economic growth (hereafter the Growth-Supporting Funding Facility). The outstanding balance of loans disbursed by the Bank under these rules amounted to 3,141.9 billion yen after the new loan disbursement, and thus exceeded 3 trillion yen, as in the previous loan disbursement. The outstanding balance of loans disbursed by the Bank under the special rules for equity investments and asset-based lending (ABL) came to 80.8 billion yen, and that under the special rules for small-lot investments and loans amounted to 8.063 billion yen. As for the special rules for the U.S. dollar lending arrangement, the outstanding balance of loans came to 8.777 billion dollars.

II. Enhancement of the Framework for the Stimulating Bank Lending Facility and the Growth-Supporting Funding Facility

A. Staff Reports

Based on the Outline of the Enhanced Framework for the Stimulating Bank Lending Facility and the Growth-Supporting Funding Facility, which was decided at the Monetary Policy Meeting held on February 17 and 18, 2014, the staff proposed that the Bank take necessary steps such as amending the Principal Terms and Conditions for the Loan Support Program.

Under the Growth-Supporting Funding Facility, investments and loans used mainly for overseas subsidiaries of Japanese firms to support strengthening the foundations for Japan's economic growth had been eligible for funding by the Bank via the facility only if they were denominated in foreign currencies. The staff proposed revising the facility so that yen-denominated investments and loans to support strengthening such foundations would also become eligible.

B. Vote

"Amendment to 'Principal Terms and Conditions for the Loan Support Program,'" which represented the aforementioned amendments, was put to a vote. Members voted unanimously to approve the amendment. They concurred that the staff should accordingly make this public after the meeting.

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

A. Economic Developments

Members shared the recognition that global financial markets had recently been in a lull, although markets in some emerging economies that faced structural problems such as current account deficits remained nervous as their currencies had depreciated and stock prices had declined. Some members added that markets in these economies that had taken policy actions such as the raising of interest rates were starting to regain their calmness. Nevertheless, members agreed that it was necessary to continue to closely monitor market developments, including geopolitical risks associated with the situation in Ukraine.

Members concurred that overseas economies -- mainly advanced economies -- were starting to recover, although a lackluster performance was still seen in part of the emerging economies. As for the outlook, they shared the recognition that overseas economies -- mainly advanced economies -- would recover moderately.

With regard to developments in overseas economies by region, members agreed that the U.S. economy remained on a moderate recovery, although some economic indicators showed that the economy had been affected by a winter snowstorm, and that the recovery had gradually become widespread. As for the outlook, they shared the view that the pace of economic recovery would gradually rise, as the fiscal drag was projected to fade. Some members added that the progress in adjustments in excessive household debt would also underpin the recovery. Some members pointed out that the effects of a winter snowstorm had been confirmed in production activity, private consumption, and housing investment, but consumer sentiment and indicators related to orders had maintained their improving trend and the pace of economic recovery would gradually rise after the effects of a winter snowstorm disappeared.

Members shared the recognition that economic activity in the euro area had been picking up. As for the outlook, they concurred that the economy was likely to continue picking up as domestic demand was expected to continue improving, and as exports would likely recover moderately.

Members agreed that the Chinese economy continued to see stable growth on the back of firm domestic demand. As for the outlook, most members expressed the view that the economy would maintain stable growth at around the current pace, mainly reflecting the fact that (1) the Chinese authorities' stance that they would continue to pay consideration to economic activity while progressing with structural reforms was reaffirmed particularly by the fact that the government set the GDP growth target for 2014 at around 7.5 percent, the same level as the previous year, and (2) external demand was expected to continue improving moderately. Some of these members, however, added that it had been difficult to accurately grasp the underlying trend in Chinese economic indicators for the January-February period of 2014, due to the effects of the Lunar New Year holidays, and therefore further developments in relevant indicators should be examined without making any prejudgment. Some members pointed out that careful attention should also continue to be paid to financial developments, including the shadow banking problem, and to developments in the real estate market.

Regarding the NIEs and the ASEAN countries, members concurred that, while economic activities in the NIEs were picking up, growth momentum in the ASEAN countries remained weak. As for the outlook, they shared the recognition that, for the time being, an adjustment phase would continue -- especially in the ASEAN countries -- and the pace of economic growth in the NIEs and the ASEAN countries would likely remain relatively slow. However, they continued that the pace would rise again thereafter as growth in advanced economies was expected to gain momentum over time. Some members added that the depreciation of currencies of emerging economies against those of major economies was likely to have a positive aspect of underpinning future exports.

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

With regard to economic activity, members shared the view that, as a virtuous cycle among production, income, and spending continued to operate, the economy continued to recover moderately, and a front-loaded increase in demand prior to the consumption tax hike had recently been observed. Some members added that, although the second preliminary estimate of the real GDP growth rate for the October-December quarter of 2013 -- 0.7 percent on an annualized quarter-on-quarter basis -- was somewhat lower than that for the first half of the year, reflecting developments in external demand, domestic demand remained resilient and the economy continued to recover as a trend at a pace above its potential growth rate. As for the outlook for the economy, members shared the view that it was likely to continue its moderate recovery as a trend, while it would be affected by the front-loaded increase and subsequent decline in demand prior to and after the consumption tax hike. Some members noted that, while the front-loaded increase in demand had materialized in housing investment and consumption of durable goods, consumption of nondurable goods was also likely to be affected through the end of March 2014. These members continued that it was therefore necessary to continue to closely monitor the scale of the front-loaded increase in demand and its subsequent decline.

Members shared the recognition that, in a situation where weakness remained in exports to some emerging countries including the ASEAN countries, Japan's exports had leveled off more or less, due in part to temporary factors such as the effects of a winter snowstorm in the United States and of the Lunar New Year holidays in East Asia, as well as firms' moves to place priority on domestic shipments in response to the front-loaded increase in demand prior to the consumption tax hike. As for the outlook, they agreed that exports were likely to increase moderately, mainly against the background of the waning of temporary downward pressure and the recovery in overseas economies. Some members, however, said that the lack of momentum in exports was largely attributable not only to cyclical factors in overseas demand and temporary factors but also to structural factors, including the shift of Japanese manufacturers' production sites to overseas accompanying increased local procurement, and therefore weakness in exports might remain. Meanwhile, one member expressed the view that, if exports increased from April 2014 as temporary downward pressure waned, this would mitigate the effects of a decline in domestic demand following the front-loaded increase prior to the consumption tax hike.

Some members pointed out that imports had recently continued to mark relatively high growth, reflecting firm domestic demand including the effects, for example, of a front-loaded increase in demand prior to the consumption tax hike and of replacement demand for personal computers.

Members concurred that the pick-up in business fixed investment had become increasingly evident as corporate profits had improved, and was projected to follow a moderate increasing trend. Many members pointed to the fact that business fixed investment on a GDP basis had been increasing for three quarters in a row and that the aggregate supply of capital goods -- a coincident indicator of machinery investment -- had recently risen noticeably. Some of these members added that machinery orders and construction starts in terms of floor area -- both of which were leading indicators of business fixed investment -- continued to increase as a trend, albeit with monthly fluctuations. On the other hand, a few members said that the outlook for business fixed investment warranted close attention since its strength could not be confirmed in some economic indicators, such as the *Financial Statements Statistics of Corporations by Industry, Quarterly*.

As for the employment and income situation, members shared the recognition that supply and demand conditions in the labor market continued to improve steadily, and that employee income had also picked up moderately. With respect to the outlook regarding employee income, they agreed that a pick-up was likely to become more evident, in line with the recovery in economic activity and business performance. As for the outlook for wages, many members pointed out that, in the spring wage negotiations, movements toward wage increases -- including in base pay -- were spreading to a wider range of firms. A few members said that, although increases in base pay primarily meant increases in regular employees' scheduled cash earnings, past trends indicated that there was a strong correlation between increases in base pay and in hourly cash earnings of overall employees, including non-regular employees. These members continued that, therefore, increases in base pay were likely to lead to increases in overall wages. One of these members added that, given that non-scheduled hours worked and the number of months on which bonus payments were based rose during economic recovery phases, increases in scheduled cash earnings -- which were the basis of non-scheduled cash earnings and bonuses -- would have significant effects on overall wages. Some members said that people's expectations for permanent income played an important role in forming the underlying consumption trend and their expectations for prices, and that it was important to continue to examine whether movements toward wage increases were sustainable. One member added that it was highly likely that the current favorable employment situation was heightening people's expectations for permanent income. Meanwhile, a different member expressed the view that there was a possibility that the rate of wage increases might turn out to be lower than the inflation rate excluding the effects of the consumption tax hike, even after the spring wage negotiations.

Members shared the recognition that private consumption remained resilient, with improvement in the employment and income situation, and a front-loaded increase in demand prior to the consumption tax hike had also been observed. They agreed that the movements in consumption of durable goods such as motor vehicles and household electrical appliances had been reflecting to some extent the front-loaded increase in demand prior to the consumption tax hike, in addition to the improvement in the employment and income situation evidenced by the increase in winter bonus payments. One member added that consumption of durable goods had been exhibiting high growth since over a year ago, and strength in its uptrend had been observed. Members concurred that private consumption was likely to remain resilient as a trend, supported mainly by improvement in the employment and income situation, albeit with some fluctuations caused by the front-loaded increase and subsequent decline in demand prior to and after the consumption tax hike.

Members agreed that industrial production had been increasing at a somewhat accelerated pace, reflecting these developments in demand both at home and abroad, and that it was likely to follow a moderate increasing trend.

Regarding prices, members shared the view that the year-on-year rate of increase in the CPI (all items less fresh food) was around 1¼ percent and the rate of increase, excluding the direct effects of the consumption tax hike, was likely to be around 1¼ percent for some time. Many members said that price rises had been observed not only in energy-related goods but also across a wide range of items, as evidenced by the fact that the year-on-year rate of increase in the CPI (all items less food and energy) for January 2014 had marked 0.7 percent. One member noted that, while Japan's economic growth rate for the second half of 2013 had declined from that for the first half of the year, the inflation rate had been somewhat higher than anticipated. This member pointed out that this development might be attributable to the following factors: (1) labor market conditions were likely to tighten further because economic recovery had been led mainly by nonmanufacturing; and (2) firms' price-setting behavior had been changing. Meanwhile, a different member expressed the view that it was possible that the effects of the depreciation of the yen on prices had increased. In assessing the underlying trend of prices from April onward, members confirmed that it was appropriate to exclude the direct effects of the consumption tax hike. They continued that, in terms of the underlying trend of the CPI, assessments should be made based on the year-on-year rate of change after deducting about 2.0 percentage points -- that is, the expected direct effects -- assuming that the tax increase would be fully passed on for all taxable items. However, they shared the recognition that only the year-on-year rate of change in the CPI for April should be assessed after deducting about 1.7 percentage points, due to factors that emanated from the compilation of statistics on the CPI, and that it was necessary for the Bank to thoroughly explain this to the public. Members shared the recognition that inflation expectations appeared to be rising on the whole, considering market indicators, the results of various surveys, and other information.

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. They also concurred that the year-on-year rate of growth in the money stock had been at a relatively high level of around 4 percent in a situation where the amount outstanding of bank lending, including that to small firms, had been increasing moderately.

IV. 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 Japan real estate investment trusts (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 maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

With respect to the Bank's thinking behind its conduct of monetary policy, most members shared the recognition 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. Members expressed the view that it was appropriate for the Bank to continue to steadily pursue quantitative and qualitative monetary easing in accordance with the current guidelines, as Japan's economic and price developments had been broadly in line with the forecasts presented in October 2013.

On the other hand, one member said that, 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 in a situation where it was unlikely that the price stability target would be achieved in about two years, this could lead to economic instability in the medium to long term, such as through a buildup of financial imbalances. On this basis, the 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.

With regard to the effects of quantitative and qualitative monetary easing, members shared the recognition that these continued to firmly take hold, and financial conditions were easing steadily to underpin firms' and households' spending. Regarding how much of an effect could be exerted on longer-term interest rates, they agreed that long-term interest rates in Japan had been stable at low levels under the Bank's massive JGB purchases. Members shared the recognition 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.

Regarding the Stimulating Bank Lending Facility and other measures, some members expressed the recognition that a favorable response to the extension and enhancement of these measures decided at the previous meeting had been observed; for example, some financial institutions had decided to increase the size of their loan funds that utilized these measures as a funding source. One of these members said that attention should also continue to be paid to possible effects on financial institutions' future financial soundness, including the possibility of intensifying their lending competition.

V. Remarks by Government Representatives

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

(1) The Japanese economy was recovering at a moderate pace, as evidenced by the fact that the second preliminary estimate of the real GDP growth rate for the October-December quarter of 2013 was 0.7 percent on an annualized quarter-on-quarter basis, registering positive growth for the fifth consecutive quarter. Prices were also rising moderately. The government expected the Bank to continue to steadily pursue quantitative and qualitative monetary easing and achieve the price stability target of 2 percent at the earliest possible time. In this regard, the government welcomed the extension and enhancement of the Stimulating Bank Lending Facility as well as the Growth-Supporting Funding Facility -- decided at the previous meeting -- as an appropriate step that would reinforce the transmission mechanism of quantitative and qualitative monetary easing.

(2) The government deemed it extremely important to avoid a greater-than-expected slowdown in the Japanese economy after the consumption tax hike in April 2014 and swiftly get the economy back on a growth path. Therefore, it would step up its efforts to swiftly implement the supplementary budget for fiscal 2013 by setting a specific goal -- that is, to implement about 70 percent of the supplementary budget by the end of June 2014 and about 90 percent by the end of September -- so that the supplementary budget

would produce appropriate effects within the first half of fiscal 2014. In addition, the government would continue to work to promptly obtain the Diet's approval of the budget for fiscal 2014, together with the fiscal 2014 tax reform. By seeking to implement steadily the budget following its approval, the government would do its utmost to address downside risks to the Japanese economy during the first half of fiscal 2014.

(3) With a view to achieving sustainable economic growth led by private demand, the government was working to promptly implement the growth strategy and proceed with further structural reforms, based on the Industrial Competitiveness Enhancement Action Plan and the Agenda for the Evolution of the Growth Strategy. At the Group of Twenty (G-20) Finance Ministers and Central Bank Governors Meeting held on February 22 and 23, it had been agreed to aim to lift the collective GDP of the G-20 countries by more than 2 percent over the coming five years. With a view to contributing to global economic growth, the government deemed it important to aim for higher growth in the Japanese economy through the growth strategy. The economy was now entering a crucial stage of overcoming deflation and revitalizing the economy, and the government would do its utmost to realize a positive cycle of the economy through a series of measures.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was recovering at a moderate pace. The second preliminary estimate of the real GDP growth rate for the October-December quarter of 2013 had registered positive growth for the fifth consecutive quarter. In addition, the front-loaded increase in demand prior to the consumption tax hike had recently been observed in certain areas -- for example, private consumption. As for the outlook, the economy was expected to stay on a recovery trend. The government would also closely monitor developments in global financial markets and their effects, as well as the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike.

(2) The specifics of the enhancement of the framework for the Stimulating Bank Lending Facility and the Growth-Supporting Funding Facility were decided at this meeting. The government would aim to implement swiftly the supplementary budget for fiscal

2013 and to promptly obtain the Diet's approval of the budget for fiscal 2014, thereby creating demand. Furthermore, it would aim to further accelerate the implementation of the growth strategy, thereby creating investment opportunities. The government expected that, together with these efforts, the Bank's enhancement of the framework would further promote financial institutions' actions as well as stimulate firms' and households' demand for credit.

(3) The Government Pension Investment Fund (GPIF) was proceeding with reforms, such as making revisions to its portfolio. Regarding foreign direct investment in Japan, the government set forth its aim to double the cumulative amount by the end of 2020, and would deliberate further on tax and regulatory reforms as well as on measures to attract and support foreign firms at the Expert Group Meeting. It would then incorporate the results of the deliberations in formulating the Basic Policies for Economic and Fiscal Management and Reform as well as in revising the Japan Revitalization Strategy. As for corporate tax reform, the government would deliberate further with the discussion groups at the meeting of the Government Tax Commission and at the Council on Economic and Fiscal Policy. With regard to the Trans-Pacific Partnership (TPP) Agreement, much progress had been made at the ministerial meeting held from February 22 through 25. The government would cooperate fully with each country participating in the TPP with the aim of reaching an agreement that would yield a comprehensive and balanced outcome.

(4) At the intensive discussion within the Council on Economic and Fiscal Policy held on February 20, the government had reviewed the progress toward overcoming deflation and promoting economic revitalization. The CPI was rising moderately but, as for the outlook, while improvement in the output gap was expected to contribute to a price rise, the positive effects from a rise in import prices could diminish depending on future developments in foreign exchange rates. Therefore, the government would closely monitor these developments. The government expected the Bank to continue its efforts to achieve the price stability target of 2 percent.

VI. 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.

VII. 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. Mr. T. Kiuchi, however, formulated a proposal, and thus two proposals were submitted.

Meanwhile, Ms. S. Shirai expressed dissent from the description regarding risks to the outlook presented in the draft of the statement that formed a majority view, suggesting that the pace of improvement in the employment and income situation in Japan should be added. As the reason for this, she stated that, for domestic demand to maintain its firmness in the future, it was important for the employment and income situation to continue improving; therefore, considering, for example, the existence of recent indicators that showed a deterioration in households' income outlook, this issue should be included as one of the risks for the time being.

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).

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of February 17 and 18, 2014 for release on March 14, 2014.

Attachment
March 11, 2014
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 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, and a front-loaded increase in demand prior to the consumption tax hike has recently been observed. Overseas economies -- mainly advanced economies -- are starting to recover, although a lackluster performance is still seen in part. Exports have recently leveled off more or less. The pick-up in business fixed investment has become increasingly evident as corporate profits have improved. Public investment has continued to increase. With improvement in the employment and income situation, housing investment has continued to increase and private consumption has remained resilient; in these segments of the economy, the front-loaded increase in demand prior to the consumption tax hike has also been observed. Reflecting these developments in demand both at home and abroad, industrial production has been increasing at a somewhat accelerated pace. Meanwhile, 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 around 1¼ percent. Inflation expectations appear to be rising on the whole.

4. With regard to the outlook, Japan's economy is expected to continue a moderate recovery as a trend, while it will be affected by the front-loaded increase and subsequent decline in demand prior to and after the consumption tax hike. The year-on-year rate of increase in the CPI, excluding the direct effects of the consumption tax hike, is likely to be around 1¼ percent for some time.

5. Risks to the outlook include developments in the emerging and commodity-exporting economies, the prospects for the European debt problem, and the pace of recovery in the U.S. economy.[Note 1]

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 2]

   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 1] Ms. S. Shirai dissented from the description in paragraph 5, suggesting that the pace of improvement in the employment and income situation in Japan should be added.

[Note 2] 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.