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May 7, 2014

Bank of Japan

Minutes of the Monetary Policy Meeting

on April 7 and 8, 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, April 7, 2014, from 2:00 p.m. to 4:08 p.m., and on Tuesday, April 8, from 9:00 a.m. to 11:45 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. S. Sato, Deputy Vice Minister, Ministry of Finance[3]

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

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

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

Mr. H. Yamaoka, Director-General, Financial Markets 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 30, 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] Mr. Y. Furukawa was present on April 8.

[3] Mr. S. Sato was present on April 7.

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. Y. Komaki, Senior Economist, Monetary Affairs Department

Mr. R. Hattori, 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 March 10 and 11, 2014, 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 200-222 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 fallen into negative territory at the fiscal year-end, but rebounded thereafter. As for interest rates on term instruments, yields on treasury discount bills (T-Bills) had been rising somewhat. Rates on longer-term interbank instruments had been flat.

Yields on 10-year JGBs had dipped marginally in the face of a decline in Japanese stock prices, but had since almost recovered the level at the time of the previous meeting; they had recently been in the range of 0.60-0.65 percent. The Nikkei 225 Stock Average had moved downward, mainly in view of uncertainty about the situation in Ukraine, but then rebounded primarily in response to the rise in U.S. stock prices. It had recently been in the range of 14,500-15,000 yen. 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 against the U.S. dollar, mainly reflecting uncertainty about the situation in Ukraine, but then depreciated due primarily to speculation among market participants that the Federal Reserve would move forward the timing of a hike in the target federal funds rate. The U.S. dollar/yen rate had recently been at around 103 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 -- 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 declined, mainly because the year-on-year rate of change in energy prices had turned negative.

A pick-up in the European economy had become evident. Private consumption continued to show a moderate pick-up, with consumer sentiment continuing to improve, although the employment and income situation remained severe. There were movements toward a pick-up in business fixed investment, mainly in Germany. In addition, exports were starting to pick up. Reflecting these developments in demand, production was picking up moderately. As for prices, slack in supply and demand conditions in the goods and labor markets was exerting 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 remained on a disinflationary 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, although the economy's growth momentum was slowing somewhat. Fixed asset investment, although remaining firm, had been increasing at a somewhat reduced pace. Production had been growing at a slower pace due in part to the effects of adjustments in inventories, mainly of materials and related goods. However, exports continued to pick up, particularly those to Europe and the United States. Moreover, stable growth in private consumption continued against the background of a favorable employment and income situation. 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, the NIEs, and Thailand, while that in Indonesia and India continued to be relatively high, mainly reflecting the rise in administered prices.

Global financial markets had temporarily shown some nervousness, mainly due to uncertainty about the situation in Ukraine, but investors were gradually taking a more active risk-taking stance on the back of expectations for global economic recovery, particularly in advanced countries. Markets in emerging economies had also regained their calmness on the whole because policy actions such as the raising of interest rates had been adopted to address current account deficits and high inflation, although markets in some emerging economies continued to be nervous. International commodity prices had been weak from a relatively longer-term perspective in a situation where emerging economies lacked growth momentum, and had recently been somewhat sluggish.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had recently leveled off more or less. Developments in real exports since the start of 2014 showed large monthly fluctuations: they had decreased in January, partly because exports to East Asia had been affected by the Lunar New Year holidays, but rebounded in February. On a quarterly basis, they had registered a slight negative in the January-February period on average compared with the October-December quarter of 2013. These developments appeared to be driven by temporary downward pressure, such as supply constraints, driven by the front-loaded increase in demand prior to the consumption tax hike, and a winter snowstorm in the United States. Exports were expected to increase moderately, mainly against the background of the recovery in overseas economies. Meanwhile, imports continued to increase moderately as a trend against the backdrop of firm domestic demand, despite the effects of some fluctuations in private consumption caused by the consumption tax hike, and were expected to continue to do so.

Public investment continued to increase and was expected to 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. The aggregate supply of capital goods (excluding transport equipment), a coincident indicator of machinery investment, had been solid. 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. Business sentiment continued to improve, although some cautiousness about the outlook had been observed. In the March 2014 *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the diffusion index for business conditions for all industries and enterprises (the proportion of firms responding that business conditions were "favorable" minus the proportion of those responding that they were "unfavorable") improved for the fifth straight term, surpassing the peak in the previous phase of economic expansion. As for the outlook, the diffusion index was projected to deteriorate, mainly in view of the subsequent decline in demand following the front-loaded increase; nevertheless, it was still projected to be in "favorable" territory to a marginal degree. This suggested that business sentiment would generally stay at a favorable level. Business fixed investment was projected to follow a moderate increasing trend as corporate profits continued their improving trend. Business fixed investment plans for fiscal 2014 in the March *Tankan* were somewhat strong compared to past averages.

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, non-scheduled cash earnings and special cash earnings had increased. In this situation, employee income had picked up moderately, as it had recently continued to register year-on-year increases.

Private consumption remained resilient as a trend with improvement in the employment and income situation, albeit with some fluctuations due to the consumption tax hike. Regarding consumption of durable goods, the number of new passenger-car registrations and sales of household electrical appliances had been relatively strong, due mainly to the effects of the front-loaded increase in demand. Judging from interviews with firms and other relevant information, there appeared to have been front-loaded consumption of items other than durable goods, such as apparel and general merchandise, through March. Private consumption was expected to remain resilient as a trend, supported mainly by improvement in the employment and income situation, with some temporary decreases caused by the subsequent decline in demand following the front-loaded increase.

Housing investment remained resilient as a trend with improvement in the employment and income situation, albeit with some fluctuations due to the consumption tax hike. It was expected to remain resilient as a trend, supported mainly by improvement in the employment and income situation and by accommodative financial conditions, with some temporary decreases caused by the subsequent decline in demand following the front-loaded increase.

Industrial production had been on a moderate increasing trend, albeit with some fluctuations due to the consumption tax hike. Inventories had declined, affected partly by 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, despite being affected by the subsequent decline in demand following the front-loaded increase.

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 be more or less flat 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 negative. 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.

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

A. Economic Developments

Members shared the recognition that global financial markets had temporarily shown some nervousness, mainly reflecting the situation in Ukraine, but had recently regained their calmness somewhat. A few members added that markets in emerging economies were starting to calm down on the whole, due in part to each country's efforts to address economic and structural problems. Regarding the situation in Ukraine, one member expressed the view that, depending on future developments, it might affect commodity markets and the European economy -- which was closely linked to Ukraine on the financial and economic fronts -- and thereby exert a global adverse effect. Based on this discussion, members agreed that it was necessary to continue to closely monitor market developments, including geopolitical risks.

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 continued to show 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, with the recovery becoming widespread from the household sector to the corporate sector, as the fiscal drag was projected to fade. Many members added that recent economic indicators suggested that the effects of a winter snowstorm were gradually disappearing. A few members expressed the view that the continued improvement in the employment situation, as evidenced, for example, by the steady rise in nonfarm payroll employment, would support future economic recovery.

Members shared the recognition that a pick-up in the euro area economy had become evident. Some members expressed the view that private consumption and firms' production activity had been picking up moderately amid further improvement in household and business sentiment. As for the outlook, members concurred that the economy was likely to recover moderately as domestic demand was expected to continue picking up, reflecting improvement in sentiment, and as exports would likely improve. Meanwhile, some members pointed out that the disinflationary trend was continuing, particularly in peripheral countries. These members continued that attention needed to be paid to the risk that, if such a trend became prolonged, this could adversely affect the European economy through a decline in inflation expectations and an increase in the real debt burden.

Members agreed that the Chinese economy continued to see stable growth on the back of firm domestic demand, although the economy's growth momentum was slowing somewhat. As for the outlook, most members expressed the view that the economy would generally maintain stable growth at around the current pace, mainly reflecting the fact that (1) the Chinese authorities had taken the stance of continuing to pay consideration to economic activity while progressing with structural reforms, and had recently announced the intention to underpin economic activity by taking actions including the introduction of several specific measures; and (2) external demand was expected to continue improving moderately. As for the outlook from a relatively longer-term perspective, some members expressed the recognition that it might become difficult for the economy to maintain growth at around the current pace without depending on the government's stimulus measures. In response, one member pointed out that the economy could continue to see stable growth once productivity of state-owned enterprises was raised through structural reforms that were currently being implemented.

Regarding the NIEs and the ASEAN countries, members concurred that, while economic activity in the NIEs was picking up, growth momentum in the ASEAN countries remained weak. As for the outlook, they shared the view 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.

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 as a trend, albeit with some fluctuations due to the consumption tax hike. As for the outlook for the economy, they shared the recognition that it was likely to continue its moderate recovery as a trend, while it would be affected by the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike. Members concurred that, although it was difficult to gauge on a real-time basis the degree of the subsequent decline in demand, it was necessary to grasp the ongoing situation by utilizing interviews with firms and other relevant information.

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 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. One member added that, if exports increased in the future, this would mitigate the effects of a decline in domestic demand following the front-loaded increase prior to the consumption tax hike.

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. A few members pointed out that recent developments showed a clear pick-up; for example, the aggregate supply of capital goods was showing higher growth and machinery orders continued to increase. As for the results of the March 2014 *Tankan*, members shared the recognition that business sentiment continued to improve at a wide range of industries, although some cautiousness about the outlook had been observed. They agreed that the decline in the diffusion indices for future business conditions reflected firms' concerns about the decline in demand following the front-loaded increase prior to the consumption tax hike. However, many members added that firms were nonetheless maintaining a positive attitude, as the diffusion indices for future business conditions were still at relatively high levels and business fixed investment plans for fiscal 2014 were somewhat higher than in normal years.

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. Some members expressed the view that labor market conditions were likely to continue tightening and upward pressure on wages was likely to strengthen further, given, for example, that the unemployment rate had declined to 3.6 percent and the diffusion indices for employment conditions in the March 2014 *Tankan* had continued to register larger negative figures, which suggested that the shortage in employment had continued to expand. With regard to the wage negotiations this spring, some members pointed out that movements toward wage increases -- including in base pay -- were spreading to a wider range of firms, reflecting tighter labor market conditions and the improvement in business performance. One of these members added that, according to the aggregate results of wage negotiations compiled by the Japanese Trade Union Confederation (Rengo) so far, movements toward wage increases were expected to spread even among small firms. A different member pointed out that resumption of base pay increases could lead to a situation where price increases were likely to be reflected in wage developments. Meanwhile, one member expressed the view that, given a possible decline in the rate of increase in corporate profits and other factors, the momentum for increasing wages might instead decelerate at the time of wage negotiations to be held in spring 2015.

Members shared the recognition that private consumption remained resilient as a trend with improvement in the employment and income situation, albeit with some fluctuations due to the consumption tax hike. One member expressed the view that, judging from interviews with firms and other relevant information, the front-loaded increase in demand this time was greater than that at the time of the previous consumption tax hike in 1997. As the background to this, the member pointed to the larger degree of a hike in the tax rate, as well as households' stronger appetite for spending due to improvement in the employment and income situation. With regard to the outlook, members concurred that private consumption was likely to remain resilient as a trend, supported mainly by improvement in the employment and income situation, with some temporary decreases caused by the subsequent decline in demand following the front-loaded increase. One member expressed the recognition that consumer confidence, which had been relatively weak recently, would pick up if it was confirmed for the April-June quarter of 2014 that the economy as a whole was being underpinned by the increase in exports and the bringing forward of public investment plans. A different member said that a rise in medium- to long-term growth expectations was important for consumption to remain resilient, but the diffusion index of the economy's growth potential -- presented in the Bank's *Opinion Survey on the General Public's Views and Behavior* -- had not improved in the past six months or so. The member therefore expressed hope that the government would make further efforts, for example, in advancing structural reforms.

Reflecting these developments in demand both at home and abroad, members agreed that industrial production had been on a moderate increasing trend, and that it was likely to follow this trend. A few members pointed out that the production forecast index for April 2014 saw only a marginal decline. One of these members noted that production of transport equipment for April was also projected to mark a marginal drop, even though the diffusion index for future business conditions for transportation machinery industry in the March 2014 *Tankan* showed a considerable decline. This member then expressed the view that production for shipment overseas and inventory restocking could work toward mitigating the drop in production for domestic shipments.

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 February 2014 had marked 0.8 percent. One member expressed the recognition that the inflation rate, excluding the effects of the consumption tax hike, could in fact rise from April 2014 onward because firms could take the consumption tax hike as an opportunity to pass on earlier rises in costs to prices. A few members pointed out that the diffusion indices for output prices in the March 2014 *Tankan* were improving, mainly for nonmanufacturing. Meanwhile, one member expressed the view that prices had become more susceptible to developments in the foreign exchange market than before, reflecting the increased import penetration ratio, mainly for digital appliances. This member continued that it was therefore necessary to closely monitor how the halt to the yen's depreciation would affect prices. 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. With regard to firms' outlook for general prices in the March *Tankan*, many members, while noting that the results should be assessed with a degree of latitude since the set of questions regarding the outlook was addressed for the first time in this survey, expressed the view that (1) firms' outlook was higher than that of market participants and economists and (2) firms' medium- to long-term outlook for the prices was higher than their short-term one, suggesting that firms expected the inflation rate to rise over time. One of these members pointed out that the March *Tankan* showed that this tendency in firms' outlook for future general prices was rather noticeable among small firms, which seemed to face difficulty in terms of passing on costs to prices. Meanwhile, one member said that, according to the outlook for output prices in the March *Tankan*, it was implied that the year-on-year rate of increase in these prices would decline gradually, which suggested a possibility that firms might deem it difficult to raise the output prices of their own products and services.

With respect to <u>the relationship between the economic growth rate and prices</u>, members discussed how to understand the following developments: CPI inflation had been somewhat higher, while there was an increasing probability of the economic growth rate being lower, compared with the forecasts presented in January 2014. Many members expressed the view that, because the current economic recovery was led mainly by nonmanufacturing, which created more employment than other sectors, labor market conditions were inclined to tighten, and therefore prices had exhibited a greater tendency to rise due to the factors associated with the labor market. Some of these members added that, while economic growth itself had been at a lower rate than projected, an estimation of the output gap based on the degree of utilization of production factors, such as labor and production capacity, indicated that the output gap had recently narrowed to around zero. These members continued that this suggested that upward pressure on wages and prices had become stronger than that on the growth rate. A few members expressed the recognition that developments in wages tended to have a more significant effect on overall prices, as Japan's industrial structure had been shifting to one led mainly by nonmanufacturing. In response to this, one member said that wage increases and price rises resulting from supply-side constraints might not be sustainable. Regarding firms' price-setting behavior, many members expressed the view that firms might be taking a more positive stance toward raising prices -- which they had previously refrained from doing -- mainly due to the improvement in supply and demand conditions, the reduced competition on the back of the yen's depreciation, and the rise in inflation expectations. One member added that, in a situation where labor market conditions were tightening, it was likely that an increasing number of firms would actively increase wages to secure the necessary human capital and pass accompanying labor costs on to services prices. Meanwhile, one member pointed out that the lower-than-projected headline growth rate was largely attributable to downward pressure from the unexpected strength in imports that reflected the firmness in domestic demand. The member continued that, when excluding the effects of such pressure, the growth rate for the second half of 2013 remained at around 3 percent on an annualized basis.

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, as suggested by the March 2014 *Tankan*. They also concurred that the year-on-year rate of growth in the money stock had been at a relatively high level in a situation where the amount outstanding of bank lending, including that to small firms, had been increasing moderately.

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 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. One member said that, at present, the financial system was sound and economic fundamentals such as firms' profitability and the employment and income situation were improving significantly, and thus monetary easing effects were likely to increase.

IV. Remarks by Government Representatives

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

(1) The government highly appreciated that the Bank had introduced quantitative and qualitative monetary easing in April 2013 immediately after the new leadership with Governor Kuroda took effect, and had been steadily pursuing it. It acknowledged that the Japanese economy was steadily progressing toward achieving the overcoming of deflation and economic revitalization amid the Bank's steady pursuit of bold monetary easing over the past year. 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.

(2) The government deemed it important to avoid downside risks to the Japanese economy following the consumption tax hike and thereby lead the current economic recovery toward sustainable growth. Therefore, with regard to the budget for fiscal 2014, which had been approved by the Diet on March 20, 2014, the government as a whole had set a

goal for its expenses for public construction in particular and for items that would bring about swift economic effects -- that is, it would implement more than 40 percent of the budget by the end of June 2014 and more than 60 percent by the end of September -- so that the budget would produce appropriate effects within the first half of fiscal 2014. The government would work to swiftly implement the budget for fiscal 2014, together with the supplementary budget for fiscal 2013, and thereby respond in an appropriate manner mainly to downside risks to the Japanese economy.

(3) Based on firms' offers during the wage negotiations this spring, the average wage increase amount was at the highest level compared with the results of negotiations at this time of the year over the past decade, which suggested that wage increases on a scale not seen in recent years were started to take hold. With regard to the growth strategy, the government intended to submit over 30 related bills to the Diet. Many of these had already been submitted and were currently being deliberated. In addition, with a view to revising the growth strategy, the government would make integrated efforts to proceed with further structural reforms based on the Agenda for the Evolution of the Growth Strategy, such as restraining energy costs and carrying out reforms in areas of employment and human resources, medical and nursing care, and agriculture. Through a series of these measures, the government would further its ongoing efforts toward realizing a positive cycle between self-maintained and sustainable economic growth, led by private demand, and fiscal consolidation.

The representative from the Cabinet Office made the following remarks.

(1) A year had passed since the introduction of quantitative and qualitative monetary easing. The government acknowledged that concrete results were being yielded steadily, as evidenced by the fact that consumer prices as a whole, which had registered a year-on-year rate of decline at around this time last year, were rising moderately, with recent price increases across a wide range of items. Meanwhile, the Japanese economy was recovering at a moderate pace.

(2) The consumption tax rate had been raised to 8 percent on April 1, 2014. The government would address downside risks to the Japanese economy by setting specific goals in terms of an implementation rate for the supplementary budget for fiscal 2013 and the budget for fiscal 2014 -- which contained concrete plans for the Economic

Measures for Realization of Virtuous Cycles -- and making efforts to swiftly implement the budget in the first half of fiscal 2014. It would also carefully monitor developments in economic activity -- private consumption in particular -- based on weekly data and information from interviews.

(3) With the aim of realizing a positive cycle of the economy, the government had been working to take bold taxation measures and to form a common understanding at Government-Labor-Management Meetings. As a result of earnest discussions between employers and employees in view of the government's efforts, movements toward wage increases on a scale not seen in recent years were strongly taking hold at a wider range of firms during the wage negotiations this spring.

(4) The government had identified the National Strategic Special Zones and had presented reform guidelines for each. The national government, local governments, and the private sector would work together to compile each of their specific program plans. The government had also held a joint meeting of the Council on Economic and Fiscal Policy and the Industrial Competitiveness Council, at which discussions on the issue of globalization within Japan had taken place. As for the utilization of foreign human resources, it was decided at a ministerial meeting on April 4, 2014, to grant residence status to those who had completed government-sponsored training programs, so that they would be able to continue to engage in construction work in Japan. With a view to doubling the outstanding balance of foreign direct investment to Japan, the government would launch the Council for Promotion of Foreign Direct Investment to Japan and thereby promote these efforts. Moreover, the government would steadily pursue the overcoming of deflation and economic revitalization, as well as fiscal consolidation. It deemed it important first of all to achieve the primary balance target of halving the ratio of the fiscal deficit to GDP by fiscal 2015, and it would proceed with discussions at the Council on Economic and Fiscal Policy in this regard. The government expected the Bank to continue its efforts to achieve 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. 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 that it was uncertain whether households' expectations for future income growth would rise in a situation where the decline in real income could become prolonged, 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).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of March 10 and 11, 2014 for release on April 11, 2014.

Attachment
April 8, 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 as a trend, albeit with some fluctuations due to the consumption tax hike. 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. Private consumption and housing investment have remained resilient as a trend with improvement in the employment and income situation, albeit with some fluctuations due to the consumption tax hike. Reflecting these developments in demand both at home and abroad, industrial production has been on a moderate increasing trend. Business sentiment has continued to improve, although some cautiousness about the outlook has been observed. 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 subsequent decline in demand following the front-loaded increase prior to 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.