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July 18, 2014

Bank of Japan

Minutes of the Monetary Policy Meeting

on June 12 and 13, 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 Thursday, June 12, 2014, from 2:00 p.m. to 4:32 p.m., and on Friday, June 13, from 9:00 a.m. to 11:36 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 July 14 and 15, 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 June 13.

[3] Messrs. M. Asakawa and K. Umetani were present on June 12.

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

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

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

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

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

Secretariat of the Monetary Policy Meeting

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

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

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

Mr. K. Iijima, 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 May 20 and 21, 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 221-227 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 and general collateral (GC) repo rates had generally been at levels below 0.1 percent. As for interest rates on term instruments, yields on treasury discount bills (T-Bills) had been at an extremely low level. Rates on longer-term interbank instruments had been flat.

Yields on 10-year JGBs had been in a narrow range at around 0.6 percent. The Nikkei 225 Stock Average had risen, reflecting in part the rise in U.S. stock prices, and had recently been in the range of 14,500-15,000 yen. Yield spreads between corporate bonds and JGBs had been narrowing very moderately, reflecting solid demand from investors. In the foreign exchange market, the yen had depreciated somewhat against the U.S. dollar but then recovered, and the U.S. dollar/yen rate had recently been in the range of 101-102 yen. The euro had depreciated against the dollar in light of further monetary easing by the European Central Bank (ECB).

C. Overseas Economic and Financial Developments

Overseas economies -- mainly advanced economies -- were recovering, albeit with a lackluster performance still seen in part.

The U.S. economy steadily continued on its moderate recovery, led by private demand. The pace of pick-up in housing investment remained moderate, but signs of improvement were seen. Private consumption continued to be firm, on the back of a continued rise in asset prices and steady expansion in employment. Exports also remained

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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.

on an increasing trend. Reflecting these developments in demand, business sentiment and the momentum in production activity had been improving somewhat, and business fixed investment was picking up. 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 climbed somewhat, particularly for rent. Meanwhile, the year-on-year rate of increase in the CPI for all items had risen, mainly because the year-on-year rate of increase in energy prices had climbed.

The European economy was recovering moderately. Private consumption had shown a moderate recovery, with consumer sentiment continuing to improve, although the employment and income situation remained severe. Business fixed investment continued to see movements toward a pick-up. In addition, exports were picking up. Reflecting these developments in demand, production was recovering 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. A slowdown in the economy's growth momentum, which had been seen since the start of this year, had come to a halt for now. Fixed asset investment, although remaining firm, had been increasing at a somewhat reduced pace, mainly in real estate investment. 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. In this situation, a slowdown in the pace of growth in production had come to a halt, due in part to the effects of the government's mini-stimulus measures. Regarding the NIEs and the ASEAN countries, economic developments in the NIEs were picking up somewhat on the back of recovery in external demand. On the other hand, growth momentum in the ASEAN countries -- although showing some improvements -- remained weak on the whole, especially in Thailand. 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 rates of increase in the CPI had been at low levels as a trend in China, the NIEs, and Thailand. On the other hand, the rate of increase in Indonesia continued to be relatively high, mainly reflecting the earlier rise in administered prices, and that in India had been rising again, mainly due to the increase in food prices.

As for global financial markets, in the European and U.S. markets, while stock prices had been moving in a high range on the back of expectations for the European and U.S. economic recoveries, long-term interest rates continued on their moderate declining trend, mainly reflecting expectations for accommodative monetary policy. Markets in emerging economies continued to be calm on the whole, although some had shown nervousness. International commodity prices had been more or less flat on the whole, as an improvement in U.S. economic indicators, for example, had pushed them up, while there was downward pressure resulting from the easing of the tense situation in Ukraine and from the prospects for an increase in grain supplies.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had recently leveled off more or less. Real exports had declined marginally in the January-March quarter of 2014, after rising in the previous quarter; they marked only a small increase in April compared with the January-March quarter. Exports were expected to increase moderately, mainly against the background of the recovery in overseas economies.

Public investment had more or less leveled off at a high level. It was expected to continue to stay at around this level, as the effects of the upward pressure from various economic measures to date diminished while those of the supplementary budget for fiscal 2013 became evident.

Business fixed investment had increased moderately as corporate profits had improved. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly*, business fixed investment in nominal terms continued to increase since the April-June quarter of 2013, and had grown at a somewhat accelerated pace in the January-March quarter of 2014. Machinery orders (private sector, excluding orders for ships and those from electric power companies) -- a leading indicator of machinery investment -- had increased for four consecutive quarters through the January-March quarter, and remained flat at a high level in April. Business fixed investment was projected to follow a moderate increasing trend as corporate profits continued their improving trend. Meanwhile, business sentiment stayed at a favorable level on the whole, although the effects of the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike were evident in results of some surveys for April and May.

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 moderate 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, and nominal wages per employee had bottomed out. In this situation, employee income had picked up moderately, with an acceleration in its year-on-year rate of increase.

Private consumption remained resilient as a trend with improvement in the employment and income situation, although a subsequent decline in demand following the front-loaded increase prior to the consumption tax hike had been observed. Sales at retail stores in real terms had increased at a significantly accelerated pace in the January-March quarter of 2014, but fell back substantially in April due to the subsequent decline in demand. The number of new passenger-car registrations had marked a substantial decline in April, and was almost flat in May. Interviews with firms relating to retail sales showed that many firms had indicated that the degree of the subsequent decline in demand following the front-loaded increase had been broadly in line with expectations, and a pick-up from May seemed to be observed. Meanwhile, signs of improvement had been observed in indicators related to consumer confidence for May.

Housing investment remained resilient as a trend with improvement in the employment and income situation, although a subsequent decline in demand following the front-loaded increase had recently been observed. It was expected to remain resilient as a trend, supported mainly by improvement in the employment and income situation and by accommodative financial conditions, despite being affected by the subsequent decline in demand following the front-loaded increase.

Industrial production continued to increase moderately as a trend, while being affected by the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike. It 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, excluding the direct effects of the consumption tax hike, domestic corporate goods prices were rising moderately relative to three months earlier. The year-on-year rate of increase in the CPI (all items less fresh food) was around 1¼ percent. With regard to the outlook, 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 45 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. Firms retained their recovered financial positions. Meanwhile, the year-on-year rate of growth in the money stock had been in the range of 3.0-3.5 percent, mainly due to the increase in bank lending.

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

On June 6, 2014, the Bank had carried out a new loan disbursement, amounting to 417.2 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 3,318.9 billion yen after the new 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 109.1 billion yen, and that under the special rules for small-lot investments and loans amounted to 9.302 billion yen. As for the special rules for the U.S. dollar lending arrangement, the outstanding balance of loans came to 10.62 billion dollars.

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

A. Economic Developments

Regarding global financial markets, members agreed that long-term interest rates in advanced countries had been stable at low levels despite the fact that the recovery trend in the global economy had become clearer. They continued that, in this situation, stock prices were extremely firm, as evidenced by their rise along with declining volatility. Members shared the view that emerging markets had been calm on the whole. At the same time, they concurred that some nervousness was also observed, mainly reflecting the situation in Ukraine and Iraq, and that geopolitical risks continued to warrant attention. Some members pointed out that the recent decline in long-term interest rates worldwide seemed to be attributable to anticipation that accommodative monetary policy would continue for a protracted period, but that it also might reflect market participants' awareness of a weaker outlook for medium- to long-term economic growth. A few members commented that the effects of a decline in long-term interest rates worldwide on investors' risk-taking stance warranted attention.

Members concurred that overseas economies -- mainly advanced economies -- were recovering, albeit with a lackluster performance still seen in part of the emerging economies. They agreed that, taking into account that the improvement in the U.S. economy was evident and the slowdown in the Chinese economy's growth momentum had come to a halt, it could be judged that overseas economies were recovering. As for the outlook, members shared the view that overseas economies -- mainly advanced economies -- would continue to recover moderately.

With regard to developments in overseas economies by region, members agreed that the U.S. economy had been recovering moderately, led by private demand. They shared the recognition that a recovery trend of the economy was evident as seen, for example, in firm private consumption -- including car sales -- with continuing steady improvement in the employment situation since early spring this year, when the effects of the unusually severe winter weather had waned. As for the outlook, members shared the view that the economy was likely to gradually accelerate its pace of recovery, with the recovery becoming widespread from the household sector to the corporate sector. Some members pointed out that careful attention should be paid in the future to the fact that the recovery in housing investment still indicated some lackluster performance.

Members shared the recognition that the euro area economy was recovering moderately, as firms' and households' sentiment continued to improve in a situation where the area's financial markets had been stable. As for the outlook, they agreed that the economy was likely to keep recovering moderately as domestic demand was expected to continue to recover, supported mainly by an improvement in sentiment, and as exports would likely improve. Many members said that the continued moderate disinflationary trend warranted attention. Meanwhile, many members commented that it was necessary to closely monitor the effects and impacts of the ECB's further monetary easing on the financial environment and economic activity.

Members agreed that the Chinese economy continued to see stable growth. They shared the recognition that a slowdown in the economy's growth momentum -- which had been seen since the start of this year -- had come to a halt, as the mini-stimulus measures were producing effects and external demand was on a slight upward trend. As for the outlook, members concurred that the economy would generally maintain stable growth at around the current pace, mainly because (1) the Chinese authorities had taken the stance of continuing to pay consideration to economic activity while progressing with structural reforms, and (2) external demand was expected to continue improving moderately. Some members pointed out that careful attention should be paid to the fact that imports continued to show relatively weak movements. One member said that risks associated with adjustments in the real estate market warranted attention.

Regarding the NIEs and the ASEAN countries, members concurred that, while economic developments in the former were picking up somewhat on the back of recovery in external demand, growth momentum in the latter -- although showing some improvements -- remained weak on the whole, especially in Thailand, where there was continued political unrest. As for the outlook, they agreed that the NIEs and the ASEAN economies would likely continue to lack growth momentum on the whole, because an adjustment phase was likely to continue for the time being in the latter, especially in Thailand. Members shared the view that the pace of growth in the NIEs and the ASEAN economies as a whole was likely to gradually rise in a situation where the positive effects of recovery in advanced economies spread to these economies, as seen in the fact that positive momentum had begun to be observed in the NIEs.

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 the economy had continued to recover moderately as a trend, as a virtuous cycle among production, income, and spending continued to operate, although the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike had been observed. As for the outlook for the economy, they concurred 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 agreed that Japan's exports had leveled off more or less, but were likely to increase moderately, mainly against the background of the recovery in overseas economies. They discussed the background to the lack of momentum in exports. A few members pointed to the possibility that structural factors such as the decline in Japanese firms' competitiveness and the shift of their production sites to overseas could be influencing exports to a larger degree than expected. Some members emphasized that the sluggishness in emerging economies -- including ASEAN economies that had strong ties with Japan's economy -- had basically affected Japan's exports to a significant degree. In addition, a few members expressed the view that the lack of momentum in exports was attributable to the fact that temporary factors -- such as firms' stance of placing priority on domestic shipments in response to the front-loaded increase in demand prior to the consumption tax hike -- continued to exert downward pressure on exports, although the effects of these factors had been waning at the beginning of the fiscal year. Some members pointed out that, taking into account the yen's depreciation to date, the shift of Japanese firms' production sites to overseas was unlikely to accelerate further, and the results of a survey actually indicated that firms would increase the weight of domestic investment in their fixed investment plans for fiscal 2014.

Members shared the view that business fixed investment had increased moderately as corporate profits had improved, and was projected to follow a moderate increasing trend. In relation to the fact that fixed investment for large manufacturing firms had turned positive for the first time in eight quarters in the *Financial Statements Statistics of Corporations by Industry, Quarterly* for the January-March quarter of 2014, members shared the recognition that favorable movements were beginning to be observed in manufacturing, which had been lagging behind. A few members expressed the view that, in a situation where exports had not regained momentum, business fixed investment was led by pent-up demand and investment related to labor-saving purposes. On this point, these members continued that the current economic recovery could follow a different pattern from that seen in the past, in which an increase in exports induced a rise in business fixed investment. One member said that firms faced a growing need to express to the market how they would effectively utilize retained earnings that had been accumulated to date, and that in this situation they were expected to take a more positive stance toward making fixed investment.

As for the employment and income situation, members shared the recognition that supply and demand conditions in the labor market continued to improve steadily -- as evidenced by the fact that (1) the unemployment rate had decreased to the level of the bottom prior to the Lehman shock and (2) the active job openings-to-applicants ratio had risen to the same level as the peak prior to the Lehman shock -- and that employee income had also picked up moderately. One member, referring to the results of a survey that indicated that a relatively large proportion of small firms had raised wages in fiscal 2014, pointed out that wage increase movements were spreading even to small firms. With respect to the outlook regarding employee income, members agreed that a pick-up was likely to become more evident, in line with the recovery in economic activity and business performance. They shared the view that the outlook for the employment and income situation was clearly improving, considering that an increased number of firms had decided to raise base pay and, according to various surveys, summer bonus payments this year were likely to increase noticeably.

Members shared the view that private consumption remained resilient as a trend with improvement in the employment and income situation, although a subsequent decline in demand following the front-loaded increase prior to the consumption tax hike had recently been observed. They concurred that, judging from a number of statistics and interviews with firms, (1) many firms had indicated that the degree of the subsequent decline in demand following the front-loaded increase had been broadly in line with expectations, and (2) a pick-up from May had been observed. However, some members noted that it was necessary to further examine the degree of the subsequent decline in demand through data yet to be released. Meanwhile, many members pointed out that services consumption such as that related to travel and food service remained steady, and that consumer sentiment had started to pick up. 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, while it would be affected by the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike. On this basis, many members expressed the recognition that it was necessary to closely monitor not only short-term fluctuations in demand, such as the front-loaded increase and subsequent decline in demand, but also the effects on consumption of the decrease in real income due to the consumption tax hike from a relatively long-term perspective. One of these members expressed the view that, going forward, the year-on-year rate of increase in employee income was likely to accelerate further, and this would offset to a considerable degree the decrease in real income due to the consumption tax hike.

Reflecting these developments in demand both at home and abroad, members agreed that industrial production continued to increase moderately as a trend, while being affected by the subsequent decline in demand following the front-loaded increase, and that it was likely to follow this trend.

Regarding <u>prices</u>, members shared the view that, excluding the direct effects of the consumption tax hike, the year-on-year rate of increase in the CPI (all items less fresh food) was around 1¼ percent and the rate of increase was likely to be around 1¼ percent for some time. They shared the recognition that the underlying trend in prices had been unchanged even after the consumption tax hike, as evidenced by the fact that the year-on-year rate of increase in the CPI (all items less fresh food) for April 2014 for Japan, excluding the direct effects of the consumption tax hike, had registered 1.5 percent, which was somewhat higher than the rate for March. On this basis, members agreed that the rate of increase was likely to be around 1¼ percent for some time, albeit with some temporary slowdown in the rate of increase, given that (1) the rate for April for Japan had been somewhat strong, (2) the rate for May for the Tokyo metropolitan area had declined, and (3) the effects of the upward pressure from prices of energy and related items would diminish. Regarding the view that prices of some specific goods and services were expected to decline, one member said that a price change in specific goods and services represented a change in relative prices. This member continued that, therefore, in assessing medium-term price developments, attention should be paid to macroeconomic factors determining general prices, such as the output gap and expected inflation rates.

A few members reemphasized that, in a situation where supply-side issues such as labor shortages had surfaced in Japan's economy, it was important to make various efforts to raise the growth potential of the economy from a medium- to long-term perspective. One of these members expressed the view that supply capacity was already improving, as (1) recovery in business fixed investment had become evident not only in nonmanufacturing but also in manufacturing, and (2) the increase in labor participation by women and the elderly seemed to partly reflect a trend movement.

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, and that the amount outstanding of bank lending, including that to small firms, had been increasing moderately. They also concurred that issuing conditions for CP and corporate bonds continued to be favorable.

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 such easing had been exerting its intended effects.

Many members once again noted the importance of fully communicating to the public the Bank's thinking behind its conduct of monetary policy. In relation to this, some members said that it was necessary for the Bank to explain thoroughly its comprehensive assessment of the underlying trend in economic and price developments, since monthly figures for the year-on-year rate of change in the CPI fluctuated due to the effects of the previous year's developments in energy prices and of other factors.

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.

With regard to the Growth-Supporting Funding Facility, one member noted that, after the Bank had decided to expand the measure in February 2014, there had been movements by some financial institutions -- including regional ones -- to increase the maximum size of loan funds for industries carrying out business in the areas identified as strengthening the foundations for economic growth. This member therefore expressed hope that, in such a situation, firms' investment activities would be further stimulated.

IV. Remarks by Government Representatives

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

(1) The government acknowledged that the Japanese economy was on a moderate recovery trend, as evidenced by the fact that the real GDP growth rate for the January-March quarter of 2014 had registered positive growth for the sixth consecutive quarter, and that business fixed investment had increased significantly. The government expected the Bank to steadily pursue quantitative and qualitative monetary easing and achieve the price stability target of 2 percent at the earliest possible time.

(2) The year-on-year rate of increase in the CPI for all items less fresh food for April was 3.2 percent, and this seemed to indicate that considerable progress had been made in passing on the consumption tax hike to prices. The government would continue to closely monitor whether prices had been raised in line with the tax hike, and pursue

aggressive and effective measures to address the transition to the new consumption tax rate and other measures in an integrated manner.

(3) In the Economic and Fiscal Projections for Medium- to Long-Term Analysis that had been released by the Cabinet Office, Japan's primary balance deficit for fiscal 2020 was projected to be about 12 trillion yen even if a high nominal growth rate of above 3 percent continued every year, indicating that Japan was facing a severe fiscal situation. On this basis, the report of the Fiscal System Council urged that specific measures to generate a surplus in the primary balance for fiscal 2020 be deliberated promptly, and recommended that, in formulating the budget for fiscal 2015, initiatives be made to improve the primary balance by more than it had targeted in the Medium-Term Fiscal Plan. In the outline of the Basic Policies for the Economic and Fiscal Management and Reform 2014 (hereafter the Basic Policies) as well, the government noted that it would proceed with further deliberation to swiftly make evident a concrete path toward achieving the target of generating a surplus by fiscal 2020 in the primary balance; it would continue to work to achieve fiscal consolidation.

(4) With a view to further expanding the virtuous cycle of the economy and achieving sustainable economic growth led by private demand, in the outline of the Basic Policies and in that of the revised Japan Revitalization Strategy, the government, based on proposals made by Minister Aso, indicated the need to improve firms' profitability by, for example, strengthening corporate governance and utilizing financial institutions' expertise, and thereby reward various stakeholders with the results achieved. The government would swiftly and steadily carry out these measures and proceed with the implementation of further structural reforms.

The representative from the Cabinet Office made the following remarks.

(1) The second preliminary estimate of the real GDP growth rate for the January-March quarter of 2014 was 6.7 percent on an annualized quarter-on-quarter basis. As a result, the output gap estimated by the Cabinet Office for the January-March quarter was minus 0.2 percent, narrowing from that for the October-December quarter of 2013. Looking at recent developments in consumption, orders for cars continued to show weak movements. On the other hand, the year-on-year rate of change in sales of household electrical appliances had turned positive and interviews indicated that sales

at department stores and supermarkets were on a recovery trend, both due in part to favorable weather conditions. In the services industry, sales seemed to remain resilient. Developments in consumer sentiment also showed a pick-up.

(2) According to the preliminary results of a survey on the trends in wage hikes at large enterprises released by the Ministry of Economy, Trade and Industry, the ratio of firms raising base pay in fiscal 2014 had reached almost one out of two firms. The government considered that a virtuous cycle of the economy had started to operate.

(3) The government had compiled a report of councils on regional economies. The government considered that it was necessary not only to have carefully developed policies in place based on the opinions of each region, but also to expand those efforts that made the most of the unique features of each region.

(4) In the Basic Policies to be released, the government would indicate that it would proceed with institutional and system reforms, such as drastic measures to counter the declining birth rate so as to maintain demographic stability, with a population of about 100 million in 50 years. It also would incorporate in the revised growth strategy, as one of the major themes, the reform of the Government Pension Investment Fund (GPIF) and, by strengthening corporate governance, of Japan's industrial structure.

(5) The government as a whole would take measures to create the necessary environment to ensure that the economy overcome deflation and realize sustainable growth, including the conduct of budgetary and tax arrangements as well as regulatory reforms. In the Basic Policies to be released, the government would indicate its course of corporate tax reform to make the structure more growth-oriented, in response to instructions from the Prime Minister; it also would present principles in prioritizing and streamlining major expenditure items in pursuing both economic revitalization and fiscal consolidation. 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.

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 1).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of May 20 and 21, 2014 for release on June 18, 2014.

VIII. Approval of the Scheduled Dates of the Monetary Policy Meetings in July 2014-June 2015

At the end of the meeting, the Policy Board approved unanimously the dates of the Monetary Policy Meetings to be held in the period of July 2014-June 2015 for immediate release (see Attachment 2).

Attachment 1

June 13, 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, although the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike has been observed. Overseas economies -- mainly advanced economies -- are recovering, albeit with a lackluster performance still seen in part. Exports have recently leveled off more or less. Business fixed investment has increased moderately as corporate profits have improved. Public investment has more or less leveled off at a high level. Private consumption and housing investment have remained resilient as a trend with improvement in the employment and income situation, although the subsequent decline in demand following the front-loaded increase has recently been observed. Industrial production has continued to increase moderately as a trend, while being affected by the subsequent decline in demand following the front-loaded increase. 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), excluding the direct effects of the consumption tax hike, 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 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.

6. Quantitative and qualitative monetary easing (QQE) has been exerting its intended effects, and the Bank will continue with the QQE, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate.[Note]

[Note] Mr. T. Kiuchi proposed that the Bank will aim to achieve the price stability target of 2 percent in the medium to long term and designate the QQE 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.

Attachment 2
June 13, 2014
Bank of Japan

Scheduled Dates of Monetary Policy Meetings in July 2014-June 2015

	Date of MPM	Publication of MPM Minutes	Publication of Outlook Report (The Bank's View)	(Reference) Publication of Monthly Report
July 2014	14 (Mon.), 15 (Tues.)	Aug. 13 (Wed.)	--	16 (Wed.)
Aug.	7 (Thurs.), 8 (Fri.)	Sept. 9 (Tues.)	--	11 (Mon.)
Sept.	3 (Wed.), 4 (Thurs.)	Oct. 10 (Fri.)	--	5 (Fri.)
Oct.	6 (Mon.), 7 (Tues.)	Nov. 6 (Thurs.)	--	8 (Wed.)
	31 (Fri.)	Nov. 25 (Tues.)	31 (Fri.)	--
Nov.	18 (Tues.), 19 (Wed.)	Dec. 25 (Thurs.)	--	20 (Thurs.)
Dec.	18 (Thurs.), 19 (Fri.)	Jan. 26 (Mon.)	--	22 (Mon.)
Jan. 2015	20 (Tues.), 21 (Wed.)	Feb. 23 (Mon.)	--	22 (Thurs.)
Feb.	17 (Tues.), 18 (Wed.)	Mar. 20 (Fri.)	--	19 (Thurs.)
Mar.	16 (Mon.), 17 (Tues.)	Apr. 13 (Mon.)	--	18 (Wed.)
Apr.	7 (Tues.), 8 (Wed.)	May 8 (Fri.)	--	9 (Thurs.)
	30 (Thurs.)	May 27 (Wed.)	30 (Thurs.)	--
May	21 (Thurs.), 22 (Fri.)	June 24 (Wed.)	--	25 (Mon.)
June	18 (Thurs.), 19 (Fri.)	To be announced	--	22 (Mon.)

Note: The time of release will be, in principle, as follows.

MPM Minutes will be released at 8:50 a.m.

Outlook for Economic Activity and Prices (Outlook Report):
"The Bank's View" in the Outlook Report will be released at 3:00 p.m., and the full text at 2:00 p.m. on the next business day. As an exception to this principle, the full text of the October 2014 Outlook Report will be released at 2:00 p.m. on November 1 (Sat.), 2014.

Monthly Report of Recent Economic and Financial Developments (Monthly Report):

The Japanese original and the English translation for summary will be released at 2:00 p.m. (the English translation for the full text will be published at 4:30 p.m. on the next business day).