Not to be released until 8:50 a.m. Japan Standard Time on Tuesday, September 9, 2014.

September 9, 2014

Bank of Japan

Minutes of the Monetary Policy Meeting

on August 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 Thursday, August 7, 2014, from 2:00 p.m. to 4:19 p.m., and on Friday, August 8, from 9:00 a.m. to 12:03 p.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. H. Sakota, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance[3]

Mr. M. Maekawa, Director-General, Economic and Fiscal Management, 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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on September 3 and 4, 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 August 8.

[3] Mr. H. Sakota was present on August 7.

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. S. Nagai, 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. R. Kato, 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 July 14 and 15, 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 239-245 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. Interbank rates had been flat.

Yields on 10-year JGBs temporarily declined somewhat amid falling U.S. and European long-term interest rates, but had been more or less flat, generally moving in the range of 0.50-0.55 percent. The Nikkei 225 Stock Average had risen slightly, mainly reflecting the fact that favorable corporate results of Japanese firms were viewed positively by market participants, but had recently been in the range of 15,000-15,500 yen, partly due to strains from the fall in U.S. and European stock prices. Yield spreads between corporate bonds and JGBs continued to narrow very moderately as a trend, reflecting solid demand from investors. In the foreign exchange market, the yen had depreciated somewhat against the U.S. dollar, and the U.S. dollar/yen rate had recently been around the middle of the 102-103 yen range. The euro had depreciated against the dollar.

C. Overseas Economic and Financial Developments

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

The U.S. economy steadily continued on its moderate recovery, led by private demand. Private consumption remained firm, on the back of a continued rise in asset

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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.

prices and steady expansion in employment. Housing investment had been on a moderate pick-up trend, although it had recently shown sluggishness. Exports also remained on an increasing trend. Reflecting these developments in demand, business sentiment and the momentum in production activity remained firm, 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, particularly for services such as medical care and related items as well as rent. Meanwhile, the year-on-year rate of increase in the CPI for all items had been higher than that in the core CPI, because energy and food prices had been somewhat strong.

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, particularly in Germany. 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 low. 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, as a slowdown in the economy's growth momentum had come to a halt. As for fixed asset investment, although it remained firm, the declining trend in its pace of increase continued, mainly in real estate investment. On the other hand, stable growth in private consumption continued against the background of a favorable employment and income situation. Exports continued to pick up, particularly those to Europe and the United States. The pace of growth in production had been stable, due to improvement in external demand together with policy measures from both the monetary and fiscal sides to underpin economic activity. Economic developments in the NIEs were generally picking up somewhat on the back of recovery in external demand, although differences by country stood out somewhat. On the other hand, growth momentum in the ASEAN economies remained weak on the whole -- especially in Thailand -- although improvements were starting to spread in exports and private consumption in some countries, such as Malaysia. In India, the economy remained in a state of deceleration, particularly in investment, although a pick-up in exports continued and private consumption was showing signs of an increase.

As for prices of emerging economies, 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, Thailand, and Central and Eastern Europe. On the other hand, inflation rates in Brazil, Russia, and South Africa had been rising again, due to the effects of the earlier depreciation of their currencies together with the increase in food prices.

As for global financial markets, a situation had continued where stock prices were high and long-term interest rates were at low levels in an environment of low volatility. However, these markets had recently shown nervousness, reflecting speculation about the timing of a hike in the policy rate in the United States, geopolitical risks, and concern over the high level of risk asset prices. In the foreign exchange market, the euro had depreciated, reflecting market participants' awareness of the difference in the direction of monetary policy among advanced economies, in addition to geopolitical risks, and currencies of emerging economies had also depreciated somewhat. Regarding international commodity prices, while prices of industrial metals had risen, those of crude oil and agricultural products had declined.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had shown some weakness. On a quarter-on-quarter basis, real exports had declined slightly in the April-June quarter of 2014, as in the January-March quarter. Exports were expected to head for a moderate increase, 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, given that the effects of the supplementary budget for fiscal 2013 were becoming evident and the initial budget for fiscal 2014 would be implemented at an early stage.

Business fixed investment had increased moderately as corporate profits had improved. The corporate results of many firms for the April-June quarter had shown a continued increase in profits that exceeded market expectations, and business sentiment had generally stayed at a favorable level. As for the outlook, firms were likely to maintain their positive attitude toward business fixed investment, and business fixed investment was projected to follow a moderate increasing trend as corporate profits continued their improving trend.

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, nominal wages per employee had picked up, albeit with fluctuations, as non-scheduled cash earnings and special cash earnings had increased and scheduled cash earnings had almost stopped declining. The year-on-year rate of increase in employee income had been climbing moderately.

Private consumption remained resilient as a trend with the employment and income situation improving steadily, and the effects of the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike had gradually begun to wane -- particularly in components other than durable goods. Sales at retail stores in real terms had increased at a significantly accelerated pace in the January-March quarter due to the front-loaded increase in demand, but then fell back substantially in the April-June quarter due to the decline in demand following the front-loaded increase. On a monthly basis, sales at department stores and supermarkets had tended to pick up since May. The number of new passenger-car registrations had marked a substantial decline in April, and had been almost flat for three consecutive months since May. The extent of the pick-up in sales of household electrical appliances in real terms had been limited. The latest interviews with firms showed that, in sectors relating to retail sales as a whole, many had indicated that the effects of the decline in demand following the front-loaded increase had been waning gradually. Private consumption was expected to remain resilient with the employment and income situation continuing to improve steadily, and the effects of the decline in demand following the front-loaded increase were expected to wane further.

Housing investment remained resilient as a trend with the employment and income situation improving steadily, although a subsequent decline in demand following the front-loaded increase had recently been observed. With the employment and income situation continuing to improve steadily, it was expected to remain resilient, supported as well by accommodative financial conditions, and the effects of the decline in demand following the front-loaded increase were expected to wane gradually.

Industrial production continued to increase moderately as a trend, although it had recently shown some weakness, mainly reflecting the subsequent decline in demand following the front-loaded increase and sluggishness in exports. It was expected to follow a moderate increasing trend, mainly reflecting developments in demand both at home and abroad, and the effects of the decline in demand following the front-loaded increase were expected to wane gradually.

As for prices, excluding the direct effects of the consumption tax hike, producer 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, producer 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 in the range of 40-45 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 in the range of 2.0-2.5 percent. Firms' financial positions had improved further. Meanwhile, the year-on-year rate of growth in the money stock had been at around 3 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

Regarding global financial markets, members shared the view that advanced as well as emerging countries had continued to experience a situation where stock prices were rising and long-term interest rates were declining in an environment of low volatility. However, they added that market participants had weakened their risk-taking stance somewhat most recently, reflecting heightened geopolitical risks associated mainly with the situation in Ukraine. Members confirmed that it was necessary to continue to monitor future developments in the international situation and how they would affect global financial markets and the global economy.

Members concurred that overseas economies -- mainly advanced economies -- had been recovering, albeit with a lackluster performance still seen in part of the emerging economies. As for the outlook, they shared the recognition 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 steadily continued on its moderate recovery, led by private demand, as private consumption had been firm with continuing expansion in employment. As for the outlook, they shared the view that the economy was likely to gradually accelerate its pace of recovery in a situation where the fiscal drag was projected to fade. One member, referring to improvement in a survey indicator on bank lending practices, added that the improvement reflected the solid domestic demand.

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. A few members expressed the recognition that the continued moderate disinflationary trend warranted attention. A different member expressed the view that the risk of the economy falling into deflation was low given that services prices had been rising.

Members agreed that the Chinese economy continued to see stable growth. They shared the recognition that a slowdown in the economy's growth momentum had come to a halt as the government's mini-stimulus measures were producing effects and exports had been recovering. As for the outlook, members concurred that the economy would generally maintain stable growth at around the current pace. Meanwhile, a few members added that it was necessary to continue to closely monitor developments in the real estate market, such as the problem of excess supply.

With regard to emerging economies including the NIEs and the ASEAN economies, members noted that the positive effects of recovery -- mainly in the U.S. and Chinese economies -- had been spreading to some countries and regions but that such effects had not been observed in others. They then shared the view that emerging economies as a whole remained lackluster in terms of growth. On this basis, members shared the view that the pace of growth in emerging economies was likely to gradually rise since the recovery trend in advanced economies was likely to continue. Meanwhile, a few members pointed out that the deceleration in the South Korean economy warranted attention.

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 concurred that, although exports and production had recently shown some weakness, it was appropriate to maintain the overall assessment that the economy had continued to recover moderately, as a virtuous cycle of economic activity had been operating steadily in both the household and corporate sectors. As for the outlook for the economy, they shared the view that it was likely to continue its moderate recovery trend, and the effects of the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike were likely to wane gradually.

Members agreed that Japan's exports had recently shown some weakness. They attributed this to cyclical factors such as (1) the sluggishness in emerging economies and (2) downward pressure that had been exerted on Japan's exports until the early spring with a time lag caused by the decline in demand in the United States in the January-March quarter. At the same time, members expressed the view that structural factors such as the shift of Japanese manufacturers' production sites to overseas had also played a certain role. As for the outlook, members shared the view that exports were likely to head for a moderate increase as the growth rates of overseas economies -- mainly in advanced economies -- increased. A few members said that the effects of downward pressure on exports caused by structural factors -- which stemmed partly from the relocation of production overseas -- were highly likely to wane gradually. Some other members, emphasizing the effects of structural factors, expressed the recognition that the responsiveness of Japan's exports to overseas economies was declining. These members then expressed the view that exports were likely to head for a recovery, but that its pace would probably remain moderate.

Members concurred that business fixed investment had increased moderately on the back of the stronger-than-expected corporate results that had been released successively and of the favorable business sentiment. With respect to the outlook, they shared the view that business fixed investment was projected to follow a moderate increasing trend, mainly because firms strongly maintained their positive attitude toward investment. Regarding future developments in business fixed investment, some members -- referring to the latest survey results released by the Development Bank of Japan -- pointed out that business fixed investment plans for fiscal 2014 had shown relatively high growth. Furthermore, some members added that investment related to labor-saving purposes against the background of the tightening of the labor market, and replacement investment for upgrading obsolete facilities, were expected to emerge.

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 the rate of increase in employee income had been climbing moderately. As for the outlook, they concurred that employee income was likely to continue increasing moderately, with the virtuous cycle in the economy operating.

With regard to private consumption, members agreed that the effects of the subsequent decline in demand following the front-loaded increase had gradually begun to wane on the whole, albeit unevenly across items. Regarding the front-loaded increase and subsequent decline in demand prior to and after the consumption tax hike, some members expressed the recognition that, given the substantial front-loaded increase in demand particularly for durable goods, the subsequent decline would likely be proportionately large. One member added that developments in items other than durable goods required close monitoring. On the other hand, a different member pointed out that sales of online shopping seemed to be recovering steadily after hitting a bottom in April 2014. With regard to the outlook, members shared the view that private consumption was likely to remain resilient as the employment and income situation continued to improve steadily, although effects of the decline in real income warranted attention.

Members agreed that industrial production continued to increase moderately as a trend, although it had recently shown some weakness, mainly reflecting the subsequent decline in demand following the front-loaded increase and sluggishness in exports. Many members pointed out that increased inventories and deterioration in the shipment-inventory balance had been recently observed in some industries. Members shared the view that industrial production was likely to follow a moderate increasing trend, mainly reflecting developments in demand both at home and abroad, and the effects of the decline in demand following the front-loaded increase were likely to wane gradually.

A few members referred to the possibility that the mechanism for economic recovery operating from exports to production, and then production leading to business fixed investment -- the mechanism typically seen in past recovery phases -- had been changing during the current phase of recovery. These members pointed to the possibility that Japanese firms would repatriate their overseas subsidiaries' earnings, which would lead to spillover effects on investment as well as wages and income.

Regarding prices, members concurred 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 likely to be around 1¼ percent for some time, albeit with some temporary slowdown in the rate of increase. Most members shared the view that, thereafter, the rate of increase was likely to follow a rising trend again from the second half of fiscal 2014 as the output gap continued to improve steadily and medium- to long-term inflation expectations rose. In relation to this, one member pointed out that there had been some concern about a possible decline in the year-on-year rate of increase in the CPI, because the effects of earlier high crude oil prices and the earlier depreciation of the yen would disappear. This member continued, however, that it was inappropriate to forecast developments in general prices based on those in relative prices of items; rather, attention should be paid to macroeconomic factors determining general prices; namely, the output gap and inflation expectations. Meanwhile, a few members said that the recent weak recovery in services prices warranted attention. One of these members commented that, for firms to raise sales prices continuously, expectations for economic growth and increases in future income needed to rise. The member added that, on this point, it was essential that the government promptly implement the growth strategy and firms endeavor to strengthen the growth potential and competitiveness.

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' financial positions had improved further, as firms continued to see financial institutions' lending attitudes as being on an improving trend and issuing conditions for CP and corporate bonds continued to be favorable. They shared the view that firms' credit demand had been increasing moderately, and that 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 such easing had been exerting its intended effects.

Members expressed the recognition that, even though monthly figures for the CPI (all items less fresh food) tended to draw attention in terms of the Bank's conduct of monetary policy, it was important to accurately gauge the underlying trend in prices. In relation to this point, they confirmed that (1) the price stability target was set based on the CPI for all items; and (2) the forecasts for prices presented in the *Outlook for Economic Activity and Prices* had been made using the CPI for all items less fresh food -- which represented relatively well the underlying trend in prices -- as it was necessary to capture such a trend, excluding the effects of temporary fluctuations, when forecasting developments in prices. On this basis, members reaffirmed that, in assessing price developments, it was important to continue to examine a range of price indicators, and that it was also necessary to assess such developments in combination with economic developments behind the price indicators.

On the other hand, one member expressed the view 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 continued 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. On this point, one member expressed the recognition that the moderate decline in long-term interest rates was partly attributable to the decline in overseas interest rates. 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. A few members expressed the view that downward pressure on longer-term interest rates brought about by asset purchases under quantitative and qualitative monetary easing had recently intensified. Moreover, some members added that this pressure would increase in a cumulative manner as the Bank proceeded with the purchases, and therefore it was necessary to explain this point to the public thoroughly.

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 with the deflationary trend fading owing to the implementation of the integrated "three-arrows" strategy, consisting of aggressive monetary policy, flexible fiscal policy, and a growth strategy that promoted private investment. 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) On June 24, 2014, with a view to further expanding the virtuous cycle of the economy and thereby generating economic growth led by private demand, the Cabinet had decided the Japan Revitalization Strategy Revised in 2014. The government would strongly promote the implementation of the strategy by swiftly drawing up specific measures to ensure that the economy overcame deflation.

(3) At the Council on Economic and Fiscal Policy held on July 25, the government had compiled the fiscal 2015 budget overview and formulated the guidelines for budget requests for fiscal 2015 based on the thinking behind the overview. As for the budget for fiscal 2015, it was necessary for the government to formulate a budget that focused primarily on high-priority areas, aiming to attain both economic growth led by private demand and fiscal consolidation targets, in line with the Medium-Term Fiscal Plan, as it had done in the previous fiscal year. Therefore, the government had structured a scheme -- based on the same thinking as in the previous fiscal year -- in which it would decide the total size of the budget by examining the situation regarding tax revenues

and revision of expenditures during the process of budget formulation through December 2014, so that the national and local governments' primary balance target of halving the ratio of the fiscal deficit to GDP would be achieved. Meanwhile, the government had set up the Framework of Handling Priority Issues for New Japan to address issues set forth in the Basic Policies for the Economic and Fiscal Management and Reform 2014 and in the Japan Revitalization Strategy Revised in 2014, and arranged a way to request a budget specifically for the framework. While allowing for such flexibility in budget requests and demands through this arrangement, the government -- during the process of budget formulation -- would review the priorities of policy measures and primarily focus on these high-priority measures in deciding the budget's content, thoroughly eliminating wasteful expenditure.

(4) Through these efforts, it would aim to realize both economic revitalization and fiscal consolidation targets.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was on a moderate recovery trend, and the reaction after a last-minute rise in demand before the consumption tax increase was easing. Private consumption showed movements of picking up, and the reaction after a last-minute rise in demand was easing. However, it could not be judged that the economy had been recovering stably to the average-year level, and the government would continue to cautiously monitor these developments.

(2) The government had compiled data on the progress made with regard to the Economic Measures for Realization of Virtuous Cycles, and confirmed that 88 percent of business that the government would conduct had reached the contract stage with firms as of the end of June. It therefore judged that economic measures were being implemented smoothly.

(3) In the Economic and Fiscal Projections for Medium- to Long-Term Analysis, the national and local governments' primary balance-to-GDP ratio for fiscal 2015 was projected to be approximately minus 3.2 percent based on the "Economic Revitalization" case, in which the average annual growth rate over the coming decade was projected to reach approximately 2 percent in real terms and 3 percent in nominal terms. The government judged that achievement of the target of halving the deficit

ratio to GDP was in sight. As for fiscal 2020, the primary balance-to-GDP ratio was projected to be approximately minus 1.8 percent -- an improvement from the projection in January -- but a further improvement was necessary to achieve the fiscal consolidation target of generating a surplus.

(4) The government would swiftly implement the Japan Revitalization Strategy Revised in 2014. For the extraordinary session of the Diet to be held this autumn, it would prepare bills related to building up local regions and women's active role, and it also had set up a preparatory office for the formation of the Headquarters for Building Up Towns, People, and Jobs, which would serve as an organization enabling the government to commit itself to addressing a rapidly declining and progressively aging population. Regarding the National Strategic Zones project, four special zone meetings had been held. At an intensive discussion regarding monetary policy and prices within the Council on Economic and Fiscal Policy, the government had reviewed the progress toward overcoming deflation and promoting economic revitalization. It 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).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of July 14 and 15, 2014 for release on August 13, 2014.

Attachment

August 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, 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 -- have been recovering, albeit with a lackluster performance still seen in part. Exports have shown some weakness. Business fixed investment has increased moderately as corporate profits have improved. Public investment has more or less leveled off at a high level. With the employment and income situation improving steadily, private consumption and housing investment have remained resilient as a trend, and the effects of the decline in demand following the front-loaded increase have gradually begun to wane on the whole. Reflecting these developments in demand both at home and abroad, industrial production has continued to increase moderately as a trend, although it has recently shown some weakness. 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 its moderate recovery trend, and the effects of the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike are expected to wane gradually. 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.