Not to be released until 8:50 a.m. Japan Standard Time on Thursday, November 6, 2014.

November 6, 2014

Bank of Japan

Minutes of the Monetary Policy Meeting

on October 6 and 7, 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, October 6, 2014, from 2:00 p.m. to 4:18 p.m., and on Tuesday, October 7, from 9:00 a.m. to 9:54 a.m., and from 11:22 a.m. to 1:49 p.m.[1,2]

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. I. Miyashita, State Minister of Finance, Ministry of Finance[3]

Mr. H. Sakota, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance[4]

Mr. Y. Nishimura, State Minister of Cabinet Office, Cabinet Office[3]

Mr. M. Maekawa, Director-General, Economic and Fiscal Management, Cabinet Office[4]

Reporting Staff

Mr. M. Amamiya, Executive Director

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on October 31, 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] The meeting recessed on October 7 from 9:54 a.m. to 11:22 a.m. to accommodate Mr. Kuroda's attendance at a meeting of the Budget Committee of the House of Councillors.

[3] Messrs. I. Miyashita and Y. Nishimura were present on October 7.

[4] Messrs. H. Sakota and M. Maekawa were present on October 6.

Mr. S. Kuwabara, Executive Director

Mr. S. Uchida, Director-General, Monetary Affairs Department[5]

Mr. H. Koguchi, Deputy Director-General, Monetary Affairs Department[6]

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. 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. H. Kamiguchi, Head of Policy Infrastructure Division, Monetary Affairs Department[6]

Mr. Y. Komaki, Senior Economist, Monetary Affairs Department

Mr. K. Iijima, Senior Economist, Monetary Affairs Department

Mr. K. Suzuki, Head of Market Operations Division, Financial Markets Department[6]

[5] Mr. S. Uchida was present on October 6 for the whole of the session, and on October 7 from 11:22 a.m. to 1:49 p.m.

[6] Messrs. H. Koguchi, H. Kamiguchi, and K. Suzuki were present on October 7 from 9:00 a.m. to 9:08 a.m.

I. Summary of Staff Reports on Economic and Financial Developments[7]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on September 3 and 4, 2014, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[8] In this situation, the amount outstanding of the monetary base had been in the range of 241-254 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 been at levels below 0.1 percent. As for interest rates on term instruments, yields on treasury discount bills (T-Bills) had declined somewhat and had been slightly negative at most times. Interbank rates had been flat.

Yields on 10-year JGBs had moved slightly upward in the face of rising U.S. long-term interest rates, but had recently been moving in the range of 0.50-0.55 percent, about the same level as at the time of the previous meeting. The Nikkei 225 Stock Average had increased, mainly in response to the depreciation of the yen, but had declined thereafter. It had recently been in the range of 15,500-16,000 yen. 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 against the U.S. dollar, reflecting market participants' awareness of the difference in the direction of monetary policy between Japan and the United States. The U.S. dollar/yen rate had recently been in the range of 109-110 yen. 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

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

[8] 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.

demand. Private consumption remained firm, on the back of a continued rise in asset prices and steady expansion in employment. Housing investment had been on a moderate pick-up trend. Exports continued to increase. Reflecting these developments in demand, business sentiment and the momentum in production activity remained firm, and business fixed investment had recently been recovering, with the recovery becoming more widespread. As for prices, the year-on-year rates of increase in both the consumer price index (CPI) for all items less food and energy, or the core CPI, and that for all items had slowed.

The European economy continued to recover moderately, although its momentum was slowing. Private consumption continued on a moderate recovery trend, with income remaining resilient, although the employment situation remained severe. Business fixed investment continued to see movements toward a pick-up, particularly in Germany. On the other hand, although exports to the United States and China had been firm, those to emerging economies had decreased, and thus the pace of the pick-up in exports overall had been sluggish recently. Reflecting these developments in demand and heightened geopolitical risks, the growth momentum in the manufacturing industry had slowed. On the other hand, sentiment and business activity in the services industry had been steady. 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, led mainly by domestic demand.

With regard to Asia, the Chinese economy continued to see stable growth due mainly to improvements in external demand and policy measures to underpin economic activity, although there remained downward pressure associated with structural reforms. Exports continued to increase, particularly to the United States and Europe as well as to Asia. Stable growth in private consumption continued against the background of a favorable employment and income situation. On the other hand, although fixed asset investment had been underpinned by public investment, its pace of increase had slowed, mainly in real estate investment. The pace of growth in production had been slowing on the whole, reflecting weakness mainly in materials and electricity, although machinery had been firm since shipments overseas had been favorable. Economic developments in the

NIEs were picking up somewhat on the back of an increase in exports to the United States, albeit with differences by country. On the other hand, growth momentum in the ASEAN economies remained weak on the whole, although improvements in exports and private consumption continued to be seen. In India, the economy had bottomed out on the back of a pick-up in exports and private consumption.

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 the NIEs, Thailand, and Central and Eastern Europe. On the other hand, inflation rates in Brazil, Russia, South Africa, and Turkey had been rising again, mainly due to the effects of the earlier depreciation of their currencies and the increase in food prices. Prices in Malaysia and the Philippines had also been rising somewhat on the back of firm domestic demand.

As for global financial markets, market participants had eased their risk-taking stance somewhat, as seen in somewhat weak stock prices and the expansion in the yield spreads between high-yield bonds and government bonds in the U.S. and European markets, due in part to speculation about U.S. monetary policy. Under these circumstances, stock prices and currencies had declined in financial markets in many emerging economies. International commodity prices also had been declining in a wide range of items, mainly reflecting slack in supply and demand conditions.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had shown some weakness. Real exports had declined slightly for two consecutive quarters in the January-March and April-June quarters of 2014 on a quarter-on-quarter basis, marked an increase in July, and then declined slightly again in August. 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 for the time being.

Business fixed investment had increased moderately as corporate profits had improved. Meanwhile, business sentiment had generally stayed at a favorable level, although its improvement had paused due mainly to the effects of the consumption tax hike.

In the September 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") remained in "favorable" territory, although it had deteriorated slightly relative to the June *Tankan*. As for the outlook, business fixed investment was projected to follow a moderate increasing trend as corporate profits continued their improving trend. Business fixed investment plans (for all industries and enterprises, excluding software investment and including land purchasing expenses) for fiscal 2014 in the September *Tankan* had been revised upward from the June *Tankan*, registering a year-on-year increase of 4.2 percent, as current profit plans remained at a high level.

As for the employment and income situation, supply and demand conditions in the labor market continued to improve steadily, as evidenced by the moderate improving trend in the unemployment rate. Regarding wages, nominal wages per employee had been rising moderately, albeit with fluctuations, as non-scheduled cash earnings and special cash earnings had increased and as scheduled cash earnings had been picking up. Reflecting these developments in employment and wages, 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 been waning on the whole, albeit unevenly. Although sales at retail stores in real terms had risen at a significantly accelerated pace in the January-March quarter due to the front-loaded increase in demand, and had fallen back substantially in the April-June quarter due to the decline in demand following the front-loaded increase, they moved up in the July-August period relative to the April-June quarter. Sales at department stores and supermarkets had tended to pick up since May. Meanwhile, the number of new passenger-car registrations had fallen substantially in the April-June quarter, and was almost flat in the July-September quarter. Sales of household electrical appliances in real terms had decreased significantly in the April-June quarter, and rose only slightly in the July-August period. The latest interviews with firms suggested that, in sectors relating to retail sales as a whole, the effects of the decline in demand following the front-loaded increase had been waning gradually, mainly in components other than durable goods, and that the effects of the recent irregular weather seemed to have been abating. 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.

As for housing investment, the subsequent decline following the front-loaded increase continued. It was expected to regain its resilience gradually with the employment and income situation continuing to improve steadily, supported as well by accommodative financial conditions, while the effects of the decline following the front-loaded increase were expected to remain for the time being.

Industrial production had recently been showing some weakness, due in part to inventory adjustments such as in durable consumer goods and construction goods. It had grown at a somewhat rapid pace in the January-March quarter, but had fallen back noticeably in the April-June quarter, and continued to decrease in the July-August period as well compared with the April-June quarter. Industrial production was expected to resume its moderate increase, after showing some weakness for the time being, as the effects of the subsequent decline in demand following the front-loaded increase waned gradually.

As for prices, excluding the direct effects of the consumption tax hike, producer prices were more or less flat 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 stay 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 35 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 been favorable. 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.

3. The fund-provisioning measure to stimulate bank lending

On September 17, 2014, the Bank carried out a new loan disbursement, amounting to 2,586.5 billion yen, under the fund-provisioning measure to stimulate bank lending. The outstanding balance of loans disbursed by the Bank amounted to 15,903.7 billion yen after the new loan disbursement.

II. Amendment to Guidelines on Eligible Collateral

A. Staff Proposal

The staff proposed that the Bank make necessary amendments, including those to its Guidelines on Eligible Collateral and the principal terms and conditions for repo operations and securities lending, in order to reflect the results of the Bank's annual review of appropriate margins for eligible collateral in light of recent developments in financial markets.

B. Discussion by the Policy Board and Vote

Members voted unanimously to approve the proposal and agreed that the decision should be made public.

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

A. Economic Developments

Regarding global financial markets, members shared the recognition that market participants had eased their risk-taking stance somewhat as U.S. and European stock prices had become somewhat weak and as stock prices and currencies had declined in financial markets in many emerging economies, due in part to speculation about U.S. monetary policy. On this basis, they concurred that it was necessary to continue to monitor future developments in the international situation and monetary policy changes in advanced economies, as well as how these would affect global financial markets and the global economy. Some members attributed the recent decline in international commodity prices to the sluggish recovery in the global economy. A few of these members added that, besides demand-side factors, the decline was partly attributable to a structural change -- namely, an increase in supply capacity.

Members concurred that overseas economies -- mainly advanced economies -- had been recovering, albeit with a lackluster performance still seen in part. 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 moderate recovery in the U.S. economy, led by private demand, had started to take hold, as private consumption had been firm on the back of improvement in the employment situation and such positive movements were spreading to the corporate sector, leading to the recovery in business fixed investment, which had become evident. As for the outlook, they shared the view that the economy was likely to continue to see a steady recovery led by private demand and gradually accelerate its pace of recovery.

Members concurred that the euro area economy had been recovering moderately, although its improvement had paused recently, particularly in the manufacturing industry. As for the outlook, they shared the recognition that the economy would likely continue to recover under accommodative financial conditions, but the pace would probably remain moderate given structural problems such as excess debt. Members agreed that it was necessary to keep paying attention to the continued moderate disinflationary trend. They shared concern about the effects of the Russian-Ukrainian problem on the euro area economy. Many members commented that they would closely monitor policy actions by the European Central Bank (ECB) -- including the further monetary easing introduced recently -- and their effects. One of these members expressed the recognition that the concern over disinflation had not yet been dispelled despite the further monetary easing by the ECB, as evidenced by the gradual decline in medium- to long-term inflation expectations.

Members agreed that the Chinese economy continued to see stable growth as a trend, although its growth momentum had slowed recently with downward pressure from an overhang in supply capacity in the manufacturing sector and adjustments in the real estate market. As for the outlook, they shared the view that the economy would generally maintain stable growth at around the current pace. Meanwhile, one member said that attention needed to be paid to how the recent slowdown in the economy's growth momentum would affect the global economy and international commodity prices.

With regard to emerging economies including the NIEs and the ASEAN economies, members agreed that emerging economies as a whole remained lackluster in terms of growth, although the number of countries and regions where economic activity had been picking up had been increasing gradually as the positive effects of recovery -- mainly in the U.S. economy -- had been spreading. On this basis, they 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.

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 the economy continued to recover moderately as a trend, as a virtuous cycle from income to spending had been operating steadily in both the household and corporate sectors, although some weakness particularly on the production side had been observed due mainly to the effects of the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike. As for the outlook for the economy, they shared the view that it was likely to continue its moderate recovery trend, and the effects including those 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 continued to show some weakness. As for the outlook, they shared the view that, even when taking into account structural factors such as the shift of Japanese firms' production sites to overseas, exports were likely to head for a moderate increase, mainly against the background of the recovery in overseas economies. A few members noted that the fact that the forecast of the diffusion index of overseas supply and demand conditions for products for large manufacturing firms had improved in the September 2014 *Tankan* also supported such a view.

Members shared the view that business fixed investment had increased moderately, mainly on the back of the continued improvement in corporate profits, and was projected to follow a moderate increasing trend. They agreed that, as shown in the September *Tankan*, business sentiment had generally stayed at a favorable level, although its improvement had paused due mainly to the effects of the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike. A few members said that corporate profits for fiscal 2014 would likely mark new record highs, following their record highs in fiscal 2013. Members concurred that, on the back of these developments in business sentiment and corporate profits, business fixed investment plans for fiscal 2014 in the September *Tankan*, which had been revised upward from the June *Tankan*, exhibited a solid increase. Some members expressed the recognition that such favorable business sentiment and firm business plans were evidence that firms regarded recent weakness in economic activity as temporary and thus maintained their positive attitude. One member said that these positive assessments could also be attributed to firms' high consolidated profits, reflecting the favorable business performance of their overseas subsidiaries. A different member commented that, in a situation where wages rose due to labor shortages, it was necessary for firms to boost their productivity through, for example, fixed investment to promote labor saving. This member continued that this would raise productivity of the economy as a whole in the medium to long term.

As for the employment and income situation, most members shared the view that, in a situation where supply and demand conditions in the labor market continued to improve steadily, employee income had increased moderately and was likely to continue to do so. Many members pointed out that firms maintained their active stance on employment, despite the decline in demand after the consumption tax hike. These members then expressed the view that, given firms' increasing sense of labor shortage and their favorable business performance, improvement in the employment and income situation was likely to continue. In relation to this, one member expressed hope for an increase in winter bonus payments and a favorable outcome of the wage negotiations to be held in spring 2015. Meanwhile, a different member commented that, although the unemployment rate remained on a declining trend, the number of new job openings was decreasing, suggesting somewhat of a slowdown in economic activity. Moreover, another member expressed the view that the year-on-year rate of increase in nominal wages per employee in the past few months had been relatively high, due mainly to base pay increases and resultant lump-sum payments as an adjustment to such increases, but in a case where the sluggishness in economic activity persisted, the pace of increase in nominal wages per employee might slow.

Members agreed that 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 had been waning on the whole, albeit unevenly. They shared the view that, regarding household spending, the effects of the subsequent decline in demand with regard to the consumption of durable goods including automobiles and housing investment were persisting, given the significant scale of the front-loaded increase in such demand. They noted, however, that sales at department stores and supermarkets were on a pick-up trend, and the effects of irregular summer weather had been abating. With regard to the outlook, members shared the recognition that private consumption was likely 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 likely to wane further. On this basis, many members expressed the view that there was great uncertainty regarding the scale and duration of the effects of the decline in real income on private consumption, and it was necessary to monitor them without making any prejudgment. One of these members -- pointing out that, according to the results of the Bank's September 2014 *Opinion Survey on the General Public's Views and Behavior*, the diffusion indices measuring households' economic conditions, circumstances, and income had deteriorated -- noted that non-regular employees and low-income households might be strongly affected by the decline in real income.

Members agreed that industrial production had recently been showing some weakness, due in part to inventory adjustments, particularly in durable consumer goods including automobiles and in construction goods. Some members pointed out that the effects of inventory adjustments were spreading to other industries such as those related to automobiles. With regard to the outlook, most members shared the recognition that, although industrial production was likely to show some weakness for the time being, due partly to the effects of inventory adjustments, given that firms' plans for sales and profits had not been revised downward in the September *Tankan*, it was likely to resume its moderate increase, as the effects of the subsequent decline in demand following the front-loaded increase waned gradually. Some members expressed the view, however, that there was uncertainty regarding the pace of recovery in industrial production, and that the timing of a solid recovery might be delayed.

Regarding prices, members pointed out 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 slowing somewhat recently. They then concurred that the rate of increase was likely to be around 1¼ percent for some time. Members agreed that the recent slowdown in the year-on-year rate of increase was mainly attributable to the decline in the upward contribution from movements in energy and related items. On this point, most members shared the view that no substantial change in firms' price-setting stance had been seen, despite the decline in demand after the consumption tax hike. However, a few members pointed to a pause in the acceleration in the year-on-year rate of increase in the CPI for all items less food and energy, or the core-core CPI, and commented that this might have been brought about in part by a lack of momentum in private consumption. As for the outlook, some members noted that, depending on developments in energy prices, the year-on-year rate of increase in the CPI might temporarily fall below 1 percent. Most members, however, shared the view that the rate was likely to follow a rising trend again, as the output gap continued to improve steadily and medium- to long-term inflation expectations rose.

Most members shared the recognition that inflation expectations were rising on the whole. In response to this, one member expressed the view that -- despite there being no major difference from the other members' recognition -- indicators of medium- to long-term inflation expectations such as the break-even inflation rates, excluding the effects of the consumption tax hike, had been more or less flat or declining since around August. The member therefore suggested changing the description on inflation expectations to a new expression that "inflation expectations have been on an uptrend from a somewhat longer-term perspective, although an increasing number of indicators have recently been more or less flat." A different member said that inflation expectations were different from other economic indicators in that they could not be directly observed, and therefore assessments had been made based on various indicators from a somewhat longer-term perspective. In addition, a few members pointed out that, with regard to inflation expectations, the key point was to assess not only survey results or market indicators but also whether people's economic behavior had actually been changing to one based on the assumption that inflation expectations had been rising.

Meanwhile, with regard to the effects of the depreciation of the yen on Japan's economy, most members shared the recognition that, at this point, the yen's depreciation was having positive effects on the whole. Members shared the view that the depreciation of the yen would push up private consumption through wealth effects stemming from the rises in stock prices and the value of external assets; it would also increase business fixed investment and wages through a rise in corporate profits in the manufacturing industry. A few members expressed the view that, if the yen's depreciation became prolonged, it would restrain the pace at which Japanese manufacturers shifted production sites to overseas and would promote domestic business fixed investment. Some members noted that the balance of travel services was improving, due to an increase in the number of foreign visitors to Japan on the back of the yen's depreciation. On the other hand, members shared the recognition that the depreciation of the yen also had negative effects, such as a deterioration in the terms of trade due to a rise in import prices, and the resultant decline in real income. A few members said that it was necessary to pay attention to the fact that such negative effects were more likely to materialize at small firms, in the nonmanufacturing industry, and in regional economies. Meanwhile, a few members expressed the view that, considering the recent fall in international commodity prices, the deterioration in the terms of trade due to the recent depreciation of the yen was limited compared with the one that occurred during the phase of yen depreciation into 2008. One member expressed the recognition that, although the net effect of the yen's depreciation on the economy was not evident, its positive effects had become smaller, mainly due to changes in the trade structure.

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 been favorable, 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.

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

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

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

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

With respect to the Bank's thinking behind its conduct of monetary policy, most members shared the recognition that the Bank would continue with quantitative and qualitative monetary easing, aiming to achieve the price stability target of 2 percent, as long as it was necessary for maintaining this target in a stable manner. These members continued that, in doing so, it would examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate. Members expressed the view that it was appropriate for the Bank to continue to steadily pursue quantitative and qualitative monetary easing in accordance with the current guidelines, as such easing had been exerting its intended effects. As for developments in economic activity and prices, which formed preconditions for the Bank's monetary policy, a few members expressed the recognition that, even though monthly fluctuations tended to draw attention, the focus should be on the underlying trends. These members continued that it was necessary to bear this in mind when communicating to the public.

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 had been 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 the effects of quantitative and qualitative monetary easing would strengthen in a cumulative manner as the Bank proceeded with asset purchases. Some members noted that the fact that yields on T-Bills had been negative at most times was indicative of the Bank's pursuit of aggressive monetary easing under quantitative and qualitative monetary easing. A few members said that the yields on T-Bills had been negative even after the semiannual financial reporting date, and that the impact of this, mainly on market functioning, should be monitored carefully.

V. Remarks by Government Representatives

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

(1) The second preliminary estimate of the real GDP growth rate for the April-June quarter of 2014 -- which had been released on September 8 -- was revised downward from the first preliminary estimate to minus 7.1 percent on an annualized quarter-on-quarter basis, registering negative growth for the first time in two quarters, mainly due to the reaction in the Japanese economy after a last-minute rise in demand before the consumption tax increase. Nevertheless, averaging out the real GDP figures for the January-March and April-June quarters -- in order to grasp the economic trends by excluding the effects of

the last-minute rise in demand and the subsequent decrease -- the average real GDP for the January-June period exceeded the level in the same period of the previous year by 1.3 percent and that in the preceding October-December quarter by 0.5 percent. The government acknowledged that the Japanese economy was on a moderate recovery on the whole, while weakness could be seen in some areas, due in part to effects such as those caused by irregular weather. It 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) Mr. Aso, the Minister of Finance, had explained the government's measures on fiscal policy to achieve fiscal consolidation at the Group of Twenty (G-20) Finance Ministers and Central Bank Governors Meeting held on September 20 and 21 in Cairns, Australia. First, the government was working to swiftly implement the supplementary budget for fiscal 2013 and the initial budget for fiscal 2014, and deemed it necessary to work to achieve the target of halving its primary balance deficit relative to GDP by fiscal 2015. Second, in relation to this, the government would make an appropriate decision within the year on the raising of the consumption tax rate from 8 percent to 10 percent, by comprehensively considering factors such as the economic situation. Third, after compiling the budget for fiscal 2015, the government deemed it necessary to prepare a new plan to achieve a surplus in the primary balance by fiscal 2020. Through these measures, the government would aim to attain both economic growth led by private demand and fiscal consolidation targets.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was on a moderate recovery, while weakness could be seen in some areas. Private consumption appeared to be pausing recently, while it remained on a trend of picking up. At the Council on Economic and Fiscal Policy held on October 1, the government had reported its tentative estimation that irregular summer weather, by exerting downward pressure on private consumption, would lead to a decline in the real GDP growth rate for the July-September quarter of 0.2-0.6 percentage point on a quarter-on-quarter basis. As for the outlook, although some weakness would remain for the time being, the economy was expected to recover, supported by the effects of the policies, while the employment and income situation

improved. The government would also closely monitor the downside risks, such as lengthening of the reaction after a last-minute rise in demand and slowing down of overseas economies, and the effects that the depreciation of the yen and the rise in energy costs would have on small firms and regional economies.

(2) On September 29, the government had resumed the Government-Labor-Management Meetings for Realizing a Positive Cycle of the Economy. It would follow up, for example, on efforts to encourage firms to raise wages and discuss issues regarding the maintenance and expansion of the positive cycle of the economy through improvement of worker productivity. As for the growth strategy, the government had implemented measures such as (1) the amendment of the Companies Act to enhance corporate governance, (2) further easing of visa issuance requirements, and (3) the expansion of consumption tax-free items for foreign visitors to Japan. In addition, with regard to the target-realizing growth strategy, the government had been reviewing the progress in achieving Key Performance Indicators (KPIs) and implementing measures at the verification meeting of the Industrial Competitiveness Council. It would consider ways to achieve further evolution of the growth strategy at a working group. As for the National Strategic Zones project, the government had certified zone plans for the Yabu City zone in Hyogo Prefecture, the Fukuoka City zone, and the Kansai zone. On October 1, it had held the first Zone Council for the Tokyo zone. Moreover, it had held the first meeting of the Headquarters for Overcoming Population Decline and Vitalizing Local Economy in Japan on September 12, and decided on its basic policies. It would implement bold policies of a dimension not seen before to create prosperous, bright, and vital local communities.

(3) The government expected the Bank to continue its efforts to achieve the price stability target of 2 percent.

VI. Votes

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

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

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

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

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

2. A public statement will be decided separately.

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

Votes against the proposal: None.

VII. Discussion on the Statement on Monetary Policy

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

Meanwhile, Ms. S. Shirai expressed dissent from the description on inflation expectations presented in the draft of the statement that formed a majority view, and suggested changing it to a new expression that "inflation expectations have been on an uptrend from a somewhat longer-term perspective, although an increasing number of indicators have recently been more or less flat."

A. Mr. T. Kiuchi's Policy Proposal

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

The proposal was defeated by a majority vote.

Votes for the proposal: Mr. T. Kiuchi.

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

B. The Chairman's Policy Proposal

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

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of September 3 and 4, 2014 for release on October 10, 2014.

Attachment
October 7, 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 some weakness particularly on the production side has been observed due mainly to the effects of the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike. 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. Private consumption has remained resilient as a trend with the employment and income situation improving steadily, and the effects of the decline in demand following the front-loaded increase have been waning on the whole, albeit unevenly. As for housing investment, the decline following the front-loaded increase has continued. Industrial production has recently been showing some

weakness, due in part to inventory adjustments. Business sentiment has generally stayed at a favorable level, although its improvement has paused due mainly to the effects of the consumption tax hike. 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.[Note 1]

4. With regard to the outlook, Japan's economy is expected to continue its moderate recovery trend, and the effects including those 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 2]

[Note 1] Ms. S. Shirai dissented from the description on inflation expectations, and suggested changing it to a new expression that inflation expectations have been on an uptrend from a somewhat longer-term perspective, although an increasing number of indicators have recently been more or less flat.

[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 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.