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December 25, 2014

Bank of Japan

Minutes of the Monetary Policy Meeting
on November 18 and 19, 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 Tuesday, November 18, 2014, from 2:00 p.m. to 4:05 p.m., and on Wednesday, November 19, from 9:00 a.m. to 12:19 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. I. Miyashita, State Minister of Finance, Ministry of Finance[2]

Mr. M. Nakagawa, Councilor, Ministry of Finance[3]

Mr. M. Maekawa, Director-General, Economic and Fiscal Management, Cabinet Office[2]

Mr. A. Nakamura, Deputy Director-General, Economic and Fiscal Management, Cabinet Office[3]

Reporting Staff

Mr. M. Amamiya, Executive Director

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

Mr. S. Kuwabara, Executive Director

Mr. S. Uchida, Director-General, Monetary Affairs Department

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on December 18 and 19, 2014 as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

[2] Messrs. I. Miyashita and M. Maekawa were present on November 19.

[3] Messrs. M. Nakagawa and A. Nakamura were present on November 18.

Mr. H. Koguchi, Deputy Director-General, Monetary Affairs Department[4]

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

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

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

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

Mr. 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[4]

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

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

[4] Messrs. H. Koguchi and H. Kamiguchi were present on November 19 from 9:00 a.m. to 9:07 a.m.

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

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on October 31, 2014, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[6] In this situation, the amount outstanding of the monetary base had been in the range of 255-262 trillion yen.

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments continued to be 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 negative on the whole, albeit with some fluctuations.

In the bond market, the yield curve had flattened further since the previous meeting. Specifically, yields in the medium- to long-term zone had been increasing somewhat, due in part to the surge in Japanese stock prices and to the yen's depreciation. On the other hand, yields in the super long-term zone had been declining to a somewhat large extent, reflecting in part the Bank's decision to increase the amount of JGB purchases. In a situation where U.S. and European stock prices had generally been firm, the Nikkei 225 Stock Average had risen substantially, mainly as a reflection of the expansion of monetary easing by the Bank, the yen's depreciation, and an announcement by an institutional investor that it would raise its weight of investment in stocks. It had recently been in the range of 17,000-17,500 yen. Prices of real estate investment trusts (REITs) had been rising, due in part to the Bank's decision to increase the amount outstanding of its holdings of Japan real estate investment trusts (J-REITs), with prospects for improvement in real estate fundamentals being maintained. In the foreign exchange market, the yen had depreciated against the U.S. dollar, mainly since the difference in the direction of monetary policy between Japan and the United States had been clearly recognized. The U.S.

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

[6] The guideline was as follows:

The Bank will conduct money market operations so that the monetary base will increase at an annual pace of about 80 trillion yen.

dollar/yen rate had recently been in the range of 117-118 yen. Meanwhile, the euro had depreciated somewhat 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, with employment continuing to increase. Housing investment remained on its moderate pick-up trend. Exports continued on their increasing trend. Reflecting these developments in demand, business sentiment and the momentum in production activity remained firm, and business fixed investment had been recovering. Prices remained stable.

The European economy continued its moderate recovery, but its momentum was waning. The pace of the pick-up in exports had been sluggish recently. Production was roughly flat. Business sentiment had turned somewhat cautious and movements toward a pick-up in business fixed investment had appeared to come to a pause. However, private consumption continued on a moderate recovery trend, with income remaining resilient. As for prices, the year-on-year rates of increase in the Harmonized Index of Consumer Prices (HICP) excluding energy and unprocessed food and in the HICP for all items remained low, both being clearly below the quantitative definition of price stability set by the European Central Bank (ECB), which was below, but close to, 2 percent. Meanwhile, economic activity in the United Kingdom continued to recover, led mainly by domestic demand.

With regard to emerging economies, the Chinese economy generally maintained its stable growth, due mainly to an improvement in external demand and the stimulus measures by the government, although there remained downward pressure associated with structural reforms. Exports continued to increase, particularly to the United States and Asia. Stable growth in private consumption continued against the background of a favorable employment and income situation. On the other hand, the pace of growth in fixed asset investment had been moderating on the whole, since the paces of increase in investment in real estate and manufacturing had slowed, although public investment remained firm. The pace of growth in production had been slowing moderately. Meanwhile, the NIEs, albeit with differences remaining across economies, had been improving due to a rise in exports to the United States and a pick-up in private consumption. On the other hand, the ASEAN economies as a whole had been lacking growth momentum despite a continued improvement in exports and private consumption. In India, the economy had bottomed out on the back of a pick-up in exports and private consumption. Economic activity in Brazil and Russia remained stagnant.

As for prices of emerging economies, inflation rates in many economies had been decreasing, mainly because of the decline in energy prices. On the other hand, inflation rates in Brazil and Russia had been rising, mainly due to the effects of the depreciation of their currencies and to the increase in food prices.

Regarding global financial markets, the U.S. dollar had appreciated further, reflecting market participants' awareness of the difference in the direction of monetary policy between the United States and other countries. As for markets in advanced economies, stock prices had been firm, on the back of favorable economic indicators and business performance in the United States. In emerging economies, on the other hand, stock prices and currencies had been weak on the whole, in part because the Federal Reserve's moves toward normalization of monetary policy had been taken into account. In international commodity markets, crude oil prices continued to decline, reflecting concern about weakening supply-demand conditions.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had been more or less flat. Real exports for September 2014 had increased on a month-on-month basis, and had marked a slight increase of 1.6 percent in the July-September quarter on a quarter-on-quarter basis, turning upward for the first time in three quarters. 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 and thereafter gradually enter a declining trend.

Business fixed investment had been on a moderate increasing trend as corporate profits had improved. Meanwhile, business sentiment had generally stayed at a favorable level on a monthly basis, although some cautiousness, mainly among small firms, had been observed. The aggregate supply of capital goods on a basis excluding transport equipment maintained its moderate uptrend, with the fluctuations smoothed out, although it was more or less flat in the July-September quarter, after having fallen back in the April-June quarter from the upsurge in the January-March quarter. Machinery orders (private sector, excluding orders for ships and those from electric power companies) had fallen back somewhat significantly in the April-June quarter from the relatively high growth in the January-March quarter, but they rose again in the July-September quarter on a quarter-on-quarter basis, by 5.6 percent. As for the outlook, business fixed investment was projected to continue a moderate increasing trend as corporate profits followed their improving trend.

As for the employment and income situation, labor market conditions 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. Many sales statistics started to show a moderate increase in the July-September quarter, after having fallen substantially in the April-June quarter. The effects of the decline in demand following the front-loaded increase in components other than durable goods had been waning. As for durable goods, the number of new passenger-car registrations had almost bottomed out, in that it had fallen substantially in the April-June quarter due to the effects of the decline in demand following the front-loaded increase, and then rose slightly in the July-September quarter from the previous quarter and continued to do so for October relative to the July-September quarter. Services consumption, such as that related to travel, remained steady. Looking at indicators related to consumer confidence, the improvement in the consumer confidence index had appeared to come to a pause recently, although it maintained a moderate improving trend from a somewhat longer-term perspective. 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 dissipate gradually.

As for housing investment, the subsequent decline following the front-loaded increase continued, although recently there were signs that this had bottomed out; the number of housing starts -- a leading indicator of housing investment -- had begun to bottom out. Such investment was projected to regain its resilience gradually with the employment and income situation continuing to improve steadily, supported as well by accommodative financial conditions.

Some weakness in industrial production remained with continued inventory adjustments. Industrial production had grown at a somewhat rapid pace in the January-March quarter, partly in response to the front-loaded increase in demand, but had fallen back noticeably in the April-June quarter and also decreased on a quarter-on-quarter basis in the July-September quarter, by 1.9 percent. On a monthly basis, however, September had seen a pick-up in production in a wide range of industries with high growth in shipments; as a result, overall production had registered a month-on-month increase of 2.9 percent. Industrial production was expected to resume its moderate increase, due in part to the progress in inventory adjustments, as the effects of the decline in demand following the front-loaded increase dissipated gradually.

As for prices, excluding the direct effects of the consumption tax hike, the producer price index (PPI) was declining relative to three months earlier, reflecting the significant fall in international commodity prices. The year-on-year rate of increase in the consumer price index (CPI) for all items less fresh food was around 1 percent. With regard to the outlook, the PPI was expected to continue declining for the time being, reflecting movements in international commodity prices, and the year-on-year rate of increase in the CPI was likely to be at around the current level for the time being. Meanwhile, inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective.

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 at around 2.5 percent. Firms' financial positions had been favorable. Meanwhile, the year-on-year rate of growth in the money stock had been in the range of 3.0-3.5 percent, mainly due to the increase in bank lending.

II. Amendment to Principal Terms and Conditions for Purchases of ETFs and J-REITs

A. Staff Reports

In order to make exchange-traded funds (ETFs) that track the JPX-Nikkei Index 400 eligible for purchase and to accept an issuer's request for acquisition of its J-REIT, the staff proposed that the Bank make necessary amendments to the Principal Terms and Conditions for Purchases of ETFs and J-REITs.

B. Vote

Members voted unanimously to approve the proposal and agreed that the staff accordingly should make the decision public after the meeting.

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

A. Economic Developments

Members agreed that global financial markets had generally been calm, as investors' risk sentiment continued to improve on the back of firm economic indicators and favorable corporate results in the United States. Some members noted that it was necessary to closely monitor how the implications of global financial regulations for the markets would be manifested in the process of a transition to normalization of the Federal Reserve's monetary policy.

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 -- particularly 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. They shared the view that private consumption had been firm on the back of improvement in the employment situation, and that this had been exerting positive effects on corporate activity. As for the outlook, members shared the recognition that the economy was likely to continue recovering and gradually accelerate its pace of growth supported by a virtuous cycle originating from household spending. Some members noted that an increase in real purchasing power due to the decline in gasoline prices and wealth effects stemming from the rise in stock prices were likely to push up private consumption. A few members expressed the opinion that, in view of the employment cost index, signs of a rise in wage inflation had begun to be observed. One of these members expressed the intent to pay attention to the risk of an increase in labor costs putting downward pressure on the economy, mainly by squeezing corporate profits.

Members shared the view that the euro area economy continued its moderate recovery, but its momentum was waning. As for the outlook, they concurred that the economy would likely maintain its moderate recovery, supported mainly by the resilience in private consumption and an increase in exports, although the adjustment pressure associated with the debt problem remained and a downtrend in the inflation rate had been observed. Members also shared the recognition that the possibility of low inflation rates becoming entrenched warranted attention. One member expressed the view that the economy was in a situation where low inflation coexisted with low growth, and therefore if the risk of deflation was not eliminated, this entailed a risk that the recovery would not continue for long. Some members expressed the intent to closely monitor policy developments by the ECB, including the effects of monetary easing to date.

Members agreed that the Chinese economy generally maintained its stable growth due mainly to an improvement in external demand and the stimulus measures by the government, although there remained downward pressure associated with structural reforms. As for the outlook, they shared the view that the economy would likely continue to see generally stable growth, albeit at a somewhat slower pace, as authorities carried out stimulus measures while progressing with structural reforms. Meanwhile, one member noted that it was necessary to pay attention to the possibility that adjustments in the real estate market would be protracted, as well as to the risk that, as the government placed priority on structural reforms, growth in domestic demand would decelerate.

Regarding emerging economies, members agreed that the number of countries and regions where economic activity had been picking up had been increasing gradually, triggered by a rise in exports to advanced economies, particularly to the United States; however, some weakness remained, particularly in some ASEAN countries, Brazil, and Russia. They then concurred that emerging economies as a whole remained lackluster in terms of growth. On this basis, they shared the view that emerging economies were likely to moderately increase their growth rates as positive effects of recovery in advanced economies spread, and as domestic demand picked up reflecting accommodative financial conditions, although differences remained across countries and regions.

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

With regard to <u>economic activity</u>, members concurred that the economy continued to recover moderately as a trend, although some weakness remained, particularly on the production side, due mainly to the effects of the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike. Many members expressed the recognition that the first preliminary estimate of the real GDP growth rate for the July-September quarter of 2014 was an indication of a weak rebound from the decline in the April-June quarter. However, members agreed that a virtuous cycle from income to spending continued to operate in both the household and corporate sectors, noting that (1) with wages continuing to rise moderately, sales statistics and other indicators suggested that the effects of the decline in demand following the front-loaded increase prior to the consumption tax hike had been waning; (2) industrial production for September had turned upward as inventory adjustments progressed; and (3) machinery orders (private sector, excluding orders for ships and those from electric power companies) had increased for four consecutive months. On this basis, with regard to <u>the outlook for the economy</u>, members shared the view that it was likely to continue its moderate recovery trend, and the effects including those of the decline in demand following the front-loaded increase prior to the consumption tax hike were likely to dissipate gradually.

Members agreed that Japan's exports had been more or less flat and were likely to head for a moderate increase, mainly against the background of the recovery in overseas economies. A few members noted that attention should be paid to the point that the effects of the shift of Japanese firms' production sites to overseas would continue to exert downward pressure on exports. In this regard, one member emphasized that, from a somewhat longer-term perspective, if foreign exchange rates were maintained at around current levels, such transfer of production to overseas would be restrained.

Members shared the view that business fixed investment had been on a moderate increasing trend as corporate profits had improved, and it was projected to continue on such a trend. Many members -- referring to the fact that business fixed investment on a GDP basis for the July-September quarter (first preliminary estimate) had marked slightly negative growth on a quarter-on-quarter basis -- expressed the recognition that this reflected weakness in supply-side statistics such as the aggregate supply of capital goods. These members continued, however, that business fixed investment would likely increase given favorable corporate profits, firm business fixed investment plans, and an increase for four consecutive months in machinery orders -- a leading indicator of business fixed investment.

As for the employment and income situation, members shared the view that, with labor market conditions continuing to improve steadily, employee income had increased moderately and was likely to continue to do so. Some members expressed the opinion that, considering the results of various surveys and other information, winter bonus payments for 2014 were expected to show a clear increase on a year-on-year basis. One member expressed the view that the labor market -- which had exhibited a pause in its momentum for improvement -- was regaining momentum, in view of indicators such as the number of job openings and hours worked for September.

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 prior to the consumption tax hike had been waning on the whole. They shared the recognition that, as seen in the fact that many sales statistics started to show an increase, the effects of the decline in demand following the front-loaded increase had been waning in components other than durable consumer goods. They continued that demand for such goods -- including automobiles -- which exhibited a protracted decline following the consumption tax hike, had almost bottomed out. Members concurred that private consumption was likely to remain resilient, and the effects of the decline in demand following the front-loaded increase were likely to dissipate gradually. A few members commented that the decline in energy prices was likely to positively affect private consumption, as it would work to increase real income.

Some members referred to the possibility that, while the plan had been to carry out the consumption tax hike this time in two rounds, durable consumer goods in particular had experienced the equivalent of two rounds of a front-loaded increase and subsequent decline in demand. One member said that, besides the consumption tax hike, concurrent factors such as the end of support for certain software and the strengthening of gas emission regulations on construction machinery had caused the associated front-loaded increase and subsequent decline in demand. A different member pointed to the possibility that the decline in demand also reflected the fact that the effects of the fall in real income due to the consumption tax hike were more significant, particularly on low-income households, compared with past cases. Some members expressed the view that -- considering the widespread views until around summer 2014 that the degree of the subsequent decline in demand had been broadly in line with expectations -- irregular weather thereafter might have caused a slight protraction of the decline's effects.

Meanwhile, many members noted that indicators such as those of consumer sentiment showed that such sentiment had become somewhat cautious recently. As background to this, a few members pointed to the possibility that this was partly due to wide media coverage on the negative effects of the depreciation of the yen and on the scheduled second consumption tax hike, in addition to adverse weather conditions. A few other members, on the other hand, expressed the view that indicators such as those of consumer sentiment were likely to improve, given that the employment and income situation had been improving steadily and winter bonus payments were expected to increase.

With regard to housing investment, members agreed that, although the decline following the front-loaded increase continued, signs of bottoming out had been observed recently and such investment was projected to regain its resilience gradually. A few members pointed out that the decline in housing investment following the front-loaded increase was partly attributable to the effects of labor shortages and a surge in prices of building materials.

Members concurred that, although some weakness in industrial production remained with continued inventory adjustments, it was likely to resume its moderate increase, due in part to the progress in such adjustments. Some members pointed out that production for September had shown an increase from the previous month, and that interviews with firms suggested that it was expected to continue increasing moderately in the October-December quarter of 2014 and the January-March quarter of 2015.

As for prices, members agreed that, excluding the direct effects of the consumption tax hike, the year-on-year rate of increase in the CPI (all items less fresh food) was around 1 percent and likely to be at around the current level for the time being. Many members expressed the view that an earlier fall in energy prices was likely to exert downward pressure on the CPI for the time being. Some of these members pointed out that, when excluding the direct effects of the consumption tax hike, the year-on-year rate of increase in the CPI might decline temporarily to below 1 percent. Meanwhile, a few members said that, in a situation where upward pressure on input costs was increasing against the background of such factors as the depreciation of the yen, it was necessary to closely monitor whether firms would be able to pass on the rise in costs to sales prices. Members shared the recognition that inflation expectations had been rising on the whole from a somewhat longer-term perspective.

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.

With regard to market developments after the Bank had expanded quantitative and qualitative monetary easing (QQE), many members pointed out the following: (1) the JGB market's response had been calm, and the yield curve had flattened as yields in the somewhat longer-term zone had shown a relatively large decline; and (2) stock prices and J-REIT prices had risen. On this basis, these members expressed the view that the response in financial markets had been positive thus far. One member was of the opinion that developments in stock prices and foreign exchange rates during this period also reflected improvements in such fundamentals as corporate profits and U.S. economic activity. In response to this, a different member -- noting that long-term interest rates had been stable at low levels even after the Bank's expansion of the QQE, reflecting the overwhelming presence of the Bank in the JGB market -- said that this was not necessarily welcomed, since it could entail risks stemming from the buildup of financial imbalances.

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.

Many members shared the assessment that the QQE continued to exert its intended effects partly because the Bank had decided to expand the QQE at the previous meeting. Specifically, these members expressed the recognition that long-term interest rates in Japan had been stable at low levels while inflation expectations had been rising from a somewhat longer-term perspective, and thus real interest rates were trending downward. They continued that such developments had been underpinning firms' and households' spending. A few members noted the rise in market indicators of inflation expectations -- such as the break-even inflation rates -- seen since the end of October 2014, when the Bank had decided to expand the QQE. One member, while noting that inflation expectations should be assessed based on a range of indicators from a somewhat longer-term perspective, expressed the hope that -- because the Bank had reaffirmed its strong commitment to achieving the price stability target by expanding the QQE -- this would likely exert positive effects on firms' stance on wage negotiations and their price-setting behavior. A different member emphasized that the Bank's expansion of the QQE was necessary as a preemptive action, given that in Japan, where inflation expectations had not been anchored, a decline in the actual inflation rate affected inflation expectations.

Among members who had opposed the expansion of the QQE at the previous meeting, some stated their position that they did not intend to propose at this meeting changing the guidelines for money market operations and asset purchases back to those employed before the expansion, considering, for example, that an immediate return to former guidelines could impair the credibility of the Bank's policy conduct. One of these members expressed the opinion that the Bank should endeavor to minimize the risk associated with the additional monetary easing through effective means such as conducting operations flexibly in accordance with market conditions while communicating with market participants appropriately. One member noted that the decline in long-term interest rates due to the Bank's massive purchases of JGBs entailed a risk that the mechanism of maintaining fiscal discipline through interest rates might be impaired. This member then expressed the view that such risk should be given more careful attention.

Consequently, regarding the guideline for money market operations for the intermeeting period ahead, most members expressed the view 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 80 trillion yen. With regard to the asset purchases, most members expressed the recognition that it also was appropriate for the Bank to continue with the current guideline. Specifically, these members confirmed the following. First, the Bank would purchase JGBs so that their amount outstanding would increase at an annual pace of about 80 trillion yen. With a view to encouraging a decline in interest rates across the entire yield curve, the Bank would conduct purchases in a flexible manner in accordance with financial market conditions. The average remaining maturity of the Bank's JGB purchases would be about 7-10 years. Second, it would purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces of about 3 trillion yen and about 90 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 future conduct of monetary policy, many members shared the recognition that the Bank would continue with the QQE, 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.

A different member expressed the view that, if a rise were to occur in markets' anticipation that the QQE 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, this member argued that (1) the Bank should change the guidelines for money market operations and asset purchases back to those employed before the expansion of the QQE; and (2) with regard to the future conduct of monetary policy, the Bank should reconsider the time frame for achieving the price stability target and change the expression representing the Bank's commitment by stating that the time frame for continuing the QQE should be restricted to about two years, and that thereafter the Bank would review the monetary easing measures in a flexible manner.

Some members expressed the recognition that, for the effects of the QQE to spread through the whole economy, it was necessary that a rising trend in corporate profits -- particularly among large firms -- steadily have a positive impact on households, regional economies, and small firms in the forms of an increase in employment and wages, implementation of domestic business fixed investment, and a rise in transaction prices paid in particular to subcontractors. A few members expressed the view that, in order to sustain a virtuous cycle -- in which a rise in prices would lead to increases in wages, including those in base pay, and to changes in firms' price-setting behavior -- the Bank should take opportunities to communicate the importance of ensuring such developments.

Meanwhile, members reaffirmed that (1) it was extremely important to ensure the credibility of fiscal management; and (2) it was for this reason that they expected the government to steadily promote measures aimed at establishing a sustainable fiscal structure, in line with the Medium-Term Fiscal Plan.

V. Remarks by Government Representatives

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

(1) The first preliminary estimate of the real GDP growth rate for the July-September quarter of 2014 -- which had been released on November 17 -- was minus 0.4 percent on a quarter-on-quarter basis. Meanwhile, averaging out the real GDP figures for the January-September period -- to smooth out the effects of a last-minute rise in demand

before the consumption tax increase in April and the subsequent decrease -- the year-on-year rate of increase in real GDP for that period was 0.5 percent. The government considered that this was the result of a considerable impact from inventory adjustments in the recovery phase associated with the decline following the consumption tax increase. It should be noted that private consumption appeared to be pausing due to a decline in consumer sentiment and to irregular summer weather. Nevertheless, the government deemed that the positive cycle of the economy continued to operate, as suggested by a pick-up in various economic indicators for September, with the employment and income situation improving steadily.

(2) On November 18, the prime minister had announced the postponement of the scheduled second consumption tax increase and had given instructions to develop a new economic stimulus package. The government would prepare the environment for raising the consumption tax rate, and make sure the increase was implemented in April 2017, without any provisos for decisions based on the economic climate. It also would resolutely stay the course toward its goal for fiscal soundness to be achieved by fiscal 2020 and would draw up concrete plans for achieving this goal by the summer of 2015. The government would continue to aim to simultaneously bring about the dual goals of economic revival and fiscal reconstruction.

(3) The government expected the Bank to continue to steadily pursue the QQE and achieve the price stability target of 2 percent at the earliest possible time.

The representative from the Cabinet Office made the following remarks.

(1) The first preliminary estimate of the real GDP growth rate for the July-September quarter of 2014 -- which had been released on November 17 -- was minus 1.6 percent on an annualized quarter-on-quarter basis, registering negative growth for the second consecutive quarter. The negative growth was attributable to the fact that factors such as the reaction to the last-minute rise in demand before the consumption tax increase and institutional changes in April had affected not only private consumption but also inventory investment, business fixed investment, and housing investment. In view of these circumstances, the prime minister had given instructions on November 18 to develop a new economic stimulus package to ensure that the positive cycle of the economy got on the right track and the fruits of Abenomics spread throughout local

economies. To this end, the prime minister had presented guidelines that focused mainly on (1) squarely targeting weak parts of the economy, such as by stimulating consumption in the local regions; (2) furthering regional revitalization; and (3) accelerating restoration and reconstruction following natural disasters. The government would swiftly develop the package by the end of 2014.

(2) With regard to the Trans-Pacific Partnership (TPP), a ministerial meeting and a leaders' meeting had been held recently in Beijing, and these had created tremendous momentum toward achieving an early conclusion to TPP negotiations. At an intensive discussion regarding monetary policy and prices at the Council on Economic and Fiscal Policy held on November 4, the government had reviewed the progress toward overcoming deflation and promoting economic revitalization. On October 31, the Bank had decided to expand the QQE; the government expected the Bank to steadily continue its efforts to achieve the price stability target of 2 percent.

(3) Regarding the relationship between the postponement of the scheduled second consumption tax increase that the prime minister had announced and promotion of fiscal soundness, the prime minister had stated at the press conference on November 18 that the postponement did not mean the government was "lowering the flag" of fiscal reconstruction, and that it must ensure trust in Japan within the international community. He had made clear that, to this end, the government would also resolutely stay the course toward its goal for fiscal soundness to be achieved by fiscal 2020 and would draw up concrete plans for achieving this goal by the summer of 2015. On this basis, the government took seriously that many Policy Board members had pointed out at this meeting the importance of ensuring credibility in fiscal management, and acknowledged that it would work to ensure such credibility.

VI. Votes

A. Vote on the Guideline for Money Market Operations

Based on the above discussions, to reflect the majority view of the members, the chairman formulated the following proposal and put it to a vote.

The Policy Board decided the proposal by a majority 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 80 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, and Mr. T. Sato.
Votes against the proposal: Mr. T. Kiuchi.

B. Vote on the Guideline for Asset Purchases

To reflect the majority view of the members, the chairman formulated the following proposal to continue with the guideline for asset purchases and put it to a vote: (1) to purchase JGBs so that their amount outstanding would increase at an annual pace of about 80 trillion yen, to conduct purchases in a flexible manner in accordance with financial market conditions -- with a view to encouraging a decline in interest rates across the entire yield curve -- and to make the average remaining maturity of the Bank's JGB purchases about 7-10 years; (2) to purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces of about 3 trillion yen and about 90 billion yen, respectively; and (3) to maintain the amounts outstanding of CP and corporate bonds at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

The Policy Board decided the proposal by a majority vote.

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, and Mr. T. Sato.
Votes against the proposal: Mr. T. Kiuchi.

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.

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 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" 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 the QQE 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 October 31, 2014 for release on November 25, 2014.

Attachment
November 19, 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 an 8-1 majority vote, to set the following guideline for money market operations for the intermeeting period:[Note 1]

   The Bank of Japan will conduct money market operations so that the monetary base will increase at an annual pace of about 80 trillion yen.

2. With regard to the asset purchases, the Bank decided, by an 8-1 majority vote, to continue with the following guidelines:[Note 2]

   a) The Bank will purchase Japanese government bonds (JGBs) so that their amount outstanding will increase at an annual pace of about 80 trillion yen. With a view to encouraging a decline in interest rates across the entire yield curve, the Bank will conduct purchases in a flexible manner in accordance with financial market conditions. The average remaining maturity of the Bank's JGB purchases will be about 7-10 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 annual paces of about 3 trillion yen and about 90 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 remained 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 been more or less flat. Business fixed investment has been on a moderate increasing trend 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. As for housing investment, the decline following the front-loaded increase has continued, while signs of bottoming out have been observed recently. Some weakness in industrial production has remained with continued inventory adjustments. 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 1 percent. Inflation expectations appear to be rising on the whole from a somewhat longer-term perspective.

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 dissipate gradually. The year-on-year rate of increase in the CPI is likely to be at around the current level for the time being.

5. Risks to the outlook include developments in the emerging and commodity-exporting economies, the prospects regarding the debt problem and the risk of low inflation rates being protracted in Europe, 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 3]

[Note 1] Voting for the action: 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. Voting against the action: Mr. T. Kiuchi. The member voting against the action considered that the guideline for money market operations before the decision of the "Expansion of the Quantitative and Qualitative Monetary Easing" on October 31, 2014 was appropriate.

[Note 2] Voting for the action: 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. Voting against the action: Mr. T. Kiuchi. The member voting against the action considered that the guideline for asset purchases before the decision of the "Expansion of the Quantitative and Qualitative Monetary Easing" on October 31, 2014 was appropriate.

[Note 3] 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.