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February 23, 2015

Bank of Japan

Minutes of the Monetary Policy Meeting

on January 20 and 21, 2015

(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, January 20, 2015, from 2:00 p.m. to 3:57 p.m., and on Wednesday, January 21, from 9:00 a.m. to 12:24 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. H. Sakota, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance[3]
Mr. M. Maekawa, Director-General, Economic and Fiscal Management, Cabinet Office

Reporting Staff

Mr. M. Amamiya, Executive Director
Mr. 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 February 17 and 18, 2015 as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

[2] Mr. I. Miyashita was present on January 21.

[3] Mr. H. Sakota was present on January 20.

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. Y. Komaki, Senior Economist, Monetary Affairs Department

Mr. S. Watanabe, Senior Economist, Monetary Affairs Department

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[4] Messrs. H. Koguchi and H. Kamiguchi were present on January 21.

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 December 18 and 19, 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 272-277 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, the interest rate applied to the Bank's complementary deposit facility. As for interest rates on term instruments, yields on treasury discount bills (T-Bills) had temporarily risen into positive territory but had recently been negative again.

In the bond market, the declining trend in long-term interest rates worldwide had become more apparent since the previous meeting, and in this situation, Japan's interest rates across the entire yield curve had declined further. Specifically, yields in the long- and super long-term zones had followed a downward trend, on the back of the decline in U.S. and European long-term interest rates that mainly reflected a decline in crude oil prices, and yields on 10-year JGBs had recently been at around 0.2 percent. Yields on the shorter end had been slightly negative and those in the medium-term zone had declined to around 0 percent. The Nikkei 225 Stock Average had temporarily risen to the range of 17,500-18,000 yen against the background of increases in overseas stock prices. It had fallen back thereafter, mainly reflecting the yen's appreciation and the decrease in U.S. stock prices due to the decline in crude oil prices, and had recently been moving in the range of 17,000-17,500 yen. In the foreign exchange market, the yen had temporarily depreciated against the U.S. dollar to the range of 120-121 yen, mainly reflecting firm economic indicators in the United States. The yen then appreciated against the U.S. dollar, mainly reflecting the decline in U.S. stock prices. The euro had depreciated against the

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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, primarily due to anticipation of additional monetary easing by the European Central Bank. Meanwhile, the Swiss franc had appreciated substantially, reflecting the decision by the Swiss National Bank (SNB) to discontinue the minimum exchange rate for the Swiss franc against the euro.

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 continued to recover steadily, led by private demand. The pace of increase in private consumption had accelerated somewhat on the back of a firm increase in employment together with the effects of low crude oil prices. Housing investment had also followed a moderate pick-up trend. Exports continued on their increasing trend. Reflecting these developments in demand, business sentiment and production activity had been firm, and business fixed investment continued to recover. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items less food and energy, or the core CPI, had been more or less flat while that for all items had dropped noticeably, mainly due to the decline in energy prices.

The recovery in the European economy had been losing momentum recently. Private consumption continued to recover moderately on the back of an improving trend in compensation of employees. However, the pace of the pick-up in exports had been sluggish and production was roughly flat. Business sentiment had generally turned cautious, and movements toward a pick-up in business fixed investment had come to a pause. As for prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) excluding energy and unprocessed food continued to be more or less flat, albeit at a depressed level, while that in the HICP for all items had turned negative, due to the effects of the decline in energy prices. 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 slowing trend in the pace of growth in fixed asset investment continued 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 had been improving on the whole as domestic demand continued on a pick-up trend, although the pace of pick-up in exports had been decelerating recently. In India, the economy had started to pick up, reflecting a continued improving trend in sentiment on the back of expectations for structural reforms and of a decline in inflation rates. On the other hand, despite a continued improving trend in exports, the ASEAN economies as a whole had been lacking growth momentum since improvement in private consumption had been slow in some economies. Economic activity in Brazil continued to decelerate, and that in Russia had become increasingly stagnant, particularly in domestic demand, reflecting a tightening of financial conditions due to the raising of policy interest rates and to capital outflow.

As for prices of emerging economies, inflation rates in many economies had decreased, mainly because of the decline in energy prices. On the other hand, inflation rates had been rising in some Asian economies due to the effects of a reduction in fuel subsidies; rates had also been rising in countries such as Brazil and Russia, due to the effects of the depreciation of their currencies and to the increase in food prices.

Regarding global financial markets, volatility had heightened in stock markets and long-term interest rates in advanced economies had declined, mainly against the background of the substantial decline in crude oil prices. Meanwhile, in the foreign exchange market, the U.S. dollar had appreciated, reflecting market participants' awareness of the differences in perceived business conditions and the direction of monetary policy between the United States and other countries. Currencies in emerging economies had been weak on the whole, as seen in the noticeable fall in currencies in oil- and commodity-exporting economies, such as Russia. In international commodity markets, crude oil prices continued to decline substantially, reflecting a heightened sense of excess supply and increased U.S. inventories.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had shown signs of picking up. Real exports, after turning slightly positive in the July-September quarter of 2014 on a quarter-on-quarter basis, had risen noticeably in the October-November period relative to the July-September quarter. Exports were expected to increase moderately, mainly against the background of the recovery in overseas economies.

Public investment had more or less leveled off at a high level. It was expected to continue to stay at around this level for the time being and thereafter enter a moderate declining trend.

Business fixed investment had been on a moderate increasing trend as corporate profits had improved. The aggregate supply of capital goods on a basis excluding transport equipment had been on a moderate uptrend, with the fluctuations smoothed out; it had been more or less flat in the July-September quarter of 2014 but had risen in the October-November period relative to the July-September quarter. 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 continued improving trend in the active job openings-to-applicants ratio. 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, employee income had risen moderately.

Private consumption 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 prior to the consumption tax hike had been waning on the whole. Sales at retail stores in real terms had started to increase in the July-September quarter of 2014, after a substantial fall in the April-June quarter, and continued to move upward in the October-November period relative to the July-September quarter. Sales at department stores and supermarkets continued to pick up, with the fluctuations caused by adverse weather conditions smoothed out. As for durable consumer goods, which had exhibited lingering effects of the decline in demand following the front-loaded increase, these effects had been waning, as the number of new passenger-car registrations had shown movements toward a pick-up, and sales of household electrical appliances continued to pick up at a moderate pace. Services consumption, such as that related to travel, remained steady. Indicators related to consumer confidence -- which had continued to become cautious -- had slightly improved recently, mainly reflecting an increase in winter bonus payments for 2014 and a decline in the prices of petroleum products. 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.

Housing investment, which had continued to decline following the front-loaded increase, had recently started to bottom out. It was projected to regain its resilience gradually with the employment and income situation continuing to improve steadily, supported as well by accommodative financial conditions.

Industrial production had bottomed out, due in part to the progress in inventory adjustments. It had fallen back noticeably in the April-June quarter of 2014 on a quarter-on-quarter basis from the front-loaded increase in demand and continued to decrease in the July-September quarter, but had turned upward in the October-November period relative to the July-September quarter, by 1.6 percent. Industrial production was expected to resume its moderate increase with final demand continuing to rise and inventory adjustments progressing further.

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 CPI (all items less fresh food) was in the range of 0.5-1.0 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 slow for the time being, reflecting the decline in energy prices.

2. Financial environment

Financial conditions were accommodative.

The monetary base had increased significantly as asset purchases by the Bank had progressed, and the year-on-year rate of growth had been in the range of 35-40 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 2.5-3.0 percent. Firms' financial positions had been favorable. The year-on-year rate of growth in the money stock had been at around 3.5 percent, mainly due to the increase in bank lending. Meanwhile, inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective.

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

A. Economic Developments

Members shared the recognition that global financial markets had shown nervousness, partly due to the decision by the SNB to discontinue the minimum exchange rate for the Swiss franc against the euro, in addition to the substantial decline in crude oil prices and heightened uncertainty over political developments in Greece. Some members said that, as the time for a hike in the policy rate in the United States was expected to be approaching, attention should be paid to the effects this would have on the global flow of funds.

Members agreed that the decline in crude oil prices generally had positive effects on the global economy as a whole, particularly on advanced economies. Some members expressed the view that, as the decline in crude oil prices caused income transfers from oil-producing countries to oil-consuming countries, which had a higher spending propensity, the net effect of the decline would be positive in terms of the global economy as a whole. On this basis, some members pointed to the following risks entailed by the decline that warranted attention: (1) destabilization of financial markets, mainly through the fall in currencies of commodity-exporting economies and a deterioration in the creditworthiness of energy-related firms; and (2) downward pressure exerted on the economy through a decrease in fixed investment by energy-related firms and a reduction in their number of employees. One of these members noted that, if the recent decline in crude oil prices was attributable to demand-side factors, the declines in crude oil prices and long-term interest rates might be suggesting a change in the prospects for global economic recovery. Meanwhile, a different member, noting that there were signs that crude oil prices had most recently stopped declining, expressed the view that the downward revision to the outlook for the supply of crude oil in the Americas might be affecting supply and demand conditions.

Members shared the recognition that overseas economies -- mainly advanced economies -- had been recovering, albeit with a lackluster performance still seen in part. As for the outlook, they concurred that overseas economies -- particularly advanced economies -- would continue to recover moderately.

With regard to developments in overseas economies by region, members shared the recognition that the U.S. economy continued to recover steadily, led by private demand. One member said that the pace of increase in private consumption had accelerated somewhat on the back of an increase in employment and the decline in gasoline prices, and that this had been exerting positive effects on corporate activity. As for the outlook, members concurred that the economy was likely to continue to see a solid recovery as firmness in the household sector would continue to spread to the corporate sector.

Members shared the recognition that the recovery in the euro area economy had been losing momentum recently. As for the outlook, they concurred that the economy would likely maintain its recovery as a trend -- albeit at a moderate pace -- supported mainly by the resilience in private consumption and a moderate pick-up in exports, although the recovery would likely be sluggish for the time being due in part to the continued cautiousness in business and household sentiment. Some members pointed out that the year-on-year rate of increase in the HICP for all items had turned negative, due to the decline in energy prices, and expressed the view that the possibility of low inflation rates becoming entrenched warranted attention. One member expressed the intent to closely monitor the effects on the euro area economy of the Greek general election and the policy conduct thereafter.

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. A few members pointed out that signs of a pick-up had recently been observed in the real estate market. As for the outlook, members 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.

Regarding emerging economies, members shared the recognition that, while there were countries and regions, mainly in Asia, where economic activity had been picking up, economic activity, particularly in Brazil and Russia, remained stagnant. They continued that emerging economies as a whole remained lackluster in terms of growth. Members concurred that emerging economies were likely to gradually increase their growth rates as positive effects of recovery in advanced economies -- particularly in the United States -- spread, and as this process triggered a pick-up in domestic demand, although differences remained across countries and regions.

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

With regard to economic activity, members shared the recognition that, in a situation where a virtuous cycle from income to spending continued to operate steadily in both the household and corporate sectors, the economy continued to recover moderately as a trend, and effects such as those of the decline in demand following the front-loaded increase prior to the consumption tax hike had been waning on the whole. With regard to the outlook for the economy, they concurred that it was likely to continue its moderate recovery trend, and that the effects such as those of the decline in demand following the front-loaded increase prior to the consumption tax hike were likely to dissipate.

Members shared the recognition that Japan's exports had shown signs of picking up and were likely to increase moderately, mainly against the background of the recovery in overseas economies and the yen's depreciation to date. One member pointed out that the number of foreign visitors to Japan and their consumption in the country had been increasing, mainly reflecting the yen's depreciation and the easing of visa issuance requirements.

Members shared the recognition that business fixed investment had been on a moderate increasing trend as corporate profits had improved. They agreed that it was projected to continue on such a trend, mainly on the back of improvement in corporate profits and a tightening in labor market conditions. Some members pointed to the fact that some manufacturing firms had started to shift their production sites back to Japan, against the background of the correction in the yen's appreciation to date. They then expressed the view that a positive contribution to the domestic economy -- such as an increase in business fixed investment, production, and exports -- could be expected.

As for the employment and income situation, members shared the recognition that, with labor market conditions continuing to improve steadily, employee income had risen moderately and was likely to continue to do so. Some members expressed the view that wage increases, including in base pay, were expected in the wage negotiations in spring 2015 as labor market conditions and corporate profits continued to improve.

Members agreed that private consumption 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 prior to the consumption tax hike had been waning on the whole. Many members -- pointing out that many sales statistics had maintained their uptrend -- expressed the view that the effects of the decline in demand following the front-loaded increase had been waning for durable consumer goods, which had exhibited a lingering decline in demand, as automobile sales had shown movements toward a pick-up, and sales of household electrical appliances continued to pick up at a moderate pace. Some members noted that relatively weak developments had been observed in indicators of consumer sentiment, but these indicators had recently shown signs of bottoming out. Members concurred that private consumption was likely to remain resilient with employee income continuing to rise moderately, and the effects of the decline in demand following the front-loaded increase were likely to dissipate gradually. Some members noted that the recent decline in crude oil prices would push up private consumption by raising households' real purchasing power.

Members agreed that housing investment, which had continued to decline following the front-loaded increase, had recently started to bottom out and was projected to regain its resilience gradually.

Members concurred that industrial production had bottomed out, due in part to the progress in inventory adjustments, and was likely to resume its moderate increase. A few members pointed out that the production forecast index and interviews with firms suggested that production was expected to increase moderately.

As for prices, members concurred that, excluding the direct effects of the consumption tax hike, the year-on-year rate of increase in the CPI (all items less fresh food) was in the range of 0.5-1.0 percent and was likely to slow for the time being, reflecting the decline in energy prices.

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.

C. Interim Assessment

Given the above assessment, members discussed the Bank's interim assessment of the October 2014 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report). Members pointed out that crude oil prices had recently been changing significantly, and that the outlook for the CPI would depend largely on an assumption about crude oil prices. They then concurred that, taking this into account, it was appropriate at this interim assessment that members share a common assumption about crude oil prices, on which the interim assessment would be based. Specifically, referring to recent developments in crude oil prices and such prices in futures markets, members made an assumption that Dubai crude oil prices would rise moderately from the recent 55 U.S. dollars per barrel to about 70 dollars per barrel toward the end of the projection period -- namely, through fiscal 2016. Most members said that it was meaningful to release an estimate of the contribution of energy items to the year-on-year rate of increase in the CPI (all items less fresh food) under this assumption, and shared the recognition that this contribution was estimated to be mostly in the range of minus 0.7 to minus 0.8 percentage point for fiscal 2015, and mostly in the range of plus 0.1 to plus 0.2 percentage point for fiscal 2016. One member said that the Bank should provide a thorough explanation so that the public would not misunderstand that the figure derived by subtracting the contribution of energy items from the year-on-year rate of increase in the CPI (all items less fresh food) was the benchmark for the outlook for prices.

Based on this assumption about crude oil prices, members agreed on a baseline scenario of the outlook for Japan's economic activity that the forecasts of economic growth would likely be lower for fiscal 2014 compared with those presented in the October 2014 Outlook Report. As the main factor behind this, they highlighted the somewhat weak developments in private consumption in the first half of fiscal 2014. As for fiscal 2015 and 2016, on the other hand, members shared the view that -- mainly reflecting the decline in crude oil prices, depreciation of the yen, effects of the government's economic measures, and postponement of the scheduled second consumption tax hike -- the forecasts of economic growth would likely be higher than those presented in October and the economy was likely to grow at a pace clearly above its potential.

Members agreed on a baseline scenario of the outlook for Japan's prices that the forecasts for the year-on-year rate of increase in the CPI (all items less fresh food) would likely be lower toward fiscal 2015 compared with those presented in the October 2014 Outlook Report, due to the significant decline in crude oil prices. However, many members expressed the view that the outlook for the underlying trend in prices -- which was determined by the output gap and medium- to long-term inflation expectations -- was unchanged, and this underlying trend would likely improve steadily. These members pointed out that the effects of the decline in crude oil prices would eventually dissipate on a year-on-year basis, and said that, as this happened, the year-on-year rate of increase in the CPI (all items less fresh food) would accelerate. Many members expressed the opinion that the rate was likely to reach around 2 percent -- the price stability target -- in or around fiscal 2015, on the assumption that crude oil prices would rise moderately from around the recent level. These members added that the outlook for crude oil prices was highly uncertain, and depending on developments in these prices, the precise timing for reaching 2 percent could be either earlier or later to some extent. They commented that the forecasts for the year-on-year rate of increase in the CPI for fiscal 2016 would likely be more or less unchanged from those presented in October.

Counter to this, one member expressed the recognition that it was rather unlikely that the 2 percent target would be achieved in a sustainable manner, given that the year-on-year rate of increase in the CPI (all items less food and energy) had recently been in the range of 0.0-0.5 percent despite the yen's depreciation. This member then presented an outlook that the growth rates and the rates of increase in prices up through fiscal 2016 would likely be substantially below the median of the Policy Board members' forecasts. A different member expressed the view that, compared with the forecasts presented in the October 2014 Outlook Report, those for prices would be lower throughout the projection period -- namely, through fiscal 2016 -- mainly due to the decline in crude oil prices and a weakening of the upward momentum of medium- to long-term inflation expectations. This member continued that the year-on-year rate of increase in the CPI (all items less fresh food) would only rise closer to 2 percent over the projection period. Another member expressed the view that forecasts for prices were lower than the median of the Policy Board members' forecasts, and that it was rather unlikely that the year-on-year rate of increase in the CPI would reach 2 percent in or around fiscal 2015.

Members shared the recognition that risks to the outlook included 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.

III. Summary of Staff Reports on the Loan Support Program and Other Measures

As the Loan Support Program and other measures were due to expire shortly, the staff provided the following explanation regarding the outline and usages of the measures under the current framework.

Financial institutions -- mainly major banks -- had continued to make active use of the fund-provisioning measure to stimulate bank lending (hereafter the Stimulating Bank Lending Facility) since the enhancement decided at the meeting on February 17 and 18, 2014, and the amount outstanding of the Bank's fund-provisioning was currently around 19 trillion yen. As for the fund-provisioning measure to support strengthening the foundations for economic growth (hereafter the Growth-Supporting Funding Facility), the amount outstanding of the Bank's fund-provisioning under the main rules was around 4.3 trillion yen, while the maximum amount was 7 trillion yen. Use of this facility close to the maximum amount that could be provided to each financial institution -- namely, 1 trillion yen -- had been observed. Meanwhile, there had been requests to use these facilities from financial cooperatives that were not eligible counterparties. Of the maximum amount of the Bank's fund-provisioning -- that is, 1 trillion yen -- under the funds-supplying operation to support financial institutions in disaster areas, about 325 billion yen had been used.

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

A. 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 quantitative and qualitative monetary easing (QQE) continued to exert its intended effects after the Bank had decided to expand QQE at the Monetary Policy Meeting held on October 31, 2014. Many members noted that the decision made at the meeting was to pre-empt manifestation of the risk that conversion of the deflationary mindset would be delayed. They continued that, thereafter, despite a further drop in crude oil prices and a slowdown in the year-on-year rate of increase in the CPI, medium- to long-term inflation expectations had been firmly maintained.

With regard to the assessment of price developments for the Bank's conduct of monetary policy, members concurred that the price stability target should be achieved in a stable manner and that the underlying trend in prices was important in conducting monetary policy. On this basis, they shared the view that it was appropriate to indicate the contribution of energy items to the CPI considering the following: (1) the price stability target was set based on the CPI for all items; (2) the forecasts presented in the Outlook Report had been made using the CPI for all items less fresh food, which represented the underlying trend in prices relatively well; and (3) crude oil prices had recently been changing significantly. Many members said that, in assessing the underlying trend in prices, there was no change in the view that it was important to examine a range of price indicators, and that a comprehensive assessment would be made by also taking into account the output gap and medium- to long-term inflation expectations, as well as the underlying economic developments. Furthermore, these members noted that, when examining developments in inflation expectations, it was important to assess not only market indicators such as the break-even inflation rates and the results of surveys conducted on economists, firms, and households, but also firms' and households' views on prices as well as changes in behavior based on such views -- for example, changes in firms' price-setting behavior and in wage negotiations.

With respect to recent developments in inflation expectations, many members expressed the recognition that there had been steady progress in the conversion of the deflationary mindset despite the further drop in crude oil prices and the decline in the actual inflation rate. A few members said that there had been steady progress in the conversion of firms' and households' deflationary mindset as evidenced by the fact that (1) the Japanese Trade Union Confederation (Rengo) had decided the guidelines for wage negotiations in spring 2015, which called for a base pay increase of more than 2 percent; and (2) corporate managers had also indicated a positive stance toward wage increases. Some members pointed out that, although market indicators of medium- to long-term inflation expectations had been declining, surveys conducted on households, firms, and economists suggested that such expectations had generally been maintained. On this point, one of these members added that the results of surveys conducted on small firms better reflected the views of individual firms, as it was often the case that responses to such surveys were based on the views of their corporate managers. Meanwhile, one member said that, even if wage increases were realized as a result of wage negotiations in spring 2015, one should not go so far as to have hopes that such increases would significantly affect economic and price developments.

With regard to <u>the relationship between the decline in crude oil prices and the conduct of monetary policy</u>, members shared the following view: (1) from a somewhat longer-term perspective, the decline would have positive effects on economic activity and exert upward pressure on prices, and downward pressure, stemming from the decline, on the year-on-year rate of increase in prices -- the so-called base effect -- would eventually dissipate; (2) if the short-term downward pressure on prices did not influence the underlying trend in prices through a change in inflation expectations, the actual inflation rate would rise as the base effect dissipated; and (3) in terms of the conduct of monetary policy, the Bank's policy decisions would be made by examining changes in the underlying trend in prices, which was determined by factors such as inflation expectations and the output gap. On this point, a few members said that the Bank should provide a more thorough explanation that the expansion of QQE in October 2014 had been implemented not to directly respond to the decline in crude oil prices but rather to respond to concern over the effects on inflation expectations of the slowdown in the actual inflation rate -- associated mainly with the decline in crude oil prices -- that is, concern over the risk that conversion of the deflationary mindset would be delayed.

Based on the above discussions, 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 exchange-traded funds (ETFs) and Japan real estate investment trusts (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 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. Meanwhile, some members -- noting that interest rates had recently been declining further under QQE -- said that, when examining risks, it was necessary to closely monitor factors such as the effects this would have on financial institutions' business conditions and the risk of a buildup of financial imbalances. A few of these members noted that the feasibility of continuing asset purchases into the future warranted attention, even though it seemed technically possible to continue such purchases for some time.

One member expressed the view that, if a rise were to occur in markets' anticipation that 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 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 QQE should be restricted to about two years, and that thereafter the Bank would review the monetary easing measures in a flexible manner.

B. Treatment of the Loan Support Program and Other Measures

Regarding the treatment of the Loan Support Program and other measures, members shared the recognition that financial institutions had continued to make active use of the Stimulating Bank Lending Facility and the Growth-Supporting Funding Facility since the enhancement decided in February 2014, and that these facilities were playing a significant role in encouraging private financial institutions' efforts to strengthen the foundations for economic growth and to increase their lending. On this basis, members concurred that it was appropriate to extend and enhance the Loan Support Program and other measures, given, for example, the demand from financial institutions. Some members said that, in expanding the range of eligible financial institutions for the Loan Support Program, it was important to establish a framework, such as for assuring the appropriate use of funds.

Based on this discussion, members agreed to make the following amendments to the Stimulating Bank Lending Facility, the Growth-Supporting Funding Facility, the funds-supplying operation to support financial institutions in disaster areas, and the temporary rules regarding the eligibility standards for debt of companies in disaster areas. First, the Bank would extend these measures by one year. Second, with regard to the main rules for the Growth-Supporting Funding Facility, the Bank would increase the maximum amount of funds that it could provide to each financial institution from 1 trillion yen to 2 trillion yen, and also increase the maximum amount outstanding of its fund-provisioning as a whole from 7 trillion yen to 10 trillion yen. And third, as for the Stimulating Bank Lending Facility and the Growth-Supporting Funding Facility, the Bank would introduce a new framework for enabling financial institutions that did not have a current account at the Bank to use these facilities through their central organizations. Members concurred that this would be made public as part of the Statement on Monetary Policy.

V. Remarks by Government Representatives

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

(1) In the government's economic outlook for fiscal 2015 -- approved by the Cabinet on January 12, 2015 -- the government projected that the real GDP growth rates for fiscal 2014 and 2015 would be around minus 0.5 percent and around plus 1.5 percent, respectively, and that in fiscal 2015 the Japanese economy would recover, supported by firm private demand, amid continued improvement in the employment and income situation and further developments in the virtuous cycle of the economy.

(2) On December 27, 2014, the Cabinet had decided the Immediate Economic Measures for Extending Virtuous Cycles to the Local Economies. The intention of these economic measures was to ensure that the virtuous cycle of the economy got on the right track, while seeking to realize both economic revitalization and fiscal consolidation, and that the fruits of Abenomics spread throughout local economies. Based on these economic measures, the Cabinet had decided the supplementary budget for fiscal 2014 at a scale of about 3.1 trillion yen on January 9, 2015, and the budget for fiscal 2015 and an outline for tax reform in fiscal 2015 on January 14. Regarding the budget for fiscal 2015, the government would (1) vigorously address issues in Japan -- for example, vitalizing local economies, enhancing the social security system such as in terms of support for childcare, and prioritizing measures with regard to public works aimed at disaster prevention and reduction and at addressing the aging infrastructure -- and (2) seek to thoroughly prioritize and streamline expenditures, including a review of the natural increase in social security. The total size of the budget would be 96.342 trillion yen, and the government would reduce the amount of newly issued government bonds to 36.863 trillion yen for fiscal 2015, which represented a decrease of 4.387 trillion yen from the amount in the initial budget for fiscal 2014. Based on this budget for fiscal

2015, the government expected that the target of halving its primary balance deficit relative to GDP could be achieved. As for the fiscal 2015 tax reform, the government would take taxation measures, such as those toward (1) overcoming deflation and economic revitalization -- for example, growth-oriented corporate tax reform; (2) vitalizing local economies; and (3) realizing both economic revitalization and fiscal soundness, such as measures to respond to the change in the timing of raising the consumption tax rate. Through these measures, it would aim to achieve both economic revitalization and fiscal consolidation.

(3) The government expected the Bank to continue to steadily pursue 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 Japanese economy was on a moderate recovery, while weakness could be seen mainly in private consumption. In the government's economic outlook for fiscal 2015, approved by the Cabinet on January 12, 2015, the government projected that the economy would recover, supported by firm private demand, amid further developments in the virtuous cycle of the economy, brought about mainly by pursuing various policies and through government-labor-management initiatives. Based on this, the government projected that the real and nominal GDP growth rates for fiscal 2015 would be around 1.5 percent and around 2.7 percent, respectively.

(2) With regard to prices, the government projected that, despite effects of the decline in crude oil prices, the annual CPI inflation rate for fiscal 2015 would be approximately 1.4 percent, due in part to the effects of QQE, and that the GDP deflator would rise, partly reflecting an improvement in the terms of trade; the government expected that the Japanese economy would make steady progress toward overcoming deflation. As a substantial decline in crude oil prices would exert different effects on the CPI for all items, that for all items less food and energy, or the core-core CPI, and the GDP deflator, the government deemed it important to make a comprehensive assessment of price developments.

(3) The Cabinet had decided the Immediate Economic Measures for Extending Virtuous Cycles to the Local Economies on December 27, 2014, and the supplementary budget for fiscal 2014 on January 9, 2015. The government would seek to draw up these

measures swiftly. The Cabinet had also decided the long-term vision as well as the comprehensive strategy for overcoming population decline and vitalizing local economy in Japan.

(4) On January 20, 2015, the Japan Business Federation (Keidanren) had released the Report of the Committee on Management and Labor Policy, which indicated the basic stance of corporate managers in the wage negotiations this spring. The report stated that corporate managers were strongly encouraged to take a positive stance toward raising wages, and the government had strong expectations that, as a result of discussions between labor and management, wage increases would firmly take hold again in 2015.

(5) The government expected the Bank to steadily work to achieve the price stability target of 2 percent, while taking into account developments in economic activity and prices.

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 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 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 December 18 and 19, 2014 for release on January 26, 2015.

Attachment

January 21, 2015

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. The Policy Board also decided, by a unanimous vote, to make the following amendments to the Fund-Provisioning Measure to Stimulate Bank Lending (hereafter "Stimulating Bank Lending Facility"), the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth (hereafter "Growth-Supporting Funding Facility"), the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas affected by the Great East Japan Earthquake, and the Temporary Rules regarding the Eligibility Standards for Debt of Companies in Disaster Areas, all of which were due to expire shortly:[7]

[7] Amendments to relevant principal terms and conditions will be decided at a future Monetary Policy Meeting.

a) The Bank will extend these measures by one year.

b) With regard to the main rules for the Growth-Supporting Funding Facility, the Bank will increase the maximum amount of funds that it can provide to each financial institution from 1 trillion yen to 2 trillion yen, and also increase the maximum amount outstanding of its fund-provisioning as a whole from 7 trillion yen to 10 trillion yen.

c) As for the Stimulating Bank Lending Facility and the Growth-Supporting Funding Facility, the Bank will introduce a new framework for enabling financial institutions, which do not have a current account at the Bank, to use these facilities through their central organizations.

4. Japan's economy has continued to recover moderately as a trend, and effects such as those of the decline in demand following the front-loaded increase prior to the consumption tax hike have been waning on the whole. Overseas economies -- mainly advanced economies -- have been recovering, albeit with a lackluster performance still seen in part. In this situation, exports have shown signs of picking up. 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. Housing investment, which continued to decline following the front-loaded increase, has recently started to bottom out. Against the backdrop of these developments in demand both at home and abroad, industrial production has bottomed out, due in part to the progress in 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 in the range of 0.5-1.0 percent. Inflation expectations appear to be rising on the whole from a somewhat longer-term perspective.

5. With regard to the outlook, Japan's economy is expected to continue its moderate recovery trend, and the effects such as those of the decline in demand following the front-loaded increase prior to the consumption tax hike are expected to dissipate. The year-on-year rate of increase in the CPI is likely to slow for the time being, reflecting the decline in energy prices.

6. Compared with the forecasts presented in the October 2014 *Outlook for Economic Activity and Prices*, the growth rate will likely be lower for fiscal 2014, but will likely be higher for fiscal 2015 and 2016. With regard to the CPI, the outlook for the underlying trend remains unchanged, but the year-on-year rate of increase will likely be lower toward fiscal 2015, due to the significant decline in crude oil prices. The rate of increase for fiscal 2016 will likely be more or less unchanged from the October forecast.[8]

7. 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.

8. 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 regarding 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 regarding 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.

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[8] In this interim assessment, given the significant change in crude oil prices, the Policy Board members made their forecasts based on the following assumption about crude oil prices. Dubai crude oil prices are expected to rise moderately from the recent 55 U.S. dollars per barrel to about 70 dollars per barrel toward the end of the projection period. In this case, the contribution of energy items to the CPI (all items less fresh food) is estimated to be mostly in the range of minus 0.7 to minus 0.8 percentage point for fiscal 2015, and mostly in the range of plus 0.1 to plus 0.2 percentage point for fiscal 2016.

(Appendix 1)

Forecasts of the Majority of Policy Board Members

y/y % chg.

	Real GDP	CPI (all items less fresh food)	Excluding the effects of the consumption tax hikes
Fiscal 2014	-0.6 to -0.4 [-0.5]	+2.9 to +3.2 [+2.9]	+0.9 to +1.2 [+0.9]
Forecasts made in October 2014	+0.2 to +0.7 [+0.5]	+3.1 to +3.4 [+3.2]	+1.1 to +1.4 [+1.2]
Fiscal 2015	+1.8 to +2.3 [+2.1]	+0.4 to +1.3 [+1.0]	
Forecasts made in October 2014	+1.2 to +1.7 [+1.5]	+1.8 to +2.6 [+2.4]	+1.1 to +1.9 [+1.7]
Fiscal 2016	+1.5 to +1.7 [+1.6]	+1.5 to +2.3 [+2.2]	
Forecasts made in October 2014	+1.0 to +1.4 [+1.2]	+1.9 to +3.0 [+2.8]	+1.2 to +2.3 [+2.1]

Notes: 1. Figures in brackets indicate the median of the Policy Board members' forecasts (point estimates).

2. The forecasts of the majority of the Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate -- namely, the figure to which he or she attaches the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. The range does not indicate the forecast errors.

3. Individual Policy Board members make their forecasts assuming the effects of past policy decisions and with reference to views incorporated in financial markets regarding future policy.

4. Dubai crude oil prices are expected to rise moderately from the recent 55 U.S. dollars per barrel to about 70 dollars per barrel toward the end of the projection period. In this case, the contribution of energy items to the CPI (all items less fresh food) is estimated to be mostly in the range of minus 0.7 to minus 0.8 percentage point for fiscal 2015, and mostly in the range of plus 0.1 to plus 0.2 percentage point for fiscal 2016.

5. The consumption tax hike in April 2014 -- to 8 percent -- and the one scheduled for April 2017 -- to 10 percent -- are incorporated in the forecasts. In terms of the outlook for the CPI, individual Policy Board members make their forecasts based on figures excluding the direct effects of the consumption tax hikes.

6. The forecasts for the CPI that incorporate the direct effects of the consumption tax hikes are constructed as follows. First, the contribution to prices from each tax hike is mechanically computed on the assumption that the tax increase will be fully passed on for all taxable items. The CPI will be pushed up by 2.0 percentage points for fiscal 2014. Second, this figure is added to the forecasts made by the Policy Board members.

The forecasts as of October 2014 assumed that the consumption tax -- after having risen to 8 percent in April 2014 -- would rise to 10 percent in October 2015. The contribution to prices from each tax hike was 2.0 percentage points for fiscal 2014 and 0.7 percentage point for both fiscal 2015 and fiscal 2016. These figures were added to the forecasts made by the Policy Board members.

7. The ranges shown below include the forecasts of all Policy Board members.

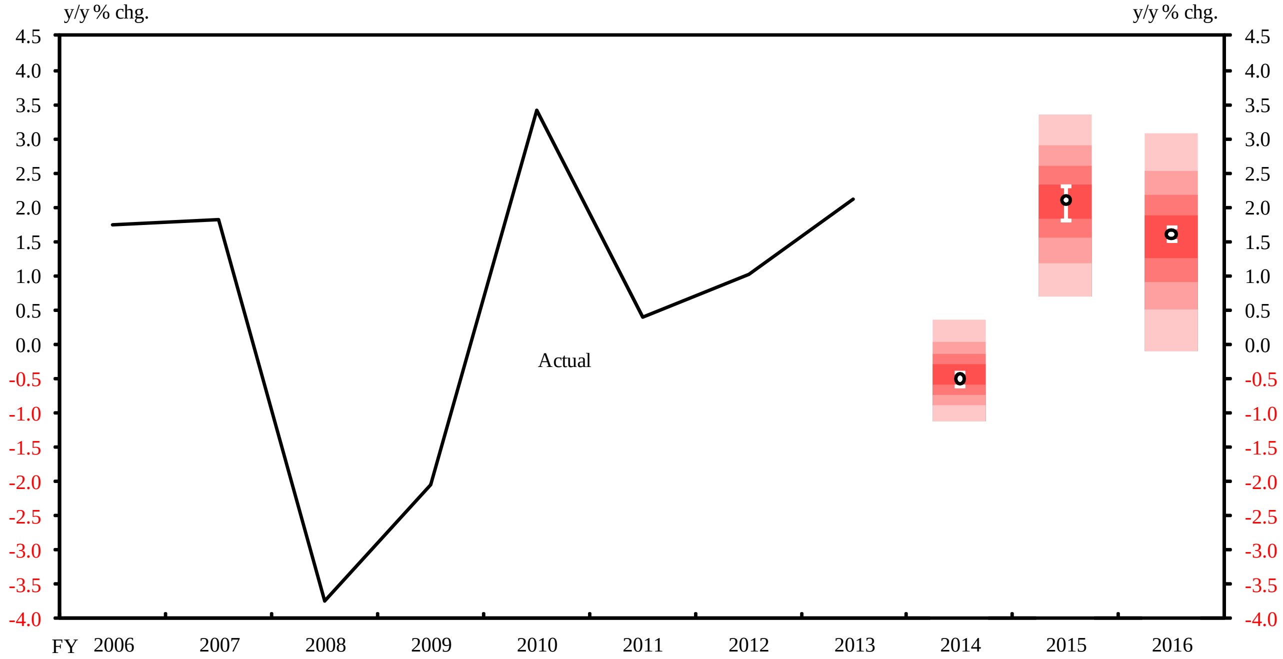
y/y % chg.

	Real GDP	CPI (all items less fresh food)	Excluding the effects of the consumption tax hikes
Fiscal 2014	-0.7 to -0.3	+2.9 to +3.3	+0.9 to +1.3
Forecasts made in October 2014	+0.1 to +1.0	+3.0 to +3.4	+1.0 to +1.4
Fiscal 2015	+1.3 to +2.3	+0.3 to +1.4	
Forecasts made in October 2014	+0.8 to +1.8	+1.6 to +2.7	+0.9 to +2.0
Fiscal 2016	+0.7 to +2.0	+0.9 to +2.3	
Forecasts made in October 2014	+0.6 to +1.6	+1.6 to +3.0	+0.9 to +2.3

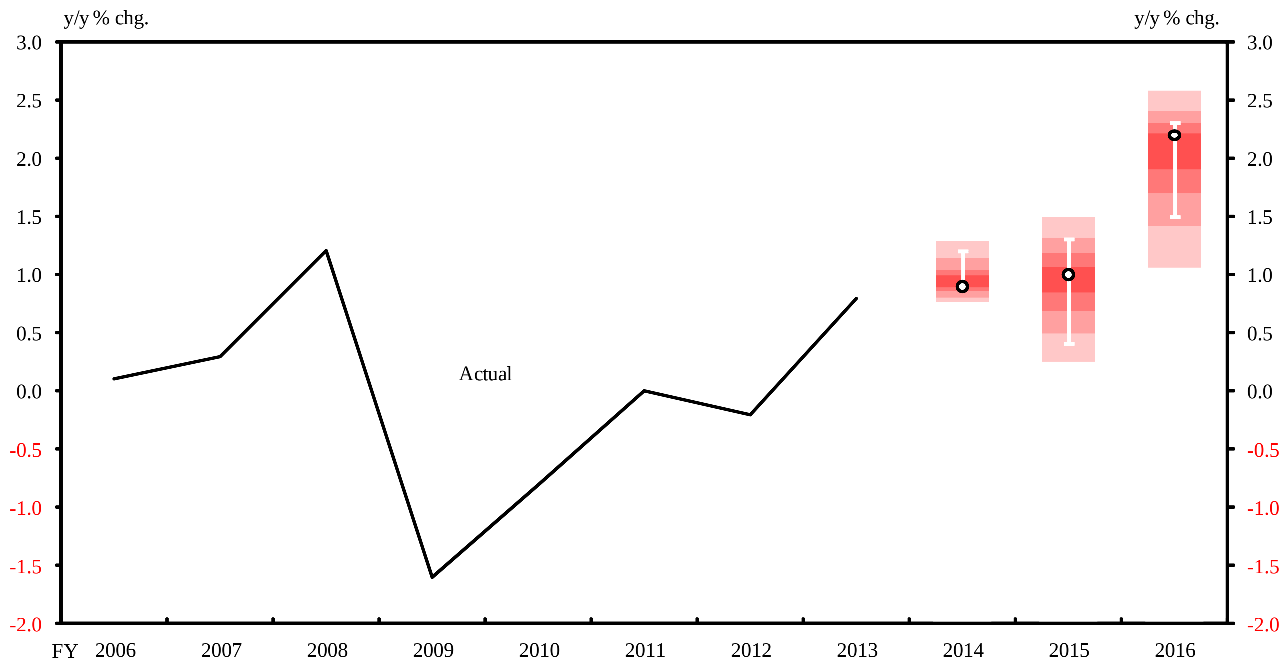
(Appendix 2)

Forecast Distribution Charts of Policy Board Members

(1) Real GDP



(2) CPI (All Items Less Fresh Food)



Notes: 1. The Forecast Distribution Charts are based on the aggregated probability distributions (i.e. the Risk Balance Charts) compiled from the distributions of individual policy board members, and constructed as follows. First, the upper and lower 10 percentiles of the aggregated distributions are trimmed. Second, the various percentiles of the aggregated distributions are color-coded as below.

Upper 40% to lower 40%	Upper 30% to 40% and lower 30% to 40%	Upper 20% to 30% and lower 20% to 30%	Upper 10% to 20% and lower 10% to 20%

2. For the process of compilation of the Risk Balance Charts, see the box on page 9 of the April 2008 *Outlook for Economic Activity and Prices* .

3. The circles in the bar charts indicate the median of the Policy Board members' forecasts (point estimates). The vertical lines in the bar charts indicate the range of the forecasts of the majority of Policy Board members.

4. The forecast for the CPI excludes the direct effects of the scheduled consumption tax hikes.