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March 20, 2015

Bank of Japan

Minutes of the Monetary Policy Meeting

on February 17 and 18, 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, February 17, 2015, from 2:00 p.m. to 4:18 p.m., and on Wednesday, February 18, from 9:00 a.m. to 11:44 a.m.[1]

Policy Board Members Present

Mr. H. Kuroda, Chairman, Governor of the Bank of Japan

Mr. K. Iwata, Deputy Governor of the Bank of Japan

Mr. H. Nakaso, Deputy Governor of the Bank of Japan

Mr. R. Miyao

Mr. Y. Morimoto

Ms. S. Shirai

Mr. K. Ishida

Mr. T. Sato

Mr. T. Kiuchi

Government Representatives Present

Mr. I. Miyashita, State Minister of Finance, Ministry of Finance[2]

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

Mr. Y. Nishimura, State Minister of Cabinet Office, Cabinet Office[2]

Mr. M. Maekawa, 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

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on March 16 and 17, 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] Messrs. I. Miyashita and Y. Nishimura were present on February 18.

[3] Messrs. M. Nakagawa and M. Maekawa were present on February 17.

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. S. Watanabe, Senior Economist, Monetary Affairs Department

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

I. Summary of Staff Reports on Economic and Financial Developments[4]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on January 20 and 21, 2015, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[5] In this situation, the amount outstanding of the monetary base had been in the range of 270-280 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 generally been at around 0 percent.

Yields on 10-year JGBs had increased, mainly reflecting a rise in U.S. long-term interest rates due to firm economic indicators and a rebound in crude oil prices. They had recently been at around 0.4 percent. The Nikkei 225 Stock Average had risen, partly against the background of the expectations for favorable corporate results, and had recently been at around 18,000 yen. In the foreign exchange market, the yen had depreciated somewhat against the U.S. dollar, mainly reflecting firm economic indicators in the United States, but appreciated thereafter. The yen had been more or less unchanged throughout the intermeeting period. The euro had depreciated against the dollar, primarily due to the announcement of the expansion of the monetary easing program by the European Central Bank (ECB).

C. Overseas Economic and Financial Developments

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

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

[5] The guideline was as follows:

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

The U.S. economy continued to recover solidly, led mainly by private demand. Private consumption had been increasing firmly on the back of a strong increase in employment and the effects of low crude oil prices. Housing investment had also followed a moderate pick-up trend. Exports continued to increase, albeit at a somewhat slower pace. Business sentiment and the momentum in production activity had been solid, 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 European economy maintained its moderate recovery, and the slowdown in its growth momentum had come to a halt. Private consumption continued to recover steadily, albeit at a moderate pace, reflecting the improving trend in compensation of employees and the effects of low crude oil prices. Exports had shown signs of a pick-up on the back of improvement in external demand and of the effects of the euro's depreciation. Corporate results had been improving, partly due to the depreciation of the euro, and business sentiment had also shown movements toward a pick-up. On the other hand, business fixed investment and production remained more or less unchanged. As for prices, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) for all items had registered larger negative figures, mainly due to the effects of the decline in energy prices, and that in the HICP excluding energy and unprocessed food had also declined, albeit marginally. Meanwhile, economic activity in the United Kingdom continued to recover firmly, led mainly by domestic demand, although the pace had slowed somewhat.

With regard to emerging economies, the Chinese economy generally maintained its stable growth, although its growth momentum had somewhat slowed due to 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, although fixed asset investment had been underpinned by public investment, its pace of increase continued to decelerate, mainly against the background of adjustments in the real estate market. The pace of growth in production had been slowing moderately. 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 been picking 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 had been lacking growth momentum since improvement in private consumption remained slow. 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 past raising of policy interest rates and to capital outflow.

As for prices of emerging economies, inflation rates had decreased, mainly because of the decline in energy prices. However, inflation rates had been rising in Russia due to the effects of the depreciation of the currency and to the increase in food prices, and in Brazil due to a rise in public utility charges.

Regarding global financial markets, in the United States, both stock prices and long-term interest rates had risen, mainly reflecting firm economic indicators and the rebound in crude oil prices. In Europe, stock prices had been increasing amid a decline in long-term interest rates, due mainly to the ECB's expansion of the monetary easing program. In the foreign exchange market, the U.S. dollar had appreciated, reflecting market participants' focus on the difference in the direction of monetary policy between the United States and other countries. Currencies in emerging economies continued on their downward trend, mainly due to market participants' expectations about the normalization of U.S. monetary policy. In international commodity markets, crude oil prices had rebounded, mainly reflecting anticipation of a decline in production in the United States.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had been picking up. Real exports, after marking a slight increase in the July-September quarter of 2014, had risen noticeably in the October-December 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 enter a moderate declining trend, albeit maintaining a somewhat high level.

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 trended moderately upward 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-December quarter. Machinery orders (private sector, excluding orders for ships and those from electric power companies) had risen in the July-September quarter, notably in manufacturing, and had inched upward in the October-December quarter as well. 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 seen in the fact that the unemployment rate had followed a downward trend and the active job openings-to-applicants ratio continued on its improving trend. 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 as a whole remained resilient against the background of steady improvement in the employment and income situation, although recovery in some areas had been sluggish. Sales at retail stores in real terms had started to increase in the July-September quarter of 2014, after falling substantially in the April-June quarter due to the effects of the decline in demand following the front-loaded increase prior to the consumption tax hike, and continued to rise in the October-December quarter. Sales at supermarkets had shown relatively weak movements, declining slightly in the October-December quarter, whereas those at department stores continued to improve, supported in part by increased sales to foreign visitors to Japan. As for durable consumer goods, which had exhibited lingering effects of the decline in demand following the front-loaded increase, the number of new passenger-car registrations had shown movements toward a pick-up, and sales of household electrical appliances had tended to pick up at a moderate pace, albeit with fluctuations. Services consumption, such as that related to travel, remained steady. Indicators related to consumer confidence showed that it had recently bottomed out, mainly reflecting a decline in the prices of petroleum products, after becoming increasingly cautious. Private consumption was expected to remain resilient with the employment and income situation continuing to improve steadily.

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 been picking up, due in part to the moderate increase in demand both at home and abroad as well as to the progress in inventory adjustments. It had fallen back noticeably in the April-June quarter of 2014, due to the effects of the decline in demand following the front-loaded increase, and continued to decrease in the July-September quarter, but had turned upward in the October-December quarter. Reflecting developments in demand both at home and abroad, industrial production was expected to increase moderately.

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 around 0.5 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 at around 2.5 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 view that global financial markets had been affected by the growing difference in the direction of monetary policy between the United States and other countries. They continued that this was evidenced by the fact that the timing of a hike in the policy rate in the United States had drawn attention, mainly on the back of firm economic indicators, while monetary easing had been implemented in many other countries against the background of declining inflation rates. Members expressed the recognition that attention should be paid to the possibility of a change in the global flow of funds triggered, for example, by changes in market participants' views on U.S. monetary policy. Regarding the prospect of financial assistance to Greece, many members -- pointing out that the markets had been calm thus far -- said that what would happen in the event that negotiations for the financial assistance ran into difficulties warranted attention.

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 concurred that the U.S. economy continued to recover solidly, led mainly by private demand. They shared the recognition that private consumption had been increasing firmly on the back of an increase in employment and the decline in gasoline prices. Some members noted that, reflecting the developments in private consumption, corporate activity remained firm. As for the outlook, members concurred that the economy was likely to continue to recover solidly as firmness in the household sector would continue to spread to the corporate sector. One member pointed out that the rate of increase in nominal wages remained moderate and that it was necessary to pay close attention to whether this would affect the uptrend in prices.

Members agreed that the euro area economy maintained its moderate recovery, and the slowdown in its growth momentum had come to a halt, partly due to the effects of the euro's depreciation and low crude oil prices. They shared the recognition that private consumption continued to recover steadily, mainly on the back of the effects of low crude oil prices, and that exports had been picking up, mainly reflecting the effects of the euro's depreciation. As for the outlook, members concurred that the economy would likely maintain its recovery, albeit at a moderate pace. Some members pointed out that the year-on-year rate of change in the HICP for all items had turned negative, due to the decline in energy prices. These members then expressed the intent to closely monitor the effects of the ECB's recent expansion of the monetary easing program. One member pointed out that the decline in inflation rates was attributable not only to the effects of the decline in crude oil prices but also to the slower increase in services prices. A few members said that the effects of developments in political and economic conditions in Russia and Ukraine warranted attention.

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 its growth momentum had somewhat slowed due to downward pressure associated with structural reforms. A few members expressed the opinion that the authorities' recent financial measures to underpin the economy would also contribute to its stable growth. As for the outlook, members shared the view that the economy would likely continue to grow stably, 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, some economies, particularly Brazilian and Russian economies, remained stagnant. They continued that emerging economies as a whole remained lackluster in terms of growth. Members concurred that, although differences remained across countries and regions, emerging economies were likely to gradually increase their growth rates as advanced economies -- particularly the United States -- had positive effects on them, triggering a pick-up in domestic demand. Some members pointed out that some emerging economies stimulated their economic activities through monetary easing, and that lower inflation rates due to the decline in crude oil prices allowed them to do so.

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 its moderate recovery trend. Many members, referring to the fact that the first preliminary estimate of the real GDP growth rate for the October-December quarter of 2014 had returned to positive territory, mainly due to the increase in exports, said that this was an indication of the economy's moderate recovery trend. With regard to the outlook for the economy, members concurred that it was likely to continue on such a trend.

Members agreed that Japan's exports had been picking up. They shared the recognition that exports were likely to increase moderately, mainly against the background of the recovery in overseas economies and the yen's depreciation. Some members pointed out that the pick-up in exports was led by those of capital goods to the United States and those of IT-related goods to Asia. One member noted that export prices on a contractual currency basis were trending down against the background of the yen's depreciation, which suggested an increase in the international competitiveness of Japanese products. On the other hand, a different member said that the sustainability of the pick-up in exports remained uncertain, mainly because the pick-up depended largely on demand from the United States. Another member was closely monitoring the effects of the prolonged strike by workers at U.S. West Coast ports.

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 as corporate profits followed their improving trend. One member said that, although real business fixed investment on a GDP basis for the October-December quarter had been more or less unchanged from the previous quarter, developments such as in the aggregate supply of capital goods suggested a moderate increasing trend in business fixed investment. This member therefore was paying close attention to how the GDP-based figure for real fixed investment would be revised at the second preliminary estimate, and to how fixed investment plans were being implemented. A different member expressed the view that, under accommodative financial conditions, the fixed investment of small firms as well as large firms was expected to increase, supported also by higher profits from low crude oil prices.

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. Many members expressed the view that the wage negotiations in spring 2015 were expected to bring about wage increases, particularly among large firms, reflecting favorable corporate profits. One of these members said that survey results suggested that even small firms, which were facing an unresolved shortage of labor, had become positive toward wage increases.

Members agreed that private consumption as a whole remained resilient against the background of steady improvement in the employment and income situation, although recovery in some areas had been sluggish. They shared the view that sales of durable consumer goods -- such as automobiles and household electrical appliances -- which had experienced a lingering decline in demand following the front-loaded increase, had been on an improving trend. Members concurred that private consumption was likely to remain resilient with the employment and income situation continuing to improve steadily. Some members noted that, although consumer sentiment remained cautious, there appeared to be some signs of its improvement in relevant indicators. Some members expressed the view that, in assessing the outlook for private consumption, it was important to see if improvement in nominal income became widespread through, for example, wage increases. A few members said that the recent decline in crude oil prices would push up private consumption by raising households' real purchasing power. One member, meanwhile, commented that sales at department stores and supermarkets and sales of passenger cars for January might have been sluggish, judging from interviews with firms and other relevant information.

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 been picking up, reflecting the developments in demand both at home and abroad and the progress in inventory adjustments, and was likely to increase moderately. Some members said that firms' shift of production sites back to Japan against the background of the yen's depreciation was giving an additional boost to exports and production.

Members shared the view that downward pressure on the economy stemming from the decline in demand following the front-loaded increase prior to the consumption tax hike had been dissipating, taking into account the developments in private consumption and industrial production. A few members, however, added that the effects of the decline in real income following the consumption tax hike continued to warrant attention.

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 around 0.5 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. One member pointed out that the average contract interest rates on new long-term loans and discounts had been at historically 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.

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

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

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. These members shared the view that the underlying trend in inflation, which was determined by the output gap and medium- to long-term inflation expectations, would continue to improve.

With regard to the assessment of price developments for the Bank's conduct of monetary policy, members shared the recognition that the price stability target should be achieved in a stable manner and that the underlying trend in inflation was important in conducting monetary policy. Some members said that, in assessing the underlying trend in inflation, a range of price indicators would need to be examined and 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. On this point, many members expressed the view that the output gap would follow its improving trend as the economy continued its moderate recovery trend. Members shared the opinion that inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective. One member said that, based on survey results, while short-term inflation expectations had been declining, reflecting developments in the actual inflation rate, medium- to long-term inflation expectations had been maintained. This member continued that the break-even inflation rates -- which indicated inflation expectations in financial markets -- had started to rise, due in part to the rebound in crude oil prices. A different member commented that firms had been shifting their price-setting strategy, from a low-price strategy to one of raising sales prices. Based on this discussion, many members expressed the view that the year-on-year rate of increase in the CPI (all items less fresh food) would accelerate as the base effect of the falling crude oil prices dissipated, and was likely to reach 2 percent 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. A different member pointed out that achievement of the price stability target of 2 percent was very likely, given that the fundamentals of Japan's economy had been improving so firmly from a somewhat long-term perspective that cyclical rises in wages and prices had become increasingly possible. Some members pointed out that the year-on-year rate of increase in the CPI might slow to around 0 percent in the immediate future, due to the effects of the decline in crude oil prices, but what should be considered in conducting monetary policy was the underlying trend in inflation, and there was no change in this trend. A few members stated that it was necessary to thoroughly explain these views on price developments. In response, one member pointed out that the pace of increase in prices remained moderate even when excluding the effects of the decline in crude oil prices, and that a shift of the Phillips curve had not been observed. This member then commented that it was very unlikely that the year-on-year rate of increase in the CPI would reach 2 percent in a stable manner within a short period of time.

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. Some members pointed out that volatility in the JGB market had increased recently. A few members, noting that this reflected adjustments in market participants' views on future interest rates, which had been tilted somewhat too much to the downside, expressed the view that QQE continued to steadily exert its intended effects as the yield curve remained at a low level. One member said that the effects of QQE would increase in a cumulative manner with the progress in the Bank's asset purchases, and that this would provide an anchor for the entire yield curve. A different member expressed the view that the recent rise in interest rates was attributable to the rise in U.S. interest rates and to the halt in the decline in crude oil prices. On the other hand, a few members pointed to the possibility that the recent rise in interest rates reflected a decline in market participants' risk tolerance and deterioration in market functioning. A few members noted that the feasibility of continuing JGB purchases into the future warranted attention, even though it seemed technically possible to continue such purchases for some time. One member mentioned the possibility that volatility in financial markets would increase when the effects of the decline in crude oil prices on the year-on-year rate of increase in the CPI would dissipate and inflation rates would rise, pointing out the importance of the Bank properly communicating on monetary policy with the public and the market.

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.

IV. Remarks by Government Representatives

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

(1) The government acknowledged that the Japanese economy was on a moderate recovery, as evidenced by the fact that the real GDP growth rate for the October-December quarter of 2014 -- which had been released on February 16, 2015 -- was 2.2 percent on an annualized quarter-on-quarter basis, registering positive growth for the first time in three quarters.

(2) On February 3, the supplementary budget for fiscal 2014 had been approved by the Diet. The government would swiftly and steadily implement this budget, ensuring that the virtuous cycle of the economy got on the right track and that the fruits of Abenomics swiftly spread throughout local economies. Then, on February 12, the government had submitted the budget for fiscal 2015 to the Diet. The government had stated at the previous Monetary Policy Meeting that, based on this budget for fiscal 2015, the target of halving its primary balance deficit relative to GDP was expected to be achieved. In the Economic and Fiscal Projections for Medium- to Long-Term Analysis released by the Cabinet Office, the national and local governments' primary balance-to-GDP ratio for fiscal 2015 was projected to be approximately minus 3.3 percent, indicating that this target could be achieved. On the other hand, with regard to fiscal 2020, the national and local governments' primary balance deficit was projected to be 1.6 percent, or 9.4 trillion yen, even in the "economic revitalization case" presented in the projections, in which the growth rate was projected to reach 3 percent or more in nominal terms and 2 percent or more in real terms. The government would firmly maintain the target of achieving a primary surplus for national and local governments by fiscal 2020, and formulate a concrete plan by the summer of 2015 to achieve this target. In formulating this plan, the government would further strengthen the initiatives taken by the Abe Cabinet to date, and would proceed with deliberations that primarily focused on three perspectives: overcoming deflation and economic revitalization, expenditure reform, and revenue reform. At the Group of Twenty (G-20) Finance Ministers and Central Bank Governors Meeting held in Istanbul, Turkey, the Minister of Finance had explained Japan's economic situation and the government's measures to achieve fiscal consolidation, and had gained the understanding of each participating country. The government would continue to aim to achieve both economic revitalization and fiscal consolidation.

(3) The government expected the Bank to achieve the price stability target of 2 percent in light of economic activity and prices.

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. The real GDP growth rate for the October-December

quarter of 2014 was 2.2 percent on an annualized quarter-on-quarter basis, registering positive growth for the first time in three quarters. In addition, the year-on-year rate of increase in the GDP deflator had climbed from the previous quarter to 2.3 percent for the October-December quarter, which showed that there were favorable economic conditions for overcoming deflation. Taking such developments into account, the government deemed it important to make a comprehensive assessment of price developments.

(2) In the Economic and Fiscal Projections for Medium- to Long-Term Analysis, the national and local governments' primary balance-to-GDP ratio for fiscal 2015 was projected to be approximately minus 3.3 percent, indicating that the target of halving its primary balance deficit from that in fiscal 2010 could be achieved. That for fiscal 2020 was projected to improve to reach approximately minus 1.6 percent in the "economic revitalization case." In order to firmly maintain the goal to achieve fiscal consolidation by fiscal 2020 and achieve both economic revitalization and fiscal consolidation, the government would proceed with deliberations at the Council on Economic and Fiscal Policy and formulate a concrete plan by the summer of 2015 to achieve this target.

(3) Following the Diet's approval of the supplementary budget for fiscal 2014, the prime minister had given instructions to swiftly implement the Immediate Economic Measures for Extending Virtuous Cycles to the Local Economies as well as the supplementary budget, and to manage the implementation process. The Cabinet Office would review the progress made with regard to these measures.

(4) The Cabinet had decided the revised Action Plan for Strengthening Industrial Competitiveness, which presented the specifics of the reform for implementing and achieving the growth strategy, and the government would implement each measure steadily. The Review Guidelines for the Progress of the Growth Strategy had been decided at the Industrial Competitiveness Council. As for the National Strategic Zones project, the government had certified a zone plan for the Yabu City zone in Hyogo Prefecture for the second time.

(5) At an intensive discussion regarding monetary policy and prices at the Council on Economic and Fiscal Policy held on January 30, the government had reviewed the progress toward overcoming deflation and promoting economic revitalization. The

government expected the Bank to steadily work to achieve the price stability target of 2 percent in light of economic activity and prices.

V. 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.

VI. Discussion on the Statement on Monetary Policy

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

A. Mr. T. Kiuchi's Policy Proposal

With regard to the draft of the statement that formed a majority view, Mr. T. Kiuchi proposed changing the current expression of the Bank's future monetary policy stance that "the Bank will continue with 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).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of January 20 and 21, 2015 for release on February 23, 2015.

Attachment

February 18, 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. Japan's economy has continued its moderate recovery trend. Overseas economies -- mainly advanced economies -- have been recovering, albeit with a lackluster performance still seen in part. In this situation, exports have been 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 as a whole has remained resilient against the background of steady improvement in the employment and income situation, although recovery in some areas has been sluggish. Housing investment, which continued to decline following the front-loaded increase prior to the consumption tax hike,

has recently started to bottom out. Against the backdrop of these developments in demand both at home and abroad, industrial production has been picking up, 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 around 0.5 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. The year-on-year rate of increase in the CPI is likely to slow for the time being, reflecting the decline in energy prices.

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 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 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.