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August 12, 2015

Bank of Japan

Minutes of the Monetary Policy Meeting

on July 14 and 15, 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, July 14, 2015, from 2:00 p.m. to 3:57 p.m., and on Wednesday, July 15, from 9:00 a.m. to 12:13 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

Ms. S. Shirai

Mr. K. Ishida

Mr. T. Sato

Mr. T. Kiuchi

Mr. Y. Harada

Mr. Y. Funo

Government Representatives Present

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

Mr. M. Ota, Deputy Vice Minister for Policy Planning and Coordination, 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

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1 The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on August 6 and 7, 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 July 15.

3 Messrs. M. Ota and M. Maekawa were present on July 14.

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. K. Nakamura, 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. I. Muto, 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 June 18 and 19, 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 320-326 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 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 in slightly negative territory recently.

Bond, stock, and foreign exchange markets had temporarily shown somewhat volatile movements in response to developments in political and economic conditions in Greece and large fluctuations in the Chinese stock market. Specifically, yields on 10-year JGBs had temporarily declined, mainly reflecting a drop in long-term interest rates overseas against the background of uncertainty about political and economic conditions in Greece. However, they had increased thereafter, mainly in response to progress in such conditions, and were recently moving at around 0.45 percent. The Nikkei 225 Stock Average had moved downward, mainly reflecting uncertainty about the conditions in Greece and the decline in Chinese stock prices. However, it had then risen on the back of progress in the conditions in Greece and the rebound in Chinese stock prices, and was recently moving somewhat above 20,000 yen. In the foreign exchange market, the yen had temporarily appreciated against the U.S. dollar, mainly due to the decline in overseas interest rates reflecting uncertainty about the conditions in Greece. However, the yen had depreciated thereafter, mainly in response to moves toward financial assistance to Greece, and was currently moving at around 123 yen. Meanwhile, the yen had appreciated against the euro.

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

[5] The guideline was as follows:

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

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 had been recovering, assisted by household spending, although adjustments had been seen in the industrial production sector, mainly on the back of the decline in crude oil prices and the appreciation of the U.S. dollar. Business fixed investment continued to be relatively weak, partly due to a decline in investment related to energy; exports also remained somewhat weak due to the effects of external demand and developments in foreign exchange markets. However, private consumption had increased clearly, emerging from a decline observed last winter, supported in part by a favorable employment and income situation. Housing investment had also followed a moderate pick-up trend. The solid trend in household spending had brought about firm momentum in sentiment and the production activity of domestic demand-oriented firms, such as those in the service industry. Imports also continued to be on an increasing trend. 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 been at around 0 percent, mainly due to the decline in energy prices.

The European economy maintained its moderate recovery. Exports had been rising moderately, mainly on the back of the depreciation of the euro. Private consumption continued to increase, partly supported by the recovery trend in consumer sentiment backed by the improvement in the labor market. Reflecting such developments in demand, production activity had been recovering moderately, and business fixed investment had also shown signs of picking up. With regard to prices, as the effects of the euro's depreciation had emerged while the rate of decline in energy prices had been diminishing gradually, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) for all items had slightly exceeded 0 percent. That in the HICP excluding energy and unprocessed food had been more or less flat. Meanwhile, economic activity in the United Kingdom continued to recover, led mainly by domestic demand.

With regard to emerging economies, the Chinese economy maintained its stable growth on the whole, but its growth momentum had been sluggish due to downward pressure associated with structural reforms. Stable growth in private consumption continued against the background of the ongoing 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. Exports had been relatively weak recently. Reflecting such developments in demand, the pace of growth in production had been slowing moderately. In India, the economy had been picking up steadily, particularly in domestic demand, partly reflecting expectations for structural reforms and monetary easing. On the other hand, while there were some effects of low crude oil prices and economic stimulus measures, the pace of economic growth in the NIEs was decelerating in a situation where exports and production had been relatively weak, due to not only the slowdown in manufacturing worldwide after the turn of the year but also the prolonged off-peak demand period for IT-related goods. In the ASEAN economies, economic recovery had paused as external demand had been affected by the earlier decline in international commodity prices and production adjustments in China, as well as in terms of domestic demand, as the accumulation of household debt had been weighing on private consumption. Economic activity in Brazil and Russia remained severe, with domestic demand declining, mainly reflecting the rise in inflation rates and policy interest rate hikes, and with this development in demand clearly affecting production and employment.

As for prices in emerging economies, inflation rates had been at low levels in many of these economies, although there were some signs of a bottoming out due to the stabilization of energy prices. However, inflation rates had risen or remained at high levels in some economies.

Regarding global financial markets, in advanced economies U.S. and European long-term interest rates had temporarily declined because of the flight to quality reflecting political and economic conditions in Greece. However, these rates had increased thereafter in response to progress in such conditions, and were more or less unchanged compared with the levels at the time of the previous meeting. U.S. and European stock prices had also fallen temporarily, reflecting uncertainty about political and economic conditions in Greece. However, these prices had risen thereafter in response to progress in such conditions, and were at almost the same levels as at the time of the previous meeting. In emerging economies, Chinese stock prices had fallen sharply, mainly reflecting the spread of concern over the high level of these prices and the unwinding of margin trading. In international commodity markets, crude oil prices had decreased, due in part to withdrawal of funds invested, in response to uncertainty about political and economic conditions in Greece and the decline in Chinese stock prices, with U.S. crude oil inventories increasing.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had been picking up, albeit with some fluctuations. Real exports had increased for three quarters in a row since the July-September quarter of 2014, and had fallen in the April-May period of 2015 compared with the January-March quarter. Exports were basically considered to be continuing to pick up, supported in part by the effects of movements in foreign exchange rates. Recent movements, however, showed that the sizable slowdown in overseas economies during the January-March quarter seemed to be weighing down exports bound for Asia and other regions with some time lag. Exports were expected to increase moderately, albeit with some fluctuations, mainly against the background of the recovery in overseas economies.

Public investment had entered a moderate declining trend, although it remained at a high level. It was expected to continue its 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 (excluding transport equipment) -- a coincident indicator of machinery investment -- had been trending moderately upward, albeit with fluctuations. Looking at leading indicators of machinery investment and construction investment, machinery orders (private sector, excluding orders for ships and those from electric power companies) had increased at a moderate pace, notably in manufacturing, and construction starts (floor area, private, nondwelling use) had started to pick up, albeit with fluctuations, since the turn of the year. Business sentiment had generally stayed at a favorable level. In the June 2015 *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the diffusion index for business conditions for all industries and enterprises (the proportion of firms responding that business conditions were "favorable" minus the proportion of those responding that they were "unfavorable") was unchanged from the March *Tankan*; it had been at a level close to the peak of the economic expansion period prior to the Lehman shock. By industry and size, manufacturing had seen a slight improvement in its diffusion index for large firms, while that for small firms had deteriorated marginally. As for nonmanufacturing, the diffusion indices had improved for both large and small firms, although the improvement had stood out more for large firms. Business fixed investment was projected to continue increasing moderately as corporate profits followed their improving trend. Business fixed investment plans (excluding software investment and including land purchasing expenses) for fiscal 2015 in the June *Tankan* had been revised significantly upward from those in the March *Tankan* for all industries and enterprises, and registered a year-on-year increase of 3.4 percent.

As for the employment and income situation, labor market conditions continued to improve steadily, and employee income had risen moderately.

Private consumption had been resilient against the background of steady improvement in the employment and income situation. Sales at retail stores in real terms, after having increased for two quarters in a row since the July-September quarter of 2014, had dropped in the January-March quarter of 2015, mainly as a reflection of sales movements in automobiles, and had also fallen slightly in the April-May period compared with that quarter, affected partly by irregular weather. Sales at department stores remained firm as a trend, supported in part by improvement in consumer sentiment, although they had fallen back in the April-May period relative to the January-March quarter, partly in response to the quarter-on-quarter increases until that quarter. As for durable consumer goods, while sales of passenger cars had marked a somewhat large decline, reflecting movements in those of small cars with engine sizes of 660cc or less, sales of household electrical appliances had trended moderately upward. Services consumption, such as that in food service, remained steady. Looking at indicators related to consumer sentiment, the consumer confidence index continued to improve, and the level had been surpassing that of around summer 2014. Private consumption was expected to remain resilient with the employment and income situation continuing to improve steadily.

Housing investment had started to pick up. The number of housing starts -- a leading indicator of housing investment -- had picked up from the start of the year onward, mainly in owner-occupied houses and apartments for rent. Housing investment was projected to pick up with the employment and income situation continuing to improve steadily, supported as well by accommodative financial conditions.

Industrial production had been picking up, albeit with some fluctuations. It had dropped in the April-May period of 2015 compared with the January-March quarter, after having increased for two consecutive quarters in the October-December quarter of 2014 and in the January-March quarter. Firms' production activity appeared to be picking up from a somewhat longer-term perspective, against the backdrop of moderate increases in demand both at home and abroad, but had recently shown sluggishness, mainly due to the effects of the slowdown in overseas economies during the January-March quarter as well as to inventory adjustments of small cars with engine sizes of 660cc or less. Reflecting developments in demand both at home and abroad, industrial production was expected to increase moderately, albeit with some fluctuations.

As for prices, the producer price index (PPI) was more or less flat relative to three months earlier, reflecting movements in international commodity prices. The year-on-year rate of increase in the CPI (all items less fresh food) was about 0 percent. Looking at the rate of increase for all items less fresh food and energy in order to capture trend changes in the CPI, this had recently started to grow at an accelerated pace. Meanwhile, an indicator -- that represented the difference between the share of CPI items for which prices had risen from the previous year and that for which prices had declined -- had risen markedly. With regard to the outlook, the PPI was expected to be more or less flat for the time being, reflecting movements in international commodity prices. The year-on-year rate of increase in the CPI was likely to be about 0 percent for the time being, due to the effects of 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 at around 35 percent.

Firms' funding costs had been hovering at low levels. With regard to credit supply, firms continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP and corporate bonds continued to be favorable. Firms' credit demand had been increasing moderately, mainly for working capital and funds related to mergers and acquisitions. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending had been at around 2.5 percent. Firms' financial positions had been favorable. The year-on-year rate of growth in the money stock had been in the range of 3.5-4.0 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

With regard to global financial markets, many members noted that developments in political and economic conditions in Greece had regained their calmness for now as a new disbursement of financial assistance to Greece had been agreed at the Euro Summit on condition that various requirements were met by Greek authorities. However, these members continued that, considering that there were many conditions set for Greece to fulfill in order to receive the financial assistance, future developments continued to warrant close attention. One member expressed the recognition that large amounts of deposits had already been flowing out of the Greek banking sector, and thus capital injection and liquidity assistance should be implemented promptly with a view to stabilizing the financial system. In relation to this, a different member said that the background to the outflow of deposits from Greek banks was not the solvency problem of individual banks, but rather concern about the currency system -- specifically, the potential exit of Greece from the euro area. This member continued that the authorities should take measures with this point in mind.

Regarding the sharp fall in Chinese stock prices in a short period of time, a few members attributed this to the spread of concern over the high level of these prices -- as they had risen to more than double the level of the second half of 2014 -- together with, for example, the unwinding of margin trading. These members then expressed the view that such developments in stock prices should be considered separately from the risk of prolonged deceleration in the Chinese economy.

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 had been recovering, assisted by household spending, although adjustments had been seen in the industrial production sector, mainly on the back of the decline in crude oil prices and the appreciation of the U.S. dollar. Many members expressed the view that, although the economy had weakened temporarily in the January-March quarter of 2015 due mainly to the effects of the unusually severe winter weather, the firmness in private consumption had been maintained thereafter, supported by a favorable employment and income situation. One member said that the fact that automobile sales had recently been at high levels also suggested such firmness in private consumption. On this point, a few other members noted that it was necessary to carefully examine the future pace of recovery in private consumption since recent developments in retail sales showed some weakness. As for the outlook, members shared the view that, although adjustment pressure would weigh on the industrial production sector for the time being, the economy was likely to continue to see growth driven mainly by private demand, led by the firmness in household spending.

Members concurred that the European economy maintained its moderate recovery. They shared the recognition that exports had been rising moderately, mainly reflecting the euro's depreciation, and that private consumption continued to increase, partly supported by the recovery trend in consumer sentiment backed by the improvement in the labor market. One member -- noting that on the price front as well the year-on-year rate of change in the HICP had recently been slightly positive -- pointed out that concern over deflation had been abating. As for the outlook, members concurred that the economy would likely continue to recover moderately.

Members agreed that the Chinese economy maintained its stable growth on the whole, but its growth momentum had been sluggish due to downward pressure associated with structural reforms. Many members expressed the view that the effects of the recent decline in stock prices on private consumption were limited, considering that in China stocks did not account for a large share of financial assets held by households. A few other members noted that the decline in stock prices amid slowing economic growth warranted close attention since the effects of such a decline were highly uncertain, including those on sentiment. As for the outlook, members shared the view that the economy was likely to follow a generally stable growth path, albeit at a somewhat reduced pace, as authorities carried out policy measures to support economic activity while progressing with structural reforms. On this point, a few members said that, considering that such measures would mainly take the form of public investment, authorities' efforts would be able to help maintain the growth rate but might not have as much of an effect as before in terms of inducing exports of China's trading counterparties.

Regarding emerging economies, members shared the view that, while the effects of the recovery in advanced economies were spreading to them, factors such as the effects of adjustments in China, the burden of excess production capacity and excess debt, and the prolonged off-peak demand period for IT-related goods were weighing on emerging economies. They continued that these economies therefore had recently been somewhat weak. Members shared the recognition that, although emerging economies would continue to lack growth momentum for the time being, with uncertainty remaining at a high level, they were likely to gradually increase their growth rates from a somewhat longer-term perspective as the recovery in advanced economies spread to them, and also as domestic demand in emerging economies picked up, mainly reflecting monetary easing.

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. In relation to this, they shared the view that it was confirmed in the reports on regional economies at the July 2015 meeting of general managers of the Bank's branches that Japan's economy was recovering across a broader range of regions. As for the outlook for the economy, members concurred that it was likely to continue recovering moderately.

Members agreed that Japan's exports had been picking up, albeit with some fluctuations. They shared the view that weakness in exports in the April-May period of 2015 was affected, with a time lag, by the temporary slowdown in the U.S. economy during the January-March quarter -- due mainly to the effects of the unusually severe winter weather -- and also was attributed to the recent sluggishness in Asian economies. As for the outlook, members concurred that exports were likely to increase moderately, albeit with some fluctuations, mainly against the background of the recovery in overseas economies and of support from the earlier depreciation of the yen. One member expressed the view that, although exports had recently been somewhat weak, such weakness was less likely to lead to a trend change in exports, judging from the rebound in the U.S. economy in the April-June quarter and from the improvement in leading indicators such as the Purchasing Managers' Index (PMI) for new export orders. Meanwhile, a few members noted that, if Chinese economic growth were to decelerate further, the effects of this on exports warranted attention.

Members shared the recognition that business fixed investment had been on a moderate increasing trend as corporate profits had improved. They concurred that business fixed investment plans for fiscal 2015 in the June 2015 *Tankan* suggested that firms' attitude toward investment had become increasingly resolute; for example, large manufacturing firms appeared to be increasing their domestic investment in view of the correction in the yen's appreciation taking hold. Members agreed that business fixed investment was likely to continue increasing moderately as corporate profits followed their improving trend. Some members pointed out that firm developments in machinery orders supported such a view. Meanwhile, one member said that, given, for example, that the year-on-year rate of increase in firms' sales plans in the June *Tankan* was only at around 1 percent, firms' relatively strong investment plans at present might be mainly for renewal investment and investment in labor-saving machinery and equipment, rather than for investment based on projections of increases in demand.

As for the employment and income situation, members concurred that employee income had risen moderately with labor market conditions continuing to improve steadily. They continued that employee income was likely to continue to do so in line with the recovery in economic activity and business performance. One member expressed the view that the improvement in nominal wages would become more evident, since an increasing number of firms would likely start making wage payments around June or July based on the new wage levels that reflected, for example, increases in base pay for fiscal 2015, and summer bonus payments were also likely to increase. On the other hand, a different member pointed out factors such as the following: (1) negotiations for increases in base pay had reached a conclusion in April, and their announcement effect on consumption might have materialized already; and (2) the rate of increase in bonus payments had decelerated compared with last year, when it had shown high growth. This member then noted that, considering such factors, it was not certain whether such increases in base pay and bonus payments would further push up household spending.

Members shared the recognition that private consumption had been resilient against the background of steady improvement in the employment and income situation. Many members expressed the view that sluggish sales statistics for the April-May period were due to adverse weather conditions and that they remained resilient on the whole, supported mainly by improvements in consumer sentiment and the income situation. A few members said that, as suggested by the current further increase in daily and weekly price indices based on the point-of-sale (POS) data, firms had recently taken an aggressive stance of setting higher prices on the sales front, and this was evidence that consumption was resilient. Members concurred that private consumption was likely to remain resilient with the employment and income situation continuing to improve steadily. One member expressed the recognition that attention should be paid to the risk that recent rises in prices of food and daily necessities would have a negative effect on consumers' spending activity.

Members shared the recognition that housing investment had started to pick up. They concurred that it was likely to pick up with the employment and income situation continuing to improve steadily, supported as well by accommodative financial conditions.

Members agreed that industrial production had been picking up, albeit with some fluctuations. They shared the view that firms' production activity appeared to be picking up from a somewhat longer-term perspective, against the backdrop of moderate increases in demand both at home and abroad. They continued, however, that such activity had recently shown sluggishness, mainly due to the effects of the slowdown in the U.S. and Chinese economies during the January-March quarter of 2015, as well as to inventory adjustments of small cars with engine sizes of 660cc or less. As for the outlook, members agreed that industrial production was likely to increase moderately, albeit with some fluctuations, reflecting developments in demand both at home and abroad. Many members expressed the recognition that such developments in production were likely as exports increased following a recovery in overseas economies and as inventory adjustments progressed. These members continued that this view was in line with the following developments: (1) business sentiment had generally been at a favorable level, as suggested by the June 2015 *Tankan*; and (2) the production forecast index suggested that production would increase. On the other hand, one member said that there were no signs that production for the July-September quarter would clearly pick up, considering, for example, the notable weakness in the production plans of IT-related goods according to the production forecast index.

As for prices, members concurred that the year-on-year rate of increase in the CPI (all items less fresh food) was about 0 percent and was likely to remain at this level for the time being, due to the effects of 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 April 2015 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report). They assumed that Dubai crude oil prices, on which the interim assessment was based, would rise moderately from the recent 60 U.S. dollars per barrel to about 70 dollars per barrel toward the end of the projection period -- namely, through fiscal 2017. Based on this assumption about crude oil prices, members agreed on a baseline scenario of the outlook for Japan's economic activity that, compared with the forecasts presented in the April 2015 Outlook Report, the growth rate would likely be somewhat lower for fiscal 2015, mainly due to the recent sluggishness in exports, but more or less unchanged for fiscal 2016 and 2017. They expressed the view that Japan's economy was likely to continue growing at a pace above its potential through fiscal 2016 and maintain its positive growth in fiscal 2017, although with a slowing in its pace, due mainly to the effects of the consumption tax hike planned in April 2017.

With regard to a baseline scenario of the outlook for Japan's prices, many members shared the view that the year-on-year rate of increase in the CPI (all items less fresh food) would likely be broadly in line with the forecast presented in the April 2015 Outlook Report. These members expressed the recognition that, although the year-on-year rate of increase in the CPI (all items less fresh food) was likely to be about 0 percent for the time being, due to the effects of the decline in energy prices, the rate would likely accelerate toward 2 percent -- the price stability target -- as the underlying trend in inflation steadily rose and the effects of the decline in crude oil prices dissipated. The members then expressed the view that the timing of reaching around 2 percent was projected to be around the first half of fiscal 2016, assuming that crude oil prices rose moderately from the recent level.

In response, one member said that the member had slightly lowered the forecasts for prices throughout the projection period compared with those presented in the April 2015 Outlook Report, considering that the pace of improvement in the output gap was likely to remain moderate and inflation expectations appeared to be declining somewhat. Nevertheless, this member continued that the member could generally maintain the view that the year-on-year rate of increase in the CPI (all items less fresh food) would rise closer to around 2 percent toward the end of fiscal 2016. A different member continued to hold a more cautious view of the outlook for prices compared with the forecasts in the baseline scenario. Specifically, this member noted the following: (1) even though the year-on-year rate of increase in the CPI for all items less fresh food and energy was rising, this was insufficient to elicit a change in the member's CPI forecast for fiscal 2015, given the negative contribution of the decline in energy prices; and (2) with the economic growth rate of 1-2 percent and the rate of wage increases below 1 percent, it was difficult to expect a rapid rise in people's medium- to long-term inflation expectations during fiscal 2016 through fiscal 2017. Another member pointed out that the recent pace of improvement in the output gap was moderate relative to that during the period from 2013 through early 2014, when the rate of increase in the CPI had accelerated sharply, and that the rise in prices of daily necessities such as food could weigh on households' attitude toward consumption, which in turn could restrain price increases. This member then said that the member continued to hold a more cautious view of the outlook for prices compared with the forecasts in the baseline scenario.

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 momentum of economic activity and prices in Europe, and the pace of recovery in the U.S. economy.

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 recognition that quantitative and qualitative monetary easing (QQE) had been exerting its intended effects. These members agreed that the underlying trend in inflation, which was determined by the output gap and medium- to long-term inflation expectations, would continue to improve. Many members expressed the recognition that, since the introduction of QQE -- while nominal interest rates had been stable at low levels -- inflation expectations had been rising on the whole from a somewhat longer-term perspective, and therefore real interest rates had been declining. These members then commented that such developments had been underpinning firms' and households' spending. One member was of the view that the general public's and corporate managers' confidence in the conduct of monetary policy to achieve the price stability target was improving, and that the Bank's efforts to exert influence on expectations were at a crucial stage. On the other hand, a few members said that the effects of monetary easing on lowering real interest rates were diminishing. One of these members noted that, in a situation where there was limited room to lower nominal interest rates, the only way to further push down real interest rates was to raise inflation expectations, but that it was highly uncertain whether this could be achieved with the monetary policy commitment alone. This member continued that it was therefore necessary to carefully examine the positive effects and side effects of QQE. In response, a different member expressed the view that, even if there was a high degree of uncertainty, a rise in inflation expectations could not be achieved without monetary policy.

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 expressed the view that the underlying trend in inflation was improving, considering, for example, the facts that (1) the year-on-year rate of increase in the CPI (all items less fresh food and energy) was rising, while that in the CPI (all items less fresh food) had been hovering at about 0 percent; and (2) the share of items for which prices had risen was increasing. One member pointed out that firms' moves to revise sales prices since the turn of the fiscal year were spreading and exhibiting sustainability in 2015, supported in part by resilience in private consumption. This member expected that, from summer 2015, the rate of increase in the CPI (all items less fresh food) would accelerate at a very rapid pace, as the negative contribution of the decline in energy prices dissipated with a rise in the underlying trend in inflation. A few other members expressed the view that the inflation rate would rise gradually, mainly due to the stable increase in unit labor costs as well as to the rise in the underlying trend in inflation accompanying an increase in demand. One of these members pointed out that -- regarding the household sector as well -- with a moderate improvement in real wages, the proportion of respondents who felt that the price rise was rather favorable was increasing somewhat, according to the results of an opinion survey. Meanwhile, a different member noted that the effects of upward pressure on prices from the yen's depreciation as a whole were diminishing, as evidenced by the fact that a rising rate of increase in food product prices -- which were susceptible to yen depreciation -- was offset by, for example, a slowing rate of increase in public utility charges, and that price increases in electrical appliances were relatively moderate compared with those during the phase of yen depreciation in the past.

In light of these discussions, members shared the recognition that inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective. One member said that, despite the recent deceleration in the rate of increase in the CPI, noticeable negative effects of this had not been apparent in people's medium- to long-term inflation expectations. On this basis, many members shared the view that the year-on-year rate of increase in the CPI would accelerate as the base effect of the falling crude oil prices dissipated, and was likely to reach around 2 percent around the first half of fiscal 2016, given that the output gap and inflation expectations -- both of which determined the underlying trend in inflation -- were likely to improve steadily and increase, respectively.

Based on the above discussions, regarding the guideline for money market operations for the intermeeting period, most members expressed the recognition 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 was also 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 QQE had been exerting its intended effects, and 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, the Bank would examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate.

On the other hand, one member said that, in a situation where the output gap had improved to around zero, additional effects of QQE, which had been diminishing, had already been exceeded by its side effects; therefore, even the initial scale of QQE could lead to economic instability in the medium to long term, such as through a buildup of financial imbalances. This member pointed out the following as side effects of QQE that would increase in a cumulative manner if the current policy guideline were prolonged: (1) the impact of the Bank's asset purchases on liquidity in the JGB market; and (2) the possibility that the Bank's profits would be reduced in the course of normalizing monetary policy, which could impair the Bank's capital or increase the public burden. The member then noted that it was appropriate to start reducing the paces of asset purchases early. On this basis, this member's primary argument was the following. First, the Bank should reduce the respective annual paces of increase in the monetary base and in the amount outstanding of its JGB holdings to levels below the initial pace, in view of further possible phased reductions. Second, the Bank should make changes to the time frame for achieving the price stability target -- to the medium to long term -- and to the expression representing its commitment by stating that, under the flexible conduct of monetary policy that also gave due consideration to medium- to long-term risks -- such as a buildup of financial imbalances -- it would continue with asset purchases and a virtually zero interest rate policy as long as each of these policy measures was deemed appropriate, rather than move toward ending QQE or raising interest rates at an early stage.

In response, some members expressed the view that the start of a reduction in the Bank's paces of asset purchases at this point -- when Japan's economy was still on its way to achieving the price stability target of 2 percent, as evidenced by the year-on-year rate of increase in the CPI having been about 0 percent -- would substantially reduce the effects of its policy measures. A few members said that, at this point, there was no concrete evidence, based either on theories or facts, to suggest a buildup of financial imbalances and side effects of monetary easing. One of these members added that the start of the reduction might lead to a sharp rise in interest rates and a deterioration in the real economy, and that, in conducting monetary policy, priority should be given to the Bank's policy objective of achieving price stability rather than its profits. This member also said that it would be contradictory to weaken the monetary easing stance while arguing that it was difficult to achieve the price stability target in a short period of time.

IV. Remarks by Government Representatives

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

(1) Recent developments in the Japanese economy indicated that positive conditions for the first time in nearly a quarter-century were about to be achieved; for example, following the number of corporate bankruptcies in fiscal 2014, which had fallen below 10 thousand cases per year for the first time in 24 years on a fiscal-year basis, the number for the April-June quarter of 2015 had been at a much lower level than the same period of 2014, and the active job openings-to-applicants ratio for May had reached 1.19, the highest level in 23 years, since March 1992. The government deemed that such an outcome reflected a trend in the Japanese economy as a whole of being on a moderate recovery; nevertheless, it would continue to closely monitor economic developments.

(2) As there had been some concern over the possible effects of recent developments in political and economic conditions in Greece on the Japanese economy, the Ministry of Finance would cooperate closely with the Group of Seven (G-7) countries if necessary and convene meetings with the Bank to have a thorough discussion. The government acknowledged that there had been some progress toward the start of negotiations regarding financial assistance to Greece at the recent Euro Summit, and it would continue to pay close attention to market developments without making any prejudgment, in order to remain fully prepared to deal with possible developments in Greece. As Chinese stock prices had temporarily fallen sharply last week, the government would also continue to closely monitor developments in the Chinese economy.

(3) On June 30, 2015, the Cabinet had decided the Plan to Advance Economic and Fiscal Revitalization in the Basic Policy on Economic and Fiscal Management and Reform 2015. In the plan, the government aimed to achieve a primary surplus by fiscal 2020 by focusing on three pillars: overcoming deflation and revitalizing the economy; reforming expenditure measures; and reforming revenue measures. The government deemed that it had formulated effective and concrete programs for fiscal consolidation, and it would proceed with measures to achieve fiscal consolidation together with economic revitalization based on the plan.

(4) 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. According to the final results of wage negotiations this spring compiled by the Japanese Trade Union Confederation (Rengo) released on July 2, 2015, monthly salaries had registered a rise of 2.20 percent, marking the highest level in 17 years, since 1998. Wage increases were widely observed even among small firms and non-regular employees. The government projected that the Japanese economy would recover, supported by firm private demand, amid continued improvement in the employment and income situation, further developments in the virtuous cycle of the economy, and improvement in the terms of trade. It expected that consumption would be stimulated in local economies, as

measures including the issuance of goods vouchers issued with a premium would be fully implemented. As for risks to the outlook, attention should be given to a slowing down of overseas economies as well as to developments in financial and commodity markets. With regard to price developments, it was important to make a comprehensive assessment, taking into account, for example, developments in the GDP deflator.

(2) On June 30, the Cabinet had decided the Basic Policy on Economic and Fiscal Management and Reform 2015, the Japan Revitalization Strategy Revised in 2015, the Regulatory Reform Work Plan, and the Basic Policies for Overcoming Population Decline and Vitalizing Local Economy in Japan 2015. In the Basic Policy on Economic and Fiscal Management and Reform 2015, the government had formulated the Plan to Advance Economic and Fiscal Revitalization. With the basic policy that "without economic revitalization, there can be no fiscal consolidation," the plan aimed to promote integrated economic and fiscal reforms, thereby achieving a primary surplus by fiscal 2020, and seek to steadily reduce the ratio of public debt to GDP over the medium to long term. In the revised growth strategy, to overcome supply constraints resulting from the diminishing population, the government would promote the following as the two wheels of a cart: realization of revolution in productivity by investment in the future; and "Local Abenomics."

(3) The government expected the Bank to work steadily to achieve the price stability target of 2 percent in light of economic activity and prices. The government also expected the Bank to continue providing a sufficient explanation on its monetary policy management and its outlook for prices at the Council on Economic and Fiscal Policy and on other occasions.

V. Votes

A. Vote on the Chairman's Policy Proposal 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 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, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo.
Votes against the proposal: Mr. T. Kiuchi.

B. Vote on the Chairman's Policy Proposal 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, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo.
Votes against the proposal: Mr. T. Kiuchi.

C. Vote on Mr. T. Kiuchi's Policy Proposal on the Guidelines for Money Market Operations and Asset Purchases

Meanwhile, with regard to the guideline for money market operations for the intermeeting period, Mr. T. Kiuchi proposed that the Bank conduct money market operations so that the monetary base would increase at an annual pace of about 45 trillion yen. In addition, with regard to the guideline for asset purchases, he proposed the following: (1) to purchase JGBs so that their amount outstanding would increase at an annual pace of about 45 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 seven years; (2) to purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces of about 1 trillion yen and about 30 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 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, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo.

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, with the aim to achieve the price stability target of 2 percent in the medium to long term, continue to provide consistent support from the financial side. It will continue with asset purchases and a virtually zero interest rate policy as long as each of these policy measures is deemed appropriate under flexible policy conduct based on the examination from the two perspectives of the monetary policy framework." 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, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo.

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 June 18 and 19, 2015 for release on July 21, 2015.

Attachment
July 15, 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 1]

   a) The Bank will purchase Japanese government bonds (JGBs) so that their amount outstanding will increase at an annual pace of about 80 trillion yen. With a view to encouraging a decline in interest rates across the entire yield curve, the Bank will conduct purchases in a flexible manner in accordance with financial market conditions. The average remaining maturity of the Bank's JGB purchases will be about 7-10 years.

   b) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 3 trillion yen and about 90 billion yen respectively.

   c) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen respectively.

3. Japan's economy has continued to recover moderately. Overseas economies -- mainly advanced economies -- have been recovering, albeit with a lackluster performance still seen in part. In this situation, exports and industrial production have been picking up, albeit with some fluctuations. As corporate profits have improved and business sentiment has generally stayed at a favorable level, business fixed investment has been on a moderate increasing trend. Against the background of steady improvement in the employment and income situation, private consumption has been resilient and housing investment has started to pick up. Meanwhile, public investment has entered a moderate declining trend, although it remains at

a high level. 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) is about 0 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 recovering moderately. The year-on-year rate of increase in the CPI is likely to be about 0 percent for the time being, due to the effects of the decline in energy prices.

5. Compared with the forecasts presented in the April 2015 *Outlook for Economic Activity and Prices,* the growth rate will likely be somewhat lower for fiscal 2015, but will likely be more or less unchanged for fiscal 2016 and 2017. The year-on-year rate of increase in the CPI will likely be broadly in line with the April forecast.[1]

6. Risks to the outlook include developments in the emerging and commodity-exporting economies, the prospects regarding the debt problem and the momentum of economic activity and prices in Europe, and the pace of recovery in the U.S. economy.

7. 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 2]

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1 Individual Policy Board members make their forecasts based on the following assumption about crude oil prices. Dubai crude oil prices are expected to rise moderately from the recent 60 U.S. dollars per barrel to about 70 dollars per barrel toward the end of the projection period. Under this assumption, the contribution of energy items to the year-on-year rate of change in 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. More specifically, this contribution is expected to fall further into negative territory for the time being, followed by a narrowing in the negative contribution in the second half of fiscal 2015; in the first half of fiscal 2016, the contribution is estimated to be around 0 percentage point.

[Note 1] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo. Voting against the action: Mr. T. Kiuchi. Mr. T. Kiuchi proposed that the Bank will conduct money market operations and asset purchases so that the monetary base and the amount outstanding of its JGB holdings will increase at an annual pace of about 45 trillion yen, respectively. The proposal was defeated by a majority vote.

[Note 2] Mr. T. Kiuchi proposed that the Bank will, with the aim to achieve the price stability target of 2 percent in the medium to long term, continue with asset purchases and a virtually zero interest rate policy as long as each of these policy measures is deemed appropriate under flexible policy conduct based on the examination from the two perspectives of the monetary policy framework. 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, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo.

(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 2015	+1.5 to +1.9 [+1.7]	+0.3 to +1.0 [+0.7]	
Forecasts made in April 2015	+1.5 to +2.1 [+2.0]	+0.2 to +1.2 [+0.8]	
Fiscal 2016	+1.5 to +1.7 [+1.5]	+1.2 to +2.1 [+1.9]	
Forecasts made in April 2015	+1.4 to +1.8 [+1.5]	+1.2 to +2.2 [+2.0]	
Fiscal 2017	+0.1 to +0.5 [+0.2]	+2.7 to +3.4 [+3.1]	+1.4 to +2.1 [+1.8]
Forecasts made in April 2015	+0.1 to +0.5 [+0.2]	+2.7 to +3.4 [+3.2]	+1.4 to +2.1 [+1.9]

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 60 U.S. dollars per barrel to about 70 dollars per barrel toward the end of the projection period. Under this assumption, the contribution of energy items to the year-on-year rate of change in 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. More specifically, this contribution is expected to fall further into negative territory for the time being, followed by a narrowing in the negative contribution in the second half of fiscal 2015; in the first half of fiscal 2016, the contribution is estimated to be around 0 percentage point.

5. The consumption tax hike scheduled to take place in April 2017 -- to 10 percent -- is incorporated in the forecasts, but individual Policy Board members make their forecasts of the CPI based on figures excluding the direct effects of the consumption tax hike. The forecasts for the CPI for fiscal 2017 that incorporate the direct effects of the consumption tax hike 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 1.3 percentage points. Second, this figure is added to the forecasts made by the Policy Board members.

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

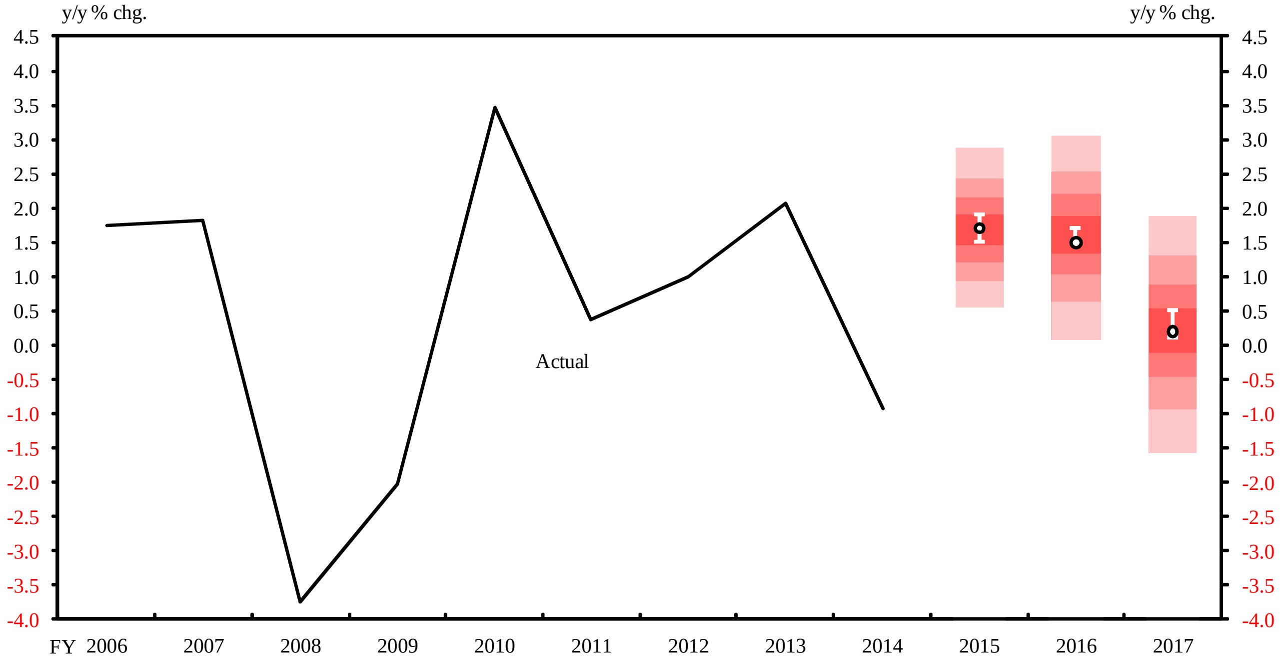
y/y % chg.

	Real GDP	CPI (all items less fresh food)	Excluding the effects of the consumption tax hikes
Fiscal 2015	+1.0 to +2.0	+0.2 to +1.0	
Forecasts made in April 2015	+0.8 to +2.2	+0.2 to +1.3	
Fiscal 2016	+0.9 to +1.8	+0.8 to +2.1	
Forecasts made in April 2015	+0.8 to +1.8	+0.8 to +2.3	
Fiscal 2017	0.0 to +0.5	+2.0 to +3.5	+0.7 to +2.2
Forecasts made in April 2015	-0.1 to +0.6	+2.0 to +3.5	+0.7 to +2.2

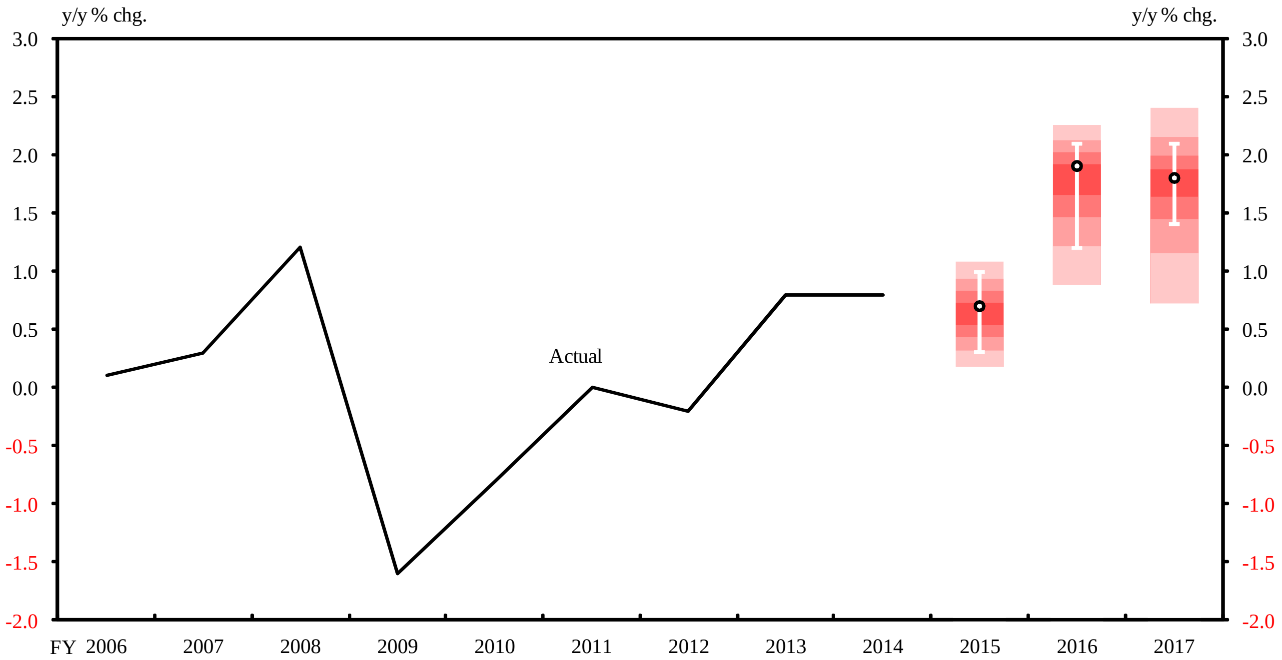
(Appendix 2)

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 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.