Not to be released until 8:50 a.m. Japan Standard Time on Thursday, December 24, 2015.

December 24, 2015

Bank of Japan

# Minutes of the Monetary Policy Meeting

## on November 18 and 19, 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 Wednesday, November 18, 2015, from 2:00 p.m. to 4:08 p.m., and on Thursday, November 19, from 9:00 a.m. to 12:12 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. M. Sakai, State Minister of Finance, Ministry of Finance[2]

Mr. M. Ota, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance[3]

Mr. S. Takatori, State Minister of Cabinet Office, Cabinet Office[2]

Mr. M. Nishikawa, Vice Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

Mr. M. Amamiya, Executive Director

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

Mr. S. Kuwabara, Executive Director

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on December 17 and 18, 2015 as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

[2] Messrs. M. Sakai and S. Takatori were present on November 19.

[3] Messrs. M. Ota and M. Nishikawa were present on November 18.

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

Mr. E. Maeda, Director-General, Financial Markets Department

Mr. T. Sekine, 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. R. Yanagihara, Director-General, Secretariat of the Policy Board

Mr. H. Nakamoto, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

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

Mr. T. Ninomiya, 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 October 30, 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 341-347 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 been slightly negative.

The Nikkei 225 Stock Average had generally risen, partly due to solid corporate results, mainly of domestic demand-oriented sectors, and to the support from the yen's depreciation. In the foreign exchange market, the yen had depreciated against the U.S. dollar, particularly because of increased expectations for a possible hike in the target range for the federal funds rate in the United States by the end of 2015. The yen had appreciated against the euro to some extent. Yields on 10-year JGBs had increased somewhat, in part reflecting the rises in U.S. and European long-term interest rates.

### C. Overseas Economic and Financial Developments

Overseas economies -- mainly advanced economies -- continued to grow at a moderate pace, despite the slowdown in emerging economies.

The U.S. economy had been recovering, assisted by household spending, although the industrial production sector had been lackluster, mainly against the background of the appreciation of the U.S. dollar and the slowdown in emerging economies. Exports still lacked momentum, due to the effects of developments in foreign exchange markets and of external demand. On the other hand, private consumption had increased, supported 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 of Japan will conduct money market operations so that the monetary base will increase at an annual pace of about 80 trillion yen.

by a favorable employment and income situation. Housing investment had also been on a moderate pick-up trend. The solid household spending had brought about (1) firm momentum in sentiment and the production activity of domestic demand-oriented firms, such as those in the service industry; and (2) an increasing trend in imports. Business fixed investment had also started to pick up on the whole, although investment related to energy had been declining. As for prices, the year-on-year rate of increase in the personal consumption expenditure (PCE) deflator for all items excluding food and energy had been in the range of 1.0-1.5 percent. 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. The pace of increase in exports had been slowing somewhat, mainly due to the effects of the slowdown in emerging economies. 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, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) for all items had been at around 0 percent, mainly due to the decline in energy prices, but that for all items excluding energy and unprocessed food had been at around 1 percent. 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 was in a deceleration phase, mainly in manufacturing. 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 had decelerated against the background of excess production capacity in manufacturing. Exports continued to be relatively weak, due in part to a halt in the export drive -- particularly that of materials. Reflecting such developments in demand and inventory adjustments, the pace of growth in production had been slowing. In India, the economy had been picking up steadily, particularly in domestic demand, partly in reflection of expectations for structural reforms and of monetary easing effects. On the other hand, economic activity in the NIEs and the ASEAN countries remained in a deceleration phase on the whole, mainly because (1) the effects of adjustments in China had been exerting downward pressure on exports and production and (2) the accumulation of household debt and political unrest in particular had been weighing on private consumption. However, the effects of economic stimulus measures had started to be observed in some countries and regions, and production of IT-related goods was also showing signs of an increase with the launch of new smartphone models. Economic activity in Brazil had become increasingly severe, mainly in terms of domestic demand. That in Russia remained severe, but domestic demand was showing signs of bottoming out.

As for prices in emerging economies, inflation rates had been more or less flat at low levels on the whole, as the fall in energy prices and the depreciation of the currencies in these economies had offset each other. However, inflation rates had risen or remained at high levels in some economies.

Regarding global financial markets, in advanced economies, the difference in the direction of monetary policy between the United States and the euro area had drawn attention, and the U.S. dollar had appreciated against the euro in the foreign exchange market. Long-term interest rates both in the United States and Europe had increased. In emerging economies, downward trends in currencies and stock prices had come to a halt as investors' risk aversion had abated somewhat. In international commodity markets, crude oil prices had fallen somewhat significantly, mainly reflecting a rise in U.S. inventories and the persistent uncertainty regarding future developments in emerging economies, in addition to the appreciation of the U.S. dollar.

## D. Economic and Financial Developments in Japan

1. Economic developments

Exports had recently been more or less flat, due mainly to the effects of the slowdown in emerging economies. Exports including those of capital goods continued to show sluggish movements, against the background of the slowdown -- mainly in manufacturing -- in emerging economies, including China, and the commodity-exporting economies. Recently, however, exports of IT-related goods, which had been relatively weak thus far, had shown some signs of picking up. Exports were expected to remain more or less flat for the time being, but subsequently were likely to increase moderately as emerging economies moved out of their deceleration phase.

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 continued to improve markedly. The aggregate supply of capital goods (excluding transport equipment) -- a coincident indicator of machinery investment -- had been more or less flat for three quarters in a row. Looking at leading indicators, machinery orders (private sector, excluding orders for ships and those from electric power companies) on a quarter-on-quarter basis exhibited a somewhat sharp decline in the July-September quarter of 2015, partly in reaction to orders for large projects in the previous quarter, after having increased for four quarters in a row since the July-September quarter of 2014. Construction starts (floor area, private, nondwelling use) had picked up, albeit with fluctuations, since the turn of the year. Business fixed investment was projected to continue increasing moderately as corporate profits followed their marked improving trend.

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 had increased noticeably in the July-September quarter, partly in response to the plunge in the previous quarter. Sales at department stores had dipped in the April-June quarter, affected by bad weather and by the delayed summer clearance sales; however, they bounced back in the July-September quarter on a quarter-on-quarter basis. As for durable consumer goods, sales of passenger cars -- which had been somewhat sluggish until around spring, having reflected movements in those of small cars with engine sizes of 660cc or less -- had turned upward, supported in part by the introduction of new models. On the other hand, sales of household electrical appliances had declined since the April-June quarter, due mainly to lackluster sales of air conditioners as a result of bad weather. As for services consumption, outlays for domestic travel had been firm and sales in the food service industry had recently increased moderately. Looking at indicators related to consumer sentiment, the consumer confidence index -- which had continued to improve as a trend since winter 2014 -- had more or less leveled off recently. Private consumption was expected to remain resilient with the employment and income situation continuing to improve steadily.

Housing investment had been picking up. The number of housing starts -- a leading indicator of housing investment -- had picked up from the start of the year onward, mainly in housing for rent, albeit with fluctuations. Housing investment was projected to continue picking up with the employment and income situation continuing to improve steadily, supported as well by accommodative financial conditions.

Industrial production had recently been more or less flat, due mainly to the slowdown in emerging economies and partly to inventory adjustments. It was expected to remain more or less flat for the time being, but subsequently was likely to increase moderately as emerging economies moved out of their deceleration phase and as inventory adjustments progressed.

As for prices, the producer price index (PPI) was declining relative to three months earlier, mainly due to the fall in international commodity prices. The year-on-year rate of change in the consumer price index (CPI) for all items less fresh food was about 0 percent. The rate of increase for all items less fresh food and energy had been expanding a couple of months into the year. Looking at an indicator that represented the difference between the share of items in the CPI (all items less fresh food) for which prices had risen from the previous year and that for which prices had declined in order to capture trend changes in the CPI, this had risen markedly. With regard to the outlook, the PPI was expected to continue declining for the time being, reflecting movements in international commodity prices. The year-on-year rate of change 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 in the range of 30-35 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 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, although some indicators had recently shown relatively weak developments.

## 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 stable on the whole as investors' risk aversion, which had been observed at one time, had abated somewhat. Many members -- while noting that expectations for a possible hike in the target range for the federal funds rate in the United States by the end of 2015 had increased again, mainly reflecting stronger-than-expected employment statistics for October -- expressed the view that the markets' response had been calm. Some members then pointed to (1) the persistent concern over the slowdown in emerging economies and (2) uncertainties such as those over the pace of policy interest rate hikes in the United States if they were conducted and the effects of the terrorist attacks in Paris. These members said that developments in global financial markets therefore continued to warrant attention.

Members shared the recognition that overseas economies -- mainly advanced economies -- continued to grow at a moderate pace, despite the slowdown in emerging economies. As for the outlook, they concurred that overseas economies, particularly advanced economies, would continue to grow, and that emerging economies would move out of their deceleration phase, mainly on the back of the developments in advanced economies.

With regard to developments in overseas economies by region, members concurred that the U.S. economy had been recovering, assisted by household spending, which in part reflected a favorable employment and income situation, although the industrial production sector had been lackluster, mainly against the background of the appreciation of the U.S. dollar and the slowdown in emerging economies. As for the outlook, they shared the view that -- although the industrial production sector would remain lackluster for the time being -- the economy was likely to continue its recovery centered on the private sector, led by the firmness in household spending, under accommodative financial conditions. One member expressed the view that, while the decline in crude oil prices was widely exerting negative effects on industrial production through a reduction in commodity-related investment, it also was firmly exerting positive effects in the form of favorable conditions in nonmanufacturing. A different member said that there were signs of waning adjustment pressures on inventories in manufacturing as well, and therefore the U.S. economy was approaching a phase in which it could be expected to underpin the global economy.

Members agreed that the European economy maintained its moderate recovery as private consumption continued to increase, although exports had shown some weakness, mainly due to the effects of the slowdown in emerging economies. As for the outlook, they concurred that the economy would likely continue to see a moderate recovery. Some members then noted that attention should be paid to factors such as the following: the effects on exports of the slowdown in emerging economies; as well as the effects on the economy of the terrorist attacks in Paris, major automakers' violations of emissions standards, and the refugee crisis.

Members agreed that the Chinese economy maintained its stable growth on the whole but was in a deceleration phase, mainly in manufacturing. As for the outlook, they shared the view that the economy was likely to broadly follow a stable growth path as authorities proactively carried out policy measures to support economic activity from both the fiscal and monetary sides. One member expressed the recognition that, even if the Chinese economy made a transition to stable growth, imports -- particularly of building materials and capital goods -- could not be expected to return to high levels as seen in the past; therefore, the pace of recovery in Japan's exports to China was also likely to be moderate.

With regard to emerging economies, members shared the view that economic activity in Asia remained in a deceleration phase on the whole, partly due to the effects of adjustments in China, while that in commodity-exporting countries such as Brazil and Russia continued to be severe. As for the outlook, they agreed that emerging economies eventually would move out of their deceleration phase mainly due to the effects of the recovery in advanced economies and of economic stimulus measures both on the monetary and fiscal fronts. One member expressed the recognition that emerging economies in Asia -- excluding China -- were no longer showing signs of further deceleration in economic activity, since the effects of economic stimulus measures had started to be observed in some economies and production and exports of IT-related goods were showing signs of an increase, partly affected by the launch of new smartphone models. Meanwhile, one member expressed the view that the deceleration phase might be prolonged in economies that depended on external demand.

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 -- although exports and production had recently been more or less flat, due mainly to the effects of the slowdown in emerging economies -- the economy continued to recover moderately as a virtuous cycle from income to spending continued to operate steadily in both the household and corporate sectors. Many members said that the fact that the first preliminary estimate of the real GDP growth rate for the July-September quarter of 2015 remained in negative territory, as in the April-June quarter, was mainly attributable to a decline in inventory investment, and that final demand in the GDP statistics -- including private consumption and external demand -- had registered an increase. These members then shared the view that, on this basis, the results of the GDP statistics were in line with the Bank's assessment that the economy continued to recover moderately. As for the outlook for the economy, members concurred that the economy was likely to continue recovering moderately as the virtuous cycle from income to spending continued.

Members agreed that Japan's exports had recently been more or less flat, due mainly to the effects of the slowdown in emerging economies. Some members then pointed out that real exports on a GDP basis for the July-September quarter had turned positive on a quarter-on-quarter basis, and said that signs of recovery in exports had been observed. A few members pointed out that exports of IT-related goods had shown signs of picking up on the back of the launch of new smartphone models, and that demand from foreign visitors to Japan had grown. As for the outlook, members concurred that exports were likely to remain more or less flat for the time being, but subsequently were likely to increase moderately as emerging economies moved out of their deceleration phase.

Members shared the recognition that, despite the slowdown in emerging economies, corporate profits continued to improve markedly, due in part to the effects of the yen's depreciation as well as the decline in crude oil prices.

Members agreed that business fixed investment had been on a moderate increasing trend as corporate profits continued to improve markedly. Some members pointed out that indicators of actual performance of business fixed investment -- such as those in the GDP statistics -- were somewhat weak relative to strong fixed investment plans in the September 2015 *Tankan* (Short-Term Economic Survey of Enterprises in Japan), and that the possibility could not be denied that firms had been postponing their fixed investment in response to the slowdown in emerging economies. These members continued that particular attention should be paid to the upcoming results of the *Financial Statements Statistics of Corporations by Industry, Quarterly* and the December *Tankan*. One member expressed the view that, given the high level of business fixed investment plans so far, such investment would turn upward in the future, even if some downward revisions were made to these plans.

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. Many members said that employee income had been increasing, considering, for example, that (1) nominal wages continued to rise moderately on the back of tight labor market conditions; and (2) survey results suggested that winter bonus payments were likely to increase firmly, as had been the case last year.

Members shared the recognition that private consumption had been resilient against the background of steady improvement in the employment and income situation, as suggested by real private consumption on a GDP basis for the July-September quarter turning positive on a quarter-on-quarter basis. One member said that sales -- particularly at convenience stores and in the food service industry -- had been favorable and there were signs of improvement in automobile sales, mainly in those of new models. A different member pointed out that, according to corporate results of listed companies for the first half of fiscal 2015, retailers' performance had been firm in terms of both sales and profits.

Members concurred that housing investment had been picking up. They shared the view that it was likely to continue doing so, underpinned by the continued steady improvement in the employment and income situation and accommodative financial conditions. One member expressed the recognition that it was necessary to closely monitor whether or not the recent issue of data manipulation with regard to foundation piles installed in some condominiums would exert downward pressure on demand for condominiums.

Members agreed that industrial production had recently been more or less flat, due mainly to the slowdown in emerging economies and partly to inventory adjustments. As for the outlook, they shared the view that it was likely to remain more or less flat for the time being, but subsequently was likely to increase moderately as emerging economies moved out of their deceleration phase and as inventory adjustments progressed. Some members, noting the signs of a pick-up observed in exports for the July-September quarter of 2015 and the progress in inventory adjustments, expressed the view that it had become more likely that production would see a pick-up in the October-December quarter.

Members discussed the point that, despite the high level of corporate profits and the tight labor market conditions, the effects of these factors on the corporate expenditure side -- such as business fixed investment and wages -- were still relatively weak. Some members expressed the view that this was attributable to the fact that corporate managers had perceived the current high level of corporate profits as a temporary phenomenon that was caused partly by the correction in the excessive appreciation of the yen and by the improvement in the terms of trade. One member said that the government was expected to support firms' proactive initiatives by steadily implementing the growth strategy, including reform of the labor market. Many members then expressed the view that, once emerging economies moved out of their deceleration phase and demand at home and abroad remained solid for a certain period of time, firms were likely to show a more proactive attitude toward fixed investment and wage increases. One member pointed out that investment was expected to accelerate further in light of moves such as the shifting of production sites back to Japan and the expansion of investment in research and development. A different member -- noting that the phenomenon of the slow growth in business fixed investment and wages relative to the high level of corporate profits was also observed in other major advanced economies -- expressed the recognition that this phenomenon was unlikely to be prolonged, and that the positive effects from strong corporate profits eventually would spread to the corporate expenditure side. A few members noted that insufficient wage growth was evidence that Japan's economy had not yet reached full employment, and therefore it remained important to expand aggregate demand.

As for prices, members concurred that the year-on-year rate of change 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 recognition that firms' credit demand had been increasing moderately, mainly for working capital and funds related to mergers and acquisitions, and that the amount outstanding of bank lending, including that to small firms, had been increasing moderately.

Some members pointed out that funding costs of the U.S. dollar had been rising recently, mainly in the foreign exchange swap markets. They then expressed the view that such developments reflected not only a seasonal rise in demand for U.S. dollar funds at the calendar year-end and increased expectations for a possible hike in the target range for the federal funds rate in the United States, but also the effects of structural factors, including stricter international financial regulations. On this basis, members shared the recognition that, although attention should be paid to these financial market developments, Japanese financial institutions were not facing problems in terms of U.S. dollar funding at present.

## 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.

Most members shared the view that the underlying trend in inflation had been improving steadily, judging from developments in the output gap and inflation expectations.

These members continued that the year-on-year rate of increase in the CPI was likely to accelerate toward 2 percent -- the price stability target -- as the underlying trend in inflation steadily rose, given that the Bank would steadily pursue quantitative and qualitative monetary easing (QQE) under the current guideline for money market operations. One member said that much of the public perceived that QQE had been exerting its intended effects and that the overcoming of deflation had been making progress. This member continued that the Bank therefore should maintain such confidence by continuing the current monetary policy and promoting the virtuous cycle that had started to operate steadily. On this basis, many members shared the recognition that the Bank should make policy adjustments without hesitation if the underlying trend in inflation changed due to a manifestation of risks and if, consequently, adjustments were judged necessary for achieving the price stability target at the earliest possible time.

With regard to the assessment of price developments for the Bank's conduct of monetary policy, members shared the recognition that the underlying trend in inflation was important. On this basis, they shared the view that the underlying trend in inflation continued to improve, considering, for example, that (1) the year-on-year rate of increase in the CPI (all items less fresh food and energy) was expanding and (2) there was a continued rise in an indicator that represented the difference between the share of items in the CPI (all items less fresh food) for which prices had risen from the previous year and that for which prices had declined. Regarding the outlook for prices, members shared the recognition that it was important for the rise in the underlying trend in inflation to be reflected in wage increases in the spring wage negotiations between workers and management in 2016. In relation to this, a few members pointed out that attention should be paid to the risk that, unless wages rose, reflecting the improvement in the underlying trend in inflation, households once again would increase their resistance to price rises in food and daily necessities in a situation where the effects of the decline in energy prices subsided. A few members noted that it was necessary to closely monitor whether firms' price-setting strategy would change as input prices declined on the whole, reflecting the fall in international commodity prices.

In relation to this, some members -- noting that it had become more frequent recently for the Bank to explain the underlying trend in inflation using the CPI (all items less fresh food and energy) -- expressed the recognition that such communication was appropriate considering the sharp decline in energy prices since 2014. On this basis, members concurred that, in the assessment of the underlying trend in inflation, it was important to examine a range of price indicators while taking into account developments in economic activity behind such indicators.

Members shared the recognition that inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective, although some market indicators and survey results had recently shown relatively weak developments. They shared the view that it was necessary to interpret developments in each indicator based on its characteristics, as (1) indicators obtained from results of surveys on a short-term price outlook were susceptible to the latest developments in energy prices and (2) the break-even inflation rates calculated using yields on inflation-indexed bonds were affected by factors such as market liquidity and supply-demand conditions of the bonds. Some members said that it could be judged that inflation expectations were rising, considering that firms' price-hiking behavior had become widespread and sustained from the turn of the fiscal year and households had started to accept price rises. In light of these discussions, many members shared the view that the year-on-year rate of increase in the CPI would accelerate as the effects of the decline in crude oil prices dissipated, and was likely to reach around 2 percent around the second half of fiscal 2016.

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 <u>the Bank's thinking behind its future conduct of monetary policy</u>, 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. One of these members -- commenting on the relationship between wages and prices -- stated that they generally moved in parallel, and therefore neither of them would increase unless the deflationary mindset was dispelled. This member then said that it was important that the Bank firmly maintain the commitment to achieving the price stability target at the earliest possible time so as to fully convey its stance to the public. A different member noted that the Bank's strong commitment to a time horizon of about two years was the starting point of the policy effects of QQE, and that the perception of inflation by firms and households had been changing markedly under the commitment.

On the other hand, one member said that marginal effects of QQE had been diminishing, reflecting the halt in the decline in real interest rates, and such effects had already been outweighed by the side effects on, for example, the JGB market. This member expressed the view that the positive effects of QQE would not be constrained if the Bank slowed the pace of increase in the amount outstanding of its JGB holdings and did not reduce that amount. On this basis, the member's primary argument was the following. First, the Bank should reduce the annual pace of increase in the amount outstanding of its JGB holdings to a level below the initial pace, in view of further possible phased reductions. Second, it should make changes to the time frame for achieving the price stability target -- to the medium to long term -- and conduct monetary policy that gave due consideration to risks such as a buildup of financial imbalances. Moreover, this member noted that these proposed measures did not indicate a move toward ending QQE or raising interest rates at an early stage.

## IV. Remarks by Government Representatives

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

(1) According to the first preliminary GDP estimates for the July-September quarter of 2015 released on November 16, nominal GDP remained more or less unchanged and real GDP had marked negative growth on the whole, reflecting the decline in business fixed investment and the progress in inventory adjustments, although private consumption had turned positive on the back of improvement in real wages. The government judged that the Japanese economy was on a moderate recovery with the employment and income situation improving. In order to ensure the overcoming of deflation, the government considered it necessary to firmly support economic activity and reverse somewhat weak developments.

(2) The government judged it necessary to further accelerate and expand the economic virtuous cycles by encouraging the spillover from strong corporate profits to wages and business fixed investment. Taking into account, for example, the analysis of the first preliminary estimates of GDP, it also considered it necessary to swiftly implement (1) the first set of policies for the dynamic engagement of all citizens, including the measures that should be urgently implemented in order to realize a GDP of 600 trillion yen; and (2) policies related to the Trans-Pacific Partnership (TPP). Giving due consideration to these viewpoints, the government would proceed with its formulation of the supplementary budget so that it could be swiftly submitted to the Diet once instructions were received from the prime minister.

(3) As the government aimed to achieve both economic revitalization and fiscal consolidation, it continued to expect the Bank to work toward achieving the price stability target 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 recently in some areas. The first preliminary estimate of the real GDP growth rate for the July-September quarter of 2015 had registered minus 0.8 percent on an annualized quarter-on-quarter basis, while the contribution of final demand excluding inventories to real GDP had marked 1.4 percent. That of the nominal GDP growth rate for the same quarter had registered 0.1 percent on the same basis and 3.1 percent on a

year-on-year basis, as the latter reflected the year-on-year rate of increase in the GDP deflator, which exceeded 2 percent.

(2) As for the outlook, the Japanese economy was expected to head toward a moderate recovery, supported partly by the effects of the government's policies, while the employment and income situation showed a trend toward improvement, despite risks such as a slowdown in overseas economies. With regard to price developments, the government judged it important to make a comprehensive assessment on a range of price indicators, including the GDP deflator, which showed the price of value added, because the deflator played an important role in a situation where the terms of trade fluctuated significantly.

(3) At the Council on Economic and Fiscal Policy, the government had held discussions on achieving "a robust economy that gave rise to hope." Taking into consideration proposals from the private-sector members, the government would compile the measures that should be urgently implemented in order to realize a GDP of 600 trillion yen and reflect them in the urgent policies to be formulated by the National Council for Promoting the Dynamic Engagement of All Citizens. It also would compile the Comprehensive TPP-Related Policy Framework by late November in order to connect the TPP directly to economic revitalization and the vitalization of local economies in Japan and to remove the worries and concerns of the nation's citizens. In the Public-Private Dialogue toward Investment for the Future, the government had determined specific measures regarding the promising fields in which safety and convenience could be achieved together. The prime minister had asked the industrial sector to (1) engage in full-fledged measures, including those with regard to raising wages and passing rises in input prices on to sales prices; and (2) clarify the outlook and issues relating to wage increases and concrete steps to expand investment.

(4) At an intensive discussion regarding monetary policy and prices at the Council on Economic and Fiscal Policy held on November 4, the government had reviewed the progress toward overcoming deflation and promoting economic revitalization. It expected the Bank to work steadily to achieve the price stability target of 2 percent in light of economic activity and prices.

## 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 October 30, 2015 for release on November 25, 2015.

Attachment
November 19, 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, although exports and production have been affected by the slowdown in emerging economies. Overseas economies -- mainly advanced economies -- have continued to grow at a moderate pace, despite the slowdown in emerging economies. Exports and industrial production have recently been more or less flat, due mainly to the effects of the slowdown in emerging economies. On the domestic demand side, business fixed investment has been on a moderate increasing trend as corporate profits have continued to improve markedly. Against the background of steady improvement in the employment and income situation, private consumption has been resilient and housing

investment has been picking up. 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 change 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, although some indicators have recently shown relatively weak developments.

4. With regard to the outlook, Japan's economy is expected to continue recovering moderately. The year-on-year rate of change 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. 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.

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 2]

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[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.