Not to be released until 8:50 a.m. Japan Standard Time on Friday, March 18, 2016.

March 18, 2016
Bank of Japan

Minutes of the Monetary Policy Meeting
on January 28 and 29, 2016

(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 Thursday, January 28, 2016, from 2:00 p.m. to 3:46 p.m., and on Friday, January 29, from 9:00 a.m. to 12:31 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. N. Okada, 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 March 14 and 15, 2016 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. N. Okada and S. Takatori were present on January 29.

[3] Messrs. M. Ota and M. Nishikawa were present on January 28.

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

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. K. Suzuki, Head of Policy Infrastructure Division, Monetary Affairs Department[4]

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

Mr. I. Muto, Senior Economist, Monetary Affairs Department

Mr. K. Iijima, Senior Economist, Monetary Affairs Department[5]

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[4] Messrs. H. Koguchi and K. Suzuki were present on January 28 from 3:17 p.m. to 3:46 p.m., and on January 29 for the whole of the session.

[5] Mr. K. Iijima was present on January 29 from 9:33 a.m. to 12:31 p.m.

I. Summary of Staff Reports on Economic and Financial Developments[6]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on December 17 and 18, 2015, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[7] In this situation, the amount outstanding of the monetary base had been in the range of 351-359 trillion yen.

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments continued to be at low levels. The uncollateralized overnight call rate and general collateral (GC) repo rates had generally been at levels below 0.1 percent, the interest rate applied to the Bank's complementary deposit facility. As for interest rates on term instruments, yields on treasury discount bills (T-Bills) remained in negative territory.

The Nikkei 225 Stock Average had fallen substantially as investors' risk aversion heightened, mainly reflecting increased uncertainty about the Chinese economy and the decline in crude oil prices, and was moving at around 17,000 yen recently. In the foreign exchange market, reflecting the heightened risk aversion of investors, the yen had appreciated against the U.S. dollar and the euro. Yields on 10-year JGBs had declined somewhat, mainly reflecting the heightened risk aversion of investors amid the Bank's continued large-scale JGB purchases, and had been in the range of 0.20-0.25 percent recently.

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. As for prices, the year-on-year rate of increase in the personal consumption expenditure (PCE) deflator for

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

[7] 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.

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 as private consumption continued to increase, although exports had shown some weakness. 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 remained in a deceleration phase, mainly in manufacturing. In India, the economy had been growing 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 the effects of adjustments in China had been exerting downward pressure on exports and production. However, the effects of economic stimulus measures had been observed in some countries and regions. Economic activity in Brazil and Russia remained severe as exports had been sluggish, mainly due to the fall in commodity prices, and as domestic demand also had declined.

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 their currencies had offset each other. However, inflation rates had risen or remained at high levels in some economies.

Regarding global financial markets, in emerging economies, currencies and stock prices -- mainly in commodity-exporting economies -- had declined against the background of increased uncertainty about the Chinese economy and the significant fall in commodity prices, such as crude oil prices. In advanced economies, stock prices had fallen substantially, reflecting the heightened risk aversion of investors. In international commodity markets, crude oil prices had fallen significantly, mainly due to heightened concern over the slowdown in the pace of growth in emerging economies -- particularly the Chinese economy -- and to the decreased possibility of production cuts, reflecting the political situation in the Middle East.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy continued to recover moderately, although exports and production had been affected by the slowdown in emerging economies.

Exports had been picking up, although sluggishness remained in some areas. Although exports of capital goods continued to be relatively weak with the effects of the slowdown in emerging economies such as China remaining, IT-related exports, which had been declining since early 2015, had leveled off accompanied by an increase in those of parts for new products. Automobile-related exports, mainly those to the United States and Europe, had increased firmly. Exports were expected to increase moderately as emerging economies moved out of their deceleration phase.

Public investment had been on a moderate declining trend, although it remained at a high level. It was expected to continue its moderate declining trend.

Business fixed investment had been on a moderate increasing trend as corporate profits continued to improve markedly. According to the December 2015 *Tankan* (Short-Term Economic Survey of Enterprises in Japan), firms had generally continued to plan to increase fixed investment firmly for fiscal 2015, and machinery orders had followed a firm increasing trend as well, albeit with some fluctuations. Business fixed investment was projected to continue to see a moderate increase as corporate profits followed their marked improving trend.

As for the employment and income situation, supply-demand conditions in the labor market continued to improve steadily, and employee income had increased moderately.

Private consumption had been resilient against the background of steady improvement in the employment and income situation. According to various statistics, retail sales were on a moderate increasing trend but had been somewhat weak recently due to sluggish sales in winter apparel stemming from irregularly warm weather. Services consumption such as dining-out and travel had been increasing firmly recently. Consumer sentiment also was on a moderate improving trend. Private consumption was expected to remain resilient with the employment and income situation continuing to improve steadily.

Housing investment had been picking up and was expected to continue doing so, underpinned by the continued steady improvement in the employment and income situation and accommodative financial conditions.

Industrial production continued to be more or less flat, against the background of the prolonged inventory adjustments, as the effects of the slowdown in emerging economies remained. It was likely to start picking up as the effects of the slowdown in emerging economies abated and as the inventory adjustments progressed.

As for prices, the producer price index (PPI) was declining relative to three months earlier, mainly due to the decline 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 continued to be on a steady rising trend, after bottoming out in the period of January-February 2015. Looking at annual price changes in all CPI items less fresh food, the share of price-increasing items minus the share of price-decreasing items had shown a marked increase since April 2015, albeit with some fluctuations. With regard to the outlook, 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 at about 30 percent.

Firms' funding costs had been hovering at low levels. With regard to credit supply, firms continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP and corporate bonds continued to be favorable. Firms' credit demand had been increasing moderately, mainly for working capital and funds related to mergers and acquisitions. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending had been in the range of 2.0-2.5 percent. Firms' financial positions had been favorable. The year-on-year rate of growth in the money stock had been at around 3 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. Enhancing the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth and Extending the Application Periods for the Loan Support Program and Other Measures

A. Staff Reports

Given the decisions made at the Monetary Policy Meeting (MPM) held on December 17 and 18, 2015 to (1) enhance the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth and (2) extend the application periods for the Loan Support Program and other measures, as part of supplementary measures for quantitative and qualitative monetary easing (QQE), the staff proposed that the Bank amend the principal terms and conditions and other related rules for the relevant operations. Specifically, the staff proposed that the Bank make amendments to (1) add a new category ("Firms that are proactively making investment in physical and human capital") to the current list of 18 possible areas in which financial institutions' investment or lending was recognized as eligible for the Bank's Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth, and at the same time simplify procedures for eligibility assessment of financial institutions' investment or lending for the firms relevant to this category; and (2) extend by one year the deadlines for new applications for the Fund-Provisioning Measure to Stimulate Bank Lending, the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth, the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas affected by the Great East Japan Earthquake, and the Temporary Rules regarding the Eligibility Standards for Debt of Companies in Disaster Areas.

B. Vote

"Amendment to 'Principal Terms and Conditions for the Loan Support Program' and Other Related Rules," which represented the aforementioned staff reports, was put to a vote. Members voted unanimously to approve the proposal. They concurred that the staff should accordingly make this public after the meeting.

III. Acceptance of Foreign Currency-Denominated Loans on Deeds as Eligible Collateral

A. Staff Reports

Given the decision made at the MPM held on December 17 and 18, 2015 to accept foreign currency-denominated loans on deeds as eligible collateral, the staff proposed that the Bank establish temporary rules regarding the eligibility standards to set the framework for accepting such loans on deeds.

B. Vote

"Establishment of 'Temporary Rules regarding the Eligibility Standards for Loans on Deeds to Companies Denominated in the U.S. Dollar,'" which represented the aforementioned staff reports, was put to a vote. Members voted unanimously to approve the proposal. They concurred that the staff should accordingly make this public after the meeting.

IV. Amendment to "Principal Terms and Conditions for Purchases of Exchange-Traded Funds (ETFs) and Japan Real Estate Investment Trusts (J-REITs)" to Increase the Maximum Amount of Each Issue of J-REIT to Be Purchased

A. Staff Reports

Given the decision made at the MPM held on December 17 and 18, 2015 to increase the maximum amount of each issue of J-REIT to be purchased from 5 percent to 10 percent of the total amount of that J-REIT issued, the staff proposed that the Bank amend the Principal Terms and Conditions for Purchases of ETFs and J-REITs, and implement necessary procedures accordingly.

B. Vote

"Amendment to 'Principal Terms and Conditions for Purchases of ETFs and J-REITs,'" which represented the aforementioned staff reports, was put to a vote.

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.

They concurred that the staff should accordingly make this public after the meeting.

V. Approval of the Minutes of the MPM

The Policy Board approved unanimously the minutes of the MPM of December 17 and 18, 2015 for release on February 3, 2016.

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

With regard to global financial markets, members shared the recognition that investors' risk aversion had been heightening since the start of the year, mainly against the backdrop of the further decline in crude oil prices and uncertainty over future developments in the Chinese economy. A few members, while noting that the decline in crude oil prices since 2014 had been partly due to demand factors such as the slowdown in the Chinese economy, said that the recent sharp decline in these prices was mainly caused by supply factors. A few members expressed the recognition that the recent market turbulence seemed to be driven by sentiment, rather than developments in the real economy. Some members pointed out that uncertainty among market participants regarding the Chinese foreign exchange policy had been the cause of the market turbulence.

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 would moderately increase their growth rates as it was likely that advanced economies would continue to see firm growth and emerging economies would move out of their deceleration phase 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.

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, mainly on the back of improvement in the employment and income situation under accommodative financial conditions.

Members agreed that the Chinese economy maintained its stable growth on the whole but remained 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 said that there was uncertainty regarding the extent of the economic slowdown in China, although a hard landing was unlikely because the Chinese authorities had room to address economic challenges through policy measures.

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 shared the view that emerging economies would move out of their deceleration phase, reflecting the pick-up in domestic demand that was mainly on the back of the effects of the recovery in advanced economies and economic stimulus measures both on the monetary and fiscal fronts.

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.

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

With regard to economic activity, members shared the recognition that the economy continued to recover moderately, although exports and production had been affected by the slowdown in emerging economies. Most members expressed the view that a virtuous cycle from income to spending continued to operate steadily in both the household and corporate sectors. 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. However, many members expressed the view that attention should be paid to negative effects on business confidence and consumer sentiment of the turbulence in the markets since the start of the year.

Members agreed that Japan's exports had been picking up, although sluggishness remained in some areas. As for the outlook, they concurred that exports were likely to increase moderately as emerging economies moved out of their deceleration phase.

Members agreed that business fixed investment had been on a moderate increasing trend as corporate profits continued to improve markedly. They shared the view that it was likely to continue to see a moderate increase as corporate profits followed their marked improving trend. One member added that the fact that firms maintained their positive investment stance was attributable to their record profits.

As for the employment and income situation, members concurred that employee income had increased moderately with supply-demand conditions in the labor market 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. A few members pointed out that workers had called for modest wage increases in the spring wage negotiations with management, and thus it would still take time for wages to rise firmly. These members also expressed concern over the possibility of the recent turbulence in global financial markets affecting a base pay increase.

Members shared the recognition that private consumption had been resilient against the background of steady improvement in the employment and income situation, and was likely to remain so. A few members expressed the view that -- although private consumption had been somewhat weak recently, due to the effects of irregularly warm weather -- it was likely to rise moderately, reflecting an increase in employee income.

Members agreed that industrial production continued to be 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 start picking up as the effects of the slowdown in emerging economies abated and as the inventory adjustments progressed. One member said that there was a possibility that the pace of increase in industrial production would slow down in and after the April-June quarter of 2016, due mainly to a dissipation of the effects of the introduction of new cars to the market and to weaker-than-expected sales of new models of smartphones.

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. Many members expressed the view that the underlying trend in inflation had been rising steadily, given that the year-on-year rate of increase in the CPI (all items less fresh food and energy) for December -- the latest figure -- was 1.3 percent. On the other hand, a different member said that, since it seemed that a smaller number of firms were planning to raise sales prices than at around this time last year, there was a risk that the year-on-year rate of increase in the CPI (all items less fresh food and energy) around the April-June quarter of 2016 would come in lower than previously projected.

VII. 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.

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 agreed that the underlying trend in inflation had been improving steadily, judging from developments in the output gap and inflation expectations. A few members pointed out that this view had been supported by the continued, steady rising trend in the year-on-year rate of increase in the CPI (all items less fresh food and energy).

Members shared the recognition that inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective, although some indicators had recently shown relatively weak developments. However, many members expressed the recognition that global financial markets had been volatile recently, mainly against the backdrop of the further decline in crude oil prices and uncertainty over future developments in emerging and commodity-exporting economies, particularly the Chinese economy. These members continued that, for these reasons, there was an increasing risk that an improvement in the business confidence of Japanese firms and conversion of people's deflationary mindset might be delayed and that the underlying trend in inflation might be negatively affected. One of these members said that, since Japanese firms' deflationary mindset had not been dispelled completely, due attention needed to be paid to risks that a rise in wages might not spread further and that the pace of increase in inflation might be negatively affected.

Based on this recognition, many members expressed the view that it was appropriate for the Bank to implement additional easing measures in order to preempt the manifestation of these risks and to maintain momentum toward achieving the price stability target of 2 percent. One of these members expressed the view that there was a possibility that the turbulence in financial markets, by affecting the real economy and inflation expectations, would delay the timing of achieving the price stability target of 2 percent; therefore, it was appropriate at this point for the Bank to implement additional easing measures in a preemptive manner. On the other hand, some other members expressed the view that, although risks emanating from developments in global financial markets were tilted to the downside, Japan's economic activity and prices had not deteriorated to the extent where additional easing measures were necessary. These members therefore noted that the Bank should maintain its current monetary policy. One of these members said that, given that highly accommodative financial conditions had been maintained, additional easing measures were not warranted. In response, one member said that, even if the underlying trend in inflation was not currently an issue, it was desirable for the Bank to take policy actions preemptively given the possibility that the market turbulence would exert negative effects on the underlying trend in inflation in the future. A different member noted that now was the defining moment for Japan's economy to maintain momentum so as not to halt the virtuous cycle, and that the Bank should reinforce QQE and increase available options for further easing in the future by implementing additional measures in order to sustain credibility for monetary policy.

In light of these discussions, the chairman requested that the staff offer possible options for the Bank if it took policy actions. The staff offered two options: (1) expansion of QQE that consisted of an acceleration in the paces of increase in the monetary base and in asset purchases; and (2) introduction of QQE with a Negative Interest Rate. Regarding the first option, the staff reported that an expansion was operationally feasible as it would be confined within the existing framework of QQE. With respect to the second option, the staff provided the following explanation and put forward a three-tier system for the outstanding balances in current accounts at the Bank. First, taking into consideration the extremely large scale of balances in current accounts at the Bank, it was necessary to adopt a multiple-tier system to prevent an excessive decrease in financial institutions' earnings that could weaken their functions as financial intermediaries. Second, in such a case, considering that counterparty financial institutions had accumulated balances in their current accounts at the Bank as a result of bidding in the Bank's asset purchases under QQE, it was appropriate to apply a positive interest rate of 0.1 percent -- the same rate as before -- to the existing balance on each financial institution's current account. Third, assuming that -- with the continuation of quantitative monetary easing measures -- the total outstanding balances of current accounts at the Bank would increase, this policy measure should be designed in a way that would give the Bank flexibility when it came to increasing the tier of financial institutions' balances of current accounts to which a zero interest rate would be applied, so that the balances to which a negative interest rate would be applied would generally be maintained at certain levels. The staff explained that, even though a negative interest rate was not applied to the total outstanding balances of current accounts at the Bank, a new transaction that resulted in a marginal increase in the current account balance would incur a cost of minus 0.1 percent. The staff continued that interest rates and asset prices would be determined in financial markets, based on that premise. The staff also proposed that, if the Bank decided on this policy measure, the Bank would carry out the Loan Support Program, the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas affected by the Great East Japan Earthquake, and the Funds-Supplying Operation against Pooled Collateral at zero interest rates.

Based on the staff proposal, members discussed monetary policy for the immediate future in more detail.

Many members expressed the view that introduction of QQE with a Negative Interest Rate was desirable to preempt manifestation of the risk that the underlying trend in inflation might be negatively affected and to maintain momentum toward achieving the price stability target of 2 percent. These members expressed the view that QQE with a Negative Interest Rate would enable the Bank to take additional monetary easing measures in terms of three dimensions: quantity, quality, and the interest rate. These members continued that, by introducing a negative interest rate, the Bank could lower the short end of the yield curve and exert further downward pressure on interest rates across the entire yield curve, in combination with continued large-scale purchases of JGBs. One of these members expressed the view that, in theory, the Bank could strengthen the portfolio rebalancing effect and enhance the effects of monetary easing through cutting its deposit rate on current accounts while maintaining the size of quantitative easing. This member added that, in light of experiences in some European countries, the Bank had gained enough knowledge about the effects and operational issues associated with negative interest rates to appropriately implement this policy; therefore, this would enable the Bank to further enhance the positive effects while reducing such issues. A different member noted that there was uncertainty about whether the Bank, while slashing its deposit rate on current accounts into negative territory, could conduct large-scale JGB purchases smoothly. However, this member continued that the staff proposal was formulated to contain features tailored to specific circumstances in Japan, while referring to the precedents in Europe, and this would solve the issues associated with this proposed measure to a considerable extent. On this basis, all members who agreed to introduce QQE with a Negative Interest Rate judged that the three-tier system proposed by the staff in which balances in current accounts at the Bank would be divided into three tiers was designed to ensure the materialization of an easing effect -- that is, the lowering of the short end of the yield curve into negative territory -- by bringing down the marginal interest rate into negative territory, and to ensure that financial institutions' functions as financial intermediaries would not be impaired due to an excessive negative impact on their earnings. These members said that, upon the introduction of a negative interest rate, it was desirable to start by applying a negative interest rate of minus 0.1 percent to part of the balances in current accounts at the Bank and cut the rate further into negative territory if judged necessary.

In response, a few members pointed to the possibility that, if the Bank were to introduce a negative interest rate immediately after the introduction of supplementary measures for QQE, this might instead be misunderstood as approaching a limit to its asset purchases. One of these members also expressed concern that (1) a complex policy framework proposed at this meeting could cause confusion and anxiety, (2) financial markets would expect further cuts in the interest rate into negative territory, (3) there would be an increase in confusion and anxiety among financial institutions and depositors, and (4) since the public did not necessarily understand well why the Bank aimed at achieving the price stability target of 2 percent, the introduction of a negative interest rate could aggravate misunderstanding of the Bank's policy intention. A different member voiced concern that (1) introducing a negative interest rate and maintaining the current pace of increase in the monetary base at the same time lacked consistency, (2) a negative interest rate policy would have large side effects on the functioning of financial markets and the financial system, (3) the Bank's introduction of a negative interest rate could lead to a competition with overseas central banks to lower interest rates deeper into negative territory, and (4) only the Bank might become the ultimate buyer of JGBs and market participants could regard the Bank's JGB purchases as deficit financing. Another member said that, even if the introduction of a negative interest rate led to a decrease in JGB yields, there was limited room for the private sector's borrowing rates to decline further, and thus business fixed investment was unlikely to increase. A different member expressed the view that the introduction of a negative interest rate would cause the problem of impairing the stability of the Bank's JGB purchases and increasing instability of the financial system, and therefore this policy measure would only be appropriate in a crisis situation.

In response to such dissent from the introduction of QQE with a Negative Interest Rate, a few members noted that it was important for the Bank to provide sufficient explanation through effective communication so as to avoid misunderstanding of its policy intention. One member said that the transmission channels of QQE with a Negative Interest Rate should not be regarded as different from those of QQE implemented thus far. This member continued that it was appropriate to consider that this new policy measure would strengthen the effects of QQE in terms of further stimulating the real economy by lowering the short end of the yield curve and exerting further downward pressure on interest rates across the entire yield curve. With respect to the consistency between the negative interest rate policy and the Bank's asset purchases, a different member noted that, in theory, even if the deposit rate on current accounts at the Bank turned negative, a corresponding rise in sales prices of JGBs -- if costs of the negative rate were passed on to the prices of JGBs -- would give financial institutions a rational reason for bidding in the Bank's market operations. This member then expressed the view that the Bank would not face problems if it proceeded with asset purchases while carefully monitoring how the introduction of a negative interest rate affected the JGB market. Regarding the effects of such introduction on market functioning, the member pointed out that the precedents in Europe suggested that transactions in the money markets were not necessarily decreasing even under negative interest rates. This member also noted that, in terms of the implications for the financial system, it was inevitable that financial institutions' earnings would be negatively affected for the time being; however, achieving the overcoming of deflation as early as possible was important also for improving financial institutions' business environment. Another member expressed the view that central banks' appropriate implementation of the measures necessary for price stability in their respective economies would provide a mutual benefit.

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 shared the recognition that it was appropriate for the Bank to implement the following guideline for the intermeeting period. First, it 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. Second, it would purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces of about 3 trillion yen and about 90 billion yen, respectively. And third, for CP and corporate bonds, the Bank would maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

With respect to the Bank's thinking behind its future conduct of monetary policy, many members shared the following view: (1) the Bank would continue with QQE with a Negative Interest Rate, aiming to achieve the price stability target of 2 percent, as long as it was necessary for maintaining this target in a stable manner; and (2) the Bank would examine risks to economic activity and prices, and take additional easing measures in terms of three dimensions -- quantity, quality, and the interest rate -- if it was judged necessary for achieving the price stability target. One member opposed revising the expression in the Statement on Monetary Policy, which had been included until the previous meeting, that "it [the Bank] will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate," because the member understood that this expression took into account the prudential aspects.

VIII. Remarks by Government Representatives

On the basis of the discussions on the introduction of QQE with a Negative Interest Rate, the government representatives requested that the chairman adjourn the meeting because they needed to contact the Minister of Finance and the Minister of State for Economic and Fiscal Policy. The chairman approved the request. (The meeting adjourned at 11:26 a.m. and reconvened at 11:42 a.m.)

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

(1) The government regarded QQE with a Negative Interest Rate proposed at this meeting as necessary for achieving the target of monetary policy, and would like the Bank to make an appropriate decision at this meeting.

(2) The government expected the Bank to continue to thoroughly and actively explain the situation of its monetary policy management, including QQE with a Negative Interest Rate proposed at this meeting.

(3) On January 20, 2016, the supplementary budget for fiscal 2015 had been approved by the Diet. The government would immediately implement this budget in order to address downside risks to the economy and solve issues in Japan. On January 22, the budget for fiscal 2016 had been submitted to the Diet. The budget was intended to address important issues, particularly those concerning the realization of a society in which all citizens were dynamically engaged. As the first fiscal-year budget under the

Plan to Advance Economic and Fiscal Revitalization, it was formulated with a view to achieving both economic revitalization and fiscal consolidation, and therefore the increase in general expenditures was contained in line with the benchmark set in the plan. The government would work to promptly obtain the Diet's approval of the budget for fiscal 2016 in the current session, following the approval of the supplementary budget for fiscal 2015.

(4) The government 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. Although fluctuations in the global financial and capital markets had been observed of late, the fundamentals of Japan's economy had been firm. In the government's economic outlook for fiscal 2016, the government projected that the economy would recover, supported by robust growth in private demand. With regard to prices, it expected that their rate of increase would rise, reflecting the tightening of demand and supply conditions, thereby making further progress toward overcoming deflation. According to the Economic and Fiscal Projections for Medium- to Long-Term Analysis, the target of halving the national and local governments' primary balance-to-GDP ratio for fiscal 2015 was expected to be achieved. For fiscal 2020 -- the target year for reducing the primary balance deficit to zero -- the deficit was projected to be approximately 1.1 percent relative to GDP in the "economic revitalization case"; therefore, the government deemed it important to continue enhancing integrated economic and fiscal reforms. In assessing price developments, it was important to comprehensively examine a wide range of price indicators, including the GDP deflator, which showed the price of value added.

(2) The supplementary budget for fiscal 2015 had been approved by the Diet on January 20, 2016, and the budget for fiscal 2016 had been submitted to the Diet. At the Council on Economic and Fiscal Policy held on December 24, 2015, the government had finalized the Economic and Fiscal Revitalization Action Program, which set forth specific processes for integrated economic and fiscal reform. According to the analysis of the economic impact the Trans-Pacific Partnership (TPP) would have on the

Japanese macroeconomy when it came into effect, it was projected that real GDP would grow by about 14 trillion yen and that there would be an increase of about 800 thousand workers in the labor supply.

(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. It would like the Bank to pay due attention to the effects of recent fluctuations in the financial and capital markets. The government considered it necessary to pay close attention to the effects of monetary policy, including the additional easing measure proposed at this meeting. The government also considered it important that the Bank would fully explain to the public its thinking about the changes made to the projected timing of achieving the price stability target of 2 percent and the monetary policy framework.

IX. Votes

A. Vote on the Chairman's Policy Proposal on the Amendment to Principal Terms and Conditions of Complementary Deposit Facility as a Temporary Measure to Facilitate Supplying of Funds

Based on the above discussions, to reflect the majority view of the members, the chairman formulated a proposal on the amendment to Principal Terms and Conditions of Complementary Deposit Facility as a Temporary Measure to Facilitate Supplying of Funds, as summarized below, and put it to a vote.

The Policy Board decided the proposal by a majority vote.

The Chairman's Policy Proposal:

The Bank will apply a negative interest rate of minus 0.1 percent to current accounts that financial institutions hold at the Bank. It will cut the interest rate further into negative territory if judged as necessary. Specifically, the Bank will adopt a three-tier system in which the outstanding balance of each financial institution's current account at the Bank will be divided into three tiers, to each of which a positive interest rate, a zero interest rate, or a negative interest rate will be applied, respectively. The Bank will carry out the Loan Support Program, the Funds-Supplying Operation to Support Financial Institutions in

Disaster Areas affected by the Great East Japan Earthquake, and the Funds-Supplying Operations against Pooled Collateral at zero interest rates.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Harada, and Mr. Y. Funo.
Votes against the proposal: Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi.

The members dissenting from the proposal gave the following reasons. Ms. S. Shirai expressed concerns that introducing a negative interest rate immediately after the introduction of supplementary measures for QQE might be misunderstood as reaching a limit to the Bank's asset purchases and that such a complex policy framework could cause confusion. Mr. K. Ishida considered that a further decline in JGB yields would not have significantly positive effects on economic activity. Mr. T. Sato considered that a negative interest rate should be introduced when the Bank slowed down the pace of increase in the monetary base. Mr. T. Kiuchi considered that introduction of a negative interest rate, which would adversely affect smooth conduct of the Bank's JGB purchases, would only be an appropriate policy measure in a crisis situation.

B. Vote on the Chairman's Policy Proposal on the Guideline for Money Market Operations

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.

C. 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 implement the guideline for asset purchases for the intermeeting period, 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 7-12 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.

D. 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.

X. Discussion and Decision on the *Outlook for Economic Activity and Prices*

A. Outlook for Economic Activity and Prices

Based on the guidelines for money market operations and asset purchases decided during the above discussions, members deliberated on the outlook for economic activity and prices. With regard to the baseline scenario of the outlook for Japan's economic activity, they concurred that domestic demand was likely to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the household and corporate sectors, and that exports were likely to increase moderately on the back of emerging economies moving out of their deceleration phase. On this basis, members shared the recognition that Japan's economy was likely to continue growing at a pace above its potential through fiscal 2016. Most members agreed that thereafter, through fiscal 2017, the economy would probably maintain its positive growth, although with a slowing in its pace to around a level somewhat below the potential growth rate. These members continued that the slowdown was due mainly to (1) the effects of a front-loaded increase and subsequent decline in demand prior to and after the consumption tax hike planned in April 2017 and (2) cyclical deceleration. Most members shared the view that the projected growth rates were more or less unchanged compared with those presented in the October 2015 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report). Regarding developments in economic activity for the second half of fiscal 2015 through fiscal 2016, members agreed that exports would probably increase moderately as emerging economies were likely to move out of their deceleration phase, and that past foreign exchange rate developments were also likely to support exports. They concurred that, through fiscal 2017, the economy was likely to be affected by the front-loaded increase and subsequent decline in demand prior to and after the consumption tax hike scheduled to take place in April 2017, and the pace of increase in business fixed investment was likely to decline, reflecting a cycle in the accumulation of capital stock. However, members shared the recognition that exports would probably continue increasing moderately owing to overseas economic growth, and domestic private demand was likely to be resilient, supported by accommodative financial conditions and heightened growth expectations. In addition, they concurred that Japan's potential growth rate would probably follow a moderate increasing trend through the projection period, pushing up the economy's growth in the medium to long term.

In terms of the outlook for prices, most members shared the view that (1) as the underlying trend in inflation steadily rose, the year-on-year rate of change in the CPI was likely to accelerate toward 2 percent; (2) the timing of reaching around 2 percent was likely to be around the first half of fiscal 2017, assuming that crude oil prices would rise moderately from the recent level; and (3) thereafter, the year-on-year rate of change in the CPI was likely to be around 2 percent on average. These members concurred that the projected timing of reaching around 2 percent was delayed compared with that presented in the October 2015 Outlook Report, but this was due to the assumption of lower crude oil prices, and the underlying trend in inflation had steadily been improving. One member was of the view that the year-on-year rate of change in the CPI would rise closer to around 2 percent around the first half of fiscal 2017, and said that this projection was, in a broad sense, consistent with the earlier expression, which represented the view of most members. A different member noted that it was appropriate to give a wider time span for the projected timing of reaching around 2 percent by indicating that it was projected to be "in fiscal 2017." Meanwhile, a few other members expressed the recognition that the rate of change in the CPI would not reach around 2 percent during the projection period. One of these members said that the member was inevitably cautious about the view that the underlying trend in inflation would improve further, taking into account the wage negotiations in spring 2016.

Members discussed the output gap and medium- to long-term inflation expectations, both of which were the main factors that determined the underlying trend in inflation. First, they agreed that the output gap had steadily followed an improving trend driven mainly by labor market developments, albeit under some downward pressure partly from the flattening of production. As for the outlook, members shared the recognition that the output gap -- after turning positive (in excess demand) -- was likely to move further into positive territory as the economy continued growing at a pace above its potential through fiscal 2016; subsequently, in fiscal 2017, it was likely to be more or less unchanged in positive territory.

With regard to medium- to long-term inflation expectations, members shared the view that they appeared to be rising on the whole from a somewhat longer-term perspective, although some indicators had recently shown relatively weak developments. They shared the recognition that, albeit with some market indicators and survey results showing relatively weak developments, firms' price- and wage-setting stance had clearly changed, particularly from the turn of the fiscal year, and consumers seemed to be accepting price increases, mainly reflecting an improvement in the employment and income situation.

Members also discussed upside and downside risk factors to the baseline scenario of the outlook for economic activity and prices.

Regarding the outlook for economic activity, members noted the following upside and downside risk factors: (1) uncertainty regarding developments in overseas economies; (2) the effects of the consumption tax hike scheduled to take place in April 2017; (3) firms' and households' medium- to long-term growth expectations; and (4) fiscal sustainability in the medium to long term.

As upside and downside risks to prices, members pointed to the following four factors: (1) developments in firms' and households' medium- to long-term inflation expectations; (2) developments in the output gap, particularly in labor market conditions; (3) the responsiveness of inflation to the output gap; and (4) developments in import prices.

Many members shared the recognition that, due to the recent turbulence in global financial markets, there was an increasing risk that an improvement in the business confidence of Japanese firms and conversion of the deflationary mindset might be delayed and that the underlying trend in inflation might be negatively affected.

B. Decision regarding the Outlook Report

Based on the above deliberations, members discussed the draft of "The Bank's View" in the January 2016 Outlook Report (consisting of "The Bank's View" and "The Background"), and formed a majority view.

Mr. T. Sato, however, formulated a proposal to make the following changes. First, with regard to the description on the outlook for prices, he proposed changing the current expressions that "the timing of the year-on-year rate of change in the CPI reaching around 2 percent is projected to be around the first half of fiscal 2017. Thereafter, the year-on-year rate of change in the CPI is likely to be around 2 percent on average" and "the delay in the projected timing of the CPI reaching around 2 percent" to their respective new expressions -- namely, that "the timing at which around 2 percent will come into sight is projected to be around the first half of fiscal 2017" and "the delay in the projected timing at which around 2 percent will come into sight." Second, with regard to the description on the first perspective, he proposed changing the current expression that Japan's economy "is judged as likely to achieve around 2 percent inflation" to a new expression that it "is judged as likely to head toward achieving around 2 percent inflation." The proposal was then put to a vote.

The proposal was defeated by a majority vote.

Votes for the proposal: Mr. T. Sato.

Votes against the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Kiuchi, Mr. Y. Harada, and Mr. Y. Funo.

Mr. T. Kiuchi formulated a proposal to make the following changes. First, with regard to medium- to long-term inflation expectations, he proposed a new expression that they "are likely to remain stable." Second, with regard to the outlook for prices, he proposed a new expression that the year-on-year rate of change in the CPI "is likely to be about 0 percent for the time being, and thereafter accelerate very moderately." Third, with regard to the future conduct of monetary policy, he proposed 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.

To reflect the majority view, the chairman formulated a proposal on "The Bank's View" and put it to a vote.

The Policy Board decided the text of "The Bank's View" by a majority vote. It was confirmed that "The Bank's View" would be made public immediately after the meeting and the whole report on January 30, 2016.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. K. Ishida, Mr. Y. Harada, and Mr. Y. Funo.

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

Mr. T. Sato and Mr. T. Kiuchi dissented for the reasons presented in each of the aforementioned proposals.

XI. Discussion on the Statement Entitled "Introduction of 'Quantitative and Qualitative Monetary Easing with a Negative Interest Rate'"

On the basis of the above discussions, members discussed the statement "Introduction of 'Quantitative and Qualitative Monetary Easing with a Negative Interest Rate,'" 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 with a Negative Interest Rate,' 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 risks to economic activity and prices, and take additional easing measures in terms of three dimensions -- quantity, quality, and the interest rate -- if it is judged necessary for achieving the price stability target" 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 "Introduction of 'Quantitative and Qualitative Monetary Easing with a Negative Interest Rate,'" and put it to a vote.

The Policy Board decided the text by a majority vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment 1).

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. T. Sato, Mr. T. Kiuchi, Mr. Y. Harada, and Mr. Y. Funo.
Votes against the proposal: Mr. K. Ishida.

Mr. K. Ishida opposed revising the expression, which had been included in the Statement on Monetary Policy until the previous meeting, that "it [the Bank] will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate," because he understood that this expression took into account the prudential aspects.

Attachment 1

January 29, 2016

Bank of Japan

Introduction of "Quantitative and Qualitative Monetary Easing with a Negative Interest Rate"

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided to introduce "Quantitative and Qualitative Monetary Easing (QQE) with a Negative Interest Rate" in order to achieve the price stability target of 2 percent at the earliest possible time. Going forward, the Bank will pursue monetary easing by making full use of possible measures in terms of three dimensions; quantity, quality, and interest rate.

   (1) Interest-Rate Dimension: The introduction of a negative interest rate by a 5-4 majority vote[Note 1]

   The Bank will apply a negative interest rate of minus 0.1 percent to current accounts that financial institutions hold at the Bank.[8] It will cut the interest rate further into negative territory if judged as necessary.

   Specifically, the Bank will adopt a three-tier system in which the outstanding balance of each financial institution's current account at the Bank will be divided into three tiers, to each of which a positive interest rate, a zero interest rate, or a negative interest rate will be applied, respectively (see Attachment 2 for details).[9]

   The Bank will carry out the Loan Support Program, the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas affected by the Great East Japan Earthquake, and the Funds-Supplying Operations against Pooled Collateral at zero interest rates.

8 A negative interest rate of minus 0.1 percent will be effective from the reserve maintenance period, which commences from February 16, 2016.

9 A multiple-tier system is intended to prevent an excessive decrease in financial institutions' earnings stemming from the implementation of negative interest rates that could weaken their functions as financial intermediaries. Multiple-tier systems are adopted in countries where the size of negative interest rates is relatively large, including Switzerland (minus 0.75 percent), Sweden (minus 1.1 percent), and Denmark (minus 0.65 percent).

(2) Quantity Dimension: The guideline for money market operations

The Bank decided, by an 8-1 majority vote, to set the following guideline for money market operations for the intermeeting period:[Note 2]

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.

(3) Quality Dimension: The guidelines for asset purchases

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

a) The Bank will purchase Japanese government bonds (JGBs) so that their amount outstanding will increase at an annual pace of about 80 trillion yen.[10] 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 7-12 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[11] 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.

(4) The continuation of "QQE with a Negative Interest Rate"

The Bank will continue with "QQE with a Negative Interest Rate," 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 risks to economic activity and prices, and take additional easing measures in terms of three dimensions -- quantity, quality, and interest rate -- if it is judged necessary for achieving the price stability target.[Note 3]

[10] As before, the Bank will not set a lower bound for yields on its JGB purchases. Thus, the Bank can carry out outright purchases of JGBs with negative yields lower than minus 0.1 percent.

[11] In addition to the current program of ETF purchases, the Bank will commence purchasing ETFs under a new program from April 2016 at an annual pace of about 300 billion yen, which was decided at the Monetary Policy Meeting on December 17 and 18, 2015. Under this new program, the Bank will purchase ETFs composed of stocks issued by firms that are proactively investing in physical and human capital.

2. Japan's economy has continued to recover moderately, with a virtuous cycle from income to spending operating in both the household and corporate sectors, and the underlying trend in inflation has been rising steadily. Recently, however, global financial markets have been volatile against the backdrop of the further decline in crude oil prices and uncertainty such as over future developments in emerging and commodity-exporting economies, particularly the Chinese economy. For these reasons, there is an increasing risk that an improvement in the business confidence of Japanese firms and conversion of the deflationary mindset might be delayed and that the underlying trend in inflation might be negatively affected.

3. To preempt the manifestation of this risk and to maintain momentum toward achieving the price stability target of 2 percent, the Bank decided to introduce "QQE with a Negative Interest Rate." The Bank will lower the short end of the yield curve by slashing its deposit rate on current accounts into negative territory and will exert further downward pressure on interest rates across the entire yield curve, in combination with large-scale purchases of JGBs. In addition, this policy framework is designed to enable the Bank to pursue additional monetary easing in terms of three dimensions, combining a negative interest rate with quantity and quality. By making full use of "QQE with a Negative Interest Rate," the Bank will achieve the price stability target of 2 percent at the earliest possible time.

[Note 1] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Harada, and Mr. Y. Funo. Voting against the action: Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi. The members voting against the action gave the following reasons: Ms. S. Shirai expressed concerns that introducing a negative interest rate immediately after the introduction of supplementary measures for QQE might be misunderstood as reaching a limit to the Bank's asset purchases and that such a complex policy framework could cause confusion; Mr. K. Ishida considered that a further decline in JGB yields would not have significantly positive effects on economic activity; Mr. T. Sato considered that a negative interest rate should be introduced when the Bank slows down the pace of increase in the monetary base; and Mr. T. Kiuchi considered that introduction of a negative interest rate, which would adversely affect smooth conduct of the Bank's JGB purchases, would only be an appropriate policy measure in a crisis situation.

[Note 2] 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 3] 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.

Framework for a Negative Interest Rate on Current Accounts at the Bank

The Bank will adopt a three-tier system in which the outstanding balance of each financial institution's current account at the Bank will be divided into three tiers, to each of which a positive interest rate, a zero interest rate or a negative interest rate will be applied, respectively.[12]

1. The Three-Tier System

(1) Basic Balance: a positive interest rate of 0.1 percent will be applied

With regard to the outstanding balance of current account at the Bank that each financial institution accumulated under QQE, the Bank will continue to apply the same interest rate as before. The average outstanding balance of current account, which each financial institution held during benchmark reserve maintenance periods from January 2015 to December 2015, corresponds to the existing balance and will be regarded as the basic balance to which a positive interest rate of 0.1 percent will be applied.

(2) Macro Add-on Balance: a zero interest rate will be applied

A zero interest rate will be applied to the sum of the following amounts outstanding.

a) The amount outstanding of the required reserves held by financial institutions subject to the Reserve Requirement System

b) The amount outstanding of the Bank's provision of credit through the Loan Support Program and the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas affected by the Great East Japan Earthquake for financial institutions that are using these programs

[12] A negative interest rate is expected to exert its intended effects on financial markets even under the multiple-tier system where a negative interest rate is applied partially. Transaction prices in financial markets (e.g. interest rates, stock prices, and exchange rates) are determined by marginal losses or gains made in a new transaction. Although a negative interest rate is not applied to the total outstanding balances of current accounts, costs incurred with an increase in the current account balance brought by a new transaction will be minus 0.1 percent if it is applied to a marginal increase in the current account balance. Interest rates and asset prices will be determined in financial markets based on that premise.

c) The balance calculated as a certain ratio of the amount outstanding of its basic balance in (1) (macro add-on). The calculation will be made at an appropriate timing, taking account of the fact that the outstanding balances of current accounts at the Bank will increase on an aggregate basis as the asset purchases progress under "QQE with a Negative Interest Rate."

(3) Policy-Rate Balance: a negative interest rate of minus 0.1 percent will be applied

A negative interest rate of minus 0.1 percent will be applied to the outstanding balance of each financial institution's current account at the Bank in excess of the amounts outstanding of (1) and (2) combined.

2. Adjustment concerning a significant increase in financial institutions' cash holdings

In order to prevent a decrease in the effects of a negative interest rate due to financial institutions' cash holdings, if their cash holdings increase significantly from those during the benchmark reserve maintenance periods, the increased amount will be deducted from the macro add-on balance in (2). In cases where the increased amount is larger than the macro add-on balance, the amount in excess of the macro add-on balance will be further deducted from the basic balance in (1).