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March 22, 2017

Bank of Japan

Minutes of the Monetary Policy Meeting

on January 30 and 31, 2017

(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 Monday, January 30, 2017, from 2:00 p.m. to 4:09 p.m., and on Tuesday, January 31, from 9:00 a.m. to 11:49 a.m.[1]

Policy Board Members Present

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

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

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

Mr. T. Sato

Mr. T. Kiuchi

Mr. Y. Harada

Mr. Y. Funo

Mr. M. Sakurai

Ms. T. Masai

Government Representatives Present

Mr. M. Kihara, State Minister of Finance, Ministry of Finance[2]

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

Mr. T. Ochi, State Minister of Cabinet Office, Cabinet Office[2]

Mr. S. Habuka, Vice Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

Mr. M. Amamiya, Executive Director

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 15 and 16, 2017 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. Kihara and T. Ochi were present on January 31.

[3] Messrs. M. Ota and S. Habuka were present on January 30.

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

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

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

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

Mr. T. Nagahata, Senior Economist, Monetary Affairs Department

4 Messrs. H. Chida and K. Suzuki were present on January 30 from 2:52 p.m. to 4:09 p.m.

I. Summary of Staff Reports on Economic and Financial Developments[5]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the short-term policy interest rate of minus 0.1 percent and the target level of the long-term interest rate, both decided at the previous meeting on December 19 and 20, 2016, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[6] In this situation, 10-year JGB yields had been at around 0 percent, and the shape of the JGB yield curve had been consistent with the guideline for market operations.

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments had generally been in negative territory. The uncollateralized overnight call rate had been in the range of around minus 0.03 to minus 0.06 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had been at around minus 0.3 percent recently.

The Nikkei 225 Stock Average had fallen somewhat since the start of the year, reflecting the yen's appreciation against the U.S. dollar, but rebounded thereafter and had been more or less flat throughout the intermeeting period. In the foreign exchange market, the yen had been appreciating against the U.S. dollar since the start of the year, partly due to the decline in U.S. interest rates. Meanwhile, the yen had been essentially flat against the euro.

C. Overseas Economic and Financial Developments

Overseas economies continued to grow at a moderate pace, although emerging economies remained sluggish in part.

The U.S. economy continued to recover firmly, mainly in household spending, owing to a steady improvement in the employment and income situation. Exports had stopped declining as a trend, due mainly to a pick-up in external demand. Business fixed investment had shown a pick-up, although it remained somewhat weak. As for prices, the

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

[6] The target level of the long-term interest rate was as follows:

The Bank will purchase JGBs so that 10-year JGB yields will remain at around zero percent.

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 1.5-2.0 percent, and that for all items had been at around 1.5 percent.

The European economy continued to recover moderately, mainly in the household sector. As for exports, movements toward a pick-up had been seen, although these had been somewhat weak. Private consumption continued to increase, partly supported by improvements in the labor market and consumer sentiment, while business fixed investment also continued to pick up. With regard to prices, both the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) for all items and that for all items excluding energy and unprocessed food had been in the range of 0.5-1.0 percent. Meanwhile, economic activity in the United Kingdom had shown a solid recovery, supported by household spending.

With regard to emerging economies, the Chinese economy continued to see stable growth on the whole, supported by policy effects resulting from such factors as a rise in public investment and a sales tax cut on small cars. Economic activity in the NIEs and the ASEAN countries had been somewhat weak, but exports had picked up and domestic demand had been resilient due to the effects of economic stimulus measures. Economic activity in Russia remained severe but had leveled out, mainly due to commodity prices bottoming out. Economic activity in Brazil and Turkey had been weakening. In India, economic sentiment had deteriorated recently, reflecting upheaval in the economy stemming from the abolition of high denomination banknotes. As for prices in emerging economies, inflation rates had been more or less flat at low levels in many countries and regions. Those in Brazil and Russia remained at high levels but had been declining due to the earlier pause in the depreciation of their currencies.

With respect to global financial markets, in the United States, the rise in long-term interest rates and stock prices -- on the back of expectations such as for the new administration's expansionary fiscal policy and deregulation -- had paused and the U.S. dollar had depreciated somewhat. On the other hand, in emerging economies, concerns over outflows of funds had subsided compared to a while ago, and many countries saw appreciations of their currencies and rises in stock prices. However, market participants had been showing a stronger selective stance, as seen, for example, in the continued depreciation of currencies in countries such as Mexico and Turkey.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy continued its moderate recovery trend.

Exports had picked up, mainly led by automobile-related exports to advanced economies and IT-related ones to emerging economies in Asia, with the effects of the slowdown in emerging economies diminishing. They would likely continue their pick-up trend for the time being, as the effects of the slowdown in emerging economies waned. Thereafter, exports were projected to increase moderately as the growth rates of overseas economies were likely to rise moderately.

Public investment had been more or less flat. It was likely to rise moderately through the middle of fiscal 2017, underpinned by the implementation of the second supplementary budget for fiscal 2016, which reflected the large-scale stimulus measures.

Business fixed investment had been on a moderate increasing trend as corporate profits had been at high levels. Machinery orders and construction starts in terms of planned expenses for private and nondwelling construction -- both of which were leading indicators of business fixed investment -- continued a moderate increasing trend, albeit with some fluctuations. For the time being, the earlier slowdown in emerging economies and yen appreciation were likely to exert downward pressure on business fixed investment, mainly in manufacturing, with some time lag. However, such investment as a whole was likely to continue to see a moderate uptrend, mainly on the back of an improvement in corporate profits.

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. The consumption activity index -- calculated by combining various sales and supply-side statistics -- had picked up recently. Private consumption was expected to increase moderately, supported by a steady improvement in employee income, as well as the wealth effects stemming from a rise in stock prices and the effects resulting from the set of stimulus measures.

Housing investment continued picking up -- mainly in terms of housing for rent, which met the increased demand for asset management and tax saving -- on the back of accommodative financial conditions.

Industrial production had picked up, reflecting moderate increases in demand both at home and abroad and the progress in inventory adjustments. As for the outlook, it was projected to increase moderately, reflecting rises in final demand at home and abroad, with the effects of the slowdown in emerging economies waning and those resulting from the set of stimulus measures materializing.

As for prices, the rate of change in the producer price index (PPI) relative to three months earlier had increased, reflecting developments in international commodity prices and foreign exchange rates. The year-on-year rate of change in the consumer price index (CPI) for all items less fresh food had been about 0 percent. The rate of increase for all items less fresh food and energy for December 2016 had decelerated slightly from the previous month, registering 0.1 percent year on year. With regard to the outlook, the year-on-year rate of change in the CPI (all items less fresh food) was likely to increase from about 0 percent and become slightly positive, reflecting developments in energy prices.

2. Financial environment

Financial conditions were highly accommodative.

Inflation expectations remained in a weakening phase. Real long-term interest rates -- calculated as long-term interest rates minus medium- to long-term inflation expectations -- had been negative.

Firms' funding costs had been hovering at extremely low levels. With regard to credit supply, financial institutions' lending attitudes -- as perceived by firms -- had been highly accommodative. Issuing conditions for CP and corporate bonds had been favorable. Firms' credit demand had been increasing moderately, such as for funds related to mergers and acquisitions, as well as for those for business fixed investment. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending had been at around 2.5 percent. The year-on-year rate of increase in the amount outstanding of CP and corporate bonds remained positive. Firms' financial positions had been favorable.

The monetary base had been increasing at a high year-on-year growth rate in the range of 20-25 percent. The year-on-year rate of growth in the money stock had been at around 4 percent.

II. Treatment of the Loan Support Program and Other Measures

A. Staff Reports

In order to continue to (1) encourage financial institutions' proactive efforts, as well as those of firms and households, with a view to stimulating bank lending and strengthening the foundations for economic growth, and (2) support financial institutions in disaster areas in their efforts to meet the demand for funds for rebuilding, the staff proposed that the Bank extend by one year the deadlines for new applications for such measures as the Fund-Provisioning Measure to Stimulate Bank Lending, the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth, and the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas affected by the Great East Japan Earthquake and by the 2016 Kumamoto Earthquake. The staff therefore proposed that the Bank amend the Principal Terms and Conditions for the Loan Support Program and other related rules.

B. Discussion by the Policy Board and Vote

Members voted unanimously to approve the proposal. They agreed that an outline of the decision should be included in the Statement on Monetary Policy. As for the details, they concurred that the staff should accordingly make these public after the meeting.

III. Review of the Contents of the Principal Terms and Conditions for Monetary Policy Measures

A. Staff Reports

Principal terms and conditions of the Bank's monetary policy measures were decided by the Policy Board at a Monetary Policy Meeting, and on this basis, the necessary operational matters with respect to the practical implementation of the principal terms and conditions were set out by the staff. Given that the current principal terms and conditions included somewhat detailed matters, there were cases where revisions were required in response to regulatory amendments and also to changes such as those in transaction practices and operational platforms. With a view to contributing to a further enhancement of discussions on monetary policy, the staff proposed that the Bank review the contents of the principal terms and conditions in order to avoid, to the extent possible, revisions that did not have policy implications.

B. Discussion by the Policy Board and Vote

Members voted unanimously to approve the proposal. They concurred that the staff should accordingly make this public after the meeting.

IV. Summary of Discussions by the Policy Board on Economic and Financial Developments and the January 2017 *Outlook for Economic Activity and Prices*

A. Economic Developments

Members shared the recognition that, although global financial markets continued to be led by expectations for proactive economic policy management to be taken by the new U.S. administration, they had shown some fluctuations since the start of the year as market participants had seen it as a source of uncertainty that details of the policy measures remained unclear. On this basis, members shared the view that due attention should be paid to developments in global financial markets, as they were highly likely to be influenced in part by speculation about the new U.S. administration's economic policy for the time being.

With respect to overseas economies, members agreed that advanced economies continued to recover, mainly in household spending, and that the spread of the effects of such recovery to the corporate sector had become more evident, as seen in further positive developments in manufacturers' business sentiment. They also concurred that the slowdown in emerging economies had eased. On this basis, members shared the recognition that overseas economies continued to grow at a moderate pace, although emerging economies remained sluggish in part. As for the outlook, they concurred that the growth rates of overseas economies were likely to increase moderately as advanced economies continued growing steadily and a recovery in emerging economies took hold gradually on the back of the steady growth in advanced economies and the effects of policy measures taken by emerging economies. One member added that the Bank's outlook was consistent with the projection for global growth presented in the *World Economic Outlook* released in January 2017 by the International Monetary Fund (IMF).

With regard to developments in overseas economies by region, members concurred that the U.S. economy continued to recover firmly, mainly in household spending, owing to a steady improvement in the employment and income situation. One member pointed out that the index for business sentiment of small firms in the United States had improved significantly. As for the outlook, members shared the view that the economy was likely to continue to see firm growth driven by domestic private demand.

Members shared the recognition that the European economy continued to recover moderately, mainly in the household sector. As for the outlook, they concurred that the economy would likely follow a moderate recovery trend, while uncertainty -- associated with political issues such as those regarding the United Kingdom's vote to leave the European Union (EU) and with the debt problem, including in the financial sector -- was likely to be a burden on economic activity.

Members agreed that the Chinese economy continued to see stable growth on the whole, supported by policy effects resulting from such factors as a rise in public investment and a sales tax cut on small cars. One member expressed the view that the economy would likely be able to maintain its growth rate of about 6.5 percent on the back of an upturn in the rate of increase in fixed asset investment -- reflecting in part the progress in manufacturers' adjustments of excess production -- and with the support of stimulus measures. As for the outlook, members shared the view that the economy was likely to broadly follow a stable growth path as authorities proactively carried out measures to support economic activity. One member said that, regarding the automobile-related tax cut -- which had been implemented as an economic stimulus measure -- the effects of a smaller reduction rate warranted attention.

Members shared the recognition that emerging economies had started to pick up on the whole, particularly reflecting a bottoming out of commodity prices and the effects of economic stimulus measures of those economies, although some economies remained subdued. One member noted that exports and production of the NIEs and the ASEAN countries had picked up in a wide range of items including IT-related goods, as well as materials and related goods. As for the outlook, members concurred that emerging economies were likely to see gradual increases in their growth rates, due mainly to the effects of the economic stimulus measures and the spread of the effects of steady growth in advanced economies.

Regarding risks to future developments in overseas economies, members shared the recognition that uncertainties were high, including those over the economic policy of the new U.S. administration and its impacts on emerging economies, for example, as well as the outcome of national elections to be held in major European countries. Some members noted that, if interest rates in the United States rose due to its fiscal expansion, attention was warranted, for example, on possible capital outflow from emerging economies with a large amount of U.S. dollar-denominated debt. Some members said that the following called for continued attention: the outcome of national elections to be held in major European countries; progress in negotiations on the United Kingdom's exit from the EU; and prospects regarding the problem of nonperforming loans of European banks. Meanwhile, one member expressed the recognition that it was the downside risks that should be noted in the short run; however, as market participants and economic entities had factored them in to a certain extent, overseas economies could deviate upward from the baseline scenario if these risks were perceived as diminishing.

Members concurred that financial conditions in Japan were highly accommodative. They shared the view that, under Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, firms' funding costs had been hovering at extremely low levels.

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 agreed that the economy continued its moderate recovery trend. Specifically, they shared the recognition that economic recovery had become more solid, as seen in the continued pick-up in exports and production -- in a situation where overseas economies had grown at a moderate pace -- and in the resilient private consumption. One member expressed the view that positive synergy effects were being produced by improvement in overseas economies, the government's economic stimulus measures, and enhanced monetary easing, and that since the second half of 2016, Japan's economic recovery had strengthened. A different member expressed the recognition that positive developments in the real economy had been increasingly observed recently, such as (1) a pick-up in exports amid moderate growth in overseas economies, (2) an upturn in private consumption backed by improvement in labor market conditions as well as a rise in real employee income, and (3) an increase in business fixed investment, supported by improvement in business sentiment.

Members concurred that exports had picked up with the effects of the slowdown in emerging economies diminishing. Some members expressed the recognition that exports were picking up firmly, with a rise in the number of items for which export volume had increased, mainly in IT-related and automobile-related goods. Members shared the view that exports would likely continue their pick-up trend for the time being, as the effects of the slowdown in emerging economies waned, and thereafter would probably increase moderately as the growth rates of overseas economies were likely to rise moderately.

Members agreed that business fixed investment had been on a moderate increasing trend as corporate profits had been at high levels. They shared the view that, for the time being, the earlier slowdown in emerging economies and yen appreciation were likely to exert downward pressure on such investment, mainly in manufacturing, with some time lag. They continued, however, that business fixed investment as a whole was likely to continue to see a moderate uptrend, mainly on the back of an improvement in corporate profits.

As for the employment and income situation, members shared the recognition that supply-demand conditions in the labor market continued to improve steadily and employee income had increased moderately. With regard to the outlook, they shared the view that employee income was likely to continue to increase moderately as labor market conditions kept improving and corporate profits generally remained at high levels.

Members shared the recognition that private consumption had been resilient against the background of steady improvement in the employment and income situation. One member noted that, in addition to services consumption such as dining-out, which already had been firm, an improving trend was becoming evident recently in sales of durable goods -- such as automobiles and household electrical appliances -- as well as in sales at supermarkets and convenience stores. In the outlook, members shared the view that private consumption was likely to increase moderately, supported mainly by a steady improvement in the employment and income situation, as well as the wealth effects stemming from the rise in stock prices. One member expressed the view that the propensity to consume was likely to bottom out in due course, mainly because of higher replacement demand for durable goods such as digital appliances, stability in stock prices, and an improvement in consumer sentiment. One member said that effects, such as of the scheduled decline in pension receipts in fiscal 2017, warranted attention.

As for housing investment, members shared the recognition that it continued picking up on the back of accommodative financial conditions.

Members shared the recognition that industrial production had picked up, reflecting moderate increases in demand both at home and abroad and the progress in inventory adjustments. As for the outlook, they agreed that it was likely to increase moderately, reflecting rises in final demand at home and abroad, with the effects of the slowdown in emerging economies waning and those resulting from the set of stimulus measures materializing. One member said that, judging from the production forecast index and interviews with firms conducted by the Bank, the recovery in production was likely to continue.

As for prices, members concurred that the year-on-year rate of change in the CPI (all items less fresh food) had been about 0 percent, and that for the time being it was likely to increase from about 0 percent and become slightly positive, reflecting developments in energy prices. One member added that the rate of change for all items less fresh food and energy had been stagnant at slightly above 0 percent, and this was due to the effects of the earlier sluggishness in private consumption and the yen's appreciation appearing with a time lag. Meanwhile, members shared the recognition that inflation expectations remained in a weakening phase as the adaptive formation mechanism had played a large role, with the observed inflation rate having been slightly negative. One member added that various indicators of inflation expectations as a whole had bottomed out and that some indicators, such as inflation swap rates and economists' inflation expectations, had risen compared with a while ago.

B. Outlook for Economic Activity and Prices

With regard to the baseline scenario of the outlook for Japan's economic activity, members shared the view that Japan's economy was likely to turn to a moderate expansion. They shared the recognition that domestic demand was likely to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the corporate and household sectors, on the back of highly accommodative financial conditions and fiscal spending through the government's large-scale stimulus measures. Members also shared the view that exports were likely to follow a moderate increasing trend, as the growth rates of overseas economies would probably increase moderately. They concurred that, in this situation, Japan's economy was likely to continue growing at a pace above its potential through the projection period of fiscal 2016-2018. Members agreed that, compared with the projections presented in the October 2016 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report), the projected growth rates were somewhat higher, mainly reflecting improvement in overseas economies and the yen's depreciation.

Members shared the view that business fixed investment was likely to maintain its moderate increasing trend, supported by accommodative financial conditions, heightened growth expectations, and increases in Olympic Games-related demand. They also agreed that private consumption would probably continue increasing moderately as employee income continued to improve. In addition, members shared the recognition that public investment was likely to increase through fiscal 2017, due mainly to the positive effects resulting from the government's stimulus measures, and thereafter remain at a relatively high level with Olympic Games-related demand.

In terms of the outlook for prices, most members shared the view that (1) the year-on-year rate of change in the CPI was likely to increase toward 2 percent as the output gap improved and medium- to long-term inflation expectations rose, and (2) the timing of the year-on-year rate of change in the CPI reaching around 2 percent would likely be at the end of the projection period -- that is, around fiscal 2018. These members agreed that, compared with the projections presented in the October 2016 Outlook Report, the projected rates of increase in the CPI were more or less unchanged. Meanwhile, a few members expressed the view that the rate of change in the CPI would not reach around 2 percent during the projection period.

Members discussed medium- to long-term inflation expectations and the output gap, both of which were factors that formed the background to the projections for prices. First, they shared the view that medium- to long-term inflation expectations remained in a weakening phase since summer 2015 as the adaptive formation mechanism had played a large role, with the observed inflation rate being slightly negative. As for the outlook, most members shared the view that firms' price-setting stance was likely to revert to raising prices as private consumption would probably continue increasing moderately, and their wage-setting stance was likely to shift toward raising wages driven by the tightening of labor market conditions. These members also shared the recognition that medium- to long-term inflation expectations were likely to follow an increasing trend and gradually converge to around 2 percent, because of the following two factors: (1) in terms of the adaptive component, the observed inflation rate was likely to rise, mainly reflecting energy prices starting to push up prices and the effects of the recent yen depreciation, and (2) in terms of the forward-looking component, the Bank would pursue monetary easing through its strong commitment to achieving the price stability target. One member expressed the view that a rise in the observed inflation rate, together with the effects of the inflation-overshooting commitment, was likely to lead to an increase in inflation expectations. The member added that new developments since the release of the October 2016 Outlook Report -- namely, (1) an upward revision in the outlook for the output gap, mainly due to improvement in overseas economies, (2) the pick-up in private consumption, and (3) the yen's recent depreciation and a rise in commodity prices -- would all support the realization of such a scenario. A few members, on the other hand, expressed a more cautious view on the pace of increase in inflation expectations. One of these members said that, in light of the findings of the comprehensive assessment conducted in September 2016 that the adaptive component played a large role in the formation of inflation expectations in Japan, it was very unlikely that inflation expectations would increase significantly within the projection period of fiscal 2016-2018.

With regard to the output gap, members agreed that this had been more or less unchanged at around 0 percent, as the tightening of labor market conditions continued, but had shown some improvement recently. As for the outlook, they shared the recognition that the tightening of labor market conditions was likely to continue, partly due to the effects resulting from the set of stimulus measures becoming evident, in addition to an improvement in capacity utilization rates brought about by a pick-up in exports and production. They continued that, in this situation, the output gap was likely to move into positive territory toward the end of fiscal 2016 and thereafter improve further within that territory.

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, they noted the following upside and downside risk factors: (1) developments in overseas economies; (2) firms' and households' medium- to long-term growth expectations; and (3) fiscal sustainability in the medium to long term.

As upside and downside risks to prices, members pointed to the following three factors: (1) developments in firms' and households' medium- to long-term inflation expectations; (2) the fact that there were items for which prices were not particularly responsive to the output gap; and (3) developments in foreign exchange rates and international commodity prices going forward.

On this basis, members shared the recognition that risks to Japan's economic activity and prices were skewed to the downside, especially those concerning overseas economies and developments in medium- to long-term inflation expectations.

V. 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 conducting monetary policy, members agreed that the important criterion was whether the momentum toward achieving the 2 percent price stability target was being maintained, taking account of developments in economic activity and prices as well as financial conditions. On this basis, most members concurred that, although such momentum was being maintained, it was not yet sufficiently firm, and thus developments in prices continued to warrant careful attention. These members shared the recognition that, as there was still a long way to go to achieve the price stability target of 2 percent, it was important for the Bank to firmly maintain the current guideline for market operations and persistently pursue powerful monetary easing, thereby firmly maintaining the momentum toward achieving the target. Some of these members expressed the recognition that, although some market participants speculated that the Bank might consider raising the target level of the long-term interest rate in response to such factors as a rise in the U.S. long-term interest rates, its monetary policy decisions should be made solely based on the viewpoint of aiming to achieve the 2 percent price stability target.

With respect to yield curve control, members shared the view that, since the previous meeting, the JGB yield curve had been formed smoothly in a manner consistent with the guideline for market operations. One member expressed the recognition that the current monetary policy framework had been exerting its intended effects and that the Bank's implementation of the current framework, including flexible adjustment of market operations, had been well received by market participants. A different member commented that, given the possibility that the volatility of interest rates would increase, reflecting heightened uncertainty in the global financial markets, it was important to continue to give some discretion to the Market Operations Desk and conduct market operations in a flexible manner. On this basis, members shared the view that, under yield curve control, the amount, timing, and frequency of the JGB purchases were determined practically so as to achieve the target level specified by the guideline for market operations. They continued that the Bank should once again make clear to the markets that daily conduct of market operations had no implications for the monetary policy stance going forward.

Based on the above discussions, regarding the guideline for market operations for the intermeeting period, many members expressed the view that it was appropriate for the Bank to maintain the following guideline. First, as for the short-term policy interest rate, it would apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. Second, as for the long-term interest rate, the Bank would purchase JGBs so that 10-year JGB yields would remain at around 0 percent. With regard to the amount of JGBs to be purchased, it would conduct purchases at more or less the current pace -- an annual pace of increase in the amount outstanding of its JGB holdings of about 80 trillion yen -- aiming to achieve the target level of the long-term interest rate specified by the guideline.

With regard to asset purchases except for JGB purchases, many members shared the recognition that it was appropriate for the Bank to implement the following guideline for the intermeeting period. First, 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 6 trillion yen and about 90 billion yen, respectively. Second, as for CP and corporate bonds, it 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 view that the Bank would (1) continue with QQE with Yield Curve Control, aiming to achieve the price stability target of 2 percent, as long as it was necessary for maintaining that target in a stable manner, (2) continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeded 2 percent and stayed above the target in a stable manner, and (3) make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target.

On this point, a few members expressed different views. One of these members argued that the Bank should set the amount of its JGB purchases as the operating target for monetary policy conduct and make sure to reduce it incrementally, as this would make its asset purchases more sustainable and enhance the stability of the market, thereby securing the monetary easing effects seen so far. This member said that the Bank was controlling not only short-term but also long-term interest rates in order to achieve the price stability target of 2 percent in a stable manner, and therefore, if long-term interest rates in the United States rose substantially while the inflation rate in Japan remained low, it would be more difficult for the Bank to control the long-term interest rate at the target level. The member continued that, in this regard, reconsidering the framework of yield curve control had a substantial benefit.

A different member expressed the view that the current guideline for market operations was not appropriate. This member said that the shape of the JGB yield curve that would bring about desirable economic and price conditions should be a little steeper. The member continued that, if market interest rates rose by factoring in future improvement in Japan's economic and price conditions, it was appropriate for the Bank to accommodate such a rise in deciding the guideline for market operations. Regarding JGB purchases, this member expressed the recognition that, in theory, the downward pressure on yields would increase due to the stock effects as the Bank continued with its purchases, and therefore the Bank should reduce the amount of purchases while paying close attention to market reactions. In addition, the member said that the amount of purchases of T-Bills should be further reduced, taking careful account of market developments.

VI. Remarks by Government Representatives

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

(1) The budget for fiscal 2017 and the third supplementary budget for fiscal 2016 were submitted to the Diet on January 20, 2017. With the budget for fiscal 2017, the government aimed to achieve both economic revitalization and fiscal consolidation -- mainly through containing the increase in general expenditures at about 530 billion yen and thereby achieving the benchmark set in the Plan to Advance Economic and Fiscal Revitalization for two consecutive years -- while appropriately responding to current important issues such as (1) the realization of a society in which all citizens were dynamically engaged, (2) the promotion of a growth strategy that aimed to expand investments for the future, and (3) improvement of the environment surrounding childcare and nursing care. The government considered that obtaining approval from

the Diet for the budget at the earliest possible time was the key to stimulus measures, and thus it would make efforts to make sure this happened in the current session of the Diet.

(2) The government expected the Bank to continue to work toward achieving the price stability target under QQE with Yield Curve Control, in light of developments in economic activity and prices, as well as financial conditions.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was on a moderate recovery, while delayed improvement could be seen in part. The government had revised the economic assessment upward in December 2016 for the first time in 21 months, reflecting the fact that exports and production, as well as firms' business sentiment, had improved as overseas economies had improved moderately on the whole, and that private consumption had shown a pick-up amid continued improvement in the employment and income situation. As for the outlook, the 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 continued to improve. In assessing price developments, it was important to comprehensively examine a wide range of indicators, including the GDP deflator.

(2) With regard to the working-style reform, the government would proceed with the amendment of the acts regarding equal pay for equal work and a regulatory limit on overtime work. Moreover, the chairman of the Japan Business Federation (Keidanren) had reported at the Council on Economic and Fiscal Policy that the 2017 Report of the Committee on Management and Labor Policy compiled by the Keidanren -- which included the corporate managers' basic stance toward the wage negotiations between workers and management this spring -- well reflected the request from the prime minister. The government had released the Economic and Fiscal Projections for Medium- to Long-Term Analysis. It would aim to achieve a primary surplus and steadily reduce the ratio of government debt to GDP by expanding and strengthening Abenomics. The government also would advance statistics reform, with the relevant ministers working as one.

(3) The government expected the Bank to (1) steadily work toward achieving the price stability target of 2 percent, in light of developments in economic activity and prices, as

well as financial conditions, and (2) continue to fully explain to the public the situation of its monetary policy management and the outlook for prices.

VII. Votes

A. Vote on the Chairman's Policy Proposal on the Guideline for 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 Market Operations:

The guideline for market operations for the intermeeting period will be as follows.

1. The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

2. The Bank will purchase JGBs so that 10-year JGB yields will remain at around zero percent. With regard to the amount of JGBs to be purchased, the Bank will conduct purchases at more or less the current pace -- an annual pace of increase in the amount outstanding of its JGB holdings of about 80 trillion yen -- aiming to achieve the target level of the long-term interest rate specified by the guideline.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.
Votes against the proposal: Mr. T. Sato and Mr. T. Kiuchi.

Mr. T. Sato dissented considering that setting the short-term policy interest rate at minus 0.1 percent and the target level of 10-year JGB yields at around 0 percent could lead to holding JGB yields in negative territory up to a maturity of ten years and thus could have an adverse impact on the functioning of financial intermediation. Mr. T. Kiuchi dissented considering that, with a view to maintaining the stability of the JGB market and the functioning of financial intermediation, (1) the short-term policy interest rate should be set at 0.1 percent and (2) the adoption of a target level of a long-term interest rate was not appropriate because it would entail a risk that the Bank might need to further increase the pace of its JGB purchases.

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 implement the guideline for asset purchases for the intermeeting period and put it to a vote: (1) to purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively, and (2) to maintain the amounts outstanding of CP and corporate bonds at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

The Policy Board decided the proposal by a majority vote.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.
Votes against the proposal: Mr. T. Sato and Mr. T. Kiuchi.

Mr. T. Sato dissented considering that ETF purchases of about 6 trillion yen annually would be excessive in light of their adverse impact on the pricing mechanism in the stock market and the Bank's financial soundness.

C. Vote on Mr. T. Kiuchi's Policy Proposal on the Guideline for Asset Purchases

Mr. T. Kiuchi proposed that the Bank continue to use amounts of asset purchases as its operating targets and that the guidelines for asset purchases for the intermeeting period be set as follows: (1) to purchase JGBs so that their amount outstanding would increase at an annual pace of about 45 trillion yen, 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, Mr. T. Sato, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.

D. Vote on the Statement on Monetary Policy

On the basis of the above results of votes, the chairman formulated the Statement on Monetary Policy and put it to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment).

VIII. Discussion regarding the Outlook Report

Members discussed the draft of "The Bank's View" in the January 2017 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 outlook for prices, he proposed changing the current expression that "the timing of the year-on-year rate of change in the CPI reaching around 2 percent will likely be at the end of the projection period -- that is, around fiscal 2018" to a new expression that "the timing of around 2 percent coming into sight will likely be at the end of the projection period -- that is, around fiscal 2018." Second, with regard to the future conduct of monetary policy, he proposed deleting the expression that "the Bank will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner." 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, Mr. T. Kiuchi, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.

Mr. T. Kiuchi formulated a proposal to make the following changes. First, 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 increase from about 0 percent and become slightly positive, reflecting developments in energy prices, and thereafter increase very moderately." Second, with regard to medium- to long-term inflation expectations, he proposed a new expression that they "are likely to remain stable in the future." 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 short-term 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 -- that is, (1) the outlook deemed most likely by the Bank and (2) risks considered most relevant to the conduct of monetary policy from a medium- to long-term perspective." The proposal was then put to a vote.

The proposal was defeated by a majority vote.

Votes for the proposal: Mr. T. Kiuchi.

Votes against the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. T. Sato, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.

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 released immediately after the meeting on January 31, 2017 and the whole report would be made public on February 1.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.

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

IX. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of December 19 and 20, 2016 for release on February 3, 2017.

Attachment
January 31, 2017
Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided upon the following.

   (1) Yield curve control

   The Bank decided, by a 7-2 majority vote, to set the following guideline for market operations for the intermeeting period. [Note 1]

   The short-term policy interest rate:
   The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

   The long-term interest rate:
   The Bank will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero percent. With regard to the amount of JGBs to be purchased, the Bank will conduct purchases at more or less the current pace -- an annual pace of increase in the amount outstanding of its JGB holdings of about 80 trillion yen -- aiming to achieve the target level of the long-term interest rate specified by the guideline.

   (2) Guidelines for asset purchases

   With regard to asset purchases other than JGB purchases, the Bank decided, by a 7-2 majority vote, to set the following guidelines. [Note 2]

   a) 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 6 trillion yen and about 90 billion yen, respectively.

   b) 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.

2. The Policy Board also decided, by a unanimous vote, to extend by one year the deadlines for new applications for such measures as the Fund-Provisioning Measure to Stimulate Bank

Lending, the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth, and the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas affected by the Great East Japan Earthquake and by the Kumamoto Earthquake.

[Note 1] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai. Voting against the action: Mr. T. Sato and Mr. T. Kiuchi. Mr. T. Sato dissented considering that setting the short-term policy interest rate at minus 0.1 percent and the target level of 10-year JGB yields at around 0 percent could lead to holding JGB yields in negative territory up to a maturity of 10 years and thus could have an adverse impact on the functioning of financial intermediation. Mr. T. Kiuchi dissented considering that, with a view to maintaining the stability of the JGB market and the functioning of financial intermediation, (1) the short-term policy interest rate should be set at 0.1 percent and (2) the adoption of a target level for a long-term interest rate was not appropriate because it would entail a risk that the Bank might need to further increase the pace of its JGB purchases.

[Note 2] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai. Voting against the action: Mr. T. Sato and Mr. T. Kiuchi. Mr. T. Sato dissented considering that ETF purchases of about 6 trillion yen annually would be excessive in light of their adverse impact on the pricing mechanism in the stock market and the Bank's financial soundness. Mr. T. Kiuchi proposed that the Bank continue to use amounts of asset purchases as its operating targets and set the guidelines for asset purchases as follows: the Bank would purchase JGBs so that their amount outstanding would increase at an annual pace of about 45 trillion yen, purchase ETFs so that their amount outstanding would increase at an annual pace of about 1 trillion yen, and so on. The proposal was defeated by a majority vote.