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June 21, 2017

Bank of Japan

Minutes of the Monetary Policy Meeting

on April 26 and 27, 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 Wednesday, April 26, 2017, from 2:00 p.m. to 4:09 p.m., and on Thursday, April 27, from 9:00 a.m. to 12:07 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

Mr. T. Sato

Mr. T. Kiuchi

Mr. Y. Harada

Mr. Y. Funo

Mr. M. Sakurai

Ms. T. Masai

Government Representatives Present

Mr. T. Otsuka, 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. E. Maeda, Executive Director (Assistant Governor)

Mr. T. Kato, 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 June 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. T. Otsuka and T. Ochi were present on April 27.

[3] Messrs. M. Ota and S. Habuka were present on April 26.

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. Y. Onozawa, Director-General, Secretariat of the Policy Board

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

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

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

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

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

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the 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 March 15 and 16, 2017, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[5] 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. Meanwhile, with a view to coping with tightened supply-demand conditions of Japanese government securities (JGSs) in the repo market at the end of fiscal 2016, the Bank had implemented temporary measures, including the offer of sale of JGSs with repurchase agreements.

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 0.04 to minus 0.07 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had risen and recently had been at around minus 0.15 percent.

The Nikkei 225 Stock Average had declined, reflecting the yen's appreciation against the U.S. dollar, while the outlook for corporate profits continued to improve as a trend. In the foreign exchange market, the yen had been appreciating against the U.S. dollar, reflecting a decline in U.S. long-term interest rates and concern over increasing geopolitical risks. Meanwhile, it had been appreciating 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

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

[5] 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.

picked up, due mainly to an improvement in external demand, while business fixed investment also continued to pick up. As for prices, the year-on-year rate of increase in the personal consumption expenditure (PCE) deflator for all items excluding food and energy had been in the range of 1.5-2.0 percent, and that for all items had been at around 2 percent.

The European economy continued to recover moderately. Exports continued to pick up. Private consumption had been increasing, partly supported by improvements in the labor market and consumer sentiment, while business fixed investment also continued to pick up. With regard to prices, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) for all items excluding energy and unprocessed food had been in the range of 0.5-1.0 percent, and that for all items had been in the range of 1.5-2.0 percent. Meanwhile, economic activity in the United Kingdom generally continued to recover, although the recent rise in prices had been weighing on private consumption.

With regard to emerging economies, the Chinese economy continued to see stable growth on the whole. In the NIEs and the ASEAN countries, exports had picked up markedly, and domestic demand had been resilient due to the effects of economic stimulus measures. Economic activity in Russia had leveled out, mainly due to commodity prices bottoming out. In India, an upheaval in the economy stemming from the abolition of high denomination banknotes had come to a halt. In Brazil, although movements toward a pick-up in domestic demand had been stagnant, positive developments had been observed in part of the economy, as evidenced, for example, by an increase in exports. As for prices in emerging economies, inflation rates had risen in many countries and regions, mainly owing to an increase in energy prices. The rates in Brazil and Russia had been declining, primarily due to a pause in the depreciation of their currencies.

With respect to overseas financial markets, U.S. long-term interest rates had declined, due in part to somewhat waning expectations for proactive economic policy management in the United States and concern over increasing geopolitical risks. In emerging economies, currencies had appreciated on the back of capital inflows, and stock prices had been in a high range.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had been turning toward a moderate expansion.

Exports had been on an increasing trend on the back of a pick-up in emerging economies. The increase in exports had become evident, especially for IT-related and capital goods, mainly on the back of the cyclical improvement in the manufacturing sector on a global basis as well as inventory and capital stock adjustments progressing in emerging economies. Exports would likely continue their firm increase for the time being as a global improvement in production and trade activity of the manufacturing sector became evident. Thereafter, they were projected to continue increasing moderately, as the growth rates of overseas economies were likely to rise, albeit with fluctuations resulting mainly from the subsequent decline in IT-related demand following the current increase.

Public investment had been more or less flat. Such investment was likely to increase moderately for the time being as the effects resulting from a set of stimulus measures gradually took hold. Thereafter, it was expected to remain more or less flat at a high level underpinned by Olympic Games-related construction, although the positive effects resulting from the set of stimulus measures would diminish.

Business fixed investment had been on a moderate increasing trend with corporate profits and business sentiment improving in a wider range of industries. 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 large monthly fluctuations. Business fixed investment was likely to continue increasing moderately, mainly on the back of an improvement in corporate profits, accommodative financial conditions, and heightened growth expectations. Nonetheless, particularly with cyclical adjustments in capital stock becoming evident, downward pressure on business fixed investment was expected to intensify at the end of the projection period of fiscal 2016-2019 in the April 2017 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report).

As for the employment and income situation, supply-demand conditions in the labor market continued to tighten steadily and employee income had increased moderately. The active job openings-to-applicants ratio had followed a steady uptrend. The unemployment rate continued on a moderate declining trend, albeit with some fluctuations, and had been in the range of 2.5-3.0 percent recently.

Private consumption had been resilient against the background of steady improvement in the employment and income situation. The consumption activity index

(CAI) -- calculated by combining various sales and supply-side statistics -- had followed a moderate increasing trend, albeit with monthly fluctuations. Private consumption was expected to follow a moderate increasing trend, supported by a steady increase in employee income and the wealth effects stemming from the past rise in stock prices, as well as replacement demand for durable goods.

Housing investment had been more or less flat.

Industrial production had been on an increasing trend, reflecting increases in demand at home and abroad as well as the progress in inventory adjustments, mainly in capital goods and producer goods. Industrial production would likely continue to increase firmly for the time being, backed by positive effects of the global improvement in production and trade activity of the manufacturing sector.

As for prices, the rate of change in the producer price index (PPI) had increased compared with three months earlier, 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 change for all items less fresh food and energy had been fluctuating in slightly positive territory recently. 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 turn 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, 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 accelerated at a moderate pace to around 3 percent. The year-on-year rate of change 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 of around 20 percent. The year-on-year rate of growth in the money stock had been in the range of 4.0-4.5 percent.

II. Summary of Discussions by the Policy Board on Economic and Financial Developments and the April 2017 Outlook Report

A. Economic Developments

Regarding global financial markets, members shared the recognition that rises in stock prices and interest rates since autumn 2016 had come to a halt, reflecting somewhat waning expectations for the new U.S. administration's proactive economic policy management, as well as concern over political situations in Europe and increasing geopolitical risks. On this basis, they shared the recognition that due attention should be paid to developments in global financial markets, as they were highly likely to be influenced by political situations overseas for the time being.

With respect to overseas economies, members agreed that their growth momentum had strengthened further on the whole, as advanced economies continued to recover steadily and the recovery, particularly for exports and production, spread among Asian emerging economies. On this basis, they shared the recognition that overseas economies continued to grow at a moderate pace, although emerging economies remained sluggish in part. One member expressed the recognition that the resilience in commodity prices including crude oil prices had been exerting positive effects on overseas economies, as seen in, for example, a global increase in investment in the mining industry. As for the outlook, members concurred that the growth rates of overseas economies were likely to increase moderately as advanced economies continued growing steadily and the 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.

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. A few members, pointing out the sluggishness in indicators relating to private consumption for the period after the turn of the year, said that this basically seemed attributable to temporary factors such as bad weather conditions. As for the outlook, members shared the view that the economy was likely to continue to grow, mainly in private demand, led by the firmness in household spending, under accommodative financial conditions.

Members shared the recognition that the European economy continued to recover moderately. As for the outlook, they concurred that the economy would likely continue to see a moderate recovery, led by the household sector, under accommodative financial conditions, while uncertainty -- associated with political situations such as those regarding negotiations on the United Kingdom's exit from the European Union (EU) and with the debt problem, including in the financial sector -- was likely to be a burden on economic activity. One member noted that, if a series of upcoming political events in Europe passed without incident, momentum for economic recovery could strengthen from the latter half of 2017.

Members shared the recognition that emerging economies as a whole continued to pick up, although economic activity in some countries had been subdued. Specifically, they agreed that the Chinese economy continued to see stable growth on the whole as exports -- particularly of IT-related goods -- had picked up and as private consumption had been resilient as a trend. Some members pointed out that private consumption in China remained firm except for that of automobiles, which saw a subsequent decline from the past increase in response to the reduction in the related tax cut. In the NIEs and the ASEAN countries, members concurred that exports had picked up markedly, and that domestic demand had been resilient due to the effects of economic stimulus measures. Some members noted that, with respect to economies in these countries, positive effects of recovery in imports -- not only into Europe and the United States, but also into China -- had started to spread. 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 both on the fiscal and monetary fronts and to the spread of the effects of the recovery in advanced economies. They shared the view that the Chinese economy was likely to broadly follow a stable growth path as authorities conducted fiscal and monetary policies in a proactive manner.

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. One member pointed out that the year-on-year rate of increase in the amount outstanding of bank lending had accelerated at a moderate pace to around 3 percent as firm's credit demand had been increasing, such as for funds related to mergers and acquisitions, as well as for those for business fixed investment. This member then expressed the view that accommodative financial conditions were firmly supporting corporate activity.

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, with the virtuous cycle led by exports and production becoming firmer, labor market conditions had been tightening steadily and the output gap -- which showed the level of economic activity -- had started to take hold in positive territory. On this basis, they agreed to revise the Bank's economic assessment upward to one stating that Japan's economy "has been turning toward a moderate expansion" from the previous one stating that the economy "has continued its moderate recovery trend."

Members shared the view that, since the previous meeting, an increase in Japan's exports had become more evident, mainly reflecting the increase in demand for IT-related and capital goods from Asian emerging economies. They then concurred that exports had been on an increasing trend on the back of a pick-up in emerging economies. As for the outlook, members agreed that exports would likely continue their firm increase for the time being as a global improvement in production and trade activity of the manufacturing sector became evident. They continued that, thereafter, they were likely to see a moderate increasing trend, as the growth rates of overseas economies were likely to rise, albeit with fluctuations resulting mainly from the subsequent decline in IT-related demand following the current increase.

Members shared the recognition that business fixed investment had been on a moderate increasing trend with corporate profits and business sentiment improving in a wider range of industries. A few members pointed out that, according to the March 2017 *Tankan* (Short-Term Economic Survey of Enterprises in Japan), business sentiment had improved in a wide range of industries, and that firmness was seen in business fixed investment plans as a whole. These members then expressed the recognition that a virtuous cycle in the corporate sector led by external demand was gradually becoming firmer. Regarding the outlook, members agreed that business fixed investment was likely to continue increasing moderately, mainly on the back of accommodative financial conditions and heightened growth expectations.

As for the employment and income situation, members shared the recognition that supply-demand conditions in the labor market continued to tighten steadily and employee income had increased moderately. A few members said that, in the annual spring labor-management wage negotiations in 2017, many firms were likely to raise their base pay for the fourth consecutive year, and the levels of increase were likely to be roughly the same as those in the previous year. One of these members added that wage increases had been spreading, as seen, for example, in the fact that the rates of such increases at small firms -- where a labor shortage was perceived as being especially acute -- were clearly exceeding those at large firms. With regard to the outlook, members shared the view that employee income was likely to continue to increase moderately as labor market conditions kept tightening steadily and corporate profits improved.

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, although the CAI had continued to be sluggish relative to the increase in employee income, it had started to rise since mid-2016 and had been increasing further recently in tandem with employee income. A different member expressed the view that the tightening of labor market conditions observed across a wide range of regions, firm sizes, and industries had been underpinning an improvement in consumer sentiment. In the outlook, members shared the view that private consumption was likely to follow a moderate increasing trend, supported by a steady increase in employee income and the wealth effects stemming from the past rise in stock prices, as well as replacement demand for durable goods. Meanwhile, one member said that attention was warranted on the possibility that, as population aging had progressed further, increases in the number of pensioners and in social security expenses of the working-age population could weigh on such positive effects of the current economic expansion, and therefore, compared to the expansion phase in the mid-2000s, these effects could be slower to spread to private consumption.

Members shared the recognition that housing investment had been more or less flat.

Members shared the view that the growth momentum in industrial production had strengthened markedly amid a continued moderate improvement on a global basis in the manufacturing sector and trade activity. On this basis, they concurred that industrial production had been on an increasing trend, reflecting increases in demand at home and abroad as well as the progress in inventory adjustments. One member expressed the recognition that the following factors had been underpinning the global buoyancy in production activity of the manufacturing sector, including in Japan: the stable growth in the Chinese economy; strong IT-related demand on a global basis; and the progress in inventory adjustments in Asia. As for the outlook, members agreed that industrial production would likely continue to increase firmly for the time being, backed by positive effects of the global improvement in production and trade activity of the manufacturing sector. One member said that, judging from the production forecast index and interviews with firms, the recovery in production was highly likely to continue.

As for prices, members shared the recognition that the year-on-year rate of change in the CPI (all items less fresh food) had been about 0 percent. They also agreed that the year-on-year rate of change for all items less fresh food and energy had been fluctuating in slightly positive territory. Some members pointed out that the sluggish improvement in the CPI seen most recently was largely attributable to the declines in prices of and charges for mobile phones against the backdrop of the intensifying competition in the mobile phone market. Members shared the recognition that such temporary developments in a specific sector should be considered separately from the underlying trend in inflation. Many members expressed the view that, even if these factors were excluded, improvements in wages and prices had been relatively weak despite the firm economic improvement and the continued tightening of labor market conditions. 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 until the end of 2016.

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 the economy was likely to continue its moderate expansion. They shared the recognition that, through fiscal 2018, 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 agreed that exports were likely to continue their moderate increasing trend, since the growth rates of overseas economies were likely to increase moderately. They shared the recognition that, in fiscal 2019, the economy was likely to continue expanding, although the growth pace would probably decelerate, mainly due to a slowdown in domestic demand. Most members expressed the view that Japan's economy was likely to continue growing at a pace above its potential, mainly through fiscal 2018. These members agreed that the projected growth rates through fiscal 2018 were more or less unchanged compared with those presented in the January 2017 Outlook Report.

As for economic activity through fiscal 2018, members shared the view that business fixed investment was likely to continue increasing moderately, supported by accommodative financial conditions, heightened growth expectations, and increases in Olympic Games-related demand. They also agreed that private consumption was likely to follow a moderate increasing trend as employee income continued to improve, and that public investment was likely to increase through fiscal 2017, due mainly to the positive effects resulting from the set of stimulus measures, and thereafter remain at a relatively high level. Members concurred that, in fiscal 2019, business fixed investment was likely to decelerate, mainly reflecting cyclical adjustments in capital stock after the prolonged economic expansion, as well as Olympic Games-related demand peaking out, and that private consumption was likely to turn to a decline in the second half of the fiscal year due to the effects of the scheduled consumption tax hike. They then shared the view that the increase in exports on the back of growth in overseas economies was likely to underpin the economy. As for the effects of the scheduled consumption tax hike on economic activity, members shared the recognition that, although they were likely to be smaller than in fiscal 2014, when the last consumption tax hike took place, they were highly uncertain at present, because it was scheduled to take place as far off as two and a half years from now.

Members discussed <u>the effects of economic activity on prices</u>. Some members commented on the current situation where the improvements in wages and prices seemed relatively weak despite the tightening of labor market conditions. They pointed out that there were firms faced with labor shortages that were addressing this issue by, for example, shortening business hours and cutting back their services, instead of raising wages to secure labor and passing on the associated cost increases to prices. As background to this, these members said that, as there was a persistent deflationary mindset among the public, it was not so easy for firms to raise prices. A few members noted that growth in wages of regular employees had been sluggish. These members then pointed out that this reflected factors such as (1) the prevailing practice in the labor-management wage negotiations in which wage increases were determined based on the previous fiscal year's observed inflation rate, and (2) the weak mechanism in which the tightening of labor market conditions led to wage increases through competition for securing labor forces, due to low labor mobility in terms of regular employees.

Meanwhile, many members expressed the recognition that, as the tightening of labor market conditions strengthened further, the effects of developments in economic activity would spread to wages and prices. A few members pointed out that, in the current situation where labor market conditions continued to tighten, changes had already started to take place, as evidenced, for example, by the following: (1) wages of part-time employees had marked a relatively high increase in the range of 2-3 percent year on year, and (2) in the annual spring labor-management wage negotiations in 2017, the rates of base pay increases at small firms were likely to exceed those at large firms. A different member expressed the recognition that, given that the majority of workers were employed by small firms, the number of households that could now feel that their wages actually had been rising seemed to have started increasing steadily, and this was extremely important in terms of raising inflation expectations.

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 continue on an uptrend and increase toward 2 percent, mainly on the back of an improvement in the output gap and a rise in medium- to long-term inflation expectations, (2) the timing of the year-on-year rate of change in the CPI reaching around 2 percent would likely be around the middle of the projection period -- that is, around fiscal 2018, and (3) thereafter, the rate of change was likely to remain at around 2 percent. These members agreed that, comparing the current projections through fiscal 2018 with those presented in the January 2017 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, most members shared the recognition that, because of the following two factors, medium- to long-term inflation expectations were likely to follow an increasing trend and gradually converge to around 2 percent: (1) in terms of the adaptive component, the observed inflation rate was likely to rise as the output gap improved, also backed in part by developments in energy prices, 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.

With regard to the output gap, most members noted that it was likely to widen further within positive territory. They continued that this would probably be supported by the further tightening of labor market conditions, due in part to the effects resulting from the set of stimulus measures becoming evident, in addition to an improvement in capacity utilization rates brought about by increases in exports and production. They then shared the recognition that, under such circumstances, a virtuous cycle between a moderate rise in the inflation rate and wage increases was likely to operate.

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 three 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 developments in overseas economies and in medium- to long-term inflation expectations. They concurred that, with regard to the latter in particular, there was uncertainty regarding the momentum to push up inflation expectations through the adaptive formation mechanism given that the observed inflation rate had been somewhat weak recently. They continued that, therefore, there was a risk that firms' price- and wage-setting stance would be more cautious than the baseline scenario.

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

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

With regard to conducting monetary policy, most members concurred that, although the momentum toward achieving the 2 percent price stability target was being maintained, it was not yet sufficiently firm, and thus developments in prices continued to warrant careful attention. Many 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 appropriate for the Bank to pursue powerful monetary easing under the current guideline for market operations.

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 view that the effectiveness of yield curve control was evident, as seen in the fact that long-term interest rates in Japan had been stable at low levels even when those around the world had risen from autumn 2016, and that yield curve control would continue to firmly exert its effects. Regarding the Bank's JGB purchases, members reaffirmed that, under the current policy framework, the Bank had been conducting such purchases to achieve the target level of the long-term interest rate specified by the guideline for market operations, and that the amount of purchases varied to some extent depending on financial market conditions. On this basis, they concurred that there had been no conflict between the Bank's current conduct of JGB purchases and the guideline for market operations.

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 other than 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 amounts of its asset purchases as the operating targets for monetary policy conduct and make sure to reduce them 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 noted that the supply-demand conditions in the JGB market would tend to tighten further in terms of flow, as the gross amount of JGB issuance by the government was to be reduced, as well as in terms of stock, as the room for a further reduction in JGB holdings by the private sector was narrowing. The member then expressed the recognition that, unless the Bank decelerated further the pace of its JGB purchases at this point, the sustainability and stability of the purchases would not be secured through 2018.

A different member said that the member was in dissent with the current guideline for market operations, considering that it 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. The member then expressed the recognition that, given the current economic and price conditions, there was no need for the Bank to raise the target level of the long-term interest rate ahead of the markets; rather, it was desirable that the Bank raise the level following a rise in market interest rates, with the outlook for the underlying trend in inflation being shared between market participants and the Bank. This member added that it was appropriate that the Bank conduct JGB purchases in a flexible manner, reducing the amount of such purchases when possible in preparation for a potential manifestation of risks going forward.

IV. Remarks by Government Representatives

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

(1) The budget for fiscal 2017 was approved by the Diet on March 27, 2017. The government would work to smoothly and steadily implement the budget in order to strengthen the positive cycle between growth and distribution and ensure that the virtuous cycle in the economy got on the right track.

(2) In the Japan-U.S. Economic Dialogue held on April 18, it was agreed to proceed with discussions based on three pillars: a common strategy on trade and investment rules and issues; cooperation in economic and structural policies; and sectoral cooperation. Regarding the second of these pillars, the two countries would discuss topics such as active use of the three-pronged approach of mutually-reinforcing fiscal, monetary, and structural policies that had been agreed in the Group of Seven (G-7) meeting.

(3) 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. As for the outlook, the economy was expected to recover moderately, supported partly by the effects of the government's policies, while the employment and income situation continued to improve. However, attention should be given to the uncertainty in overseas economies and the effects of fluctuations in financial markets. 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 Action Plan for the Realization of Work Style Reform was decided on March 28, 2017. The government would adhere to the contents of the action plan and submit bills to the Diet at an early date, and would do its utmost to obtain the Diet's approval. At the Council on Economic and Fiscal Policy, the government started a discussion on the formulation of the basic policies for 2017. The government would deepen this discussion by setting an increase in labor productivity through investment in human resources as the main issue. As for the Economic Measures for Realizing Investment for the Future including the second supplementary budget for fiscal 2016, it would carefully monitor the progress in their implementation, including in public construction works, and consider necessary measures as appropriate. In the annual spring labor-management wage negotiations in 2017, many firms were likely to conduct base pay increases for the fourth consecutive year. The government looked for wage increases to be realized at a wide range of firms.

(3) The government expected the Bank to 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. It also expected the Bank to continue to fully explain to the public the situation of its monetary policy management and the outlook for prices.

V. 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).

VI. Discussion regarding the Outlook Report

Members discussed the draft of "The Bank's View" in the April 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 around the middle of the projection period -- that is, around fiscal 2018. Thereafter, the rate of change is expected to remain at around 2 percent" to a new expression that "the timing of around 2 percent coming into sight will likely be around the middle 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 economic activity, he proposed a new expression that the economy "is likely to continue expanding, mainly through fiscal 2018." 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 increase very moderately for some time." Third, with regard to medium- to long-term inflation expectations, he proposed a new expression that they "are likely to remain stable in the future." Fourth, with regard to the outlook for the output gap, he proposed a new expression that it "is expected to remain more or less at a neutral level." Fifth, 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 April 27, 2017 and the whole report would be made public on April 28.

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.

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of March 15 and 16, 2017 for release on May 2.

Attachment

April 27, 2017

Bank of Japan

Statement on Monetary Policy

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.

[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.