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

January 8, 2016

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting[1,2]
on December 17 and 18, 2015

I. Opinions on Economic and Financial Developments

Economic Developments

- Japan's economy has continued to recover moderately as domestic demand has been firm and external demand has been picking up.

- Japan's economy has continued to recover moderately with exports having picked up.

- Japan's economy is likely to continue growing moderately against the background of the following developments: exports are expected to increase moderately as positive effects of the moderate growth in advanced economies will spread to emerging economies, underpinned by the past depreciation of the yen; and business fixed investment and private consumption are likely to remain resilient.

- Japan's economy has continued to recover moderately. Private consumption has been resilient. Business fixed investment, for which weakness was noted at one time, has started to recover as uncertainty about external demand has receded.

- The outlook for economic activity has not changed much compared to that in October, given the latest economic indicators. I will pay due attention to developments in overseas economies as the main risk factors going forward.

- The positive cycle operating from income to spending has not been particularly strong.

- The decline in crude oil prices has been favorable for the advanced economies as a whole.

---

1 English translation prepared by the Bank's staff based on the Japanese original.

2 "Summary of Opinions at the Monetary Policy Meeting" is made through the following process: (1) each Policy Board member and government representative makes a summary of opinions that she/he presented at the Monetary Policy Meeting (MPM) under a certain word limit and submits this to the Governor of the Bank of Japan, who serves as the chairman of the MPM; and (2) the chairman edits those opinions as his responsibility.

Financial Developments

- With global financial markets being unstable, risks remain skewed to the downside.

- It warrants attention that a rise in the U.S. dollar funding costs could encourage Japanese financial institutions to be inclined toward excessive risk-taking in their overseas investment and lending.

Prices

- The underlying trend in inflation has continued to improve and is likely to keep doing so.

- The underlying trend in inflation has continued to improve.

- Although some indicators for inflation expectations, such as those in the Short-Term Economic Survey of Enterprises in Japan (*Tankan*), have shown signs of relative weakness recently, these are temporary developments that reflect the recent decline in crude oil prices. The underlying trend in inflation has not changed.

- The output gap and inflation expectations, both of which are important determinants of the underlying trend in inflation, have been exerting upward pressure on prices. Looking ahead, the inflation rate is expected to increase toward the price stability target of 2 percent, although this outlook entails risks to the downside and a delay in the timing of reaching around 2 percent, mainly due to the effects of the decline in crude oil prices.

- Since firms have not proactively raised wages to increase regular employment, wages have not clearly risen. Wages for non-regular workers have actually risen, however, as firms have raised their wages in order to increase the number of these employees. Prices tend to move more in tandem with wages for non-regular workers than those for regular workers. If wages for non-regular workers rise against a backdrop of the tightening in demand and supply conditions for these workers, prices will rise despite sluggishness in wages for regular workers.

- Since demand and supply conditions in both labor and capital are already tight, continued growth in the economy will lead to rises in wages and prices.

- Japanese firms keep restraining their total labor costs even amid improvement in the employment situation. I think this behavior is likely to be a restraining factor on the inflation outlook to some degree.

- Since crude oil prices have declined to a larger extent than projected, there is a risk of the pace of increase in the consumer price index (CPI) for all items less fresh food moderating further.

II. Opinions on Monetary Policy

- Since downside risks to the outlook for economic activity and prices have not increased, the Bank should maintain the current guideline for money market operations.

- Japan's economy is at a crucial moment in terms of gaining the required momentum for the virtuous cycle that has been operating steadily amid remaining uncertainties over external demand. In this situation, the Bank should continue with the current monetary policy.

- While the supplementary measures decided this time are not additional monetary easing, they enable the Bank to steadily continue with quantitative and qualitative monetary easing (QQE) through smoother asset purchases and, if judged necessary, to make appropriate adjustments in a timely manner.

- I support the introduction of the supplementary measures, which are expected to enhance the virtuous cycle in the economy and facilitate smooth implementation of QQE.

- In pursuing QQE, the Bank should introduce measures at this time that encourage a smoother decline in interest rates across the entire yield curve and support firms proactively making investment in physical and human capital.

- The Bank should encourage a smoother decline in interest rates across the entire yield curve taking into account developments in the Japanese government bond (JGB) market and the situation in financial institutions' asset holdings.

- Conversion of firms' and households' deflationary mindset has been progressing under QQE and many firms have become proactive in making investment in physical and human capital. These developments should become further widespread.

- With regard to purchases of Japan real estate investment trusts (J-REITs), if the Bank maintains the current 5 percent limit for its purchases of each issue, the Bank will have to reduce J-REIT purchases, which would be regarded as "tapering." This will reduce the policy effects of QQE.

- Establishing a new program for purchases of exchange-traded funds (ETFs) will promote awareness regarding the importance of effective use of firms' cash flows in the capital market. This will also send a message about the importance of a growth strategy.

- At the moment, a top priority for the Bank is to show that it has measures to achieve its target and the will to implement them. The Bank should not make any decision, such as tapering of asset purchases, that creates an impression that the degree of monetary easing is decreasing.

- With regard to the Bank's forward guidance, in which it will continue with QQE as long as it is necessary for maintaining the price stability target of 2 percent in a stable manner, some market participants express concern as to whether it is feasible for the Bank to continue purchasing JGBs. Today's measures are effective for a smooth implementation of these purchases.

- In general, central banks should refrain from engaging in industrial or social policies. That said, the Bank's current policy measures are designed to apply to a wide range of industries and do not have such features as their major characteristics. Moreover, reducing the size of the ongoing measures may be misunderstood as tapering of QQE, which would bring about significant side effects. Thus, I support continuation of the current measures.

- Even under a new plan for JGB issuance for the next fiscal year, the Bank can manage its JGB purchases under the current flexible directive of average remaining maturity of about 7-10 years. I consider it harmful to highlight the extension of the average remaining maturity of JGB purchases.

- Under QQE, the Bank's purchases of JGBs are conducted in order to encourage a decline in interest rates across the entire yield curve. However, since the introduction of QQE, I believe that JGBs with super long maturities should be treated in a different manner by taking account of their special characteristics.

- The Bank should not extend the average remaining maturity of JGB purchases, because the extension could (1) decrease the stability of the Bank's JGB purchases, (2) increase the Bank's involvement in the government's debt management policy, and (3) prolong the period that would be required for normalization of monetary policy.

- We should be aware that QQE is likely to be in place for a longer period than previously expected.

- It is impossible to predict an inflectional point beyond which market liquidity will be reduced in a nonlinear manner. In light of this, the Bank needs to take a prudent and gradual approach in its asset purchases.

- Where demand and supply conditions in the JGB market become extremely tight, QQE can exert its impact by a smaller amount of JGB purchases, and the sustainability of QQE will be enhanced as a result.

- The Bank's purchases of ETFs have been conducted as a measure for monetary policy, which is already at a large scale. The Bank does not need to increase the program for purchasing ETFs in order to offset the impact of the sale of stocks that the Bank had purchased from the banks as a part of prudential policy.

- The Bank's purchase of J-REITs is designed as a temporary and extraordinary measure with the upper limit of 5 percent of each J-REIT issue. Its intended effect of the J-REIT purchases has been achieved. I oppose an increase in the upper limit since the increase will result in the Bank's more direct involvement in fund allocations to individual issues of J-REITs.

- Taking account of neutrality for the private sector's activities, soundness in pricing, and the impact on the Bank's financial soundness, the paces of increase in the amounts outstanding of the Bank's holdings of ETFs and J-REITs should be reduced from the current guidelines.

- I am concerned that the introduction of supplementary measures would be counterproductive, as it would raise awareness about the limits of QQE and thereby make the Bank's communication with the market more difficult.

- The Bank should provide a plausible explanation that there is no change in its price stability target, which is set on the basis of headline CPI over the long run.

III. Opinions from Government Representatives

Ministry of Finance

- We regard all of the measures proposed at this meeting as necessary for smooth implementation of monetary policy.

- The government is at the final stage of formulating the supplementary budget for fiscal 2015 and the budget for fiscal 2016.

- The government will prepare draft tax codes reflecting the ruling parties' outline for the tax reform in fiscal 2016.

- The government continues to expect the Bank to work toward achieving the price stability target in light of economic activity and prices.

Cabinet Office

- In assessing price developments, it is important to comprehensively examine a wide range of price indicators, including the implicit price deflator of gross domestic product (GDP deflator).

- At the end of November 2015, the government formulated policy measures such as the Urgent Policies to Realize a Society in Which All Citizens are Dynamically Engaged.

- The government expects that the Bank will steadily work toward achieving the price stability target of 2 percent in light of economic activity and prices.

- We consider it important that the Bank will fully explain to the public its thinking behind the measures proposed at this meeting.