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November 25, 2014

Bank of Japan

Minutes of the Monetary Policy Meeting

on October 31, 2014

(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 Friday, October 31, 2014, from 9:00 a.m. to 1:39 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. R. Miyao

Mr. Y. Morimoto

Ms. S. Shirai

Mr. K. Ishida

Mr. T. Sato

Mr. T. Kiuchi

Government Representatives Present

Mr. I. Miyashita, State Minister of Finance, Ministry of Finance

Mr. M. Maekawa, Director-General, Economic and Fiscal Management, Cabinet Office

Reporting Staff

Mr. M. Amamiya, Executive Director

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

Mr. S. Kuwabara, Executive Director

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

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

Mr. H. Yamaoka, Director-General, Financial Markets Department

Mr. E. Maeda, Director-General, Research and Statistics Department

[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on November 18 and 19, 2014 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.

Mr. S. Kameda, Head of Economic Research Division, Research and Statistics Department

Mr. S. Nagai, Director-General, International Department

Secretariat of the Monetary Policy Meeting

Mr. N. Yoshioka, Director-General, Secretariat of the Policy Board

Mr. N. Fukunaga, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

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

Mr. R. Hattori, Senior Economist, Monetary Affairs Department

Mr. R. Kato, Senior Economist, Monetary Affairs Department

I. Summary of Staff Reports on Economic and Financial Developments[2]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on October 6 and 7, 2014, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[3] In this situation, the amount outstanding of the monetary base had been in the range of 251-261 trillion yen.

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments continued to be at low levels. The uncollateralized overnight call rate and general collateral (GC) repo rates had been at levels below 0.1 percent. As for interest rates on term instruments, yields on treasury discount bills (T-Bills) had marked slightly larger negative figures, mainly reflecting that investors had brought forward the timing of their purchases of T-Bills -- intended for duration adjustments for the year-end -- amid a situation of the Bank's purchases of JGBs being at high levels.

Yields on 10-year JGBs had declined to around 0.45 percent with market participants shifting to a "risk-off" mode, mainly reflecting weaker-than-expected economic indicators in the United States and Europe, but the size of the decline was limited compared to that in overseas yields. The Nikkei 225 Stock Average had temporarily declined rather considerably to around 14,500 yen, with the yen appreciating against the U.S. dollar amid declines in overseas stock prices. Thereafter, Japanese stock prices had recovered while overseas stock prices had been picking up, mainly on the back of firm corporate results in the United States, and the Nikkei 225 Stock Average had recently been in the range of 15,500-16,000 yen. Prices of real estate investment trusts (REITs) had declined somewhat, partly reflecting the decline in Japanese stock prices, but recovered thereafter. They were recently at around the same levels as those marked at the time of the previous meeting. In the foreign exchange market, with market participants shifting to a "risk-off" mode, the yen had temporarily appreciated against the U.S. dollar to the range of 105-106 yen, mainly reflecting the narrowing of the interest rate differential between Japan and the United States.

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

[3] The guideline was as follows:

The Bank of Japan will conduct money market operations so that the monetary base will increase at an annual pace of about 60-70 trillion yen.

Thereafter, the yen depreciated against the dollar as market participants' shift to a "risk-off" mode had slowed somewhat. Looking at developments throughout the inter-meeting period, the yen had been more or less flat against the dollar. Meanwhile, the euro had generally been more or less flat against the dollar.

C. Overseas Economic and Financial Developments

Overseas economies -- mainly advanced economies -- had been recovering, albeit with a lackluster performance still seen in part.

The U.S. economy steadily continued on its moderate recovery, led by private demand. Private consumption remained firm, with employment continuing its firm increase. Housing investment remained on its moderate pick-up trend. Exports continued to increase. Reflecting these developments in demand at home and abroad, production activity continued on its steady increasing trend. Prices remained stable.

The European economy continued its moderate recovery, but its momentum was waning. Private consumption continued on a moderate recovery trend. Business fixed investment continued to see movements toward a pick-up, particularly in Germany. On the other hand, the pace of the pick-up in exports had been sluggish recently. With demand weakening and sentiment turning cautious, the pace of recovery in production activity had been slowing. As for prices, the year-on-year rates of increase in both the Harmonized Index of Consumer Prices (HICP) excluding energy and unprocessed food and the HICP for all items remained low, both being clearly below the quantitative definition of price stability set by the European Central Bank (ECB), which was below, but close to, 2 percent. Meanwhile, economic activity in the United Kingdom continued to recover, led mainly by domestic demand.

With regard to Asia, the Chinese economy continued to grow stably due mainly to an improvement in external demand and the stimulus measures by the government, although there remained downward pressure associated with structural reforms. Exports continued to increase, particularly to the United States and Europe as well as to Asia. Stable growth in private consumption continued against the background of a favorable employment and income situation. On the other hand, growth in fixed asset investment continued to see a moderate slowdown on the whole, since the pace of increase in real estate investment had slowed, although public investment remained firm. The pace of growth in production had recently been slowing marginally. Meanwhile, the NIEs had been improving somewhat due to a rise in exports to the United States, albeit with differences remaining across countries, while the ASEAN economies as a whole had been lacking growth momentum despite a continued improvement in exports and private consumption. In India, the economy had bottomed out on the back of a pick-up in exports and private consumption.

As for prices of emerging economies, there were differences by country and region. Specifically, the year-on-year rates of increase in the consumer price index (CPI) had recently been declining in the Philippines, Malaysia, and Indonesia. In South Korea, Taiwan, and Thailand, the rates of increase had been at low levels as a trend. On the other hand, inflation rates in Brazil and Russia had been rising, mainly due to the increase in food prices.

As for global financial markets, instability in market developments had temporarily heightened and risk assets in the euro area and emerging economies had been bought back only slowly despite the recent pick-up in market developments. Thus, some markets continued to show nervousness. In international commodity markets, crude oil prices continued their declining trend, due to both demand and supply factors.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had leveled off more or less with fluctuations taken into consideration. Real exports for September 2014 had increased on a month-on-month basis, and had marked a slight increase of 1.6 percent in the July-September quarter on a quarter-on-quarter basis, turning upward for the first time in three quarters. Exports were expected to head for a moderate increase, mainly against the background of the recovery in overseas economies.

Public investment had more or less leveled off at a high level. It was expected to continue to stay at around this level for the time being.

Business fixed investment had increased moderately as corporate profits had improved. Meanwhile, business sentiment had generally stayed at a favorable level on a monthly basis, although somewhat hesitant movement had been observed. Machinery orders (private sector, excluding orders for ships and those from electric power companies) had risen by 3.8 percent in the July-August period relative to the April-June quarter. As for the outlook, business fixed investment was projected to follow a moderate increasing trend as corporate profits continued their improving trend. According to the September *Survey of Capital Investment by Small Sized Manufacturers* conducted by Japan Finance Corporation, the business fixed investment plans for fiscal 2014 for small manufacturers had been revised noticeably upward from those in the initial survey in April, indicating that their business fixed investment was expected to increase, as happened in fiscal 2013.

As for the employment and income situation, labor market conditions continued to improve steadily, as evidenced by the moderate improving trend in the unemployment rate. Regarding wages, nominal wages per employee had been rising moderately, albeit with fluctuations, as non-scheduled cash earnings and special cash earnings had increased and as scheduled cash earnings had been picking up. Reflecting these developments in employment and wages, the year-on-year rate of increase in employee income had been climbing moderately.

Private consumption remained resilient as a trend with the employment and income situation improving steadily, and the effects of the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike had been waning on the whole, albeit unevenly. Although sales at retail stores in real terms had fallen back substantially in the April-June quarter, they moved up by 3.0 percent in the July-September quarter on a quarter-on-quarter basis. On a monthly basis, they had increased for two consecutive months, in August and September. This indicated the waning effects of the decline in demand following the front-loaded increase, mainly in components other than durable goods, supported in part by the dissipating effects of irregular weather during this past summer. As for sales at large retail stores in nominal terms, the effects of irregular weather during this past summer had abated from the end of August through September, and the effects of the decline in demand had been waning, mainly in components other than durable goods. Meanwhile, as for durable goods, sales of household electrical appliances in real terms, which had decreased significantly in the April-June quarter, rose in the July-September quarter, but only slightly compared with the degree of the decline in the previous quarter. Services consumption, such as that related to travel, remained steady as a trend. Private consumption was expected to remain resilient with the employment and income situation continuing to improve steadily, and the effects of the decline in demand following the front-loaded increase were expected to wane further.

As for housing investment, the subsequent decline following the front-loaded increase continued, as exemplified by the fact that sales of newly built condominiums in the Tokyo metropolitan area continued to show some weakness. Such investment was expected to regain its resilience gradually with the employment and income situation continuing to improve steadily, supported as well by accommodative financial conditions, while the effects of the decline following the front-loaded increase were expected to remain for the time being.

Industrial production had grown at a somewhat rapid pace in the January-March quarter, but had fallen back noticeably in the April-June quarter and continued to decrease in the July-September quarter, due in part to inventory adjustments, such as in durable consumer goods and construction goods. It was expected to resume its moderate increase, as the effects of the subsequent decline in demand following the front-loaded increase waned gradually.

As for prices, excluding the direct effects of the consumption tax hike, producer prices were more or less flat relative to three months earlier. The year-on-year rate of increase in the CPI (all items less fresh food) for September was 1.0 percent. With regard to the outlook, producer prices were expected to stay more or less flat for the time being.

2. Financial environment

Financial conditions were accommodative.

The monetary base had increased significantly as asset purchases by the Bank had progressed, and the year-on-year rate of growth had been at around 35 percent.

Firms' funding costs had been hovering at low levels. With regard to credit supply, firms continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP and corporate bonds continued to be favorable. Firms' credit demand had been increasing moderately, mainly for working capital and funds related to mergers and acquisitions. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending had been at around 2.5 percent. Firms' financial positions had been favorable. Meanwhile, the year-on-year rate of growth in the money stock had been at around 3 percent, mainly due to the increase in bank lending. Inflation expectations -- such as those derived from market data -- had been increasing from a somewhat longer-term perspective, but many indicators of inflation expectations had been more or less flat since around this summer.

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

Regarding global financial markets, members agreed that some markets continued to show nervousness, although investors' once-elevated risk aversion had abated somewhat. As for international commodity prices, most members noted the recent decline in crude oil prices.

Members concurred that overseas economies -- mainly advanced economies -- had been recovering, albeit with a lackluster performance still seen in part. As for the outlook, they shared the recognition that overseas economies -- mainly advanced economies -- would continue to recover moderately.

With regard to developments in overseas economies by region, members agreed that the moderate recovery in the U.S. economy continued, led by private demand, as private consumption had been firm on the back of improvement in the employment situation. As for the outlook, they shared the view that the economy was likely to gradually accelerate its pace of growth supported by a virtuous cycle originating from household spending.

Members concurred that the euro area economy continued its moderate recovery, but its momentum was waning. As for the outlook, they shared the view that the economy would likely maintain its moderate recovery, supported mainly by the resilience in private consumption and an increase in exports, although the adjustment pressure associated with the debt problem remained and a downtrend in the inflation rate had been observed. Members agreed that it was necessary to keep paying attention to the continued moderate disinflationary trend.

Members agreed that the Chinese economy continued to grow stably due mainly to firm exports and the stimulus measures by the government, although there remained downward pressure associated with structural reforms. As for the outlook, they shared the view that the economy would likely continue to see generally stable growth, albeit at a somewhat slower pace, as authorities carried out policy measures to support economic activity while progressing with structural reforms. Meanwhile, a few members said that attention needed to be paid to how the recent slowdown in the economy's growth momentum would affect the global economy and international commodity prices.

With regard to emerging economies, members shared the view that the NIEs had been improving somewhat due to a rise in exports to the United States, albeit with differences remaining across countries. On the other hand, they concurred that the ASEAN economies as a whole had been lacking growth momentum despite a continued improvement in exports and private consumption. They shared the view that emerging economies were likely to moderately increase their growth rates as positive effects of recovery in advanced economies spread, and as domestic demand picked up reflecting accommodative financial conditions, although differences remained across countries and regions.

Members concurred that financial conditions in Japan were accommodative. They shared the view that the monetary base had increased significantly, reflecting the progress in asset purchases by the Bank, and that firms' funding costs had been hovering at low levels. Members agreed that firms' financial positions had been favorable, as firms continued to see financial institutions' lending attitudes as being on an improving trend and issuing conditions for CP and corporate bonds continued to be favorable. They shared the view that firms' credit demand had been increasing moderately, and that the amount outstanding of bank lending, including that to small firms, had been increasing moderately.

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

With regard to economic activity, members concurred that the economy continued to recover moderately as a trend, as a virtuous cycle from income to spending had been operating steadily in both the household and corporate sectors, although some weakness, particularly on the production side, had been observed due mainly to the effects of the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike.

Members agreed that Japan's exports had leveled off more or less with fluctuations taken into consideration. They shared the view that business fixed investment had increased moderately, mainly on the back of the continued improvement in corporate profits. As for the employment and income situation, members shared the view that, with labor market conditions continuing to improve steadily, employee income had increased moderately. They agreed that private consumption remained resilient as a trend on the back of a steady improvement in the employment and income situation, and the effects of the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike had been waning on the whole, albeit unevenly. On the other hand, many members expressed the view that the effects of the consumption tax hike exerting downward pressure on private consumption had been prolonged, mainly on durable goods and housing investment, both of which had seen considerable front-loaded increases in demand.

Members agreed that, although the rate of change in industrial production on a month-on-month basis had recently turned positive, inventory adjustments continued, particularly in durable consumer goods including automobiles and in construction goods.

Regarding prices, most members noted that somewhat weak developments in demand following the consumption tax hike and a substantial decline in crude oil prices had been exerting downward pressure recently. Many members expressed the view that, excluding the direct effects of the consumption tax hike, the year-on-year rate of increase in the CPI (all items less fresh food) was likely to be at around 1 percent for some time, mainly due to the effects of the decline in crude oil prices. Many members expressed the recognition that, on the condition that crude oil prices stayed at around the current level, the downward pressure on inflation rates on a year-on-year basis would remain until around the first half of fiscal 2015, and thus the projected rate of increase in prices would be revised downward compared with that in the July 2014 interim assessment. Some of these members expressed concern over the negative effects on inflation expectations of the downward pressure on consumer prices. Some members expressed the recognition that inflation expectations had been rising recently on the whole. A different member noted that, although inflation expectations had been on an uptrend from a somewhat longer-term perspective, indicators of medium- to long-term inflation expectations such as the break-even inflation rates, excluding the effects of the consumption tax hike, had been more or less flat or declining since around August.

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.

Many members pointed out that, although the decline in crude oil prices would be favorable for Japan's economy from a long-term perspective, the recent substantial decline in such prices, together with somewhat weak developments in demand following the consumption tax hike, had been exerting downward pressure on prices in the short term. On this basis, these members said that, if the current downward pressure remained, albeit in the short term, there was a significant risk that conversion of the deflationary mindset, which had so far been progressing steadily, might be delayed. They stated that, to pre-empt manifestation of such risk and to maintain the improving momentum of expectation formation, the Bank should decide additional monetary easing at this time. Some of these members -- noting that, in Japan, due to the protracted deflation, the formation of inflation expectations tended to be affected by developments in the actual inflation rate to a considerable degree -- expressed concern that such formation might be affected if the lull in the inflation rate's increase were to become prolonged. One of these members added that this point was particularly important because the period around the year-end and early next year was a critical one when firms formulated business plans and conducted wage negotiations.

Some members stated that, when the Bank introduced quantitative and qualitative monetary easing at the meeting on April 3 and 4, 2013, it had committed to achieving the price stability target at the earliest possible time, with a time horizon of about two years. These members continued that, when deciding additional monetary easing, it was necessary to thoroughly explain that this commitment remained unshakable, in order to convey the Bank's unwavering determination to conquer deflation. One of these members said that the Bank had been reiterating that it would make adjustments without hesitation if the outlook changed due to the manifestation of risk factors and if, consequently, adjustments were judged necessary for achieving the price stability target of 2 percent. This member continued that, therefore, if no policy action was taken at this meeting, this could be understood as a breach of the commitment, thereby possibly impairing the Bank's credibility significantly. Meanwhile, a different member noted that, deciding additional monetary easing at this meeting would be sufficient to put achievement of the 2 percent price stability target in a stable manner in sight in the second half of fiscal 2015. This member continued that, if this turned out to be the case, a start to discussions about an exit strategy would become possible. One member added that additional monetary easing measures proposed at this meeting would promote recovery amid the situation of a virtuous cycle of economic activity being maintained, and therefore these measures were expected to produce stronger effects on corporate profits, employment, and wages than in the past.

In the meantime, a few members said that the Bank should thoroughly explain that quantitative and qualitative monetary easing was meant to be continued as long as it was necessary for maintaining the price stability target of 2 percent in a stable manner, and therefore the measure was open-ended.

With regard to the specifics of additional monetary easing, some members said that, given that the measures to be decided at this meeting should aim at affecting people's mindset, the scale of monetary easing should be as large as possible, while taking into account the associated risk exposure and side effects, to avoid being regarded as adopting such measures in an incremental manner. On this basis, a few members noted that it was desirable to (1) accelerate the annual pace of increase in the monetary base from about 60-70 trillion yen to about 80 trillion yen and (2) increase JGB purchases so that the amount outstanding of the Bank's holdings would be increased from an annual pace of about 50 trillion yen to about 80 trillion yen. One of these members pointed out that there had been substantial declines in short- to medium-term interest rates recently, while somewhat longer-term interest rates remained at relatively high levels. This member then added that, with a view to realizing the fundamental purpose of quantitative and qualitative monetary easing -- that is, encouraging a further decline in interest rates across the entire yield curve -- it was necessary to examine the balance with T-Bill purchases and the average remaining maturity of JGB purchases as well. On this point, some members said that it was necessary to formulate the guideline for asset purchases so that the Bank's operation desk would be able to make flexible adjustments to some extent by taking into account developments in financial markets. A few members noted that bold increases should be made in the purchases of risk assets such as exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs). In the meantime, in response to the members' questions, the staff provided a supplementary explanation, which included feasibility in terms of the Bank's market operations and the associated risk exposure.

On the other hand, some members expressed a cautious view regarding the decision to implement additional monetary easing at this point. These members -- while sharing the view that risks to the outlook for prices had become larger -- said that, basically, the virtuous cycle of economic activity and prices was being maintained and it was appropriate for the Bank to continue with the current guidelines for money market operations and asset purchases. Some members noted that the effects that could be brought about by additional monetary easing would not be worth the accompanying costs and side effects. With regard to the effects of additional monetary easing, some members said that interest rates would be expected to decline further owing to such easing; however, considering that (1) nominal interest rates were already at historical low levels while real interest rates were substantially negative, and (2) the effects of asset purchases, by their nature, increased in a cumulative manner with the progress in such purchases, the marginal effect of such easing with respect to boosting economic activity and prices would not be large. In terms of influence on expectations, some members noted that quantitative and qualitative monetary easing had created the effect of changing people's expectations at the time of introduction, but that additional steps to expand it would only have limited effects compared with when it was introduced. One of these members added that the sustainability of such effects was questionable. In terms of the costs and side effects of additional monetary easing, a few members pointed to a possible further deterioration in market functioning. One of these members said that it was possible that money market funds (MMFs), money reserve funds (MRFs), and some other funds would face greater difficulty in finding investment opportunities. Furthermore, a few members expressed concern with regard to the effects a further decline in interest rates would have on financial institutions' profits and their intermediation function. Meanwhile, some members pointed out that, if the Bank purchased JGBs so that their amount outstanding increased at an annual pace of about 80 trillion yen, this would mean the Bank was purchasing most of the JGBs issued on a flow basis; therefore, not only would this considerably squeeze liquidity in the JGB market, but it also would further heighten the risk that such a move would be perceived as effectively financing fiscal deficits. In addition, one member said that, if the yen consequently depreciated further, there would be concern over the adverse effects it would have on domestic demand-oriented small firms that had underpinned economic recovery thus far.

Meanwhile, with regard to people's inflation expectations, one member said that people's behavioral patterns were steadily starting to change to ones based on the assumption of moderate inflation; in light of this, quantitative and qualitative monetary easing could be assessed as fully playing its role. On this basis, the member continued that, therefore, the Bank should not respond too frequently to the monthly figures of the year-on-year rates of change in the CPI. A few members noted that the year-on-year rate of increase in the CPI, excluding imputed rent, had been in the range of 1.5-2.0 percent, and that with the consumption tax hike also taken into account, households perceived that prices had been rising at a considerable pace. Meanwhile, a few other members said that the 2 percent price stability target was to be achieved over the medium to long term along with a rise in growth expectations, and therefore the Bank should not excessively adhere to the period of about two years.

With respect to the Bank's thinking behind its future conduct of monetary policy, many members shared the recognition that the Bank would continue with quantitative and qualitative monetary easing, aiming to achieve the price stability target of 2 percent, as long as it was necessary for maintaining this target in a stable manner. These members continued that, in doing so, it would examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate.

However, one member expressed the view that, if a rise were to occur in markets' anticipation that quantitative and qualitative monetary easing would continue for a protracted period or extreme additional measures would be implemented in a situation where it was unlikely that the price stability target would be achieved in about two years, this could lead to economic instability in the medium to long term, such as through a buildup of financial imbalances. On this basis, the member continued that it was appropriate to (1) change the expression representing the Bank's commitment by stating that the time frame for continuing quantitative and qualitative monetary easing should be restricted to about two years, and that thereafter the Bank would review the monetary easing measures in a flexible manner; and (2) reconsider the time frame for achieving the price stability target. This member expressed the view that the current inflation rate and inflation expectations were close to levels in line with the long-term growth potential under the zero output gap. Therefore, the member added that, in the current phase, what was more important was structural reform to strengthen the growth potential, rather than additional monetary easing.

IV. Remarks by Government Representatives

On the basis of the discussions on a change to the guideline for money market operations and other matters, the government representatives requested that the chairman adjourn the meeting because they needed to contact the Minister of Finance and the Minister of State for Economic and Fiscal Policy. The chairman approved the request. (The meeting adjourned at 12:31 p.m. and reconvened at 12:42 p.m.)

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

(1) About one and a half years had passed since the Bank introduced quantitative and qualitative monetary easing. Due in part to the effects of the "three-arrows" strategy, including aggressive monetary policy, the Japanese economy was on a moderate recovery, while weakness could be seen recently, and moves toward wage increases on a scale not seen in recent years were spreading. The government welcomed the Bank's measures proposed at this meeting as they aimed to further promote the positive cycle of the economy, thereby generating sustainable economic growth.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was on a moderate recovery, while weakness could be seen recently. As for the outlook, although weakness would remain for the time being, the economy was expected to recover, supported by the effects of the policies, while the employment and income situation improved. However, attention should be given to the downside risks to the Japanese economy, such as lengthening of the reaction after a last-minute rise in demand and slowing down of overseas economies.

(2) At the second Government-Labor-Management Meeting for Realizing a Positive Cycle of the Economy held on October 22, the government had confirmed that results were being seen with regard to wage increases. In order to enlarge the positive cycle of the economy, it deemed it necessary to improve both the level of wages and wage systems. Although, on a fundamental level, wage systems were to be determined by labor and management, the government would foster a shared recognition between them in terms of its major policy for improving the treatment of the generations raising children and non-regular employees. The government had set up the Headquarters for Creating a Society in which All Women Shine, with the Prime Minister in charge, for utilizing the

power of women and vitalizing society. At the first meeting, it had decided on a policy package and then submitted related bills to the Diet. With regard to overcoming the population decline and vitalizing local economy in Japan, the government had also submitted amendments of related laws to the Diet. As for the National Strategic Zones project, it would submit to the Diet an amendment that incorporated additional regulatory reforms. The government had convened the first Zone Council for the Okinawa Prefecture zone, which meant that it had convened Zone Councils in all of the six special zones it had identified. With regard to the Trans-Pacific Partnership (TPP), a ministerial meeting had been held in Sydney from October 25 through 27, at which time the government had made further progress in negotiations on market access, including for goods, and on rules in fields such as intellectual property.

(3) The government deemed the discussions at this meeting to be timely. Based on these discussions, it expected the Bank to continue its efforts to achieve the price stability target of 2 percent. The government also expected the Bank to continue providing a sufficient explanation on its monetary policy management and its outlook for prices at the Council on Economic and Fiscal Policy and on other occasions.

V. Votes

A. Vote on the Guideline for Money Market Operations

Based on the above discussions, to reflect the majority view of the members, the chairman formulated the following proposal and put it to a vote.

The Chairman's Policy Proposal on the Guideline for Money Market Operations:

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

> The Bank of Japan will conduct money market operations so that the monetary base will increase at an annual pace of about 80 trillion yen.

2. A public statement will be decided separately.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. R. Miyao, and Ms. S. Shirai.

Votes against the proposal: Mr. Y. Morimoto, Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi.

B. Vote on Increasing Asset Purchases and Extending the Average Remaining Maturity of JGB Purchases

To reflect the majority view of the members, the chairman formulated the following proposal and put it to a vote: (1) to purchase JGBs so that their amount outstanding would increase at an annual pace of about 80 trillion yen, and to extend the average remaining maturity of the Bank's JGB purchases from about seven years at present to about 7-10 years; and (2) to purchase ETFs and J-REITs so that their amounts outstanding would increase at an annual pace of about 3 trillion yen and about 90 billion yen, respectively, and to make ETFs that track the JPX-Nikkei Index 400 eligible for purchase. The Policy Board decided the proposal by a majority vote.

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

VI. Discussion and Decision on the Outlook for Economic Activity and Prices

A. Outlook for Economic Activity and Prices

Based on the guidelines for money market operations and asset purchases decided during the above discussions, members deliberated on the outlook for economic activity and prices. With regard to the baseline scenario of the outlook for Japan's economic activity, they agreed that the economy was likely to continue growing at a pace above its potential as a trend, while it would be affected by a front-loaded increase and subsequent decline in demand prior to and after the consumption tax hikes. On this basis, members shared the view that, comparing the current projections with the previous ones, while the growth rate for fiscal 2014 was somewhat lower due mainly to the effects of the decline in demand following the front-loaded increase and relatively weak exports, those for fiscal 2015 and fiscal 2016 were more or less unchanged. Regarding economic activity during the projection period through fiscal 2016, they agreed that, in the second half of fiscal 2014, as for private consumption, the effects of the decline in demand following the front-loaded increase prior to the consumption tax hike were likely to remain for the time being but wane gradually, and private consumption was likely to remain resilient with the employment and income situation continuing to improve steadily. Members shared the view that, with an improvement in corporate profits and effects of monetary easing continuing to provide a boost, business fixed investment would increase steadily. They continued that this increase also reflected a rise in the need for investment, such as (1) renewal investment to replace capital stock that had become outdated as a result of restrained investment for many years; (2) investment in labor-saving machinery and equipment, reflecting the tightening in labor market conditions; and (3) investment to reestablish the domestic bases of business, partly in response to developments in foreign exchange rates. Members shared the view that exports were likely to head for a moderate increase as overseas economies recovered, and partly because of foreign exchange rate developments. They agreed that, as for fiscal 2015 through fiscal 2016, a virtuous cycle of economic activity would be maintained -- supported by (1) a firm increase in domestic private demand, reflecting accommodative financial conditions and heightened growth expectations, as well as (2) an increase in exports due to growing overseas economies -- and the economy was likely to continue growing at a pace above its potential, while fluctuations in demand stemming from the scheduled second consumption tax hike were anticipated.

In terms of the outlook for prices, excluding the direct effects of the consumption tax hikes, many members shared the view that (1) the year-on-year rate of increase in the CPI was likely to be at around the current level for the time being, and subsequently accelerate gradually and reach around 2 percent around the middle of the projection period -- that is, in or around fiscal 2015 -- and (2) thereafter, the economy was likely to shift to a growth path that sustained such inflation in a stable manner. On the other hand, one member expressed the view that the year-on-year rate of increase in the CPI was likely to reach around 2 percent by the end of the projection period. A different member expressed the view that around 2 percent in terms of the year-on-year rate of increase in the CPI was likely to come into sight around the middle of the projection period. Another member expressed the view that the year-on-year rate of increase in the CPI was likely to remain generally stable around the current level over time.

Members also discussed upside and downside risk factors to the baseline scenario.

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

Members highlighted the following four points as upside and downside risk factors unique to prices: (1) developments in firms' and households' medium- to long-term inflation expectations; (2) developments in the output gap; (3) the responsiveness of inflation to the output gap; and (4) developments in import prices.

B. Decision regarding the *Outlook for Economic Activity and Prices*

Based on the above deliberations, members discussed the draft of "The Bank's View" in the October 2014 *Outlook for Economic Activity and Prices* (consisting of "The Bank's View" and "The Background"), and formed a majority view.

Ms. S. Shirai formulated a proposal to change the current expression regarding the outlook for prices. The existing wording was that the year-on-year rate of increase in the CPI "is likely to reach around 2 percent -- the price stability target -- around the middle of the projection period." The new expression proposed by Ms. Shirai was that it "is likely to reach around 2 percent by the end of the projection period." The proposal was then put to a vote, and was defeated by a majority vote.

Votes for the proposal: Ms. S. Shirai.

Votes against the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. R. Miyao, Mr. Y. Morimoto, Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi.

Mr. T. Sato formulated a proposal to make the following changes. First, with regard to the outlook for prices, he proposed to change the current expression that the year-on-year rate of increase in the CPI "is likely to accelerate gradually and reach around 2 percent around the middle of the projection period" to a new expression that "around 2 percent in terms of the year-on-year rate of increase in the CPI will come into sight around the middle of the projection period." Second, with regard to the first perspective, which concerned an examination of the baseline scenario for the outlook for economic activity and prices, he proposed changing the current expression that Japan's economy "is judged as likely to achieve around 2 percent inflation" to a new expression that it "is judged as likely to head toward achieving around 2 percent inflation." The proposal was then put to a vote, and 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. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, and Mr. T. Kiuchi.

Mr. T. Kiuchi formulated a proposal to make the following changes. First, with regard to inflation expectations, he proposed changing the current expression that medium- to long-term inflation expectations "are likely to follow an increasing trend and gradually converge to around 2 percent -- the price stability target" to a new expression that they "are also likely to remain stable." Second, with regard to the outlook for prices, he proposed to change the current expression that the year-on-year rate of increase in the CPI "is likely to be at around the current level for the time being, and subsequently accelerate gradually and reach around 2 percent around the middle of the projection period" to a new expression that it "is likely to remain generally stable around the current level over time." Third, with regard to the future conduct of monetary policy, Mr. Kiuchi proposed changing the current expression that "the Bank will continue with quantitative and qualitative monetary easing, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate" to a new expression that "the Bank will aim to achieve the price stability target of 2 percent in the medium to long term. On this basis, it will designate quantitative and qualitative monetary easing as an intensive measure with a time frame of about two years, and thereafter will review the monetary easing measures in a flexible manner." The proposal was then put to a vote, and 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. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, and Mr. T. Sato.

To reflect the majority view, the chairman formulated a proposal on "The Bank's View" and put it to a vote. The Policy Board decided the text of "The Bank's View" by a majority vote. It was confirmed that "The Bank's View" would be made public on October 31, 2014 and the whole report on November 1, 2014.

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

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

VII. Discussion on the Statement Entitled "Expansion of the Quantitative and Qualitative Monetary Easing"

On the basis of the above discussions, members discussed the statement "Expansion of the Quantitative and Qualitative Monetary Easing," and formed a majority view. Mr. T. Kiuchi, however, formulated a proposal, and thus two proposals were submitted.

A. Mr. T. Kiuchi's Policy Proposal

With regard to the draft of the statement that formed a majority view, Mr. T. Kiuchi proposed changing the current expression of the Bank's future monetary policy stance that "the Bank will continue with quantitative and qualitative monetary easing, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate" to a new expression that "the Bank will aim to achieve the price stability target of 2 percent in the medium to long term. On this basis, it will designate quantitative and qualitative monetary easing as an intensive measure with a time frame of about two years, and thereafter will review the monetary easing measures in a flexible manner." 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. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, and Mr. T. Sato.

B. The Chairman's Policy Proposal

The chairman formulated the statement "Expansion of the Quantitative and Qualitative Monetary Easing," 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 1).

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of October 6 and 7, 2014 for release on November 6, 2014.

Attachment 1
October 31, 2014
Bank of Japan

Expansion of the Quantitative and Qualitative Monetary Easing

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

(1) Accelerating the pace of increase in the monetary base by a 5-4 majority vote [Note 1]

The Bank will conduct money market operations so that the monetary base will increase at an annual pace of about 80 trillion yen (an addition of about 10-20 trillion yen compared with the past).

(2) Increasing asset purchases and extending the average remaining maturity of Japanese government bond (JGB) purchases by a 5-4 majority vote [Note 2]

a) The Bank will purchase JGBs so that their amount outstanding will increase at an annual pace of about 80 trillion yen (an addition of about 30 trillion yen compared with the past). With a view to encouraging a decline in interest rates across the entire yield curve, the Bank will conduct purchases in a flexible manner in accordance with financial market conditions. The average remaining maturity of the Bank's JGB purchases will be extended to about 7-10 years (an extension of about 3 years at maximum compared with the past).

b) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at an annual pace of about 3 trillion yen (tripled compared with the past) and about 90 billion yen (tripled compared with the past), respectively. The Bank will make ETFs that track the JPX-Nikkei Index 400 eligible for purchase.[4]

2. Japan's economy has continued to recover moderately as a trend and is expected to continue growing at a pace above its potential. However, on the price front, somewhat weak developments in demand following the consumption tax hike and a substantial decline in

[4] 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 (as in the past).

crude oil prices have been exerting downward pressure recently. A temporary weakness in demand has already started to wane, and the decline in crude oil prices will have positive effects on economic activity from a somewhat longer-term perspective and will push up prices. Nevertheless, if the current downward pressure on prices remains, albeit in the short term, there is a risk that conversion of deflationary mindset, which has so far been progressing steadily, might be delayed. To pre-empt manifestation of such risk and to maintain the improving momentum of expectation formation, the Bank judged it appropriate to expand the quantitative and qualitative monetary easing (QQE).

3. The Bank will continue with the QQE, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate.[5] [Note 3]

[Note 1] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. R. Miyao, and Ms. S. Shirai. Voting against the action: Mr. Y. Morimoto, Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi. The members voting against the action considered that it was appropriate to maintain the guideline for money market operations as before.

[Note 2] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. R. Miyao, and Ms. S. Shirai. Voting against the action: Mr. Y. Morimoto, Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi. The members voting against the action considered that it was appropriate to maintain the guideline for asset purchases as before.

[Note 3] Mr. T. Kiuchi proposed that the Bank will aim to achieve the price stability target of 2 percent in the medium to long term and designate the QQE as an intensive measure with a time frame of about two years. The proposal was defeated by an 8-1 majority vote. Voting for the proposal: Mr. T. Kiuchi. Voting against the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, and Mr. T. Sato.

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[5] In line with this, the Bank pursues the QQE in an open-ended manner. On the condition that the Bank continues money market operations and asset purchases based on decisions made at this meeting, Attachment 2 shows (1) the Bank's balance sheet projection for end-2014 and (2) the pace of annual increase in the outstanding balance of assets purchased from now on.

The Bank's Balance Sheet Projection

(trillion yen)

	End-2013 (actual)	End-2014 (projected)	The pace of annual increase
Monetary base	202	275	About 80 trillion

Breakdown of the Bank's Balance Sheet

	End-2013 (actual)	End-2014 (projected)	The pace of annual increase
JGBs	142	200	About 80 trillion
CP	2.2	2.2	Maintain the outstanding balance
Corporate bonds	3.2	3.2	Maintain the outstanding balance
ETFs	2.5	3.8	About 3 trillion
J-REITs	0.14	0.18	About 90 billion
Total assets (including others)	224	297	--
Banknotes	90	93	--
Current deposits	107	177	--
Total liabilities and net assets (including others)	224	297	--