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June 24, 2015

Bank of Japan

Minutes of the Monetary Policy Meeting

on May 21 and 22, 2015

(English translation prepared by the Bank's staff based on the Japanese original)

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Thursday, May 21, 2015, from 2:00 p.m. to 4:09 p.m., and on Friday, May 22, from 9:00 a.m. to 11:44 a.m.[1]

Policy Board Members Present

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

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

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

Mr. Y. Morimoto

Ms. S. Shirai

Mr. K. Ishida

Mr. T. Sato

Mr. T. Kiuchi

Mr. Y. Harada

Government Representatives Present

Mr. I. Miyashita, State Minister of Finance, Ministry of Finance[2]

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

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

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1 The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on June 18 and 19, 2015 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 Mr. I. Miyashita was present on May 22.

3 Mr. H. Sakota was present on May 21.

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

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

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. 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[4]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on April 30, 2015, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[5] In this situation, the amount outstanding of the monetary base had been in the range of 300-306 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, the interest rate applied to the Bank's complementary deposit facility. As for interest rates on term instruments, yields on treasury discount bills (T-Bills) had been at around 0 percent or slightly negative.

Yields on 10-year JGBs had temporarily increased against the background of a sharp rise in long-term interest rates in advanced economies, core European economies in particular. However, they had declined thereafter, following a pause in the rise in overseas long-term interest rates, and recently had been at around 0.4 percent. The Nikkei 225 Stock Average had temporarily fallen, primarily against the background of a decline in European stock prices and profit-taking sales by investors. However, it had increased thereafter, partly against the background of a rebound and a rise in overseas stock prices, as well as selective buying of domestic demand-related stocks, mainly by overseas investors, and was recently moving at around 20,000 yen. Meanwhile, as for developments overseas, the uptrend in Chinese stock prices had been maintained. In the foreign exchange market, the yen had depreciated somewhat against the U.S. dollar and was currently moving at around 121 yen. Meanwhile, reflecting the overall rebound in the euro in response to a sharp rise in European long-term interest rates, the yen had also depreciated against the euro.

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

[5] The guideline was as follows:

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

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 continued to recover solidly, assisted by household spending, although adjustments had been seen in the industrial production sector mainly on the back of the decline in crude oil prices and the appreciation of the U.S. dollar. Business fixed investment had been relatively weak, partly due to a decline in investment related to energy; exports had also been somewhat weak due to the effects of external demand and developments in foreign exchange markets. However, private consumption had rebounded from a decline observed last winter, supported in part by a favorable employment and income situation. Housing investment had also followed a moderate pick-up trend. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items less food and energy, or the core CPI, had been more or less flat while that for all items had been at around 0 percent, mainly due to the decline in energy prices.

The European economy maintained its moderate recovery. Exports had been picking up moderately, mainly on the back of the depreciation of the euro. Private consumption had increased clearly, supported by the rising trend in compensation of employees, as the effects of the past low crude oil prices and high stock prices remained. In this situation, business sentiment and momentum in production activity had been improving, and business fixed investment had also shown movements toward a pick-up. With regard to prices, as the effects of the euro's depreciation had emerged while the rate of decline in energy prices had been diminishing gradually, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) for all items had returned to around 0 percent. That in the HICP excluding energy and unprocessed food had followed a moderate declining trend. Meanwhile, economic activity in the United Kingdom continued to recover firmly, led mainly by domestic demand, although the pace had slowed somewhat.

With regard to emerging economies, the Chinese economy maintained its stable growth on the whole, but its growth momentum had been sluggish due to downward pressure associated with structural reforms. Exports remained on an increasing trend. Stable growth in private consumption continued against the background of a favorable employment and income situation. On the other hand, although fixed asset investment had been underpinned by public investment, its pace of increase had been decelerating, mainly against the background of adjustments in the real estate market. The pace of growth in production had been slowing moderately on the whole. In the NIEs, domestic demand continued on a pick-up trend, due mainly to the effects of low crude oil prices and monetary easing, although exports had been somewhat weak recently, reflecting such effects as the slowdown in the U.S. economy observed for some time after the turn of the year and the fall in materials prices. In India, the economy had been picking up, reflecting a continued improving trend in sentiment on the back of expectations for structural reforms and of a decline in inflation rates. On the other hand, the ASEAN economies had been lacking growth momentum as improvement in domestic demand remained slow due to effects mainly stemming from the earlier decline in international commodity prices, and to the delay in implementation of government expenditure programs. Economic activity in Brazil and Russia continued to be severe, with exports stagnating and domestic demand declining.

As for prices of emerging economies, inflation rates had decreased in many of these economies, mainly because of the decline in energy prices. However, inflation rates in Brazil continued to rise, and those in Russia remained at a high level despite a slight decline that was due to a rebound in the Russian ruble.

Regarding global financial markets, in advanced economies, yields on long-term government bonds in European advanced economies, which had been on a declining trend with the European Central Bank conducting the public sector purchase program, had rebounded sharply, leading to a sharp rise in U.S. long-term interest rates. European stock prices continued to trend downward after having been at a high level. U.S. stock prices had been adjusted temporarily, due mainly to the decline in European stock prices. However, they marked their highest figures thereafter, supported by (1) the abatement of pessimistic views on the U.S. economy following the release of U.S. employment statistics and (2) market expectations that monetary easing would be maintained for the time being. In emerging economies, Chinese stock prices -- which had continued rising at a rapid pace -- had been more or less unchanged, and stock prices of these economies as a whole had declined marginally. Currencies in emerging economies remained on an appreciating trend amid the correction of the appreciating trend of the U.S. dollar. In international commodity markets, crude oil prices had been in their highest range since the start of 2015, as prospects that shale oil production in the United States would decrease had been indicated and as geopolitical risks in the Middle East drew attention.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had been picking up. Monthly movements in real exports had been quite different, partly due to the effects of the Lunar New Year holidays in East Asia. On average, however, real exports maintained positive growth at 1.0 percent in the January-March quarter of 2015 on a quarter-on-quarter basis following high growth in the October-December quarter of 2014. Exports were expected to increase moderately, mainly against the background of the recovery in overseas economies.

Public investment had entered a moderate declining trend, although at a high level. It was expected to continue its moderate declining trend, albeit maintaining a somewhat high level.

Business fixed investment had been on a moderate increasing trend as corporate profits had improved. Machinery orders (private sector, excluding orders for ships and those from electric power companies) -- a leading indicator of machinery investment -- had been on a moderate uptrend, notably in manufacturing; they had been increasing for three consecutive quarters on a quarter-on-quarter basis since the July-September quarter of 2014. Business fixed investment was projected to continue a moderate increasing trend as corporate profits followed their improving trend.

As for the employment and income situation, labor market conditions continued to improve steadily, and employee income had risen moderately.

Private consumption had been resilient against the background of steady improvement in the employment and income situation. Sales at retail stores in real terms, after having risen through the October-December quarter of 2014, had dropped slightly in the January-March quarter, mainly as a reflection of sales movements in automobiles. Sales at department stores continued to improve; they had registered a quarter-on-quarter increase for three consecutive quarters since the July-September quarter of 2014. Sales at supermarkets had turned upward in the January-March quarter of 2015 on a quarter-on-quarter basis for the first time in two quarters. As for durable consumer goods, sales of household electrical appliances continued to increase moderately. Looking at indicators related to consumer sentiment, the pick-up in the consumer confidence index had started to become evident, as it continued to improve with the level surpassing that of around summer 2014. Private consumption was expected to remain resilient with the employment and income situation continuing to improve steadily.

Housing investment had bottomed out and shown some signs of picking up. The number of housing starts -- a leading indicator of housing investment -- had recently started to pick up. Housing investment was projected to pick up with the employment and income situation continuing to improve steadily, supported as well by accommodative financial conditions.

Industrial production had been picking up, as a reflection of the moderate increase in demand both at home and abroad. Although monthly fluctuations had become large since the start of the year due to the effects of the Lunar New year holidays, production had increased firmly in the January-March quarter on average. Reflecting developments in demand both at home and abroad, industrial production was expected to increase moderately.

As for prices, excluding the direct effects of the consumption tax hike, the producer price index (PPI) had stopped declining relative to three months earlier, reflecting movements in international commodity prices. The year-on-year rate of increase in the CPI (all items less fresh food) was about 0 percent. With regard to the outlook, the PPI was expected to rise moderately for the time being, reflecting movements in international commodity prices. The year-on-year rate of increase in the CPI was likely to be about 0 percent for the time being, due to the effects of the decline in energy prices.

2. Financial environment

Financial conditions were accommodative.

The monetary base had increased significantly as asset purchases by the Bank had progressed, and the year-on-year rate of growth had been at 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 in the range of 2.5-3.0 percent. Firms' financial positions had been favorable. The year-on-year rate of growth in the money stock had been at around 3.5 percent, mainly due to the increase in bank lending. Meanwhile, inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective.

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

A. Economic Developments

With regard to global financial markets, some members expressed the view that the rise in European long-term interest rates -- which had been on a declining trend until recently -- was attributable to a reversal of an excessive decline in interest rates, led by an upturn in economic and price indicators. In relation to the rise in interest rates in Europe, some members -- pointing out that the effects of a sharp rise in interest rates in Germany had spread internationally -- said that it was necessary to analyze market mechanisms, such as how arbitrage across markets had worked, and the impact of that rise on economic activity. Meanwhile, some members noted that developments in political and economic conditions in Greece, such as the government's financial position, continued to warrant attention.

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

With regard to developments in overseas economies by region, members concurred that the U.S. economy continued to recover solidly, assisted by household spending, although adjustments had been seen in the industrial production sector mainly on the back of the decline in crude oil prices and the appreciation of the U.S. dollar. As for the outlook, they shared the view that, although adjustment pressure was expected to weigh on the industrial production sector for the time being, the economy was likely to continue to see growth driven mainly by private demand, led by the firmness in household spending. Some members expressed the view that the low growth in the January-March quarter of 2015 was likely to be attributable to temporary factors, as evidenced by the fact that the employment and income situation remained favorable and consumer sentiment had also been positive. On the other hand, a few members expressed the view that the economy also was unlikely to see a strong recovery in the April-June quarter, as some indicators for April onward were still somewhat weak.

Members concurred that the European economy maintained its moderate recovery. They shared the recognition that exports had been picking up moderately, mainly reflecting the euro's depreciation, and that private consumption had increased clearly as the effects of low crude oil prices and high stock prices remained. As for the outlook, members concurred that the economy would likely continue to recover moderately.

Members agreed that the Chinese economy maintained its stable growth on the whole, but its growth momentum had been sluggish due to downward pressure associated with structural reforms. As for the outlook, they shared the view that the economy was likely to follow a generally stable growth path, albeit at a somewhat reduced pace, as authorities carried out policy measures to support economic activity while progressing with structural reforms. Many members pointed out that, with regard to the Chinese economy, not only had exports been declining recently, but also the pace of increase in domestic demand -- particularly in consumption -- had been decelerating, partly reflecting weaker new hiring, which had declined from a year earlier, as well as the government's frugality campaign. Many members, however, expressed the view that authorities had been increasingly willing to take measures on both the monetary and fiscal fronts to address such sluggish growth momentum. These members continued that the effects of such measures would support economic activity.

Regarding emerging economies, members shared the recognition that, while there were countries and regions where economic activity had been picking up, economies facing structural problems and political unrest remained stagnant. They continued that emerging economies therefore continued to lack growth momentum on the whole. Members concurred that, for the time being, emerging economies were likely to continue to lack growth momentum, with uncertainty remaining at a high level. On this basis, they shared the view that emerging economies were likely to gradually increase their growth rates as the recovery in advanced economies spread to them, and also as domestic demand in emerging economies picked up, mainly reflecting monetary easing.

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

With regard to economic activity, members shared the recognition that, in a situation where a virtuous cycle from income to spending continued to operate steadily in both the household and corporate sectors, the economy continued to recover moderately. One member noted that the fact that economic growth continued even in a situation where public investment had entered a moderate declining trend proved that a virtuous cycle from income to spending had been operating steadily. As for the outlook for the economy, members concurred that it was likely to continue recovering moderately.

Members agreed that Japan's exports had been picking up. They concurred that exports were likely to increase moderately, mainly against the background of the recovery in overseas economies. With regard to the outlook, some members noted that the pace of increase in exports was likely to remain moderate because the pace of economic expansion could remain moderate in some countries and regions, such as China. A few of these members pointed to the concern over the slowdown in the Chinese economy and its spillover effects as particular risk factors. One member expressed the view that it was necessary to pay attention to the effects of the sluggish intra-regional trade in Asia on Japan's exports. On the other hand, a different member, pointing out that a downtrend in the export price index on a contractual currency basis had become more evident, noted that Japan's export competitiveness seemed to have been strengthening.

Members shared the recognition that business fixed investment had been on a moderate increasing trend as corporate profits had improved. They agreed that it was likely to continue to do so as corporate profits followed their improving trend. A few members, referring to the fact that business sentiment continued to improve and that firms had indicated aggressive fixed investment plans, expressed the view that such investment was likely to increase moderately. One of these members said that manufacturing firms' shift of production sites back to Japan, prompted by the weaker yen taking hold, would also support business fixed investment. On the other hand, as background to the fact that the pace of recovery in business fixed investment remained moderate and had been lacking momentum, a few members pointed to the weaker-than-expected positive effects of low crude oil prices on real income.

As for the employment and income situation, members shared the recognition that labor market conditions continued to improve steadily, and employee income had risen moderately. They concurred that employee income was likely to continue to do so in line with the recovery in economic activity and business performance. One member, expressing the recognition that wages were less likely to increase in nonmanufacturing compared to manufacturing, commented that improvement in productivity in nonmanufacturing was important for wages and prices to rise. Some members -- while acknowledging the importance of improvement in productivity -- expressed the view that, even if productivity did not improve in all industries, shortages in the labor market would spread across industries, regions, and types of job. These members continued that, therefore, a spread of wage increases could be expected. One of these members said that a rise in the hourly pay of non-regular employees due to labor shortages could also be expected.

Members shared the recognition that private consumption had been resilient against the background of steady improvement in the employment and income situation. Many members pointed out that the improvement in consumer sentiment had started to become evident, sales at department stores and sales of household electrical appliances continued to increase, and private consumption in the GDP statistics for the January-March quarter had registered a quarter-on-quarter increase for three consecutive quarters. On this basis, these members expressed the view that private consumption had been increasingly resilient. Members concurred that it was likely to remain resilient with the employment and income situation continuing to improve steadily. Regarding sales of durable goods and daily necessities lacking momentum recently, a few members referred to the possibility that this might be due to consumers' continued resistance to price increases as well as their search for lower prices.

Members shared the recognition that housing investment had bottomed out and shown some signs of picking up. They concurred that it was likely to pick up with the employment and income situation continuing to improve steadily, supported as well by accommodative financial conditions.

Members shared the recognition that industrial production had been picking up, as a reflection of the moderate increase in demand both at home and abroad. They agreed that it was likely to increase moderately, reflecting developments in demand both at home and abroad. Some members expressed the view that the lingering inventory adjustment pressure was giving rise to the moderate recovery in production. On the other hand, with regard to inventories, a few other members -- while acknowledging that the positive contribution of inventory investment to GDP growth was large in the GDP statistics for the January-March quarter -- expressed the view that final demand excluding inventories had been increasing steadily.

As for prices, members concurred 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 about 0 percent and was likely to remain at this level for the time being, due to the effects of the decline in energy prices.

B. Financial Developments

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.

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 shared the recognition that quantitative and qualitative monetary easing (QQE) had been exerting its intended effects. These members shared the view that the underlying trend in inflation, which was determined by the output gap and medium- to long-term inflation expectations, would continue to improve. Many members expressed the recognition that, since the introduction of QQE -- while nominal interest rates had been stable at low levels -- inflation expectations had been rising on the whole from a somewhat longer-term perspective, and therefore real interest rates had been declining. These members then expressed the view that such developments had been underpinning firms' and households' spending.

As for the effects of QQE in the two years since its introduction, some members emphasized the importance of carrying out a quantitative assessment of the effects of the Bank's policy -- namely, a strong and clear commitment to the price stability target of 2 percent and the implementation of a new phase of monetary easing, both in terms of quantity and quality, to underpin the commitment -- and communicating such assessment to the public. Focusing on the recent effects of QQE in particular, some members noted that marginal effects of the decline in real interest rates might be diminishing in a situation of prolonged low interest rates, and that in this regard it was necessary to advance analysis while accumulating data.

With regard to the assessment of price developments for the Bank's conduct of monetary policy, members shared the recognition that the price stability target should be achieved in a stable manner and that the underlying trend in inflation was important in conducting monetary policy. Some members pointed out that, even amid a deceleration in the rate of increase in the CPI due to the decline in crude oil prices, expectations that the inflation rate would rise had been maintained. Some members referred to the fact that, according to high-frequency price-related indicators, moves toward sales price revisions had become widespread with regard, for example, to daily necessities and food since April 2015. In relation to this point, a few members expressed the view that these developments showed that firms had dispensed with their deflationary business models or low-price strategies and were shifting to models of raising sales prices while increasing value added. One of these members said that households were likely to change their perception of inflation and start taking a positive stance of accepting price rises, as income was likely to improve in both nominal and real terms. Meanwhile, some members -- noting the fact that the CPI for April 2015 for Tokyo's 23 wards had been relatively weak on a year-on-year basis -- expressed the view that attention needed to be paid to how such weakness would have an implication for the CPI nationwide.

Based on these discussions, members shared the recognition that inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective. On this basis, many members shared the view that the year-on-year rate of increase in the CPI would accelerate as the base effect of the falling crude oil prices dissipated, and was likely to reach around 2 percent around the first half of fiscal 2016, given that the output gap and inflation expectations -- both of which determined the underlying trend in inflation -- were likely to improve steadily and increase, respectively. On the other hand, one member projected that the rate of increase in scheduled cash earnings for fiscal 2015 would likely remain at around 0.5 percent, and that economic growth for fiscal 2015 would likely be somewhat lower compared with that in the baseline scenario presented in the April 2015 *Outlook for Economic Activity and Prices*. On this basis, this member expressed the view that a scenario in which the year-on-year rate of increase in the CPI would accelerate sharply in the latter half of fiscal 2015 was unlikely to be realized.

Based on the above discussions, regarding the guideline for money market operations for the intermeeting period, most members expressed the recognition that it was appropriate to maintain the current guideline that the Bank would conduct money market operations so that the monetary base would increase at an annual pace of about 80 trillion yen.

With regard to the asset purchases, most members expressed the recognition that it also was appropriate for the Bank to continue with the current guideline. Specifically, these members confirmed the following. First, the Bank would purchase JGBs so that their amount outstanding would increase at an annual pace of about 80 trillion yen. With a view to encouraging a decline in interest rates across the entire yield curve, the Bank would conduct purchases in a flexible manner in accordance with financial market conditions. The average remaining maturity of the Bank's JGB purchases would be about 7-10 years. Second, 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 3 trillion yen and about 90 billion yen, respectively. And third, for CP and corporate bonds, the Bank would maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

With respect to the Bank's thinking behind its future conduct of monetary policy, many members shared the recognition that QQE had been exerting its intended effects, and that the Bank would continue with QQE, 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.

On the other hand, one member said that, in a situation where the output gap had improved to around zero, additional effects of QQE, which had been diminishing, had already been exceeded by its side effects; therefore, even the initial scale of QQE could lead to economic instability in the medium to long term, such as through a buildup of financial imbalances. On this basis, this member's primary argument was the following. First, the Bank should change the guidelines for money market operations and asset purchases so that the respective annual paces of increase in the monetary base and in the amount outstanding of its JGB holdings would be reduced to levels below the initial pace, in view of further possible phased reductions. Second, with regard to the future conduct of monetary policy, the Bank should make changes to the time frame for achieving the price stability target -- to the medium to long term -- and to the expression representing its commitment by stating that, under the flexible conduct of monetary policy that also gave due consideration to medium- to long-term risks -- such as a buildup of financial imbalances -- it would continue with asset purchases and a virtually zero interest rate policy as long as each of these policy measures was deemed appropriate, rather than move toward ending QQE or raising interest rates at an early stage.

In response, one member said that, at this point, there was no concrete evidence, based either on theories or facts, to suggest a buildup of financial imbalances and side effects of monetary easing. A different member expressed the view that due attention should be paid to the communication at this point regarding a reduction in the Bank's asset purchases, as such communication could diminish the beneficial monetary easing effects depending on its timing and method.

IV. Remarks by Government Representatives

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

(1) The first preliminary estimate of the real GDP growth rate for the January-March quarter of 2015 -- which had been released on May 20 -- was 0.6 percent on a quarter-on-quarter basis, registering positive growth for the second consecutive quarter. This was mainly attributable to the fact that, in terms of the quarter-on-quarter rate of change, (1) private consumption was 0.4 percent, registering positive growth for the third consecutive quarter; (2) housing investment was 1.8 percent, turning positive for the first time in four quarters; and (3) business fixed investment was 0.4 percent, also

turning positive for the first time in four quarters. Based on these developments, the government acknowledged that the Japanese economy was on a moderate recovery.

(2) With regard to the fiscal consolidation plan, the government was proceeding with deliberations at the Council on Economic and Fiscal Policy and elsewhere toward formulating the plan by the end of June 2015. The government deemed it necessary to present concrete and effective measures in this plan, in order to establish credibility at home and abroad in terms of fiscal sustainability. In doing so, the government deemed, first of all, that realizing the "economic revitalization case" by overcoming deflation and revitalizing the economy was an important issue. Even if this were realized, however, the primary balance was projected to remain in deficit of 9.4 trillion yen in fiscal 2020. The government therefore deemed it necessary to eliminate the deficit through expenditure reform as well as other measures and attempt to generate a surplus in the primary balance. It would continue to proceed with discussions in further detail toward formulating the fiscal consolidation plan. Through a series of these measures, the government would achieve both economic revitalization and fiscal consolidation.

(3) The government expected the Bank to achieve the price stability target of 2 percent in light of economic activity and prices.

The representative from the Cabinet Office made the following remarks.

(1) The first preliminary estimate of the real GDP growth rate for the January-March quarter of 2015 was 2.4 percent on an annualized quarter-on-quarter basis, registering positive growth for the second consecutive quarter, and that of the nominal GDP growth rate for the same quarter was 7.7 percent on the same basis, registering the highest growth in 14 quarters since the July-September quarter of 2011. The rate of change in compensation of employees in real terms was 0.6 percent on a quarter-on-quarter basis. The year-on-year rate of increase in the GDP deflator for the January-March quarter of 2015 was 3.4 percent, which showed that there were favorable economic conditions for overcoming deflation. Taking such developments into account, the government deemed it important to make a comprehensive assessment of price developments.

(2) Regarding the progress of its Immediate Economic Measures for Extending Virtuous Cycles to the Local Economies compiled at the end of 2014, the government deemed that the measures were being implemented smoothly on the whole. This was shown in

the results of the survey, which had been conducted by the Cabinet Office as of the end of March 2015 on all of the projects, in that -- in terms of the number of businesses that the government would conduct -- almost all of them had started and about 60 percent of them had reached the contract stage with firms.

(3) As for the plan to achieve both economic revitalization and fiscal consolidation, the government had examined the necessary issues at the Council on Economic and Fiscal Policy. It would hold vigorous discussions and formulate a plan in order to achieve the goal of fiscal consolidation by fiscal 2020, which would be incorporated in the basic policies for 2015 to be completed by the end of June 2015. For the further advancement of the growth strategy, the government would proceed firmly with deliberations, in view of the revision on the strategy to be made at the end of June 2015.

(4) At the Government-Labor-Management Meeting for Realizing a Positive Cycle of the Economy held on April 2, the government had approved policies aimed at improving service industry productivity. Based on these policies, it would soon set up councils consisting of related ministries, related industries, and the business community, thereby promoting initiatives in this regard.

(5) At an intensive discussion regarding monetary policy and prices at the Council on Economic and Fiscal Policy held on May 12, the government had reviewed the progress toward overcoming deflation and promoting economic revitalization.

(6) The government expected the Bank to steadily work to achieve the price stability target of 2 percent in light of economic activity and prices.

V. Votes

A. Vote on the Chairman's Policy Proposal 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 Policy Board decided the proposal by a majority vote.

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

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

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

2. A public statement will be decided separately.

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

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 continue with the guideline for asset purchases and put it to a vote: (1) to purchase JGBs so that their amount outstanding would increase at an annual pace of about 80 trillion yen, to conduct purchases in a flexible manner in accordance with financial market conditions -- with a view to encouraging a decline in interest rates across the entire yield curve -- and to make the average remaining maturity of the Bank's JGB purchases about 7-10 years; (2) to purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces of about 3 trillion yen and about 90 billion yen, respectively; and (3) to maintain the amounts outstanding of CP and corporate bonds at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

The Policy Board decided the proposal by a majority vote.

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

C. Vote on Mr. T. Kiuchi's Policy Proposal on the Guidelines for Money Market Operations and Asset Purchases

Meanwhile, with regard to the guideline for money market operations for the intermeeting period, Mr. T. Kiuchi proposed that the Bank conduct money market operations so that the monetary base would increase at an annual pace of about 45 trillion yen. In addition, with regard to the guideline for asset purchases, he proposed the following: (1) to purchase JGBs so that their amount outstanding would increase at an annual pace of about 45 trillion yen, to conduct purchases in a flexible manner in accordance with financial market conditions -- with a view to encouraging a decline in interest rates across the entire yield curve -- and to make the average remaining maturity of the Bank's JGB purchases about seven years; (2) to purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces of about 1 trillion yen and about 30 billion yen, respectively; and (3) to maintain the amounts outstanding of CP and corporate bonds at about 2.2 trillion yen and about 3.2 trillion yen, respectively. The proposal was then put to a vote.

The proposal was defeated by a majority vote.

Votes for the proposal: Mr. T. Kiuchi.

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

VI. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy, and formed a majority view. Mr. T. Kiuchi, however, formulated a proposal, and thus two proposals were submitted.

A. Mr. T. Kiuchi's Policy Proposal

With regard to the draft of the statement that formed a majority view, Mr. T. Kiuchi proposed changing the current expression of the Bank's future monetary policy stance that "the Bank will continue with QQE, 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, with the aim to achieve the price stability target of 2 percent in the medium to long term, continue to provide consistent support from the financial side. It will continue with asset purchases and a virtually zero interest rate policy as long as each of these policy measures is deemed appropriate under flexible policy conduct based on the examination from the two perspectives of the monetary policy framework." The proposal was then put to a vote.

The proposal was defeated by a majority vote.

Votes for the proposal: Mr. T. Kiuchi.

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

B. The Chairman's Policy Proposal

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).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of April 30, 2015 for release on May 27, 2015.

Attachment
May 22, 2015
Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by an 8-1 majority vote, to set the following guideline for money market operations for the intermeeting period:[Note 1]

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

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

   b) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 3 trillion yen and about 90 billion yen respectively.

   c) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen respectively.

3. Japan's economy has continued to recover moderately. Overseas economies -- mainly advanced economies -- have been recovering, albeit with a lackluster performance still seen in part. In this situation, exports have been picking up. Business fixed investment has been on a moderate increasing trend as corporate profits have improved. Public investment has entered a moderate declining trend, although at a high level. Private consumption has been resilient against the background of steady improvement in the employment and income situation. Housing investment has bottomed out and shown some signs of picking up. Reflecting these developments in demand both at home and abroad, industrial production has

been picking up. Meanwhile, financial conditions are accommodative. On the price front, the year-on-year rate of increase in the consumer price index (CPI, all items less fresh food), excluding the direct effects of the consumption tax hike, is about 0 percent. Inflation expectations appear to be rising on the whole from a somewhat longer-term perspective.

4. With regard to the outlook, Japan's economy is expected to continue recovering moderately. The year-on-year rate of increase in the CPI is likely to be about 0 percent for the time being, due to the effects of the decline in energy prices.

5. Risks to the outlook include developments in the emerging and commodity-exporting economies, the prospects regarding the debt problem and the momentum of economic activity and prices in Europe, and the pace of recovery in the U.S. economy.

6. Quantitative and qualitative monetary easing (QQE) has been exerting its intended effects, and the Bank will continue with 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.[Note 2]

[Note 1] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, and Mr. Y. Harada. Voting against the action: Mr. T. Kiuchi. Mr. T. Kiuchi proposed that the Bank will conduct money market operations and asset purchases so that the monetary base and the amount outstanding of its JGB holdings will increase at an annual pace of about 45 trillion yen, respectively. The proposal was defeated by a majority vote.

[Note 2] Mr. T. Kiuchi proposed that the Bank will, with the aim to achieve the price stability target of 2 percent in the medium to long term, continue with asset purchases and a virtually zero interest rate policy as long as each of these policy measures is deemed appropriate under flexible policy conduct based on the examination from the two perspectives of the monetary policy framework. The proposal was defeated by an 8-1 majority vote. Voting for the proposal: Mr. T. Kiuchi. Voting against the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, and Mr. Y. Harada.