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October 13, 2015

Bank of Japan

Minutes of the Monetary Policy Meeting

on September 14 and 15, 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 Monday, September 14, 2015, from 2:00 p.m. to 4:34 p.m., and on Tuesday, September 15, from 9:00 a.m. to 12:02 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

Ms. S. Shirai

Mr. K. Ishida

Mr. T. Sato

Mr. T. Kiuchi

Mr. Y. Harada

Mr. Y. Funo

Government Representatives Present

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

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

Mr. Y. Nishimura, State Minister of Cabinet Office, Cabinet Office[2]

Mr. M. Nishikawa, Vice Minister for Policy Coordination, Cabinet Office[3]

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on October 6 and 7, 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] Messrs. I. Miyashita and Y. Nishimura were present on September 15.

[3] Messrs. M. Ota and M. Nishikawa were present on September 14.

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

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

Mr. T. Sekine, Director-General, Research and Statistics Department

Mr. K. Nakamura, Head of Economic Research Division, Research and Statistics Department

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

Secretariat of the Monetary Policy Meeting

Mr. R. Yanagihara, Director-General, Secretariat of the Policy Board

Mr. 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. 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 August 6 and 7, 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 315-332 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 essentially been moving at around 0 percent or slightly negative.

In the meantime, domestic and foreign stock markets and foreign exchange markets had shown large fluctuations, triggered mainly by the fall in Chinese stock prices. Specifically, the Nikkei 225 Stock Average had fallen since the middle of August, in light of the decline in stock prices worldwide that reflected the fall in Chinese stock prices and the deterioration in market sentiment. It then fluctuated sharply; namely, it retraced part of the fall due to rebounds in Chinese as well as U.S. and European stock prices. In the foreign exchange market, the yen had appreciated against the U.S. dollar, mainly due to the waning expectation for an interest rate hike by the Federal Reserve in September, reflecting the decline in stock prices worldwide and the deterioration in market sentiment, and the dollar/yen rate had continued to fluctuate considerably. The rate was currently moving at around 120 yen. The yen against the euro had been essentially flat. Meanwhile, developments in domestic and foreign bond markets had been less volatile than those in stock and foreign exchange markets. Under these circumstances, yields on 10-year JGBs had declined slightly, mainly in response to the fall in stock prices, and were recently moving in the range of 0.35-0.40 percent.

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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 -- continued to grow at a moderate pace, despite the slowdown in emerging economies.

The U.S. economy had been recovering, assisted by household spending, although the industrial production sector had been lackluster, mainly against the background of the appreciation of the U.S. dollar and the slowdown in emerging economies. Exports still had lacked momentum, due to the effects of developments in foreign exchange markets and of external demand. However, private consumption had increased, supported in part by a favorable employment and income situation. Housing investment had also been on a moderate pick-up trend. The solid household spending had brought about (1) firm momentum in sentiment and the production activity of domestic demand-oriented firms, such as those in the service industry; and (2) an increasing trend in imports. Business fixed investment had also started to pick up on the whole, although investment related to energy had been declining. 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. In addition, 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 on a moderate increasing trend, mainly on the back of the earlier depreciation of the euro. Private consumption continued to increase, partly supported by the recovery trend in consumer sentiment backed by the improvement in the labor market. Reflecting such developments in demand, production activity had been recovering moderately, and business fixed investment had also shown signs of picking up. With regard to prices, the pace of decline in energy prices had been picking up again, but the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) for all items had slightly exceeded 0 percent, due in part to the effects of the earlier depreciation of the euro. That in the HICP excluding energy and unprocessed food had been more or less flat. Meanwhile, economic activity in the United Kingdom continued to recover, led mainly by domestic demand.

With regard to emerging economies, the Chinese economy maintained its stable growth on the whole, but it had slowed somewhat, mainly in the manufacturing sector. Stable growth in private consumption continued against the background of the ongoing favorable employment and income situation. On the other hand, although fixed asset investment had been underpinned by public investment, its pace of increase had decelerated against the background of adjustments in the real estate market and of excess production capacity in manufacturing. Exports continued to be relatively weak, due in part to a halt in the export drive -- particularly that of materials -- and to sluggish demand in IT-related goods. Reflecting such developments in demand and inventory adjustments, the pace of growth in production had been slowing. In India, the economy had been picking up steadily, particularly in domestic demand, partly in reflection of expectations for structural reforms and of monetary easing. On the other hand, the pace of economic growth in the NIEs was decelerating as exports and production had experienced a relative weakening, due in part to the effects of adjustments in China and to sluggish demand in IT-related goods. The pace of growth in the ASEAN economies was also decelerating, primarily against the background of sluggish external demand as well as private consumption being weighed down, mainly by the accumulation of household debt and political unrest. Economic activity in Brazil and Russia had been increasingly severe, as external demand had been sluggish, mainly due to the fall in commodity prices, and as domestic demand had also been declining, mainly reflecting the rise in inflation rates and policy interest rate hikes.

As for prices in emerging economies, inflation rates had been more or less flat at low levels on the whole, as the fall in energy prices and the depreciation of the currencies in these economies had offset each other. However, inflation rates had risen or remained at high levels in some economies.

Global financial markets remained volatile due to the following: while concern over the Greek problem had abated, market participants were concerned about increased uncertainty regarding the outlook for the Chinese economy and uncertainty about the timing of an interest rate hike by the Federal Reserve, as well as the effects of these uncertainties on emerging and commodity-exporting economies. In advanced economies, interest rates had generally been more or less flat, albeit with fluctuations, while stock prices as a whole had decreased. In emerging economies, currencies and stock prices temporarily declined in tandem with the fall in commodity prices. In international commodity markets, crude oil prices had fluctuated considerably; they had decreased by a substantial degree until late August, mainly due to concern over a decline in demand that reflected the weakness in Chinese economic indicators and the fall in Chinese stock prices, but they rebounded thereafter.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had recently been more or less flat, due mainly to the effects of the slowdown in emerging economies. The background to such recent developments in exports -- which had been picking up since last winter -- was stagnant trade and production activity worldwide amid the slowdown in emerging economies, including China, and commodity-exporting economies, as well as weak IT-related demand. Exports were expected to remain more or less flat for the time being, but subsequently were likely to increase moderately, as emerging economies moved out of their deceleration phase.

Public investment had entered a moderate declining trend, although it remained 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 continued to improve markedly. Looking at corporate profits in the *Financial Statements Statistics of Corporations by Industry, Quarterly*, current profits had seen a sharp quarter-on-quarter increase in the April-June quarter of 2015, and the ratio of current profits to sales had posted a record-high level. The aggregate supply of capital goods (excluding transport equipment) -- a coincident indicator of machinery investment -- had been trending moderately upward, albeit with fluctuations. Looking at leading indicators, machinery orders (private sector, excluding orders for ships and those from electric power companies) had registered a quarter-on-quarter increase for four quarters in a row since the July-September quarter of 2014, but had dipped recently. Construction starts (floor area, private, nondwelling use) had picked up, albeit with fluctuations, since the turn of the year. Business fixed investment was projected to continue increasing moderately as corporate profits followed their marked 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 increased for two quarters in a row until the October-December quarter of 2014, had dropped for two consecutive quarters in the January-March and April-June quarters of 2015, due to lackluster sales of small cars with engine sizes of 660cc or less and the effects of irregular weather. However, sales at retail stores turned slightly positive in July compared with the April-June quarter, partly since the effects of irregular weather had dissipated. Sales at department stores, after having increased for three consecutive quarters until the January-March quarter, had dipped in the April-June quarter, affected by irregular weather and by the delayed summer clearance sales; however, they bounced back again in July relative to the April-June quarter. As for durable consumer goods, while sales of passenger cars continued to show somewhat weak movements, reflecting movements in those of small cars with engine sizes of 660cc or less, sales of household electrical appliances turned upward in July on a month-on-month basis, after having declined in the April-June quarter on a quarter-on-quarter basis, due mainly to lackluster sales of air conditioners as a result of irregular weather. Services consumption, such as that related to food service and domestic travel, remained steady. Looking at indicators related to consumer sentiment, the consumer confidence index continued to improve, albeit with fluctuations, and the level had been 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 been picking up. The number of housing starts -- a leading indicator of housing investment -- had picked up markedly from the start of the year onward, mainly in housing for rent. Housing investment was projected to continue picking up with the employment and income situation continuing to improve steadily, supported as well by accommodative financial conditions.

Industrial production had recently been more or less flat, due mainly to the slowdown in emerging economies and partly to inventory adjustments. It was expected to remain more or less flat for the time being, but subsequently was likely to increase moderately, as emerging economies moved out of their deceleration phase and as inventory adjustments progressed.

As for prices, the producer price index (PPI) was declining relative to three months earlier, mainly due to the fall in international commodity prices. The year-on-year rate of increase in the CPI (all items less fresh food) was about 0 percent. Looking at the rate of increase for all items less fresh food and energy in order to capture trend changes in the CPI, this had started to grow at an accelerated pace a couple of months into the year. Meanwhile, there had been a marked rise in an indicator that represented the difference between the share of items in the CPI (all items less fresh food) for which prices had risen from the previous year and that for which prices had declined. With regard to the outlook, the PPI was expected to continue declining 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 in the range of 30-35 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 in the range of 4.0-4.5 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.

3. Loan disbursement through the Loan Support Program

On September 4, 2015, the Bank had carried out a new loan disbursement, amounting to 548.9 billion yen, under the main rules for the fund-provisioning measure to support strengthening the foundations for economic growth. The outstanding balance of loans disbursed by the Bank under these rules amounted to 4,732.6 billion yen after the new loan disbursement. The outstanding balance of loans disbursed by the Bank under the special rules for equity investments and asset-based lending (ABL) came to 103.4 billion yen, and that under the special rules for small-lot investments and loans amounted to 11.255 billion yen. As for the special rules for the U.S. dollar lending arrangement, the outstanding balance of loans came to 12.00 billion dollars.

On September 17, the Bank was scheduled to carry out a new loan disbursement, amounting to 728.6 billion yen, under the fund-provisioning measure to stimulate bank lending. The outstanding balance of loans disbursed by the Bank would amount to 23,611.8 billion yen after the new loan disbursement.

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

A. Economic Developments

Members shared the view that global financial markets had been volatile due to market participants' concern over uncertainties regarding the outlook for the Chinese economy and about the timing of an interest rate hike by the Federal Reserve, as well as over the effects of these uncertainties on emerging and commodity-exporting economies. Regarding the fall in Chinese stock prices, many members shared the view that this could be regarded as a correction of the excessive rise in these prices, which had more than doubled since the second half of 2014. On this basis, some of these members expressed the view that this fall in stock prices should be considered separately from the risk of prolonged deceleration in the Chinese economy. In relation to this, one member noted that the effects of developments in the Chinese economy on Japan's economy would be exerted mainly through trade, rather than in the form of a spillover effect on the financial front. Members concurred that particular attention should continue to be paid to developments in global financial markets, including the Chinese stock market.

Members shared the recognition that overseas economies -- mainly advanced economies -- continued to grow at a moderate pace, despite the slowdown in emerging economies. As for the outlook, they concurred that overseas economies, particularly advanced economies, would continue to grow at a moderate pace as a trend.

With regard to developments in overseas economies by region, members concurred that the U.S. economy had been recovering, assisted by household spending, although the industrial production sector had been lackluster, mainly against the background of the appreciation of the U.S. dollar and the slowdown in emerging economies. As for the outlook, they shared the view that, although the industrial production sector would remain lackluster 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 -- referring to, for example, the large upward revision to the GDP statistics for the April-June quarter of 2015 and private consumption being increasingly stable -- expressed the view that the economy continued to see firm recovery, particularly in the household sector. However, one of these members pointed to the possibility that favorable private consumption, such as in terms of sales of durable goods, partly reflected a front-loaded increase in demand in view of an expected interest rate hike. This member then said that attention should be given to the risk of a subsequent decline in demand.

Members shared the recognition that the European economy maintained its moderate recovery on the back of the moderate increasing trend in exports and the recovery trend in consumer sentiment. One member said that the decision to change the operational framework at the European Central Bank (ECB) Governing Council meeting on monetary policy held in September had been broadly viewed by market participants as suggesting that the ECB had enough headroom for further continuation of the current asset purchase program. This member continued that confidence in the ECB's monetary policy had improved following the meeting, as uncertainty regarding its future policy conduct had eased. 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 it had slowed somewhat, mainly in the manufacturing sector. On this basis, many members concurred that authorities had already been taking measures on the monetary and fiscal fronts to cope with the slowdown in economic activity, and there was relatively large capacity to undertake additional policy measures. Meanwhile, some members pointed to matters of concern, including the fiscal problems of local governments and anxiety over capital outflow, in light of the effectiveness of economic stimulus measures. One of these members said that Chinese financial authorities were expected to communicate their policy measures in a clear and intelligible manner to the public. A few members, pointing to the pick-up in the real estate market -- particularly the upturn in housing prices in metropolitan areas -- expressed the view that pessimism about the Chinese economy could have been overemphasized recently. As for the outlook, members shared the view that, despite somewhat of a slowdown, mainly in the manufacturing sector, the economy was likely to follow a generally stable growth path as authorities proactively carried out policy measures to support economic activity. On this basis, they agreed that the effects of the slowdown in the Chinese economy on the global economy should continue to be monitored closely.

Members shared the view that emerging economies had recently been slowing. Some members attributed this to the effects of the slowdown in the Chinese economy and the fall in commodity prices. One of these members commented that attention should be paid to the point that the depreciation of the currencies and the decline in stock prices had occurred in tandem with capital outflows in some emerging economies. Members shared the view that, although emerging economies would remain in their deceleration phase for the time being, they were likely to gradually increase their growth rates from a somewhat longer-term perspective as the recovery in advanced economies spread to them, and also as domestic demand in emerging economies picked up, mainly owing to economic stimulus measures both on the monetary and fiscal fronts.

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 the economy continued to recover moderately as a virtuous cycle from income to spending continued to operate steadily in both the household and corporate sectors. They continued that this was evidenced by the fact that -- although exports and production had recently been more or less flat, due mainly to the effects of the slowdown in emerging economies -- on the domestic demand side positive attitude toward investment had been maintained and private consumption had been resilient. As for the outlook for the economy, members concurred that it was likely to continue recovering moderately as the virtuous cycle from income to spending continued.

Members agreed that Japan's exports had recently been more or less flat, due mainly to the effects of the slowdown in emerging economies. They shared the recognition that the background to such developments in exports was stagnant trade and production activity worldwide amid the slowdown in emerging economies, including China, and commodity-exporting economies, as well as weak IT-related demand. One member said that, if the recent decline in exports were due to temporary factors, a rebound would be observed, but any such retracement had been small so far. As for the outlook, most members concurred that exports were likely to remain more or less flat for the time being, but subsequently were likely to increase moderately, as emerging economies moved out of their deceleration phase. On this basis, many members pointed out that, if deceleration in emerging economies, including China, were to be prolonged, the effects of this on Japan's exports and economic activity warranted attention.

Many members said that corporate profits continued to improve, despite the slowdown in emerging economies, due in part to the effects of the yen's depreciation as well as the decline in crude oil prices, and that these profits had increased to a record-high level.

Members agreed that business fixed investment had been on a moderate increasing trend as corporate profits continued to improve markedly. One member pointed out that the *Business Outlook Survey* showed that (1) manufacturers continued to plan a significant increase in their fixed investment in fiscal 2015, although their assessment of business conditions had become less favorable relative to the outlook in the previous survey; and (2) an expansion of production capacity was cited most frequently by small manufacturing firms as the purpose of their fixed investment. This member considered these facts to be a positive development. A different member said that corporate profits had been increasing for a wide range of firms, including small firms, partly due to the recent decline in the PPI -- which reflected input prices -- and a favorable environment had been established for firms to increase their spending. On the other hand, many members expressed the view that, even with the favorable situation in corporate profits, developments such as relatively weak exports that reflected the slowdown in emerging economies might exert downward pressure on business fixed investment.

As for the employment and income situation, members concurred that employee income had risen moderately with labor market conditions continuing to improve steadily. They continued that employee income was likely to continue to do so in line with the recovery in economic activity and business performance. Some members expressed the view that, although the trend in nominal wages had become less observable due to the change in the sample used in the *Monthly Labour Survey*, these wages had been on an improving trend, as seen, for example, in the moderate acceleration in the year-on-year rate of increase in scheduled cash earnings due to the effects of the increase in base pay. In relation to summer bonus payments, one member noted that, while the growth rate in special cash earnings in the *Monthly Labour Survey* for July 2015 remained low, real monthly income in the *Family Income and Expenditure Survey* for July marked high year-on-year growth. This member continued that, considering, for example, the effects of the change in the sample used in the *Monthly Labour Survey*, it seemed more conceivable that summer bonus payments had actually risen to a certain extent. As for employee income, a few members said that the year-on-year rate of change in the monthly income for workers' households in the *Family Income and Expenditure Survey* remained solidly positive. Furthermore, these members -- pointing to the fact that the year-on-year rate of change in the monthly income for spouses in the survey showed high growth recently -- expressed the view that household income had been increasing through the active participation of spouses in the workforce. A different member said that, in terms of the income situation, momentum for greater income generation from a macroeconomic perspective had been growing steadily, as seen in the firm increase in the real gross national income (GNI), even amid the situation in which the real GDP growth rate for the April-June quarter had shown negative growth from the previous quarter. A few members expressed the view that the year-on-year rate of change in real wages was likely to continue to be positive, with the consumption tax rate unchanged from last year's hike and lower crude oil prices than last year.

Members shared the recognition that private consumption had been resilient against the background of steady improvement in the employment and income situation. Many members shared the view that, although sluggishness had recently been observed in some areas in private consumption -- affected partly by irregular weather -- it maintained its resilience on the whole, as consumer sentiment remained on an improving trend and the employment and income situation also continued to improve steadily. In this regard, one member pointed out that the year-on-year rate of change in real consumption expenditures for workers' households in the *Family Income and Expenditure Survey* had been firmly positive, except for June, when it was affected by adverse weather conditions. Members concurred that private consumption was likely to remain resilient with the employment and income situation continuing to improve steadily. One member expressed the view that the negative effects of the recent decline in stock prices on consumption would remain limited. A different member expressed the recognition that, although consumer sentiment had been improving, its level had not been high. This member then expressed the view that the pace of recovery in consumption would be slow, since people's expectations for a rise in real income did not seem to be strong enough.

Members concurred that housing investment had been picking up. They shared the view that it was projected to continue to do so with the employment and income situation continuing to improve steadily, supported as well by accommodative financial conditions.

Members agreed that industrial production had recently been more or less flat, due mainly to the slowdown in emerging economies and partly to inventory adjustments. They shared the view that firms' production activity had been picking up, against the backdrop of moderate increases in demand both at home and abroad. They continued, however, that such activity had been more or less flat recently, due to the effects of the slowdown in emerging economies and to the weakness in global IT-related demand, and also in part to the prolonged inventory adjustments of small cars with engine sizes of 660cc or less. As for the outlook, they agreed that industrial production was likely to remain more or less flat for the time being, but subsequently was likely to increase moderately, as emerging economies moved out of their deceleration phase and as inventory adjustments progressed. One member expressed the view that (1) Japan's economy had become more resilient against a decrease in external demand due to the favorable situation in corporate profits and the fall in commodity prices, and (2) deterioration in sentiment had not been observed. This member continued that, given these developments, industrial production was likely to emerge from the temporary pause and return to a moderate recovery path, although attention needed to be paid to downside risks due, for example, to the situation in emerging and commodity-exporting economies.

As for prices, members concurred that 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 recognition that the amount outstanding of bank lending, including that to small firms, had been increasing moderately, and that firms' credit demand had been increasing moderately, mainly for working capital and funds related to mergers and acquisitions.

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 agreed 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 commented that such developments had been underpinning firms' and households' spending. Members shared the recognition that, although exports and production had recently been more or less flat against the background of the slowdown in emerging economies, firmness in domestic demand remained intact under QQE.

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. Many members pointed out factors such as the following: (1) the year-on-year rate of increase in the CPI (all items less fresh food and energy) for July 2015 had accelerated; and (2) there had been a further rise in an indicator that represented the difference between the share of items in the CPI (all items less fresh food) for which prices had risen from the previous year and that for which prices had declined. These members then expressed the view that the underlying trend in inflation continued to improve. Some of these members referred to the possibility that the year-on-year rate of change in the CPI (all items less fresh food) would become negative temporarily. They then expressed the opinion that such a dip was attributable to the effects of the decline in crude oil prices that continued with a time lag, and thus did not suggest a change in the underlying trend in inflation.

Members shared the recognition that, in order to achieve the price stability target of 2 percent, it was important that the inflation rate rise moderately accompanied by an increase in wages. In this regard, many members expressed the view that the pace of increase in nominal wages remained moderate, in light of record-high corporate profits. These members expressed the opinion that it was necessary to steadily pursue QQE and thereby maintain and foster an environment in which firms found it easy to raise wages, and that it also was important to implement initiatives and measures, such as holding the Government-Labor-Management Meeting for Realizing a Positive Cycle of the Economy, to encourage firms' efforts toward wage increases.

Members concurred that inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective. A few members pointed out that a base pay increase was taking place for the second consecutive year and firms' moves to revise sales prices during this fiscal year were spreading and exhibiting sustainability. These members then said that, in assessing inflation expectations, for example, this price-setting strategy of firms was also worth paying attention to, in addition to the market indicators and related survey results. A different member expressed the view that a decline in market indicators of inflation expectations was largely in parallel with developments in crude oil prices and in the European and U.S. counterparts. In light of these discussions, 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. These members continued that, however, the timing of reaching 2 percent could be either earlier or later to some extent, depending on developments in crude oil prices.

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 was also 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, the Bank 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 marginal effects of QQE had been diminishing in a situation where the decline in real interest rates had come to a halt, and such effects had already been outweighed by the side effects, such as the impact of the Bank's asset purchases on liquidity in the JGB market. This member pointed to the possibility that the effects of reducing term premiums were diminishing, and that the effects of the Bank's asset purchases were being constrained further due to market participants' concern over the limit to such purchases. On this basis, this member's primary argument was the following. First, the Bank should reduce the annual paces of increase in the monetary base and in the amount outstanding of its JGB holdings to levels below the initial pace, in view of further possible phased reductions. Second, 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 expressed the view that it was not appropriate to reduce the degree of monetary easing at a time when the Chinese economy had decelerated and its consequences had been a matter of concern. A different member said that the policy effects of QQE should be analyzed from a broad perspective given that it was a policy that envisaged multiple transmission channels, not only reducing term premiums but also exerting influence on inflation expectations.

IV. Remarks by Government Representatives

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

(1) While variation in the pace of improvement could be seen recently in some areas of the Japanese economy, the *Financial Statements Statistics of Corporations by Industry, Quarterly* for the April-June quarter of 2015 -- which had been released by the Ministry of Finance on September 1 -- showed that current profits for all industries had reached a historical high on a quarterly basis, reflecting a trend in the economy as a whole of being on a moderate recovery. As for the global economy, in the discussion that had taken place at the Group of Twenty (G-20) meeting held on September 4 and 5, the minister of finance had pointed out that developments in financial markets reflected structural problems that the Chinese government needed to work on, and that it was important for the Chinese government to continue addressing various structural issues, such as (1) resolving the problem of excess production capacity, (2) building a social security system consistent with the population decline, and (3) disposing of nonperforming loans in the financial sector. The government would continue to pay close attention to developments in the global economy.

(2) The government had been proceeding with measures to undertake its task of achieving both economic revitalization and fiscal consolidation. The budget for fiscal 2016 would be the first under the Plan to Advance Economic and Fiscal Revitalization, and the government deemed it necessary to fully realize this plan to achieve its goal of generating a surplus in the primary balance for fiscal 2020. The total amount of the fiscal 2016 budget requests and demands for the general account was 102.4 trillion yen, of which general expenditures amounted to 60.6 trillion yen. During the process of formulating the budget for fiscal 2015, the total amount of the budget requests was 101.7 trillion yen; thereafter, total expenditures were finalized at 96.3 trillion yen.

Based on this budget, the government expected that the target of halving its primary balance deficit relative to GDP could be achieved. Regarding the budget formulation under the Abe Cabinet, the government had been doing its utmost to implement expenditure reform, and had been achieving both economic revitalization and fiscal consolidation. It would continue to undertake full-fledged expenditure reforms in terms of the budget for fiscal 2016 as well.

(3) At the G-20 meeting held on September 4 and 5, the minister of finance had explained Japan's economic situation -- in particular, the pick-up in the labor market as well as the corporate sector -- and the government's measures to achieve fiscal consolidation and efforts to implement the growth strategy, and had gained the understanding of each participating country. The government continued to expect 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 Japanese economy was on a moderate recovery, while variation in the pace of improvement could be seen recently in some areas. The second preliminary estimate of the real GDP growth rate for the April-June quarter of 2015 was minus 1.2 percent on an annualized quarter-on-quarter basis, registering negative growth for the first time in three quarters, while that of the nominal GDP growth rate was 0.2 percent on the same basis. The government expected private consumption to head toward a pick-up, partly due to (1) a continued improving trend in the income situation, as evidenced by the year-on-year rate of change in real wages turning positive for July; and to (2) goods vouchers issued with a premium, of which more than 90 percent were planned to be on sale by the end of September. As for recent developments in global financial markets, the government judged these to be only short-term fluctuations, and their effects on Japan's real economy were not evident at present. It deemed that the fundamentals of the global economy remained sound, and it was important to take measures in a prudent manner so that anxiety would not sweep through the market. The government would expand and deepen the positive economic cycle, while continuing to closely monitor market developments, including those overseas. With regard to price developments, the government deemed it important to make a comprehensive assessment, taking into account, for example, developments in the GDP deflator.

(2) In order to steadily implement the Plan to Advance Economic and Fiscal Revitalization in the Basic Policy on Economic and Fiscal Management and Reform 2015, the government had set up the Economic and Fiscal Reform Promotion Committee and held its first meeting. In addition, it had held the first meetings of the health promotion and preventive care services platform and the public services innovation platform. It would continue to work to achieve both economic revitalization and fiscal consolidation in an integrated manner with unwavering resolve.

(3) The government had obtained the Diet's approval of many bills related to the growth strategy. It would continue to aim to obtain the Diet's approval of bills submitted and proceed with implementing and achieving the measures of the revised growth strategy. In particular, the government planned to hold dialogue between the public and private sectors this autumn in order to expand investment to improve productivity, and clearly set forth the direction for labor market reform in the growth strategy.

(4) The government expected the Bank to work steadily 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, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo.

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, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo.

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, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo.

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, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo.

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 August 6 and 7, 2015 for release on September 18, 2015.

Attachment
September 15, 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, although exports and production are affected by the slowdown in emerging economies. Overseas economies -- mainly advanced economies -- have continued to grow at a moderate pace, despite the slowdown in emerging economies. Exports and industrial production have recently been more or less flat, due mainly to the effects of the slowdown in emerging economies. On the domestic demand side, business fixed investment has been on a moderate increasing trend as corporate profits have continued to improve markedly. Against the background of steady improvement in the employment and income situation, private consumption has been resilient and housing

investment has been picking up. Meanwhile, public investment has entered a moderate declining trend, although it remains at a high level. 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) 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, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo. 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, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo.