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February 3, 2016

Bank of Japan

Minutes of the Monetary Policy Meeting
on December 17 and 18, 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, December 17, 2015, from 2:00 p.m. to 3:51 p.m., and on Friday, December 18, from 9:00 a.m. to 12:45 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. N. Okada, State Minister of Finance, Ministry of Finance[2]

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

Mr. S. Takatori, 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 January 28 and 29, 2016 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. N. Okada and S. Takatori were present on December 18.

[3] Messrs. M. Ota and M. Nishikawa were present on December 17.

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

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

Mr. H. Koguchi, Deputy Director-General, Monetary Affairs Department[4]

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

Mr. K. Iijima, Senior Economist, Monetary Affairs Department

[4] Mr. H. Koguchi was present on December 18.

I. Summary of Staff Reports on Economic and Financial Developments[5]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on November 18 and 19, 2015, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[6] In this situation, the amount outstanding of the monetary base had been in the range of 335-348 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) remained in negative territory.

The Nikkei 225 Stock Average had temporarily risen to the 20,000-21,000 yen level, mainly in response to firm domestic economic indicators, but had fallen thereafter in line with sluggish U.S. and European stock prices amid the heightening of investors' risk aversion that was mainly due to the effects of the significant decline in crude oil prices. It was moving in the range of 19,000-19,500 yen recently. In the foreign exchange market, the yen had been essentially flat against the U.S. dollar, albeit with fluctuations. The yen had depreciated against the euro to some extent, affected in part by further monetary easing by the European Central Bank (ECB) that was smaller in scale than expected. Yields on 10-year JGBs had been more or less flat and were hovering around 0.3 percent recently.

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. As for prices,

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

[6] 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.

the year-on-year rate of increase in the personal consumption expenditure (PCE) deflator for all items excluding food and energy had been in the range of 1.0-1.5 percent. 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 as private consumption continued to increase, although exports had shown some weakness. With regard to prices, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) for all items had been at around 0 percent, mainly due to the decline in energy prices, but that for all items excluding energy and unprocessed food had been at around 1 percent. 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 remained in a deceleration phase, mainly in manufacturing. In India, the economy had been growing steadily, particularly in domestic demand, partly in reflection of expectations for structural reforms and of monetary easing effects. On the other hand, economic activity in the NIEs and the ASEAN countries remained in a deceleration phase on the whole, mainly because the effects of adjustments in China had been exerting downward pressure on exports and production. However, the effects of economic stimulus measures had been observed in some countries and regions, and production of IT-related goods was also picking up with the launch of new smartphone models. Economic activity in Brazil had become increasingly severe, mainly in terms of domestic demand. That in Russia remained severe, but domestic demand was showing signs of bottoming out.

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.

Regarding global financial markets, in advanced economies, stock prices had been sluggish, partly reflecting further monetary easing by the ECB that was smaller in scale than expected, in addition to the heightening of investors' risk aversion that was mainly due to the effects of the significant decline in crude oil prices. In emerging economies, currencies and stock prices -- mainly in commodity-exporting economies -- had declined as investors' risk aversion had heightened. In international commodity markets, crude oil prices had fallen significantly, because an agreement had not been reached with regard to the oil production target at the meeting of the Organization of the Petroleum Exporting Countries (OPEC).

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had been picking up, although sluggishness remained in some areas. Although exports of capital goods continued to show sluggish movements with the effects of the slowdown in emerging economies, including China, and the commodity-exporting economies in place, exports of IT-related goods had picked up on the back of the launch of new smartphone products. Exports of motor vehicles and their related goods had also been firm, mainly in those bound for the United States and Europe. Exports were expected to increase moderately as emerging economies moved out of their deceleration phase.

Public investment had been on 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. Business sentiment -- including its outlook -- had generally stayed at a favorable level, although somewhat cautious developments had been observed in some areas. In the December 2015 *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the diffusion index for business conditions for all industries and enterprises (the proportion of firms responding that business conditions were "favorable" minus the proportion of those responding that they were "unfavorable") had improved marginally from the September *Tankan*; it had slightly exceeded the peak level prior to the Lehman shock. Business fixed investment was projected to continue increasing moderately as corporate profits followed their marked improving trend. Business fixed investment plans (for all industries and enterprises, excluding software investment and including land purchasing expenses) for fiscal 2015 in the December *Tankan* had been revised upward from those in the September *Tankan*, and registered a year-on-year increase of 7.8 percent -- which was somewhat high for this time of year, reaching a level last seen in fiscal 2006.

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 had turned upward in the July-September quarter of 2015, partly in response to the plunge in the previous quarter, and had also increased steadily in October compared with the July-September quarter. As for services consumption, outlays for domestic travel had been firm and sales in the food service industry had recently increased at a solid pace. Looking at indicators related to consumer sentiment, the consumer confidence index continued its moderate improving trend, albeit with fluctuations. Private consumption was expected to remain resilient with the employment and income situation continuing to improve steadily.

Housing investment had been picking up and was projected to continue to do so with the employment and income situation continuing to improve steadily, supported as well by accommodative financial conditions.

Industrial production continued to be 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 change in the consumer price index (CPI) for all items less fresh food was about 0 percent. The rate of increase for all items less fresh food and energy continued to expand steadily as a trend, after bottoming in the January-February period of 2015. Looking at 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, this continued to trend upward. 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 change 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 2.0-2.5 percent. Firms' financial positions had been favorable. The year-on-year rate of growth in the money stock had been in the range of 3.0-3.5 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, although some indicators had recently shown relatively weak developments.

3. Loan disbursement through the Loan Support Program

On December 4, 2015, the Bank had carried out a new loan disbursement, amounting to 934.5 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 5,166.1 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 89.6 billion yen, and that under the special rules for small-lot investments and loans amounted to 11.506 billion yen. As for the special rules for the U.S. dollar lending arrangement, the outstanding balance of loans came to 11.99 billion dollars. On December 16, the Bank had carried out a new loan disbursement, amounting to 1,997.6 billion yen, under the fund-provisioning measure to stimulate bank lending. The outstanding balance of loans disbursed by the Bank amounted to 24,510.8 billion yen after the new loan disbursement.

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

A. Economic Developments

With regard to global financial markets, members shared the view that investors' risk aversion had heightened somewhat, reflecting further monetary easing by the ECB that was smaller in scale than expected and the effects of the significant decline in crude oil prices in a situation where expectations had increased for a hike in the target range for the federal funds rate at the Federal Open Market Committee (FOMC) meeting held on December 15 and 16, 2015. Some members noted that global financial markets' response to the decision on the policy interest rate hike made at the meeting had generally been calm. Many members pointed out, however, that there continued to be high uncertainties, mainly regarding the effects of the policy interest rate hike in the United States on the markets and economies of emerging countries as well as the pace of future rate hikes in the United States. On this basis, members agreed that developments in global financial markets continued to warrant attention.

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, and that emerging economies would move out of their deceleration phase, mainly on the back of the developments in advanced economies.

With regard to developments in overseas economies by region, members concurred that the U.S. economy had been recovering, assisted by household spending, which in part reflected a favorable employment and income situation, 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 its recovery centered on the private sector, led by the firmness in household spending, under accommodative financial conditions.

Members agreed that the European economy maintained its moderate recovery as private consumption continued to increase, although exports had shown some weakness, mainly due to the effects of the slowdown in emerging economies. As for the outlook, they concurred that the economy would likely continue to see a moderate recovery, mainly on the back of improvement in the employment and income situation under accommodative financial conditions.

Members agreed that the Chinese economy maintained its stable growth on the whole but remained in a deceleration phase, mainly in manufacturing. However, some members expressed the recognition that -- while the pace of increase in industrial production and fixed asset investment was slowing as a trend -- (1) exports and production of IT-related goods were picking up, mainly due to the launch of new smartphone models; and (2) an increase in public investment and the effects of measures to support the purchases of automobiles had been observed. As for the outlook, members shared the view that the economy was likely to broadly follow a stable growth path as authorities proactively carried out policy measures to support economic activity from both the fiscal and monetary sides. Some members expressed the recognition that developments in the Chinese yuan since the hike in the target range for the federal funds rate in the United States, including their effects on the global economy, warranted attention.

With regard to emerging economies, members shared the view that economic activity in Asia remained in a deceleration phase on the whole, partly due to the effects of adjustments in China, while that in commodity-exporting countries such as Brazil and Russia continued to be severe. A few members expressed the recognition that, in some Asian economies, the effects of economic stimulus measures had been observed and production of IT-related goods was picking up. As for the outlook, members shared the view that emerging economies would move out of their deceleration phase, reflecting the pick-up in domestic demand that was mainly on the back of the effects of the recovery in advanced economies and economic stimulus measures both on the monetary and fiscal fronts.

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

With regard to <u>economic activity</u>, members shared the recognition that -- although exports and production had been affected by the slowdown in emerging economies -- the economy continued to recover moderately. Most members expressed the view that a virtuous cycle from income to spending continued to operate steadily in both the household and corporate sectors. Many members pointed out that the second preliminary estimate of the real GDP growth rate for the July-September quarter of 2015 had been revised upward from the first preliminary estimate, particularly for business fixed investment, registering positive growth. These members then expressed the recognition that this supported the Bank's assessment that the economy continued to recover moderately. Some members expressed the view that the current economic recovery, relative to past recoveries, was strongly characterized as being driven by nonmanufacturing and domestic demand. As for the outlook for the economy, members concurred that the economy was likely to continue recovering moderately as the virtuous cycle from income to spending continued.

Members agreed that Japan's exports had been picking up, although sluggishness remained in some areas. Many members pointed out that (1) exports bound for the United States and Europe -- where the economic recoveries had been maintained -- continued to increase, mainly in those of motor vehicles and their related goods; and (2) exports bound for Asia, including China, had been increasing recently, particularly in those of IT-related parts for new smartphone models. As for the outlook, members concurred that exports were likely to increase moderately as emerging economies moved out of their deceleration phase.

Members agreed that business fixed investment had been on a moderate increasing trend as corporate profits continued to improve markedly. They shared the view that it was likely to continue increasing moderately as corporate profits followed their marked improving trend. Many members expressed the view that the results of the *Financial Statements Statistics of Corporations by Industry, Quarterly*, machinery orders, and the December 2015 *Tankan* suggested that the virtuous cycle from income to spending continued to operate in the corporate sector. Many members -- pointing out that the December *Tankan* showed that business fixed investment plans for fiscal 2015 were high for this time of year, reaching a level last seen in fiscal 2006 -- expressed the recognition that firms maintained their positive investment stance. One member said that, as uncertainties regarding overseas economies abated and the pick-up in exports became increasingly evident, these developments eventually would have positive effects 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 said that (1) nominal wages continued to rise moderately on the back of tight labor market conditions; and (2) survey results suggested that winter bonus payments were likely to increase firmly, as had been the case last year. Some members expressed the view that, considering Japan's economic conditions -- such as record profits seen at firms, extremely tight labor market conditions, and improvement in the underlying trend in inflation -- a favorable environment had been established for wage increases in a wide range of forms, including an increase in base pay. However, with regard to the wage negotiations between workers and management for fiscal 2016, one member -- while pointing out that workers had called for smaller wage increases than those of the previous year -- expressed the recognition that it could take considerable time until economic conditions were reflected in wages. A few members said that the level of increase in base pay was important, but they also were paying attention to whether movements toward wage increases would become more widespread among small firms as well.

Members shared the recognition that private consumption had been resilient against the background of steady improvement in the employment and income situation, and was likely to remain so.

Members agreed that industrial production had been more or less flat recently, due mainly to the slowdown in emerging economies and partly to inventory adjustments. On this basis, a few members pointed out that, recently, production of IT-related goods for smartphones had been increasing and that of transport equipment had shown signs of picking up, supported mainly by an increase in exports to the United States and Europe. As for the outlook, members shared the view 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.

As for prices, members concurred that the year-on-year rate of change 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. Regarding the effects of wages on price developments, one member -- noting that prices tended to move more in tandem with hourly wages of non-regular employees than wages per regular employee --

pointed out that the rate of wage increases for non-regular employees had been rising. In response, a different member was of the opinion that firms kept restraining their labor costs, and that this behavior was likely to be a restraining factor on the inflation outlook to some degree.

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 firms' credit demand had been increasing moderately, mainly for working capital and funds related to mergers and acquisitions, and that the amount outstanding of bank lending, including that to small firms, had been increasing moderately. Members agreed that funding costs of the U.S. dollar had been rising, mainly in the foreign exchange swap markets, but Japanese financial institutions were not facing problems in terms of dollar funding.

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

A. Discussion on the Guideline for Money Market Operations and Other Matters

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

Most members shared the view that the underlying trend in inflation had been improving steadily. These members continued that the year-on-year rate of increase in the CPI was likely to accelerate toward 2 percent -- the price stability target -- as the underlying trend in inflation steadily rose, given that the Bank would steadily pursue quantitative and qualitative monetary easing (QQE) under the current guideline for money market operations. On this basis, many members shared the recognition that the Bank should make policy adjustments without hesitation if the underlying trend in inflation changed due to a manifestation of risks and if, consequently, adjustments were judged necessary for achieving the price stability target at the earliest possible time.

With regard to the assessment of price developments for the Bank's conduct of monetary policy, members shared the recognition that the underlying trend in inflation was important. On this basis, they agreed that the underlying trend in inflation had been improving steadily, judging from developments in the output gap and inflation expectations. A few members pointed out that this view had been supported by the continued, steady rising trend in the year-on-year rate of increase in the CPI (all items less fresh food and energy). Some members expressed the recognition that the recent decline in crude oil prices would affect the pace of increase in the CPI (all items less fresh food), but the underlying trend in inflation had not changed. One member said that, while the Bank had been examining a range of indicators in order to make an assessment of the underlying trend in inflation, it was necessary to gain the public's accurate understanding that the price stability target was set at 2 percent solely in terms of the year-on-year rate of increase in the CPI for all items.

With regard to inflation expectations, some members pointed out that the inflation outlook of firms in the December 2015 *Tankan* had been decreasing somewhat. However, these members were of the opinion that this primarily reflected the recent decline in crude oil prices, considering that the longer the projection period, the higher the inflation expectations of firms and the smaller the downward revisions to their inflation outlook. Many members expressed the recognition that firms' price-hiking behavior continued to be widespread and sustained, which was suggested, for example, by developments in (1) 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, and (2) the daily and weekly price indices reported by the University of Tokyo and Hitotsubashi University, respectively, based mainly on food and daily necessity prices. In light of these discussions, members shared the recognition that, although some indicators had recently shown relatively weak developments, inflation expectations could be assessed as rising on the whole from a somewhat longer-term perspective when also taking into account the perception of inflation implied by firms' price-setting strategy and households' spending behavior.

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. Members noted that, in pursuing QQE, the Bank would examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate. They then concurred that such adjustments were not necessary at this point, as QQE had been exerting its effects and the underlying trend in inflation continued to improve steadily.

With regard to the asset purchases, most members shared the recognition that it was appropriate for the Bank to implement the following guideline for the intermeeting period. First, it 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. 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 following view: (1) QQE had been exerting its intended effects, and 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; and (2) 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, and such effects had already been outweighed by the side effects. The member's argument was as follows. First, the Bank should reduce the annual pace of increase in the amount outstanding of its JGB holdings to a level below the initial pace, in view of further possible phased reductions. Second, it should make changes to the time frame for achieving the price stability target -- to the medium to long term -- and conduct monetary policy that gave due consideration to risks such as a buildup of financial imbalances. Moreover, this member noted that these proposed measures did not aim at ending QQE or raising interest rates at an early stage.

B. Discussion on Supplementary Measures for QQE

The chairman requested that the staff examine and report issues discussed at several recent Monetary Policy Meetings as well as those that should be addressed in prospect for the calendar and fiscal year-ends, including feasibility in terms of the Bank's operations.

The staff provided the following explanation based on six points. The first three concerned the Bank's asset purchases under QQE. First, in light of requests by financial institutions to expand eligible collateral for the Bank's provision of credit as their JGB holdings decreased, the Bank, with operational adjustments, would be able to accept foreign currency-denominated loans on deeds and housing loans portfolios as such collateral. Second, the average remaining maturity of the Bank's JGB purchases from January 2016 onward was likely to be 9-10 years from the current period of about 8.5 years. Third, J-REITs eligible for the Bank's purchases were highly likely to be depleted around the middle of 2016 under the current maximum amount of each J-REIT issue to be purchased. Fourth, it was necessary for the Bank to decide, by the end of fiscal 2015, whether to extend the application periods for the Loan Support Program and for measures to provide support for the disaster areas that had been affected by the Great East Japan Earthquake. Fifth, taking into account the Bank's decision -- at the regular Policy Board meeting held on December 17, 2015 -- to postpone completion of the sale of stocks it had purchased from financial institutions, the amount to be sold from April 2016 onward was projected to be about 300 billion yen annually. And sixth, with a view to further increasing the number of firms that were proactively making investment in physical and human capital -- which had been a topic of discussion at several recent Monetary Policy Meetings -- it was operationally feasible for the Bank to purchase ETFs that were consistent with such an objective and to newly recognize financial institutions' investment or lending to these firms as eligible for the Bank's fund-provisioning measure to support strengthening the foundations for economic growth.

Based on the above staff reports, members discussed the following.

With regard to <u>measures to facilitate smooth implementation of QQE</u>, some members -- noting that there was concern among some market participants as to whether it was feasible for the Bank to continue purchasing assets -- expressed the recognition that the Bank should facilitate smoother asset purchases under QQE and dispel such concern by taking measures that would allow it to prepare for the technical obstacle that was anticipated by market participants. Some members expressed the opinion that, by doing so, the Bank would be able to steadily continue with QQE and, if judged necessary, implement additional monetary easing in a timely manner. One member expressed the view that dispelling market participants' concern would maintain the policy effects of QQE and increase further the possibility of success for QQE. In response, one member expressed concern that the introduction of such new measures would cause misunderstanding among market participants that QQE was nearing its limits.

As specific measures, members shared the recognition that it was appropriate to expand eligible collateral for the Bank's provision of credit, in light of the view that financial institutions had been facing a shortage of assets eligible for collateral as the Bank conducted large-scale JGB purchases. Namely, they agreed that it was appropriate to accept foreign currency-denominated loans on deeds and housing loans portfolios as eligible collateral. One member expressed the view that, in accepting housing loans portfolios as eligible collateral, although the Bank would not be able to assess the creditworthiness of individual borrowers of housing loans, it would need to do its utmost to protect claims by, for example, utilizing financial institutions' internal assessments. On this basis, members shared the recognition that, from the viewpoint of smoothly implementing QQE, it was appropriate for the Bank to conduct this measure as long as it was necessary to respond to the shortage of assets eligible for collateral under QQE.

Next, regarding the conduct of outright purchases of JGBs, many members noted that, while the average remaining maturity of the Bank's JGB purchases was moving in the middle range of the current directive of about 7-10 years recently -- namely, about 8.5 years -- it was likely to be 9-10 years in 2016, mainly because the gross amount of its purchases in 2016 was expected to increase, due to an increase in the redemption of government bonds held by the Bank at maturity. These members continued that, in light of this situation, it would be appropriate for the Bank to extend the average remaining maturity of its JGB purchases to about 7-12 years. These members expressed the recognition that, in order to ensure flexible and smooth conduct of JGB purchases into the future, the Bank should take necessary action in advance.

In response, a few members said that the Bank could manage its JGB purchases under the current average remaining maturity of about 7-10 years in 2016. A different member commented that extending the average remaining maturity of JGB purchases could (1) decrease the stability of the Bank's JGB purchases, (2) increase the Bank's involvement in the government's debt management policy, and (3) prolong the period that would be required for normalization of monetary policy. A few members said that the main participants in the market for JGBs with super-long maturities were life insurance companies, which intended to hold JGBs to maturity, and therefore such JGBs should not be treated in the same manner as those with other maturities.

As the third measure to facilitate smooth implementation of QQE, which was an increase in the maximum amount of each J-REIT issue to be purchased, many members expressed the view that, in a situation where the Bank continued with purchases of J-REITs, the number of J-REIT issues reaching the maximum amount to be purchased -- which was set at 5 percent of the total amount of that J-REIT issued -- had started to increase. These members continued that it was therefore appropriate that the maximum amount of each J-REIT issue to be purchased be increased to 10 percent of the total amount of that J-REIT issued. A few members pointed out that, if the Bank maintained the upper limit of 5 percent, J-REITs eligible for the Bank's purchases would be depleted in the near future; as a result, it would have to reduce J-REIT purchases, which would be regarded as "tapering." On this basis, these members expressed the recognition that it was necessary to expand room for additional purchases of J-REITs in advance, as the policy effects of QQE would be reduced if the Bank left such a situation unaddressed.

In response, one member expressed concern that an increase in the maximum amount of each J-REIT issue to be purchased could be an inappropriate signal to the real estate market in which J-REITs invested. A different member said that, given that QQE's intended purpose of encouraging a decline in risk premiums had already been achieved, the Bank should maintain the current maximum amount of each J-REIT issue to be purchased. This member then noted that the Bank should also consider reducing the amount of its purchases in accordance with the decline in those J-REITs eligible for its purchases. Another member argued that, taking account of neutrality for the private sector's activities, soundness in pricing, and the impact on the Bank's financial soundness, the amount of purchases of J-REITs and ETFs should be reduced.

Next, with respect to measures to support firms' proactive investment in physical and human capital, some members expressed the recognition that conversion of firms' and households' deflationary mindset had been progressing under QQE and many firms had become proactive in making investment in physical and human capital. Many members, however, expressed the view that the progress in these developments varied among industries and individual firms, and it was desirable that, as a whole, they become further widespread. One member noted that attention should be paid to the fact that, from a macroeconomic perspective, growth in business fixed investment and wages was slow relative to that in corporate profits. Based on this discussion, members shared the recognition that the Bank should provide its utmost support to firms that were proactively making investment in physical and human capital.

As a specific measure, many members expressed the recognition that it would be appropriate for the Bank to establish <u>a new program for purchasing ETFs</u> under which it would purchase ETFs composed of stocks issued by firms that were proactively making investment in physical and human capital. These members expressed the view that it would be appropriate to (1) purchase ETFs under the new program at an annual pace of about 300 billion yen -- which would be compatible with the projected sales amount of stocks that the Bank had purchased from financial institutions for the purpose of achieving financial stability -- and (2) introduce the new program in April 2016, when the Bank would start the sale of these stocks. They were of the opinion that, by doing so, the Bank could neutralize a possible market impact stemming from the sale of such stocks. In addition, some members said that the new program should start with purchases of ETFs that tracked the JPX-Nikkei Index 400, and they expected market participants to take the initiative in launching new types of ETFs that were consistent with the objective of this measure. One member expressed the view that the new program was expected to function as a catalyst that would encourage effective use of firms' cash flows by promoting awareness regarding the importance of such use in the capital market.

In response, a few members said that the Bank should support firms that were proactively making investment in physical and human capital within the scope of the current program of ETF purchases so that the annual pace of increase in the Bank's ETF holdings would continue to be about 3 trillion yen. One of these members added that the Bank did not need to increase the program for purchasing ETFs in order to neutralize the possible market impact stemming from the sale of stocks because the Bank's purchases of ETFs had already been conducted at a large scale. Meanwhile, one member said that, in general, central banks should refrain from engaging in measures that had features of industrial policies as their major characteristics. On this basis, this member expressed the recognition that the new program was not restricted to firms in a specific industry but was designed to apply to a wide range of firms, and therefore it did not have such features.

As the second measure to support firms' proactive investment in physical and human capital, members concurred that it would be appropriate to (1) add firms that were proactively making investment in physical and human capital as a new category to the current list of possible areas subject to financial institutions' investment or lending recognized as eligible for the Bank's fund-provisioning measure to support strengthening the foundations for economic growth, and (2) simplify procedures for eligibility assessment of financial institutions' investment or lending to the firms relevant to this category. One member added that this measure was also intended to provide support to unlisted small and medium-sized firms whose stocks were not relevant to ETFs and therefore were not eligible for the Bank's ETF purchases. Based on this, members shared the view that the Bank should extend by one year the application periods for the Loan Support Program and other measures, for which application periods were to expire in spring 2016.

IV. Remarks by Government Representatives

On the basis of the discussions on the introduction of supplementary measures for QQE, the government representatives requested that the chairman adjourn the meeting because they needed to contact the Minister of Finance and the Minister of State for Economic and Fiscal Policy. The chairman approved the request. (The meeting adjourned at 11:57 a.m. and reconvened at 12:10 p.m.)

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

(1) The government regarded all of the supplementary measures for QQE proposed at this meeting as necessary for smooth implementation of monetary policy, and would like the Bank to make appropriate decisions on them at this meeting.

(2) The government was now at the final stage of formulating the supplementary budget for fiscal 2015 so that it could be decided by the Cabinet on December 18. The supplementary budget would thoroughly incorporate, for example, measures that should be urgently implemented -- taking into account the Urgent Policies to Realize a Society

in Which All Citizens are Dynamically Engaged and the Comprehensive Trans-Pacific Partnership (TPP)-Related Policy Framework -- while firmly maintaining the target of halving its primary balance deficit relative to GDP for fiscal 2015. Furthermore, regarding the budget for fiscal 2016, the government was working toward a Cabinet decision, which would be made on December 24, 2015. This was the first budget under the Plan to Advance Economic and Fiscal Revitalization that had been decided by the Cabinet in June 2015; the government was working to fully realize this plan to generate a surplus in the primary balance for fiscal 2020. The budget formulation was now in its final stage. The government would continue to make final adjustments toward the Cabinet decision.

(3) The ruling parties had compiled an outline on December 16 for the tax reform in fiscal 2016. As a measure to promote the overcoming of deflation and economic revitalization as well as to realize a society in which all citizens were dynamically engaged, this outline mainly incorporated the following: (1) realization of an effective corporate tax rate of 20-30 percent; (2) introduction of special provisions concerning housing remodeling; (3) measures for adjustment of uneven local corporation tax; and (4) introduction of a reduced tax rate as a measure for low-income households at the time of the increase in the consumption tax rate to 10 percent. The government would prepare draft tax codes reflecting the ruling parties' outline.

(4) The government continued to expect the Bank to work toward achieving the price stability target 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 weakness could be seen recently in some areas. The second preliminary estimate of the real GDP growth rate for the July-September quarter of 2015 had registered 1.0 percent on an annualized quarter-on-quarter basis, and that of the nominal GDP growth rate for the same quarter had registered 1.6 percent on the same basis. As for the outlook, the Japanese economy was expected to head toward a moderate recovery. In assessing price developments, it was important to comprehensively examine a wide range of price indicators, including the GDP deflator, which showed the price of value-added.

(2) On November 25, 2015, the Comprehensive TPP-Related Policy Framework had been decided in order to connect the TPP directly to economic revitalization and the vitalization of local economies in Japan and to remove the worries of the nation's citizens. On November 26, the government had compiled the Urgent Policies to Realize a Society in Which All Citizens are Dynamically Engaged. Through these urgent policies, it would accelerate its efforts to realize an economy with a GDP of 600 trillion yen as well as ensure the overcoming of deflation, thereby firmly supporting current economic activity. In particular, the government would raise the minimum wage at the rate of about 3 percent per year, considering the growth rate of nominal GDP. In the Public-Private Dialogue toward Investment for the Future held on the same day, the industrial sector had shared with the government aggressive policies regarding business fixed investment and wage increases. On November 27, the Cabinet had decided the basic principles of fiscal 2016 budget formulation. As fiscal 2016 was the first fiscal year under the Plan to Advance Economic and Fiscal Revitalization, it was necessary to steadily proceed with expenditure reforms, giving due consideration to the work schedule for them. In doing so, the government would precisely reflect in the budget the basic policy of simultaneously advancing efforts to overcome deflation and achieve economic revitalization, and efforts for fiscal consolidation. In addition, the supplementary budget for fiscal 2015 would be decided by the Cabinet on December 18, 2015, in order to address important issues such as those concerning a society in which all citizens were dynamically engaged and the TPP.

(3) The government expected the Bank to work steadily to achieve the price stability target of 2 percent in light of economic activity and prices. The government considered it important that the Bank would fully explain to the public its thinking behind the supplementary measures for QQE proposed at this meeting.

V. Votes

A. Votes on the Introduction of Supplementary Measures for QQE

Based on the above discussions, to reflect the majority view of the members, the chairman formulated the following six policy proposals and put them to a vote.

The Policy Board decided -- as follows -- the first, second, and sixth proposals by a unanimous vote and the third, fourth, and fifth proposals by a majority vote.

1. The Chairman's Policy Proposal on Extending the Application Periods for the Loan Support Program and Other Measures:

The Bank will extend by one year the deadlines for new applications for the Fund-Provisioning Measure to Stimulate Bank Lending, the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth, the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas affected by the Great East Japan Earthquake, and the Temporary Rules regarding the Eligibility Standards for Debt of Companies in Disaster Areas.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. T. Kiuchi, Mr. Y. Harada, and Mr. Y. Funo.
Votes against the proposal: None.

2. The Chairman's Policy Proposal on Expanding Eligible Collateral for the Bank's Provision of Credit:

Financial institutions' holdings of eligible collateral have decreased as JGB purchases by the Bank have progressed under QQE. In light of this situation, the Bank will (1) accept foreign currency-denominated loans on deeds as eligible collateral and (2) introduce a framework in which the Bank will accept financial institutions' housing loans portfolio as collateral through a trust scheme.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. T. Kiuchi, Mr. Y. Harada, and Mr. Y. Funo.
Votes against the proposal: None.

3. The Chairman's Policy Proposal on Extending the Average Remaining Maturity of JGB Purchases:

Considering that the gross amount of the Bank's JGB purchases is expected to increase, the Bank will extend the average remaining maturity of its JGB purchases from about 7-10 years to about 7-12 years, in order to facilitate flexible and smooth purchase of JGBs. The measure will be put into effect in January 2016.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. Y. Harada, and Mr. Y. Funo.

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

The members dissenting from the proposal gave the following reasons: Mr. K. Ishida and Mr. T. Sato considered that the Bank could manage its JGB purchases under the current average remaining maturity of about 7-10 years; and Mr. T. Kiuchi considered it as inconsistent with his proposal, which included making the average remaining maturity of the Bank's JGB purchases about seven years.

4. The Chairman's Policy Proposal on Increasing the Maximum Amount of Each Issue of J-REIT to Be Purchased:

Since the amount outstanding of the Bank's holdings has been increasing in comparison with the total market value, the maximum amount of each issue of J-REIT to be purchased shall be increased from the current 5 percent to 10 percent of the total amount of that J-REIT issued.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. Y. Harada, and Mr. Y. Funo.

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

The members dissenting from the proposal gave the following reasons: Mr. K. Ishida expressed a concern over an increase in the maximum amount of each issue of J-REIT to be purchased, which could be an inappropriate signal to the real estate market; Mr. T. Sato considered that the Bank should maintain the current maximum amount of each issue of J-REIT to be purchased; and Mr. T. Kiuchi considered that such an increase was unnecessary for his proposal, which included a reduction in the amount of J-REIT purchases.

5. The Chairman's Policy Proposal on Establishing a New Program for Purchases of ETFs:

The Bank will establish a new program for purchasing ETFs at an annual pace of about 300 billion yen, in addition to the current program of ETF purchases under which their amount outstanding will increase at an annual pace of about 3 trillion yen. Under this new program, the Bank will purchase ETFs composed of stocks issued by firms that are proactively making investment in physical and human capital. The new program will start with purchases of ETFs which track the JPX-Nikkei Index 400. The Bank will start purchasing ETFs that are consistent with the objective of this measure when such ETFs are newly launched. The Bank will commence purchasing ETFs under the new program from April 2016 with a view to offsetting possible market impact stemming from the scheduled sales of stocks that the Bank had purchased from banks for financial stability purpose.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. Y. Harada, and Mr. Y. Funo.

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

The members dissenting from the proposal gave the following reasons: Mr. K. Ishida and Mr. T. Sato considered that newly proposed ETF purchases should be conducted within the current program so that an annual pace of increase in the Bank's ETF holdings would continue to be about 3 trillion yen; and Mr. T. Kiuchi considered it as inconsistent with his proposal, which included a reduction in the amount of ETF purchases.

6. The Chairman's Policy Proposal on Enhancing the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth:

The Bank will add a new category ("Firms that are proactively making investment in physical and human capital") to the current list of 18 possible areas to which financial institutions' investment or lending are recognized as eligible for the Bank's Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth. At the same time, the Bank will simplify procedures for eligibility assessment of financial institutions' investment or lending to the firms relevant to this category -- for example, investment or lending to firms receiving preferential treatments by the tax code can be applied for the Bank's simplified procedures.

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

Votes against the proposal: None.

B. Vote on the Chairman's Policy Proposal on the Guideline for Money Market Operations

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.

C. Vote on the Chairman's Policy Proposal on the Guideline for Asset Purchases

To reflect the majority view of the members, the chairman formulated the following proposal to implement the guideline for asset purchases for the intermeeting period, and put it to a vote: (1) to purchase 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 until the end of this year and extend to about 7-12 years from the beginning of next year; (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. Y. Harada, and Mr. Y. Funo.
Votes against the proposal: Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi.

Mr. K. Ishida and Mr. T. Sato dissented from the extension of the average remaining maturity of the Bank's JGB purchases.

D. 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 1).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of November 18 and 19, 2015 for release on December 24, 2015.

Attachment 1

December 18, 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 a 6-3 majority vote, to set the following guidelines:[Note 2]

   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 until the end of this year and be extended to about 7-12 years from the beginning of next year.

   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 have been 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. In this situation, exports have been picking up, although sluggishness remains in some areas. 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. Public investment has been on a moderate declining trend, although it remains at a high level. Industrial production has continued to be more or less flat. Meanwhile, business sentiment has generally stayed at a favorable level, although somewhat cautious developments have been observed in some areas. Financial conditions are accommodative. On the price front, the year-on-year rate of change 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, although some indicators have recently shown relatively weak developments.

4. With regard to the outlook, Japan's economy is expected to continue recovering moderately. The year-on-year rate of change 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 3]

7. In pursuing QQE according to the policy mentioned above, it is appropriate to encourage a smoother decline in interest rates across the entire yield curve taking into account developments in the JGB market and the situation in financial institutions' asset holdings. Moreover, as conversion of firms' and households' deflationary mindset has been progressing under QQE and many firms have become proactive in making investment in physical and human capital, it is desirable that these developments will become further widespread. From this perspective, the Bank decided to adopt supplementary measures for QQE (see Attachment 2 for details).

[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 so that the monetary base will increase at an annual pace of about 45 trillion yen. The proposal was defeated by a majority vote.

[Note 2] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. Y. Harada, and Mr. Y. Funo. Voting against the action: Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi. Mr. K. Ishida and Mr. T. Sato opposed to the extension of the average remaining maturity of the Bank's JGB purchases. Mr. T. Kiuchi proposed that the Bank will conduct asset purchases so that the amount outstanding of its JGB holdings will increase at an annual pace of about 45 trillion yen. The proposal was defeated by a majority vote.

[Note 3] 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.

Attachment 2

Introduction of Supplementary Measures for Quantitative and Qualitative Monetary Easing

1. Measures to support firms' investment in physical and human capital

   A. Establishing a new program for purchases of exchange-traded funds (ETFs) by a 6-3 majority vote[Note 1]

      The Bank will establish a new program for purchasing ETFs at an annual pace of about 300 billion yen, in addition to the current program of ETF purchases under which their amount outstanding will increase at an annual pace of about 3 trillion yen.[7] Under this new program, the Bank will purchase ETFs composed of stocks issued by firms that are proactively making investment in physical and human capital. The new program will start with purchases of ETFs which track the JPX-Nikkei Index 400. The Bank will start purchasing ETFs that are consistent with the objective of this measure when such ETFs are newly launched. The Bank will commence purchasing ETFs under the new program from April 2016 with a view to offsetting possible market impact stemming from the scheduled sales of stocks that the Bank had purchased from banks for financial stability purpose.[8]

   B. Enhancing the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth by a unanimous vote

      The Bank will add a new category ("Firms that are proactively making investment in physical and human capital") to the current list of 18 possible areas to which financial

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[7] Currently, the Bank purchases ETFs that track one of the following three stock indices; the Tokyo Stock Price Index (TOPIX), the Nikkei 225 Stock Average, or the JPX-Nikkei Index 400 (JPX-Nikkei 400). The amount of each issue of ETF purchased by the Bank has been proportionate to the total market value of that issue.

[8] The Bank had purchased stocks held by financial institutions since November 2002 in order to enhance their efforts to reduce shareholdings. The Bank started selling these purchased stocks in the market in October 2007 for a while. The Bank has suspended its selling of the purchased stocks, by taking account of developments in financial markets at home and abroad, which is to be resumed from April 2016. With regard to the selling of the purchased stocks, the Policy Board decided at a regular meeting held yesterday to extend the length of time for selling stocks to ten years from previously planned five and a half years. The amount to be sold is projected to be about 300 billion yen annually based on the mark-to-market value at the end of November 2015.

institutions' investment or lending are recognized as eligible for the Bank's Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth. At the same time, the Bank will simplify procedures for eligibility assessment of financial institutions' investment or lending to the firms relevant to this category -- for example, investment or lending to firms receiving preferential treatments by the tax code can be applied for the Bank's simplified procedures.[9]

C. Extending the application periods for the Loan Support Program and other measures by a unanimous vote

The Bank will extend by one year the deadlines for new applications for the Fund-Provisioning Measure to Stimulate Bank Lending, the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth, the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas affected by the Great East Japan Earthquake, and the Temporary Rules regarding the Eligibility Standards for Debt of Companies in Disaster Areas.

2. Measures to facilitate smooth implementation of Quantitative and Qualitative Monetary Easing (QQE)

A. Expanding eligible collateral for the Bank's provision of credit by a unanimous vote

Financial institutions' holdings of eligible collateral have decreased as JGB purchases by the Bank have progressed under QQE. In light of this situation, the Bank decided to (1) accept foreign currency-denominated loans on deeds as eligible collateral and to (2) introduce a framework in which the Bank will accept financial institutions' housing loans portfolio as collateral through a trust scheme.[3]

B. Extending the average remaining maturity of JGB purchases by a 6-3 majority vote[Note 2]

Considering that the gross amount of the Bank's JGB purchases is expected to increase,[10] the Bank will extend the average remaining maturity of its JGB purchases from about 7-10

[9] Amendments to relevant principal terms and conditions will be decided at a future Monetary Policy Meeting. Thereafter, these measures will be implemented soon after necessary preparations are completed.

[10] Under the current guideline for asset purchases, the gross amount of the Bank's JGB purchases in 2016 is expected to increase to about 120 trillion yen from about 110 trillion yen in 2015, due to an increase in the redemption of government bonds held by the Bank at maturity.

years to about 7-12 years, in order to facilitate flexible and smooth purchase of JGBs. Moreover, in order to secure market liquidity of JGBs, the Bank will allow continuous use of its Securities Lending Facility for a longer period.[11] These measures will be put into effect in January 2016.

C. Increasing the maximum amount of each issue of Japan real estate investment trust (J-REIT) to be purchased by a 6-3 majority vote[Note 3]

Since the amount outstanding of the Bank's holdings has been increasing in comparison with the total market value, the maximum amount of each issue of J-REIT to be purchased shall be increased from the current 5 percent to 10 percent of the total amount of that J-REIT issued.[3]

[Note 1] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. Y. Harada, and Mr. Y. Funo. Voting against the action: Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi. The members voting against the action gave the following reasons: Mr. K. Ishida and Mr. T. Sato considered that newly proposed ETF purchases should be conducted within the current program so that an annual pace of increase in the Bank's ETF holdings will continue to be about 3 trillion yen; and Mr. T. Kiuchi considered it as inconsistent with his proposal, which includes a reduction in the amount of ETF purchases.

[Note 2] Voting for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. Y. Harada, and Mr. Y. Funo. Voting against the proposal: Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi. The members voting against the proposal gave the following reasons: Mr. K. Ishida and Mr. T. Sato considered that the Bank can manage its JGB purchases under the current average remaining maturity of about 7-10 years; and Mr. T. Kiuchi considered it as inconsistent with his proposal, which includes making the average remaining maturity of the Bank's JGB purchases about seven years.

[Note 3] Voting for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. Y. Harada, and Mr. Y. Funo. Voting against the proposal: Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi. The members voting against the proposal gave the following reasons: Mr. K. Ishida expressed a concern over an increase in the maximum amount of each issue of J-REIT to be purchased, which could be an inappropriate signal to the real estate market; Mr. T. Sato considered that the Bank should maintain the current maximum amount of each issue of J-REIT to be purchased; and Mr. T. Kiuchi considered that such an increase is unnecessary for his proposal, which includes a reduction in the amount of J-REIT purchases.

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[11] The Bank will increase the number of business days permitted for continuous use of this facility per issue of JGBs from the current 15 business days to 50 business days.