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May 9, 2016

Bank of Japan

Minutes of the Monetary Policy Meeting

on March 14 and 15, 2016

(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, March 14, 2016, from 2:00 p.m. to 4:16 p.m., and on Tuesday, March 15, from 9:00 a.m. to 12:28 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. M. Sakai, 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 April 27 and 28, 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. M. Sakai and S. Takatori were present on March 15.

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

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

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. K. Suzuki, Head of Policy Infrastructure Division, Monetary Affairs Department[4]

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

Mr. T. Ninomiya, Senior Economist, Monetary Affairs Department

[4] Messrs. H. Koguchi and K. Suzuki were present on March 14 from 2:54 p.m. to 4:16 p.m., and on March 15 from 9:00 a.m. to 9:31 a.m.

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 January 28 and 29, 2016, 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 350-360 trillion yen.

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments had been decreasing with the negative interest rate coming into effect, and had been at around or slightly below 0 percent. The uncollateralized overnight call rate had been only slightly negative after entering the February reserve maintenance period. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had been at around minus 0.1 percent recently. The amount outstanding in the call market -- mainly in the collateralized call market -- had decreased significantly after the negative interest rate began to be applied in the February reserve maintenance period.

The Nikkei 225 Stock Average had fallen substantially until mid-February amid the fall in U.S. and European stock prices -- mainly those of banks -- and then rebounded with improvement in global risk sentiment; recently, it was moving at around 17,000 yen. In the foreign exchange market, the yen had appreciated against the U.S. dollar until mid-February, reflecting the global shift to a "risk-off" mode. It also had appreciated against the euro, due in part to heightened anticipation of additional monetary easing by the European Central Bank. Yields on 10-year JGBs had been in negative territory since late February, after marking a negative figure for the first time on February 9.

C. Overseas Economic and Financial Developments

Overseas economies continued to grow at a moderate pace, but the pace of growth had somewhat decelerated, mainly in emerging economies.

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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 U.S. economy had been on a recovery trend, 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, 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 1.5-2.0 percent. That for all items had been in the range of 1.0-1.5 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 the pace of growth had decelerated somewhat, mainly in exports and production. 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 had been decelerating somewhat -- although the effects of economic stimulus measures had been observed -- as sluggish external demand and a pause in growth in demand for IT-related goods had been exerting downward pressure on exports and production. Economic activity in Brazil and Russia remained severe as exports had been sluggish, mainly due to the fall in commodity prices, and as domestic demand also had declined.

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 their currencies had offset each other. However, inflation rates had risen or remained at high levels in some economies.

Regarding global financial markets, stock prices had declined and yields on U.S. Treasuries and German government bonds had decreased, mainly reflecting market participants' concern regarding (1) uncertainty over future developments in emerging economies, (2) the risk of a slowdown in the U.S. economy, (3) credit risk of energy-related firms, and (4) U.S. and European financial institutions' business environments. Since mid-February, however, stock prices had rebounded and yields on U.S. Treasuries and German government bonds had risen somewhat, due mainly to favorable U.S. and European economic indicators and crude oil prices bottoming out, as well as to the fact that, at the Group of Twenty (G-20) meeting, participating countries once again had indicated their stance of supporting growth and stability.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy continued its moderate recovery trend, although exports and production had been sluggish, due mainly to the effects of the slowdown in emerging economies.

As for exports, the pick-up had paused recently, due mainly to the effects of the slowdown in emerging economies. A breakdown by type of goods suggested that exports of capital goods had shown some weakness, and regarding those of IT-related goods, parts for smartphones had been notably sluggish. The pick-up was likely to remain at a pause for the time being, but thereafter exports were expected to increase moderately on the back of emerging economies moving out of their deceleration phase.

Public investment had been on a moderate declining trend, albeit remaining at a high level. It was expected to continue its moderate declining trend for the time being.

Business fixed investment had been on a moderate increasing trend as corporate profits had been at high levels. Looking at the *Financial Statements Statistics of Corporations by Industry, Quarterly*, the ratio of current profits, albeit remaining at a high level, had been more or less flat in manufacturing, mainly due to the effects of the slowdown in emerging economies and a halt in the yen's depreciation trend, while it continued to improve markedly in nonmanufacturing, underpinned by the improvement in the terms of trade and an increase in domestic demand. According to the second preliminary estimate of GDP for the October-December quarter of 2015, real business fixed investment had marked an increase of 1.5 percent on a quarter-on-quarter basis. Machinery orders had followed a firm increasing trend as well, albeit with some fluctuations. Business fixed investment was projected to continue to see a moderate increase for the time being on the back of the high level of corporate profits.

As for the employment and income situation, supply-demand conditions in the labor market continued to improve steadily, and employee income had increased moderately.

Private consumption had been resilient against the background of steady improvement in the employment and income situation. According to various statistics, retail sales had been somewhat sluggish recently due to the effects of stagnant sales in seasonal products stemming from irregularly warm weather, although this appeared to be temporary. Services consumption such as dining-out had been increasing firmly recently. Consumer sentiment had shown a somewhat sharp deterioration, due mainly to the effects of market turbulence. Private consumption was expected to remain resilient with the employment and income situation continuing to improve steadily.

As for housing investment, the pick-up had paused recently. There had been developments such as sluggish growth in demand for housing for sale, reflecting the rise in prices of condominiums, as well as a halt to the increase in demand for construction of housing for rent.

Industrial production continued to be more or less flat, due mainly to the effects of the slowdown in emerging economies and partly to inventory adjustments. Although supply-chain disruptions seen in the automobile sector, for example, were expected to contribute to large fluctuations in industrial production, it was expected to remain more or less flat for the time being as a trend, as the effects of the slowdown in overseas economies continued, mainly in emerging economies.

As for prices, the producer price index (PPI) continued to decline relative to three months earlier, mainly due to the decline 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 be on a steady rising trend, after bottoming out in the period of January-February 2015. Looking at annual price changes in all CPI items less fresh food, the share of price-increasing items minus the share of price-decreasing items had been moving at levels clearly above the peak in 2008, albeit with some fluctuations. With regard to the outlook, 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 highly accommodative.

The monetary base had increased significantly as asset purchases by the Bank had progressed, and the year-on-year rate of growth had been at about 30 percent.

Firms' funding costs had been hovering at very 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 at around 3 percent, mainly due to the increase in bank lending. Meanwhile, although inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective, they had weakened recently.

3. Loan disbursement under the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth

In early March 2016, the Bank had carried out a new loan disbursement, amounting to 629.9 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 5,535.7 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 87.8 billion yen, and that under the special rules for small-lot investments and loans amounted to 11.526 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.

II. Introduction of a Framework for Accepting Housing Loans as Collateral

A. Staff Reports

At the Monetary Policy Meeting (MPM) held in December 2015, the Bank decided to introduce a framework, through which it would accept financial institutions' housing loans as collateral through a trust scheme, as part of supplementary measures for quantitative and qualitative monetary easing (QQE). In view of this decision, the staff proposed that the Bank establish guidelines prescribing the principles for accepting eligible beneficial interest of a trust in housing loans as collateral.

B. Discussion by the Policy Board and Vote

"Establishment of 'Collateral Guidelines on Eligible Beneficial Interest of a Trust in Housing Loans,'" which represented the aforementioned staff reports, was put to a vote. Members voted unanimously to approve the proposal. They concurred that the staff should accordingly make this public after the meeting.

III. Implementation of a New Program for Purchases of Exchange-Traded Funds (ETFs)

A. Staff Reports

At the MPM held in December 2015, the Bank decided to establish a new program for purchasing ETFs at an annual pace of about 300 billion yen, through which it would purchase ETFs composed of stocks issued by firms that were proactively making investment in physical and human capital. In view of this decision, the staff proposed that the Bank, in purchasing such ETFs other than those that tracked the JPX-Nikkei Index 400, establish eligibility criteria for relevant indices and for ETFs to be purchased.

B. Discussion by the Policy Board and Vote

"Establishment of 'Special Rules for Purchases of ETFs to Support Firms Proactively Investing in Physical and Human Capital,'" which represented the aforementioned staff reports, was put to a vote.

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.

Mr. T. Kiuchi dissented as he considered this proposal to be inconsistent with his own, which included a reduction in the amount of ETF purchases.

Members concurred that the staff should accordingly make this public after the meeting.

IV. Amendment to "Principal Terms and Conditions of Complementary Deposit Facility"

A. Staff Reports

With a view to conducting the complementary deposit facility under QQE with a Negative Interest Rate more smoothly, the staff proposed that the Bank decide on operational details. Specifically, the staff proposed that the Bank amend the "Principal Terms and Conditions of Complementary Deposit Facility" in order to, for example, (1) clarify how the Benchmark Ratio would be reviewed, (2) establish special rules for calculation of the Macro Add-on Balance regarding money reserve funds (MRFs), and (3) introduce a scheme to facilitate the utilization of the Loan Support Program and other measures.

B. Discussion by the Policy Board and Vote

Members shared the recognition that it was appropriate to implement the operational details reported by the staff. Some members, pointing out that MRFs played an essential role in fund settlement for individuals' securities investment, noted that securing its smooth functioning was appropriate. A few members said that it was appropriate to provide further strong support for financial institutions' efforts to increase lending and strengthen the foundations for Japan's economic growth under QQE with a Negative Interest Rate. One member pointed out that it was important to maximize the easing effects of the negative interest rate policy by devising and enhancing policy measures in such ways. A different member added that the decision on operational details could be misinterpreted as an indication that the Bank had reached the limit of the negative interest rate policy, and therefore the Bank should communicate its thinking with due attention.

Based on the above discussions, "Amendment to 'Principal Terms and Conditions of Complementary Deposit Facility'" was put to a vote. Members voted unanimously to approve the proposal. They agreed that an outline of the amendment should be included in the Statement on Monetary Policy. As for the details of the amendment, they concurred that the staff should accordingly make them public after the meeting.

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

A. Economic Developments

Most members expressed the view that global financial markets had somewhat regained their calmness after the turbulence that continued until mid-February 2016. Some members, while pointing to a rebound in crude oil prices and firm U.S. economic indicators as the background to such developments in these markets, expressed the view that market confidence partly had been brought about by the fact that, at the G-20 meeting, participating countries had once again indicated their stance of supporting growth and stability. Members agreed that close attention should continue to be paid to the developments in global financial markets and their effects on Japan's economic activity and prices.

Members shared the recognition that overseas economies continued to grow at a moderate pace, but the pace of growth had somewhat decelerated, mainly in emerging economies. As for the outlook, they concurred that overseas economies would moderately increase their growth rates as it was likely that advanced economies would continue to see firm growth and emerging economies would move out of their deceleration phase 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 on a recovery trend, assisted by household spending on the back of an increase in employment, 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. A few members, while pointing out that some market participants had raised concern over an economic slowdown in the United States, expressed the recognition that recent U.S. economic indicators were not necessarily in line with the participants' excessively pessimistic views on the outlook.

Members shared the recognition 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 the pace of growth had decelerated somewhat, mainly in exports and production. As for the outlook, they 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.

With regard to emerging economies, members shared the view that economic activity in Asia had been decelerating somewhat as sluggish external demand and a pause in growth in demand for IT-related goods had been exerting downward pressure on exports and production, while economic conditions in commodity-exporting countries such as Brazil and Russia continued to be severe. As for the outlook, they shared the view that emerging economies would move out of their deceleration phase, mainly due to the effects of the recovery in advanced economies and economic stimulus measures both on the monetary and fiscal fronts, after continuing their deceleration phase for the time being.

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 its moderate recovery trend, although exports and production had been sluggish, due mainly to the effects of the slowdown in emerging economies. They shared the view that, although some recently released economic indicators had shown a lack of strength, the economy's recovery trend remained intact as a virtuous cycle from income to spending operated in both the household and corporate sectors. As for the outlook for the economy, members concurred that, although sluggishness was likely to remain in exports and production for the time being, domestic demand was likely to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the household and corporate sectors, and that exports were likely to increase moderately on the back of emerging economies moving out of their deceleration phase. On this basis, they shared the recognition that the economy was likely to be on a moderate expanding trend.

Members agreed that the pick-up in Japan's exports had paused recently, due mainly to the effects of the slowdown in emerging economies. As for the outlook, they shared the view that, with relatively sluggish movements in exports of capital goods and IT-related goods due to the effects of the slowdown in emerging economies, the pick-up in exports as a whole was likely to remain at a pause for the time being. They continued that exports were likely to increase moderately thereafter, however, on the back of emerging economies moving out of their deceleration phase. One member said that the somewhat subdued global trade activity would not necessarily warrant an optimistic view on the outlook for Japan's exports.

Members agreed that business fixed investment had been on a moderate increasing trend as corporate profits had been at high levels. They shared the view that it was likely to continue to see a moderate increase on the back of the high level of corporate profits. One member expressed the recognition that the possibility that weakness in exports and production would affect business fixed investment warranted attention. A different member said that the improvement in labor market conditions could be expected to foster investment in labor-saving machinery and equipment such as industrial robots, and also IT investment to increase productivity.

As for the employment and income situation, members concurred that employee income had increased moderately with supply-demand conditions in the labor market continuing to improve steadily, and that it was likely to continue to do so as labor market conditions continued to improve and corporate profits remained at high levels.

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. Some members expressed the recognition that the fact that real private consumption had decreased on a quarter-on-quarter basis in the second preliminary estimate of GDP for the October-December quarter of 2015 was attributable partly to irregularly warm weather and a sample bias in the *Family Income and Expenditure Survey*. In consideration of this and, for example, the results of sales- and supply-side statistics, a few members expressed the recognition that no change in the underlying trend in private consumption had been identified. Some members noted that attention should be paid to the fact that indicators of consumer sentiment had shown a somewhat sharp deterioration due to the effects of turbulence in global financial markets. A few members expressed the view that pensioners and low-income households might be taking a cautious stance toward consumption. One of these members said that it was necessary to grasp the underlying developments in private consumption by fully examining movements in its indicators.

Members agreed that industrial production continued to be more or less flat, due mainly to the effects of the slowdown in emerging economies and partly to inventory adjustments. As for the outlook, they shared the view that it was likely to remain more or less flat for the time being as a trend, as the effects of the slowdown in overseas economies continued, mainly in emerging economies.

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.

B. Financial Developments

Members concurred that financial conditions in Japan were highly 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 very low levels. Some members pointed out that, since the Bank's decision to introduce QQE with a Negative Interest Rate, the JGB yield curve across all maturities was decreasing, and that accordingly, a benchmark rate for lending to firms and interest rates on housing loans clearly had declined. 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.

VI. 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.

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. One member expressed the recognition that the slowdown in the year-on-year rate of increase in the CPI (all items less fresh food and energy) for January was attributable mainly to the effects of stagnant sales stemming from irregularly warm weather. This member continued that there was no change in the underlying trend in inflation when also taking into account, for example, developments in the daily and weekly price indices. On this basis, many members shared the view 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 QQE with a Negative Interest Rate under the current guideline for money market operations. Some members expressed the recognition that there was an increasing risk that, from early spring, the year-on-year rate of increase in the CPI (all items less fresh food and energy) would come in lower than previously projected, given, for example, (1) some weakness of late in the real economy, mainly in exports and production, (2) a halt in the yen's depreciation trend against the U.S. dollar, and (3) the projection that the base pay increase resulting from the wage negotiations between workers and management this spring would generally be lower than the level in 2015. In response, one member pointed out that wages of part-time workers seemed to be rising recently due to labor shortages. This member then expressed the view that -- even if it took some time -- improvement in supply-demand conditions in the labor market would contribute to pushing up prices through improvement in compensation and benefits for workers. A few members pointed out that crude oil prices had been bottoming out since mid-February.

Members shared the recognition that, although inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective, they had weakened recently. A few members -- pointing out that survey results and market indicators relating to inflation expectations continued to be relatively weak of late -- expressed the recognition that this was attributable mainly to the recent further decline in crude oil prices. These members said that it was necessary to closely monitor whether such developments in inflation expectations would affect firms' and households' behavior in the future. One member expressed the view that there was no change in consumers' and corporate managers' recognition that the economy was no longer in deflation.

With regard to the effects of the introduction of QQE with a Negative Interest Rate on financial and economic conditions, most members shared the recognition that the effects on interest rates already had been seen. Some members, pointing out that the JGB yield curve across all maturities had decreased, said that QQE with a Negative Interest Rate had been exerting its intended effects of lowering the short end of the yield curve and exerting further downward pressure on interest rates across the entire yield curve, in combination with large-scale purchases of JGBs. One member was of the view that a decline in interest rates on housing loans would stimulate housing investment and decrease borrowers' burden of paying interest through refinancing, and thus exert positive effects on private consumption. A few members -- noting that the appreciation of the yen and the decline in stock prices, both of which had continued even after the introduction of the negative interest rate policy, were attributable to the overly heightened risk aversion of investors worldwide -- expressed the view that the positive effects of the decline in interest rates would spread steadily as global financial markets regained their calmness. One member said that close attention should be paid to how the decline in interest rates would carry through to the spending of firms and households. A few members expressed the recognition that it was important for the Bank to thoroughly explain and gain understanding among the general public that QQE with a Negative Interest Rate aimed to further strengthen QQE, which had exerted its intended effects thus far, and would bring about a wide variety of benefits for people's lives, such as in terms of the employment and income situation, through the lowering of real interest rates.

In response, some members expressed the recognition that there had been adverse effects recently of the introduction of the negative interest rate policy. These members pointed out specific effects such as the following: (1) anxiety among financial institutions and depositors had arisen; (2) the Bank's policy conduct had become difficult to understand; (3) market turbulence had become exacerbated; and (4) excessive expectations for further monetary easing had been created. A few of these members added that portfolio rebalancing under QQE with a Negative Interest Rate had not necessarily exerted its intended effects, since alternative financial assets in the domestic market in which to invest were limited.

With respect to the effects of QQE with a Negative Interest Rate on financial institutions' profits and the functioning of financial intermediation, a few members -- pointing out that Japanese financial institutions maintained strong financial soundness, and that their profits, including those of regional banks, had been at high levels since the introduction of QQE -- expressed the view that the functioning of financial intermediation was unlikely to weaken immediately. These members added that the direct effects on financial institutions' profits were mitigated by adopting a system in which balances in current accounts at the Bank were divided into three tiers. A few members expressed the recognition that, to fundamentally improve financial institutions' profit structure, it was essential to overcome deflation and thereby move out of the low-interest rate environment, and that the Bank should thoroughly explain this point. One member said that banks generally made profits by taking advantage of the differential between long- and short-term interest rates; however, if they fully depended on the differential as the only source of profits, they could not be viewed as adequately performing their function as financial intermediaries. In response, a few other members expressed the view that, under the negative interest rate policy, there were increased risks that (1) financial institutions' function as financial intermediaries would be impaired as they reduced their assets and liabilities and (2) their excessive risk taking would lead to an accumulation of financial imbalances. One of these members expressed the recognition that even more emphasis should be placed on financial system stability.

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 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 ETFs and Japan real estate investment trusts (J-REITs) so that their amounts outstanding would increase at annual paces of about 3 trillion yen (about 3.3 trillion yen from April 2016) 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.

As for the policy rate, most members shared the recognition that it was appropriate to continue applying a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. One of these members commented that the Bank should not withdraw from the negative interest rate policy immediately following the introduction of the policy, given that it already had been implemented and that people were taking actions based on the fact that the policy was in place. A different member said that, although adverse effects had been observed with respect to the policy, it was appropriate to keep it on hold since there was a risk that a withdrawal from the policy soon after its introduction would confuse the markets and impair the credibility of the Bank.

With respect to the Bank's thinking behind its future conduct of monetary policy, most members shared the following view: (1) the Bank would continue with QQE with a Negative Interest Rate, 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) the Bank would examine risks to economic activity and prices, and take additional easing measures in terms of three dimensions -- quantity, quality, and the interest rate -- if it was judged necessary for achieving the price stability target.

On the other hand, one member argued that the Bank should bring the interest rate applied to the complementary deposit facility back to the level before the introduction of the negative interest rate policy, mainly because a negative interest rate would have an adverse impact on the real economy due to an impairment of the functioning of financial intermediation and would heighten the risk of accumulation of financial imbalances. This member said that the Bank should maintain the three-tier system applied to current accounts at the Bank as there was room to utilize it in the future.

In addition, a different 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. This member added that it was appropriate for the Bank to bring the interest rate applied to the complementary deposit facility back to the previous level, in consideration of the functioning of financial intermediation and the stability in the JGB market.

VII. Remarks by Government Representatives

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

(1) At the G-20 Finance Ministers and Central Bank Governors Meeting held on February 26 and 27, 2016 in Shanghai, points that the Japanese government considered crucial had been addressed thoroughly in the communiqué, along with suggestions by the Minister of Finance. Such points included (1) shared concern over excessive market volatility, (2) readiness to use all policy tools -- monetary, fiscal, and structural -- individually and collectively to foster confidence in markets and preserve and strengthen the recovery, and (3) a policy initiative to review policy tools and frameworks to address large and volatile capital flows. The government, in close cooperation with relevant foreign authorities, would continue to carefully monitor developments such as those in financial markets.

(2) The budget for fiscal 2016 had been approved by the House of Representatives on March 1 and was being deliberated in the House of Councillors. In order to further promote the overcoming of deflation and economic revitalization, the government would swiftly and steadily implement the supplementary budget for fiscal 2015, and at the same time continue to work toward obtaining approval from the Diet for the budget for fiscal 2016 and related bills at the earliest possible time.

(3) 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. According to the second preliminary GDP estimates for the October-December quarter of 2015, the real GDP growth rate had registered minus 0.3

percent on a quarter-on-quarter basis, due mainly to the effects of historically warm weather. However, the following positive developments had been observed: (1) the year-on-year rate of change in compensation of employees in real terms had marked 1.7 percent for the October-December quarter; (2) business fixed investment had registered an increase for two consecutive quarters; and (3) the real and nominal GDP growth rates and the inflation rate for 2015 were positive. As for the outlook, the Japanese economy was expected to head toward a moderate recovery, supported partly by the effects of the government's policies, while the employment and income situation continued to improve. However, attention should be given to the increased uncertainty in overseas economies and the effects of fluctuations in the financial and capital markets. 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) The Cabinet Office had decided to conduct a survey on progress toward implementing the supplementary budget for fiscal 2015 to make sure that the effects of the budget were produced promptly. It was extremely important to obtain approval from the Diet for the budget for fiscal 2016 and related bills at the earliest possible time, in order to overcome deflation and further promote efforts toward economic revitalization. As Japan was the chair country of the Group of Seven (G-7) Summit to be held in May 2016, in order to respond appropriately to the current state of the global economy, the government had launched the International Finance and Economic Assessment Council, in which the members of the council would seek opinions of experts at home and abroad regarding the state of the global economy and international finance from a broad perspective.

(3) At an intensive discussion regarding monetary policy and prices at the Council on Economic and Fiscal Policy held on February 18, the government had reviewed the progress toward overcoming deflation and promoting economic revitalization. It expected the Bank to work steadily to achieve the price stability target of 2 percent in light of economic activity and prices. In addition, the government expected the Bank to continue to thoroughly communicate on its negative interest rate policy decided at the previous MPM -- as this was somewhat technical and might be difficult to understand -- and to make efforts such that the effects of the policy measure would be fully realized.

VIII. 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:

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.

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 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 7-12 years; (2) to purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces of about 3 trillion yen (about 3.3 trillion yen from April 2016) 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 the Chairman's Policy Proposal on the Policy Rate

To reflect the majority view of the members, the chairman formulated a proposal to continue applying a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank, and put it to a vote.

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. Y. Harada, and Mr. Y. Funo.
Votes against the proposal: Mr. T. Sato and Mr. T. Kiuchi.

D. Vote on Mr. T. Sato's Policy Proposal on the Policy Rate and Other Matters

Meanwhile, with regard to the policy rate and other matters, Mr. T. Sato formulated the following proposal and put it to a vote: (1) to apply an interest rate of 0.1 percent to current account balances excluding the amount outstanding of the required reserves held by financial institutions at the Bank while maintaining the three-tier system, and (2) to carry out the Loan Support Program and other funds-supplying operations at an interest rate of 0.1 percent.

The proposal was defeated by a majority vote.

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

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

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.

IX. 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 formulated a proposal to make the following changes. First, with regard to the outlook for prices, he proposed changing the current expression that "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, and, as the underlying trend in inflation steadily rises, accelerate toward 2 percent" to a new expression that "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, and thereafter accelerate very moderately." Second, with regard to the Bank's future monetary policy stance, Mr. Kiuchi proposed changing the current expression that "the Bank will continue with 'QQE with a Negative Interest Rate,' 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 risks to economic activity and prices, and take additional easing measures in terms of three dimensions -- quantity, quality, and the interest rate -- if it is judged necessary for achieving the price stability target" 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).

X. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of January 28 and 29, 2016 for release on March 18, 2016.

Attachment

March 15, 2016

Bank of Japan

Statement on Monetary Policy

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

(1) Quantity Dimension: The guideline for money market operations

The Bank 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) Quality Dimension: The guidelines for asset purchases

With regard to the asset purchases, the Bank decided, by an 8-1 majority vote, to set 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 7-12 years.

b) The Bank will purchase exchange-traded funds (ETFs) so that their amount outstanding will increase at an annual pace of about 3 trillion yen until the end of March 2016 and, from April, at an annual pace of about 3.3 trillion yen.[7] It will also purchase Japan real estate investment trusts (J-REITs) so that their amount outstanding will increase at an annual pace of about 90 billion yen.

[7] Of about 3.3 trillion yen, 300 billion yen will be used in line with the implementation of a new program for purchasing ETFs composed of stocks issued by firms that are proactively investing in physical and human capital, which was decided at the MPM held in December 2015.

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) Interest-Rate Dimension: The policy rate

The Bank decided, by a 7-2 majority vote, to continue applying a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.[Note 2]

2. Japan's economy has continued its moderate recovery trend, although exports and production have been sluggish due mainly to the effects of the slowdown in emerging economies. Overseas economies have continued to grow at a moderate pace, but the pace of growth has somewhat decelerated mainly in emerging economies. In this situation, the pick-up in exports has recently paused. On the domestic demand side, business fixed investment has been on a moderate increasing trend as corporate profits have been at high levels. Against the background of steady improvement in the employment and income situation, private consumption has been resilient. Meanwhile, the pick-up in housing investment has recently paused and public investment has been on a moderate declining trend, albeit remaining at a high level. Reflecting these developments in demand both at home and abroad, industrial production has continued to be more or less flat. Financial conditions are highly 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. Although inflation expectations appear to be rising on the whole from a somewhat longer-term perspective, they have recently weakened.

3. With regard to the outlook, although sluggishness is expected to remain in exports and production for the time being, domestic demand is likely to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the household and corporate sectors, and exports are expected to increase moderately on the back of emerging economies moving out of their deceleration phase. Thus, Japan's economy is likely to be on a moderate expanding trend. 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, and, as the underlying trend in inflation steadily rises, accelerate toward 2 percent.[Note 3]

4. Risks to the outlook include uncertainties surrounding emerging and commodity-exporting economies, particularly China, developments in the U.S. economy and the influences of its monetary policy response to them on the global financial markets, prospects regarding the

European debt problem and the momentum of economic activity and prices in Europe, and geopolitical risks. Against this backdrop, global financial markets have remained volatile. Therefore, due attention still needs to be paid to a risk that an improvement in the business confidence of Japanese firms and conversion of the deflationary mindset might be delayed and that the underlying trend in inflation might be negatively affected.

5. The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with a Negative Interest Rate," 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 risks to economic activity and prices, and take additional easing measures in terms of three dimensions -- quantity, quality, and the interest rate -- if it is judged necessary for achieving the price stability target.[Note 4]

6. With a view to implementing "QQE with a Negative Interest Rate" smoothly, the Bank decided on operational details. Namely, (1) each financial institution's "Macro Add-on Balance," to which a zero interest rate is applied, will be reviewed every three months in principle; (2) in light of the role of money reserve funds (MRFs) in fund settlement for securities transactions, the amount outstanding of MRFs entrusted to a trust bank will be added to its Macro Add-on Balance (up to the amount outstanding of MRFs entrusted to this trust bank during the previous year); and (3) with the aim of further supporting financial institutions' efforts to increase lending, in case where a financial institution increases the amount outstanding of borrowing from the Bank through the Loan Support Program and the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas affected by the Great East Japan Earthquake, twice as much as the amount of increase will be added to this financial institution's Macro Add-on Balance.[8]

[8] For details on (1) and (2), see "Amendment to 'Principal Terms and Conditions of Complementary Deposit Facility'" released today. An amendment to the Principal Terms and Conditions in relation to (3) will be made at the next MPM, and it will take effect from the May 2016 reserve maintenance period. As decided at the MPM held last January, with regard to the existing amount of borrowing from the Bank through these facilities, the corresponding amount of current account balance will be added to the Macro Add-on Balance. In case where a financial institution decreases the amount outstanding of such borrowing, an amount equivalent to the decrease will be deducted from that Balance.

[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] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. K. Ishida, Mr. Y. Harada, and Mr. Y. Funo. Voting against the action: Mr. T. Sato and Mr. T. Kiuchi. Mr. T. Kiuchi dissented considering that an interest rate of 0.1 percent should be applied to current account balances excluding the amount outstanding of the required reserves held by financial institutions at the Bank, because negative interest rates would impair the functioning of financial markets and financial intermediation as well as the stability in the JGB market. Mr. T. Sato proposed that the Bank will apply an interest rate of 0.1 percent to current account balances excluding the amount outstanding of the required reserves held by financial institutions at the Bank while maintaining the three-tier system and that it will carry out the Loan Support Program and other funds-supplying operations at an interest rate of 0.1 percent. The proposal was defeated by a majority vote.

[Note 3] Mr. T. Kiuchi submitted a proposal concerning an outlook that the year-on-year rate of change in the CPI is likely to be about 0 percent for the time being, and thereafter accelerate very moderately. 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.

[Note 4] 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.