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August 3, 2016

Bank of Japan

Minutes of the Monetary Policy Meeting

on June 15 and 16, 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 Wednesday, June 15, 2016, from 2:00 p.m. to 3:31 p.m., and on Thursday, June 16, from 9:00 a.m. to 11:38 a.m.[1]

Policy Board Members Present

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

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

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

Mr. K. Ishida

Mr. T. Sato

Mr. T. Kiuchi

Mr. Y. Harada

Mr. Y. Funo

Mr. M. Sakurai

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. M. Nishikawa, Vice Minister for Policy Coordination, Cabinet Office

Reporting Staff

Mr. M. Amamiya, Executive Director

Mr. S. Kuwabara, Executive Director

Mr. E. Maeda, Executive Director (Assistant Governor)

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

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on July 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] Mr. M. Sakai was present on June 16.

[3] Mr. M. Ota was present on June 15.

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

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

I. Summary of Staff Reports on Economic and Financial Developments[4]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on April 27 and 28, 2016, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[5] In this situation, the amount outstanding of the monetary base had been in the range of 377-389 trillion yen.

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments had generally been in negative territory. The uncollateralized overnight call rate had been in the range of around minus 0.05 to minus 0.06 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had been in the range of around minus 0.2 to minus 0.3 percent.

The Nikkei 225 Stock Average had fallen, mainly against the background of the appreciation of the yen, and was moving in the range of 15,500-16,000 yen recently. In the foreign exchange market, the yen had appreciated against the U.S. dollar, mainly reflecting expectations that the pace of the policy interest rate hike by the Federal Reserve would be moderate. The yen also had appreciated against the euro. Yields on 10-year JGBs had moved further into negative territory under a tight supply-demand balance, due in part to declines in U.S. and European interest rates.

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.

The U.S. economy had been on a recovery trend, assisted by firm household spending, although the industrial sector had lacked momentum, mainly against the background of 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

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

[5] The guideline was as follows:

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

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, but the pace of recovery had slowed somewhat.

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 as exports and production continued to be weak, although the effects of economic stimulus measures had been observed in some of these countries and regions. Economic activity in Brazil and Russia remained severe as exports had been sluggish, mainly due to low 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 in many countries and regions. However, inflation rates remained at high levels in some economies.

Regarding global financial markets, the U.S. dollar had depreciated and long-term interest rates in the United States and Europe had declined, as expectations had increased following the release of U.S. employment statistics for May that the pace of the policy interest rate hike by the Federal Reserve would be moderate. Rises in stock prices in both advanced and emerging economies had been contained, mainly due to uncertainty regarding future developments in the global economy and geopolitical risks.

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.

The pick-up in exports had paused, due mainly to the effects of the slowdown in emerging economies. Recently, the supply-side constraints caused by the Kumamoto Earthquake were exerting temporary downward pressure. Exports were projected to remain more or less flat for the time being, but thereafter were expected to increase moderately on the back of emerging economies moving out of their deceleration phase.

The pace of decline in public investment had been slowing. Public investment was expected to gradually level off, albeit with some fluctuations.

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 to sales had still been at a high level, although it had declined recently, due mainly to the effects of the slowdown in emerging economies and of the yen's appreciation. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly* for the January-March quarter of 2016, business fixed investment for all industries had marked a quarter-on-quarter increase of 1.4 percent. Machinery orders continued to increase, albeit with some fluctuations. Business fixed investment was projected to continue to see a moderate uptrend on the back of corporate profits at high levels and highly accommodative financial conditions.

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, although relatively weak developments had been seen in some indicators. According to various sales statistics, retail sales had been somewhat weak in January through March due to negative wealth effects stemming from the decline in stock prices, in addition to the irregularly warm winter and supply-side constraints in terms of automobiles caused by a steel plant accident. However, such sales picked up somewhat in April, mainly due to the recovery in automobile sales. Private consumption was expected to remain resilient with the employment and income situation continuing to improve steadily, albeit with relatively weak developments remaining in some indicators.

As for housing investment, the pick-up had paused since the middle of 2015 but resumed recently, underpinned by accommodative financial conditions.

Industrial production continued to be more or less flat, due mainly to the effects of the slowdown in emerging economies and partly to those of the Kumamoto Earthquake. As for the outlook, it was projected to remain more or less flat for the time being as a trend -- albeit with some fluctuations due to the effects of the earthquake -- in a situation where effects of the slowdown in overseas economies would remain, mainly in emerging economies.

As for prices, the rate of decline in the producer price index (PPI) relative to three months earlier had been on a decelerating trend, reflecting movements in international commodity prices and foreign exchange rates. 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 had registered a year-on-year rate of increase of 1.1 percent for three consecutive months since January 2016, but saw a deceleration in its pace of increase to 0.9 percent in April. With regard to the outlook, the year-on-year rate of change in the CPI (all items less fresh food) was likely to be slightly negative or 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 around 25 percent.

Firms' funding costs had been hovering at extremely low levels. With regard to credit supply, financial institutions' lending attitudes -- as perceived by firms -- were significantly accommodative. 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 3.5 percent, mainly due to the increase in bank lending. Meanwhile, inflation expectations had weakened recently, although they appeared to be rising on the whole from a somewhat longer-term perspective.

3. Loan disbursement through the Loan Support Program

In early June 2016, the Bank carried out a new loan disbursement, amounting to 608.6 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 5,835.9 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 77.1 billion yen, and that under the special rules for small-lot investments and loans amounted to 11.879 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 June 20, the Bank was scheduled to carry out a new loan disbursement, amounting to 6,202.8 billion yen, under the Fund-Provisioning Measure to Stimulate Bank Lending. The outstanding balance of loans disbursed by the Bank would amount to 25,499.9 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 recognition that it remained difficult for market participants to actively take risks, mainly reflecting concerns about uncertainty regarding future developments in the global economy and the vote of the United Kingdom to leave the European Union (EU). Many members pointed out that, depending on the result of the referendum on the United Kingdom's membership of the EU, there was a possibility that market volatility would increase sharply. One of these members said that, if the United Kingdom's decision triggered concern about liquidity shortages in foreign currencies, the Bank -- in cooperation with relevant central banks -- should take necessary measures in terms of liquidity provision. 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 were likely to remain in a state of slight deceleration for the time being, but moderately increase their growth rates as 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. However, one member, while noting that the pace at which the recovery in advanced economies spread to emerging economies had been slow, expressed the view that it was necessary to pay attention to the risk that the deceleration in emerging economies would exert downward pressure on 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 firm household spending, although the industrial sector had lacked momentum, mainly against the background of the slowdown in emerging economies. One member expressed the view that the fact that the increase in the number of employees in U.S. employment statistics for May had been considerably smaller than market expectations might suggest weakness in the U.S. economic recovery. Many members, however, expressed the recognition that it was necessary to wait for data to accumulate for some time before making an assessment on whether there was any change to the underlying trend of the employment situation. As for the outlook, members shared the view that the economy was likely to continue to recover, mainly in private demand, led by the firmness in household spending, reflecting accommodative financial conditions, although the industrial sector was likely to lack momentum for the time being.

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. A few members expressed the view that attention was warranted on the impact that the vote of the United Kingdom to leave the EU would have on the global economy, particularly on the European economy.

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, due to downward pressure from an overhang of production capacities in the manufacturing sector. A few members pointed out that measures taken by authorities had been supporting the economy, as evidenced, for example, by the increase in fixed asset investment related to public works. 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 both fiscal and financial measures to support economic activity, although the growth pace was likely to be somewhat slower, mainly in exports and production.

Members shared the view that emerging economies had been decelerating, mainly in exports and production. They continued that, in Asia, exports and production had been relatively weak, due mainly to sluggish demand for IT-related goods, while economic conditions in commodity-exporting countries such as Brazil and Russia continued to be severe. As for the outlook, members 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 financial and fiscal fronts, after remaining in a state of deceleration 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 a virtuous cycle from income to spending had been operating in both the household and corporate sectors, while pointing out that corporate profits had been at high levels and labor market conditions remained tight. One member expressed the view that Japan's economy was likely to be on a moderate expanding trend against the background of an improvement in the employment and income situation, but that risks were skewed to the downside considering the weakness seen recently in some indicators of private consumption, as well as the negative effects of the yen's appreciation, which were likely to become evident.

Members agreed that the pick-up in Japan's exports had paused, due mainly to the effects of the slowdown in emerging economies. As for the outlook, they shared the view that exports as a whole were likely to remain more or less flat for the time being, mainly due to the slowdown in overseas economies, the recent appreciation of the yen, and the effects of the Kumamoto Earthquake. They continued that exports were likely to increase moderately thereafter, however, on the back of emerging economies moving out of their deceleration phase.

Members agreed that business fixed investment had been on a moderate increasing trend as corporate profits had been at high levels. A few members pointed out that the *Financial Statements Statistics of Corporations by Industry, Quarterly* showed an increase in business fixed investment for the January-March quarter of 2016, and that various surveys revealed that firms also planned to steadily increase fixed investment for fiscal 2016. These members then expressed the view that, despite headwinds such as a slowdown in the global economy and turbulence in the financial markets, firms had maintained their positive fixed investment stance, supported in part by the further decline in real interest rates brought about by Quantitative and Qualitative Monetary Easing (QQE) with a Negative Interest Rate. Members shared the view that business fixed investment was likely to maintain a moderate uptrend on the back of corporate profits at high levels.

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 kept improving and corporate profits remained at high levels. One member said that the base pay increase resulting from the wage negotiations between workers and management this spring was somewhat weaker than that in 2015, but employee income as a whole remained on an improving trend, given, for example, that wage increases seemed to be spreading among small firms.

Members shared the recognition that, although relatively weak developments had been seen in some indicators, private consumption had been resilient against the background of steady improvement in the employment and income situation and was likely to remain so. One member said that, although private consumption for the January-March quarter of 2016 was affected by the turbulence in global financial markets at the beginning of the year and the irregularly warm winter, the consumption activity index for April had picked up. Meanwhile, as the background to the weakness in consumption relative to the income situation, a few other members raised factors such as weak recovery in wages, the negative wealth effects stemming from the appreciation of the yen and the decline in stock prices since the beginning of the year, and anxiety about future income stemming from uncertainties about the fiscal condition and the social security system. In response to this, one member noted that concerns over the social security system and the fiscal condition might be a factor in explaining low propensity to consume in general, but not with respect to its recent decrease. The member continued that, if the propensity to consume stopped declining in due course, consumption would increase, reflecting the rise in employee income.

As for housing investment, members shared the recognition that the pick-up had paused since the middle of 2015 but resumed recently, underpinned by accommodative financial conditions. Some members pointed to a decline in interest rates on housing loans since the introduction of the negative interest rate policy as part of the background behind the fact that the number of housing starts had resumed its pick-up.

Members shared the recognition that industrial production continued to be more or less flat, due mainly to the effects of the slowdown in emerging economies and partly to those of the Kumamoto Earthquake. One member said that, despite the effects of the earthquake, industrial production had not deteriorated as had been anticipated as a result, for example, of the accelerated production of automobiles to make up for the earlier disruption. As for the outlook, members shared the view that industrial production was likely to remain more or less flat for the time being as a trend -- albeit with some fluctuations due to the effects of the earthquake -- in a situation where effects of the slowdown in overseas economies would remain, 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 be slightly negative or about 0 percent 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, under QQE with a Negative Interest Rate, 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, not only JGB yields but also lending rates, as well as issuing rates on CP and corporate bonds, had been declining considerably, and the amount of issuance of super-long-term corporate bonds at a low rate had been increasing. These members then expressed the recognition that firms' funding conditions had become even more accommodative. They also were of the view that, despite remaining uncertainties over the global economy, business fixed investment continued to be on an increasing trend and housing investment had resumed its pick-up, reflecting accommodative financial conditions, and that this showed that the effects of the negative interest rate policy had spread to the real economy gradually. One of these members said that firms' funding had continued smoothly, as the practice of financial transactions had been adjusted to reflect the adoption of a negative interest rate; for instance, the issuance of corporate bonds that placed importance on absolute yield rather than spread over the government bond yields had become a common practice and the provision of syndicated loans with a fixed interest rate had been observed. A different member said that the private sector was expected to proceed steadily with structural reforms by utilizing the current accommodative financial conditions. Another member, on the other hand, expressed the view that the effects of the negative interest rate policy had not become clearly evident thus far, since the rate of increase in banks' lending as a whole had not accelerated.

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

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

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. Some members raised the weakness seen in some indicators of private consumption as the background to the fact that the year-on-year rate of increase in the CPI (less fresh food and energy) had somewhat decelerated to 0.9 percent in April. One of these members said that, against this backdrop, price-hiking behavior since the start of this fiscal year had not spread as much as in the previous year. A few members commented that the pace of increase in services prices had accelerated but had not been sufficient to offset the deceleration in the pace of increase in goods prices. One member nevertheless expressed the view that, looking at the CPI by item, the number of items for which prices had risen from the previous year continued to largely exceed those for which prices had declined, and that firms' price-setting stance did not seem to have changed significantly recently. Some members, including this member, expressed the recognition that, considering that a base pay increase was taking place for a third consecutive year and wage increases had been spreading even to small firms, the mechanism in which inflation rose moderately accompanied by wage increases continued to operate. A different member expressed the view that, as price hikes similar to last year could not be anticipated, reflecting relatively weak developments in private consumption, a period of no visible rises in inflation would continue for the time being. This member continued, however, that prices would likely see an acceleration in their pace of increase from the latter half of the fiscal year, due mainly to the fact that crude oil prices had turned to an increase and wages would likely rise on the back of tight labor market conditions.

With regard to inflation expectations, members shared the recognition that these had weakened recently, although they appeared to be rising on the whole from a somewhat longer-term perspective. As background to this weakness, one member pointed to such factors as the deterioration in consumer sentiment, due mainly to the turbulence in global financial markets since the start of 2016, as well as the effects of an earlier fall in energy prices and of the appreciation of the yen. On this basis, the member expressed the view that, in a situation where economic fundamentals had been resilient, inflation expectations were likely to gradually see an acceleration in their rate of increase as the improvement in the output gap progressed on the back of tight labor market conditions and an uptrend in business fixed investment.

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. The average remaining maturity of the Bank's JGB purchases would be about 7-12 years. Second, it would purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding would increase at annual paces of about 3.3 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.

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.

With respect to the Bank's thinking behind its future conduct of monetary policy, most members shared the view that the Bank would (1) 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) 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. Some members agreed that, while effects of the negative interest rate policy already had been seen -- for example, declines in lending rates and an increase in the issuance of corporate bonds -- the Bank needed to examine the extent of the spread of policy effects to the real economy, and thus it should continue with the current monetary policy. Some members added that it was necessary to carefully monitor the result of the referendum on the United Kingdom's membership of the EU and subsequent financial and economic developments. One of these members commented that there were signs of a need for caution with respect to achieving the price stability target, such as weaker developments both in the year-on-year rate of increase in the CPI (less fresh food and energy) and in inflation expectation indicators. This member continued that, if it became more likely that the timing of annual CPI inflation reaching around 2 percent would be delayed, the Bank would need to reiterate its commitment toward achieving 2 percent inflation to the public and market by taking additional monetary easing measures.

In response, 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. This member also pointed out that the market considered the Bank's policy management in recent years as being intended to surprise the market, and that such management was reducing the predictability of monetary policy significantly and causing higher volatility in the market. On this basis, the member said that the Bank should normalize communication with the market and enhance two-way dialogues as soon as possible.

One member expressed the recognition that, under the Bank's continued conduct of QQE for more than three years, Japan's economy had come to a situation where it was no longer deflationary, in the sense that prices did not decline persistently. On this basis, this member argued that, as the Bank proceeded with JGB purchases, these needed to be modified to more sustainable ones before major problems occurred. A different member expressed the view that the main aim of the Bank's policy already had shifted from the quantitative to the interest rate aspect, and thus it was important for the Bank to conduct asset purchases in a flexible manner. In response to these views, a different member pointed out that, although the JGB market would be affected by QQE with a Negative Interest Rate, the Bank had been pursuing market stability through (1) a careful examination of the degree of liquidity and functioning of the JGB market using surveys and various indicators, and (2) flexible conduct of JGB purchases, taking account of market conditions. On this basis, this member noted that the quickest way for the economy to get out of the low interest rate environment, thereby bringing about normalization of the market, was overcoming deflation as soon as possible and returning Japan's economy to a sustainable growth path through decisive monetary easing, while being very watchful of the effects of the massive JGB purchases on the JGB market. Another member expressed the view that, with regard to an argument by some that a bank's reluctance to purchase JGBs was an indication of QQE's limits or its side effects, the fact that financial institutions that held JGBs were instead shifting their investment to various asset classes other than JGBs, as seen in an increase in domestic and overseas lending, should be regarded as an indication of the spread of policy effects of portfolio rebalancing to the economy.

IV. Remarks by Government Representatives

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

(1) Given the agreement reached and shared awareness of risks at the Group of Seven (G-7) meeting held in May 2016, the government decided to postpone the consumption tax hike while using all policy tools, including accelerating structural reforms and implementing fiscal policy. Meanwhile, the government would firmly maintain its goal of generating a surplus in the primary balance for fiscal 2020 without lowering the flag of attaining fiscal soundness. It also would steadily implement expenditure reform with no exceptions -- based on the work schedule for the reform -- while promoting economic revitalization under the framework of the Plan to Advance Economic and Fiscal Revitalization.

(2) The government expected the Bank to continue 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. The second preliminary estimate of the real GDP growth rate for the January-March quarter of 2016 was 1.9 percent on an annualized quarter-on-quarter basis, mainly due to the fact that private consumption had turned positive on a quarter-on-quarter basis against the background of improvement in the employment and income situation. The real and nominal GDP growth rates and the GDP deflator for fiscal 2015 were positive for the first time in 18 years. As for the outlook, the 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 addition, full attention should be given to the economic impact of the Kumamoto Earthquake. 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 decided the Basic Policy on Economic and Fiscal Management and Reform 2016, which included postponing raising the consumption tax rate to 10 percent

until October 2019 and compiling a set of comprehensive and bold economic measures by this autumn. It also decided the Japan Revitalization Strategy 2016, the Regulatory Reform Work Plan, the Basic Policies for Overcoming Population Decline and Vitalizing Local Economy in Japan 2016, and Japan's Plan for Dynamic Engagement of All Citizens. The Basic Policy on Economic and Fiscal Management and Reform 2016, which was decided recently, presented a road map to achieving a 600 trillion yen economy by establishing a positive cycle of growth and distribution. The basic policy included that the government would advance reforms in both expenditure and revenue and maintain its goal of fiscal soundness, which was to generate a surplus in the primary balance for fiscal 2020, based on the basic principle that "without economic revitalization, there can be no fiscal consolidation."

(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.

V. Votes

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

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

The Policy Board decided the proposal by a majority vote.

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

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, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, Mr. Y. Funo, and Mr. M. Sakurai.

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 3.3 trillion yen and about 90 billion yen, respectively; and (3) to maintain the amounts outstanding of CP and corporate bonds at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

The Policy Board decided the proposal by a majority vote.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, Mr. Y. Funo, and Mr. M. Sakurai.

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, Mr. K. Ishida, Mr. Y. Harada, Mr. Y. Funo, and Mr. M. Sakurai.

Votes against the proposal: Mr. T. Sato and Mr. T. Kiuchi.

Mr. T. Sato and 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 of the JGB market.

D. 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, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, Mr. Y. Funo, and Mr. M. Sakurai.

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 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 slightly negative or 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 slightly negative or 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, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, Mr. Y. Funo, and Mr. M. Sakurai.

B. The Chairman's Policy Proposal

The chairman formulated the Statement on Monetary Policy, and put it to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of April 27 and 28, 2016 for release on June 21.

Attachment
June 16, 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) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 3.3 trillion yen[6] 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.

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

(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 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, although relatively weak developments have been seen in some indicators. Housing investment has resumed its pick-up, and the pace of decline in public investment has been slowing. Reflecting these developments in demand both at home and abroad and the effects of the Kumamoto Earthquake, 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 slightly negative or 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 the 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]

[Note 1] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, Mr. Y. Funo, and Mr. M. Sakurai. Voting against the action: Mr. T. Kiuchi. Mr. T. Kiuchi proposed that the Bank conduct money market operations and asset purchases so that the monetary base and the amount outstanding of its JGB holdings 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, Mr. K. Ishida, Mr. Y. Harada, Mr. Y. Funo, and Mr. M. Sakurai. Voting against the action: Mr. T. Sato and Mr. T. Kiuchi. Mr. T. Sato and 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 of the JGB market.

[Note 3] Mr. T. Kiuchi proposed, concerning the year-on-year rate of change in the CPI, that it was likely to be slightly negative or about 0 percent for the time being, and would 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, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, Mr. Y. Funo, and Mr. M. Sakurai.

[Note 4] Mr. T. Kiuchi proposed that the Bank, 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 was deemed appropriate under flexible policy conduct based on the examination from the two perspectives of the monetary policy framework. The proposal was defeated by an 8-1 majority vote. Voting for the proposal: Mr. T. Kiuchi. Voting against the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, Mr. Y. Funo, and Mr. M. Sakurai.