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September 27, 2016

Bank of Japan

Minutes of the Monetary Policy Meeting

on July 28 and 29, 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 Thursday, July 28, 2016, from 2:00 p.m. to 3:32 p.m., and on Friday, July 29, from 9:00 a.m. to 12:37 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

Mr. T. Sato

Mr. T. Kiuchi

Mr. Y. Harada

Mr. Y. Funo

Mr. M. Sakurai

Ms. T. Masai

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. S. Habuka, Vice Minister for Policy Coordination, Cabinet Office[3]

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on September 20 and 21, 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 July 29.

[3] Messrs. M. Ota and S. Habuka were present on July 28.

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

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

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

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

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

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

[4] Messrs. H. Chida and K. Suzuki were present on July 29.

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 June 15 and 16, 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 394-406 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 0.03 to minus 0.06 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had been at around minus 0.3 percent.

The Nikkei 225 Stock Average had increased, reflecting the rise in U.S. and European stock prices and speculation about the direction of fiscal and monetary policy in Japan, and was moving at around 16,500 yen recently. In the foreign exchange market, the yen had appreciated temporarily against the U.S. dollar following the United Kingdom's referendum, but had depreciated thereafter, partly due to speculation about the direction of fiscal and monetary policy in Japan, while investors' risk aversion had moderated. Meanwhile, the yen 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 anticipation of additional monetary easing by the Bank.

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 firmness in the employment and income situation and in household spending, although the industrial sector had lacked momentum, mainly against the background of the slowdown in emerging

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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.

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 at around 1.0 percent, mainly due to the decline in energy prices.

The European economy maintained its moderate recovery as private consumption continued to increase, although exports had shown some weakness. With regard to prices, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) for all items had been at around 0 percent, mainly due to the decline in energy prices, but that for all items excluding energy and unprocessed food had been at around 1 percent. Meanwhile, economic activity in the United Kingdom continued to recover, but the pace of recovery had slowed somewhat. Consumer confidence had worsened sharply after the referendum, and the composite output purchasing managers' index (PMI) for July had deteriorated significantly.

With regard to emerging economies, the Chinese economy remained slightly subdued, mainly in exports and production, but maintained its stable growth on the whole. 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 somewhat subdued as exports and production continued to be weak, although the effects of economic stimulus measures had materialized in some economies. Economic activity in Brazil and Russia remained severe but had started to bottom out, mainly due to a halt in the decline in commodity prices. As for prices in emerging economies, inflation rates had been more or less flat at low levels in many countries and regions. However, they remained at high levels in some economies.

Regarding global financial markets, long-term interest rates in major economies and prices of risky assets had declined significantly immediately following the United Kingdom's referendum. Thereafter, however, prices of risky assets, including stock prices in advanced economies, had risen and market volatility had decreased, mainly on the back of expectations for policy actions by major central banks and the abatement of political uncertainty with the new prime minister taking office in the United Kingdom. Nevertheless, the rebounds in long-term interest rates in the United Kingdom and in pounds sterling had been limited and stock prices of European banks remained weak.

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.

Exports had been more or less flat. Those to advanced economies, mainly automobile-related, continued increasing steadily when temporary fluctuations were smoothed out, whereas those to emerging economies had been sluggish, especially of capital goods and parts as well as IT-related goods. Exports were projected to remain more or less flat for some time, as the slowdown in overseas economies continued and the recent appreciation of the yen exerted downward pressure. Thereafter, they were expected to increase moderately as overseas economies moved out of their deceleration phase.

The decline in public investment had leveled off. Such investment was likely to increase moderately, mainly owing to measures for restoration and rebuilding following the Kumamoto Earthquake.

Business fixed investment had been on a moderate increasing trend as corporate profits had been at high levels. According to the June 2016 *Tankan* (Short-Term Economic Survey of Enterprises in Japan), business sentiment had generally stayed at a favorable level, although it had been diminishing recently. Firms nevertheless had generally maintained their solid investment plans in the June *Tankan*, including those of large manufacturers, whose profit projections had deteriorated. Machinery orders and planned expenses for construction starts continued a moderate increasing trend, albeit with some fluctuations. Business fixed investment as a whole was likely to maintain its moderate increasing trend on the back of corporate profits at high levels, although that in manufacturing firms was likely to temporarily show some weakness due to a decline in corporate profits and heightened uncertainties surrounding overseas economies.

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 for January through March had been somewhat weak 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 for April and May had picked up, mainly due to the recovery in automobile sales. Private consumption was expected to increase its resilience gradually, with the negative wealth effects brought about by the decline in stock prices dissipating, and with the employment and income situation continuing to improve steadily.

Housing investment had resumed its pick-up, underpinned partly 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 some time due to continued effects of the slowdown in overseas 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 developments 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 had been slightly negative. The rate of increase for all items less fresh food and energy had registered 0.8 percent year-on-year for June. 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 -- had been highly accommodative. Issuing conditions for CP and corporate bonds had been favorable. Firms' credit demand had been increasing moderately, such as for funds related to mergers and acquisitions, as well as for funds for business fixed investment. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending had been around 2 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, as bank lending had increased. Meanwhile, although inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective, they had weakened recently.

II. Summary of Discussions by the Policy Board on Economic and Financial Developments and the July 2016 *Outlook for Economic Activity and Prices*

A. Economic Developments

Members shared the recognition that global financial markets remained volatile, as uncertainties surrounding overseas economies had increased against the backdrop of the United Kingdom's vote to leave the European Union (EU) and the slowdown in emerging economies. They continued that close attention should be paid to the effects of developments in global financial markets on Japan's economic activity and prices. One member said that the deceleration in the global economy and the United Kingdom's vote to leave the EU could cause a contraction in investors' risk taking, and thereby lead to an appreciation of the yen and a decline in Japanese stock prices. This member continued that negative wealth effects stemming from these developments could bring about a further decline in household consumption. One member noted that, although global financial markets seemed relatively calm after the referendum in the United Kingdom, it was highly likely that a situation where market sentiment was prone to become unstable would be prolonged.

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 slightly subdued for some time but moderately increase their growth rates, as it was likely that advanced economies would continue to see steady growth and emerging economies would move out of their deceleration phase on the back of the developments in advanced economies and emerging economies' policy effects. Members also shared the recognition that uncertainties surrounding overseas economies had been heightened, including those associated with the United Kingdom's vote to leave the EU. Some of these members said that it would probably take considerable time for the United Kingdom and the EU to build a new relationship. One member pointed out that (1) there was no notable improvement in terms of the uncertainty regarding emerging and commodity-exporting economies, including the Chinese economy, that had led to the turbulence in global financial markets since the start of 2016, and (2) concern over the soundness of the European financial sector had reemerged recently. On this basis, the member added that the Bank should be prepared to deal with political and economic uncertainties in the global economy for a prolonged period of time.

With regard to developments in overseas economies by region, members concurred that the U.S. economy had been on a recovery trend, assisted by firmness in the employment and income situation and in 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, although its growth pace had been decelerating somewhat, employment could be assessed as showing continued growth to a certain degree, at a pace that was compatible with the diminishing slack in the labor market. This member continued that, on the back of such a firm employment situation, consumption had maintained its resilience. As for the outlook, members shared the view that the economy was likely to continue to grow, mainly in private demand, led by the firmness in household spending, reflecting accommodative financial conditions, although exports and production were likely to lack momentum.

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, although external demand was likely to lack momentum. Meanwhile, many members expressed the view that it was necessary to closely monitor the impact that the United Kingdom's vote to leave the EU would have on the European economy.

Members agreed that the Chinese economy remained slightly subdued, mainly in exports and production, but maintained its stable growth on the whole. 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 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. By region, many members expressed the view that, in Asia, exports and production had been relatively weak, reflecting in particular adjustments in excess production capacity and sluggishness in external demand, although the effects of economic stimulus measures had materialized in some economies, such as South Korea. As for the outlook, members concurred that emerging economies were likely to remain subdued for some time, but that the growth rates subsequently were likely to increase gradually, due mainly to the effects of the economic stimulus measures both on the monetary and fiscal fronts and the spread of the effects of the recovery in advanced economies.

Members concurred that financial conditions in Japan were highly accommodative. They shared the view that, under Quantitative and Qualitative Monetary Easing (QQE) with a Negative Interest Rate, firms' funding costs had been hovering at very low levels.

Based on the above deliberations on economic and financial conditions abroad and financial conditions in Japan, 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 also shared the view that a virtuous cycle from income to spending had been operating in both the household and corporate sectors as corporate profits had been at high levels and labor market conditions remained tight. One member said that the virtuous cycle from income to spending had been neither strengthened nor impaired. Members agreed that the projected growth rates in the July 2016 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report) were higher than those in the previous projections, due in part to the effects of economic stimulus measures by the government. One member said that the government's stimulus package was likely to be extremely large in scale, which would push up not only the growth rate but also to some extent the inflation rate through a further tightening of labor market conditions.

Members agreed that Japan's exports had been more or less flat, due mainly to the effects of the slowdown in emerging economies. As for the outlook, they shared the view that, although exports were likely to remain more or less flat for some time, they were likely to increase moderately thereafter on the back of overseas economies moving out of their deceleration phase. One member expressed the view that, although the direct effects of the United Kingdom's vote to leave the EU on Japan's exports were marginal, there was a risk that it would bring about a global economic slowdown and a contraction in global trade, mainly through a deterioration in household and business sentiment in the euro area.

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 such investment as a whole was likely to maintain its moderate increasing trend on the back of corporate profits at high levels. One member said that firms' attitude toward fixed investment was likely to improve further as exports would start increasing, and this would enhance monetary easing effects on business fixed investment. A different member nevertheless expressed the view that few firms would likely decide at this point to shift production sites back to Japan for manufacturing products to be sold mainly in overseas markets under the current volatile yen exchange rates. Another member said that, although business fixed investment plans for fiscal 2016 in the June *Tankan* had shown resilience, this was based on the assumed exchange rate of 111.41 yen against the U.S. dollar, which implied that the recent appreciation of the yen had not been taken into consideration. The member continued that, looking at machinery orders, it was hard to say that business fixed investment had been steady. This member then expressed the view that attention should be paid to the fact that, while the pace of increase in business fixed investment remained relatively slow despite high corporate profits, it seemed that an increase in such profits had paused recently.

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 movements toward wage increases had been steadily spreading to small firms as well as to non-regular employees.

Members agreed that 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. As for the reasons behind such developments, one member expressed the opinion that these were complex, in that the negative wealth effects brought about by the decline in stock prices since the turn of the year were combined with the negative impact on consumer sentiment resulting from the

Kumamoto Earthquake and the United Kingdom's vote to leave the EU. In the outlook, many members expressed the view that private consumption was likely to increase its resilience gradually, with the negative wealth effects brought about by the decline in stock prices dissipating, and as the employment and income situation improved steadily.

As for housing investment, members shared the recognition that it had resumed its pick-up, underpinned partly by accommodative financial conditions.

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. As for the outlook, they agreed that it was likely to remain more or less flat for some time due to continued effects of the slowdown in overseas economies.

As for prices, members concurred that the year-on-year rate of change in the CPI (all items less fresh food) had been slightly negative and was likely to remain so or be about 0 percent for the time being, due to the effects of the decline in energy prices.

B. Outlook for Economic Activity and Prices

With regard to the baseline scenario of the outlook for Japan's economic activity, members shared the view that sluggishness was likely to remain in exports and production for some time, and the pace of economic recovery was likely to remain slow. On this basis, they concurred that, thereafter, 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 exports were likely to head toward a moderate increase as overseas economies moved out of their deceleration phase. They therefore shared the view that Japan's economy was likely to be on a moderate expanding trend. Members agreed that the projected growth rates were higher -- particularly for the first half of the projection period of fiscal 2016-2018 -- compared with those presented in the April 2016 Outlook Report, due in part to the effects of economic stimulus measures from the fiscal side. They also shared the recognition that the front-loaded increase and subsequent decline in demand prior to and after the consumption tax hike that had been planned to take place in April 2017 were likely to be smoothed out by the postponement of the hike.

Regarding developments in economic activity for fiscal 2016, members concurred that, although exports were likely to continue exhibiting sluggishness for some time, they were likely to head toward a moderate increase thereafter as overseas economies moved out of their deceleration phase. From fiscal 2017 through fiscal 2018, members shared the view that exports would probably continue increasing moderately owing mainly to a rise in growth rates in overseas economies, and business fixed investment was likely to maintain its moderate increasing trend, supported mainly by accommodative financial conditions, heightened growth expectations, and increases in Olympic Games-related demand. Members agreed that private consumption was also likely to continue increasing moderately on the back of an improvement in employee income. In addition, they shared the recognition that public investment would probably increase through fiscal 2017, reflecting the set of economic measures by the government, and thereafter remain at a high level with Olympic Games-related demand, although the effects resulting from the economic measures would diminish. In this situation, they agreed that the economic growth rate was likely to be above its potential through the projection period.

In terms of the outlook for prices, most members shared the view that (1) as the underlying trend in inflation steadily rose, the year-on-year rate of change in the CPI was likely to accelerate toward 2 percent, (2) the baseline scenario was that the timing of reaching around 2 percent would be during fiscal 2017, although this was accompanied by considerable uncertainties including those surrounding overseas economies going forward, and (3) thereafter, the year-on-year rate of change in the CPI was likely to be around 2 percent on average. These members agreed that, compared with the projections presented in the April 2016 Outlook Report, the projected rate of increase in the CPI for fiscal 2016 was lower, mainly reflecting the appreciation of the yen and the delay in the timing of improvement in the medium- to long-term inflation expectations, albeit with the higher growth projections. However, they continued that the projected rates of increase for fiscal 2017 and 2018 were more or less unchanged. One member said that the inflation rate was likely to rise at a gradual pace as the output gap had been on an improving trend and inflation expectations maintained their uptrend from a somewhat longer-term perspective. This member continued, however, that the timing of the rate of change in the CPI reaching around 2 percent was likely to be around the second half of fiscal 2017. On the other hand, a few other members expressed the recognition that the rate of change in the CPI would not reach around 2 percent during the projection period. One of these members expressed the view that it was less likely that inflation expectations would rise rapidly.

Members discussed the output gap and medium- to long-term inflation expectations, both of which were the main factors that determined the underlying trend in inflation. First, they agreed that the output gap was more or less unchanged on the whole, as the tightening of labor market conditions continued while an improvement in manufacturers' capacity utilization rates had been delayed against the background of the slowdown in emerging economies. As for the outlook, members shared the recognition that, due in part to the effects resulting from the set of economic measures, the tightening of labor market conditions was likely to continue, accompanied by a decline in the unemployment rate, and capacity utilization rates also were likely to increase again as exports and production would probably pick up. They continued that the output gap was therefore likely to move into positive territory through the end of fiscal 2016 and thereafter steadily increase further.

With regard to medium- to long-term inflation expectations, members shared the view that, although these appeared to be rising on the whole from a somewhat longer-term perspective, they had weakened recently. As the background to this, they shared the recognition that (1) the decline in inflation expectations had been brought about by the observed CPI having been at about 0 percent on a year-on-year basis for over a year, due mainly to the decline in energy prices, and (2) against the backdrop of relatively weak developments in private consumption observed recently, firms were putting off price increases -- mainly those of goods such as food products and durable consumer goods -- since the turn of the fiscal year.

Members also discussed upside and downside risk factors to the baseline scenario of the outlook for economic activity and prices. Regarding the outlook for economic activity, members noted the following upside and downside risk factors: (1) uncertainty regarding developments in overseas economies; (2) firms' and households' medium- to long-term growth expectations; and (3) fiscal sustainability in the medium to long term.

As upside and downside risks to prices, members pointed to the following four factors: (1) developments in firms' and households' medium- to long-term inflation expectations; (2) developments in the output gap, particularly in labor market conditions; (3) the responsiveness of inflation to the output gap; and (4) developments in import prices.

On this basis, members shared the recognition that risks to Japan's economic activity and prices remained skewed to the downside with heightened uncertainties surrounding overseas economies in particular and considerable uncertainty over developments in medium- to long-term inflation expectations.

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

The chairman requested that the staff explain what measures could be considered to provide support for smooth funding in foreign currencies by Japanese firms and financial institutions, taking into account, for example, the increase in uncertainties surrounding the global economy, mainly against the backdrop of the United Kingdom's vote to leave the EU. The staff made two proposals for measures to ensure smooth funding in foreign currencies by Japanese firms and financial institutions: (1) increasing the size of the Bank's U.S. dollar-denominated lending program to support growth, and (2) establishing a new facility for lending securities to be pledged as collateral for the U.S. Dollar Funds-Supplying Operations. Regarding the former, the staff proposed that the Bank increase the maximum amount of its fund-provisioning under the Special Rules for the U.S. Dollar Lending Arrangement to Enhance the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth Conducted through the Loan Support Program -- through which the Bank provided its U.S. dollar funds for a period of up to four years to support Japanese firms' overseas activities through financial institutions -- to 24 billion U.S. dollars, doubling the previous size of 12 billion U.S. dollars. In terms of the second proposal, the staff explained that, by establishing a new facility in which the Bank lent Japanese government securities (JGSs) to financial institutions against their current account balances with the Bank so that these JGSs could be pledged as collateral for the U.S. Dollar Funds-Supplying Operations, the Bank virtually would be allowing cash collateral, which in turn would serve to alleviate financial institutions' concern about collateral constraints for the operations.

Based on the above staff proposals, 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. They concurred that, as discussed with respect to the outlook for economic activity and prices, the output gap was likely to move into positive territory through the end of fiscal 2016 and thereafter steadily increase further. Regarding inflation expectations, members shared the recognition that, although these appeared to be rising on the whole from a somewhat longer-term perspective, they had weakened recently. On this point, some members expressed the view that how inflation expectations were formed in Japan remained largely adaptive, unlike in the United States and other countries, and this meant these expectations were vulnerable to exogenous shocks such as the drop in crude oil prices and the slowdown in overseas economies.

With respect to the staff proposals of measures to ensure smooth funding in foreign currencies by Japanese firms and financial institutions, members agreed that it was desirable for the Bank to introduce these measures in order to ensure smooth funding in foreign currencies by Japanese firms and financial institutions, thereby supporting their proactive economic activities, including the expansion of firms' overseas business, as uncertainties surrounding overseas economies had increased and volatile developments continued in the global financial markets against the backdrop of the United Kingdom's vote to leave the EU and the slowdown in emerging economies. One member said that, as for the Special Rules for the U.S. Dollar Lending Arrangement to Enhance the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth Conducted through the Loan Support Program, potential demand for this lending program, as a measure to support firms' stable funding in U.S. dollars over the long term, was substantial. On this basis, the member continued that it was appropriate to double the size of the program to meet that demand, considering, for example, the size of foreign currency-denominated assets held by the Bank. This member also noted that the staff proposal to virtually expand eligible collateral that could be pledged under the Bank's U.S. Dollar Funds-Supplying Operations would ease financial institutions' collateral constraints by virtually allowing cash collateral and further enhance effectiveness of the U.S. Dollar Funds-Supplying Operations as a backstop. A different member -- expressing concern about the further tightening of Japanese banks' funding in U.S. dollars, which was in part affected by U.S. regulations on money market funds (MMFs) -- said that the measures to ensure smooth funding in U.S. dollars were appropriate. Another member noted that the importance of the U.S. Dollar Funds-Supplying Operations as a backstop had gained a renewed understanding in response to the United Kingdom's vote to leave the EU, and expressed agreement with the staff proposals as they would increase effectiveness of the operations.

On this basis, many members concurred that, in addition to adopting measures to ensure smooth funding in foreign currencies by Japanese firms and financial institutions, the Bank should enhance monetary easing under the framework of QQE with a Negative Interest Rate, taking into account the recent increase in uncertainties surrounding overseas economies. These members shared the recognition that, given that Japan's economy currently faced a risk in which uncertainties brought by overseas economies might affect business confidence and consumer sentiment, the most effective measure was an increase in the Bank's exchange-traded fund (ETF) purchases. As for the size of increase in ETF purchases, these members agreed that it was appropriate to almost double the amount to about 6 trillion yen annually. One member said that, given the slower-than-expected pace of improvement in inflation expectations, for example, it was necessary to pay attention to the possibility that the increase in uncertainties surrounding overseas economies and volatile developments in global financial markets would lead to a deterioration in business and consumer sentiment in Japan, thereby adversely affecting spending behavior, such as in terms of business fixed investment and consumption. On such basis, this member expressed the view that the most effective measure was an increase in the Bank's purchases of ETFs. The member continued that a bold move of doubling the amount of ETF purchases to about 6 trillion yen annually was possible, although it was necessary to consider, for example, the impact on the Bank's financial soundness. A different member said that doubling the amount of the Bank's ETF purchases was a very difficult judgment to make, considering the possibility that it would lead to a future public burden. However, the member supported the idea when taking a comprehensive view of the effects of and costs associated with it. On the other hand, a few members expressed their opposition to an increase in the Bank's ETF purchases. One of these members commented that annual ETF purchases of 6 trillion yen would be excessive, as purchases in such large amounts distorted the pricing mechanism in the stock market and made the Bank's exit policy more difficult. This member continued that it also raised concern over an adverse impact on the Bank's financial soundness. This member also expressed the view that the Bank's decision to increase ETF purchases would be viewed as indicating that monetary easing was approaching its limit. The member continued that, moreover, this action could be regarded as an incremental approach to monetary easing, and there was a risk of triggering endless expectations for further monetary easing. A different member did not support an increase in the Bank's ETF purchases for the following reasons: (1) the economic conditions did not warrant further monetary easing; (2) the increase would distort the market mechanism and lead to a rise in volatility; (3) it would further impair the Bank's financial soundness; and (4) it would give a wrong impression that the Bank targeted stock prices. This member then noted that, rather, it was appropriate for the Bank to reduce the amount of its ETF purchases. In relation to this, members put questions to the staff such as with regard to the impact on the Bank's financial soundness if the amount of ETF purchases was increased to 6 trillion yen annually. The staff provided a supplementary explanation, mainly on the associated amount of risks.

Many members made remarks on synergy effects of monetary policy and the government's initiatives, taking into account the fact that the government was pushing forward with fiscal and structural policy initiatives, including a large-scale stimulus package. Members agreed that a combination of the government's fiscal expansion and the Bank's monetary easing aimed at achieving the price stability target was widely known as a "policy mix," and that in this policy mix, the impact of the fiscal stimulus would be strengthened. One member said that, while "helicopter money" had been widely debated recently in the financial market and the media without being defined clearly, the Bank needed to thoroughly explain that this policy mix in Japan was different from helicopter money, in which fiscal expenditures were financed by a permanent increase in the central bank's liability. One member added that the government's stimulus package, which was being formulated, seemed to be harmonious with the Bank's monetary easing. In light of these discussions, members concurred that it was appropriate to explain to the public in the Statement on Monetary Policy the Bank's thinking regarding the synergy effects of monetary policy and the government's initiatives.

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 guideline for asset purchases except for ETF 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 Japan real estate investment trusts (J-REITs) so that their amount outstanding would increase at an annual pace of about 90 billion yen. 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 <u>the policy rate</u>, 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 <u>the Bank's thinking behind its future conduct of monetary policy</u>, 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. One member noted that, given that the Bank's monetary policy measures, including an increase in its ETF purchases decided at this meeting, were very aggressive and powerful, the Bank should communicate with the public in a more detailed and articulate manner, since such measures would exert maximum effects only when the Bank's policy intention gained full understanding.

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, with life insurers buying bonds to match the duration of their assets and liabilities, trading liquidity in the super-long-term JGB market had declined significantly amid a tightening of its supply and demand conditions, entailing the risk that volatility in the market would be heightened. The member then noted that this clearly suggested an increasing difficulty in terms of the Bank's JGB purchases, which was a precursor of what would happen in JGB markets with various maturities.

One member said that, while positive impacts of a decline in super-long-term interest rates on business fixed investment were limited, there were likely to be adverse impacts such as those on firms' balance sheets due to lower discount rates for pension liabilities, as well as on lower expected returns for public pensions. The member continued that, therefore, with regard to the purchases of the super-long-term JGBs, an adjustment should be considered in such a way that it would not be incorrectly taken as being part of an exit strategy. A different member noted that the Bank should reject the idea that monetary easing had its limits and side effects. On this basis, this member said that a limit to the Bank's JGB purchases, if any, would be the total amount outstanding of JGBs issued. In addition, the member pointed out that, with regard to an argument by some that the possibility of a loss in the Bank's profit due to a rise in interest rates during the process of an exit from monetary easing could set a limit to monetary easing, the Bank's profit had been increasing during the phase of its balance-sheet expansion and the rise in interest rates actually would be a contributing factor to increasing its profit over the longer term.

Members concurred that, considering the current situation of considerable uncertainty over the outlook for prices against the background of uncertainties surrounding overseas economies and global financial markets, with a view to achieving the price stability target of 2 percent at the earliest possible time, it was appropriate for the Bank to conduct a comprehensive assessment of the developments in economic activity and prices under QQE and QQE with a Negative Interest Rate, as well as their policy effects, at the next Monetary Policy Meeting. Some members noted that, although Japan's economic activity and prices had improved substantially over the last three years, the price stability target had not yet been achieved. These members then expressed the recognition that, in order for the Bank to conduct its policy appropriately going forward, it was essential that a comprehensive assessment be conducted by the Policy Board of the developments in economic activity and prices as well as of the policy effects over the last three years from the perspective of what should be done to achieve the price stability target of 2 percent at the earliest possible time. A few members added that the final goal of this comprehensive assessment was to assess what should be done to achieve the price stability target of 2 percent at the earliest possible time, and did not suggest that the Bank would be reviewing the price stability target of 2 percent itself. Based on this, the chairman instructed the staff to prepare for deliberations on the comprehensive assessment.

IV. Remarks by Government Representatives

On the basis of the discussions on the introduction of measures to ensure smooth funding in foreign currencies by Japanese firms and financial institutions, as well as the increase in the Bank's ETF purchases, the government representatives requested that the chairman adjourn the meeting because they needed to contact the Minister of Finance and the Minister of State for Economic and Fiscal Policy. The chairman approved the request. (The meeting adjourned at 11:33 a.m. and reconvened at 11:50 a.m.)

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

(1) The government recognized that the proposals presented by the Bank's staff at this meeting were necessary for the Bank to definitely achieve the goal of monetary policy while taking into consideration risks regarding the global economy, and welcomed them. The government expected the Bank to continue to thoroughly and actively explain the situation of its monetary policy management, including the proposals presented at this meeting.

(2) In response to the United Kingdom's vote to leave the EU, the Ministry of Finance had taken necessary measures to ensure market stability, including the release of a joint statement by Finance Minister Aso and Bank of Japan Governor Kuroda. Although financial markets had shown short-term fluctuations, they had regained calmness thereafter. It was nevertheless vital to closely monitor the effects on the real economy, as issues such as political uncertainties conceivably could weigh on the economy in the medium to long term.

(3) In order to address the risk of a slowdown in the global economy and escape from deflation completely, the government deemed it important to use all policy tools -- monetary, fiscal, and structural -- as agreed in the Group of Seven (G-7) Leaders' Declaration and at the Group of Twenty (G-20) Finance Ministers and Central Bank Governors Meeting held on July 23 and 24, 2016. Based on this recognition, the government was currently compiling the comprehensive and bold economic measures, as instructed by the prime minister on July 12.

(4) The government continued to expect the Bank to work toward achieving the price stability target in light of economic activity and prices.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was on a moderate recovery, while weakness could be seen recently. 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. In the midyear economic projections for fiscal 2016 and 2017 by the Cabinet Office, the real GDP growth rates were approximately 0.9 percent and 1.2 percent, respectively. According to the Economic and Fiscal Projections for Medium- to Long-Term Analysis, the target of halving the national and local governments' primary balance-to-GDP ratio for fiscal 2015 was expected to be achieved. For fiscal 2020 -- the target year for reducing the primary balance deficit to zero -- the deficit was projected to be approximately 1.0 percent relative to GDP in the "economic revitalization case"; therefore, the government deemed it important to continue enhancing integrated economic and fiscal reforms.

(2) In assessing price developments, it was important to comprehensively examine a wide range of indicators, including the GDP deflator, which showed the price of value added.

(3) On July 12, 2016, the prime minister gave instructions to start compiling the economic measures. In order to escape from deflation completely and present a road map for the economy to grow firmly, the government would implement structural reforms, starting with work style reforms, and carry out the comprehensive and bold economic measures with the goal of accelerating investment for the future. Thus, it was eagerly making efforts to compile the measures.

(4) The target amount of minimum wages to be raised by region for fiscal 2016, decided at the Central Minimum Wages Council, was 24 yen per hour on a national weighted average, which would represent an increase of 3.0 percent in the minimum wage. This significantly exceeded the target amount of 18 yen and an increase of 2.3 percent for fiscal 2015. The government would work thoroughly to support small and medium-sized enterprises (SMEs) and small businesses.

(5) The government expected the Bank to steadily work toward achieving the price stability target of 2 percent in light of economic activity and prices. The government deemed it

necessary to closely monitor the effects of monetary policies, including additional easing measures decided at this meeting. The government also deemed it important that the Bank thoroughly explain to the public its thinking on the changes in monetary policy.

V. Votes

A. Vote on the Chairman's Policy Proposal on the Guideline for ETF Purchases

Based on the above discussions, to reflect the majority view of the members, the chairman formulated a proposal to purchase ETFs so that their amount outstanding would increase at an annual pace of about 6 trillion yen 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. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.
Votes against the proposal: Mr. T. Sato and Mr. T. Kiuchi.

Mr. T. Sato dissented considering that ETF purchases of about 6 trillion yen annually would be excessive in light of their adverse impact on the price mechanism in the stock market and the Bank's financial soundness. Mr. T. Kiuchi dissented because an increase in ETF purchases would (1) impair the Bank's financial soundness, (2) lead to a rise in volatility in the stock market, and (3) give a wrong impression that the Bank targeted stock prices.

B. Vote on the Chairman's Policy Proposal on the Measures to Ensure Smooth Funding in Foreign Currencies by Japanese Firms and Financial Institutions

To reflect the view of members, the chairman formulated the following proposal and put it to a vote: (1) to increase the maximum amount of the Bank's fund-provisioning under the Special Rules for the U.S. Dollar Lending Arrangement to Enhance the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth Conducted through the Loan Support Program -- through which the Bank provided its U.S. dollar funds for a period of up to four years to support Japanese firms' overseas activities through financial institutions -- to 24 billion U.S. dollars (or about 2.5 trillion yen), doubling the previous size of 12 billion U.S. dollars, and (2) to establish a new facility in which the Bank lent JGSs to financial institutions against their current account balances with the Bank so that these JGSs could be pledged as collateral for the U.S. Dollar Funds-Supplying Operations. The Policy Board decided the proposal by a unanimous vote.

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

To reflect the majority view of the members, the chairman formulated the following proposal and put it to a vote.

The Policy Board decided the proposal by a majority vote.

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

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. T. Sato, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.

Votes against the proposal: Mr. T. Kiuchi.

D. Vote on the Chairman's Policy Proposal on the Guideline for Asset Purchases except for ETF 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 J-REITs so that their amount outstanding would increase at an annual pace of about 90 billion yen; 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. T. Sato, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.
Votes against the proposal: Mr. T. Kiuchi.

E. 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. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.
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.

F. 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. T. Sato, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.

VI. Discussion on the Statement Entitled "Enhancement of Monetary Easing"

On the basis of the above discussions, members discussed the statement "Enhancement of Monetary Easing" 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 change. With respect to the Bank's future monetary policy stance, he 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. T. Sato, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.

B. The Chairman's Policy Proposal

The chairman formulated the statement "Enhancement of Monetary Easing" 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. Discussion regarding the Outlook Report

Members discussed the draft of "The Bank's View" in the July 2016 Outlook Report (consisting of "The Bank's View" and "The Background") and formed a majority view.

Mr. T. Sato, however, formulated a proposal to make the following changes. First, with regard to the outlook for prices, he proposed a new expression that "the baseline scenario is that the timing of around 2 percent coming into sight will be during fiscal 2017." Second, with regard to the description on the first perspective, he proposed changing the current expression that Japan's economy "is judged as likely to achieve around 2 percent inflation" to a new expression that it "is judged as likely to head toward achieving around 2 percent inflation." The proposal was then put to a vote.

The proposal was defeated by a majority vote.

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

Mr. T. Kiuchi formulated a proposal to make the following changes. First, with regard to medium- to long-term inflation expectations, he proposed a new expression that they "are likely to remain stable." Second, with regard to the outlook for prices, he proposed 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, and thereafter accelerate very moderately." Third, with regard to the future conduct of monetary policy, he proposed 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. T. Sato, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.

To reflect the majority view, the chairman formulated a proposal on "The Bank's View" and put it to a vote.

The Policy Board decided the text of "The Bank's View" by a majority vote. It was confirmed that "The Bank's View" would be released immediately after the meeting on July 29, 2016 and the whole report would be made public on July 30.

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

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

Mr. T. Sato and Mr. T. Kiuchi dissented for the reasons presented in each of the aforementioned proposals.

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of June 15 and 16, 2016 for release on August 3.

IX. Approval of the Scheduled Dates of the Monetary Policy Meetings

The Policy Board approved unanimously the dates of the Monetary Policy Meetings to be held in 2017 and agreed to make this public after the meeting.

Attachment
July 29, 2016
Bank of Japan

Enhancement of Monetary Easing

1. Against the backdrop of the United Kingdom's vote to leave the European Union and the slowdown in emerging economies, uncertainties surrounding overseas economies have increased and volatile developments have continued in the global financial markets. In order to prevent these uncertainties from leading to a deterioration in business confidence and consumer sentiment as well as to ensure smooth funding in foreign currencies by Japanese firms and financial institutions, thereby supporting their proactive economic activities, at the Monetary Policy Meeting (MPM) held today, the Policy Board of the Bank of Japan decided upon the following.

   (1) An increase in purchases of exchange-traded funds (ETFs) by a 7-2 majority vote[Note 1]

   The Bank will purchase ETFs so that their amount outstanding will increase at an annual pace of about 6 trillion yen[7] (almost double the previous pace of about 3.3 trillion yen).

   (2) Measures to ensure smooth funding in foreign currencies by Japanese firms and financial institutions by a unanimous vote

   a) Increasing the size of the Bank's lending program to support growth in U.S. dollars

   The Bank will increase the size of its lending program to support growth in U.S. dollars (the Special Rules for the U.S. Dollar Lending Arrangement to Enhance the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth Conducted through the Loan Support Program) to 24 billion USD (about 2.5 trillion yen; double the previous size of 12 billion USD). Under this lending program, the Bank provides its U.S. dollar funds for a period of up to 4 years to support Japanese firms' overseas activities through financial institutions.

[7] Of about 6 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.

b) Establishing a new facility for lending securities to be pledged as collateral for the U.S. Dollar Funds-Supplying Operations

The Bank will establish a new facility in which it lends Japanese government securities (JGSs) to financial institutions against their current account balances with the Bank so that these JGSs can be pledged as collateral for the U.S. Dollar Funds-Supplying Operations.

2. With regard to the guideline for money market operations, the guidelines for asset purchases except for ETF purchases, and the policy rate, the Bank decided to leave these unchanged.

(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 2]

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 2]

a) The Bank will purchase Japanese government bonds (JGBs) so that their amount outstanding will increase at an annual pace of about 80 trillion yen. With a view to encouraging a decline in interest rates across the entire yield curve, the Bank will conduct purchases in a flexible manner in accordance with financial market conditions. The average remaining maturity of the Bank's JGB purchases will be about 7-12 years.

b) The Bank will purchase Japan real estate investment trusts (J-REITs) so that their amount outstanding will increase at an annual pace of about 90 billion yen.

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 3]

3. The Government is undertaking fiscal and structural policy initiatives, including a large-scale "stimulus package," which is currently being compiled. The Bank will pursue "Quantitative and Qualitative Monetary Easing (QQE) with a Negative Interest Rate" including measures decided today and provide highly accommodative financial conditions. The Bank believes that these monetary policy measures and the Government's initiatives will produce synergy effects on the economy.

4. 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.[Note 4]

5. As shown in the July 2016 *Outlook for Economic Activity and Prices* (Outlook Report) released today, there is considerable uncertainty over the outlook for prices against the background of uncertainties surrounding overseas economies and global financial markets. Against this backdrop, with a view to achieving the price stability target of 2 percent at the earliest possible time, the Bank will conduct a comprehensive assessment of the developments in economic activity and prices under "QQE" and "QQE with a Negative Interest Rate" as well as these policy effects at the next MPM. The Chairman instructed the staff to prepare for deliberations at the next meeting.

[Note 1] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai. Voting against the action: Mr. T. Sato and Mr. T. Kiuchi. Mr. T. Sato dissented considering that ETF purchases of about 6 trillion yen annually would be excessive in light of their adverse impact on the price mechanism in the stock market and the Bank's financial soundness. Mr. T. Kiuchi dissented because an increase in ETF purchases would (1) impair the Bank's financial soundness, (2) lead to a rise in volatility in the stock market, and (3) give a wrong impression that the Bank targeted stock prices.

[Note 2] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. T. Sato, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai. 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 3] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai. 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 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. T. Sato, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.