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May 2, 2017

Bank of Japan

Minutes of the Monetary Policy Meeting

on March 15 and 16, 2017

(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, March 15, 2017, from 2:00 p.m. to 3:46 p.m., and on Thursday, March 16, from 9:00 a.m. to 11:47 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. T. Sato

Mr. T. Kiuchi

Mr. Y. Harada

Mr. Y. Funo

Mr. M. Sakurai

Ms. T. Masai

Government Representatives Present

Mr. T. Otsuka, 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. Habuka, 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. T. Kato, 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 April 26 and 27, 2017 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. T. Otsuka was present on March 16.

3 Mr. M. Ota was present on March 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. K. Tamura, 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 short-term policy interest rate of minus 0.1 percent and the target level of the long-term interest rate, both decided at the previous meeting on January 30 and 31, 2017, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[5] In this situation, 10-year JGB yields had been at around 0 percent, and the shape of the JGB yield curve had been consistent with the guideline for market operations. Meanwhile, with regard to JGB purchases, the Bank, on February 3, conducted outright purchases of long-term JGBs through the fixed-rate method (fixed-rate purchase operations).

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 0.02 to minus 0.06 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had risen to about minus 0.2 percent through early February, but subsequently reverted to a decline and recently had been at around minus 0.4 percent.

The Nikkei 225 Stock Average had risen amid a rise in U.S. and European stock prices -- partly reflecting announcements of corporate results that were stronger than market expectations and the fact that the yen had depreciated somewhat further against the U.S. dollar -- and recently had been at around 19,500 yen. In the foreign exchange market, the yen had been depreciating against the U.S. dollar since the end of February, mainly due to the rise in U.S. interest rates. Meanwhile, it had been broadly flat against the euro.

C. Overseas Economic and Financial Developments

Overseas economies continued to grow at a moderate pace, although emerging economies remained sluggish in part.

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

[5] The target level of the long-term interest rate was as follows:

The Bank will purchase JGBs so that 10-year JGB yields will remain at around zero percent.

The U.S. economy continued to recover firmly, mainly in household spending, owing to a steady improvement in the employment and income situation. Exports had picked up, due mainly to an improvement in external demand. Business fixed investment had shown a pick-up. As for prices, both the year-on-year rate of increase in the personal consumption expenditure (PCE) deflator for all items and that for all items excluding food and energy had been in the range of 1.5-2.0 percent.

The European economy continued to recover moderately, mainly in the household sector. Exports had shown a pick-up. Private consumption had been on an uptrend, partly supported by improvements in the labor market and consumer sentiment, while business fixed investment also continued to pick up. With regard to prices, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) for all items excluding energy and unprocessed food had been in the range of 0.5-1.0 percent, and that for all items had been at about 2 percent. Meanwhile, economic activity in the United Kingdom had shown a solid recovery, supported by household spending.

With regard to emerging economies, the Chinese economy continued to see stable growth on the whole. In the NIEs and the ASEAN countries, exports had picked up markedly and domestic demand had been resilient due to the effects of economic stimulus measures. Economic activity in Russia had leveled out, mainly due to commodity prices bottoming out. In India, an upheaval in the economy stemming from the abolition of high denomination banknotes had come to a halt. Economic activity in Brazil and Turkey had been weakening. As for prices in emerging economies, inflation rates had risen in many countries and regions, mainly owing to an increase in energy prices. The rates in Brazil and Russia remained at high levels but had been declining due to the earlier pause in the depreciation of their currencies.

With respect to global financial markets, stock prices in the United States had been at around historically high levels, mainly on the back of solid economic indicators and of expectations for future policy conduct. Meanwhile, long-term interest rates had risen, reflecting the heightened speculation over the policy rate hike at the Federal Open Market Committee (FOMC) meeting held on March 14 and 15, 2017. Emerging economies as a whole had experienced rises in stock prices and appreciations of their currencies, mainly on the back of inflows of investment capital.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy continued its moderate recovery trend.

Exports had picked up, with the effects of the slowdown in emerging economies waning. Those to advanced economies had been on a moderate increasing trend, and those to emerging economies -- which had continued to show relatively sluggish movements -- had picked up, especially for electronic parts and capital goods. Exports were projected to increase moderately as the growth rates of overseas economies were likely to rise moderately.

Public investment had been more or less flat. Such investment was likely to start increasing moderately, particularly in that related to the disaster relief construction and in a variety of infrastructure enhancements, in view of the progress to be made with the implementation of the second supplementary budget for fiscal 2016.

Business fixed investment had been on a moderate increasing trend as corporate profits had improved. In a situation where the effects of the slowdown in emerging economies had waned, looking at the *Financial Statements Statistics of Corporations by Industry, Quarterly* (FSSC), the ratio of current profits to sales had clearly been improving recently, and the figure for the October-December quarter of 2016 had recorded a historically high level, supported in part by a pick-up in commodity prices and the depreciation of the yen. According to the second preliminary estimate of GDP for the October-December quarter of 2016, real business fixed investment had marked an increase of 2.0 percent on a quarter-on-quarter basis. Machinery orders and construction starts in terms of planned expenses for private and nondwelling construction -- both of which were leading indicators of business fixed investment -- continued a moderate increasing trend, albeit with some fluctuations. Business fixed investment, including that in manufacturing, was likely to increase moderately, mainly on the back of an improvement in corporate profits.

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

Private consumption had been resilient against the background of steady improvement in the employment and income situation. The consumption activity index (CAI) -- calculated by combining various sales and supply-side statistics -- had increased for two quarters in a row, starting with the July-September quarter of 2016, and had been resilient for January 2017 relative to the October-December quarter. Private consumption was expected to increase moderately, mainly supported by a steady improvement in employee income and by the wealth effects stemming from a rise in stock prices.

Housing investment had been more or less flat.

Industrial production had picked up, reflecting moderate increases in demand both at home and abroad and the progress in inventory adjustments. As for the outlook, it was projected to increase moderately, reflecting rises in final demand at home and abroad, with the effects of the slowdown in emerging economies waning and those resulting from the set of stimulus measures materializing.

As for prices, the rate of change in the producer price index (PPI) relative to three months earlier had increased, 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 about 0 percent. The rate of increase for all items less fresh food and energy for January 2017 had accelerated slightly from the previous month, registering 0.2 percent year on year. With regard to the outlook, the year-on-year rate of change in the CPI (all items less fresh food) was likely to increase from about 0 percent and become slightly positive, reflecting developments in energy prices.

2. Financial environment

Financial conditions were highly accommodative.

Inflation expectations remained in a weakening phase. Real long-term interest rates -- calculated as long-term interest rates minus medium- to long-term inflation expectations -- had been negative.

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, such as for funds related to mergers and acquisitions, as well as for those for business fixed investment. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending had been in the range of 2.5-3.0 percent. The year-on-year rate of change in the amount outstanding of CP and corporate bonds remained positive. Firms' financial positions had been favorable.

The monetary base had been increasing at a high year-on-year growth rate in the range of 20-25 percent. The year-on-year rate of growth in the money stock had been in the range of 4.0-4.5 percent.

3. Loan disbursement through the Loan Support Program

In early March 2017, the Bank carried out a new loan disbursement, amounting to 524.9 billion yen, under the main rules for the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth. The outstanding balance of loans disbursed by the Bank under these rules amounted to 6,329.2 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 68.0 billion yen, and that under the special rules for small-lot investments and loans amounted to 12.948 billion yen. As for the special rules for the U.S. dollar lending arrangement, the outstanding balance of loans came to 20.68 billion dollars.

On March 17, the Bank was scheduled to carry out a new loan disbursement, amounting to 6,335.5 billion yen, under the Fund-Provisioning Measure to Stimulate Bank Lending. The outstanding balance of loans disbursed by the Bank would amount to 37,026.3 billion yen after the new loan disbursement.

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

A. Economic Developments

Regarding global financial markets, members shared the recognition that, while U.S. and European long-term interest rates had risen, reflecting the heightened speculation over the policy rate hike at the March 2017 FOMC meeting, stock prices in both advanced and emerging economies had been firm on the whole amid continued recovery in the global economy. One member pointed out that investors had strengthened their risk-taking stance in the United States, as seen in the fact that major stock indices had been at around historically high levels and credit spreads on corporate bonds, including high-yield bonds, had been on a decreasing trend. On this basis, members shared the recognition that due attention should be paid to future developments in global financial markets, as the following continued to be sources of uncertainty in those markets: (1) details of the new U.S.

administration's economic policy; (2) the consequences stemming from the United Kingdom's vote to leave the European Union (EU); and (3) the political situation in Europe.

With respect to overseas economies, members agreed that advanced economies continued to see moderate growth, mainly in household spending, and that production and business fixed investment had been picking up gradually on the back of global improvement in manufacturing. They also shared the recognition that emerging economies as a whole continued to pick up, although economic activity in some countries had been subdued. As for the outlook, members concurred that the growth rates of overseas economies as a whole were likely to increase moderately as advanced economies continued growing steadily and as the positive effects of such growth spread to emerging economies.

With regard to developments in overseas economies by region, members concurred that the U.S. economy continued to recover firmly, mainly in household spending, owing to a steady improvement in the employment and income situation, as seen, for example, in the number of employees increasing by more than 200 thousand people for two consecutive months. One member expressed the recognition that, in the corporate sector, production and business fixed investment had been picking up gradually amid significant improvement in indicators related to business confidence. Members shared the view that the decision made at the March FOMC meeting to raise the policy rate was in line with market expectations and that the U.S. economy would continue to see a firm recovery. One member said that the U.S. interest rates had been relatively stable even when a possible policy rate hike in March had been factored in quickly, and that this reflected the market's view that the pace of the hike would continue to be moderate. 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, under accommodative financial conditions.

Members shared the recognition that the European economy continued to recover moderately, mainly in the household sector. As for the outlook, they concurred that the economy would likely continue to see a moderate recovery, led by the household sector, under accommodative financial conditions, while uncertainty -- associated with political issues such as those regarding the United Kingdom's vote to leave the EU and with the debt problem, including in the financial sector -- was likely to be a burden on economic activity.

Members shared the recognition that emerging economies as a whole continued to pick up, although economic activity in some countries had been subdued. As for the outlook, they concurred that emerging economies were likely to see gradual increases in their growth rates, due mainly to the effects of the economic stimulus measures both on the fiscal and monetary fronts and to the spread of the effects of the recovery in advanced economies. Specifically, members agreed that the Chinese economy continued to see stable growth on the whole as private consumption had been resilient on the back of the favorable employment and income situation and as exports -- particularly of IT-related goods -- had picked up. One member pointed out that, since the turn of the year, the automobile market in China had been resilient, even with a reduction in the automobile-related tax cut. 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 measures to support economic activity.

Regarding risks to developments in overseas economies, members shared the recognition that uncertainties were high, including those over future U.S. economic policy and its impacts on emerging economies, as well as the outcome of national elections to be held in major European countries. Many members expressed the view that due attention should be paid to downside risks to the global economy, in the case where growing tides of protectionism were observed. A few members said that close attention should be paid to how U.S. policy rate hikes -- which were expected to be conducted multiple times -- would affect the global economy, emerging economies in particular, such as through changes in capital flows. A different member noted that attention also needed to be paid to the possibility that, if a series of upcoming political events in Europe ended as expected, the pricing in financial markets could be adjusted to a large extent, reflecting market participants' bullish expectations.

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 agreed that the economy continued its moderate recovery trend. They shared the recognition that economic recovery had become more solid, as seen in the continued pick-up in exports and production -- in a situation where overseas economies had grown at a moderate pace -- and in the resilient private consumption. A few members said that these developments were also evident from the fact that the real GDP growth rate for the October-December quarter of 2016 had made a fourth consecutive quarterly increase. Members shared the view that economic indicators released since January 2017 suggested no significant change in the underlying trend in economic activity, and that Japan's economy continued its moderate recovery trend on the back of a global pick-up in manufacturing. As for the outlook for the economy, members shared the view that Japan's economy was likely to turn to a moderate expansion. They shared the recognition that domestic demand was likely to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the corporate and household sectors, on the back of highly accommodative financial conditions and fiscal spending through the government's large-scale stimulus measures. Members also shared the view that exports were likely to follow a moderate increasing trend on the back of an improvement in overseas economies.

Members concurred that exports had picked up with the effects of the slowdown in emerging economies waning. A few members pointed out that the pick-up trend in exports was becoming evident. These members continued that this was based on the fact that (1) the decline in exports for December 2016 and January 2017 was largely attributable to a reaction to their earlier rise and the Lunar New Year holidays, and that (2) indicators, such as machinery orders from abroad -- a leading indicator of exports -- and the Purchasing Managers' Index (PMI) for manufacturing activity, had been firm.

Members shared the view that business fixed investment had been on a moderate increasing trend, as corporate profits had improved, and that this was likely to continue, including in manufacturing. One member said that, according to the FSSC, the ratio of current profits to sales for the October-December quarter of 2016 had recorded a historically high level, and such favorable corporate profits were likely to support business fixed investment.

As for the employment and income situation, members shared the recognition that supply-demand conditions in the labor market continued to improve steadily and employee income had increased moderately. With regard to the outlook, they shared the view that employee income was likely to continue to increase moderately as labor market conditions kept improving and corporate profits improved. With regard to the annual spring labor-management wage negotiations in 2017, one member noted that the fact that many firms were expecting to raise their base pay for the fourth consecutive year was a positive development that would underpin realization of a virtuous cycle in which the year-on-year rate of change in the CPI rose moderately, accompanied by increases in corporate profits and wages. On this basis, this member expressed the intent to carefully monitor the extent to which the moves to raise base pay would spread to other firms, including small ones. In response to this, a different member expressed the view that, against the background of low growth expectations in Japan in the medium to long run and high uncertainties regarding overseas developments, firms remained cautious in terms of a base pay rise that resulted in an increase in fixed costs. Another member pointed out that, as the labor shortages became more intense, it was observed that some firms were being urged to change their business models. The member continued that, as the importance of working-style reform was emphasized publicly, it was worth paying attention to whether those firms would bring about a change in the social norms for wages and prices.

Members shared the recognition that private consumption had been resilient against the background of steady improvement in the employment and income situation. Some members pointed out that the CAI -- calculated by the Bank by combining various sales and supply-side statistics -- had continued to rise moderately since summer 2016. A few members, referring to private consumption for the October-December quarter of 2016 being flat in the GDP statistics, expressed the view that this was mainly due to the temporary negative contribution of the surge in fresh food prices. A few other members expressed the recognition that sales of durable goods -- such as automobiles and household electrical appliances -- had picked up moderately, partly due to higher replacement demand. In the outlook, members shared the view that private consumption was likely to increase moderately, mainly against the background of steady improvement in the employment and income situation.

Members shared the recognition that housing investment had been more or less flat. One member pointed out that housing for rent had increased on the back of the demand for asset management and inheritance tax savings, but its growth momentum had come to a pause recently due to the waning of demand.

Members shared the recognition that industrial production had picked up, reflecting moderate increases in demand both at home and abroad and the progress in inventory adjustments. Some members said that it remained firm on the back of a global pick-up in manufacturing, mainly supported by IT-related goods. As for the outlook, members agreed that industrial production was likely to increase moderately, reflecting rises in demand at home and abroad.

As for prices, members concurred that the year-on-year rate of change in the CPI (all items less fresh food) had been about 0 percent, and that for the time being it was likely to increase from about 0 percent and become slightly positive, reflecting developments in energy prices. They shared the recognition that the year-on-year rate of increase for all items less fresh food and energy had been on a decelerating trend since the beginning of 2016 and had been stagnant at slightly above 0 percent recently. Members also agreed that the momentum toward achieving the 2 percent price stability target was being maintained but was not yet sufficiently firm. As for the outlook, a few members said that factors that would support the rise in prices had been increasing in number, such as a steady improvement in the output gap -- as seen in the tightening of labor market conditions -- and a projected rise in the observed inflation rate, affected in part by energy prices. Some members, pointing out that there had been moves to raise prices of goods and services with a view to securing the labor force, said that such moves deserved attention as they suggested that the virtuous cycle was in place in which inflation would rise accompanied by wage increases. Meanwhile, members shared the recognition that inflation expectations remained in a weakening phase as the adaptive formation mechanism had played a large role, with the observed inflation rate having been slightly negative.

B. Financial Developments

Members concurred that financial conditions in Japan were highly accommodative. They shared the view that, under Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, firms' funding costs had been hovering at extremely low levels. A few members pointed out that an increase in the amount outstanding of bank lending had accelerated, and said that yield curve control had created accommodative financial conditions, thereby firmly underpinning Japan's economic recovery.

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 conducting monetary policy, most members concurred that, although the momentum toward achieving the 2 percent price stability target was being maintained, it was not yet sufficiently firm, and thus developments in prices continued to warrant careful attention. These members shared the recognition that, as there was still a long way to go to achieve the price stability target of 2 percent, it was appropriate for the Bank to pursue powerful monetary easing under the current guideline for market operations. One of these members said that, in order to change the norm for prices formed under deflation -- namely, that prices would not increase -- it was important for the public to experience the inflation rate actually exceeding 2 percent. The member continued that, from this viewpoint, QQE with Yield Curve Control, which included the inflation-overshooting commitment, was the best possible framework that the Bank could devise at present.

Members shared the view that the Bank would make decisions on its future conduct of monetary policy at every Monetary Policy Meeting, with a view to working toward the formation of the yield curve that was deemed most appropriate for maintaining the momentum toward achieving the 2 percent price stability target, while taking account of developments in economic activity and prices as well as financial conditions. On this point, many members expressed the recognition that it was not appropriate for the Bank to raise the target level of the long-term interest rate in response to the rise in the long-term yields overseas. Some of these members said that, while the inflation rates in the United States and Europe were coming close to 2 percent, Japan's inflation rate was still around 0 percent, and therefore this was not the time for the Bank to consider a policy change toward raising interest rates. One member noted that the idea that monetary policy in each economy should be conducted to achieve the domestic mandate of ensuring price stability had been shared internationally, and the Bank's monetary easing policy was sufficiently understood.

One member pointed out that energy prices were projected to push up the year-on-year rate of change in the CPI through the second half of 2017, but this positive effect would likely dissipate again through fiscal 2018. On this point, members shared the recognition that, from the viewpoint of monetary policy conduct, what was important was not superficial developments in price indices, but whether these developments would lead to a rise in the underlying trend in inflation, mainly through an improvement in the output gap and a rise in medium- to long-term inflation expectations. On this basis, they concurred that it was important for the Bank to thoroughly communicate such thinking to the public.

With respect to yield curve control, members shared the view that, since the previous meeting, the JGB yield curve had been formed smoothly in a manner consistent with the guideline for market operations. One member noted that, under yield curve control, in which the long-term interest rate was set as the operating target, the amount of JGB purchases was endogenously determined, and that the appropriate amount fluctuated somewhat, reflecting prevailing market conditions. Based on this, the member said that, although the long-term interest rate was temporarily under upward pressure toward early February 2017, the JGB yield curve remained in line with the guideline for market operations because these operations had been conducted in a flexible manner. On this point, a different member expressed the view that the substantial increase in the size of JGB purchases in February revealed the weakness of yield curve control, in that the Bank could be forced to purchase a large amount of JGBs to achieve the target it had set for the long-term yield.

Based on the above discussions, regarding the guideline for market operations for the intermeeting period, many members expressed the view that it was appropriate for the Bank to maintain the following guideline. First, as for the short-term policy interest rate, it would apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. Second, as for the long-term interest rate, the Bank would purchase JGBs so that 10-year JGB yields would remain at around 0 percent. With regard to the amount of JGBs to be purchased, it would conduct purchases at more or less the current pace -- an annual pace of increase in the amount outstanding of its JGB holdings of about 80 trillion yen -- aiming to achieve the target level of the long-term interest rate specified by the guideline.

With regard to asset purchases except for JGB purchases, many members shared the recognition that it was appropriate for the Bank to implement the following guideline for the intermeeting period. First, 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 6 trillion yen and about 90 billion yen, respectively. Second, as for CP and corporate bonds, it would maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

With respect to the Bank's thinking behind its future conduct of monetary policy, many members shared the view that the Bank would (1) continue with QQE with Yield Curve Control, aiming to achieve the price stability target of 2 percent, as long as it was necessary for maintaining that target in a stable manner, (2) continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeded 2 percent and stayed above the target in a stable manner, and (3) make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target.

On this point, a few members expressed different views. One of these members argued that, given the uncertainty of whether the Bank would start decreasing the amount of its JGB purchases under yield curve control, it should set the amount of increase as the operating target for monetary policy conduct and reduce the amount incrementally so that the sustainability of its policy and the stability of financial markets would be enhanced.

A different member expressed the view that the current guideline for market operations was not appropriate. This member said that the shape of the JGB yield curve that would bring about desirable economic and price conditions should be a little steeper. The member commented that it was desirable that the Bank reduce the amount of purchases to the extent possible in preparation for the uncertainties ahead, such as a slowdown in overseas economies. This member continued that, taking account of market conditions going forward, there was room to further reduce the amount of purchases of T-Bills. In addition, the member said that upward pressure on long-term yields was expected to strengthen as the underlying trend in inflation improved along with the Bank's forecast as the baseline scenario, and it therefore was necessary to start discussing the procedures for yield curve control in that situation and the Bank's policy reaction function.

IV. Remarks by Government Representatives

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

(1) In the joint statement released after the Japan-U.S. Summit Meeting held on February 10, 2017, the two countries reaffirmed their commitment to using the three-pronged approach of mutually-reinforcing fiscal, monetary, and structural policies in conducting economic measures. Moreover, it was agreed that Deputy Prime Minister Aso and Vice President Pence would launch a new framework for economic dialogue between Japan and the United States, through which discussions would be held based on the three pillars of economic policies, cooperation in areas such as infrastructure and energy, and rules for trade and investment. It was meaningful that an agreement had been reached

on the framework to hold full and constructive discussions led by the deputy prime minister and the vice president, both of whom were in responsible positions.

(2) The budget for fiscal 2017 had been approved by the House of Representatives on February 27 and was being deliberated in the House of Councillors. The government considered that obtaining approval from the Diet for the budget at the earliest possible time was the key to stimulus measures, and thus it would continue to work toward promptly obtaining the Diet's approval of the budget and related bills.

(3) The government expected the Bank to continue to work toward achieving the price stability target under QQE with Yield Curve Control, in light of developments in economic activity and prices, as well as financial conditions.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was on a moderate recovery, while delayed improvement could be seen in part. The second preliminary estimate of the real GDP growth rate for the October-December quarter of 2016 had registered 0.3 percent on a quarter-on-quarter basis, and that of the nominal GDP growth rate for the same quarter had registered 0.4 percent on the same basis. The contributions of domestic and external demand to GDP growth were positive, due mainly to an increase in business fixed investment for the first time in two quarters and a rise in exports. On an annual basis, the real and nominal GDP growth rates for 2016 were 1.0 percent and 1.3 percent, respectively. As for the outlook, the economy was expected to recover moderately, 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 uncertainty in overseas economies and the effects of fluctuations in financial markets. In assessing price developments, it was important to comprehensively examine a wide range of indicators, including the GDP deflator.

(2) With regard to the working-style reform, labor and management agreed on March 13, 2017, on the direction of the amendment of the relevant laws to correct the practice of working long hours, and going forward, efforts would be accelerated toward formulating an action plan by the end of March. Although the annual spring labor-management wage negotiations were still in their initial stage, a considerable number of firms would conduct base pay increases for the fourth consecutive year.

Some firms' wage increases were exceeding the previous year's levels, and thus the government deemed that the trend of wage increases in the past three years was continuing. In addition, there were firms that had decided to work on putting into practice the working-style reform.

(3) The government expected the Bank to steadily work toward achieving the price stability target of 2 percent, in light of developments in economic activity and prices, as well as financial conditions.

V. Votes

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

The guideline for market operations for the intermeeting period will be as follows.

1. The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

2. The Bank will purchase JGBs so that 10-year JGB yields will remain at around zero percent. With regard to the amount of JGBs to be purchased, the Bank will conduct purchases at more or less the current pace -- an annual pace of increase in the amount outstanding of its JGB holdings of about 80 trillion yen -- aiming to achieve the target level of the long-term interest rate specified by the guideline.

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 setting the short-term policy interest rate at minus 0.1 percent and the target level of 10-year JGB yields at around 0 percent could lead to holding JGB yields in negative territory up to a maturity of ten years and thus could have an adverse impact on the functioning of financial intermediation. Mr. T. Kiuchi dissented, considering that, with a view to maintaining the stability of the JGB market and the functioning of financial intermediation, (1) the short-term policy interest rate should be set at 0.1 percent and (2) the adoption of a target level of a long-term interest rate was not appropriate because it would entail a risk that the Bank might need to further increase the pace of its JGB purchases.

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 ETFs and J-REITs so that their amounts outstanding would increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively, and (2) 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. 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 pricing mechanism in the stock market and the Bank's financial soundness.

C. Vote on Mr. T. Kiuchi's Policy Proposal on the Guideline for Asset Purchases

Mr. T. Kiuchi proposed that the Bank continue to use amounts of asset purchases as its operating targets and that the guidelines for asset purchases for the intermeeting period be set as follows: (1) to purchase JGBs so that their amount outstanding would increase at an annual pace of about 45 trillion yen, 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 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. Meanwhile, Mr. T. Sato expressed dissent from the inflation-overshooting commitment regarding an expansion of the monetary base considering that this was neither realistic nor effective.

A. Mr. T. Kiuchi's Policy Proposal

Mr. T. Kiuchi formulated a proposal to make the following changes. First, 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 increase from about 0 percent and become slightly positive, and will thereafter increase very moderately." Second, 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 short-term 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 -- that is, (1) the outlook deemed most likely by the Bank and (2) risks considered most relevant to the conduct of monetary policy from a medium- to long-term perspective." 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 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 January 30 and 31, 2017 for release on March 22.

Attachment
March 16, 2017
Bank of Japan

Statement on Monetary Policy

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

   (1) Yield curve control

   The Bank decided, by a 7-2 majority vote, to set the following guideline for market operations for the intermeeting period. [Note 1]

   The short-term policy interest rate:
   The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

   The long-term interest rate:
   The Bank will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero percent. With regard to the amount of JGBs to be purchased, the Bank will conduct purchases at more or less the current pace -- an annual pace of increase in the amount outstanding of its JGB holdings of about 80 trillion yen -- aiming to achieve the target level of the long-term interest rate specified by the guideline.

   (2) Guidelines for asset purchases

   With regard to asset purchases other than JGB purchases, the Bank decided, by a 7-2 majority vote, to set the following guidelines. [Note 2]

   a) 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 6 trillion yen and about 90 billion yen, respectively.

   b) 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.

2. Japan's economy has continued its moderate recovery trend. Overseas economies have continued to grow at a moderate pace, although emerging economies remain sluggish in part.

In this situation, exports have picked up. On the domestic demand side, business fixed investment has been on a moderate increasing trend as corporate profits have improved. Private consumption has been resilient against the background of steady improvement in the employment and income situation. Meanwhile, housing investment and public investment have been more or less flat. Reflecting these moderate increases in demand both at home and abroad and the progress in inventory adjustments, industrial production has picked up. 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) has been about 0 percent. Inflation expectations have remained in a weakening phase.

3. With regard to the outlook, Japan's economy is likely to turn to a moderate expansion. Domestic demand is likely to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the corporate and household sectors, on the back of highly accommodative financial conditions and fiscal spending through the government's large-scale stimulus measures. Exports are expected to follow a moderate increasing trend on the back of an improvement in overseas economies. The year-on-year rate of change in the CPI is likely to increase from about 0 percent and become slightly positive, reflecting developments in energy prices. Thereafter, it is expected to increase toward 2 percent as the output gap improves and medium- to long-term inflation expectations rise. [Note 3]

4. Risks to the outlook include the following: developments in the U.S. economy and the impact of its monetary policy on global financial markets; developments in emerging and commodity-exporting economies, particularly China; the consequences stemming from the United Kingdom's vote to leave the European Union (EU) and their effects; prospects regarding the European debt problem, including the financial sector; and geopolitical risks.

5. The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," 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 continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. The Bank will make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target. [Note 4]

[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 setting the short-term policy interest rate at minus 0.1 percent and the target level of 10-year JGB yields at around 0 percent could lead to holding JGB yields in negative territory up to a maturity of 10 years and thus could have an adverse impact on the functioning of financial intermediation. Mr. T. Kiuchi dissented considering that, with a view to maintaining the stability of the JGB market and the functioning of financial intermediation, (1) the short-term policy interest rate should be set at 0.1 percent and (2) the adoption of a target level for a long-term interest rate was not appropriate because it would entail a risk that the Bank might need to further increase the pace of its JGB purchases.

[Note 2] 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 pricing mechanism in the stock market and the Bank's financial soundness. Mr. T. Kiuchi proposed that the Bank continue to use amounts of asset purchases as its operating targets and set the guidelines for asset purchases as follows: the Bank would purchase JGBs so that their amount outstanding would increase at an annual pace of about 45 trillion yen, purchase ETFs so that their amount outstanding would increase at an annual pace of about 1 trillion yen, and so on. The proposal was defeated by a majority vote.

[Note 3] Mr. T. Kiuchi proposed, concerning the year-on-year rate of change in the CPI, that it was likely to increase from about 0 percent and become slightly positive, and would thereafter increase 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. T. Sato, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.

[Note 4] Mr. T. Sato opposed the commitment to expanding the monetary base, considering that this was neither realistic nor effective. 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 short-term interest rate policy as long as each of these policy measures was deemed appropriate. 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.