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May 7, 2018

Bank of Japan

Minutes of the Monetary Policy Meeting

on March 8 and 9, 2018

(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, March 8, 2018, from 2:00 p.m. to 3:34 p.m., and on Friday, March 9, from 9:00 a.m. to 11:39 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. Y. Harada

Mr. Y. Funo

Mr. M. Sakurai

Ms. T. Masai

Mr. H. Suzuki

Mr. G. Kataoka

Government Representatives Present

Mr. K. Ueno, State Minister of Finance, Ministry of Finance[2]

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

Mr. T. Ochi, State Minister of Cabinet Office, Cabinet Office[2]

Mr. M. Maekawa, 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. T. Kato, Director-General, Monetary Affairs Department

[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on April 26 and 27, 2018 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. K. Ueno and T. Ochi were present on March 9.

[3] Messrs. T. Kabe and M. Maekawa were present on March 8.

Mr. A. Okuno, 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. H. Ichiue, Head of Economic Research Division, Research and Statistics Department

Mr. Y. Nakata, Director-General, International Department

Secretariat of the Monetary Policy Meeting

Mr. Y. Onozawa, Director-General, Secretariat of the Policy Board

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

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

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

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

A. 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 22 and 23, 2018, 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 2, 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 0.03 to minus 0.06 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had declined somewhat and recently had been at around minus 0.2 percent.

The Nikkei 225 Stock Average had fallen, partly due to the yen's appreciation against the U.S. dollar and concern over uncertainties surrounding U.S. trade policy amid a decline in U.S. and European stock prices, and was moving in the range of 21,000-21,500 yen recently. In the foreign exchange market, as investors' risk aversion had heightened somewhat, the yen had appreciated against the U.S. dollar. Meanwhile, it had also appreciated against the euro.

C. Overseas Economic and Financial Developments

Overseas economies continued to grow firmly on the whole.

The U.S. economy had been expanding. Exports had been on an increasing trend. Private consumption had been on an uptrend, supported in part by a favorable employment and income situation, while business fixed investment also had been increasing firmly,

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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.

mainly on the back of improvement in business sentiment. 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 at around 1.5 percent.

The European economy continued to recover firmly. Exports had been on an increasing trend. Private consumption also had been on an increasing trend, partly supported by improvements in the employment and income situation and consumer sentiment, while business fixed investment had been on such a trend as well. With regard to prices, both the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) for all items and that for all items excluding energy and unprocessed food had been in the range of 1.0-1.5 percent. Meanwhile, the pace of economic recovery in the United Kingdom had been slowing as the rise in prices had been weighing on private consumption.

With regard to emerging economies, the Chinese economy continued to see stable growth on the whole. As for prices, the year-on-year rate of change in the consumer price index (CPI) had been at around 1.5 percent. In the NIEs and the ASEAN countries, domestic demand had been resilient, as business and household sentiment had improved, with exports being on an increasing trend. Economic activity in Russia and Brazil had been recovering moderately, mainly on the back of the decline in their inflation rates. In India, the economy had been recovering moderately, particularly in domestic demand.

With respect to overseas financial markets, U.S. long-term interest rates had risen, mainly due to the spread of the view that the pace of inflation would accelerate as wage and price indicators had been stronger than market expectations. Triggered by these developments, investors' risk aversion had heightened, and stock prices worldwide, including those of the United States, had declined. Although stock prices continued to fluctuate considerably thereafter, price changes in the credit and commodity markets had been only marginal, and capital outflows from emerging economies had not been observed.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy was expanding moderately, with a virtuous cycle from income to spending operating.

Exports had been on an increasing trend on the back of the firm growth in overseas economies. Those to advanced economies continued on their increasing trend when fluctuations were smoothed out; those to emerging economies had picked up for a wide range of items including capital goods, electronic parts, and intermediate goods to Asia. Exports were expected to continue their moderate increasing trend, mainly for capital goods and IT-related goods.

Public investment had been more or less flat, remaining at a relatively high level. It was likely to decline as the positive effects resulting from the government's large-scale stimulus measures formulated in fiscal 2016 diminished, but was projected to remain at a relatively high level, mainly underpinned by Olympic Games-related construction.

Business fixed investment continued on an increasing trend with corporate profits and business sentiment improving. Looking at the *Financial Statements Statistics of Corporations by Industry, Quarterly* (FSSC), the ratio of current profits to sales for the October-December quarter of 2017 continued on an improving trend, supported in part by solid domestic demand and the growth in overseas economies. According to the second preliminary estimate of GDP for the October-December quarter, the growth rate of real business fixed investment had marked 1.0 percent on a quarter-on-quarter basis, representing a fifth consecutive quarterly increase. 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 on an increasing trend, albeit with monthly fluctuations. Business fixed investment was likely to continue increasing, mainly on the back of an improvement in corporate profits, accommodative financial conditions, and heightened growth expectations.

As for the employment and income situation, supply-demand conditions in the labor market continued to tighten steadily and employee income had increased moderately. The active job openings-to-applicants ratio had followed a steady improving trend, and the unemployment rate had declined to around 2.5 percent.

Private consumption had been increasing moderately, albeit with fluctuations, 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 returned to positive territory for the October-December quarter of 2017 on a quarter-on-quarter basis and continued to rise slightly for January 2018 relative to that quarter. Private consumption was expected to follow a moderate increasing trend, supported by an increase in employee income and the wealth effects stemming from the past rise in stock prices, as well as by replacement demand for durable goods.

Housing investment had been weakening somewhat, as the number of housing starts in terms of housing for rent had decreased, mainly reflecting a peaking-out in demand for tax saving.

Industrial production had been on an increasing trend against the background of rises in demand at home and abroad. It was likely to continue to increase firmly for the time being on the back of these rises.

As for prices, the rate of change in the producer price index (PPI) relative to three months earlier -- adjusted for the effects of seasonal changes in electricity rates -- had increased, reflecting developments in international commodity prices. The year-on-year rate of change in the CPI for all items less fresh food was around 1 percent, while the rate of change for all items less fresh food and energy was at around 0.5 percent. With regard to the outlook, the year-on-year rate of change in the CPI (all items less fresh food) was likely to continue on an uptrend and increase toward 2 percent, mainly on the back of an improvement in the output gap and a rise in medium- to long-term inflation expectations.

2. Financial environment

Financial conditions were highly accommodative.

Inflation expectations had been more or less unchanged. 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 continued to increase, such as for funds for business fixed investment and for those related to mergers and acquisitions. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending had been in the range of 2.0-2.5 percent. The year-on-year rate of increase in the amount outstanding of CP and corporate bonds had been at a relatively high level. Firms' financial positions had been favorable.

The monetary base had been increasing at a high year-on-year growth rate of around 10 percent. The year-on-year rate of growth in the money stock had been at around 3.5 percent.

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, since the start of February 2018, investors' risk aversion had heightened, triggered by the rise in U.S. long-term interest rates, and adjustments to stock prices worldwide had been seen temporarily. However, they continued that the impact of these developments on other financial markets and economic activity had been limited so far. Some members expressed the view that one of the factors for the sudden instability in the stock market was the unwinding of positions based on short volatility strategies pursued by some investors that had coincided with the aforementioned developments. One of these members said that, in light of the fact that Japan's financial institutions had been increasing investment in foreign currency-denominated bonds, it was important to fully grasp the effects of the fluctuations in global financial markets on financial institutions' financial conditions. In terms of the outlook, members agreed that uncertainties surrounding U.S. economic policies had not been dispelled, and thus it was necessary to continue to pay close attention to the impact of these uncertainties on global capital flows and Japan's economic activity and prices. One member added that, if risk aversion heightened globally and the trends of the yen's appreciation and a decline in stock prices persisted, there was a possibility that Japan's exports would decline and that business fixed investment and consumption would be restrained.

With respect to overseas economies, members shared the recognition that they continued to grow firmly on the whole. They agreed that, amid vigorous trade activities continuing globally, advanced economies continued to improve steadily and emerging economies had been recovering moderately overall. One member pointed out that the improvement in the manufacturing sector of advanced economies was attributable to cyclical factors, as well as to the creation of new demand arising from technological innovation, such as the Internet of Things (IoT), artificial intelligence (AI), and automated vehicle technology. As for the outlook, members concurred that overseas economies were likely to maintain their firm growth. Many members expressed the view that production and trade activities in the manufacturing sector were likely to be solid globally, and advanced and emerging economies were projected to grow in a well-balanced manner.

With regard to developments in overseas economies by region, members concurred that the U.S. economy had been expanding, as evidenced by the continued relatively high growth rate of the real GDP and by the sustained uptrend in employment. As for the outlook, they shared the view that the economy was likely to continue to expand. One member said that the pace of wage increases had been accelerating, reflecting the tightening of labor market conditions, and this was likely to lead to a further rise in consumption. A few members noted that, although corporate tax cuts and an increase in infrastructure investment were projected to exert upward pressure on the U.S. economy, the degree and timing of the impact of these moves was not exactly certain and thus it was necessary to continue to pay close attention going forward.

Members shared the recognition that the European economy continued to recover firmly, with both domestic and external demand on an uptrend. One member pointed out that resilient private consumption had consistently underpinned economic growth. A different member added that business sentiment had been improving widely, as confirmed by the Purchasing Managers' Index (PMI) for manufacturing activity remaining at a relatively high level, and by the PMI for services increasing recently. As for the outlook, members concurred that the European economy would likely continue its recovery.

Members shared the recognition that emerging economies had been recovering moderately overall. They agreed that the Chinese economy continued to see stable growth on the whole. As the background to this, one member noted that exports had been on an uptrend and that the Chinese authorities had been responding to economic fluctuations in a timely manner. A different member added that, despite the concern over the impact of the termination of tax cuts on small cars, automobile sales had not shown a significant drop so far. Members concurred that, in the NIEs and the ASEAN countries, with exports being on an increasing trend, domestic demand also had been resilient, mainly reflecting improvements in business and household sentiment and the effects of economic stimulus measures. They shared the recognition that commodity-exporting economies such as Russia and Brazil had been recovering moderately, mainly on the back of the decline in their inflation rates and the effects of monetary easing measures. As for the outlook, members agreed that emerging economies were likely to continue their moderate recovery overall. They shared the view that the Chinese economy was likely to broadly follow a stable growth path as authorities conducted fiscal and monetary policies in a timely manner.

Members shared the recognition that factors such as U.S. economic policies, negotiations on the United Kingdom's exit from the EU, and geopolitical risks continued to be regarded as risks to developments in overseas economies. With regard to U.S. economic policies, many members expressed the view that uncertainties surrounding trade policy as well as fiscal and monetary policies had been increasing. On this point, a few members noted that, if the United States would push itself toward further protectionism, U.S. imports from countries that opposed such a move might become stagnant. One member added that there was a risk that extreme trade protectionism would disrupt established global supply chains and bring about a contraction in global trade, which finally had been recovering. Meanwhile, one member noted that the member continued to regard developments surrounding North Korea as a geopolitical risk and that due attention should continue to be paid to them.

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 was expanding moderately, with a virtuous cycle from income to spending operating. As for developments in the corporate sector, they shared the recognition that exports had been on an increasing trend and that business fixed investment also continued on an increasing trend, with corporate profits being at a historically high level. Regarding the household sector, members shared the view that private consumption had been increasing moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation. Some members pointed out that the following fact provided evidence of a steady improvement in Japan's economy: the real GDP growth rate for the October-December quarter of 2017 was 1.6 percent on an annualized quarter-on-quarter basis, exceeding the potential growth rate and registering positive growth for the eighth consecutive quarter. One member said that, while the economic recovery in the mid-2000s, which was the longest in the post-war era, had not been self-sustaining, as it had relied on external demand, in light of economic developments since the burst of the asset bubble, the current recovery had been achieved in a most balanced manner, as it was being seen in a wide range of regions, industries, and firm sizes. As for the outlook for the economy, members concurred that Japan's economy was likely to continue its moderate expansion. On a more specific note, 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 underpinnings through the government's past stimulus measures.

Members shared the recognition that exports had been on an increasing trend on the back of the firm growth in overseas economies. A few members pointed out that Japan's exports on a GDP basis had been increasing for six consecutive quarters and that machinery orders also suggested that exports had been firm recently. As for the outlook, members concurred that exports would likely continue their moderate increasing trend for the time being, with the global economy maintaining its firm growth.

Members agreed that public investment had been more or less flat, remaining at a relatively high level.

Members concurred that business fixed investment continued on an increasing trend with corporate profits and business sentiment improving. A few members pointed out that, in addition to the investment aimed at streamlining business processes and at saving labor, a growing number of firms recently had been making investment aimed at increasing production capacity, for example by taking the opportunity to replace outdated equipment, amid awareness of supply-side constraints, such as in terms of parts. Regarding the outlook, members agreed that business fixed investment was likely to continue increasing, mainly on the back of accommodative financial conditions and heightened growth expectations. One member expressed the view that various leading indicators of business fixed investment suggested that it would likely continue to increase firmly for the time being, including Olympic Games-related investment and labor-saving investment to address the labor shortage.

As for the employment and income situation, members shared the recognition that supply-demand conditions in the labor market continued to tighten steadily and employee income had increased moderately. Some members referred to the fact that the unemployment rate of 2.4 percent for January represented a substantial decline from 2.7 percent for the previous month. These members then pointed out that, although this decline indicated that labor market conditions had tightened further, the rate might also have been affected by temporary special factors, and therefore future developments needed to be monitored without making any prejudgment. One member expressed the recognition that the recent improvement in the employment situation was notable, as evidenced by, for instance, the fact that (1) the actual unemployment rate had been substantially below 3.5 percent, which had formerly been regarded as the structural unemployment rate, and (2) the recruitment rate of new graduates and the employment rate of women had risen considerably. In response, one member expressed the view that excess supply capacity remained in the labor market, given that, compared to the first half of the 1990s, the recent employment rate was still relatively low, even taking into consideration, for example, demographic changes. Some members pointed out that the degree of tightness in the labor market differed by industry and type of job. These members said that, while the active job openings-to-applicants ratio had been relatively low in industries where substitution of labor with capital-- including the use of AI -- proceeded easily, labor shortage had become more acute in industries such as transport -- where it was difficult for women to become new entrants and for firms to substitute labor with capital -- as well as care-giving and childcare -- where it was difficult to raise wages due to strict regulations on prices and compensation of workers. Meanwhile, one member pointed out that the negative hysteresis -- such as firms' inefficient business processes and their negative stance toward investment -- that had become entrenched through the prolonged shortage of demand and deflation had been dissipating against the background of the recent labor shortage. With regard to the outlook, members shared the view that employee income was likely to continue to increase moderately as labor market conditions kept tightening steadily and corporate profits improved. Many members then said that, for the immediate future, they were paying attention to what extent wage raises would increase as a result of the annual spring labor-management wage negotiations in 2018. One member noted that a key point would be whether initiatives taken by labor and management would push up the year-on-year rate of change in real wages into positive territory.

Members shared the recognition that private consumption had been increasing moderately, albeit with fluctuations. One member expressed the view that, although there had been some negative factors, such as the decline in stock prices, severe weather including a heavy snowfall, and the rise in fresh food prices, private consumption had been firm recently. In the outlook, members agreed that private consumption was likely to follow a moderate increasing trend, supported by an increase in employee income and the wealth effects stemming from the past rise in stock prices, as well as by replacement demand for durable goods. One member, noting that the weak recovery in consumption since last summer was of concern, said that the member was paying due attention to the extent to which the favorable effects of an increase in exports would spread to the household sector through wage increases. A few other members pointed out that it was necessary to carefully monitor the effects on household sentiment of the results of the annual spring labor-management wage negotiations and the recent decline in stock prices.

Members shared the recognition that housing investment had been weakening somewhat against the background of the decrease in the number of housing starts in terms of housing for rent, mainly reflecting a peaking-out in demand for tax saving.

Members shared the view that industrial production had been on an increasing trend against the background of rises in demand at home and abroad. Regarding the outlook, they agreed that industrial production was likely to continue to increase firmly for the time being on the back of these rises.

As for prices, members concurred that the year-on-year rate of change in the CPI for all items less fresh food and energy was at around 0.5 percent, partly because price rises by firms continued to be limited, while the rate of change for all items less fresh food was around 1 percent. Most members shared the recognition that prices had been relatively weak compared to the steady tightening of labor market conditions amid the moderate expansion of the economy. On this basis, a few members noted that, recently, while the positive contribution of energy prices had been lessening, rises in labor costs and materials prices had been pushing up prices, such as for dining-out and for food products. One member expressed the recognition that firms' price-setting stance had gradually begun to change, as seen in price rises for various goods and services being reported by the media, with the start of the new fiscal year approaching.

In terms of the outlook for prices, most members shared the view that the year-on-year rate of change in the CPI was likely to continue on an uptrend and increase toward 2 percent, mainly on the back of the improvement in the output gap and the rise in medium- to long-term inflation expectations. A few members said that rises in services prices led by wage increases, as well as in prices of goods traded among firms that reflected increases in commodity prices, might transmit to consumer prices. One of these members expressed the view that an important factor was the extent to which wage developments after the annual spring labor-management wage negotiations would improve individual firms' price-setting stance and consumers' acceptance of price rises. In response, one member expressed the recognition that, although upward pressure had been exerted on prices, reflecting the widening of the output gap within positive territory, the momentum of inflation was not yet strong enough to achieve the price stability target of 2 percent at an early stage.

Members shared the view that inflation expectations had been more or less unchanged. One member pointed out that many indicators of short-term inflation expectations had shown an uptrend recently, and that medium- to long-term inflation expectations had been more or less unchanged, after having emerged from a weakening phase. Many members expressed the view that people's inflation expectations were likely to increase through the adaptive expectation formation mechanism as the observed inflation rates had been rising gradually recently and as prices were likely to increase going forward, mainly on the back of the improvement in the output gap. Meanwhile, one member, noting that indicators relating to inflation expectations remained relatively weak on the whole since January, said that it was not certain at this point whether the adaptive expectation formation mechanism through which inflation expectations increased would fully operate.

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 and financial institutions' lending attitudes, as perceived by both large and small firms, continued to be proactive.

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 shared the recognition that, although it was necessary to carefully examine the fact that firms' wage- and price-setting stance remained cautious, the momentum toward achieving the 2 percent price stability target was being maintained. As background to this, these members noted the following two points: (1) firms' stance was likely to gradually shift toward raising wages and prices with the steady improvement in the output gap, and (2) medium- to long-term inflation expectations, which had been more or less unchanged recently, were likely to rise steadily as further price rises came to be observed widely. Following this discussion, most members shared the recognition that it was appropriate for the Bank to persistently pursue powerful monetary easing under the current guideline for market operations. Many members expressed the view that, as there was still a long way to go to achieve the price stability target of 2 percent, it was necessary to maintain the current highly accommodative financial conditions. One member said that, with the aim of achieving the price stability target, the Bank -- by continuing with the current monetary policy -- should persistently encourage a virtuous cycle to take hold whereby demand would be stimulated, spurring supply-side reforms. A different member added that moves toward strengthening the supply side of the economy were also likely to strengthen the effects of the current monetary easing policy through a rise in the natural rate of interest.

Members discussed the Bank's basic stance on conducting monetary policy. Some members pointed out that it was important to continue to conduct a multifaceted monitoring and assessment of the positive impacts and side effects of the current monetary easing policy -- including its effects on the functioning of financial intermediation and the financial system. One member was of the view that Japanese financial institutions had sufficient capital bases, and there was no problem with the functioning of financial intermediation at this stage. However, this member continued that, as developments in profits of financial institutions had a cumulative impact on their financial strength, there was a risk that financial intermediation would be pulled back if the low-yield environment was further prolonged. One member expressed the view that, in the course of the inflation rate increasing toward 2 percent and the potential growth rate rising going forward, the effects of monetary easing measures would be enhanced; therefore, it would be necessary to consider appropriate policy conduct while taking into account such changes in the environment as well as the side effects of the measures. One member noted that the effects of the decline in the long-term real interest rates on economic activity and prices could be becoming smaller, due mainly to the fact that interest rates on many of the new loans extended by major banks linked to short-term interest rates recently. This member then pointed out that it was important to consider the desirable shape of the yield curve while taking these changes into account. A different member expressed the recognition that, in considering the desirable shape of the yield curve, it was necessary to thoroughly examine not only developments in economic activity and prices but also financial developments. However, this member continued that, given the structural problem of overbanking, it was difficult to stabilize the functioning of financial intermediation and the financial system only by making adjustments on the monetary policy front. Meanwhile, one member noted that, as Japan's economy had reached a state of no longer being in deflation, it was important to augment the momentum of the virtuous cycle that had emerged during this process through additional easing measures, thereby putting an end to deflation.

Members also discussed the Bank's strategy for communication to the public regarding the conduct of monetary policy. Some members expressed the view that, in addition to fluctuations in global financial markets, the recent volatility in the foreign exchange and stock markets was partly attributable to the growing interest among market participants in the direction of future monetary policy amid the continued improvement in Japan's economic and price developments. Some members pointed out that -- so as not to give rise to any misunderstanding in the markets -- it was important for the Bank to thoroughly explain to the public its thinking that, (1) as there was still a long way to go to achieve the price stability target, the Bank continued to take the stance of persistently pursuing the current powerful monetary easing, and (2) the economy had not yet reached a phase in which the Bank should consider the timing and measures of its so-called exit from monetary easing. One of these members then said that, while "normalization" -- that is, gradually reducing the degree of monetary accommodation -- could become a topic for consideration in the future, the Bank also needed to provide an explanation to market participants so that they could fully understand that "normalization" would still be part of the process of monetary accommodation and therefore differed from "monetary tightening," which aimed at reducing the positive output gap. A different member expressed the recognition that it was essential for the Bank to aim to achieve the price stability target while gaining the public's understanding on the importance of overcoming deflation, so that a shift in firms' stance toward raising prices would not be interpreted in a negative manner.

Meanwhile, one member expressed the view that, in a situation where there was not ample room for additional monetary easing, support from the fiscal policy side was necessary in order to ensure that the economy overcame deflation. On this basis, this member said that, with regard to achieving a surplus in the primary balance, it was desirable that the government control the balance in a flexible manner while setting an appropriate quantitative target in light of developments in economic activity and prices, as well as financial conditions.

One member pointed out that, given the significant economic improvement under powerful monetary easing, among those who had expected the effects of QQE on the economy to be small, some had sought to achieve a balance between their expectations and reality by emphasizing that the economy would surely deteriorate in the future.

With respect to <u>yield curve control</u>, members shared the recognition 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 pointed out that the JGB yield curve had been stable at a low level, even with the heightened upward pressure on interest rates reflecting the rise in inflation rates in the United States and Europe.

Based on the above discussions, regarding <u>the guideline for market operations for the intermeeting period</u>, most 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.

On this point, one member expressed the opinion that, taking account of risk factors such as the scheduled consumption tax hike in Japan and a possible economic downturn in the United States, the Bank should aim to achieve a situation in which the inflation rate would reach 2 percent in fiscal 2018 and overshoot 2 percent at the earliest possible time. This member continued that, to this end, it was appropriate for the Bank to purchase JGBs so that yields on JGBs with maturities of 10 years and longer would broadly be lowered further.

With regard to asset purchases other than JGB purchases, 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. On this basis, one member said that policy effects and the possible side effects of the purchases of risky assets including ETFs should continue to be examined from every angle, while keeping in mind that such purchases were conducted as one of the components of the policy package to achieve the price stability target.

With respect to the Bank's thinking behind its future conduct of monetary policy, most members shared the view that the Bank would (1) continue with QQE with 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.

In response to this, one member said that, with a view to reinforcing the inflation-overshooting commitment, it was appropriate for the Bank to introduce a new commitment that it would take additional easing measures if -- with regard to the median of the Policy Board members' forecasts of the CPI in the *Outlook for Economic Activity and Prices* -- there was a delay in the timing of achieving the price stability target due to domestic factors.

IV. Remarks by Government Representatives

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

(1) The Governor and the two Deputy Governors of the Bank, for whom this Monetary Policy Meeting was their last one during their terms of office, had made strenuous efforts toward sound economic development through the maintenance of price stability since taking office in 2013. The Ministry of Finance would like to express its appreciation of their efforts during their terms of office.

(2) The budget for fiscal 2018 was approved by the House of Representatives on February 28, 2018, and was being deliberated in the House of Councillors. The government considered that early passage of the budget was the most important measure for stimulating the economy. It would continue to work toward promptly obtaining the Diet's approval of the budget and related bills in order to ensure a virtuous economic cycle and achieve sustainable economic growth.

(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 recovering at a moderate pace. The second preliminary estimate of the real GDP growth rate for the October-December quarter of 2017 was 0.4 percent on a quarter-on-quarter basis and 1.6 percent on an annualized basis, registering positive growth for the eighth consecutive quarter. As for the outlook, the economy was expected to continue recovering 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 volatility in financial markets. In assessing price developments, it was important to comprehensively examine a wide range of price indicators, including the GDP deflator.

(2) The government would steadily implement the New Economic Policy Package by promoting "Supply System Innovation" and "Human Resources Development" as two wheels of a cart. With regard to the work style reform bills, the government would completely remove all items related to the amendments concerning the discretionary

working system, but would aim at obtaining the Diet's approval of the remaining parts during the current session. The government would conduct a detailed study and present a direction regarding systems for accepting foreign personnel with specialized and technical skills. Moreover, it would prepare to submit to this session of the Diet the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, known as the TPP-11, and related domestic bills.

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

(4) The Governor and the two Deputy Governors of the Bank had conducted bold monetary easing over the past five years toward achieving the price stability target. The Cabinet Office would like to express its deep appreciation for their contributions.

V. Votes

A. Vote 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, Ms. T. Masai, and Mr. H. Suzuki.
Votes against the proposal: Mr. G. Kataoka.

Mr. G. Kataoka dissented, considering that, taking account of risk factors such as the consumption tax hike and a possible economic downturn in the United States, it was desirable to achieve the price stability target in fiscal 2018, and that it was appropriate for the Bank to purchase JGBs so that yields on JGBs with maturities of 10 years and longer would broadly be lowered further.

B. Vote on the Guideline for Asset Purchases

To reflect the 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 unanimous vote.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, Ms. T. Masai, Mr. H. Suzuki, and Mr. G. Kataoka.
Votes against the proposal: None.

VI. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy. Mr. G. Kataoka expressed the following opinions: (1) the possibility of the year-on-year rate of change in the CPI increasing toward 2 percent going forward was low at this point, and (2) with a view to reinforcing the inflation-overshooting commitment, if there was a delay in the timing of achieving the price stability target due to domestic factors, the Bank should take additional easing measures, and it was necessary to include that in the text.

Based on this discussion, 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 22 and 23, 2018 for release on March 14.

Attachment
March 9, 2018
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 an 8-1 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 unanimous vote, to set the following guidelines.

   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 is expanding moderately, with a virtuous cycle from income to spending operating. Overseas economies have continued to grow firmly on the whole. In this situation,

exports have been on an increasing trend. On the domestic demand side, business fixed investment has continued on an increasing trend with corporate profits and business sentiment improving. Private consumption has been increasing moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation. Housing investment has been weakening somewhat. Meanwhile, public investment has been more or less flat, remaining at a relatively high level. Reflecting these increases in demand both at home and abroad, industrial production has been on an increasing trend, and labor market conditions have continued to tighten steadily. Financial conditions are highly accommodative. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) is around 1 percent. Inflation expectations have been more or less unchanged.

3. With regard to the outlook, Japan's economy is likely to continue its 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 underpinnings through the government's past stimulus measures. Exports are expected to continue their moderate increasing trend on the back of the firm growth in overseas economies. The year-on-year rate of change in the CPI is likely to continue on an uptrend and increase toward 2 percent, mainly on the back of an improvement in the output gap and a rise in medium- to long-term inflation expectations. [Note 2]

4. Risks to the outlook include the following: the U.S. economic policies and their impact on global financial markets; developments in emerging and commodity-exporting economies; negotiations on the United Kingdom's exit from the European Union (EU) and their effects; 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 3]

[Note 1] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, Ms. T. Masai, and Mr. H. Suzuki. Voting against the action: Mr. G. Kataoka. Mr. G. Kataoka dissented, considering that, taking account of risk factors such as the consumption tax hike and a possible economic downturn in the United States, it was desirable to achieve the price stability target in fiscal 2018, and that it was appropriate for the Bank to purchase JGBs so that yields on JGBs with maturities of 10 years and longer would broadly be lowered further.

[Note 2] Mr. G. Kataoka opposed the description, considering that the possibility of the year-on-year rate of change in the CPI increasing toward 2 percent going forward was low at this point.

[Note 3] With a view to reinforcing the inflation-overshooting commitment, Mr. G. Kataoka opposed the description, considering that, if there was a delay in the timing of achieving the price stability target due to domestic factors, the Bank should take additional easing measures and that it was necessary to include that in the text.