January 21, 2015
Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by an 8-1 majority vote, to set the following guideline for money market operations for the intermeeting period:[Note 1]

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

2. With regard to the asset purchases, the Bank decided, by an 8-1 majority vote, to continue with the following guidelines:[Note 2]

   a) The Bank will purchase Japanese government bonds (JGBs) so that their amount outstanding will increase at an annual pace of about 80 trillion yen. With a view to encouraging a decline in interest rates across the entire yield curve, the Bank will conduct purchases in a flexible manner in accordance with financial market conditions. The average remaining maturity of the Bank's JGB purchases will be about 7-10 years.

   b) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 3 trillion yen and about 90 billion yen respectively.

   c) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen respectively.

3. The Policy Board also decided, by a unanimous vote, to make the following amendments to the Fund-Provisioning Measure to Stimulate Bank Lending (hereafter "Stimulating Bank Lending Facility"), the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth (hereafter "Growth-Supporting Funding Facility"), the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas affected by the Great East Japan Earthquake, and the Temporary Rules regarding the Eligibility Standards for Debt of Companies in Disaster Areas, all of which were due to expire shortly:[1]

[1] Amendments to relevant principal terms and conditions will be decided at a future Monetary Policy Meeting.

a) The Bank will extend these measures by one year.

b) With regard to the main rules for the Growth-Supporting Funding Facility, the Bank will increase the maximum amount of funds that it can provide to each financial institution from 1 trillion yen to 2 trillion yen, and also increase the maximum amount outstanding of its fund-provisioning as a whole from 7 trillion yen to 10 trillion yen.

c) As for the Stimulating Bank Lending Facility and the Growth-Supporting Funding Facility, the Bank will introduce a new framework for enabling financial institutions, which do not have a current account at the Bank, to use these facilities through their central organizations.

4. Japan's economy has continued to recover moderately as a trend, and effects such as those of the decline in demand following the front-loaded increase prior to the consumption tax hike have been waning on the whole. Overseas economies -- mainly advanced economies -- have been recovering, albeit with a lackluster performance still seen in part. In this situation, exports have shown signs of picking up. Business fixed investment has been on a moderate increasing trend as corporate profits have improved. Public investment has more or less leveled off at a high level. Private consumption has remained resilient as a trend with the employment and income situation improving steadily, and the effects of the decline in demand following the front-loaded increase have been waning on the whole. Housing investment, which continued to decline following the front-loaded increase, has recently started to bottom out. Against the backdrop of these developments in demand both at home and abroad, industrial production has bottomed out, due in part to the progress in inventory adjustments. Meanwhile, financial conditions are accommodative. On the price front, the year-on-year rate of increase in the consumer price index (CPI, all items less fresh food), excluding the direct effects of the consumption tax hike, is in the range of 0.5-1.0 percent. Inflation expectations appear to be rising on the whole from a somewhat longer-term perspective.

5. With regard to the outlook, Japan's economy is expected to continue its moderate recovery trend, and the effects such as those of the decline in demand following the front-loaded increase prior to the consumption tax hike are expected to dissipate. The year-on-year rate of increase in the CPI is likely to slow for the time being, reflecting the decline in energy prices.

6. Compared with the forecasts presented in the October 2014 *Outlook for Economic Activity and Prices*, the growth rate will likely be lower for fiscal 2014, but will likely be higher for fiscal 2015 and 2016. With regard to the CPI, the outlook for the underlying trend remains unchanged, but the year-on-year rate of increase will likely be lower toward fiscal 2015, due to the significant decline in crude oil prices. The rate of increase for fiscal 2016 will likely be more or less unchanged from the October forecast.[2]

7. Risks to the outlook include developments in the emerging and commodity-exporting economies, the prospects regarding the debt problem and the risk of low inflation rates being protracted in Europe, and the pace of recovery in the U.S. economy.

8. Quantitative and qualitative monetary easing (QQE) has been exerting its intended effects, and the Bank will continue with the QQE, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate.[Note 3]

[Note 1] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, and Mr. T. Sato. Voting against the action: Mr. T. Kiuchi. The member voting against the action considered that the guideline for money market operations before the decision regarding the "Expansion of the Quantitative and Qualitative Monetary Easing" on October 31, 2014 was appropriate.

[Note 2] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, and Mr. T. Sato. Voting against the action: Mr. T. Kiuchi. The member voting against the action considered that the guideline for asset purchases before the decision regarding the "Expansion of the Quantitative and Qualitative Monetary Easing" on October 31, 2014 was appropriate.

[Note 3] Mr. T. Kiuchi proposed that the Bank will aim to achieve the price stability target of 2 percent in the medium to long term and designate the QQE as an intensive measure with a time frame of about two years. 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. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, and Mr. T. Sato.

[2] In this interim assessment, given the significant change in crude oil prices, the Policy Board members made their forecasts based on the following assumption about crude oil prices. Dubai crude oil prices are expected to rise moderately from the recent 55 U.S. dollars per barrel to about 70 dollars per barrel toward the end of the projection period. In this case, the contribution of energy items to the CPI (all items less fresh food) is estimated to be mostly in the range of minus 0.7 to minus 0.8 percentage point for fiscal 2015, and mostly in the range of plus 0.1 to plus 0.2 percentage point for fiscal 2016.

(Appendix 1)

Forecasts of the Majority of Policy Board Members

y/y % chg.

	Real GDP	CPI (all items less fresh food)	Excluding the effects of the consumption tax hikes
Fiscal 2014	-0.6 to -0.4 [-0.5]	+2.9 to +3.2 [+2.9]	+0.9 to +1.2 [+0.9]
Forecasts made in October 2014	+0.2 to +0.7 [+0.5]	+3.1 to +3.4 [+3.2]	+1.1 to +1.4 [+1.2]
Fiscal 2015	+1.8 to +2.3 [+2.1]	+0.4 to +1.3 [+1.0]	
Forecasts made in October 2014	+1.2 to +1.7 [+1.5]	+1.8 to +2.6 [+2.4]	+1.1 to +1.9 [+1.7]
Fiscal 2016	+1.5 to +1.7 [+1.6]	+1.5 to +2.3 [+2.2]	
Forecasts made in October 2014	+1.0 to +1.4 [+1.2]	+1.9 to +3.0 [+2.8]	+1.2 to +2.3 [+2.1]

Notes: 1. Figures in brackets indicate the median of the Policy Board members' forecasts (point estimates).

2. The forecasts of the majority of the Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate -- namely, the figure to which he or she attaches the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. The range does not indicate the forecast errors.

3. Individual Policy Board members make their forecasts assuming the effects of past policy decisions and with reference to views incorporated in financial markets regarding future policy.

4. Dubai crude oil prices are expected to rise moderately from the recent 55 U.S. dollars per barrel to about 70 dollars per barrel toward the end of the projection period. In this case, the contribution of energy items to the CPI (all items less fresh food) is estimated to be mostly in the range of minus 0.7 to minus 0.8 percentage point for fiscal 2015, and mostly in the range of plus 0.1 to plus 0.2 percentage point for fiscal 2016.

5. The consumption tax hike in April 2014 -- to 8 percent -- and the one scheduled for April 2017 -- to 10 percent -- are incorporated in the forecasts. In terms of the outlook for the CPI, individual Policy Board members make their forecasts based on figures excluding the direct effects of the consumption tax hikes.

6. The forecasts for the CPI that incorporate the direct effects of the consumption tax hikes are constructed as follows. First, the contribution to prices from each tax hike is mechanically computed on the assumption that the tax increase will be fully passed on for all taxable items. The CPI will be pushed up by 2.0 percentage points for fiscal 2014. Second, this figure is added to the forecasts made by the Policy Board members.

The forecasts as of October 2014 assumed that the consumption tax -- after having risen to 8 percent in April 2014 -- would rise to 10 percent in October 2015. The contribution to prices from each tax hike was 2.0 percentage points for fiscal 2014 and 0.7 percentage point for both fiscal 2015 and fiscal 2016. These figures were added to the forecasts made by the Policy Board members.

7. The ranges shown below include the forecasts of all Policy Board members.

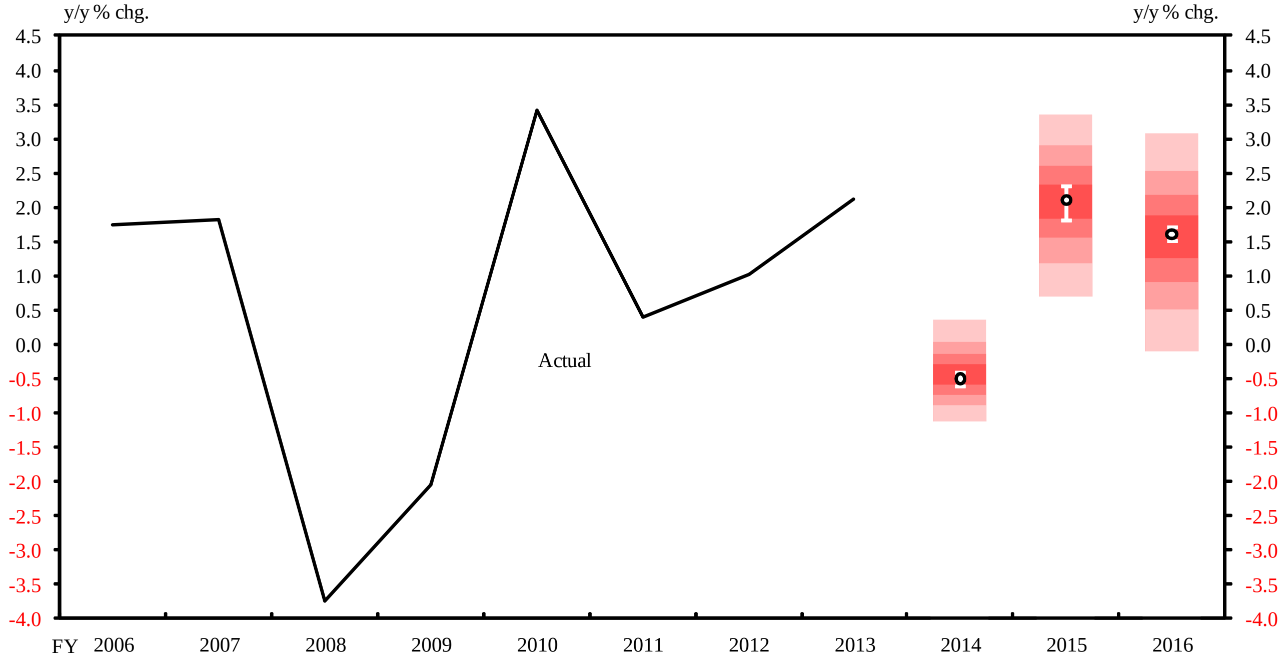
y/y % chg.

	Real GDP	CPI (all items less fresh food)	Excluding the effects of the consumption tax hikes
Fiscal 2014	-0.7 to -0.3	+2.9 to +3.3	+0.9 to +1.3
Forecasts made in October 2014	+0.1 to +1.0	+3.0 to +3.4	+1.0 to +1.4
Fiscal 2015	+1.3 to +2.3	+0.3 to +1.4	
Forecasts made in October 2014	+0.8 to +1.8	+1.6 to +2.7	+0.9 to +2.0
Fiscal 2016	+0.7 to +2.0	+0.9 to +2.3	
Forecasts made in October 2014	+0.6 to +1.6	+1.6 to +3.0	+0.9 to +2.3

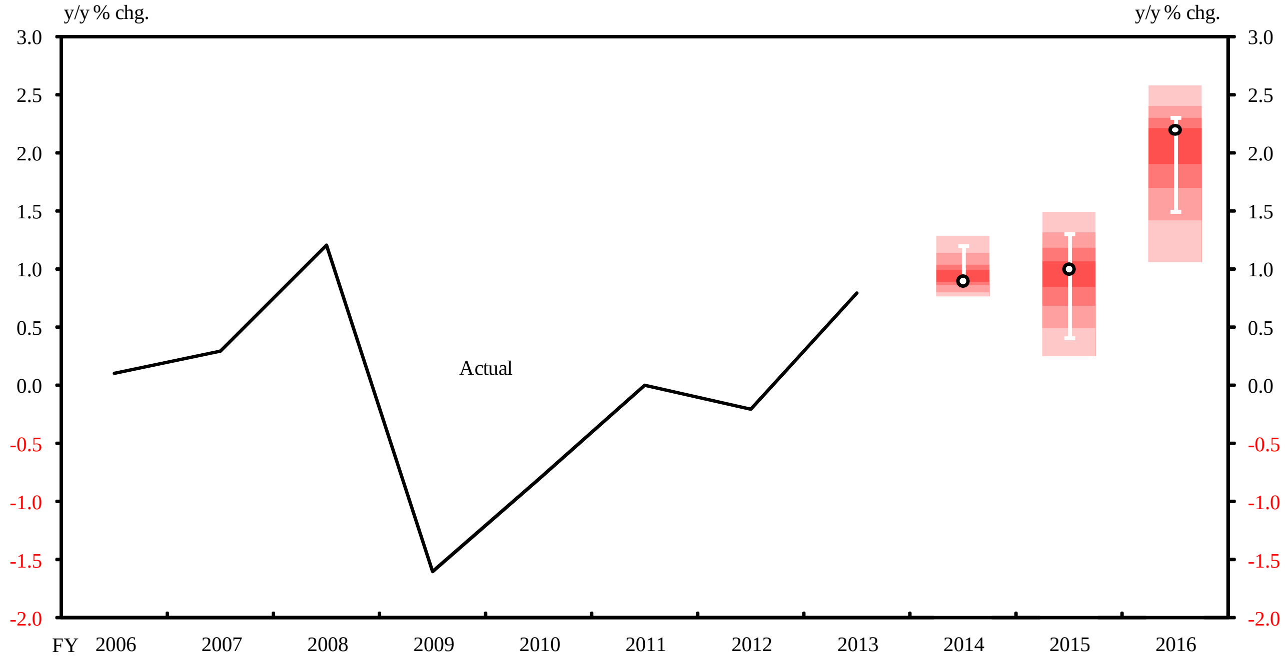
(Appendix 2)

Forecast Distribution Charts of Policy Board Members

(1) Real GDP



(2) CPI (All Items Less Fresh Food)



Notes: 1. The Forecast Distribution Charts are based on the aggregated probability distributions (i.e. the Risk Balance Charts) compiled from the distributions of individual policy board members, and constructed as follows. First, the upper and lower 10 percentiles of the aggregated distributions are trimmed. Second, the various percentiles of the aggregated distributions are color-coded as below.

Upper 40% to lower 40%	Upper 30% to 40% and lower 30% to 40%	Upper 20% to 30% and lower 20% to 30%	Upper 10% to 20% and lower 10% to 20%

2. For the process of compilation of the Risk Balance Charts, see the box on page 9 of the April 2008 *Outlook for Economic Activity and Prices* .
3. The circles in the bar charts indicate the median of the Policy Board members' forecasts (point estimates). The vertical lines in the bar charts indicate the range of the forecasts of the majority of Policy Board members.
4. The forecast for the CPI excludes the direct effects of the scheduled consumption tax hikes.

(Reference)

Meeting hours:

January 20 : 14:00-15:57

January 21 : 9:00-12:24

Policy Board members present:

Haruhiko Kuroda (Governor)

Kikuo Iwata (Deputy Governor)

Hiroshi Nakaso (Deputy Governor)

Ryuzo Miyao

Yoshihisa Morimoto

Sayuri Shirai

Koji Ishida

Takehiro Sato

Takahide Kiuchi

(Others present)

January 20

From the Ministry of Finance:

Hidenori Sakota, Deputy Vice Minister for Policy Planning and Co-ordination (14:00-15:57)

From the Cabinet Office:

Mamoru Maekawa, Director-General, Economic and Fiscal Management (14:00-15:57)

January 21

From the Ministry of Finance:

Ichiro Miyashita, State Minister of Finance (9:00-12:07, 12:17-12:24)

From the Cabinet Office:

Mamoru Maekawa, Director-General, Economic and Fiscal Management (9:00-12:07, 12:17-12:24)

Release of the *Monthly Report of Recent Economic and Financial Developments*:

14:00 on Thursday, January 22 (Japanese)

16:30 on Friday, January 23 (English)

-- The English translation of the summary of the Monthly Report will be released at 14:00 on Thursday, January 22

Release of the minutes:

8:50 on Monday, February 23