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December 26, 2013

Bank of Japan

Minutes of the Monetary Policy Meeting

on November 20 and 21, 2013

(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, November 20, 2013, from 2:00 p.m. to 3:59 p.m., and on Thursday, November 21, from 9:00 a.m. to 12:10 p.m.[1]

Policy Board Members Present

Mr. H. Kuroda, Chairman, Governor of the Bank of Japan
Mr. K. Iwata, Deputy Governor of the Bank of Japan
Mr. H. Nakaso, Deputy Governor of the Bank of Japan
Mr. R. Miyao
Mr. Y. Morimoto
Ms. S. Shirai
Mr. K. Ishida
Mr. T. Sato
Mr. T. Kiuchi

Government Representatives Present

Mr. Y. Furukawa, Senior Vice Minister of Finance, Ministry of Finance[2]
Mr. M. Asakawa, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance[3]
Mr. K. Umetani, Vice Minister for Policy Coordination, Cabinet Office

Reporting Staff

Mr. M. Amamiya, Executive Director
Mr. N. Kinoshita, Executive Director
Mr. K. Momma, Executive Director (Assistant Governor)
Mr. S. Uchida, Director-General, Monetary Affairs Department

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on December 19 and 20, 2013 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. Y. Furukawa was present on November 21.
[3] Mr. M. Asakawa was present on November 20.

Mr. M. Nomura, Deputy Director-General, Monetary Affairs Department[4]

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

Mr. H. Yamaoka, Director-General, Financial Markets Department

Mr. E. Maeda, Director-General, Research and Statistics Department

Mr. S. Kameda, Head of Economic Research Division, Research and Statistics Department

Mr. H. Toyama, Director-General, International Department

Secretariat of the Monetary Policy Meeting

Mr. N. Yoshioka, Director-General, Secretariat of the Policy Board

Mr. N. Fukunaga, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

Mr. H. Kamiguchi, Head of Policy Infrastructure Division, Monetary Affairs Department[4]

Mr. Y. Komaki, Senior Economist, Monetary Affairs Department

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

[4] Messrs. M. Nomura and H. Kamiguchi were present on November 21 from 9:00 a.m. to 9:10 a.m.

I. Summary of Staff Reports on Economic and Financial Developments[5]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on October 31, 2013, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[6] In this situation, the amount outstanding of the monetary base had been in the range of 185-192 trillion yen.

B. Recent Developments in Financial Markets

Money market rates, including longer-term ones, had been at low levels. The uncollateralized overnight call rate had been at a level below 0.1 percent. General collateral (GC) repo rates had temporarily weakened somewhat, but had recently been at around 0.1 percent. As for interest rates on term instruments, yields on treasury discount bills (T-Bills) had been below the 0.1 percent level for all maturities, and they had recently weakened somewhat. Rates on longer-term interbank instruments had been flat.

Long-term interest rates in Japan had been more or less unchanged as the Bank proceeded with its JGB purchases, despite the fact that U.S. long-term interest rates had been rising. The Nikkei 225 Stock Average, despite temporarily declining somewhat, had risen significantly, in part because U.S. stock prices had been rising and continued to mark their highest levels. Yield spreads between corporate bonds and JGBs had been narrowing on the whole, albeit very moderately, reflecting solid demand from investors, despite a widening in some corporate bond spreads. In the foreign exchange market, the yen had depreciated against the U.S. dollar, partly reflecting firm U.S. economic indicators. The U.S. dollar/yen rate had recently been in the range of 100-101 yen.

C. Overseas Economic and Financial Developments

Overseas economies as a whole were picking up moderately, although a lackluster performance was partly seen.

The U.S. economy had been on a moderate recovery trend against the backdrop of steady private demand, despite downward pressure from the fiscal side. Federal

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

[6] The guideline was as follows:

The Bank of Japan will conduct money market operations so that the monetary base will increase at an annual pace of about 60-70 trillion yen.

government expenditures had still been on a declining trend. Housing investment continued to generally pick up, although the pace had become somewhat moderate. Private consumption remained on a moderate increasing trend as the employment situation followed an improving trend and asset prices rose. Exports were also increasing moderately. Reflecting these developments in demand, business sentiment continued to improve, and production as well as business fixed investment were heading toward a pick-up, although the pace remained slow. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items less food and energy, or the core CPI, had been more or less flat. In this situation, the year-on-year rate of increase in the CPI for all items had declined, mainly as a result of the drop in energy prices.

Economic activity in Europe was gradually turning toward a pick-up. Business fixed investment remained on a declining trend, but was bottoming out. In addition, exports had bottomed out. Private consumption had been picking up, albeit moderately, with a continued improvement in consumer sentiment, although the employment and income situation remained severe. Reflecting these developments in demand, production had bottomed out. As for prices, slack in supply and demand conditions had been exerting downward pressure on prices, and the declining trend in the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) for all items excluding energy and unprocessed food had become somewhat more apparent recently. This situation, together with the advance in the year-on-year rate of decline in energy prices, led to a further decline in annual HICP inflation for all items. Meanwhile, economic activity in the United Kingdom was recovering, particularly in domestic demand.

With regard to Asia, the Chinese economy continued to see stable growth on the back of firm domestic demand. Stable growth in private consumption continued against the background of a favorable employment and income situation, although effects of the government's frugality campaign continued to be observed in some areas. Fixed asset investment also remained firm. Moreover, exports had started picking up, particularly those to Europe and the United States. With these developments in demand, growth in production had risen somewhat, particularly in the machinery industry, including motor vehicles. As for prices, the year-on-year rate of increase in the CPI had been somewhat low as a trend. Regarding the NIEs and the ASEAN countries, developments toward a pick-up had been weakening on the whole, due to deceleration in domestic demand as well as sluggish trade. Although exports continued to show some weakness on the whole, signs of a pick-up had been observed in the NIEs. Private consumption had nevertheless remained on a decelerating trend, particularly in the ASEAN countries, against the background of (1) the end to the boost from policy measures targeted at car sales and (2) consumer sentiment having turned cautious. Reflecting these developments in demand, moves toward a pick-up in production remained paused, and growth in business fixed investment, particularly in machinery investment, had been sluggish. As for prices, the year-on-year rates of increase in the CPI generally continued to be at somewhat low levels, although there were differences by country and region. In India, the economy remained in a state of deceleration, particularly in domestic demand.

In global financial markets, market participants, particularly in advanced economies, had strengthened their risk-taking stance, due in part to the release of favorable U.S. economic indicators and to rising anticipation that the Federal Reserve would continue with its monetary easing for a protracted period. In this situation, in the European and U.S. markets, U.S. and German stock prices had risen, marking record highs, and long-term government bond yields had risen somewhat. In contrast, emerging markets had become nervous again, and declines in foreign exchange rates as well as in stock and bond prices had been observed, particularly in countries with a current account deficit. International commodity prices continued to be weak from a relatively longer-term perspective in a situation where recovery in emerging economies lacked momentum, and had recently been declining somewhat.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had generally been picking up. Real exports had turned upward in the January-March quarter of 2013 on a quarter-on-quarter basis for the first time in three quarters and had grown at an accelerated rate in the April-June quarter. They then fell marginally in the July-September quarter, but rose again in October relative to the July-September quarter. Exports were expected to increase moderately, mainly against the background of the pick-up in overseas economies.

Public investment continued to increase and was expected to keep trending upward supported by the effects of various economic measures.

Business fixed investment had been picking up as corporate profits had improved. The aggregate supply of capital goods -- a coincident indicator of machinery investment -- on a basis excluding transport equipment was more or less flat in the April-June and July-September quarters of 2013 on a quarter-on-quarter basis, after having increased significantly in the January-March quarter, and was considered to be picking up as a trend. Machinery orders (private sector, excluding orders for ships and those from electric power companies) -- a leading indicator of machinery investment -- had turned upward in the April-June quarter on a quarter-on-quarter basis for the first time in five quarters and continued to advance markedly in the July-September quarter, after having been almost flat in the January-March quarter. Business fixed investment was projected to follow a moderate increasing trend as corporate profits continued to improve.

As for the employment and income situation, supply and demand conditions in the labor market continued to improve moderately and employee income had also shown a pick-up.

Private consumption remained resilient, with some improvement observed in the employment and income situation. On a GDP basis (first preliminary figures), real private consumption had registered high growth in the January-March and April-June quarters of 2013 on a quarter-on-quarter basis and continued to show resilience in the July-September quarter. The number of new passenger-car registrations -- although it had fallen back from the upsurge that had been aided in part by the introduction of new models since the start of the year -- had recently turned upward again, driven mainly by the introduction of new models, and thus was holding steady as a trend. Meanwhile, indicators related to consumer confidence -- which had continued on an improving trend, albeit with fluctuations, after rising at a rapid pace since the start of the year -- had fallen back most recently. Private consumption was expected to remain resilient, supported by improvement in the employment and income situation.

Housing investment had increased and was expected to continue trending upward.

Reflecting these developments in demand both at home and abroad, industrial production had been increasing moderately. It was expected to continue to do so, mainly reflecting developments in demand at home and abroad. Judging from interviews with firms and other relevant information, production in the October-December quarter of 2013 was expected to continue increasing.

As for prices, domestic corporate goods prices were rising moderately relative to three months earlier against the backdrop of movements in international commodity prices and foreign exchange rates. They were expected to rise at a reduced pace for the time being, reflecting movements in international commodity prices. The year-on-year rate of increase in the CPI (all items less fresh food) was in the range of 0.5-1.0 percent, and was likely to rise gradually. Meanwhile, inflation expectations appeared to be rising on the whole, considering the results of various surveys.

2. Financial environment

Financial conditions were accommodative.

The monetary base had increased significantly as asset purchases by the Bank had progressed, and the year-on-year rate of growth had been at around 45 percent.

Firms' funding costs had been hovering at low levels. With regard to credit supply, firms continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP continued to be favorable. Those for corporate bonds also remained favorable on the whole. Firms' credit demand had been increasing moderately, mainly for working capital and funds related to mergers and acquisitions. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending had been in the range of 2.0-2.5 percent. The year-on-year rate of change in the amount outstanding of CP and corporate bonds had been positive. Firms retained their recovered financial positions on the whole. Meanwhile, the year-on-year rate of growth in the money stock had been at around 4 percent, mainly due to the increase in bank lending.

II. Amendment to Principal Terms and Conditions for the Purchase/Sale of Japanese Government Securities with Repurchase Agreements

A. Staff Reports

The staff proposed that the Bank make necessary amendments to the Principal Terms and Conditions for the Purchase/Sale of Japanese Government Securities with Repurchase Agreements in conjunction with the forthcoming implementation of the first phase of the new Bank of Japan Financial Network System (BOJ-NET) project, with a view to further facilitating the Bank's money market operations in order for it to allow pooled collateral to be used to meet margin calls in the purchase/sale of Japanese government securities with repurchase agreements, instead of accepting margin collateral exclusively in conducting these operations.

B. Vote

Members voted unanimously to approve the proposal, and concurred that the staff accordingly should make the decision public after the meeting.

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

A. Economic Developments

With regard to global financial markets, members shared the recognition that market participants, particularly in advanced economies, had strengthened their risk-taking stance due in part to the release of favorable U.S. economic indicators such as employment statistics and to rising anticipation -- partly reflecting the statement by the Vice Chair of the Federal Reserve before the U.S. Senate -- that the Federal Reserve would continue with its monetary easing for a protracted period. On this basis, they agreed that global financial markets were susceptible in particular to speculation about the direction of U.S. monetary policy, and therefore developments in these markets -- including their effects on emerging markets -- continued to warrant attention. Some members pointed out that U.S. stocks had been bought on (1) expectations of economic improvement when favorable economic indicators were released and (2) anticipation of protracted monetary easing when unfavorable economic indicators were released. These members continued that, in the U.S. bond market, meanwhile, the rise in long-term interest rates remained moderate as anticipation of protracted monetary easing had become deeply rooted. On this basis, they expressed their intent to pay close attention to whether these situations in the stock and bond markets would continue. One of these members expressed the view that, even if global financial markets were to fluctuate due to speculation about the direction of U.S. monetary policy, the degree of such fluctuation would be limited as markets had already gone through an adjustment phase once after May 2013.

Members concurred that overseas economies as a whole were picking up moderately, as the U.S. and European economies still showed signs of improvement and the

Chinese economy continued to see stable growth, although a lackluster performance was seen in some parts of emerging economies. As for the outlook, they shared the recognition that overseas economies -- particularly advanced economies -- would continue to pick up. A few members expressed the view that there were signs that global trade activity would increase gradually, as evidenced by the fact that exports from the NIEs, particularly to advanced economies and China, had recently been picking up. Many members, however, pointed out that there were still various uncertainties regarding developments in overseas economies.

With regard to developments in overseas economies by region, members agreed that the U.S. economy had been on a moderate recovery trend against the backdrop of steady private demand, despite downward pressure from the fiscal side. As for the outlook, they shared the view that the pace of economic recovery would gradually rise, mainly as accommodative financial conditions would be maintained and the fiscal drag would gradually fade. Many members expressed the view that the effects of the government shutdown seemed to have been limited, judging from (1) firm U.S. employment statistics, (2) improvement in the Institute for Supply Management (ISM) indices, and (3) retail sales outperforming market expectations. As for employment, one member noted that, if unit labor costs continued to increase, in order to maintain the large increase in the employment level, the economy would need to grow at a higher rate. Meanwhile, many members said it was a matter of some concern that consumer confidence had been worsening recently. As background to this, some members pointed to the fact that there remained uncertainty about the outcome of the U.S. fiscal debate, and one member noted that the worsening might be partly attributable to troubles with the government's web site through which to apply for new health care insurance -- a system that had started in October 2013 -- under the Patient Protection and Affordable Care Act, or so-called Obamacare.

Members shared the recognition that economic activity in the euro area was gradually turning toward a pick-up, as evidenced by the fact that real GDP for the July-September quarter of 2013 registered positive growth for the second consecutive quarter. Some members expressed the view that, in a situation where business and household sentiment continued to improve, private consumption had been picking up, albeit moderately, and production had bottomed out. As for the outlook, members concurred that, although uncertainty remained concerning the prospects for the European debt problem and close attention should be paid to the growing trend of disinflation, the economy was likely to continue picking up on the back of anticipated improvement in external demand in addition to the pick-up in domestic demand. Members shared the view that the disinflationary trend would continue for some time in the presence of the negative output gap. One member expressed the view that, under the disinflationary situation, the real debt burden in peripheral countries would increase and further restraining of wages would be needed for the countries to maintain their competitiveness in the euro area. Meanwhile, one member expressed hope that structural reforms, such as those of the banking sector, would continue to progress steadily, though at an accelerating pace.

Members agreed that the Chinese economy continued to see stable growth on the back of firm domestic demand. Some members pointed out that exports, which had been weak, had started picking up, particularly those to Europe and the United States. In addition, one member noted that the pace of growth in production and business fixed investment in manufacturing had accelerated somewhat. As for the outlook, members concurred that the economy would maintain stable growth at around the current pace as authorities carried out policy measures to underpin economic activity while progressing with structural reforms, and on the back of expectations that external demand would continue improving moderately. A few members regarded current signs of pick-ups in exports and production as a favorable factor for continued stable growth in the Chinese economy. One member, however, pointed out that the growth rate could decline moderately again toward 2014, due to the government's stance of restraining infrastructure investment and to corrections to accommodative financial conditions.

Regarding the NIEs and the ASEAN countries, members concurred that developments toward a pick-up had been weakening on the whole, due to deceleration in domestic demand as well as sluggish trade. Many members expressed the view that the momentum of the pick-up -- especially in the ASEAN countries -- remained weak, in a situation where uncertainty was observed in emerging markets. On the other hand, many members pointed out that exports from South Korea and Taiwan -- particularly those to Europe, the United States, and China -- showed signs of picking up. As for the outlook, members shared the recognition that the pace of economic growth in the NIEs and the ASEAN countries would likely remain relatively slow for the time being, but thereafter would gradually rise as growth in advanced economies was expected to gain momentum over time.

Based on the above deliberations on economic and financial conditions abroad, members discussed the state of Japan's economy.

With regard to economic activity, members shared the view that the economy had been recovering moderately. They agreed that a virtuous cycle among production, income, and spending continued to operate, as evidenced by the fact that (1) in the household sector, private consumption and housing investment remained firm as the employment and income situation had been improving, and (2) in the corporate sector, business fixed investment had been picking up as profits had increased. Many members said that the real GDP growth rate for the July-September quarter of 2013 had decelerated compared with the first half of the year -- when it continued to register high growth of around 4 percent on an annualized quarter-on-quarter basis -- but that it still indicated that economic activity continued to show positive movement, particularly in domestic demand. By contrast, one member expressed the view that there were unfavorable developments with respect to the results of the real GDP growth rate for the July-September quarter, taking into consideration (1) the degree of the contribution of inventories to real GDP growth and (2) the fact that compensation of employees had declined compared to the previous quarter. In addition, one member said that the deceleration in the real GDP growth rate might not be a temporary development but rather could represent a downward shift in its trend. As for the outlook for the economy, members concurred that the economy was likely to continue its moderate recovery as the virtuous cycle among production, income, and spending was maintained.

Members shared the recognition that, as overseas economies as a whole were picking up moderately, Japan's exports had generally been picking up -- albeit with fluctuations -- although the weak momentum of the pick-up was a matter of concern. Many members, noting that real exports for October 2013 had turned upward relative to the July-September quarter, expressed the view that this confirmed that exports continued to generally pick up. As for the outlook, members agreed that exports were likely to increase moderately, mainly against the background of the pick-up in overseas economies. A few members added that one reason for the expected increase in exports would be the current rise in machinery orders from abroad.

Members concurred that business fixed investment had been picking up as corporate profits had improved and was projected to follow a moderate increasing trend. Some members pointed out that a pick-up in machinery orders had become evident, even in manufacturing, and therefore positive movements from corporate profits to business fixed investment were expected to continue, with these spreading to a wider range of industries. One member expressed the view that a future decline in real interest rates and a pick-up in overseas economies would likely contribute to a further increase in business fixed investment. On the other hand, a different member said that investment for maintenance and replacement as well as for energy-saving purposes was likely to increase, but there was uncertainty regarding the pace of increase in business fixed investment in manufacturing as a sense of excessive capital stock persisted among firms.

As for the employment and income situation, members shared the recognition that supply and demand conditions in the labor market continued to improve moderately and employee income had also shown a pick-up. They agreed that a pick-up in employee income was likely to gradually become clearer as the recovery in economic activity and business performance became evident. With regard to wage increases in spring 2014, one member expressed the view that, although the reactions of employers were mixed at present, an increasing number of them were likely to take positive action as the recovery in business performance became evident. One member pointed out that, judging from a survey conducted by the Tokyo Chamber of Commerce and Industry and other information, some small firms had also shown a positive attitude toward raising wages, as their profits had been improving. A different member expressed the view that initiatives such as the Government-Labor-Management Meetings would encourage economic entities to raise wages and prices with confidence, without falling into a fallacy of composition. On the other hand, one member noted that, even if wage increases at large firms were realized, the spillover to small firms would be marginal, and thus the aggregate effects of the increases could be limited. One member noted that, in a situation where the economy faced structural problems including the declining population, firms were unlikely to raise their growth expectations for domestic demand and substantially increase wages based merely on anticipation that deflation would be wiped out. This member expressed the view that developments in external demand were therefore important for realizing wage increases. One member said that the consumption tax hike in April 2014 would exert downward pressure on real wages, but the extent to which it would affect the entire economy could vary depending, for example, on relatively longer-term expectations for wage increases. On this point, one member pointed out that adverse effects on consumption would be mitigated to some extent, partly because (1) the effects of the tax hikes seemed to have already been factored in substantially among households and (2) the rate hikes were likely to have the effect of alleviating households' future concerns over the fiscal condition and the social security system.

Members shared the recognition that private consumption remained resilient, with some improvement observed in the employment and income situation. A few members noted that, although the pace of increase in real private consumption had slowed in the July-September quarter of 2013 on a GDP basis, private consumption remained resilient, as evidenced by the fact that the number of new passenger-car registrations for October had shown a clear increase and that, taking account of the effects of adverse weather conditions, sales at department stores had been relatively firm. Members concurred that private consumption was likely to remain resilient, supported by improvement in the employment and income situation. Regarding the fact that the consumer confidence index for October had declined, some members -- pointing to the possibility that this was attributable to the government's decision to raise the consumption tax rate -- noted that it was necessary to carefully monitor whether this was a temporary development. On this point, a few members expressed the view that consumer sentiment seemed unlikely to deteriorate further, given that stock prices had recently risen and the diffusion index for current economic conditions for October in the *Economy Watchers Survey* had increased on a seasonally adjusted basis. Furthermore, a different member was of the opinion that consumer sentiment would turn upward as the employment and income situation improved further. Members concurred that housing investment had increased and was likely to continue trending upward.

Members agreed that industrial production had been increasing moderately, reflecting these developments in demand both at home and abroad, and was likely to continue to do so.

Regarding prices, members concurred that the year-on-year rate of increase in the CPI (all items less fresh food) was in the range of 0.5-1.0 percent, and was likely to rise gradually as the negative output gap narrowed and inflation expectations rose. A few members pointed out that the year-on-year rate of change in the domestic demand deflator -- in the GDP statistics for the July-September quarter of 2013 -- had turned positive for the first time in five years. They expressed the recognition that the resilience in domestic demand, notably private consumption, had been contributing to a rise in prices. A few other members said that, regarding the CPI, price rises had been observed not only in energy-related goods but also across a wide range of items. Meanwhile, one member pointed to the possibility that it might take some time until the narrowing of the negative output gap was reflected in prices, and that the pace of the increase in inflation expectations might become moderate. One member was closely monitoring whether factors specific to Japan could lead to a rise in the inflation rate amid a global disinflationary trend. One member expected that the pace of the rise in the year-on-year rate of increase in the CPI would gradually lessen. With regard to the relationship between prices and wages, one member expressed the view that, for prices to rise via an increase in inflation expectations, it was important to achieve an increase in wages per employee, rather than in aggregate employee income. In relation to this point, a few members said that, while the growing proportion of part-time employees was having adverse effects in terms of raising wages per employee, upward pressure on prices could strengthen if disposable income per household increased. Members shared the recognition that inflation expectations appeared to be rising on the whole, considering the results of various surveys and other information. One member noted that the proportion of housing loans with floating interest rates to overall housing loans had declined since the beginning of 2013, according to the results of surveys conducted by the Japan Housing Finance Agency, and expressed the recognition that these developments could suggest a rise in households' medium- to long-term inflation expectations.

B. Financial Developments

Members concurred that <u>financial conditions in Japan</u> were accommodative. They shared the view that the monetary base had increased significantly, reflecting the progress in asset purchases by the Bank, and that firms' funding costs had been hovering at low levels. Members shared the recognition that firms continued to see financial institutions' lending attitudes as being on an improving trend, issuing conditions for CP continued to be favorable, and those for corporate bonds also remained favorable on the whole. As for firms' credit demand, they concurred that the amount outstanding of bank lending had been increasing moderately and that, in this situation, the year-on-year rate of growth in the money stock had been rising. One member expressed the view that, although the increase in credit demand was still limited, such demand was likely to increase further since financial conditions would become more accommodative as the economy improved.

IV. 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.

Regarding the guideline for money market operations for the intermeeting period ahead, members agreed that it was appropriate to maintain the current guideline that the Bank would conduct money market operations so that the monetary base would increase at an annual pace of about 60-70 trillion yen.

With regard to the asset purchases, members concurred that it was appropriate for the Bank to continue with the guidelines decided when it introduced quantitative and qualitative monetary easing at the meeting on April 3 and 4, 2013. Specifically, they confirmed the following. First, the Bank would purchase JGBs so that their amount outstanding would increase at an annual pace of about 50 trillion yen, and the average remaining maturity of the Bank's JGB purchases would be about seven years. Second, it would purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding would increase at an annual pace of about 1 trillion yen and about 30 billion yen, respectively. And third, for CP and corporate bonds, the Bank would continue with these asset purchases until their amounts outstanding reached 2.2 trillion yen and 3.2 trillion yen, respectively, by end-2013; thereafter, it would maintain these amounts outstanding.

With respect to the future conduct of monetary policy, most members shared the recognition that the Bank would continue with quantitative and qualitative monetary easing, aiming to achieve the price stability target of 2 percent, as long as it was necessary for maintaining this target in a stable manner. These members continued that, in doing so, it would examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate. A few of these members reemphasized that, in order to dispel people's deflationary expectations, it was important that the Bank commit to achieving the 2 percent price stability target. One member said that the basic thinking behind inflation targeting was that there was an appropriate rate of inflation, and that this was 2 percent in many countries. In response to these remarks, one member noted that, as inflation expectations in the medium to long term tended to be formed based largely on economic fundamentals such as the rate of growth in productivity, it was unlikely that such expectations would converge toward 2 percent and lead to achievement of the price stability target in about two years. This member then said that, if a rise were to occur in markets' anticipation that quantitative and qualitative monetary easing would continue for a protracted period or extreme additional measures would be implemented, this could lead to economic instability in the medium to long term, such as through a buildup of financial imbalances. On this basis, the member said that it was appropriate to change the expression representing the Bank's commitment by stating that the time frame for continuing quantitative and qualitative monetary easing should be restricted to about two years, and that thereafter the Bank would review the monetary easing measures in a flexible manner.

With regard to the effects of quantitative and qualitative monetary easing, members shared the recognition that these continued to firmly take hold, and financial conditions were easing steadily to underpin firms' and households' spending. Regarding how much of an effect could be exerted on longer-term interest rates, they agreed that long-term interest rates in Japan had been stable at low levels under the Bank's massive JGB purchases. Members shared the recognition that, in a situation where nominal interest rates had been stable, real interest rates were declining on the back of a rise in inflation expectations. Meanwhile, a few members expressed the recognition that it was necessary to continue paying attention to the risk that some events might trigger large fluctuations in interest rates. A few members, while pointing out that the year-on-year rate of growth in broadly-defined liquidity was rising due, for example, to an increase in investment trusts, expressed the view that portfolio rebalancing, mainly by households, was proceeding steadily.

With regard to mechanisms in which inflation expectations would rise, a few members expressed the view that both of the following would operate: (1) a forward-looking mechanism in which fundamental changes in people's expectations would be encouraged by the Bank's clear commitment to achieving the price stability target of 2 percent at the earliest possible time and the conduct of bold monetary easing that would underpin its commitment; and (2) a backward-looking mechanism in which inflation expectations would rise in adapting to the increase in actual prices brought about through a narrowing of the negative output gap resulting from a decline in real interest rates. On this basis, these members said that the price stability target of 2 percent would be achieved through these two mechanisms. With regard to the forward-looking mechanism, one member pointed out that fundamental changes in people's expectations would be encouraged by the outlook that improvement of the economy would continue on a sustainable basis. Some members added that it was necessary for the Bank to provide a more thorough explanation to the public regarding the path to achieving the price stability target of 2 percent, especially in terms of raising inflation expectations, since there was some skepticism in this regard, particularly in the market.

V. Remarks by Government Representatives

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

(1) The Japanese economy continued on its way to recovery at a moderate pace, as evidenced by the fact that the annualized quarter-on-quarter real GDP growth rate for the July-September quarter of 2013 was 1.9 percent. As for prices, the government acknowledged that the Japanese economy was steadily progressing toward achieving the overcoming of deflation and economic revitalization, as seen partly in the recent situation where deflation was ending. It expected the Bank to continue to steadily pursue quantitative and qualitative monetary easing and achieve the price stability target of 2 percent at the earliest possible time.

(2) The government had been working to compile new economic policy measures, the formulation of which had been decided on October 1, 2013 as part of an economic policy package. Following the compilation of these economic policy measures -- scheduled to finish in early December -- it would also formulate the supplementary budget for fiscal 2013 to implement the measures.

(3) In addition, the government had been holding discussions at the Government-Labor-Management Meetings with a view to realizing a positive economic cycle. A large number of firms had already shown positive attitudes toward raising

wages, and to support this movement the government would work actively to form a common understanding with labor and management.

(4) Moreover, the Ministry of Finance and the Financial Services Agency, in accordance with the Japan Revitalization Strategy, had set up the Panel for Vitalizing Financial and Capital Markets and would compile, by the end of 2013, measures including those to encourage households to use their financial assets for purposes that would contribute to economic growth.

(5) The government, through these measures, would aim to (1) transform the economic structure from one with mechanisms that would lead to a "shrinking equilibrium" under deflation to one with mechanisms that would attain an "expanding equilibrium" under price stability, (2) achieve sustainable economic growth as well as fiscal consolidation simultaneously, and (3) establish a sustainable social security system.

The representative from the Cabinet Office made the following remarks.

(1) The annualized quarter-on-quarter real GDP growth rate for the July-September quarter of 2013 was 1.9 percent and had been positive for four consecutive quarters, although it had decelerated from the previous quarter, when it registered 3.8 percent. The government deemed that developments in domestic demand were resilient and the Japanese economy remained on an upward trend. As for the outlook, amid continued improvement in the employment and income situation, consumption was likely to increase moderately, as a last-minute rise in demand before the consumption tax hike was also expected. The government expected that domestic demand, including consumption, would remain firm and that the economic recovery would take hold. However, it deemed it necessary to continue to pay close attention to downward risks with regard to overseas economies.

(2) The government would formulate new economic policy measures aimed at realizing an early return of the Japanese economy to a growth path while avoiding a stall in the economy caused by raising the consumption tax rates. The measures would amount to about 5 trillion yen and be compiled in early December. In addition, at the Council on Economic and Fiscal Policy, the government had been deepening discussions on its basic thinking as well as on major expenditure items regarding the formulation of the budget for fiscal 2014, and based on these discussions it would give shape to the

compilation of the guidelines for formulating the budget for fiscal 2014. Furthermore, the government had held a Ministerial Meeting Relating to Remuneration of National Public Servants on November 15 and decided that, pursuant to the provisions of the law, it would terminate at the end of March 2014 the measures for the reduction of national public servants' remuneration, which had been taken as a temporary special measure to secure financial resources for the reconstruction following the Great East Japan Earthquake. The government had been holding the Government-Labor-Management Meetings for Realizing a Positive Cycle of the Economy. It would continue to work toward overcoming deflation and realizing a positive cycle of the economy.

(3) At an intensive discussion regarding monetary policy and prices at the Council on Economic and Fiscal Policy held on November 1, the government had reviewed the progress toward overcoming deflation and promoting economic revitalization. As for the overcoming of deflation, although the CPI for all items less food and energy, or the core-core CPI, had shown steady and continuous improvements, the overcoming of deflation was still only halfway accomplished. The government expected the Bank to continue its efforts to achieve the price stability target of 2 percent.

VI. Votes

Based on the above discussions, members shared the view that it was appropriate to maintain the current guideline for money market operations, so that the monetary base would increase at an annual pace of about 60-70 trillion yen.

To reflect this view, <u>the chairman</u> formulated the following proposal and put it to a vote.

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

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

> The Bank of Japan will conduct money market operations so that the monetary base will increase at an annual pace of about 60-70 trillion yen.

2. A public statement will be decided separately.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, and Mr. T. Kiuchi.

Votes against the proposal: None.

VII. 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. One member, however, formulated a proposal, and thus the following two proposals were submitted.

A. Mr. T. Kiuchi's Policy Proposal

With regard to the draft of the statement that formed a majority view, Mr. T. Kiuchi proposed changing the current expression of the Bank's future monetary policy stance that "the Bank will continue with quantitative and qualitative monetary easing, 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" to a new expression that "the Bank will aim to achieve the price stability target of 2 percent in the medium to long term. On this basis, it will designate quantitative and qualitative monetary easing as an intensive measure with a time frame of about two years, and thereafter will review the monetary easing measures in a flexible manner." 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. R. Miyao, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, and Mr. T. Sato.

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).

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of October 31, 2013 for release on November 26, 2013.

Attachment
November 21, 2013
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 a unanimous vote, to set the following guideline for money market operations for the intermeeting period:

   The Bank of Japan will conduct money market operations so that the monetary base will increase at an annual pace of about 60-70 trillion yen.

2. With regard to the asset purchases, the Bank will continue with the following guidelines:

   a) The Bank will purchase Japanese government bonds (JGBs) so that their amount outstanding will increase at an annual pace of about 50 trillion yen, and the average remaining maturity of the Bank's JGB purchases will be about seven 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 an annual pace of about 1 trillion yen and about 30 billion yen respectively.

   c) As for CP and corporate bonds, the Bank will continue with those asset purchases until their amounts outstanding reach 2.2 trillion yen and 3.2 trillion yen respectively by end-2013; thereafter, it will maintain those amounts outstanding.

3. Japan's economy has been recovering moderately. Overseas economies as a whole are picking up moderately, although a lackluster performance is partly seen. In this situation, exports have generally been picking up. Business fixed investment has been picking up as corporate profits have improved. Public investment has continued to increase, and housing investment has also increased. Private consumption has remained resilient, with some improvement observed in the employment and income situation. Reflecting these developments in demand both at home and abroad, industrial production has been increasing moderately. Meanwhile, financial conditions are accommodative. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) is in the range of 0.5-1.0 percent. Inflation expectations appear to be rising on the whole.

4. With regard to the outlook, Japan's economy is expected to continue a moderate recovery. The year-on-year rate of increase in the CPI is likely to rise gradually.

5. Regarding risks, there remains a high degree of uncertainty concerning Japan's economy, including the prospects for the European debt problem, developments in the emerging and commodity-exporting economies, and the pace of recovery in the U.S. economy.

6. The Bank will continue with quantitative and qualitative monetary easing, 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]

   Such conduct of monetary policy will support the positive movements in economic activity and financial markets, contribute to a rise in inflation expectations, and lead Japan's economy to overcome the deflation that has lasted for nearly 15 years.

[Note] 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 quantitative and qualitative monetary easing 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.