Not to be released until 8:50 a.m. Japan Standard Time on Wednesday, June 18, 2014.

June 18, 2014

Bank of Japan

Minutes of the Monetary Policy Meeting

on May 20 and 21, 2014

(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 Tuesday, May 20, 2014, from 2:00 p.m. to 4:10 p.m., and on Wednesday, May 21, from 9:00 a.m. to 11:36 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. 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. Y. Nishimura, Senior Vice Minister, Cabinet Office[2]
Mr. H. Ishii, Director-General, Economic and Fiscal Management, Cabinet Office[3]

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 June 12 and 13, 2014 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. Y. Furukawa and Y. Nishimura were present on May 21.

[3] Messrs. M. Asakawa and H. Ishii were present on May 20.

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

Mr. R. Hattori, Senior Economist, Monetary Affairs Department

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

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on April 30, 2014, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[5] In this situation, the amount outstanding of the monetary base had been in the range of 219-229 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 recently declined marginally. As for interest rates on term instruments, yields on treasury discount bills (T-Bills) had declined slightly, particularly for shorter-term maturities. Rates on longer-term interbank instruments had been flat.

Yields on 10-year JGBs had been fluctuating narrowly, and had recently been at around 0.6 percent. The Nikkei 225 Stock Average had declined somewhat, and had recently been in the range of 14,000-14,500 yen. Yield spreads between corporate bonds and JGBs had been narrowing on the whole, albeit very moderately, reflecting solid demand from investors, although some corporate bond spreads had been wide. In the foreign exchange market, the yen -- although having temporarily fluctuated somewhat against the U.S. dollar, partly reflecting U.S. economic indicators and the situation in Ukraine -- had moved within a narrow range against the dollar throughout the intermeeting period. The U.S. dollar/yen rate had recently been in the range of 101-102 yen.

C. Overseas Economic and Financial Developments

Overseas economies -- mainly advanced economies -- were starting to recover, although a lackluster performance was still seen in part.

The U.S. economy had been recovering moderately, led by private demand, with the recovery becoming more widespread, in a situation where the effects of the unusually severe winter weather were disappearing. Housing investment continued to generally pick

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

[5] 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.

up, but the pace had been moderate. Private consumption had been firm, on the back of not only wealth effects but also the continued improvement in the employment situation. Exports also remained on an increasing trend. Reflecting these developments in demand, business sentiment and production had been improving, and business fixed investment was picking up, albeit moderately. 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, remained more or less flat. In this situation, the year-on-year rate of increase in the CPI for all items had risen, mainly because the year-on-year rate of change in energy prices had turned positive.

The European economy was recovering moderately. The real GDP growth rate for the January-March quarter of 2014 registered positive growth for the fourth consecutive quarter, although it was lower than market expectations. Private consumption continued to show a moderate pick-up, with consumer sentiment continuing to improve, although the employment and income situation remained severe. There were movements toward a pick-up in business fixed investment, mainly in Germany. In addition, exports were picking up. Reflecting these developments in demand, production was picking up moderately. As for prices, slack in supply and demand conditions in the goods and labor markets was exerting downward pressure on prices, and the year-on-year rates of increase in both the Harmonized Index of Consumer Prices (HICP) excluding energy and unprocessed food and the HICP for all items remained on a disinflationary trend. Meanwhile, economic activity in the United Kingdom continued to recover, particularly in domestic demand.

With regard to Asia, the Chinese economy continued to see stable growth, although the economy's growth momentum was slowing somewhat. Fixed asset investment, although remaining firm, had been increasing at a somewhat reduced pace, mainly in real estate investment. Production had been growing at a somewhat slower pace due in part to the effects of inventory adjustments, mainly of materials and related goods. However, exports continued to pick up, particularly those to Europe and the United States. Moreover, stable growth in private consumption continued against the background of a favorable employment and income situation. Regarding the NIEs and the ASEAN countries, while economic developments in the NIEs were picking up somewhat on the back of recovery in external demand, growth momentum in the ASEAN countries remained weak, as evidenced by the lackluster performance in domestic demand, especially in Thailand. In India, the economy remained in a state of deceleration, particularly in domestic demand. As for prices, there were differences by country and region. Specifically, the year-on-year rate of increase in the CPI had been at a low level as a trend in China, the NIEs, and Thailand. On the other hand, the rate of increase in Indonesia continued to be relatively high, mainly reflecting the rise in administered prices, and that in India had been rising again, mainly due to the increase in food prices.

As for global financial markets, in the European and U.S. markets, while stock prices had been moving in a high range, long-term interest rates had been declining, mainly reflecting (1) demand for safe assets in view of the situation in Ukraine and (2) expectations for accommodative monetary policy. Markets in emerging economies had been calm on the whole because policy actions such as the raising of interest rates had been adopted to address current account deficits and high inflation, although markets in some emerging economies had shown nervousness, mainly reflecting the situation in Ukraine. International commodity prices had been more or less flat on the whole, as heightened geopolitical risks reflecting the situation in Ukraine had pushed them up, while the prospects for an increase in grain supplies had exerted downward pressure.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had recently leveled off more or less. Developments in real exports since the start of 2014 had shown large monthly fluctuations: they had decreased in January, increased noticeably in February, and then declined again in March. On a quarterly basis, they had declined marginally in the January-March quarter compared with the October-December quarter of 2013.

Public investment had more or less leveled off at a high level. It was expected to continue leveling off more or less at a high level, as the effects of the upward pressure from various economic measures to date diminished while those of the supplementary budget for fiscal 2013 became evident.

Business fixed investment had increased moderately as corporate profits had improved. On a GDP basis, real business fixed investment had increased in the January-March quarter of 2014 for the fourth consecutive quarter, having grown at a noticeably accelerated pace. Machinery orders (private sector, excluding orders for ships and those from electric power companies) -- a leading indicator of machinery investment -- had increased for four consecutive quarters through the January-March quarter, albeit with monthly fluctuations. Business fixed investment was projected to follow a moderate increasing trend as corporate profits continued their improving trend. Meanwhile, business sentiment had fallen back following the consumption tax hike, but remained at a high level.

As for the employment and income situation, supply and demand conditions in the labor market continued to improve steadily, as evidenced by the continued rise in the job openings-to-applicants ratios and the declining trend in the unemployment rate. Regarding wages, although the year-on-year rate of change in scheduled cash earnings had still been slightly negative, non-scheduled cash earnings and special cash earnings had increased, and nominal wages per employee had generally bottomed out. In this situation, employee income had picked up moderately, as it had recently continued to register year-on-year increases.

Private consumption remained resilient as a trend with improvement in the employment and income situation, although a subsequent decline in demand following the front-loaded increase prior to the consumption tax hike had been observed. Sales at department stores in April 2014 and interviews with firms relating to retail sales showed that many firms took the view at this point that, since the start of April, although the subsequent decline in demand following the front-loaded increase had been observed, this development had been broadly in line with expectations and consumption had maintained its resilience as a trend. However, indicators related to consumer confidence for April showed that consumers were maintaining a cautious attitude, and therefore developments in private consumption, including indicators yet to be released, required careful examination.

Housing investment remained resilient as a trend with improvement in the employment and income situation, although a subsequent decline in demand following the front-loaded increase had recently been observed. It was expected to remain resilient as a trend, supported mainly by improvement in the employment and income situation and by accommodative financial conditions, despite being affected by the subsequent decline in demand following the front-loaded increase.

Industrial production had been on a moderate increasing trend, albeit with some fluctuations due to the consumption tax hike. It was expected to follow a moderate increasing trend, mainly reflecting developments in demand at home and abroad, despite being affected by the subsequent decline in demand following the front-loaded increase.

As for prices, domestic corporate goods prices, excluding the direct effects of the consumption tax hike, were more or less flat relative to three months earlier, mainly against the backdrop of movements in international commodity prices and foreign exchange rates. The year-on-year rate of increase in the CPI (all items less fresh food) was around 1¼ percent. With regard to the outlook, excluding the direct effects of the consumption tax hike, domestic corporate goods prices were expected to remain more or less flat for the time being, and the year-on-year rate of increase in the CPI (all items less fresh food) was likely to be around 1¼ percent for some time. Meanwhile, inflation expectations appeared to be rising on the whole.

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 50 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 and corporate bonds continued to be favorable. 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. Firms retained their recovered financial positions. Meanwhile, the year-on-year rate of growth in the money stock had been at around 3.5 percent, mainly due to the increase in bank lending.

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

A. Economic Developments

Members shared the view that global financial markets, including emerging markets, had been calm on the whole. At the same time, they concurred that some nervousness was also observed in part of global financial markets, mainly reflecting the situation in Ukraine, and that geopolitical risks continued to warrant attention. Some members expressed the recognition that the recent decline in U.S. and European long-term interest rates seemed to be partly attributable to anticipation that accommodative monetary policy would continue for a protracted period, but that it also might reflect market participants' awareness of a weaker outlook for medium- to long-term economic growth. These members continued that it was therefore necessary to carefully monitor future developments in long-term interest rates and the background to these developments.

Members concurred that overseas economies -- mainly advanced economies -- had started to recover, although a lackluster performance had still been seen in part of the emerging economies. As for the outlook, they shared the recognition that overseas economies -- mainly advanced economies -- would recover moderately.

With regard to developments in overseas economies by region, members agreed that, in a situation where the effects of the unusually severe winter weather were waning, the U.S. economy had been recovering moderately, led by private demand, supported in part by improvement in the employment situation. As for the outlook, they shared the view that the economy was likely to gradually accelerate its pace of recovery, with the recovery becoming widespread from the household sector to the corporate sector. Some members pointed out that careful attention should be paid in the future to the fact that housing investment had been relatively weak.

Members shared the recognition that the euro area economy was recovering moderately, as evidenced by the fact that the real GDP growth rate for the January-March quarter of 2014 registered positive growth for the fourth consecutive quarter. As for the outlook, they agreed that the economy was likely to keep recovering moderately as domestic demand was expected to continue to recover, supported mainly by an improvement in sentiment, and as exports would likely improve. Some members commented that they were paying attention to the conduct of monetary policy amid the continued disinflationary trend seen in peripheral countries in particular.

Members agreed that the Chinese economy continued to see stable growth on the back of firm domestic demand, although the economy's growth momentum was slowing somewhat. As for the outlook, they concurred that the economy would generally maintain stable growth at around the current pace, mainly because (1) the Chinese authorities had taken the stance of continuing to pay consideration to economic activity while progressing with structural reforms, and (2) external demand was expected to continue improving moderately. One member said that due attention should be paid to the possibility that a declining trend in the economic growth rate would be prolonged until the second half of 2014 due to factors such as adjustments in the real estate market.

Regarding the NIEs and the ASEAN countries, members concurred that, while economic developments in the NIEs were picking up somewhat on the back of recovery in external demand, growth momentum in the ASEAN countries remained weak. They commented that political unrest was continuing in Thailand and weakness in domestic demand there was becoming conspicuous. As for the outlook, members shared the view that, for the time being, an adjustment phase would continue -- especially in the ASEAN countries -- and the NIEs and the ASEAN countries would likely continue to lack growth momentum. However, they continued that, thereafter, the pace of growth was likely to gradually rise due to positive effects of recovery in advanced economies.

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

With regard to <u>economic activity</u>, members shared the view that the economy had continued to recover moderately as a trend, as a virtuous cycle among production, income, and spending continued to operate, although the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike had been observed. Some members expressed the recognition that the first preliminary estimate of the real GDP growth rate for the January-March quarter of 2014 -- 5.9 percent on an annualized quarter-on-quarter basis -- represented relatively high growth, even taking into consideration temporary demand increases such as the front-loaded increase in private consumption and the demand for personal computers accompanying software replacement in business fixed investment. As for <u>the outlook for the economy</u>, members concurred that it was likely to continue its moderate recovery as a trend, while it would be affected by the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike.

Members shared the recognition that, in a situation where weakness remained in exports to some emerging countries including the ASEAN countries, Japan's exports had leveled off more or less. As for the outlook, they agreed that exports were likely to increase moderately, mainly against the background of the recovery in overseas economies. One member, referring to the recent rise in orders for value-added parts in IT-related industries, expressed the recognition that an increase in overall exports was expected. Some members commented that they were paying attention to whether exports would start increasing after the disappearance of temporary downward pressure, such as the effects of the unusually severe winter weather in the United States and firms' stance of placing priority on domestic shipments in response to the front-loaded increase in demand prior to the consumption tax hike. A few members expressed the view that they would closely monitor whether political unrest in Thailand would adversely impact Japan's exports.

Members shared the view that business fixed investment had increased moderately as corporate profits had improved, and was projected to follow a moderate increasing trend. They concurred that -- taking into account that (1) business fixed investment on a GDP basis had registered high growth of 4.9 percent in the January-March quarter of 2014 compared to the previous quarter, and (2) machinery orders had increased for four consecutive quarters through the January-March quarter and were expected to see a marginal increase -- business fixed investment could be judged as being on a moderate increasing trend, even considering a temporary increase in demand such as the demand for personal computers accompanying software replacement. One member said that, against the background of the tightening of the labor market, an increase in business fixed investment for labor substitution was expected.

As for the employment and income situation, members shared the recognition that labor supply and demand conditions continued to improve steadily, and that employee income had also picked up moderately. One member expressed the recognition that the proportion of part-time employees -- which had been on a rising trend until recently -- was starting to show signs of peaking out. This member continued that this seemed to reflect firms' stance of shifting the status of employees from part-time and non-regular to regular status to secure sufficient human resources, and in this case, such signs of peaking out indicated a tightening of labor supply and demand conditions. With regard to the wage negotiations this spring, some members pointed out that movements toward wage increases -- including in base pay -- were spreading to small firms and for non-regular employees, reflecting a tightening of labor supply and demand conditions and the improvement in business performance. One member said that a rise in inflation expectations had started to be taken into account when wages were determined. With respect to the outlook regarding employee income, members agreed that a pick-up was likely to become more evident, in line with the recovery in economic activity and business performance. Some members expressed the recognition that it was necessary to closely monitor whether wages would continue to increase -- including base pay increases -- in fiscal 2015.

Members shared the view that private consumption remained resilient as a trend with improvement in the employment and income situation, although a subsequent decline in demand following the front-loaded increase prior to the consumption tax hike had recently been observed. They concurred that, judging from data for April such as sales at department stores and the number of new passenger-car registrations, as well as from interviews with firms, many took the view that the effects of the subsequent decline in demand following the front-loaded increase had been in line with expectations. One member noted that it was necessary to further examine the degree of the subsequent decline in demand following the front-loaded increase through data yet to be released. With regard to the outlook, members concurred that private consumption was likely to remain resilient as a trend, supported mainly by improvement in the employment and income situation, while it would be affected by the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike. A few members expressed the view that the significant improvement in the diffusion index for future economic conditions in the *Economy Watchers Survey* implied that the effects of the consumption tax hike were temporary. Some members expressed the recognition that it was necessary to closely monitor not only short-term fluctuations in demand, such as the front-loaded increase and subsequent decline in demand, but also the effects on consumption of the decrease in real income due to the consumption tax hike from a relatively long-term perspective. One of these members added that concerns over such effects emerging as pressing risk factors had receded, as a rise in nominal income had been observed recently. A different member, pointing to a worsening of the consumer confidence index and sluggish growth in real compensation of employees, expressed the view that the momentum in growth in private consumption might slow in the future.

Reflecting these developments in demand both at home and abroad, members agreed that industrial production had been on a moderate increasing trend, albeit with some fluctuations due to the consumption tax hike, and that it was likely to follow this trend.

Regarding prices, members shared the view that the year-on-year rate of increase in the CPI (all items less fresh food) was around 1¼ percent and the rate of increase, excluding the direct effects of the consumption tax hike, was likely to be around 1¼ percent for some time. A few members pointed out that the GDP deflator for the January-March quarter of 2014 had stopped declining, registering 0.0 percent on a year-on-year basis. A few members expressed the view that firms' price-setting behavior seemed to be starting to change, as suggested by the fact that some firms were beginning to raise sales prices while increasing value-added.

Members shared the recognition that, as a result of increased demand supported by, for example, quantitative and qualitative monetary easing, supply-side issues such as labor shortages had surfaced. Many members expressed the view that it was important to make various efforts to raise the growth potential of the economy from a medium- to long-term perspective. In relation to this point, these members expressed the opinion that promptly dispelling people's deflationary expectations with quantitative and qualitative monetary easing also had an important role in encouraging the potential growth rate to be raised. One member elaborated on this point, stating that changing people's deflationary expectations, thereby creating an environment in which firms would find it easier to invest actively and raise productivity, would contribute to raising the potential growth rate. A few members expressed the recognition that, in the case of a number of long-term unemployed, sluggish business fixed investment, and/or stagnancy in terms of innovation, there would be room to raise the potential growth rate by resolving these problems, and monetary policy -- by maintaining accommodative financial conditions -- would support such developments. One member expressed the view that, in fact, firms' profitability and productivity seemed to be increasing, particularly in nonmanufacturing, taking into account that business fixed investment was firm, and that tapping of various types of demand was progressing in a wide range of sectors. A different member said that, as upward pressure on wages heightened due to a further tightening of labor supply and demand conditions, business models that offered low-priced goods based on low wage costs would no longer be effective. On this basis, the member expressed the recognition that, if firms could switch to business models with high value-added, this would lead to raising the potential growth rate.

B. Financial Developments

Members concurred that financial conditions in Japan 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 agreed that firms continued to see financial institutions' lending attitudes as being on an improving trend, and that the amount outstanding of bank lending, including that to small firms, had been increasing moderately.

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.

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 maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

With respect to the Bank's thinking behind its 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. Members expressed the view that it was appropriate for the Bank to continue to steadily pursue quantitative and qualitative monetary easing in accordance with the current guidelines, as such easing had been exerting its intended effects.

On the other hand, one member 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 in a situation where it was unlikely that the price stability target would be achieved in about two years, 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 <u>the effects of quantitative and qualitative monetary easing</u>, 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.

IV. Remarks by Government Representatives

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

(1) The government acknowledged that the Japanese economy had been steadily progressing toward overcoming deflation and economic revitalization, as evidenced by the fact that the real GDP growth rate for the January-March quarter of 2014 was 5.9 percent on an annualized quarter-on-quarter basis, registering positive growth for the sixth consecutive quarter, and that the year-on-year rate of change in the GDP deflator

had emerged from negative territory for the first time in 18 quarters. The government 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 deemed that the economic fundamentals remained firm, judging from the recent developments in private consumption after the consumption tax hike; for example, (1) some supermarkets and department stores reported that their sales had started to recover from a reaction after a last-minute rise in demand before the hike, and (2) outlays for travel and sales in the food service industry remained steady. The government would continue to focus on swiftly implementing the supplementary budget for fiscal 2013 and the initial budget for fiscal 2014, ensuring that the economy would swiftly get back on a growth path.

(3) With a view to establishing a virtuous cycle of the economy and achieving sustainable economic growth led by private demand, the government deemed it essential to raise firms' profitability and productivity by encouraging their active entry into and exit from businesses as well as their concentration of resources in key strategic areas, and to reward employees and shareholders via the results achieved -- such as in the form of increases in wages and in investment returns. From this viewpoint, at a joint meeting of the Council on Economic and Fiscal Policy and the Industrial Competitiveness Council held on May 19, Minister Aso had made proposals on measures that aimed to (1) strengthen corporate governance of global firms and (2) enhance support of regional financial institutions to firms in their areas. At the Panel for Vitalizing Financial and Capital Markets, it was also pointed out that firms should aim at improving their profitability by strengthening corporate governance and utilizing private-sector funds. By promoting these measures, the government would raise the attractiveness of Japanese firms and encourage the expansion of domestic and foreign investment, boosting economic growth and strengthening the competitiveness of the Japanese economy.

The representative from the Cabinet Office made the following remarks.

(1) The first preliminary estimate of the real GDP growth rate for the January-March quarter of 2014 was 5.9 percent on an annualized quarter-on-quarter basis, registering positive growth for the sixth consecutive quarter. As a result, the output gap for the

January-March quarter was expected to narrow from that for the October-December quarter of 2013 and be in the range of around minus 0.5 percent to 0 percent. Moreover, the year-on-year rate of change in the GDP deflator had emerged from negative territory for the first time in 18 quarters, and the government acknowledged that the Japanese economy had been steadily progressing toward overcoming deflation. The government would continue to closely monitor a reaction after a last-minute rise in demand before the consumption tax hike, although so far it had been in line with expectations.

(2) At the Organisation for Economic Co-operation and Development (OECD) Ministerial Council Meeting held on May 6 and 7, the Prime Minister had stated that the government would achieve the three goals of revitalizing the economy, rebuilding government finances, and reforming social security concurrently, and further enhance the growth strategy. At the Council on Economic and Fiscal Policy held on May 15, the Prime Minister had given instructions to the Cabinet to set out in the Basic Policies a policy for further reform from the perspectives of both expenditure and revenue, toward the formulation of the budget for fiscal 2015, as well as a direction for initiatives to realign the structure of the corporate tax rate to one that was oriented toward growth. The government would proceed with deliberations on these issues in compiling the Basic Policies.

(3) Supply-side constraints had surfaced in the form of labor shortages, due to the current sustained economic recovery. Therefore, the government had already been deliberating on issues including the promotion of active social participation by women and utilization of foreign human resources. It also had been proceeding with discussions on reforms of the employment system and the agriculture industry.

(4) With regard to the Trans-Pacific Partnership (TPP), a ministerial meeting had been held in Singapore on May 19 and 20. The government would continue to do its utmost to achieve an early conclusion. As for the Japan-EU Economic Partnership Agreement (EPA), the government would continue to negotiate persistently, with the aim of concluding as soon as possible a comprehensive and high-level agreement.

(5) At an intensive discussion regarding monetary policy and prices at the Council on Economic and Fiscal Policy held on May 15, the government had reviewed the progress

toward overcoming deflation and promoting economic revitalization. It expected the Bank to continue its efforts to achieve the price stability target of 2 percent.

V. 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, the chairman 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.

VI. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy, and formed a majority view. Mr. T. Kiuchi, however, formulated a proposal, and thus two proposals were submitted.

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).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of April 30, 2014 for release on May 26, 2014.

Attachment
May 21, 2014
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 maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen respectively.

3. Japan's economy has continued to recover moderately as a trend, although the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike has been observed. Overseas economies -- mainly advanced economies -- are starting to recover, although a lackluster performance is still seen in part. Exports have recently leveled off more or less. Business fixed investment has increased moderately as corporate profits have improved. Public investment has more or less leveled off at a high level. Private consumption and housing investment have remained resilient as a trend with improvement in the employment and income situation, although the subsequent decline in demand following the front-loaded increase has recently been observed. Reflecting these developments in demand both at home and abroad, industrial production has been on a moderate increasing trend. 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) is around 1¼ 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 as a trend, while it will be affected by the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike. The year-on-year rate of increase in the CPI, excluding the direct effects of the consumption tax hike, is likely to be around 1¼ percent for some time.

5. Risks to the outlook include developments in the emerging and commodity-exporting economies, the prospects for the European debt problem, and the pace of recovery in the U.S. economy.

6. 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]

[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 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.