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August 13, 2014

Bank of Japan

Minutes of the Monetary Policy Meeting

on July 14 and 15, 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 Monday, July 14, 2014, from 2:00 p.m. to 4:12 p.m., and on Tuesday, July 15, from 9:00 a.m. to 11:53 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. H. Sakota, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance[3]

Mr. Y. Nishimura, Senior Vice Minister, Cabinet Office[2]

Mr. K. Umetani, Vice Minister for Policy Coordination, 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 August 7 and 8, 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 July 15.

[3] Messrs. H. Sakota and K. Umetani were present on July 14.

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. S. Nagai, 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. S. Watanabe, 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 June 12 and 13, 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 228-246 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 and general collateral (GC) repo rates had been below the 0.1 percent level. As for interest rates on term instruments, yields on treasury discount bills (T-Bills) had been at an extremely low level. Rates on longer-term interbank instruments had been flat.

Yields on 10-year JGBs had been declining somewhat, partly since European long-term interest rates had fallen while U.S. long-term interest rates had been at a low level. The yields were moving at around 0.55 percent recently. The Nikkei 225 Stock Average had risen somewhat, reflecting in part the rise in U.S. stock prices, and had recently been in the range of 15,000-15,500 yen. Yield spreads between corporate bonds and JGBs had been narrowing very moderately, reflecting solid demand from investors. In the foreign exchange market, the yen had been more or less flat against the U.S. dollar, and the U.S. dollar/yen rate had recently been in the range of 101-102 yen. The euro had generally been more or less level against the dollar.

C. Overseas Economic and Financial Developments

Overseas economies -- mainly advanced economies -- had been recovering, albeit with a lackluster performance still seen in part.

The U.S. economy steadily continued on its moderate recovery, led by private demand. Housing investment maintained its moderate pick-up. Private consumption continued to be firm, on the back of a continued rise in asset prices and steady expansion in

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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.

employment. Exports also remained on an increasing trend. Reflecting these developments in demand, business sentiment and the momentum in production activity remained firm, and business fixed investment was picking up. 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 climbed somewhat, particularly for services such as medical care and related items as well as rent. Meanwhile, the year-on-year rate of increase in the CPI for all items had been higher than that in the core CPI, because energy and food prices had been somewhat strong.

The European economy was recovering moderately. Private consumption had shown a moderate recovery, with consumer sentiment continuing to improve, although the employment and income situation remained severe. Business fixed investment continued to see movements toward a pick-up. In addition, exports were picking up. Reflecting these developments in demand, production was recovering 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 low. 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. A slowdown in the economy's growth momentum, which had been seen since the start of this year, had come to a halt. Fixed asset investment, although remaining firm, had been increasing at a somewhat reduced pace, mainly in real estate investment. On the other hand, 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. In this situation, a slowdown in the pace of growth in production had come to a halt, due in part to the effects of the government's mini-stimulus measures. Regarding economic developments in the NIEs and the ASEAN countries, differences by country and region stood out somewhat: economic developments in the NIEs were picking up somewhat on the back of recovery in external demand, while growth momentum in the ASEAN countries remained weak on the whole -- especially in Thailand -- although improvements were starting to spread in exports and private consumption. In India, the economy remained in a state of deceleration, particularly in domestic demand, although a pick-up in exports was seen. As for prices, there were differences by country and region. Specifically, the year-on-year rates of increase in the CPI had been at low levels 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 earlier 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, in an environment of low volatility, a situation continued where stock prices were high on the back of expectations for economic recovery, while at the same time long-term interest rates were stable at low levels, mainly reflecting expectations for accommodative monetary policy. Markets in emerging economies generally remained calm, although some had shown nervousness. International commodity prices had recently been somewhat weak, as there was downward pressure from the prospects for an increase in grain supplies, although such prices, after hitting bottom following the start of the year, continued a pick-up trend.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had recently leveled off more or less. Real exports continued to show mixed movements, in that they increased in April 2014 on a month-on-month basis but declined in May. Exports were expected to increase moderately, mainly against the background of the recovery in overseas economies.

Public investment had more or less leveled off at a high level. It was expected to continue to stay at around this 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 and the initial budget for fiscal 2014 was expected to be implemented at an early stage.

Business fixed investment had increased moderately as corporate profits had improved. Meanwhile, business sentiment had generally stayed at a favorable level, although the effects of the subsequent decline in demand following the front-loaded increase had been observed. In the June 2014 *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the diffusion index for business conditions for all industries and enterprises (the proportion of firms responding that business conditions were "favorable" minus the proportion of those responding that they were "unfavorable") had deteriorated compared with the March *Tankan*. However, it remained at almost the same level as in December 2013, when the economic recovery had started to become evident, and at the time of the peak of the previous economic expansion. Business fixed investment was projected to follow a moderate increasing trend as corporate profits continued their improving trend. Business fixed investment plans (excluding software investment and including land purchasing expenses) for fiscal 2014 in the June *Tankan* had been revised noticeably upward from the March *Tankan* for all industries and enterprises, and registered a year-on-year increase of 1.7 percent.

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 moderate declining trend in the unemployment rate. Regarding wages, nominal wages per employee had started to pick up as non-scheduled cash earnings and special cash earnings had increased and scheduled cash earnings had also recently started to bottom out. In this situation, the year-on-year rate of increase in employee income had been climbing moderately.

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. Sales at retail stores in real terms had increased considerably in March due to the front-loaded increase in demand, and marked a significant subsequent decline in April. They then picked up somewhat in May. On the other hand, the number of new passenger-car registrations had marked a substantial decline in April, and was almost flat for two consecutive months, in May and June. Although sales of household electrical appliances in real terms marked an increase in May, the extent of the pick-up had been limited compared with the degree of the decline in April. However, interviews with firms relating to retail sales, including sales of durable goods, showed that many firms had indicated that the degree of the subsequent decline in demand following the front-loaded increase had been broadly in line with expectations, and some had suggested that there had been a gradual reduction in the degree of the subsequent decline. Meanwhile, looking at indicators related to consumer confidence, the consumer confidence index had improved for two consecutive months, in May and June. Private consumption was expected to remain resilient with the continued improvement in the employment and income situation, and the effects of the subsequent decline in demand following the front-loaded increase were expected to wane gradually.

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. With the continued improvement in the employment and income situation, it was expected to remain resilient, supported as well by accommodative financial conditions, and the effects of the subsequent decline in demand following the front-loaded increase were expected to wane gradually.

Industrial production continued to increase moderately as a trend, albeit with some fluctuations caused by the consumption tax hike. It was expected to follow a moderate increasing trend, mainly reflecting developments in demand both at home and abroad, and the effects of the subsequent decline in demand following the front-loaded increase were expected to wane gradually.

As for prices, excluding the direct effects of the consumption tax hike, producer prices were rising moderately relative to three months earlier.[6] The year-on-year rate of increase in the CPI (all items less fresh food) was around 1¼ percent. With regard to the outlook, producer prices were expected to continue rising moderately 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 in the range of 40-45 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 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

[6] Producer prices were previously referred to as domestic corporate goods prices.

increase in the amount outstanding of bank lending had been at around 2.5 percent. Firms' financial positions had improved further. Meanwhile, the year-on-year rate of growth in the money stock had been at around 3 percent, mainly due to the increase in bank lending.

3. The fund-provisioning measure to stimulate bank lending

On June 20, 2014, the Bank carried out a new loan disbursement, amounting to 4,936.8 billion yen, under the fund-provisioning measure to stimulate bank lending (hereafter the Stimulating Bank Lending Facility), for the first time since the decision in February 2014 to enhance the measure. The outstanding balance of loans disbursed by the Bank amounted to 13,347.2 billion yen after the new loan disbursement.

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

A. Economic Developments

Regarding global financial markets, members shared the view that advanced countries continued to experience a situation where stock prices were rising and long-term interest rates were declining in an environment of low volatility. They also concurred that emerging markets had been calm on the whole. Some members, while noting that the recent decline in volatility and interest rates worldwide seemed to be attributable to anticipation that accommodative monetary policy would continue for a protracted period, commented that they would closely monitor further developments, because if a reverse in such anticipation were to occur, it could impact not only the financial markets but also economic activity. Some members noted that geopolitical risks, particularly those associated with the situation in Iraq, continued to warrant attention as they could significantly impact the global economy, mainly through fluctuations in crude oil prices.

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

With regard to developments in overseas economies by region, members agreed that the U.S. economy had been recovering moderately, led by private demand. Many members expressed the view that, although the GDP growth rate for the January-March quarter of 2014 had been revised downward to a substantially negative figure, economic activity was rebounding after the effects of the unusually severe winter weather disappeared, as seen for example in firm private consumption with continuing steady improvement in the employment situation. Some members noted that there had been signs of improvement in housing investment, which had been somewhat weak. As for the outlook, members 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, in a situation where the fiscal drag was projected to fade and accommodative financial conditions were expected to be maintained.

Members shared the recognition that the euro area economy was recovering moderately, as firms' and households' sentiment continued to improve in a situation where the area's financial markets had been stable. 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 expressed the recognition that the continued moderate disinflationary trend warranted attention. Meanwhile, many members commented that it was necessary to continue to closely monitor the effects and impacts of the further monetary easing by the European Central Bank (ECB) on the financial environment and economic activity.

Members agreed that the Chinese economy continued to see stable growth. They shared the recognition that a slowdown in the economy's growth momentum, which had been seen since the start of this year, had come to a halt as the government's policy measures to underpin economic activity were producing effects and external demand was also picking up. Some members added that an improvement in the Purchasing Managers' Index (PMI) for manufacturing activity for June supported this recognition. As for the outlook, members 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 risks associated with adjustments in the real estate market warranted attention.

Regarding the NIEs and the ASEAN countries, members shared the recognition that, while economic developments in the former were generally picking up somewhat on the back of recovery in external demand, growth momentum in the latter remained weak on the whole -- especially in Thailand -- although improvements were starting to spread in exports and private consumption. As for the outlook, they agreed that the NIEs and the ASEAN economies would likely continue to lack growth momentum on the whole, because an adjustment phase was likely to continue for the time being, mainly in Thailand. Members shared the view that the pace of growth in the NIEs and the ASEAN economies was likely to gradually rise since exports were expected to continue picking up, particularly those to Europe and the United States, on the back of recovery in advanced economies.

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 concurred that the economy had continued to recover moderately as a trend, as a virtuous cycle of economic activity continued to operate steadily with improvement in the employment and income situation, although the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike had been observed. As for the outlook for the economy, they shared the view that it was likely to continue its moderate recovery trend, and the effects of the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike were likely to wane gradually.

Members agreed that Japan's exports had recently leveled off more or less, but were likely to increase moderately, mainly against the background of the recovery in overseas economies. A few members noted that structural factors such as the shift of Japanese firms' production sites to overseas could continue to restrain an increase in exports. Some members expressed the view that an improvement in the diffusion index for overseas supply and demand conditions for products in the June *Tankan* for manufacturing firms and a recent increase in machinery orders from abroad suggested a future increase in exports. One of these members expressed the recognition that an increase in exports of goods relating to business fixed investment, in which Japanese firms seemed to have a comparative advantage, was expected on the back of a recovery in advanced economies.

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 agreed that, in the June *Tankan*, business sentiment had generally stayed at a favorable level, although the effects of the subsequent decline in demand following the front-loaded increase had been observed. On this basis, many members expressed the view that, although some indicators -- such as machinery orders for May -- had shown some weakness, firms were maintaining a positive attitude, as the June *Tankan* indicated that firms were planning to steadily increase fixed investment in fiscal 2014. A few of these members added that, in a situation where corporate profits continued their improving trend, investment related to labor-saving purposes against the background of the tightening of the labor market and replacement investment for upgrading obsolete facilities were expected to emerge. A few other members expressed the recognition that weakness in some indices relating to construction investment might reflect supply constraints such as labor shortages, and that attention needed to be paid to the risk that business fixed investment could deviate downward from firms' plans.

As for the employment and income situation, members shared the recognition that supply and demand conditions in the labor market continued to improve steadily and that employee income had also picked up moderately. With respect to the outlook regarding employee income, they 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 the income situation would continue to improve since a rise in base pay would be reflected in scheduled cash earnings and summer bonus payments were likely to increase.

Members shared the recognition 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, although some data and interviews with firms indicated mixed developments, the degree of the subsequent decline in demand following the front-loaded increase had been broadly in line with expectations on the whole. Many members expressed the recognition that data that had been released thus far were generally consistent with firms' perception that the degree of the subsequent decline in demand had been in line with their expectations. Some members added that services consumption such as that related to travel and food service remained steady, and that consumer sentiment had started to improve. Meanwhile, a few members expressed the recognition that, while many firms had indicated at interviews that the degree of the subsequent decline in demand had been in line with expectations, some data showed a somewhat large fallback. These members then noted that this might be attributable to the fact that the interviewees were mainly large firms. One member, pointing to growing polarization in consumption behavior, as seen, for example, in the *Consumer Confidence Survey*, expressed the recognition that it was necessary to pay close attention to this development when assessing the underlying trend. With regard to the outlook, members concurred that private consumption was likely to remain resilient as improvement in the employment and income situation continued, and that the effects of the subsequent decline in demand following the front-loaded increase were expected to wane gradually.

Members agreed that industrial production continued to increase moderately as a trend, albeit with some fluctuations caused by the consumption tax hike. They shared the view that it was likely to follow this trend, and the effects of the subsequent decline in demand following the front-loaded increase were likely to wane gradually.

Regarding prices, members concurred that the underlying trend in prices had been unchanged even after the consumption tax hike and that, excluding the direct effects of the consumption tax hike, 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, albeit with some temporary slowdown in the rate of increase through summer 2014. Some members said that the two factors determining the underlying trend in prices -- an improvement in the output gap and a rise in inflation expectations -- were firmly taking hold, and thus upward pressure on prices would increase further. Members shared the recognition that inflation expectations appeared to be rising on the whole, considering market indicators, the results of various surveys, and other information. One member expressed the view that firms were starting to change their price-setting behavior to one in which they would raise sales prices while increasing value-added; for example, the diffusion index for output prices in the June *Tankan* (the proportion of firms responding that output prices had risen minus the proportion of those responding that they had fallen) had moved into a net "rise" territory even for small nonmanufacturing firms for the first time since the 1991 survey, although these firms seemed to have found it difficult to pass on costs to sales prices. One member pointed out that, according to surveys conducted on households and market participants, the mean of their inflation expectations had not risen markedly, although an upward shift in the distributions of such expectations had been observed.

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' financial positions had improved further, as firms continued to see financial institutions' lending attitudes as being on an improving trend and issuing conditions for CP and corporate bonds continued to be favorable. They shared the view that firms' credit demand had been increasing moderately, as seen in, for example, the fact that the amount outstanding of bank lending, including that to small firms, had been increasing moderately.

C. Interim Assessment

Given the above assessment, with regard to the baseline scenario of the outlook for Japan's economic activity, members agreed that the economy was likely to continue growing at a pace above its potential as a trend, while it would be affected by the front-loaded increase and subsequent decline in demand prior to and after the two rounds of consumption tax hikes, broadly in line with the forecasts in the baseline scenario presented in the April 2014 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report). Some members expressed the recognition that economic developments had been in line with the April forecasts on the whole, albeit with some delay in the timing of recovery in exports.

With regard to the baseline scenario of the outlook for Japan's prices, excluding the direct effects of the consumption tax hikes, members shared the recognition that the forecasts for the year-on-year rate of increase in the CPI (all items less fresh food) were broadly in line with those presented in the April 2014 Outlook Report. Many members expressed the view that (1) the year-on-year rate of increase in the CPI was likely to be around 1¼ percent for some time, follow a rising trend again from the second half of fiscal 2014, and reach around 2 percent around the middle of the projection period through fiscal 2016; and (2) thereafter the economy was likely to gradually shift to a growth path that sustained such inflation in a stable manner. Against this view, as was the case when the April 2014 Outlook Report had been discussed, some members held a more cautious view of the outlook for prices compared with the forecasts in the baseline scenario, mainly because there seemed to be a high degree of uncertainty surrounding the view that the year-on-year rate of increase in the CPI would reach around 2 percent around the middle of the projection period.

Members shared the recognition that risks to the outlook included 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.

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.

Many members once again noted the importance of fully communicating to the public the Bank's thinking behind its conduct of monetary policy. Members expressed the recognition that, even though monthly movements in the CPI tended to draw attention in terms of the Bank's conduct of monetary policy, it was important to accurately gauge the underlying trend in prices. Some members added that it was necessary to closely monitor developments in the output gap and inflation expectations, which were factors that determined the underlying trend in prices. Some members said that, in making a comprehensive assessment of price developments, it was important to examine carefully a range of indicators, not just the CPI for all items less fresh food.

On the other hand, one member expressed the view 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 continued 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.

As for recent developments in the bond market, some members expressed the recognition that the recent further decline in long-term and short-term interest rates was attributable to the decline in overseas interest rates. Some members expressed the view that -- considering that market participants' outlook for economic activity and prices had not changed recently -- it was possible that, as the Bank proceeded with its massive JGB purchases, their effect of encouraging a further decline in interest rates across the yield curve had been strengthening.

With regard to the Stimulating Bank Lending Facility, a few members expressed the view that it had been contributing to the further easing of financial conditions, as major banks and regional financial institutions had made active use of the measure, partly due to the Bank's decision to enhance it in February 2014. In addition, one of these members expressed the hope that, given the growing impetus among firms to undertake fixed investment, a steadily increasing number of firms would use the measure, thus generating a virtuous cycle of economic activity.

IV. Remarks by Government Representatives

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

(1) The government acknowledged that, in a situation where the government and the Bank were working in an integrated manner to steadily implement the "three-arrows" strategy, the strength of the Japanese economy was being restored, as evidenced by the fact that the real GDP growth rate had registered positive growth for the sixth consecutive quarter, and price trends showed that the economy was making steady steps toward breaking free from deflation. 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) With a view to further expanding the virtuous cycle of the economy and thereby generating economic growth led by private demand, the government had stated in the Basic Policies for the Economic and Fiscal Management and Reform 2014 (hereafter the Basic Policies) and the Japan Revitalization Strategy Revised in 2014 that it would address issues such as the following: (1) improving firms' profitability through, for example, enhancing corporate governance to restore Japan's "earning power"; (2) promoting women's and foreign human resources' social participation in order to

cultivate human resources for economic growth; and (3) reforming bedrock regulations in the areas of agriculture and healthcare to nurture new industries.

(3) According to the final aggregate results of the wage negotiations this spring, movements toward wage increases were strongly taking hold, as evidenced by the fact that monthly salaries had increased by more than 2 percent for the first time in 15 years. Even looking exclusively at small and medium-sized firms, the rate of increase in wages had reached the highest level in 15 years. Based on the common understanding that had been formed in 2013, the government, labor, and management would proceed with their efforts to achieve a virtuous cycle of the economy accompanying wage increases.

(4) With a view to achieving fiscal consolidation, the government noted in the Basic Policies that it would aim to steadily achieve the primary balance target of halving the ratio of the fiscal deficit to GDP by fiscal 2015, and that it would proceed with further deliberations so that it could swiftly make evident a concrete path toward achieving a surplus in the primary balance by fiscal 2020. It would conduct a review across discretionary and required expenses, with no exceptions, and seek to prioritize expenditures and streamline them for greater efficiency in a thorough manner. On the revenue side as well, the government would embark on corporate tax reform that would be more growth-oriented, while maintaining consistency with the target of generating a surplus by fiscal 2020. By immediately implementing a series of these measures, the government would ensure that Japan broke free from deflation and pursue realizing both economic revitalization and fiscal consolidation.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was on a moderate recovery trend, while some weak movements were seen lately due to a reaction after a last-minute rise in demand before the consumption tax increase. Three months after the consumption tax increase, developments in sales at department stores and supermarkets showed a pick-up, and signs of improvement had been observed in sales of cars, which had been lagging behind. However, the economy as a whole showed mixed developments, due in part to weather conditions, and the government would continue to cautiously monitor these developments.

(2) The government acknowledged that movements toward wage increases on a scale not seen in recent years were strongly taking hold. This was evidenced by the fact that monthly salaries in the final results of wage negotiations this spring compiled by the Japanese Trade Union Confederation (Rengo) had registered a rise of 2.07 percent, increasing by more than 2 percent for the first time in 15 years, and that the aggregate figure for the year-on-year rate of increase in summer bonuses released by the Japan Business Federation (Keidanren) had registered 8.8 percent, the highest figure in the past 30 years.

(3) On June 24, 2014, the Cabinet had decided the Basic Policies, the Japan Revitalization Strategy Revised in 2014, and the Regulatory Reform Work Plan. These included for example: (1) corporate tax reform; (2) principles in prioritizing and streamlining major expenditure items; (3) the reform of the Government Pension Investment Fund (GPIF); (4) promoting women's social participation; (5) developing a Japanese society where foreigners could perform well; and (6) trying to maintain a population of about 100 million in 50 years with a stable demographic structure. The government deemed that implementation and speed were of the utmost importance and stated that it would immediately begin implementing these measures as the policy direction of the Abe Cabinet.

(4) The government would set up a headquarters for building up local regions with the Prime Minister in charge. It would deliberate on submitting related bills to the extraordinary session of the Diet and formulating a long-term vision and a comprehensive strategy through 2020 at the start of the next year.

(5) Regarding the National Strategic Zones project, special zone meetings had been held in the Kansai area and Fukuoka City, and discussions had progressed with regard to efforts such as drawing up plans. The government would proceed with deliberations on realizing further regulatory reforms and other matters.

(6) The government expected the Bank to achieve the price stability target of 2 percent, in line with the Bank's interim assessment of the April 2014 Outlook Report presented at this meeting. It also expected the Bank to continue providing a sufficient explanation on the state of its monetary policy conduct and its outlook for prices at the Council on Economic and Fiscal Policy and on other occasions.

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 June 12 and 13, 2014 for release on July 18, 2014.

Attachment
July 15, 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 -- have been recovering, albeit with a lackluster performance 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. Industrial production has continued to increase moderately as a trend, albeit with some fluctuations. Business sentiment has generally stayed at a favorable level, although the effects of the subsequent decline in demand

following the front-loaded increase have been observed. Meanwhile, financial conditions are accommodative. On the price front, the year-on-year rate of increase in the consumer price index (CPI, all items less fresh food), excluding the direct effects of the consumption tax hike, is 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 its moderate recovery trend, and the effects of the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike are expected to wane gradually. The year-on-year rate of increase in the CPI is likely to be around 1¼ percent for some time.

5. Compared with the forecasts presented in the April 2014 *Outlook for Economic Activity and Prices*, the growth rate and year-on-year rate of increase in the CPI will likely be broadly in line with the April forecasts.

6. 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.

7. 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.

(Appendix 1)

Forecasts of the Majority of Policy Board Members

y/y % chg.

	Real GDP	CPI (all items less fresh food)	Excluding the effects of the consumption tax hikes
Fiscal 2014	+0.6 to +1.3 [+1.0]	+3.2 to +3.5 [+3.3]	+1.2 to +1.5 [+1.3]
Forecasts made in April 2014	+0.8 to +1.3 [+1.1]	+3.0 to +3.5 [+3.3]	+1.0 to +1.5 [+1.3]
Fiscal 2015	+1.2 to +1.6 [+1.5]	+1.9 to +2.8 [+2.6]	+1.2 to +2.1 [+1.9]
Forecasts made in April 2014	+1.2 to +1.5 [+1.5]	+1.9 to +2.8 [+2.6]	+1.2 to +2.1 [+1.9]
Fiscal 2016	+1.0 to +1.5 [+1.3]	+2.0 to +3.0 [+2.8]	+1.3 to +2.3 [+2.1]
Forecasts made in April 2014	+1.0 to +1.5 [+1.3]	+2.0 to +3.0 [+2.8]	+1.3 to +2.3 [+2.1]

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

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

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

4. The consumption tax hike in April 2014 -- to 8 percent -- and the one scheduled for October 2015 -- to 10 percent -- are incorporated in the forecasts. In terms of the outlook for the CPI, individual Policy Board members make their forecasts based on figures excluding the direct effects of the consumption tax hikes.

5. The forecasts for the CPI that incorporate the direct effects of the consumption tax hikes are constructed as follows. First, the contribution to prices from each tax hike is mechanically computed on the assumption that the tax increase will be fully passed on for all taxable items. The CPI will be pushed up by 2.0 percentage points for fiscal 2014 and by 0.7 percentage point for fiscal 2015 and fiscal 2016, respectively. Second, these figures are added to the forecasts made by the Policy Board members.

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

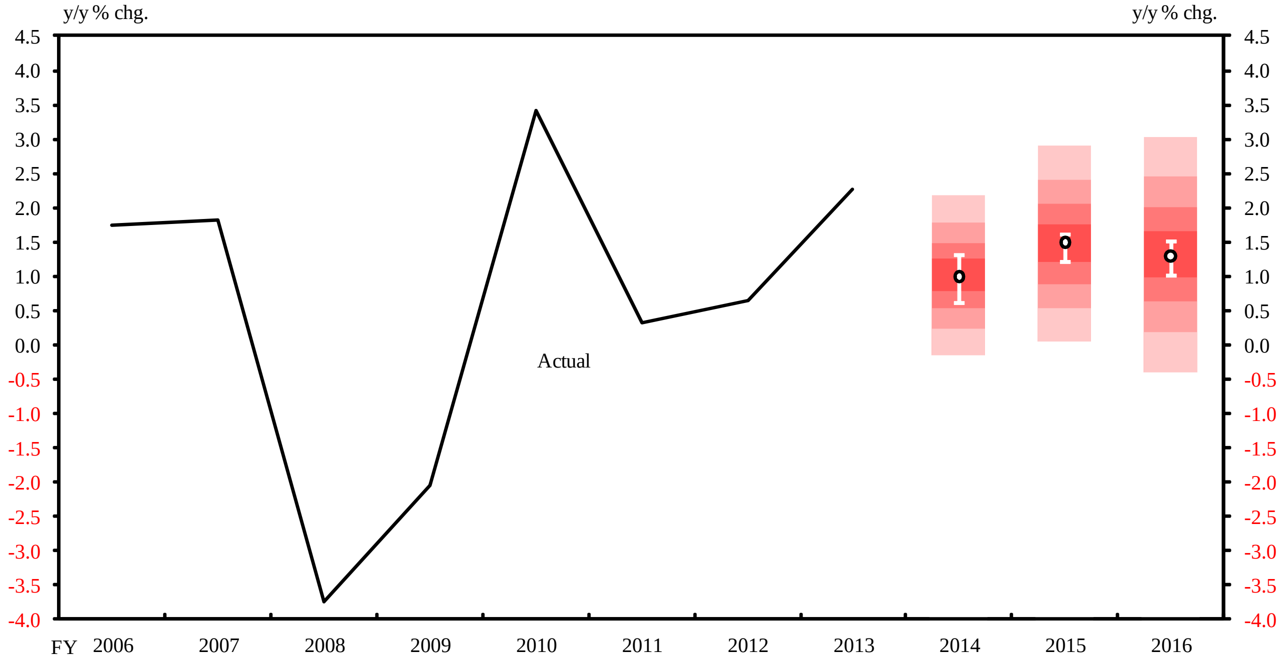
y/y % chg.

	Real GDP	CPI (all items less fresh food)	Excluding the effects of the consumption tax hikes
Fiscal 2014	+0.5 to +1.3	+3.0 to +3.7	+1.0 to +1.7
Forecasts made in April 2014	+0.5 to +1.4	+2.9 to +3.7	+0.9 to +1.7
Fiscal 2015	+0.9 to +1.7	+1.7 to +2.8	+1.0 to +2.1
Forecasts made in April 2014	+1.0 to +1.8	+1.5 to +2.8	+0.8 to +2.1
Fiscal 2016	+0.7 to +1.6	+1.6 to +3.0	+0.9 to +2.3
Forecasts made in April 2014	+0.8 to +1.6	+1.4 to +3.0	+0.7 to +2.3

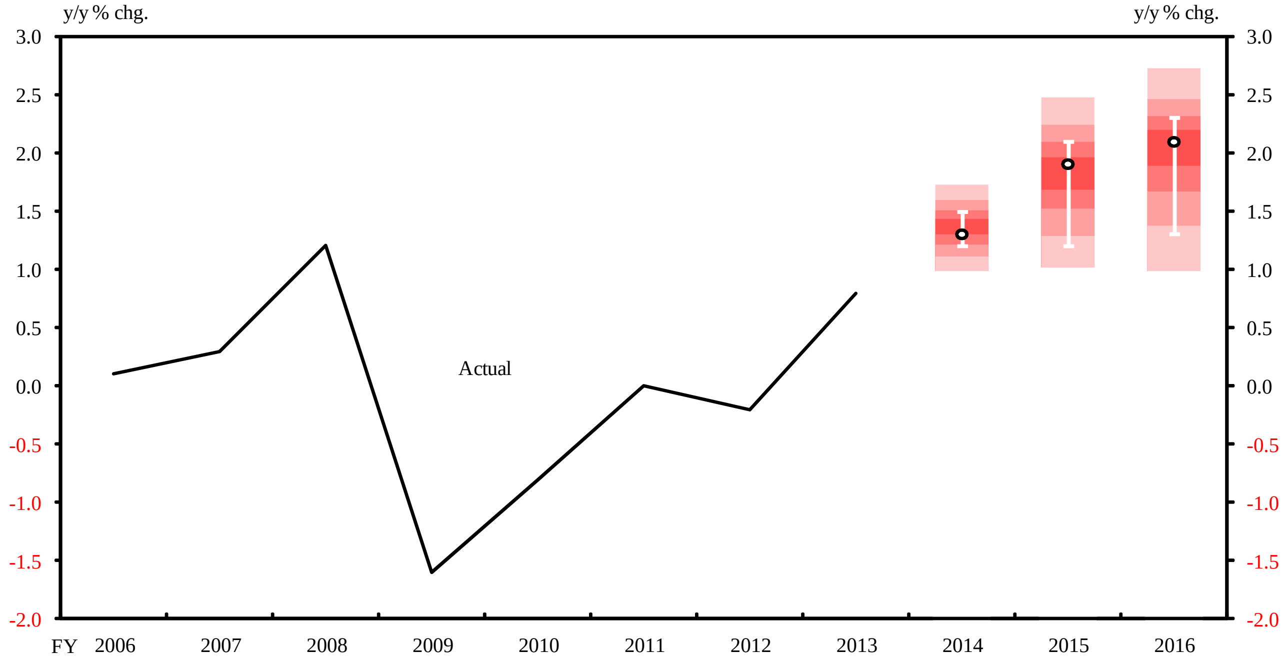
(Appendix 2)

Forecast Distribution Charts of Policy Board Members

(1) Real GDP



(2) CPI (All Items Less Fresh Food)



Notes: 1. Based on the aggregated probability distributions (i.e., the Risk Balance Charts) compiled from the distributions of individual Policy Board members, the Forecast Distribution Charts are compiled as follows. First, upper and lower 10 percentiles of the aggregated distributions are trimmed and second, colors indicated below are used to show the respective percentiles of those distributions.

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

2. For the process of compilation of the Risk Balance Charts, see the box on page 9 of the April 2008 *Outlook for Economic Activity and Prices* .

3. The circles in the bar charts indicate the median of the Policy Board members' forecasts (point estimates). The vertical lines in the bar charts indicate the range of the forecasts of the majority of Policy Board members.

4. The forecast for the CPI excludes the direct effects of the scheduled consumption tax hikes.