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April 13, 2015

Bank of Japan

Minutes of the Monetary Policy Meeting

on March 16 and 17, 2015

(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, March 16, 2015, from 2:00 p.m. to 4:16 p.m., and on Tuesday, March 17, from 9:00 a.m. to 11:59 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. I. Sugawara, State 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, State Minister of Cabinet Office, Cabinet Office[2]

Mr. M. Maekawa, Director-General, Economic and Fiscal Management, Cabinet Office[3]

Reporting Staff

Mr. M. Amamiya, Executive Director

Mr. K. Momma, Executive Director (Assistant Governor)

Mr. S. Kuwabara, Executive Director

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 April 7 and 8, 2015 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. I. Sugawara and Y. Nishimura were present on March 17.

[3] Messrs. H. Sakota and M. Maekawa were present on March 16.

Mr. H. Koguchi, Deputy Director-General, Monetary Affairs Department[4]

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

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

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

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

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

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

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

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[4] Messrs. H. Koguchi and H. Kamiguchi were present on March 17 from 9:00 a.m. to 9:15 a.m.

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

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on February 17 and 18, 2015, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[6] In this situation, the amount outstanding of the monetary base had been in the range of 272-279 trillion yen.

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments continued to be at low levels. The uncollateralized overnight call rate and general collateral (GC) repo rates had been at levels below 0.1 percent, the interest rate applied to the Bank's complementary deposit facility. As for interest rates on term instruments, yields on treasury discount bills (T-Bills) had generally been at around 0 percent.

Yields on 10-year JGBs had decreased at one time, mainly reflecting a decline in U.S. long-term interest rates, but had increased again thereafter, mainly reflecting a rise in U.S. long-term interest rates. They had recently been at around 0.4 percent, about the same level as at the time of the previous meeting. The Nikkei 225 Stock Average had risen, partly against the background of solid corporate results and the yen's depreciation against the U.S. dollar. It had recently been moving in the range of 19,000-19,500 yen. In the foreign exchange market, the yen had depreciated against the U.S. dollar, mainly reflecting firm economic indicators in the United States. The U.S. dollar/yen rate had recently been moving in the range of 121-122 yen. Meanwhile, the euro had been depreciating further against the dollar, partly due to the European Central Bank (ECB)'s implementation of the public sector purchase program (PSPP).

C. Overseas Economic and Financial Developments

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

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

[6] The guideline was as follows:

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

The U.S. economy continued to recover solidly, led mainly by private demand. Private consumption had been increasing firmly on the back of a strong increase in employment and the effects of low crude oil prices. Housing investment had also followed a moderate pick-up trend. Business sentiment and the momentum in production activity had been solid, and business fixed investment continued to recover. Exports remained on an increasing trend, but the pace had slowed somewhat. As for prices, the year-on-year rate of increase in the consumer price index (CPI) for all items less food and energy, or the core CPI, had been more or less flat while that for all items had declined to around 0 percent, mainly due to the decline in energy prices.

The European economy maintained its moderate recovery. Exports had been picking up moderately on the back of improvement in external demand and the depreciation of the euro. The pace of recovery in private consumption had been accelerating recently, partly reflecting the improving trend in compensation of employees, together with the effects of low crude oil prices and high stock prices. In this situation, production and business fixed investment had also shown movements toward a pick-up. As for prices, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) for all items had been negative, mainly due to the effects of the decline in energy prices, and that in the HICP excluding energy and unprocessed food had also been at a depressed level. Meanwhile, economic activity in the United Kingdom continued to recover firmly, led mainly by domestic demand, although the pace had slowed somewhat.

With regard to emerging economies, the Chinese economy generally maintained its stable growth, although its growth momentum had somewhat slowed due to downward pressure associated with structural reforms. Exports continued to increase, particularly to the United States and Asia. Stable growth in private consumption continued against the background of a favorable employment and income situation. On the other hand, although fixed asset investment had been underpinned by public investment, its pace of increase continued to decelerate, mainly against the background of adjustments in the real estate market. The pace of growth in production had been slowing moderately. The NIEs had been improving on the whole as domestic demand continued on a pick-up trend, although the pace of pick-up in exports had been decelerating recently. In India, the economy had been picking up, reflecting a continued improving trend in sentiment on the back of expectations for structural reforms and of a decline in inflation rates. On the other hand, despite a continued improving trend in exports, the ASEAN economies had been lacking growth momentum since improvement in private consumption remained slow. Economic activity in Brazil continued to decelerate, and that in Russia had become increasingly stagnant, particularly in domestic demand, reflecting a tightening of financial conditions due to the past raising of policy interest rates and to capital outflow.

As for prices of emerging economies, inflation rates had decreased, mainly because of the decline in energy prices. However, inflation rates had been rising in Russia due to the effects of the depreciation of the currency and to the increase in food prices, and in Brazil due to a rise in public utility charges.

Regarding global financial markets, in the United States, long-term interest rates had risen -- primarily due to anticipation of a hike in the policy rate, reflecting firm economic indicators -- while stock prices had declined marginally. In Europe, stock prices had been increasing amid a decline in long-term interest rates that was due mainly to the ECB's implementation of the PSPP. In the foreign exchange market, the U.S. dollar had appreciated, reflecting market participants' focus on the difference in the direction of monetary policy between the United States and other countries. Currencies in emerging economies had declined slightly against the dollar, mainly due to market participants' expectations of a hike in the policy rate in the United States. In international commodity markets, crude oil prices had been declining against the background of increased inventories, particularly in the United States.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had been picking up. Real exports had increased for two consecutive quarters in the July-September and October-December quarters of 2014, and had registered high growth in January 2015 compared with the October-December quarter, due partly to the effects of the Lunar New Year holidays in East Asia. 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 enter a moderate declining trend, albeit maintaining a somewhat high level.

Business fixed investment had been on a moderate increasing trend as corporate profits had improved and business sentiment had generally stayed at a favorable level.

The uptrend in the aggregate supply of capital goods on a basis excluding transport equipment had recently become evident, given that it had risen in the October-December quarter of 2014 and had exhibited somewhat high growth in January 2015 compared with that quarter. Machinery orders (private sector, excluding orders for ships and those from electric power companies) had been on a moderate uptrend, as evidenced by the fact that they had risen for two consecutive quarters in the July-September and October-December quarters of 2014, and had continued to do so for January 2015 relative to the October-December quarter. Business fixed investment was projected to continue a moderate increasing trend as corporate profits followed their improving trend.

As for the employment and income situation, labor market conditions continued to improve steadily, as seen in the fact that the unemployment rate had declined to around 3.5 percent and the active job openings-to-applicants ratio continued on its improving trend. Regarding wages, nominal wages per employee had been rising moderately, albeit with fluctuations, as non-scheduled cash earnings and special cash earnings had increased and as scheduled cash earnings had been picking up. Reflecting these developments in employment and wages, employee income had risen moderately.

Private consumption as a whole remained resilient against the background of steady improvement in the employment and income situation, although recovery in some areas had been sluggish. Sales at retail stores in real terms, after having continued to rise in the July-September and October-December quarters of 2014, declined in January 2015 compared with the October-December quarter. Sales at department stores had been on an improving trend, supported in part by the wealth effects as a result of the rise in stock prices, as well as by increased sales to foreign visitors to Japan. As for durable consumer goods, which had exhibited lingering effects of the decline in demand following the front-loaded increase prior to the consumption tax hike, the number of new passenger-car registrations had shown signs of picking up, and sales of household electrical appliances had tended to pick up at a moderate pace, albeit with fluctuations. Services consumption, such as that related to travel, remained steady. Indicators related to consumer confidence had recently shown signs of picking up, mainly reflecting a decline in the prices of petroleum products. Private consumption was expected to remain resilient with the employment and income situation continuing to improve steadily.

Housing investment, which had continued to decline following the front-loaded increase, had recently started to bottom out. It was projected to regain its resilience gradually with the employment and income situation continuing to improve steadily, supported as well by accommodative financial conditions.

Industrial production had been picking up, due in part to the moderate increase in demand both at home and abroad as well as to the progress in inventory adjustments. It had fallen back noticeably in the April-June quarter of 2014, due to the effects of the decline in demand following the front-loaded increase, and continued to decrease in the July-September quarter, but had turned upward in the October-December quarter and had increased in January 2015 relative to that quarter. Reflecting developments in demand both at home and abroad, industrial production was expected to increase moderately.

As for prices, excluding the direct effects of the consumption tax hike, the producer price index (PPI) was declining relative to three months earlier, reflecting the significant fall in international commodity prices to date. The year-on-year rate of increase in the CPI (all items less fresh food) was in the range of 0.0-0.5 percent. With regard to the outlook, the PPI was expected to decline at a reduced pace for the time being, reflecting movements in international commodity prices. The year-on-year rate of increase in the CPI was likely to be about 0 percent for the time being, due to the effects of the decline in energy prices.

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 35 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 at around 2.5 percent. Firms' financial positions had been favorable. 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.

Meanwhile, inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective.

3. Loan disbursement through the Loan Support Program

On March 6, 2015, the Bank had carried out a new loan disbursement, amounting to 646.3 billion yen, under the main rules for the fund-provisioning measure to support strengthening the foundations for economic growth. The outstanding balance of loans disbursed by the Bank under these rules amounted to 4,551.8 billion yen after the new loan disbursement. The outstanding balance of loans disbursed by the Bank under the special rules for equity investments and asset-based lending (ABL) came to 114.1 billion yen, and that under the special rules for small-lot investments and loans amounted to 9.435 billion yen. As for the special rules for the U.S. dollar lending arrangement, the outstanding balance of loans came to 11.99 billion dollars.

On March 18, the Bank was scheduled to carry out a new loan disbursement, amounting to 4,400.0 billion yen, under the fund-provisioning measure to stimulate bank lending. The outstanding balance of loans disbursed by the Bank would amount to 22,345.4 billion yen after the new loan disbursement.

II. Amendments to Principal Terms and Conditions for the Loan Support Program and Other Related Rules, and Establishment of Special Rules

A. Staff Reports

With regard to the extension and enhancement of the Loan Support Program and other measures, which was decided at the Monetary Policy Meeting held on January 20 and 21, 2015, the staff proposed that the Bank take necessary steps such as amending the Principal Terms and Conditions for the Loan Support Program. Regarding the use of the program by financial institutions that did not have a current account at the Bank, it would be appropriate to secure the necessary framework for ensuring the proper use of the program through their central organizations, with a view to properly carrying out the program. The staff therefore proposed establishing special rules to this end.

B. Vote

"Amendments to 'Principal Terms and Conditions for the Loan Support Program' and Other Related Rules, and Establishment of 'Special Rules for Member Financial Institutions of Central Organizations of Financial Cooperatives to Use the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth and the Fund-Provisioning Measure to Stimulate Bank Lending,'" which represented the aforementioned staff reports, was put to a vote. Members voted unanimously to approve the proposal. They concurred that the staff should accordingly make this public after the meeting.

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

A. Economic Developments

Members shared the recognition that global financial markets had been affected by the growing difference in the direction of monetary policy between the United States and other countries. They continued that this was evidenced by the fact that the timing of a hike in the policy rate in the United States had drawn attention, mainly on the back of firm economic indicators, while monetary easing had been implemented in many other countries, notably in Europe, against the background of declining inflation rates. Many members pointed out that, in Europe, due to the ECB's implementation of the PSPP, the euro was depreciating and stock prices were rising, with a further decline in interest rates. Some members mentioned that the global flow of funds could be reversed in the event that the policy rate in the United States actually began to be raised, and it was necessary to closely monitor the effects. A few of these members pointed out that market makers' capacity to take risks might have decreased, due in part to the effects of financial regulations. Regarding the Greek debt problem, many members noted that, although the current financial assistance program had been extended by four months, interest rates in Greece remained at high levels, and therefore future developments in negotiations for the financial assistance warranted attention.

Members shared the recognition that overseas economies -- mainly advanced economies -- had been recovering, albeit with a lackluster performance still seen in part.

As for the outlook, they concurred that overseas economies, particularly advanced economies, would continue to recover moderately.

With regard to developments in overseas economies by region, members concurred that the U.S. economy continued to recover solidly, led mainly by private demand. They shared the view that private consumption had been increasing firmly on the back of a strong increase in employment and the decline in gasoline prices. Regarding the corporate sector, members agreed that business sentiment and the momentum for recovery in production activity had been solid, and that business fixed investment continued to recover. As for the outlook, they concurred that the economy was likely to continue to recover solidly as firmness in the household sector would continue to spread to the corporate sector. Some members noted that the effects of the appreciation of the dollar on corporate profits and exports warranted attention. One member pointed out that the degree of the increase in nominal wages remained moderate compared to that in employment, and that it was necessary to pay close attention to whether this would affect the uptrend in prices.

Members concurred that the European economy maintained its moderate recovery, partly due to the depreciation of the euro and the rise in stock prices reflecting the ECB's expansion of the monetary easing program, together with the effects of low crude oil prices. They shared the recognition that the pace of recovery in private consumption had been accelerating recently, mainly on the back of the effects of low crude oil prices and high stock prices, and that exports had been picking up moderately, mainly reflecting the effects of the euro's depreciation. As for the outlook, members concurred that the economy would likely maintain its moderate recovery. Some members noted that inflation expectations, although they had bottomed out, had been at a depressed level, and that attention should still be paid to the risk of deflation. On the other hand, one member expressed the view that, compared to the situation before the ECB's expansion of the monetary easing program, the risk of the economy falling into deflation had subsided. A different member pointed out that the effects of developments in political and economic conditions in Russia and Ukraine warranted attention.

Members agreed that the Chinese economy generally maintained its stable growth due mainly to an improvement in external demand and the stimulus measures by the government, although its growth momentum had somewhat slowed due to downward pressure associated with structural reforms. As for the outlook, they shared the view that the economy would likely continue to grow stably, albeit at a somewhat slower pace, as authorities carried out stimulus measures while progressing with structural reforms. Many members -- noting that the GDP growth target for 2015 had been lowered to around 7 percent -- expressed the view that, if the economy were to see slower growth, the government was expected to take action, and thus was ultimately likely to achieve the target.

Regarding emerging economies, members shared the recognition that, while there were countries and regions, mainly in Asia, where economic activity had been picking up, some economies, particularly Brazilian and Russian economies, remained stagnant. They continued that emerging economies as a whole remained lackluster in terms of growth. Members concurred that, although differences remained across countries and regions, emerging economies were likely to gradually increase their growth rates as the recovery in advanced economies -- particularly the United States -- had positive effects on them and as domestic demand in emerging economies picked up, mainly due to monetary easing.

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

With regard to economic activity, members shared the recognition that, in a situation where a virtuous cycle from income to spending continued to operate steadily in both the household and corporate sectors, the economy continued its moderate recovery trend. Some members expressed the recognition that, although the second preliminary estimate of the real GDP growth rate for the October-December quarter of 2014 had been revised downward from the first preliminary estimate, this was mainly attributable to a decline in inventory investment, and final demand had not weakened. These members continued that, therefore, these developments could be regarded favorably in terms of the economic cycle. With regard to the outlook for the economy, members concurred that it was likely to continue its moderate recovery trend.

Members agreed that Japan's exports had been picking up. Some members, pointing out that real exports for January 2015 had registered high growth, said that an improvement in exports had become increasingly evident, although the effects of the Lunar New Year holidays in East Asia should be taken into account. Members shared the view that exports were likely to increase moderately, mainly against the background of the recovery in overseas economies.

Members shared the recognition that business fixed investment had been on a moderate increasing trend as corporate profits had improved; for example, these profits had reached historically high levels in the *Financial Statements Statistics of Corporations by Industry, Quarterly* for the October-December quarter of 2014. They agreed that business fixed investment was projected to continue a moderate increasing trend as corporate profits followed their improving trend. A few members, noting that real business fixed investment on a GDP basis for the October-December quarter had marked slightly negative growth on a quarter-on-quarter basis, said that momentum for recovery in business fixed investment was somewhat weak. Some members expressed the recognition that monthly indicators such as the aggregate supply of capital goods suggested that an uptrend in business fixed investment had become increasingly evident. A few members pointed out that sentiment indicators, including those of small firms, had been improving.

As for the employment and income situation, members shared the recognition that, with labor market conditions continuing to improve steadily, employee income had risen moderately and was likely to continue to do so. Some members expressed the view that the wage negotiations in spring 2015 were expected to bring about larger wage increases -- including in base pay -- than those of 2014. One of these members was paying attention to the increases in base pay because they had a notable effect on inflation expectations. One member pointed out that, since work patterns had become diverse, increases in wages would take a variety of forms, as increases in not only base pay but also bonuses and various allowances. This member then expressed the view that household income therefore was expected to rise to a certain degree. A different member said that a favorable environment for raising wages had begun to be established even for small firms, given their good corporate profits and the increasing sense of labor shortage.

Members shared the recognition that private consumption as a whole remained resilient against the background of steady improvement in the employment and income situation, although recovery in some areas had been sluggish. A few members commented that somewhat weak developments had been observed in private consumption, as the *Family Income and Expenditure Survey* through January showed that real consumption expenditures had declined. On the other hand, a few other members pointed out that, although private consumption for January had been sluggish, interviews with firms suggested that private consumption -- such as in terms of sales at department stores and supermarkets -- had been improving since February, even after adjusting for the effects of the Lunar New Year holidays. Many members said that indicators of consumer sentiment had shown signs of picking up, due in part to the effects of low crude oil prices and high stock prices. One of these members -- noting that improvement in the consumer perception of "income growth" in the consumer confidence index had been limited -- added that cautiousness persisted in the sentiment of pensioners and low-income households. Members concurred that private consumption was likely to remain resilient with the employment and income situation continuing to improve steadily. One member expressed the view that inflation rates declining for the time being due to the fall in crude oil prices, coupled with an increase in nominal wages -- including in base pay -- would bring about a rise in real wages, thereby underpinning the momentum in private consumption.

Members agreed that housing investment, which had continued to decline following the front-loaded increase, had recently started to bottom out and was projected to regain its resilience gradually.

Members shared the recognition that industrial production had been picking up, due in part to the moderate increase in demand both at home and abroad as well as to the progress in inventory adjustments. They concurred that industrial production was likely to increase moderately. One member said that inventory adjustments since summer 2014 had almost been completed and a firm increase in production was expected. On the other hand, a different member expressed the recognition that, according to interviews with firms, some had indicated that the pace of increase in production would slow in the April-June quarter. This member continued that such developments required close monitoring.

As for <u>prices</u>, members concurred 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 in the range of 0.0-0.5 percent and was likely to be about 0 percent for the time being, due to the effects of the decline in energy prices. A few members pointed out that, depending on developments in energy prices in particular, the year-on-year rate of change in the CPI might become slightly negative. One member expressed the view that in order for prices to rise sustainably, it was necessary to have wage setting that took into account moderate inflation and a sustainable increase in services prices. In considering the outlook for prices, a different member was paying attention to whether services prices -- which were not revised frequently -- would be raised in April.

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 been favorable, 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, and that the amount outstanding of bank lending, including that to small firms, had been increasing moderately.

IV. Summary of Discussions on Monetary Policy for the Immediate Future

Based on the above assessment of economic and financial developments, members discussed monetary policy for the immediate future.

Many members shared the recognition that quantitative and qualitative monetary easing (QQE) continued to exert its intended effects after the Bank had decided to expand QQE at the Monetary Policy Meeting held on October 31, 2014. These members shared the view that the underlying trend in inflation, which was determined by the output gap and medium- to long-term inflation expectations, would continue to improve. One member expressed the view that, in pursuing QQE, its transmission channel through asset prices had been functioning effectively. This member continued that, by promoting firms' proactive behavior, QQE was expected to exert positive effects on the supply side of the economy, such as its capital stock and productivity. Furthermore, the member added that QQE, accompanied by a steady improvement in the fundamentals of Japan's economy, was at a stage where it would likely produce greater effects and that it would suppress, to some extent, negative side effects such as financial imbalances. A different member noted that current improvements in economic developments would not have been realized without additional monetary easing having been decided in October 2014. The member then expressed the recognition that it was necessary for the Bank to continue with the current scale of monetary easing as positive effects had begun to be seen, such as increases in exports and production, as well as improvement in the shipment-inventory balance.

With regard to the assessment of price developments for the Bank's conduct of monetary policy, members shared the recognition that the price stability target should be achieved in a stable manner and that the underlying trend in inflation was important in conducting monetary policy. One member said that, in a situation where the year-on-year rate of increase in the CPI was likely to be about 0 percent for the time being, it was necessary to explain thoroughly to the public the underlying trend in inflation. This member continued that, in doing so, developments in inflation expectations would be a key. One member expressed the recognition that, in assessing inflation expectations, it was necessary to thoroughly examine a wide range of information, including various survey results and firms' price-setting behavior, given that market indicators such as the break-even inflation rates were susceptible to developments in crude oil prices. A different member expressed the view that, in terms of firms' price setting, they had been steadily emerging from the deflationary mindset, and upward pressure on sales prices set by firms that contemplated price increases was likely to become evident again if consumption picked up in the future. This member continued, however, that the deflationary mindset persisted in terms of wages, as evidenced, for example, by firms that were reluctant to increase base pay. Another member -- noting that a change was being seen in firms' price-setting strategy, from a low-price strategy to one of raising sales prices while increasing value added -- expressed the recognition that firms had paid consideration during wage negotiations to price developments, and that such behavior represented a rise in inflation expectations. Based on these discussions, members shared the recognition that inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective. On this basis, many members shared the view that the year-on-year rate of increase in the CPI would accelerate as the base effect of the falling crude oil prices dissipated, and was likely to reach around 2 percent in or around fiscal 2015, given that the output gap and inflation expectations, both of which determined the underlying trend in inflation, were likely to improve steadily and increase, respectively. Meanwhile, one member expressed the view that the inflation rate was unlikely to readily rise, considering that there had been no acceleration in the year-on-year rate of increase in the CPI (all items less food and energy).

Based on the above discussions, regarding the guideline for money market operations for the intermeeting period ahead, most members expressed the recognition 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 80 trillion yen.

With regard to the asset purchases, most members expressed the recognition that it also was appropriate for the Bank to continue with the current guideline. Specifically, these members confirmed the following. First, the Bank would purchase JGBs so that their amount outstanding would increase at an annual pace of about 80 trillion yen. With a view to encouraging a decline in interest rates across the entire yield curve, the Bank would conduct purchases in a flexible manner in accordance with financial market conditions. The average remaining maturity of the Bank's JGB purchases would be about 7-10 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 annual paces of about 3 trillion yen and about 90 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. A few members noted that the feasibility of continuing JGB purchases into the future warranted attention, even though it seemed technically possible to continue such purchases for some time.

With respect to the Bank's thinking behind its future conduct of monetary policy, many members shared the recognition that the Bank would continue with QQE, 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.

On the other hand, one member expressed the view that, if a rise were to occur in markets' anticipation that QQE 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, this member argued that (1) the Bank should change the guidelines for money market operations and asset purchases back to those employed before the expansion of QQE; and

(2) with regard to the future conduct of monetary policy, the Bank should reconsider the time frame for achieving the price stability target and change the expression representing the Bank's commitment by stating that the time frame for continuing QQE should be restricted to about two years, and that thereafter the Bank would review the monetary easing measures in a flexible manner.

Meanwhile, members discussed developments in the JGB market amid the Bank's pursuit of QQE. With regard to the results of the first *Bond Market Survey* released on March 9, 2015, a few members said that there were many somewhat negative assessments of the degree of functioning and the liquidity of the secondary JGB market, and that market participants might be conscious of liquidity premiums to a certain degree. On the other hand, a few other members expressed the view that, although more than 70 percent of respondents indicated that the degree of functioning of the bond market had decreased from three months ago, this was attributable to the somewhat significant rise since late January in volatility of JGB yields, which had been at a low level until then. One of them pointed out that not many respondents indicated that they were unable to make dealings with expected prices or dealing lots. On this basis, these members expressed the view that, judging, for example, from various indicators of market liquidity, no major problems were observed at present in terms of liquidity in the bond market. These members added that, since the Bank's JGB purchases under QQE aimed to encourage a decline in interest rates, the purchases affecting the JGB market to a certain degree were within expectations. A few members expressed the view that, in pursuing QQE, it was important to carefully assess the mechanism of price formation in the JGB market as well as examine and compare the positive effects and side effects of JGB purchases. Based on these discussions, some members said that it was important for the Bank to continue to carefully monitor developments in the bond market while communicating with market participants. One of these members added that, in doing so, it was also necessary to monitor a wide range of indicators of market liquidity.

V. Remarks by Government Representatives

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

(1) The second preliminary estimate of the real GDP growth rate for the October-December quarter of 2014 -- which had been released on March 9, 2015 -- was revised downward

from the first preliminary estimate to 1.5 percent on an annualized quarter-on-quarter basis, mainly due to the effects of the downward revision to private inventories. Meanwhile, according to monthly indicators, production and exports represented somewhat high growth, and sentiment indicators exhibited signs of a pick-up. Given these developments, the government deemed that there was no change in its assessment that the Japanese economy was on a moderate recovery; nevertheless, it would continue to closely monitor economic developments.

(2) The government deemed it essential to maintain fiscal sustainability not only for the economy to achieve sustainable growth, led by private demand, but also for the Bank to smoothly implement its ongoing monetary easing. To this end, the government would proceed with deliberations at the Council on Economic and Fiscal Policy, and on other occasions, regarding a fiscal consolidation plan -- which aimed to meet the target of achieving a primary surplus for national and local governments by fiscal 2020 -- and would formulate a concrete plan by the summer of 2015. Moreover, the budget for fiscal 2015 had been approved by the House of Representatives on March 13, and was being deliberated in the House of Councillors. The government deemed it necessary to obtain the Diet's approval of the budget at the earliest possible time -- following the approval of the supplementary budget for fiscal 2014 on February 3 -- thereby ensuring that the virtuous cycle of the economy got on the right track and that the fruits of Abenomics swiftly spread throughout local economies. It would continue to aim to promptly obtain the Diet's approval of the budget for fiscal 2015 by the end of fiscal 2014 despite the tight schedule.

(3) With regard to monetary policy, the government expected the Bank to achieve the price stability target of 2 percent in light of economic activity and prices.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was on a moderate recovery, while weakness could be seen mainly in private consumption. The second preliminary estimate of the real GDP growth rate for the October-December quarter of 2014 -- which had been released on March 9, 2015 -- was revised downward from the first preliminary estimate to 1.5 percent on an annualized quarter-on-quarter basis, mainly because of downward revisions to private nonresidential investment and private inventories; however, the rate

registered positive growth for the first time in three quarters. In addition, the year-on-year rate of increase in the GDP deflator had climbed from the previous quarter to 2.4 percent for the October-December quarter, which showed that there were favorable economic conditions for overcoming deflation. Taking such developments into account, the government deemed it important to make a comprehensive assessment of price developments. To further enhance the transparency of the method of compiling quarterly estimates of GDP, the government had decided to provide detailed information regarding the estimates of private inventories and private nonresidential investment from the next release of quarterly estimates.

(2) The government was currently working to swiftly implement the Immediate Economic Measures for Extending Virtuous Cycles to the Local Economies, which had been compiled at the end of 2014. Moreover, in order to achieve both economic revitalization and fiscal consolidation, while firmly maintaining the goal to achieve fiscal consolidation by fiscal 2020, the government would proceed with deliberations at the Council on Economic and Fiscal Policy and formulate a concrete plan by the summer of 2015. Foreign direct investment into Japan was expanding, and to attract further investment, a policy package would be compiled later on the evening of March 17 at the Council for Promotion of Foreign Direct Investment in Japan. On March 10, the government had submitted to the Diet partial revisions to the Act on the Protection of Personal Information Held by Administrative Organs and the Act on the Use of Numbers to Identify a Specific Individual in the Administrative Procedure, in order to expand the scope of use of the Social Security and Tax Number System (the My Number system) and promote the utilization of personal data, thereby achieving the creation of related new industries and new services while ensuring the protection of personal information. As for the National Strategic Special Zones, the government intended to submit a bill with enhanced and stronger content to the Diet. The bill to be submitted would fully take into account regional needs, from the viewpoint of regional vitalization.

(3) The government expected the Bank to steadily work to achieve the price stability target of 2 percent in light of economic activity and prices.

VI. Votes

A. Vote on the Guideline for Money Market Operations

Based on the above discussions, to reflect the majority view of the members, the chairman formulated the following proposal and put it to a vote.

The Policy Board decided the proposal by a majority vote.

The Chairman's Policy Proposal on the Guideline for 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 80 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, and Mr. T. Sato.
Votes against the proposal: Mr. T. Kiuchi.

B. Vote on the Guideline for Asset Purchases

To reflect the majority view of the members, the chairman formulated the following proposal to continue with the guideline for asset purchases and put it to a vote: (1) to purchase JGBs so that their amount outstanding would increase at an annual pace of about 80 trillion yen, to conduct purchases in a flexible manner in accordance with financial market conditions -- with a view to encouraging a decline in interest rates across the entire yield curve -- and to make the average remaining maturity of the Bank's JGB purchases about 7-10 years; (2) to purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces of about 3 trillion yen and about 90 billion yen, respectively; and (3) to maintain the amounts outstanding of CP and corporate bonds at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

The Policy Board decided the proposal by a majority vote.

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, and Mr. T. Sato.

Votes against the proposal: Mr. T. Kiuchi.

VII. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy, and formed a majority view. 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 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" 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 QQE as an intensive measure with a time frame of about two years, and thereafter will review the monetary easing measures in a flexible manner." The proposal was then put to a vote.

The proposal was defeated by a majority vote.

Votes for the proposal: Mr. T. Kiuchi.

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

B. The Chairman's Policy Proposal

The chairman formulated the Statement on Monetary Policy, and put it to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment).

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of February 17 and 18, 2015 for release on March 20, 2015.

Attachment
March 17, 2015
Bank of Japan

Statement on Monetary Policy

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

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

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

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

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

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

3. Japan's economy has continued its moderate recovery trend. Overseas economies -- mainly advanced economies -- have been recovering, albeit with a lackluster performance still seen in part. In this situation, exports have been picking up. Business fixed investment has been on a moderate increasing trend as corporate profits have improved. Public investment has more or less leveled off at a high level. Private consumption as a whole has remained resilient against the background of steady improvement in the employment and income situation, although recovery in some areas has been sluggish. Housing investment, which continued to decline following the front-loaded increase prior to the consumption tax hike,

has recently started to bottom out. Against the backdrop of these developments in demand both at home and abroad, industrial production has been picking up, due in part to the progress in inventory adjustments. Meanwhile, financial conditions are accommodative. On the price front, the year-on-year rate of increase in the consumer price index (CPI, all items less fresh food), excluding the direct effects of the consumption tax hike, is in the range of 0.0-0.5 percent. Inflation expectations appear to be rising on the whole from a somewhat longer-term perspective.

4. With regard to the outlook, Japan's economy is expected to continue its moderate recovery trend. The year-on-year rate of increase in the CPI is likely to be about 0 percent for the time being, due to the effects of the decline in energy prices.

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

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

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

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

[Note 3] Mr. T. Kiuchi proposed that the Bank will aim to achieve the price stability target of 2 percent in the medium to long term and designate 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.