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May 8, 2015

Bank of Japan

Minutes of the Monetary Policy Meeting

on April 7 and 8, 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 Tuesday, April 7, 2015, from 2:00 p.m. to 4:00 p.m., and on Wednesday, April 8, from 9:00 a.m. to 12:31 p.m.[1]

Policy Board Members Present

Mr. H. Kuroda, Chairman, Governor of the Bank of Japan

Mr. K. Iwata, Deputy Governor of the Bank of Japan

Mr. H. Nakaso, Deputy Governor of the Bank of Japan

Mr. Y. Morimoto

Ms. S. Shirai

Mr. K. Ishida

Mr. T. Sato

Mr. T. Kiuchi

Mr. Y. Harada

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 30, 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 April 8.

[3] Messrs. H. Sakota and M. Maekawa were present on April 7.

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. R. Hattori, Senior Economist, Monetary Affairs Department

Mr. K. Iijima, 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 March 16 and 17, 2015, 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 282-298 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 been declining somewhat, mainly as a reflection of a decline in U.S. and European long-term interest rates, and had recently been at around 0.35 percent. The Nikkei 225 Stock Average had increased somewhat, mainly due to anticipation of improvement in corporate profits. It had recently been moving in the range of 19,500-20,000 yen. In the foreign exchange market, the yen had appreciated somewhat against the U.S. dollar, mainly reflecting a slight delay in the timing at which markets expected a hike in the policy rate in the United States. The U.S. dollar/yen rate had recently been at around 120 yen.

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 continued to recover solidly, led mainly by private demand. Private consumption had been solid as a trend, on the back of a strong increase in employment and the effects of low crude oil prices, although its pace of increase had recently slowed somewhat, partly reflecting the effects of the severe weather. Housing

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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 80 trillion yen.

investment had also followed a moderate pick-up trend. In the corporate sector, although the pace of increase in exports had slowed, partly due to the effects of the appreciation of the dollar, business sentiment and the momentum in production activity had been solid on the back of firm household spending, and business fixed investment continued to recover. 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 been at 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 increase in private consumption had been accelerating recently, partly reflecting the effects of low crude oil prices and high stock prices, as the rising trend in compensation of employees continued. In this situation, business sentiment had improved, and 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) excluding energy and unprocessed food had followed a moderate declining trend, and that in the HICP for all items remained negative, mainly due to the decline in energy prices. 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 be severe, and that in Russia had become increasingly stagnant, particularly in domestic demand, reflecting the continuation of a tightening of financial conditions, due to capital outflow, and of a deterioration in sentiment, due mainly to a rise in prices.

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, mainly due to a rise in public utility charges.

Regarding global financial markets -- in a situation where market participants had been aware of the negative effects of the appreciation of the U.S. dollar on the U.S. economy -- the expectation that the Federal Reserve would move forward the timing of a hike in the target federal funds rate had waned somewhat, mainly due to relatively weak economic indicators and to the downward revision made to the Federal Open Market Committee (FOMC) participants' projections of the path for the federal funds rate at the FOMC meeting held on March 17 and 18, 2015. Therefore, U.S. long-term interest rates had declined, and in the foreign exchange market appreciation of the U.S. dollar had come to a pause while currencies, particularly in emerging economies, had risen somewhat. In international commodity markets, crude oil prices had been rising, mainly against the background of heightened geopolitical risks in the Middle East.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had been picking up. Real exports had increased for two consecutive quarters from the July-September quarter of 2014, and had continued to do so in the January-February period of 2015 on average relative to the October-December quarter, despite large monthly fluctuations since the start of 2015 -- such as the considerable increase in January and the subsequent decline in February -- due partly to the effects of the Lunar New Year holidays on exports to 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. The uptrend in the aggregate supply of capital goods (excluding transport equipment) -- a coincident indicator of machinery investment -- had recently become evident, and construction starts (floor area, private, nondwelling use) -- a leading indicator of construction investment -- had been increasing since the end of 2014. Business sentiment had generally stayed at a favorable level. In the March 2015 *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 improved, albeit slightly, for the second straight term; it had come close to the peak level of the economic expansion period prior to the Lehman shock. By industry, the results had been somewhat mixed: the diffusion index for manufacturing had deteriorated marginally, while that for nonmanufacturing had improved slightly. Nevertheless, the diffusion indices for both sectors had been in "favorable" territory. Business fixed investment was projected to continue a moderate increasing trend as corporate profits followed their improving trend. Business fixed investment plans for fiscal 2015 in the March *Tankan* showed that firms had generally maintained their solid plans as they expected to continue to see profit increases.

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 scheduled cash earnings on a year-on-year basis had turned slightly positive and as non-scheduled cash earnings had shown a pick-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, dropped slightly in the January-February period of 2015 relative to 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. 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 turned upward in the October-December quarter of 2014 and had increased in the January-February period of 2015 on average relative to that quarter, although monthly fluctuations had become significant since the start of 2015 due to the effects of the Lunar New Year holidays in East Asia. 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 about 0 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.

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

A. Economic Developments

With regard to global financial markets, many members expressed the recognition that the appreciation of the U.S. dollar had come to a pause in the foreign exchange market, as the expectation that the Federal Reserve would move forward the timing of a hike in the target federal funds rate had waned somewhat, due to relatively weak economic indicators and following the FOMC meeting held on March 17 and 18, 2015. Regarding developments in political and economic conditions in Greece, some members noted that, while negotiations were proceeding between the Greek authorities and the relevant institutions to further specify measures for economic reconstruction, government bond yields remained at high levels, reflecting uncertainty over the outcome of the negotiations and the tightening of the government's financial position; therefore, it was necessary to continue to closely monitor future developments and the effects on global financial markets. A few members pointed out that interest rates in Europe had been declining further since the European Central Bank (ECB)'s implementation of the public sector purchase program (PSPP). These members expressed the view that, if this trend continued, the JGB market might be affected through "search for yield" activities among investors.

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. Many members shared the view that private consumption had been solid as a trend, on the back of a strong increase in employment and the decline in gasoline prices, although its pace of increase had recently slowed somewhat, partly reflecting the effects of the severe weather. Regarding the corporate sector, members agreed that, although the pace of increase in exports had slowed, partly due to the effects of the appreciation of the dollar, business sentiment and the momentum in production activity had been solid on the back of firm household spending, and business fixed investment continued to recover. As for the outlook, they shared the view that, although developments in foreign exchange rates were expected to affect exports for the time being, the economy was likely to continue to recover solidly as firmness in the household sector would continue to spread to the corporate sector. One member expressed the recognition that the unemployment rate had declined to the level considered to represent full employment, and that the pace of improvement in wages was likely to accelerate.

Members concurred that the European economy maintained its moderate recovery. They shared the recognition that exports had been picking up moderately, mainly reflecting the euro's depreciation, and that the pace of increase in private consumption had been accelerating recently, mainly due to the effects of low crude oil prices and high stock prices. As for the outlook, members concurred that the economy would likely maintain its moderate recovery, partly reflecting the depreciation of the euro and the ECB's monetary easing.

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 generally to see stable growth, albeit at a somewhat slower pace, as exports were likely to continue to increase -- particularly those to advanced economies -- and as authorities were expected to carry out stimulus measures. Some members expressed the recognition that the GDP growth target of around 7 percent was likely to be achieved, since the effects of stimulus measures were expected to materialize. One member expressed the view that it was necessary to pay attention to the possibility that a downtrend in the growth rate had not come to a halt, given that economic indicators had been generally weak even after the implementation of a series of monetary easing measures. A different member pointed to the possibility that the slowdown in the growth rate of the Chinese economy would, for example, decelerate the pace of increase in investment, creating a decline in the economy's driving force of global economic growth of a greater magnitude than that in the growth rate.

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 had positive effects on them, and also as domestic demand in emerging economies picked up, mainly reflecting monetary easing. One member expressed the recognition that the decline in energy prices had provided room to underpin emerging economies through monetary easing.

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

With regard to <u>economic activity</u>, members shared the 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. As for <u>the outlook for the economy</u>, they concurred that it was likely to continue its moderate recovery trend.

Members agreed that Japan's exports had been picking up. They shared the view that real exports on average remained on an improving trend despite large monthly fluctuations since the start of 2015 due to the effects of the Lunar New Year holidays: real exports for February were somewhat weak, having declined following the high growth in January. Members concurred that exports were likely to increase moderately, mainly against the background of the recovery in overseas economies. Some members pointed out that firms were holding a cautious view regarding overseas demand, as evidenced by the fact that the diffusion index of overseas supply and demand conditions for products had deteriorated somewhat in the March 2015 *Tankan*.

Members shared the recognition that business fixed investment had been on a moderate increasing trend as corporate profits had improved. They agreed that it was projected to continue a moderate increasing trend as corporate profits followed their improving trend. With regard to the March *Tankan*, members shared the recognition that business sentiment had generally stayed at a favorable level. Some members pointed out that the diffusion index for business conditions for all industries and enterprises had improved, albeit slightly, for the second straight term; it had come close to the peak level of the economic expansion period prior to the Lehman shock. Some members expressed the view that firms were maintaining a positive attitude, given that their business plans for fiscal 2015 included solid fixed investment plans with their sales and profits continuing to increase. One member pointed out that the diffusion index for business conditions for nonmanufacturing had improved for both large and small firms, particularly in real estate and retailing. Meanwhile, some members expressed the view that business sentiment and firms' spending behavior remained cautious in comparison with corporate profits, which were at a historical high. As background to this view, one member expressed the recognition that firms maintained a conservative outlook on demand both at home and abroad. Regarding the current favorable corporate profits, a few members pointed out that the depreciation of the yen was giving a boost to firms' profits earned overseas at yen value, and firms might be examining its sustainability. These members expressed the view that, if foreign exchange rates moved in a stable manner and if such developments were reflected in firms' medium- to long-term business plans, this would lead to active domestic business fixed investment.

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. Many members said that, in the wage negotiations in spring 2015, the number of firms responding that they would provide larger wage increases -- including a base pay increase -- than those of 2014 had increased in a situation where corporate profits had been favorable and labor market conditions had been tightening. These members expressed the recognition that movements toward wage increases had been spreading not only to large firms but also to small ones, as well as to non-regular employees. One of these members pointed out that, according to the results of the Bank's *Opinion Survey on the General Public's Views and Behavior*, there had been a rise in the number of households answering that their income "has increased" compared with a year earlier and/or "will increase" one year from the time of the survey. One member expressed the view that firms were shifting employees to regular status from the viewpoint of securing sufficient human resources, and it was likely that the downward pressure that had been exerted on the average wage level due to a shift in the composition of the workforce from regular to non-regular employees would ease gradually, making the moderate uptrend in wages take hold.

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. Many members said that indicators of consumer sentiment had shown signs of picking up, mainly reflecting improvement in the employment and income situation. Some members expressed the view that improvement in indicators of private consumption had lagged somewhat behind the improvement in the employment and income situation and the pick-up in indicators of consumer sentiment. One member expressed the recognition that the diffusion index for business conditions for retailing in the March 2015 *Tankan* was clearly on an improving trend, although this was partly attributable to increased sales to foreign visitors to Japan. Members concurred that private consumption was likely to remain resilient with the employment and income situation continuing to improve steadily. Some members said that private consumption had been affected since April 2014 by, for example, the decline in real income following the consumption tax hike; however, now that these effects had dissipated, improvement in the income situation would clearly lead to an increase in spending. One member commented that wage increases in spring 2015 had been pointed out as notable among the younger generation, which had a high propensity to consume, and the member therefore expected that this would produce positive effects on consumption. Meanwhile, a few members said that wage increases were less likely to benefit pensioners, and thus it was necessary to pay attention to developments in their 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. Many members expressed the view that it remained on an improving trend on average, despite significant monthly fluctuations since the start of 2015 due to the effects of the Lunar New Year holidays. Members concurred that industrial production was likely to increase moderately. A few members expressed the opinion that, judging from interviews with firms and other relevant information, production was likely to remain more or less flat for the time being, reflecting inventory adjustments in materials and related goods as well as a halt to the recovery following those in transport equipment.

As for prices, 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 about 0 percent and was likely to remain at this level for the time being, due to the effects of the decline in energy prices. Some members commented that, depending on developments in energy prices in particular, the year-on-year rate of change in the CPI might become slightly negative.

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. One member said that current financial conditions reflected permeation of monetary easing effects on the whole.

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.

Many members shared the recognition that quantitative and qualitative monetary easing (QQE) -- for which about two years had passed since its introduction -- had been exerting its intended effects. 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. Many members said that, since the introduction of QQE, while nominal interest rates had been stable at low levels, inflation expectations had been rising on the whole from a somewhat longer-term perspective, and therefore real interest rates had been declining. These members then expressed the recognition that such developments had been underpinning firms' and households' spending. Some members pointed out that a rise in prices of assets such as stocks and a correction in the excessive appreciation of the yen had emerged. One member said that corporate profits had increased to a historical high, and employee income had risen reflecting improvement in the employment situation, as seen, for example, in a decline in the unemployment rate. A different member expressed the view that QQE had been effective in changing the deflationary mindset. In response, one member said that, even though real interest rates had moved into negative territory, QQE had not exerted enough of an impact to clearly accelerate private consumption and business fixed investment. With respect to the effects of the expansion of QQE that had been decided at the Monetary Policy Meeting held on October 31, 2014, some members pointed out that -- even in a situation where the actual inflation rate had been declining, reflecting the substantial drop in crude oil prices -- inflation expectations had been maintained and there had been no second-round effects of the decline in actual inflation on wages and firms' price setting. One member said that the portfolio rebalancing effect had started to gradually permeate the economy, as seen, for example, in the fact that bank lending exhibited higher growth and that financial institutions had recently increased their investment in areas with growth potential and in financial assets denominated in foreign currencies. Regarding the effects of the Bank's massive purchases of JGBs on the JGB market, a few members pointed out that JGB market participants had recently been conscious of liquidity premiums to a certain degree and it had become difficult for nominal interest rates to decline. Some members expressed the recognition that it also was important for the credibility of fiscal management to be maintained to ensure the stability of interest rates, and they therefore expected the government to steadily promote measures aimed at achieving fiscal consolidation. A few members said that attention should continue to be paid to the risk that the government's stance in terms of its efforts to achieve fiscal consolidation could weaken, mainly because of overly heightened expectations that the Bank would keep interest rates stable at low levels by purchasing JGBs. Some members pointed out that, if the market judged that the government's commitment to achieving fiscal consolidation had weakened, long-term interest rates could rise due to the undermining of market confidence in JGBs, and the effects of the Bank's policy measures consequently could be constrained.

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. Many members expressed the view that the inflation outlook of firms in the March 2015 *Tankan* suggested that firms continued to expect a rise in the inflation rate, even amid the decline in crude oil prices. A few members expressed the recognition that the situation surrounding firms to pass higher costs on to sales prices seemed to be improving: for large nonmanufacturing firms, the diffusion index for input prices indicated that the extent to which these firms felt that input prices had risen had narrowed, while that for output prices showed that the extent to which these firms felt that output prices had risen had expanded. One of these members added that, in comparison with past interviews with firms that suggested that they had faced difficulty in passing on the rise in input prices to sales prices of final goods, it could be said that such developments in improvement of the price situation marked a significant change for assessing future price developments. Some members pointed out that the Bank's *Opinion Survey on the General Public's Views and Behavior* suggested that households also continued to expect a rise in prices. Some members expressed the recognition that the results of this year's wage negotiations, including the base pay increase, indicated that a virtuous cycle -- in which the inflation rate gradually rose accompanied by an increase in wages -- had started to operate. One member said that the situation in which a base pay increase was expected to take place for the second consecutive year -- although somewhat lacking in momentum -- would serve as an important opportunity to change people's mindset that base pay would not rise and to foster people's formation of positive 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. On the other hand, one member noted that -- considering, for example, that the rate of price rises in durable goods and apparel had been declining, reflecting weak demand -- the acceleration in the year-on-year rate of increase in the CPI (all items less food and energy) would remain very moderate. Meanwhile, with regard to the output gap, a few members expressed the view that, since the differences in the methods used in estimating the gap might cause divergence among its estimates, it was important to assess the output gap comprehensively while taking into account the features of each method.

Based on the above discussions, regarding <u>the guideline for money market operations for the intermeeting period ahead</u>, 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 <u>the asset purchases</u>, 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.

With respect to <u>the Bank's thinking behind its future conduct of monetary policy</u>, 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, in a situation where the output gap had improved to around zero, additional effects of QQE, which had been diminishing, had already been exceeded by its side effects; therefore, continuation of QQE even at its initial scale 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 the following. First, the Bank should change the guidelines for money market operations and asset purchases so that the respective annual paces of increase in the monetary base and in the amount outstanding of its JGB holdings would be reduced to levels below the initial pace, in view of further possible phased reductions, and that the average remaining maturity of the Bank's JGB purchases and the annual paces of increase in its purchases of ETFs and J-REITs would be changed back to those employed at the time of the introduction of QQE. Second, with regard to the future conduct of monetary policy, the Bank should make changes to the time frame for achieving the price stability target -- to the medium to long term -- and to the expression representing its commitment by stating that, under the flexible conduct of monetary policy that also gave due consideration to medium- to long-term risks -- such as a buildup of financial imbalances -- it would continue with asset purchases and a virtually zero interest rate policy as long as each of these policy measures was deemed appropriate, rather than move toward ending QQE or raising interest rates at an early stage.

In response, some members expressed the view that the start of a reduction in the Bank's paces of asset purchases at this point -- when Japan's economy was still on its way to achieving the price stability target of 2 percent -- was likely to constrain the effects of its policy measures. A few members noted that, considering that Japan's economy was at a stage where the path toward overcoming deflation had come in sight at last, the highest priority at this point should be given to avoiding the risk of the economy falling back into deflation. One of these members added that there was currently no concrete evidence to suggest a buildup of financial imbalances. One member said that due attention should be paid to the communication regarding a reduction in the Bank's asset purchases, as such communication could diminish the beneficial monetary easing effects depending on its timing and method.

IV. Remarks by Government Representatives

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

(1) The Japanese economy was on a moderate recovery, partly due to the implementation of the integrated "three-arrows" strategy, as evidenced by the fact that (1) the active job openings-to-applicants ratio had marked the highest level in 22 years; (2) corporate current profits had reached a historical high; and (3) according to the third aggregate results of wage negotiations in spring 2015 compiled by the Japanese Trade Union Confederation (Rengo), the rate of increase in wages had registered 2.33 percent, exceeding that of 2014, which represented the highest level in 15 years.

(2) The budget for fiscal 2015 had been approved by the House of Representatives on March 13, 2015 and was scheduled to be approved by the House of Councillors by April 10. In order to avoid disruption to the lives of the people for the time being, the government had submitted to the Diet a provisional budget covering a short period of 11 days, from April 1, and had obtained the Diet's approval. In addition, the Act on the Partial Revision of the Income Tax Act and Other Acts had been approved by the Diet on March 31. Under the revision, the government would implement tax measures such as (1) those geared toward breaking away from deflationary recession and toward economic revitalization, (2) those to invigorate local areas, (3) those related to a change in the implementation date of the consumption tax hike to 10 percent, (4) those based on international initiatives including the Base Erosion and Profit Shifting Project, and (5) those to support reconstruction from the Great East Japan Earthquake. Through a series of these measures, the government would achieve both economic revitalization and fiscal consolidation.

(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, as improvement could be seen in the corporate sector. As for the outlook, the economy was expected to recover moderately; however, attention should be given to the downside risks to the economy, including a slowing down of overseas economies. With regard to price developments,

the government deemed it important to make a comprehensive assessment, taking into account, for example, developments in the GDP deflator.

(2) In order to realize a positive cycle of the economy, the government deemed it important for people's income to increase firmly. According to the aggregate results of wage negotiations in spring 2015 compiled by Rengo, the rate of increase in wages had exceeded that of 2014, which represented the highest level in 15 years. Furthermore, according to a study by the Ministry of Economy, Trade and Industry, partial or full increases had been reflected in the prices charged by more than 70 percent of small and medium-sized enterprises. In order to make further strides toward developing an environment conducive to wage increases in small and medium-sized enterprises, the Government-Labor-Management Meeting for Realizing a Positive Cycle of the Economy had been held on April 2, at which time policies to pass on price increases and to improve the productivity of the service industry had been approved.

(3) Of the Immediate Economic Measures for Extending Virtuous Cycles to the Local Economies, the government had decided to allocate nearly the full amount of Subsidies for Immediate Livelihood Support for Local Residents to the local public bodies within fiscal 2015. Moreover, it would formulate a concrete plan by the summer of 2015 toward the goal to achieve fiscal consolidation by fiscal 2020. Members of the Council on Economic and Fiscal Policy -- private-sector members in particular -- were conducting interviews with the related ministries and agencies and holding discussions to examine the necessary issues, and the government would proceed with deliberations at the council.

(4) With regard to the growth strategy, the government had submitted 25 related bills to the Diet. On April 1, the Japan Agency for Medical Research and Development had been launched. As for the National Strategic Zones project, the government had decided on three areas as the first installment on the Regional Vitalization Special Zones: Semboku City in Akita Prefecture, Sendai City in Miyagi Prefecture, and Aichi Prefecture. For the further advancement of the growth strategy, the government would proceed firmly with discussions, in view of the revision on the strategy to be made in the middle of 2015.

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

V. Votes

A. Vote on the Chairman's Policy Proposal 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. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, and Mr. Y. Harada.

Votes against the proposal: Mr. T. Kiuchi.

B. Vote on the Chairman's Policy Proposal 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. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, and Mr. Y. Harada.
Votes against the proposal: Mr. T. Kiuchi.

C. Vote on Mr. T. Kiuchi's Policy Proposal on the Guidelines for Money Market Operations and Asset Purchases

Meanwhile, with regard to the guideline for money market operations for the intermeeting period, Mr. T. Kiuchi proposed that the Bank conduct money market operations so that the monetary base would increase at an annual pace of about 45 trillion yen. In addition, with regard to the guideline for asset purchases, he proposed the following: (1) to purchase JGBs so that their amount outstanding would increase at an annual pace of about 45 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 seven years; (2) to purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces of about 1 trillion yen and about 30 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 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. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, and Mr. Y. Harada.

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 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, with the aim to achieve the price stability target of 2 percent in the medium to long term, continue to provide consistent support from the financial side. It will continue with asset purchases and a virtually zero interest rate policy as long as each of these policy measures is deemed appropriate under flexible policy conduct based on the examination from the two perspectives of the monetary policy framework." 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. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, and Mr. Y. Harada.

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 March 16 and 17, 2015 for release on April 13, 2015.

Attachment

April 8, 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 1]

   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. Business sentiment has generally stayed at a favorable level. 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 about 0 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 2]

[Note 1] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, and Mr. Y. Harada. Voting against the action: Mr. T. Kiuchi. Mr. T. Kiuchi proposed that the Bank will conduct money market operations and asset purchases so that the monetary base and the amount outstanding of its JGB holdings will increase at an annual pace of about 45 trillion yen, respectively. The proposal was defeated by a majority vote.

[Note 2] Mr. T. Kiuchi proposed that the Bank will, with the aim to achieve the price stability target of 2 percent in the medium to long term, continue with asset purchases and a virtually zero interest rate policy as long as each of these policy measures is deemed appropriate under flexible policy conduct based on the examination from the two perspectives of the monetary policy framework. 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. Y. Morimoto, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, and Mr. Y. Harada.