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May 27, 2015

Bank of Japan

Minutes of the Monetary Policy Meeting

on April 30, 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 Thursday, April 30, 2015, from 9:00 a.m. to 12:59 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. Miyashita, State Minister of Finance, Ministry of Finance

Mr. S. Koizumi, Parliamentary Vice-Minister of Cabinet Office, Cabinet Office

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

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on May 21 and 22, 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.

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

Mr. S. Nagai, Director-General, International Department

Secretariat of the Monetary Policy Meeting

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

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

Mr. S. Watanabe, Senior Economist, Monetary Affairs Department

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

I. Summary of Staff Reports on Economic and Financial Developments[2]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on April 7 and 8, 2015, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[3] In this situation, the amount outstanding of the monetary base had been in the range of 295-306 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 been slightly negative.

Yields on 10-year JGBs had been declining slightly, with long-term interest rates in Europe generally continuing on their downtrend amid the conduct of the public sector purchase program (PSPP) by the European Central Bank (ECB), and had recently been in the range of 0.30-0.35 percent. The Nikkei 225 Stock Average had been on an increasing trend, mainly due to selective buying of laggard stocks by foreign investors, and had temporarily been above 20,000 yen for the first time since April 2000. In the foreign exchange market, the yen had appreciated somewhat against the U.S. dollar, mainly in response to some weaker-than-expected U.S. economic indicators. The U.S. dollar/yen rate had recently been at around 119 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 as a trend, led mainly by private demand. Private consumption had been solid as a trend, on the back of a favorable employment and income situation and the effects of low crude oil prices, although its pace

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

[3] 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.

of increase had recently slowed somewhat, partly reflecting the effects of the severe weather. Housing 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 U.S. dollar, firm household spending had been exerting positive effects on corporate activity. 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 maintained its stable growth on the whole, although its growth momentum had been somewhat sluggish 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 with domestic demand declining, partly in reflection of a rise in prices and the raising of policy interest rates.

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

Regarding global financial markets, in advanced economies, long-term interest rates in Germany and France had been declining with the ECB conducting the PSPP. U.S. long-term interest rates had been at around 2 percent or somewhat below that level. U.S. and European stock prices had been moving in a high range, but somewhat lacked momentum. In emerging economies, stock prices had risen mainly on the back of recent monetary easing measures. In the foreign exchange market, the appreciation of the U.S. dollar had come to a pause and a declining trend in currencies in emerging economies had come to a halt, as the expectation had waned that the Federal Reserve would move forward the timing of a hike in the target federal funds rate. In international commodity markets, crude oil prices had been rising, mainly against the background of views that shale oil production in the United States would decrease and 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 shown large monthly fluctuations since the start of 2015, due partly to the effects of the Lunar New Year holidays: they had increased considerably in January, had seen a subsequent decline in February, and then were almost flat in March. On average, however, they had risen slightly in the January-March quarter of 2015, registering an increase for three consecutive quarters from the July-September quarter of 2014.

Public investment had more or less leveled off at a high level.

Business fixed investment continued on a moderate increasing trend as corporate profits had improved. Machinery orders (private sector, excluding orders for ships and those from electric power companies) -- a leading indicator of machinery investment -- had increased in the January-February period of 2015 relative to the October-December quarter of 2014, after having increased for two consecutive quarters from the July-September quarter. Business sentiment had generally stayed at a favorable level, and some indicators showed that such sentiment had been improving again, after emerging from a previous pause.

As for the employment and income situation, nominal wages per employee had been on a moderate improving trend with labor market conditions continuing to improve steadily. 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-March quarter of 2015. Sales at department stores had been on an improving trend, in that they had registered high growth in February and seen only a slight subsequent decline in March. Sales at supermarkets had recently become solid, in that they had increased for two consecutive months on a monthly basis, in February and March. As for durable consumer goods, sales of household electrical appliances had tended to pick up. The pick-up in indicators related to consumer sentiment was also becoming evident.

As for housing investment-related indicators, sales of newly built condominiums in the Tokyo metropolitan area -- which had continued to show some weakness due to the decline following the front-loaded increase prior to the consumption tax hike -- had been picking up very moderately as a trend since the middle of 2014.

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-March quarter of 2015.

As for prices, excluding the direct effects of the consumption tax hike, the producer price index (PPI) had declined relative to three months earlier at a reduced pace, reflecting movements in international commodity prices. The year-on-year rate of increase in the CPI (all items less fresh food) was about 0 percent.

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 in the range of 2.5-3.0 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 and the April 2015 *Outlook for Economic Activity and Prices*

A. Economic Developments

Members concurred that global financial markets had been calm on the whole, as evidenced by the fact that in advanced economies long-term interest rates had been at low levels and stock prices had been moving in a high range, while in emerging economies a declining trend in currencies had come to a halt and stock prices had risen mainly on the back of monetary easing measures. However, members shared the recognition that future developments in global financial markets continued to warrant due attention, partly because uncertainty remained over developments in political and economic conditions in Greece.

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. Meanwhile, a few members pointed out that, considering the recent deceleration in growth rates in the United States and China, attention should be paid to the risk that the pace of growth in the world economy would become more moderate than expected.

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 solid as a trend, on the back of a favorable employment and income situation 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. 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 U.S. dollar, firm household spending had been exerting positive effects on corporate activity. Many members referred to relatively low growth in the United States during the January-March quarter of 2015, and expressed the view that this was attributable to temporary factors such as the severe winter weather and the labor disputes at U.S. West Coast ports. As for the outlook, members 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 see growth driven mainly by private demand, as firmness in the household sector supported by a favorable employment and income situation would continue to spread to the corporate sector.

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 continue to recover moderately, partly reflecting the depreciation of the euro and the ECB's monetary easing.

Members agreed that the Chinese economy maintained its stable growth on the whole due mainly to an improvement in external demand and the stimulus measures by the government, although its growth momentum had been somewhat sluggish due to downward pressure associated with structural reforms. As for the outlook, they shared the view that the economy was likely to follow a generally stable growth path, albeit at a somewhat reduced pace, as authorities carried out policy measures to support economic activity while progressing with structural reforms. A few members noted that attention should be paid to the point that downward pressure on inflation had been increasing, as evidenced by the year-on-year rate of change in the GDP deflator for the January-March quarter of 2015 turning negative for the first time since 2009. One of these members expressed the recognition that, under such circumstances, it was necessary to pay attention to the possibility that firms' and local governments' excess debt problem might persist.

Regarding emerging economies, members shared the recognition that, while there were countries and regions, mainly in Asia, where economic activity had been picking up due mainly to the rise in exports to advanced economies and the effects of low crude oil prices, some economies, particularly Brazilian and Russian economies, remained stagnant. They continued that emerging economies continued to lack growth momentum on the whole. 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 spread to them, and also as domestic demand in emerging economies picked up, mainly reflecting monetary easing.

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.

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

With regard to economic activity, members shared the assessment that, in a situation where a virtuous cycle from income to spending continued to operate in both the household and corporate sectors, the economy continued its moderate recovery trend.

Members agreed that Japan's exports had been picking up. They shared the view that it was appropriate to judge exports as remaining on an improving trend, as on average they had increased for three consecutive quarters despite large monthly fluctuations since the start of 2015 due to the effects of the Lunar New Year holidays. Members concurred that exports were likely to increase moderately, mainly against the background of the recovery in overseas economies. A few members pointed out that attention should be paid mainly to the point that momentum in exports to China had been somewhat weak and firms had been holding a relatively cautious view regarding overseas demand.

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 likely to continue to do so as corporate profits followed their improving trend. One member emphasized that accommodative financial conditions and relative improvement in profitability of domestic investment due to the yen's depreciation would also support the boost in 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 pointed out 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 commented that, reflecting these developments, the pace of wage increases was likely to accelerate somewhat. A few members expressed the recognition that, combined with a decline in energy prices, a sustained increase in real wages could be expected for the first time since the introduction of quantitative and qualitative monetary easing (QQE). Meanwhile, one member -- pointing to the possibility that domestic demand-oriented firms in particular had been feeling a heavier burden incurred by a rise in labor costs -- said that the outlook for the pace of wage increases should be viewed with some cautiousness.

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 been picking up, mainly reflecting improvement in the employment and income situation. Some members expressed the view that improvement in private consumption had somewhat lacked momentum relative to the improvement in the employment and income situation and the pick-up in indicators of consumer sentiment. A few of these members said that this could be partly attributed to the larger-than-expected effects of the decline in real income due to the consumption tax hike. Members concurred that private consumption was likely to remain resilient with the employment and income situation continuing to improve steadily. Some members expressed the view that the improvement in real wages, which was brought about by wage increases resulting from the spring wage negotiations, was expected to markedly boost private consumption through inducing a further improvement in consumer sentiment. 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 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 agreed that it was likely to increase moderately. One member expressed the recognition that production in the April-June quarter of 2015 was likely to be more or less flat due to inventory adjustments in materials and related goods, mainly reflecting the slowdown in the Chinese economy, and to a lack of momentum in car production.

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.

B. Outlook for Economic Activity and Prices

With regard to the baseline scenario of the outlook for Japan's economic activity, members concurred that, as domestic demand was likely to be firm and exports would probably increase moderately, a virtuous cycle from income to spending was likely to be maintained in both the household and corporate sectors. On this basis, they shared the recognition that Japan's economy was likely to continue growing at a pace above its potential from fiscal 2015 through fiscal 2016. Most members expressed the view that thereafter, through fiscal 2017, the economy would probably maintain its positive growth, although with a slowing in its pace to around a level somewhat below the potential growth rate. These members continued that the slowdown was due mainly to (1) the effects of a front-loaded increase and subsequent decline in demand prior to and after the consumption tax hike planned in April 2017 and (2) cyclical deceleration. Members agreed that, comparing the current projections up through fiscal 2016 with those in the January 2015 interim assessment, the projected growth rate was more or less unchanged.

Regarding developments in economic activity in fiscal 2015 through fiscal 2016, members agreed that exports were likely to increase moderately owing to the recovery in overseas economies and support from past foreign exchange rate developments. They shared the recognition that, with an improvement in corporate profits and monetary accommodation continuing to provide a boost, business fixed investment was likely to increase steadily, additionally supported by recently emerging developments toward the enhancement of domestic production capacity. One member expressed the view that firms would face a growing need to improve productivity in response to a wage rise, and this would lead to an increase in business fixed investment. A different member expressed the opinion that firms had regarded some of the increase in their profits as temporary, mainly reflecting the decline in crude oil prices and the depreciation of the yen, and therefore the correlation between corporate profits and business fixed investment had been weak. However, this member continued that the increase in corporate profits would be recognized as being stable, and consequently this correlation would likely strengthen. Members shared the view that private consumption was likely to accelerate its pace of increase due to the effects of a steady improvement in the employment and income situation and a wage rise, combined with those of an increase in real income due to the decline in energy prices and of a recovery from the decline after the consumption tax hike in April 2014, both of which were expected in fiscal 2015. Members shared the view that, through fiscal 2017, the economy was likely to be affected by the front-loaded increase and subsequent decline in demand prior to and after the scheduled second round of consumption tax hikes, and the pace of increase in business fixed investment was likely to decline, reflecting a cycle in the accumulation of capital stock. However, they continued that exports would probably continue increasing moderately owing to overseas economic growth, and domestic private demand was likely to be resilient supported by accommodative financial conditions and heightened growth expectations. Meanwhile, members concurred that Japan's potential growth rate would probably follow a moderate increasing trend, pushing up the economy's growth in the medium to long term.

In terms of the outlook for prices, many members shared the view that (1) as the underlying trend in inflation steadily rose and the effects of the decline in crude oil prices dissipated, the year-on-year rate of increase in the CPI was likely to accelerate toward 2 percent -- the price stability target; (2) although the timing of reaching around 2 percent depended on developments in crude oil prices, it was likely to be around the first half of fiscal 2016 -- the period during which the effects of the decline in energy prices on the year-on-year rate of change in the CPI were estimated to be around zero -- assuming that crude oil prices would rise moderately from the recent level; and (3) thereafter, the year-on-year rate of increase in the CPI was likely to be around 2 percent on average. In response, one member expressed the view that the rate of increase would rise closer to around 2 percent at the end of fiscal 2016 and that the member would not rule out the possibility of it reaching around 2 percent in or around fiscal 2016. A few other members expressed the recognition that the rate of increase would not reach around 2 percent during the projection period, which covered through fiscal 2017. One of these members commented that around 2 percent in terms of the year-on-year rate of increase in the CPI was likely to come into sight around the first half of fiscal 2016. A different member expressed the view that the year-on-year rate of increase in the CPI would be about 0 percent for the time being, and thereafter accelerate very moderately.

As background to the outlook for price developments, members discussed the output gap and medium- to long-term inflation expectations, both of which were the main factors that determined the underlying trend in inflation. First, they agreed that the output gap had steadily followed an improving trend on the back of the tightening in labor market conditions and of higher capacity utilization rates, and that it had recently improved to about the past average of around 0 percent. As for the outlook, members shared the recognition that the output gap was likely to move further into positive (excess demand) territory through fiscal 2016 as the economy continued growing at a pace above its potential; subsequently, in fiscal 2017, it was likely to be more or less unchanged in positive territory.

Next, with regard to medium- to long-term inflation expectations, members shared the view that these appeared to be rising on the whole from a somewhat longer-term perspective despite the decline in the observed inflation rate. They continued that such developments in inflation expectations were likely to have been influencing actual wage and price settings, as seen in a base pay increase that was likely to take place for the second consecutive year. One member pointed out that firms' business models had started to shift from deflationary ones -- in which firms adopted low-price strategies by cutting costs -- to innovative ones -- in which firms aimed at increasing customer satisfaction without relying on lowering prices. One member was of the opinion that firms' wage- and price-setting behavior had been changing to behavior that assumed a continuous rise in prices, and this provided evidence that the deflationary mindset was starting to be dispelled. Based on this discussion, many members expressed the view that a mechanism continued to operate in which the inflation rate rose moderately accompanied by an increase in wages. As for the outlook, most members expressed the recognition that, as the Bank pursued QQE and the observed inflation rate rose, medium- to long-term inflation expectations were also likely to follow an increasing trend and gradually converge to around 2 percent -- the price stability target. One of these members, however, added that it was likely to take some time for firms' ability to pass on costs to sales prices and for medium- to long-term inflation expectations to increase further. A different member expressed the view that it was difficult for medium- to long-term inflation expectations to gradually converge to around 2 percent.

On this basis, some members were of the opinion that, although there was no change in their assessment of the underlying trend in prices compared with that in the January 2015 interim assessment, their numerical forecasts of the CPI up through fiscal 2016 were somewhat lower than those in January. A few members expressed the recognition that this was mainly attributable to the somewhat slower pace of improvement in the output gap due to sluggish recovery in some areas in private consumption. On this point, one member expressed the view that the downward revision in the CPI forecasts might also be attributed to, for example, the fact that consumers whose deflationary mindset had taken hold had mounted strong resistance to an increase in prices, and that wage increases were less likely to have benefited pensioners.

Members also discussed upside and downside risk factors to the baseline scenario of the outlook for economic activity and prices.

Regarding the outlook for economic activity, members noted the following upside and downside risk factors: (1) uncertainty regarding developments in overseas economies; (2) the effects of the consumption tax hike; (3) firms' and households' medium- to long-term growth expectations; and (4) fiscal sustainability in the medium to long term. They shared the view that risks to future developments in overseas economies included the pace of growth in the U.S. economy and its effects on the global financial markets, the prospects regarding the debt problem and the momentum of economic activity and prices in Europe, the progress in structural adjustments toward achieving sustainable growth in emerging economies, the effects of the decline in commodity prices, and geopolitical risks. As for the effects of the consumption tax hike scheduled to take place in April 2017, some members expressed the recognition that, in view of economic developments since April 2014, due attention should be paid to the risk that declines in consumption and in real income following the consumption tax hike would exert larger-than-expected downward pressure on economic activity. In response, one member expressed the view that, assuming the Bank's baseline scenario regarding the economy materialized, Japan's economy was likely to be on a stable growth path before the consumption tax hike in April 2017, and if this turned out to be the case, the hike was unlikely to exert significant adverse effects on the economy. Regarding fiscal sustainability in the medium to long term, a few members expressed the recognition that it was important for the confidence in fiscal management to be maintained, and they therefore expected the government to steadily promote measures aimed at achieving fiscal consolidation.

Members shared the recognition that, in the case of the aforementioned upside and downside risks to the economy materializing, prices would also be affected to a certain degree. As other factors that could exert upside and downside risks to prices, they pointed to the following four factors: (1) developments in firms' and households' medium- to long-term inflation expectations; (2) developments in the output gap, particularly in labor market conditions; (3) the responsiveness of inflation to the output gap; and (4) developments in import prices. Most members shared the view that, amid rises in observed inflation accompanied by wage increases, firms' and households' medium- to long-term inflation expectations would rise further and gradually converge to around 2 percent -- the price stability target. They continued, however, that the pace at which such expectations would rise was subject to uncertainty over developments in observed prices and to the extent to which they would affect inflation expectations. Furthermore, members shared the view that there was a risk that the year-on-year rate of increase in the CPI being about 0 percent for the time being, which owed to the effects of the decline in energy prices, might affect the pace of increase in inflation expectations. As for the responsiveness of inflation to the output gap, they agreed that attention needed to be paid to what extent firms would raise sales prices and wages as supply and demand balances in goods and services as well as labor market conditions tightened. On this point, members concurred that there was a possibility that the pace of improvement in wages would deviate upward, which in turn would affect prices of goods and services. They continued that, meanwhile, there was also a possibility that a rise in prices and wages would not progress smoothly should consumers mount strong resistance to an increase in sales prices or should firms be cautious with regard to raising wages.

Based on the above considerations, members assessed the economic and price situation from the two perspectives of the monetary policy framework.

Members made an assessment in terms of <u>the first perspective</u>: an examination of the baseline scenario for the outlook. Many members shared the view that Japan's economy was judged as likely to achieve around 2 percent inflation around the first half of fiscal 2016 and thereafter gradually shift to a growth path that sustained such inflation in a stable manner. In response, some members expressed a more cautious view on the outlook for prices.

Members then made an assessment in terms of <u>the second perspective</u>: an examination of the risks considered most relevant to the conduct of monetary policy. With regard to the baseline scenario for economic activity, they shared the assessment that upside and downside risks could be assessed as being balanced, although uncertainty remained high, including that regarding developments in overseas economies. With regard to the baseline scenario for prices, many members expressed the view that there was considerable uncertainty, mainly in developments in medium- to long-term inflation expectations, and risks on the price front were skewed to the downside, although a few members expressed the recognition that these risks could be assessed as being largely balanced.

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.

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 considering the conduct of monetary policy. On this basis, most members shared the view that, as in the earlier discussion regarding the outlook for economic activity and prices, the underlying trend in inflation had been improving steadily, judging from developments in the output gap and medium- to long-term inflation expectations, both of which were factors that determined the underlying trend in inflation, and that therefore it was not necessary at this point to make adjustments to the guideline for monetary policy.

Some members expressed their view on the relationship between the Policy Board members' numerical forecasts of the CPI up through fiscal 2016 being somewhat lower than the previous forecasts and the Bank's commitment to achieving the price stability target of 2 percent at the earliest possible time, with a time horizon of about two years. These members expressed the recognition that changing people's deflationary mindset and raising inflation expectations through the commitment to achieving the price stability target of 2 percent at the earliest possible time was by itself an aim of overcoming deflation, and at the same time the starting point of the policy effects of QQE. They continued that, against such background, the perception of inflation by firms and households had been changing markedly. One of them emphasized that the benchmark of about two years was necessary to maintain the momentum toward changing the deflationary mindset. These members pointed out that it had been taken for granted among major central banks that prices changed due to various factors, such as international commodity prices, and the inflation rate would deviate for some time from the price stability target. On this basis, these members expressed the recognition that the baseline scenario of the outlook for prices was consistent with the commitment to achieving the price stability target at the earliest possible time, with a time horizon of about two years. On the other hand, a few members who had expressed the opinion that the year-on-year rate of increase in the CPI would not reach around 2 percent during the projection period expressed views that differed from those presented in the earlier discussion. One of these members expressed the recognition that it was sufficient if the economy, within a time horizon of about two years ahead, was on the path toward achieving the price stability target of 2 percent. A different member said that the Bank should aim to achieve the price stability target of 2 percent in the medium to long term.

Based on the above discussions, regarding the guideline for money market operations for the intermeeting period, 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.

With respect to the Bank's thinking behind its future conduct of monetary policy, many members shared the recognition that QQE had been exerting its intended effects, and 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 the amounts outstanding in its holdings 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. This member then noted that price conditions had regained their stability, judging from the growth potential of Japan's economy, and therefore, in order to achieve the price stability target of 2 percent, improvement on the supply side would be more important than monetary policy measures.

In response, some members reemphasized that securing price stability was ultimately the role of monetary policy, irrespective of the level of the growth potential, and that many central banks in other advanced economies had been conducting their monetary policy by committing to achieving the inflation target of around 2 percent. One of these members commented that the point that the output gap, based on the current estimation method, was zero indicated solely that the economy was in the average state seen in past periods, including the deflation period. The member continued that, therefore, the member could not agree with the view that the Bank should moderate the pace of QQE because the output gap had been around zero. One member said that no concrete evidence had been presented to suggest a buildup of financial imbalances. One member expressed the view that due attention should be paid to the communication at this point 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 the active job openings-to-applicants ratio had marked the highest level in 22 years and that corporate current profits had reached a historical high. At the Meeting of Directors-General of Local Finance Bureaus held on April 22, 2015, reports from the local finance bureaus on developments in wages in each region had been made. According to these reports, the proportions of firms planning to raise wages and of those planning to raise base pay in fiscal 2015 were 92.6 percent and 47.1 percent, respectively, both exceeding those in

fiscal 2014. The government expected such developments to promote a virtuous cycle of the economy.

(2) The budget for fiscal 2015 had been approved by the Diet on April 9. With the budget, together with economic measures, the supplementary budget for fiscal 2014, and the fiscal 2015 tax reform, the government would achieve both economic revitalization and fiscal consolidation. It would work to smoothly and steadily implement the budget in order to ensure that the virtuous cycle of the economy got on the right track and that the fruits of Abenomics swiftly spread throughout the economy. Moreover, at the Group of Twenty (G-20) Finance Ministers and Central Bank Governors Meeting held on April 16 and 17 in Washington D.C., the minister of finance had explained Japan's economic situation -- in particular, positive movements in the labor market as well as the corporate sector -- and the government's measures to achieve fiscal consolidation and efforts to implement the growth strategy, and had gained the understanding of each participating country. Through a series of these measures, the government would achieve both economic revitalization and fiscal consolidation.

(3) 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) The government was currently conducting a survey on progress toward implementing the Immediate Economic Measures for Extending Virtuous Cycles to the Local Economies to make sure that the measures were implemented as swiftly as possible. Moreover, in order to achieve both economic revitalization and fiscal consolidation, while firmly maintaining the goal to achieve fiscal consolidation by fiscal 2020, it would formulate a concrete plan by the summer of 2015. Members of the Council on Economic and Fiscal Policy were holding discussions to examine the necessary issues,

and the government would proceed with deliberations at the council. The government had held a meeting of the Headquarters for Japan's Economic Revitalization on April 15 and approved the Service Industry Challenge Program. In response to the instructions from the prime minister at the Thematic Meeting of the Industrial Competitiveness Council held on the same day, it would formulate the National University Management Strategy by the summer of 2015 in order to make Japan the most innovative country in the world. As for the Trans-Pacific Partnership (TPP) negotiations between Japan and the United States, the government deemed that, although the gap between the two countries had been considerably narrowed as a result of consultations between Minister Amari and U.S. Trade Representative Froman, some issues remained, and thus working-level discussions continued. At the Japan-U.S. summit meeting held on April 28, both leaders had welcomed the significant progress in bilateral negotiations, and confirmed that they would continue to cooperate in leading the final phase of TPP negotiations and work together toward achieving an early and successful conclusion to the negotiations. For the further advancement of the growth strategy, the government would proceed firmly with deliberations, in view of the revision on the strategy to be made in the middle of 2015.

(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. It also deemed it important for the Bank to provide a sufficient explanation to the public on its thinking behind the timing of achieving the price stability target of 2 percent.

V. Votes on the Guidelines for Money Market Operations and Asset Purchases

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 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.

D. Vote on the Statement on Monetary Policy

On the basis of the above results of votes, 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).

VI. Discussion regarding the *Outlook for Economic Activity and Prices*

Members discussed the draft of "The Bank's View" in the April 2015 *Outlook for Economic Activity and Prices* (consisting of "The Bank's View" and "The Background"), and formed a majority view.

Ms. S. Shirai, however, formulated a proposal to change the current expression regarding the outlook for prices. The existing wording was that the timing of reaching around 2 percent in terms of the year-on-year rate of increase in the CPI "is projected to be around the first half of fiscal 2016." The new expression proposed by Ms. Shirai was that it "is projected to be in or around fiscal 2016." The proposal was then put to a vote.

The proposal was defeated by a majority vote.

Votes for the proposal: Ms. S. Shirai.

Votes against the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Morimoto, Mr. K. Ishida, Mr. T. Sato, Mr. T. Kiuchi, and Mr. Y. Harada.

Mr. T. Sato formulated a proposal to make the following changes. First, with regard to the outlook for prices, he proposed to change the current expression that "although the timing of reaching around 2 percent depends on developments in crude oil prices, it is projected to be around the first half of fiscal 2016, assuming that crude oil prices will rise moderately from the recent level. Thereafter, the year-on-year rate of increase in the CPI is likely to be around 2 percent on average" to a new expression that "although the timing at which around 2 percent will come into sight depends on developments in crude oil prices, it is projected to be around the first half of fiscal 2016, assuming that crude oil prices will rise moderately from the recent level." Second, with regard to the first perspective, which concerned an examination of the baseline scenario for the outlook for economic activity and prices, he proposed changing the current expression that Japan's economy "is judged as likely to achieve around 2 percent inflation" to a new expression that it "is judged as likely to head toward achieving around 2 percent inflation." The proposal was then put to a vote.

The proposal was defeated by a majority vote.

Votes for the proposal: Mr. T. Sato.

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

Mr. T. Kiuchi formulated a proposal to make the following changes. First, with regard to inflation expectations, he proposed changing the current expression that medium- to long-term inflation expectations "are also likely to follow an increasing trend and gradually converge to around 2 percent -- the price stability target" to a new expression that they "are likely to remain stable." Second, with regard to the outlook for prices, he proposed a new expression that the year-on-year rate of increase in the CPI "is likely to be about 0 percent for the time being, and thereafter accelerate very moderately." Third, with regard to the future conduct of monetary policy, Mr. Kiuchi proposed 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.

To reflect the majority view, the chairman formulated a proposal on "The Bank's View" and put it to a vote. The Policy Board decided the text of "The Bank's View" by a majority vote. It was confirmed that "The Bank's View" would be made public on April 30, 2015 and the whole report on May 1, 2015.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Morimoto, Mr. K. Ishida, and Mr. Y. Harada.

Votes against the proposal: Ms. S. Shirai, Mr. T. Sato, and Mr. T. Kiuchi.

Ms. S. Shirai, Mr. T. Sato, and Mr. T. Kiuchi dissented for the reasons presented in each of the aforementioned proposals.

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of April 7 and 8, 2015 for release on May 8, 2015.

Attachment

April 30, 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]

   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]

   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.

[Note] 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.