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July 21, 2015

Bank of Japan

Minutes of the Monetary Policy Meeting

on June 18 and 19, 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, June 18, 2015, from 2:00 p.m. to 4:22 p.m., and on Friday, June 19, from 9:00 a.m. to 11:59 a.m.[1]

Policy Board Members Present

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

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

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

Mr. 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[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. A. Nakamura, Deputy 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

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1 The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on July 14 and 15, 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. Miyashita and Y. Nishimura were present on June 19.

3 Messrs. H. Sakota and A. Nakamura were present on June 18.

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

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 May 21 and 22, 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 302-317 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 at around 0 percent.

Yields on 10-year JGBs had increased somewhat against the background of a rise in long-term interest rates overseas, particularly in Europe. However, they had declined again thereafter, partly due to investors' buying of JGBs on dips, and were recently moving in the range of 0.40-0.45 percent. The Nikkei 225 Stock Average had temporarily risen, due mainly to the depreciation of the yen. However, it had fallen back thereafter, against the background of a decline in overseas stock prices that partly reflected the heightened concern over political and economic conditions in Greece, and was recently moving in the range of 20,000-20,500 yen. In the foreign exchange market, the yen had depreciated against the U.S. dollar in response to speculation about U.S. monetary policy, and was currently moving at around 123 yen. Meanwhile, the yen had depreciated against the euro, primarily in response to the rise in European long-term interest rates.

C. Overseas Economic and Financial Developments

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

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[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.

The U.S. economy continued to recover solidly, assisted by household spending, although adjustments had been seen in the industrial production sector, mainly on the back of the decline in crude oil prices and the appreciation of the U.S. dollar. Business fixed investment continued to be relatively weak, partly due to a decline in investment related to energy; exports also remained somewhat weak due to the effects of external demand and developments in foreign exchange markets. However, private consumption had clearly rebounded from a decline observed last winter, supported in part by a favorable employment and income situation. Housing investment had also followed a moderate pick-up trend. The solid trend in household spending had brought about firm momentum in sentiment and the production activity of domestic demand-oriented firms, such as those in the service industry. Imports also continued to be on an increasing trend. 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, mainly on the back of the earlier depreciation of the euro. Private consumption continued to increase, partly supported by the recovery trend in consumer sentiment backed by the improvement in the labor market. Reflecting such developments in demand, production activity had been recovering moderately, and business fixed investment had also shown signs of picking up. With regard to prices, as the effects of the euro's depreciation had emerged while the rate of decline in energy prices had been diminishing gradually, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) for all items had slightly exceeded 0 percent. That in the HICP excluding energy and unprocessed food had been more or less flat. Meanwhile, economic activity in the United Kingdom continued to recover, led mainly by domestic demand.

With regard to emerging economies, the Chinese economy maintained its stable growth on the whole, but its growth momentum had been sluggish due to downward pressure associated with structural reforms. 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. Exports had been relatively weak recently. Reflecting such developments in demand, the pace of growth in production continued to slow moderately. In India, the economy had been picking up steadily, particularly in domestic demand, partly reflecting expectations for structural reforms and monetary easing. On the other hand, in the NIEs, economic activity had lacked strength on the whole in a situation where exports had been relatively weak, partly due to the slowdown in manufacturing worldwide after the turn of the year, although domestic demand continued on a pick-up trend, due mainly to the effects of low crude oil prices as well as economic stimulus measures. In the ASEAN economies, economic recovery seemed to have paused as external demand had been affected by the earlier decline in international commodity prices and production adjustments in China, and as domestic demand had been impacted by the accumulation of household debt and the delay in implementation of government expenditure programs. Economic activity in Brazil and Russia continued to be severe, with domestic demand declining, reflecting the rise in inflation rates and policy interest rate hikes, and with this development in demand clearly affecting the production and employment sides.

As for prices of emerging economies, inflation rates continued to decrease in many of these economies, mainly because of the decline in energy prices, although the rates had risen in some economies.

Regarding global financial markets, in advanced economies European and U.S. long-term interest rates had risen further, partly reflecting relatively strong economic indicators, and the volatility had heightened as well. Under such circumstances, European stock prices had declined, partly due to concern over political and economic conditions in Greece, while U.S. stock prices had been moving in a high range but lacked momentum, partly because market expectations that monetary easing would be maintained had abated. In emerging economies, currencies and stock prices had been declining against the background of speculation about U.S. monetary policy and the rising European and U.S. long-term interest rates. Meanwhile, Chinese stock prices had been rising further, albeit with some fluctuations. In international commodity markets, crude oil prices had declined marginally against the background of the decision made at the meeting of the Organization of the Petroleum Exporting Countries (OPEC) to maintain the oil production target, as well as the appreciation of the U.S. dollar.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had been picking up. Real exports had increased for three quarters in a row since the July-September quarter of 2014, and had fallen in the April-May period of 2015 compared with the January-March quarter. Exports were basically considered to be continuing to pick up, supported in part by the effects of movements in foreign exchange rates. Recent movements, however, showed that the slowdown in overseas economies during the January-March quarter seemed to be gradually weighing down on exports bound for Asia and other regions with some time lag. Exports were expected to increase moderately, albeit with some fluctuations, mainly against the background of the recovery in overseas economies.

Public investment had entered a moderate declining trend, although it remained at a high level. It was expected to continue its moderate declining trend, albeit maintaining a somewhat high level.

Business fixed investment had been on a moderate increasing trend as corporate profits had improved. According to the *Financial Statements Statistics of Corporations by Industry, Quarterly*, business fixed investment in nominal terms had registered a quarter-on-quarter increase for three consecutive quarters since the July-September quarter of 2014, and had grown at a higher rate in the January-March quarter of 2015. Machinery orders (private sector, excluding orders for ships and those from electric power companies) -- a leading indicator of machinery investment -- had increased at a moderate pace, notably in manufacturing; they had gone up in April as well relative to the January-March quarter, after having increased for three consecutive quarters since the July-September quarter of 2014. Business fixed investment was projected to continue a moderate increasing trend as corporate profits followed their improving trend.

As for the employment and income situation, labor market conditions continued to improve steadily, and employee income had risen moderately.

Private consumption had been resilient against the background of steady improvement in the employment and income situation. Sales at retail stores in real terms had dropped in the January-March quarter, mainly as a reflection of sales movements in automobiles, after having increased for two quarters in a row since the July-September quarter of 2014, and had also fallen slightly in April compared with the January-March quarter, affected partly by irregular weather. Sales at department stores remained firm, as they continued to increase in April relative to the January-March quarter, supported in part by improvement in consumer sentiment. As for durable consumer goods, while sales of passenger cars continued to be somewhat weak due to the decline in those of small cars with engine sizes of 660cc or less, sales of household electrical appliances had trended moderately upward. Services consumption, such as that related to travel, remained steady. Looking at indicators related to consumer sentiment, the consumer confidence index continued to improve, and the level had been surpassing that of around summer 2014. Private consumption was expected to remain resilient with the employment and income situation continuing to improve steadily.

Housing investment had started to pick up. The number of housing starts -- a leading indicator of housing investment -- had picked up from the start of the year onward. Housing investment was projected to pick up with the employment and income situation continuing to improve steadily, supported as well by accommodative financial conditions.

Industrial production had been picking up, as a reflection of the moderate increase in demand both at home and abroad. It had dropped in April 2015 compared with the January-March quarter, after having increased for two consecutive quarters in the October-December quarter of 2014 and in the January-March quarter. Firms' production activity continued to pick up, but the momentum had recently slowed to some extent temporarily, mainly due to inventory adjustments of small cars with engine sizes of 660cc or less as well as to the effects of the slowdown in overseas economies during the January-March quarter. Reflecting developments in demand both at home and abroad, industrial production was expected to increase moderately, albeit with some fluctuations.

As for prices, excluding the direct effects of the consumption tax hike, the producer price index (PPI) was rising moderately relative to three months earlier, 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. With regard to the outlook, the PPI was expected to continue rising moderately 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 4 percent, mainly due to the increase in bank lending. Meanwhile, inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective.

3. Loan disbursement through the Loan Support Program

On June 5, 2015, the Bank had carried out a new loan disbursement, amounting to 668.5 billion yen, under the main rules for the fund-provisioning measure to support strengthening the foundations for economic growth. The outstanding balance of loans disbursed by the Bank under these rules amounted to 4,585.1 billion yen after the new loan disbursement. The outstanding balance of loans disbursed by the Bank under the special rules for equity investments and asset-based lending (ABL) came to 115.3 billion yen, and that under the special rules for small-lot investments and loans amounted to 10.901 billion yen. As for the special rules for the U.S. dollar lending arrangement, the outstanding balance of loans came to 12.00 billion dollars.

On June 19, the Bank had carried out a new loan disbursement, amounting to 2,136.9 billion yen, under the fund-provisioning measure to stimulate bank lending. The outstanding balance of loans disbursed by the Bank amounted to 23,108.6 billion yen after the new loan disbursement.

The outstanding balances of loans disbursed by the Bank for the first time to the central organizations of financial cooperatives for their member financial institutions that did not have a current account at the Bank were as follows: under the main rules for the fund-provisioning measure to support strengthening the foundations for economic growth the balance was 14.3 billion yen; under the special rules for small-lot investments and loans it was 2.044 billion yen; and under the fund-provisioning measure to stimulate bank lending it was 105.6 billion yen.

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

A. Economic Developments

With regard to global financial markets, some members -- referring to the further rise in long-term interest rates in core European countries such as Germany -- expressed the recognition that this development was affected by not only a reversal of an excessive decline in interest rates but also deflationary concerns that were starting to abate, mainly in response to an improvement in price indicators. Regarding developments in political and economic conditions in Greece, some members, noting the ongoing negotiations between the Greek authorities and the Institutions to extend the current financial assistance program, said that their outcome and consequent effects on global financial markets continued to warrant close attention. One of these members added that developments had been observed that suggested investors' risk aversion; for example, interest rates had risen even in other peripheral European countries. Some members pointed out that, in the United States as well, long-term interest rates were rising because of the expectation that the timing of a hike in the policy rate would be moved forward, partly in response to firm employment statistics. These members continued that, in the event that the policy rate actually began to be raised, the global flow of funds could be affected, causing fluctuations in global financial markets, including in emerging economies.

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, assisted by household spending, although adjustments had been seen in the industrial production sector, mainly on the back of the decline in crude oil prices and the appreciation of the U.S. dollar. With respect to the fact that the real GDP growth rate for the January-March quarter of 2015 had turned negative, many members expressed the view that indicators for April onward suggested that firmness had been maintained in private consumption, supported by a favorable employment and income situation, and therefore the drop in the growth rate could be judged as temporary. Some members said that the rebound in and after April had not been very strong, and that it was necessary to carefully examine the pace of future economic recovery. As for the outlook, members shared the view that, although adjustment pressure was expected to weigh on the industrial production sector for the time being, the economy was likely to continue to see growth driven mainly by private demand, led by the firmness in household spending.

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 private consumption continued to increase, partly supported by the recovery trend in consumer sentiment backed by the improvement in the labor market. As for the outlook, members concurred that the economy would likely continue to recover moderately. A few members pointed out that close attention should be paid to developments regarding the effects of the recent rise in interest rates on the real economy and financial conditions.

Members agreed that the Chinese economy maintained its stable growth on the whole, but its growth momentum had been sluggish due to downward pressure associated with structural reforms. One member said that signs of a slowdown in economic activity were becoming somewhat more evident, particularly in manufacturing, as seen in the recent relatively weak developments in exports, for example. However, some members, including this member, pointed out that authorities had been increasingly willing to take measures on both the monetary and fiscal fronts to address the sluggish growth momentum. As for the outlook, members 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. Meanwhile, one member said that, considering that such measures would mainly take the form of public investment, authorities' efforts would be able to help maintain the growth rate but might not have as much of an effect as before in terms of inducing exports of China's trading counterparties.

Regarding emerging economies, members shared the view that, while there were positive effects on such economies of the recovery in advanced economies and monetary easing, the effects remained of adjustments to excesses, mainly in China and commodity-exporting economies. They continued that emerging economies therefore continued to lack growth momentum on the whole. A few members pointed out that emerging economies had recently been negatively affected by the drop in U.S. economic activity and the slowdown in the Chinese economy in the January-March quarter of 2015. Members shared the recognition that, for the time being, emerging economies were likely to continue to lack growth momentum, with uncertainty remaining at a high level. On this basis, they shared the view that 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.

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

With regard to economic activity, members shared the recognition that, in a situation where a virtuous cycle from income to spending continued to operate steadily in both the household and corporate sectors, the economy continued to recover moderately. Some members pointed out that the second preliminary estimate of the real GDP growth rate for the January-March quarter had been notably revised upward, particularly for business fixed investment. These members then expressed the recognition that it was confirmed that domestic private demand -- which had temporarily declined after the consumption tax hike -- was improving and that the virtuous cycle from income to spending had started to become evident. As for the outlook for the economy, members concurred that it was likely to continue recovering moderately. Some members noted that exports and production, both of which had continued to increase, had recently been lacking momentum somewhat, due mainly to the effects of a temporary slowdown in overseas economies, and thus the economic growth rate was likely to exhibit a temporary decline for the April-June quarter. However, these members expressed the recognition that the growth rate was likely to increase thereafter as the virtuous cycle from income to spending continued.

Members agreed that Japan's exports had been picking up. Many members referred to the fact that real exports -- which had increased for three quarters in a row -- had fallen in the April-May period. These members then expressed the view that this was attributable to the slowdown in the U.S. and Chinese economies during the January-March quarter weighing down on real exports with a time lag. One of these members added that, although exports of automobiles to the United States had declined significantly according to the breakdown of exports by region and type of goods, this was likely to be a temporary decline given that automobile sales in the United States had been firm. As for the outlook, members concurred that exports were likely to increase moderately, albeit with some fluctuations, mainly against the background of the recovery in overseas economies.

Members shared the recognition that business fixed investment had been on a moderate increasing trend as corporate profits had improved. Some members, noting that the rate of increase in business fixed investment on a GDP basis for the January-March quarter was relatively high, expressed the recognition that a virtuous cycle from income to spending had been operating steadily. Members agreed that it was likely to continue a moderate increasing trend as corporate profits followed their improving trend. Some members pointed out that firm developments in machinery orders and aggressive business fixed investment plans supported such a view. One of these members added that the results of the survey conducted of small firms also seemed to suggest that a positive attitude toward fixed investment had been spreading among these firms. On the other hand, one member expressed the view that the results of some surveys showed a worsening of sentiment in the manufacturing industry, which seemed to have been triggered by the weakness in external demand, and that it was necessary to pay attention to a risk that business fixed investment might be lower if a recovery in exports were delayed.

As for the employment and income situation, members concurred that employee income had risen moderately with labor market conditions continuing to improve steadily. They continued that employee income was likely to continue to do so in line with the recovery in economic activity and business performance. Some members said that the income situation would improve further due to the effects of wage increases -- including in base pay -- resulting from the wage negotiations in spring 2015. One of these members added that, according to the results of surveys conducted of large firms, the year-on-year rate of change in summer bonus payments was expected to be positive, as had been the case last year. Some members expressed the recognition that real wages were expected to rise in a sustainable manner as the direct effects of the consumption tax hike would run their course. In relation to this point, one member noted the importance of a sustained rise in real wages for achieving the price stability target. The member expressed hope for the corporate governance reform that had been initiated by the government, for example, with a view to facilitating firms' efforts toward improving productivity -- which was essential to a sustained rise in real wages.

Members shared the recognition that private consumption had been resilient against the background of steady improvement in the employment and income situation. A few members added that the wealth effects as a result of the rise in stock prices had also been supporting the resilience in consumption. Some members expressed the view that sales at department stores continued to increase and services consumption had been firm. Some members noted that certain indicators had shown weak developments recently, affected partly by irregular weather. Members concurred that private consumption was likely to remain resilient with the employment and income situation continuing to improve steadily. A few members expressed the recognition that the risk that recent rises in prices of food and daily necessities would worsen consumer sentiment warranted attention.

Members shared the recognition that housing investment had started to pick up. They concurred that it was likely to pick up with the employment and income situation continuing to improve steadily, supported as well by accommodative financial conditions.

Members shared the recognition that industrial production had been picking up, as a reflection of the moderate increase in demand both at home and abroad. One member expressed the view that the pick-up in housing investment -- particularly in housing for sale -- had been contributing to the improvement in the production of construction goods. As for the outlook, members agreed that industrial production was likely to increase moderately, albeit with some fluctuations, reflecting developments in demand both at home and abroad. In relation to this point, some members commented that the momentum for recovery would slow temporarily in the April-June quarter due to sluggish exports as well as inventory adjustments mainly of small cars with engine sizes of 660cc or less.

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. 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.

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) had been exerting its intended effects. These members agreed 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 expressed the recognition 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 commented that such developments had been underpinning firms' and households' spending. A few members expressed the view that the effects of QQE might be diminishing, considering, for example, that long-term interest rates had temporarily risen to the range of 0.5-0.6 percent recently. However, some members noted that the effects of QQE continued to be substantial, given that interest rates in Japan had been stable at low levels across the entire yield curve despite the rise in overseas interest rates.

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. Some members expressed the view that, even with the rate of increase in the CPI hovering at about 0 percent, expectations remained that the inflation rate would rise. Some members pointed out that moves toward sales price revisions were starting to become widespread with regard, for example, to daily necessities and food, as suggested by the fact that the year-on-year rate of change in high-frequency price-related indicators had been positive since the turn of fiscal 2015. A few of these members added that moves to pass on to sales prices increases in costs incurred by the depreciation of the yen and the rise in labor costs had also been observed in services such as food service and in durable consumer goods. A few members expressed the recognition that these developments suggested that an increasing number of firms had adopted a price-setting strategy of raising sales prices while increasing value added. One member expressed the view that, in a situation where unit labor costs increased stably on the back of an improvement in the employment and income situation, the inflation rate would rise gradually. On the other hand, one member commented that developments in the CPI had not shown any remarkable shift in the price situation.

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 around the first half of fiscal 2016, 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 said that the acceleration in the year-on-year rate of increase in the CPI would remain very moderate, given that the paces of improvement in the output gap and in wage inflation were moderate and that the global disinflationary trend continued.

Based on the above discussions, regarding <u>the guideline for money market operations for the intermeeting period</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 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 said 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, even the initial scale of QQE could lead to economic instability in the medium to long term, such as through a buildup of financial imbalances. On this basis, this member's primary argument was the following. First, the Bank should reduce the respective annual paces of increase in the monetary base and in the amount outstanding of its JGB holdings to levels below the initial pace, in view of further possible phased reductions. Second, 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, as evidenced by the year-on-year rate of increase in the CPI having been about 0 percent -- would constrain the effects of its policy measures. One of these members said that, at this point, there was no concrete evidence, based either on theories or facts, to suggest a buildup of financial imbalances and side effects of monetary easing, and that the start of a reduction might affect developments in financial markets.

IV. Summary of Discussions by the Policy Board on a New Framework for Monetary Policy Meetings

Members discussed a new framework for Monetary Policy Meetings (MPMs). In doing so, they shared the recognition that it was important to aim at further enhancing deliberations at the MPMs and the Bank's communication on monetary policy, and considered specific measures.

First, members agreed that, in order to make policy decisions based on forecasts for the economy and prices on a quarterly basis, the Bank would increase the frequency of publication of the *Outlook for Economic Activity and Prices* (hereafter the Outlook Report) from the current semiannual basis to a quarterly basis. They also concurred that, in order to further enhance communication on Policy Board members' forecasts for the economy and prices, the Bank would release each member's forecasts and risk assessments. Second, members shared the recognition that, as part of the Bank's efforts to disseminate information promptly, it was appropriate to compile a document that contained a summary of the opinions presented at each MPM ("Summary of Opinions") and release it about a week after the meeting. Third, they concurred that the Bank would hold MPMs eight times a year, given that the Outlook Report would be published four times a year and that it was necessary to discuss the economic and price situation taking into account changes in the interim periods. In relation to this, members shared the recognition that the Bank would, as in the past, respond flexibly by calling unscheduled MPMs if the economic and financial situation changed significantly.

Members agreed that, under the new framework, the Bank would provide, with higher frequency, more detailed forecasts for Japan's economy and prices, which served as the basis of policy decisions. They continued that, in addition, the Bank would start releasing the "Summary of Opinions" soon after the meeting. Many members expressed the view that the framework -- in which (1) forecasts for the economy and prices were released on a quarterly basis; (2) meetings on monetary policy were held eight times a year, that is, four meetings for forecasts and four other meetings in between them; and (3) a summary of discussions at each MPM was released quickly -- had been widely adopted by major central banks and was appropriate. Some members said that it was necessary that the Bank continue to deliberate on the specifics of the "Summary of Opinions" to be released, considering the aim of further enhancing communication and the division of roles with the minutes, which would continue to be released in the same manner as at present. One member pointed out that the balance between timeliness and content was important in terms of communication. On this basis, this member expressed the opinion that it was good to release in combination the "Summary of Opinions" as early as about a week after the meeting and the minutes showing the summary of discussions after the following meeting. Many members expressed the recognition that January 2016 was the appropriate time for these changes to the framework for MPMs to take effect on condition that the relevant ordinance was revised by the Cabinet, given that it would take time to prepare for these changes and that the scheduled dates of MPMs in 2015 had already been announced. Members agreed that dates of MPMs in and after 2016 would be decided and announced in due course.

V. Remarks by Government Representatives

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

(1) The second preliminary estimate of the real GDP growth rate for the January-March quarter of 2015 -- which had been released on June 8 -- was revised upward from the first preliminary estimate to 1.0 percent on a quarter-on-quarter basis. This mainly reflected that, in the *Financial Statements Statistics of Corporations by Industry, Quarterly* released after the first preliminary estimate, firms' fixed investment had shown high growth, particularly in small firms and the nonmanufacturing industry. The government deemed that there was no change in its assessment that the Japanese economy was on a moderate recovery; nevertheless, it would continue to closely monitor economic developments.

(2) The government aimed to achieve both economic revitalization and fiscal consolidation. With regard to the fiscal consolidation plan to generate a surplus in the primary balance by fiscal 2020, it would first of all attempt to increase tax revenues as much as possible through all available policy measures, such as the growth strategy and regulatory reforms. As for the remaining deficit in the primary balance thereafter, the

government deemed it necessary to attempt to generate a surplus through expenditure reform as well as other measures. In doing so, the government -- although it had been implementing expenditure reform while promoting economic revitalization -- considered it necessary to strengthen initiatives and promote reforms that treated no areas as sacred or off-limits. It would consolidate the points of debate at an early date with a view to formulating the plan by the end of June. At the Group of Seven (G-7) meeting held in May, the minister of finance had explained Japan's economic situation and the government's efforts to implement the growth strategy as well as measures to achieve fiscal consolidation, and had gained the understanding of each participating country. The government would continue to aim to achieve both economic revitalization and fiscal consolidation.

(3) At this meeting, discussions had taken place on the new framework for MPMs. The government expected that such initiatives by the Bank would further enhance deliberations on monetary policy at the MPMs and secure transparency, and that the Bank would maintain a thorough dialogue with the government. When this new framework was decided by the Bank's Policy Board, the government would examine processes required, such as the revision of the relevant ordinance by the Cabinet.

(4) 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. The second preliminary estimate of the real GDP growth rate for the January-March quarter of 2015 -- which had been released on June 8 -- was revised upward from the first preliminary estimate to 3.9 percent on an annualized quarter-on-quarter basis, registering positive growth for the second consecutive quarter, and that of the nominal GDP growth rate for the same quarter was 9.4 percent on the same basis, registering the highest growth since the current estimation methodology of the National Accounts of Japan was introduced. The year-on-year rate of increase in the GDP deflator for the January-March quarter was 3.4 percent, which showed that there were favorable economic conditions for overcoming deflation. Taking such developments into account, it was important to make a comprehensive assessment of price developments.

(2) As for fiscal consolidation, the government had deliberated on the outline of the basic policies for 2015 at the Council on Economic and Fiscal Policy held on June 10. It would incorporate the fiscal consolidation plan -- consistent with economic revitalization -- in the basic policies for 2015 to achieve the target of fiscal consolidation by fiscal 2020. At the Industrial Competitiveness Council held on June 11, the government had deliberated on the outline of the revision of the growth strategy. By the end of June, it would formulate the basic policies for 2015, the Japan Revitalization Strategy revised in 2015, the Basic Policies for Overcoming Population Decline and Vitalizing Local Economy in Japan 2015, and the Regulatory Reform Work Plan. In addition, the first Service Productivity and Innovation for Growth meeting had been held on June 18 at the Prime Minister's Office.

(3) With regard to the new framework for MPMs, the government respected the Bank's decision. It deemed it important to avoid giving rise to a possible misunderstanding in the market, as well as in other entities, that the timeliness of the Bank's conduct of monetary policy would be diminished with the lower frequency of MPMs, and to secure opportunities for dialogue between the government and the Bank. To this end, the government expected the Bank to provide sufficient explanation on the purpose of this new framework, and to call unscheduled MPMs if necessary. In addition, it expected the Bank to maintain a thorough dialogue with the government by, for example, holding further discussions at the Council on Economic and Fiscal Policy if necessary.

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

VI. Votes

A. Vote on the Chairman's Proposal on the New Framework for Monetary Policy Meetings

Based on the above discussions, the chairman formulated the New Framework for Monetary Policy Meetings that described changes concerning MPMs, 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 1).

The chairman requested government representatives to examine the revision of the relevant ordinance.

B. Vote on the Chairman's Policy Proposal on the Guideline for Money Market Operations

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.

C. 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.

D. 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.

VII. Discussion on the Statement on Monetary Policy

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

A. Mr. T. Kiuchi's Policy Proposal

With regard to the draft of the statement that formed a majority view, Mr. T. Kiuchi proposed changing the current expression of the Bank's future monetary policy stance that "the Bank will continue with QQE, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate" to a new expression that "the Bank will, 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 3).

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of May 21 and 22, 2015 for release on June 24, 2015.

Attachment 1

June 19, 2015

Bank of Japan

New Framework for Monetary Policy Meetings

At the Monetary Policy Meeting (MPM) held today, the Policy Board of the Bank of Japan decided, by a unanimous vote, to make the following changes concerning MPMs in order to further enhance deliberations at the MPMs and the Bank's communication on monetary policy. Those changes will take effect in January 2016 on condition that the relevant ordinance is revised by the Cabinet.

Under a new framework, the Bank will provide, with higher frequency, more detailed forecasts for Japan's economy and prices, which serve as the basis of policy decisions. In addition, the Bank will start releasing a document that contains summary of opinions presented at each MPM soon after the meeting. The framework -- in which (1) forecasts for the economy and prices are released on a quarterly basis, (2) meetings on monetary policy are held eight times a year, that is, four meetings for forecasts and four other meetings in between them, and (3) a summary of discussion at each MPM is released quickly -- has been widely adopted by major central banks.

1. Releasing the *Outlook for Economic Activity and Prices* on a Quarterly Basis

The Bank will increase the frequency of publication of the *Outlook for Economic Activity and Prices* (hereafter the Outlook Report) from the current semiannual basis to a quarterly basis: the Outlook Report will be released immediately after the MPMs held in January, April, July, and October.

2. Releasing Each Policy Board Member's Forecasts for and Risk Assessments of the Economy and Prices

In addition to the forecasts for the economy and prices of the majority of Policy Board members, each member's forecasts and risk assessments will be released (see Attachment 2 for sample charts).[1]

3. Releasing "Summary of Opinions"

A document that contains summary of opinions presented at each MPM ("Summary of Opinions") will be compiled and be released in about a week after the meeting.[2]

4. Changing the Frequency of MPMs

The Bank will hold MPMs eight times a year; four MPMs for the Outlook Reports and four other MPMs in between them for updating developments in the economy and prices -- currently, MPMs are held about 14 times a year.[3,4,5]

[1] Forecast Distribution Charts of Policy Board Members will be discontinued.

[2] Minutes of the MPM will continue to be released after they are approved by the Policy Board at the subsequent MPM.

[3] The scheduled dates of MPMs in July-December 2015 will not be changed from what have been announced. Dates of MPMs in and after January 2016 will be announced in due course.

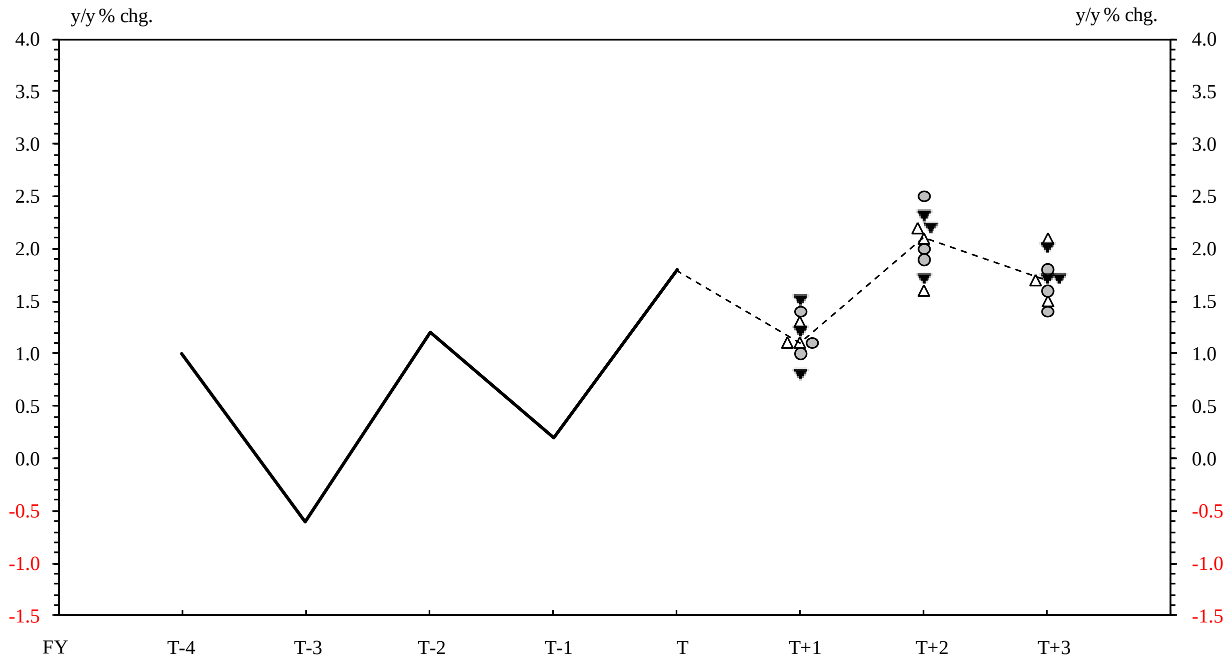
[4] Compilation and publication of the *Monthly Report of Recent Economic and Financial Developments* will be discontinued. The report will be integrated into the Outlook Report.

[5] The Federal Open Market Committee (FOMC) meetings and the European Central Bank (ECB) Governing Council meetings on monetary policy are both held eight times a year. The Bank of England has also announced its plan to change the frequency of its Monetary Policy Committee meetings to eight times a year.

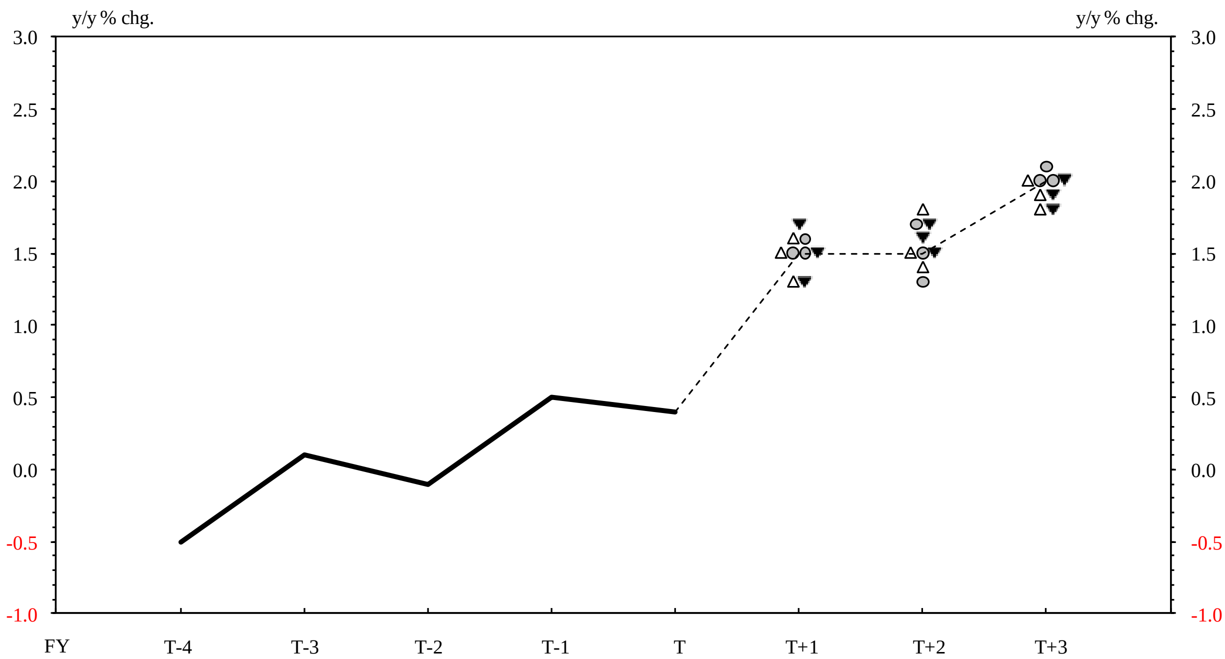
Attachment 2

Policy Board Members' Forecasts and Risk Assessments (Sample)

(1) Real GDP



(2) CPI (All Items Less Fresh Food)



Notes: 1. Solid lines show actual figures, while dotted lines show the medians of the Policy Board members' forecasts (point estimates).

2. The locations of ○, △, and ▼ in the charts indicate the figures for each Policy Board member's forecasts to which he or she attaches the highest probability. Risk balance assessed by each Policy Board member is shown by the following shapes: ○ indicates that a member assesses "upside and downside risks as being generally balanced," △ indicates that a member assesses "risks are skewed to the upside," and ▼ indicates that a member assesses "risks are skewed to the downside."

Attachment 3
June 19, 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 to recover moderately. 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. Against the background of steady improvement in the employment and income situation, private consumption has been resilient and housing investment has started to pick up. Meanwhile, public investment has entered a moderate declining trend, although it remains at a high level. Reflecting these developments in demand both at home and abroad, industrial production has

been picking up. 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 recovering moderately. 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 momentum of economic activity and prices 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.