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September 18, 2015

Bank of Japan

Minutes of the Monetary Policy Meeting

on August 6 and 7, 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, August 6, 2015, from 2:00 p.m. to 4:08 p.m., and on Friday, August 7, from 9:00 a.m. to 12:13 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

Ms. S. Shirai

Mr. K. Ishida

Mr. T. Sato

Mr. T. Kiuchi

Mr. Y. Harada

Mr. Y. Funo

Government Representatives Present

Mr. I. Miyashita, State Minister of Finance, Ministry of Finance[2]

Mr. M. Ota, Deputy Vice Minister for Policy Planning and Coordination, Ministry of Finance[3]

Mr. Y. Nishimura, State Minister of Cabinet Office, Cabinet Office[2]

Mr. M. Nishikawa, Vice Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

Mr. M. Amamiya, Executive Director

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

Mr. S. Kuwabara, Executive Director

Mr. S. Uchida, Director-General, Monetary Affairs Department

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on September 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 August 7.

[3] Messrs. M. Ota and M. Nishikawa were present on August 6.

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

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

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

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

Mr. K. Nakamura, 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. K. Suzuki, Head of Policy Infrastructure Division, Monetary Affairs Department[4]

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

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

[4] Messrs. H. Koguchi and K. Suzuki were present on August 7 from 9:00 a.m. to 9:06 a.m.

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

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on July 14 and 15, 2015, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[6] In this situation, the amount outstanding of the monetary base had been in the range of 317-326 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 essentially been moving at around 0 percent.

Yields on 10-year JGBs had inched downward as U.S. and European long-term interest rates had followed a declining trend, mainly against the background of a cautious view on emerging economies and of the falls in commodity prices and in U.S. stock prices; they were recently moving in the range of 0.40-0.45 percent. Meanwhile, the Nikkei 225 Stock Average had increased at one point, mainly reflecting the abatement of uncertainty about political and economic conditions in Greece as well as expectations for improvement in profit distributions to shareholders and corporate governance. However, it had then temporarily dropped back in response to the decline in overseas stock prices, due mainly to the cautious view on emerging economies, and was recently moving at around 20,500 yen. In the foreign exchange market, the yen had depreciated somewhat against the U.S. dollar, with normalization of U.S. monetary policy taken into consideration, and was currently moving in the range of 124.5-125.0 yen. Meanwhile, the yen against the euro had moved within a narrow range of around 136 yen.

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

[6] The guideline was as follows:

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

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 had been recovering, 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 increased, 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 rising moderately, mainly on the back of the 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 the ongoing 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 had been slowing 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, the pace of economic growth in the NIEs was decelerating mainly in exports and production, due in part to sluggish demand in IT-related goods. In the ASEAN economies, economic recovery had paused as external demand had been affected by the earlier decline in international commodity prices and production adjustments in China, as well as in terms of domestic demand, mainly as the accumulation of household debt had been weighing on private consumption. Economic activity in Brazil and Russia had been increasingly severe due to the effects of the fall in commodity prices, with domestic demand declining, mainly reflecting the rise in inflation rates and policy interest rate hikes.

As for prices in emerging economies, inflation rates had been at low levels in many of these economies, although there were some signs of a bottoming out due to the stabilization of energy prices. However, inflation rates had risen or remained at high levels in some economies.

Regarding global financial markets, concern over political and economic conditions in Greece had abated for now. A significant decline in Chinese stock prices -- which had once been observed -- had paused, although it remained uncertain whether the decline had actually come to a halt. In this situation, currencies and stock prices in emerging economies as well as commodity prices had declined, mainly due to the spread of uncertainty about the outlook for these economies.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had been picking up, albeit with some fluctuations. Real exports had increased for three quarters in a row since the July-September quarter of 2014, and had fallen in the April-June quarter of 2015. Exports were considered to be picking up compared to a while ago, supported in part by the effects of movements in foreign exchange rates. Recently, however, they had shown sluggishness due to the effects of the slowdown in overseas economies toward around spring 2015. 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. The aggregate supply of capital goods (excluding transport equipment) -- a coincident indicator of machinery investment -- had been trending moderately upward, albeit with fluctuations. Looking at leading indicators of machinery investment and construction investment, machinery orders (private sector, excluding orders for ships and those from electric power companies) had increased at a moderate pace, notably in manufacturing, and construction starts (floor area, private, nondwelling use) had started to pick up, albeit with fluctuations, since the turn of the year. Business fixed investment was projected to continue increasing moderately 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, after having increased for two quarters in a row since the July-September quarter of 2014, had dropped in the January-March quarter of 2015, mainly as a reflection of sales movements in automobiles, and had also fallen slightly in the April-June quarter, affected partly by irregular weather. Sales at department stores had fallen in the April-June quarter, after having increased for three consecutive quarters since the July-September quarter of 2014. They remained firm as a trend, assisted in part by the wealth effects as a result of the rise in stock prices, as well as by improvement in consumer sentiment; the decline in the April-June quarter seemed to have been affected by irregular weather and by the delayed summer clearance sales. As for durable consumer goods, sales of passenger cars had marked a somewhat large decline, reflecting movements in those of small cars with engine sizes of 660cc or less. Sales of household electrical appliances had trended moderately upward since the July-September quarter of 2014, but had shown somewhat weak movements recently, due mainly to lackluster sales of air conditioners as a result of irregular weather. Services consumption, such as that in food service, 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 been picking up. The number of housing starts -- a leading indicator of housing investment -- had picked up markedly from the start of the year onward; that for the April-June quarter of 2015 had moved up to a level last seen in the October-December quarter of 2013. Housing investment was projected to continue picking up with the employment and income situation continuing to improve steadily, supported as well by accommodative financial conditions.

Industrial production had been picking up, albeit with some fluctuations. It had dropped in the April-June quarter of 2015, after having increased for two consecutive quarters in the October-December quarter of 2014 and in the January-March quarter. Firms' production activity basically appeared to be picking up, but the effects of the slowdown in overseas economies toward around spring 2015, as well as the somewhat prolonged inventory adjustments of small cars with engine sizes of 660cc or less, seemed to have led to the recent sluggishness. Reflecting developments in demand both at home and abroad, industrial production was expected to increase moderately, albeit with some fluctuations. Judging from interviews with firms and other relevant information, industrial production in the July-September quarter was expected to start increasing again.

As for prices, the producer price index (PPI) was more or less flat 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. Looking at the rate of increase for all items less fresh food and energy in order to capture trend changes in the CPI, this had started to grow at an accelerated pace a couple of months into the year. Meanwhile, there had been a marked rise in an indicator that represented the difference between the share of items in the CPI (all items less fresh food) for which prices had risen from the previous year and that for which prices had declined. With regard to the outlook, the PPI was expected to be more or less flat 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 in the range of 30-35 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 in the range of 3.5-4.0 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. Amendments to Principal Terms and Conditions for Complementary Lending Facility and Other Operations

A. Staff Reports

As changes to the procedures of the Bank's monetary operations would take place in conjunction with the forthcoming full launch of the new Bank of Japan Financial Network System (BOJ-NET), the staff proposed that the Bank amend the principal terms and conditions for the relevant operations.

B. Vote

"Amendments to 'Principal Terms and Conditions for Complementary Lending Facility' and Other Operations," which represented the aforementioned staff reports, was put to a vote. Members voted unanimously to approve the proposal. They concurred that the staff should accordingly make this public after the meeting.

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

A. Economic Developments

With regard to global financial markets, members shared the view that market participants' risk aversion triggered by developments in political and economic conditions in Greece had receded for the time being. On this basis, with regard to the developments in Greece, one member pointed out that the sharp fall in stock prices -- particularly those of banks -- in the reopened Greek market indicated concern over a worsening of the real economy and the accompanying deterioration in banks' assets. This member then noted that particular attention should continue to be paid to the developments in Greece, since time was still needed to settle the situation. In this regard, one member expressed the recognition that, if the effects of the disruptions on the financial front could be contained, the effects on the world's real economy would be small, considering the size of the Greek economy. With regard to Chinese stock prices, many members expressed the recognition that, although the significant decline in prices had paused, they remained highly volatile and future developments warranted close attention.

Regarding the declines in currencies and stock prices in emerging economies as well as commodity prices, members expressed the view that this reflected market participants' focus on uncertainty about the outlook for emerging and commodity-exporting economies. Some members expressed the opinion that the declines also were attributable to the fact that the U.S. dollar had been appreciating, with normalization of U.S. monetary policy taken into consideration. Many members expressed the view that the recent decline in crude oil prices was affected by both a demand-side factor -- uncertainty over demand in emerging economies -- and a supply-side factor -- oil-exporting economies' stance toward production and their spare production capacity. A few members pointed out that, if the decline in commodity prices increased adjustment pressure on commodity-related investment spending, attention should be paid to the possibility of the adjustment weighing further on global economic growth. One member noted that markets had factored in beforehand the risk that the effects of the slowdown in the Chinese economy would spread to emerging economies. This member then expressed the recognition that there might be a risk of such price settings in markets suppressing growth expectations if they were to take hold; nevertheless, the baseline scenario of the outlook was that the global economy, particularly advanced economies, would continue to recover moderately.

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 had been recovering -- assisted by household spending -- amid continued improvement in the employment and income situation, 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. As for the outlook, they shared the view that, although adjustment pressure would 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. Many members expressed the recognition that the pace of economic growth had picked up to a cruising speed, noting, for example, that (1) the GDP statistics for the April-June quarter of 2015 confirmed that the economy had rebounded from the significant slowdown in the previous quarter, and (2) automobile sales had maintained their high levels since this spring. However, a few members expressed the view that the economic growth rate for the first half of 2015 had been below the potential growth rate, and therefore it would still take time for the output gap to improve.

Members concurred that the European economy maintained its moderate recovery. They shared the recognition that exports had been rising 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.

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. A few members pointed out that statistics showed that the economic slowdown had come to a halt, as the year-on-year rate of increase in the real GDP for the April-June quarter of 2015 had been 7.0 percent, which was the same as the previous quarter, owing to authorities' aggressive measures both on the monetary and fiscal fronts.

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. Some members expressed the recognition that, although it was difficult to interpret Chinese economic statistics, weakness in the real economy still had not been dispelled, as seen, for example, in the fact that exports and imports continued to decline and the Purchasing Managers' Index (PMI) for manufacturing activity had been at around 50. One member said that it was necessary to pay close attention to how the decline in Chinese stock prices would affect the real economy through wealth effects. Some members -- noting that there also were positive factors such as the pick-up in real estate-related indicators -- expressed the view that it was necessary to monitor in a prudent manner both the strong and weak developments in the economy. On this basis, members expressed the recognition that the effects of the slowdown in the Chinese economy on the global economy, and in particular Asian emerging economies and Japan's economy, should be monitored closely.

Members shared the view that emerging economies had recently been weak. They expressed the recognition that, while the effects of the recovery in advanced economies were spreading to emerging economies, (1) the effects of the slowdown in the Chinese economy as well as the burden of excess production capacity and excess debt remained; (2) weakness in exports and production of IT-related goods had been observed, particularly in Asia; and (3) economic activity in such countries as Brazil and Russia had been increasingly severe, due in part to the effects of the fall in commodity prices. Members shared the recognition that, although emerging economies would continue to lack growth momentum for the time being, with uncertainty remaining at a high level, they were likely to gradually increase their growth rates from a somewhat longer-term perspective 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 concurred that -- although recently the pace of increase in exports and production had been slowing and sluggishness had been observed in some areas in private consumption, affected partly by irregular weather -- the sluggishness in exports, production, and private consumption was only temporary. On this basis, they 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 referred to the possibility that the economic growth rate for the April-June quarter of 2015 would temporarily decline to a substantial degree. As for the outlook for the economy, members concurred that it was likely to continue recovering moderately as the virtuous cycle from income to spending continued.

Members agreed that Japan's exports had been picking up, albeit with some fluctuations. They shared the view that weakness in exports in the April-June quarter of 2015 was affected, with a time lag, by the temporary slowdown in the U.S. economy during the January-March quarter and also was attributed to the recent sluggishness in Asian economies. 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 and of support from the earlier depreciation of the yen. On this basis, many members pointed out that, if economic growth in emerging economies, including that in China, were to decelerate further, the effects of this on Japan's exports warranted attention.

Members agreed that business fixed investment had been on a moderate increasing trend as corporate profits had improved, and was likely to continue increasing moderately as corporate profits followed their improving trend. Some members pointed out that firm developments in machinery orders and construction starts supported such a view. One member noted that, according to the results of the survey conducted of large firms released by the Development Bank of Japan, business fixed investment plans for fiscal 2015 exhibited somewhat high growth, mainly in manufacturing. This member then expressed the recognition that this suggested that firms' attitude toward investment had become increasingly resolute. A different member expressed the view that, even though sluggishness had been observed in some areas in private consumption, firms maintained their positive attitude toward investment. The member continued that this was evidence that firms were beginning to take an active attitude toward carrying out fixed investment from a long-term perspective, amid the progress in the conversion of the deflationary mindset. On the other hand, another member pointed to the possibility that the slowdown in the pace of increase in exports would negatively impact the increasing trend in business fixed investment in manufacturing.

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. Many members pointed out that a somewhat large year-on-year rate of decline in nominal wages in the *Monthly Labour Survey* for June 2015 was attributable to the year-on-year rate of decrease in special cash earnings of establishments with a relatively large number of employees. These members then expressed the recognition that it was difficult to understand the reason behind the significant decline in bonus payments amid a situation of favorable corporate profits, and that such a decline was likely to have been affected mainly by the change in the sample used in the survey and by a shift in the month of bonus payments. A few members noted that such a view was supported by the results of various surveys, which suggested that summer bonus payments were likely to increase. A different member -- pointing to the fact that the year-on-year rate of change in the monthly income for workers' households in the *Family Income and Expenditure Survey* remained positive in prior months and had risen firmly in June as well, including bonus payments -- expressed the view that these results seemed indicative of the actual situation. On this basis, a few members expressed the recognition that the improvement in nominal wages would become evident, since an increasing number of firms would likely start making wage payments based on the new wage levels that reflected increases in base pay, for example, and summer bonus payments were also likely to increase. On the other hand, one member noted that movements toward wage increases would be sluggish, pointing out, for example, that the increases in base pay had already been reflected in relevant statistics to a certain extent and that the rate of increase in bonus payments was likely to decelerate compared with last year.

Members shared the recognition that private consumption had been resilient against the background of steady improvement in the employment and income situation. Many members expressed the view that, although sluggishness had recently been observed in some areas in private consumption, affected partly by irregular weather, it maintained its resilience on the whole, as consumer sentiment remained on an improving trend and the employment and income situation also continued to improve. Meanwhile, one member said that the rise in prices, such as of food, might have led to consumers' defensive spending attitude on a wide range of items. A different member noted that attention should be paid to whether the sluggishness in consumption was due either to irregular weather or price rises. One member pointed out that the lack of momentum in consumption might be attributable to developments in consumption of pensioners. Members concurred that private consumption was likely to remain resilient with the employment and income situation continuing to improve steadily. One member expressed the recognition that, in order for the pace of increase in private consumption to accelerate, it was necessary that movements toward wage increases spread further.

Members concurred that housing investment had been picking up with the employment and income situation continuing to improve steadily, supported as well by accommodative financial conditions, and that it was likely to continue to do so. A few members expressed the recognition that the pick-up in housing investment was attributable to the steady improvement in the employment and income situation, and that this was evidence that a virtuous cycle from income to spending continued to operate in the household sector. In addition, a different member expected that the pick-up in housing investment would lead to an increase in consumption of durable consumer goods such as household electrical appliances and furniture.

Members agreed that industrial production had been picking up, albeit with some fluctuations. They shared the view that firms' production activity appeared to be picking up, against the backdrop of moderate increases in demand both at home and abroad. They continued, however, that such activity had recently shown sluggishness, mainly due to the effects of weaker growth in exports, as well as to inventory adjustments of small cars with engine sizes of 660cc or less. 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. Many members expressed the recognition that such developments in production were likely as exports increased following a recovery in overseas economies and as inventory adjustments progressed. These members continued that this view was in line with the developments in the production forecast index for July and August 2015, which suggested that production would increase. In addition, one member expressed the view that the fact that firms generally maintained their favorable business sentiment and positive attitude toward investment was evidence that they regarded the sluggishness in exports and production as temporary. On the other hand, a different member expressed the recognition that it was uncertain whether production -- mainly that of transport equipment and IT-related goods -- for the July-September quarter would clearly pick up.

As for prices, members concurred that 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, pointing out developments such as the following: (1) the amount outstanding of bank lending, including that to small firms, had been increasing moderately; and (2) there had been a series of large-scale projects for equity financing.

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

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

Many members shared the recognition that quantitative and qualitative monetary easing (QQE) 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. One member pointed out that, as increases in employment and wages were being experienced, the general public's and corporate managers' confidence in the conduct of monetary policy was at a high level, and that the managers were becoming more active in investing.

With regard to the assessment of price developments for the Bank's conduct of monetary policy, members shared the recognition that the price stability target should be achieved in a stable manner and that the underlying trend in inflation was important in conducting monetary policy. Many members pointed out factors such as the following: (1) the year-on-year rate of increase in the CPI (all items less food and energy) for June 2015 had accelerated from the previous month; and (2) that in the CPI (all items less fresh food and energy) had recently been rising. These members then expressed the view that the underlying trend in inflation continued to improve. As background to this, some members pointed out that the perception of inflation by firms and households had been changing. One member -- referring to a change in firms' wage- and price-setting strategy -- said that, amid the continued economic recovery, an increasing number of firms had become able to pass rises in input prices and labor costs on to sales prices; in fact, firms' moves to revise sales prices during this fiscal year were spreading and exhibiting sustainability. A different member expressed the view that, despite the rise in prices such as of food, consumer sentiment was not deteriorating. The member continued that this suggested that consumers had started to accept firms' revision of sales prices as employee income had risen moderately. On the other hand, another member said that the fact that sales of food had not been decreasing despite the rise in prices might be attributable to the low price elasticity of demand for food, as it was reasonably regarded as a daily necessity.

Some members expressed the recognition that, in order to achieve the price stability target of 2 percent under QQE, it was important to create a situation in which the inflation rate rose accompanied by increases in employment and wages. These members continued that such a mechanism had started to operate, considering the recent developments in wages and inflation. One member said that further support from the increase in wages was necessary for a continued rise in the underlying trend in inflation. Some members expressed the recognition that developments in private consumption were key to continued improvement in the underlying trend in inflation, and therefore such developments warranted close attention.

Regarding the CPI (all items less fresh food and energy), some members expressed the view that the indicator was useful in assessing the underlying trend in inflation when fluctuations in energy prices were large, and therefore the Bank's decision to release it on a monthly basis was meaningful. On this basis, members reaffirmed that (1) the price stability target was set at 2 percent solely in terms of the year-on-year rate of increase in the CPI for all items; and (2) in order to grasp the underlying trend in inflation, it was necessary to make a comprehensive assessment by examining a range of price indicators, excluding temporary destabilizing factors, while taking into account developments in economic activity and in inflation expectations, both of which were behind such indicators.

In light of these discussions, members concurred that inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective. One member expressed the view that, since the year-on-year rate of increase in the CPI was likely to be about 0 percent for the time being, attention should be paid to whether inflation expectations would decline in a backward-looking manner. This member continued, however, that people's medium- to long-term inflation expectations had not declined thus far. 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. Meanwhile, some members expressed the recognition that it was necessary to closely monitor recent developments in crude oil prices, including factors behind these developments, as one of the uncertainties regarding the outlook for prices. On this basis, members reaffirmed that what mattered for the conduct of monetary policy was not the developments in crude oil prices themselves, but whether the developments would affect the underlying trend in inflation through their effect on inflation expectations. They continued that, therefore, the developments in crude oil prices needed to be monitored from these perspectives.

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 the asset purchases, most members expressed the recognition that it was also 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, the Bank 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 the additional effects of QQE had been diminishing and such effects from even the initial scale of QQE had already been exceeded by the side effects. This member pointed out the following as the side effects: (1) a buildup of financial imbalances; (2) the impact of the Bank's asset purchases on liquidity in the JGB market; and (3) the possibility that the Bank's profits would be reduced in the course of normalizing monetary policy, which could impair the Bank's capital or increase the public burden. 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, a few members expressed the view that, in conducting monetary policy, top priority should be given to the Bank's policy objective of achieving price stability, while giving consideration to its financial soundness. On this basis, members confirmed that -- given that the fluctuation in the Bank's profits was likely to increase under QQE -- the Bank, which was obliged to reserve 5 percent of net income pursuant to the Bank of Japan Act, had reserved more than 5 percent of net income as the legal reserve in its accounts for fiscal 2013 and 2014 with a view to securing its financial soundness, upon authorization from the Minister of Finance. One member noted that, if the public burden in the course of normalizing monetary policy were to be discussed, the increase in the Bank's profits during the process of monetary easing and the benefits of economic recovery should also be taken into account.

V. Remarks by Government Representatives

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

(1) At the Meeting of Directors-General of Local Finance Bureaus held on July 29, 2015, all local finance bureaus of each region across Japan had reported their assessment that the economy in each region was recovering, including in regions where it had been relatively difficult for the recovery to be felt. The government deemed that this seemed to indicate that economic sentiment in the local finance bureaus, even in nonmetropolitan areas, was finally starting to pick up. Given this, the overall assessment for July 2015 was that the Japanese economy was recovering moderately; nevertheless, the government deemed it necessary to continue to closely monitor regional economic developments. In addition, it would continue to pay close attention to developments in overseas economies -- such as those in political and economic conditions in Greece and in the Chinese economy -- without making any prejudgment.

(2) The guidelines for budget requests for fiscal 2016 had been approved at the Cabinet meeting held on July 24; fiscal 2016 would be the first fiscal year of the Plan to Advance Economic and Fiscal Revitalization, which had been decided by the Cabinet on June 30. While fully crystallizing this plan and undertaking full-fledged expenditure reforms, the government would review the priorities of policy measures

and primarily focus on these high-priority measures in deciding the budget's content, eliminating wasteful expenditure.

(3) Regarding the new framework for Monetary Policy Meetings, which had been discussed at the meeting on June 18 and 19, the government had revised the Order for Enforcement of the Bank of Japan Act. It expected that this new framework would further enhance deliberations on monetary policy at the Monetary Policy Meetings and secure transparency, and that the Bank would maintain a thorough dialogue with the government.

(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. As for the outlook, it was expected to recover moderately; however, attention should be given to the downside risks to the economy, such as a slowing down of overseas economies, including the Chinese economy. In the midyear economic projection for fiscal 2015 and 2016, the real GDP growth rate was projected to be approximately 1.5 percent and 1.7 percent, respectively, while the year-on-year rate of change in the CPI was expected to be about 0.6 percent and 1.6 percent, respectively. With regard to price developments, it was important to make a comprehensive assessment, taking into account, for example, developments in the GDP deflator.

(2) At the Council on Economic and Fiscal Policy held on July 22, the government had compiled the fiscal 2016 budget overview and reported the Economic and Fiscal Projections for Medium- to Long-Term Analysis. In the projections, the national and local governments' primary balance deficit for fiscal 2020 was projected to be 1.0 percent relative to nominal GDP, or 6.2 trillion yen, an improvement of 3.2 trillion yen from the projection in February 2015. Regarding expenditure reforms, at the Economic and Fiscal Reform Promotion Committee, the government would proceed with deliberations toward the year-end mainly on (1) setting key performance indicators (KPIs) for each major expenditure item and (2) formulating schedules for the reform process. As for the healthcare and medical strategy, the government had formulated

measures such as the implementation status of healthcare and medical strategy, and the future initiatives policy for 2015.

(3) At the Central Minimum Wages Council held on July 30, a draft report on the target amount of minimum wages to be raised by region for fiscal 2015 had been compiled; the national weighted average per hour of the target amount to be raised was 18 yen, registering the highest level since fiscal 2002.

(4) With regard to the Trans-Pacific Partnership (TPP), considerable progress had been made at a ministerial meeting held recently in Hawaii, in that agreement had been reached on various issues; however, it was agreed that further discussions were required for some specific issues. The government would do its utmost to achieve complete agreement at the next ministerial meeting and to advance Japan's national interests to the maximum extent possible.

(5) At an intensive discussion regarding monetary policy and prices at the Council on Economic and Fiscal Policy held on July 16, the government had reviewed the progress toward overcoming deflation and promoting economic revitalization. It expected the Bank to work steadily to achieve the price stability target of 2 percent in light of economic activity and prices.

VI. Votes

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

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

The Policy Board decided the proposal by a majority vote.

The Chairman's Policy Proposal on the Guideline for Money Market Operations:

1. The guideline for money market operations for the intermeeting period 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, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo.
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, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo.
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, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo.

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, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo.

B. The Chairman's Policy Proposal

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

VIII. Amendment to the Rules concerning Policy Board Meetings and Approval of the Scheduled Dates of the Monetary Policy Meetings

In accordance with the amendment to the Order for Enforcement of the Bank of Japan Act by the Cabinet made at the end of July 2015, which allowed the Bank to change the frequency of Monetary Policy Meetings to eight times a year from 2016 onward, the Policy Board amended the Rules concerning Policy Board Meetings, and approved the scheduled dates of future Monetary Policy Meetings as follows.

A. Amendment to the Rules concerning Policy Board Meetings

The amendment to the Rules concerning Policy Board Meetings was decided unanimously by the Policy Board. The amendment stipulated (1) that the scheduled dates of the Monetary Policy Meetings to be held in the following year should be decided once a year and (2) the procedures regarding the release of "Summary of Opinions." The Policy Board agreed that the decision should accordingly be made public after the meeting.

B. Approval of the Scheduled Dates of the Monetary Policy Meetings

The Policy Board approved unanimously the dates of the Monetary Policy Meetings to be held in the period of September-December 2015 as well as in 2016, and agreed to make this public accordingly after the meeting.

IX. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of July 14 and 15, 2015 for release on August 12, 2015.

Attachment
August 7, 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 and industrial production have been picking up, albeit with some fluctuations. 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 been picking up. Meanwhile, public investment has entered a moderate declining trend, although it remains at a high level. 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) 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, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo. 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, Ms. S. Shirai, Mr. K. Ishida, Mr. T. Sato, Mr. Y. Harada, and Mr. Y. Funo.