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November 5, 2015

Bank of Japan

Minutes of the Monetary Policy Meeting

on October 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 Tuesday, October 6, 2015, from 2:00 p.m. to 4:11 p.m., and on Wednesday, October 7, from 9:00 a.m. to 11:55 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

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 October 30, 2015 as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

[2] Messrs. I. Miyashita and Y. Nishimura were present on October 7.

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

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

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

Mr. E. Maeda, Director-General, Financial Markets Department

Mr. T. Sekine, 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. R. Yanagihara, 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. Oga, 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. I. Muto, Senior Economist, Monetary Affairs Department

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

Mr. A. Okuno, Head of Market Operations Division, Financial Markets Department[4]

[4] Messrs. H. Koguchi, K. Suzuki, and A. Okuno were present on October 7 from 9:00 a.m. to 9:12 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 September 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 331-340 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 or slightly negative.

In the stock and bond markets at home and abroad, stock prices had been weak and long-term interest rates had declined, mainly due to the spread of cautious views on emerging economies. Specifically, the Nikkei 225 Stock Average, as with U.S. and European stock prices, had been weak, mainly due to the spread of cautious views on emerging economies, reflecting weaker-than-expected Chinese economic indicators in particular. In the bond market, against the background of declining U.S. and European long-term interest rates, yields on 10-year JGBs had declined slightly and were recently moving in the range of 0.30-0.35 percent. Meanwhile, in the foreign exchange market, the yen's exchange rate against the U.S. dollar had been more or less flat throughout the intermeeting period. The yen had appreciated somewhat against the euro, mainly reflecting speculation about the direction of European monetary policy.

C. Overseas Economic and Financial Developments

Overseas economies -- mainly advanced economies -- continued to grow at a moderate pace, despite the slowdown in emerging economies.

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

6 The guideline was as follows:

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

The U.S. economy had been recovering, assisted by household spending, although the industrial production sector had been lackluster, mainly against the background of the appreciation of the U.S. dollar and the slowdown in emerging economies. Exports still had lacked momentum, due to the effects of developments in foreign exchange markets and of external demand. On the other hand, private consumption had increased, supported in part by a favorable employment and income situation. Housing investment had also been on a moderate pick-up trend. The solid household spending had brought about (1) firm momentum in sentiment and the production activity of domestic demand-oriented firms, such as those in the service industry; and (2) an increasing trend in imports. Business fixed investment had also started to pick up on the whole, although investment related to energy had been declining. 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 in the range of 1.0-1.5 percent. In addition, 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 on a moderate increasing trend, 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, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) for all items had been at around 0 percent, mainly due to the decline in energy prices, but that for all items excluding energy and unprocessed food had been at around 1 percent. 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 it had slowed somewhat, mainly in the manufacturing sector. 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 had decelerated against the background of adjustments in the real estate market and of excess production capacity in manufacturing. Exports continued to be relatively weak, due in part to a halt in the export drive -- particularly that of materials -- and to sluggish demand in IT-related goods. Reflecting such developments in demand and inventory adjustments, the pace of growth in production had been slowing. In India, the economy had been picking up steadily, particularly in domestic demand, partly in reflection of expectations for structural reforms and of monetary easing. On the other hand, the pace of economic growth in the NIEs was decelerating as exports and production had experienced a relative weakening, due in part to the effects of adjustments in China and to sluggish demand in IT-related goods. The pace of growth in the ASEAN economies was also decelerating, primarily against the background of sluggish external demand as well as pressure on private consumption, mainly from the accumulation of household debt and political unrest. Economic activity in Brazil and Russia remained severe, as external demand had been sluggish, mainly due to the fall in commodity prices, and as domestic demand had also been declining, mainly reflecting the rise in inflation rates and policy interest rate hikes.

As for prices in emerging economies, inflation rates had been more or less flat at low levels on the whole, as the fall in energy prices and the depreciation of the currencies in these economies had offset each other. However, inflation rates had risen or remained at high levels in some economies.

Regarding global financial markets, in advanced economies, stock prices as a whole had decreased and credit spreads on corporate bonds had widened, while long-term interest rates had declined, albeit with fluctuations. In emerging economies, currencies and stock prices as well as commodity prices had been weak. In international commodity markets, crude oil prices had been weak on the whole; they had temporarily risen, due mainly to a decrease in U.S. crude oil inventories, but had turned to a decline thereafter, mainly as market participants had again become concerned about uncertainty regarding the outlook for the global economy.

D. Economic and Financial Developments in Japan

1. Economic developments

Exports had recently been more or less flat, due mainly to the effects of the slowdown in emerging economies. This recent development in exports -- which had been picking up since last winter -- was largely attributable to stagnant trade and production activity worldwide amid the slowdown, mainly in the manufacturing sector, in emerging economies, including China, and commodity-exporting economies. In addition, the weakness in IT-related demand on a global basis had put downward pressure on exports. Exports were expected to remain more or less flat for the time being, but subsequently were likely to increase moderately, as emerging economies moved out of their deceleration phase.

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 continued to improve markedly. 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, machinery orders (private sector, excluding orders for ships and those from electric power companies) had registered a quarter-on-quarter increase for four quarters in a row since the July-September quarter of 2014, but had declined recently. Construction starts (floor area, private, nondwelling use) had picked up, albeit with fluctuations, since the turn of the year. Business sentiment had generally stayed at a favorable level, although somewhat cautious developments had been observed in some areas. In the September 2015 *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the diffusion index for business conditions for all industries and enterprises (the proportion of firms responding that business conditions were "favorable" minus the proportion of those responding that they were "unfavorable") had improved marginally from the June *Tankan*. By industry and size, for manufacturing, the diffusion index for large firms had deteriorated slightly, while that for small firms had stayed unchanged. As for nonmanufacturing, the diffusion index had improved slightly for large firms -- recording a high level not seen since November 1991 -- while that for small firms had deteriorated marginally. Business fixed investment was projected to continue increasing moderately as corporate profits followed their marked improving trend. Business fixed investment plans (excluding software investment and including land purchasing expenses) for fiscal 2015 in the September *Tankan* had been revised upward from those in the June *Tankan* for all industries and enterprises, and registered a somewhat high year-on-year increase of 6.4 percent.

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 for two consecutive quarters in the January-March and April-June quarters of 2015, due to lackluster sales of small cars with engine sizes of 660cc or less and the effects of irregular weather, but had turned positive in the July-August period compared with the April-June quarter, partly in response to the plunge in that quarter. Sales at department stores had dipped in the April-June quarter, affected by irregular weather and by the delayed summer clearance sales; however, they bounced back again in the July-August period relative to the April-June quarter. As for durable consumer goods, sales of passenger cars -- which had been somewhat sluggish until around spring, having reflected movements in those of small cars with engine sizes of 660cc or less -- had turned somewhat upward, supported in part by the introduction of new models. Sales of household electrical appliances had increased on a month-on-month basis for two consecutive months, in July and August, after having declined in the April-June quarter on a quarter-on-quarter basis, due mainly to lackluster sales of air conditioners as a result of irregular weather. As for services consumption, outlays for domestic travel had been firm, and sales in the food service industry had recently increased moderately. Looking at indicators related to consumer sentiment, the consumer confidence index continued to improve, albeit with fluctuations, 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, mainly in housing for rent. 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 recently been more or less flat, due mainly to the slowdown in emerging economies and partly to inventory adjustments. It was expected to remain more or less flat for the time being, but subsequently was likely to increase moderately as emerging economies moved out of their deceleration phase and as inventory adjustments progressed.

As for prices, the producer price index (PPI) was declining relative to three months earlier, mainly due to the fall in international commodity prices. The year-on-year rate of change 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 continue declining for the time being, reflecting movements in international commodity prices. The year-on-year rate of change 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 in the range of 2.5-3.0 percent. Firms' financial positions had been favorable. The year-on-year rate of growth in the money stock had been in the range of 4.0-4.5 percent, mainly due to the increase in bank lending. Meanwhile, inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective.

II. Amendment to Guidelines on Eligible Collateral

A. Staff Proposal

The staff proposed that the Bank make necessary amendments, including those to its Guidelines on Eligible Collateral and the principal terms and conditions for repo operations and securities lending, in order to reflect the results of the Bank's annual review of appropriate margins for eligible collateral in light of recent developments in financial markets.

B. Discussion by the Policy Board and Vote

Members voted unanimously to approve the proposal and agreed that the decision should be made public.

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

A. Economic Developments

Members shared the view that global financial markets had been nervous -- although they had started to regain their calmness -- with market participants increasingly concerned over uncertainties regarding the outlook for emerging economies including China. A few members pointed out that, although the volatility of stock prices had risen worldwide since the summer, the effects of this on the real economy had been limited so far and, due to the continuation of substantial monetary easing in major economies, the risks of credit tightening and heightening anxiety about the financial system had declined. In relation to this, one member said that market sentiment seemed to have been a little too pessimistic since the summer. Members concurred that particular attention should continue to be paid to developments in global financial markets given that currencies and stock prices in emerging economies as well as commodity prices had been weak.

Members shared the recognition that overseas economies -- mainly advanced economies -- continued to grow at a moderate pace, despite the slowdown in emerging economies. As for the outlook, they concurred that overseas economies, particularly advanced economies, would continue to grow at a moderate pace as a trend.

With regard to developments in overseas economies by region, members concurred that the U.S. economy had been recovering, assisted by household spending, although the industrial production sector had been lackluster, mainly against the background of the appreciation of the U.S. dollar and the slowdown in emerging economies. As for the outlook, they shared the view that, although the industrial production sector would remain lackluster 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. A few members pointed out that, although employment statistics for September 2015 were weaker than market expectations, the slack in the labor market, mainly in terms of the unemployment rate, had been diminishing steadily from a somewhat longer-term perspective. A different member noted that private consumption in the United States had been firm due to a continued low-interest rate environment, and thus attention should be paid to the risk that durable goods consumption, for example, would be negatively affected by an interest rate hike by the Federal Reserve.

Members shared the recognition that the European economy maintained its moderate recovery on the back of the moderate increasing trend in exports and the recovery trend in consumer sentiment. One member said that economic activity continued to recover moderately so far, and firmness in private consumption had been maintained, as evidenced by favorable car sales, for example. A few members expressed concern over the effects the refugee crisis could have on the economy. 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 it had slowed somewhat, mainly in the manufacturing sector. One member expressed the view that households' disposable income had increased, due to the earlier rise in wages. This member continued that, therefore, even amid the recent fall in stock prices and the sluggishness in manufacturing, household sentiment had not weakened -- as seen, for example, in the situation with respect to travel abroad. On the other hand, a different member pointed out that developments in manufacturing as a whole had lacked momentum, as evidenced by the decline in car sales, for example, and imports of materials and parts from overseas had been sluggish. As for the outlook, members shared the view that, despite somewhat of a slowdown, mainly in manufacturing, the economy was likely to follow a generally stable growth path as authorities proactively carried out policy measures to support economic activity. On this basis, a few members said that the outlook for the economy was highly uncertain and that the risk of it slowing for longer than expected warranted attention.

Members shared the view that emerging economies continued to slow. A few members expressed the view that emerging economies in Asia -- excluding China -- had been slowing, mainly against the backdrop of the slowdown in exports to China and sluggish demand in IT-related goods. A different member pointed to the polarization in economic conditions in Asia: economic activity continued to slow in commodity-exporting countries, such as Malaysia and Indonesia, and in Thailand, where there was political unrest, while consumption and exports had been firm in the Philippines and Vietnam. Members shared the view that, although emerging economies would remain in their deceleration phase for the time being, they were likely to gradually increase their growth rates thereafter as the recovery in advanced economies spread to them, and also as domestic demand in emerging economies picked up, mainly owing to economic stimulus measures both on the monetary and fiscal fronts.

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

With regard to <u>economic activity</u>, members shared the recognition that the economy continued to recover moderately as a virtuous cycle from income to spending continued to operate steadily in both the household and corporate sectors. They continued that this was evidenced by the fact that -- although exports and production had recently been more or less flat, due mainly to the effects of the slowdown in emerging economies -- on the domestic demand side, the positive attitude toward investment had been maintained and private consumption had been resilient. One member pointed to the possibility that the effects of the slowdown in overseas economies on Japan's economic activity as a whole had become relatively small because -- while Japan's past economic recoveries had been characterized by an increase in exports leading to rises in corporate profits and business fixed investment in manufacturing -- in the current recovery phase, nonmanufacturing was taking the lead on the back of firm domestic demand. As for <u>the outlook for the economy</u>, members concurred that the economy was likely to continue recovering moderately as the virtuous cycle from income to spending continued.

Members agreed that Japan's exports had recently been more or less flat, due mainly to the effects of the slowdown in emerging economies. They shared the recognition that the background to such developments in exports was stagnant trade and production activity worldwide amid the slowdown in emerging economies, including China, and commodity-exporting economies, as well as weak IT-related demand. Some members pointed to the deceleration in exports to East Asia -- which accounted for a large share of Japan's exports -- as a matter of concern. As for the outlook, most members concurred that exports were likely to remain more or less flat for the time being, but subsequently were likely to increase moderately as emerging economies moved out of their deceleration phase. On this basis, many members pointed out that, if deceleration in emerging economies, including China, were to be prolonged, the effects of this on Japan's exports and economic activity warranted attention.

Members shared the recognition that corporate profits continued to improve markedly, despite the slowdown in emerging economies, due in part to the effects of the yen's depreciation as well as the decline in crude oil prices. Many members pointed out that, in firms' business plans for fiscal 2015 in the September *Tankan*, the ratio of current profits to sales had posted a record-high level. In relation to this, a few members said that the fall in commodity prices was exerting favorable effects on a wide range of industries. In addition, one member expressed the view that, while the slowdown in overseas economies was likely to have negative effects in terms of quantity, improvement in the terms of trade through the fall in commodity prices was likely to have positive effects. This member continued that, as the latter was offsetting the former to some extent, a kind of automatic adjustment function was operating. On the other hand, a different member expressed the view that it would still take time for the recent improvement in corporate profits to lead to an expansion in firms' spending, because the improvement was supported by factors such as the yen's depreciation as well as the fall in commodity prices, and firms did not necessarily consider this improvement to be indicative of a permanent increase in income.

Members agreed that business fixed investment had been on a moderate increasing trend as corporate profits continued to improve markedly. Many members expressed the view that business fixed investment plans for fiscal 2015 in the September *Tankan* showed that firms' attitude toward fixed investment had been solid, in a situation where the ratio of current profits to sales was expected to post a record-high level. As for the outlook, members concurred that business fixed investment was likely to continue increasing moderately as corporate profits followed their marked improving trend. Many members expressed the recognition that, although an increase in business fixed investment had not been confirmed clearly in both its leading and coincident indicators released thus far, business fixed investment was likely to increase, mainly because business sentiment had generally stayed at a favorable level. Nevertheless, a few of these members said that it was necessary to be somewhat cautious when assessing the business fixed investment plans, mainly due to the possibility that revisions based on actual performance in the first half of the fiscal year had not been reflected in the September *Tankan*.

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. They expressed the recognition that the diffusion index for employment conditions (the proportion of firms responding that employment was "excessive" minus the proportion of those responding that employment was "insufficient") in the September *Tankan* indicated that firms' perception of a labor shortage had heightened further, despite the decline in production activity reflecting the slowdown in emerging economies. Some members expressed the view that, although the trend in nominal wages had become less observable due to the change in the sample used in the *Monthly Labour Survey*, these wages had been rising moderately in reality. As background to the fact that wage inflation had been only moderate relative to high levels of corporate profits, one member pointed to the possibility that an increase in employment in industries with relatively low wages, such as retailing and nursing care, was restraining overall wage inflation. A different member noted that the ratio of new job openings for part-time employees had been extremely high recently and firms were finding it difficult to recruit such employees. This member then expressed the view that a key issue in forecasting wage developments was whether firms would shift their composition of the workforce from part-time employees to regular ones.

Members shared the recognition that private consumption had been resilient against the background of steady improvement in the employment and income situation. Based on the fact that sales statistics and the *Family Income and Expenditure Survey* showed an increase in private consumption in the July-August period, many members shared the view that private consumption had been resilient on the back of this steady improvement and the improving trend in consumer sentiment. Regarding car sales, one member commented that, although the effects of the changes to the taxation on small cars with engine sizes of 660cc or less persisted, the impact of the consumption tax hike in 2014 had begun to wane and the number of new passenger-car registrations had been picking up in part. Meanwhile, a different member said that the increase in consumption in August had been assisted by not only the introduction of new car models and the extremely hot weather but also the recent recovery in consumer sentiment. On this basis, this member noted that, according to survey results, the diffusion indices for the outlook for income and spending had deteriorated, and consumption might not necessarily increase steadily. Another member commented that, as the income growth remained only moderate, careful attention should be paid to whether the rise in prices would affect households' spending behavior and their sentiment on consumption.

Members concurred that housing investment had been picking up. They shared the view that it was projected to continue to do so with the employment and income situation continuing to improve steadily, supported as well by accommodative financial conditions.

Members agreed that industrial production had recently been more or less flat, due mainly to the slowdown in emerging economies and partly to inventory adjustments. Many members shared the view that firms' production activity had been picking up, against the backdrop of moderate increases in demand both at home and abroad. These members continued, however, that such activity had been more or less flat recently, due to the effects of the slowdown in emerging economies and to the weakness in global IT-related demand, and also in part to the prolonged inventory adjustments of small cars with engine sizes of 660cc or less. As for the outlook, members agreed that industrial production was likely to remain more or less flat for the time being, but subsequently was likely to increase moderately as emerging economies moved out of their deceleration phase and as inventory adjustments progressed. One member commented that the production forecast index might be revised downward as production for August had been sluggish in a wide range of industries and the September *Tankan* showed a deterioration in the diffusion indices for future business conditions.

As for prices, members concurred that the year-on-year rate of change 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 recognition that the amount outstanding of bank lending, including that to small firms, had been increasing moderately, and that firms' credit demand also had been increasing moderately, mainly for working capital and funds related to mergers and acquisitions.

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. Members shared the recognition that, although exports and production had recently been more or less flat against the background of the slowdown in emerging economies, firmness in domestic demand remained intact under QQE.

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 fresh food and energy) for August 2015 had accelerated to 1.1 percent; and (2) there had been a clear 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. These members then expressed the view that the underlying trend in inflation continued to improve, which was clearly different from the previous year. As background to this improvement, one member pointed out developments such as the following: the output gap had been on an improving trend and the perception of inflation by firms and households had been changing. On the other hand, some members said that it was necessary to pay due attention to the fact that the rise in the year-on-year rate of change in the CPI (all items less fresh food and energy) was affected in part by the rise in prices of food products and household electrical appliances that was driven by the yen's depreciation.

Members shared the recognition that, in order to achieve the price stability target of 2 percent, it was important that the inflation rate rise moderately accompanied by an increase in wages. In this regard, many members expressed the view that the pace of increase in nominal wages remained moderate, despite record-high corporate profits. Some members said that the key to future wage developments was wage increases -- including in base pay -- resulting from the wage negotiations in spring 2016. These members expressed the view that, judging from various indicators, the underlying trend in inflation had been improving steadily, and in this situation it was important that wages rise in a balanced manner. One of these members noted that it continued to be important for the government to steadily implement the growth strategy and structural reforms and for the Bank to pursue QQE, thereby maintaining and fostering an environment in which firms found it easy to raise wages.

Members concurred that inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective. Some members expressed the recognition that, while the inflation outlook of households had been unchanged, that of firms in the September 2015 *Tankan* and the inflation expectations of market participants had been decreasing somewhat, due in part to the effects of the decline in energy prices. One of these members pointed out that, although firms had somewhat lowered their inflation outlook, they nevertheless maintained their expectation for a future rise in the inflation rate.

In light of these discussions, 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. These members continued that, however, the timing of reaching 2 percent could be either earlier or later to some extent, depending on developments in crude oil prices.

Based on the above discussions, regarding the guideline for money market operations for the intermeeting period, most members expressed the recognition that it was appropriate to maintain the current guideline that the Bank would conduct money market operations so that the monetary base would increase at an annual pace of about 80 trillion yen.

With regard to the asset purchases, most members expressed the recognition that it 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 marginal effects of QQE had been diminishing, reflecting the halt in the decline in real interest rates, and such effects had already been outweighed by the side effects on, for example, the JGB market. In addition, this member expressed the recognition that there was a risk of term premiums increasing significantly if the possibility of the Bank facing a limit on its JGB purchases was taken into consideration, and therefore, to enhance their sustainability, it was necessary for the Bank -- while announcing that it would continue with its JGB purchases for a while -- to take action to reduce the amount of such purchases. On this basis, this member's primary argument was the following. First, the Bank should reduce the annual pace of increase in the amount outstanding of its JGB holdings to a level below the initial pace, in view of further possible phased reductions. Second, it should make changes to the time frame for achieving the price stability target -- to the medium to long term -- and conduct monetary policy that gave due consideration to risks such as a buildup of financial imbalances. Moreover, this member noted that these proposed measures did not indicate a move toward ending QQE or raising interest rates at an early stage.

In response, one member pointed out that a reduction in the Bank's JGB purchases at this time would likely lead to a rise in long-term interest rates and negatively affect the economy. A different member said that what was important was to continue with JGB purchases while assessing market conditions from various viewpoints, such as the degree of liquidity, functioning, transaction volume, and depth of the JGB market.

V. Remarks by Government Representatives

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

(1) The government deemed that there was no change in its assessment that the Japanese economy was on a moderate recovery with the positive cycle of the economy continuing to operate, although the recent trend toward improvement in the employment and income situation was not leading to improvement in consumption and an increase in business fixed investment at the pace that originally had been expected. The government acknowledged that favorable economic conditions were about to be achieved with the positive cycle of the economy starting to operate steadily, owing to the implementation to date of the "three-arrows" strategy to achieve economic revitalization. As for the fiscal situation, the government was proceeding with its budget formulation for fiscal 2016; it would work to draw up a budget that was

appropriate as the first budget under the Plan to Advance Economic and Fiscal Revitalization.

(2) The Abe administration had also been working on vitalizing local economies, and the government deemed that results were being seen in this regard as a number of positive initiatives had started to be implemented in each region, including the town of Kamiyama in Tokushima Prefecture, which the government representative had recently visited.

(3) At the press conference on September 24, the prime minister -- after being reelected President of the Liberal Democratic Party -- had announced that the government would formulate a plan to promote the "Dynamic Engagement of All Citizens," and had presented the new "three-arrows" strategy consisting of (1) a strong economy that would give people hope, (2) childcare support that would allow people to pursue their dreams, and (3) a social security system that would provide a sense of assurance. With regard to the Trans-Pacific Partnership (TPP), an agreement in principle had been reached on October 5 after tough negotiations. The government deemed that this would lead to the first arrow -- a strong economy that would give people hope. As for the second arrow -- childcare support that would allow people to pursue their dreams -- it would aim at realizing a birth rate of 1.8, which was the currently desired rate, and proceed with support measures focusing on households with multiple children. With regard to the third arrow -- a social security system that would provide a sense of assurance -- the government set forth its aim to reduce to zero the number of people who leave employment to provide nursing care. It would do its utmost to realize these goals.

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

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was on a moderate recovery, while slowness could be seen recently in some areas. As for the outlook, it was expected to recover moderately, supported by the effects of the policies, while the employment and income situation showed a trend toward improvement. With regard to price developments, the

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

(2) In the second stage of Abenomics, the government would work on the new "three-arrows" strategy with the aim of creating a society promoting the "Dynamic Engagement of All Citizens." Under the first arrow of a strong economy that would give people hope, it would continue to give highest priority to the economy. This new first arrow aimed to create a strong economy by firmly implementing the former "three-arrows" strategy of Abenomics. The government would continue to work toward realizing both sustainable economic growth and fiscal consolidation. It expected the Bank to continue to work toward overcoming deflation. With a view to dealing with the structural issue of a low birth rate and aging population in Japan, the government set forth its aim to ensure childcare support that would allow people to pursue their dreams as the second arrow, and to establish a social security system that would provide a sense of assurance as the third arrow.

(3) Regarding the TPP, the government had reached an agreement in principle at the ministerial meeting held on October 5. It would continue to do its utmost so that the agreement would be signed swiftly while cooperating with the countries concerned, and take all possible measures in order to directly connect the TPP to economic revitalization and vitalizing local economies in Japan.

(4) In Singapore and the Middle East, the government representative had recently explained the measures in Abenomics and the growth strategy; many investors had given favorable evaluations of reforms carried out in Japan, and had expressed positive expectations about the Japanese market.

(5) The government 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. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of September 14 and 15, 2015 for release on October 13, 2015.

Attachment
October 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, although exports and production have been affected by the slowdown in emerging economies. Overseas economies -- mainly advanced economies -- have continued to grow at a moderate pace, despite the slowdown in emerging economies. Exports and industrial production have recently been more or less flat, due mainly to the effects of the slowdown in emerging economies. On the domestic demand side, business fixed investment has been on a moderate increasing trend as corporate profits have continued to improve markedly. Against the background of steady improvement in the employment and income situation, private consumption has been resilient and housing

investment has been picking up. Public investment has entered a moderate declining trend, although it remains at a high level. Meanwhile, business sentiment has generally stayed at a favorable level, although somewhat cautious developments have been observed in some areas. Financial conditions are accommodative. On the price front, the year-on-year rate of change 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 change 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.