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November 25, 2015

Bank of Japan

Minutes of the Monetary Policy Meeting

on October 30, 2015

(English translation prepared by the Bank's staff based on the Japanese original)

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Friday, October 30, 2015, from 9:00 a.m. to 12:17 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. M. Sakai, State Minister of Finance, Ministry of Finance

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

Reporting Staff

Mr. M. Amamiya, Executive Director

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

Mr. S. Kuwabara, Executive Director

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

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

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

Mr. T. Sekine, Director-General, Research and Statistics Department

[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on November 18 and 19, 2015 as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

Mr. 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. H. Nakamoto, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

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

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

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

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

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the guideline decided at the previous meeting on October 6 and 7, 2015, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[3] In this situation, the amount outstanding of the monetary base had been in the range of 331-345 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.

The Nikkei 225 Stock Average had risen, partly because pessimistic views on emerging economies had been corrected somewhat, in a situation where market participants' risk sentiment had improved, mainly reflecting the heightening expectations of further monetary easing by the European Central Bank (ECB) and the interest rate cut in China. Yields on 10-year JGBs had declined somewhat and were recently moving at around 0.3 percent. 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 against the dollar, reflecting somewhat heightened expectations that the timing of a hike in the target range for the federal funds rate in the United States would be postponed, but depreciated thereafter, mainly because the dollar had appreciated against the euro and stock prices had risen in Japan and the United States. The yen had appreciated against the euro, reflecting expectations of further monetary easing by the ECB.

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

[3] The guideline was as follows:

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

C. Overseas Economic and Financial Developments

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

Recovery assisted by household spending continued in the U.S. economy, on the back of the favorable employment and income situation, 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 prices, the year-on-year rate of increase in the consumer price index (CPI) for all items less food and energy had climbed marginally. On the other hand, that for all items had turned slightly negative for the first time in four months due to the further decline in the year-on-year rate of change in energy prices.

The European economy maintained its moderate recovery. Although the pace of increase in exports had been slowing somewhat, mainly due to the effects of the slowdown in emerging economies, private consumption continued to increase, partly supported by the recovery trend in consumer sentiment backed by the improvement in the labor market, 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 excluding energy and unprocessed food had been in the range of 0.5-1.0 percent. That for all items had become negative for the first time in six months, mainly due to the decline in energy prices. 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. On the other hand, the pace of increase in fixed asset investment had decelerated and exports continued to be relatively weak. In such a situation, the pace of growth in production had been slowing. Other emerging economies had also slowed down. In NIEs and ASEAN economies, exports remained relatively weak and domestic demand continued to lack momentum. Economic activity in Brazil and Russia remained severe with the fall in commodity prices, the depreciation of the currencies, and high inflation. Meanwhile, 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.

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, stock prices had rebounded globally and many of the currencies in emerging economies had appreciated as investors' risk aversion had abated somewhat, mainly reflecting the heightening expectations of further monetary easing by the ECB and the decision to implement further monetary easing in China, while market participants continued to hold their view that the timing of a hike in the target range for the federal funds rate in the United States would be postponed. In international commodity markets, prices had been weak on the whole due to concern over the global economic slowdown and the outlook that supply would remain at a high level.

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, particularly in China. Looking at movements in real exports on a quarterly basis, they had increased for three quarters in a row until the January-March quarter of 2015, followed by a decline in the April-June quarter, but had been more or less flat in the July-September quarter. By region, while exports to advanced economies maintained their moderate uptrend, albeit with fluctuations, those to emerging economies, particularly to East Asia, had shown somewhat sluggish movements.

Business fixed investment had been on a moderate increasing trend as corporate profits continued to improve markedly. According to various monthly surveys, business sentiment had generally stayed at a favorable level, although somewhat cautious developments had been observed in some areas. Business fixed investment plans shown in various survey results had been firm. In this situation, machinery orders (private sector, excluding orders for ships and those from electric power companies) -- a leading indicator of machinery investment -- and the aggregate supply of capital goods (excluding transport equipment) -- a coincident indicator -- maintained their moderate improving trend, if they were smoothed out.

As for the employment and income situation, labor market conditions continued to improve steadily, and employee income had risen moderately, reflecting the increase in the number of employees and the improvement in wages.

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 bad weather, but had increased in the July-September quarter, partly in response to the plunge in the previous quarter. As for statistics on the demand side, consumption expenditure in the *Family Income and Expenditure Survey* (in real terms; two-or-more-person households) showed that the index of consumption expenditure level excluding housing, purchase of vehicles, money gifts, and remittances -- which was compiled to make it similar to items used to estimate GDP -- had also increased in the July-September quarter. Looking at indicators related to consumer sentiment, the consumer confidence index maintained its improving trend, albeit with fluctuations.

Industrial production had recently been more or less flat, due to the effects of the slowdown in emerging economies and to the weakness in global IT-related demand, and also to the prolonged inventory adjustments of small cars with engine sizes of 660cc or less.

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.

2. Financial environment

Financial conditions were accommodative.

The monetary base had increased significantly as asset purchases by the Bank had progressed, and the year-on-year rate of growth had been at around 35 percent.

Firms' funding costs had been hovering at low levels. With regard to credit supply, firms continued to see financial institutions' lending attitudes as being on an improving trend. Issuing conditions for CP and corporate bonds continued to be favorable. Firms' credit demand had been increasing moderately, mainly for working capital and funds related to mergers and acquisitions. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending had been at around 2.5 percent. Firms' financial positions had been favorable. The year-on-year rate of growth in the money stock had been 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. Summary of Discussions by the Policy Board on Economic and Financial Developments and the October 2015 *Outlook for Economic Activity and Prices*

A. Economic Developments

With regard to global financial markets, members shared the view that market sentiment had improved compared to a while ago, mainly reflecting the ECB's statement that it would re-examine the degree of monetary policy accommodation at its December Governing Council meeting and the decision to implement further monetary easing in China. Meanwhile, one member emphasized that attention should continue to be paid to the possibility of the normalization of U.S. monetary policy causing capital outflow from emerging markets and a subsequent heightening volatility in the foreign exchange and capital markets.

Members shared the recognition that overseas economies -- mainly advanced economies -- continued to grow at a moderate pace, despite the slowdown in emerging economies. A few members expressed the view that overly pessimistic views on overseas economies had started to be corrected, although continued attention on developments in emerging economies including China would be warranted. One member expressed the recognition that the difference between advanced economies and emerging and commodity-exporting economies had become apparent: the former had started to follow a self-sustained recovery path led by domestic demand, while the latter, which had been export dependent, had been slowing down due to the effects of economic developments in China. As for the outlook, members concurred that overseas economies as a whole were likely to moderately increase their growth rates, as it was likely that advanced economies would continue to see firm growth and emerging economies would move out of their deceleration phase on the back of the developments in advanced economies. On this basis, some members referred to the risk scenario in which advanced economies would be affected in a case where the slowdown in emerging economies lasted longer or became more significant than expected. These members then expressed the recognition that it was necessary to examine whether advanced economies could maintain their self-sustained recovery while fending off the impact of the slowdown in emerging economies.

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 its recovery centered on the private sector, led by the firmness in household spending, under accommodative financial conditions.

Members shared the recognition that, although the pace of increase in exports had been slowing somewhat, the European economy maintained its moderate recovery, led mainly by private consumption that had been increasing partly supported by the recovery trend in consumer sentiment. As for the outlook, they concurred that the economy would likely continue to see moderate recovery, mainly on the back of improvement in the employment and income situation, as well as accommodative financial conditions. One member expressed the recognition that the economy might see a stronger recovery than expected as segmentation in the interbank markets had abated in Europe and the disparity in competitiveness in the euro area had narrowed due to wage adjustments.

Members agreed that the Chinese economy maintained its stable growth on the whole, but it had slowed somewhat, mainly in the manufacturing sector. A few members pointed out, for example, that the Chinese authorities had been making a very strong commitment to underpinning the economic growth rate, and that Japanese-affiliated firms in China were generally less pessimistic about developments in the Chinese economy than their headquarters in Japan. These members then expressed the view that excessive concern over risks associated with the economy had been abating. A different member expressed the recognition that the trend toward a shrinking in the Chinese automobile market had started to show some signs of a halt. However, one member noted that attention should be paid to the fact that the GDP deflator had become negative again. As for the outlook, members shared the view that the economy was likely to broadly follow a stable growth path, albeit at a somewhat slower pace mainly in the manufacturing sector, as authorities proactively carried out policy measures to support economic activity from both the fiscal and financial sides. On this basis, they shared the view that the key to realizing stable growth was whether the economy would be able to shift from being export-driven to being domestic demand-driven, accompanied by structural reforms.

Members shared the view that, although ripple effects brought about by the recovery in advanced economies were seen, emerging economies had been slowing, mainly due to the effects of adjustments in China, the burden of excess production capacity and excess debt, and sluggish demand in IT-related goods. As for the outlook, they shared the view that, although differences across countries and regions were likely to remain for the time being, emerging economies were likely to gradually increase their growth rates, due mainly to the effects of the recovery in advanced economies and the fiscal and monetary policy measures to stimulate the economy. A few members expressed the recognition that, rather than in the Chinese economy itself, uncertainties were high in emerging economies that were affected by the slowdown in the Chinese economy, as some of them had limited room for implementing policy actions, particularly with currencies depreciating and inflation rates remaining at high levels.

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 firms' credit demand had been increasing moderately, mainly for working capital and funds related to mergers and acquisitions, and that the amount outstanding of bank lending, including that to small firms, had been increasing moderately.

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

With regard to economic activity, members shared the 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 investment stance had been maintained and private consumption had been resilient. One member expressed the recognition that, reflecting the improvement in the terms of trade, the mechanism of aggregate income formation was robust in Japan's economy, which had become resilient to exogenous shocks to a certain extent.

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. A few members pointed to the following as a positive development: exports to China had turned upward by a somewhat large degree in September 2015, mainly due to the increase in IT-related goods that reflected the effects of the introduction of new models of smartphones. 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. One member added that, considering the possibility that it was becoming difficult for exports to increase due to structural factors, it was necessary to hold a cautious view regarding the outlook for its pace of growth.

Members agreed that business fixed investment had been on a moderate increasing trend as corporate profits continued to improve markedly. As for the outlook, they concurred that business fixed investment was likely to continue increasing moderately as corporate profits followed their marked improving trend. One member expressed the view that firms were likely to be more proactive in terms of fixed investment, and pointed out that it was important for firms, including nonmanufacturing ones, to simultaneously improve their processes to raise productivity and realize labor saving. Meanwhile, one member, while noting that machinery orders and shipments of capital goods were somewhat weak relative to business fixed investment plans in the September *Tankan* (Short-Term

Economic Survey of Enterprises in Japan) and that there was anecdotal information that some firms had postponed their fixed investment due to a labor shortage, for example, commented that the current high level of business fixed investment plans might be revised downward.

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. A few 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. One member pointed out that hourly nominal wages of part-time employees had been rising stably. This member then noted that developments in such wages were important from the viewpoint of raising prices in a stable manner.

Members shared the recognition that private consumption had been resilient against the background of steady improvement in the employment and income situation. A few members noted that consumption expenditure and sales at retail stores, both in real terms, for the July-September quarter were positive on a quarter-on-quarter basis. These members expressed the recognition that private consumption had started to move out of the somewhat weak phase caused by bad weather. One member said that firm sales of supermarkets, for which the contribution from inbound tourism consumption was small, were an indication of the effects of a steady increase in household income. This member expressed the view that the momentum in private consumption was therefore somewhat strong. A few members said that attention should be paid to the uncertainty regarding possible effects on overall private consumption of developments in the consumption of pensioners, who were unlikely to benefit from the effects of improvement in the employment situation. Nevertheless, one of these members expressed the recognition that, as real income of the working generation was likely to rise firmly due to tight labor market conditions, it was reasonable to judge that private consumption as a whole would increase its resilience.

Members concurred that housing investment had been picking up. They shared the view that it was likely to continue doing so, underpinned by the continued steady improvement in the employment and income situation and accommodative financial conditions. One member commented that, although due attention should be paid to the adverse effects of data manipulation with regard to foundation piles installed in some condominiums, housing investment was likely to continue to see firm growth as front-loaded demand prior to the consumption tax hike scheduled to take place in April 2017 would come to fully materialize amid the 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. As for the outlook, they concurred that it was likely to remain more or less flat for the time being, but was likely to increase moderately thereafter as emerging economies moved out of their deceleration phase and as the inventory adjustments progressed.

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. Outlook for Economic Activity and Prices

With regard to the baseline scenario of the outlook for Japan's economic activity, members concurred that domestic demand was likely to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the household and corporate sectors, and that exports were likely to start increasing moderately on the back of emerging economies moving out of their deceleration phase. On this basis, they shared the recognition that Japan's economy was likely to continue growing at a pace above its potential from fiscal 2015 through fiscal 2016. Most members agreed that thereafter, through fiscal 2017, the economy would probably maintain its positive growth, although with a slowing in its pace to around a level somewhat below the potential growth rate. These members continued that the slowdown was due mainly to (1) the effects of a front-loaded increase and subsequent decline in demand prior to and after the consumption tax hike planned in April 2017 and (2) cyclical deceleration. Most members shared the view that, comparing the current projections with those in the July 2015 interim assessment, the projected growth rate for fiscal 2015 was lower due to the flattening of exports and the sluggishness in private consumption, but the projections for fiscal 2016 and 2017 were more or less unchanged. Meanwhile, one member was of the opinion that the positive cycle from income to spending would not work strongly under low growth expectations.

A different member said that the economy would maintain, as a trend, its growth at a level more or less consistent with the potential growth rate during the projection period, which covered through fiscal 2017.

Regarding developments in economic activity in fiscal 2015 through fiscal 2016, members agreed that exports were likely to remain more or less flat for the time being, and after that they would probably increase moderately as emerging economies were likely to move out of their deceleration phase, and given support from past foreign exchange rate developments. They shared the recognition that, with record profits seen at Japanese firms and monetary accommodation continuing to provide a boost, business fixed investment was likely to continue increasing, additionally supported by firms' positive stance on domestic investment. One member pointed out that, amid continued labor shortages, the necessity for firms to raise productivity by making fixed investment had been heightening. This member then expressed the view that such a factor would also boost fixed investment. Members shared the view that private consumption was likely to rise moderately, led by continued steady improvement in the employment situation and a resultant increase in wages, and by the positive effects of an increase in real income due to the decline in energy prices. They agreed that, through fiscal 2017, the economy was likely to be affected by the front-loaded increase and subsequent decline in demand prior to and after the consumption tax hike scheduled to take place in April 2017, and the pace of increase in business fixed investment was likely to decline, reflecting a cycle in the accumulation of capital stock. However, members shared the recognition that exports would probably continue increasing moderately owing to overseas economic growth, and domestic private demand was likely to be resilient, supported by accommodative financial conditions and heightened growth expectations. In addition, they concurred that Japan's potential growth rate would probably follow a moderate increasing trend through the projection period, pushing up the economy's growth in the medium to long term.

In terms of the outlook for prices, most members shared the view that (1) as the underlying trend in inflation steadily rose and the effects of the decline in crude oil prices dissipated, the year-on-year rate of change in the CPI was likely to accelerate toward 2 percent -- the price stability target; (2) although the timing of reaching around 2 percent depended on developments in crude oil prices, it was likely to be around the second half of fiscal 2016, assuming that crude oil prices would rise moderately from the recent level; and

(3) thereafter, the year-on-year rate of change in the CPI was likely to be around 2 percent on average. These members concurred that the timing of reaching around 2 percent was projected to be delayed compared with the projection in the July 2015 interim assessment, but this was due mainly to the effects of the decline in crude oil prices, and the underlying trend in inflation had steadily been improving. Many members pointed to the following factors as reasons for judging that the underlying trend in inflation had been improving: (1) the year-on-year rate of increase in the CPI (all items less fresh food and energy) had been rising since early spring 2015 and that for September, the latest figure, had accelerated to 1.2 percent; and (2) there had been a marked increase 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. Meanwhile, a few members added that the projected delay in the timing of reaching 2 percent had also been partly attributable to a somewhat slow improvement in the output gap. One member was of the view that the year-on-year rate of change in the CPI would rise closer to around 2 percent around the second half of fiscal 2016, and said that this projection was, in a broad sense, consistent with the earlier expression, which represented the view of most members. Contrary to such views by most members, a few members expressed the recognition that the rate of change would not reach around 2 percent during the projection period. One of these members expressed the view that, despite downside risks, a year-on-year rate of change of around 1 percent would generally be maintained throughout the projection period when excluding the effects of energy prices.

Members discussed the output gap and medium- to long-term inflation expectations, both of which were the main factors that determined the underlying trend in inflation. First, they agreed that the output gap had steadily followed an improving trend driven mainly by labor market developments, as the tightening trend in labor market conditions continued, albeit under some downward pressure partly from the flattening of exports. As for the outlook, members shared the recognition that the output gap -- after turning positive (in excess demand) -- was likely to move further into positive territory as the economy continued growing at a pace above its potential through fiscal 2016; subsequently, in fiscal 2017, it was likely to be more or less unchanged in positive territory. One member expressed the recognition that the decline in crude oil prices would bring about a rise in households' real income as well as an increase in corporate profits, which would lead to an improvement in the output gap in the medium to long term by positively affecting private consumption and business fixed investment. Meanwhile, a different member noted that, based on a Phillips curve that used the output gap calculated from past data, when the output gap was zero, inflation would be 1 percent or less; therefore, in order to aim at achieving inflation of 2 percent, both a rise in inflation expectations and a further improvement in the output gap were necessary.

With regard to medium- to long-term inflation expectations, members shared the view that they appeared to be rising on the whole from a somewhat longer-term perspective. They noted that (1) in the annual labor-management wage negotiations, the increase in base pay for 2015 had been larger than that for 2014; and (2) firms' price-hiking behavior had become widespread and sustained. Members therefore shared the recognition that firms' wage- and price-setting stance had clearly changed, particularly from the turn of the fiscal year. One member expressed the opinion that consumers had been strongly aware of a rise in prices, particularly of frequently purchased items, and that a sense that the economy was not in deflation had become widespread among the public. A different member was also of the view that households had perceived prices to have risen substantially, even as the year-on-year rate of change in the CPI (all items less fresh food) had been about 0 percent, and that households were not expecting prices to decline. A few members expressed the view that, taking into consideration this perception of prices by households, it was necessary to give particular attention to how the Bank explained price developments, for example. Meanwhile, a few members expressed the recognition that it was necessary to pay attention to the risk that households' acceptance of a rise in prices would diminish as the positive effects of an increase in real income due to the decline in energy prices dissipated. A different member said that the weakness observed in some indicators of firms' and market participants' inflation expectations warranted attention. Based on this discussion, most members agreed that the mechanism in which inflation rose moderately accompanied by wage increases was steadily functioning. On this basis, members shared the recognition that it was necessary to pay due attention to the fact that the pace of increase in wages had been somewhat slow, given the current level of corporate profits and a tightening of labor market conditions. As for the outlook, most members expressed the recognition that, as the Bank pursued quantitative and qualitative monetary easing (QQE) and the observed inflation rate rose, medium- to long-term inflation expectations were also likely to follow an increasing trend and gradually converge to around 2 percent -- the price stability target -- and that firms' wage- and price-setting stance was likely to shift further toward raising wages and prices. In response, one member expressed the view that it would be difficult for medium- to long-term inflation expectations to gradually converge to around 2 percent.

With respect to the underlying trend in inflation, one member pointed out that some private-sector economists took the view that the recent rise in the CPI (all items less fresh food and energy) was mainly attributable to cost-push factors accompanied by the yen's depreciation, and that such a rise would peak out as no further depreciation of the yen was expected. In response to this view, this member -- noting that prices of food products and durable goods had recently resumed a clear uptrend under the yen's depreciation trend that had generally lasted since the end of 2012 -- expressed the recognition that this uptrend was attributable to the fact that households had more readily accepted price increases, mainly due to the improvement in the employment and income situation, and firms accordingly had taken an aggressive stance of setting higher prices. A different member expressed the view that, according to the results of an econometric model, an estimated effect of the yen's depreciation that persisted from last year to this year contributed to a small degree of the increase in the CPI (all items less fresh food and energy) during the same period, and prices would likely continue to increase even if the effects of the depreciation were to dissipate.

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

Regarding the outlook for economic activity, members noted the following upside and downside risk factors: (1) uncertainty regarding developments in overseas economies; (2) the effects of the consumption tax hike scheduled to take place in April 2017; (3) firms' and households' medium- to long-term growth expectations; and (4) fiscal sustainability in the medium to long term. They shared the view that, among these factors, risks to developments in overseas economies included the effects of the slowdown in emerging economies, particularly China, developments in the U.S. economy and the influences of its monetary policy response to them on the global financial markets, prospects regarding the European debt problem and the momentum of economic activity and prices in Europe, the effects of the decline in commodity prices, and geopolitical risks. Many members emphasized that, among these risks, particular attention should be paid to the effects of the slowdown in emerging economies. One member expressed the view that, given the current situation in which firms' deflationary mindset had not yet been fully dispelled, in examining the path with regard to how the slowdown in emerging economies would affect Japan's economy, more vigilance was required against the risk that uncertainty regarding emerging economies would weaken business sentiment, leading to firms' reluctance to make fixed investment and increase wages, rather than the risk that a weaker performance in corporate profits would affect the economy.

Members shared the recognition that, in the case of the aforementioned upside and downside risks to the economy materializing, prices would also be affected to a certain degree. With regard to the effects of the consumption tax hike scheduled to take place in April 2017, a few members expressed the view that due attention should be paid to the risk that a decline in demand following the front-loaded increase prior to the hike would lead to deterioration in the underlying trend in inflation. As upside and downside risks to prices, members pointed to the following four factors: (1) developments in firms' and households' medium- to long-term inflation expectations; (2) developments in the output gap, particularly in labor market conditions; (3) the responsiveness of inflation to the output gap; and (4) developments in import prices. With respect to firms' and households' medium- to long-term inflation expectations, most members shared the view that, amid rises in observed inflation accompanied by wage increases, people's inflation expectations would rise further and gradually converge to around 2 percent -- the price stability target. They continued, however, that the pace at which such expectations would rise was subject to uncertainty over developments in observed prices and to the extent to which they would affect inflation expectations. Furthermore, members agreed that there was a risk that the year-on-year rate of change in the CPI being about 0 percent for the time being, which owed to the effects of the decline in energy prices, might affect the pace of increase in inflation expectations. Regarding the relationship between wages and prices, they concurred that the focal point was how rises in the underlying trend in inflation to date and the outlook for prices would be reflected in the annual labor-management wage negotiations toward fiscal 2016. As for the responsiveness of inflation to the output gap, members shared the view that there was a risk that the pace of increase in inflation would deviate downward from the baseline scenario should firms become cautious in raising wages, reflecting uncertainties including future developments in overseas economies, or should consumers mount stronger resistance to an increase in sales prices under such circumstance. They also concurred that, in the case of price rigidity of administered prices, some services prices, and rents for houses being more than expected, there was a possibility that the price rigidity would constrain the acceleration of CPI inflation.

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

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

Members then made an assessment in terms of the second perspective: an examination of the risks considered most relevant to the conduct of monetary policy. With regard to the baseline scenario for economic activity, they shared the assessment that risks were skewed to the downside, particularly those regarding developments in overseas economies, including emerging economies. With regard to the baseline scenario for prices, members agreed that there was considerable uncertainty, mainly in developments in medium- to long-term inflation expectations, and risks on the price front were skewed to the downside.

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

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

Members shared the recognition that the price stability target should be achieved in a stable manner and that the underlying trend in inflation was important in conducting monetary policy. Most members shared the view that, as in the earlier discussion regarding the outlook for economic activity and prices, the underlying trend in inflation had been improving steadily, judging from developments in the output gap and inflation expectations. These members continued that the year-on-year rate of increase in the CPI was likely to accelerate toward 2 percent -- the price stability target -- as the underlying trend in inflation steadily rose, given that the Bank would steadily pursue QQE under the current guideline for money market operations. On this basis, most members concurred that, as for monetary policy for the immediate future, it was important for the Bank to maintain and steadily pursue the current policy, aiming to achieve the price stability target of 2 percent at the earliest possible time. One member expressed the view that many of the public and corporate managers perceived that QQE had been exerting its intended effects and that the overcoming of deflation had been making progress, and therefore the Bank should maintain such confidence by continuing the current monetary policy. A different member expressed the view that, as long as the Bank conducted its policy to maintain the improving trend in inflation, the Bank's credibility with regard to achieving price stability would not be undermined.

On this basis, many members said that, as in the earlier assessment in terms of the second perspective, the assessment of the balance of risks to the baseline scenario of the outlook showed that risks to both economic activity and prices were skewed to the downside. These members continued that the Bank should make policy adjustments without hesitation if the underlying trend in inflation changed due to a manifestation of risks and if, consequently, adjustments were judged necessary for achieving the price stability target at the earliest possible time. One of these members added that a variety of additional easing measures was possible, and there were no limits for such measures if necessary.

A few members expressed their view on the relationship between the projected delay in the timing of reaching 2 percent in terms of the year-on-year rate of increase in the CPI and the Bank's commitment to achieving the price stability target of 2 percent at the earliest possible time, with a time horizon of about two years. These members expressed the recognition that changing people's deflationary mindset and raising inflation expectations through the commitment to achieving the price stability target of 2 percent at the earliest possible time was by itself an aim of overcoming deflation, and at the same time the starting point of the policy effects of QQE. They continued that, against such background, the perception of inflation by firms and households had been changing markedly. One of these members expressed the recognition that the commitment was a necessary device for the Bank, which faced a challenge to raise inflation expectations and re-anchor them at 2 percent. On the other hand, a few members who had expressed the recognition that the year-on-year rate of increase in the CPI would not reach around 2 percent during the projection period expressed views that differed from those presented in the earlier discussion. One of these members was of the view that the commitment was a form of rolling target with a time horizon of about two years. A different member expressed the view that the Bank should aim to achieve the price stability target of 2 percent in the medium to long term.

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

With regard to the asset purchases, most members expressed the recognition that it 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. 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.

IV. Remarks by Government Representatives

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

(1) The government was working toward achieving both economic revitalization and fiscal consolidation. With a view to realizing a positive economic cycle, the minister of finance -- at the Council on Economic and Fiscal Policy and the Public-Private Dialogue toward Investment for the Future -- had requested the business community to actively direct its growing corporate profits toward wage increases and expansion of investment. As for the fiscal situation, vigorous discussion had begun to take place at the Fiscal System Council regarding the assessment policy for the budget formulation for fiscal 2016 -- the first fiscal year under the Plan to Advance Economic and Fiscal Revitalization. With respect to taxation, the government would proceed with reforms; for example, regarding corporate tax, it would secure financial resources, such as by broadening the tax base, and work to reduce the effective tax rate.

(2) The government acknowledged that the Bank had been conducting monetary policy in an appropriate manner; at this meeting, discussions had taken place on the revision to the forecasts presented in the October 2015 *Outlook for Economic Activity and Prices*, given that the Japanese economy had been affected mainly by the slowdown in Asian emerging economies and the decline in crude oil prices. The government continued to expect the Bank to work toward achieving the price stability target 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 weakness could be seen recently in some areas. As for the outlook, it was expected to moderately head toward

recovery, while the employment and income situation showed a trend toward improvement.

(2) With regard to price developments, the government deemed it important to make a comprehensive assessment. It acknowledged that the Bank was closely monitoring the CPI (all items less fresh food and energy) recently. The government deemed it necessary to widely monitor price developments, including those in the GDP deflator, which showed the price of value-added, because the deflator played an important role in a situation where the terms of trade fluctuated significantly.

(3) On October 29, 2015, the government had held the first meeting of the National Council for Promoting the Dynamic Engagement of All Citizens. It would identify measures that were urgently needed by the end of November and compile the Plan to Realize the Dynamic Engagement of All Citizens by around spring 2016. As for the growth strategy, it had established the Public-Private Dialogue toward Investment for the Future and held the first meeting on October 16. By clarifying (1) the direction that should be pursued for private-sector investment and (2) the initiatives that should be taken by the public and private sectors to support fostering such investment, the government hoped to induce firms' active and bold investment decisions. With regard to the Trans-Pacific Partnership (TPP), on October 9 it had launched the TPP Task Force and held the first meeting. Based on the basic policy approved on the same day, the government would establish comprehensive and fundamental principles of the TPP policy guidelines by late November.

(4) The government expected the Bank to work steadily to achieve the price stability target of 2 percent in light of economic activity and prices. The government deemed it important for the Bank to provide a thorough explanation to the public on its thinking behind the change in the timing of achieving 2 percent.

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

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

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

The Policy Board decided the proposal by a majority vote.

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

1. The guideline for money market operations for the intermeeting period will be as follows.

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

2. A public statement will be decided separately.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, 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.

D. Vote on the Statement on Monetary Policy

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

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

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

Mr. T. Sato, however, formulated a proposal to make the following changes. First, with regard to the outlook for prices, he proposed a new expression that "although the timing at which around 2 percent will come into sight depends on developments in crude oil prices, it is projected to be around the second half of fiscal 2016, assuming that crude oil prices will rise moderately from the recent level." Second, with regard to the description on the first perspective, he proposed changing the current expression that Japan's economy "is judged as likely to achieve around 2 percent inflation" to a new expression that it "is judged as likely to head toward achieving around 2 percent inflation." The proposal was then put to a vote.

The proposal was defeated by a majority vote.

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

Mr. T. Kiuchi formulated a proposal to make the following changes. First, with regard to medium- to long-term inflation expectations, he proposed a new expression that they "are likely to remain stable." Second, with regard to the outlook for prices, he proposed a new expression that the year-on-year rate of change in the CPI "is likely to be about 0 percent for the time being, and thereafter accelerate very moderately." Third, with regard to the future conduct of monetary policy, he proposed a new expression that "the

Bank will, with the aim to achieve the price stability target of 2 percent in the medium to long term, continue to provide consistent support from the financial side. It will continue with asset purchases and a virtually zero interest rate policy as long as each of these policy measures is deemed appropriate under flexible policy conduct based on the examination from the two perspectives of the monetary policy framework." The proposal was then put to a vote.

The proposal was defeated by a majority vote.

Votes for the proposal: Mr. T. Kiuchi.

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

To reflect the majority view, the chairman formulated a proposal on "The Bank's View" and put it to a vote. The Policy Board decided the text of "The Bank's View" by a majority vote. It was confirmed that "The Bank's View" would be made public on October 30, 2015 and the whole report on October 31, 2015.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Ms. S. Shirai, Mr. K. Ishida, Mr. Y. Harada, and Mr. Y. Funo.

Votes against the proposal: Mr. T. Sato and Mr. T. Kiuchi.

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

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of October 6 and 7, 2015 for release on November 5, 2015.

Attachment

October 30, 2015

Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by an 8-1 majority vote, to set the following guideline for money market operations for the intermeeting period:[Note]

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

2. With regard to the asset purchases, the Bank decided, by an 8-1 majority vote, to continue with the following guidelines:[Note]

   a) The Bank will purchase Japanese government bonds (JGBs) so that their amount outstanding will increase at an annual pace of about 80 trillion yen. With a view to encouraging a decline in interest rates across the entire yield curve, the Bank will conduct purchases in a flexible manner in accordance with financial market conditions. The average remaining maturity of the Bank's JGB purchases will be about 7-10 years.

   b) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 3 trillion yen and about 90 billion yen respectively.

   c) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen respectively.

[Note] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, 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.