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July 25, 2017

Bank of Japan

Minutes of the Monetary Policy Meeting

on June 15 and 16, 2017

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

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Thursday, June 15, 2017, from 2:00 p.m. to 3:59 p.m., and on Friday, June 16, from 9:00 a.m. to 11:47 a.m.[1]

Policy Board Members Present

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

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

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

Mr. T. Sato

Mr. T. Kiuchi

Mr. Y. Harada

Mr. Y. Funo

Mr. M. Sakurai

Ms. T. Masai

Government Representatives Present

Mr. T. Otsuka, State Minister of Finance, Ministry of Finance[2]

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

Mr. T. Ochi, State Minister of Cabinet Office, Cabinet Office[2]

Mr. S. Habuka, Vice Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

Mr. M. Amamiya, Executive Director

Mr. S. Kuwabara, Executive Director

Mr. E. Maeda, Executive Director (Assistant Governor)

Mr. T. Kato, 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 July 19 and 20, 2017 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. T. Otsuka and T. Ochi were present on June 16.

[3] Messrs. M. Ota and S. Habuka were present on June 15.

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

Mr. S. Shimizu, 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. Y. Onozawa, Director-General, Secretariat of the Policy Board

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

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

Mr. T. Nagahata, Senior Economist, Monetary Affairs Department

I. Summary of Staff Reports on Economic and Financial Developments[4]

A. Money Market Operations in the Intermeeting Period

The Bank, in accordance with the short-term policy interest rate of minus 0.1 percent and the target level of the long-term interest rate, both decided at the previous meeting on April 26 and 27, 2017, had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[5] In this situation, 10-year JGB yields had been at around 0 percent, and the shape of the JGB yield curve had been consistent with the guideline for market operations.

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments had generally been in negative territory. The uncollateralized overnight call rate had been in the range of around minus 0.03 to minus 0.08 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had risen modestly and recently had been at around minus 0.1 percent.

The Nikkei 225 Stock Average had increased on the back of the rise in U.S. and European stock prices and of favorable corporate results, recovering to the 20,000 yen level temporarily for the first time since December 2015. In the foreign exchange market, the yen had been appreciating somewhat against the U.S. dollar, reflecting a decline in U.S. long-term interest rates. Meanwhile, it had been depreciating slightly against the euro.

C. Overseas Economic and Financial Developments

Overseas economies continued to grow at a moderate pace on the whole.

The U.S. economy continued to recover firmly, mainly in household spending, owing to a steady improvement in the employment and income situation. Exports had been on a pick-up trend, due mainly to an improvement in external demand, while business fixed investment also continued to pick up. As for prices, the year-on-year rate of increase in the personal consumption expenditure (PCE) deflator for all items excluding food and energy

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

[5] The target level of the long-term interest rate was as follows:

The Bank will purchase JGBs so that 10-year JGB yields will remain at around zero percent.

had been at around 1.5 percent, and that for all items had been in the range of 1.5-2.0 percent.

The European economy continued to recover steadily, albeit moderately. Exports continued to pick up. Private consumption had been increasing, partly supported by improvements in the labor market and consumer sentiment, while business fixed investment also had recovered. 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 at around 1 percent, and that for all items had been at around 1.5 percent. Meanwhile, economic activity in the United Kingdom generally continued to recover, although the recent rise in prices had been weighing on private consumption.

With regard to emerging economies, the Chinese economy continued to see stable growth on the whole. In the NIEs and the ASEAN countries, exports had been on a pick-up trend, consumption had seen an increase in its resilience -- due to the effects of economic stimulus measures and to improvements in business and household sentiment -- and business fixed investment had shown signs of picking up. Economic activity in Russia had picked up, mainly due to a bottoming out of commodity prices and the past monetary easing measures. In India, an upheaval in the economy stemming from the abolition of high denomination banknotes had come to a halt, and the economy had been heading toward recovery. In Brazil, movements toward a pick-up had been seen in exports and production. As for prices in emerging economies, inflation rates had been more or less flat in many countries and regions. The rates in Russia and Brazil had been declining, primarily due to a pause in the depreciation of their currencies.

With respect to overseas financial markets, U.S. long-term interest rates had declined after the policy rate hike by the Federal Reserve in June, mainly reflecting uncertainties surrounding political situations as well as employment statistics and price indices that had been weaker than market expectations. Meanwhile, mainly against the backdrop of favorable corporate results, U.S. stock prices had recorded a historical high. In emerging economies, with the continued capital inflows, currencies and stock prices had generally been firm.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had been turning toward a moderate expansion.

Exports had been on an increasing trend on the back of a pick-up in emerging economies. The increase in exports had become evident, especially for IT-related and capital goods, mainly on the back of the cyclical improvement in the manufacturing sector on a global basis as well as inventory and capital stock adjustments progressing in emerging economies. Exports were projected to continue on their moderate uptrend, especially for IT-related and capital goods.

Public investment had been more or less flat. Such investment was likely to start increasing moderately, particularly in that related to the disaster relief construction and in a variety of infrastructure enhancements, in view of the progress to be made with the implementation of the second supplementary budget for fiscal 2016.

Business fixed investment had been on a moderate increasing trend with corporate profits improving. Amid the pick-up in emerging economies, looking at the *Financial Statements Statistics of Corporations by Industry, Quarterly* (FSSC), the ratio of current profits to sales had clearly been improving recently, and the figure for the January-March quarter of 2017 had recorded a historically high level for the second consecutive quarter, supported in part by the yen's depreciation trend since the end of 2016. According to the second preliminary estimate of GDP for the January-March quarter, real business fixed investment had marked an increase of 0.6 percent on a quarter-on-quarter basis. Machinery orders and construction starts in terms of planned expenses for private and nondwelling construction -- both of which were leading indicators of business fixed investment -- continued an increasing trend, albeit with large monthly fluctuations. Business fixed investment was likely to continue increasing moderately, mainly on the back of an improvement in corporate profits, accommodative financial conditions, and heightened growth expectations.

As for the employment and income situation, supply-demand conditions in the labor market continued to tighten steadily and employee income had increased moderately. The active job openings-to-applicants ratio had followed a steady improving trend. The unemployment rate continued on a moderate declining trend, and had been in the range of 2.5-3.0 percent recently.

Private consumption had increased its resilience against the background of steady improvement in the employment and income situation. The consumption activity index (CAI) -- calculated by combining various sales and supply-side statistics -- for the January-March quarter of 2017 had marked a fourth consecutive quarterly increase, and that for April continued to increase at an accelerated pace relative to the January-March quarter. Private consumption was expected to follow a moderate increasing trend, supported by a steady increase in employee income and the wealth effects stemming from the rise in stock prices, as well as replacement demand for durable goods.

Housing investment had been more or less flat.

Industrial production had been on an increasing trend against the background of increases in demand at home and abroad. It was likely to continue to increase firmly for the time being, backed by positive effects of the global improvement in production and trade activity of the manufacturing sector.

As for prices, the pace of increase in the producer price index (PPI) compared with three months earlier had been slowing down, reflecting developments in international commodity prices and foreign exchange rates. The year-on-year rate of change in the consumer price index (CPI) for all items less fresh food had been about 0 percent. The rate of change for all items less fresh food and energy had been fluctuating at around 0 percent or in slightly positive territory. With regard to the outlook, the year-on-year rate of change in the CPI (all items less fresh food) was likely to turn slightly positive and thereafter continue on an uptrend and increase toward 2 percent, mainly on the back of an improvement in the output gap and a rise in medium- to long-term inflation expectations.

2. Financial environment

Financial conditions were highly accommodative.

Inflation expectations remained in a weakening phase. Real long-term interest rates -- calculated as long-term interest rates minus medium- to long-term inflation expectations -- had been negative.

Firms' funding costs had been hovering at extremely low levels. With regard to credit supply, financial institutions' lending attitudes -- as perceived by firms -- had been highly accommodative. Issuing conditions for CP and corporate bonds had been favorable. Firms' credit demand had been increasing, such as for funds related to mergers and acquisitions, as well as for those for business fixed investment. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending had accelerated at a moderate pace to the range of 3.0-3.5 percent. The year-on-year rate of change in the amount outstanding of CP and corporate bonds remained positive. Firms' financial positions had been favorable.

The monetary base had been increasing at a high year-on-year growth rate of around 20 percent. The year-on-year rate of growth in the money stock had been at around 4.0 percent.

3. Loan disbursement through the Loan Support Program

In early June 2017, the Bank carried out a new loan disbursement, amounting to 862.2 billion yen, under the main rules for the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth. The outstanding balance of loans disbursed by the Bank under these rules amounted to 6,812.1 billion yen after the new loan disbursement. The outstanding balance of loans disbursed by the Bank under the special rules for equity investments and asset-based lending (ABL) came to 59.5 billion yen, and that under the special rules for small-lot investments and loans amounted to 14.659 billion yen. As for the special rules for the U.S. dollar lending arrangement, the outstanding balance of loans came to 23.32 billion dollars.

On June 20, the Bank was scheduled to carry out a new loan disbursement, amounting to 2,642.7 billion yen, under the Fund-Provisioning Measure to Stimulate Bank Lending. The outstanding balance of loans disbursed by the Bank would amount to 37,519.4 billion yen after the new loan disbursement.

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

A. Economic Developments

Regarding global financial markets, members shared the recognition that U.S. and European long-term interest rates had declined after the policy rate hike by the Federal Reserve in June, mainly reflecting waning expectations for economic policy management in the United States and some price indices that had been weaker than market expectations. They also concurred that, amid the declines in interest rates, U.S. and European stock prices had been firm, mainly on the back of (1) waning uncertainties surrounding political situations in Europe that reflected the result of the French presidential election and other events, and (2) solid corporate results. One member was of the view that the background to the situation -- where stock prices had been firm while at the same time long-term interest rates had been stable at low levels -- could be that there were expectations that accommodative financial conditions would continue in a situation where inflationary pressure had not seemed to be heightening even as the growth momentum of the global economy had strengthened. Many members expressed the view that attention should continue to be paid to developments in global financial markets, given the lingering risks to overseas economies, such as U.S. economic policy and geopolitical risks.

With respect to overseas economies, members shared the recognition that, in the U.S. and European economies, (1) moderate growth continued, mainly in household spending, owing to improvement in the employment and income situation, and (2) positive developments also had been spreading gradually in the corporate sector, as evidenced by, for example, a gradual pick-up in production and business fixed investment on the back of the cyclical improvement in the manufacturing sector on a global basis. As for emerging economies, they shared the view that virtuous cycles were starting to operate in, for example, Russia and Brazil, for which economic recovery had been lagging behind that in other economies. On this basis, members agreed to revise the Bank's assessment of the trend in overseas economies somewhat upward to one stating that they "have continued to grow at a moderate pace on the whole." As for the outlook, they concurred that the growth rates of overseas economies were likely to increase moderately as advanced economies continued growing steadily and the recovery in emerging economies took hold gradually on the back of the steady growth in advanced economies and the effects of policy measures taken by emerging economies.

With regard to developments in overseas economies by region, members concurred that the U.S. economy continued to recover firmly, mainly in household spending, amid a steady improvement in the employment and income situation, as seen, for example, in the number of employees continuing to increase by about 150 thousand people on average. One member, pointing out that indicators relating to private consumption as a whole had rebounded since the start of April, expressed the opinion that the slowdown observed in their improvement for the January-March period was attributable to temporary factors such as bad weather conditions. As for the outlook, members shared the view that the economy was likely to continue to grow, mainly in private demand, led by the firmness in household spending, under accommodative financial conditions. However, a few members noted that future developments in consumption warranted attention, while pointing out that motor vehicle sales had been on a decreasing trend since reaching their peak in the latter half of 2016.

Members shared the recognition that the European economy continued to recover steadily, albeit moderately. One member said that there had been progress in addressing the nonperforming loan problems in Italy and Spain, and thereby the waning uncertainty regarding the financial sector in Europe might exert positive effects on the European economy. As for the outlook, members concurred that the economy would likely continue to see a moderate recovery, led by the household sector, under accommodative financial conditions, while uncertainty -- associated with political situations, such as those regarding negotiations on the United Kingdom's exit from the European Union (EU), and with the debt problem, including in the financial sector -- was likely to weigh on economic activity.

Members shared the recognition that emerging economies as a whole had picked up. Of these economies, most members shared the view that the Chinese economy continued to see stable growth on the whole, as exports had picked up markedly and as private consumption had been resilient against the background of a favorable employment and income situation. One member added that the Chinese economy had been firm, and that real estate-related and financial risks did not seem to have materialized so far. In the NIEs and the ASEAN countries, members agreed that exports and business fixed investment had picked up, and that consumption had seen an increase in its resilience due to the effects of economic stimulus measures and to improvements in business and household sentiment. One member pointed out that an acceleration in economic growth had been evident among countries highly dependent on exports, such as Thailand and Malaysia, and said that such developments explained the global improvement in production and trade activity of the manufacturing sector. Members concurred that virtuous cycles were starting to operate in Russia and Brazil, for which economic recovery had been lagging behind that in other economies, supported mainly by declines in inflation rates as well as monetary easing measures and favorable external demand. As for the outlook, members agreed that emerging economies were likely to see gradual increases in their growth rates, due mainly to the effects of the economic stimulus measures both on the fiscal and monetary fronts and to the spread of the effects of the recovery in advanced economies. They shared the view that the Chinese economy was likely to broadly follow a stable growth path as authorities conducted fiscal and monetary policies in a proactive manner.

Regarding risks to developments in overseas economies, members shared the recognition that uncertainties remained high, including those over U.S. economic policy, negotiations on the United Kingdom's exit from the EU, and geopolitical risks. Many members expressed the view that, with regard to U.S. fiscal policy, its specifics as well as the timing of implementation had become increasingly uncertain. Some members said that close attention should be paid to how the pace of future policy rate hikes by the Federal Reserve would affect the global economy, such as through changes in capital flows.

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

With regard to economic activity, members concurred that, as overseas economies continued to grow at a moderate pace on the whole, exports had been on an increasing trend and business fixed investment had been on a moderate increasing trend with corporate profits recording a historically high level. They agreed that private consumption had increased its resilience with steady improvement in the employment and income situation. Members concurred that economic activity had been broadly in line with the projection, as was evident from the fact that the real GDP growth rate for the January-March quarter of 2017 had marked a fifth consecutive quarterly increase, and that it was appropriate to maintain the Bank's economic assessment on Japan's economy that it "has been turning toward a moderate expansion." On this basis, they shared the view that, in order for the Bank to revise upward its economic assessment, it was necessary to confirm that a positive output gap had been taking hold while examining various economic indicators. As for the outlook for the economy, members concurred that Japan's economy was likely to continue its moderate expansion. On a more specific note, they shared the recognition that domestic demand was likely to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the corporate and household sectors, on the back of highly accommodative financial conditions and fiscal spending through the government's large-scale stimulus measures.

Members agreed that exports had been on an increasing trend on the back of a pick-up in emerging economies. Some members noted that exports had increased for four consecutive quarters through the January-March quarter of 2017, and then decreased in April relative to that quarter. These members pointed out that the decrease was mainly due to a delay in exports of automobiles that had awaited shipment overseas, and therefore that no change had been observed in the increasing trend in exports as a whole, driven mainly by IT-related and capital goods. As for the outlook, members agreed that exports would likely continue to see a firm increase for the time being as a global improvement in production and trade activity of the manufacturing sector became evident. They continued that, thereafter, exports were likely to continue on their moderate uptrend, as the growth rates of overseas economies were likely to rise.

Members concurred that business fixed investment had been on a moderate increasing trend with corporate profits improving. A few members added that some firms had been proactively making labor-saving investments and investments to improve business efficiency, reflecting a tightening of labor market conditions. Regarding the outlook, members agreed that business fixed investment was likely to continue increasing moderately, mainly on the back of accommodative financial conditions and heightened growth expectations.

As for the employment and income situation, members shared the recognition that supply-demand conditions in the labor market continued to tighten steadily and employee income had increased moderately. On this point, some members pointed out that, in a situation where the tightening of labor market conditions had become more evident, wages of part-time employees -- which were sensitive to labor market conditions -- had marked relatively high growth of late in the range of 2.5-3.0 percent year on year. A few members added that wage increases had been spreading, as seen, for example, in the fact that the rates of increase in base pay at small firms were exceeding those at large firms in the annual labor-management wage negotiations in 2017. With regard to the outlook, members shared the view that employee income was likely to continue to increase moderately as labor market conditions kept tightening steadily and corporate profits improved. One member said that, due to the tightening of labor market conditions, an increasing number of firms would raise wages of regular employees with the aim of securing the labor force and improve labor productivity through IT investment and the working-style reform. This member then expressed the view that, in the long run, a rise in labor productivity would lead to an increase in firms' margin to raise wages. One member was of the view that, since Japanese firms were cautious in raising scheduled cash earnings -- which would lead to an increase in fixed costs -- a structural policy that would increase growth expectations was necessary to change this situation.

Members agreed that many indicators suggested improvement in private consumption, amid steady improvement in the employment and income situation, and that it was appropriate to revise the Bank's assessment upward to one stating that private consumption "has increased its resilience" from the previous one stating that it "has been resilient." Some members pointed out that the CAI -- calculated by the Bank by combining various sales and supply-side statistics -- had continued to rise since mid-2016, and had increased further recently. On this point, one member added that, in a situation where the employment and income situation had been improving steadily and replacement demand for durable goods had been underpinning private consumption, the government's measures to support households, which were part of its large-scale stimulus measures, had started to produce positive effects recently. In the outlook, members shared the view that private consumption was likely to follow a moderate increasing trend, supported by a steady increase in employee income and the wealth effects stemming from the rise in stock prices, as well as replacement demand for durable goods.

Members shared the recognition that housing investment had been more or less flat.

Members shared the view that industrial production had been on an increasing trend against the background of increases in demand at home and abroad. Regarding the outlook, they agreed that industrial production was likely to continue to increase firmly, reflecting rises in demand at home and abroad.

As for prices, members shared the recognition that the year-on-year rate of change in the CPI (all items less fresh food) had been about 0 percent, and that the year-on-year rate of change for all items less fresh food and energy had been fluctuating at around 0 percent or in slightly positive territory. Some members pointed out that the rate of increase in prices had not been accelerating despite improvements in corporate profits and the output gap. As background to this, a few members noted the efforts observed in many firms to offset the upward pressure on wages by raising labor productivity through cutbacks in services that they provide and through labor-saving investment. In addition, some members expressed the view that firms generally maintained a cautious price-setting stance as a deflationary mindset persisted among the public.

In terms of the outlook for prices, most members shared the view that the year-on-year rate of change in the CPI was likely to turn slightly positive and thereafter would continue on an uptrend and increase toward 2 percent, mainly on the back of an improvement in the output gap and a rise in medium- to long-term inflation expectations. Some members expressed the view that firms' price-setting stance was likely to gradually shift toward raising prices given that upward pressure on wages had been heightening steadily and private consumption had increased its resilience. In relation to this, some members said that, in view of a further tightening of labor market conditions going forward, there naturally was a limit to firms' ability to offset labor costs, particularly by cutting back services, and therefore firms would start to pass on these costs to prices. In response to this view, one member commented that room for a further increase in labor productivity through cutbacks in services remained large and there was still a long way to go before the tightening of labor market conditions would lead to increases in wages and prices. In addition, a different member pointed out that, from a long-term macroeconomic perspective, improvements in labor productivity would raise Japan's potential growth rate, bring about increases in real wages and employee income in due course, and work as upward pressure on prices from the demand side.

Meanwhile, members shared the recognition that given, for example, that the observed inflation rate had been somewhat weak recently, inflation expectations remained in a weakening phase as the adaptive formation mechanism had played a large role. One member pointed out that some recent indicators on inflation expectations such as survey results suggested signs of a rise compared to a while ago.

B. Financial Developments

Members concurred that financial conditions in Japan were highly accommodative. They shared the view that, under Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, firms' funding costs had been hovering at extremely low levels. One member said that the year-on-year rate of increase in the amount outstanding of bank lending had accelerated to the range of 3.0-3.5 percent recently, as firms' credit demand had been increasing, such as for funds related to mergers and acquisitions, as well as for those for business fixed investment. This member then expressed the view that accommodative financial conditions were firmly supporting corporate activity.

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.

With regard to conducting monetary policy, most members concurred that, although the momentum toward achieving the 2 percent price stability target was being maintained, it was not yet sufficiently firm, and thus developments in prices continued to warrant careful attention. Many members shared the recognition that, as there was still a long way to go to achieve the price stability target of 2 percent, it was appropriate for the Bank to pursue powerful monetary easing under the current guideline for market operations, in order to achieve the target at the earliest possible time. A few members said that the most effective way to achieve the price stability target of 2 percent was to continue with the current monetary policy so as to keep improving the output gap, reducing the unemployment rate, and raising the active job openings-to-applicants ratio. Many members expressed the view that the mechanism continued operating in which the tightening of labor market conditions brought about wage increases, thereby leading to price rises. On this basis, these members pointed out that it was appropriate for the Bank to support the improvement in economic activity and prices by pursuing the current powerful monetary easing with persistence.

Meanwhile, most members reaffirmed that it was extremely important for Japan's economy that the Bank achieve the 2 percent price stability target. One member pointed out that this was because (1) the CPI had a statistical tendency for an upward bias and (2) the Bank needed to secure a safety margin for monetary policy to respond to negative economic shocks. On this basis, the member noted that aiming at achieving a consumer price inflation rate of 2 percent was a global standard among major advanced economies overseas, and considered that economies pursuing the same rate of inflation also would facilitate the stability of exchange rates in the long term. In response, one member, pointing out that the Bank's 2 percent price stability target was a constraint on the flexibility of monetary policy, said that it was appropriate for the Bank to change this target to a medium- to long-term one and present the economic conditions concerning possible future interest rate hikes as the path toward normalizing monetary policy.

Members discussed the recent growing interest in the so-called exit from the Bank's current monetary policy. One member commented that this development reflected the fact that the improvement in Japan's economic activity had become more evident. Some members said that it was important for the Bank to thoroughly explain and gain a better understanding among the people of its thinking on monetary policy management, including the impact of monetary policy on the Bank's financial situations. On this basis, these members pointed out that the specific steps toward an exit from the Bank's current policy and the impact on its financial situations could vary depending on, for example, developments in economic activity and prices as well as financial market conditions. A few members noted that, while there was still a long way to go to achieve the price stability target of 2 percent, communicating uncertain information at too early a stage could cause confusion in the market, and thus, at this point, it was important to thoroughly carry forward research and analysis within the Bank. One member commented that, given that achieving the price stability target of 2 percent was still a considerably distant goal under the member's own projection for prices, the issue was that the specific timing for an exit could not be foreseen. On this basis, the member said that, even if the Bank explained its exit strategy in advance, it was possible that the actual steps of an exit would differ from earlier explanations, as in the case of the Federal Reserve, and therefore careful preparations and thorough explanations were needed in communicating with the market.

With respect to yield curve control, members shared the view that, since the previous meeting, the JGB yield curve had been formed smoothly in a manner consistent with the guideline for market operations. Regarding the Bank's JGB purchases, they reaffirmed that, under the current policy framework, the Bank had been conducting such purchases to achieve the target level of the long-term interest rate specified by the guideline for market operations, and that the amount of purchases varied to some extent depending on financial market conditions. On this basis, members concurred that there had been no conflict between the Bank's current conduct of JGB purchases and the guideline for market operations.

Based on the above discussions, regarding the guideline for market operations for the intermeeting period, many members expressed the view that it was appropriate for the

Bank to maintain the following guideline. First, as for the short-term policy interest rate, it would apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. Second, as for the long-term interest rate, the Bank would purchase JGBs so that 10-year JGB yields would remain at around 0 percent. With regard to the amount of JGBs to be purchased, it would conduct purchases at more or less the current pace -- an annual pace of increase in the amount outstanding of its JGB holdings of about 80 trillion yen -- aiming to achieve the target level of the long-term interest rate specified by the guideline.

With regard to asset purchases other than JGB purchases, many members shared the recognition that it was appropriate for the Bank to implement the following guideline for the intermeeting period. First, 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 6 trillion yen and about 90 billion yen, respectively. Second, as for CP and corporate bonds, it 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 view that the Bank would (1) continue with QQE with Yield Curve Control, aiming to achieve the price stability target of 2 percent, as long as it was necessary for maintaining that target in a stable manner, (2) continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeded 2 percent and stayed above the target in a stable manner, and (3) make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target.

On this point, a few members expressed different views. One of these members argued that the Bank should set the amounts of its asset purchases as the operating targets for monetary policy conduct and make sure to reduce them incrementally, as this would make its asset purchases more sustainable and enhance the stability of the market, thereby securing the monetary easing effects seen so far. This member noted that, in most of the recent months, the pace of JGB purchases had been below the approximate amount to be purchased -- that is, an annual pace of increase in the amount outstanding of the Bank's JGB holdings of about 80 trillion yen. The member then expressed the recognition that, if the current pace of purchases continued, however, the Bank could not avoid a situation where JGB purchases would become more difficult through 2018.

A different member said that the member was in dissent with the current guideline for market operations, considering that it could lead to holding JGB yields in negative territory up to a maturity of 10 years, and thus could have an adverse impact on the functioning of financial intermediation. This member noted that it was appropriate for the Bank to reduce the amount of its JGB purchases when possible. The member then expressed the recognition that, in theory, the stock effect would be in place with the progress in the Bank's JGB purchases, and therefore it would become easier for the Bank to control 10-year JGB yields with a smaller amount of purchases.

IV. Remarks by Government Representatives

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

(1) On June 9, the Cabinet decided the Basic Policies for Economic and Fiscal Management and Reform 2017 (hereafter the Basic Policies), which maintained the aim of achieving both the target of a 600 trillion yen economy in terms of GDP and, by fiscal 2020, the fiscal consolidation target. From this summer, the government would proceed with the formulation of the budget for fiscal 2018 based on the Basic Policies; fiscal 2018 was the final fiscal year of the focus period for reform set forth in the Plan for Economic and Fiscal Revitalization. The government continued to aim at formulating a budget that focused primarily on high-priority areas, proceeding with economic revitalization while steadily promoting expenditure and revenue reform.

(2) The government expected the Bank to continue to work toward achieving the price stability target under QQE with Yield Curve Control, in light of developments in economic activity and prices, as well as financial conditions.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was on a moderate recovery, while delayed improvement could be seen in part. The second preliminary estimate of the real GDP growth rate for the January-March quarter of 2017 -- released on June 8 -- registered positive growth for the fifth consecutive quarter, marking 0.3 percent on a quarter-on-quarter basis and 1.0 percent on an annualized basis. As for the outlook, the economy was expected to

recover moderately, supported partly by the effects of the government's policies, while the employment and income situation continued to improve. However, attention should be given to the uncertainty in overseas economies and the effects of fluctuations in financial markets. In assessing price developments, it was important to comprehensively examine a wide range of indicators, including the GDP deflator.

(2) On June 9, the Cabinet decided the Basic Policies as well as the Investments for the Future Strategy 2017. In order to accelerate the virtuous cycle of growth and distribution, the government would work toward improving productivity through investments in human resources, in addition to implementing the working-style reform. It also would work toward realizing Society 5.0, which would address social challenges by incorporating innovation into all industries and aspects of daily life. On the same day, the Cabinet decided the Regulatory Reform Work Plan and the Basic Policies for Overcoming Population Decline and Vitalizing Local Economy in Japan 2017.

(3) The government expected the Bank to steadily work toward achieving the price stability target of 2 percent, in light of developments in economic activity and prices, as well as financial conditions.

V. Votes

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

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

1. The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

2. The Bank will purchase JGBs so that 10-year JGB yields will remain at around zero percent. With regard to the amount of JGBs to be purchased, the

Bank will conduct purchases at more or less the current pace -- an annual pace of increase in the amount outstanding of its JGB holdings of about 80 trillion yen -- aiming to achieve the target level of the long-term interest rate specified by the guideline.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.
Votes against the proposal: Mr. T. Sato and Mr. T. Kiuchi.

Mr. T. Sato dissented, considering that setting the short-term policy interest rate at minus 0.1 percent and the target level of 10-year JGB yields at around 0 percent could lead to holding JGB yields in negative territory up to a maturity of 10 years and thus could have an adverse impact on the functioning of financial intermediation. Mr. T. Kiuchi dissented, considering that, with a view to maintaining the stability of the JGB market and the functioning of financial intermediation, (1) the short-term policy interest rate should be set at 0.1 percent and (2) the adoption of a target level for a long-term interest rate was not appropriate because it would entail a risk that the Bank might need to further increase the pace of its JGB purchases.

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 implement the guideline for asset purchases for the intermeeting period and put it to a vote: (1) to purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively, and (2) to maintain the amounts outstanding of CP and corporate bonds at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

The Policy Board decided the proposal by a majority vote.

Votes for the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.
Votes against the proposal: Mr. T. Sato and Mr. T. Kiuchi.

Mr. T. Sato dissented, considering that ETF purchases of about 6 trillion yen annually would be excessive in light of their adverse impact on the pricing mechanism in the stock market and the Bank's financial soundness.

C. Vote on Mr. T. Kiuchi's Policy Proposal on the Guideline for Asset Purchases

Mr. T. Kiuchi proposed that the Bank use amounts of asset purchases as its operating targets and that the guidelines for asset purchases for the intermeeting period be set as follows: (1) to purchase JGBs so that their amount outstanding would increase at an annual pace of about 45 trillion yen, and to make the average remaining maturity of the Bank's JGB purchases about seven years; (2) to purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces of about 1 trillion yen and about 30 billion yen, respectively; and (3) to maintain the amounts outstanding of CP and corporate bonds at about 2.2 trillion yen and about 3.2 trillion yen, respectively. The proposal was then put to a vote.

The proposal was defeated by a majority vote.

Votes for the proposal: Mr. T. Kiuchi.

Votes against the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. T. Sato, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.

VI. 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. Meanwhile, Mr. T. Sato expressed dissent from the inflation-overshooting commitment regarding an expansion of the monetary base considering that this was neither realistic nor effective.

A. Mr. T. Kiuchi's Policy Proposal

Mr. T. Kiuchi formulated a proposal to make the following changes. First, 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 increase very moderately for some time." Second, 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 short-term 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 -- that is, (1) the outlook deemed most likely by the Bank and (2) risks considered most relevant to the conduct of monetary policy from a medium- to long-term perspective." The proposal was then put to a vote.

The proposal was defeated by a majority vote.

Votes for the proposal: Mr. T. Kiuchi.
Votes against the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. T. Sato, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.

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).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of April 26 and 27, 2017 for release on June 21.

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

The Policy Board approved unanimously the dates of the Monetary Policy Meetings to be held in 2018 and agreed to make this public after the meeting.

Attachment

June 16, 2017

Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided upon the following.

   (1) Yield curve control

   The Bank decided, by a 7-2 majority vote, to set the following guideline for market operations for the intermeeting period. [Note 1]

   The short-term policy interest rate:

   The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

   The long-term interest rate:

   The Bank will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero percent. With regard to the amount of JGBs to be purchased, the Bank will conduct purchases at more or less the current pace -- an annual pace of increase in the amount outstanding of its JGB holdings of about 80 trillion yen -- aiming to achieve the target level of the long-term interest rate specified by the guideline.

   (2) Guidelines for asset purchases

   With regard to asset purchases other than JGB purchases, the Bank decided, by a 7-2 majority vote, to set the following guidelines. [Note 2]

   a) 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 6 trillion yen and about 90 billion yen, respectively.

   b) 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.

2. Japan's economy has been turning toward a moderate expansion. Overseas economies have continued to grow at a moderate pace on the whole. In this situation, exports have been on an increasing trend. On the domestic demand side, business fixed investment has been on a moderate increasing trend with corporate profits improving. Private consumption has increased its resilience against the background of steady improvement in the employment and income situation. Meanwhile, housing investment and public investment have been more or less flat. Reflecting these increases in demand both at home and abroad, industrial production has been on an increasing trend, and labor market conditions have continued to tighten steadily. Financial conditions are highly accommodative. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) has been about 0 percent. Inflation expectations have remained in a weakening phase.

3. With regard to the outlook, Japan's economy is likely to continue its moderate expansion. Domestic demand is likely to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the corporate and household sectors, on the back of highly accommodative financial conditions and fiscal spending through the government's large-scale stimulus measures. Exports are expected to continue their moderate increasing trend on the back of the improvement in overseas economies. The year-on-year rate of change in the CPI is likely to continue on an uptrend and increase toward 2 percent, mainly on the back of an improvement in the output gap and a rise in medium- to long-term inflation expectations. [Note 3]

4. Risks to the outlook include the following: the U.S. economic policies and their impact on global financial markets; developments in emerging and commodity-exporting economies; negotiations on the United Kingdom's exit from the European Union (EU) and their effects; prospects regarding the European debt problem, including the financial sector; and geopolitical risks.

5. The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," 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 continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. The Bank will make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target. [Note 4]

[Note 1] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai. Voting against the action: Mr. T. Sato and Mr. T. Kiuchi. Mr. T. Sato dissented, considering that setting the short-term policy interest rate at minus 0.1 percent and the target level of 10-year JGB yields at around 0 percent could lead to holding JGB yields in negative territory up to a maturity of 10 years and thus could have an adverse impact on the functioning of financial intermediation. Mr. T. Kiuchi dissented, considering that, with a view to maintaining the stability of the JGB market and the functioning of financial intermediation, (1) the short-term policy interest rate should be set at 0.1 percent and (2) the adoption of a target level for a long-term interest rate was not appropriate because it would entail a risk that the Bank might need to further increase the pace of its JGB purchases.

[Note 2] Voting for the action: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai. Voting against the action: Mr. T. Sato and Mr. T. Kiuchi. Mr. T. Sato dissented, considering that ETF purchases of about 6 trillion yen annually would be excessive in light of their adverse impact on the pricing mechanism in the stock market and the Bank's financial soundness. Mr. T. Kiuchi proposed that the Bank use amounts of asset purchases as its operating targets and set the guidelines for asset purchases as follows: the Bank would purchase JGBs so that their amount outstanding would increase at an annual pace of about 45 trillion yen, purchase ETFs so that their amount outstanding would increase at an annual pace of about 1 trillion yen, and so on. The proposal was defeated by a majority vote.

[Note 3] Mr. T. Kiuchi proposed, concerning the year-on-year rate of change in the CPI, that it was likely to increase very moderately for some time. The proposal was defeated by an 8-1 majority vote. Voting for the proposal: Mr. T. Kiuchi. Voting against the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. T. Sato, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.

[Note 4] Mr. T. Sato opposed the commitment to expanding the monetary base, considering that this was neither realistic nor effective. Mr. T. Kiuchi proposed that the Bank, 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 short-term interest rate policy as long as each of these policy measures was deemed appropriate. The proposal was defeated by an 8-1 majority vote. Voting for the proposal: Mr. T. Kiuchi. Voting against the proposal: Mr. H. Kuroda, Mr. K. Iwata, Mr. H. Nakaso, Mr. T. Sato, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, and Ms. T. Masai.