

The Bank's Review of Fiscal 2016

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I. INTRODUCTION

In March 2014, the Bank of Japan formulated and released "The Bank of Japan's Strategic Priorities for Fiscal 2014–2018."¹ In this document, the Bank adopts a new five-year framework, the content of which will be kept basically unchanged for the whole period, with a view to (1) clarifying the Bank's objectives to be achieved over the medium term and (2) properly evaluating its progress in achieving these. The Bank conducts and makes public performance reviews of measures taken under the Strategic Priorities every fiscal year.

This section provides a brief review of economic and financial developments and decisions made at Monetary Policy Meetings (MPMs) in fiscal 2016, followed by performance reviews of measures taken under the Strategic Priorities. Each performance review is divided into two parts: a description of progress in implementing

specific measures during fiscal 2016 for each of the strategic objectives for its business operations laid out in the Strategic Priorities, and the Bank's evaluation of that progress. The Bank's performance with regard to the strategic objectives for its organizational management is described in "The Bank's Organizational Management in Fiscal 2016" (see pages 51–54).

The Strategic Priorities states that the Bank shall (1) conduct an interim review of the content of the Strategic Priorities during the five-year period in order to address any changes in its environment and revise the content flexibly in response to any significant such changes, and (2) conduct, separately, a thorough review of the entire content of the Strategic Priorities. In fiscal 2016, the Bank conducted the interim review and decided to maintain the current content.

II. REVIEW OF ECONOMIC AND FINANCIAL DEVELOPMENTS AND MONETARY POLICY MEETINGS²

A. First Half of Fiscal 2016 (April–September 2016)

1. Economic developments

a. Looking back at the first half of fiscal 2016, Japan's economy continued its moderate recovery trend, with a virtuous cycle from income to spending being maintained, although exports and production were sluggish, due mainly to the effects of the slowdown in emerging economies.

Exports were more or less flat, due mainly to the effects of the slowdown in emerging economies.

Turning to domestic demand, the decline in public

investment leveled off. Business fixed investment followed a moderate increasing trend as corporate profits were at high levels. Against the background of steady improvement in the employment and income situation, private consumption was resilient, although relatively weak developments were seen in some indicators. Housing investment continued to pick up. Reflecting these developments in demand both at home and abroad, industrial production continued to be more or less flat.

b. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items

1. For the text of "The Bank of Japan's Strategic Priorities for Fiscal 2014–2018," see Appendix 2 on pages 84–89.

2. The review provided here comprises excerpts from the summaries of the latest two issues of the *Semiannual Report on Currency and Monetary Control* submitted to the Diet in December 2016 and June 2017. The full texts of both issues in Japanese and summaries in English are available on the Bank's website.

less fresh food) became slightly negative. Inflation expectations remained in a weakening phase since summer 2015 as an adaptive component played a large role in their formation, with the observed inflation rate being about 0 percent or slightly negative.

2. Financial developments

- a. Money market rates declined further on the whole.

Turning to developments in the bond market, long-term interest rates moved further into negative territory through end-July. Thereafter, the rates turned to an increase, mainly on the back of rises in U.S. and European long-term interest rates. Through the end of the first half of fiscal 2016, the rates were slightly below 0 percent under Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, which was introduced at the September MPM.

The Nikkei 225 Stock Average temporarily fell to a level below 15,000 yen, with a drop in stock prices globally prompted by the United Kingdom's June referendum in which the majority voted to leave the European Union (EU). Thereafter, it rose to around 16,500 yen amid the situation of rises in U.S. and European stock prices.

In the foreign exchange market, through July, the yen appreciated against the U.S. dollar, mainly due to expectations that the pace of the policy interest rate hikes in the United States would be more moderate and to market participants' concern over the impact of the United Kingdom's vote to leave the EU. Thereafter, the U.S. dollar/yen rate was more or less flat, albeit with some fluctuations, and was in the range of 100–101 yen at end-September. The yen also appreciated

against the euro and was in the range of 112–113 yen at end-September.

- b. As for corporate finance, in terms of credit supply, financial institutions' lending attitudes as perceived by firms were highly accommodative.

Firms' credit demand increased moderately, mainly for funds related to mergers and acquisitions and funds for business fixed investment. With regard to firms' funding, the year-on-year rate of increase in the amount outstanding of lending by domestic commercial banks was around 2 percent. The year-on-year rate of change in the amount outstanding of corporate bonds turned positive and rose. In addition, the year-on-year rate of change in that of CP turned positive on average.

- c. The monetary base (currency in circulation plus current account balances at the Bank) increased significantly as asset purchases by the Bank progressed, and the year-on-year rate of growth was in the range of 20–30 percent. The year-on-year rate of growth in the money stock (M2) was in the range of 3.0–4.0 percent.

3. MPMs³

- a. Four MPMs were held in the first half of fiscal 2016.

At all the MPMs held in the first half of fiscal 2016, the Policy Board judged that Japan's economy continued its moderate recovery trend, although exports and production were sluggish, due mainly to the effects of the slowdown in emerging economies.

- b. In the conduct of monetary policy, at the July MPM, the Policy Board decided upon the following measures to enhance monetary easing.

3. Information related to MPMs is available on the Bank's website (http://www.boj.or.jp/en/mopo/mpmsche_minu/index.htm).

(1) An increase in purchases of exchange-traded funds (ETFs)

The Bank will purchase ETFs so that their amount outstanding will increase at an annual pace of about 6 trillion yen (almost double the previous pace of about 3.3 trillion yen).

(2) Measures to ensure smooth fund raising in foreign currencies by Japanese firms and financial institutions

(a) Increasing the size of the Bank's U.S. dollar lending program to support growth

The Bank will increase the size of its U.S. dollar lending program to support growth (the Special Rules for the U.S. Dollar Lending Arrangement to Enhance the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth Conducted through the Loan Support Program) to 24 billion USD (about 2.5 trillion yen; double the previous size of 12 billion USD). Under this lending program, the Bank provides its U.S. dollar funds for a period of up to four years to support Japanese firms' overseas activities through financial institutions.

(b) Establishing a new facility for lending securities to be pledged as collateral for the U.S. Dollar Funds-Supplying Operations

The Bank will establish a new facility in which it lends Japanese government securities (JGSs) to financial institutions against their current account balances with the Bank so that these JGSs can be pledged as collateral for the U.S. Dollar Funds-Supplying Operations.

Moreover, at the September MPM, the Policy

Board conducted a comprehensive assessment of the developments in economic activity and prices under QQE and QQE with a Negative Interest Rate as well as their policy effects. Based on this, with a view to achieving the price stability target of 2 percent at the earliest possible time, the Bank decided to introduce QQE with Yield Curve Control by strengthening the two previous policy frameworks mentioned earlier.

(1) Yield curve control

(a) Guideline for market operations

The guideline for market operations specifies a short-term policy interest rate and a target level of a long-term interest rate. The Bank decided to set the following guideline for market operations for the intermeeting period. The Bank will cut the interest rates further if judged necessary.

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 more or less at the current level (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. JGBs with a

wide range of maturities will continue to be eligible for purchase, while the guideline for the average remaining maturity of the Bank's JGB purchases will be abolished.

- (b) New tools for market operations to facilitate yield curve control

The Bank decided to introduce the following new tools for market operations so as to control the yield curve smoothly.

- (i) Outright purchases of JGBs with yields designated by the Bank (fixed-rate purchase operations)
- (ii) Fixed-rate funds-supplying operations for a period of up to 10 years (extending the longest maturity of the operations from the previous period of one year)

(2) Guidelines for asset purchases

With regard to asset purchases other than JGB purchases, the Bank decided to set the following guidelines.

- (a) The Bank will purchase 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.

(3) Inflation-overshooting commitment

The Bank will continue with 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 the price stability target of 2 percent and stays above the target in a stable manner, while the pace of increase in the monetary base may fluctuate in the short run under market operations that aim at controlling the yield curve.

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 of 2 percent.

B. Second Half of Fiscal 2016 (October 2016–March 2017)

1. Economic developments

- a. Looking back at the second half of fiscal 2016, Japan's economy continued its moderate recovery trend, with a virtuous cycle from income to spending being maintained.

Exports followed an increasing trend after having picked up, with the effects of the slowdown in emerging economies waning. Turning to domestic demand, public investment and housing investment were more or less flat. Business fixed investment was on a moderate increasing trend as corporate profits improved. Private consumption was resilient against the background of steady improvement in the employment and income situation. Reflecting these developments in demand both at home and abroad, industrial production picked up and then followed an increasing trend.

- b. On the price front, the year-on-year rate of change in the CPI (all items less fresh food) became about 0 percent, after increasing gradually from being slightly negative. Inflation expectations remained

in a weakening phase as an adaptive component played a large role in their formation, with the observed inflation rate being about 0 percent or slightly negative.

2. Financial developments

- a. Money market rates were at low levels on the whole.

Turning to developments in the bond market, the long-term interest rate was stable at the target level of around zero percent under QQE with Yield Curve Control.

The Nikkei 225 Stock Average was more or less flat until early November, and then rose significantly through end-2016 with a global rise in stock prices mainly stemming from expectations for the new U.S. administration's economic policy. Thereafter, it remained more or less flat and was in the range of 18,500–19,000 yen at end-March.

In the foreign exchange market, through end-2016, the yen depreciated against the U.S. dollar, in a situation where the dollar appreciated against many currencies, mainly reflecting a rise in U.S. interest rates. Thereafter, due in part to a halt to the rise in U.S. interest rates and heightened uncertainties regarding political situations in Europe, the yen appreciated against the U.S. dollar and was in the range of 111–112 yen at end-March. The yen depreciated against the euro and was in the range of 119–120 yen at end-March.

- b. As for corporate finance, in terms of credit supply, financial institutions' lending attitudes as perceived by firms were highly accommodative.

Firms' credit demand increased, mainly for funds related to mergers and acquisitions and funds for business fixed investment. With regard

to firms' funding, the year-on-year rate of increase in the amount outstanding of lending by domestic commercial banks accelerated moderately and was 3 percent in March. The year-on-year rates of change in the amounts outstanding of CP and corporate bonds were positive.

- c. The monetary base continued to increase at a high year-on-year growth rate in the range of 20–25 percent. The year-on-year rate of growth in the M2 was around 4 percent.

3. MPMs⁴

- a. Four MPMs were held in the second half of fiscal 2016.

At the MPM held in October 2016, the Policy Board judged that Japan's economy continued its moderate recovery trend, although exports and production were sluggish, due mainly to the effects of the slowdown in emerging economies. At the MPMs held in December 2016 through March 2017, it judged that the economy continued its moderate recovery trend.

- b. In the conduct of monetary policy, at all the MPMs held in the second half of fiscal 2016, the Policy Board decided to continue with the following guidelines for market operations and asset purchases under QQE with Yield Curve Control determined at the MPM held in September 2016.

(1) Yield curve control

The Bank decided to set the following guideline for market operations for the intermeeting period.

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.

4. Information related to MPMs is available on the Bank's website (http://www.boj.or.jp/en/mopo/mpmsche_minu/index.htm).

The long-term interest rate:

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.

(2) Guidelines for asset purchases

With regard to asset purchases other than JGB purchases, the Bank decided to set the following guidelines.

- (a) The Bank will purchase ETFs and 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.

With regard to the future conduct of monetary policy, the Policy Board confirmed the following at all the MPMs held in the second half of fiscal 2016: "the Bank will continue with 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."

QQE WITH YIELD CURVE CONTROL

At the September 2016 MPM, the Bank conducted a comprehensive assessment of the developments in economic activity and prices as well as the policy effects since the introduction of QQE (released as the Comprehensive Assessment^{1,2}). Based on its findings, the Bank decided to introduce QQE with Yield Curve Control,^{3,4} which is a new framework for strengthening monetary easing.

The new policy framework consists of two components: the first is "yield curve control" in which the Bank controls short-term and long-term interest rates through market operations; the second is an "inflation-overshooting commitment" in which the Bank commits itself to expanding the monetary base until the year-on-year rate of increase in the observed CPI exceeds the price stability target of 2 percent and stays above the target in a stable manner.

1. Yield curve control

As shown in the Comprehensive Assessment, QQE, which was introduced in April 2013, has brought about improvements in economic activity and prices mainly through the decline in real interest rates, and Japan's economy is no longer in deflation, which is commonly defined as a sustained decline in prices. With this in mind, yield curve control, in which the Bank seeks a decline in real interest rates by controlling short-term and long-term interest rates, has been placed at the core of the new policy framework.

The experience so far with the negative interest rate policy, which was introduced in January 2016, shows that a combination of the negative interest rate on current account balances at the Bank and purchases of JGBs is effective for yield curve control. In addition, the Bank has decided to introduce new tools of market operations, such as fixed-rate purchase operations, to facilitate smooth implementation of yield curve control.

2. Inflation-overshooting commitment

The Bank has introduced an inflation-overshooting commitment, under which it continues expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds the price stability target of 2 percent and stays above the target in a stable manner. Through this commitment, the Bank aims to enhance the credibility of achieving 2 percent among the public.

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 of 2 percent.

Notes: 1. See *Comprehensive Assessment: Developments in Economic Activity and Prices as well as Policy Effects since the Introduction of Quantitative and Qualitative Monetary Easing (QQE)* on the Bank's website (http://www.boj.or.jp/en/announcements/release_2016/rel160930d.pdf).

2. For details of the analysis conducted in the Comprehensive Assessment, see *Supplementary Paper Series for the "Comprehensive Assessment"* on the Bank's website: (1) "Developments in Inflation Expectations over the Three Years since the Introduction of Quantitative and Qualitative Monetary Easing (QQE)" released on October 14, 2016 (http://www.boj.or.jp/en/research/wps_rev/rev_2016/data/rev16e13.pdf); (2) "Developments in the Natural Rate of Interest in Japan" released on October 18, 2016 (http://www.boj.or.jp/en/research/wps_rev/rev_2016/data/rev16e12.pdf); and (3) "Policy Effects since the Introduction of Quantitative and Qualitative Monetary Easing (QQE)—Assessment Based on the Bank of Japan's Large-scale Macroeconomic Model (Q-JEM)" released on November 7, 2016 (http://www.boj.or.jp/en/research/wps_rev/wps_2016/data/wp16e15.pdf).

3. The decisions made under QQE with Yield Curve Control are available on the Bank's website (<http://www.boj.or.jp/en/mopo/mpmdeci/index.htm>).

4. For details, refer to "New Framework for Strengthening Monetary Easing: 'Quantitative and Qualitative Monetary Easing with Yield Curve Control'" released on September 21, 2016 (http://www.boj.or.jp/en/announcements/release_2016/k160921a.pdf).

III. PERFORMANCE REVIEWS OF MEASURES TAKEN UNDER THE STRATEGIC PRIORITIES

A. Plan and Formulate Monetary Policy Measures That Facilitate Policy Conduct

1. Progress in implementing specific measures

- (1) With a view to contributing to monetary policy conduct, the Bank conducted research and analysis from multiple perspectives regarding economic and financial conditions both at home and abroad, including the broader effects of the United Kingdom's vote to leave the EU and of the U.S. presidential election, as well as their implications for Japan's economy. In May 2016, the Bank started compiling the consumption activity index (CAI) so as to better capture developments in private consumption.
- (2) The Bank added various new approaches to its multi-perspective analysis on the effects and impacts of monetary policy, focusing on developments in inflation expectations and their formation mechanisms, as well as the downward effects on interest rates of JGB purchases and the introduction of the negative interest rate policy. Based on the results of its analysis, the Bank planned and formulated the following monetary policy measures flexibly.
 - (a) Conducting the comprehensive assessment of the developments in economic activity and prices, as well as of the policy effects since the introduction of QQE, and introducing QQE with Yield Curve Control based on its findings.
 - (b) Enhancing monetary easing through an increase in ETF purchases and measures to ensure smooth funding in foreign currencies by Japanese firms and financial institutions.
 - (c) Introducing the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas of the 2016 Kumamoto Earthquake and other measures.
 - (d) Making changes to the maximum size of each ETF purchase.
 - (e) Extending the duration of operations such as the Fund-Provisioning Measure to Stimulate Bank Lending.
- (3) In February 2017, the Bank simplified the principal terms and conditions for monetary policy measures with a view to contributing to the further enhancement of discussions on monetary policy.
- (4) The Bank enhanced dialogue with market participants through the following initiatives.
 - (a) The Bank actively exchanged opinions on such occasions as the "Meeting on Market Operations" and the "Bond Market Group," each of which was held twice in fiscal 2016.
 - (b) In February 2017, the Bank decided to announce a detailed schedule of JGB purchases for the following month in the outline of outright purchases of JGSs released at the end of each month.
- (5) Progress was made in fundamental research on the following: monetary policy; the macroeconomy; financial markets; legal and accounting systems, and information security, in finance-related fields; and monetary history. The Bank communicated its research findings to the public through the release of research papers and presentations at academic conferences both at home and abroad.

2. Evaluation of progress

With a view to contributing to monetary policy conduct, the Bank conducted research and analysis from multiple perspectives regarding economic and financial conditions both at home and abroad; it also carried out multi-perspective analysis on the effects and impacts of monetary policy. In light of its analysis, the Bank planned

and formulated monetary policy measures flexibly, for example introducing QQE with Yield Curve Control based on the findings of the comprehensive assessment. In addition, the Bank enhanced dialogue with market participants through, for example, the "Meeting on Market Operations" and the "Bond Market Group," and made steady adjustments to its operational arrangements so as to ensure that monetary policy continued to be conducted appropriately.

Based on the above, the Bank considers that, in fiscal 2016, it achieved its intended objective in terms of providing a firm underpinning for monetary policy conduct. In fiscal 2017, the Bank will continue to work to have the necessary arrangements in place to conduct research and analysis that appropriately reflects changes in economic and financial conditions, to plan policy measures flexibly, and to conduct market operations properly.

B. Ensure Stability and Improve the Functioning of the Financial System

1. Progress in implementing specific measures

(1) In line with the "On-Site Examination Policy for Fiscal 2016" decided by the Policy Board, the Bank stepped up its efforts to conduct on-site examinations of financial institutions more efficiently and effectively in light of the extent of their influence on the financial system and their risk profiles; it carried out examinations of 85 financial institutions. It conducted thorough assessments, for example, of financial institutions' business operations and the state of their property as well as their profitability and resilience against risks, including the actual business conditions of their financial group as a whole and the risk management of their overseas branches.

(2) With regard to off-site monitoring, the Bank held

in-depth interviews with financial institutions and secured a sound understanding of their business activities in areas where they had adopted a proactive risk-taking stance. It also continued to deepen its understanding of financial institutions' business conditions, such as business operations, risk management, and profitability, mainly through examining from multiple perspectives the effects of the introduction of the negative interest rate policy on financial business practices and financial institutions' management. In particular, the Bank sharpened its focus on business conditions at systemically important financial institutions by taking into account the systemic implications of, for example, the active expansion of their global business and the accompanying risks. It also encouraged such institutions' efforts to improve their risk management, for example, through exchanging views with them.

(3) In the *Financial System Report*, the Bank, while refining its macro stress testing exercises, examined financial intermediation by Japanese financial institutions and current conditions in the financial system; it also deepened its quantitative analysis regarding potential vulnerabilities of the financial system in a low or negative interest rate environment. In addition, the Bank continued to share awareness of challenges and risks, particularly with financial institutions, through the following initiatives in fiscal 2016: releasing three issues of the *Financial System Report Annex Series* providing more detailed analysis of and insight into selected topics; actively communicating with financial institutions and analysts through 35 seminars; and pursuing dialogue with the boards of directors of financial institutions through on-site examinations and off-site monitoring.

- (4) The Bank further strengthened cooperation on the macroprudential front with the Financial Services Agency (FSA) by, for example, holding regular joint meetings—twice in fiscal 2016—and sharing awareness of challenges and risks at all levels, as well as developing the framework for the operation of the countercyclical capital buffer.
- (5) The Bank executed business operations for the Loan Support Program in an appropriate manner—for example making arrangements for measures to ensure smooth funding in foreign currencies by Japanese firms and financial institutions.
- (6) The Bank hosted large-scale seminars on topics such as financial institutions' support for firms making renewed efforts for business revitalization and discontinuance. It also held a series of workshops on utilizing IT to advance financial technology and management, and released in October 2016 a summary report of the discussions.

2. Evaluation of progress

The Bank enhanced its assessment particularly of business operations and risk management at financial institutions and facilitated necessary improvements through the following: in the *Financial System Report*, it presented its assessment of challenges and risks faced in maintaining and improving the stability and functioning of the financial system, and conducted on-site examinations and improved off-site monitoring based on this assessment. In particular, the Bank sharpened its focus on business conditions at systemically important financial institutions, taking into account the extent of any systemic implications, and facilitated necessary improvements. In addition, the Bank deepened dialogue with regional financial institutions on the key management issues and challenges facing them, such as strengthening their

core profitability in a low interest rate environment.

The Bank carried out, efficiently and in an appropriate manner, both the selection of financial institutions to conduct transactions with the Bank and business operations relating to the provision of loans. It also further strengthened cooperation on the macroprudential front with the relevant authority.

During fiscal 2016, there were no circumstances that required the Bank to provide loans pursuant to Articles 37 and 38 of the Bank of Japan Act (hereafter the Act).

Based on the above, the Bank considers that it steadily tackled challenges in maintaining and improving the stability and functioning of the financial system in the face of financial institutions' macro risks and structural changes in the financial system, thereby producing the intended effects. In fiscal 2017, the Bank will work strenuously to identify challenges and risks faced in maintaining and improving the stability and functioning of the financial system, and to deepen its understanding of the situation on the ground, for example, for business operations and risk management at financial institutions. The Bank will also work further to share with relevant parties a common understanding of the current situation and of challenges facing financial institutions and the financial system.

C. Enhance Payment and Settlement Services and Reinforce Market Infrastructure

1. Progress in implementing specific measures

- (1) Looking to enhance Japan's payment and settlement services using the Bank of Japan Financial Network System (BOJ-NET), the Bank implemented the following initiatives in consultation with financial institutions and relevant parties.

- (a) Following deliberations at the Forum Towards

Making Effective Use of the BOJ-NET, the Bank provided support in identifying issues and deciding appropriate courses of action, mainly with regard to the phased extension of the operating hours of the BOJ-NET. These issues included the expansion of trade volume in the ongoing first phase in which operating hours have been extended until 9:00 p.m., and the further extension of those hours in the second phase.

- (b) In February 2017, the Bank conducted a survey on cross-border yen payment services provided by banks in order to research and analyze potential demand by firms for such services as well as issues involved in offering them during the evening and night hours in Japan.
- (c) The Bank continued with its deliberations on Global Access, which allows BOJ-NET participant financial institutions access to the BOJ-NET from terminals in their overseas offices. The outcome of these deliberations was compiled and released in May 2017.
- (2) The Bank continued with its deliberations and coordination with other central banks and relevant parties regarding issues that remain on the way to realizing payment and settlement for cross-border transactions in yen or JGBs.
- (3) The Bank encouraged the enhancement of Japan's retail payment systems through, for example, support for deliberations on the specifics of extending the operating hours of the Zengin Data Telecommunication System (Zengin System) as well as on realizing financial electronic data interchange (EDI).
- (4) The Bank participated in various meetings held by the Financial Stability Board (FSB) regarding collection of trading data, such as on repos, and made steady progress with preparations for the start of the FSB's global data collection at the end of 2018, conducting a survey on trading volumes and selecting reporting institutions in January 2017.
- (5) The Bank supported market participants' efforts to move to a T+1 JGB settlement cycle for outright transactions.
 - (a) In February 2017, the Japan Securities Dealers Association (JSDA) announced its decision to implement the T+1 settlement cycle for outright transactions of JGBs from May 2018.
- (6) The Bank contributed to discussions with market participants on the reform of interest rate benchmarks, as follows.
 - (a) Regarding the TIBOR reforms in Japan, the Bank assisted in public consultation conducted by the Japanese Bankers Association TIBOR Administration (JBATA) and other initiatives. In February 2017, JBATA announced that the JBA TIBOR Reform would be implemented in July 2017.
 - (b) The Bank supported market participants' initiatives in its role as the secretariat of the Study Group on Risk-Free Reference Rates. The Study Group designated the uncollateralized overnight call rate as the Japanese yen risk-free rate, and released a report on the matter in December 2016.
- (7) The Bank continued to cooperate in the conduct of more practical exercises to test business continuity arrangements across markets; specifically, upon request from market participants, in the market-wide joint exercise in October 2016, the Bank provided loans to exercise participants from the money market, securities markets, and foreign exchange market through Funds-Supplying Operations against Pooled Collateral.
- (8) The Bank's FinTech Center, established in April 2016, played a leading role in collecting and

communicating information as well as carrying out related research through the FinTech Forum—three meetings of which were held in fiscal 2016—and a joint conference with the University of Tokyo in November 2016. Moreover, the Bank, together with the European Central Bank (ECB), launched a joint research project in December 2016 with the aim of studying the possible use of distributed ledger technology for market infrastructure.

2. Evaluation of progress

The Bank made progress broadly as scheduled in implementing initiatives toward the enhancement of payment and settlement services, for example through deliberations on Global Access to realize access to the BOJ-NET from terminals overseas.

As for the reinforcement of the infrastructures of financial and capital markets, the Bank steadily advanced measures for the collection of trading data, such as on repos, and supported market participants' initiatives on shortening the JGB settlement cycle, TIBOR reforms, and the introduction of risk-free reference rates.

Meanwhile, the Bank also collected and communicated information and carried out research related to FinTech in an appropriate manner.

Based on the above, the Bank considers that it made steady progress in fiscal 2016 in terms of measures taken to contribute to the enhancement of payment and settlement services and the reinforcement of the infrastructures of financial and capital markets in Japan. In fiscal 2017, the Bank will continue to work to realize Global Access allowing access to the BOJ-NET from terminals overseas and to support market participants' initiatives toward the collection of trading data, such as on repos. It will also work to collect and communicate information, and to carry out research related to FinTech.

D. Conduct Stable and Efficient Central Banking Operations

1. Progress in implementing specific measures

- (1) The Bank continued, on a daily basis, to settle financial transactions involving current account deposits that financial institutions hold at the Bank in an accurate and stable manner, and conducted market operations appropriately in accordance with the guidelines decided at MPMs for market operations and asset purchases. The Bank also appropriately carried out sales of stocks purchased from financial institutions under authorization pursuant to the proviso of Article 43 of the Act, having resumed such sales from April 2016.
- (2) In order to ease supply and demand conditions of JGSs in the repo market at the fiscal year-end in March 2017, the Bank implemented temporary measures, including offers for sales of JGSs with repurchase agreements intended to provide the market with JGSs as well as relaxation of the upper limit on the number of issues of JGSs to be requested through the Securities Lending Facility.
- (3) The Bank ensured the smooth supply of clean banknotes from its Head Office and branches and maintained the cleanliness of banknotes in circulation by examining the banknotes it received. As part of the process, it improved the method of monitoring the cleanliness of banknotes in circulation, as planned.
- (4) The Bank moved forward, as scheduled, with the replacement of automatic banknote examination machines, starting installations of the new model at its branches.
- (5) The Bank continued to maintain, by gathering information from relevant parties, a firm grasp of changes in cash delivery routes and conducted cash transportation and other operational procedures efficiently.

- (6) The receipt and payment of coins at a coin delivery center outside the Bank's premises managed by a private security and transportation company were carried out smoothly.
- (7) The Bank carried out a wide range of treasury funds and JGS services with precision, while working toward more streamlined online processing of treasury funds.
- (8) In cooperation with the relevant ministries and government agencies, the Bank contributed to the smooth issuance of government bonds as special condolence to the bereaved families of the war dead for the 10th time.

2. Evaluation of progress

With regard to banking operations, the Bank continued to settle financial transactions involving current account deposits that financial institutions hold at the Bank in an accurate and stable manner, and conducted market operations appropriately in accordance with the guidelines decided at MPMs.

As for business operations relating to banknote issuance, the Bank made progress in securing confidence in banknotes and coins. For example, the new model of automatic banknote examination machine was being installed at the Bank's branches, and the receipt and payment of coins at a coin delivery center outside the Bank's premises were carried out smoothly. The Bank also made progress in firmly grasping the current situation of cash circulation by gathering information from relevant parties.

The Bank carried out a wide range of treasury funds and JGS services with precision, while working toward more streamlined online processing of treasury funds.

Based on the above, the Bank considers that, in fiscal 2016, it achieved the desired results in terms of conducting stable and efficient central banking

operations, while reviewing its business processes in response to changes in its operational environment. In fiscal 2017, the Bank will continue constantly to pursue excellence in central banking services, in view of trending changes in both the quality and quantity of its operations.

E. Contribute to the Response to Globalization on the International Financial Front

1. Progress in implementing specific measures

- (1) The Bank, as the central bank of Japan, actively participated in meetings such as those organized by the Bank for International Settlements (BIS), the FSB, the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), the Group of Twenty (G-20), the Group of Seven (G-7), the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), and the Association of Southeast Asian Nations Plus Three (ASEAN Plus Three), thereby achieving the following.
 - (a) The Bank played a part in discussions at global forums on fostering economic growth as well as on strengthening the robustness of the financial system based on its analysis of current overseas economic and financial developments, while also promoting understanding of its conduct of monetary policy.
 - (b) Through participation in discussions on financial regulation and supervision, the Bank, in cooperation with the FSA, contributed to progress on international financial regulatory reform that reflected Japan's viewpoints.
 - (c) In the fields of global financial markets, financial market infrastructures, interest rate benchmarks, the code of conduct for foreign exchange markets,

- and statistics, the Bank contributed, for example, by writing and compiling various reports.
- (d) At EMEAP-related meetings, the Bank played a key role in research and analysis on economic and financial conditions as well as on payment and settlement systems in the Asian region.
- (e) At some EMEAP-, BIS-, and FSB-related committees, the Bank's staff played leading roles, for example, by moderating discussions as the chair.
- (f) The Bank participated in the Irving Fisher Committee on Central Bank Statistics (IFC), with an official serving as a member of the IFC Executive, and played a part in discussions at the global level, for example, through the presentation of papers at related conferences.
- (2) The Bank actively exchanged information with overseas authorities on business conditions at systemically important financial institutions, mainly through supervisory colleges.
- (3) The Bank obtained prompt access to a wide range of information, for example on economic and financial conditions, the financial system, and central banking operations, through individual exchanges of opinion with major central banks and other relevant parties as well as active strengthening of relations with monetary authorities in Asia.
- (4) With regard to international monetary cooperation, the Bank deliberated over and made efforts to coordinate the provision of liquidity backstops to meet the local currency funding needs of Japanese financial institutions operating in overseas economies. On the basis of these efforts, it then signed a bilateral local currency swap arrangement with the Monetary Authority of Singapore in November 2016, establishing provisions that allowed for the extension

- of loans in Singapore dollars in an emergency situation. As for the establishment of a cross-border collateral arrangement, whereby the central bank in a partner country provides liquidity in the local currency utilizing JGSs and Japanese yen held at the Bank as collateral, the Bank proceeded with its consideration of and efforts to coordinate an expansion in the number of Asian partners participating in such arrangements. For example, in August 2016, the Bank implemented an arrangement whereby the Bangko Sentral ng Pilipinas, the central bank of the Republic of the Philippines, would provide liquidity in Philippine pesos against Japanese yen.
- (5) Under the framework of ASEAN Plus Three, the Bank, as the central bank of the co-chair country, together with the Ministry of Finance, played a key role, for example, by moderating discussions on the design of scenarios for exercises based on the Chiang Mai Initiative Multilateralization (CMIM).
- (6) The Bank made appropriate arrangements for and co-hosted international meetings including the G-7 Finance Ministers and Central Bank Governors' Meeting held in Sendai in May 2016.
- (7) The Bank contributed to the stability and development of financial and capital markets in Asia and established and strengthened medium- to long-term relationships with overseas authorities through providing technical assistance, holding seminars, and exchanging personnel, mainly with other central banks in Asia. Of the personnel exchanges, 62 involved receiving staff (513 people) from these central banks, while 8 involved sending the Bank's staff to overseas counterparts.

2. Evaluation of progress

The Bank, as the central bank of Japan, actively participated in meetings such as those organized by the

BIS and the EMEAP on topics including financial regulation, financial markets, and financial market infrastructures, and contributed to discussions toward ensuring the stability of the international currency and financial system, both as interested participant and as moderator. It boosted bilateral monetary cooperation in the Asian region and provided technical assistance, most of which also went to the Asian region. The Bank maintained and strengthened cooperation with overseas authorities, especially central banks, and obtained prompt access to a wide range of information, for example on economic and financial conditions, the financial system, and central banking operations.

Based on the above, the Bank considers that, in fiscal 2016, it made the requisite contribution as the central bank of Japan with regard to ensuring the stability of the international currency and financial system as well as securing the stability and development of financial and capital markets in Asia. In fiscal 2017, it will continue to work in cooperation with relevant parties to deepen and extend the initiatives taken to date, particularly in Asia.

F. Contribute to the Regional Economic and Financial Environment

1. Progress in implementing specific measures

(1) The Bank, at its Head Office and branches, conducted central banking operations, including business operations relating to banknote issuance as well as services relating to treasury funds and JGSs, in a stable manner by holding working-level meetings with financial institutions that hold current accounts at the Bank as well as ministries and government agencies, as necessary.

(a) In the immediate aftermath of the Kumamoto Earthquake, the Bank provided central banking services smoothly, for example, supplying cash

and settling funds via current accounts held by financial institutions at the Bank.

(2) At Kushiro, Sapporo, Sendai, Niigata, Matsue, and Kumamoto branches, the Bank, in cooperation with the respective local finance bureaus, requested that financial institutions take special measures in response to disasters.

(3) The Bank gained a detailed grasp of regional economic and financial conditions via its Head Office, branches, and local offices, by, for example, conducting interviews with local businesses and financial institutions, as well as holding meetings to exchange opinions with local chambers of commerce and industry. The Bank made use of its findings in conducting monetary policy as well as in ensuring stability and improving the functioning of the financial system.

(a) With regard to demand for rebuilding and reconstruction following the disaster caused by the Great East Japan Earthquake and the Kumamoto Earthquake, the Bank gained a thorough grasp of the situation by making use of its network of branches and offices in the disaster-stricken areas.

(4) The Bank disseminated the results of its research and analysis on regional economic developments as well as the thinking behind its policies and business operations to each region by, for example, organizing speeches and undertaking other public relations activities. Moreover, it compiled and released each quarter its findings from research and analysis on regional economic developments in the *Regional Economic Report*. The Bank revised the content of the report starting from the April 2017 issue, with a view to communicating with the public in a more effective

and efficient manner.

- (5) In fiscal 2016, the Bank's Center for Advanced Financial Technology (CAFT) hosted the following seminars and workshops targeted mainly at regional financial institutions: 6 seminars on the corporate governance reform and enhancement of business management, as well as 16 workshops on (1) private finance initiatives (PFIs) and public-private partnerships (PPPs), (2) support for start-up firms, (3) agri-finance, and (4) financial institutions' support for firms making renewed efforts for business revitalization and discontinuance.

2. Evaluation of progress

The Bank, at its Head Office and branches, conducted central banking operations, including business operations relating to banknote issuance as well as services relating to treasury funds and JGSs, in a stable manner. It gained a detailed grasp of economic and financial conditions specific to each region through vigorous research efforts; it disseminated its findings to each region and made use of them in conducting monetary policy as well as in ensuring stability and improving the functioning of the financial system.

Based on the above, the Bank considers that, in fiscal 2016, it made the requisite contribution to the regional economic and financial environment, making due use of the functions performed as the country's central bank by its Head Office, branches, and local offices. In fiscal 2017, the Bank will continue to provide appropriate central banking services in each region of the country. It will also work particularly to maintain an accurate grasp of regional economic and financial developments and disseminate related information, while giving due consideration to regional revitalization.

G. Strengthen External Communication

1. Progress in implementing specific measures

- (1) In accordance with the Act, the Bank kept the public fully informed regarding its conduct of monetary policy and business operations via the following.
- (a) Releasing the minutes and transcripts of MPMs.
 - (b) Submitting two issues of the *Semiannual Report on Currency and Monetary Control* to the Diet in fiscal 2016, in June and December, and releasing the full texts of these two issues in Japanese as well as the summaries in English on the Bank's website.⁵
 - (c) Publishing the *Gyomu Gaikyo Sho* (Outline of Business Operations) for fiscal 2015 in May 2016.
- (2) The Bank made use of a variety of channels to communicate its conduct of monetary policy and business operations to the public, working to promote deeper understanding of its policy intentions. These communication channels included the following.
- (a) Public statements on the Bank's monetary policy decisions, such as the "Statement on Monetary Policy"; the *Outlook for Economic Activity and Prices* released in April, July, and October 2016 as well as in January 2017; a document that contained a summary of the opinions presented at each MPM (Summary of Opinions); and press conferences, speeches, and articles by the Governor, Deputy Governors, and Members of the Policy Board.
 - (b) Two publications released in September 2016, namely a report titled *Comprehensive Assessment: Developments in Economic Activity and Prices as*

5. Excerpts from the summaries of the two issues of the report dealing with developments in fiscal 2016, namely, the issues released in December 2016 and June 2017, can be found on pages 30–35.

well as Policy Effects since the Introduction of Quantitative and Qualitative Monetary Easing (QQE) and an explanatory paper on the comprehensive assessment of the Bank's monetary easing and QQE with Yield Curve Control (available only in Japanese).

(3) The Bank was also involved in the following public relations activities, which it sought to make clear, intelligible, and accessible to a wide range of target audiences, thereby promoting better understanding among the public of its conduct of monetary policy and business operations.

(a) The Bank launched a redesigned website in December 2016,⁶ introducing the Slideshow and Highlights functions on the top page as well as enabling easier access between pages giving particular statistics and those for the BOJ Time-Series Data Search. It also actively improved the content of its website through, for example, updating the [Bank of Japan FAQs](#) to reflect changes in monetary policy and adding questions that it considered would help foster better understanding among the public about the Bank.

(b) In addition to making the Bank's releases available on its websites, the Bank made use of social networking sites (SNS), thereby disseminating a steady stream of up-to-date information to a wider audience. The number of page views on the Bank's websites was around 254 million, of which around 93 million were made to its English-language website. The number of page views on its branches' websites was around 5.1 million in total. Followers of the Bank's Twitter accounts totaled around 117,000.

(c) The Bank continued to enhance the content of

Nichigin, its public relations magazine (available only in Japanese), and started to include selected topics from the magazine on the Bank's website in the What's New section of the top page.

(d) In June 2016, the Bank introduced short tours on the day (for which no advance reservation is necessary) at its Head Office, and changed the tour route in October due to work to reinforce the Main Building against earthquakes. The Bank's branches enhanced the content of in-house tours by, for example, adding exhibits. The total number of tour visitors to the Head Office was around 31,000, while branches received around 26,000.

(e) The Bank hosted various public relations events, providing opportunities for the public to deepen their understanding of the Bank's policies and business operations. These events included special in-house tours for families visiting with primary and junior high school children during school holiday seasons in spring and summer. The Bank also hosted at its Head Office the "BOJ Grand-Prix," an essay and presentation contest primarily for college students, for which there were 118 entries, as well as public lectures about the Bank's business operations.

(f) The Bank gave on-campus lectures to college students on the functions and operations of the Bank and offered in-house lectures combined with tours of the Bank's Head Office, with the number of these lectures totaling 52.

(4) The Bank actively disseminated information on its conduct of monetary policy and business operations in English.

(5) The Bank worked to gain a better grasp of public opinion as well as public needs regarding its policies

6. For details, see Information on page 94.

and business operations from people across a wide range of fields via the following.

- (a) Holding more meetings and dialogues with financial institutions, firms, economic organizations, academics, and other parties concerned in the Bank's business operations.
- (b) Provision of pertinent responses to around 5,300 inquiries and comments received at the Head Office via phone calls or e-mails (excluding those for sales purposes or those that were incorrectly addressed).
- (6) The Bank operated the Currency Museum appropriately; the number of visitors during fiscal 2016 totaled around 113,000. The Bank also operated the Bank of Japan Otaru Museum appropriately, hosting a joint exhibition with Otaru City Museum for the first time; the number of visitors during fiscal 2016 totaled around 104,000.
- (7) The Bank responsibly managed the activities of its Archives, which have the status of "the National Archives of Japan, etc." as stipulated in the Public Records and Archives Management Act as well as the order for enforcement of this Act. A total of 3,383 historical official documents were added to the Archives, and there were a total of 177 requests for access.
- (8) The Bank made public the findings of its research and analysis on economic and financial developments, releasing 19 papers in the *Bank of Japan Review Series*, 14 in the *Bank of Japan Working Paper Series*, 26 in the *Institute for Monetary and Economic Studies (IMES) Discussion Paper Series*, 7 in the *Bank of Japan Research Laboratory Series*, and 14 research papers. The total number of papers released in fiscal 2016 exceeded that in fiscal 2015.
- (9) The Bank co-hosted the Sendai G-7 symposium on

the future of the global economy in May 2016, and held a joint workshop with the Bank of Canada in September on the topic of challenges to central bank policies for price stability and financial stability.

- (10) The Bank revised, rebased, and made appropriate enhancements to the statistics it compiled so as to accommodate changes in the economic and regulatory environment.
 - (a) In June 2016, the Bank updated the base year of the input-output price index of the manufacturing industry by sector (IOPI) to 2011.
 - (b) In February 2017, the Bank updated the base year of the corporate goods price index (CGPI) to 2015.
 - (c) As for the *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the Bank proposed a draft of planned revisions to accommodate changes in financial and economic structures, and released the final draft in December 2016, after public consultation. The planned revisions included adding "research and development (R&D) investment" to the survey items; the addition has been in effect since the March 2017 survey.
 - (d) The Bank revised the survey items of the *Central Bank Survey of Foreign Exchange and Derivatives Market Activity* and *Regular Derivatives Market Statistics in Japan* (April and June 2016 issues).
 - (e) In response to the discontinuation of the release of the data for CP issuance rates by the Japan Securities Depository Center (JASDEC), the Bank commenced release of the data from January 2017 in order to ensure transparency in the CP market.
 - (f) The Bank took over the release of call money

market data, previously released by the Association of Call Loan and Discount Companies. It also started to release data on volumes of uncollateralized overnight call transactions from January 2017.

(11) Through the following measures, the Bank promoted an in-depth understanding of the statistics it compiled.

(a) The Bank released papers in the *Bank of Japan Review Series* clearly explaining the major changes resulting from the revision of the *Flow of Funds Accounts Statistics* (FFA) in May 2016 and the *BIS International Banking Statistics* in February 2017.

(b) The Bank released a research paper on the revision of the survey items and the sample design of the *Tankan*, and also extended the explanations on the CGPI.

(12) The Bank contributed to discussions held by the government toward making improvements to economic statistics, such as enhancing the accuracy of GDP statistics, by taking part in the Council for the Promotion of Fundamental Reform of Economic Statistics and the Statistics Commission as well as by conducting related research and releasing its findings.

(13) As the secretariat of the Central Council for Financial Services Information (CCFSI), the Bank expanded and improved activities such as lectures to college students on financial literacy, in cooperation with Local Financial Services Information Committees and other relevant parties such as ministries, local public bodies, and financial and economic organizations. In addition, the Bank supported the CCFSI's efforts to develop a range of activities to provide financial information to the

public through the following actions.

(a) The CCFSI conducted the *Financial Literacy Survey* and a survey on children's lives and their use of money (available only in Japanese); survey findings were released in June 2016.

(b) In January 2017, the CCFSI's official website *Shiruporuto* (Gateway to Knowledge) was redesigned so that information could be found more easily, through searches by purpose or by particular life stage or event.

2. Evaluation of progress

The Bank employed various channels to communicate its conduct of monetary policy and business operations to the public both at home and abroad, and made efforts to promote deeper understanding of its policy intentions.

The Bank worked to gain a better grasp of public opinion and public needs by increasing dialogue with financial institutions and firms, as well as by providing pertinent responses to inquiries and comments received at the Bank.

The Bank proceeded with efforts to revise and rebase its statistics so as to accommodate changes in the economic and regulatory environment, as well as implementing measures to improve their user-friendliness. It also continued to contribute to discussions held by the government toward the improvement of economic statistics.

As the secretariat of the CCFSI, and in cooperation with relevant parties, the Bank supported the CCFSI's efforts to develop a range of activities to provide financial information to the public, thereby contributing to the promotion of financial literacy among the public.

Based on the above, the Bank considers that, in fiscal 2016, it steadily implemented the measures scheduled under its strategic objective of strengthening external

communication. In fiscal 2017, the Bank will continue its efforts to improve the clarity and intelligibility of communications regarding its conduct of monetary policy and business operations as well as to maintain

and strengthen networks with people, firms, and economic organizations across a wide range of fields so as to better grasp public opinions and public needs.