



BANK OF JAPAN

ANNUAL REVIEW 2019





BANK OF JAPAN

ANNUAL REVIEW 2019

Year Ended March 31, 2019

OUR POLICY AND OPERATIONS





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For more information about the Bank of Japan, visit the Bank's website
[\(https://www.boj.or.jp/en/index.htm\)](https://www.boj.or.jp/en/index.htm).

This Annual Review is available in PDF and HTML on the Bank's website
[\(https://www.boj.or.jp/en/about/activities/act/ar2019.htm\)](https://www.boj.or.jp/en/about/activities/act/ar2019.htm).



FOREWORD BY THE GOVERNOR



The Bank of Japan has two missions, to achieve price stability and ensure the stability of the financial system. On the price stability side, the Bank has been steadily pursuing its policy of Quantitative and Qualitative Monetary Easing with Yield Curve Control to achieve the price stability target of 2 percent in terms of the year-on-year rate of change in the consumer price index. The Bank works to fulfill the two missions by conducting, besides monetary policy, business operations in a wide range of areas such as financial system and bank examination, payment and settlement systems, market infrastructure, international finance, banknotes, treasury funds and Japanese government securities services, and public communications. The Bank pursues its various policies through the precise and deliberate execution of these central banking operations.

The *Annual Review* provides excerpts from the Japanese original *Gyoumu Gaikyo Sho* (Outline of Business Operations), which is prepared pursuant to Article 55 of the Bank of Japan Act. The *Gyoumu Gaikyo Sho* for fiscal 2018 and the *Annual Review 2019* have been drawn up and released to explain to readers the implementation of the Bank's business operations during fiscal 2018. Throughout the fiscal year, the Bank, in accordance with *The Bank of Japan's Strategic Priorities for Fiscal 2014–2018*, continued to address various issues and move forward with a number of measures, while ensuring that its business operations and organizational management were conducted in a timely manner in view of changes in circumstances. In March 2019, the Bank released the *Medium-Term Strategic Plan (Fiscal 2019–2023)*, which set the basic direction for the Bank's business operations and organizational management during the five-year period.¹ The Bank will proceed with its efforts as the country's central bank to achieve the sustainable growth and development of Japan's economy. I hope this year's *Annual Review* will help readers to gain an overview of the Bank's efforts.

A handwritten signature in black ink, reading "Haruhiko Kuroda". The signature is written in a cursive, flowing style.

Haruhiko Kuroda
Governor of the Bank of Japan

1. Following *The Bank of Japan's Strategic Priorities for Fiscal 2014–2018* that ended in March 2019, the Bank formulated this plan for the five-year period starting April 2019.

About the Bank of Japan

I. Core Purposes

II. Capital

III. The Bank's Officers

IV. Organization

The Bank of Japan is the central bank of Japan. It is a juridical person established based on the Bank of Japan Act (hereafter the Act), and is not a government agency or a private corporation (Table 1).

Table 1
History of the Bank of Japan

1882	June	The Bank of Japan Act of 1882 is promulgated; the Bank is to have capital of 10 million yen and is given a license to operate for 30 years from the start of business.
	Oct. 10	Business operation begins.
1887	Mar.	An increase in the Bank's capital is announced from 10 million yen to 20 million yen.
1895	Aug.	An increase in the Bank's capital is announced from 20 million yen to 30 million yen.
1896	Apr.	The Head Office is moved to a new building at the present location.
1910	Feb.	The Bank is given a license to operate for 30 more years from October 10, 1912, and an increase in the Bank's capital is announced from 30 million yen to 60 million yen.
1942	Feb.	The Bank of Japan Act of 1942 is promulgated; the Bank is to have capital of 100 million yen.
	May 1	The Bank is reorganized under the Bank of Japan Act of 1942.
1949	June	The Policy Board is established.
1997	June	The Bank of Japan Act of 1997 is promulgated; the Bank is to have capital of 100 million yen.
1998	Apr. 1	The Bank of Japan Act of 1997 comes into effect.

I. CORE PURPOSES

The Act determines the Bank's core purposes as follows:

Article 1

- (1) The purpose of the Bank of Japan, or the central bank of Japan, is to issue banknotes and to carry out currency and monetary control.
- (2) In addition to what is prescribed in the preceding paragraph, the Bank of Japan's purpose is to ensure smooth settlement of funds among banks and other financial institutions, thereby

contributing to the maintenance of stability of the financial system.

The Act also stipulates the principle governing the Bank's currency and monetary control as follows:

Article 2

Currency and monetary control by the Bank of Japan shall be aimed at achieving price stability, thereby contributing to the sound development of the national economy.

II. CAPITAL

The Bank is capitalized at 100 million yen in accordance with Article 8, paragraph 1 of the Act. As of the end of March 2019, 55,008,000 yen is subscribed by the government, and the rest by the private sector (Table 2).¹

The Act does not grant holders of subscription certificates the right to participate in the Bank's

management, and, in the case of liquidation, only gives them the right to request distribution of residual assets up to the sum of the paid-up capital and, if any, the special reserve fund.² Dividend payments as a proportion of paid-up capital are limited to 5 percent or below in each fiscal year.³

Table 2

Subscribers by Category

Subscribers	Amount of subscription (thous. yen) ¹	Percentage of the total subscription (%)
The government	55,008	55.0
The private sector	44,991	45.0
Individuals	40,305	40.3
Financial institutions	2,039	2.0
Public organizations	191	0.2
Securities companies	30	0.0
Other firms	2,423	2.4
Total	100,000	100.0

Note: 1. Rounded down to the nearest 1,000 yen. As of the end of March 2019.

1. Article 8, paragraph 2 of the Act states as follows: "Of the amount of stated capital set forth in the preceding paragraph, the amount of contribution by the government shall be no less than fifty-five million yen."

2. Stipulated by Article 60, paragraph 2, and Supplementary Provisions Article 22, paragraph 2.

3. Stipulated by Article 53, paragraph 4.

III. THE BANK'S OFFICERS

The Bank's officers are the Governor, Deputy Governors, Members of the Policy Board, Auditors, Executive Directors, and Counsellors.⁴ Of the above, the Governor, Deputy Governors, and Members of the Policy Board make up the Policy Board.⁵

The Governor, Deputy Governors, and Members of the Policy Board are appointed by the Cabinet, subject to the consent of the House of Representatives and the House of Councillors. Auditors are appointed by the Cabinet. Executive Directors and Counsellors are appointed by the Minister of Finance based on the Policy Board's recommendation.⁶

The terms of office are five years for the Governor, Deputy Governors, and Members of the Policy Board; four years for Auditors and Executive Directors; and two years for Counsellors.⁷ The Bank's officers, excluding Executive Directors, are not dismissed against their will during their terms of office, except in the cases prescribed in the Act, such as the formal commencement of bankruptcy proceedings against them.⁸

For duties and powers of the Bank's officers, see Table 3.⁹

Table 3

Duties and Powers of the Bank's Officers

	Duties and powers
Policy Board members	Decide the guideline for currency and monetary control and other important matters concerning the Bank's operations, and supervise the officers (excluding Auditors and Counsellors) in the fulfillment of their duties.
Governor	Represents the Bank and exercises general control over the Bank's business in accordance with decisions made by the Policy Board. At the same time, fulfills the duties of an independent Policy Board member.
Deputy Governors	In accordance with decisions made by the Governor, represent the Bank, administer the business of the Bank assisting the Governor, act for the Governor whenever the Governor is prevented from attending to his/her duties, and perform the Governor's duties during a vacancy in the office of the Governor. At the same time, fulfill the duties of independent Policy Board members.
Members of the Policy Board	Comprise the Policy Board, together with the Governor and Deputy Governors.
Auditors	Audit the business of the Bank. May, when they find it necessary based on the audit results, submit their opinions to the Minister of Finance, the Prime Minister (the Commissioner of the Financial Services Agency when the Prime Minister delegates such authority under Article 61-2 of the Act), or the Policy Board.
Executive Directors	In accordance with decisions made by the Governor, administer the business of the Bank assisting the Governor and Deputy Governors, act for the Governor when the Governor and Deputy Governors are prevented from attending to their duties, and perform the Governor's duties during vacancies in the offices of the Governor and Deputy Governors.
Counsellors	Give advice to the Policy Board when consulted on any important matter concerning the Bank's business operations. May also express their opinions to the Policy Board when they find it necessary.

4. Stipulated by Article 21. The officers of the Bank consist of a Governor, two Deputy Governors, six Members of the Policy Board, three or fewer Auditors, six or fewer Executive Directors, and a small number of Counsellors.

5. Stipulated by Article 16, paragraph 2.

6. Stipulated by Article 23.

7. Stipulated by Article 24.

8. Stipulated by Article 25.

9. Duties and powers are stipulated by Article 16, paragraph 2, and Article 22.

Policy Board Members^{1,2}



Standing from left to right: Hitoshi Suzuki, Makoto Sakurai, Yutaka Harada, Yukitoshi Funo, Takako Masai, and Goushi Kataoka
Seated from left to right: Masayoshi Amamiya, Haruhiko Kuroda, and Masazumi Wakatabe

Haruhiko Kuroda, Governor

Masayoshi Amamiya, Deputy Governor

Masazumi Wakatabe, Deputy Governor

Yutaka Harada

Yukitoshi Funo

Makoto Sakurai

Takako Masai

Hitoshi Suzuki

Goushi Kataoka

Notes: 1. Members are as of August 1, 2019.

2. The texts of speeches by Policy Board members are available on the Bank's website (https://www.boj.or.jp/en/announcements/press/koen_speaker/index.htm).

Haruhiko Kuroda

Governor (the 31st) and Chairman of the Policy Board

Date of Birth

October 25, 1944

Education

The University of Tokyo
 (1967, B.A. in Law)
 University of Oxford
 (1971, M.Phil. in Economics)

1967 Joined Japan's Ministry of Finance (MOF)
 1987 Director, International Organizations Division, International Finance Bureau
 1988 Secretary to the Minister of Finance
 1989 Director, International Tax Affairs Division, Tax Bureau
 1990 Director, Income Tax and Property Tax Policy Division, Tax Bureau
 1991 Director, Co-ordination Division, Tax Bureau
 1993 Regional Commissioner, Osaka Regional Taxation Bureau, National Tax Agency
 1994 Deputy Director-General, International Finance Bureau, MOF
 1996 President, Institute of Fiscal and Monetary Policy
 1997 Director-General, International Finance Bureau
 1998 Director-General, International Bureau
 1999 Vice Minister of Finance for International Affairs
 2003 Special Advisor to the Cabinet and Professor, Graduate School of Economics, Hitotsubashi University
 2005 President, Asian Development Bank
 2013 Present position

Masayoshi Amamiya

Deputy Governor

Date of Birth

September 30, 1955

Education

The University of Tokyo
 (1979, B.A. in Economics)

1979 Joined the Bank of Japan
 1988 Director, Head of Planning Division II, Policy Planning Office
 Director, Head of Money and Capital Markets Division, Financial Markets Department
 1999 Director, Head of Planning Division I, Policy Planning Office
 2001 Associate Director-General, Policy Planning Office
 2002 Associate Director-General, Bank Examination and Surveillance Department
 2004 Deputy Director-General, Secretariat of the Policy Board
 2006 Director-General, Monetary Affairs Department
 2010 Executive Director
 2012 Executive Director and General Manager, Osaka Branch
 2013 Executive Director
 2018 Present position

Masazumi Wakatabe

Deputy Governor

Date of Birth

February 26, 1965

Education

Waseda University
 (1987, B.A. in Economics; 1990, M.A. in Economics; and 1998, withdrew from doctoral program in Economics after completion of course requirements except for dissertation)
 University of Toronto
 (1994, M.A. in Economics; and 2002, withdrew from doctoral program in Economics after completion of course requirements except for dissertation)

1991 Research Associate, Waseda University
 1998 Assistant Professor, Waseda University
 2000 Associate Professor, Waseda University
 2005 Professor, Waseda University
 2017 Visiting Scholar, Center on Japanese Economy and Business, Columbia Business School
 2018 Present position

Yutaka Harada

Date of Birth	Education
September 1, 1950	The University of Tokyo (1974, B.A. in Agricultural Economics) University of Hawaii (1979, M.A. in Economics) Gakushuin University (2012, Ph.D. in Economics)

1974	Joined the Economic Planning Agency
1995	Director, Social Research Division, Social Policy Bureau
1997	Director, Overseas Research Division, Research Bureau
1998	Director, Price Policy Division, Price Bureau
1999	Vice President, Institute of Fiscal and Monetary Policy, Ministry of Finance
2002	Executive Research Fellow, Economic and Social Research Institute, Cabinet Office
2004	Chief Economist, Daiwa Institute of Research, Ltd.
2012	Professor, Waseda University
2015	Present position

Yukitoshi Funo

Date of Birth	Education
February 1, 1947	Kobe University (1969, B.A. in Business Administration) Columbia University (1976, MBA)

1970	Joined Toyota Motor Corporation (TMC)
2000	Director, TMC
2003	President, Toyota Motor Sales, U.S.A., Inc. (TMS)
2005	Chairman and Chief Executive Officer, TMS
2006	Chairman and Chief Executive Officer, Toyota Motor North America, Inc. (TMA)
2009	Executive Vice President and Member of the Board, TMC
2013	Senior Advisor to the Board, TMC Chief Executive Officer, Institute for International Economic Studies
2015	Present position

Makoto Sakurai

Date of Birth	Education
June 16, 1946	Chuo University (1969, B.A. in Economics) The University of Tokyo (1972, M.A. in Economics; and 1976, withdrew from doctoral program in Economics after completion of course requirements except for dissertation)

1976	Joined the Export-Import Bank of Japan
1980	Visiting Fellow, Economic Growth Center, Yale University
1989	Senior Economist, Research Institute for International Investment and Development, Export-Import Bank of Japan Director General and Chief Economist, Taisho Marine Research Institute Co., Ltd.
1990	Also served as Senior Research Fellow, Institute of Fiscal and Monetary Policy, Ministry of Finance
1996	President, Research Center for International Finance, Mitsui Marine Research Institute Co., Ltd.
2007	President, Sakurai & Associates International Finance Research Center
2016	Present position

Takako Masai

Date of Birth	Education
March 8, 1965	Jissen Women's University (1988, B.A. in English Literature) Hosei University (2007, MBA)

1988	Joined Scotiabank, Tokyo
1989	Joined The Toronto-Dominion Bank, Tokyo
1998	Joined Credit Agricole Indosuez, Tokyo
2004	Joined Calyon Corporate and Investment Bank, ³ Tokyo
2007	General Manager, Capital Markets Division, Shinsei Bank, Ltd.
2011	General Manager, Markets Division, Shinsei Bank, Ltd. General Manager, Markets Sub-Group, Shinsei Bank, Ltd.
2013	Executive Officer, Head of Markets Research Department, Markets Sub-Group, Shinsei Bank, Ltd.
2015	Executive Officer, General Manager of Markets Research Division, Shinsei Bank, Ltd.
2016	Executive Officer, General Manager of Financial Research Division, Shinsei Bank, Ltd. Present position

Hitoshi Suzuki

Date of Birth	Education
January 8, 1954	Keio University (1977, B.A. in Economics) New York University (1984, MBA)

1977	Joined The Mitsubishi Bank, Ltd.
2005	Executive Officer and General Manager, Treasury Planning Office and Treasury IT Planning Office, The Bank of Tokyo-Mitsubishi, Ltd. (BTM) ⁴
2006	Executive Officer and General Manager, Global Markets Planning Division, The Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU) ⁵
2007	Executive Officer and General Manager, Strategic Credit Portfolio Management Division, BTMU
2011	Senior Managing Director, Chief Executive, Global Markets Unit, BTMU
2012	Deputy President, BTMU
2014	Corporate Auditor, BTMU
2016	Director, Audit and Supervisory Committee Member, BTMU
2017	Advisor, BTMU Present position

Goushi Kataoka

Date of Birth	Education
November 30, 1972	Keio University (1996, B.A. in Business and Commerce; and 2001, M.A. in Business and Commerce)

1996	Joined Sanwa Research Institute
2005	Senior Economist, Economic & Social Policy Department, UFJ Institute Ltd. ⁶
2006	Senior Economist, Economic & Social Policy Department, Mitsubishi UFJ Research and Consulting Co., Ltd. ⁷
2016	Senior Economist, Economic Policy Department, Mitsubishi UFJ Research and Consulting Co., Ltd.
2017	Present position

Notes: 3. Established in 2004 through merger of Credit Agricole Indosuez and Credit Lyonnais.

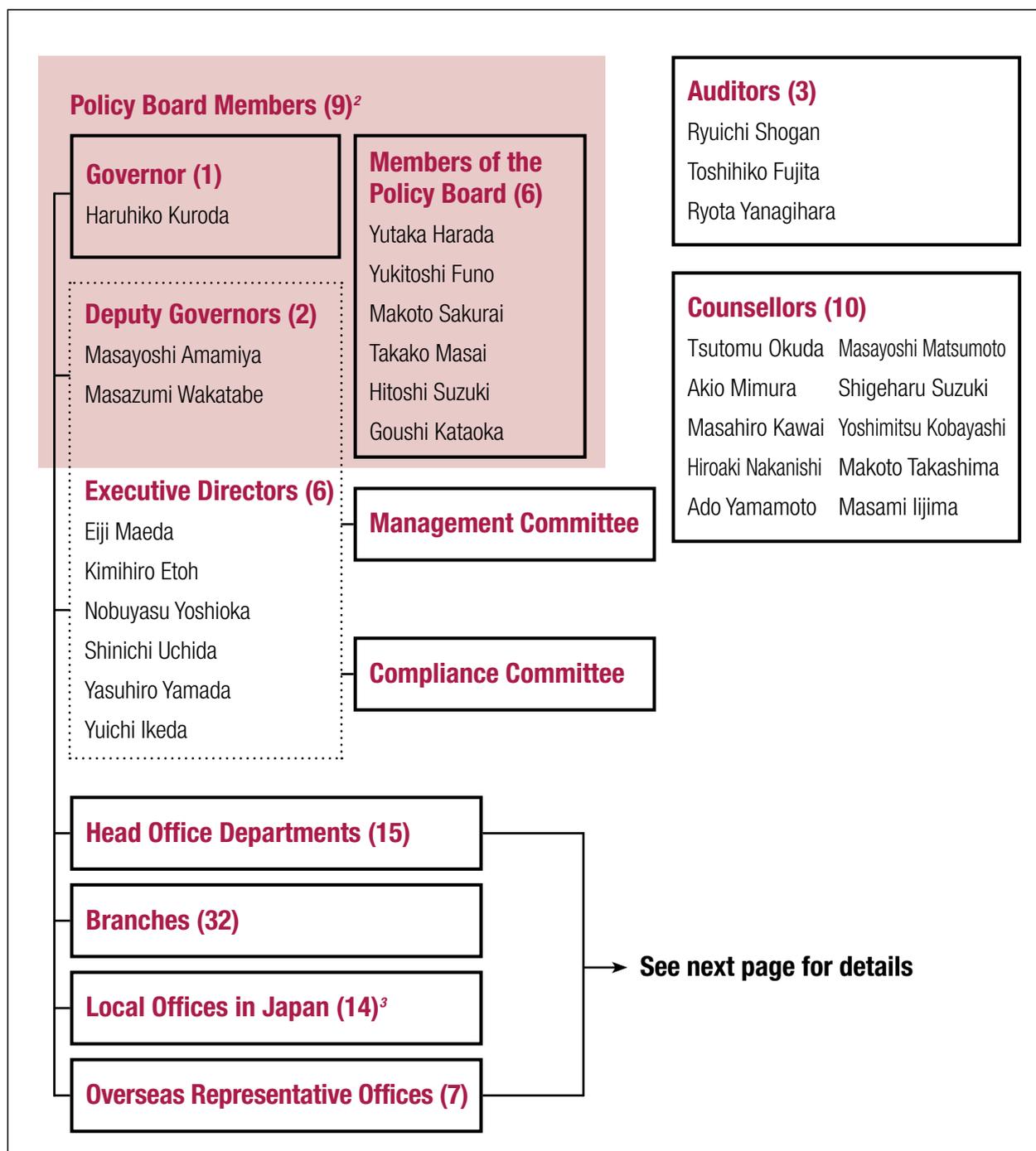
4. Established in 1996 through merger of The Mitsubishi Bank, Ltd. and The Bank of Tokyo, Ltd.

5. Established in 2006 through merger of The Bank of Tokyo-Mitsubishi, Ltd. and UFJ Bank Ltd., and subsequently renamed MUFG Bank, Ltd. in April 2018.

6. Established in 2002 through merger of Sanwa Research Institute and Tokai Research & Consulting Inc.

7. Established in 2006 through merger of UFJ Institute Ltd., The Diamond Business Consulting Co., Ltd., and Tokyo Research International Co., Ltd.

IV. ORGANIZATION

Organization Chart of the Bank¹

Notes: 1. As of August 1, 2019.

2. As stipulated by Article 16, paragraph 2 of the Act, the Policy Board shall consist of the Governor, two Deputy Governors, and six Members of the Policy Board.

3. Includes the Computer Center represented by the Director-General of the Information System Services Department, and the Banknote Operations Center represented by the Director-General of the Currency Issue Department.

Head office departments	Officials
Secretariat of the Policy Board	Yoji Onozawa (Director-General) Ken Matsushita (Director-General, Senior Secretary to the Governor) Yasuhiro Nakaone (Director-General for Management Strategy, Budget and Accounting)
Internal Auditors' Office	Hiroataka Hideshima (Director-General)
Monetary Affairs Department	Takeshi Kato (Director-General)
Financial System and Bank Examination Department	Hirohide Koguchi (Director-General)
Payment and Settlement Systems Department	Takeshi Kimura (Director-General)
Financial Markets Department	Seiichi Shimizu (Director-General)
Research and Statistics Department	Toshitaka Sekine (Director-General)
International Department	Yoshinori Nakata (Director-General)
Currency Issue Department	Hidetsugu Chida (Director-General)
Operations Department	Shinichiro Hayashi (Director-General)
Information System Services Department	Taro Teruuchi (Director-General)
Public Relations Department	Shinobu Nakagawa (Director-General)
Personnel and Corporate Affairs Department	Tetsuya Sakamoto (Director-General) Takeshi Nakajima (Director-General for Personnel Management)
Administration Department	Fumikazu Taniguchi (Director-General)
Institute for Monetary and Economic Studies	Shigenori Shiratsuka (Director-General)

Overseas representative offices		Telephone numbers	General managers/ chief representatives
New York	Bank of Japan Chief Representative Office for the Americas Bank of Japan Representative Office in New York 140 Broadway, 18th Floor, New York, NY 10005, U.S.A.	+1-212-269-6566	Koji Nakamura (General Manager for the Americas and Chief Representative in New York)
Washington, D.C.	Bank of Japan Representative Office in Washington, D.C. 1801 Pennsylvania Ave., N.W., Suite 800, Washington, D.C. 20006, U.S.A.	+1-202-466-2228	Shigeru Shimizu (Chief Representative in Washington, D.C.)
London	Bank of Japan Chief Representative Office for Europe Bank of Japan Representative Office in London Basildon House, 7-11 Moorgate, London EC2R 6AF, U.K.	+44-20-7606-2454	Yuko Kawai (General Manager for Europe and Chief Representative in London)
Paris	Bank of Japan Representative Office in Paris 17 Avenue George V, 75008 Paris, France	+33-1-4720-7295	Yuji Yamashita (Chief Representative in Paris)
Frankfurt	Bank of Japan Representative Office in Frankfurt Tanusanlage 21, 60325 Frankfurt am Main, Germany	+49-69-9714310	Yuichi Adachi (Chief Representative in Frankfurt)
Hong Kong	Bank of Japan Representative Office in Hong Kong Suite 1012, One Pacific Place, 88 Queensway, Central, Hong Kong	+852-2525-8325	Ryota Kojima (Chief Representative in Hong Kong)
Beijing	Bank of Japan Representative Office in Beijing 19th Floor, Unit 12C, China World Tower 2, No. 1 Jian Guo Men Wai Avenue, Beijing 100004, China	+86-10-6505-9601	Yoshiaki Azuma (Chief Representative in Beijing)

Functions of Committees/Departments/Offices

COMMITTEES AND HEAD OFFICE DEPARTMENTS

Management Committee

Examines and manages Bank-wide issues regarding the Bank's operations. The committee comprises the Deputy Governors and all Executive Directors.

Compliance Committee

Ensures that the officers and employees perform their duties fairly and in compliance with the relevant laws and regulations. The committee comprises members appointed from among the Deputy Governors and Executive Directors by the Governor, the Director-General of the Internal Auditors' Office, and one or more legal experts from outside the Bank.

Secretariat of the Policy Board

(1) Arranges proceedings for Policy Board meetings, (2) liaises with the Diet and the media, (3) reviews the content and wording of important documents, and offers a legal perspective on them, (4) plans and formulates measures relating to the Bank's business operations and organizational management, (5) handles the Bank's budget, settlement, and accounting, (6) provides administrative services for the Bank's officers, and (7) supports Auditors in auditing.

Internal Auditors' Office

Audits the Bank's business operations.

Monetary Affairs Department

Plans and formulates monetary policy measures.

Financial System and Bank Examination Department

(1) Plans and formulates measures that contribute to the maintenance of an orderly financial system, (2) conducts on-site examinations and off-site monitoring of financial institutions that hold current accounts at the Bank, (3) judges financial institutions' eligibility to hold current accounts at the Bank and to have access to its lending facilities, and (4) determines the specifics of credit extension and discounting of bills by the Bank.

Payment and Settlement Systems Department

Plans and formulates measures in the following areas: (1) policy issues relating to payment and settlement systems; (2) financial institutions' access to payment and settlement services provided by the Bank; and (3) the Bank's business continuity planning.

Financial Markets Department

(1) Determines the specifics of daily market operations, (2) conducts foreign exchange interventions, (3) works toward improving the functioning of Japanese financial markets, including the foreign exchange market, and (4) monitors and analyzes developments in financial markets in Japan as well as overseas, including foreign exchange markets.

Research and Statistics Department

(1) Conducts research on the domestic economy and fiscal situation, and (2) compiles and releases statistics.

International Department

(1) Liaises and coordinates with overseas central banks and international organizations, (2) makes arrangements for investment in yen assets by overseas central banks, and conducts operations aimed at providing international financial support, (3) manages foreign currency assets held by the Bank, (4) conducts research on global economic and financial conditions, and (5) compiles Japan's balance of payments and other such statistics.

Currency Issue Department

(1) Conducts planning and operations relating to banknotes, and (2) conducts payment/receipt of coins, and examines and takes custody of them.

Operations Department

Conducts banking operations including the following: (1) discounting of bills; (2) credit extension; (3) purchasing/selling of bills, Japanese government securities, and other securities; (4) borrowing/lending of securities with cash collateral; (5) accepting of deposits; (6) domestic funds transfers; (7) handling of treasury funds; and (8) operations relating to stocks purchased by the Bank.

Information System Services Department

Manages the development and operation of the Bank's computer systems.

Public Relations Department

(1) Conducts public relations activities, (2) administers the Bank's library, and (3) works toward raising public awareness and understanding of financial and economic issues.

Personnel and Corporate Affairs Department

Handles business in corporate affairs, personnel policy issues relating to recruitment, assessment of job performance, career planning and training, wages and salaries, and the Bank's code of ethics.

Administration Department

Conducts administrative operations relating to the Bank's facilities, supplies, security, and transportation.

Institute for Monetary and Economic Studies

(1) Studies theoretical, institutional, technological, and historical aspects of monetary and economic issues, (2) collects, preserves, and exhibits historical materials and documents related to monetary and economic issues, and (3) exchanges views with academics.

BRANCHES AND OFFICES

Branches

The 32 branches mainly conduct operations relating to currency issue and banking operations, and research on the economic and financial situation in their respective areas.

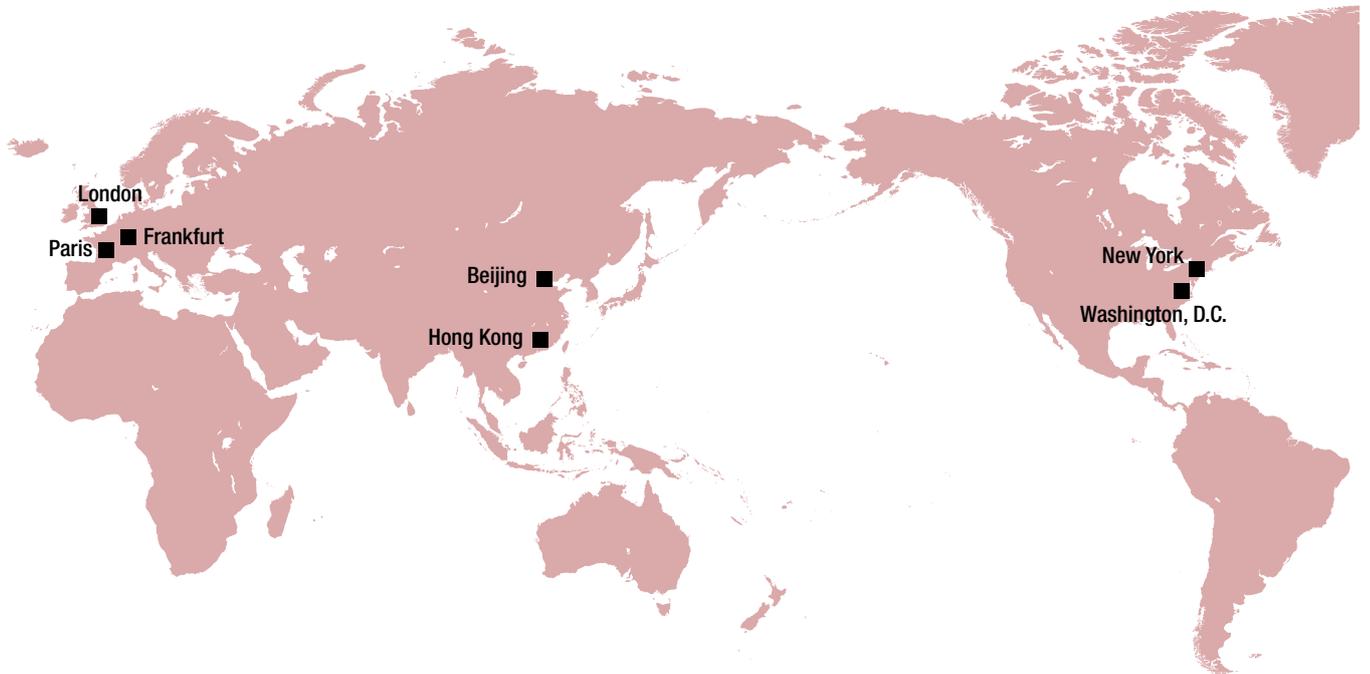
Local Offices in Japan

The Computer Center in Fuchu City, Tokyo, operates the Bank's systems. The Banknote Operations Center in Toda City, Saitama Prefecture, receives, pays, and stores banknotes. The other 12 local offices handle some of the operations of the Head Office or branches.

Overseas Representative Offices

The seven overseas representative offices perform a liaison function, gather information, and conduct research.

Overseas Representative Offices¹



Note: 1. For details, see page 15.

The Bank's Business Operations

I. Monetary Policy

II. Financial System Policy

**III. Enhancement of Payment and Settlement Systems and
Market Infrastructure**

IV. International Operations

V. Issuance, Circulation, and Maintenance of Banknotes

VI. Services Relating to the Government

VII. Communication with the Public

I. MONETARY POLICY

The Bank of Japan decides and implements monetary policy under the price stability target of 2 percent in terms of the year-on-year rate of change in the consumer price index (CPI), with the aim of achieving price stability and thereby contributing to the sound development of the national economy, as stipulated in Article 2 of the Bank of Japan Act (hereafter the Act). Monetary policy is decided by the Policy Board at Monetary Policy Meetings (MPMs), and market operations—the Bank's day-to-day provision and absorption of funds in the market—are carried out based on the guideline decided at each MPM. The Bank held eight MPMs in fiscal 2018.

The Bank releases each quarter the *Outlook for Economic Activity and Prices* (hereafter the Outlook Report) after the Policy Board has decided the text of "The Bank's View" section at MPMs held, in principle, in January, April, July, and October. In the Outlook Report, the Bank presents its outlook for developments in economic activity and prices, assesses upside and downside risks, and outlines its views on the future conduct of monetary policy. For MPMs other than the above, the Policy Board members' assessment of the economic and financial situation is expressed in the statement on monetary policy released after each MPM.

In order to make appropriate policy decisions, the Bank conducts research and analysis on economic and financial developments at home and abroad. Major findings are reflected in the Bank's releases including the Outlook Report and the *Regional Economic Report*. The Bank also conducts fundamental studies on economic and financial issues; it publishes the major findings in the *Bank of Japan Working Paper Series*, the *Bank of Japan Research Laboratory Series*, and in research papers released by the Institute for Monetary and Economic Studies (IMES), specifically in the *Monetary and Economic Studies* and the *IMES Discussion Paper Series*.¹

The Bank, pursuant to Article 54, paragraph 1 of the Act, prepares the *Semiannual Report on Currency and Monetary Control* approximately every six months, covering matters related to the conduct of monetary policy (those listed in the items of Article 15, paragraph 1 of the Act) and business operations that the Bank has conducted based thereon, and submits it to the Diet through the Minister of Finance. In the most recent two issues of this report, the Bank explains in detail economic and financial developments as well as the Bank's conduct of monetary policy and market operations during fiscal 2018.²

1. Papers and statistics as well as lists of the Bank's publications in English are available on the Bank's website (<https://www.boj.or.jp/en/index.htm>) and on the IMES website (<https://www.imes.boj.or.jp/english/index.html>); for a list of the Bank's major publications and reports, see page 108.

2. The summaries of these two issues in English are available on the Bank's website; for excerpts from these summaries, see pages 30–36. The full texts are available in Japanese on the website (<https://www.boj.or.jp>).

II. FINANCIAL SYSTEM POLICY

One of the core purposes of the Bank, as stipulated in Article 1, paragraph 2 of the Act, is to ensure smooth settlement of funds among banks and other financial institutions, thereby contributing to the maintenance of financial system stability. To this end, the Bank provides safe and convenient settlement assets in the form of deposits in current accounts that financial institutions hold at the Bank, and takes measures to enhance the safety and efficiency of payment and settlement systems. In order to ensure financial system stability, the Bank also takes various measures to make sure that a financial institution's inability to complete settlement of a transaction does not result in a chain of settlement failures at other institutions and thus disrupt the overall functioning of the financial system.

Specifically, the Bank may provide financial institutions suffering a shortage of liquidity with the following: (1) loans against collateral in the form of securities, pursuant to Article 33, and/or (2) other forms of liquidity, in its role as the lender of last resort, pursuant to Articles 37 and 38 of the Act.

In order to be ready to act effectively as the lender of last resort, the Bank strives to gain an accurate grasp of the business conditions at financial institutions and to encourage the maintenance of sound financial conditions, offering guidance and advice as necessary, through the conduct of on-site examinations (examinations that the Bank carries out by visiting the premises of financial institutions pursuant to Article 44 of the Act) as well as off-site monitoring (monitoring that is conducted through meetings with executives and staff of financial institutions, as well as through analysis of various documents submitted by these institutions)

(Tables 1 and 2). In addition, through activities such as seminars and workshops organized by the Bank's Center for Advanced Financial Technology (CAFT), the Bank encourages financial institutions' efforts to raise the sophistication of their business and risk management as well as business operations.

The Bank conducts research and analysis assessing risks in the financial system as a whole, i.e., taking a macroprudential perspective, by making use of insights obtained through its on-site examinations and off-site monitoring and paying due attention to the interconnectedness of the real economy, financial markets, and the behavior of financial institutions. The findings of this research and analysis are published in various forms—for example, the *Financial System Report*—and the Bank draws on them when taking part in initiatives with relevant parties to ensure the stability of the financial system. These findings are also made use of in developing and implementing policy. The Bank has also been participating in international initiatives to maintain the stability of the global financial system. These include discussions held by the Basel Committee on Banking Supervision, which comprises central banks and supervisory authorities from major countries.

The Bank, as and when necessary, conducts business requisite to maintaining financial system stability, including the provision of loans, pursuant to Article 38 of the Act (hereafter the term "special loans" covers all such business). The Bank decides on the extension of special loans based on the following four principles, taking into account the nature and purpose of the lender-of-last-resort function:

Principle 1

There must be a strong likelihood that systemic risk will materialize.

Principle 2

There must be no alternative to the provision of central bank money.

Principle 3

All relevant parties are required to take clear responsibility to avoid moral hazard.

Principle 4

The financial soundness of the Bank of Japan itself must not be impaired.

Table 1
Number of Financial Institutions That Conduct Transactions with the Bank as of the End of Fiscal 2018¹

	Financial institutions that hold current accounts at the Bank		Of which: Financial institutions that have concluded on-site examination contracts with the Bank	Financial institutions that have concluded agreements for bilateral electronic lending with the Bank	Financial institutions that have concluded loans-on-bills agreements with the Bank	Financial institutions that have concluded intraday-overdraft agreements with the Bank				
City and regional banks	125	(125)	125	(125)	124	(125)	124	(125)	125	(125)
Trust banks	13	(14)	13	(14)	10	(10)	10	(10)	13	(14)
Foreign banks	50	(50)	50	(50)	37	(37)	41	(41)	38	(38)
<i>Shinkin</i> banks	251	(253)	251	(253)	112	(113)	136	(137)	171	(172)
Financial instruments business operators	34	(34)	34	(34)	29	(29)	34	(34)	33	(33)
Bankers associations	33	(33)	0	(0)	0	(0)	0	(0)	0	(0)
Other institutions	18	(18)	9	(9)	9	(9)	9	(9)	11	(11)
Total	524	(527)	482	(485)	321	(323)	354	(356)	391	(393)

Note: 1. Figures in parentheses indicate the number of institutions as of the end of fiscal 2017.

Table 2
Number of Financial Institutions Examined

	Fiscal 2016	Fiscal 2017	Fiscal 2018
Domestically licensed banks ¹	33	29	29
<i>Shinkin</i> banks	37	54	54
Other institutions ²	15	17	8
Total	85	100	91

Notes: 1. Established and licensed under Japanese legislation, excluding the Bank and government-related organizations.

2. Including financial instruments business operators and Japanese branches of foreign banks.

III. ENHANCEMENT OF PAYMENT AND SETTLEMENT SYSTEMS AND MARKET INFRASTRUCTURE

The Bank provides safe and convenient settlement assets in the form of banknotes and deposits in current accounts that financial institutions hold at the Bank. In addition, the Bank conducts settlement for Japanese government securities (JGSs) in its role as the book-entry transfer institution in the Japanese government bond (JGB) Book-Entry System. To ensure the safety and efficiency of these services, the Bank operates a computer network system for the settlement of funds and JGSs, the Bank of Japan Financial Network System (BOJ-NET).

The Bank conducts oversight of payment and settlement systems, monitoring their safety and efficiency and inducing improvements where necessary. Moreover, the Bank participates with other central banks in various international discussions and initiatives related to payment and settlement systems, including those of the Committee on Payments and Market Infrastructures (CPMI) at the Bank for International Settlements (BIS).

In addition, in order to strengthen and improve the efficiency of the functioning of markets as well as to support more robust risk management and innovation in

financial services and market transactions, the Bank, with an eye on international developments, takes initiatives to reinforce the infrastructures of financial and capital markets. Specifically, it exchanges views with market participants, supports the formulation of additional rules on and revisions of market practices, and compiles and releases statistics on market transactions. As part of its initiatives, the Bank has continued to enhance its business continuity arrangements in preparation for times of disaster or other emergency, and has provided active support to market participants in developing effective business continuity planning (BCP) in financial markets, payment and settlement systems, and the financial system.

In order to effectively implement measures to enhance payment and settlement systems and market infrastructure, the Bank conducts research and analysis on the safety and efficiency of payment and settlement systems as well as on the financial system and financial markets, in addition to fundamental research on related issues. Major findings are reflected in the Bank's releases including the *Payment and Settlement Systems Report*.

IV. INTERNATIONAL OPERATIONS

The Bank conducts operations in the field of international finance, such as foreign exchange transactions, including those executed as part of the Bank's management of its foreign currency assets, as well as business related to assisting other central banks and international organizations in their investment in yen. The Bank also handles government affairs that relate to international finance, such as the compilation and dissemination of Japan's balance of payments statistics and foreign exchange intervention.

In addition, the Bank takes part in international discussions on the state of the world economy as well as on measures to ensure the stability and improve the structure of financial markets. The Bank participates in

various forums, such as meetings of the Group of Twenty (G20), the Group of Seven (G7), the International Monetary Fund (IMF), the BIS, and the Financial Stability Board (FSB), as well as other meetings of monetary authorities including central banks in Asia.

With regard to Asia, the Bank engages in various activities including the following: the promotion of monetary cooperation mainly through participation in the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) and the Association of Southeast Asian Nations Plus Three (ASEAN Plus Three); the strengthening of technical cooperation and staff training in support of efforts to ensure economic and financial stability in Asia; and the conduct of research on the region.

V. ISSUANCE, CIRCULATION, AND MAINTENANCE OF BANKNOTES

The Bank, as the country's sole issuer of banknotes (Bank of Japan notes), ensures the stability of banknote supply and maintains public confidence in banknotes through the conduct of the following operations at its Head Office and branches in Japan. First, the Bank receives banknotes from and pays banknotes to financial institutions that hold current accounts at the Bank (BOJ account holders). Second, the Bank counts the banknotes it receives from BOJ account holders, examines them to verify their authenticity, and checks their fitness for recirculation. As for coins, they are delivered to the Bank by the government, which is the

authorized issuer of coins, and then put into circulation.

As part of its measures to secure confidence in banknotes and coins, the Bank works to maintain the cleanliness of banknotes in circulation by preventing damaged or worn banknotes from being returned to circulation. In addition, the Bank remains active in advancing research and promoting public understanding regarding counterfeit deterrence and the smooth circulation of currency, in cooperation with relevant institutions at home and abroad, including other central banks.

VI. SERVICES RELATING TO THE GOVERNMENT

The Bank provides various services relating to the government, such as treasury funds and JGS services. Specifically, these are (1) receipt, disbursement, and accounting of treasury funds (the Bank classifies receipts and disbursements of treasury funds by the specific government account as well as by the individual government agency), (2) management of the deposits of the Japanese government, (3) custody of securities acquired by or submitted to the government, (4) issuance of, and principal and interest payment on,

JGSs, and (5) operations relating to its role as the book-entry transfer institution in the JGB Book-Entry System. For the convenience of the public, the Bank designates certain branches and offices of financial institutions throughout the country as its agents and entrusts them with some of the services relating to treasury funds and JGSs.

Besides the above operations, the Bank engages in various transactions with the government, such as purchasing and selling of JGSs.

VII. COMMUNICATION WITH THE PUBLIC

With a view to satisfying the requirements of public accountability, the Bank releases in a timely manner a document that contains a summary of the opinions presented at each MPM (Summary of Opinions), the minutes of MPMs, and public statements on most of the Policy Board decisions. The Bank actively provides information through a variety of channels including the following: reporting to and attendance at the Diet; press conferences held and speeches delivered by the Bank's officers; and the Bank's website. Transcripts of MPMs held more than 10 years previously are also released.

To promote better understanding of the policies and

business operations of the Bank, not only in the eyes of financial professionals but also of the public as a whole, the Bank endeavors to tailor its publications and releases to the diverse needs and interests of their users. It also works to promote financial literacy among the public.

The Bank compiles and releases various statistics to be widely shared with the public and takes steps to refine its statistics to improve their user-friendliness.

Meanwhile, the Bank discloses information in accordance with the Act on Access to Information Held by Independent Administrative Agencies.

The Bank's Review of Fiscal 2018

I. Introduction

II. Review of Economic and Financial Developments and Monetary Policy Meetings

- A. First Half of Fiscal 2018 (April–September 2018)
- B. Second Half of Fiscal 2018 (October 2018–March 2019)

III. Performance Reviews of Measures Taken under the *Strategic Priorities*

- A. Plan and Formulate Monetary Policy Measures That Facilitate Policy Conduct
- B. Ensure Stability and Improve the Functioning of the Financial System
- C. Enhance Payment and Settlement Services and Reinforce Market Infrastructure
- D. Conduct Stable and Efficient Central Banking Operations
- E. Contribute to the Response to Globalization on the International Financial Front
- F. Contribute to the Regional Economic and Financial Environment
- G. Strengthen External Communication

I. INTRODUCTION

In March 2014, the Bank of Japan formulated and released *The Bank of Japan's Strategic Priorities for Fiscal 2014–2018 (Strategic Priorities)* (Appendix 2). In this document, the Bank adopted a five-year framework, the content of which would 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 conducted and made 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 2018, 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 2018 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 2018" (see pages 49–52).

The *Strategic Priorities* stated that a comprehensive review of its entire content would be conducted separately. With the five-year period ending in March 2019, the Bank conducted a comprehensive review of its performance over the entire period and summarized its accomplishments during the period with regard to the strategic objectives for business operations and organizational management stated in the *Strategic Priorities* (Appendix 3).

In the same month, the Bank formulated and released the *Medium-Term Strategic Plan (Fiscal 2019–2023)* (Plan), the content of which will also remain, in principle, fixed during the five-year period (Appendix 4). The Bank will conduct an interim review of the Plan in or around fiscal 2021, in order to enable the Bank to address any changes in the environment. It will flexibly revise the Plan as appropriate in response to any significant changes. The Bank will make public performance reviews of measures taken under the Plan every fiscal year in the *Gyomu Gaikyo Sho* (Outline of Business Operations).

II. REVIEW OF ECONOMIC AND FINANCIAL DEVELOPMENTS AND MONETARY POLICY MEETINGS⁷

A. First Half of Fiscal 2018 (April–September 2018)

1. Economic developments

- a. Looking back at the first half of fiscal 2018, Japan's economy was expanding moderately, with a virtuous cycle from income to spending operating.

Exports followed an increasing trend on the back of overseas economies having continued to grow firmly on the whole. Turning to domestic demand, housing investment was more or less flat; public investment also was more or less flat, remaining at a relatively high level. On the other hand, business fixed investment continued on an

7. 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 2018 and June 2019. The full texts of both issues in Japanese and summaries in English are available on the Bank's website.

increasing trend, with corporate profits following their improving trend and business sentiment staying at a favorable level. Private consumption increased moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation. Reflecting these developments in demand both at home and abroad, industrial production followed an increasing trend.

- b. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) was around 1 percent at the end of the first half of fiscal 2018. Inflation expectations were more or less unchanged.

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 Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, although it temporarily fluctuated somewhat around the time of the July MPM.

The Nikkei 225 Stock Average rose to the range of 22,500–23,000 yen in mid-May, mainly reflecting the yen's depreciation against the U.S. dollar. It then temporarily declined somewhat, due in part to uncertainties over protectionist trade policies and concerns regarding political developments in Europe, but rose since mid-September, partly reflecting the yen's depreciation against the dollar amid such uncertainties dissipating somewhat, and was in the range of 24,000–25,000 yen at end-September.

In the foreign exchange market, the yen

depreciated against the U.S. dollar through mid-May amid a rise in U.S. interest rates. Thereafter, it temporarily appreciated against the dollar, due in part to uncertainties over protectionist trade policies and concerns regarding political developments in Europe; however, at end-September, the yen depreciated as such uncertainties dissipated somewhat and was in the range of 113–114 yen to the dollar. The yen was more or less flat against the euro, with fluctuations smoothed out.

- 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 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 at around 2 percent. The year-on-year rates of change in the amounts outstanding of CP and corporate bonds were positive at relatively high levels.

- c. The monetary base (currency in circulation plus current account balances at the Bank) continued to increase at a year-on-year growth rate of around 6–8 percent. The year-on-year rate of increase in the money stock (M2) was at around 3 percent.

3. MPMs²

- a. Four MPMs were held in the first half of fiscal 2018.

At all the MPMs held in the first half of fiscal 2018, the Policy Board judged that Japan's economy was expanding moderately, with a virtuous cycle from income to spending operating.

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

b. In the conduct of monetary policy, at the MPMs held in April and June, 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.

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 to set the following guidelines.

(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.

At the July MPM, with a view to persistently continuing with powerful monetary easing, the Policy Board decided to strengthen its commitment to achieving the price stability target by introducing forward guidance for policy rates, and to enhance the sustainability of QQE with Yield Curve Control, as follows.

(1) Forward guidance for policy rates

The Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices including the effects of the consumption tax hike scheduled to take place in October 2019.

(2) 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.

The long-term interest rate:

The Bank will purchase JGBs so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices. With regard to the amount of JGBs to be purchased, the Bank will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about 80 trillion yen.

(3) 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. With a view to lowering risk premia of asset prices in an appropriate manner, the Bank may increase or decrease the amount of purchases depending on market conditions.
- (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.

In addition, at the July MPM, the Policy Board decided to make the following adjustments in accordance with the measures described above.

(1) Change in the size of the Policy-Rate Balance

The Bank, under the condition that yield curve control can be conducted appropriately, will reduce the size of the Policy-Rate Balance in financial institutions' current account balances at the Bank—to which a negative interest rate is applied—from the current level of about 10 trillion yen on average. This Balance is calculated assuming that arbitrage transactions take place in full among financial institutions.

(2) Change in the amount of each ETF to be purchased

The Bank will revise the purchase amount of each ETF and increase that of ETFs which track the Tokyo Stock Price Index (TOPIX).

At the September MPM, the Policy Board decided to continue with the guidelines for market operations

and asset purchases determined at the July MPM.

With regard to the future conduct of monetary policy, the Policy Board confirmed the following at the MPMs held in April and June: "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."

In addition, the Policy Board confirmed the following at the MPMs held in July and September: "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. As for policy rates, the Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices including the effects of the consumption tax hike scheduled to take place in October 2019. It will examine the risks considered most relevant to the conduct of monetary policy and 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."

B. Second Half of Fiscal 2018 **(October 2018–March 2019)**

1. Economic developments

- a. Looking back at the second half of fiscal 2018, Japan's economy was expanding moderately, with a virtuous cycle from income to spending operating, although exports and production were affected by the slowdown in overseas economies.

Exports and industrial production had followed an increasing trend but then showed some weakness through the end of the second half of the fiscal year. On the other hand, corporate profits and business sentiment stayed at favorable levels on the whole, albeit with some weakness observed in part, and business fixed investment continued on an increasing trend. Private consumption increased moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation. Housing investment was more or less flat; public investment also was more or less flat, remaining at a relatively high level.

- b. On the price front, the year-on-year rate of change in the CPI (all items less fresh food) was in the range of 0.5–1.0 percent. Inflation expectations were more or less unchanged.

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 followed a downtrend, reflecting a decline in U.S. stock prices, uncertainties over the trade friction between the United States and China, and the yen's appreciation, and fell to the range of 19,000–19,500 yen in late December. It then rose along with a rise in U.S. stock prices, albeit with fluctuations, and was in the range of 21,000–22,000 yen at end-March.

In the foreign exchange market, the yen was more or less flat against the U.S. dollar, at the 113 yen level through mid-December. It thereafter appreciated amid a decline in U.S. interest rates, and was in the range of 110–111 yen at end-March. The yen appreciated against the euro, mainly due to uncertainties over negotiations on the United Kingdom's exit from the European Union (EU).

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

Firms' credit demand increased, mainly for funds for business fixed investment, as well as those related to mergers and acquisitions of firms. With regard to firms' funding, the year-on-year rate of increase in the amount outstanding of lending by domestic commercial banks was in the range of 2.0–2.5 percent. The year-on-year rates of increase in the amounts outstanding of CP and corporate bonds accelerated, being at relatively high levels.

- c. The monetary base continued to increase at a year-on-year growth rate of around 4–6 percent. The year-on-year rate of increase in the M2 was in the range of 2–3 percent.

3. MPMs³

- a. Four MPMs were held in the second half of fiscal 2018.

At the MPMs held in October through January, the Policy Board judged that Japan's economy was expanding moderately, with a virtuous cycle from income to spending operating, and at the MPM held in March, it judged that the economy was expanding moderately, with a virtuous cycle from income to spending operating, although exports and production were affected by the slowdown in overseas economies.

- b. In the conduct of monetary policy, at all the MPMs held in the second half of fiscal 2018, the Policy Board decided to continue with the following guidelines for market operations and asset purchases under QQE with Yield Curve Control.

(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.

The long-term interest rate:

The Bank will purchase JGBs so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices. With regard to the amount of JGBs to be purchased, the Bank will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about 80 trillion yen.

(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. With a view to lowering risk premia of asset prices in an appropriate manner, the Bank may increase or decrease the amount of purchases depending on market conditions.
- (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 2018: "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. As for policy rates, the Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices including the effects of the consumption tax hike scheduled to take place in October 2019. It will examine the risks considered most relevant to the conduct of

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

monetary policy and 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."

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 at home and abroad, including the following: developments in overseas economies and global financial markets, as well as their implications for Japan's economy; the determinants of wages and prices; and the effects of the scheduled consumption tax hike and of U.S.-China trade policy. With regard to the series of analyses conducted in order to examine wage and price developments, the results were released in the "Analysis on Wages and Prices" in the July 2018 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report).
- (2) The Bank conducted multi-perspective analysis on the efficacy and impacts of monetary policy, focusing on the policy effects of QQE with Yield Curve Control, as well as the mechanism of inflation expectations formation. In light of its analysis, the Bank planned and formulated the following monetary policy measures flexibly.
 - (a) Strengthening the framework for continuous powerful monetary easing, which included (1) the introduction of forward guidance for policy rates, and (2) the implementation of various measures to enhance the sustainability of QQE with Yield Curve Control, such as conducting market operations as well as asset purchases in a more flexible manner.
 - (b) Extending the duration of operations such as the

Fund-Provisioning Measure to Stimulate Bank Lending.

- (c) Establishing the Special Rules regarding Calculation of Interest of Complementary Deposit Facility for New Institutions.
- (3) The Bank enhanced dialogue with market participants by, for example, actively exchanging opinions on such occasions as the "Meeting on Market Operations" and the "Bond Market Group," each held twice in fiscal 2018.
- (4) Progress was made in fundamental research on the following: monetary policy; the macroeconomy; financial markets; legal and accounting systems, as well as 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 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 at home and abroad; it also carried out multi-perspective analysis on the efficacy and impacts of monetary policy. In light of its analysis, the Bank planned and formulated monetary policy measures flexibly. 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 2018, it achieved its intended objectives in

implementing measures and provided a firm underpinning for monetary policy conduct. In fiscal 2019, under the *Medium-Term Strategic Plan*, the Bank will continue to work to have the necessary arrangements in place to conduct research and analysis that appropriately reflect various changes in economic and financial conditions, including the impact of advances in IT, 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 2018," the Bank conducted on-site examinations of financial institutions flexibly and efficiently in light of the extent of their influence on the financial system and their risk profiles; it also conducted "targeted on-site examinations" that had a more limited scope in terms of areas examined, so as to allow the Bank efficiently and effectively to ascertain and assess the profitability of regional financial institutions and examine their management of market risk. Under this policy, the Bank carried out examinations of 91 financial institutions. It conducted thorough assessments, for example, of financial institutions' business operations and asset quality as well as their profitability and resilience against risks, including business conditions in their financial group as a whole and the risk management of their overseas branches and subsidiaries.

(2) With regard to off-site monitoring of financial institutions, the Bank conducted in-depth research and analysis, particularly on their business operations, risk management, and profitability; the efficacy and impacts of QQE with Yield Curve Control; and their

digitalization efforts. In addition, given the complexity of business management at systemically important financial institutions, the Bank worked to maintain a firm grasp of their business conditions, including management policies and frameworks at the overall group level, capital policy, global business strategies, and management of foreign currency liquidity. The Bank sharpened its focus on business conditions at regional financial institutions in a low interest rate environment, for instance, on the problem of reduced profitability due to structural factors such as the declines in population and firm numbers. It also encouraged such institutions' efforts to enhance their business management frameworks, for example, through hosting seminars on profit simulations and exchanging views with them.

(3) In the two issues of the 2018 *Financial System Report*, released in April and October, the Bank examined financial intermediation by Japanese financial institutions and current conditions in the financial system; it also conducted more in-depth analysis on, for example, the downward risks to Japan's economy caused by financial vulnerabilities, using analytical approaches such as "GDP-at-risk" (GaR). In addition, the Bank released two issues of the *Financial System Report Annex Series* in fiscal 2018, providing more detailed analysis of and insight into selected topics; it also actively communicated with financial institutions, analysts, the media, academics, and other relevant parties, mainly through holding seminars and giving presentations at various international meetings (there were 66 such occasions in total in fiscal 2018).

(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 2018—and sharing awareness of challenges and risks at all levels.

- (5) The Bank continued its stable execution of business operations for the Loan Support Program.
- (6) The Bank, with a view to maintaining an appropriate grasp of business operations and asset quality at financial institutions with which it conducts transactions, made revisions to the "Criteria for Parties Eligible to Hold Current Accounts with the Bank and That Have Access to the Bank's Lending."
- (7) The Bank hosted large-scale seminars on topics such as initiatives taken and support offered by regional financial institutions toward projects aimed at fostering business opportunities in local areas, and on the streamlining of working arrangements at financial institutions. It also held, among other such events, a series of workshops on utilizing IT and artificial intelligence (AI) to advance financial technology and various regional workshops.

2. Evaluation of progress

The Bank conducted thorough assessments particularly of business operations and risk management at financial institutions and facilitated necessary improvements through the following: it presented in the *Financial System Report* 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 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 an environment of low interest rates and population decline. Moreover, it sharpened its focus on business conditions at systemically important financial institutions, taking into account the extent of their systemic implications,

and facilitated necessary improvements.

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

During fiscal 2018, there were no circumstances that required the Bank to provide loans pursuant to Articles 37 and 38 of the Bank of Japan 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 light of financial institutions' risk profiles and structural changes in the financial system, and that its intended effects were thereby achieved. In fiscal 2019, under the *Medium-Term Strategic Plan*, the Bank will thoroughly assess business conditions at financial institutions and provide support as they make necessary improvements, while (1) considering the impacts of demographic changes and advances in digitalization and (2) paying due attention to structural issues affecting profits as well as to changes in risk profiles accompanying, for example, expansion of their global activities. The Bank will also facilitate and enhance its efforts on the macroprudential front.

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, in consultation with financial institutions and relevant parties, implemented such initiatives as promoting the use of Global Access,

which allows BOJ-NET participant financial institutions access to the BOJ-NET from terminals in their overseas offices.

- (2) The Bank continued its deliberations and coordination of efforts with other central banks and relevant parties toward realizing payment and settlement for cross-border transactions in yen or JGBs by, for example, promoting preparation with the Hong Kong Monetary Authority toward implementation of a cross-border delivery-versus-payment (DVP) link between the BOJ-NET JGB Services and the Hong Kong Dollar Clearing House Automated Transfer System (HKD CHATS).
- (3) The Bank worked toward the enhancement of Japan's retail payment systems through, for example, support for deliberations on (1) extending the operating hours of the Zengin Data Telecommunication System (Zengin System) in October 2018 as well as on (2) launching the Zengin EDI System (ZEDI) in December 2018.
- (4) The Bank participated in various meetings held by the Financial Stability Board (FSB) regarding collection of trading data, for example, on repos. Through such initiatives as holding seven seminars for reporting institutions in fiscal 2018, the Bank made steady progress with preparations for data collection, which was started in January 2019 as scheduled.
- (5) As for the T+1 JGB settlement cycle for outright transactions, which was implemented in May 2018, the Bank supported market participants' initiatives by, for example, disseminating necessary information through the *Tokyo Money Market Survey*.
- (6) In light of the development of the FX Global Code, the Bank continued to encourage market participants in Japan to declare their commitment to adhere to the code.

(7) The Bank contributed to discussions with market participants on the reform of Japanese yen interest rate benchmarks, as follows.

- (a) The Bank supported market participants' initiatives in its role as the secretariat of the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks, established in August 2018.
 - (b) The Bank assisted in the operation of the Japanese Bankers Association (JBA) TIBOR by the JBA TIBOR Administration.
- (8) 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 November 2018, the Bank provided loans to exercise participants from the money market, securities markets, and foreign exchange market through Funds-Supplying Operations against Pooled Collateral.
- (9) The Bank's FinTech Center played a leading role in collecting and communicating information as well as carrying out related research through, for example, the FinTech Forum—twice in fiscal 2018—and a conference on FinTech in Asia co-hosted by the International Monetary Fund (IMF), the FSA, and the Bank in April 2018.

2. Evaluation of progress

The Bank made progress as scheduled in: (1) the implementation of initiatives toward the enhancement of payment and settlement services, for example through promoting the use of Global Access; and (2) deliberations and coordination of efforts with other central banks and relevant parties toward realizing payment and settlement for cross-border transactions in yen or JGBs.

As for the reinforcement of the infrastructures of financial and capital markets, the Bank encouraged

market participants in Japan to declare their commitment to adhere to the FX Global Code and started the collection of trading data, for example, on repos. It also supported market participants' initiatives on shortening the JGB settlement cycle and the reform of Japanese yen interest rate benchmarks.

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 2018 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 2019, under the *Medium-Term Strategic Plan*, the Bank will work to promote preparation toward implementation of a cross-border DVP link, and to collect and communicate information as well as carry out research related to FinTech. In addition, it will continue working to implement measures that will contribute to the reinforcement of the infrastructures of financial and capital markets, including its support for market participants' initiatives on the reform of Japanese yen interest rate benchmarks.

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.

(2) 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 continued to monitor and improve the level of the cleanliness of banknotes in circulation.

(3) The Bank moved forward, as scheduled, with the replacement of automatic banknote examination machines, continuing with installations of the new model at its branches.

(4) 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.

(5) 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. With a view to further smoothing the circulation of coins, the Bank also allowed its Osaka Branch to carry out the receipt and payment of coins at a coin delivery center, from April 2019. In fiscal 2017, however, there was an incident of theft by an employee of commemorative coins held at the Bank's Head Office; following this incident, the Bank implemented measures to prevent any recurrence of misconduct.

(6) The Bank carried out a wide range of treasury funds and Japanese government securities (JGS) services with precision. It also worked to streamline business operations by, for example, reducing the number of agents, and promoting further use of online payments of treasury funds through providing support to relevant parties. In addition, the Bank responded positively to the need for financial institutions to improve the efficiency of their business operations including receipts of treasury funds; for instance, it

approved the introduction of agents specializing in treasury fund receipts via account transfers as well as the installation of automated teller machines (ATMs) capable of processing these transactions.

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 banknotes, the Bank made progress in securing confidence in banknotes, for example, proceeding smoothly with replacing automatic banknote examination machines with the new model. The Bank also made progress in firmly grasping the current situation of cash circulation by gathering information from relevant parties. Progress was also made in business operations relating to coins; the receipt and payment of coins at a coin delivery center outside the Bank's premises were carried out smoothly. In fiscal 2017, however, there was an incident of theft of commemorative coins by an employee; following this incident, the Bank implemented measures to prevent any recurrence of misconduct.

The Bank carried out a wide range of treasury funds and JGS services with precision; it also worked to streamline business operations and promote further use of online payments of treasury funds.

Based on the above, the Bank considers that, in fiscal 2018, it generally conducted stable and efficient central banking operations, while reviewing its business processes in response to changes in its operational environment. In fiscal 2019, the Bank will continue to conduct stable and efficient central banking operations under the *Medium-Term Strategic Plan*. As for business

operations relating to banknotes, the Bank will work to secure confidence in the use of banknotes and coins, including by making steady progress with preparations for the introduction of a new series of Bank of Japan notes and a new 500 yen coin, while working to embed firmly the aforementioned measures to prevent any recurrence of misconduct. With regard to treasury funds and JGS services, the Bank will continue to pursue such initiatives as streamlining business operations and promoting further use of online payments of treasury funds by, for example, responding positively to the need for financial institutions to improve the efficiency of their business operations.

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

1. Progress in implementing specific measures

- (1) As the central bank of the chair country, the Bank, together with the Ministry of Finance, proceeded with preparations for the Group of Twenty (G20) meetings in Japan in 2019. The Bank successfully organized and co-hosted such meetings as the G20 Finance and Central Bank Deputies Meeting and the G20 Symposium titled "For a Better Future: Demographic Changes and Macroeconomic Challenges," both held in January 2019.
- (2) The Bank, as the central bank of Japan, actively participated in meetings such as those organized by the Association of Southeast Asian Nations Plus Three (ASEAN Plus Three), the Bank for International Settlements (BIS), the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), the FSB, the Group of Seven (G7), the IMF, and the Organisation for Economic Co-operation and Development (OECD), 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) With regard to financial regulation and supervision, the Bank, in cooperation with the FSA, actively participated in discussions on the implementation and impact assessment of, for example, international financial regulations as well as on the enhancement of supervision; it also contributed appropriately to policy making processes for ensuring the stability of the international financial system.
 - (c) The Bank continued to participate in and contribute to, for example, discussions in the fields of global financial markets, financial market infrastructures, interest rate benchmarks, the code of conduct for foreign exchange markets, and statistics.
 - (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 BIS- and EMEAP-related committees, the Bank played a leading role, 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.
- (3) The Bank actively exchanged information with overseas authorities on business conditions at systemically important financial institutions, mainly through supervisory colleges.
- (4) 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 opinions with major central banks and other relevant parties as well as active strengthening of relations with monetary authorities in Asia.
 - (5) With regard to international monetary cooperation, the Bank deliberated on and coordinated bilateral local currency swap arrangements to provide liquidity backstops that meet the local currency funding needs of Japanese financial institutions operating overseas. In October 2018, the Bank signed an agreement with the People's Bank of China, allowing for the exchange of renminbi and yen between the two central banks. 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 in custody at the Bank as collateral, the Bank proceeded to consider and coordinate an expansion in the number of Asian partners participating in such arrangements.
 - (6) Under the framework of ASEAN Plus Three, the Bank, together with the Ministry of Finance, played a key role, for example, by taking the lead in discussions regarding currency swap exercises based on the Chiang Mai Initiative Multilateralization (CMIM).
 - (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 by providing technical assistance, holding seminars, and exchanging personnel, mainly with other central banks in Asia. Of

these interactions, 56 involved staff being sent from other central banks (355 people), while 7 involved sending the Bank's staff to overseas counterparts.

2. Evaluation of progress

The Bank, as the central bank of Japan, together with the Ministry of Finance, successfully organized and co-hosted G20 meetings. It also 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. Through these initiatives, the Bank contributed to and played a leading role in discussions toward ensuring the stability of the international currency and financial system. It boosted bilateral monetary cooperation in the Asian region and provided technical assistance, most of which was provided within the 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 it made steady progress in fiscal 2018 in terms of measures taken to contribute, as the central bank of Japan, toward 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 2019, under the *Medium-Term Strategic Plan*, the Bank will work to successfully organize and co-host the G20 meetings to be held in Japan, as the central bank of the chair country, together with the Ministry of Finance. The Bank will also 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 overall, holding working-level meetings as needed with financial institutions that hold current accounts at the Bank as well as ministries and government agencies.
- (2) The Bank provided requisite central banking services smoothly, even in the midst of the successive natural disasters that occurred in Japan during fiscal 2018. Meanwhile, at each of the following branches, the Bank, in cooperation with the respective local finance bureaus, requested that financial institutions take special measures in response to disasters: Kushiro, Sapporo, Hakodate, Sendai, Nagoya, Kyoto, Osaka, Kobe, Okayama, Hiroshima, Matsue, Shimonoseki, Matsuyama, Kochi, and Fukuoka.
- (3) The Bank maintained 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 utilized 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 Great East Japan Earthquake and the Kumamoto Earthquake, as well as the successive natural disasters that occurred in Japan during fiscal 2018, the Bank

maintained a thorough grasp of the situation by making use of its networks 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 also released two issues of the annex series to the report in fiscal 2018, providing more detailed analysis of and insight into selected topics (available only in Japanese).
- (5) In fiscal 2018, the Bank's Center for Advanced Financial Technology (CAFT) hosted the following seminars and workshops targeted mainly at regional financial institutions: six seminars on corporate governance reforms and other themes, as well as eight workshops on topics such as operational reforms, private finance initiatives (PFIs) and public-private partnerships (PPPs), agri-finance, and support for business succession of firms.

2. Evaluation of progress

The Bank, at its Head Office and branches, conducted central banking operations in a stable manner overall. It also maintained a detailed grasp of economic and financial conditions specific to each region through vigorous research efforts; it disseminated its findings to each region and utilized 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 it made

steady progress in fiscal 2018 in terms of initiatives taken to contribute 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 2019, under the *Medium-Term Strategic Plan*, the Bank will 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 conditions and of region-specific challenges as well as to disseminate its findings, with a view to supporting sustainable development.

G. Strengthen External Communication

1. Progress in implementing specific measures

- (1) In accordance with the Bank of Japan 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 the *Semiannual Report on Currency and Monetary Control* to the Diet in June and December 2018, and releasing the full texts of the two issues in Japanese as well as the summaries in English on the Bank's website.⁴
 - (c) Publishing the *Gyomu Gaikyo Sho* (Outline of Business Operations) for fiscal 2017 in May 2018.
- (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

4. Excerpts from the summaries of the two issues of the report dealing with developments in fiscal 2018, namely, the issues released in December 2018 and June 2019, can be found on pages 30–36.

Policy"; the Outlook Report released in April, July, and October 2018 as well as in January 2019; a document that contains 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.

- (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) In addition to making the Bank's releases available on its websites, the Bank made use of social networking sites, thereby disseminating information to a wider audience in an apposite and timely manner. The number of page views on the Bank's website was around 180 million, of which around 85 million were made to its English-language pages. The number of page views on its branches' websites was around 4.3 million in total. Followers of the Bank's Twitter and Facebook accounts totaled around 122,000 and around 2,800, respectively.
- (b) The Bank enhanced the content of *Nichigin*, its public relations magazine (available only in Japanese), for example by including articles that provided accessible descriptions of its policies and business operations.
- (c) The Bank set the route for in-house tours of its Head Office (for which advance reservation is necessary), taking account of the ongoing 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—including those who attended short tours on the day—was around 16,000, while branches received around 24,000.
- (d) 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 147 entries.
- (e) The Bank gave lectures to young people on its functions and operations. Its Head Office gave a total of 20 on-campus lectures to college students.
- (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 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 4,200 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, including feature exhibitions; the number of visitors during fiscal 2018 totaled around

106,000. The Bank also operated the Bank of Japan Otaru Museum appropriately, through reorganizing the permanent exhibition, redesigning the website, and putting on events such as a feature exhibition; the number of visitors during fiscal 2018 totaled around 100,000.

- (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 2,128 historical official documents were added to the Archives, and there were a total of 103 requests for access.
- (8) The Bank made public the findings of its research and analysis on economic and financial developments, releasing 12 papers in the *Bank of Japan Review Series*, 17 in the *Bank of Japan Working Paper Series*, 27 in the *Institute for Monetary and Economic Studies (IMES) Discussion Paper Series*, 4 in the *Bank of Japan Research Laboratory Series*, and 7 research papers.
- (9) In May 2018, the IMES hosted an international conference entitled "Central Banking in a Changing World" at the Bank's Head Office.
- (10) The Bank revised, rebased, and made appropriate enhancements to its statistics so as to accommodate changes in the economic and regulatory environment.
 - (a) With regard to the rebasing of the services producer price index (SPPI) to the base year 2015, the Bank solicited public opinion by releasing the basic policy in May 2018; the final draft was then published in March 2019, taking account of the feedback received (both releases are available only in Japanese).
 - (b) In August 2018, the Bank conducted a revision of broadly-defined liquidity (L) in the *Money Stock Statistics* (MSS) and improved its accuracy.
- (11) Through the following measures, the Bank promoted an in-depth understanding of its statistics.
 - (a) In May 2018, the Bank released a research paper on the wholesale services price index (WSPI) to be newly compiled as a reference index for the 2015-base SPPI (English version released in June 2018).
 - (b) In December 2018, the Bank fully updated and enhanced the explanation of the *Tankan* (Short-Term Economic Survey of Enterprises in Japan) (English version released in February 2019).
- (12) The Bank contributed to discussions held by the government toward the refinement of economic statistics, such as enhancing the accuracy of GDP statistics, by taking part in the Statistics Commission and deliberations on Japan's balance of payments statistics.
- (13) As the secretariat of the Central Council for Financial Services Information (CCFSI), and in light of changes in the environment surrounding the provision of financial information to the public, the Bank supported the CCFSI's efforts to develop a range of financial information-related activities in cooperation with relevant parties such as ministries, local public bodies, and financial and economic organizations. For example, the CCFSI compiled and released a core educational material for use in lectures and seminars aimed at boosting financial literacy among the wider public. It also continued to provide lectures to college students on financial literacy and to work toward publishing user-friendly website pages including those designed for mobile devices (available only in Japanese) on the CCFSI's official website *Shiruporuto* (Gateway to Knowledge).

2. Evaluation of progress

The Bank employed a variety of channels to communicate its conduct of monetary policy and business operations to various audiences including the general public 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 dialogues 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 refinement of economic statistics.

As the secretariat of the CCFSI, and in light of changes in the environment surrounding the provision of financial information to the public, the Bank supported the CCFSI's efforts to develop a range of financial information-related activities, thereby contributing to the promotion of financial literacy among the public.

Based on the above, the Bank considers that, in fiscal 2018, it appropriately implemented the measures scheduled under its strategic objective of strengthening external communication. In fiscal 2019, under the *Medium-Term Strategic Plan*, the Bank will work to achieve multilateral and effective communication at home and abroad regarding its conduct of monetary policy and business operations by making use of various communication platforms, as well as to maintain and strengthen relationships with people, firms, and economic organizations across a wide range of fields so as to better grasp public opinion and public needs.

The Bank's Organizational Management in Fiscal 2018

I. Statement of Accounts and Budget for Expenses

II. IT Investment

III. Human Resources

IV. Organizational Management Measures

V. Internal Audits

I. STATEMENT OF ACCOUNTS AND BUDGET FOR EXPENSES

As for the Bank of Japan's expenses for fiscal 2018, the Bank duly made, in line with the budget, the disbursements necessary to cover *The Bank of Japan's Strategic Priorities for Fiscal 2014–2018* (the 2014–18 Strategic Priorities). With regard to the Bank's statement of accounts for fiscal 2018, the total amount of actual expenses decreased from the previous fiscal year by 0.2

percent (0.4 billion yen) to 192.6 billion yen. Regarding the Bank's budget for expenses for fiscal 2019, the Bank carefully examined overall expenditure in compiling a suitable budget for the year while securing the necessary budget to perform its role as the country's central bank.

II. IT INVESTMENT

The Bank steadily carried out the system development projects necessary to achieve the goals set out in the 2014–18 Strategic Priorities, while working to raise the efficiency and streamline the development of such

projects. The scale of system development for fiscal 2018 was 13,403 person-months¹ (including 10,390 person-months that were outsourced).

III. HUMAN RESOURCES

The Bank maintained the number of employees necessary to achieve the goals set out in the 2014–18 Strategic Priorities without breaking the ceiling on the number of full-time employees for fiscal 2018, which was set at 4,900. Following the Bank's efforts to further increase the efficiency of its overall business operations while securing the necessary employee numbers, the number of full-time employees stood at 4,636 at the end of March 2019, down 17 from the previous fiscal year (Table 1).

Regarding remuneration, the Bank raised the annual remuneration for its officers—through increasing their

bonuses—in fiscal 2018 by 0.1 percent from the previous fiscal year.

As for its employees, the Bank raised the annual remuneration for fiscal 2018 by 0.6 percent from the previous fiscal year. For those in non-managerial positions, the Bank raised the base levels of salaries by 0.3 percent from the previous fiscal year and paid semiannual bonuses in May and November, each amounting to 2.132 months of salary, on a basis excluding the base salary increase. For those in managerial positions, the Bank paid 2.253 months of salary per semiannual bonus.

¹ In system development, one person-month is the workload equivalent of one person working for one month.

Table 1

Number of Full-Time Employees as of the End of March 2019

number of people; figures in parentheses are as of the end of March 2018

Total		4,636	(4,653)
	Head Office ¹	2,744	(2,750)
	Branches	1,819	(1,827)
	Local offices ¹	49	(52)
	Overseas representative offices	24	(24)

Note: 1. Full-time employees of the Computer Center and the Banknote Operations Center are included in the number of full-time employees at the Head Office.

IV. ORGANIZATIONAL MANAGEMENT MEASURES

With a view to addressing the strategic objectives for its business operations stated in the 2014–18 Strategic Priorities, the Bank implemented organizational management measures for the appropriate conduct of business operations given changes in its environment, and also for the appropriate management of operational risks.

As for other organizational management measures, the Bank worked to strengthen business continuity arrangements as follows.

- (1) Based on its experience following the Great East Japan Earthquake, the Kumamoto Earthquake, and a succession of other natural disasters, in addition to the government's reappraisal of potential damage scenarios for large-scale earthquakes directly under Tokyo or in the Nankai Trough, the Bank steadily implemented measures toward enhancing the disaster countermeasures in place at its Head Office and branches.
- (2) The Bank further strengthened cooperation with relevant parties such as national and local governments as well as financial institutions through, for example, participating in the Central Disaster Management Council and various exercises.

In addition, the Bank indicated in the 2014–18 Strategic Priorities that it would secure and foster human resources in the execution of business operations and organizational management, expand its recruitment of women and encourage their promotion, and seek to offer various working arrangements to improve the work-life balance of its employees. The Bank made progress in addressing these measures as follows.

- (1) The Bank enhanced various staff education and training programs and continued to work to promote personnel exchanges with institutions inside and outside Japan.
- (2) The Bank, under an action plan compiled and released in March 2016 pursuant to the Act on Promotion of Women's Participation and Advancement in the Workplace, undertook initiatives to ensure that its female employees could fully realize their potential at work, and strived to cultivate a workplace environment conducive to the well-being of all of its employees. In addition, the Bank continued to work to further improve terms of employment and working conditions based on the fourth phase of the action plans set out in "Measures to Support Raising Next-Generation Children," so that its employees can balance work and childrearing. Having taken these

initiatives, in August 2018, the Bank was awarded the most prestigious *Platinum Kurumin* certification from the Minister of Health, Labour and Welfare in recognition of the excellence of its performance in providing childrearing support to its employees.

(3) With regard to staff recruitment for fiscal 2019, the Bank proactively recruited women, with the aim that they should account for about 30 percent of future candidates for positions of Director, Chief Manager, and above.² The proportion of women in these positions in 2018 reached the goal of 5 percent set forth in the action plan compiled and released pursuant to the Act on Promotion of Women's Participation and Advancement in the Workplace.

(4) With a view to making the most of the skills and know-how of experienced workers and ensuring the stable conduct of its business operations, the Bank continued to seek to embed firmly within the workplace culture the "expert staff system," a reemployment system that the Bank introduced in fiscal 2015.

Following an incident of theft by an employee of commemorative coins held at the Bank's Head Office, which occurred in fiscal 2017, the Bank made efforts in educating and training its employees so as to ensure complete integrity in the execution of their duties.

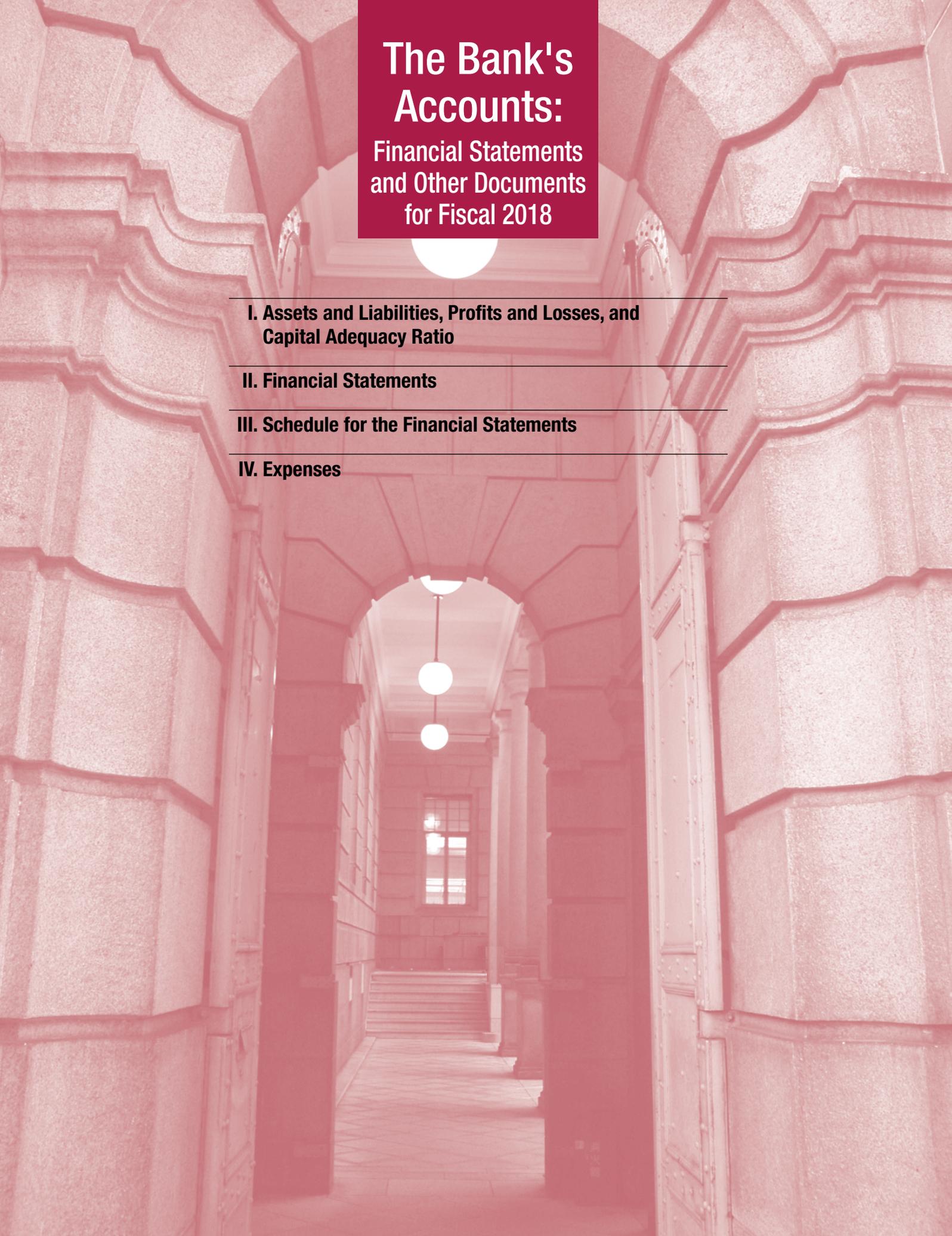
V. INTERNAL AUDITS

The Internal Auditors' Office at the Bank conducts internal audits of the Bank's business operations at its Head Office, branches, local offices, and overseas representative offices in order to examine the appropriateness of its business operations and the adequacy of its operational risk management as well as the fairness with which its business operations are executed. The results of audits are reported to the Policy Board.

In fiscal 2018, the Internal Auditors' Office audited 5 departments at the Bank's Head Office (the Payment

and Settlement Systems Department, the Financial Markets Department, the Research and Statistics Department, the Currency Issue Department, and the Personnel and Corporate Affairs Department), 2 overseas representative offices (Hong Kong and Beijing), 14 branches (Kushiro, Hakodate, Kanazawa, Kofu, Matsumoto, Shizuoka, Nagoya, Matsue, Matsuyama, Kochi, Kitakyushu, Fukuoka, Kagoshima, and Naha), and 7 local offices (Obihiro, Toyama, Fukui, Nagano, Tottori, Saga, and Miyazaki).

² Employees in the positions of Director, Chief Manager, and above oversee the execution of business operations assigned to them, and are responsible for organizational management within their sections.



The Bank's Accounts:

Financial Statements
and Other Documents
for Fiscal 2018

**I. Assets and Liabilities, Profits and Losses, and
Capital Adequacy Ratio**

II. Financial Statements

III. Schedule for the Financial Statements

IV. Expenses

On May 29, 2019, the Bank of Japan released the "Financial Statements for the 134th Fiscal Year" (partially available in English), which contains the Bank's financial statements (the inventory of property, balance sheet, and statement of income) for the 134th fiscal year, i.e., fiscal 2018 (April 1, 2018–March 31, 2019), and the schedule for the financial statements for fiscal 2018.

The Bank submitted the financial statements, together with the Auditors' opinion, to the Minister of Finance, and received the Minister's approval. The schedule for the financial statements was audited by the Auditors, whose opinion was that it duly complemented the financial statements.

The overview of the financial results for fiscal 2018 is as below.

I. ASSETS AND LIABILITIES, PROFITS AND LOSSES, AND CAPITAL ADEQUACY RATIO

The balance sheet of the Bank at the end of fiscal 2018 shows that total assets increased by 5.4 percent (28,738.6 billion yen) from the previous fiscal year-end to 557,024.3 billion yen, mainly due to an increase in holdings of Japanese government securities (JGSs).¹ Total liabilities increased by 5.5 percent (28,878.2 billion yen) from the previous fiscal year-end to 553,214.6 billion yen, mainly due to an increase in current deposits (Table 1).

Detailed developments in the Bank's balance sheet in fiscal 2018 are as follows.

Looking at assets at the fiscal year-end, holdings of JGSs increased by 4.8 percent (21,627.7 billion yen) from the previous fiscal year-end to 469,953.8 billion yen, with the Bank proceeding with its purchases of these assets. Loans and bills discounted increased by 1,024.2 billion yen from the previous fiscal year-end to 47,436.1 billion yen, mainly due to an increase in the amount of loans provided through the Loan Support Program.² Pecuniary trusts (index-linked exchange-traded funds held as trust property) increased by 5,850.0 billion yen from the previous fiscal year-end to 24,784.8 billion yen, with the Bank proceeding with its purchases of these assets.

Turning to liabilities, current deposits increased by 4.1 percent (15,645.7 billion yen) from the previous fiscal year-end to 393,883.6 billion yen, reflecting an increase in the amount of funds provided through JGB purchases and other measures. Meanwhile, the amount outstanding of banknotes issued (banknotes in circulation) increased by 3.4 percent (3,558.7 billion yen) from the previous fiscal year-end to 107,559.2 billion yen.

1. JGSs comprise Japanese government bonds (JGBs) and treasury discount bills (T-Bills).

2. The Bank aims through this program to support private financial institutions' efforts in strengthening the foundations for economic growth and stimulating bank lending. It was introduced as a temporary measure that would help the effects of monetary easing to permeate the entire economy, with a view to achieving price stability and thereby contributing to the sound development of the national economy.

With regard to the Bank's statement of income for fiscal 2018, operating profits increased by 772.1 billion yen from the previous fiscal year to 2,000.9 billion yen, mainly due to net foreign exchange-related gains arising from the depreciation of the yen and a rise in net gains on pecuniary trusts (index-linked exchange-traded funds held as trust property) (Tables 2 and 3).

Meanwhile, net special losses amounted to 926.1 billion yen, mainly due to (1) the transfer of funds to the provision for possible losses on bonds transactions to compensate for possible fluctuation in net income arising from the implementation of Quantitative and Qualitative Monetary Easing with Yield Curve Control, and (2) the transfer of funds to the provision for possible losses on foreign exchange transactions following net foreign exchange-related gains.

Net income for the term—after subtracting corporate income tax and inhabitants and enterprise taxes—decreased by 177.8 billion yen from the previous fiscal year to 586.9 billion yen. After transferring 29.3 billion yen to the legal reserve (5 percent of net income for the term) and paying dividends totaling 5 million yen (5 percent of the face value of shares), the Bank paid the remainder of its net income to the government (557.6 billion yen).

The capital adequacy ratio, after the appropriation of net income, rose from its previous fiscal year-end level of 8.09 percent to 8.71 percent at the end of fiscal 2018 (Table 4).

Table 1

Principal Assets and Liabilities¹

bil. yen

Item	End of fiscal 2017 (Mar. 31, 2018)	End of fiscal 2018 (Mar. 31, 2019)
Total assets	528,285.6 (+7.8) <+38,196.3>	557,024.3 (+5.4) <+28,738.6>
Of which:		
Japanese government securities	448,326.1 (+7.3) <+30,614.6>	469,953.8 (+4.8) <+21,627.7>
Commercial paper	2,057.4 (+1.1) <+21.6>	2,042.0 (-0.7) <-15.4>
Corporate bonds	3,192.1 (-0.7) <-22.3>	3,206.6 (+0.5) <+14.5>
Pecuniary trusts (stocks held as trust property)	1,048.8 (-11.7) <-139.5>	897.0 (-14.5) <-151.8>
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	18,934.8 (+46.4) <+5,999.4>	24,784.8 (+30.9) <+5,850.0>
Pecuniary trusts (Japan real estate investment trusts held as trust property)	476.1 (+24.6) <+93.8>	517.8 (+8.8) <+41.7>
Loans and bills discounted	46,411.9 (+3.9) <+1,747.3>	47,436.1 (+2.2) <+1,024.2>
Foreign currency assets	6,369.5 (-3.6) <-238.5>	6,732.1 (+5.7) <+362.6>
Total liabilities	524,336.3 (+7.8) <+37,912.8>	553,214.6 (+5.5) <+28,878.2>
Of which:		
Banknotes	104,000.4 (+4.2) <+4,200.2>	107,559.2 (+3.4) <+3,558.7>
Deposits (excluding those of the government)	399,638.3 (+12.1) <+43,259.4>	421,378.2 (+5.4) <+21,739.9>
Deposits of the government	15,124.8 (-30.5) <-6,625.9>	17,522.8 (+15.9) <+2,398.0>
Payables under repurchase agreements	311.2 (-90.9) <-3,113.9>	190.8 (-38.7) <-120.4>

Note: 1. Figures in parentheses are the percentage changes from a year earlier except where otherwise noted; figures in angle brackets are changes in billions of yen from a year earlier.

[Reference to Table 1]

Loans Provided through the Loan Support Program¹

bil. yen

Item	End of fiscal 2016 (Mar. 31, 2017)	End of fiscal 2017 (Mar. 31, 2018)	End of fiscal 2018 (Mar. 31, 2019)
Total amount outstanding	45,710.2	48,018.3	48,645.2
Loans made under the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth	8,713.9	9,354.7	8,922.6
Loans made under the Fund-Provisioning Measure to Stimulate Bank Lending	36,996.3	38,663.6	39,722.6

Note: 1. Includes foreign currency-denominated loans that are not included in "loans and bills discounted."

Table 2

Principal Profits and Losses¹

bil. yen

Item	Fiscal 2017 (Apr. 1, 2017–Mar. 31, 2018)	Fiscal 2018 (Apr. 1, 2018–Mar. 31, 2019)
Operating profits/losses	1,228.7 (+12.2) <+133.5>	2,000.9 (+62.8) <+772.1>
Of which: "Core" operating income ²	1,310.4 <+36.7>	1,409.0 <+98.5>
Net government bond-related gains/losses ³	...	...
Net foreign exchange-related gains/losses ⁴	-211.9 <-63.7>	225.7 <+437.6>
Net gains/losses on pecuniary trusts (stocks held as trust property)	251.2 <+33.7>	251.0 <-0.2>
Net gains/losses on pecuniary trusts (index-linked exchange-traded funds held as trust property)	278.9 <+106.6>	441.6 <+162.7>
Net gains/losses on pecuniary trusts (Japan real estate investment trusts held as trust property)	18.1 <+4.3>	21.1 <+2.9>
Interest on excess reserve balances under the complementary deposit facility ⁵	-183.6 <-3.6>	-186.5 <-2.9>
Special profits/losses⁶	-338.8 <+48.9>	-926.1 <-587.2>
Of which:		
Net transfer to/from provision for possible losses on bonds transactions	-445.1 <+16.4>	-815.4 <-370.3>
Net transfer to/from provision for possible losses on foreign exchange transactions	105.9 <+31.8>	-112.8 <-218.8>
Net income before taxes	889.9 (+25.8) <+182.4>	1,074.8 (+20.8) <+184.8>
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	125.1 <-75.6>	487.8 <+362.6>
Net income⁷	764.7 (+50.9) <+258.1>	586.9 (-23.3) <-177.8>

Notes: 1. Figures in parentheses are the percentage changes from the previous fiscal year except where otherwise noted; figures in angle brackets are changes in billions of yen from the previous fiscal year. "..." indicates that figures are not applicable.

2. The total of interest on loans and discounts, interest and discounts on JGSs, interest on commercial paper (CP), interest and discounts on corporate bonds, interest and discounts on foreign currency securities, lending fees on foreign currency securities, and interest on foreign currency deposits and loans.

3. Net gains/losses on sales of JGBs.

4. Net gains/losses on foreign currency assets resulting from revaluation following fluctuations in foreign exchange rates.

5. Net difference between interest payment on excess reserve balances to which a positive interest rate is applied (-209.0 billion yen) and interest income on the balances to which a negative interest rate is applied (22.4 billion yen).

6. A minus sign shows net transfer to the relevant provisions (negative figures reduce net income).

7. The Bank, the sole issuer of banknotes in Japan, obtains most of its profits from banknote issuance. It is obliged to pay the government all of its net income after providing for the amount transferred to the legal reserve and for dividends. This payment to the government is treated as deductible losses for income tax purposes, and is excluded from taxable income when corporate income tax and enterprise taxes are calculated.

Table 3

Changes in Profits and Losses¹

bil. yen

Item	Fiscal 2016 (Apr. 1, 2016– Mar. 31, 2017)	Fiscal 2017 (Apr. 1, 2017– Mar. 31, 2018)	Fiscal 2018	First half of the fiscal year (Apr. 1, 2018– Sept. 30, 2018)	Second half of the fiscal year (Oct. 1, 2018– Mar. 31, 2019)
1. Net government bond-related gains/losses	...	...	...	...	...
Of which:					
Gains on sale of Japanese government bonds	...	...	...	...	...
Losses on sale of Japanese government bonds	...	...	...	...	...
2. Net foreign exchange-related gains/losses²	-148.1	-211.9	225.7	409.6	-183.9
3. Net gains/losses on pecuniary trusts (stocks held as trust property)	217.5	251.2	251.0	139.2	111.8
Of which:					
Dividends and others	52.2	55.4	58.0	30.6	27.4
Losses on impairment	-4.3	...	-4.2	...	-4.2
Net gains/losses on sale	169.5	195.8	197.2	108.6	88.6
4. Net gains/losses on pecuniary trusts (index-linked exchange-traded funds held as trust property)	172.2	278.9	441.6	406.2	35.3
Of which:					
Distributions and others	172.2	278.9	441.6	406.2	35.3
Losses on impairment	...	...	...	...	...
Net gains/losses on sale	...	...	...	...	...
5. Net gains/losses on pecuniary trusts (Japan real estate investment trusts held as trust property)	13.8	18.1	21.1	10.2	10.8
Of which:					
Distributions and others	13.8	18.1	21.1	10.2	10.8
Losses on impairment	...	...	...	...	...
Net gains/losses on sale	...	...	...	...	...

Notes: 1. "..." indicates that figures are not applicable.

2. Net gains/losses on foreign currency assets resulting from revaluation following fluctuations in foreign exchange rates.

bil. yen, except where otherwise noted

Item	Fiscal 2016 (Apr. 1, 2016– Mar. 31, 2017)	Fiscal 2017 (Apr. 1, 2017– Mar. 31, 2018)	Fiscal 2018	First half of the fiscal year	Second half of the fiscal year
				(Apr. 1, 2018– Sept. 30, 2018)	(Oct. 1, 2018– Mar. 31, 2019)
6. "Core" operating income	1,273.7	1,310.4	1,409.0	704.6	704.3
Yen assets	1,197.5	1,220.0	1,282.8	645.5	637.2
Of which:					
Interest on loans and discounts	9.6	0.0	0.0	0.0	0.0
Interest and discounts on Japanese government securities	1,186.9	1,221.1	1,283.9	646.1	637.8
Treasury discount bills	-123.0	-69.8	-22.7	-13.2	-9.4
Japanese government bonds	1,309.9	1,290.9	1,306.6	659.3	647.2
Interest on commercial paper	-0.3	-0.1	-0.0	-0.0	-0.0
Interest and discounts on corporate bonds	1.2	-0.9	-1.0	-0.5	-0.5
Interest on foreign currency assets	76.2	90.3	126.2	59.1	67.0
7. Interest-bearing assets (average amount outstanding)	441,575.6	494,983.4	523,563.0	518,364.4	528,790.1
Yen assets	435,036.4	488,322.0	516,853.3	511,683.8	522,051.1
Of which:					
Loans and bills discounted	35,498.7	46,204.9	46,480.6	46,524.3	46,436.5
Japanese government securities	394,115.1	436,665.2	464,907.5	459,723.3	470,120.1
Treasury discount bills	50,697.0	29,831.7	15,429.6	19,153.9	11,684.8
Japanese government bonds	343,418.1	406,833.5	449,477.8	440,569.3	458,435.3
Commercial paper	2,241.3	2,252.8	2,264.8	2,252.0	2,277.7
Corporate bonds	3,181.1	3,199.0	3,200.2	3,184.0	3,216.6
Foreign currency assets	6,539.1	6,661.4	6,709.7	6,680.6	6,738.9
8. Yield on interest-bearing assets (percent)	0.288	0.264	0.269	0.271	0.267
Yen assets	0.275	0.249	0.248	0.251	0.244
Of which:					
Loans and bills discounted	0.027	0.000	0.000	0.000	0.000
Japanese government securities	0.301	0.279	0.276	0.280	0.272
Treasury discount bills	-0.242	-0.234	-0.147	-0.138	-0.162
Japanese government bonds	0.381	0.317	0.290	0.298	0.283
Commercial paper	-0.013	-0.004	-0.002	-0.003	-0.001
Corporate bonds	0.038	-0.030	-0.033	-0.035	-0.031
Foreign currency assets	1.165	1.356	1.881	1.766	1.995

Table 4

The Bank's Capital Base and Capital Adequacy Ratio¹

bil. yen, except where otherwise noted

Item	End of fiscal 2016 (Mar. 31, 2017)	End of fiscal 2017 (Mar. 31, 2018)	End of fiscal 2018 (Mar. 31, 2019)	Changes from a year earlier	[Reference] End of the first half of fiscal 2018 (Sept. 30, 2018)
Capital accounts (A)	3,184.5	3,222.7	3,252.1	+29.3	3,222.7
Capital	0.1	0.1	0.1	...	0.1
Legal reserve and others ²	3,184.4	3,222.6	3,252.0	+29.3	3,222.6
Provisions (B)	4,662.8	5,002.0	5,930.3	+928.3	5,429.7
Provision for possible loan losses (excluding special provision for possible loan losses)	...	...	...	...	...
Provision for possible losses on bonds transactions	3,155.0	3,600.1	4,415.5	+815.4	3,823.0
Provision for possible losses on foreign exchange transactions	1,507.8	1,401.9	1,514.7	+112.8	1,606.7
Capital base³ (C) = (A) + (B)	7,847.4	8,224.8	9,182.4	+957.6	8,652.5
Annual average of banknotes issued (D)	97,198.8	101,588.7	105,391.6	+3,802.8	104,237.2
Capital adequacy ratio (C)/(D) × 100 (percent)	8.07	8.09	8.71	+0.62	8.30

Notes: 1. "..." indicates that figures are not applicable.

2. Includes the special reserve (13 million yen).

3. Calculated in yen and then rounded down to the nearest 0.1 billion yen; thus, figures are not necessarily equal to the total of relevant items listed in the above table.

[Reference]

Market Value of the Bank's Securities Holdings¹

bil. yen

Item	End of fiscal 2017 (Mar. 31, 2018)			End of fiscal 2018 (Mar. 31, 2019)		
	Book value	Market value ²	Difference	Book value	Market value ²	Difference
Japanese government securities	448,326.1	459,028.1	10,702.0	469,953.8	485,989.8	16,035.9
Commercial paper	2,057.4	2,057.4	...	2,042.0	2,042.0	...
Corporate bonds	3,192.1	3,185.7	-6.3	3,206.6	3,201.6	-5.0
Pecuniary trusts ³ (stocks held as trust property)	1,023.8	2,485.5	1,461.7	873.5	1,989.5	1,115.9
Pecuniary trusts ³ (index-linked exchange-traded funds held as trust property)	19,338.4	24,484.5	5,146.0	25,001.1	28,913.6	3,912.4
Pecuniary trusts ³ (Japan real estate investment trusts held as trust property)	470.0	514.2	44.1	512.1	625.6	113.4

Notes: 1. "..." indicates that figures are not applicable.

2. Based on market prices and other factors at the end of the fiscal year.

3. Comprises trust property on a contract basis; thus, book values are not necessarily equal to balance sheet amounts.

II. FINANCIAL STATEMENTS

1. Inventory of property as at March 31, 2019

Item	Value in yen	Unit (except where otherwise noted)
ASSETS		
Gold	441,253,409,037	
Cash	250,063,536,128	
Japanese government securities	469,953,880,200,679	Face value at 459,059,470,800,000 yen
Commercial paper	2,042,002,809,933	Face value at 2,042,000,000,000 yen
Corporate bonds	3,206,693,501,619	Face value at 3,190,400,000,000 yen
Pecuniary trusts (stocks held as trust property)	897,012,559,903	
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	24,784,899,771,164	
Pecuniary trusts (Japan real estate investment trusts held as trust property)	517,885,796,932	
Loans and bills discounted	47,436,189,000,000	
Electronic loans	47,436,189,000,000	1,494
Foreign currency assets	6,732,159,607,734	
Foreign currency deposits	1,922,441,830,375	
Foreign currency securities	2,177,907,682,695	
Foreign currency mutual funds	61,415,209,664	
Foreign currency loans	2,570,394,885,000	
Deposits with agents	21,987,164,750	Deposits with 83 agents
Other assets	531,588,955,702	
Bills and checks in process of collection	1,341,621,828	7
Capital subscription to the Deposit Insurance Corporation, and the Agricultural and Fishery Cooperative Savings Insurance Corporation	225,000,000	2
Capital subscription to an international financial institution	15,278,374,364	1
Withdrawn cash to be returned to the government	36,433,723,639	6
Accrued interest receivable	467,793,273,194	
Others	10,516,962,677	
Tangible fixed assets	208,622,157,154	
Buildings	97,256,758,274	609,974.05 square meters
Land	82,741,715,280	509,113.35 square meters
Lease assets	7,582,942,520	Number of lease property: 19,299
Construction in progress	9,042,036,220	
Other tangible fixed assets	11,998,704,860	Number of movable property: 9,977
Intangible fixed assets	124,266,331	
Utility rights	124,266,331	
Total assets	557,024,362,737,066	
LIABILITIES		
Banknotes	107,559,268,874,054	
Deposits (excluding those of the government)	421,378,299,007,776	
Current deposits	393,883,659,070,999	1,118
Other deposits	27,494,639,936,777	142
Deposits of the government	17,522,811,115,194	
Treasury deposit	150,001,205,418	
Domestic designated deposit	17,084,756,686,053	
Other government deposits	288,053,223,723	
Payables under repurchase agreements	190,837,226,720	10
Other liabilities	431,210,162,105	
Remittances payable	14,665,492,128	
Taxes payable	376,703,000,000	
Lease liabilities	7,917,799,589	
Others	31,923,870,388	
Provision for retirement benefits	201,859,044,951	
Provision for possible losses on bonds transactions	4,415,577,993,013	
Provision for possible losses on foreign exchange transactions	1,514,766,000,000	
Total liabilities	553,214,629,423,813	
NET ASSETS		
Capital	100,000,000	
Legal reserve	3,222,659,600,266	
Special reserve	13,196,452	
Net income	586,960,516,535	
Total net assets	3,809,733,313,253	
Total liabilities and net assets	557,024,362,737,066	

2. Balance sheet as at March 31, 2019

yen

ASSETS	
Gold	441,253,409,037
Cash	250,063,536,128
Japanese government securities	469,953,880,200,679
Commercial paper	2,042,002,809,933
Corporate bonds	3,206,693,501,619
Pecuniary trusts (stocks held as trust property)	897,012,559,903
Pecuniary trusts (index-linked exchange-traded funds held as trust property)	24,784,899,771,164
Pecuniary trusts (Japan real estate investment trusts held as trust property)	517,885,796,932
Loans and bills discounted	47,436,189,000,000
Electronic loans	47,436,189,000,000
Foreign currency assets	6,732,159,607,734
Foreign currency deposits	1,922,441,830,375
Foreign currency securities	2,177,907,682,695
Foreign currency mutual funds	61,415,209,664
Foreign currency loans	2,570,394,885,000
Deposits with agents	21,987,164,750
Other assets	531,588,955,702
Bills and checks in process of collection	1,341,621,828
Capital subscription to the Deposit Insurance Corporation, and the Agricultural and Fishery Cooperative Savings Insurance Corporation	225,000,000
Capital subscription to an international financial institution	15,278,374,364
Withdrawn cash to be returned to the government	36,433,723,639
Accrued interest receivable	467,793,273,194
Others	10,516,962,677
Tangible fixed assets	208,622,157,154
Buildings	97,256,758,274
Land	82,741,715,280
Lease assets	7,582,942,520
Construction in progress	9,042,036,220
Other tangible fixed assets	11,998,704,860
Intangible fixed assets	124,266,331
Utility rights	124,266,331
Total assets	557,024,362,737,066
LIABILITIES	
Banknotes	107,559,268,874,054
Deposits (excluding those of the government)	421,378,299,007,776
Current deposits	393,883,659,070,999
Other deposits	27,494,639,936,777
Deposits of the government	17,522,811,115,194
Treasury deposit	150,001,205,418
Domestic designated deposit	17,084,756,686,053
Other government deposits	288,053,223,723
Payables under repurchase agreements	190,837,226,720
Other liabilities	431,210,162,105
Remittances payable	14,665,492,128
Taxes payable	376,703,000,000
Lease liabilities	7,917,799,589
Others	31,923,870,388
Provision for retirement benefits	201,859,044,951
Provision for possible losses on bonds transactions	4,415,577,993,013
Provision for possible losses on foreign exchange transactions	1,514,766,000,000
Total liabilities	553,214,629,423,813
NET ASSETS	
Capital	100,000,000
Legal reserve	3,222,659,600,266
Special reserve	13,196,452
Net income	586,960,516,535
Total net assets	3,809,733,313,253
Total liabilities and net assets	557,024,362,737,066

3. Statement of income for fiscal 2018 (April 1, 2018–March 31, 2019)

yen

Operating income	2,393,399,936,971
Interest on loans and discounts	138,386
Interest on loans	138,386
Interest and discounts on Japanese government securities	1,283,946,626,091
Interest on commercial paper	-64,408,973
Interest and discounts on corporate bonds	-1,070,645,346
Gains on foreign currency assets	372,278,516,914
Foreign exchange gains	225,708,273,528
Gains on foreign currency securities	56,656,796,808
Gains on foreign currency mutual funds	1,388,927,595
Interest on foreign currency deposits and loans	88,524,518,983
Other operating income	738,309,709,899
Gains on pecuniary trusts (stocks held as trust property)	251,068,330,537
Gains on pecuniary trusts (index-linked exchange-traded funds held as trust property)	441,641,225,209
Gains on pecuniary trusts (Japan real estate investment trusts held as trust property)	21,176,514,831
Dividends	627,535,498
Fees and commissions	9,229,787,124
Other income	14,566,316,700
Operating expenses	392,485,502,245
Interest on payables under repurchase agreements	-695,488,201
General and administrative expenses and costs	198,064,674,901
Cost of production of banknotes	51,985,762,000
Administrative expenses for treasury business and Japanese government securities	16,954,414,802
Personnel expenses	51,615,264,476
Expenses for transportation and communications	4,093,253,744
Expenses for maintenance and repairs	2,831,114,809
Other general and administrative expenses and costs	51,313,363,116
Taxes excluding corporate income tax, inhabitants taxes, and enterprise taxes	3,938,952,287
Depreciation and amortization	15,332,549,667
Other general and administrative expenses	195,116,315,545
Interest on excess reserve balances under the complementary deposit facility	186,597,746,821
Fees and commissions paid	112,403,018
Other expenses	8,406,165,706
Operating profits	2,000,914,434,726
Special profits	2,471,649,310
Gains on disposal of fixed assets	2,471,649,310
Special losses	928,583,747,966
Losses on disposal of fixed assets	279,747,966
Transfer to provision for possible losses on bonds transactions	815,450,000,000
Transfer to provision for possible losses on foreign exchange transactions	112,854,000,000
Net income before taxes	1,074,802,336,070
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	487,841,819,535
Net income	586,960,516,535

4. Summary of significant accounting policies

a. Securities

Yen-denominated bonds and CP³ are valued at amortized cost determined by the moving-average method.

Foreign currency-denominated bonds and foreign currency-denominated mutual funds are valued at market value.

Stocks, beneficiary interests in index-linked exchange-traded funds, and investment equities issued by real estate investment corporations are valued at cost determined by the moving-average method.

Impairment procedures will be applied for CP, corporate bonds,⁴ stocks, beneficiary interests in index-linked exchange-traded funds, and investment equities issued by real estate investment corporations whose market values have fallen considerably.

Securities held as trust property in pecuniary trusts⁵ are valued in accordance with the procedures prescribed above according to the type of securities.

b. Tangible and intangible fixed assets

Depreciation is computed as follows:

(1) Buildings

Depreciation is computed by the declining-balance method while the straight-line method is applied to buildings acquired on or after April 1, 1998, at a rate based on the Corporation Tax Act.

(2) Accessory equipment in the Bank's buildings and movable property

Depreciation is computed by the declining-balance method at a rate based on the Corporation Tax Act. However, depreciation for accessory equipment acquired on or after April 1, 2016 is computed using the straight-line method at a rate based on the Corporation Tax Act.

(3) Lease assets arising from finance lease transactions that transfer ownership

Depreciation is computed based on the same depreciation method as is applied to fixed assets owned by the Bank.

(4) Lease assets arising from finance lease transactions that do not transfer ownership

Depreciation is computed using the straight-line method based on the assumption that the useful life equals the lease term and the residual value equals zero.

3. CP here comprises the following types, in dematerialized or physical form: (1) CP issued by domestic corporations; (2) CP issued by foreign corporations with guarantees (dematerialized only); (3) asset-backed CP; and (4) CP issued by real estate investment corporations.

4. Includes bonds issued by real estate investment corporations.

5. Includes (1) "money trusts," where the beneficiaries entrust money to be held as trust property, and at the end of the term receive money, and (2) "pecuniary trusts other than money trusts," where the beneficiaries entrust money to be held as trust property, and at the end of the term receive securities or other forms of property in which the money has been invested.

(5) Others

Depreciation is computed in accordance with the Corporation Tax Act.

c. Foreign currency transactions

Assets and liabilities denominated in foreign currencies are translated into yen at the foreign exchange rate prevailing at the balance-sheet date. However, the amount of capital subscription to an international financial institution is translated into yen at the foreign exchange rate prevailing at the time of subscription. Assets and liabilities deriving from the Bank's U.S. Dollar Funds-Supplying Operations against Pooled Collateral are translated into yen at the foreign exchange rates used in swap transactions with the Federal Reserve Bank of New York.

d. Transfers to/from provisions

(1) Provision for possible loan losses

The general provision for possible loan losses is maintained based on the past experience of the ratio of actual loan losses to total loans (the loan-loss ratio). However, a special provision for possible losses on specific loans will be recorded separately, should the Bank's Policy Board deem it necessary.

(2) Provision for retirement benefits

The provision for retirement benefits is appropriated based on the estimated amount of retirement benefit obligations at the fiscal year-end.

The method of attributing projected benefits to periods up to the fiscal year-end is based on the straight-line method. Prior service cost is amortized using the straight-line method, which fixes the amount of the amortization and applies it over a certain number of years—within the average remaining service period of employees at the time (the amortization is applied over 10 years). Unrecognized actuarial differences are amortized from the fiscal year following the one in which the difference arises; this is also done using the straight-line method.

(3) Provision for possible losses on bonds transactions

The provision for possible losses on bonds transactions is maintained pursuant to the following rules and regulations: Article 15 of the Order for Enforcement of the Bank of Japan Act and Article 1-2 of the Supplementary Provisions of this order; Articles 9, 10, and 11 of the Ordinance for Enforcement of the Bank of Japan Act and Article 3 of the Supplementary Provisions of this ordinance; and Article 18 of the Bank's Accounting Rules and the Supplementary Provisions of these rules.

(4) Provision for possible losses on foreign exchange transactions

The provision for possible losses on foreign exchange transactions is maintained pursuant to the following rules and regulations: Article 15 of the Order for

Enforcement of the Bank of Japan Act; Articles 9, 10, and 11 of the Ordinance for Enforcement of the Bank of Japan Act; and Article 18 of the Bank's Accounting Rules.

- (5) Provisions for unrealized losses on stockholdings, index-linked exchange-traded fund holdings, and Japan real estate investment trust holdings
Provisions for unrealized losses on stockholdings, index-linked exchange-traded fund holdings, and Japan real estate investment trust holdings will be registered for the difference between the market value and the book value for each in cases where the market value is less than the book value.

Explanatory Notes to Lease Transactions

1. Finance lease transactions

Finance lease transactions that do not transfer ownership

a. Details of lease assets

Tangible fixed assets, mainly electronic data processing systems such as the Bank's host computers.

b. Methods used in calculating the depreciation of lease assets

Depreciation is computed in accordance with the Bank's significant accounting policies on methods used in calculating the depreciation of tangible and intangible fixed assets.

2. Operating lease transactions

Future minimum lease payments for non-cancelable operating lease transactions

a. Lessee

	mil. yen
Within one year	225
More than one year	658
Total	883

b. Lessor

	mil. yen
Within one year	1
More than one year	30
Total	31

Explanatory Notes to Accounting for Retirement Benefits¹

1. Reconciliation of beginning and ending balances of the projected benefit obligation

	yen
Projected benefit obligation at the beginning of fiscal 2018	239,216,005,000
Service cost	6,107,743,000
Interest cost	956,477,000
Actuarial differences	499,450,478
Retirement benefits paid	-10,025,172,478
Prior service cost	-3,292,553,000
<hr/>	
Projected benefit obligation at the end of fiscal 2018	233,461,950,000

2. Reconciliation of the projected benefit obligation and the provision for retirement benefits

	yen
Projected benefit obligation	233,461,950,000
Fair value of plan assets	...
<hr/>	
Unfunded projected benefit obligation	233,461,950,000
Unrecognized actuarial differences	-41,182,987,374
Unrecognized prior service cost	9,580,082,325
<hr/>	
Net amount recorded on the balance sheet	201,859,044,951
Prepaid pension cost	...
<hr/>	
Provision for retirement benefits	201,859,044,951

3. Retirement benefit cost

	yen
Service cost	6,107,743,000
Interest cost	956,477,000
Expected return on plan assets	...
Amortization of actuarial differences	6,302,763,578
Amortization of prior service cost	-1,240,467,125
<hr/>	
Retirement benefit cost	12,126,516,453

4. Assumptions

Discount rate	0.4%
Long-term expected rate of return on plan assets	...

Note: 1. "..." indicates that figures are not applicable.

5. Auditors' opinion⁶

May 15, 2019

Auditors' Opinion on the Bank of Japan's Financial Statements for Fiscal 2018

Pursuant to Article 52, paragraph 1 of the Bank of Japan Act (Act No. 89, 1997), we have audited the financial statements of the Bank of Japan for fiscal 2018 indicated below. In our opinion, the financial statements present fairly the state of property and the results of operations for fiscal 2018.

The financial statements comprise the following:
Inventory of property as at March 31, 2019;
Balance sheet as at March 31, 2019; and
Statement of income for fiscal 2018.

Ryuichi Shogan
Toshihiko Fujita
Ryota Yanagihara

Auditors, Bank of Japan

6. Appropriation of net income for fiscal 2018

yen

Net income	586,960,516,535
Appropriations:	
Transfer to legal reserve	29,348,025,827
Dividends, 5 percent of share face value	5,000,000
Payment to the government	557,607,490,708
Total	586,960,516,535

⁶ This presents a translation, for convenience only, of the original report issued in Japanese.

III. SCHEDULE FOR THE FINANCIAL STATEMENTS

1. Details of assets

yen

Item	Balance at the beginning of fiscal 2018	Balance at the end of fiscal 2018	Changes during fiscal 2018
1. Gold	441,253,409,037	441,253,409,037	0
2. Cash¹	274,310,402,218	250,063,536,128	-24,246,866,090
3. Japanese government securities	448,326,107,324,120	469,953,880,200,679	21,627,772,876,559
Treasury discount bills	21,758,701,344,755	10,367,582,107,230	-11,391,119,237,525
Japanese government bonds	426,567,405,979,365	459,586,298,093,449	33,018,892,114,084
2-year Japanese government bonds	29,237,164,234,560	26,878,929,114,918	-2,358,235,119,642
5-year Japanese government bonds	111,153,738,875,305	108,217,728,922,239	-2,936,009,953,066
10-year Japanese government bonds	162,707,526,065,010	184,399,876,132,912	21,692,350,067,902
20-year Japanese government bonds	80,879,933,788,712	93,246,910,678,444	12,366,976,889,732
30-year Japanese government bonds	30,112,756,738,081	33,530,742,477,809	3,417,985,739,728
40-year Japanese government bonds	6,092,084,940,416	7,244,552,088,144	1,152,467,147,728
Floating-rate Japanese government bonds	4,778,452,860,903	4,019,832,866,412	-758,619,994,491
Inflation-indexed bonds	1,605,748,476,378	2,047,725,812,571	441,977,336,193
4. Commercial paper²	2,057,433,361,381	2,042,002,809,933	-15,430,551,448
Dematerialized commercial paper	2,057,433,361,381	2,042,002,809,933	-15,430,551,448
5. Corporate bonds³	3,192,117,557,051	3,206,693,501,619	14,575,944,568
6. Pecuniary trusts (stocks held as trust property)⁴	1,048,895,987,596	897,012,559,903	-151,883,427,693
Stocks	1,023,874,328,856	873,575,065,453	-150,299,263,403
Dividends receivable and others	25,021,658,740	23,437,494,450	-1,584,164,290
7. Pecuniary trusts (index-linked exchange-traded funds held as trust property)⁵	18,934,845,109,326	24,784,899,771,164	5,850,054,661,838
Index-linked exchange-traded funds	18,934,845,109,326	24,784,899,771,164	5,850,054,661,838
8. Pecuniary trusts (Japan real estate investment trusts held as trust property)⁶	476,123,314,723	517,885,796,932	41,762,482,209
Japan real estate investment trusts	470,062,302,945	511,016,088,965	40,953,786,020
Distributions receivable	6,061,011,778	6,869,707,967	808,696,189
9. Loans and bills discounted	46,411,919,000,000	47,436,189,000,000	1,024,270,000,000
Electronic loans	46,411,919,000,000	47,436,189,000,000	1,024,270,000,000
Loans by Funds-Supplying Operations against Pooled Collateral ⁷	46,411,919,000,000	47,436,189,000,000	1,024,270,000,000
10. Foreign currency assets	6,369,516,422,097	6,732,159,607,734	362,643,185,637
Foreign currency deposits ⁸	1,128,294,451,167	1,922,441,830,375	794,147,379,208
Foreign currency securities ⁹	2,716,237,615,380	2,177,907,682,695	-538,329,932,685
Foreign currency mutual funds	58,235,330,550	61,415,209,664	3,179,879,114
Foreign currency loans ¹⁰	2,466,749,025,000	2,570,394,885,000	103,645,860,000
11. Deposits with agents¹¹	24,045,314,835	21,987,164,750	-2,058,150,085

Notes: 1. Coins reserved for circulation.

2. Comprises the following types in dematerialized or physical form: (1) CP issued by domestic corporations; (2) CP issued by foreign corporations with guarantees (dematerialized only); (3) asset-backed CP; and (4) CP issued by real estate investment corporations.

3. Includes corporate bonds issued by real estate investment corporations.

4. Comprises stocks purchased from financial institutions through a trust bank, and dividends receivable and others.

5. Comprises beneficiary interests in index-linked exchange-traded funds purchased through a trust bank and distributions receivable.

6. Comprises investment equities issued by real estate investment corporations purchased through a trust bank and distributions receivable.

7. Includes the amounts outstanding of: (1) loans made through the Fixed-Rate Funds-Supplying Operation against Pooled Collateral; (2) loans made under the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth (hereafter the Growth-Supporting Funding Facility) conducted through the Loan Support Program (excluding loans disbursed pursuant to the special rules for the U.S. dollar lending arrangement); (3) loans made under the Fund-Provisioning Measure to Stimulate Bank Lending conducted through the Loan Support Program; (4) loans made through the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas; and (5) loans made through the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas of the 2016 Kumamoto Earthquake.

8. Deposits held at foreign central banks and the Bank for International Settlements (BIS).

9. Includes securities issued by foreign governments.

10. The amount outstanding comprises that of loans disbursed pursuant to the special rules for the U.S. dollar lending arrangement to enhance the Growth-Supporting Funding Facility conducted through the Loan Support Program.

11. Deposits held at agents that conduct operations relating to treasury funds and JGSs on behalf of the Bank. These deposits are reserved for such operations.

yen

Item	Balance at the beginning of fiscal 2018	Balance at the end of fiscal 2018	Changes during fiscal 2018
12. Other assets	521,137,257,715	531,588,955,702	10,451,697,987
Bills and checks in process of collection ¹²	56,588,173	1,341,621,828	1,285,033,655
Capital subscription to the Deposit Insurance Corporation, and the Agricultural and Fishery Cooperative Savings Insurance Corporation	225,000,000	225,000,000	0
Capital subscription to an international financial institution ¹³	15,278,374,364	15,278,374,364	0
Withdrawn cash to be returned to the government ¹⁴	42,819,080,560	36,433,723,639	-6,385,356,921
Refund on accrued tax	4,302,872,300	0	-4,302,872,300
Accrued interest receivable	444,217,878,187	467,793,273,194	23,575,395,007
Others	14,237,464,131	10,516,962,677	-3,720,501,454

Notes: 12. Checks and bills received as cash and in process of collection.

13. A subscription to the BIS.

14. Includes coins that became unfit for circulation through damage and received as treasury funds by the Bank.

yen

Item	Balance at the beginning of fiscal 2018	Increase during fiscal 2018	Decrease during fiscal 2018	Of which:	Balance at the end of fiscal 2018	Cumulative total of depreciation
				Depreciation		
13. Tangible fixed assets¹⁵	207,853,084,417	24,370,421,141	23,601,348,404	14,346,430,214	208,622,157,154	363,022,616,737
Buildings ^{16,17}	97,529,908,898 (611,036.68)	7,500,341,251 (2,232.92)	7,773,491,875 (3,295.55)	7,587,179,441 (...)	97,256,758,274 (609,974.05)	335,984,248,066 (...)
Land ¹⁶	82,743,135,513 (516,363.89)	0 (22.10)	1,420,233 (7,272.64)	... (...)	82,741,715,280 (509,113.35)	... (...)
Lease assets ^{18,19}	8,210,619,191 (18,356)	2,458,278,840 (3,552)	3,085,955,511 (2,609)	3,048,172,396 (...)	7,582,942,520 (19,299)	5,698,844,768 (...)
Construction in progress ²⁰	6,604,809,352	11,435,781,354	8,998,554,486	...	9,042,036,220	...
Other tangible fixed assets ^{21,22}	12,764,611,463 (10,072)	2,976,019,696 (228)	3,741,926,299 (323)	3,711,078,377 (...)	11,998,704,860 (9,977)	21,339,523,903 (...)

Notes: 15. "... " indicates that figures are not applicable.

16. Figures in parentheses for "buildings" and "land" indicate area in square meters.

17. The increase in "buildings" was mainly due to the renovation of and repairs to buildings for the Bank's business operations.

18. Figures in parentheses for "lease assets" describe the number of items of lease property.

19. The increase in "lease assets" was mainly due to new lease contracts on electronic data processing systems.

20. The increase in "construction in progress" was mainly due to repairs to buildings for the Bank's business operations.

21. Figures in parentheses for "other tangible fixed assets" describe the number of items of movable property.

22. The increase in "other tangible fixed assets" was mainly due to purchase of new automatic banknote examination machines.

yen

Item	Balance at the beginning of fiscal 2018	Increase during fiscal 2018	Decrease during fiscal 2018	Of which:	Balance at the end of fiscal 2018	Cumulative total of depreciation
				Depreciation		
14. Intangible fixed assets	122,309,624	9,069,522	7,112,815	7,112,815	124,266,331	867,187,818
Utility rights	122,309,624	9,069,522	7,112,815	7,112,815	124,266,331	867,187,818

Appendix: Details of loans provided through the Loan Support Program

yen

Item	Balance at the beginning of fiscal 2018	Balance at the end of fiscal 2018	Changes during fiscal 2018
Total amount outstanding	48,018,368,025,000	48,645,283,885,000	626,915,860,000
Loans made under the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth ⁷	9,354,768,025,000	8,922,683,885,000	-432,084,140,000
Loans made under the Fund-Provisioning Measure to Stimulate Bank Lending	38,663,600,000,000	39,722,600,000,000	1,059,000,000,000

Note: 1. Comprises the loans disbursed pursuant to the following: (1) main rules; (2) special rules for equity investments and asset-based lending; (3) special rules for small-lot investments and loans; and (4) special rules for the U.S. dollar lending arrangement. Figures for loans in categories (1) through (3) are included in "loans and bills discounted" under assets. As for loans in category (4), the relevant figure is included in "foreign currency assets" under assets.

2. Details of liabilities and net assets

yen

Item	Balance at the beginning of fiscal 2018	Balance at the end of fiscal 2018	Changes during fiscal 2018
1. Banknotes	104,000,474,891,160	107,559,268,874,054	3,558,793,982,894
10,000 yen notes	96,340,556,910,000	99,696,944,615,000	3,356,387,705,000
5,000 yen notes	3,204,580,957,500	3,317,638,460,000	113,057,502,500
2,000 yen notes	197,570,173,000	196,261,745,000	-1,308,428,000
1,000 yen notes	4,111,787,317,500	4,203,718,526,500	91,931,209,000
Other banknotes ¹	145,979,533,160	144,705,527,554	-1,274,005,606
2. Deposits (excluding those of the government)	399,638,338,405,152	421,378,299,007,776	21,739,960,602,624
Current deposits	378,237,940,665,775	393,883,659,070,999	15,645,718,405,224
Other deposits ²	21,400,397,739,377	27,494,639,936,777	6,094,242,197,400
3. Deposits of the government	15,124,804,613,741	17,522,811,115,194	2,398,006,501,453
Treasury deposit	150,000,141,286	150,001,205,418	1,064,132
Domestic designated deposit ³	14,657,400,509,376	17,084,756,686,053	2,427,356,176,677
Other government deposits ⁴	317,403,963,079	288,053,223,723	-29,350,739,356
4. Payables under repurchase agreements⁵	311,294,637,524	190,837,226,720	-120,457,410,804
Other sales of Japanese government securities under repurchase agreements ⁶	311,294,637,524	190,837,226,720	-120,457,410,804
Of which:			
Under the Securities Lending Facility	311,294,637,524	190,837,226,720	-120,457,410,804
5. Other liabilities	59,637,024,252	431,210,162,105	371,573,137,853
Remittances payable	12,700,369,266	14,665,492,128	1,965,122,862
Taxes payable	7,584,000,000	376,703,000,000	369,119,000,000
Lease liabilities	8,558,825,733	7,917,799,589	-641,026,144
Others ⁷	30,793,829,253	31,923,870,388	1,130,041,135

Notes: 1. The total of banknotes of denominations that are no longer issued new but are still legal tender (i.e., notes of 500 yen, 100 yen, 50 yen, 10 yen, 5 yen, and 1 yen).
2. Deposits held by foreign central banks and others.
3. A deposit to which the surplus funds from management of the treasury is transferred from the "treasury deposit."
4. Includes the special deposit, which balances "cash" (coins reserved for circulation) and "withdrawn cash to be returned to the government" (coins withdrawn from circulation) in the asset account.
5. Monetary obligations arising from sales of JGSs under repurchase agreements.
6. Monetary obligations other than those arising from sales under repurchase agreements of JGBs to the government.
7. 28,412,895,491 yen of the amount outstanding of "others" at the fiscal year-end comprises accrued interest on excess reserve balances under the complementary deposit facility.

yen

Item	Balance at the beginning of fiscal 2018	Increase during fiscal 2018	Decrease during fiscal 2018	Balance at the end of fiscal 2018
6. Provisions⁸	5,201,797,693,989	940,430,516,453	10,025,172,478	6,132,203,037,964
Provision for retirement benefits	199,757,700,976	12,126,516,453	10,025,172,478	201,859,044,951
Provision for possible losses on bonds transactions	3,600,127,993,013	815,450,000,000	0	4,415,577,993,013
Provision for possible losses on foreign exchange transactions	1,401,912,000,000	112,854,000,000	0	1,514,766,000,000
7. Net assets	3,184,532,807,686	38,239,989,032	0	3,222,772,796,718
Capital	100,000,000	0	0	100,000,000
Legal reserve ⁹	3,184,419,611,234	38,239,989,032	0	3,222,659,600,266
Special reserve ¹⁰	13,196,452	0	0	13,196,452

Notes: 8. Appropriated in accordance with the Bank's significant accounting policies.
9. A reserve maintained to cover possible losses and to pay dividends under Article 53, paragraphs 1 and 2 of the Bank of Japan Act.
10. To ease the reconstruction of financial institutions after World War II, the Bank, along with private financial institutions, suspended payment of dividends from the first half of fiscal 1945 to the first half of fiscal 1949, in accordance with an order from the Minister of Finance. The unpaid dividends were set aside as a special reserve pursuant to the Supplementary Provisions of the Act for Partial Revision of the Bank of Japan Act (Act No. 46 of 1947).

3. Details of revenues and expenses for fiscal 2018

a. Operating income

Interest on loans and discounts	
Interest on loans	138,386 yen from electronic loans.
Interest and discounts on Japanese government securities	1,283,946,626,091 yen from interest income on Japanese government securities after adjustment.
Interest on commercial paper	-64,408,973 yen from interest income on commercial paper after adjustment.
Interest and discounts on corporate bonds	-1,070,645,346 yen from interest income on corporate bonds after adjustment.
Gains on foreign currency assets	
Foreign exchange gains	225,708,273,528 yen from gains on foreign currency assets resulting from revaluation following fluctuations in foreign exchange rates.
Gains on foreign currency securities	Total of 37,668,038,532 yen from interest and discounts on foreign currency securities and 23,098,446 yen from lending fees on them; and 18,965,659,830 yen of gains arising from sale, redemption, and revaluation at end-March 2019 of foreign currency securities.
Gains on foreign currency mutual funds	1,388,927,595 yen
Interest on foreign currency deposits and loans	88,524,518,983 yen
Other operating income	
Gains on pecuniary trusts (stocks held as trust property)	251,068,330,537 yen mainly from gains on sales.
Gains on pecuniary trusts (index-linked exchange-traded funds held as trust property)	441,641,225,209 yen mainly from distributions.
Gains on pecuniary trusts (Japan real estate investment trusts held as trust property)	21,176,514,831 yen mainly from distributions.
Dividends	627,535,498 yen for dividends from shares of the Bank for International Settlements held by the Bank.
Fees and commissions	9,229,787,124 yen for fees and commissions for operations regarding Japanese government securities, the Bank of Japan Financial Network System (BOJ-NET), foreign exchange transactions, and other operations.
Other income	14,566,316,700 yen from transfer from provision for retirement benefits and other miscellaneous income.

b. Operating expenses

Interest on payables under repurchase agreements	695,488,201 yen from interest income on sales of Japanese government securities under repurchase agreements.
General and administrative expenses and costs	
Cost of production of banknotes	51,985,762,000 yen from payments to the National Printing Bureau, an incorporated administrative agency, for the cost of production of banknotes.
Administrative expenses for treasury business and Japanese government securities	16,954,414,802 yen from fees and commissions paid to agents of the Bank for administration of treasury business and Japanese government securities.
Personnel expenses	430,007,000 yen for remuneration of the officers; 41,101,846,998 yen for remuneration of the employees; and 10,083,410,478 yen for retirement allowances.
Expenses for transportation and communications	1,986,529,888 yen for expenses for transportation and 2,106,723,856 yen for expenses for communications.
Expenses for maintenance and repairs	2,831,114,809 yen on offices and other premises.
Other general and administrative expenses and costs	1,119,354,289 yen for the cost of expendable supplies; 1,739,501,533 yen for expenses for electricity and water supply; 7,991,850,713 yen for leasing fees for buildings and equipment; 9,721,191,928 yen for expenses for maintenance of buildings and equipment; and 30,741,464,653 yen for miscellaneous expenses.
Taxes excluding corporate income tax, inhabitants taxes, and enterprise taxes	3,938,952,287 yen for taxes and public charges (including fixed-asset tax and urban development tax).
Depreciation and amortization	15,332,549,667 yen on buildings and lease assets.
Other general and administrative expenses	
Interest on excess reserve balances under the complementary deposit facility	186,597,746,821 yen (net difference between interest payment of 209,034,464,471 yen on excess reserve balances to which a positive interest rate is applied and interest income of 22,436,717,650 yen on the balances to which a negative interest rate is applied).
Fees and commissions paid	112,403,018 yen
Other expenses	8,406,165,706 yen for transfer to provision for retirement benefits and other expenses.

c. Special profits

Gains on disposal of fixed assets	2,471,649,310 yen for gains on sales of land for the Bank's premises.
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d. Special losses

Losses on disposal of fixed assets	279,747,966 yen for losses on disposals of offices and other properties.
Transfer to provision for possible losses on bonds transactions	815,450,000,000 yen
Transfer to provision for possible losses on foreign exchange transactions	112,854,000,000 yen

e. Net income

Net income before taxes	1,074,802,336,070 yen
Provision for corporate income tax, inhabitants taxes, and enterprise taxes	487,841,819,535 yen
Net income	586,960,516,535 yen

IV. EXPENSES

With regard to the Bank's statement of accounts for fiscal 2018 (the 134th fiscal year), the total amount of actual expenses decreased by 0.2 percent (0.4 billion yen) to 192.6 billion yen compared to the previous fiscal year. This was mainly due to a decrease in the "cost of fixed-asset purchases," reflecting a decline in expenses related to improvements to the Bank's premises, while "other general and administrative expenses and costs," particularly computerization expenses, increased.

1. Statement of accounts for fiscal 2018

yen

Item	Initial budget	Adjusted budget ¹	Actual	Surpluses	Changes from the previous year (actual)
Cost of production of banknotes	51,985,763,000	51,985,763,000	51,985,762,000	1,000	79,996,000
Administrative expenses for treasury business and Japanese government securities	17,283,548,000	17,283,548,000	16,954,414,802	329,133,198	-84,824,232
Personnel expenses	52,651,174,000	52,651,174,000	51,615,264,476	1,035,909,524	-166,409,597
Remuneration of the officers	430,729,000	430,729,000	430,007,000	722,000	2,370,000
Remuneration of the employees	41,918,480,000	41,918,480,000	41,101,846,998	816,633,002	101,962,355
Retirement allowances	10,301,965,000	10,301,965,000	10,083,410,478	218,554,522	-270,741,952
Expenses for transportation and communications	4,376,782,000	4,376,782,000	4,093,253,744	283,528,256	-93,824,914
Expenses for transportation	2,135,496,000	2,135,496,000	1,986,529,888	148,966,112	68,264,022
Expenses for communications	2,241,286,000	2,241,286,000	2,106,723,856	134,562,144	-162,088,936
Expenses for maintenance and repairs	2,847,923,000	2,847,923,000	2,831,114,809	16,808,191	-27,359,588
Other general and administrative expenses and costs	53,019,316,000	53,019,316,000	51,313,363,116	1,705,952,884	2,651,270,400
Cost of expendable supplies	1,282,491,000	1,282,491,000	1,119,354,289	163,136,711	-47,744,467
Expenses for electricity and water supply	1,975,814,000	1,975,814,000	1,739,501,533	236,312,467	104,579,941
Leasing fees for buildings and equipment	7,921,846,000	8,056,846,000	7,991,850,713	64,995,287	-140,950,569
Expenses for maintenance of buildings and equipment	10,212,711,000	10,077,711,000	9,721,191,928	356,519,072	1,108,227,085
Miscellaneous expenses	31,626,454,000	31,626,454,000	30,741,464,653	884,989,347	1,627,158,410
Subtotal	182,164,506,000	182,164,506,000	178,793,172,947	3,371,333,053	2,358,848,069
Cost of fixed-asset purchases	14,210,765,000	14,210,765,000	13,767,904,248	442,860,752	-2,745,098,421
Of which:					
Subject to the approval of the Minister of Finance ²	4,349,154,000	4,349,154,000	4,254,043,009	95,110,991	-136,107,685
Contingency funds	1,000,000,000	1,000,000,000	0	1,000,000,000	0
Total	197,375,271,000	197,375,271,000	192,561,077,195	4,814,193,805	-386,250,352
Of which:					
Subject to the approval of the Minister of Finance ²	187,513,660,000	187,513,660,000	183,047,215,956	4,466,444,044	2,222,740,384

Notes: 1. "Initial budget" plus/minus "use of contingency funds" and "diversion of funds."

2. Excludes the cost of purchasing fixed assets used for the Bank's business operations. The statement of accounts for each fiscal year is compiled and submitted, together with the Auditors' opinion, to the Minister of Finance. The cost of purchasing fixed assets used for the Bank's business operations is not subject to the Minister's authorization, but it was also audited by the Auditors, who approved it as fairly presenting the expenses for such purchases.

2. Expenses by area of business operation for fiscal 2018¹

mil. yen

Area of business operation	Expenses	Changes from a year earlier	Share of total (percent)
Issuance of banknotes	84,111	+1,514	42.5
Monetary policy	23,734	+199	12.0
Financial system policy	18,270	+417	9.2
Payment and settlement systems	30,515	-216	15.4
Services relating to the government ²	41,435	+1,212	20.9
Total	198,065	+3,126	100.0

Notes: 1. Calculated based on "general and administrative expenses and costs" (198.1 billion yen) in the statement of income for fiscal 2018 (the 134th fiscal year). Figures are rounded to the nearest million yen.

Expenses for the Bank's various business and organizational divisions (international finance, research and statistics, external relations activities, and organizational management), which contribute jointly to each of the above areas of business operation, are amortized equally and included in the relevant sections of the above table.

2. Services provided by the Bank, specifically those relating to treasury funds, JGSs, and others.

Appendixes

■ **Appendix 1: Overview of Audits of the Bank of Japan**

■ **Appendix 2: The Bank of Japan's Strategic Priorities for Fiscal 2014–2018**

■ **Appendix 3: Performance Review of *The Bank of Japan's Strategic Priorities for Fiscal 2014–2018***

■ **Appendix 4: Medium-Term Strategic Plan (Fiscal 2019–2023)**

APPENDIX 1: OVERVIEW OF AUDITS OF THE BANK OF JAPAN

Pursuant to the provisions of the Bank of Japan Act and in accordance with the Bank's internal rules, the following audits were conducted by the Auditors of the Bank in fiscal 2018 and at the beginning of fiscal 2019.

I. Audits of the Bank's Financial Statements and Other Documents¹**A. Financial Statements and Other Documents for Fiscal 2017**

In May 2018, the Auditors audited the Bank's financial statements and other documents, specifically, the inventory of property, the balance sheet, the statement of income, the statement of accounts, the appropriation of net income, and the schedule for the financial statements for fiscal 2017 (the 133rd fiscal year) as well as the statement of income for the second half of fiscal 2017.

The Auditors submitted to the Governor their written opinions indicating that the financial statements and other documents presented fairly the state of property, the results of operations, and the expenses for fiscal 2017 as well as the results of operations for the second half of fiscal 2017.

B. Financial Statements and Other Documents for the First Half of Fiscal 2018

From October through to early November 2018, the Auditors audited the Bank's financial statements and other documents, specifically, the inventory of property, the balance sheet, the statement of income, and the

schedule for the financial statements for the first half of fiscal 2018 (the 134th fiscal year).

The Auditors submitted to the Governor their written opinions indicating that the financial statements and other documents presented fairly the state of property and the results of operations for the first half of fiscal 2018.

C. Financial Statements and Other Documents for Fiscal 2018

In May 2019, the Auditors audited the Bank's financial statements and other documents, specifically, the inventory of property, the balance sheet, the statement of income, the statement of accounts, the appropriation of net income, and the schedule for the financial statements for fiscal 2018 as well as the statement of income for the second half of fiscal 2018.

The Auditors submitted to the Governor their written opinions indicating that the financial statements and other documents presented fairly the state of property, the results of operations, and the expenses for fiscal 2018 as well as the results of operations for the second half of fiscal 2018.

II. Audits of Cash, Securities, and Books

In fiscal 2018, the Auditors conducted a total of 61 on-site audits on 7 Head Office departments and 32 branches of the Bank, examining cash and securities in their custody as well as their books.

1. The first half of the fiscal year runs from April 1 through September 30, and the second half from October 1 through March 31.

III. Audits of the Bank's Business Operations and Expenses

In fiscal 2018, the Auditors conducted on-site audits on 32 branches, 12 of the Bank's local offices in Japan, and 2 overseas representative offices to assess business operations and expenses. They also conducted a total of 180 meetings with Head Office departments to

review the execution of business operations and expenses, receiving explanatory overviews of business operations at each department as well as reports concerning high-priority issues from relevant departments. In addition, they conducted 350 examinations of key documents and 5 special on-site visits to the Bank's premises.

APPENDIX 2: THE BANK OF JAPAN'S STRATEGIC PRIORITIES FOR FISCAL 2014–2018¹**I. Introduction**

"The Bank of Japan's Strategic Priorities for Fiscal 2014–2018" describes the basic principles for the Bank's business operations and organizational management during the five-year period.

From fiscal 2009, the Bank formulated the Strategic Priorities within a framework covering a three-year period and updated them every fiscal year. The Bank has decided to adopt a new five-year framework for the Strategic Priorities for fiscal 2014–2018, 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) evaluating its performance properly.

The Bank plans to conduct an interim review during the five-year period in order to address any changes in its environment. It will revise the content flexibly in response to any significant changes in its environment.

II. The Bank's Organizational Principles

The Bank has decided and made public its organizational principles, which constitute a set of fundamental values to be respected by the Bank, as the central bank of Japan. The officers and employees of the Bank are to keep these principles in mind at all times in the conduct of business operations. The Bank will maintain public confidence through the appropriate conduct of its policies and business operations in accordance with the organizational principles listed below.

Public Interest

The Bank shall promote the public interest by fulfilling the core purposes stipulated in the Bank of Japan Act.²

Transparency

The Bank shall demonstrate proper accountability in its policies and business operations via its various external networks.

Excellence

The Bank shall pursue excellence in central banking services, responding sufficiently to changes in its environment.

Integrity

The Bank shall ensure integrity in execution of duties by each and every officer and employee, requiring that they uphold high standards of morality.

Effectiveness and Efficiency

The Bank shall make effective and efficient use of management resources in its conduct of business operations and organizational management.

III. Background and Management Guidelines

There is a growing need for central banks to address issues arising from (1) further globalization of the financial and economic environment, (2) diversification and the increasing complexity of financial instruments and transactions, and (3) continuing advances in financial engineering and information processing technology.

In this situation, the Bank is required to respond flexibly to any changes in its environment to properly perform its role as the central bank. This involves

1. Decided by the Policy Board on March 25, 2014.

2. The Bank of Japan Act determines the Bank's core purposes as follows: Article 1 stipulates that the Bank is required to issue banknotes, carry out currency and monetary control, and maintain the stability of the financial system; and Article 2 stipulates that currency and monetary control shall be aimed at achieving price stability, thereby contributing to the sound development of the national economy.

(1) dealing proactively with new issues and (2) conducting business operations stably while managing operational risks properly. In order to ensure public confidence, it is also important for the Bank to explain clearly to the public its policies and business operations.

Based on the above understanding, the following three management guidelines have been set out in the Strategic Priorities for fiscal 2014–2018.

A. Engage in Bank-Wide Efforts to Fulfill Its Missions

The Bank's missions are to achieve price stability and ensure the stability of the financial system. To achieve price stability, the Bank has set the "price stability target" at 2 percent in terms of the year-on-year rate of change in the consumer price index (CPI). It will engage in Bank-wide efforts to steadily fulfill these missions, with its officers and employees sharing the understanding that doing so promotes the public interest. To this end, they shall at all times (1) work to make the fullest possible use of a high degree of central banking expertise and (2) remain aware of the importance of a creative attitude to handle new issues proactively.

B. Improve Capability in the Conduct of Business Operations

The Bank's missions are fulfilled through the conduct of a wide range of central banking operations, and the public expects the Bank to conduct these operations stably. Recently, there is a growing need for central banks to address issues reflecting changes in the domestic and overseas environments. The Bank will therefore improve its capability in the conduct of business operations, by making use of job-specific expertise that has been cultivated over the years and by managing its operational risks properly. In addition, it will establish an operational framework that responds properly to changes in these environments.

C. Enhance External Communication and Strengthen Networks

In maintaining public confidence, it is important for the Bank, taking a global perspective, to explain clearly to the public its policies and business operations and to listen carefully to outside opinion. Such multilateral and multilevel communication will contribute to the Bank's fulfillment of its missions and will promote the public interest. Recognizing this, the Bank will further enhance its communication by building appropriate networks with people and organizations across a wide range of fields both inside and outside Japan.

IV. Strategic Objectives for Business Operations

In accordance with (1) the organizational principles, which constitute a set of fundamental values subscribed to by the Bank, and (2) the management guidelines, which provide direction for the Strategic Priorities, the Bank will focus on the following strategic objectives for its business operations.

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

In the course of Japan's economy overcoming deflation and achieving a sustainable growth path with price stability, a number of changes in financial and economic conditions are expected to take place.

With a view to responding sufficiently to such changes and providing a firm underpinning for monetary policy conduct, the Bank will carry out the requisite research and analysis on financial and economic conditions at home and abroad from multiple perspectives.

Based on such multi-perspective analysis of the effects and impacts of monetary policy, the Bank will plan and formulate monetary policy measures flexibly. In

addition, the Bank will work to have the necessary operational arrangements in place so that money market operations are conducted properly, in line with monetary policy conduct.

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

It is essential to ensure stability and improve the functioning of the financial system in order to provide support from the financial side for Japan's economy to strengthen its growth potential.

In this regard, the Bank will appropriately plan and execute the selection of financial institutions holding current accounts at the Bank (BOJ account holders) as well as business operations relating to the provision of loans.

The Bank will also thoroughly assess the business operations, risk management, profitability, and capital bases of individual financial institutions through on-site examinations and off-site monitoring, making use of analysis of expected future developments in these areas. In particular, with a view to dealing with systemic risks more effectively, the Bank will work to ensure a firm grasp of business conditions at systemically important financial institutions. It will identify and share issues of managerial concern with financial institutions, thereby encouraging an appropriate response.

In planning and formulating its financial system policy measures, the Bank will place greater importance than ever on taking a macroprudential perspective. As a prerequisite for this, it will enhance its research and analysis on the stability and functioning of the financial system as a whole.

Meanwhile, in order to ensure financial system stability, the Bank will stand ready to act effectively as lender of last resort for individual financial institutions and financial markets when necessary.

The Bank will address these objectives in due cooperation with relevant parties.

C. Enhance Payment and Settlement Services and Reinforce Market Infrastructure

The Bank will implement the second phase of the new Bank of Japan Financial Network System (BOJ-NET) project scheduled for fiscal 2015 and thereafter operate the system smoothly and reliably.

While making effective use of the improved functionality of the new BOJ-NET, the Bank will enhance Japan's payment and settlement services in response to the diversification of payment and settlement needs and financial globalization. Specifically, the Bank will encourage the enhancement of retail payment systems and work to realize payment and settlement using the new BOJ-NET for cross-border transactions in yen or Japanese government bonds (JGBs). In addition, the Bank will conduct appropriate oversight of financial market infrastructures, while considering changes in financial market environments.

The Bank will also work actively to reinforce the financial market infrastructure in Japan to reduce settlement risk and strengthen market functioning, while giving due consideration to international developments and working in close cooperation with market participants.

D. Conduct Stable and Efficient Central Banking Operations

With regard to business operations relating to banknote issuance, the Bank will work to secure confidence in banknotes and coins using new technology. It will strengthen the monitoring of the cleanliness of banknotes in circulation and proceed with the introduction of next-generation automatic banknote examination machines.

The Bank will also work to maintain a firm grasp of

changes in the delivery routes of cash and will establish more efficient operational frameworks based on the information gathered.

With regard to banking operations, the Bank will, on a daily basis, continue to settle financial transactions using BOJ accounts and conduct money market operations in an accurate and stable manner. As for treasury funds and Japanese government securities (JGSs), the Bank will carry out its range of services with precision.

The Bank will reassess the efficiency of its operational frameworks in view of changing trends in workloads associated with banking operations as well as services relating to treasury funds and JGSs.

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

Amid further globalization and growth in business and financial transactions between Japanese institutions and counterparties located in Asia, financial and economic stability around the globe, particularly in Asia, has become crucial to Japan's economy.

Based on this recognition, the Bank will play its due part as a central bank in ensuring the stability of the international currency system, in cooperation with overseas authorities. It will also play a leading role at international meetings, including those organized by the Bank for International Settlements (BIS) and the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), in keeping with Japan's position. Furthermore, to ensure financial and economic stability in Asia, the Bank will expand and enhance its technical assistance in the region.

F. Contribute to the Regional Economic and Financial Environment

The Bank will contribute to the regional economic and financial environment by providing appropriate central banking services in each region of the country, making

due use of the functions available at its Head Office, branches, and local offices.

In this regard, the Bank will aim to ensure that it can conduct its business operations in a stable manner even in times of disaster. It will maintain an accurate grasp of regional financial and economic conditions through close and frequent communication with local financial institutions, firms, and economic organizations. At the same time, the Bank will provide a clear and accessible explanation of (1) its view of economic and financial conditions both at home and abroad as well as (2) the thinking behind its policies and business operations. It will make active use of information gained through such efforts in conducting monetary policy and business operations.

G. Strengthen External Communication

With a view to ensuring broad public confidence, the Bank will communicate its conduct of monetary policy and business operations to not only financial professionals but also the public in a clear and intelligible manner. To this end, the Bank will enhance (1) the effectiveness of its communication by making full use of information technology, for example through improvements to its website, and (2) the in-house tours of its Head Office and branches.

Moreover, with the aim of better grasping public opinion as well as public needs regarding its policies and business operations, the Bank will further strengthen its communication with financial institutions closely involved in its conduct of policies and business operations and will build and strengthen networks with people, firms, and economic organizations across a wide range of fields.

Meanwhile, the Bank will publish the findings from its research and analysis in effective ways. It will also appropriately compile and release statistics with a view to improving their user-friendliness and responding to

global structural changes.

In addition to the above efforts, the Bank, in cooperation with relevant parties, will work to support the activities of the Central Council for Financial Services Information (CCFSI) and associated committees to promote financial literacy among the public.

V. Strategic Objectives for Organizational Management

A. Organizational Management

In accordance with the organizational principles and the management guidelines described above, the Bank will focus on the following strategic objectives for its organizational management and all sections of its Head Office, branches, and local offices will coordinate their efforts to achieve them.

1. Ensure the appropriate conduct of business

operations given changes in the Bank's environment

The Bank will enhance its capability in planning business operations, responding appropriately to changes in its environment where the need for central banks to address certain issues is growing. It will promote the passing on of know-how among employees with a view to firmly maintaining the levels of job-specific expertise that have underpinned its business operations over the years. In addition, it will work actively to revise its business processes in response to changes in its environment.

Moreover, the Bank will promote efficiency and stability in its business operations through computerization, and will also review its business processes to reflect technological advances.

2. Manage operational risks appropriately

In order to maintain public confidence, it is important for the Bank to continue to conduct all business operations with precision and deliberation. To this end, it will engage

in Bank-wide efforts to manage operational risks effectively, giving due consideration to a change in the composition of its workforce following the anticipated retirement of a large number of experienced workers.

With regard to due execution of duties by its officers and employees, the Bank will continue to work to promote compliance with social norms as well as the appropriate management of information security.

3. Strengthen business continuity arrangements

Based on its experience following the Great East Japan Earthquake and the government's reappraisal of potential damage for large-scale earthquakes such as those directly under Tokyo or in the Nankai Trough, the Bank will reinforce its business continuity arrangements through the effective use of its management resources.

B. Management Resources

1. Human resources

In order to steadily carry out the strategic objectives outlined in the Strategic Priorities for fiscal 2014–2018, the Bank will work to secure the necessary employee numbers and to increase the efficiency of its overall business operations. To this end, for each fiscal year, it will decide and make public the ceiling on the number of full-time employees.

In addition, the Bank will secure and foster human resources with a high degree of central banking expertise in the execution of business operations and organizational management. In particular, it will encourage its employees to cultivate the practical skills to build and manage relationships both inside and outside Japan, the creative mind-set to deal proactively with new issues, and the ability to play an active role internationally. From this perspective, the Bank will continue to work to promote personnel exchanges with institutions both inside and outside Japan.

Furthermore, the Bank will expand its recruitment of

women and encourage their promotion; it will also seek to offer various working arrangements to improve the work-life balance of its employees. In addition, it will continue to work to facilitate internal communication.

2. Budget for expenses

In order to steadily carry out the strategic objectives outlined in the Strategic Priorities for fiscal 2014–2018, the Bank will secure the necessary budget and achieve more streamlined overall spending. To this end, for each fiscal year, it will decide and make public the budget for expenses.

VI. Performance Reviews

With a view to (1) steadily carrying out the strategic objectives for business operations and organizational management outlined in the Strategic Priorities for fiscal 2014–2018 and (2) reviewing and revising as necessary the allocation of management resources, the Bank will conduct and make public performance reviews of measures taken under the Strategic Priorities every fiscal year. In addition, it will conduct a thorough review of the entire contents of the Strategic Priorities.

APPENDIX 3: PERFORMANCE REVIEW OF THE BANK OF JAPAN'S STRATEGIC PRIORITIES FOR FISCAL 2014–2018¹**I. Introduction**

The Bank formulated *The Bank of Japan's Strategic Priorities for Fiscal 2014–2018 (Strategic Priorities)* and released it in March 2014. Performance reviews of measures taken under the *Strategic Priorities* have been conducted every subsequent fiscal year and the results made public.

With the current five-year period ending in March 2019, the Bank conducted a comprehensive review of its performance over the entire period. This document summarizes the Bank's accomplishments during the period with regard to the strategic objectives for business operations and organizational management stated in the *Strategic Priorities*.

II. The Environment Surrounding Central Banks

During the period of fiscal 2014–2018, there were many cases in which certain political or economic events reverberated across borders, against the backdrop of continued economic and financial globalization. Progress was made in innovation and application of information technology (IT) such as digitalization, and this started to produce significant effects on economic and financial activities. In Japan, the economic and financial impact of structural social changes such as the declining and aging of the population increased in importance.

III. Performance Reviews of Strategic Objectives for the Bank's Business Operations and Organizational Management

In light of the changes in the external environment outlined above, the Bank addressed a wide range of strategic objectives across both business operations and organizational management. It pursued these objectives in accordance with the three management guidelines of the *Strategic Priorities*: (1) engage in Bank-wide efforts to fulfill its missions; (2) improve capability in the conduct of business operations; and (3) enhance external communication and strengthen networks. The Bank considers that, overall, it achieved the strategic objectives laid out in the *Strategic Priorities*. Performance reviews for each of the strategic objectives are as follows.

A. Business Operations**1. Plan and Formulate Monetary Policy Measures That Facilitate Policy Conduct**

With a view to contributing to monetary policy conduct, the Bank carried out the requisite research and analysis on economic and financial conditions at home and abroad, assessing these from multiple perspectives including the outlook for and risk factors affecting economic and price developments. It also conducted multi-perspective analysis on the efficacy and impacts of Quantitative and Qualitative Monetary Easing (QQE). In light of its analysis, the Bank planned and formulated monetary policy measures flexibly. It enhanced dialogue with market participants and other relevant parties by increasing opportunities for the exchange of views. In

1. Decided by the Policy Board on March 22, 2019.

addition, the Bank deliberated on and introduced, in an appropriate manner, the measures necessary to pursue monetary policy, while making steady adjustments to its operational arrangements for conducting market operations. Given these accomplishments, the Bank considers that it provided a firm underpinning for monetary policy conduct.

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

With a view to ensuring stability and improving the functioning of the financial system, the Bank appropriately executed business operations relating to the provision of loans and the selection of financial institutions holding current accounts at the Bank (BOJ account holders). It also assessed the conditions of business operations and management at individual financial institutions by carrying out on-site examinations and off-site monitoring effectively and efficiently, and encouraged institutions to make necessary improvements. In addition, the Bank enhanced its research and analysis on the stability and functioning of the financial system from a macroprudential perspective and made use of the findings in planning and formulating financial system policy measures. It also disseminated the findings through the *Financial System Report*. Meanwhile, in addition to strengthening cooperation with relevant parties, the Bank maintained and reinforced its operational arrangements so as to be able to act as the lender of last resort if necessary. Given these accomplishments, the Bank considers that it achieved its intended objectives in ensuring stability and improving the functioning of the financial system.

3. Enhance Payment and Settlement Services and Reinforce Market Infrastructure

The Bank smoothly implemented the second phase of the new Bank of Japan Financial Network System (BOJ-

NET) project and operated the system with stability thereafter. With a view to enhancing Japan's payment and settlement services, it made steady progress on the initiatives to realize payment and settlement using the BOJ-NET for cross-border transactions in yen or Japanese government bonds. In addition, the Bank conducted appropriate oversight of financial market infrastructures. It also contributed to deliberations on the selection of Japanese yen interest rate benchmarks and the adoption of the global code of conduct for foreign exchange markets, giving due consideration to international developments and working in cooperation with market participants. Moreover, the Bank proceeded with its FinTech-related initiatives, particularly in light of IT advances, by carrying out relevant research, for example. Given these accomplishments, the Bank considers that it achieved its intended objectives in enhancing payment and settlement services and reinforcing market infrastructure.

4. Conduct Stable and Efficient Central Banking Operations

With regard to business operations relating to banknotes, the Bank made progress in securing confidence in banknotes and coins through measures such as the introduction of new-generation automatic banknote examination machines. It also worked to maintain a firm grasp of changes in the delivery routes of cash and proceeded with improving the efficiency of operational frameworks. As for business operations relating to coins, however, there was an incident of theft by an employee of commemorative coins held at the Bank; following this incident, the Bank implemented measures to prevent any recurrence of misconduct. With regard to banking operations, the Bank, on a daily basis, settled financial transactions using BOJ accounts and conducted market operations, implementing all of these in an

accurate and stable manner. As for treasury funds and Japanese government securities, it carried out a wide range of services with precision. By cooperating with relevant parties, the Bank also worked to streamline business operations by, for example, reducing the number of agents, as well as promote further use of online processing of treasury funds. In light of the above, the Bank considers that it generally conducted stable and efficient central banking operations.

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

In cooperation with relevant authorities at home and abroad, the Bank played its due part as the central bank of Japan in ensuring the stability of the international currency system at meetings such as those organized by the Bank for International Settlements (BIS), the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), the Financial Stability Board (FSB), the Group of Seven (G7), the Group of Twenty (G20), and the International Monetary Fund (IMF). In such meetings, the Bank also played a leadership role in international consensus building. Furthermore, to ensure economic and financial stability in Asia, it boosted international monetary cooperation through, for example, currency swap arrangements, while also expanding and enhancing technical assistance, most of which was provided within the region. Given these accomplishments, the Bank considers that it achieved its intended objectives in contributing to the response to globalization on the international financial front.

6. Contribute to the Regional Economic and Financial Environment

With a view to contributing to the regional economic and financial environment, the Bank conducted its business operations in a stable manner even at times of disaster, making due use of the functions available at its Head

Office, branches, and local offices. The Bank maintained an accurate grasp of regional economic and financial conditions through close communication with local financial institutions, firms, and economic organizations, as well as through vigorous research efforts. Research findings were disseminated to each region, in addition to being utilized by the Bank in conducting monetary policy as well as in ensuring stability and improving the functioning of the financial system. The Bank also expanded and enhanced its public relations activities and information dissemination within each region. Given these accomplishments, the Bank considers that it achieved its intended objectives in contributing to the regional economic and financial environment.

7. Strengthen External Communication

With a view to ensuring broad public confidence, the Bank proceeded with efforts to clearly and accessibly communicate its conduct of monetary policy and business operations to various audiences including the general public; in this regard, it expanded its external communication platforms. In addition, the Bank worked to gain a better grasp of public opinion as well as public needs regarding its policies and business operations; for example, it strengthened its communication with financial institutions and advanced its network building with firms, economic organizations, and other parties. The Bank also made efforts to improve its statistics and contributed to discussions held by the government toward the refinement of economic statistics. To promote financial literacy among the public, the Bank supported the activities of the Central Council for Financial Services Information, in cooperation with relevant parties. Given these accomplishments, the Bank considers that it appropriately pursued its objectives in strengthening external communication.

B. Organizational Management

1. Ensure the Appropriate Conduct of Business

Operations given Changes in the Bank's Environment

With a view to enhancing capability in planning business operations in response to changes in its environment, the Bank revised its organizational structure, which included changes that enabled it to conduct in-depth off-site monitoring of financial institutions and to effectively plan, coordinate, and organize international meetings relating to the financial system. It also reinforced its organizational framework to further advance initiatives pertaining to FinTech. In maintaining levels of job-specific expertise, the Bank, at its Head Office, branches, and local offices, promoted the passing on of know-how among employees and revised its business processes, incorporating ideas from employees. The Bank also steadily promoted efficiency and stability in its business operations through computerization. Given these accomplishments, the Bank considers that it achieved its intended objectives in ensuring the appropriate conduct of business operations given changes in its environment.

2. Manage Operational Risks Appropriately

With a view to continuing to conduct business operations with precision and deliberation, the Bank engaged in Bank-wide efforts to manage operational risks effectively, giving due consideration to an anticipated change in the composition of its workforce. It also promoted compliance with accepted social and ethical standards and the appropriate management of information security. Meanwhile, following an incident of theft by an employee of commemorative coins held at the Bank, the Bank took disciplinary actions against those involved and made further efforts to enhance the education and training of its employees so as to ensure

complete integrity in the execution of their duties. In light of the above, the Bank considers that, in terms of the appropriate management of operational risks, there are remaining issues to address.

3. Strengthen Business Continuity Arrangements

Based on its experience following the Great East Japan Earthquake and the Kumamoto Earthquake, in addition to the government's reappraisal of potential damage scenarios for large-scale earthquakes such as those directly under Tokyo or in the Nankai Trough, the Bank steadily implemented measures toward enhancing the disaster countermeasures in place at its Head Office and branches. It also strengthened cooperation with other concerned parties such as national and local governments as well as financial institutions through, for example, participating in the Central Disaster Management Council and conducting joint exercises with market participants. Given these accomplishments, the Bank considers that it achieved its intended objectives in strengthening business continuity arrangements.

Meanwhile, the Bank addressed the strategic objectives concerning management resources stated in the *Strategic Priorities*. In the area of human resources, the Bank, while maintaining necessary employee numbers, decided and made public the ceiling on the number of full-time employees for each fiscal year. It also worked on securing and fostering the human resources needed to execute its business operations and organizational management, mainly through enhancing education and training programs, as well as exchanging personnel with institutions inside and outside Japan. In terms of human resource utilization, the Bank expanded its recruitment of women and encouraged their promotion; it also introduced a reemployment system called the "expert staff system," with a view to making the most of the skills and know-

how of experienced employees and contributing to the stable conduct of its business operations. In addition, the Bank strived to cultivate a workplace environment conducive to the well-being of all of its employees; for example, it further improved terms of employment and working conditions so that employees can balance work and childrearing. Concerning the budget for expenses, the Bank made efforts to achieve more streamlined overall spending while also securing the necessary budget. In this regard, it appropriately decided and made public the budget for expenses for each fiscal year.

IV. Looking Forward to Fiscal 2019–2023

Given these accomplishments, the Bank considers that, overall, it achieved the strategic objectives laid out in the *Strategic Priorities*. In light of the Bank's experience during fiscal 2014–2018, the following matters will require consideration in conducting business operations and organizational management going forward.

First, it is important that the Bank continue to work

cohesively to fulfill its missions of achieving price stability and ensuring the stability of the financial system. In this regard, it is also necessary for the Bank to communicate to the public its policies and business operations in a readily understandable way and to listen carefully to outside opinion.

Second, it has become increasingly important that the Bank appropriately address significant changes in the environment, including IT innovations such as digitalization, in order to properly perform its role as the central bank of Japan.

Third, as the Bank's missions are fulfilled through the execution of a wide range of central banking operations, it is essential that the Bank execute its business operations with stability and integrity so as to secure public confidence even within a changing environment.

Taking the above matters into consideration, the Bank will conduct its business operations and organizational management in line with the *Medium-Term Strategic Plan (Fiscal 2019–2023)* released today.

APPENDIX 4: MEDIUM-TERM STRATEGIC PLAN (FISCAL 2019–2023)^{1,2}**I. Introduction**

The Bank's *Medium-Term Strategic Plan (Fiscal 2019–2023)* (Plan) sets the basic direction for the Bank's business operations and organizational management during the five-year period.

The Plan's content will remain, in principle, fixed during fiscal 2019–2023, with a view to clarifying the Bank's objectives over the medium term and to ensuring proper assessment of its performance.

The Bank will conduct an interim review of the Plan in or around fiscal 2021, in order to enable the Bank to address any changes in the environment. It will flexibly revise the Plan as appropriate in response to any significant changes.

II. The Bank's Organizational Principles

The Bank's organizational principles constitute the set of fundamental values to be respected by the Bank, as the central bank of Japan. The officers and employees of the Bank must respect these principles at all times in the conduct of business operations. The Bank will secure public confidence through the appropriate conduct of its policies and business operations in accordance with the organizational principles listed below.

Public Interest

The Bank shall promote the public interest by fulfilling the core purposes stipulated in the Bank of Japan Act.³

Transparency

The Bank shall demonstrate proper accountability in its policies and business operations via its various external relationships.

Excellence

The Bank shall pursue excellence in the provision of central banking services, responding appropriately to changes in the environment.

Integrity

The Bank shall ensure integrity in the execution of duties by each officer and employee, requiring that they uphold high moral standards.

Effectiveness and Efficiency

The Bank shall make effective and efficient use of management resources in its conduct of business operations and organizational management.

III. Background and Management Guidelines

Turning to the environment surrounding central banks, economic and financial globalization has continued. Meanwhile, innovation and application of information technology (IT) such as digitalization have accelerated, and this has started to produce wide-ranging and diverse effects on economic and financial activities. In Japan, the economic and financial impact of structural social changes such as the declining and aging of the population has been increasing. In the wider context of the global economy and society, Japan is expected to address the Sustainable Development Goals (SDGs) adopted in 2015 at the United Nations General Assembly.

1. Decided by the Policy Board on March 22, 2019.

2. Following *The Bank of Japan's Strategic Priorities for Fiscal 2014–2018* ending in March 2019, the Bank formulated this statement for the five-year period starting April 2019.

3. The Bank of Japan Act determines the Bank's core purposes as follows: Article 1 stipulates that the Bank is required to issue banknotes, carry out currency and monetary control, and maintain the stability of the financial system, and Article 2 stipulates that currency and monetary control shall be aimed at achieving price stability, thereby contributing to the sound development of the national economy.

These conditions present central banks with an increasingly wide range of challenges, and it has become ever more important for them to respond appropriately to changes in the environment.

Based on the above understanding, in order to properly perform its role as the central bank of Japan, the Bank has set the following three management guidelines for the Plan.

A. Work Cohesively to Fulfill Its Missions

The Bank's missions are to achieve price stability and to ensure the stability of the financial system. To achieve price stability, the Bank has set the price stability target at 2 percent in terms of the year-on-year rate of change in the consumer price index (CPI). It will continue to work cohesively to fulfill these missions, with its officers and employees sharing the understanding that doing so promotes the public interest. In this regard, it is important for the Bank to communicate to the public its policies and business operations in a readily understandable way and to listen carefully to outside opinion. Recognizing this, the Bank will further enhance its communication while expanding its relationships both inside and outside Japan.

B. Enhance Flexibility in Responding to a Changing Environment

The environment surrounding central banks has been subject to significant change, and thus it has become important for them to enhance their flexibility in responding to these changes. To this end, the Bank will reinforce its operational arrangements for responding to such changes through initiatives including continuously reviewing and revising its business operations, raising operational efficiency, and making effective use of management resources. It will also secure the staff needed to effectively execute its business operations and organizational management by fostering human

resources with a high degree of central banking expertise while also promoting diversity in the workplace. With this in mind, the Bank will cultivate a workplace environment favorable to improving the productivity of business operations and conducive to varied and flexible working arrangements, so that each employee can realize their full potential.

C. Execute Business Operations with Stability and Integrity

The Bank's missions are fulfilled through the execution of a wide range of central banking operations; the stability and integrity with which it executes these operations are what underpin public confidence in the Bank. Meanwhile, central banks have been facing, and are expected to continue to face, an increasingly wide range of challenges. Given these considerations, the Bank will ensure the stable execution of business operations by managing its operational risks properly while maintaining and further enhancing the operational reliability and individual expertise of its employees, which have been cultivated through long years of workplace experience. It will also continue to secure the complete integrity with which its officers and employees execute their duties.

IV. Challenges Accompanying IT Advances

The Bank will pursue its strategic objectives for business operations and organizational management, in accordance with the organizational principles that constitute the Bank's fundamental values, and the management guidelines that indicate the priorities of the Plan. In a situation where advances in IT have started to produce wide-ranging and diverse effects on economic and financial activities, it is highly important for the Bank to address the accompanying challenges in conducting both business operations and organizational management.

While considering from a medium- to long-term perspective how the growing impact of advances in IT will affect the Bank's business operations and the conditions at counterparties such as financial institutions, the Bank will proactively address any new challenges that arise and make all necessary operational adjustments. With regard to organizational management, the Bank, putting an emphasis on further use of IT, will tackle a wide range of tasks to improve operational efficiency, reduce operational risks, and use management resources effectively throughout the five-year period of the Plan. The Bank will also coordinate its efforts with the initiatives of the government and private sector in utilizing IT.

V. Strategic Objectives for Business Operations

The Bank will focus on the following strategic objectives for its business operations.

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

On its way to achieving sustainable growth with price stability, Japan's economy is expected to experience various changes in economic and financial conditions, including the impact of advances in IT.

With a view to responding appropriately to such changes and providing a firm underpinning for the conduct of monetary policy, the Bank will carry out the requisite research and analysis on economic and financial conditions at home and abroad from multiple perspectives.

Based on such multi-perspective analysis of the efficacy and impacts of monetary policy, the Bank will plan and formulate monetary policy measures flexibly. In addition, it will work to have the necessary operational arrangements in place so that market operations are conducted properly, in line with monetary policy decisions.

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

It is essential to ensure the stability and improve the functioning of the financial system in order to provide support from the financial side for Japan's economy to strengthen its growth potential.

In this regard, the Bank will appropriately plan, formulate, and execute business operations such as the selection of financial institutions that can hold current accounts at the Bank and the provision of loans.

The Bank, through on-site examinations and off-site monitoring, will also thoroughly assess business conditions at individual financial institutions in terms of their business environments, business strategies and operations, risk management, profitability, and capital bases, while considering the impacts of demographic changes and advances in IT. In particular, due attention will be paid to structural issues affecting their profits and to changes in their risk profiles accompanying developments in their business operations at home and abroad. Based on its assessments, the Bank, while utilizing IT, will identify and share issues of managerial concern with financial institutions and provide support as they make necessary improvements.

In planning and formulating financial system policy measures, the Bank will continue to place importance on taking a macroprudential perspective. As a prerequisite for this, it will enhance its research and analysis on the stability and functioning of the financial system as a whole, taking into consideration, for example, the diversification of financial service providers.

Meanwhile, in order to ensure financial system stability, the Bank will stand ready to act effectively as the lender of last resort for individual financial institutions and financial markets if necessary.

The Bank will address these objectives in due cooperation with relevant parties.

C. Enhance Payment and Settlement Services and Reinforce Market Infrastructures

The Bank will enhance Japan's payment and settlement services in response to the diversification of payment and settlement needs and financial globalization while maintaining an accurate grasp of environmental changes such as the spread of new financial and settlement services and operational changes at financial institutions. From this perspective, the Bank, as a central bank, will actively contribute to discussions and initiatives regarding new possibilities and challenges accompanying IT advances through close communication with a wide range of relevant service providers at home and abroad.

Regarding its payment and settlement services, the Bank will promote initiatives to realize payment and settlement for cross-border transactions in yen or Japanese government bonds by making effective use of the Bank of Japan Financial Network System (BOJ-NET). It will also proceed with wide-ranging deliberations on the applicability of newly developed IT to its payment and settlement infrastructure.

Meanwhile, the Bank will conduct appropriate oversight of financial market infrastructures, while considering changes in the environment.

The Bank will also work actively to reinforce financial market infrastructures in Japan to reduce settlement risk and strengthen market functioning, while giving due consideration to international developments and working in close cooperation with market participants.

D. Conduct Stable and Efficient Central Banking Operations

The Bank will work to secure confidence in the use of banknotes and coins while employing new technology. In this regard, it will conduct business operations such as the receipt and payment of cash and the examination of banknotes and coins in a precise and stable manner.

In addition, the Bank will, in cooperation with relevant institutions, strengthen the monitoring of the cleanliness of banknotes in circulation and enhance its efforts to address counterfeiting.

The Bank will also maintain an accurate grasp of trends in cash circulation and improve the stability and efficiency of operational frameworks based on the information gathered.

With regard to banking operations, the Bank will, on a daily basis, continue to settle financial transactions involving current account deposits that financial institutions hold at the Bank and conduct market operations, implementing all of these in an accurate and stable manner. As for treasury funds and Japanese government securities (JGSs), the Bank will carry out a wide range of services with precision.

For both banking operations and services relating to treasury funds and JGSs, the Bank will continuously assess the stability and efficiency of its operational and other frameworks, while taking due account of, for example, trend changes in workloads and developments in the environment surrounding counterparties.

E. Contribute to International Finance amid Globalization

Amid further globalization and continuing growth in business and financial transactions between Japanese institutions and counterparties located in Asia, economic and financial stability around the globe, particularly in Asia, has become ever more crucial to Japan's economy.

Based on this recognition, the Bank will play its due part as a central bank in ensuring the stability of the international currency system, in cooperation with relevant authorities at home and abroad. It will also play a leadership role at many different international meetings, while paying appropriate attention to Japan's stance. Furthermore, in support of efforts to ensure

economic and financial stability in Asia, the Bank will, among other initiatives, further strengthen monetary cooperation and technical assistance work in the region.

F. Contribute to Regional Economic and Financial Environments

Making due use of the functions available at its head office, branches, and local offices in activities such as providing appropriate central banking services in each region of the country, the Bank will contribute to regional economic and financial environments, with a view to supporting sustainable development.

Regarding central banking services, the Bank will aim to ensure that it can conduct its business operations in a stable manner even at times of natural disasters. It will maintain an accurate grasp of regional economic and financial conditions and of region-specific challenges through close communication with local financial institutions, firms, and economic organizations. At the same time, the Bank will provide careful explanations of (1) its view of Japanese and overseas economic and financial conditions and (2) the thinking behind its policies and business operations. It will make active use of information gained through such efforts in conducting monetary policy and business operations.

G. Strengthen External Communication

With a view to ensuring broad public confidence, the Bank will clearly and accessibly communicate its conduct of monetary policy and business operations not only to financial professionals but also to the general public at home and abroad.

Aiming to better grasp public opinion as well as public needs regarding its policies and business operations, the Bank will further strengthen its communication with financial institutions closely involved in its conduct of policies and business operations, and will build and strengthen relationships with people, firms, and economic organizations across a wide range of fields.

Taking the above matters into consideration, the Bank will work to achieve multilateral and effective communication by making use of various communication platforms, including its website. It will also aim to enhance the content of in-house tours of its head office and branches.

The Bank will publish the findings from its research and analysis in effective ways. It will also appropriately compile and release statistics, mainly with a view to improving their user-friendliness and responding to changes in Japan's economic and industrial structure.

In addition to the above efforts, the Bank, in cooperation with relevant parties, will work to support the activities of the Central Council for Financial Services Information and associated committees to promote financial literacy among the public.

VI. Strategic Objectives for Organizational Management

A. Organizational Management

The Bank will focus on the following strategic objectives for its organizational management and all sections of its head office, branches, and local offices will coordinate their efforts to achieve them.

1. Execute Business Operations Flexibly and Secure Requisite Staff

In view of the increasingly wide range of challenges facing central banks and the need to be able to respond flexibly to changes in the environment, the Bank will enhance its capability in planning business operations by accumulating a high degree of central banking expertise as well as maintaining and further enhancing the individual staff expertise cultivated through long years of workplace experience. It will revise and restructure its business processes to make full use of IT and work actively to enhance efficiency and stability in

its business operations via computerization. Through these efforts, the Bank will further increase its effective use of management resources.

The Bank will secure the staff—that is, individuals possessing a high degree of central banking expertise—that it requires for executing its business operations and organizational management. At the same time, it will continue to foster employees' ability to tackle new tasks and to excel in international arenas, while taking into consideration changes in working arrangements. In addition, the Bank will further promote diversity in the workplace by, for example, improving the inclusion of women and senior employees and expanding the opportunities available to them. It will also steadily realize varied and flexible working arrangements to further improve the work-life balance and well-being of its employees. Through these efforts, the Bank will continue to foster a workplace environment in which diverse employees can realize their full potential.

2. Manage Operational Risks Appropriately

In order to maintain public confidence, it is important for the Bank to continue to execute all business operations with precision and deliberation. To this end, it will work cohesively to manage operational risks effectively, giving due consideration to changes in the composition of its workforce and in working arrangements. In doing so, the Bank will promote the reduction of operational risks and efficiency of risk management by making active use of IT.

In managing operational risks, it is essential for the Bank to ensure that its officers and employees execute their duties with integrity. To this end, the Bank will continue to work to ensure strict compliance with accepted social and ethical standards and to promote the appropriate management of information security.

3. Strengthen Business Continuity Arrangements

Based on its experience following the Great East Japan Earthquake, the Kumamoto Earthquake, and a succession of other natural disasters, as well as the government's reappraisal of potential damage scenarios for large-scale earthquakes such as those directly hitting Tokyo or occurring in the Nankai Trough area, the Bank will further reinforce its business continuity arrangements through the effective use of its management resources.

B. Management Resources

1. Number of Employees

In order to carry out the strategic objectives stated in the Plan, the Bank will work to secure the necessary employee numbers and to increase the efficiency of its overall business operations. The ceiling on the number of full-time employees for each fiscal year will be decided and made public based on this basic understanding.⁴

2. Expense Budget

In order to carry out the strategic objectives stated in the Plan, the Bank will secure the necessary budget and achieve more streamlined overall spending. The budget for each fiscal year will be decided and made public based on this basic understanding.⁵

VII. Performance Reviews of the Plan

With a view to (1) steadily carrying out the strategic objectives for business operations and organizational management stated in the Plan and (2) reviewing and revising as necessary the allocation of management resources, the Bank will conduct and make public performance reviews of measures taken under the Plan every fiscal year. In addition, it will conduct a comprehensive review of its performance over the entire period of the Plan.

4. See Attachment 2 for Appendix 4 on page 102 for the ceiling on the number of full-time employees for fiscal 2019.

5. See Attachment 1 for Appendix 4 on page 101 for the budget for expenses for fiscal 2019.

THE BANK OF JAPAN'S BUDGET FOR EXPENSES FOR FISCAL 2019¹

The Bank of Japan's budget for expenses for fiscal 2019 (the 135th fiscal year) is as follows (Table 1).² While securing the necessary budget to perform its role as the central bank of Japan, the Bank has also thoroughly examined each item of expenditure to achieve more streamlined overall spending.

The budget for expenses for fiscal 2019 marked an increase of 4.6 percent from the previous year, of which the amount subject to the approval of the Minister of Finance increased by 1.4 percent. This overall increase was mainly due to changes in the following items: Other general and administrative expenses and costs increased by 2.1 percent, partly due to expenses related to international meetings, and the cost of fixed-asset purchases increased by 49.6 percent, mainly owing to a rise in expenses related to the Bank's premises. On the other hand, expenses for maintenance and repairs decreased by 5.7 percent, mainly due to a decline in maintenance and repair work conducted at the Bank's premises. Year-on-year percentage changes include the effects of the consumption tax hike scheduled to take place in October 2019.

1. Decided by the Policy Board on March 22, 2019.

2. The Bank prepares a budget for expenses every fiscal year. Its budget, excluding the cost of purchasing fixed assets used for the Bank's business operations, is subject to the approval of the Minister of Finance under Article 51, paragraph 1 of the Bank of Japan Act before the beginning of each fiscal year. After obtaining authorization from the Minister of Finance, the Bank implements the budget from the start of the fiscal year. All figures, including those in Table 1, are rounded off.

Table 1

Budget for Expenses for Fiscal 2019 (The 135th Fiscal Year)

Item	Initial budget (thous. yen)	Change from the previous year (percent)
Cost of production of banknotes	52,431,340	0.9
Administrative expenses for treasury business and Japanese government securities	17,378,928	0.6
Personnel expenses	53,063,843	0.8
Remuneration of the officers	432,941	0.5
Remuneration of the employees	42,084,931	0.4
Retirement allowances	10,545,971	2.4
Expenses for transportation and communications	4,399,581	0.5
Expenses for transportation	2,218,433	3.9
Expenses for communications	2,181,148	-2.7
Expenses for maintenance and repairs	2,686,132	-5.7
Other general and administrative expenses and costs	54,157,673	2.1
Cost of expendable supplies	1,298,446	1.2
Expenses for electricity and water supply	1,924,561	-2.6
Leasing fees for buildings and equipment	7,068,033	-10.8
Expenses for maintenance of buildings and equipment	10,579,027	3.6
Miscellaneous expenses	33,287,606	5.3
Subtotal	184,117,497	1.1
Cost of fixed-asset purchases	21,265,871	49.6
Of which: Subject to the approval of the Minister of Finance ¹	4,993,890	14.8
Contingency funds	1,000,000	0.0
Total²	206,383,368	4.6
Of which: Subject to the approval of the Minister of Finance ¹	190,111,387	1.4

Notes: 1. Excludes the cost of purchasing fixed assets used for the Bank's business operations.

2. Of the budget for expenses, those related to computerization amounted to 30,479,807 thousand yen, a 0.8 percent decrease from the previous year, and are included in expenses for communications, leasing fees for buildings and equipment, expenses for maintenance of buildings and equipment, and miscellaneous expenses.

Budget estimates of computerization expenses assume required outsourcing of approximately 10,464 person-months (one person-month is the workload equivalent of one person working for one month in system development), and a total of approximately 13,453 person-months when the workload of the Bank's employees is included.

**THE CEILING ON THE NUMBER OF FULL-TIME EMPLOYEES
OF THE BANK OF JAPAN FOR FISCAL 2019¹**

The Bank has set the ceiling on the number of full-time employees for fiscal 2019 at 4,900.

1. Decided by the Policy Board on March 22, 2019.

Information

I. Bank of Japan Website

II. Visiting the Bank of Japan

III. Publications and Reports

I. BANK OF JAPAN WEBSITE

<https://www.boj.or.jp/en/index.htm>

Provides various kinds of information, including monetary policy releases, speeches and statements, reports and research papers, financial and economic statistics, as well as general information about the Bank.

The screenshot shows the Bank of Japan website homepage. At the top, there is a navigation bar with the Bank of Japan logo and name in Japanese and English, along with social media icons and a search bar. Below the navigation bar, there is a main content area. On the left, there is a video player showing Governor Ueda speaking. To the right of the video player, there is a 'What's New' section with a list of recent news items, including announcements, statistics, and research studies. Below the 'What's New' section, there are several featured articles and a 'Highlights' section. On the right side of the page, there is a 'Services' section with various links, including 'FAQs', 'Release Schedule', and 'Annual Review'. A red box highlights the 'FAQs' link in the 'Services' section.

Bank of Japan FAQs:

<https://www.boj.or.jp/en/announcements/education/oshiete/index.htm>

Provides helpful answers to frequently asked questions on the Bank's functions and business operations as well as related topics. Continually updated to reflect changes.

■ **Virtual Tour:**

<https://www.boj.or.jp/en/z/tour/b/index.htm>

Introduces the Bank's history and operations, allowing viewers to take a virtual stroll around its Old and New Buildings.



■ **Introductory Video "The Bank of Japan in Our Daily Lives":**

<https://www.boj.or.jp/en/announcements/education/thisisboj.htm>

Explains the importance of maintaining people's confidence in the currency, as well as the Bank's policies and operations toward this end.



■ **PR Brochure "Bank of Japan: Its Functions and Organization":**

https://www.boj.or.jp/en/announcements/education/boj_pamphlet.htm

Provides a concise and easy-to-follow overview of the Bank's functions and operations, as well as of its history and organizational structure.



■ BOJ Time-Series Data Search:

https://www.stat-search.boj.or.jp/index_en.html

Provides time-series statistical data released by the Bank which are available for viewing, searching, downloading, and creating graphs.

Time-series data for BOJ's main statistics

Detailed explanations on statistics and data search

BOJ Time-Series Data Search

Beginners' Manual JAPANESE

BOJ's main statistical data

Key figures at a glance

Interest Rates FX Money Stock Prices BOP TANKAN

BOJ's main time-series statistics [List of main time-series statistics](#)

Interest Rates on Deposits and Loans Financial Markets Money and Deposits Loans
Balance Sheets of the Bank of Japan and Financial Institutions Flow of Funds TANKAN Prices Balance of Payments

* "BOJ's main time-series statistics" is updated three times on each business day at around 9:00, 12:00, and 15:00 JST. If you wish to obtain the latest data immediately after the release and before these update times, please find them through the "search by statistics" below.

Statistical data search

Search by statistics [Statistics List](#) [of which Flow of Funds](#) [of which TANKAN](#) [of which Prices](#) [of which BOP](#)

Interest Rates on Deposits and Loans Flow of Funds
Financial Markets Other Bank of Japan Statistics
Payment and Settlement TANKAN
Money and Deposits Prices
Loans Public Finance
Balance Sheets of the Bank of Japan and Financial Institutions Balance of Payments
Others

Notices

Expansion of Balance of Payments Related Data Available in the BOJ Time-Series Data Search
New Code System After Renewal of "BOJ Time-Series Data Search"
Schedule for Releases of Statistical Data and Publications
Notices of Changes and Corrections
Statistics
Explanations of Statistics

Find Us on Social Media

The Bank maintains an active presence on the social networking sites, Twitter and Facebook. The Bank's accounts below provide updates concerning releases on the Bank's website. They may also be used by the Bank as extra channels for communication, for example, in cases of emergency.

► **Twitter Account: @Bank_of_Japan_e**

► **Facebook Account: @BankofJapan.en**

For the Bank's social networking site management policy, see: <https://www.boj.or.jp/en/snspolicy.htm>

II. VISITING THE BANK OF JAPAN

■ Bank of Japan (Head Office)

2-1-1 Nihonbashi-Hongokucho, Chuo-ku, Tokyo 103-0021, Japan
Tel: +81-3-3279-1111

A guide map for the Head Office is available on the Bank's website:

<https://www.boj.or.jp/en/about/outline/location/index.htm>



Tours of the Bank's Head Office

For details, visit the Bank's website: <https://www.boj.or.jp/en/about/services/kengaku.htm>

■ Bank of Japan Currency Museum

1-3-1 Nihonbashi-Hongokucho, Chuo-ku, Tokyo 103-0021, Japan
Tel: +81-3-3277-3037

<https://www.imes.boj.or.jp/cm/english/index.html>

The Museum looks to provide visitors with an opportunity to think about the history and role of currency and its relation to culture and society through viewing the Museum's collection of coins and notes, as well as related materials and research.



■ Bank of Japan Otaru Museum

1-11-16 Ironai, Otaru, Hokkaido 047-0031, Japan

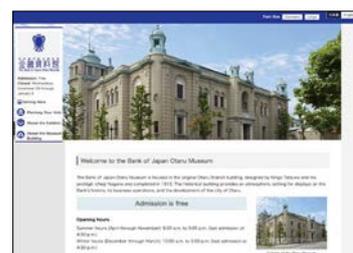
<https://www3.boj.or.jp/otaru-m/en/index.html>

The Bank of Japan Otaru Museum opened in May 2003, making use of the former Otaru Branch building. It provides displays on the Bank's history, operations, and the development of Otaru City.

Redesigning of the Otaru Museum's Website

The Museum's website has been redesigned.

The new website contains details about various exhibits and remarkable features of the Museum building.



III. PUBLICATIONS AND REPORTS

■ About the Bank

Title	URL	Frequency
Annual Review	https://www.boj.or.jp/en/about/activities/act/index.htm	Annual
Functions and Operations of the Bank of Japan	https://www.boj.or.jp/en/about/outline/fobj.htm	—

■ About Monetary Policy

Title	URL	Frequency
Outlook for Economic Activity and Prices	https://www.boj.or.jp/en/mopo/outlook/index.htm	Quarterly
Semiannual Report on Currency and Monetary Control	https://www.boj.or.jp/en/mopo/diet/d_report/index.htm	Semiannual

■ Reports & Research Papers

Title	URL	Frequency
Financial System Report	https://www.boj.or.jp/en/research/brp/fsr/index.htm	Semiannual
Payment and Settlement Systems Report	https://www.boj.or.jp/en/research/brp/psr/index.htm	Ad hoc basis
Regional Economic Report	https://www.boj.or.jp/en/research/brp/rer/index.htm	Quarterly
Monetary and Economic Studies	https://www.boj.or.jp/en/research/imes/mes/index.htm	Annual

■ Data Compiled in Statistical Publications

Title	URL	Frequency
Financial and Economic Statistics Monthly	https://www.boj.or.jp/en/statistics/pub/sk/index.htm	Monthly
<i>Tankan</i> (Short-Term Economic Survey of Enterprises in Japan)	https://www.boj.or.jp/en/statistics/tk/index.htm	Quarterly

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Public Relations Department

Bank of Japan

P.O. Box 30, Nihonbashi

Tokyo 103-8660, Japan

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