



ANNUAL REVIEW 2006



BANK OF JAPAN



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ANNUAL REVIEW 2006

Year Ended March 31, 2006

OUR POLICY AND OPERATIONS



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All of the above are available at the Bank of Japan's web site (<http://www.boj.or.jp/en/index.htm>).



BANK OF JAPAN

FOREWORD BY THE GOVERNOR

戦略、起動、実現

Strategy, Initiative, and Achievement



In contribution to the sound development of Japan's economy, the Bank of Japan offers a variety of central banking services. In addition to conducting monetary and financial system policy, the Bank also carries out business operations in areas such as payment and settlement systems, issuance of banknotes, treasury funds operations, international operations, and research and statistics. The *Annual Review 2006* consists of excerpts from the *Gyoumu Gaikyo Sho* (Outline of Business Operations) prepared pursuant to Article 55 of the Bank of Japan Law. It reviews the Bank's policy, business operations, and organizational management in fiscal 2005 (April 1, 2005–March 31, 2006).

In fiscal 2005, Japan's economy continued to recover. The growth of the economy slowed temporarily up until the summer, but thereafter it emerged from this pause. As for prices, the year-on-year change in consumer prices (excluding fresh food) remained slightly below zero percent in the first half of fiscal 2005, but turned positive from November onward, as supply-demand conditions continued improving gradually. With the nonperforming-loan problem almost overcome, confidence in the Japanese financial system was restored both at home and abroad. The full removal of blanket deposit insurance was implemented as scheduled in April 2005 without major disruption.

Given these developments in economic activity and prices, at the Monetary Policy Meeting held in March 2006, the Bank decided to change the operating target of money market operations from the outstanding balance of current accounts at the Bank to the uncollateralized overnight call rate, and to set the guideline for money market operations that the Bank would encourage the uncollateralized overnight call rate to remain at effectively zero percent. The Bank also decided to introduce a new framework for the conduct of monetary policy as well as to review its thinking on price stability, from the viewpoint of ensuring the transparency of the conduct of monetary policy. The Bank announced this decision in a public statement.

In order to fulfill its mandate from the public within an economic and financial environment undergoing significant changes both domestically and internationally, the Bank needs to ensure that it provides high-quality central banking services and that its organizational management is geared toward further improving its overall efficiency and functioning. With this in mind, in March 2005, the Bank formulated "The Bank of Japan's Medium-Term Strategic Framework for Fiscal 2005–2009" (MTSF), in which it set out the basic framework underlying its business

operations and organizational management policies for the next five years. The MTSF is based on the following two core principles: pursuing more advanced services; and ensuring well-disciplined management. In line with the MTSF, the Bank sets out concrete action plans that the Bank should tackle during the coming fiscal year in order to achieve the strategic goals. During fiscal 2005, the first year of the MTSF, the Bank took various actions, including the publication of research papers such as the Regional Economic Report, as well as the strengthening of its relationship with other central banks, especially in Asia. The Bank also made efforts to improve the services it provides to the public by, for example, effecting a rapid and smooth transition from the old series banknotes to the new series banknotes introduced in fiscal 2004; strengthening its business continuity arrangements; and restructuring its web site. At the organizational level, the Bank established the Financial Systems and Bank Examination Department and the Payment and Settlement Systems Department, so as to strengthen the system it has in place for supporting, via fair competition, private-sector initiatives aimed at providing more efficient and advanced financial services, as well as for attaining safer and more efficient payment and settlement systems.

It is vital that the Bank evaluates how the implementation of its action plans for each fiscal year has helped it to meet the strategic goals stated in the MTSF. In this regard, the Bank partially restructured its "Action Plans for Fiscal 2006," after assessing that during fiscal 2005, the first year of the MTSF, it had made steady progress in achieving each of the eight strategic goals. Paying careful attention to the findings of the Bank's progress evaluation for fiscal 2005, we will redouble our efforts to reinforce the system the Bank has in place for enhancing its services.

In order to fulfill its mission of contributing to the sound development of the economy, the Bank will continue its efforts to provide more advanced services and to ensure well-disciplined management. As always, we ask for your understanding and support.



Toshihiko Fukui

Governor of the Bank of Japan

