



ANNUAL REVIEW 2007



BANK OF JAPAN



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Year Ended March 31, 2007

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 2007* consists of excerpts from the *Gyoumu Gaikyo Sho* (Outline of Business Operations) prepared pursuant to Article 55 of the Bank of Japan Law. It presents a review of policy actions, business operations, and organizational management of the Bank in fiscal 2006 (April 1, 2006–March 31, 2007).

In fiscal 2006, Japan's economy continued to expand moderately, with a virtuous circle of production, income, and spending in operation. The year-on-year rate of change in consumer prices (excluding fresh food) registered small increases through the second half of 2006; from the beginning of 2007 onward it was around 0 percent due to the drop in crude oil prices.

The Bank judged it appropriate to adjust the level of the policy interest rate so that a desirable course of economic activity and prices was to be maintained, raising the uncollateralized overnight call rate target twice during fiscal 2006.

Japan's financial system as a whole remained stable. The functioning of financial intermediation improved, and the system's robustness against shocks of various types increased. The Bank strengthened its support for financial institutions' efforts to enhance their financial services, by conducting on-site examinations and off-site monitoring and organizing various seminars.

In the area of the payment and settlement systems, the Bank stepped up work on the next-generation real-time gross settlement project for the Bank of Japan Financial Network System Funds Transfer System. The Bank maintained the cleanliness of banknotes in circulation following the smooth transition from the old to the new series. Moreover, it enhanced facilities and staffing arrangements so that it would be able to continue critical operations even in emergency situations.

With the aim of efficiently providing higher-quality central banking services, in fiscal 2005 the Bank started to release the "Medium-Term Strategic Framework for Fiscal 2005–2009" (MTSF), which laid out a five-year plan detailing issues to be addressed related to its business

operations and organizational management, and announced that it would assess its progress every fiscal year. The MTSF stated two core principles, namely, "to pursue more advanced services" and "to ensure well-disciplined management," and identified major issues pursuant to these principles. In fiscal 2006, the Bank made significant progress in implementing various measures aimed at enhancing central banking services in line with the goals specified in the MTSF. However, there remained some issues to be addressed to further improve management discipline. In fiscal 2007, the Bank therefore intends to redouble efforts to ensure that its conduct of business operations is fair and precise.

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

