

The Bank's Review of Fiscal 2014

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I. INTRODUCTION

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

This section provides a brief review of economic and financial developments and decisions made at Monetary Policy Meetings (MPMs) in fiscal 2014, 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 2014, 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 2014" (see pages 49–52).

The Bank will conduct an interim review of the Strategic Priorities 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. A thorough review of the entire contents of the Strategic Priorities will be conducted separately.

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

A. First Half of Fiscal 2014 (April–September 2014)

1. Economic developments

- a. Looking back at the first half of fiscal 2014, Japan's economic activity continued to recover moderately as a trend with a virtuous cycle from income to spending having been maintained in both the household and corporate sectors, although effects such as those of the decline in demand following the front-loaded increase prior to the consumption tax hike were observed and some weakness on the production side was protracted somewhat.

Exports were somewhat weak or more or less flat, particularly in reflection of the sluggishness in emerging economies and the effects of the expansion of overseas production, mainly in automobiles. As for domestic demand, public investment more or less leveled off at a high level. Business fixed investment followed a moderate increasing trend as corporate profits improved. Private consumption remained resilient as a trend with the employment and income situation improving steadily, and the effects of the decline in demand following the front-loaded increase waned on the whole toward end-September, albeit

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

2. The review provided here comprises excerpts from the summaries of the latest two issues of the *Semiannual Report on Currency and Monetary Control* submitted to the Diet in December 2014 and June 2015. The full texts of both issues in Japanese and summaries in English are available on the Bank's web site.

unevenly. As for housing investment, the decline following the front-loaded increase continued. Industrial production declined clearly in the April-June quarter due to the effects of the decline in demand following the front-loaded increase, and thereafter continued to show some weakness with continued inventory adjustments.

- b. On the price front, excluding the direct effects of the consumption tax hike, the producer price index (PPI) relative to three months earlier followed a moderate uptrend. The year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) was around 1¼ percent, but gradually slowed toward end-September. Inflation expectations appeared to be rising on the whole.

2. Financial developments

- a. Money market rates, including longer-term ones, remained stable at low levels.

Long-term interest rates were generally stable in the range of 0.45–0.65 percent, as the Bank progressed with its Japanese government bond (JGB) purchases under quantitative and qualitative monetary easing (QQE). More concretely, long-term interest rates as a whole had been in a narrow range of around 0.6 percent since April, and toward end-August, they temporarily declined to the range of 0.45–0.50 percent on the back of declines in U.S. and European long-term interest rates. Thereafter, with the U.S. long-term interest rates rising again and the yen depreciating, long-term interest rates in Japan temporarily increased and were in the range of 0.50–0.55 percent at end-September.

The Nikkei 225 Stock Average fell at one point, reflecting the situation in Ukraine, but increased since August with a rise in U.S. stock prices and

the depreciation of the yen, and was in the range of 16,000–16,500 yen at end-September.

In the foreign exchange market, the yen had been in a narrow range of 101–103 yen as a whole against the U.S. dollar since April. Since late August, the yen depreciated against the U.S. dollar, reflecting, in part, market participants' awareness of the difference in the direction of monetary policy between Japan and the United States. The yen was in the range of 109–110 yen against the U.S. dollar at end-September. The yen somewhat appreciated against the euro, due mainly to the release of European economic indicators that were weaker than market expectations and to additional monetary easing by the European Central Bank (ECB), and it traded at the 138–139 yen level against the euro at end-September.

- b. As for corporate finance, in terms of credit supply, financial institutions' lending attitudes as perceived by firms continued to be on an improving trend. Issuing conditions for CP and corporate bonds remained favorable.

Firms' credit demand increased moderately, mainly for working capital and funds related to mergers and acquisitions. 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 2.0–3.0 percent. In contrast, the year-on-year rate of change in the amount outstanding of corporate bonds was negative. Meanwhile, the year-on-year rate of change in that of CP was negative, but recently turned positive.

- c. The monetary base (currency in circulation plus current account balances at the Bank) increased significantly as asset purchases by the Bank

progressed, and the year-on-year rate of growth was at around 40 percent. The year-on-year rate of growth in the money stock (M2) continued to be in the range of 3.0–4.0 percent.

3. MPMs³

- a. Seven MPMs were held in the first half of fiscal 2014.

At the MPM held in April, the Policy Board judged that Japan's economy continued to recover moderately as a trend, albeit with some fluctuations due to the consumption tax hike. At the MPMs held in May through September, it judged that the economy continued to recover moderately as a trend, although a subsequent decline in demand following the front-loaded increase prior to the consumption tax hike was observed.

- b. In its conduct of monetary policy, the Policy Board decided at all the MPMs held in the first half of fiscal 2014 to continue with the following guidelines with regard to money market operations and asset purchases that were determined when QQE was introduced in April 2013.

Guideline for Money Market Operations

The Bank will conduct money market operations

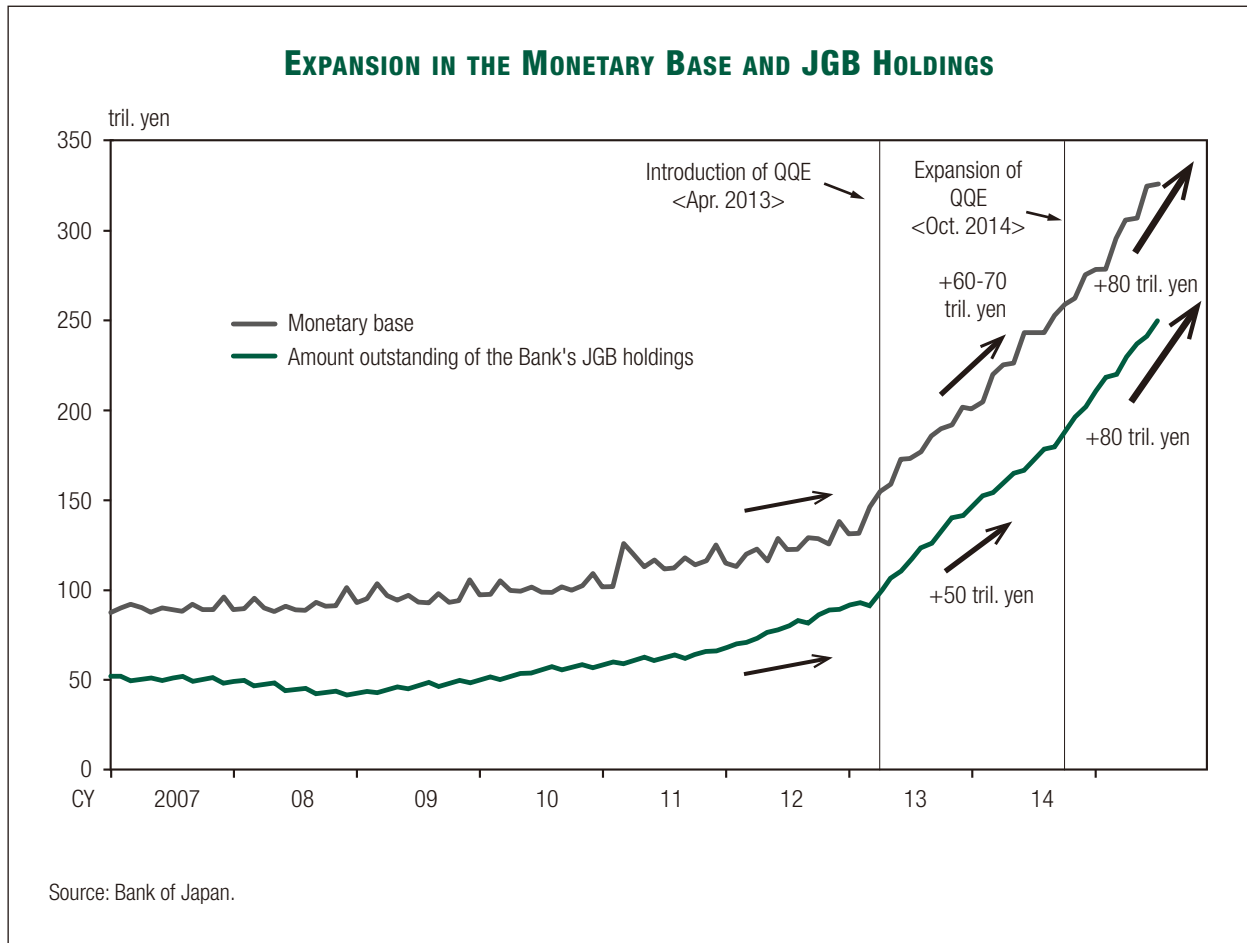
so that the monetary base will increase at an annual pace of about 60–70 trillion yen.

Guidelines for Asset Purchases

- (1) The Bank will purchase JGBs so that their amount outstanding will increase at an annual pace of about 50 trillion yen, and the average remaining maturity of the Bank's JGB purchases will be about seven years.
- (2) 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 1 trillion yen and about 30 billion yen, respectively.
- (3) 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 first half of fiscal 2014: "The Bank will continue with QQE, 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 examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate."

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



B. Second Half of Fiscal 2014 (October 2014–March 2015)

1. Economic developments

- a. Looking back at Japan's economy during the second half of fiscal 2014, the effects of the decline in demand following the front-loaded increase prior to the consumption tax hike waned and exports increased. These helped production pick up. In this situation, a virtuous mechanism for generating income kept on working and Japan's economy continued its moderate recovery trend, additionally supported by other favorable conditions, such as a decline in crude oil prices.

Exports picked up against the backdrop of

developments in overseas economies. As for domestic demand, public investment remained at a high level but entered a moderate declining trend toward the end of the fiscal year. Business fixed investment followed a moderate increasing trend as corporate profits improved. With the decline in private consumption following the front-loaded increase prior to the consumption tax hike gradually subsiding, private consumption was resilient against the background of steady improvement in the employment and income situation, although recovery in some areas was sluggish. Housing investment, which had continued to decline following the front-loaded increase prior

to the consumption tax hike, gradually bottomed out and showed some signs of picking up toward the end of the fiscal year. Against the backdrop of these developments in demand both at home and abroad, industrial production started to pick up.

- b. On the price front, excluding the direct effects of the consumption tax hike, the PPI relative to three months earlier declined, reflecting the significant fall in international commodity prices. The year-on-year rate of increase in the CPI (all items less fresh food) narrowed, mainly due to the effects of the decline in energy prices, and was about 0 percent through the end of the fiscal year. Inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective.

2. Financial developments

- a. Money market rates, including longer-term ones, remained stable at low levels.

Long-term interest rates remained at low levels, as the Bank progressed with its JGB purchases under QQE. More concretely, long-term interest rates had followed a declining trend from the second half of the fiscal year, reflecting the Bank's expansion of QQE at end-October and declines in U.S. and European long-term interest rates, and temporarily declined to about 0.2 percent in mid-January. Thereafter, they adjusted on rises in crude oil prices and in the U.S. long-term interest rates, and were about 0.4 percent at end-March.

The Nikkei 225 Stock Average fell at one point in October, owing to the heightening of investors' risk aversion that reflected cautious view on overseas economies, but increased thereafter, against the background of the Bank's expansion of QQE at end-October, robust business performance, and depreciation of the yen against

the U.S. dollar; it was in the range of 19,000–19,500 yen at end-March.

In the foreign exchange market, the yen depreciated against the U.S. dollar from end-October, due in part to market participants' awareness of the difference in the direction of monetary policy between Japan and the United States, reflecting the Bank's expansion of QQE, and was about 120 yen against the U.S. dollar at end-March. The yen temporarily depreciated against the euro, due to the Bank's expansion of QQE at end-October, but thereafter appreciated against the euro following additional monetary easing by the ECB, and it traded at the 129 yen level against the euro at end-March.

- b. As for corporate finance, in terms of credit supply, financial institutions' lending attitudes as perceived by firms continued to be on an improving trend. Issuing conditions for CP and corporate bonds remained favorable.

Firms' credit demand increased moderately, mainly for working capital and funds related to mergers and acquisitions. With regard to firms' funding, the year-on-year rate of increase in the amount outstanding of lending by domestic commercial banks was in a positive range of about 2.5–3.0 percent. In contrast, the year-on-year rate of change in the amount outstanding of corporate bonds was negative. Meanwhile, the year-on-year rate of change in that of CP was positive.

- c. The monetary base increased significantly as asset purchases by the Bank progressed, and the year-on-year rate of growth was in the range of around 35–40 percent. The year-on-year rate of growth in the M2 was in the range of around 3.0–3.5 percent.

3. MPMs⁴

- a. Seven MPMs were held in the second half of fiscal 2014.

At the MPM held in October, the Policy Board judged that Japan's economy continued to recover moderately as a trend, although some weakness particularly on the production side was observed due mainly to the effects of the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike, and at the November MPM, it deemed that the economy continued to recover moderately as a trend, although some weakness particularly on the production side remained due mainly to the effects of the subsequent decline in demand following the front-loaded increase prior to the consumption tax hike. At the MPMs held in December and January, the Policy Board judged that Japan's economy continued to recover moderately as a trend, and effects such as those of the decline in demand following the front-loaded increase prior to the consumption tax hike had been waning on the whole, and at the February and March MPMs, it deemed that the economy continued its moderate recovery trend.

- b. In its conduct of monetary policy, the Policy Board decided at the MPM held on October 31 to expand QQE as follows. At all the subsequent MPMs, the Policy Board decided to maintain the guidelines for money market operations and asset purchases.

(1) Accelerating the pace of increase in the monetary base

The Bank will conduct money market operations so that the monetary base will increase at an annual pace of about 80 trillion yen (an addition of about

10–20 trillion yen compared with the past).

(2) Increasing asset purchases and extending the average remaining maturity of JGB purchases

(a) The Bank will purchase JGBs so that their amount outstanding will increase at an annual pace of about 80 trillion yen (an addition of about 30 trillion yen compared with the past). With a view to encouraging a decline in interest rates across the entire yield curve, the Bank will conduct purchases in a flexible manner in accordance with financial market conditions. The average remaining maturity of the Bank's JGB purchases will be extended to about 7–10 years (an extension of about 3 years at maximum compared with the past).

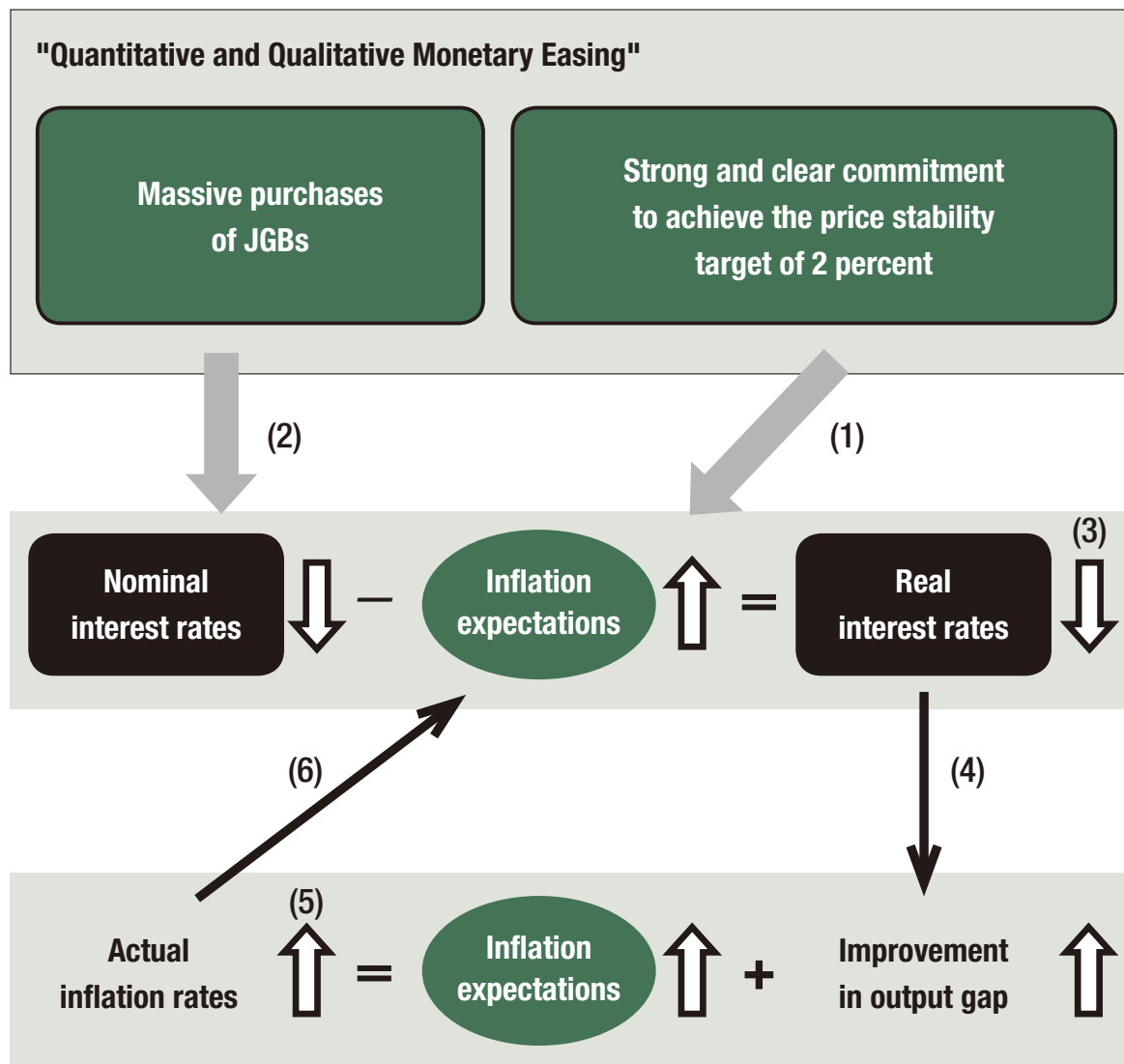
(b) The Bank will purchase ETFs and J-REITs so that their amounts outstanding will increase at an annual pace of about 3 trillion yen (tripled compared with the past) and about 90 billion yen (tripled compared with the past), respectively. The Bank will make ETFs that track the JPX-Nikkei Index 400 eligible for purchase.

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 2014: "The Bank will continue with QQE, 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 examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate."

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

TRANSMISSION MECHANISM OF QQE⁷

The start of the transmission mechanism of QQE that the Bank envisages is as follows: (1) inflation expectations will be raised through a strong and clear commitment to achieving the price stability target of 2 percent; and concurrently, (2) downward pressure will be put on nominal interest rates across the entire yield curve through massive purchases of JGBs; thereby (3) decreasing real interest rates. With this start of the mechanism, (4) the decline in real interest rates will stimulate private demand, which will lead to an improvement in the output gap. Then, (5) with the output gap improving—together with a rise in inflation expectations as described in (1)—actual inflation rates will rise, and (6) if people experience actual price increases, their inflation expectations will increase further, and this process from (1) to (6) will be reinforced further. Under this mechanism, a virtuous cycle in which the inflation rate rises toward the price stability target together with an improvement in the real economy will be created.



Note: 7. See "Quantitative and Qualitative Monetary Easing: Assessment of Its Effects in the Two Years since Its Introduction" (http://www.boj.or.jp/en/research/wps_rev/rev_2015/rev15e03.htm).

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 regarding developments in economic activity, prices, and the financial environment both at home and abroad from multiple perspectives, in light of a number of changes in economic and financial conditions, including fluctuations in crude oil prices and the consumption tax hike.
- (2) The Bank conducted multi-perspective analysis on the effects and impacts of QQE, including effects on real interest rates and portfolio rebalancing. Based on the results of its analysis, the Bank planned and formulated the following monetary policy measures.
 - (a) Expansion of QQE, which included making ETFs that track the JPX-Nikkei Index 400 eligible for purchase.
 - (b) Extension and enhancement of the fund-provisioning measure to stimulate bank lending and other measures, including the introduction of a new framework enabling financial institutions that do not have a current account at the Bank to use these measures through their central organizations.
- (3) The Bank enhanced dialogue with market participants through the following actions.
 - (a) Commenced monthly release from October 2014 of the "Outline of Outright Purchases of Japanese Government Bonds," which had previously been released on an ad hoc basis.
 - (b) Increased the release frequency of "Japanese Government Bonds held by the Bank of Japan," from May 2014, and of "T-Bills Purchased by the Bank of Japan," from November 2014.
 - (c) Introduced the "Bond Market Survey," the first of which was conducted in February 2015.
 - (d) Brought forward the release date of the "Tokyo Money Market Survey," with effect from the August 2014 survey.
 - (e) Decided on the establishment of the "Bond Market Group," the first meeting of which was held in June 2015.
 - (f) Expanded the "Meeting on Market Operations," with effect from the February 2015 meeting.
- (4) The Bank implemented operational changes to the Securities Lending Facility, thereby further facilitating its money market operations as well as contributing to smooth settlement of Japanese government securities (JGSs): from May 2014, the Bank made the facility available twice a day; and from March 2015, it raised the upper limit on the amount of sales per issue, and extended the number of business days permitted for consecutive sales transactions per issue with the same counterparty.
- (5) Progress was made in fundamental research on: monetary policy; the macroeconomy; finance-related topics such as legal and accounting systems, and information security; and financial history. The Bank communicated its research findings to the public through the release of research papers and presentations at academic conferences both at home and abroad.

2. Evaluation of progress

With a view to contributing to monetary policy conduct, the Bank conducted research and analysis regarding developments in economic activity, prices, and the

financial environment both at home and abroad from multiple perspectives. The Bank conducted multi-perspective analysis on the effects and impacts of monetary policy. Based on the results of its analysis, the Bank planned and formulated monetary policy measures with flexibility, such as the expansion of QQE. The Bank conducted money market operations properly, in line with monetary policy conduct, while enhancing dialogue with market participants as well as fine-tuning the content of money market operations and making changes to their implementation.

Based on the above, the Bank considers that, in fiscal 2014, it achieved its intended objective in terms of providing a firm underpinning for monetary policy conduct. In fiscal 2015, the Bank will continue to conduct research and analysis that appropriately reflects changes in economic and financial conditions, plan policy measures with flexibility, and conduct money 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 2014" decided by the Policy Board, the Bank sought to conduct its on-site examinations more efficiently and effectively, and carried out the examinations of 85 financial institutions. It conducted thorough assessments, for example, of financial institutions' business operations and the state of their property as well as their resilience against risks, including the actual business conditions of their financial group as a whole and the risk management of their overseas branches.
- (2) The Bank continued to maintain a firm grasp of business conditions, such as business operations, risk management, and profitability, at financial institutions. In doing so, it improved its off-site monitoring by, for example, increasing the range of topics covered in and raising the frequency of interviews with financial institutions as well as actively exchanging opinions with senior management. In particular, the Bank focused on business conditions at systemically important financial institutions by taking into account the systemic implications of, for example, the active expansion of their global business and the accompanying risks.
- (3) The Bank continued to work to strengthen information sharing between its on-site examinations and off-site monitoring, and facilitated necessary improvements in management procedures at financial institutions regarding their business activities and risks.
- (4) The Bank enhanced the contents of the *Financial System Report*, setting out possible factors that may affect the financial system and key management tasks and challenges for financial institutions. Subsequently, it was active in holding a total of 20 seminars and meetings involving financial institutions and economists.
- (5) The Bank enhanced its research and analysis on the stability of the financial system as a whole by, among other things, refining its macro stress-testing model and revising the Financial Activity Indexes.
- (6) The Bank, together with the Financial Services Agency (FSA), instituted semiannual meetings with the aim of strengthening cooperation on the macroprudential front. Meetings were held in June and December 2014.
- (7) With regard to the selection of financial institutions to conduct transactions with the Bank and the operation of the Loan Support Program, the Bank executed its business operations appropriately and established more efficient operational frameworks.

2. Evaluation of progress

The Bank enhanced its assessment particularly of business operations and risk management at financial institutions and facilitated necessary improvements, through conducting on-site examinations in line with the "On-Site Examination Policy for Fiscal 2014" and improving off-site monitoring as well as strengthening information sharing between on-site examinations and off-site monitoring. In particular, it focused on business conditions at systemically important financial institutions taking into account the extent of any systemic implications. In addition, the Bank made use of the *Financial System Report* to deepen dialogue with financial institutions on their key management tasks and challenges.

The Bank enhanced its research and analysis on the stability of the financial system as a whole, mainly by utilizing information gained from its on-site examinations and off-site monitoring as well as refining its analytical tools. It also strengthened cooperation on the macroprudential front with the relevant authority.

During fiscal 2014, there were no circumstances that required the Bank to provide loans pursuant to Articles 37 and 38 of the Bank of Japan Act (hereafter the Act).

Based on the above, the Bank considers that, in cooperation with relevant parties, it steadily implemented measures for ensuring stability and improving the functioning of the financial system in fiscal 2014. In light of its progress to date, the Bank will work to ensure a still firmer grasp of business conditions at financial institutions in fiscal 2015, and will be forward-looking in assessing risks. It will also work to share with relevant parties a common understanding of the current situation and of issues facing financial institutions and the financial system.

C. Enhance Payment and Settlement Services and Reinforce Market Infrastructure

1. Progress in implementing specific measures

- (1) The Bank made progress as scheduled in developing the details of the second phase of the new Bank of Japan Financial Network System (BOJ-NET) project. In May 2014, it announced that it planned to implement the second phase on October 13, 2015.
- (2) With regard to the extension of the operating hours of the new BOJ-NET, the Bank conducted public consultation and, in May 2014, decided the details based on a report by the Forum Towards Making Effective Use of the New BOJ-NET, announcing that it planned to introduce the extension of operating hours from February 15, 2016. The Bank also conducted deliberations, as scheduled, on operational aspects of the new BOJ-NET.
- (3) The Bank encouraged the enhancement of Japan's retail payment systems through activities including the following: researching and releasing its findings regarding comparable initiatives to enhance bank transfer services abroad; holding an international seminar on the topic in November 2014; and conducting a wide-ranging exchange of opinions with involved parties.
 - (a) In a report released in December 2014, the Japanese Bankers Association (JBA) and the Japanese Banks' Payment Clearing Network (Zengin-Net) expressed their intent to deliberate on extending the operating hours of the Zengin Data Telecommunication System (Zengin System) and realizing financial electronic data interchange (EDI).
- (4) The Bank conducted deliberations as scheduled toward realizing payment and settlement for cross-

border transactions in yen or JGBs, including exchanging views with overseas central banks.

- (5) The Bank conducted oversight of financial market infrastructures both at home and abroad, in accordance with "The Bank of Japan Policy on Oversight of Financial Market Infrastructures." This involved assessing whether financial market infrastructures met the requirements set out in the "Principles for Financial Market Infrastructures" and encouraging any improvements to operations and risk management measures needed to ensure observance.
- (6) The Bank supported market participants' efforts to move to a T+1 JGB settlement cycle for outright transactions.
 - (a) A working group at the Japan Securities Dealers Association (JSDA) indicated in a report released in November 2014 its aim to achieve a consensus among market participants by around spring 2015 on when to implement the T+1 settlement cycle for outright transactions of JGBs.
- (7) The Bank contributed to discussions with market participants on topics such as the administration and regulation of financial benchmarks, as follows.
 - (a) The Bank cooperated with the JBA TIBOR Administration and contributed to discussions with market participants on the reform of interest rate benchmarks.
 - (b) As secretary to the Tokyo Foreign Exchange Market Committee, the Bank contributed to the development of a guideline complementing the Committee's Code of Conduct.
- (8) In March 2015, the Bank hosted the Global Meeting of Foreign Exchange Committees, held for the first time in Tokyo at the Bank's Head Office, bringing together representatives of foreign exchange

committees from eight major financial centers, and led discussions as the chair.

- (9) In December 2014, in cooperation with financial institutions and other relevant parties, the Bank implemented a joint exercise focusing on the use of back-up facilities in market-wide business continuity arrangements in the money market, the securities market, and the foreign exchange market.

2. Evaluation of progress

The Bank has made progress as scheduled in developing the details of the second phase of the new BOJ-NET project and in deliberations on other projects that make effective use of the improved functionality of the new BOJ-NET. It contributed to progress in deliberations on enhancing Japan's payment and settlement services and improving the safety and efficiency of financial market infrastructures by actively encouraging improvements in, for example, bank transfer services and by conducting oversight in accordance with international standards.

The Bank participated in discussions with market participants on topics such as the shortening of the JGB settlement cycle as well as the administration and regulation of financial benchmarks; it also provided support for both these initiatives.

Based on the above, the Bank considers that it has made steady progress in fiscal 2014 in terms of the measures it has taken to contribute to the enhancing of payment and settlement services and the reinforcing of financial market infrastructure in Japan. In fiscal 2015, it will implement the second phase of the new BOJ-NET in a smooth and reliable manner, introduce the extension of operating hours, and work to promote deliberation on how to realize payment and settlement for cross-border transactions that makes effective use of the BOJ-NET.

D. Conduct Stable and Efficient Central Banking Operations

1. Progress in implementing specific measures

- (1) 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. The Bank proceeded as scheduled with the project to expand the scope of surveys regarding the cleanliness of banknotes.
- (2) The Bank made preparations, as scheduled, to replace automatic banknote examination machines.
- (3) The Bank continued to maintain a firm grasp of changes in cash delivery routes and conducted cash transportation and other operational procedures efficiently.
- (4) In order to ensure the smooth circulation of coins, the Bank enabled the receipt and payment of coins to be made at a coin delivery center, which is outside the Bank's premises and managed by a private security and transportation company, starting from April 2015.
- (5) The Bank conducted money market operations appropriately in accordance with the guidelines decided at MPMs for money market operations and asset purchases.
- (6) The first phase of the new BOJ-NET project was launched in January 2014, and the system has since been operating smoothly and reliably.
- (7) The Bank maintained precise and deliberate execution of treasury funds and JGS services even after revisions such as the concentration of business operations that use optical character readers (OCRs) for sorting and calculating revenue items to particular locations in November 2013.
- (8) The Bank made progress, as scheduled, in preparing for the necessary changes to the JGB book-entry

system that will accompany the across-the-board revisions to the tax system for Japanese bonds.

- (9) In cooperation with the relevant ministries and government agencies, the Bank implemented institutional changes to inflation-indexed JGBs in January 2015, and made revisions to its services relating to the payment of treasury funds in foreign currencies in October 2014.
- (10) The Bank concentrated some of the business operations of its agents at the Head Office in February 2015, given the declining trend in workloads, thereby improving the stability and efficiency of operations at the Bank's agents overall.

2. Evaluation of progress

With regard to business operations relating to banknote issuance, the Bank made progress in securing confidence in banknotes and coins, making preparations, as scheduled, to replace automatic banknote examination machines. The Bank also reviewed its operational frameworks to reflect changes in cash delivery routes, thereby improving efficiency.

The Bank continued precise and deliberate execution of banking operations and services relating to treasury funds and JGSs, while making institutional changes and reviewing its business processes. In addition, the stability and efficiency of business operations at the Bank's agents improved by concentrating some of the operations at the Head Office, given the declining trend in workloads.

Based on the above, the Bank considers that, in fiscal 2014, it has achieved the desired results in terms of conducting stable and efficient central banking operations, while reviewing its business process in response to changes in its operational environment. In fiscal 2015, the Bank will continue constantly to pursue excellence in central banking services, in view of trending changes in its operations and workloads.

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

1. Progress in implementing specific measures

- (1) The Bank, as the central bank of Japan, actively participated in meetings such as those organized by the Bank for International Settlements (BIS), the Financial Stability Board (FSB), the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), the Group of Twenty (G-20), the Group of Seven (G-7), the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), and the Association of Southeast Asian Nations Plus Three (ASEAN Plus Three), thereby achieving the following.
 - (a) The Bank played a part in discussions at global forums on fostering economic growth as well as on strengthening the robustness of the financial system based on its analysis of current overseas economic and financial developments, while also promoting understanding of its conduct of monetary policy.
 - (b) In the field of financial regulation and supervision, the Bank, together with the FSA, contributed to the compilation of consultative papers and agreement on the final standards, taking due account of the situation in Japan.
 - (c) In the fields of global financial markets, financial market infrastructures, financial benchmarks, and statistics, the Bank contributed, for example, by writing and compiling various reports.
 - (d) At EMEAP-related meetings, the Bank played a key role in research and analysis on economic and financial conditions as well as on payment and settlement systems in the Asian region.
 - (e) At some EMEAP- and BIS-related committees, the Bank's staff played leading roles, for example, by moderating discussions as the chair.
 - (f) A senior member of the Bank's staff served as member of the Executive of the Irving Fisher Committee on Central Bank Statistics (IFC) and played a part in the compilation of related reports.
- (2) The Bank actively exchanged information with overseas authorities on business conditions at systemically important financial institutions, mainly through supervisory colleges.
- (3) The Bank obtained swift access to a wide range of information, for example on economic and financial conditions, the financial system, and central banking operations, through individual exchanges of opinion with major central banks as well as active strengthening of relations with monetary authorities in Asia.
- (4) In February 2015, the Bank agreed on the establishment of a cross-border collateral arrangement—i.e., an arrangement whereby the central bank in a partner country provides liquidity in its domestic currency utilizing JGSs and Japanese yen held at the Bank as collateral—with the Bangko Sentral ng Pilipinas, the central bank of the Republic of the Philippines. The Bank also proceeded with its consideration of and efforts to coordinate an expansion in the number of Asian partners participating in such arrangements.
- (5) Under the framework of ASEAN Plus Three, the Bank, as the central bank of the co-chair country, together with the Ministry of Finance, played a key role in coordinating liquidity-provision exercises based on the Chiang Mai Initiative Multilateralization (CMIM).
- (6) The Bank contributed to the stability and development of financial and capital markets in Asia and established and strengthened medium- to long-term relationships with overseas authorities through providing technical assistance, holding seminars,

and exchanging personnel, mainly with central banks in Asia. Of the personnel exchanges, 27 involved receiving staff (255 people) from other central banks in Asia, while six involved sending the Bank's staff to overseas counterparts.

2. Evaluation of progress

The Bank, as the central bank of Japan, actively participated in meetings such as those organized by the BIS and the EMEAP, and contributed to discussions on ensuring the stability of the international currency and financial system, both as interested participant and as moderator. It boosted bilateral monetary cooperation in the Asian region and provided technical assistance, most of which also went to the Asian region. The Bank maintained and strengthened cooperation with overseas authorities, especially central banks, and obtained swift access to a wide range of information, for example on economic and financial conditions, the financial system, and central banking operations.

Based on the above, the Bank considers that, in fiscal 2014, it has made the requisite contribution as the central bank of Japan with regard to ensuring the stability of the international currency and financial system as well as securing the stability and development of financial and capital markets in Asia. In fiscal 2015, it will continue to work in cooperation with relevant parties to deepen and extend initiatives, particularly in Asia.

F. Contribute to the Regional Economic and Financial Environment

1. Progress in implementing specific measures

(1) The Bank, at its Head Office and branches, conducted central banking operations, including business operations relating to banknote issuance as well as services relating to treasury funds and JGSs, in a stable manner by holding working-level meetings

with financial institutions that have current accounts at the Bank as well as ministries and government agencies, as necessary.

- (a) The Bank continued, as appropriate, to exchange banknotes and coins damaged by the Great East Japan Earthquake.
- (2) 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: Sendai, Matsumoto, Kyoto, Kobe, Hiroshima, Takamatsu, and Kochi.
- (3) The Bank gained a detailed grasp of regional financial and economic conditions via its Head Office, branches, and local offices, by, for example, conducting interviews with local businesses and financial institutions, as well as holding meetings to exchange opinions with local chambers of commerce and industry. The Bank made use of its findings in conducting monetary policy.
 - (a) With regard to demand for rebuilding and reconstruction following the disaster caused by the Great East Japan Earthquake, the Bank maintained a thorough grasp of the situation by making use of its network of branches and offices in the disaster-stricken areas, such as in Sendai City and Fukushima City.
- (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*.

(5) In fiscal 2014, the Bank's Center for Advanced Financial Technology (CAFT) hosted seminars targeted mainly at regional financial institutions: eight on the enhancement of business management and five on computer system risk management and business continuity frameworks.

2. Evaluation of progress

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

Based on the above, the Bank considers that, in fiscal 2014, it made the requisite contribution to the regional economic and financial environment, making due use of the functions performed as central bank by its Head Office, branches, and local offices. In fiscal 2015, the Bank will continue to provide appropriate central banking services in each region of the country. It will also work particularly to maintain an accurate grasp of regional financial and economic developments and disseminate related information, while giving due consideration to regional revitalization.

G. Strengthen External Communication

1. Progress in implementing specific measures

(1) In accordance with the Act, the Bank kept the public fully informed regarding its conduct of monetary policy and business operations via the following.

(a) Releasing the minutes and transcripts of MPMs.

(b) Submitting two issues of the *Semiannual Report on Currency and Monetary Control* to the Diet in fiscal 2014, in June and December, and releasing the full texts of these two issues in Japanese as well as the summaries in English on the Bank's web site.⁵

(c) Publishing the *Gyomu Gaikyo Sho* (Outline of Business Operations) for fiscal 2013 in May 2014.

(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.

(a) Communication channels included public statements on the Bank's monetary policy decisions, such as the "Statement on Monetary Policy," the *Outlook for Economic Activity and Prices* released in April and October 2014, press conferences, speeches, and articles contributed 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 web sites, the Bank made use of social networking sites (SNS), thereby disseminating a steady stream of up-to-date information to a wider audience. The number of page views on the Bank's web sites was around 165 million, of which around 35 million were made to its English-language web site. The number of page views on

5. Excerpts from the summaries of the two issues of the report dealing with developments in fiscal 2014, namely, the issues released in December 2014 and June 2015, can be found on pages 30–35.

its branches' web sites was around 4.9 million in total. Followers of the Bank's Twitter accounts totaled around 98,000.

- (b) The Bank enhanced the content of *Nichigin*, its public relations magazine (available only in Japanese), with articles that provided a comprehensive description of its policies and business operations.
 - (c) The Bank enhanced the content of in-house tours of its Head Office and branches by, for example, adding exhibits. The total number of in-house tour visitors to the Head Office was around 41,000, while branches received around 25,000.
 - (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 121 entries, as well as public lectures about the Bank's business operations and feature exhibitions on the prominent late 19th century architect Kingo Tatsuno, who designed the Bank's Old Building. In addition, a special exhibition entitled "20 Years since the Great Hanshin-Awaji Earthquake: Lessons Learned and Implications for the Future" was held at the Bank's Kobe Branch.
 - (e) The Bank gave lectures to college students on the functions and operations of the Bank. In addition to 21 on-campus lectures, it started to offer in-house lectures combined with tours of the Bank's Head Office.
- (4) The Bank strengthened its dissemination of English-

language materials, for example, releasing more information on its conduct of monetary policy and business operations in English as well as providing a more detailed explanation about its monetary policy conduct in the *Annual Review 2014*.

- (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 5,900 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 began deliberations on renewing the design and content of its web site.
- (7) The Bank's Currency Museum was temporarily closed from end-2014 for renovation, which has been progressing smoothly and is on track for the museum's scheduled reopening in November 2015. The number of visitors to the museum during 2014 totaled 116,776, hitting the 100,000 mark for the first time since its opening.
 - (a) The Currency Museum loaned items from its art collection—colored woodblock prints (*nishiki-e*)—for display at an exhibition held from September to November 2014 at the Federal Reserve entitled "Japan's Social & Economic Landscape: Nineteenth-Century Woodblock Prints from the Currency Museum, Bank of Japan."
- (8) The Bank appropriately operated the Bank of Japan Otaru Museum. The number of visitors to the

museum during 2014 totaled 100,041—the second consecutive year in which the total exceeded 100,000 visits.

- (9) 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 4,363 historical official documents were added to the Archives, and there were a total of 142 requests for access.
- (10) The Bank made public the findings of its research and analysis on financial and economic developments in Japanese, releasing twelve papers in the *Bank of Japan Review Series*, eight in the *Bank of Japan Working Paper Series*, and 13 research papers.⁶ It also established the *Bank of Japan Research Laboratory Series*, aiming to explain the findings of research and analysis in plain language to reach a wider public, and released four papers in this new series.
- (a) For example, to investigate Japan's economic prospects from a relatively long-term perspective, the Bank analyzed the relationship between the seniority-based remuneration system and the aging of the population, and also examined the improvement of Japanese corporate profitability in the global economy and its domestic impacts. It then shared the results of these analyses with the public.
- (11) The Bank hosted international conferences.
- (a) In May 2014, the Institute for Monetary and Economic Studies (IMES) hosted an international conference, Monetary Policy in a Post-Financial Crisis Era.
- (b) Also in May 2014, the Bank and the Deutsche Bundesbank co-hosted an international conference in Germany on the theme of growth strategies in Europe and Asia.
- (12) The Bank, as scheduled, revised, rebased, and made appropriate enhancements to the statistics it compiles so as to accommodate changes in the economic and regulatory environment.
- (a) As for the *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the Bank began releasing the results of a new measure of the inflation outlook of enterprises from the March 2014 survey released in April 2014. In addition, it revised the enterprises included in the *Tankan* sample to take effect from the March 2015 survey.
- (b) The Bank released in June 2014 the final draft of its proposed revisions to the Flow of Funds Accounts Statistics (FFA) to accommodate the System of National Accounts 2008 (2008 SNA), the latest version of the international statistical standards for the national accounts.
- (c) Also in June 2014, the Bank carried out the rebasing of the services producer price index (SPPI)—formerly the corporate services price index (CSPI)—from 2005 to 2010.
- (d) As for wholesale services, price indexes have been computed on a trial basis by the Bank for three groups—food and beverages, plastics, electronic parts and devices—and were made available to the public in June 2014.
- (e) As for the BIS statistics, namely, the International Locational Banking Statistics and International Consolidated Banking Statistics, the Bank, in December 2014, enhanced the data it submitted to the BIS. It also announced in March 2015 some new items to be added to

6. Some of these papers were also made available in English.

these statistics in Japan.

- (13) Through the following measures, the Bank promoted an in-depth understanding of the statistics it compiles and contributed to improving their user-friendliness.
- (a) The Bank made its custom-made tabulation service for *Tankan* data available upon request throughout the year.
 - (b) The Bank released an explanatory manual for the SPPI in July 2014 (available only in Japanese). It also updated and released the guides to the *Tankan* and the FFA in March 2015.
 - (c) The Bank revised and released, in April and July 2014, as well as in March 2015, the explanation accompanying the balance of payments statistics so as to conform with the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual* (BPM6). In addition, the Bank held study meetings with users of the statistics, gave on-campus lectures, and contributed articles to various publications.
- (14) The Bank strengthened its cooperation with the government by taking part in the Statistics Commission, established in the Cabinet Office pursuant to the Statistics Act (Act No. 53 of 2007), and by contributing to discussions on the development of official statistics.
- (15) As the secretariat to the Central Council for Financial Services Information (CCFSI), the Bank supported the CCFSI's efforts to develop a range of activities to provide financial information to the public; these included the following actions taken in cooperation with Local Financial Services Information Committees and other relevant parties such as ministries, local public bodies, and financial

and economic organizations.

- (a) As the secretariat to the Committee for the Promotion of Financial Education, the CCFSI developed and released in June 2014 the "Financial Literacy Map," which specifies and systematically organizes the contents of financial education by age group (available only in Japanese).
- (b) By establishing an advisory panel of experts on financial education at schools, the CCFSI revised the "Financial Education Program" (available only in Japanese) to reflect the existing curriculum guidelines, carrying out the revision process in two stages, in October 2014 and March 2015.
- (c) Based on the "Financial Literacy Map," the CCFSI published in March 2015 a pamphlet entitled "Tips for Your Life & Money: A Practical Guide for College Students" (available only in Japanese).

2. Evaluation of progress

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

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

The Bank proceeded with efforts to revise and rebase its statistics so as to accommodate changes in the economic and regulatory environment, as well as implementing measures to improve their user-friendliness.

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

Based on the above, the Bank considers that, in fiscal 2014, it has steadily implemented the measures scheduled under its strategic objective of strengthening external communication. In fiscal 2015, the Bank will

complete the renovation of the Currency Museum. In addition, it will continue efforts to improve the clarity and intelligibility of its communications regarding its conduct of monetary policy and business operations as well as to maintain and strengthen networks with people, firms, and economic organizations across a wide range of fields so as to better grasp public opinions and public needs.