

# The Bank's Review of Fiscal 2018

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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 (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 MEETINGS<sup>7</sup>

### 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. MPMs<sup>2</sup>

- 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](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. MPMs<sup>3</sup>

- 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](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.<sup>4</sup>
  - (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.