

# The Bank's Review of Fiscal 2020

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## I. INTRODUCTION

In March 2019, the Bank of Japan formulated and released the *Medium-Term Strategic Plan (Fiscal 2019–2023)* (Plan).<sup>1</sup> The Plan's content will remain, in principle, fixed during the five-year period, with a view to clarifying the Bank's objectives over the medium term and to ensuring proper assessment of its performance. The Bank conducts and makes public performance reviews of measures taken under the Plan every fiscal year.

In fiscal 2020, as in fiscal 2019, the Bank's business operations were strongly affected by the novel coronavirus (COVID-19). This section provides (1) a brief review of economic and financial developments as well as decisions made at Monetary Policy Meetings (MPMs) in fiscal 2020, (2) an overview of the main features of the Bank's business operations during the COVID-19 pandemic, and (3) performance reviews of measures

taken under the Plan. Each performance review is divided into two parts: a description of progress in implementing specific measures during fiscal 2020 for each of the strategic objectives for its business operations laid out in the Plan, 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 2020" (see pages 59–62).

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. A comprehensive review of its performance over the entire period of the Plan will be conducted separately.

## II. REVIEW OF ECONOMIC AND FINANCIAL DEVELOPMENTS AND MONETARY POLICY MEETINGS<sup>2</sup>

### A. First Half of Fiscal 2020 (April–September 2020)

#### 1. Economic developments

- a. During the period from April through September 2020, Japan's economy remained in a severe situation due to the impact of COVID-19 at home and abroad. In the first half of the period, the economy became depressed significantly, mainly affected by the spread of COVID-19 and the declaration of a state of emergency. However, it picked up in the second half with economic activity resuming.

Exports and industrial production, particularly for those related to automobiles, declined substantially in the first half of the period but turned to an increase in the second half, mainly supported by the materialization of pent-up demand. Business fixed investment, which had been more or less flat, turned to a declining trend in the second half of the period against the background of deterioration in corporate profits and an increase in uncertainties over the future. The employment and income situation had been weak with the continuing impact of COVID-19. Private consumption had decreased

1. For the text of the "Medium-Term Strategic Plan (Fiscal 2019–2023)," see Appendix 2 on pages 94–99.

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 2020 and June 2021. The full texts of both issues in Japanese and summaries in English are available on the Bank's website.

significantly due to the impact of COVID-19. Thereafter, although consumption of services, such as eating and drinking as well as accommodations, remained at a low level, private consumption as a whole, including consumption of goods, had picked up gradually. Housing investment had declined moderately. Meanwhile, public investment continued to increase moderately.

- b. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food), which remained at around 0 percent, decelerated at the end of the period, mainly affected by the decline in energy prices and a decrease in hotel charges that reflected a discount through the "Go To Travel" campaign, thereby turning to a slightly negative figure. Inflation expectations had weakened somewhat.

## 2. Developments in financial markets and conditions

- a. With major central banks taking measures such as ample provision of liquidity and large-scale asset purchases, tension in the U.S. money markets, for example, that mainly stemmed from the spread of COVID-19 had eased gradually, and global financial markets had been stable since May. Prices of risky assets had increased on the whole with investors' risk aversion abating.
- b. Turning to domestic financial markets, money market rates had been at low levels on the whole.

With regard to developments in the bond market, the long-term interest rate had been stable at the target level of around zero percent under Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control. Issuance rates for CP had risen temporarily at the beginning of the period

but had been at low levels thereafter. Those for corporate bonds had been at extremely low levels.

The Nikkei 225 Stock Average had increased on the back of improvement in investors' risk sentiment that mainly reflected aggressive fiscal and monetary policies and a resumption of economic activity, being in the range of 23,000–23,500 yen at the end of September.

In the foreign exchange market, the yen had appreciated slightly against the U.S. dollar throughout the period, mainly on the back of the U.S. dollar market becoming stable again, being at the 105 yen level at the end of September. The yen had depreciated against the euro, mainly against the background of an agreement on the establishment of the European Union (EU) recovery fund.

- c. As for corporate financing, demand for funds had increased, mainly due to a decline in sales and a rise in precautionary demand, both of which reflected the impact of COVID-19. In this situation, firms' financial positions had deteriorated during the first half of the period, mainly reflecting the decline in sales due to the impact of COVID-19, and had shown weakness thereafter. Meanwhile, in terms of credit supply, financial institutions' lending attitudes as perceived by firms remained accommodative.
- d. The year-on-year rate of increase in the monetary base (currency in circulation plus current account balances at the Bank) had accelerated significantly, being in the range of 14.0–14.5 percent in September. That in the money stock (M2) also had accelerated significantly, being at around 9 percent in September.

### 3. MPMs<sup>3</sup>

- a. Five MPMs were held in the first half of fiscal 2020.

The Policy Board judged at the MPM held in April that Japan's economy had been in an increasingly severe situation due to the impact of the spread of COVID-19 at home and abroad, and at the June MPM, it deemed that the economy had been in an extremely severe situation due to the impact of COVID-19 at home and abroad. The Policy Board judged at the July MPM that Japan's economy had been in an extremely severe situation with the impact of COVID-19 remaining at home and abroad, although economic activity had resumed gradually. It deemed at the September MPM that the economy had started to pick up with economic activity resuming gradually, although it remained in a severe situation due to the impact of COVID-19 at home and abroad.

- b. In the conduct of monetary policy, the Policy Board decided upon the following guideline for market operations under QQE with Yield Curve Control at the April MPM with a view to conducting further active purchases of Japanese government bonds (JGBs) and treasury discount bills (T-Bills), as described later, given the impact of the spread of COVID-19.

#### (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 a necessary amount of JGBs without setting an upper limit 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.

At all the subsequent MPMs, the Policy Board maintained the above guideline for market operations.

At the April MPM, the Policy Board decided upon an increase in purchases of CP and corporate bonds, as described later, under the following guidelines for asset purchases, given the impact of the spread of COVID-19.

#### (1) Guidelines for asset purchases

With regard to asset purchases other than JGB purchases, the Bank decided to set the following guidelines.

- (a) In principle, 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. With a view to lowering risk premia of asset prices in an appropriate manner, it may increase or decrease the amount of purchases depending on market conditions. For the time being, the Bank will actively purchase these assets so that their amounts outstanding will increase at annual paces with the upper limit of about 12 trillion yen and about 180 billion yen, respectively.

- (b) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at

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)).



about 2 trillion yen and about 3 trillion yen, respectively. In addition, until the end of September 2020, it will conduct additional purchases with the upper limit of the amounts outstanding of 7.5 trillion yen for each asset.

In addition, at the May MPM, the Policy Board decided to extend the duration of additional purchases of CP and corporate bonds by 6 months, as described later, under the following guidelines for asset purchases.

#### **(1) Guidelines for asset purchases**

With regard to asset purchases other than JGB purchases, the Bank decided to set the following guidelines.

- (a) In principle, 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, it may increase or decrease the amount of purchases depending on market conditions. For the time being, the Bank will actively purchase these assets so that their amounts outstanding will increase at annual paces with the upper limit of about 12 trillion yen and about 180 billion yen, respectively.
- (b) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2 trillion yen and about 3 trillion yen, respectively. In addition, until the end of March 2021, it will conduct additional purchases with the upper limit of the amounts outstanding of 7.5 trillion yen for each asset.

At all the subsequent MPMs, the Policy Board maintained the above guidelines for asset purchases.

Given the impact of the spread of COVID-19, at the April MPM, the Policy Board judged it appropriate to further enhance monetary easing with a view to doing its utmost to ensure smooth financing, such as of financial institutions and firms, and maintaining stability in financial markets, and thus decided upon the following.

#### **(1) Increase in purchases of CP and corporate bonds**

The Bank decided to significantly increase the maximum amount of additional purchases of CP and corporate bonds and conduct purchases with the upper limit of the amount outstanding of about 20 trillion yen in total. In addition, the maximum amounts outstanding of a single issuer's CP and corporate bonds to be purchased will be raised substantially, and the maximum remaining maturity of corporate bonds to be purchased will be extended to 5 years.

#### **(2) Strengthening of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19)**

With regard to the Special Funds-Supplying Operations to Facilitate Corporate Financing regarding the Novel Coronavirus (COVID-19), which was introduced and became effective in March, the Bank decided to (1) expand the range of eligible collateral to private debt in general, including household debt (from about 8 trillion yen to about 23 trillion yen as of end-March 2020), (2) increase the number of eligible counterparties (to mainly include member financial institutions of central organizations of financial cooperatives),

and (3) apply a positive interest rate of 0.1 percent to the outstanding balances of current accounts held by financial institutions at the Bank that correspond to the amounts outstanding of loans provided through this operation. The Bank decided to strengthen this operation with a view to firmly supporting financial institutions to further fulfill the functioning of financial intermediation for a wide range of private sectors, mainly in terms of firms. This operation has been renamed to the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19).

In addition, with the aim of further supporting financing mainly of small and medium-sized firms, the chairman instructed the staff to swiftly consider a new measure to provide funds to financial institutions, taking account, for example, of the government's programs to support financing such as those in its emergency economic measures, and report back at a later MPM.

### **(3) Further active purchases of JGBs and T-Bills**

In a situation where the liquidity in the bond market remains low, the increase in the amount of issuance of JGBs and T-Bills in response to the government's emergency economic measures will have an impact on the market. Taking this into account, the Bank will conduct further active purchases of both JGBs and T-Bills for the time being, with a view to maintaining stability in the bond market and stabilizing the entire yield curve at a low level.

At the May MPM, the Policy Board decided upon the following details of the new fund-provisioning measure, for which the staff were given instructions at the April MPM to swiftly consider in order to further support financing mainly of small and

medium-sized firms, with a view to addressing the spread of COVID-19.

### **(1) New fund-provisioning measure**

#### **(a) Overview**

The Bank will provide funds to eligible counterparties against pooled collateral for up to 1 year at the loan rate of 0 percent with the maximum amounts outstanding of eligible loans reported by those counterparties.

#### **(b) Eligible loans**

(i) Loans based on the government's programs  
Interest-free and unsecured loans based on the government's emergency economic measures and loans guaranteed by the credit guarantee corporations in response to COVID-19

#### **(ii) Loans equivalent to (b) (i)**

Loans to small and medium-sized firms affected by COVID-19 which are equivalent to (b) (i) in terms of loan conditions (the maximum amount for each eligible counterparty: 100 billion yen)

#### **(c) Addition to the Macro Add-on Balances**

Twice as much as the amounts outstanding of the loans will be included in the Macro Add-on Balances in current accounts held by financial institutions at the Bank.

#### **(d) Application of a positive interest rate to current account balances**

A positive interest rate of 0.1 percent will be applied to the outstanding balances of current accounts held by financial institutions at the Bank corresponding to the amounts outstanding of loans provided through this measure.

(e) Eligible counterparties

Member financial institutions of central organizations of financial cooperatives will also be included.

(f) Timing of implementation

The Bank's fund-provisioning through this measure will start in June, taking into account loans made by financial institutions as of end-May.

(g) Others

This measure and the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) will be conducted in an integrated manner.

The Bank already had implemented the following two measures to support financing mainly of firms: (1) purchases of CP and corporate bonds (maximum amount outstanding: about 20 trillion yen) and (2) the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) (fund-provisioning against private debt pledged as collateral: about 25 trillion yen <as of end-April>). As a third measure, a new fund-provisioning measure was introduced (fund-provisioning against eligible loans such as interest-free and unsecured loans made by eligible counterparties based on the government's emergency economic measures: about 30 trillion yen). The Bank decided to refer to these three measures as the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) (the Special Program: total size of about 75 trillion yen). The Policy Board decided to extend the duration of these measures by 6 months and continue to conduct them until the end of March 2021.

With regard to the future conduct of monetary policy, the Policy Board confirmed the following at the April MPM: "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. For the time being, the Bank will closely monitor the impact of COVID-19 and will not hesitate to take additional easing measures if necessary, and also it expects short- and long-term policy interest rates to remain at their present or lower levels." At the MPMs held in June through September, the Policy Board confirmed the following: "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 continue to support financing mainly of firms and maintain stability in financial markets through (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of yen and foreign currency funds without setting upper limits mainly by purchasing JGBs and conducting the U.S. dollar funds-supplying operations, and (3) active purchases of ETFs and J-REITs. For the time being, the Bank will closely monitor the impact of COVID-19 and will not hesitate to take additional easing measures if necessary, and

also it expects short- and long-term policy interest rates to remain at their present or lower levels."

## **B. Second Half of Fiscal 2020 (October 2020–March 2021)**

### **1. Economic developments**

a. During the period from October 2020 through March 2021, Japan's economy continued to pick up as a trend, although it remained in a severe situation due to the impact of COVID-19 at home and abroad.

Exports and industrial production continued to increase. Corporate profits and business sentiment had improved on the whole, reflecting a pick-up in economic activity. Business fixed investment had turned to a pick-up, although weakness had been seen in some industries. The employment and income situation remained weak due to the impact of COVID-19. Private consumption had picked up gradually from the bottom observed at the beginning of the period from April through September 2020, but the pick-up paused in the second half of the October–March period because downward pressure on consumption of services, such as eating and drinking as well as accommodations, had increased along with a resurgence of COVID-19. Housing investment had declined moderately and then almost bottomed out. Meanwhile, public investment continued to increase moderately.

b. Regarding price developments, the year-on-year rate of change in the CPI (all items less fresh food) had been negative, mainly affected by COVID-19, the past decline in crude oil prices, and a decrease in hotel charges through the "Go To Travel" campaign. However, toward the end of the October–March

period, the rate of decline decelerated due to the suspension of the campaign and the dissipation of the effects of the decline in crude oil prices. Inflation expectations had weakened somewhat and thereafter were more or less unchanged.

### **2. Developments in financial markets and conditions**

a. In global financial markets, stock prices and long-term interest rates had risen on the whole, reflecting heightened expectations for an economic recovery, mainly on the back of an anticipated early vaccine rollout and the conduct of the additional economic measures in the United States. However, stock prices had declined and the currencies of emerging economies had depreciated, such as at the time when U.S. long-term interest rates had risen to a somewhat large degree.

b. Turning to domestic financial markets, money market rates had been at low levels on the whole.

With regard to developments in the bond market, the long-term interest rate had been stable at the target level of around zero percent under QQE with Yield Curve Control. Issuance rates for CP and corporate bonds had been at extremely low levels.

The Nikkei 225 Stock Average had increased due to improvement in investors' risk sentiment, mainly on the back of expectations for a recovery in the global economy owing to such factors as aggressive fiscal and monetary policies. It was in the range of 29,000–29,500 yen at the end of March.

In the foreign exchange market, the yen had depreciated against the U.S. dollar on the whole during the period, mainly on the back of the rise in U.S. long-term interest rates, and was at the 110 yen level at the end of March. The yen had also



depreciated against the euro due to improvement in investors' risk sentiment that mainly reflected expectations for a recovery in the global economy.

- c. With regard to corporate financing, demand for funds that stemmed mainly from a decline in sales and a rise in precautionary demand, both affected by COVID-19, remained at a high level, although an increase in demand by large firms in particular had leveled off. In this situation, although firms' financial positions had improved moderately, they continued to show weakness, mainly reflecting the decline in sales due to the impact of COVID-19. Meanwhile, in terms of supply of funds, financial institutions' lending attitudes as perceived by firms remained accommodative.
- d. The year-on-year rate of increase in the monetary base continued to accelerate, and was at around 20 percent in March. That in the M2 also continued to accelerate and thereafter was at around 9.5 percent toward the end of fiscal 2020.

### 3. MPMs<sup>4</sup>

- a. Four MPMs were held in the second half of fiscal 2020.

The Policy Board made the following judgement on economic and financial developments at the MPM held in October: "Japan's economy has picked up with economic activity resuming, although it has remained in a severe situation due to the impact of COVID-19 at home and abroad." It then deemed at the December MPM as follows: "Japan's economy has picked up, although it has remained in a severe situation due to the impact of COVID-19 at home and abroad." At the January and March MPMs, the Policy Board judged as follows: "Japan's economy has picked up as

a trend, although it has remained in a severe situation due to the impact of COVID-19 at home and abroad."

- b. In the conduct of monetary policy, the Policy Board decided at the MPMs held in October through January to maintain the following guideline for market operations 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 a necessary amount of JGBs without setting an upper limit 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.

At the March MPM, the Assessment for Further Effective and Sustainable Monetary Easing was conducted, as described later, and the Policy Board decided upon the following guideline for market operations.

#### (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

4. 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)).

the Bank.

The long-term interest rate:

The Bank will purchase a necessary amount of JGBs without setting an upper limit so that 10-year JGB yields will remain at around zero percent.

With regard to asset purchases, the Policy Board decided at the October MPM to maintain the following guidelines.

#### (1) Guidelines for asset purchases

With regard to asset purchases other than JGB purchases, the Bank decided to set the following guidelines.

(a) In principle, 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, it may increase or decrease the amount of purchases depending on market conditions. For the time being, the Bank will actively purchase these assets so that their amounts outstanding will increase at annual paces with the upper limit of about 12 trillion yen and about 180 billion yen, respectively.

(b) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2 trillion yen and about 3 trillion yen, respectively. In addition, until the end of March 2021, it will conduct additional purchases with the upper limit of the amounts outstanding of 7.5 trillion yen for each asset.

At the December MPM, the Policy Board extended the duration of the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) and made adjustments

to the program, as described later. It also decided upon the following guidelines for asset purchases.

#### (1) Guidelines for asset purchases

With regard to asset purchases other than JGB purchases, the Bank decided to set the following guidelines.

(a) In principle, 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, it may increase or decrease the amount of purchases depending on market conditions. For the time being, the Bank will actively purchase these assets so that their amounts outstanding will increase at annual paces with the upper limit of about 12 trillion yen and about 180 billion yen, respectively.

(b) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2 trillion yen and about 3 trillion yen, respectively. In addition, until the end of September 2021, it will conduct additional purchases with an upper limit on the amount outstanding of these assets of 15 trillion yen in total.

At the January MPM, the Policy Board maintained the above guidelines for asset purchases.

At the March MPM, the Assessment for Further Effective and Sustainable Monetary Easing was conducted, as described later, and the Policy Board decided upon the following guidelines for asset purchases.

#### (1) 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 as necessary with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.
- (b) The Bank will purchase CP and corporate bonds with an upper limit on the amount outstanding of about 20 trillion yen in total until the end of September 2021.

At the December MPM, the Policy Board judged it appropriate to extend the duration of the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) by 6 months and make adjustments to the program, with a view to continuing to support financing, mainly of firms, given that such financing was likely to remain under stress for the time being while vigilance against COVID-19 continued. To this end, the Policy Board decided upon the following. In addition, it announced that, depending on the future impact of COVID-19, it would consider further extension of the program if necessary.

**(1) Additional purchases of CP and corporate bonds**

The Bank will extend the duration of additional purchases of CP and corporate bonds by 6 months until the end of September 2021. It will continue conducting purchases of these assets with an upper limit on the amount outstanding of about 20 trillion yen in total. Out of 20 trillion yen, 15 trillion yen will be for the additional purchases of CP and corporate bonds and it will be distributed between each asset depending on market conditions.

**(2) Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19)**

The Bank will extend the duration of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) by 6 months until the end of September 2021. In addition, in order to further actively encourage private financial institutions to make loans on their own in response to COVID-19 mainly to small and medium-sized firms, the Bank will remove the upper limit of funds it provides to each eligible counterparty (i.e., 100 billion yen) against loans that private financial institutions make on their own, which are part of eligible loans under this operation.

In addition, given that economic activity and prices were projected to remain under downward pressure for a prolonged period due to the impact of COVID-19, the Policy Board decided to conduct the Assessment for Further Effective and Sustainable Monetary Easing, with a view to supporting the economy and thereby achieving the price stability target of 2 percent. In doing so, since the framework of QQE with Yield Curve Control had been working well thus far, the Policy Board judged that there was no need to change it. The Policy Board decided to assess various measures conducted under this framework and make public its findings, likely at the March 2021 MPM.

At the March MPM, the Assessment for Further Effective and Sustainable Monetary Easing was conducted. Based on the findings, the Policy Board judged that the following basic stance on monetary policy was important: with a view to achieving the price stability target of 2 percent,

the Bank will continue with monetary easing in a sustainable manner and make nimble and effective responses without hesitation to counter changes in developments in economic activity and prices, as well as in financial conditions.

In this regard, the Policy Board decided upon the following actions.

- (1) With a view to enabling the Bank to cut short- and long-term interest rates nimbly while considering the impact on the functioning of financial intermediation, the Bank will establish the Interest Scheme to Promote Lending. In this scheme, interest rates, which will be linked to the short-term policy interest rate, will be applied to a certain amount of financial institutions' current account balances.
- (2) In order to conduct yield curve control flexibly during normal times, the Bank will make clear that the range of 10-year JGB yield fluctuations would be between around plus and minus 0.25 percent from the target level. At the same time, it will introduce "fixed-rate purchase operations for consecutive days" as a powerful tool to set an upper limit on interest rates when necessary.
- (3) The Bank will purchase ETFs and J-REITs as necessary with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding. While these upper limits were originally set as a temporary measure in response to the impact of COVID-19, the Bank will maintain them even after COVID-19 subsidies.

With regard to the future conduct of monetary policy, the Policy Board confirmed the following

at the MPMs held in October through January: "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 continue to support financing mainly of firms and maintain stability in financial markets through (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of yen and foreign currency funds without setting upper limits mainly by purchasing JGBs and conducting the U.S. dollar funds-supplying operations, and (3) active purchases of ETFs and J-REITs. For the time being, the Bank will closely monitor the impact of COVID-19 and will not hesitate to take additional easing measures if necessary, and also it expects short- and long-term policy interest rates to remain at their present or lower levels." At the March MPM, the Policy Board confirmed the following: "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 continue to support financing mainly of firms and maintain stability in financial markets through (1) the Special Program to Support Financing in Response to the Novel Coronavirus

(COVID-19), (2) an ample provision of yen and foreign currency funds without setting upper limits mainly by purchasing JGBs and conducting the U.S. dollar funds-supplying operations, and (3) purchases of ETFs and J-REITs with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their

amounts outstanding. For the time being, the Bank will closely monitor the impact of COVID-19 and will not hesitate to take additional easing measures if necessary, and also it expects short- and long-term policy interest rates to remain at their present or lower levels."



### III. MAIN FEATURES OF THE BANK'S BUSINESS OPERATIONS DURING THE NOVEL CORONAVIRUS (COVID-19) PANDEMIC

With the impact of COVID-19 continuing throughout fiscal 2020, the Bank conducted its business operations flexibly, taking into account the characteristics of each business operation, as follows.

The Bank, as a designated public institution under the Act on Special Measures for Pandemic Influenza and New Infectious Diseases Preparedness and Response, and in line with the government's Basic Policies for Novel Coronavirus Disease Control (hereafter the Basic Policies), carried out measures to prevent the spread of COVID-19 and used all its capabilities to continue providing essential central banking services to ensure the stability of people's daily lives and economic activities. Specifically, in response to the government's instating of a state of emergency in April 2020, the Bank—taking account of the period during which the state of emergency would be in place and the objectives laid out in the Basic Policies—proceeded with the stable conduct of such business operations as (1) market operations, (2) settlement of funds and Japanese government securities (JGSs), (3) services relating to treasury funds, and (4) receipt and payment of banknotes, while reducing some of its operations to curtail the number of office staff commuting. Thereafter, it instructed the staff to adhere to the following infection control measures, set out in the Basic Policies as guidelines for the prevention of COVID-19 in workplaces: regular handwashing and use of hand sanitizer, ventilation inside office buildings, ensuring that staff with fever or other symptoms characteristic of COVID-19 refrain from commuting to workplaces, and the use of videoconferencing systems to minimize the need for traveling on business. The Bank also made adjustments to its operational arrangements, including during the period

after the government reinstated the state of emergency in January 2021, so as to continue providing central banking services in a stable manner, by implementing split shifts as well as promoting staggered commuting hours and teleworking.

As for policy responses, the Bank continued to implement necessary measures from the end of fiscal 2019 to address the impact of COVID-19 on financial markets and the real economy. Specifically, in fiscal 2020, it decided at the MPM held in April to further enhance monetary easing by increasing purchases of CP and corporate bonds, strengthening the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19), and conducting further active purchases of JGBs and T-Bills. Moreover, the Bank held an unscheduled MPM in May where it decided upon the details of a new fund-provisioning measure to further support financing mainly of small and medium-sized firms. At this meeting, it also decided to extend by six months the duration of the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19)—a program comprised of (1) purchases of CP and corporate bonds, (2) the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19), and (3) the new fund-provisioning measure. In the MPM held in December, amid continued vigilance against COVID-19, the Bank decided to extend the duration of this Special Program by a further six months and to make adjustments to the program. With COVID-19 affecting the economy, the Bank continued to support financing mainly of firms and to maintain stability in financial markets through powerful monetary easing via

the following three measures: (1) the Special Program; (2) an ample and flexible provision of funds mainly by purchasing JGBs and T-Bills and by conducting the U.S. dollar funds-supplying operations; and (3) purchases of ETFs and J-REITs.

At the turn of fiscal 2020, the Bank temporarily suspended many of its business operations that had been conducted face to face. However, with the impact of COVID-19 continuing, it introduced and successively implemented procedures for conducting such business operations even amid the pandemic by making use of IT. Specifically, the Bank held the following events online: meetings with business or local leaders and other events such as speeches delivered by the Bank's officers and employees as well as seminars organized by its Center for Advanced Financial Technology (CAFT). The Bank also introduced "remote intensive interviews" with financial institutions—in-depth interviews using

remote methods in place of on-site examinations. The Bank made active use of videoconferencing systems in conducting other exchanges of opinions with individual firms and financial institutions, while taking into consideration the operational burden on those entities. Through these initiatives, the Bank worked to secure its opportunities for communication. As for tours of the Currency Museum, the Bank of Japan Otaru Museum, and the Bank's Head Office and branches, the Bank conducted these taking into account circumstances such as the COVID-19 situation in each region and requests by the national and local governments, and took necessary measures to prevent infection when admitting tour participants. The Bank will continue to take full advantage of its experience in responding to COVID-19 and work to strengthen external communication during the pandemic.

**IV. PERFORMANCE REVIEWS OF MEASURES TAKEN UNDER THE *MEDIUM-TERM STRATEGIC PLAN*****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, mainly focusing on the impact of COVID-19. In the current phase, the Bank gained an accurate grasp of rapid changes in circumstances stemming from the impact of COVID-19 by making use of high-frequency data and other information. The results of these analyses were released, for example, in the quarterly *Outlook for Economic Activity and Prices* (hereafter the Outlook Report) and in the *Bank of Japan Review Series*.
- (2) In view of rapid changes in circumstances stemming from the impact of COVID-19, the Bank moved nimbly to plan and formulate the following monetary policy responses by, for example, holding an unscheduled MPM in May 2020.
  - (a) The "Enhancement of Monetary Easing" (April 2020), including (1) an increase in purchases of CP and corporate bonds, (2) strengthening of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19), and (3) further active purchases of JGBs and T-Bills.
  - (b) The "Introduction of a New Fund-Provisioning Measure to Support Financing Mainly of Small and Medium-Sized Firms" (May 2020).
  - (c) Extension of the duration of the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) (May and December 2020)—a program comprised of (1) purchases of CP and corporate bonds, (2) the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19), and (3) the new fund-provisioning measure; and adjustments to the program (December 2020).
- (3) The Bank conducted a multi-perspective assessment, particularly of the policy efficacy and impacts of QQE with Yield Curve Control; based on the findings, it formulated policy actions for implementing further effective and sustainable monetary easing.
  - (a) The "Assessment for Further Effective and Sustainable Monetary Easing" and policy actions based on this (March 2021), including (1) establishment of the Interest Scheme to Promote Lending, (2) clarification of the range of fluctuations in long-term interest rates as well as introduction of "fixed-rate purchase operations for consecutive days," and (3) revisions to the guidelines for purchases of ETFs and J-REITs.
- (4) The Bank maintained regular dialogue with market participants by, for example, actively exchanging opinions on such occasions as the "Meeting on Market Operations" and the "Bond Market Group Meeting," each held twice in fiscal 2020 online or via telephone conferencing.
- (5) 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. It also disseminated information in a timely manner by, for example, introducing the latest economic studies relating to COVID-19.

## 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 findings, the Bank moved nimbly to plan and formulate the policy measures, such as policy responses to the impact of COVID-19 and policy actions for implementing further effective and sustainable monetary easing. In addition, the Bank maintained dialogue with market participants through, for example, the "Meeting on Market Operations" and the "Bond Market Group Meeting," 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 2020, it achieved its intended objectives in implementing measures and provided a firm underpinning for monetary policy conduct, while addressing in a timely manner new challenges brought about by COVID-19. In fiscal 2021, the Bank will continue to work to conduct research and analysis that appropriately reflect various changes in economic and financial conditions, including the impact of COVID-19 as well as the effects of advances in IT, to plan policy measures flexibly, and to have the necessary operational arrangements in place to conduct market operations properly.

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

### 1. Progress in implementing specific measures

(1) With a view to preventing the spread of COVID-19 and reducing the operational burden on financial institutions striving to provide financing support to firms and households, the Bank temporarily ceased its on-site examinations in fiscal 2020. From the middle of fiscal 2020, while taking into consideration the operational burden on financial institutions, it started to conduct remote intensive interviews in place of on-site examinations; such interviews were carried out with 37 financial institutions. Interviews were based on institutions' risk profiles and focused on their provision of support for financing to firms and households as well as their management of credit and market risks, thereby enabling the Bank to thoroughly assess the impact of COVID-19 on financial institutions' business operations and on the various risks inherent in their operations.

(2) With regard to off-site monitoring of financial institutions, the Bank closely followed developments in, for example, business operations, risk management, and profitability, while focusing on assessing the impact of the spread of COVID-19. It also conducted in-depth research and analysis, particularly on the efficacy and impacts of QQE with Yield Curve Control and of various policy responses to the pandemic, as well as on efforts toward digitalization. In addition, the Bank conducted off-site monitoring of systemically important financial institutions given developments such as changes in business models and risk profiles. In light mainly of the heightened instability in U.S. dollar funding conditions due to the growing impact of COVID-19, it strengthened the monitoring of foreign currency

liquidity risk management at these institutions. With regard to regional financial institutions, the Bank worked to assess and analyze their business conditions in the face of the increasingly severe situation in regional economies.

- (3) In the two issues of the 2020 *Financial System Report*, released in April and October, the Bank described recent developments in financial markets and financial intermediation activities amid the ongoing impact of COVID-19, and then analyzed and assessed the impact and risks posed by the pandemic in terms of financial stability. In addition, it released six issues of the *Financial System Report Annex Series* in fiscal 2020, providing more detailed analysis of and insight into selected topics. Meanwhile, on the communications side, the Bank made use of online communication tools on various occasions to provide explanations to a wide range of relevant parties, including financial institutions, analysts, the media, and academics, mainly through holding seminars and giving presentations at various international meetings (there were 49 such occasions in total in fiscal 2020).
- (4) The Bank planned and formulated the Special Deposit Facility to Enhance the Resilience of the Regional Financial System (hereafter the Special Deposit Facility), with the aim of strengthening the business foundations of regional financial institutions so that they could firmly support regional economies into the future and smoothly fulfill their financial intermediation function. The Bank began implementing the facility from March 2021.
- (5) The Bank and the Financial Services Agency (FSA) continued to work to increasingly share awareness of challenges and risks at all levels, for example, by holding meetings of the Council for Cooperation on

Financial Stability. As part of these efforts, at the turn of fiscal 2020, the two entities jointly announced an easing of regulation on the leverage ratio requirement in response to the impact of the spread of COVID-19. They also steadily pushed forward with joint projects, such as surveys on overseas credit investment/lending and on the use of LIBOR as well as supervisory simultaneous stress testing based on common scenarios. In addition, with a view to implementing higher quality monitoring and reducing the operational burden on financial institutions, the FSA and the Bank established the "Collaborative Task Force to Further Strengthen the Linkage between the FSA's Monitoring Function and the BOJ's Examination Function"; they proceeded with specific deliberations at meetings of the task force and released in March 2021 a document presenting their efforts toward further strengthening coordination between the FSA and the Bank.

- (6) The Bank continued its stable execution of business operations for the Loan Support Program.
- (7) The Bank hosted, via livestream, seminars on business management reform and cybersecurity at financial institutions, as well as workshops on topics such as finance for achieving the Sustainable Development Goals (SDGs), and finance integrating environmental, social, and governance (ESG) criteria.

## 2. Evaluation of progress

In carrying out remote intensive interviews in place of on-site examinations and conducting off-site monitoring, the Bank thoroughly assessed business operations and risk management at financial institutions in particular through the collection of information via due use of online communication tools; it also facilitated necessary improvements. In addition, it began implementing the Special Deposit Facility with the aim of facilitating



efforts toward strengthening the business foundations of regional financial institutions. In the *Financial System Report*, it carried out multi-perspective analysis on the impact of COVID-19 on the financial system and the risks posed by the pandemic, and presented its assessment of challenges faced in maintaining and improving the stability and functioning of the financial system.

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 coordination on the prudential front with the FSA through the carrying out of joint projects as well as increased cooperation between FSA inspections and the Bank's on-site examinations.

During fiscal 2020, 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 achieved its intended objectives in implementing measures toward ensuring the stability and improving the functioning of the financial system, dealing flexibly with the new challenges stemming from COVID-19. In fiscal 2021, the Bank will thoroughly assess business operations and risk management at financial institutions in particular while continuing to implement measures to prevent COVID-19 infection, by making use of remote methods to conduct examinations and continuing with its initiatives to further strengthen coordination with the FSA. In addition, it will continue to make efforts toward strengthening the business foundations of regional financial institutions through the Special Deposit Facility. The Bank will also step up its efforts to deal with new challenges such as the digitalization of finance and climate-related financial risks.

## C. Enhance Payment and Settlement Services and Reinforce Market Infrastructures

### 1. Progress in implementing specific measures

- (1) The Bank made substantial progress with its initiatives pertaining to central bank digital currencies (CBDCs), and actively participated in discussions at home and abroad regarding new possibilities and challenges that IT advances present for payment and settlement services.
  - (a) The Bank set up the Digital Currency Group to take charge of digitalization of payment and settlement systems as well as matters relating to CBDCs in July 2020.
  - (b) In October 2020, the Bank released "The Bank of Japan's Approach to Central Bank Digital Currency."
  - (c) The Bank, as a member of the group of major central banks assessing potential cases for CBDCs with the Bank for International Settlements (BIS), jointly released with the group a report entitled "Central Bank Digital Currencies: Foundational Principles and Core Features" in October 2020.
  - (d) The Bank made necessary arrangements to start experimenting with CBDCs—Proof of Concept (PoC) Phase 1.
  - (e) In March 2021, the Bank established and held the first meeting of the "Liaison and Coordination Committee on Central Bank Digital Currency," which included members from the government and private sector, as well as the Bank.
  - (f) The Bank actively participated in discussions on the future of payment and settlement services and related infrastructures with a wide range of relevant parties, through occasions such as the "Future of Payments Forum" held in May, July, September, and December 2020.

- (g) The Bank contributed to discussions on international standards in financial services through, for example, hosting the "Meeting of the International Organization for Standardization (ISO) Panel" in November and December 2020.
- (2) The Bank joined the Task Force for the Next-Generation Payment Systems, set up by the Japanese Banks' Payment Clearing Network (Zengin-Net). It contributed to discussions regarding the participation of funds transfer service providers in the Zengin Data Telecommunication System (Zengin System), as well as how to enhance the convenience of frequent payments in small amounts, and supported the compilation and release by Zengin-Net of a report detailing the results of these deliberations.
- (3) The Bank supported initiatives taken by relevant parties regarding the safety and efficiency of payment and settlement systems, such as a shift to a T+2 settlement cycle for JGB retail trading and corporate and other bond transactions in July 2020.
- (4) The Bank steadily promoted preparations with the Hong Kong Monetary Authority toward implementation of a cross-border delivery-versus-payment (DVP) link between the Bank of Japan Financial Network System (BOJ-NET) JGB Services and the Hong Kong Dollar Clearing House Automated Transfer System (HKD CHATS); preparations for launching the cross-border DVP link in April 2021 were completed.
- (5) The Bank continued to encourage market participants in Japan to declare their commitment to adhere to the FX Global Code.
- (6) In its role as the secretariat of the Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks, the Bank supported market participants' initiatives on

the reform of Japanese yen interest rate benchmarks by, for example, (1) supporting the publication of prototype rates for Term Reference Rates in May 2020 and (2) releasing the "Draft Roadmap to Prepare for the Discontinuation of LIBOR" in August 2020 and the "Final Report on the Results of the Second Public Consultation on the Appropriate Choice and Usage of Japanese Yen Interest Rate Benchmarks" in November 2020.<sup>5</sup>

## 2. Evaluation of progress

The Bank worked on reinforcing arrangements pertaining to CBDCs so that it could respond appropriately to various changes in the environment. At the same time, it released "The Bank of Japan's Approach to Central Bank Digital Currency" and steadily proceeded with arrangements to start PoC Phase 1. In addition, it actively contributed to discussions at home and abroad regarding the new possibilities and challenges that IT advances present for payment and settlement services. Meanwhile, the Bank made steady progress in working toward the enhancement of Japan's payment and settlement services, and completed preparations for launching the cross-border DVP link as scheduled.

As for the reinforcement of the infrastructures of financial and capital markets, the Bank continued to encourage market participants in Japan to declare their commitment to adhere to the FX Global Code, and supported market participants' initiatives on the reform of Japanese yen interest rate benchmarks.

Based on the above, the Bank considers that, in fiscal 2020, it achieved its intended objectives in implementing measures, and made notable contributions to enhancing payment and settlement services and reinforcing the infrastructures of financial and capital markets in Japan.

5. This roadmap has since been updated and released as the "Roadmap to Prepare for the Discontinuation of Japanese Yen LIBOR," which is available on the Bank's website (<https://www.boj.or.jp/en/index.htm>).

In fiscal 2021, with respect to payment and settlement services, the Bank will contribute to discussions at home and abroad regarding CBDCs, while steadily promoting PoC Phase 1 and exploring requisite institutional arrangements; it will also continue to work toward the enhancement of retail payments in Japan. Furthermore, as for the reinforcement of the infrastructures of financial and capital markets in Japan, the Bank will continue with, for example, 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) Taking account of the government's Basic Policies for Novel Coronavirus Disease Control, the Bank implemented measures to ensure smooth conduct of central banking operations even when there were cases of staff infection. These measures included the introduction of split shifts for those engaged in, for example, (1) market operations, (2) settlement of funds and JGSs, (3) services relating to treasury funds, and (4) receipt and payment of banknotes.
- (2) 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.
- (3) The Bank conducted market operations appropriately in accordance with the guidelines decided at MPMs for market operations and asset purchases. It duly responded to changes in the market environment by, for example, revising the tools for market operations as well as their frequency and size in a timely and flexible manner, depending on market developments.
- (4) The Bank proceeded with the stable conduct of its business operations relating to foreign currencies, including its U.S. Dollar Funds-Supplying Operations against Pooled Collateral as well as financial transactions pertaining to the Foreign Exchange Fund Special Account entrusted to it by the government.
- (5) In coordination with the Ministry of Finance and other relevant parties, the Bank proceeded with preparations for the introduction of a new series of Bank of Japan notes and a new 500 yen coin.
- (6) 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 monitored and improved the level of the cleanliness of banknotes in circulation.
- (7) The Bank, by gathering information from relevant parties, strengthened its understanding of changes in cash circulation and conducted cash transportation and other operational procedures efficiently.
- (8) The Bank carried out a wide range of treasury funds and JGS services with precision. It also worked to streamline and digitize business operations by, for example, reducing the number of agents and promoting further use of cashless payments of treasury funds through the provision of support to relevant parties. In addition, the Bank—while responding positively to the need for financial institutions to improve the efficiency of their business processes—cooperated with the ministries and agencies responsible to promote digitalization of various administrative procedures related to treasury funds and JGS services, as well as the abolition of the use of *hanko* (the affixing of seals) on paper documents for these procedures.

### 2. Evaluation of progress

Taking account of the government's Basic Policies for

Novel Coronavirus Disease Control, the Bank—as a designated public institution under the Act on Special Measures for Pandemic Influenza and New Infectious Diseases Preparedness and Response—implemented measures to ensure smooth conduct of central banking operations.

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 cash, the Bank carried out the receipt and payment of banknotes and coins in a stable and efficient manner. In addition, it proceeded steadily with preparations for the introduction of a new series of Bank of Japan notes and a new 500 yen coin, in coordination with the Ministry of Finance and other relevant parties. The Bank worked to secure confidence in banknotes by, for example, proceeding smoothly with replacing automatic banknote examination machines with the new model; it also made progress in understanding the current situation of cash circulation by gathering information from relevant parties.

The Bank, on a daily basis, carried out treasury funds and JGS services in a stable manner; it also worked to streamline and digitize business operations and reviewed its business processes in response to changes in its operational environment.

Based on the above, the Bank considers that, in fiscal 2020, despite the impact of COVID-19 persisting throughout the year, it conducted stable central banking operations on a daily basis while ensuring that the appropriate operational arrangements were in place, and advanced steadily with the reviewing of its business processes in response to changes in its

operational environment. In fiscal 2021, while continuing to implement measures to prevent COVID-19 infection, the Bank will conduct its business operations at its Head Office and branches in a stable manner, and constantly pursue excellence in central banking services in light of trending changes, both qualitative and quantitative, in its operations.

## **E. Contribute to International Finance amid Globalization**

### **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 Association of Southeast Asian Nations Plus Three (ASEAN Plus Three), the BIS, the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), the Financial Stability Board (FSB), the Group of Seven (G7), the Group of Twenty (G20), the International Monetary Fund (IMF), and the Organisation for Economic Co-operation and Development (OECD). In fiscal 2020, while these meetings were held mainly through the use of online communication tools instead of face to face due to the impact of COVID-19, the Bank dealt appropriately with the changes in the environment and achieved the following.
  - (a) The Bank contributed to discussions on the international financial response to the spread of COVID-19.
  - (b) The Bank contributed to discussions at global forums on fostering economic growth as well as on strengthening the robustness of the financial system based on its analysis of overseas economic and financial developments, while also promoting an understanding of its conduct of monetary policy.
  - (c) With regard to financial regulation and supervision,

the Bank, in cooperation with the FSA, actively participated in discussions on responses to the impact of COVID-19, the implementation and impact assessment of, for example, international financial regulations, and the enhancement of supervision; it also contributed appropriately to policy-making processes for ensuring the stability of the international financial system.

- (d) The Bank continued to participate in and contribute to, for example, discussions in the fields of global financial markets, financial market infrastructures, interest rate benchmark reform, the FX Global Code, and statistics.
  - (e) In relation to the EMEAP, the Bank played a key role in discussions on economic and financial conditions in the region as well as in the management of the Asian Bond Fund (ABF).
  - (f) At some BIS- and EMEAP-related committees, the Bank played a leadership role, for example, by moderating discussions as the chair. Also, as a central bank of an ASEAN Plus Three co-chair country for 2020, the Bank, together with the Ministry of Finance, took the lead in discussions on various topics.
  - (g) 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, on big data.
- (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 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 the continued strengthening of relations with monetary authorities in Asia.

- (4) The Bank participated in international forums organized by, for example, the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), a group committed to helping improve environmental and climate risk management in the financial sector, and played a part in discussions at the global level. It also held an international research workshop on climate-related financial risks online, attended by both domestic and overseas participants in the field.
- (5) With regard to international monetary cooperation, in the area of currency swaps, the Bank continued with necessary deliberations and coordination with the People's Bank of China and with the Bank of Thailand toward establishing operational arrangements for implementing foreign currency swaps, with a view to providing liquidity backstops that meet the local currency funding needs of Japanese financial institutions operating overseas.
- (6) Under the framework of ASEAN Plus Three, the Bank, together with the Ministry of Finance, took the lead in the planning and implementation of currency swap exercises based on the Chiang Mai Initiative Multilateralisation (CMIM), while playing a key role in various deliberations toward enhancing their practicability.
- (7) In response to the IMF's request to the Japanese government, the Bank, in cooperation with the Ministry of Finance, contributed to the smooth implementation of financial assistance for low-income countries using the Foreign Exchange Fund Special Account, among other such activities.



(8) The Bank continued to provide technical assistance, hold seminars, and exchange personnel, mainly with other central banks in Asia, making use of online communication tools given the difficulties in conducting face-to-face activities (there were 39 such occasions in total in fiscal 2020). The Bank thus 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.

## 2. Evaluation of progress

The Bank, as the central bank of Japan, participated in discussions at the global level on responses to COVID-19, thereby playing a part in international cooperation. 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 leadership role in discussions toward ensuring the stability of the international currency and financial system. Moreover, 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 2020 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 toward securing the stability and development of financial and capital markets in Asia. In fiscal 2021, the Bank will continue to work in

cooperation with relevant parties to deepen and extend the initiatives taken to date, particularly in Asia, while also participating in discussions at the global level on responses to COVID-19. In addition, it will actively contribute to discussions at the global level on climate change.

## F. Contribute to Regional Economic and Financial Environments

### 1. Progress in implementing specific measures

- (1) While ensuring that the system continued to provide essential services despite the spread of COVID-19, the Bank, at its Head Office and branches, stably conducted central banking operations, including business operations relating to banknote issuance as well as services relating to treasury funds and JGSs, holding working-level meetings with financial institutions that hold current accounts at the Bank as well as ministries and government agencies through, for example, the use of online communication tools.
- (2) At its Head Office as well as Akita, Sendai, Fukushima, Niigata, Kanazawa, Matsumoto, Nagoya, Matsue, Fukuoka, Oita, Kumamoto, and Kagoshima branches, the Bank, in cooperation with the respective local finance bureaus, requested that financial institutions take special measures in response to disasters.
- (3) The Bank maintained a detailed grasp of regional economic and financial conditions via its Head Office, branches, and local offices by conducting interviews mainly with local businesses and financial institutions, making use of online communication tools as needed. The Bank utilized its findings in conducting monetary policy as well as in ensuring the 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 large-scale storm and flood damage that occurred in Japan in recent years, 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, taking account of the COVID-19 situation in respective regions. The Bank's findings from research and analysis on regional economic developments were also compiled and released each quarter in the *Regional Economic Report*.
- (5) In fiscal 2020, the Bank's CAFT hosted the following seminars and workshops via livestream, targeted mainly at regional financial institutions: six seminars on business management reform and cybersecurity, as well as three workshops on issues surrounding regional medical care, regional public transportation services, and regional trading companies.

## 2. Evaluation of progress

The Bank, at its Head Office and branches, conducted central banking operations in a stable manner despite the spread of COVID-19. It also maintained a detailed grasp of economic and financial conditions specific to each region through daily research efforts; it disseminated its findings to each region and utilized them in conducting monetary policy as well as in ensuring the stability and improving the functioning of the financial system.

Based on the above, the Bank considers that, despite the impact of COVID-19, it made progress in fiscal 2020 in terms of initiatives taken to contribute to regional economic and financial environments, making due use of the functions performed as the country's central bank by its Head Office, branches, and local offices. In fiscal 2021, 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 economic and financial conditions and of region-specific challenges as well as to disseminate its findings, with a view to supporting sustainable development. In doing so, the Bank will continue to closely monitor the impact of COVID-19 on regional economic and financial conditions. With regard to organizing speeches and undertaking other public relations activities, the Bank will make the appropriate decision in each case in light of the COVID-19 situation in respective regions and will strengthen efforts to develop alternatives that make use of, for example, online communication tools as needed.

## 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 2020, and releasing the full texts of the two issues in Japanese as well as the summaries in English on the Bank's website.<sup>6</sup>

6. Excerpts from the summaries of the two issues of the report dealing with developments in fiscal 2020, namely, the issues released in December 2020 and June 2021, can be found on pages 30–41.

- (c) Publishing the *Gyomu Gaikyo Sho* (Outline of Business Operations) for fiscal 2019 in May 2020.
- (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 a 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 Policy"; the Outlook Report released in April, July, and October 2020 as well as in January 2021; and a document that contains a summary of the opinions presented at each MPM (Summary of Opinions).
- (b) The "Assessment for Further Effective and Sustainable Monetary Easing," released in March 2021.
- (c) Press conferences, speeches, and articles by the Governor, Deputy Governors, and Members of the Policy Board. Meetings with business or local leaders were held from August 2020, in an online format.
- (3) While enhancing the digital contents of its communication platforms and making use of online communication tools with the spread of COVID-19 impacting face-to-face activities, the Bank engaged in the following public relations activities, which it sought to make clear, intelligible, and accessible to a wide range of target audiences, thereby promoting a 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 604 million, of which around 387 million were made to its English-language pages. The number of page views on its branches' websites was around 4.7 million in total. Followers of the Bank's Twitter and Facebook accounts totaled around 141,000 and around 4,600, 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 conducted in-house tours of its Head Office and branches in accordance with the government's Basic Policies for Novel Coronavirus Disease Control, and taking into account the situation in each region including requests by local governments. At the Head Office, in-house tours were temporarily suspended for the first half of fiscal 2020, but were resumed in the second half of the fiscal year, with preventive measures being taken against the spread of COVID-19 such as limiting the number of tour participants. At branches, tours were cautiously offered, depending on the system in place at each branch for accepting participants. The total number of tour participants at the Head Office was around 1,200 and that of branches was around 800. Meanwhile, the Bank launched on its website a page entitled "BOJ from Home," offering a 3-D/virtual reality (VR) online tour of the Bank's Head Office. The number of page views on "BOJ from Home" totaled around 88,000.
- (d) Through enhancing the digital contents of its communication platforms and hosting various public relations events utilizing online communication tools, the Bank provided opportunities for the

public to deepen their understanding of its policies and business operations. For example, the Bank replaced the annual special in-house tours for families visiting with primary and junior high school children with a web page that allows users to partially recreate this experience from their homes or other locations. It also launched on the website of the Currency Museum a page entitled "Currency Museum from Home," which introduced various digital contents, including educational materials. Moreover, the Bank—via remote connections among multiple venues—hosted the "BOJ Grand-Prix," an essay and presentation contest primarily for college students, for which there were 112 entries.

- (e) The Bank gave lectures to young people on its functions and operations. Its Head Office gave a total of six online 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 online meetings and dialogues with financial institutions, firms, economic organizations, academics, and other parties concerned in the Bank's business operations, in addition to conventional face-to-face meetings.
  - (b) Provision of pertinent responses to around 3,700 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 and the

Bank of Japan Otaru Museum appropriately through, for example, (1) temporarily closing the museums, taking into account circumstances such as the COVID-19 situation in each region and requests by the national and local governments, and (2) taking necessary preventive measures against the spread of COVID-19 when admitting visitors. That said, due to the impact of COVID-19, the number of visitors during fiscal 2020 was below the usual levels, with the museums receiving around 24,000 and 23,000 visitors, respectively.

- (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 1,751 historical official documents were added to the Archives, and 98 requests for access were made.
- (8) The Bank made public the findings of its research and analysis on economic and financial developments, releasing 17 papers in the *Bank of Japan Review Series*, 13 in the *Bank of Japan Working Paper Series*, 25 in the *IMES Discussion Paper Series*, and 7 research papers.
- (9) Although some meetings such as international conferences were canceled due to the impact of COVID-19, the Bank and the University of Tokyo co-hosted a forum on big data in November 2020 that was held simultaneously online to facilitate distance participation.
- (10) The Bank revised, rebased, and made appropriate enhancements to its statistics 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 figures for a new survey category "overseas

business activities" from July 2020.

- (b) With regard to Japan's balance of payments (BOP) statistics, the Bank—in response to the Basic Policy for the Fundamental Reform of Economic Statistics, issued by the government—made changes to the recording method for reinvested earnings and added new components under "goods" from the September 2020 figures released in November.
  - (c) The Bank proceeded with efforts toward rebasing the corporate goods price index (CGPI) to 2020, and released the basic policy governing the rebasing in March 2021.
- (11) Through the following measures, the Bank promoted an in-depth understanding of its statistics.
- (a) In October 2020, the Bank released the "Changes in the Compilation and Dissemination of the Balance of Payments Statistics in Response to the 'Basic Policy for the Fundamental Reform of Economic Statistics,'" which explained the background to and overview of the changes made in Japan's BOP statistics.
  - (b) In October 2020, the Bank released a research paper explaining a new estimation method applied when making quality adjustments in the compilation of the CGPI and the services producer price index (SPPI).
- (12) 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. In fiscal 2020,

with COVID-19 impacting face-to-face activities, the CCFSI made use of online communication tools in organizing financial education seminars and other events, and in providing lectures to college students on financial literacy. Also, it worked toward publishing user-friendly website pages including those designed for smartphones (available only in Japanese) on the CCFSI's official website *Shiruporuto* (Gateway to Knowledge) by, for example, making use of social networking sites.

## 2. Evaluation of progress

The Bank employed a variety of channels to communicate its conduct of monetary policy and business operations to various audiences at home and abroad, including the general public, and made efforts to promote a deeper understanding of its policy intentions. In disseminating information, it made use of online communication tools and enhanced the digital contents of its communication platforms to address the impact of COVID-19 on face-to-face activities.

The Bank worked to gain a better grasp of public opinion and public needs by, for example, holding dialogues with financial institutions and firms, as well as 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; it also implemented measures to improve their user-friendliness.

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 2020, it made progress in terms of strengthening external communication in spite of the impact of COVID-19 on face-to-face activities, making use of online communication tools and enhancing the digital contents of its communication platforms. In fiscal 2021, the Bank will continue (1) to 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, and

(2) to better grasp public opinion and public needs by maintaining and strengthening relationships with people, firms, and economic organizations across a wide range of fields. Meanwhile, the Bank will take appropriate measures regarding implementation of certain public relations activities in light of the COVID-19 situation, and will strengthen its initiatives for communication by incorporating advances in digitalization and online technologies.