

# The Bank's Review of Fiscal 2015

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

This section provides a brief review of economic and financial developments and decisions made at Monetary Policy Meetings (MPMs) in fiscal 2015, 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 2015 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 2015" (see pages 51–54).

The Bank will conduct an interim review of the Strategic Priorities during the five-year period in order to address any changes in its environment. It will revise the content flexibly in response to any significant changes in its environment. A thorough review of the entire contents of the Strategic Priorities will be conducted separately.

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

### A. First Half of Fiscal 2015 (April–September 2015)

#### 1. Economic developments

a. Looking back at the first half of fiscal 2015, Japan's economic activity continued to recover moderately, mainly on the domestic demand side, with a virtuous cycle from income to spending at work against the background of a marked improvement in corporate profits. However, since the slowdown in emerging economies exerted downward pressure on exports and production, the pace of improvement in Japan's economy was modest.

Exports and industrial production were more or less flat, due mainly to the effects of the slowdown in emerging economies. Turning to domestic demand, public investment was at a high level. Business fixed investment followed a moderate increasing trend as corporate profits continued to improve markedly. Despite the effects of bad weather, private consumption was resilient against the background of steady improvement in the employment and income situation. Housing investment continued to pick up.

b. On the price front, excluding the direct effects of the consumption tax hike, the producer price index

1. For the text of "The Bank of Japan's Strategic Priorities for Fiscal 2014–2018," see Appendix 2 on pages 86–91.

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 2015 and June 2016. The full texts of both issues in Japanese and summaries in English are available on the Bank's website.

(PPI) relative to three months earlier declined, reflecting the developments in international commodity prices. The year-on-year rate of change in the consumer price index (CPI, all items less fresh food) was about 0 percent. Inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective.

## 2. Financial developments

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

Long-term interest rates remained at low levels, as the Bank progressed with its Japanese government bond (JGB) purchases under quantitative and qualitative monetary easing (QQE). More concretely, long-term interest rates had increased from end-April, reflecting rises in U.S. and European long-term interest rates, but declined from early July against the backdrop of declines in U.S. and European long-term interest rates and the decline in Japanese stock prices; the rates were in the range of 0.30–0.35 percent at end-September.

The Nikkei 225 Stock Average had risen to the range of 20,500–21,000 yen on the back of the depreciation of the yen against the U.S. dollar and anticipation of improvement in corporate profits, but fell substantially from mid- to end-August, with a drop in stock prices globally prompted mainly by investors' heightening risk aversion. Thereafter, it continued to fluctuate and was in the range of 17,000–17,500 yen at end-September.

In the foreign exchange market, the yen had depreciated against the U.S. dollar due to market participants' awareness of, for example, the difference in the direction of monetary policy between Japan and the United States, but reverted

to an appreciation from mid-August, mainly in response to speculation about U.S. monetary policy, and was about 120 yen against the U.S. dollar at end-September. The yen depreciated against the euro, reflecting in part the rebound in interest rates in Europe, and it traded at around 134 yen against the euro at end-September.

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

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

- c. The monetary base (currency in circulation plus current account balances at the Bank) increased significantly as asset purchases by the Bank progressed, and the year-on-year rate of growth was in the range of around 30–35 percent. The year-on-year rate of growth in the money stock (M2) was in the range of around 3.5–4.5 percent.

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

- a. Seven MPMs were held in the first half of fiscal 2015.

At the MPM held in April, the Policy Board judged that Japan's economy continued its moderate recovery trend, and at the MPMs held in May through August, it judged that the economy continued to recover moderately. At the September MPM, the Policy Board deemed that the economy continued to recover moderately, although exports and production were affected by the slowdown in emerging economies.

- b. In its conduct of monetary policy, the Policy Board decided at all the MPMs held in the first half of fiscal 2015 to continue with the following guidelines with regard to money market operations and asset purchases that were determined at the MPM on October 31, 2014.

#### **Guideline for Money Market Operations**

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

#### **Guidelines for Asset Purchases**

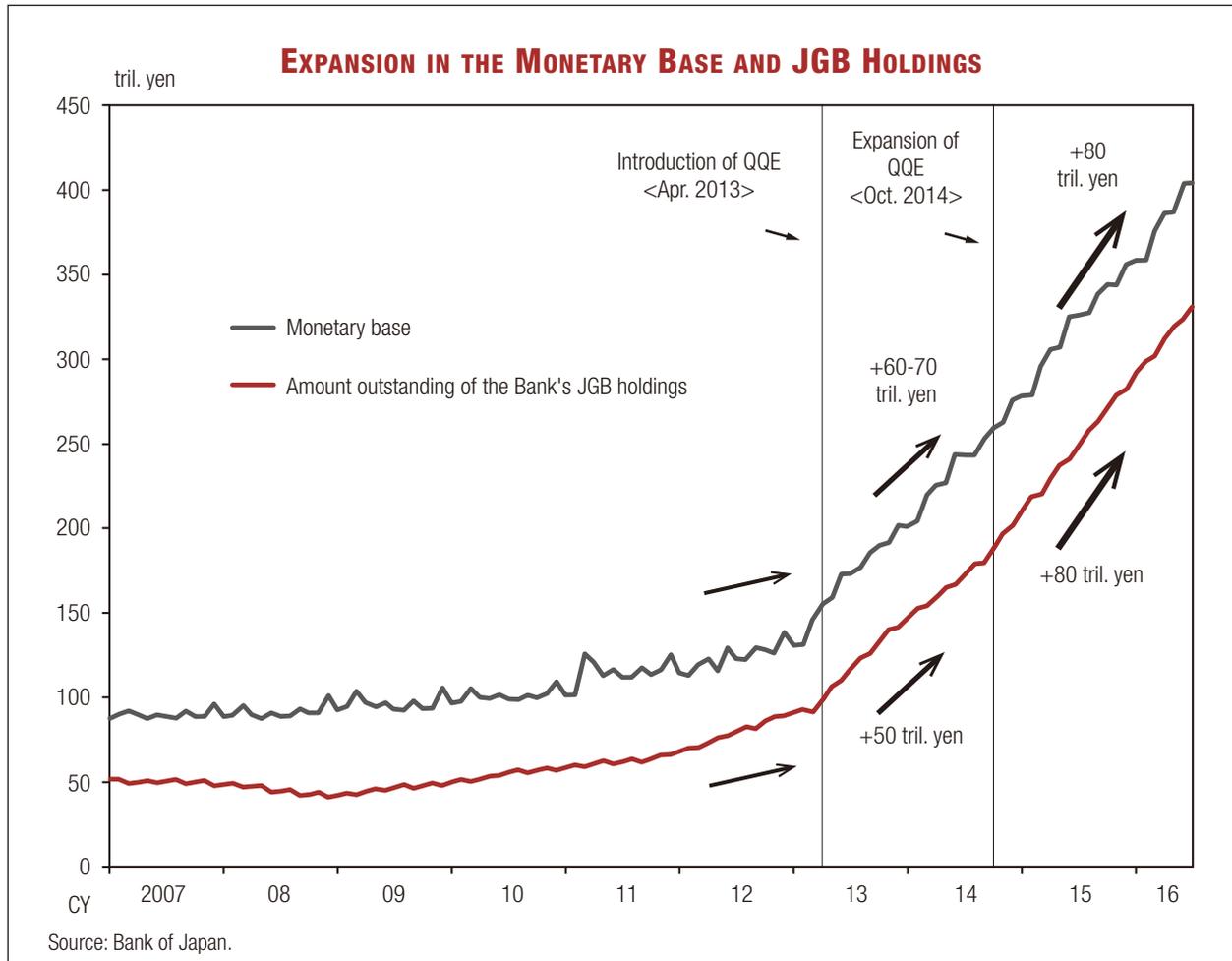
- (1) The Bank will purchase JGBs so that their amount outstanding will increase at an annual

pace of about 80 trillion yen. With a view to encouraging a decline in interest rates across the entire yield curve, the Bank will conduct purchases in a flexible manner in accordance with financial market conditions. The average remaining maturity of the Bank's JGB purchases will be about 7–10 years.

- (2) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 3 trillion yen and about 90 billion yen, respectively.
- (3) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

With regard to the future conduct of monetary policy, the Policy Board confirmed the following at all the MPMs held in the first half of fiscal 2015: "the Bank will continue with QQE, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate."

3. Information related to MPMs is available on the Bank's website ([http://www.boj.or.jp/en/mopo/mpmsche\\_minu/index.htm](http://www.boj.or.jp/en/mopo/mpmsche_minu/index.htm)).



## B. Second Half of Fiscal 2015 (October 2015–March 2016)

### 1. Economic developments

a. Looking back at the second half of fiscal 2015, Japan's economic activity continued its moderate recovery trend, with a virtuous cycle from income to spending being maintained, although exports and production were sluggish, due mainly to the effects of the slowdown in emerging economies.

The pick-up in exports paused, primarily because of the effects of the slowdown in emerging economies. Turning to domestic demand, public investment was on a moderate declining trend, although it remained at a high

level. Business fixed investment followed a moderate increasing trend as corporate profits were at high levels. Against the background of steady improvement in the employment and income situation, private consumption was resilient. The pick-up in housing investment paused. Reflecting these developments in demand both at home and abroad, industrial production continued to be more or less flat.

b. On the price front, the year-on-year rate of change in the CPI (all items less fresh food) was about 0 percent. Although inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective, they have weakened recently.

## 2. Financial developments

- a. Money market rates declined following the Bank's decision at end-January to introduce QQE with a Negative Interest Rate.

Turning to developments in the bond market, interest rates on 10-year JGBs were slightly negative from late February.

The Nikkei 225 Stock Average had temporarily risen at the beginning of December to a level exceeding 20,000 yen, mainly in response to rises in U.S. and European stock prices, but thereafter—with a drop in stock prices globally prompted mainly by investors' heightening risk aversion against the backdrop of such factors as uncertainty over emerging economies and a further decline in crude oil prices, and also with a further appreciation of the yen—stock prices fell substantially to a level below 15,000 yen. It then rebounded as investors' risk aversion abated somewhat, and was in the range of 16,500–17,000 yen at end-March.

In the foreign exchange market, the U.S. dollar/yen rate generally had been exceeding 120 yen until end-December, but after the turn of the year, the yen appreciated against the dollar, due mainly to investors' heightening risk aversion seen globally and to expectations that the pace of the policy interest rate hikes in the United States would be more moderate, and the rate was in the range of 112–113 yen against the U.S. dollar at end-March. The yen also appreciated against the euro to the range of 127–128 yen at end-March.

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

Firms' credit demand increased moderately, mainly for working capital and funds related to mergers and acquisitions. With regard to firms' funding, the year-on-year rate of increase in the amount outstanding of lending by domestic commercial banks was in a positive range of about 2.0–2.5 percent. In contrast, the year-on-year rates of change in the amounts outstanding of corporate bonds and CP were negative.

- c. The monetary base increased significantly as asset purchases by the Bank progressed, and the year-on-year rate of growth was about 30 percent. The year-on-year rate of growth in the M2 was in the range of 3.0–4.0 percent.

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

- a. Six MPMs were held in the second half of fiscal 2015.

At the MPMs held in October through January, the Policy Board judged that Japan's economy continued to recover moderately, although exports and production were affected by the slowdown in emerging economies. At the MPM held in March, it judged that the economy continued its moderate recovery trend, although exports and production were sluggish, due mainly to the effects of the slowdown in emerging economies.

- b. In its conduct of monetary policy, the Policy Board decided at the MPM held in December to adopt supplementary measures for QQE as follows.

### (1) Measures to support firms' investment in physical and human capital

- (a) Establishing a new program for purchases of ETFs  
(b) Enhancing the Fund-Provisioning Measure to Support Strengthening the Foundations

4. Information related to MPMs is available on the Bank's website ([http://www.boj.or.jp/en/mopo/mpmsche\\_minu/index.htm](http://www.boj.or.jp/en/mopo/mpmsche_minu/index.htm)).

for Economic Growth

- (c) Extending the application periods for the Loan Support Program and other measures

**(2) Measures to facilitate smooth implementation of QQE**

- (a) Expanding eligible collateral for the Bank's provision of credit
- (b) Extending the average remaining maturity of JGB purchases
- (c) Increasing the maximum amount of each issue of J-REITs to be purchased

Moreover, at the December MPM, the Policy Board maintained the following guideline for money market operations that was determined at the MPM on October 31, 2014, and decided to set the guidelines for its asset purchases.

**(1) Guideline for money market operations**

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

**(2) Guidelines for asset purchases**

- (a) The Bank will purchase JGBs so that their amount outstanding will increase at an annual pace of about 80 trillion yen. With a view to encouraging a decline in interest rates across the entire yield curve, the Bank will conduct purchases in a flexible manner in accordance with financial market conditions. The average remaining maturity of the Bank's JGB purchases will be about 7–10 years until the end of 2015 and be extended to about 7–12 years from the beginning of 2016.
- (b) The Bank will purchase ETFs and J-REITs so that their amounts outstanding will

increase at annual paces of about 3 trillion yen and about 90 billion yen, respectively.

- (c) 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.

At the MPM held in January, the Policy Board decided to introduce QQE with a Negative Interest Rate as follows.

**(1) Interest-rate dimension: the introduction of a negative interest rate**

The Bank will apply a negative interest rate of minus 0.1 percent to current accounts that financial institutions hold at the Bank. It will cut the interest rate further into negative territory if judged necessary.

Specifically, the Bank will adopt a three-tier system in which the outstanding balance of each financial institution's current account at the Bank will be divided into three tiers, to each of which a positive interest rate, a zero interest rate, or a negative interest rate will be applied.

The Bank will carry out the Loan Support Program, the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas affected by the Great East Japan Earthquake, and the Funds-Supplying Operations against Pooled Collateral at zero interest rates.

**(2) Quantity dimension: the guideline for money market operations**

The Bank decided to set the following guideline for money market operations for the intermeeting period:

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

### (3) Quality dimension: the guidelines for asset purchases

With regard to the asset purchases, the Bank decided to set the following guidelines:

- (a) The Bank will purchase JGBs so that their amount outstanding will increase at an annual pace of about 80 trillion yen. With a view to encouraging a decline in interest rates across the entire yield curve, the Bank will conduct purchases in a flexible manner in accordance with financial market conditions. The average remaining maturity of the Bank's JGB purchases will be about 7–12 years.
- (b) The Bank will purchase ETFs and J-REITs so that their amounts outstanding will increase at annual paces of about 3 trillion yen and about 90 billion yen, respectively.
- (c) 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.

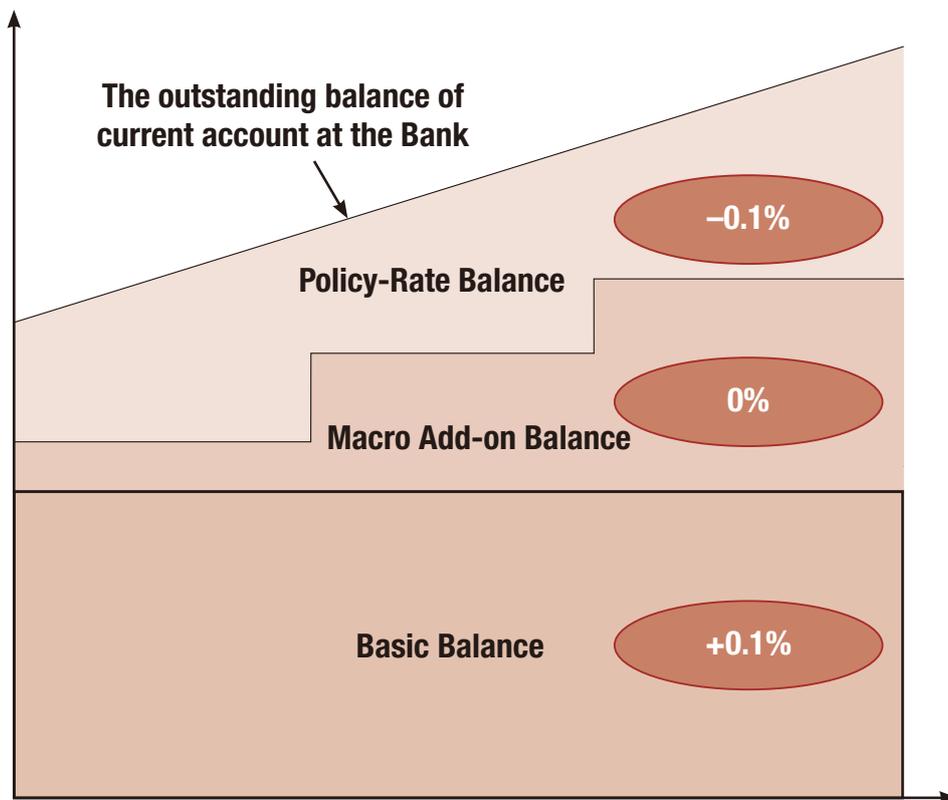
At the MPM held in March, the Policy Board decided to maintain the aforementioned

guideline for money market operations, the guidelines for asset purchases, and the policy rate.

With regard to the future conduct of monetary policy, the Policy Board confirmed the following at the MPMs held in October through December: "the Bank will continue with QQE, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine both upside and downside risks to economic activity and prices, and make adjustments as appropriate." At the MPMs held in January and March, the Policy Board confirmed that "the Bank will continue with QQE with a Negative Interest Rate, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will examine risks to economic activity and prices, and take additional easing measures in terms of three dimensions—quantity, quality, and the interest rate—if it is judged necessary for achieving the price stability target."

### KEY POINTS OF POLICY DECISIONS MADE AT THE MPM HELD ON JANUARY 29, 2016<sup>1</sup>

- The Introduction of QQE with a Negative Interest Rate
  - ◇ The Bank will apply a negative interest rate of minus 0.1 percent to current accounts that financial institutions hold at the Bank. It will cut the interest rate further into negative territory if judged as necessary.
  - ◇ The Bank will introduce a multiple-tier system which some central banks in Europe (e.g. the Swiss National Bank) have put in place. Specifically, it will adopt a three-tier system in which the outstanding balance of each financial institution's current account at the Bank will be divided into three tiers, to each of which a positive interest rate, a zero interest rate, or a negative interest rate will be applied.
- QQE with a Negative Interest Rate is designed to enable the Bank to pursue additional monetary easing in terms of three dimensions, combining a negative interest rate with quantity and quality.
  - ◇ The Bank will lower the short end of the yield curve and will exert further downward pressure on interest rates across the entire yield curve through a combination of a negative interest rate and large-scale purchases of JGBs.
  - ◇ The Bank will achieve the price stability target of 2 percent at the earliest possible time by making full use of possible measures in terms of the three dimensions.



Note: 1. For details, see "Introduction of 'Quantitative and Qualitative Monetary Easing with a Negative Interest Rate'" ([http://www.boj.or.jp/en/announcements/release\\_2016/k160129a.pdf](http://www.boj.or.jp/en/announcements/release_2016/k160129a.pdf)) and "Key Points of Today's Policy Decisions" ([http://www.boj.or.jp/en/announcements/release\\_2016/k160129b.pdf](http://www.boj.or.jp/en/announcements/release_2016/k160129b.pdf)).

### 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 both at home and abroad, including the slowdown in emerging economies and its impact on Japan's economy, as well as the underlying trend in inflation with declining energy prices.
- (2) The Bank conducted multi-perspective analysis on the effects and impacts of monetary policy, including the effect on inflation expectations. Based on the results of its analysis, the Bank planned and formulated monetary policy measures flexibly, introducing QQE with a Negative Interest Rate, and supplementary measures for QQE.
- (3) The Bank introduced a new framework for MPMs, which took effect in January 2016, to further enhance deliberations at MPMs and its communication on monetary policy. With a view to ensuring its financial soundness, the Bank expanded measures pertaining to the provision for possible losses on bonds transactions.
- (4) The Bank enhanced dialogue with market participants through, for example, the "Bond Market Group," the first meeting of which was held in June 2015. In addition, the Bank implemented a range of operational changes to the Securities Lending Facility with a view to further facilitating its money market operations. Specifically, the Bank included treasury discount bills (T-Bills) among the securities sold; also, for JGBs with coupons, it raised the upper limit

on the amount of sales per issue and extended the number of business days permitted for consecutive sales transactions per issue with the same counterparty.

- (5) Progress was made in fundamental research on the following: monetary policy; the macroeconomy; financial markets; legal and accounting systems, and information security, in the finance-related field; and monetary history. The Bank communicated its research findings to the public through the release of research papers and presentations at academic conferences both at home and abroad.

##### 2. Evaluation of progress

With a view to contributing to monetary policy conduct, the Bank conducted research and analysis from multiple perspectives regarding economic and financial conditions both at home and abroad; it also carried out multi-perspective analysis on the effects and impacts of monetary policy. Based on the results of its analysis, the Bank planned and formulated monetary policy measures flexibly, introducing measures including QQE with a Negative Interest Rate. In addition, the Bank enhanced dialogue with market participants through, for example, the "Bond Market Group." Due progress was also achieved by introducing a new framework for MPMs, expanding measures pertaining to the provision for possible losses on bonds transactions, and fine-tuning the content of money market operations and making changes to their implementation.

Based on the above, the Bank considers that, in fiscal 2015, it achieved its intended objective in terms of providing a firm underpinning for monetary policy conduct. In fiscal 2016, the Bank will continue to work to have the necessary arrangements in place to conduct

research and analysis that appropriately reflects changes in economic and financial conditions, to plan policy measures with flexibility, and to conduct money market operations properly.

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

### **1. Progress in implementing specific measures**

- (1) In line with the "On-Site Examination Policy for Fiscal 2015" decided by the Policy Board, the Bank stepped up its efforts to conduct on-site examinations more efficiently and effectively, and carried out examinations of 78 financial institutions. It conducted thorough assessments, for example, of financial institutions' business operations and the state of their property as well as their resilience against risks, including the actual business conditions of their financial group as a whole and the risk management of their overseas branches.
- (2) With regard to off-site monitoring, the Bank held in-depth interviews with financial institutions and secured a sound understanding of their business activities in areas where they had adopted a proactive risk-taking stance. It also continued to deepen its understanding of financial institutions' business conditions, such as business operations, risk management, and profitability. In particular, the Bank sharpened its focus on business conditions at systemically important financial institutions by taking into account the systemic implications of, for example, the active expansion of their global business and the accompanying risks.
- (3) In the *Financial System Report*, the Bank deepened its analysis regarding the stability and functioning of the financial system, while refining its macro stress testing exercises. It also presented its assessment of

challenges for and risks to the financial system from a macroprudential perspective, including those stemming from the effects of QQE with a Negative Interest Rate, and encouraged financial institutions to deal with these issues. In addition, the Bank continued to share awareness of challenges and risks, particularly with financial institutions, through the following initiatives: starting to release the *Financial System Report Annex Series*, which provided more detailed analysis of and insight into selected topics in the seven issues published in fiscal 2015 (partially available in English); and actively communicating with financial institutions and other relevant parties through seminars, 21 of which were held in fiscal 2015.

- (4) In line with the implementation of Basel III and other international financial regulations, the Bank revised the eligibility criteria for the selection of financial institutions to conduct transactions with the Bank, requiring internationally active banks to meet high capital adequacy and liquidity standards.
- (5) 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 2015—and sharing awareness of challenges and risks at all levels.
- (6) The Bank executed business operations for the Loan Support Program in an appropriate manner—for example streamlining operational frameworks and making arrangements for the first disbursement of loans to financial institutions without current accounts at the Bank.
- (7) With regard to sales of stocks purchased from financial institutions under authorization pursuant to the proviso of Article 43 of the Bank of Japan Act (hereafter the Act) commencing in April 2016, the

Bank decided to postpone the time of completion of sales from end-September 2021 to end-March 2026, so as to mitigate the effects of the sales on stock markets.

- (8) The Bank hosted large-scale seminars on topics such as financial institutions' corporate governance reform and support for start-up firms; it also held workshops on the advancement of financial technology and management through the utilization of IT.

## **2. Evaluation of progress**

The Bank enhanced its assessment particularly of business operations and risk management at financial institutions and facilitated necessary improvements through the following: in the *Financial System Report*, it presented 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 particular, the Bank sharpened its focus on business conditions at systemically important financial institutions taking into account the extent of any systemic implications and facilitated the necessary improvements. In addition, the Bank deepened dialogue with regional financial institutions on the key management issues and challenges facing them given their outlook on profitability.

The Bank implemented measures for the selection of financial institutions to conduct transactions with the Bank and the provision of loans with a view to ensuring financial system stability, while executing related business operations efficiently and in an appropriate manner. It also further strengthened cooperation on the macroprudential front with the relevant authority.

During fiscal 2015, there were no circumstances that required the Bank to provide loans pursuant to Articles 37 and 38 of the 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 the face of financial institutions' macro risks and structural changes in the financial system, thereby producing the intended effects. In fiscal 2016, the Bank will work strenuously to identify challenges and risks faced in maintaining and improving the stability and functioning of the financial system, and to deepen its understanding of the situation on the ground, for example, for business operations and risk management at financial institutions. The Bank will also work further to share with relevant parties a common understanding of the current situation and of challenges facing financial institutions and the financial system.

## **C. Enhance Payment and Settlement Services and Reinforce Market Infrastructure**

### **1. Progress in implementing specific measures**

- (1) The Bank implemented the second phase of the new Bank of Japan Financial Network System (BOJ-NET) project as scheduled in October 2015, and thereafter operated the system in a smooth and reliable manner. In February 2016, it extended the operating hours of the system until 9:00 p.m., as scheduled.
- (2) The Bank continued to conduct joint research and deliberations with other central banks and relevant parties toward realizing payment and settlement for cross-border transactions in yen or JGBs, broadly as scheduled.
- (3) The Bank encouraged the enhancement of Japan's retail payment systems through, for example, support for deliberations on the specifics of extending the operating hours of the Zengin Data Telecommunication System (Zengin System) as well as on realizing

financial electronic data interchange (EDI).

(4) The Bank conducted oversight of financial market infrastructures both at home and abroad in accordance with "The Bank of Japan Policy on Oversight of Financial Market Infrastructures." This involved assessing whether financial market infrastructures met the requirements set out in the "Principles for Financial Market Infrastructures (PFMIs)" and encouraging any improvements to operations and risk management measures needed to ensure observance.

(a) In July 2015, the Bank announced that, after conducting self-assessments, it confirmed that the BOJ-NET Funds Transfer System (BOJ-NET FTS) and BOJ-NET JGB Services met the requirements set out in the PFMIs.

(5) The Bank participated in various meetings held by the Financial Stability Board (FSB) regarding repo data collection and, in preparation for the start of the FSB's global data collection at the end of 2018, reached agreement with stakeholders both at home and abroad on an appropriate framework for Japan.

(6) The Bank supported market participants' efforts to move to a T+1 JGB settlement cycle for outright transactions.

(a) In June 2015, a working group at the Japan Securities Dealers Association (JSDA) announced that they agreed to set the first half of fiscal 2018 as the target period for implementing the T+1 settlement cycle for outright transactions of JGBs.

(7) The Bank contributed to discussions with market participants on the reform of interest rate benchmarks, as follows.

(a) As for the TIBOR reforms, the Bank assisted in public consultation conducted by the Japanese Bankers Association (JBA) TIBOR Administration

and other initiatives.

(b) In its role as the secretariat of the Study Group on Risk-Free Reference Rates, which held its first meeting in April 2015, the Bank organized and participated in ten meetings during fiscal 2015, while also supporting market participants' initiatives including public consultation conducted in March 2016.

(8) The Bank cooperated 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 2015, the Bank provided loans to exercise participants from the money market, securities markets, and foreign exchange market through Funds-Supplying Operations against Pooled Collateral.

## 2. Evaluation of progress

The Bank implemented the second phase of the new BOJ-NET project as scheduled, and thereafter operated the system in a smooth and reliable manner. It extended the operating hours of the system until 9:00 p.m., as scheduled. The Bank continued to support initiatives toward realizing payment and settlement for cross-border transactions and improving Japan's retail payment systems, broadly as scheduled.

The Bank reached agreement with stakeholders both at home and abroad on the appropriate repo data collection framework for Japan and supported market participants' initiatives toward, for example, the shortening of the JGB settlement cycle, TIBOR reforms, and deliberations on risk-free reference rates.

Based on the above, the Bank considers that it made steady progress in fiscal 2015 in terms of measures taken to contribute to the enhancement of payment and settlement services and the reinforcement of financial

market infrastructure in Japan. In fiscal 2016, it will continue to work to realize payment and settlement for cross-border transactions that makes effective use of the BOJ-NET and to support market participants' initiatives to reform 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 money market operations appropriately in accordance with the guidelines decided at MPMs for money 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 improved the method of monitoring the cleanliness of banknotes in circulation, as planned.
- (3) The Bank moved forward, as scheduled, with the replacement of automatic banknote examination machines, taking a new model out of its trial phase and putting it into full-scale operation.
- (4) The Bank continued to maintain a firm grasp of changes in cash delivery routes and conducted cash transportation and other operational procedures efficiently.
- (5) In April 2015, the Bank started, as planned, the receipt and payment of coins at a coin delivery center outside the Bank's premises managed by a private security and transportation company.
- (6) The Bank carried out a wide range of treasury funds

and Japanese government securities (JGS) services with precision.

- (7) The Bank implemented, as scheduled, the necessary changes to the JGB book-entry system accompanying the across-the-board revisions to the tax system for Japanese bonds as well as the introduction of the Social Security and Tax Number System (the My Number system) for all residents in Japan.
- (8) In cooperation with the relevant ministries and government agencies, the Bank contributed to the smooth issuance of government bonds as special condolence to the bereaved families of the war dead for the tenth time, starting from October 2015.

### **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 money market operations appropriately in accordance with the guidelines decided at MPMs.

As for business operations relating to banknote issuance, the Bank made progress in securing confidence in banknotes and coins. For example, a new model of automatic banknote examination machines was taken out of its trial phase and put into full-scale operation, and the receipt and payment of coins was started at a coin delivery center outside the Bank's premises, as planned. The Bank also continued to review its operational frameworks to reflect changes in cash delivery routes, thereby improving efficiency.

The Bank carried out a wide range of treasury funds and JGS services with precision, while implementing institutional changes and reviewing its business processes.

Based on the above, the Bank considers that, in fiscal 2015, it achieved the desired results in terms of

conducting stable and efficient central banking operations, while reviewing its business processes in response to changes in its operational environment. In fiscal 2016, the Bank will continue constantly to pursue excellence in central banking services, in view of trending changes in both the quality and quantity of its operations.

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

### **1. Progress in implementing specific measures**

(1) The Bank, as the central bank of Japan, actively participated in meetings such as those organized by the Bank for International Settlements (BIS), the FSB, the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), the Group of Twenty (G-20), the Group of Seven (G-7), the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), and the Association of Southeast Asian Nations Plus Three (ASEAN Plus Three), thereby achieving the following.

- (a) The Bank played a part in discussions at global forums on fostering economic growth as well as on strengthening the robustness of the financial system based on its analysis of current overseas economic and financial developments, while also promoting understanding of its conduct of monetary policy.
- (b) Through participation in discussions on financial regulation and supervision, the Bank, in cooperation with the FSA, contributed to progress on international financial regulatory reform that reflected Japan's viewpoints.
- (c) In the fields of global financial markets, financial

market infrastructures, interest rate benchmarks, the code of conduct for foreign exchange markets, and statistics, the Bank contributed, for example, by writing and compiling various reports.

- (d) At EMEAP-related meetings, the Bank played a key role in research and analysis on economic and financial conditions as well as on payment and settlement systems in the Asian region.
  - (e) At some EMEAP- and BIS-related committees, the Bank's staff played leading roles, for example, by moderating discussions as the chair.
  - (f) 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 the compilation of reports by presenting papers at related workshops.
- (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 opinion with major central banks as well as active strengthening of relations with monetary authorities in Asia.
- (4) With regard to international monetary cooperation, the Bank signed a bilateral local currency swap arrangement with the Reserve Bank of Australia in March 2016, establishing provisions that allowed for the extension of loans in Australian dollars in an emergency situation, after due consideration and efforts to coordinate the provision of a liquidity backstop to meet the local currency funding needs of Japanese financial institutions operating in overseas

economies. 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 at the Bank as collateral, the Bank proceeded with its consideration of and efforts to coordinate an expansion in the number of Asian partners participating in such arrangements.

- (5) Under the framework of ASEAN Plus Three, the Bank, as the central bank of the co-chair country, together with the Ministry of Finance, played a key role in coordinating research on the operational details of, and jointly conducting currency swap exercises based on, the Chiang Mai Initiative Multilateralization (CMIM).
- (6) The Bank contributed to the stability and development of financial and capital markets in Asia and established and strengthened medium- to long-term relationships with overseas authorities through providing technical assistance, holding seminars, and exchanging personnel, mainly with other central banks in Asia. Of the personnel exchanges, 32 involved receiving staff (371 people) from these central banks, while nine involved sending the Bank's staff to overseas counterparts.

## **2. Evaluation of progress**

The Bank, as the central bank of Japan, actively participated in meetings such as those organized by the BIS and the EMEAP on topics including financial regulation, financial markets, and financial market infrastructures, and contributed to discussions toward ensuring the stability of the international currency and financial system, both as interested participant and as moderator. It boosted bilateral monetary cooperation in the Asian region and provided technical assistance, most of which also went to the Asian region. The Bank

maintained and strengthened cooperation with overseas authorities, especially central banks, and obtained 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, in fiscal 2015, it made the requisite contribution as the central bank of Japan with regard to ensuring the stability of the international currency and financial system as well as securing the stability and development of financial and capital markets in Asia. In fiscal 2016, it will continue to 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 by holding working-level meetings with financial institutions that hold current accounts at the Bank as well as ministries and government agencies, as necessary.
  - (a) The Bank continued, as appropriate, to exchange banknotes and coins damaged by the Great East Japan Earthquake.
- (2) At its Head Office as well as Sendai, Kagoshima, and Naha 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 gained 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 made use of its findings in conducting monetary policy.

- (a) With regard to demand for rebuilding and reconstruction following the disaster caused by the Great East Japan Earthquake, the Bank maintained a thorough grasp of the situation by making use of its network of branches and offices in the disaster-stricken areas, such as in Sendai City and Fukushima City.
- (4) The Bank disseminated the results of its research and analysis on regional economic developments as well as the thinking behind its policies and business operations to each region by, for example, organizing speeches and undertaking other public relations activities. Moreover, it compiled and released each quarter its findings from research and analysis on regional economic developments in the *Regional Economic Report*.
- (5) In fiscal 2015, the Bank's Center for Advanced Financial Technology (CAFT) hosted the following seminars and workshops targeted mainly at regional financial institutions: five seminars on the enhancement of business management and 14 workshops on private finance initiatives (PFIs) and public-private partnerships (PPPs) as well as on support for start-up firms. The Bank also conducted in-depth analysis of management issues and challenges facing regional financial institutions and of their risk management practices, and released its findings in the *Financial System Report Annex Series* (partially available in English).

## 2. Evaluation of progress

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

Based on the above, the Bank considers that, in fiscal 2015, it made the requisite contribution 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 2016, 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 developments and disseminate related information, while giving due consideration to regional revitalization.

## G. Strengthen External Communication

### 1. Progress in implementing specific measures

- (1) In accordance with the Act, the Bank kept the public fully informed regarding its conduct of monetary policy and business operations via the following.
- (a) Releasing the minutes and transcripts of MPMs.
- (b) Submitting two issues of the *Semiannual Report on Currency and Monetary Control* to the Diet in fiscal 2015, in June and December, and releasing the full texts of these two issues in Japanese as well as the summaries in English on the Bank's website.<sup>5</sup>
- (c) Publishing the *Gyōmu Gaikō Shō* (Outline of

5. Excerpts from the summaries of the two issues of the report dealing with developments in fiscal 2015, namely, the issues released in December 2015 and June 2016, can be found on pages 30–36.

Business Operations) for fiscal 2014 in May 2015.

(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 Policy," the *Outlook for Economic Activity and Prices* released in April and October 2015 as well as in January 2016, press conferences, speeches, and articles contributed by the Governor, Deputy Governors, and Members of the Policy Board.

(b) A document that contained a summary of the opinions presented at each MPM (Summary of Opinions), releases of which began from January 2016.

(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 (SNS), thereby disseminating a steady stream of up-to-date information to a wider audience. The number of page views on the Bank's websites was around 221 million, of which around 51 million were made to its English-language website. The number of page views on its branches' websites was around 5.7 million in total. Followers of the Bank's Twitter accounts totaled around 112,000.

(b) The Bank enhanced the content of *Nichigin*, its public relations magazine (available only in

Japanese), by increasing both the number of articles addressing its business operations and the range of their coverage.

(c) The Bank enhanced the content of in-house tours of its Head Office and branches by, for example, adding exhibits. The total number of in-house tour visitors to the Head Office was around 40,000, while branches received around 27,000. The Bank, at its Head Office, sought to improve the accessibility of its services for visitors with disabilities.

(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 109 entries, as well as public lectures about the Bank's business operations and feature exhibitions on some of its branches.

(e) The Bank gave lectures to college students on the functions and operations of the Bank. In addition to 25 on-campus lectures, it offered 33 in-house lectures combined with tours of the Bank's Head Office.

(4) The Bank actively released information on its conduct of monetary policy and business operations in English. In addition, the Bank strengthened its dissemination of English-language materials through initiatives including (1) the provision of a more detailed explanation about its monetary policy conduct in the *Annual Review*, namely on the transmission mechanism and effects of QQE, and (2) the launch of

- a new English web page entitled Bank of Japan FAQs giving helpful answers to frequently asked questions about its policies and business operations.
- (5) The Bank worked to gain a better grasp of public opinion as well as public needs regarding its policies and business operations from people across a wide range of fields via the following.
- (a) Holding more meetings and dialogues with financial institutions, firms, economic organizations, academics, and other parties concerned in the Bank's business operations.
- (b) Provision of pertinent responses to around 5,300 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 proceeded steadily with renewing the design and content of its website.
- (7) The Bank's Currency Museum was renovated and reopened in November 2015 as scheduled. Introducing the latest facilities, the renovation reflected the fruits of archaeological excavation as well as advances in academic theories during the 30 years since the Museum's opening. The number of visitors to the Museum totaled 43,259 during fiscal 2015 (from its reopening on November 21, 2015 to the end of March 2016).
- (8) The Bank operated the Bank of Japan Otaru Museum appropriately. The number of visitors to the Museum during fiscal 2015 totaled 96,942, marking another year around the 100,000 level.
- (9) The Bank responsibly managed the activities of its Archives, which have the status of "the National Archives of Japan, etc." as stipulated in the Public Records and Archives Management Act as well as the order for enforcement of this Act. A total of 4,068 historical official documents were added to the Archives, and there were a total of 183 requests for access.
- (10) The Bank made public the findings of its research and analysis on economic and financial developments, releasing ten papers in the *Bank of Japan Review Series*, 20 in the *Bank of Japan Working Paper Series*, 28 in the *Institute for Monetary and Economic Studies (IMES) Discussion Paper Series*, seven in the *Bank of Japan Research Laboratory Series*, and twelve research papers. The total number of papers released in fiscal 2015 exceeded that in fiscal 2014.
- (11) The Bank held the following conferences at its Head Office.
- (a) In June 2015, the IMES hosted an international conference entitled "Monetary Policy: Its Effects and Implementation."
- (b) In November 2015, the Bank and the University of Tokyo co-hosted a conference entitled "Japan's Inflation Dynamics and Agents' Behavior."
- (12) The Bank revised, rebased, and made appropriate enhancements to the statistics it compiled so as to accommodate changes in the economic and regulatory environment.
- (a) In March 2016, the Bank commenced release of the revised Flow of Funds Accounts Statistics (FFA) based on the System of National Accounts 2008 (2008 SNA), the latest version of the international statistical standards for the national accounts.
- (b) The Bank proceeded with rebasing the Corporate Goods Price Index (CGPI), including updating the reference year of the index from 2010 to 2015, and released the basic principles for the rebasing in December 2015 (available only in Japanese).

- (c) As for the BIS statistics, namely, the International Locational Banking Statistics and International Consolidated Banking Statistics, the Bank added some new items and released these statistics for Japan in June 2015.
- (d) In line with the introduction of QQE with a Negative Interest Rate, the Bank enhanced data on BOJ Current Account Balances by Sector and commenced release of data on current account balances by the different interest rate applied in February 2016.<sup>6</sup>
- (13) Through the following measures, the Bank promoted an in-depth understanding of the statistics it compiled.
- (a) The Bank released in March 2016 a research paper that provided details of the major changes resulting from the revision of the FFA.
- (b) The Bank revised and released in April 2015 the explanation on the *Tankan* (Short-Term Economic Survey of Enterprises in Japan) to reflect the revision of the sample.
- (14) The Bank strengthened its cooperation with the government by taking part in the Statistics Commission, established in the Cabinet Office pursuant to the Statistics Act (Act No. 53 of 2007), and by actively contributing to development as well as improvement in the accuracy of official statistics.
- (15) As the secretariat of the Central Council for Financial Services Information (CCFSI), the Bank supported the CCFSI's efforts to develop a range of activities to provide financial information to the public. Specifically, in cooperation with Local Financial Services Information Committees and other relevant parties such as ministries, local public bodies, and financial and economic organizations, the Bank

arranged for the content of financial education due to be shared among CCFSI members and related organizations to be systematically organized through the following actions.

- (a) As the secretariat to the Committee for the Promotion of Financial Education, the CCFSI partially revised in June 2015 the "Financial Literacy Map," which specified and systematically organized the contents of financial education by age group.
- (b) By establishing an advisory panel of experts for the promotion of financial education at schools, the CCFSI carried out a comprehensive revision of the "Financial Education Program" (available only in Japanese) in February 2016 to reflect the existing curriculum guidelines as well as good practice at schools.

## 2. Evaluation of progress

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

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

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

As the secretariat of the CCFSI, and in cooperation with relevant parties, the Bank supported the CCFSI's efforts to develop a range of activities to provide

<sup>6</sup> For details, see "Key Points of Policy Decisions Made at the MPM Held on January 29, 2016" on page 37.

financial information to the public, thereby contributing to the promotion of financial literacy among the public.

Based on the above, the Bank considers that, in fiscal 2015, it steadily implemented the measures scheduled under its strategic objective of strengthening external communication. In fiscal 2016, the Bank will proceed with renewing the design and content of its website.

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