

The Bank's Review of Fiscal 2017

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I. INTRODUCTION

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

This section provides a brief review of economic and financial developments and decisions made at Monetary Policy Meetings (MPMs) in fiscal 2017, 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 2017 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 2017" (see pages 47–50).

The Strategic Priorities states that the Bank shall conduct an interim review of the content of the Strategic Priorities during the five-year period in order to address any changes in its environment and revise the content flexibly in response to any significant such changes. In fiscal 2016, the Bank conducted the interim review and decided to maintain the current content. A thorough review of the entire content of the Strategic Priorities will be conducted separately.

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

A. First Half of Fiscal 2017 (April–September 2017)

1. Economic developments

- a. Looking back at the first half of fiscal 2017, Japan's economy was expanding moderately, with a virtuous cycle from income to spending operating.

Exports followed an increasing trend on the back of growth in overseas economies. Turning to domestic demand, public investment increased, and housing investment was more or less flat.

Business fixed investment was on a moderate

increasing trend, with corporate profits improving. Private consumption increased its resilience against the background of steady improvement in the employment and income situation. Reflecting these developments in demand both at home and abroad, industrial production followed an increasing trend.

- b. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) was in the range of 0.5–1.0 percent, with the rate of increase accelerating. Inflation expectations remained in a weakening

1. For the text of "The Bank of Japan's Strategic Priorities for Fiscal 2014–2018," see Appendix 2 on pages 82–87.

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 2017 and June 2018. The full texts of both issues in Japanese and summaries in English are available on the Bank's website.

phase, although some indicators showed an uptrend in such expectations, after hitting bottom around summer 2016.

2. Financial developments

- a. Money market rates were at low levels on the whole.

Turning to developments in the bond market, the long-term interest rate was stable at the target level of around zero percent under Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control.

The Nikkei 225 Stock Average rose, mainly on the back of favorable corporate earnings, amid a rise in stock prices in the United States and Europe, and was in the range of 20,000–20,500 yen at end-September.

In the foreign exchange market, the yen was more or less flat against the U.S. dollar, albeit with fluctuations, and was in the range of 112–113 yen at end-September. The yen continued to depreciate against the euro with uncertainties regarding political situations in Europe abating, and was in the range of 132–133 yen at end-September.

- b. As for corporate finance, in terms of credit supply, financial institutions' lending attitudes as perceived by firms were highly accommodative.

Firms' credit demand increased, mainly for funds related to mergers and acquisitions and funds for business fixed investment. With regard to firms' funding, the year-on-year rate of increase in the amount outstanding of lending by domestic commercial banks accelerated at a moderate pace, and was at around 3 percent as of September. The year-on-year rates of change in

the amounts outstanding of CP and corporate bonds were positive at relatively high levels.

- c. The monetary base (currency in circulation plus current account balances at the Bank) continued to increase at a high year-on-year growth rate in the range of 15–20 percent. The year-on-year rate of change in the money stock (M2) was at around 4 percent.

3. MPMs³

- a. Four MPMs were held in the first half of fiscal 2017.

At the MPMs held in April and June, the Policy Board judged that Japan's economy was turning toward a moderate expansion. At the MPMs held in July and September, it judged that the economy was expanding moderately, with a virtuous cycle from income to spending operating.

- b. In the conduct of monetary policy, at all the MPMs held in the first half of fiscal 2017, the Policy Board decided to continue with the following guidelines for market operations and asset purchases under QQE with Yield Curve Control determined at the MPM held in September 2016.

(1) Yield curve control

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

The short-term policy interest rate:

The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

The long-term interest rate:

The Bank will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero percent. With regard to the

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

amount of JGBs to be purchased, the Bank will conduct purchases at more or less the current pace—an annual pace of increase in the amount outstanding of its JGB holdings of about 80 trillion yen—aiming to achieve the target level of the long-term interest rate specified by the guideline.

(2) Guidelines for asset purchases

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

- (a) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively.
- (b) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

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 2017: "the Bank will continue with QQE with Yield Curve Control, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. The Bank will make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target."

B. Second Half of Fiscal 2017 (October 2017–March 2018)

1. Economic developments

- a. Looking back at the second half of fiscal 2017, Japan's economy was expanding moderately, with a virtuous cycle from income to spending operating.

Exports followed an increasing trend on the back of firm growth in overseas economies. Turning to domestic demand, housing investment weakened somewhat after having been more or less flat, and public investment was more or less flat, remaining at a relatively high level. On the other hand, business fixed investment was on an increasing trend with corporate profits and business sentiment maintaining their improving trend. Private consumption increased moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation. Reflecting these developments in demand both at home and abroad, industrial production followed an increasing trend.

- b. On the price front, the year-on-year rate of change in the CPI (all items less fresh food) was around 1 percent, with the rate of increase accelerating. Inflation expectations were more or less unchanged, after having remained in a weakening phase since summer 2015.

2. Financial developments

- a. Money market rates were at low levels on the whole.

Turning to developments in the bond market, the long-term interest rate was stable at the target level of around zero percent under QQE with Yield Curve Control.

The Nikkei 225 Stock Average rose to the

range of 24,000–24,500 yen in late January, mainly on the back of favorable corporate earnings, amid a rise in stock prices in the United States and Europe. It then temporarily declined substantially with a global fall in stock prices in early February and remained more or less flat thereafter, albeit with fluctuations, being in the range of 21,000–21,500 yen at end-March.

In the foreign exchange market, the yen was more or less flat against the U.S. dollar through end-2017, and then appreciated amid the dollar depreciating against many currencies. Thereafter, the yen continued to appreciate against the U.S. dollar, mainly reflecting buying of yen as safe assets with a global fall in stock prices in early February, and was in the range of 106–107 yen at end-March. The yen was more or less flat against the euro, with fluctuations smoothed out.

- b. As for corporate finance, in terms of credit supply, financial institutions' lending attitudes as perceived by firms were highly accommodative.

Firms' credit demand increased, mainly for funds for business fixed investment. With regard to firms' funding, the year-on-year rate of increase in the amount outstanding of lending by domestic commercial banks was in the range of around 2.0–2.5 percent. The year-on-year rates of change in the amounts outstanding of CP and corporate bonds were positive at relatively high levels.

- c. The monetary base continued to increase at a high year-on-year growth rate in the range of around 10–15 percent. The year-on-year rate of change in the M2 was in the range of 3.0–4.0 percent.

3. MPMs⁴

- a. Four MPMs were held in the second half of fiscal 2017.

At all the MPMs held in the second half of fiscal 2017, the Policy Board judged that Japan's economy was expanding moderately, with a virtuous cycle from income to spending operating.

- b. In the conduct of monetary policy, at all the MPMs held in the second half of fiscal 2017, the Policy Board decided to continue with the following guidelines for market operations and asset purchases under QQE with Yield Curve Control determined at the MPM held in September 2016.

(1) Yield curve control

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

The short-term policy interest rate:

The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

The long-term interest rate:

The Bank will purchase JGBs so that 10-year JGB yields will remain at around zero percent. With regard to the amount of JGBs to be purchased, the Bank will conduct purchases at more or less the current pace—an annual pace of increase in the amount outstanding of its JGB holdings of about 80 trillion yen—aiming to achieve the target level of the long-term interest rate specified by the guideline.

(2) Guidelines for asset purchases

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

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

- (a) The Bank will purchase ETFs and J-REITs so that their amounts outstanding will increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively.
- (b) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

With regard to the future conduct of monetary policy, the Policy Board confirmed the following at all the MPMs held in the second half of fiscal 2017: "the Bank will continue with QQE with Yield

Curve Control, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. The Bank will make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target."

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 following: developments in overseas economies and global financial markets, as well as their implications for Japan's economy; the determinants of wages in Japan; and the impact on prices of firms' measures to address labor shortages by improving productivity.
- (2) The Bank conducted multi-perspective analysis on the effects and impacts of monetary policy, focusing on the policy effects of QQE with Yield Curve Control, as well as the mechanism of inflation expectations formation. In addition, the Bank decided to extend the duration of operations such as the Fund-Provisioning Measure to Stimulate Bank Lending.
- (3) The Bank enhanced dialogue with market participants through the following initiatives.
 - (a) The Bank actively exchanged opinions on such occasions as the "Meeting on Market Operations" and the "Bond Market Group," each of which was held twice in fiscal 2017.
 - (b) The Bank expanded the diversity of its *Bond Market Survey* respondents and enhanced the content of *Liquidity Indicators in the JGB Markets*, with a view to broadening and deepening its perspective on bond market liquidity and functioning and to facilitating dialogue with market participants.
- (4) Progress was made in fundamental research on the following: monetary policy; the macroeconomy; financial markets; legal and accounting systems, and 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 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. In light of its analysis, the Bank planned and formulated monetary policy measures flexibly. In addition, the Bank enhanced dialogue with market participants through, for example, the "Meeting on Market Operations" and the "Bond Market Group," and made steady adjustments to its operational arrangements so as to ensure that monetary policy continued to be conducted appropriately.

Based on the above, the Bank considers that, in fiscal 2017, it achieved its intended objectives in implementing measures and provided a firm underpinning for monetary policy conduct. In fiscal 2018, 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 flexibly, and to conduct market operations properly.

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

1. Progress in implementing specific measures

- (1) In line with the "On-Site Examination Policy for Fiscal 2017," the Bank conducted on-site examinations of financial institutions flexibly and efficiently in light of the extent of their influence on the financial system and their risk profiles; it also conducted "targeted on-site examinations" that had a more limited scope in terms of areas subject to examination, so as to allow the Bank efficiently and effectively to ascertain and assess the profitability of regional financial institutions and examine their management of market risk. Under this policy, the Bank carried out examinations of 100 financial institutions. It conducted thorough assessments, for example, of financial institutions' business operations and asset quality as well as their profitability and resilience against risks, including the actual business conditions of their financial group as a whole and the risk management of their overseas branches and subsidiaries.
- (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 gained a better grasp of the effects and impacts on financial institutions of QQE with Yield Curve Control and continued to deepen its understanding of their business conditions, such as business operations, risk management, and profitability. In addition, 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 such as those associated with the need to ensure foreign currency liquidity. It also encouraged such institutions' efforts to improve their risk management, for example, through exchanging views with them.

- (3) In the two issues of the 2017 *Financial System Report*, released in April and October, the Bank, while refining scenarios for its macro stress testing and enhancing its analysis, examined financial intermediation by Japanese financial institutions and current conditions in the financial system; it also conducted assessments that focused particularly on the structural factors behind as well as the impacts of low profitability and intensified competition among financial institutions. In addition, the Bank continued to share awareness of challenges and risks, particularly with financial institutions, through the following initiatives in fiscal 2017: releasing four issues of the *Financial System Report Annex Series* providing more detailed analysis of and insight into selected topics; actively communicating with financial institutions, analysts, the media, academics, and other relevant parties, mainly through holding seminars and giving presentations at various international meetings (there were 80 such occasions in total); and pursuing dialogue with the boards of directors of financial institutions through on-site examinations and off-site monitoring.
- (4) The Bank further strengthened cooperation on the macroprudential front with the Financial Services Agency (FSA) by, for example, holding regular joint meetings—twice in fiscal 2017—and sharing awareness of challenges and risks at all levels.
- (5) The Bank continued its stable execution of business operations for the Loan Support Program.
- (6) The Bank, with a view to maintaining an appropriate

grasp of business operations and asset quality at financial institutions with which it conducts transactions, made revisions to the "Inquiries Agreement" and related rules such as the "Criteria for Parties Eligible to Hold Current Accounts with the Bank and That Have Access to the Bank's Lending."

- (7) The Bank hosted large-scale seminars on topics such as operational reforms. It also held, for example, a series of workshops on utilizing IT to advance financial technology and various regional workshops.

2. Evaluation of progress

The Bank conducted thorough assessments particularly of business operations and risk management at financial institutions and facilitated necessary improvements through the following: 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 addition, the Bank deepened dialogue with regional financial institutions on the key management issues and challenges facing them, such as strengthening their core profitability in an environment of low interest rates and population decline. Moreover, it sharpened its focus on business conditions at systemically important financial institutions, taking into account the extent of their systemic implications, and facilitated necessary improvements.

The Bank carried out, in an efficient and appropriate manner, the selection of financial institutions with which to conduct transactions as well as business operations relating to the provision of loans. It also further strengthened cooperation on the macroprudential front with the relevant authority.

During fiscal 2017, there were no circumstances that

required the Bank to provide loans pursuant to Articles 37 and 38 of the Bank of Japan Act.

Based on the above, the Bank considers that it steadily tackled challenges in maintaining and improving the stability and functioning of the financial system in the face of financial institutions' macro risks and structural changes in the financial system, and that its intended effects were thereby achieved. In fiscal 2018, 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, regarding 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 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) Looking to enhance Japan's payment and settlement services using the Bank of Japan Financial Network System (BOJ-NET), the Bank implemented the following initiatives in consultation with financial institutions and relevant parties.

(a) In April 2017, the Bank released the results of a survey on cross-border yen payment services provided by banks, which was conducted to research and analyze potential demand by firms for such services as well as issues involved in offering them during the evening and night hours in Japan.

(b) The Bank established the operational framework necessary to implement Global Access, which

allows BOJ-NET participant financial institutions access to the BOJ-NET from terminals in their overseas offices, and began accepting applications in December 2017.

- (2) The Bank continued with its deliberations and coordination with other central banks and relevant parties regarding issues that remain on the way to realizing payment and settlement for cross-border transactions in yen or JGBs. In April 2018, the Bank announced that in fiscal 2018 it will commence preparation with the Hong Kong Monetary Authority toward implementation of a cross-border delivery-versus-payment (DVP) link between BOJ-NET JGB services and the Hong Kong Dollar Clearing House Automated Transfer System (HKD CHATS).
- (3) The Bank worked toward the enhancement of Japan's retail payment systems through, for example, support for deliberations on 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 participated in various meetings held by the Financial Stability Board (FSB) regarding collection of trading data, such as on repos, and made steady progress with preparations for the start of the FSB's global data collection at the end of 2018, holding three seminars for reporting institutions in fiscal 2017.
- (5) The Bank supported market participants' efforts to move to a T+1 JGB settlement cycle for outright transactions, which was implemented in May 2018. At the same time, settlement for JGB auctions was also shifted, in principle, to a T+1 settlement cycle, and the Bank proceeded steadily with preparations to achieve this.
- (6) In light of the development of the FX Global Code,

the Bank released a Statement of Commitment to the code in January 2018, and encouraged market participants in Japan to similarly demonstrate adherence to the code.

- (7) The Bank contributed to discussions with market participants on the reform of interest rate benchmarks, as follows.
 - (a) The Bank assisted in the implementation of the Japanese Bankers Association (JBA) TIBOR reform by the JBA TIBOR Administration, which took effect in July 2017.
 - (b) The Bank supported market participants' initiatives in its role as the secretariat of the Study Group on Risk-Free Reference Rates.
- (8) The Bank continued to cooperate in the conduct of more practical exercises to test business continuity arrangements across markets; specifically, upon request from market participants, in the market-wide joint exercise in October 2017, the Bank provided loans to exercise participants from the money market, securities markets, and foreign exchange market through Funds-Supplying Operations against Pooled Collateral.
- (9) The Bank's FinTech Center played a leading role in collecting and communicating information as well as carrying out related research through, for example, the FinTech Forum—twice in fiscal 2017—and a conference on artificial intelligence (AI) and financial services in April 2017. Moreover, the Bank and the European Central Bank (ECB) conducted joint research on the possible use of distributed ledger technology for market infrastructure and released their findings in September 2017 and March 2018.

2. Evaluation of progress

The Bank made progress broadly as scheduled in:

- (1) the implementation of initiatives toward the

enhancement of payment and settlement services, for example through commencing the acceptance of applications for Global Access; and (2) deliberations and coordination with other central banks and relevant parties regarding issues that remain on the way to realizing payment and settlement for cross-border transactions in yen or JGBs.

As for the reinforcement of the infrastructures of financial and capital markets, the Bank steadily proceeded with efforts relating to the demonstration of adherence to the FX Global Code and advanced measures for the collection of trading data, such as on repos. It also supported market participants' initiatives on shortening the JGB settlement cycle, TIBOR reform, and the introduction of risk-free reference rates.

Meanwhile, the Bank also collected and communicated information and carried out research related to FinTech in an appropriate manner.

Based on the above, the Bank considers that it made steady progress in fiscal 2017 in terms of measures taken to contribute to the enhancement of payment and settlement services and the reinforcement of the infrastructures of financial and capital markets in Japan. In fiscal 2018, the Bank will continue to support market participants' efforts to move to a T+1 JGB settlement cycle for outright transactions, and to facilitate deliberations on the use of risk-free reference rates. In addition, it will continue efforts to encourage market participants to demonstrate adherence to the FX Global Code as well as to support their initiatives toward the collection of trading data, such as on repos. The Bank will also work to collect and communicate information, and to carry out research related to FinTech.

D. Conduct Stable and Efficient Central Banking Operations

1. Progress in implementing specific measures

- (1) The Bank continued, on a daily basis, to settle financial transactions involving current account deposits that financial institutions hold at the Bank in an accurate and stable manner, and conducted market operations appropriately in accordance with the guidelines decided at MPMs for market operations and asset purchases.
- (2) The Bank ensured the smooth supply of clean banknotes from its Head Office and branches and maintained the cleanliness of banknotes in circulation by examining the banknotes it received. As part of the process, it continued to monitor and improve the level of the cleanliness of banknotes in circulation.
- (3) The Bank moved forward, as scheduled, with the replacement of automatic banknote examination machines, continuing with installations of the new model at its branches.
- (4) The Bank continued to maintain, by gathering information from relevant parties, a firm grasp of changes in cash delivery routes and conducted cash transportation and other operational procedures efficiently.
- (5) The receipt and payment of coins at a coin delivery center outside the Bank's premises managed by a private security and transportation company were carried out smoothly. With a view to further smoothing the circulation of coins, the Bank released revised guidelines (available only in Japanese) for their receipt and payment, which took effect in April 2018.

There was, however, an incident of misconduct in which an employee of the Bank stole commemorative coins held at the Bank's Head Office.

- (6) The Bank carried out a wide range of treasury funds and Japanese government securities (JGS) services with precision, while working toward more streamlined online processing of treasury funds.
- (7) 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 10th time.

2. Evaluation of progress

With regard to banking operations, the Bank continued to settle financial transactions involving current account deposits that financial institutions hold at the Bank in an accurate and stable manner, and conducted market operations appropriately in accordance with the guidelines decided at MPMs.

As for business operations relating to banknotes, the Bank made progress in securing confidence in banknotes, for example, proceeding smoothly with replacing automatic banknote examination machines with the new model. The Bank also made progress in firmly grasping the current situation of cash circulation by gathering information from relevant parties. Progress was also made in business operations relating to coins; the receipt and payment of coins at a coin delivery center outside the Bank's premises were carried out smoothly. However, public confidence in the stability of the Bank's business operations was undermined by an employee's misconduct involving commemorative coins.

The Bank carried out a wide range of treasury funds and JGS services with precision, while working toward more streamlined online processing of treasury funds.

Based on the above, the Bank considers that, in fiscal 2017, it conducted stable and efficient central banking operations overall, while reviewing its business processes in response to changes in its operational

environment. As regards business operations relating to coins, the Bank reviewed and revised its operational framework so as to prevent any recurrence of misconduct and to ensure strict compliance with the rules in handling coins. In fiscal 2018, the Bank, through these efforts, will work to restore public confidence in the stability of its business operations. It will also 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, including building a consensus on finalizing the Basel III reforms.
- (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-, BIS-, and FSB-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 discussions at the global level, for example, through the presentation of papers at related conferences.
- (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 and other relevant parties as well as active strengthening of relations with monetary authorities in Asia.
 - (4) With regard to international monetary cooperation, the Bank continued with necessary deliberation on and coordination of the provision of liquidity backstops to meet the local currency funding needs of Japanese financial institutions operating overseas; for example, it enhanced the practicability of its bilateral local currency swap arrangements with the Reserve Bank of Australia and with the Monetary Authority of Singapore. As for the establishment of a cross-border collateral arrangement, whereby the central bank in a partner country provides liquidity in the local currency utilizing JGSs and Japanese yen held in custody at the Bank as collateral, the Bank proceeded to consider and coordinate an expansion in the number of Asian partners participating in such arrangements.
 - (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, for example, by taking the lead in the planning and management of currency swap exercises based on the Chiang Mai Initiative Multilateralization (CMIM).
 - (6) The Bank made appropriate arrangements for and co-hosted international meetings, including the 50th Annual Meeting of the Asian Development Bank (ADB) in Yokohama and a BIS central bank governors' meeting, both held in May 2017.
 - (7) The Bank contributed to the stability and development of financial and capital markets in Asia and established and strengthened medium- to long-term relationships with overseas authorities through providing technical assistance, holding seminars, and exchanging personnel, mainly with other central banks in Asia. Of these interactions, 55 involved staff being sent from other central banks (491 people), while 12 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 2017, 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 2018, the Bank will proceed with preparations for the G-20 meetings to be held in Japan in 2019, as the central bank of the chair country, together with the Ministry of Finance. The Bank will also 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 an overall 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.

- (2) At each of the following branches, the Bank, in cooperation with the respective local finance bureaus, requested that financial institutions take special measures in response to disasters: Akita, Niigata, Kanazawa, Nagoya, Kyoto, Osaka, Fukuoka, and Oita.
- (3) The Bank maintained a detailed grasp of regional economic and financial conditions via its Head Office, branches, and local offices, by, for example, conducting interviews with local businesses and financial institutions, as well as holding meetings to exchange opinions with local chambers of commerce and industry. The Bank made use of its findings in conducting monetary policy as well as in ensuring stability and improving the functioning of the financial system.
- (a) With regard to demand for rebuilding and reconstruction following the disaster caused by the Great East Japan Earthquake and the Kumamoto 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.
- (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*. With a view to communicating with the public in a more effective and efficient manner, the Bank revised the content of the report starting from the April 2017 issue, and

from June also began to release the annex series to the report, which provides more detailed analysis of and insight into selected topics (the annex series is available only in Japanese).

- (5) In fiscal 2017, the Bank's Center for Advanced Financial Technology (CAFT) hosted the following seminars and workshops targeted mainly at regional financial institutions: 6 seminars on corporate governance reforms and the advancement of financial technology through the utilization of IT; also, 18 workshops on the topics of operational reforms, private finance initiatives (PFIs) and public-private partnerships (PPPs), support for start-up firms, agri-finance, support for firms making renewed efforts for business revitalization and discontinuance, and support for business succession of firms.

2. Evaluation of progress

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

Based on the above, the Bank considers that, in fiscal 2017, 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 2018, 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 to disseminate its findings, while giving due consideration to regional revitalization.

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 2017, and releasing the full texts of the two issues in Japanese as well as the summaries in English on the Bank's website.⁵
 - (c) Publishing the *Gyomu Gaikyo Sho* (Outline of Business Operations) for fiscal 2016 in May 2017.
- (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* (hereafter the Outlook Report) released in April, July, and October 2017 as well as in January 2018; a document that contains a summary of the opinions presented at each MPM (Summary of Opinions); and press conferences, speeches, and articles by the

5. Excerpts from the summaries of the two issues of the report dealing with developments in fiscal 2017, namely, the issues released in December 2017 and June 2018, can be found on pages 30–34.

Governor, Deputy Governors, and Members of the Policy Board.

- (b) With regard to the Outlook Report, the Bank revised the design and layout so that related text and charts now appear on the same page, mainly with a view to making "The Background" section easier to read.
- (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 further use of social networking sites through, for example, the launch of a Facebook page in December 2017, thereby disseminating a steady stream of up-to-date information to a wider audience. The number of page views on the Bank's website was around 206 million, of which around 103 million were made to its English-language pages. The number of page views on its branches' websites was around 3.7 million in total. Followers of the Bank's Twitter accounts totaled around 120,000.
- (b) The Bank continued to enhance the content of *Nichigin*, its public relations magazine (available only in Japanese). It also published collected offprints of each of the following series from the magazine: *Taidan* (Talking with the Experts: A Series of Conversations with Leaders in Their Fields), and *Chiiki no Sokojikara* (The Might of Regional Japan).
- (c) In October 2017, the Bank changed the route for in-house tours of its Head Office (for which advance reservation is necessary) due to ongoing work to reinforce the Main Building against earthquakes. The Bank's branches enhanced the content of in-house tours by, for example, adding exhibits. The total number of tour visitors to the Head Office—including those who attended short tours on the day—was around 19,000, while branches received around 27,000.
- (d) The Bank hosted various public relations events, providing opportunities for the public to deepen their understanding of the Bank's policies and business operations. These events included special in-house tours for families visiting with primary and junior high school children during school holiday seasons in spring and summer. The Bank also hosted at its Head Office the "BOJ Grand-Prix," an essay and presentation contest primarily for college students, for which there were 112 entries.
- (e) The Bank gave on-campus lectures to college students on the functions and operations of the Bank and offered in-house lectures combined with tours of the Bank's Head Office, with the number of these lectures totaling 39.
- (4) The Bank actively disseminated information on its conduct of monetary policy and business operations in English.
- (5) The Bank worked to gain a better grasp of public opinion as well as public needs regarding its policies and business operations from people across a wide range of fields via the following.
- (a) Holding more meetings and dialogues with financial institutions, firms, economic organizations, academics, and other parties concerned in the Bank's business operations.
- (b) Provision of pertinent responses to around 4,300

- 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 operated the Currency Museum appropriately; the number of visitors during fiscal 2017 totaled around 111,000. The Bank also operated the Bank of Japan Otaru Museum appropriately; the number of visitors during fiscal 2017 totaled around 97,000.
- (7) The Bank responsibly managed the activities of its Archives, which have the status of "the National Archives of Japan, etc." as stipulated in the Public Records and Archives Management Act as well as the order for enforcement of this Act. A total of 3,678 historical official documents were added to the Archives, and there were a total of 133 requests for access.
- (8) The Bank made public the findings of its research and analysis on economic and financial developments, releasing 13 papers in the *Bank of Japan Review Series*, 17 in the *Bank of Japan Working Paper Series*, 21 in the *Institute for Monetary and Economic Studies (IMES) Discussion Paper Series*, 3 in the *Bank of Japan Research Laboratory Series*, and 5 research papers.
- (9) The Bank held the following conferences at its Head Office.
- (a) In May 2017, the IMES hosted an international conference entitled "Monetary Policy: Lessons Learned and Challenges Ahead."
- (b) In November 2017, the Bank and the University of Tokyo co-hosted a conference entitled "A New Perspective of Macroeconomic Analysis: Interaction between Business Cycles and Economic Growth."
- (10) 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 April 2017, the Bank improved the usability of the *Amounts Outstanding in the Call Money Market*. It tabulated the figures for the most recent month and also the monthly figures for the past year. Moreover, it expanded the number of items available in the BOJ Time-Series Data Search from selected items only to all items.
- (b) In June 2017, the Bank conducted a periodical revision of broadly-defined liquidity (L) in the *Money Stock Statistics* (MSS) and improved the accuracy of the data.
- (c) In August 2017, the Bank released new items in the *Regular Derivatives Market Statistics in Japan*.
- (d) As for the *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the Bank commenced release of data for "research and development (R&D) investment" in April 2017. It also introduced a new sampling methodology and revised the sample used in the survey in March 2018.
- (11) Through the following measures, the Bank promoted an in-depth understanding of the statistics it compiled.
- (a) In July 2017, the Bank released explanations on the compilation method for the corporate goods price index (CGPI).
- (b) In November 2017, the Bank updated the explanations of the *Flow of Funds Accounts Statistics* (FFA) to reflect its data revisions.
- (12) The Bank contributed to discussions held by the government toward making improvements to economic statistics, such as enhancing the

accuracy of GDP statistics, by taking part in the Council for the Promotion of Fundamental Reform of Economic Statistics and the Statistics Commission as well as deliberations on Japan's balance of payments statistics.

- (13) As the secretariat of the Central Council for Financial Services Information (CCFSI), and in light of changes in the environment surrounding the provision of financial information to the public, the Bank supported the CCFSI's efforts to develop a range of financial information-related activities; for example, the CCFSI developed and distributed new teaching materials for junior high school students, expanded and improved lectures to college students on financial literacy, and published user-friendly website pages including those designed for mobile devices (available only in Japanese) on the CCFSI's official website *Shiruporuto* (Gateway to Knowledge).

2. Evaluation of progress

The Bank employed 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. It also continued to contribute to discussions held by the government toward the improvement of economic statistics.

As the secretariat of the CCFSI, and in light of changes in the environment surrounding the provision of financial information to the public, the Bank supported the CCFSI's efforts to develop a range of financial information-related activities, thereby contributing to the promotion of financial literacy among the public.

Based on the above, the Bank considers that, in fiscal 2017, it steadily implemented the measures scheduled under its strategic objective of strengthening external communication. In fiscal 2018, the Bank 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 opinion and public needs.