

## A Guide to “Monetary Base and the Bank of Japan’s Transactions”

### I. Introduction

In order to implement monetary policy appropriately, the Bank of Japan carries out transactions with financial institutions daily; examples are (1) conducting market operations including purchase/sale of Japanese Government securities (JGSs) and bills and (2) extending loans. The Bank also performs transactions with the Government including receipt/withdrawal of deposits and purchase/sale of JGSs. In addition, the Bank conducts transactions with foreign central banks and the Deposit Insurance Corporation. All of these transactions interrelate with banknotes in circulation and current account balances (hereafter CABs), which are regarded as currency supplied by the Bank.<sup>1</sup>

Banknotes in circulation and CABs are components of liabilities in the Bank of Japan’s balance sheet. Other transactions mentioned above are also reflected in the balance sheet as changes in assets or liabilities. However, it is difficult to understand the various transactions and funds provision of the Bank solely from the Bank’s balance sheet partly due to the fact that it is compiled according to accounting rules.

The Bank of Japan has therefore decided to compile and publish monthly the “Monetary Base and the Bank of Japan’s Transactions,” (hereafter “MB-BOJT”) which shows clearly how the Bank is supplying funds by reconstructing the items of the Bank’s balance sheet. What follows is an explanation including a guide to these statistics and their features.

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<sup>1</sup> CABs are held by banks (city banks, regional banks, regional banks II, and trust banks), long-term credit banks, foreign banks in Japan, *Shinkin* banks, The *Zenshinren* Bank, The *Shinkumi* Federation Bank, National Federation of Labor Credit Associations, securities companies, securities finance companies, foreign securities companies in Japan, *Tanshi* companies, stock exchanges, bankers’ associations, Deposit Insurance Corporation, and Government financial institutions and others.

## **II. The Bank of Japan's Funds Provision and Its Transactions, and Balance Sheet**

### **A. The Bank of Japan's Funds Provision**

There are many ways to define “funds provided by the central bank.” For example, banknotes in circulation is one possible definition as these are issued by a central bank and are used as “money” in the society. CABs, which are deposits held by financial institutions at the central bank, or the total amount of banknotes in circulation plus CABs are other widely used definitions.<sup>2</sup> Further, definitions include the central bank's liabilities as a whole and the total value of market operations conducted by the central bank.

The definition employed by the Bank of Japan is the “monetary base.”<sup>3</sup> The monetary base is defined as the total of “cash in circulation (including cash held by financial institutions)” and “current deposits of financial institutions at the central bank.” It accounts for a significant portion of liabilities of the balance sheet of the central bank.<sup>4</sup> In Japan, the monetary base statistics are defined as “the sum of banknotes in circulation, coins in circulation and CABs,” and the statistics have been published since May 1996.<sup>5,6</sup> “MB-BOJT,” which starts publication today, shows the

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<sup>2</sup> Both banknotes in circulation and CABs held by financial institutions at the central bank have the distinctive feature that they can be used for final settlement of funds transactions.

<sup>3</sup> The monetary base is sometimes called “base money” or “high powered money.”

<sup>4</sup> “Money supply” is a quantitative indicator and indicates the total amount of currency supplied to the economy from the financial sector.

<sup>5</sup> In Japan, banknotes are issued by the Bank of Japan and coins by the Government. The following explains how issuance of banknotes and coins are reflected in the balance sheet of the Bank of Japan. Banknotes are issued when financial institutions make withdrawals from their CABs. On the liabilities side of the Bank of Japan's balance sheet, “banknotes” increases and “current deposits” decreases. Coins, on the other hand, are issued by being transferred from the Government to the Bank of Japan. This is reflected in the Bank's balance sheet as an increase in “cash” on the assets side and an increase in “deposits of the government” on the liabilities side. When coins are transferred to financial institutions, “cash” decreases on the assets side and “current deposits” also decreases on the liabilities side.

Therefore, when banknotes and coins are put into circulation, it is a common feature of these two kinds of currency that the corresponding amount needs to be withdrawn from the CABs held by financial institutions at the Bank of Japan.

<sup>6</sup> The Bank of Japan announced on May 15, 2000 that the definition of the monetary base would be

relationship between the monetary base and each type of transaction conducted by the Bank.

## B. The Bank of Japan’s Transactions and Its Balance Sheet

Various transactions conducted by the Bank are reflected in the balance sheet of the Bank of Japan including such items as “banknotes in circulation” and “current deposits.” For example, when the Bank conducts a funds supply market operation, “government securities,” “bills and commercial paper purchased,” or another item on the assets side of the balance sheet increases and “current deposits” held by financial institutions increases on the liabilities side. Another example would be that when financial institutions draw back “current deposits” and increase banknotes holdings at their counters in order to prepare for withdrawals of deposits by their customers, “current deposits” decreases and “banknotes in circulation” increases, both on the liabilities side of the Bank of Japan’s balance sheet. Again, the Government pays/receives treasury funds to/from financial institutions using its deposits held at the Bank. In this case, both “deposits of the government” and “current deposits” held by financial institutions change on the liabilities side of the balance sheet.

Therefore, as the main items on the liabilities side of the Bank of Japan’s balance sheet such as “banknotes in circulation” and “current deposits” make up most of the monetary base, it can be related to other items in the balance sheet and also to various transactions hidden behind each item of the balance sheet. In other words, it is possible to explain how the Bank of Japan supplied the monetary base by using the balance sheet. This is the basic idea of “MB-BOJT.”

### (Chart 1) The Bank of Japan’s Transactions and the Balance Sheet (examples)

(Example 1) Market Operation by the Bank (Outright Purchase of TBs/FBs)		(Example 2) Payment/Receipt of Treasury Funds (Collection of Tax)	
Assets	Liabilities	Assets	Liabilities
TBs/FBs	+		Current deposits -
	+		Deposits of the government +

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changed from “the sum of banknotes in circulation, coins in circulation and reserve deposits” to “banknotes in circulation plus coins in circulation and CABs” (revised data starting from April 1997 were also published on the same day).

### **III. Framework of “MB-BOJT”**

#### **A. Compilation Method and Listed Items**

“MB-BOJT” explains the movement of the monetary base, which consists mainly of banknotes and CABs, in terms of changes in the Bank’s other assets and liabilities. It can be created by reconstructing the balance sheet of the Bank.

Specifically, the statistics can be compiled by the following steps. First, compute the monetary base by extracting “banknotes in circulation” and “current deposits at the Bank of Japan” from the Bank’s balance sheet, and adding coins in circulation.<sup>7</sup> Second, reconstruct assets, liabilities other than banknotes and current deposits at the Bank, and capital accounts and coins in circulation so that the total matches with the monetary base derived in the first step.<sup>8</sup> Third, break down each item of the balance sheet and reorganize by the type of transaction conducted by the Bank.<sup>9</sup>

Types of transaction include not only various market operations conducted by the Bank but also transactions between the Bank and the Government/foreign central banks, so that “MB-BOJT” shows the overall picture of various transactions conducted by the Bank.

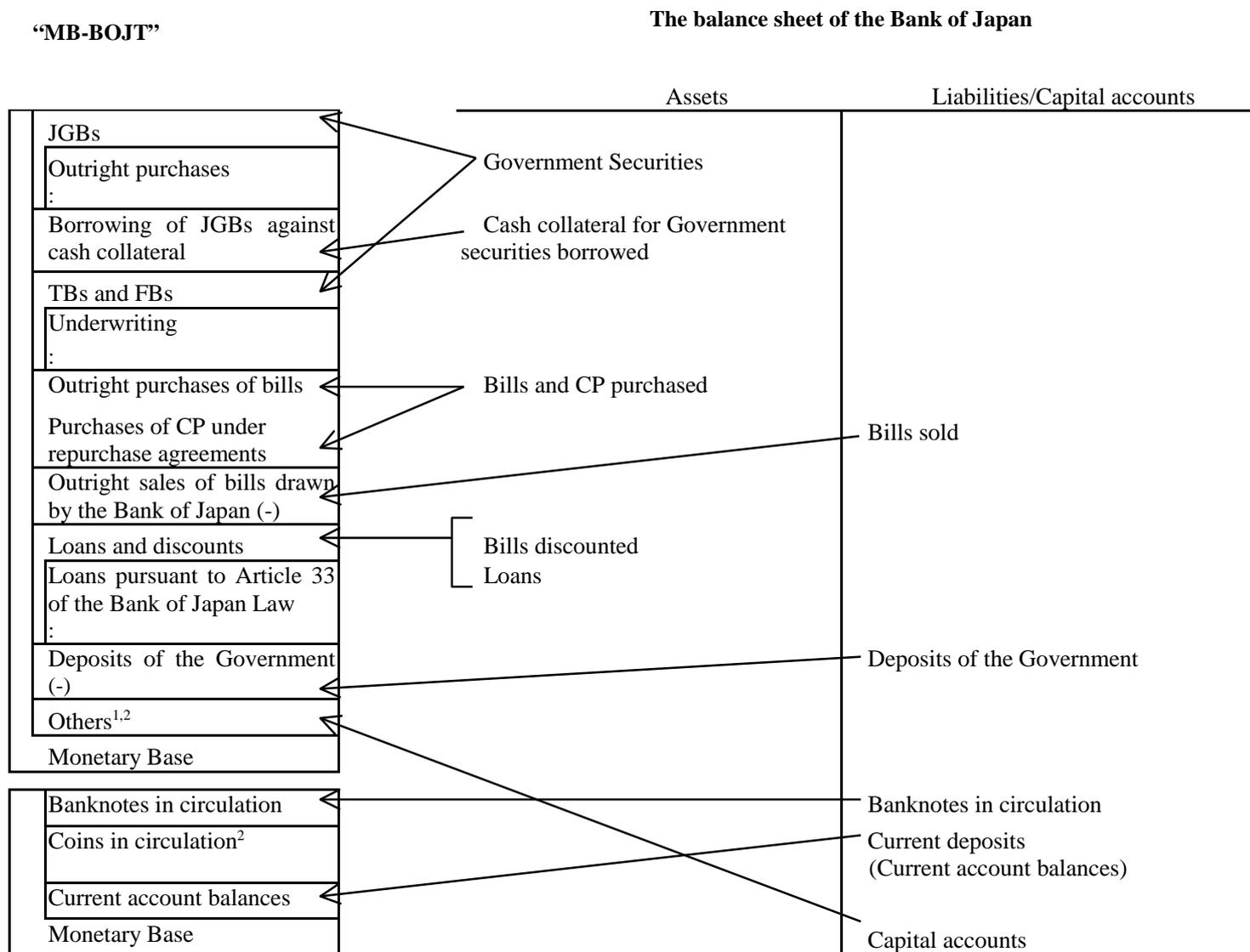
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<sup>7</sup> The “monetary base” statistics published by the Bank of Japan are based on average amounts outstanding, while the monetary base figures used in “MB-BOJT” are based on end-of-period amounts outstanding. Thus the two sets of statistics are different.

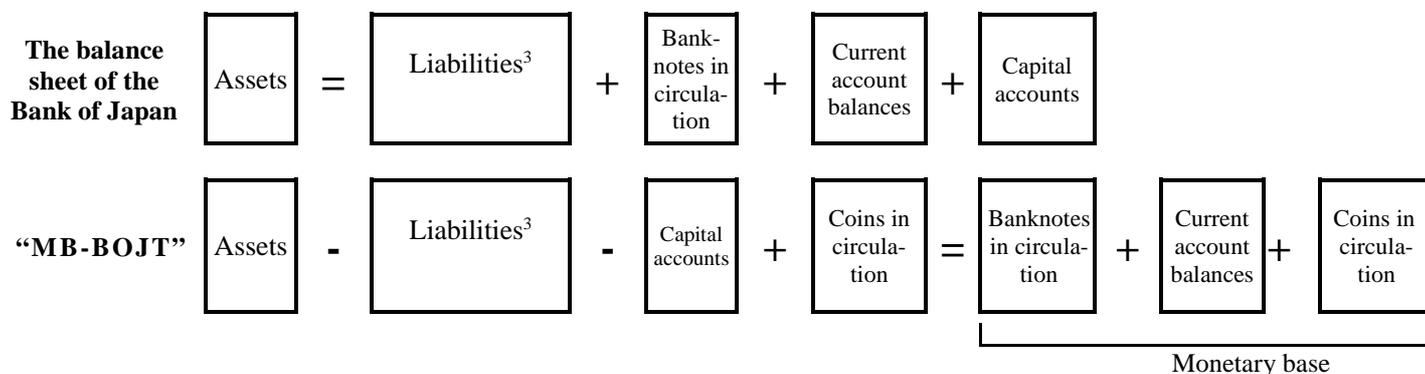
<sup>8</sup> “Coins in circulation” added in the second step is categorized as “others” (see Footnote 9).

<sup>9</sup> In “MB-BOJT,” assets and liabilities not listed in the table, and capital accounts and coins in circulation are categorized as “others.” For example, foreign currency assets and capital are included in “others” (liabilities and capital accounts are treated as negative values in “others”).

**(Chart 2) The Relationship between “MB-BOJT” and the Bank’s Balance Sheet**



**(Chart 3) Recomposing the Balance Sheet into “MB-BOJT”**



- Notes: 1. In “MB-BOJT,” assets and liabilities not listed in the table, and capital accounts and coins in circulation are categorized as “others.”
2. “Coins in circulation” are added separately.
3. Excluding banknotes in circulation and current account balances.

## **B. Stock Tables and Flow Tables**

As “MB-BOJT” is created by reorganizing the balance sheet, the statistics are based on stock figures, which are shown in a “stock table.” For convenience, increases/decreases in stock figures are also calculated and shown in a “flow table.” The flow table explains the increase/decrease of the monetary base in terms of changes in items in the balance sheet and the various transactions behind it.

For “JGBs” and “TBs and FBs,” the stock table and the flow table differ with regard to some items. Outright transactions of JGSs and others (purchase of JGBs, underwriting, outright purchases, outright sales, net outright sales of TBs and FBs to the Government and others)<sup>10</sup> in the stock table are accumulated total amounts of transactions minus the redemption value of JGSs used in the transactions, whereas in the flow table, each item shows the total value of transactions during the period. In addition, a separate item is listed in the flow table to show the redemption value of the JGSs. The rationale for this way of presentation is that (1) in the stock table, it is appropriate to show the amount outstanding with the redemption value subtracted, since JGSs already redeemed should be excluded, whereas (2) in the flow table, it fits the purpose of the table better to show the gross amount of the transactions during the period.<sup>11</sup>

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<sup>10</sup>“Outright transactions” means purchases/sales of securities without any agreement to buy/sell back on a specific day. Transactions with such buying/selling back conditions are called “transactions with repurchase agreements.”

<sup>11</sup>For “JGB outright purchases,” changes in amount outstanding from the previous period derived from the stock table do not match with the corresponding figures in the flow table. This is partly due to the fact that the amounts outstanding of “JGB outright purchase” in the stock table include re-evaluation at the end of the period (evaluated at the lower of cost, determined by the moving-average method, or market value) and also changes in amounts outstanding caused by conducting transactions with repurchase agreements. On the other hand, “JGB outright purchases” in the flow table are given at acquisition cost and are not affected by the factors mentioned above.

### (Chart 4) JGB Outright Transactions

(example: outright purchase of TBs/FBs [1 billion yen] and redemption [the same amount])

(Initial amounts outstanding are set as follows: purchases of TBs/FBs under repurchase agreements 3 billion yen, deposits of the government 2 billion yen, CABs 1 billion yen)

(1) Stock Table

TBs/FBs	3
Outright purchases	0
Purchases under repurchase agreements	3
Deposits of the government(-)	- 2
Monetary base	1

CABs	1
Monetary base	1

→

A. Conducting the operation	
TBs/FBs	4
Outright purchases	1
Purchases under repurchase agreements	3
Deposits of the government(-)	- 2
Monetary base	2

CABs	2
Monetary base	2

→

B. Redemption	
TBs/FBs	3
Outright purchases	0
Purchases under repurchase agreements	3
Deposits of the government(-)	- 1
Monetary base	2

CABs	2
Monetary base	2

(2) Flow Table

A. Conducting the operation

TBs/FBs	+ 1
Outright purchases	+ 1
Purchases under repurchase agreements	
Redemptions (-)	
Deposits of the government(-)	
Monetary base	+ 1

CABs	+ 1
Monetary base	+ 1

B. Redemption

TBs/FBs	- 1
Outright purchases	
Purchases under repurchase agreements	
Redemptions (-)	- 1
Deposits of the government(-)	+ 1
Monetary base	

CABs	
Monetary base	

### C. Positive Figures and Negative Figures in the Tables

In “MB-BOJT,” either positive figures or negative figures are shown, corresponding to an increase/decrease in the monetary base.

## 1. Stock Tables

In the stock table of “MB-BOJT,” assets items in the Bank’s balance sheet are shown as positive figures and liabilities items except “banknotes in circulation” and “CABs” are given as negative figures. This is because (1) increases in assets of the Bank correspond to an increase in the monetary base and (2) increases in liabilities other than “banknotes in circulation” and “CABs” correspond to a decline in the monetary base (see Chart 3).

For example, when taxes are collected from individuals and firms, funds are transferred from “CABs,” held by the individuals’ or firms’ financial institutions at the Bank of Japan, to the “deposits of the Government” and the monetary base decreases accordingly. Thus liabilities of the Bank of Japan such as “deposits of the Government” are shown as negative figures, since for any increase in them there is a corresponding decrease in the monetary base. Specifically, in the stock table in “MB-BOJT,” this kind of transactions is recorded as an increase in negative value of “deposits of the Government” and a decrease in the monetary base.

Furthermore, as for detailed items, which are recomposed from items of the balance sheet by type of transactions, amounts of funds-supply market operations are shown as positive figures, while amounts of funds-absorption market operations are shown as negative figures. For example, when the Bank of Japan provides funds by purchases under repurchase agreement of TBs/FBs operations, positive value of “purchases under repurchase agreements” of TBs and FBs increase in the stock table in “MB-BOJT.”<sup>12</sup>

## 2. Flow Tables

Similarly, in the flow table in “MB-BOJT,” which shows increases/decreases in the monetary base, transactions corresponding to an increase in the monetary base are shown as positive figures, while transactions inviting a decrease in the monetary base are shown as negative figures.

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<sup>12</sup> It should be noted that in the case of a “purchase/sales under repurchase agreements” operation, the monetary base decreases/increases on the selling/buying back day. This is reflected in the stock table in “MB-BOJT” as a decrease in the positive/negative value of “purchases/sales under repurchase agreements” of TBs and FBs. Similarly, in an “outright sales of bills” operation, which is a funds-absorption operation, the monetary base increases on the maturity day. In the stock table in “MB-BOJT,” the negative value of “outright sales of bills drawn by the Bank of Japan” declines.

**(Chart 5) Examples of Positive Figures and Negative Figures in the Tables**

**(Example 1) Tax collection (1 billion yen)**

(Initial amounts outstanding are set as follows: outright purchases of TBs/FBs operation 3 billion yen, deposits of the Government 1 billion yen, CABs 2 billion yen)

(1) Stock table

TBs and FBs	3
Outright purchases	3
Deposits of the Government(-)	- 1
Monetary Base	2

Tax  
Collection  
→

TBs and FBs	3
Outright purchases	3
Deposits of the Government(-)	- 2
Monetary base	1

CABs	2
Monetary base	2

CABs	1
Monetary base	1

(2) Flow table

TBs and FBs	
Outright purchases	
Deposits of the Government(-)	- 1
Monetary base	- 1

CABs	- 1
Monetary base	- 1

**(Example 2) Purchases under repurchase agreements of TBs/FBs operation (1 billion yen) and its selling back**

(Initial amounts outstanding are set as follows: outright purchases of TBs/FBs 1 billion yen, CABs 1 billion yen)

(1) Stock table

TBs and FBs	1
Outright purchases	1
Purchases under repurchase agreements	0
Monetary base	1

A. Conducting the operation  
→

TBs and FBs	2
Outright purchases	1
Purchases under repurchase agreements	1
Monetary base	2

B. Selling back  
→

TBs and FBs	1
Outright purchases	1
Purchases under repurchase agreements	0
Monetary base	1

CABs	1
Monetary base	1

CABs	2
Monetary base	2

CABs	1
Monetary base	1

(2) Flow table

A. Conducting the operation

TBs and FBs	+ 1
Outright purchases	
Purchases under repurchase agreements	+ 1
Monetary base	+ 1

B. Selling back

TBs and FBs	- 1
Outright purchases	
Purchases under repurchase agreements	- 1
Monetary base	- 1

CABs	+ 1
Monetary base	+ 1

CABs	- 1
Monetary base	- 1

#### **D. Transactions with the Government and Others**

“MB-BOJT” includes items covering transactions with the Government and other institutions in order to show the overall picture of the Bank’s transactions. There is a close relationship between payments/receipts of funds of the Government and the increase/decrease in the monetary base.

For example, when the Government collects tax as mentioned earlier, “CABs,” which are held by financial institutions at the Bank of Japan, decrease and “deposits of the Government” increase by the same amount (the monetary base declines). Conversely, when the Government makes payments for public investment and other purposes, “deposits of the Government” decrease and “CABs” increase correspondingly (the monetary base increases by the same amount).

Meanwhile, the Government, foreign central banks, and other institutions sometimes invest their surplus funds in purchasing TBs and FBs from the Bank of Japan (this is selling of TBs and FBs seen from the Bank). In this case, “deposits of the Government” (“deposits of foreign central banks” in the case of foreign central banks) and “TBs and FBs” held by the Bank of Japan decrease simultaneously (the monetary base remains unchanged).

Also, there are transactions with the Deposit Insurance Corporation. For example, when the Bank extends loans to the Corporation, “CABs” increase (also the monetary base increases).

**(Chart 6) JGS Transactions with the Government and Other Institutions (example: outright sales of TBs/FBs to the Government [1 billion yen])**

(Initial amounts outstanding are set as follows: outright purchases of TBs/FBs operation 2 billion yen, deposits of the Government 1 billion, CABs 1 billion yen )

(1) Stock table

TBs and FBs	2
Outright purchases	2
Net outright sales to the Government (-)	0
Deposit of Government (-)	- 1
Monetary base	1

CABs	1
Monetary base	1

Outright Sales  
→

(2) Flow table

TBs and FBs	1
Outright purchases	2
Net outright sales to the Government (-)	- 1
Deposit of Government (-)	0
Monetary base	1

CABs	1
Monetary base	1

TBs and FBs	- 1
Outright purchases	
Net outright sales to the Government (-)	- 1
Deposit of Government (-)	+ 1
Monetary base	

CABs	
Monetary base	

**IV. The Features of “MB-BOJT”**

“MB-BOJT” is constructed in such a way that the relationship between the monetary base and the Bank’s various transactions including market operations is easily identified, as described earlier.

Also, as mentioned earlier, the various transactions conducted by the Bank are reflected in its balance sheet. In addition, the Bank compiles and publishes statistical tables of supply/demand of funds and market operations (“Supply and Demand of Funds and Market Operations,”<sup>13</sup> comprising daily and monthly tables hereafter referred to as the funds-tables).

Next, we compare “MB-BOJT” with the Bank’s balance sheet and the funds-tables.

**A. Comparison with the Balance Sheet**

The balance sheet of the Bank of Japan arranges the Bank’s various transactions according to accounting rules and indicates the amount outstanding and

<sup>13</sup> The titles will be changed in July as separately announced by the Financial Markets Department.

components of assets, liabilities and capital accounts to show the financial condition of the Bank. The Bank compiles and publishes the balance sheet twice every fiscal period (from April 1 to March 31 of the following year) as stipulated in the Bank of Japan Law. In addition, major items of the balance sheet are published every ten days as “Bank of Japan Accounts.”

However, as the balance sheet is compiled for accounting purposes, it is difficult to obtain from it the overall picture of the various transactions conducted by the Bank. Specifically, the following points should be noted.

(1) In “government securities” in the balance sheet, the results of various kinds of transactions using government securities, mainly money market operations with financial institutions as counterparties and transactions with the Government and foreign central banks, are indicated simply by the total amount outstanding of government securities held by the Bank. Thus it is difficult to obtain detailed information about various kinds of transactions. In order to understand how the Bank supplied the monetary base, it is better to be able to observe the overall picture of various transactions conducted by the Bank. Therefore, in “MB-BOJT,” detailed figures indicating type of transaction are shown for JGBs and TBs/FBs. Also, “bills and commercial paper purchased,” one of the items of the balance sheet, reflects the results of three types of market operation, namely outright purchases of bills, outright purchases of bills utilizing corporate debt obligations, and purchases of CP under repurchase agreements. Unlike the balance sheet, “MB-BOJT” shows transaction values of each type of operation separately.

(2) There are cases where movement of funds supplied by the Bank (i.e., the monetary base) cannot be grasped by observing only changes in size of the balance sheet. For example, when upward pressure on market interest rates maturing beyond the year-end builds up, the Bank often conducts “dual” money market operations, where the Bank provides the longer-term funds by an operation in which TBs/FBs are purchased under repurchase agreements and absorbs shorter-term funds by “outright sales of bills” operations. In this case, “TBs and FBs” and “bills sold” increase on both sides of the balance sheet, which means that assets and liabilities increase at the same time while CABs do not increase at all (also, the monetary base remains unchanged). Therefore, it is sometimes difficult to understand the movement of funds supplied by the Bank (the

monetary base) by observing developments in the balance sheet.<sup>14</sup> “MB-BOJT,” however, is constructed in such a way that it is easy to grasp the increase/decrease in the monetary base.

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<sup>14</sup> The same kind of problem arises with transactions with the Government. When the Government collects tax from individuals and firms, (1) the size of the balance sheet remains unchanged as funds are transferred from the financial institutions’ “current deposits” to “deposits of the government,” where both items belong to the liabilities side of the balance sheet, (2) while the monetary base decreases by the amount transferred. Also, when the Bank sells TBs and FBs to the Government, (1) “TBs and FBs” and “deposits of the government” decrease on the assets side and the liabilities side respectively, whereas (2) the monetary base is not affected.

**(Chart 7) Implementation of “Dual” Operations (1 billion yen)**

(Initial balances are set as follows: outright purchases of bills operation 1 billion yen, CABs 1 billion yen)

A. Balance sheet

Assets		Liabilities	
Bills and CP purchased	1	Current deposits	1

B. “MB-BOJT”  
(Stock table)

TBs/FBs	0
Purchases under repurchase agreements	0
Outright purchases of bills	1
Outright sales of bills drawn by the Bank of Japan(-)	0
Monetary base	1

CABs	1
Monetary base	1

↓

Assets		Liabilities	
Bills and CP purchased	1	Current deposits	1
TBs/FBs	1	Bills sold	1

↓

TBs/FBs	1
Purchases under repurchase agreements	1
Outright purchases of bills	1
Outright sales of bills drawn by the Bank of Japan(-)	- 1
Monetary base	1

CABs	1
Monetary base	1

(3) Problems similar to (2) above occur due to the accounting rules for recording transactions. When JGBs are borrowed against cash collateral (in JGB “repo” operations) on the assets side both “government securities in custody,” which registers borrowed JGBs at face value, and “cash collateral for government securities borrowed,” which registers cash collateral for market operations, increase. At the same time, on the liabilities side both “current deposits,” which records funds provided to financial institutions and others, and “government securities borrowed,” which records borrowed JGBs at face value, increase. Therefore, the size of the balance sheet is increased by twice as much as the amount of JGB “repo” operations implemented (which is equal to

the amount by which the monetary base is increased). In “MB-BOJT” such double counting is avoided.

**(Chart 8) Implementation of a JGB “Repo” Operation (1 billion yen)**

A. Balance sheet		B. "MB-BOJT" (Stock table)	
Assets		Liabilities	
Government securities in custody	1	Current deposits	1
Cash collateral for government securities borrowed	1	Government securities borrowed	1
		Borrowing of JGBs against cash collateral	1
		Monetary base	1
		CABs	1
		Monetary base	1

## B. Comparison with the Funds-tables

The funds-tables are compiled in order to show how CABs are determined by issuance/redemption of banknotes (“banknotes”), receipts/payments of treasury funds and other transactions (“treasury funds and others”), and the Bank’s market operations.

CABs corresponds to fund supplied during the course of the day in the money markets, while demand for CABs consists of demand for reserve balances to fulfill legal requirements of the reserve requirement system and financial institutions’ needs for payment and settlement. The uncollateralized overnight call rate, which is the representative interest rate in the money market, is determined by the supply of and demand for CABs. The Bank implements monetary policy by setting the uncollateralized overnight call rate as the operating target.

The aim of the funds-tables is to make it easier to understand factors affecting the daily increase/decrease of CABs and what kind of market operations are implemented in response. Thus they are especially useful to money market participants.

However, it is difficult to obtain the overall picture of transactions of the Bank of Japan by observing the funds-tables, for the following reasons.

(1) As the funds-tables are designed to make daily market operations easy to understand, they focus on the development of CABs. The movements of banknotes and treasury

funds are presented in such a way as to show how they affect the CABs. For example, increase in issuance of banknotes decreases the CABs and defined as “funds-shortage factor.” On the other hand, in “MB-BOJT,” banknotes as well as CABs and coins in circulation are shown as the components of the monetary base, and thus an increase in banknotes in circulation acts as factor which increases the monetary base.

(2) Similarly, in the funds-table, daily market operations by the Bank of Japan are arranged according to how they affect the CABs. For example, let us suppose the Bank implements an outright sales of bills operation in order to cancel out the effect of treasury payments, such as payment for public investment, on the CABs. In this case, the funds-table indicates that the Bank conducted a funds-absorption operation so as to decrease CABs in response to a “funds-surplus” caused by “treasury funds and other factors.” In “MB-BOJT,” on the other hand, each transaction is indicated as a decrease in “deposit of the government” due to payment of public investment, and an increase in “outright sales of bills drawn by the Bank of Japan” corresponding to the bill selling operation. The statistics also show how these two transactions in total are related to the increase/decrease of the monetary base.

### **C. Points to Note When Using “MB-BOJT”**

“MB-BOJT” shows the relation between the movement of the monetary base and various transactions conducted by the Bank. These relations are difficult to understand by observing the balance sheet or the funds-table. However, attention should be paid to the following points when using “MB-BOJT.”

First, the publication of “MB-BOJT” does not give any indication of the role of the monetary base in implementation of monetary policy by the Bank. The Bank has been monitoring the movement of the monetary base as one of the indicators it uses in analyzing economic and financial conditions. However, further studies are necessary to better understand the position of the monetary base in the transmission mechanism of monetary policy and the relation between the monetary base and economic activities.

Secondly, it is impossible to extract information about the current monetary policy stance of the Bank directly from “MB-BOJT.”<sup>15</sup> The statistics are designed to

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<sup>15</sup>Monetary policy stance of the Bank of Japan is decided at the Monetary Policy Meeting by Policy Board as “guideline for money market operations.”

simply show how the Bank supplies the monetary base by means of various transactions.

Lastly, it goes without saying that significance of the balance sheet and the funds-tables, which the Bank has been compiling and publishing, remains unaffected; each approach has its own purposes and uses. The balance sheet is an important financial statement, which shows amounts outstanding and components of the Bank's assets, liabilities and capital accounts arranged according to accounting rules. The funds-tables are useful in understanding factors behind increases/decreases in CABs and daily market operations.<sup>16</sup>

## **V. Examples of Similar Statistics Compiled by Overseas Central Banks**

Overseas central banks also compile and publish statistics showing provision of funds based on the balance sheet. For example, the Federal Reserve Board of the United States (hereafter FRB) and the European Central Bank (hereafter ECB) compile statistical tables by recomposing the balance sheet. These statistics explain the movement of reserve deposits (in the case of FRB) or current deposits (in the case of ECB) in terms of other items of the balance sheet (the names of the tables are "Factors Affecting Reserve Balances"<sup>17</sup> for FRB, "Banking System's Liquidity Position" for ECB). Thus, other central banks also endeavor to make the overall picture of funds supply easy to understand by compiling and publishing such statistics in addition to the balance sheet.

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<sup>16</sup> Another point to be considered in using "MB-BOJT" is that the demand for banknotes and the transactions with the Government are subject to large seasonal fluctuations.

<sup>17</sup> This table is titled as "Reserves of Depository Institutions and Reserve Bank Credit" in *Monthly Bulletin*, published by FRB. In "Purposes & Functions," which explains the Federal Reserve System, the statistics are explained in "The Reserve Equation."

**(Chart 9) Statistics Related to Funds Provision Other Than the Balance Sheet Published by the Bank of Japan, FRB, and ECB**

Bank of Japan	FRB	ECB
<p><i>“Supply and Demand of Funds and Market Operations”</i></p> <p>Forecast and actual figures for issuance/redemption of banknotes, payment/receipt of treasury funds, market operations by the Bank, CABs, and required reserve balances. (published daily and monthly)</p> <p><i>“Monetary Base”</i> (published monthly)</p> <p><i>“Monetary Base and the Bank of Japan’s Transactions”</i></p> <p>New publication: explains the monetary base in terms of other items in the balance sheet. (published monthly)</p>	<p><i>“Factors Affecting Reserve Balances”</i></p> <p>Explains reserve balances in terms of other items of the balance sheet. Indicates funds supply factors and funds absorption factors separately. (published weekly)</p> <p><i>“Aggregate Reserves of Depository Institutions and Monetary Base”</i></p> <p>Monetary base and average amounts outstanding of reserve balances (components such as reserve balances held by financial institutions at FRB and cash held by financial institutions are also included). (published every two weeks)</p>	<p><i>“Banking System’s Liquidity Position”</i></p> <p>Explains current deposits in terms of other items of the balance sheet. Indicates liquidity providing factors and liquidity absorbing factors separately. (published monthly)</p> <p><i>Other statistics</i></p> <p>Amounts outstanding of current deposits are published daily.</p> <p>Forecast of required reserves is published at the beginning of the reserve maintenance period.</p> <p>Average amounts outstanding of reserve balances are published monthly (including components such as required reserves and excess reserves).</p>

**VI. Conclusion**

As described above, “MB-BOJT” clearly and simply presents how the Bank supplies funds. Specifically, the statistics show the relation between the monetary base and the overall picture of various transactions conducted by the Bank such as market operations and payment/receipt of treasury funds. Besides “MB-BOJT,” there are the balance sheet, which summarizes assets, liabilities, and capital accounts of the Bank, and the funds-tables, which summarize factors affecting daily movement of CABs and market operations. It is hoped that appropriate use of these three statistics will help towards a better understanding of the monetary policy and the Bank’s operations.

The Bank of Japan will continue its utmost efforts to enhance transparency in monetary policy by consulting with various communities such as market participants, academics, and economists in research institutions.