Mr. Matsushita reports on a new framework of monetary policy under the new Bank of Japan Law Speech given by the Governor of the Bank of Japan, Mr. Yasuo Matsushita, to the Yomiuri International Economic Society in Tokyo on 27/6/97.

I. Introduction

As you are all aware, the Diet passed the new Bank of Japan Law on June 11, which will come into effect on April 1, 1998.

It has been the perennial wish of the Bank of Japan to revise the current Bank of Japan Law, which was legislated during World War II, to accommodate the significant changes that have occurred in the economic and financial environment and to make the Law able to withstand future changes in the environment. Revision of the Law was also indispensable for rebuilding the entire Japanese financial system so as to meet global standards. This revision built on the two principles of independence and transparency is thus a notable step in the 115 years of the Bank's history and also for reforming the financial system of Japan.

The Bank of Japan Law holds great significance as one of the basic laws governing Japan's economic and financial activities. Looking back, this important revision was achieved in approximately one year from the start of discussions in spring 1996 owing to the support and efforts of many people, including Prime Minister Hashimoto, Finance Minister Mitsuzuka, and other government officials, members of parliament, and members of the Advisory Group on the Central Bank (an advisory panel to the Prime Minister) and the Financial System Research Council (an advisory committee to the Minister of Finance). Many words of encouragement as well as criticism were heard from the financial and business circles and the general public, including perhaps some of you who are here today. I would like to take this opportunity to express, on behalf of the Bank, our heartfelt gratitude to all.

Naturally, the reform of the Bank of Japan is not consummated merely by the revision of the Law. We at the Bank of Japan believe it essential that we continue our efforts to conduct appropriate policy and operational management, cognizant of the responsibilities entrusted to us by the people. We are determined to promote, in line with the aim of the revision of the Law, wide-ranging reforms to further improve the transparency of policy management and the efficiency of the Bank's operational management.

Today, I would first like to discuss recent monetary and economic conditions and the Bank's current monetary policy management. I will then explain the new framework of monetary policy under the new Law and how the Bank intends to manage monetary policy.

II. Recent Monetary and Economic Conditions and Monetary Policy Management

A. Recent economic and price developments and monetary policy management

I would like to start with the recent domestic economic condition.

Japan's economy is currently at a phase in which the downward pressures of fiscal tightening appear strongest, with personal consumption and housing investment declining in reaction to the stepped-up demand before the consumption tax rate was raised. However, in view of the firm developments in production and improvements in corporate profits and household income, the Bank judges that the economy continues to follow a moderate recovery trend. The results of the June *Tankan*—Short-term Economic Survey of Enterprises in Japan, which were released two days ago, for the most part confirmed this view.

The question is whether the virtuous circle of demand, production, and income, which has been developing steadily, will keep its momentum and whether, as a result, the economy will gain further momentum for a self-sustained recovery despite the downward pressures of fiscal tightening. The key to this will be developments in business fixed investment and personal consumption, which, according to the *Tankan* results and other indicators, can be analyzed as follows.

Firms' projections of revenues and profits and their plans for fixed investment indicate that recovery in business conditions will remain moderate for smaller firms, especially for those in the non-manufacturing sector. However, for firms as a whole, revenues and profits continue to be on an upward trend, especially for major firms, supported by increasing exports and buoyant demand for information technology-related goods and services. Fixed investment plans are also being revised upward. If this trend continues, the recovery in business conditions can be expected to spread to smaller firms.

Employment and income are showing moderate but steady improvement, and bonus payments in summer 1997 are likely to enjoy a sizable rise. While personal consumption will inevitably be affected by the rise in the consumption tax rate and by the discontinuation of the special tax reduction, it is unlikely that the trend of recovery will be hampered considering the improvements in the income environment.

Thus, the virtuous circle, generated by a recovery in private demand, is still at work. The Bank is, therefore, of the view that the current slowdown in demand will only be temporary and that it is likely that the economic recovery will continue. It is, however, necessary to continue to monitor closely consumer behavior and business activity.

Prices remained virtually unchanged in April and May after the immediate effects of the rise in the consumption tax rate are discounted. The Bank will continue to monitor price developments closely, but expects prices to remain stable for some time, reflecting the recent appreciation of the yen and stabilized crude oil prices.

In the management of current monetary policy, the Bank will continue to monitor economic developments closely, placing emphasis on further strengthening the foundations of the economic recovery.

B. The thinking behind the Bank's easy stance of monetary policy

I have heard various questions and criticisms with regard to the easy stance of monetary policy, which the Bank has continued with a view to strengthening the foundations of the economic recovery. Therefore, I would next like to share with you the thinking behind the current stance of monetary policy.

First, there is the question of why the Bank has not changed its policy stance since 1995, when it lowered the official discount rate to 0.5 percent, despite a gradual recovery of the economy.

Indeed, compared to 1995, concern about a deflationary spiral has subsided and economic activity has improved significantly. The purpose of the drastic monetary easing measures was to prevent an occurrence of a deflationary spiral, to strengthen the confidence of firms and households in the economic outlook, and to thereby place the Japanese economy on a path of self-sustained recovery.

As you are aware, the Japanese economy is faced with the medium to long-term challenges of overcoming the after-effects of the bursting of the economic "bubble" and reforming its industrial structure. The economy has therefore had to achieve a recovery while addressing these weighty challenges. Further, since the latter half of 1996, measures for fiscal consolidation have been implemented, including a reducing of public-sector investment and a raising of the consumption tax rate. In order for the economy to attain noninflationary, sustainable growth under such circumstances, the forces of the self-sustained recovery achieved in the private sector need to be further strengthened. It is therefore the Bank's judgment that, at this point, it is necessary to monitor economic developments carefully bearing this in mind.

Second, there has been criticism that, from the viewpoint of income distribution, the current low interest rates are putting the general public at a disadvantage. The Bank is fully aware of the difficult situation faced by those households which depend heavily on interest income. However, various types of income, whether it be wages, interest, or pensions, are distributed from the total output produced by economic activity. Therefore, without growth of the total output, sources of such income will not be generated. If the policy interest rate is raised before economic activity is sufficiently revitalized and, as a result, the economy is adversely affected, long-term interest rates may actually decline. It will then be difficult to say how the average level of short and long-term deposit interest rates will be affected. What I wish to emphasize is that in order for the overall level of interest rates to rise, there must have been the requisite improvement in the economic activity.

Third, there have been concerns that low interest rates may encourage an outflow of domestic funds. In discussing this point, it must be remembered that the relationship between cross-border interest rate differentials and capital flows under the present floating exchange rate system differs from that under the fixed exchange rate system.

Under the latter, there is no foreign exchange risk. Therefore, funds tend to flow to economies with higher interest rates. This is precisely why, under that system, strict regulation of capital flows was necessary.

Under the floating exchange rate system, however, such capital flows do not necessarily occur. Even if one attempts to profit from a differential between domestic and overseas interest rates, the profit can be wiped out instantly with even a slight shift in the exchange rate. For example, if overseas interest rates rise, widening interest rate differentials, capital outflows may initially occur, causing the foreign currency to appreciate and the domestic currency to depreciate. After some time, however, expectations will emerge that the value of the foreign currency will start to decline. At that point, the benefits of investing in the foreign currency will have decreased significantly. Thus, when foreign exchange risk is taken into consideration, a situation in which the expected rate of return on foreign currency investment is substantially higher than that on domestic investment cannot be sustained.

Under the floating exchange rate system, therefore, exchange rate fluctuations will apply the brakes to any one-sided capital flow. The long-term interest rate differential between Japan and the United States has been around 2 to 4 percent in recent years, and has widened in this time. It is true that during this time investment in foreign bonds has increased.

Yet this has not depleted funds in Japan or caused domestic interest rates to remain at a high level.

With global capital flows as active as they are today, the mechanism of the floating exchange rate system will function only more expeditiously. In other words, the speed of market adjustments has accelerated. What is critical in these circumstances is the occurrence of a capital flight, which may be triggered by a loss of market confidence in a country's economic policy management resulting from an inflation or recession in that country. In order to prevent this from occurring in Japan today, it is essential to strengthen the foundations of the economic recovery and to achieve noninflationary, sustainable growth.

In this connection, some argue that the revision of the Foreign Exchange and Foreign Trade Control Law, together with the low interest rates, may accelerate capital outflow. The Bank intends to monitor carefully the effects of the revision on the markets. However, as I have just explained, the Bank believes that there is little possibility of a disruptive capital outflow occurring simply as a result of the interest rate differentials between Japan and abroad. Rather, a more serious problem to consider would be the emergence of a "transaction flight." Should market participants decide for certain reasons that overseas markets are more attractive and beneficial to the conducting of transactions, even financial and capital transactions between residents, which have conventionally been conducted in Japan—for example, securities transactions between domestic firms and households—may shift overseas. Although this will not induce an outflow of capital, transactions will be carried out abroad and the subsequent business opportunities will be transferred overseas. Should this trend continue, it might lead to a hollowing out of Japan's financial markets. This is why the "Big Bang" deregulation package must be implemented apace with the revision of the Foreign Exchange and Foreign Trade Control Law, to enhance the attractiveness of domestic financial markets and services.

III. The New Framework of Monetary Policy under the New Bank of Japan Law

To summarize what I have said so far, the Bank of Japan is managing monetary policy with a view to placing the Japanese economy on a path of noninflationary, sustainable growth.

While this has always been the objective of monetary policy under the current Bank of Japan Law, it is stipulated more explicitly by the new Law**,** which will come into effect on April 1, 1998. Various revisions have also been incorporated in the new Law to ensure the achievement of this objective. I would, therefore, like to discuss the new framework of monetary policy under the new Bank of Japan Law and how we intend to make use of the new framework, firstly with regard to the objectives, secondly the instruments, and finally the management of monetary policy, including the decision-making procedures.

A. Monetary Policy Objectives

1. Price stability

I would first like to discuss the objectives of monetary policy.

The new Bank of Japan Law stipulates that the objective of monetary policy is "to contribute to the sound development of the national economy through the pursuit of price stability." The sound development of the national economy is a common objective of all economic policies. As the objective of monetary policy is to contribute to the achievement of this ultimate objective through price stability, its direct objective will be to ensure price stability. Price stability, together with the stability of the financial system, is a precondition for money to smoothly perform its intrinsic functions. As the issuer and controller of money, maintenance of price stability is an inherent role of the central bank.

It is, however, not easy to define price stability. There are diverse types of price indicators: for example, the Consumer Price Index, Wholesale Price Indexes, and the GDP deflator. Each of these has its limitation, such as the range of items covered or the timing of release. Further, many studies have been conducted more recently on the possibility that these indicators offer a substantially biased measurement of prices. Even with a perfectly reliable price indicator, there will still be disparate views regarding what specific percentage of price increases would be acceptable.

Thus, it is difficult to define specifically what is meant by price stability. We at the Bank will continue to study this issue, including the interpretation of price indices. It becomes clearer, however, if the matter is considered from the viewpoint of the implications of price stability for economic activity.

“Prices”, sometimes referred to as “prices in general”, are the average level of the prices of individual goods and services, and serve as a tool to measure the relative rise or fall in the price of individual goods and services. Therefore, if prices in general were to fluctuate significantly, firms and households would not be able to conduct efficient investment and consumption activity.

For example, in an inflationary economy, even if the price of a firm’s product rises, the firm will not be able to judge whether this will bring about increased earnings in the future, or whether it merely reflects a rise in prices in general with the price increase being offset by an increase in wages and cost of raw materials. In such an economy, firms will, in the long term, inevitably become cautious with their investments. Furthermore, when there are concerns about inflation, people will tend to curtail their spending. The same situation may arise in the case of a deflationary economy. One possible example was the Japanese economy in 1995, when there were concerns about a deflationary spiral.

This line of thinking leads to the conclusion that ensuring price stability means maintaining a situation in which firms and households need not be concerned about a continuing rise or fall in prices in the future when planning their investment and consumption.

2. The relationship between price stability and the economy

Having defined price stability, there may still be questions about the relationship between price stability and other important policy objectives or economic variables. For example, should we not care about the economy and economic growth as long as prices remain stable? What is the relationship between prices and foreign exchange rates or asset prices?

First, with regard to the relationship between prices and the economy, it is true that in the short term, it seems as if higher economic growth could be realized if a certain level of price increase were allowed. However, it has recently been proved both theoretically and empirically that this effect will only be temporary.

If such a process is repeated, the economy may well fall into an intractable situation of stagflation, in which the economy falls back into a recession but high inflation remains. This was the economic disease that plagued the industrialized countries of Europe and the United States from the mid-1970s to the early 1980s. In the light of that experience, there is a common understanding today that price stability is a precondition for sustainable economic growth.

Second, how are foreign exchange rates and asset prices to be considered in the context of monetary policy management? They are important factors that require due attention. However, if their stability is made a direct objective of monetary policy, the stability of the domestic economy and of prices in general may be undermined. This is because land prices and exchange rates reflect certain factors which prices in general do not. Specifically, land prices incorporate changes in the productivity of land and in the expected rate of return. Exchange rates, in the long term, are adjusted by the market mechanism in accordance with the differentials between domestic and overseas inflation rates, or in other words, changes in the purchasing power parities. Any attempt to control such factors forcibly through macroeconomic policies will most likely cause distortions in other sectors of the economy.

Needless to say, fluctuations in exchange rates and asset prices will affect the economy in various ways. It has been a valuable lesson of the bubble economy that significant fluctuations in asset prices may be a sign of some irregularities in economic activity or excessive expectations of economic entities. Therefore, while it would not be appropriate to attempt any rigid control of asset prices and exchange rates, the Bank will pay due attention to developments in them in managing monetary policy aimed at achieving the objective of price stability.

B. Monetary policy instruments

Let me next discuss the instruments of monetary policy under the new Bank of Japan Law.

Economic textbooks often refer to (1) the official discount rate, (2) open market operations, and (3) reserve requirements as the three major monetary policy instruments. These are in fact the means with which the Bank of Japan implements monetary policy, and this will remain unchanged under the new Law. The revised Law, however, incorporates the following changes.

First, the new Law explicitly stipulates that “guidelines for money market control through various measures such as buying and selling of bills or bonds”—that is, the Bank’s basic policy for open market operations, or in other words, the Bank’s policy for the guiding of money market rates—are to be decided by the Bank of Japan’s Policy Board, while in the current Law, there is no explicit stipulation concerning such policy.

Second, while the current Law stipulates that determination and altering of reserve requirements must be approved by the Minister of Finance, the new Law abolishes this approval system.

With these changes, all three instruments of monetary policy—including official discount rate policy, which is already stipulated by the current Law as a matter for decision by the Policy Board——will be spelt out explicitly as matters to be decided by the Policy Board.

Reserve requirements have been altered less frequently as the means of open market operations developed. I would therefore like to discuss in detail the historical background and the Bank’s view of official discount rate changes and of the guiding of money market rates, with emphasis on how the Bank will utilize these two means of implementing monetary policy.

1. Relationship between official discount rate changes and the guiding of money market rates

For many years, monetary policy was in most cases implemented in Japan by changing the official discount rate. This was because the financial markets were not sufficiently developed and, under these circumstances, deposit interest rates and lending rates were linked to the official discount rate.

The situation changed gradually from the 1980s. The financial markets began to grow both in quality and quantity, with massive issuance of government securities and introduction of new financial instruments such as certificates of deposit (CDs) and commercial paper (CP). As a result, interest rates started to fluctuate freely reflecting the supply and demand conditions for funds, and accordingly, an environment was established in which the effects of monetary policy would permeate via market interest rates.

In response to such changes in the financial markets, the Bank has devised various changes to its monetary policy management. For example, in the buying and selling of bills and bonds, the Bank abolished the system of conducting operations at the rate quoted by the Bank, and adopted a more transparent bidding system. The Bank also improved the efficiency of its market operations by shortening the lag between the announcement of operations and the settlement of funds. In 1991, the Bank abolished window guidance, a method in which the Bank gave direct guidance to financial institutions regarding the amount by which they increased their lendings, and provided for an environment in which the functions of interest rates could be used to influence the behavior of financial institutions.

In addition, in 1994, deregulation of deposit interest rates was completed. This meant that the official discount rate no longer performed the role of directly bringing changes to deposit interest rates and lending rates, and instead, the significance of the guiding of money market rates increased.

Consequently, on March 31, 1995, the Bank introduced a new system to utilize the guiding of money market rates as a means of monetary policy which is, by itself, as significant as the official discount rate. This is a system whereby the Bank publicly announces its policy for market operations after it has been approved by the Policy Board. The policy is stated with regard to the guiding level of overnight call money rates, the Bank's target rate in market operations. For example, the Bank might state that it "expects that the call money rate will remain on average slightly below the official discount rate."

While this method of monetary policy implementation had already taken root in the United States, it was the first attempt for Japan back in March 1995. At the time of this first attempt, it so happened that Germany had lowered its official discount rate a day earlier, and it cannot be denied that the market could not quite understand and assimilate the Bank's policy intention. The Bank's use of the guiding of money market rates, however, has gradually gained understanding and has taken root in Japan as well. In fact, when the Bank encouraged a decline in the market rates on July 7, 1995, the policy intent permeated smoothly through the market without causing any confusion.

The provision of the new Law stating that the policy for the guiding of money market rates be determined by the Policy Board reinforces the recent emphasis placed by the Bank on the market mechanism.

What significance, then, will the official discount rate have in this age of marketization? Central banks overseas hold various views as to the relationship between official discount rate changes and the guiding of money market rates, and it is difficult to arrive at a single conclusion.

However, examples overseas suggest that official discount rate changes continue to play an important role even in this age of economic and financial marketization and interest rate liberalization. Their function is to communicate plainly to everybody the changes in monetary policy. In order to maintain the efficacy of monetary policy amid the progress of marketization, it becomes even more necessary to win public understanding of and confidence in the central bank's economic outlook and the thinking behind its monetary policy management. In this regard, the easy-to-understand announcement effects of the official discount rate are valuable for monetary policy management based on the functioning of the market mechanism.

I am sometimes asked which of the two would be employed first, the guiding of money market rates or official discount rate change. However, there is no fixed rule as to which should be implemented first. In some cases, the Bank may change the level it has set for the guiding of money market rates several times before changing the official discount rate, and in other cases, the Bank may first strongly indicate its policy intention by changing the official discount rate, and then guide the money market rates accordingly.

For the reasons I have just explained, the Bank believes it necessary to make effective use of both official discount rate changes and the guiding of money market rates.

C. Monetary policy management

1. Strengthening of the functions of the Policy Board

I would now like to discuss monetary policy management, focusing on the decision-making process of monetary policy.

The new Bank of Japan Law incorporates major revisions aimed at strengthening the functions of the Policy Board, the Bank of Japan's highest decision-making body.

First, the composition of the Board is altered significantly. The current Policy Board consists of seven members: the Governor of the Bank of Japan, four appointed members, and two government members without voting rights, representing the Ministry of Finance and the Economic Planning Agency. The new Policy Board, however, will consist of nine members: the Governor and the two Deputy Governors of the Bank of Japan and six deliberative members.

The main features of the changes are that, first, there will be no government members on the Board. Second, while the current appointed members must be selected from each of the four fields of city banking, regional banking, commerce and industry, and agriculture, the new deliberative members can be selected from among a much broader population, without any restriction on the fields they represent, so long as they are experts, including those on economy or finance. Third, in order to ensure interactive linkage between monetary policy decision-making and the Bank's business operations, the number of members from the management of the Bank is increased from one to three. A balance is to be struck, however, by appointing six deliberative members so that the three members from the management will not constitute the majority.

Also, the powers of the Policy Board, which remained somewhat ambiguous under the current Law, are clarified. One example is the explicit stipulation of the three instruments of monetary policy as matters for decision by the Policy Board, which I discussed earlier.

In addition to these revisions, we at the Bank will do our best to ensure that the Policy Board can fully function.

For example, meetings of the executive are currently organized at the Bank of Japan pursuant to the Bank's by-laws. The meetings are attended by the Governor, the Deputy Governor, and the Executive Directors, and, as the executive body of the Bank, meets to discuss important matters related to the Bank's daily business operations and to deliberate on matters on which it needs to consult with the Policy Board. The meetings thus by no means represent decision-making opportunities. However, the holding of the meetings has invited criticism that the Bank perhaps has two decision-making processes. Under the new Law, therefore, the meetings will be abolished to prevent any misunderstanding regarding the procedures of monetary policy decision-making.

As a result, meetings of the executive will not deliberate on monetary control issues before they are discussed by the Policy Board. The entire procedure related to monetary policy, from judging the economic and financial conditions to policy decision-making, will be concentrated at the Policy Board.

2. Holding of regular Policy Board meetings on monetary control matters

With the powers of the Policy Board strengthened in this manner, the new Law provides for regular meetings of the Policy Board on monetary control matters as well as disclosure of summaries of discussions and transcripts (detailed records of discussions) of the meetings.

The main aim of holding regular Policy Board meetings on monetary control matters is to ensure the stability of the financial markets.

Currently, the Policy Board meets every Tuesday and Friday. However, the holding of ad hoc meetings means that there is the possibility that policy changes might be made at any time. That being the case, the markets inevitably become overly sensitive to various kinds of information, such as daily movements in economic indicators and individual statements by relevant people. In fact, on quite a few occasions, one piece of information has triggered speculation over monetary policy changes, leading to market disruption.

It is indeed an intrinsic function of the financial markets to assimilate various kinds of information and to reflect them in the formation of interest rates. In order for this function to be played out in the most stable and efficient manner, however, it is important that undue speculation and market disruption be avoided. This will also be conducive to improving the efficacy of monetary policy.

The new system of holding regular Board meetings on monetary control matters and of announcing the schedule of such meetings in advance has been devised based on such considerations.

In determining the frequency of these regular meetings, due thought must be given to ensuring the timeliness of policy implementation as well as market stabilization. Although there is no need to preclude the possibility of ad hoc meetings, monetary policy decisions should in principle be made at the regular meetings in keeping with the purpose of the new system. If we look at the practices of other countries, the U.S. Federal Open Market Committee meets the least often at eight times a year, the Monetary Policy Committee of the Bank of England once a month, and the Central Bank Council of the German Bundesbank twice a month. The Bank will continue to study how best to run the Board meetings by considering such examples overseas and the aim of the new system.

If I may add a word here, Policy Board meetings other than the regular meetings on monetary control matters will be held as necessary. Apart from determination of monetary policy, the Policy Board will also discuss and decide on a number of matters, such as issues related to the financial and payments systems as well as those related to the operational and organizational management of the Bank. The Policy Board currently meets twice weekly, and it is likely to meet frequently under the new Law as well. What is of special note in the new system is that, while Policy Board meetings will be held frequently, the opportunities to hold intensive discussions and decide on monetary control matters are specified.

3. Disclosure of summaries of discussions and transcripts of Policy Board meetings

I would now like to explain the new disclosure system of summaries of discussions and transcripts of the regular Policy Board meetings on monetary control matters.

One of the main principles underlying the revision of the Bank of Japan Law is improvement of the transparency of monetary policy. To this end, the new Law provides for the disclosure of the summaries of discussions and the transcripts of the regular Policy Board meetings on monetary control matters.

Disclosure of the summaries of discussions is aimed at gaining more fully the understanding and confidence of the market and the public regarding the Bank's basic thinking underlying its monetary policy. The Bank, therefore, intends to prepare accurate and clear-cut summaries of the Board's discussions on monetary and economic conditions and on monetary policy.

The difficult issue is the timing of disclosure. Considering the purpose of the disclosure, it is desirable that the summaries of discussions be disclosed at the earliest possible moment. Yet, it would only be counterproductive should the disclosure invite market speculation or disruption. For example, let us assume that at a meeting held at the beginning of a month, heated discussions are held on the projected movement of an indicator which is to be released at the end of the month. If the summary of such discussions were disclosed before the release of the indicator, it might heighten speculation over future policy management. However, the summary should not be made ambiguous with the intention of avoiding such speculation. Therefore, the Bank will have to consider the earliest disclosure that will not undermine market stability. In the United States, the summary of discussions is disclosed approximately one to one and a half months after the meeting, and in the United Kingdom, within six weeks. These timings probably reflect the central banks' desire to avoid undue speculation over discussions and policy decisions at future meetings.

The transcripts of discussions at the meetings will have a somewhat different role from the summaries, although both are meant to enhance the transparency of monetary policy. While the summaries of discussions seek to promote better understanding of current policy management, the transcripts are a tool to enable a detailed review at a later date, as necessary, of the Policy Board's policy management at a certain point in time. On the one hand, due attention must be given to ensuring that the disclosure of the transcripts does not hamper free and frank discussions at Policy Board meetings. On the other hand, however, if the disclosure is overly delayed, the significance of the disclosure may be greatly reduced. With these points in mind, the Bank intends to establish an effective disclosure system that makes the Bank sufficiently accountable to the public.

The Bank has, to date, endeavored to explain as clearly as possible the basic thinking behind its monetary policy management at regular press conferences, before the Diet, in publications, in speeches, and at various other opportunities. Disclosure of the transcripts and the summaries of discussions of the Policy Board are added to these measures under the new Law, and this will equip the Bank of Japan with means that go beyond global standards to ensure the transparency of monetary policy. We at the Bank intend to make effective use of these means to win even greater public understanding of and confidence in the Bank's policy management.

4. Relationship between the central bank and the Government

Lastly, I would like to discuss the relationship between the Bank of Japan and the Government. The new Law allows Government representatives to attend Policy Board meetings on monetary control matters and to express their views when necessary. It also grants the Government representatives the right to make policy proposals regarding monetary control matters, including requests to postpone the Board's vote on policies. Some suggest that these provisions will constrain the independence of the central bank. We at the Bank, however, do not take that view.

First of all, the monetary policy of the Bank of Japan is designed to contribute to the sound development of the national economy in conjunction with the economic policy of the Government. The Bank therefore needs to ensure adequate communication with the Government in managing monetary policy, although the policy must be decided by the Bank on its own responsibility and judgment.

What is important is that the relationship between the Bank and the Government in the determination of monetary policy be clear and transparent, and therefore under the new system, the Government's views and the discussions and votes on Government proposals will be disclosed in the summaries of discussions. In addition, although the Government representatives have the right to "request" a postponement of the Board's vote, they do not have the right to "instruct." Whether to postpone the vote on policies as requested will be determined by a vote by the Policy Board.

This new system is designed carefully from the viewpoint of ensuring the autonomy of the central bank in monetary policy management while also ensuring adequate communication between the Bank and the Government. We at the Bank intend to establish a clear, transparent, and constructive relationship with the Government to serve the purpose of the new system, believing that such a relationship will not interfere with the central bank's autonomy.

IV. Conclusion

I hope that I have been able to make clear how specifically the two main principles of the new Bank of Japan Law, independence and transparency, will be embedded in the new central bank system.

As I stated at the outset, the Bank intends to implement all possible measures as part of the Bank's self-reform even before the new Law is effected, to accommodate the aims of the new Law. The Bank is currently studying a concrete mechanism for holding regular Policy Board meetings on monetary control matters and for disclosing the summaries of discussions at those meetings, which will be implemented as soon as preparations are completed.

I wish to conclude by asking for your continued understanding and support.