

# Overview of Results for Fiscal Year 2003

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## The Economic and Financial Situation

The global economy in fiscal 2003 marked time under the lingering effects of events early in the year, such as the Iraq war and the SARS epidemic that centered around Asia. As these issues moved away from center stage, however, consumer and corporate sentiment improved and world business conditions remained on course for a recovery. In the US economy in particular, an expansionary trend led by consumer spending and capital investment became increasingly evident. China also maintained its expansion as its economy continued to develop.

These trends benefited the Japanese economy, which had shown strong signs of stagnation at the beginning of the year but gradually brightened thereafter. Underpinned by global economic expansion, exports were firm and helped revitalized production activity in the manufacturing industries in particular. Corporate earnings also increased as companies made progress in cutting back expenses. Meanwhile, the recovery in corporate earnings triggered a turnaround in the employment environment, leading to a brighter outlook for the household sector.

Corporate sentiment improved, boosting consumer spending and housing investment. However, ongoing efforts to put public finances on a sounder footing led to a further decline in public investment.

Reflecting economic trends at home and abroad, business conditions for small and medium-sized enterprises began to improve, especially in the manufacturing industries. However, there were still divergences in the degree of improvement, leading to polarization between companies that performed strongly and companies that experienced a delayed recovery, and inter-regional variations in the improvement in business sentiment. According to the Bank's Monthly Survey of SME Business Sentiment, the small enterprise index improved

from summer onwards, and the business situation for SMEs showed signs of bottoming out.

On the financial front, the Bank of Japan took quantitative easing further at the beginning of the year amidst speculation that deflation would strengthen. Long-term interest rates (newly issued 10-year government bond yields) temporarily fell to a historical low of just over 0.4%. Once the recovery in the domestic economy became more apparent from summer on, long-term interest rates began to rise sharply, temporarily reaching 1.6% before generally stabilizing at just over 1.4% at the end of the fiscal year.

In the foreign exchange market, the yen rose steadily against the dollar after starting the fiscal year at around ¥120 to the US\$. Even after massive intervention by the authorities, the yen's appreciation continued, reaching around ¥105 to the US\$ at the end of the fiscal year. Stock prices started the fiscal year by falling below the ¥8,000 mark, thus setting a new post-bubble record. However, they rose steadily after that, approaching the ¥12,000 level by year-end. Lending by financial institutions remained in decline as the deflation continued, but the pace of the turndown gradually eased as the Japanese economy recovered.

Although Japan's economy is in the process of recovering, the long-running deflation continues and the benefits of the recovery have not yet spread to SMEs. In light of the situation, the government has taken all possible steps to provide a safety net for SMEs by among other things adopting various measures to promote a smoother supply of funds.

## Summary of Results

### Loans

Outstanding loans in fiscal 2003 declined ¥265.8 billion year-on-year to ¥9,824.4 billion at year-end. The balance of loans through agencies including credit cooperatives totaled ¥25.2 billion. There were 162 agencies at fiscal year-end.

### Debentures

Interest bearing debentures decreased ¥596.7 billion compared to the previous year and discount debentures, ¥440.0 billion, for an overall decline in fiscal 2003 of ¥1,036.8 billion. As a result, the balance of debentures at year-end totaled ¥8,244.3 billion, a figure that includes ¥168.4 billion underwritten by the government.

### Deposits and Negotiable Certificates of Deposit

The balance of deposits decreased ¥43.4 billion year-on-year to total ¥2,356.8 billion at the end of fiscal 2003. Negotiable certificates increased ¥14.7 billion from the previous year-end to ¥51.6 billion.

### Securities

Over-the-counter sales of government bonds and other securities amounted to ¥1.1 billion. Dealings in government bonds and other securities totaled ¥9.7 billion. The balance of trading securities at the end of fiscal 2003 was ¥0.8 billion.

### Domestic and Foreign Exchange

Domestic exchange transactions in fiscal 2003 totaled ¥24,449.6 billion. Foreign exchange transactions totaled US\$3,459 million.

### Income and Expenditures

Total operating income totaled ¥207.543 billion, while operating expenses were ¥202.776 billion, resulting in an operating profit of ¥4.766 billion. Other gains amounted to ¥2.939 billion and other losses came to ¥0.225 billion. Income taxes amounted to ¥2.467 billion, and there was a ¥3.681 billion income tax adjustment. As a result, net income for the year totaled ¥8.693 billion.

