



ANNUAL REVIEW 2005

BANK OF JAPAN



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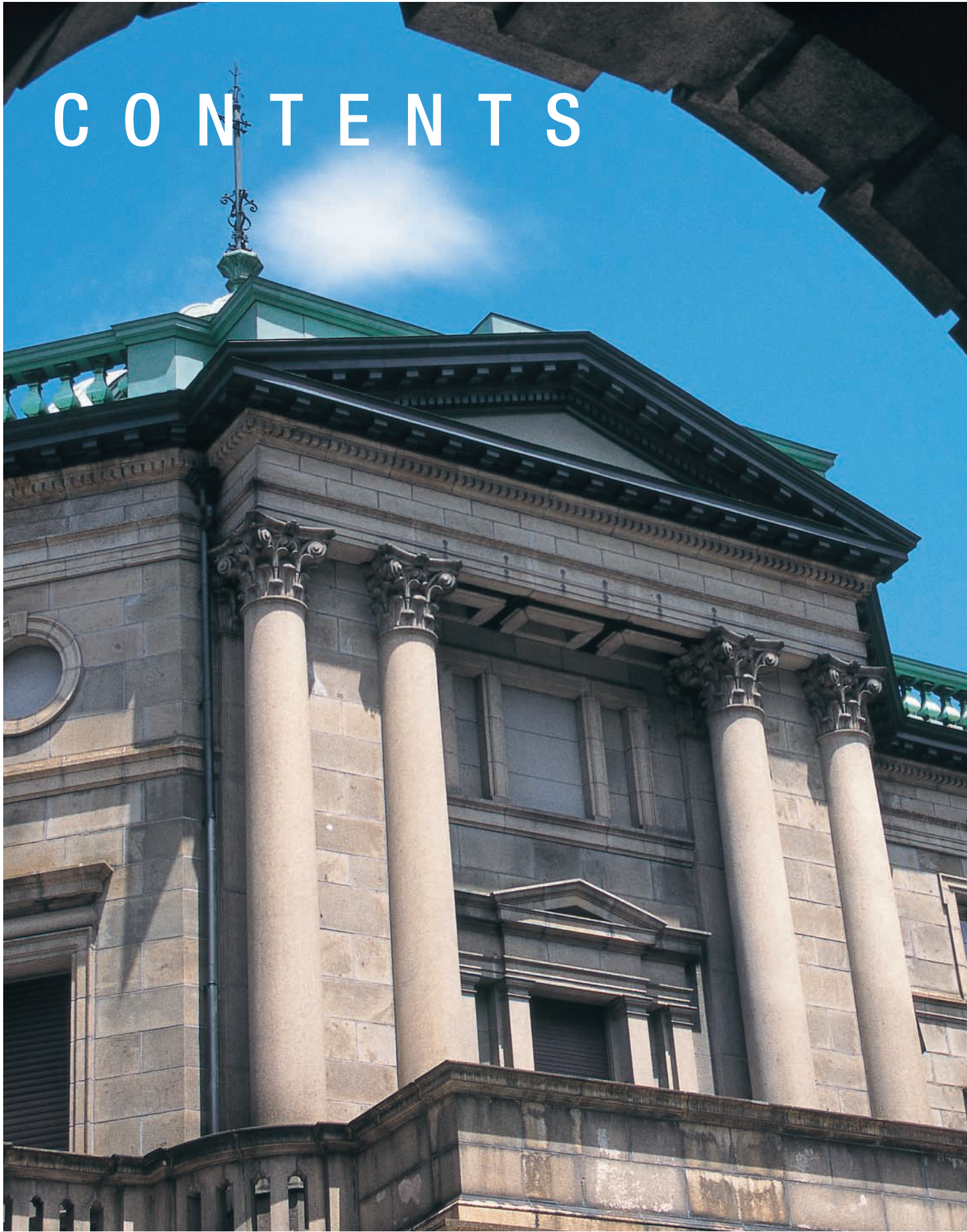
ANNUAL REVIEW 2005

Year Ended March 31, 2005

OUR POLICY AND OPERATIONS



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All of the above are available at the Bank of Japan's web site (<http://www.boj.or.jp/en/index.htm>).



BANK OF JAPAN

FOREWORD BY THE GOVERNOR

戦略、起動、実現

Strategy, Initiative, and Achievement





In contribution to the sound development of Japan's economy, the Bank of Japan offers a variety of central banking services. In addition to conducting monetary and financial system policy, the Bank also carries out business operations in areas such as payment and settlement systems, issuance of banknotes, treasury funds operations, international operations, and research and statistics. This document explains the Bank's policy, business operations, and organizational management in fiscal 2004 (April 1, 2004–March 31, 2005).

Japan's economy continued a recovery trend in fiscal 2004, although there seemed to be somewhat weak movements in production, particularly in IT-related sectors, in the second half of the fiscal year. As for prices, the year-on-year change in consumer prices (excluding fresh food) remained slightly below zero percent. This was against the background of the following: ongoing enhancement of productivity and labor cost restraint in the corporate sector; the reduction in electricity and telephone charges against the background of deregulation; and the continued improvement in the supply-demand balance in the economy. Given this economic situation, the Bank has provided the market with ample liquidity via a quantitative operating target, namely, the outstanding balance of current accounts at the Bank. It has also committed itself to maintaining the quantitative easing policy until the year-on-year rate of change in the consumer price index registers zero percent or higher on a sustainable basis.

The soundness and stability of the Japanese financial system as a whole recovered further, as financial institutions made considerable progress in solving the nonperforming-loan problem. The situation allowed the full removal of blanket deposit insurance to be smoothly implemented in April 2005 without causing disturbances such as a substantial shift of funds between deposits at different financial institutions. Financial institutions will be expected to amplify their efforts to develop innovative services aptly tailored to diverse customer needs, while improving their management of risks and business activities. In response to this changing environment, the Bank released "The Bank of Japan's Measures regarding the Financial System after the Full Removal of Blanket Guarantee of Deposits" in March 2005. In this document, the Bank clarified a shift in the focus of its basic stance regarding financial system policy: from crisis management to supporting private-sector initiatives toward providing more efficient and advanced financial services via fair competition, while maintaining overall system stability.

On November 1, 2004, the Bank started to issue the new series of banknotes carrying state-of-the-art security features. It has since been promoting faster distribution of the new series to replace the old series, given the increasing incidence of counterfeit old series banknotes being

discovered. The Bank also took measures to secure the public's confidence in the currency by disseminating information about banknotes.

In order to ensure the provision of high-quality central banking services, organizational efficiency and improved functioning have been a priority in conducting the Bank's business operations and organizational management. In the "BOJ Innovation Initiative" that the Bank worked on for about a year from fiscal 2003, the Bank reviewed its business and operational procedures, abolishing the division system in most of the departments at its Head Office, reorganizing some departments and offices at its Head Office, and introducing an annual salary system for staff in managerial posts based on performance and ability assessments. Moreover, in March 2005, the Bank formulated "The Bank of Japan's Medium-Term Strategic Framework for Fiscal 2005–2009" in which it set out the basic framework underlying its business operations and organizational management policies for the next five years, in order to encourage its executives and staff to have a clear vision of their goals and use management resources as effectively as possible. The framework is based on the following two core principles: pursuing more advanced services; and ensuring well-disciplined management. For each fiscal year, the Bank sets out concrete action plans that the Bank should tackle during the coming fiscal year in order to achieve the strategic goals laid out in the medium-term framework. In this regard, the Bank formulated "The Bank of Japan's Action Plans for Fiscal 2005" which provided more specifics about the content of these plans. The Bank will continue to make use of the framework in conducting business operations, review its progress in attaining the goals laid out in the framework, and clearly explain the results so as to ensure public understanding.

In order to fulfill its mission of contributing to the sound development of the economy, the Bank will continue its efforts to provide more advanced services and to ensure well-disciplined management. As always, we ask for your understanding and support.

The *Annual Review 2005* consists of excerpts from the *Gyomu Gaikyo Sho* (Outline of Business Operations) prepared pursuant to Article 55 of the Bank of Japan Law. It reviews the Bank's policy and business operations in fiscal 2004.



Toshihiko Fukui

Governor of the Bank of Japan

