

Appendixes

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APPENDIX 1: OVERVIEW OF AUDITS OF THE BANK OF JAPAN

Pursuant to the provisions of the Bank of Japan Act and in accordance with the Bank's internal rules, the following audits were conducted by the Auditors of the Bank in fiscal 2018 and at the beginning of fiscal 2019.

I. Audits of the Bank's Financial Statements and Other Documents¹**A. Financial Statements and Other Documents for Fiscal 2017**

In May 2018, the Auditors audited the Bank's financial statements and other documents, specifically, the inventory of property, the balance sheet, the statement of income, the statement of accounts, the appropriation of net income, and the schedule for the financial statements for fiscal 2017 (the 133rd fiscal year) as well as the statement of income for the second half of fiscal 2017.

The Auditors submitted to the Governor their written opinions indicating that the financial statements and other documents presented fairly the state of property, the results of operations, and the expenses for fiscal 2017 as well as the results of operations for the second half of fiscal 2017.

B. Financial Statements and Other Documents for the First Half of Fiscal 2018

From October through to early November 2018, the Auditors audited the Bank's financial statements and other documents, specifically, the inventory of property, the balance sheet, the statement of income, and the

schedule for the financial statements for the first half of fiscal 2018 (the 134th fiscal year).

The Auditors submitted to the Governor their written opinions indicating that the financial statements and other documents presented fairly the state of property and the results of operations for the first half of fiscal 2018.

C. Financial Statements and Other Documents for Fiscal 2018

In May 2019, the Auditors audited the Bank's financial statements and other documents, specifically, the inventory of property, the balance sheet, the statement of income, the statement of accounts, the appropriation of net income, and the schedule for the financial statements for fiscal 2018 as well as the statement of income for the second half of fiscal 2018.

The Auditors submitted to the Governor their written opinions indicating that the financial statements and other documents presented fairly the state of property, the results of operations, and the expenses for fiscal 2018 as well as the results of operations for the second half of fiscal 2018.

II. Audits of Cash, Securities, and Books

In fiscal 2018, the Auditors conducted a total of 61 on-site audits on 7 Head Office departments and 32 branches of the Bank, examining cash and securities in their custody as well as their books.

1. The first half of the fiscal year runs from April 1 through September 30, and the second half from October 1 through March 31.

III. Audits of the Bank's Business Operations and Expenses

In fiscal 2018, the Auditors conducted on-site audits on 32 branches, 12 of the Bank's local offices in Japan, and 2 overseas representative offices to assess business operations and expenses. They also conducted a total of 180 meetings with Head Office departments to

review the execution of business operations and expenses, receiving explanatory overviews of business operations at each department as well as reports concerning high-priority issues from relevant departments. In addition, they conducted 350 examinations of key documents and 5 special on-site visits to the Bank's premises.

APPENDIX 2: THE BANK OF JAPAN'S STRATEGIC PRIORITIES FOR FISCAL 2014–2018¹**I. Introduction**

"The Bank of Japan's Strategic Priorities for Fiscal 2014–2018" describes the basic principles for the Bank's business operations and organizational management during the five-year period.

From fiscal 2009, the Bank formulated the Strategic Priorities within a framework covering a three-year period and updated them every fiscal year. The Bank has decided to adopt a new five-year framework for the Strategic Priorities for fiscal 2014–2018, 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) evaluating its performance properly.

The Bank plans to conduct an interim review during the five-year period in order to address any changes in its environment. It will revise the content flexibly in response to any significant changes in its environment.

II. The Bank's Organizational Principles

The Bank has decided and made public its organizational principles, which constitute a set of fundamental values to be respected by the Bank, as the central bank of Japan. The officers and employees of the Bank are to keep these principles in mind at all times in the conduct of business operations. The Bank will maintain public confidence through the appropriate conduct of its policies and business operations in accordance with the organizational principles listed below.

Public Interest

The Bank shall promote the public interest by fulfilling the core purposes stipulated in the Bank of Japan Act.²

Transparency

The Bank shall demonstrate proper accountability in its policies and business operations via its various external networks.

Excellence

The Bank shall pursue excellence in central banking services, responding sufficiently to changes in its environment.

Integrity

The Bank shall ensure integrity in execution of duties by each and every officer and employee, requiring that they uphold high standards of morality.

Effectiveness and Efficiency

The Bank shall make effective and efficient use of management resources in its conduct of business operations and organizational management.

III. Background and Management Guidelines

There is a growing need for central banks to address issues arising from (1) further globalization of the financial and economic environment, (2) diversification and the increasing complexity of financial instruments and transactions, and (3) continuing advances in financial engineering and information processing technology.

In this situation, the Bank is required to respond flexibly to any changes in its environment to properly perform its role as the central bank. This involves

1. Decided by the Policy Board on March 25, 2014.

2. The Bank of Japan Act determines the Bank's core purposes as follows: Article 1 stipulates that the Bank is required to issue banknotes, carry out currency and monetary control, and maintain the stability of the financial system; and Article 2 stipulates that currency and monetary control shall be aimed at achieving price stability, thereby contributing to the sound development of the national economy.

(1) dealing proactively with new issues and (2) conducting business operations stably while managing operational risks properly. In order to ensure public confidence, it is also important for the Bank to explain clearly to the public its policies and business operations.

Based on the above understanding, the following three management guidelines have been set out in the Strategic Priorities for fiscal 2014–2018.

A. Engage in Bank-Wide Efforts to Fulfill Its Missions

The Bank's missions are to achieve price stability and ensure the stability of the financial system. To achieve price stability, the Bank has set the "price stability target" at 2 percent in terms of the year-on-year rate of change in the consumer price index (CPI). It will engage in Bank-wide efforts to steadily fulfill these missions, with its officers and employees sharing the understanding that doing so promotes the public interest. To this end, they shall at all times (1) work to make the fullest possible use of a high degree of central banking expertise and (2) remain aware of the importance of a creative attitude to handle new issues proactively.

B. Improve Capability in the Conduct of Business Operations

The Bank's missions are fulfilled through the conduct of a wide range of central banking operations, and the public expects the Bank to conduct these operations stably. Recently, there is a growing need for central banks to address issues reflecting changes in the domestic and overseas environments. The Bank will therefore improve its capability in the conduct of business operations, by making use of job-specific expertise that has been cultivated over the years and by managing its operational risks properly. In addition, it will establish an operational framework that responds properly to changes in these environments.

C. Enhance External Communication and Strengthen Networks

In maintaining public confidence, it is important for the Bank, taking a global perspective, to explain clearly to the public its policies and business operations and to listen carefully to outside opinion. Such multilateral and multilevel communication will contribute to the Bank's fulfillment of its missions and will promote the public interest. Recognizing this, the Bank will further enhance its communication by building appropriate networks with people and organizations across a wide range of fields both inside and outside Japan.

IV. Strategic Objectives for Business Operations

In accordance with (1) the organizational principles, which constitute a set of fundamental values subscribed to by the Bank, and (2) the management guidelines, which provide direction for the Strategic Priorities, the Bank will focus on the following strategic objectives for its business operations.

A. Plan and Formulate Monetary Policy Measures That Facilitate Policy Conduct

In the course of Japan's economy overcoming deflation and achieving a sustainable growth path with price stability, a number of changes in financial and economic conditions are expected to take place.

With a view to responding sufficiently to such changes and providing a firm underpinning for monetary policy conduct, the Bank will carry out the requisite research and analysis on financial and economic conditions at home and abroad from multiple perspectives.

Based on such multi-perspective analysis of the effects and impacts of monetary policy, the Bank will plan and formulate monetary policy measures flexibly. In

addition, the Bank will work to have the necessary operational arrangements in place so that money market operations are conducted properly, in line with monetary policy conduct.

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

It is essential to ensure stability and improve the functioning of the financial system in order to provide support from the financial side for Japan's economy to strengthen its growth potential.

In this regard, the Bank will appropriately plan and execute the selection of financial institutions holding current accounts at the Bank (BOJ account holders) as well as business operations relating to the provision of loans.

The Bank will also thoroughly assess the business operations, risk management, profitability, and capital bases of individual financial institutions through on-site examinations and off-site monitoring, making use of analysis of expected future developments in these areas. In particular, with a view to dealing with systemic risks more effectively, the Bank will work to ensure a firm grasp of business conditions at systemically important financial institutions. It will identify and share issues of managerial concern with financial institutions, thereby encouraging an appropriate response.

In planning and formulating its financial system policy measures, the Bank will place greater importance than ever on taking a macroprudential perspective. As a prerequisite for this, it will enhance its research and analysis on the stability and functioning of the financial system as a whole.

Meanwhile, in order to ensure financial system stability, the Bank will stand ready to act effectively as lender of last resort for individual financial institutions and financial markets when necessary.

The Bank will address these objectives in due cooperation with relevant parties.

C. Enhance Payment and Settlement Services and Reinforce Market Infrastructure

The Bank will implement the second phase of the new Bank of Japan Financial Network System (BOJ-NET) project scheduled for fiscal 2015 and thereafter operate the system smoothly and reliably.

While making effective use of the improved functionality of the new BOJ-NET, the Bank will enhance Japan's payment and settlement services in response to the diversification of payment and settlement needs and financial globalization. Specifically, the Bank will encourage the enhancement of retail payment systems and work to realize payment and settlement using the new BOJ-NET for cross-border transactions in yen or Japanese government bonds (JGBs). In addition, the Bank will conduct appropriate oversight of financial market infrastructures, while considering changes in financial market environments.

The Bank will also work actively to reinforce the financial market infrastructure in Japan to reduce settlement risk and strengthen market functioning, while giving due consideration to international developments and working in close cooperation with market participants.

D. Conduct Stable and Efficient Central Banking Operations

With regard to business operations relating to banknote issuance, the Bank will work to secure confidence in banknotes and coins using new technology. It will strengthen the monitoring of the cleanliness of banknotes in circulation and proceed with the introduction of next-generation automatic banknote examination machines.

The Bank will also work to maintain a firm grasp of

changes in the delivery routes of cash and will establish more efficient operational frameworks based on the information gathered.

With regard to banking operations, the Bank will, on a daily basis, continue to settle financial transactions using BOJ accounts and conduct money market operations in an accurate and stable manner. As for treasury funds and Japanese government securities (JGSs), the Bank will carry out its range of services with precision.

The Bank will reassess the efficiency of its operational frameworks in view of changing trends in workloads associated with banking operations as well as services relating to treasury funds and JGSs.

E. Contribute to the Response to Globalization on the International Financial Front

Amid further globalization and growth in business and financial transactions between Japanese institutions and counterparties located in Asia, financial and economic stability around the globe, particularly in Asia, has become crucial to Japan's economy.

Based on this recognition, the Bank will play its due part as a central bank in ensuring the stability of the international currency system, in cooperation with overseas authorities. It will also play a leading role at international meetings, including those organized by the Bank for International Settlements (BIS) and the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), in keeping with Japan's position. Furthermore, to ensure financial and economic stability in Asia, the Bank will expand and enhance its technical assistance in the region.

F. Contribute to the Regional Economic and Financial Environment

The Bank will contribute to the regional economic and financial environment by providing appropriate central banking services in each region of the country, making

due use of the functions available at its Head Office, branches, and local offices.

In this regard, the Bank will aim to ensure that it can conduct its business operations in a stable manner even in times of disaster. It will maintain an accurate grasp of regional financial and economic conditions through close and frequent communication with local financial institutions, firms, and economic organizations. At the same time, the Bank will provide a clear and accessible explanation of (1) its view of economic and financial conditions both at home and abroad as well as (2) the thinking behind its policies and business operations. It will make active use of information gained through such efforts in conducting monetary policy and business operations.

G. Strengthen External Communication

With a view to ensuring broad public confidence, the Bank will communicate its conduct of monetary policy and business operations to not only financial professionals but also the public in a clear and intelligible manner. To this end, the Bank will enhance (1) the effectiveness of its communication by making full use of information technology, for example through improvements to its website, and (2) the in-house tours of its Head Office and branches.

Moreover, with the aim of better grasping public opinion as well as public needs regarding its policies and business operations, the Bank will further strengthen its communication with financial institutions closely involved in its conduct of policies and business operations and will build and strengthen networks with people, firms, and economic organizations across a wide range of fields.

Meanwhile, the Bank will publish the findings from its research and analysis in effective ways. It will also appropriately compile and release statistics with a view to improving their user-friendliness and responding to

global structural changes.

In addition to the above efforts, the Bank, in cooperation with relevant parties, will work to support the activities of the Central Council for Financial Services Information (CCFSI) and associated committees to promote financial literacy among the public.

V. Strategic Objectives for Organizational Management

A. Organizational Management

In accordance with the organizational principles and the management guidelines described above, the Bank will focus on the following strategic objectives for its organizational management and all sections of its Head Office, branches, and local offices will coordinate their efforts to achieve them.

1. Ensure the appropriate conduct of business

operations given changes in the Bank's environment

The Bank will enhance its capability in planning business operations, responding appropriately to changes in its environment where the need for central banks to address certain issues is growing. It will promote the passing on of know-how among employees with a view to firmly maintaining the levels of job-specific expertise that have underpinned its business operations over the years. In addition, it will work actively to revise its business processes in response to changes in its environment.

Moreover, the Bank will promote efficiency and stability in its business operations through computerization, and will also review its business processes to reflect technological advances.

2. Manage operational risks appropriately

In order to maintain public confidence, it is important for the Bank to continue to conduct all business operations with precision and deliberation. To this end, it will engage

in Bank-wide efforts to manage operational risks effectively, giving due consideration to a change in the composition of its workforce following the anticipated retirement of a large number of experienced workers.

With regard to due execution of duties by its officers and employees, the Bank will continue to work to promote compliance with social norms as well as the appropriate management of information security.

3. Strengthen business continuity arrangements

Based on its experience following the Great East Japan Earthquake and the government's reappraisal of potential damage for large-scale earthquakes such as those directly under Tokyo or in the Nankai Trough, the Bank will reinforce its business continuity arrangements through the effective use of its management resources.

B. Management Resources

1. Human resources

In order to steadily carry out the strategic objectives outlined in the Strategic Priorities for fiscal 2014–2018, the Bank will work to secure the necessary employee numbers and to increase the efficiency of its overall business operations. To this end, for each fiscal year, it will decide and make public the ceiling on the number of full-time employees.

In addition, the Bank will secure and foster human resources with a high degree of central banking expertise in the execution of business operations and organizational management. In particular, it will encourage its employees to cultivate the practical skills to build and manage relationships both inside and outside Japan, the creative mind-set to deal proactively with new issues, and the ability to play an active role internationally. From this perspective, the Bank will continue to work to promote personnel exchanges with institutions both inside and outside Japan.

Furthermore, the Bank will expand its recruitment of

women and encourage their promotion; it will also seek to offer various working arrangements to improve the work-life balance of its employees. In addition, it will continue to work to facilitate internal communication.

2. Budget for expenses

In order to steadily carry out the strategic objectives outlined in the Strategic Priorities for fiscal 2014–2018, the Bank will secure the necessary budget and achieve more streamlined overall spending. To this end, for each fiscal year, it will decide and make public the budget for expenses.

VI. Performance Reviews

With a view to (1) steadily carrying out the strategic objectives for business operations and organizational management outlined in the Strategic Priorities for fiscal 2014–2018 and (2) reviewing and revising as necessary the allocation of management resources, the Bank will conduct and make public performance reviews of measures taken under the Strategic Priorities every fiscal year. In addition, it will conduct a thorough review of the entire contents of the Strategic Priorities.

APPENDIX 3: PERFORMANCE REVIEW OF THE BANK OF JAPAN'S STRATEGIC PRIORITIES FOR FISCAL 2014–2018¹**I. Introduction**

The Bank formulated *The Bank of Japan's Strategic Priorities for Fiscal 2014–2018 (Strategic Priorities)* and released it in March 2014. Performance reviews of measures taken under the *Strategic Priorities* have been conducted every subsequent fiscal year and the results made public.

With the current five-year period ending in March 2019, the Bank conducted a comprehensive review of its performance over the entire period. This document summarizes the Bank's accomplishments during the period with regard to the strategic objectives for business operations and organizational management stated in the *Strategic Priorities*.

II. The Environment Surrounding Central Banks

During the period of fiscal 2014–2018, there were many cases in which certain political or economic events reverberated across borders, against the backdrop of continued economic and financial globalization. Progress was made in innovation and application of information technology (IT) such as digitalization, and this started to produce significant effects on economic and financial activities. In Japan, the economic and financial impact of structural social changes such as the declining and aging of the population increased in importance.

III. Performance Reviews of Strategic Objectives for the Bank's Business Operations and Organizational Management

In light of the changes in the external environment outlined above, the Bank addressed a wide range of strategic objectives across both business operations and organizational management. It pursued these objectives in accordance with the three management guidelines of the *Strategic Priorities*: (1) engage in Bank-wide efforts to fulfill its missions; (2) improve capability in the conduct of business operations; and (3) enhance external communication and strengthen networks. The Bank considers that, overall, it achieved the strategic objectives laid out in the *Strategic Priorities*. Performance reviews for each of the strategic objectives are as follows.

A. Business Operations**1. Plan and Formulate Monetary Policy Measures That Facilitate Policy Conduct**

With a view to contributing to monetary policy conduct, the Bank carried out the requisite research and analysis on economic and financial conditions at home and abroad, assessing these from multiple perspectives including the outlook for and risk factors affecting economic and price developments. It also conducted multi-perspective analysis on the efficacy and impacts of Quantitative and Qualitative Monetary Easing (QQE). In light of its analysis, the Bank planned and formulated monetary policy measures flexibly. It enhanced dialogue with market participants and other relevant parties by increasing opportunities for the exchange of views. In

1. Decided by the Policy Board on March 22, 2019.

addition, the Bank deliberated on and introduced, in an appropriate manner, the measures necessary to pursue monetary policy, while making steady adjustments to its operational arrangements for conducting market operations. Given these accomplishments, the Bank considers that it provided a firm underpinning for monetary policy conduct.

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

With a view to ensuring stability and improving the functioning of the financial system, the Bank appropriately executed business operations relating to the provision of loans and the selection of financial institutions holding current accounts at the Bank (BOJ account holders). It also assessed the conditions of business operations and management at individual financial institutions by carrying out on-site examinations and off-site monitoring effectively and efficiently, and encouraged institutions to make necessary improvements. In addition, the Bank enhanced its research and analysis on the stability and functioning of the financial system from a macroprudential perspective and made use of the findings in planning and formulating financial system policy measures. It also disseminated the findings through the *Financial System Report*. Meanwhile, in addition to strengthening cooperation with relevant parties, the Bank maintained and reinforced its operational arrangements so as to be able to act as the lender of last resort if necessary. Given these accomplishments, the Bank considers that it achieved its intended objectives in ensuring stability and improving the functioning of the financial system.

3. Enhance Payment and Settlement Services and Reinforce Market Infrastructure

The Bank smoothly implemented the second phase of the new Bank of Japan Financial Network System (BOJ-

NET) project and operated the system with stability thereafter. With a view to enhancing Japan's payment and settlement services, it made steady progress on the initiatives to realize payment and settlement using the BOJ-NET for cross-border transactions in yen or Japanese government bonds. In addition, the Bank conducted appropriate oversight of financial market infrastructures. It also contributed to deliberations on the selection of Japanese yen interest rate benchmarks and the adoption of the global code of conduct for foreign exchange markets, giving due consideration to international developments and working in cooperation with market participants. Moreover, the Bank proceeded with its FinTech-related initiatives, particularly in light of IT advances, by carrying out relevant research, for example. Given these accomplishments, the Bank considers that it achieved its intended objectives in enhancing payment and settlement services and reinforcing market infrastructure.

4. Conduct Stable and Efficient Central Banking Operations

With regard to business operations relating to banknotes, the Bank made progress in securing confidence in banknotes and coins through measures such as the introduction of new-generation automatic banknote examination machines. It also worked to maintain a firm grasp of changes in the delivery routes of cash and proceeded with improving the efficiency of operational frameworks. As for business operations relating to coins, however, there was an incident of theft by an employee of commemorative coins held at the Bank; following this incident, the Bank implemented measures to prevent any recurrence of misconduct. With regard to banking operations, the Bank, on a daily basis, settled financial transactions using BOJ accounts and conducted market operations, implementing all of these in an

accurate and stable manner. As for treasury funds and Japanese government securities, it carried out a wide range of services with precision. By cooperating with relevant parties, the Bank also worked to streamline business operations by, for example, reducing the number of agents, as well as promote further use of online processing of treasury funds. In light of the above, the Bank considers that it generally conducted stable and efficient central banking operations.

5. Contribute to the Response to Globalization on the International Financial Front

In cooperation with relevant authorities at home and abroad, the Bank played its due part as the central bank of Japan in ensuring the stability of the international currency system at meetings such as those organized by the Bank for International Settlements (BIS), the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), the Financial Stability Board (FSB), the Group of Seven (G7), the Group of Twenty (G20), and the International Monetary Fund (IMF). In such meetings, the Bank also played a leadership role in international consensus building. Furthermore, to ensure economic and financial stability in Asia, it boosted international monetary cooperation through, for example, currency swap arrangements, while also expanding and enhancing technical assistance, most of which was provided within the region. Given these accomplishments, the Bank considers that it achieved its intended objectives in contributing to the response to globalization on the international financial front.

6. Contribute to the Regional Economic and Financial Environment

With a view to contributing to the regional economic and financial environment, the Bank conducted its business operations in a stable manner even at times of disaster, making due use of the functions available at its Head

Office, branches, and local offices. The Bank maintained an accurate grasp of regional economic and financial conditions through close communication with local financial institutions, firms, and economic organizations, as well as through vigorous research efforts. Research findings were disseminated to each region, in addition to being utilized by the Bank in conducting monetary policy as well as in ensuring stability and improving the functioning of the financial system. The Bank also expanded and enhanced its public relations activities and information dissemination within each region. Given these accomplishments, the Bank considers that it achieved its intended objectives in contributing to the regional economic and financial environment.

7. Strengthen External Communication

With a view to ensuring broad public confidence, the Bank proceeded with efforts to clearly and accessibly communicate its conduct of monetary policy and business operations to various audiences including the general public; in this regard, it expanded its external communication platforms. In addition, the Bank worked to gain a better grasp of public opinion as well as public needs regarding its policies and business operations; for example, it strengthened its communication with financial institutions and advanced its network building with firms, economic organizations, and other parties. The Bank also made efforts to improve its statistics and contributed to discussions held by the government toward the refinement of economic statistics. To promote financial literacy among the public, the Bank supported the activities of the Central Council for Financial Services Information, in cooperation with relevant parties. Given these accomplishments, the Bank considers that it appropriately pursued its objectives in strengthening external communication.

B. Organizational Management

1. Ensure the Appropriate Conduct of Business

Operations given Changes in the Bank's Environment

With a view to enhancing capability in planning business operations in response to changes in its environment, the Bank revised its organizational structure, which included changes that enabled it to conduct in-depth off-site monitoring of financial institutions and to effectively plan, coordinate, and organize international meetings relating to the financial system. It also reinforced its organizational framework to further advance initiatives pertaining to FinTech. In maintaining levels of job-specific expertise, the Bank, at its Head Office, branches, and local offices, promoted the passing on of know-how among employees and revised its business processes, incorporating ideas from employees. The Bank also steadily promoted efficiency and stability in its business operations through computerization. Given these accomplishments, the Bank considers that it achieved its intended objectives in ensuring the appropriate conduct of business operations given changes in its environment.

2. Manage Operational Risks Appropriately

With a view to continuing to conduct business operations with precision and deliberation, the Bank engaged in Bank-wide efforts to manage operational risks effectively, giving due consideration to an anticipated change in the composition of its workforce. It also promoted compliance with accepted social and ethical standards and the appropriate management of information security. Meanwhile, following an incident of theft by an employee of commemorative coins held at the Bank, the Bank took disciplinary actions against those involved and made further efforts to enhance the education and training of its employees so as to ensure

complete integrity in the execution of their duties. In light of the above, the Bank considers that, in terms of the appropriate management of operational risks, there are remaining issues to address.

3. Strengthen Business Continuity Arrangements

Based on its experience following the Great East Japan Earthquake and the Kumamoto Earthquake, in addition to the government's reappraisal of potential damage scenarios for large-scale earthquakes such as those directly under Tokyo or in the Nankai Trough, the Bank steadily implemented measures toward enhancing the disaster countermeasures in place at its Head Office and branches. It also strengthened cooperation with other concerned parties such as national and local governments as well as financial institutions through, for example, participating in the Central Disaster Management Council and conducting joint exercises with market participants. Given these accomplishments, the Bank considers that it achieved its intended objectives in strengthening business continuity arrangements.

Meanwhile, the Bank addressed the strategic objectives concerning management resources stated in the *Strategic Priorities*. In the area of human resources, the Bank, while maintaining necessary employee numbers, decided and made public the ceiling on the number of full-time employees for each fiscal year. It also worked on securing and fostering the human resources needed to execute its business operations and organizational management, mainly through enhancing education and training programs, as well as exchanging personnel with institutions inside and outside Japan. In terms of human resource utilization, the Bank expanded its recruitment of women and encouraged their promotion; it also introduced a reemployment system called the "expert staff system," with a view to making the most of the skills and know-

how of experienced employees and contributing to the stable conduct of its business operations. In addition, the Bank strived to cultivate a workplace environment conducive to the well-being of all of its employees; for example, it further improved terms of employment and working conditions so that employees can balance work and childrearing. Concerning the budget for expenses, the Bank made efforts to achieve more streamlined overall spending while also securing the necessary budget. In this regard, it appropriately decided and made public the budget for expenses for each fiscal year.

IV. Looking Forward to Fiscal 2019–2023

Given these accomplishments, the Bank considers that, overall, it achieved the strategic objectives laid out in the *Strategic Priorities*. In light of the Bank's experience during fiscal 2014–2018, the following matters will require consideration in conducting business operations and organizational management going forward.

First, it is important that the Bank continue to work

cohesively to fulfill its missions of achieving price stability and ensuring the stability of the financial system. In this regard, it is also necessary for the Bank to communicate to the public its policies and business operations in a readily understandable way and to listen carefully to outside opinion.

Second, it has become increasingly important that the Bank appropriately address significant changes in the environment, including IT innovations such as digitalization, in order to properly perform its role as the central bank of Japan.

Third, as the Bank's missions are fulfilled through the execution of a wide range of central banking operations, it is essential that the Bank execute its business operations with stability and integrity so as to secure public confidence even within a changing environment.

Taking the above matters into consideration, the Bank will conduct its business operations and organizational management in line with the *Medium-Term Strategic Plan (Fiscal 2019–2023)* released today.

APPENDIX 4: MEDIUM-TERM STRATEGIC PLAN (FISCAL 2019–2023)^{1,2}**I. Introduction**

The Bank's *Medium-Term Strategic Plan (Fiscal 2019–2023)* (Plan) sets the basic direction for the Bank's business operations and organizational management during the five-year period.

The Plan's content will remain, in principle, fixed during fiscal 2019–2023, with a view to clarifying the Bank's objectives over the medium term and to ensuring proper assessment of its performance.

The Bank will conduct an interim review of the Plan in or around fiscal 2021, in order to enable the Bank to address any changes in the environment. It will flexibly revise the Plan as appropriate in response to any significant changes.

II. The Bank's Organizational Principles

The Bank's organizational principles constitute the set of fundamental values to be respected by the Bank, as the central bank of Japan. The officers and employees of the Bank must respect these principles at all times in the conduct of business operations. The Bank will secure public confidence through the appropriate conduct of its policies and business operations in accordance with the organizational principles listed below.

Public Interest

The Bank shall promote the public interest by fulfilling the core purposes stipulated in the Bank of Japan Act.³

Transparency

The Bank shall demonstrate proper accountability in its policies and business operations via its various external relationships.

Excellence

The Bank shall pursue excellence in the provision of central banking services, responding appropriately to changes in the environment.

Integrity

The Bank shall ensure integrity in the execution of duties by each officer and employee, requiring that they uphold high moral standards.

Effectiveness and Efficiency

The Bank shall make effective and efficient use of management resources in its conduct of business operations and organizational management.

III. Background and Management Guidelines

Turning to the environment surrounding central banks, economic and financial globalization has continued. Meanwhile, innovation and application of information technology (IT) such as digitalization have accelerated, and this has started to produce wide-ranging and diverse effects on economic and financial activities. In Japan, the economic and financial impact of structural social changes such as the declining and aging of the population has been increasing. In the wider context of the global economy and society, Japan is expected to address the Sustainable Development Goals (SDGs) adopted in 2015 at the United Nations General Assembly.

1. Decided by the Policy Board on March 22, 2019.

2. Following *The Bank of Japan's Strategic Priorities for Fiscal 2014–2018* ending in March 2019, the Bank formulated this statement for the five-year period starting April 2019.

3. The Bank of Japan Act determines the Bank's core purposes as follows: Article 1 stipulates that the Bank is required to issue banknotes, carry out currency and monetary control, and maintain the stability of the financial system, and Article 2 stipulates that currency and monetary control shall be aimed at achieving price stability, thereby contributing to the sound development of the national economy.

These conditions present central banks with an increasingly wide range of challenges, and it has become ever more important for them to respond appropriately to changes in the environment.

Based on the above understanding, in order to properly perform its role as the central bank of Japan, the Bank has set the following three management guidelines for the Plan.

A. Work Cohesively to Fulfill Its Missions

The Bank's missions are to achieve price stability and to ensure the stability of the financial system. To achieve price stability, the Bank has set the price stability target at 2 percent in terms of the year-on-year rate of change in the consumer price index (CPI). It will continue to work cohesively to fulfill these missions, with its officers and employees sharing the understanding that doing so promotes the public interest. In this regard, it is important for the Bank to communicate to the public its policies and business operations in a readily understandable way and to listen carefully to outside opinion. Recognizing this, the Bank will further enhance its communication while expanding its relationships both inside and outside Japan.

B. Enhance Flexibility in Responding to a Changing Environment

The environment surrounding central banks has been subject to significant change, and thus it has become important for them to enhance their flexibility in responding to these changes. To this end, the Bank will reinforce its operational arrangements for responding to such changes through initiatives including continuously reviewing and revising its business operations, raising operational efficiency, and making effective use of management resources. It will also secure the staff needed to effectively execute its business operations and organizational management by fostering human

resources with a high degree of central banking expertise while also promoting diversity in the workplace. With this in mind, the Bank will cultivate a workplace environment favorable to improving the productivity of business operations and conducive to varied and flexible working arrangements, so that each employee can realize their full potential.

C. Execute Business Operations with Stability and Integrity

The Bank's missions are fulfilled through the execution of a wide range of central banking operations; the stability and integrity with which it executes these operations are what underpin public confidence in the Bank. Meanwhile, central banks have been facing, and are expected to continue to face, an increasingly wide range of challenges. Given these considerations, the Bank will ensure the stable execution of business operations by managing its operational risks properly while maintaining and further enhancing the operational reliability and individual expertise of its employees, which have been cultivated through long years of workplace experience. It will also continue to secure the complete integrity with which its officers and employees execute their duties.

IV. Challenges Accompanying IT Advances

The Bank will pursue its strategic objectives for business operations and organizational management, in accordance with the organizational principles that constitute the Bank's fundamental values, and the management guidelines that indicate the priorities of the Plan. In a situation where advances in IT have started to produce wide-ranging and diverse effects on economic and financial activities, it is highly important for the Bank to address the accompanying challenges in conducting both business operations and organizational management.

While considering from a medium- to long-term perspective how the growing impact of advances in IT will affect the Bank's business operations and the conditions at counterparties such as financial institutions, the Bank will proactively address any new challenges that arise and make all necessary operational adjustments. With regard to organizational management, the Bank, putting an emphasis on further use of IT, will tackle a wide range of tasks to improve operational efficiency, reduce operational risks, and use management resources effectively throughout the five-year period of the Plan. The Bank will also coordinate its efforts with the initiatives of the government and private sector in utilizing IT.

V. Strategic Objectives for Business Operations

The Bank will focus on the following strategic objectives for its business operations.

A. Plan and Formulate Monetary Policy Measures That Facilitate Policy Conduct

On its way to achieving sustainable growth with price stability, Japan's economy is expected to experience various changes in economic and financial conditions, including the impact of advances in IT.

With a view to responding appropriately to such changes and providing a firm underpinning for the conduct of monetary policy, the Bank will carry out the requisite research and analysis on economic and financial conditions at home and abroad from multiple perspectives.

Based on such multi-perspective analysis of the efficacy and impacts of monetary policy, the Bank will plan and formulate monetary policy measures flexibly. In addition, it will work to have the necessary operational arrangements in place so that market operations are conducted properly, in line with monetary policy decisions.

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

It is essential to ensure the stability and improve the functioning of the financial system in order to provide support from the financial side for Japan's economy to strengthen its growth potential.

In this regard, the Bank will appropriately plan, formulate, and execute business operations such as the selection of financial institutions that can hold current accounts at the Bank and the provision of loans.

The Bank, through on-site examinations and off-site monitoring, will also thoroughly assess business conditions at individual financial institutions in terms of their business environments, business strategies and operations, risk management, profitability, and capital bases, while considering the impacts of demographic changes and advances in IT. In particular, due attention will be paid to structural issues affecting their profits and to changes in their risk profiles accompanying developments in their business operations at home and abroad. Based on its assessments, the Bank, while utilizing IT, will identify and share issues of managerial concern with financial institutions and provide support as they make necessary improvements.

In planning and formulating financial system policy measures, the Bank will continue to place importance on taking a macroprudential perspective. As a prerequisite for this, it will enhance its research and analysis on the stability and functioning of the financial system as a whole, taking into consideration, for example, the diversification of financial service providers.

Meanwhile, in order to ensure financial system stability, the Bank will stand ready to act effectively as the lender of last resort for individual financial institutions and financial markets if necessary.

The Bank will address these objectives in due cooperation with relevant parties.

C. Enhance Payment and Settlement Services and Reinforce Market Infrastructures

The Bank will enhance Japan's payment and settlement services in response to the diversification of payment and settlement needs and financial globalization while maintaining an accurate grasp of environmental changes such as the spread of new financial and settlement services and operational changes at financial institutions. From this perspective, the Bank, as a central bank, will actively contribute to discussions and initiatives regarding new possibilities and challenges accompanying IT advances through close communication with a wide range of relevant service providers at home and abroad.

Regarding its payment and settlement services, the Bank will promote initiatives to realize payment and settlement for cross-border transactions in yen or Japanese government bonds by making effective use of the Bank of Japan Financial Network System (BOJ-NET). It will also proceed with wide-ranging deliberations on the applicability of newly developed IT to its payment and settlement infrastructure.

Meanwhile, the Bank will conduct appropriate oversight of financial market infrastructures, while considering changes in the environment.

The Bank will also work actively to reinforce financial market infrastructures in Japan to reduce settlement risk and strengthen market functioning, while giving due consideration to international developments and working in close cooperation with market participants.

D. Conduct Stable and Efficient Central Banking Operations

The Bank will work to secure confidence in the use of banknotes and coins while employing new technology. In this regard, it will conduct business operations such as the receipt and payment of cash and the examination of banknotes and coins in a precise and stable manner.

In addition, the Bank will, in cooperation with relevant institutions, strengthen the monitoring of the cleanliness of banknotes in circulation and enhance its efforts to address counterfeiting.

The Bank will also maintain an accurate grasp of trends in cash circulation and improve the stability and efficiency of operational frameworks based on the information gathered.

With regard to banking operations, the Bank will, on a daily basis, continue to settle financial transactions involving current account deposits that financial institutions hold at the Bank and conduct market operations, implementing all of these in an accurate and stable manner. As for treasury funds and Japanese government securities (JGSs), the Bank will carry out a wide range of services with precision.

For both banking operations and services relating to treasury funds and JGSs, the Bank will continuously assess the stability and efficiency of its operational and other frameworks, while taking due account of, for example, trend changes in workloads and developments in the environment surrounding counterparties.

E. Contribute to International Finance amid Globalization

Amid further globalization and continuing growth in business and financial transactions between Japanese institutions and counterparties located in Asia, economic and financial stability around the globe, particularly in Asia, has become ever more crucial to Japan's economy.

Based on this recognition, the Bank will play its due part as a central bank in ensuring the stability of the international currency system, in cooperation with relevant authorities at home and abroad. It will also play a leadership role at many different international meetings, while paying appropriate attention to Japan's stance. Furthermore, in support of efforts to ensure

economic and financial stability in Asia, the Bank will, among other initiatives, further strengthen monetary cooperation and technical assistance work in the region.

F. Contribute to Regional Economic and Financial Environments

Making due use of the functions available at its head office, branches, and local offices in activities such as providing appropriate central banking services in each region of the country, the Bank will contribute to regional economic and financial environments, with a view to supporting sustainable development.

Regarding central banking services, the Bank will aim to ensure that it can conduct its business operations in a stable manner even at times of natural disasters. It will maintain an accurate grasp of regional economic and financial conditions and of region-specific challenges through close communication with local financial institutions, firms, and economic organizations. At the same time, the Bank will provide careful explanations of (1) its view of Japanese and overseas economic and financial conditions and (2) the thinking behind its policies and business operations. It will make active use of information gained through such efforts in conducting monetary policy and business operations.

G. Strengthen External Communication

With a view to ensuring broad public confidence, the Bank will clearly and accessibly communicate its conduct of monetary policy and business operations not only to financial professionals but also to the general public at home and abroad.

Aiming to better grasp public opinion as well as public needs regarding its policies and business operations, the Bank will further strengthen its communication with financial institutions closely involved in its conduct of policies and business operations, and will build and strengthen relationships with people, firms, and economic organizations across a wide range of fields.

Taking the above matters into consideration, the Bank will work to achieve multilateral and effective communication by making use of various communication platforms, including its website. It will also aim to enhance the content of in-house tours of its head office and branches.

The Bank will publish the findings from its research and analysis in effective ways. It will also appropriately compile and release statistics, mainly with a view to improving their user-friendliness and responding to changes in Japan's economic and industrial structure.

In addition to the above efforts, the Bank, in cooperation with relevant parties, will work to support the activities of the Central Council for Financial Services Information and associated committees to promote financial literacy among the public.

VI. Strategic Objectives for Organizational Management

A. Organizational Management

The Bank will focus on the following strategic objectives for its organizational management and all sections of its head office, branches, and local offices will coordinate their efforts to achieve them.

1. Execute Business Operations Flexibly and Secure Requisite Staff

In view of the increasingly wide range of challenges facing central banks and the need to be able to respond flexibly to changes in the environment, the Bank will enhance its capability in planning business operations by accumulating a high degree of central banking expertise as well as maintaining and further enhancing the individual staff expertise cultivated through long years of workplace experience. It will revise and restructure its business processes to make full use of IT and work actively to enhance efficiency and stability in

its business operations via computerization. Through these efforts, the Bank will further increase its effective use of management resources.

The Bank will secure the staff—that is, individuals possessing a high degree of central banking expertise—that it requires for executing its business operations and organizational management. At the same time, it will continue to foster employees' ability to tackle new tasks and to excel in international arenas, while taking into consideration changes in working arrangements. In addition, the Bank will further promote diversity in the workplace by, for example, improving the inclusion of women and senior employees and expanding the opportunities available to them. It will also steadily realize varied and flexible working arrangements to further improve the work-life balance and well-being of its employees. Through these efforts, the Bank will continue to foster a workplace environment in which diverse employees can realize their full potential.

2. Manage Operational Risks Appropriately

In order to maintain public confidence, it is important for the Bank to continue to execute all business operations with precision and deliberation. To this end, it will work cohesively to manage operational risks effectively, giving due consideration to changes in the composition of its workforce and in working arrangements. In doing so, the Bank will promote the reduction of operational risks and efficiency of risk management by making active use of IT.

In managing operational risks, it is essential for the Bank to ensure that its officers and employees execute their duties with integrity. To this end, the Bank will continue to work to ensure strict compliance with accepted social and ethical standards and to promote the appropriate management of information security.

3. Strengthen Business Continuity Arrangements

Based on its experience following the Great East Japan Earthquake, the Kumamoto Earthquake, and a succession of other natural disasters, as well as the government's reappraisal of potential damage scenarios for large-scale earthquakes such as those directly hitting Tokyo or occurring in the Nankai Trough area, the Bank will further reinforce its business continuity arrangements through the effective use of its management resources.

B. Management Resources

1. Number of Employees

In order to carry out the strategic objectives stated in the Plan, the Bank will work to secure the necessary employee numbers and to increase the efficiency of its overall business operations. The ceiling on the number of full-time employees for each fiscal year will be decided and made public based on this basic understanding.⁴

2. Expense Budget

In order to carry out the strategic objectives stated in the Plan, the Bank will secure the necessary budget and achieve more streamlined overall spending. The budget for each fiscal year will be decided and made public based on this basic understanding.⁵

VII. Performance Reviews of the Plan

With a view to (1) steadily carrying out the strategic objectives for business operations and organizational management stated in the Plan and (2) reviewing and revising as necessary the allocation of management resources, the Bank will conduct and make public performance reviews of measures taken under the Plan every fiscal year. In addition, it will conduct a comprehensive review of its performance over the entire period of the Plan.

4. See Attachment 2 for Appendix 4 on page 102 for the ceiling on the number of full-time employees for fiscal 2019.

5. See Attachment 1 for Appendix 4 on page 101 for the budget for expenses for fiscal 2019.

THE BANK OF JAPAN'S BUDGET FOR EXPENSES FOR FISCAL 2019¹

The Bank of Japan's budget for expenses for fiscal 2019 (the 135th fiscal year) is as follows (Table 1).² While securing the necessary budget to perform its role as the central bank of Japan, the Bank has also thoroughly examined each item of expenditure to achieve more streamlined overall spending.

The budget for expenses for fiscal 2019 marked an increase of 4.6 percent from the previous year, of which the amount subject to the approval of the Minister of Finance increased by 1.4 percent. This overall increase was mainly due to changes in the following items: Other general and administrative expenses and costs increased by 2.1 percent, partly due to expenses related to international meetings, and the cost of fixed-asset purchases increased by 49.6 percent, mainly owing to a rise in expenses related to the Bank's premises. On the other hand, expenses for maintenance and repairs decreased by 5.7 percent, mainly due to a decline in maintenance and repair work conducted at the Bank's premises. Year-on-year percentage changes include the effects of the consumption tax hike scheduled to take place in October 2019.

1. Decided by the Policy Board on March 22, 2019.

2. The Bank prepares a budget for expenses every fiscal year. Its budget, excluding the cost of purchasing fixed assets used for the Bank's business operations, is subject to the approval of the Minister of Finance under Article 51, paragraph 1 of the Bank of Japan Act before the beginning of each fiscal year. After obtaining authorization from the Minister of Finance, the Bank implements the budget from the start of the fiscal year. All figures, including those in Table 1, are rounded off.

Table 1

Budget for Expenses for Fiscal 2019 (The 135th Fiscal Year)

Item	Initial budget (thous. yen)	Change from the previous year (percent)
Cost of production of banknotes	52,431,340	0.9
Administrative expenses for treasury business and Japanese government securities	17,378,928	0.6
Personnel expenses	53,063,843	0.8
Remuneration of the officers	432,941	0.5
Remuneration of the employees	42,084,931	0.4
Retirement allowances	10,545,971	2.4
Expenses for transportation and communications	4,399,581	0.5
Expenses for transportation	2,218,433	3.9
Expenses for communications	2,181,148	-2.7
Expenses for maintenance and repairs	2,686,132	-5.7
Other general and administrative expenses and costs	54,157,673	2.1
Cost of expendable supplies	1,298,446	1.2
Expenses for electricity and water supply	1,924,561	-2.6
Leasing fees for buildings and equipment	7,068,033	-10.8
Expenses for maintenance of buildings and equipment	10,579,027	3.6
Miscellaneous expenses	33,287,606	5.3
Subtotal	184,117,497	1.1
Cost of fixed-asset purchases	21,265,871	49.6
Of which: Subject to the approval of the Minister of Finance ¹	4,993,890	14.8
Contingency funds	1,000,000	0.0
Total²	206,383,368	4.6
Of which: Subject to the approval of the Minister of Finance ¹	190,111,387	1.4

Notes: 1. Excludes the cost of purchasing fixed assets used for the Bank's business operations.

2. Of the budget for expenses, those related to computerization amounted to 30,479,807 thousand yen, a 0.8 percent decrease from the previous year, and are included in expenses for communications, leasing fees for buildings and equipment, expenses for maintenance of buildings and equipment, and miscellaneous expenses.

Budget estimates of computerization expenses assume required outsourcing of approximately 10,464 person-months (one person-month is the workload equivalent of one person working for one month in system development), and a total of approximately 13,453 person-months when the workload of the Bank's employees is included.

**THE CEILING ON THE NUMBER OF FULL-TIME EMPLOYEES
OF THE BANK OF JAPAN FOR FISCAL 2019¹**

The Bank has set the ceiling on the number of full-time employees for fiscal 2019 at 4,900.

1. Decided by the Policy Board on March 22, 2019.