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Bank of Japan

The Bank of Japan's Strategic Priorities for Fiscal 2011-2013

I. Introduction

"The Bank of Japan's Strategic Priorities for Fiscal 2011-2013" describes the basic principles for its business operations and organizational management during the three-year period.

The Strategic Priorities have a rolling three-year horizon. At the end of every fiscal year, the Bank conducts a performance review and then updates the Strategic Priorities accordingly, resetting the horizon to cover the next three years. Under the framework, the Bank keeps a medium-term perspective and responds flexibly to any changes in circumstances, so as to ensure that its business operations and organizational management are conducted in a timely manner.

II. Background

Structural changes have been taking place in Japan's economic and financial environment, including globalization, the growing significance of emerging economies -- especially those in Asia -- to the world economy, the diversification of financial transaction needs, and the innovations in financial engineering and information processing technology accompanying these changes. While these structural changes may well contribute to global economic growth, the accompanying economic and financial developments have been marked by complexity and volatility. This may cause imbalances to accumulate in the economy, triggering large-scale economic adjustments. The current global economic adjustment apparent particularly in the advanced economies is a case in point.

Japan's economic conditions are likely to continue recovering moderately over the longer term, and the year-on-year pace of decline in consumer prices is expected to slow gradually. However, the outlook continues to be attended by a significant level of uncertainty caused by factors such as the effects of the recent earthquake off the Pacific Coast of the Tohoku

region (hereafter the Tohoku-Pacific Ocean Earthquake), which could impact Japan's society and economy in numerous ways. In this situation, in order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, it is necessary that the Bank maintain accommodative financial conditions and ensure financial market stability, as well as provide support to strengthen the foundations for economic growth. Regional differences in economic structure as well as consequent disparities in profitability and financial strength among regional financial institutions are likely to remain.

Meanwhile, following the global financial crisis of autumn 2008, there have been increasingly lively international discussions with regard to maintaining the stability of the financial system. There has been progress toward establishing new rules for financial regulation and supervision that are consistent on an international basis, and also in the relevant efforts being made by individual countries and regions. At the same time, the significance of emerging economies is growing in discussions of international policy across a wide range of issues.

The Bank needs to respond flexibly to these changes in its environment; at the same time, in order to provide a stable foundation for financial and economic activity, it also needs to continue conducting its central banking operations properly.

The Bank must maintain the stability and efficiency of its central banking operations, while ensuring that working arrangements offer sufficient diversity for employees to improve their work-life balance¹ in response to changes in Japan's social structure. As a public organization, the Bank is also required by the public to constantly maintain the fairness and efficiency with which it runs its business.

III. Management Principles

Based on the above understanding, in order that the Bank's full resources may be deployed smoothly and in an integrated fashion to fulfill its mission, the following three management

¹ This refers to the achievement of a balance between work and personal life: employees should feel motivated and fulfilled by their duties and responsibilities at work; at the same time, depending on their stage of life, as parents or otherwise, they should have a wide range of choices and opportunities for personal fulfillment at home and in their communities.

principles have been set out under the Strategic Priorities: stability and efficiency in all business operations; learning in action; and enhancement of communication channels.

A. Stability and Efficiency in All Business Operations

The Bank's mission -- to ensure price stability and financial system stability -- is achieved primarily through its banking operations. It is therefore important for the Bank to ensure the stable conduct of all its banking operations, thereby raising public confidence. This is vital not only for banking operations but also for other activities, such as the compilation of statistics, research and analysis activities, and organizational management. At the same time, the Bank must continue to step up its efforts to conduct these operations efficiently.

B. Learning in Action

The Bank should continue to enhance its research activities on a wide range of economic and financial issues, since conducting high-quality research is a significant precondition for successfully achieving its mission. In its conduct of central banking operations, the Bank must take into account the surrounding circumstances, innovations in financial and information technology, and changes in public needs. Continued research and planning is needed to achieve further improvements in central banking services and thereby respond effectively to any changes in circumstances. It is also important for the Bank to conduct performance reviews and make revisions as appropriate. It is vital for the Bank to continue to foster an organizational culture, shared with other central banks, that encourages continuous "learning" in this broad sense.

C. Enhancement of Communication Channels

In order to maintain its independence and to conduct its policies and business operations appropriately, the Bank must be accountable for its activities and willing to disseminate related information widely. Moreover, ensuring that reviews of the Bank's policies and services are based on a firm grasp of any changes in circumstances or public needs requires the Bank to listen to outside opinions and properly understand the thinking behind them. Furthermore, to acquire and train the employees needed for its business operations and organizational management, the Bank needs to promote personnel exchanges with outside institutions. From this perspective, the Bank will look for further ways to consolidate

external relationships and enhance communication channels.

IV. Issues and Action Plans

In accordance with the three management principles described in Section III above, the Bank has continued to address a wide range of issues and has moved forward with a number of action plans. In fiscal 2010, the Bank generally achieved the anticipated level of progress in addressing and implementing the issues and action plans outlined for fiscal 2010-2012.

In the wake of the recent Tohoku-Pacific Ocean Earthquake, the Bank has faced new challenges in a wide range of business areas including the financial system, payment and settlement systems, services relating to treasury funds and Japanese government securities (JGSs), and communication with the public. The Bank will respond appropriately to these challenges by fully executing its functions as a central bank. Given the above assessment, as well as the recent developments in Japan's economic and financial environment described in Section II, the Bank will address new issues, including the above challenges, and implement appropriate new action plans during fiscal 2011-2013. The following is an overview of these.

A. Matters Relating to the Conduct of Monetary Policy

The Bank has clearly stated that, in order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, the Bank will continue to consistently make contributions as the central bank through the three-pronged approach of pursuing powerful monetary easing via comprehensive monetary easing, ensuring financial market stability, and providing support to strengthen the foundations for economic growth. The Bank will enhance the quality of its research and analysis regarding developments in economic activity, prices, and the financial environment at home and abroad, so as to make appropriate policy decisions. The Bank will carefully examine the effects of the recent Tohoku-Pacific Ocean Earthquake with regard to both the economic and financial sides of Japan's economy. In addition, the Bank will devise better methods of monitoring the financial environment and further strengthen analysis related to the relationship between financial and economic activity, and to policy interaction by individual countries amid the

ongoing globalization in the economy and financial markets. To this end, the Bank recognizes the importance of assessing risks in the financial system as a whole -- i.e., taking a macroprudential perspective -- in light of Japan's past experiences as well as the global financial crisis of autumn 2008 and subsequent policy responses by authorities worldwide.

The Bank will study the frameworks for money market operations so as to ensure that appropriate policy decisions are made.

At the same time, the Bank will communicate its research findings regarding the conduct of monetary policy to the public effectively.

B. Matters Relating to the Financial System

In light of the global financial crisis of autumn 2008, there have been increasingly lively international discussions on macroprudence and other issues relevant to maintaining the stability of the financial system. There has been progress toward establishing new international rules regarding financial regulation and supervision, and also in the relevant efforts being made by individual countries and regions around the world. Furthermore, the scope of international discussions has widened to include issues such as the international monetary system and the resolution frameworks for financial institutions. Given these developments, the Bank will conduct research and planning related to the financial system, giving due consideration to institutional factors unique to each country as well as Japan's past experiences. The Bank will make use of the findings to actively contribute to policy formulation both at home and abroad. At the same time, the Bank will further refine its methods for macroprudential analysis and assessment of the financial system in Japan and effectively communicate its findings to the public.

The business environment surrounding financial institutions is undergoing significant changes, and there remain disparities among institutions in terms of their profitability and financial strength. Under these circumstances, the Bank will ensure that it accurately grasps the business conditions at financial institutions by continuing to conduct its on-site examinations and off-site monitoring efficiently and effectively, while strengthening the feedback between them. The Bank will also encourage financial institutions to step up

efforts to improve their management of risks through activities organized by the Bank's Center for Advanced Financial Technology (CAFT).

The Bank will make use of the findings of its macroprudential analysis as well as on-site examinations and off-site monitoring in developing financial system policies and implementing monetary policy.

C. Matters Relating to Payment and Settlement Systems and Market Infrastructure

The Bank will conduct research and planning to promote improvement in the safety and efficiency of Japan's payment and settlement systems, and implement measures as necessary to respond to the following: (1) structural changes, such as the diversification of financial instruments and transactions, globalization of financial markets, and advances in information processing technology, as well as the resultant calls from market participants for payment and settlement systems that accommodate these changes; and (2) discussions, taking place both at home and abroad in the wake of the global financial crisis of autumn 2008, on reviewing payment and settlement practices and reforming the framework of financial regulation and supervision.

As part of these measures, the Bank, together with relevant parties, will proceed steadily with the establishment of a new Bank of Japan Financial Network System (BOJ-NET).

At the same time, the Bank, taking due account of the comprehensive review of international standards for payment and settlement systems, will firmly monitor the safety and efficiency of these systems both at home and abroad and encourage relevant parties to make improvements, in accordance with the new set of basic oversight policies.

With a view to further enhancing the stability and efficiency of financial markets and in consideration of international developments, the Bank will carry out research and planning related to improving financial market structures and adjusting market infrastructure. It will work toward securing improvements in these areas, in discussion and cooperation with relevant parties at home and abroad.

In response to the Tohoku-Pacific Ocean Earthquake, the Bank will take all possible measures to ensure business continuity arrangements for maintaining financial intermediary function and securing smooth fund settlements. It will also step up efforts to ensure the effective and efficient implementation of the business continuity arrangements put in place to respond to emergency situations such as natural disasters and pandemics, cooperating with relevant parties, including ministries and government agencies as well as financial institutions.

In addition to the above efforts, on the international financial front, the Bank will contribute to the stability of the international currency system by, for example, promoting efforts to ensure the stability of the currency system in Asia and strengthening cooperation with overseas authorities, especially central banks, through personnel exchange and technical assistance.

D. Matters Relating to the Regional Economic and Financial Environment

In response to the Tohoku-Pacific Ocean Earthquake, the Bank will make an attentive assessment of economic and financial developments in various regions, particularly in the disaster-stricken areas, and stand ready to respond and act as necessary.

In the course of implementing policy measures such as the fund-provisioning measure to support strengthening the foundations for economic growth, the Bank will maintain a sound grasp of economic and financial conditions in each region through close and frequent communication with local financial and business communities. The Bank will make use of its findings in its conduct of monetary policy and other actions.

The Bank will strengthen its grasp of business conditions at regional financial institutions -- including their performance as financial intermediaries -- through its on-site examinations and off-site monitoring, and will carry out more in-depth discussions with regional financial institutions on issues relating to business conditions. The Bank will also support regional financial institutions' efforts to improve their management of risks through, for example, local seminars organized by the CAFT. By means of these activities, the Bank will contribute to efforts to improve the functioning of the financial system in regional

economies.

E. Matters Relating to Banknotes, Treasury Funds, and JGS Services

The Bank will continue to work toward securing confidence in banknotes and coins, and will conduct further research on anti-counterfeiting technologies as part of this effort.

With regard to banknote examination and services relating to treasury funds and JGSs, the Bank will examine the likely changes in the workload at its Head Office and branches in view of recent changes in the delivery routes of banknotes between financial institutions and the Bank, as well as the progress being made in the online processing of treasury funds. The Bank will then proceed with its reappraisal of the division of roles between its Head Office and branches, as well as among branches, in addition to its operational frameworks for banknote examination and services related to treasury funds and JGSs. Through these efforts, the Bank will seek to make its operational frameworks in these areas even more stable and efficient.

F. Matters Relating to Communication with the Public

In the course of implementing measures in a number of areas, the Bank will work to improve the effectiveness of its communication with the public, so as to gain broad public understanding of its policies and overall business operations. As part of this effort, the Bank will continue to enhance its dissemination of English-language materials and the reports and research papers it releases.

V. Organizational Management

With a view to addressing the issues and moving forward with the action plans stated in Section IV above, the Bank will implement the following measures with respect to organizational management.

A. Stable and Efficient Business Operations

The Bank will continue to ensure that all operations are backed by accurate practical knowledge and executed with precision and deliberation. In particular, it will ensure that the necessary operational procedures are put in place in a swift and appropriate manner to

implement policy measures effectively. The Bank will assess its business processes in order to identify where operational risks -- including those associated with information security -- exist, and how such risks are controlled. It will then revise its business processes as necessary and work toward further strengthening its risk management.

Moreover, the Bank will raise the efficiency with which it uses management resources by implementing operational restructuring and improving its business processes in light of changes in the business environment, as well as by further promoting computerization and the use of outsourcing. The Bank plans to achieve wide-ranging efficiency gains across areas that include the establishment of a new BOJ-NET, the provision of services relating to banknotes, treasury funds, and JGSs, as well as the compilation of statistics. The Bank will also work to improve the efficiency of its system development through streamlining development processes, employing new technology, and promoting outsourcing.

At the same time, the Bank will continue to ensure the fairness of its business operations and organizational management by means of thorough compliance with all requisite laws and regulations.

B. Human Resources

From fiscal 2011 to 2013, the Bank will apply itself to further increasing the overall efficiency of its business operations, while securing the staff needed to enhance its capabilities in both policy formulation and the system development necessary for successful policy implementation. In addition, the Bank will continue to promote working arrangements that take into account employees' work-life balance, while holding down total personnel expenses.

With these precepts guiding its human resource management, the Bank has set the ceiling on the number of full-time employees for fiscal 2011 at 4,900, a decrease of 80 employees from fiscal 2010.

The Bank will continue to acquire and train employees, while further raising employee motivation. To this end, job rotation and human resource development programs will be

improved. The Bank will also be more active in sending/receiving employees to/from outside institutions, with a view to enhancing communication channels and strengthening its capacity to respond smoothly to changes in circumstances at home and abroad.

C. Budget for Expenses

The Bank will keep any increase in expenses to a minimum by thoroughly examining each item of expenditure and achieving a more streamlined overall budget; at the same time, it will appropriate a portion of the budget to deal with the issues and implement the action plans outlined in the Strategic Priorities.

In keeping with these principles, the Bank has set its budget for expenses for fiscal 2011 (the 127th fiscal year) as shown in the Attachment.

D. Performance Reviews

The Bank will evaluate the progress made in the improvement of business operations and organizational management described in the Strategic Priorities at the end of every fiscal year. It will release the results of this evaluation in the *Gyoumu Gaikyo Sho* (Outline of Business Operations), which is translated into English as the *Annual Review*.

In addition to these regular and comprehensive reviews, the Bank will conduct performance reviews of major projects some time after their completion. The Bank will examine, for example, whether the projects have achieved the desired results and whether unanticipated risks have arisen. The results of such reviews will be made available to the public.

Budget for Expenses for Fiscal 2011

The Bank of Japan's budget for expenses for fiscal 2011 (the 127th fiscal year) is as follows (Table 1).² While appropriating a significant portion of the budget to deal with the issues and implement the action plans outlined in the Strategic Priorities, the Bank has also thoroughly examined each item of expenditure to achieve a more streamlined overall budget. As a result, the Bank has set its budget for expenses for fiscal 2011 at a total of 193.2 billion yen, which is less than the amount for the previous fiscal year.

Specifically, the overall decrease in the budget from the previous fiscal year was due to reductions in the following range of items: 2.0 percent in the cost of production of banknotes; 1.0 percent in administrative expenses for treasury business and Japanese government securities; 0.0 percent in personnel expenses; 4.0 percent in expenses for transportation and communications; 2.5 percent in expenses for maintenance and repairs; and 8.6 percent in the cost of fixed-asset purchases. "Other general and administrative expenses and costs" increased by 4.4 percent mainly in accordance with efforts to establish a new BOJ-NET.

² The Bank prepares a budget for expenses every fiscal year. Its budget for core operations, 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. For fiscal 2011, the Bank sought approval on March 18, 2011 and will implement the budget upon authorization from the Minister of Finance. All figures, including those in Table 1, are rounded off to the nearest whole number.

Table 1
Budget for Expenses for Fiscal 2011
(The 127th Fiscal Year)

Item	Initial budget (thous. yen)	Change from the previous year (percent)
Cost of production of banknotes	49,951,295	-2.0
Administrative expenses for treasury business and Japanese government securities	19,336,182	-1.0
Personnel expenses	50,691,916	-0.0
Remuneration of the officers	420,555	-1.6
Remuneration of the employees	40,580,024	0.5
Retirement allowances	9,691,337	-2.0
Expenses for transportation and communications	5,158,733	-4.0
Expenses for transportation	2,135,163	-2.5
Expenses for communications	3,023,570	-5.0
Expenses for maintenance and repairs	2,043,867	-2.5
Other general and administrative expenses and costs	54,949,984	4.4
Cost of expendable supplies	1,412,604	-11.3
Expenses for electricity and water supply	2,077,535	-5.1
Leasing fees for buildings and equipment	10,739,615	-7.8
Expenses for maintenance of buildings and equipment	9,828,059	-1.1
Miscellaneous expenses	30,892,171	13.3
Subtotal	182,131,977	0.5
Cost of fixed-asset purchases	10,064,812	-8.6
Of which: Subject to the approval of the Minister of Finance ¹	2,995,277	-16.3
Contingency funds	1,000,000	0.0
Total²	193,196,789	-0.0
Of which: Subject to the approval of the Minister of Finance ¹	186,127,254	0.1

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 34,354,992 thousand yen, a 9.7 percent increase 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 man-hours of approximately 10,232 person-months (one person-month describes the workload equivalent to one person working for one month in system development), and total man-hours of approximately 13,123 person-months if the workload of the Bank's employees is included.