

March 25, 2014

Bank of Japan

## **The Bank of Japan's Strategic Priorities for Fiscal 2014-2018**

### **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.<sup>1</sup>

**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) dealing proactively with new issues and (2) conducting business operations stably while managing operational risks

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<sup>1</sup> 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.

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 web site, 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.