

The Bank's Strategic Framework

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I. STRATEGIC FRAMEWORK FOR FISCAL 2004

On March 12, 2004, the Policy Board endorsed a set of comprehensive strategies that not only summarized the Bank's budget,⁷ personnel, and other management resources, but also outlined the issues that should be tackled by each unit, namely the Bank's departments,

offices, and institute at the Head Office as well as branches and other offices, within its overall operational structure. The strategies also detailed the Bank's thinking regarding these issues. The contents released by the Bank on March 12, 2004, were as follows.

Strategic Framework for Fiscal 2004

The Bank of Japan's mandate is to contribute positively to the sound development of Japan's economy by pursuing monetary policy aimed at price stability, securing a smoothly functioning system of payments and settlements, and contributing to financial system stability. For this purpose, it is necessary that the Bank respond appropriately to changes not only in the financial and economic situation, but also to significant changes in its environment, including globalization and advances in IT.

As the Bank's highest decision-making body, the Policy Board sets the fundamental direction of policy, operations, and organization management, and the Bank's organization bodies (departments, offices, and the institute located at the Head Office, as well as branches and other offices) carry out their operations accordingly. The functions of the Bank's operational bodies can be divided into three types. The first is "policy planning support and research," which involves formulating policy proposals and providing materials to assist the Policy Board's decision making. The second is "operations and services," which involves carrying out operations and offering central banking services in accordance with the Policy Board's decisions. The third is "organization management and business infrastructure improvement," which involves providing the facilities and the organization management necessary for the Bank to fulfill its functions.

The Policy Board endorsed the following "Strategic Framework for Fiscal 2004," after careful discussions relating to issues that the Bank's operational bodies should tackle, along with its thinking on these issues; details of the Bank's budget, personnel, and other management resources; and details of its basic policies on IT investment.

7. The Bank's budget for general and administrative expenses and costs for fiscal 2004 (the 120th fiscal year), prescribed in Article 51, Paragraph 1 of the Bank of Japan Law, was approved by the Minister of Finance on March 26, 2004 (see Footnote 3 on page 14 for details).

I. Business Strategies for Fiscal 2004

The Bank's business strategies for fiscal 2004 are detailed below. These strategies will be pursued in line with the Bank's watchwords "Strategy, Initiative, and Achievement."¹ Efforts will also be made to ensure sufficient communications among the executives and the staff.

A. Policy Planning Support and Research

1. The Bank will conduct policy planning support and research with the aim of promptly addressing the two major challenges Japan's economy now faces: overcoming deflation to ensure sustainable economic growth, and restoring the soundness of the financial system.
2. Taking a medium- to long-term perspective, the Bank will actively contribute to improving the financial market infrastructure underpinning economic vitality.

B. Operations and Services

1. The Bank will continue to enhance its operations and services via computerization, while taking concrete measures to use its finite management resources effectively.
2. The Bank will continue to streamline its operations and reconfirm its employees' awareness of the importance of reliability and ensuring stable execution of the Bank's functions.

C. Organization Management and Business Infrastructure Improvement

1. The Bank will take concrete measures to realize flexible organization management that is capable of responding appropriately to changes in the financial and economic environment.
2. The Bank will enhance its risk management capability to prepare for natural disasters and other emergency situations.
3. The Bank will more efficiently collect and disseminate information on its policy and operations at all Bank branches and offices in and outside Japan.

II. Major Issues and Action Plans

In light of the above business strategies, the major issues facing the Bank in fiscal 2004 and action plans for addressing them are as follows.

A. Policy Planning Support and Research

1. **Enhancing policy planning and research, with the aim of overcoming deflation and securing sustainable economic growth**
 - a. Assessing the current economic situation, looking at developments in prices and financial markets, and engaging in related research and forecasting activities. Policy planning backed by such assessment and research.

1. The watchwords express the following.

Strategy: All executives and staff, after due reflection, should identify what needs to be done and figure out the best way to accomplish it.

Initiative: They should take the initiative in completing these tasks.

Achievement: They should be responsible for the completion of these tasks.

- b. Conducting research and analysis of medium- to long-term and/or structural issues facing the financial markets and the economy in Japan.
- c. Conducting research and analysis of the relationship between economic activity and financial developments, the industrial structure and corporate activity, and regional economies.
- d. Conducting research and analysis of the international financial and economic situation.
- e. Conducting fundamental studies on monetary and economic issues.

2. Taking measures to strengthen the soundness of the financial system

- a. Enhancing the Bank's ability to assess conditions at financial institutions through on-site examinations and off-site monitoring.
- b. Promoting cooperation with financial institutions in preparation for the full removal of blanket deposit insurance (scheduled for April 2005) and the redesigning of both financial and payment and settlement systems to accommodate this event.
- c. Taking measures in response to the new capital adequacy ratio standards.
- d. Taking appropriate measures to prevent systemic risk.
- e. Taking measures to strengthen systems to ensure business continuity at financial institutions and financial markets during natural disasters and other emergency situations.

3. Improving the financial market infrastructure to support economic vitality

- a. Taking measures to increase liquidity in Japanese government securities (JGS) markets.
- b. Actively contributing to improvements in the infrastructure for credit markets.
- c. Cooperating in developing securities markets in Asian economies.

4. Active participation in various discussions on financial and economic issues

Presenting the results of the Bank's research as a contribution to various discussions both inside and outside Japan.

B. Operations and Services

1. Introducing new banknote designs

Smoothly introducing new banknote designs featuring cutting-edge anti-counterfeiting technologies.

2. Ensuring the reliability of payment and settlement systems, including the Bank of Japan Financial Network System (BOJ-NET)

- a. Ensuring the stable operation of payment and settlement systems including the BOJ-NET.
- b. Improving the safety, efficiency, and user-friendliness of the BOJ-NET.
- c. Adapting to reforms made to Japan's securities settlement system.

3. Reviewing the Bank's monetary policy tools

Conducting continual reviews of the Bank's monetary policy tools in response to financial market developments.

4. Improving operations involving treasury funds and JGSs, including online processing of treasury funds services

- a. Promoting online processing of treasury funds services.
- b. Responding to changes in the systems for JGS market operations.

5. Improving statistics

- a. Reviewing the corporate service price index (CSPI).
- b. Streamlining compilation procedures for statistics by such means as the introduction of electronic reporting of balance of payments statistics.
- c. Enhancing the quality and the user-friendliness of statistics.

6. Pursuing stable and efficient operations

- a. Pursuing stable operations backed by reliable practical knowledge.
- b. Promoting more efficient and streamlined operations.

C. Organization Management and Business Infrastructure Improvement

1. Creating a more innovative and efficient organization able to respond appropriately to a changing environment

- a. Promoting concrete measures such as an organizational reform² in order to ensure flexible organization management.
- b. Business process reengineering.
- c. Training staff through active personnel exchanges with other organizations.

2. Pursuing effective and highly transparent management

- a. Pursuing appropriate and efficient organization management.
- b. Ensuring transparency in executing operations.

3. Strengthening the Bank's ability to respond to emergencies

- a. Strengthening the Bank's ability to respond to natural disasters and other emergency situations.
- b. Enhancing information security measures and other risk management systems.

4. Improving the dissemination of information and enhancing public relations activities

- a. Effectively disseminating information on the Bank's policy measures and operations at home and abroad.
- b. Appropriately operating the Currency Museum, the Bank of Japan Otaru Museum, and the Archive, and preserving and making publicly available documents, currencies, and other items of historical and cultural value.
- c. Enhancing public relations activities at home and abroad by improving communications tools in various areas.

2. See Attachment.

III. Management Resources

A. Budget for General and Administrative Expenses and Costs³

The Bank's budget for general and administrative expenses and costs for fiscal 2004 (the 120th fiscal year) is as follows (tables 1 and 2). Note that, while appropriating a significant portion of the budget to deal with the "Major Issues and Action Plans" outlined in the preceding section, the Bank is also seeking to achieve a more streamlined budget by thoroughly examining overall expenditure.

1. The budget for general and administrative expenses and costs for fiscal 2004 (excluding the cost of fixed-asset purchase and contingency funds) increased by 1.5 percent from the previous year to 226.0 billion yen, due mainly to the following increases from the previous year: 5.2 percent in the cost of production of banknotes related to preparations for the new series of Bank of Japan notes; and 3.2 percent in expenses for computerization arising from the improvement of BOJ-NET terminals.
2. Omitting these expenses, however, the Bank has made great progress in cutting costs: administrative expenses for treasury business and government securities decreased by 1.1 percent; personnel expenses by 0.7 percent; the cost of expendable supplies by 7.5 percent; expenses for electricity and water supply by 6.7 percent; and leasing fees for buildings and equipment by 8.4 percent (all percentages represent falls from levels a year earlier).
3. The budget for expenses related to computerization⁴ reflects an estimate for outsourcing man-hours of approximately 7,800 person-months for development. When the time spent by the Bank's staff is included, the scale of the development is estimated to require approximately 10,400 person-months overall.⁵
4. The Bank appropriated a total of 16.6 billion yen for fixed-asset purchase, an increase of 36.6 percent from the previous year. The increase followed the appropriation of the cost of purchasing land for the renovation of the Bank of Japan Naha branch as well as the cost for updating automatic banknote examination machines.
5. The Bank appropriated 1.0 billion yen for contingency funds in fiscal 2004, which was the same amount as in the previous fiscal year.

B. Basic Policies on IT Investment

Further computerization is essential to realize many of the issues and items listed in Section II above. Such IT investment will be made in accordance with basic policies specified below.

1. In planning IT investment projects such as upgrading BOJ-NET-related systems, computerizing treasury funds operations, and introducing electronic reporting for balance of payments statistics, the Bank's efforts are geared toward enhancing the overall quality of its operations and services, with the aim of raising the efficiency of Japan's economy.

3. The Bank prepares a budget for general and administrative expenses and costs 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 Law before the beginning of each fiscal year. For fiscal 2004, the Bank sought approval on March 12, 2004, and will implement the budget upon authorization from the Minister of Finance.

Figures appearing in the text and tables of the "Strategic Framework" are rounded.

4. Computerization is carried out under the Basic Policies on IT Investment (see "The Bank's Strategic Framework for Fiscal 2004," Section III.B).

5. In systems development, one person-month is the equivalent of one person working for one month.

2. In evaluating potential investment projects, the Bank will give due consideration to the relevancy, urgency, and cost-effectiveness of each project. Moreover, the Bank will take concrete measures to make best use of its finite resources, such as consolidating projects that use similar system technologies and adopting a medium- to long-term perspective in drawing up development schedules.
3. In developing the system, the Bank will conduct a necessary review of the business procedures to which the system is to be introduced, while making every effort to ensure that the system retains the flexibility to expand and/or accommodate future technological changes, and reducing the time required for development.
4. In light of the expansion of computing networks, the Bank will actively utilize new system technologies, with a view to maximizing the efficiency with which information is used and business implemented.

C. Number of Employees (Table 3)

The ceiling on the number of Bank employees for fiscal 2004 was set at 5,260. This was the number deemed necessary for the execution of the “Major Issues and Action Plans” described in the preceding section, as well as the Bank’s various other operations.

The Bank has been seeking to reduce personnel in an effort to further streamline its operations. This is consonant with the medium-term target for the number of staff, namely a reduction in staff numbers of approximately 10 percent over the five years starting from the end of fiscal 1998. This target is expected to be achieved at the end of March 2004.⁶ The Bank will continue to pursue “appropriate and efficient operation management.”

6. At the end of March 2004, the number of employees was 5,059, down by 598 from 5,657 at the end of March 1999.

Table 1

Budget for General and Administrative Expenses and Costs for Fiscal 2004 (The 120th Fiscal Year)

Item	Initial budget (thous. yen)	Share ¹ (percent)	Changes from the previous year (percent)
Cost of production of banknotes	69,248,364	30.6	5.2
Administrative expenses for treasury business and government securities	43,384,995	19.2	-1.1
Personnel expenses	51,167,639	22.6	-0.7
Remuneration of the executives	444,484	0.2	-1.7
Remuneration of the staff	41,136,465	18.2	-1.5
Retirement allowances	9,586,690	4.2	2.9
Expenses for transportation and communications	6,336,910	2.8	5.4
Expenses for transportation	2,326,818	1.0	-3.3
Expenses for communications	4,010,092	1.8	11.1
Expenses for maintenance and repairs	1,700,000	0.8	9.5
Other expenses and costs	54,173,055	24.0	0.3
Cost of expendable supplies	2,196,780	1.0	-7.5
Expenses for electricity and water supply	2,412,033	1.1	-6.7
Leasing fees for buildings and equipment	12,485,004	5.5	-8.4
Expenses for maintenance of buildings and equipment	9,000,865	4.0	8.1
Miscellaneous expenses	28,078,373	12.4	3.6
Subtotal	226,010,963	100.0	1.5
Cost of fixed-asset purchase	16,649,859	...	36.6
Of which: Subject to the approval of the Minister of Finance ²	8,026,374	...	17.7
Contingency funds	1,000,000	...	0.0
Total³	243,660,822	...	3.3
Of which: Subject to the approval of the Minister of Finance ²	235,037,337	...	1.9

Notes: 1. "... " indicates that figures are not applicable.

2. Excludes the cost of purchasing fixed assets used for the Bank's business operations.

3. Of the budget for general and administrative expenses and costs, expenses for computerization amounted to 31,932,426 thousand yen, a 3.2 percent increase from the previous year, and they are included in expenses for communications, leasing fees for buildings and equipment, expenses for maintenance of buildings and equipment, and miscellaneous expenses.

Table 2

Budget for General and Administrative Expenses and Costs for Fiscal 1999–2004

bil. yen

Item	Fiscal year						
	1999	2000	2001	2002	2003	2004	
Budget for general and administrative expenses and costs ¹	205.8	207.5	205.5	219.2	222.8	226.0	
Reference: Expenses for computerization	20.9	25.5	28.6	31.6	30.9	31.9	
Cost of fixed-asset purchase	36.9	31.9	25.8	24.7	12.2	16.6	
Total budget for general and administrative expenses and costs ²	243.7	240.4	232.4	245.0	236.0	243.7	

Notes: 1. Excludes the cost of fixed-asset purchase and the contingency funds.

2. Includes the contingency funds.

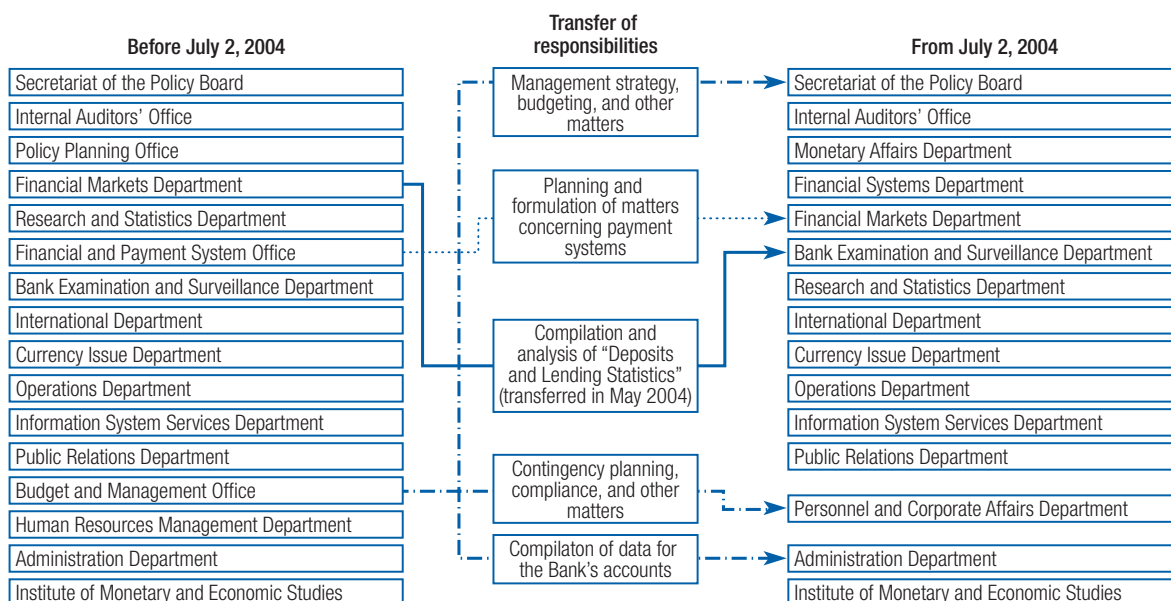
Table 3

Annual Ceiling on the Number of Employees for Fiscal 1999–2004

people

Fiscal year	1999	2000	2001	2002	2003	2004
Number of employees	5,890	5,750	5,530	5,370	5,260	5,260

ATTACHMENT: REORGANIZATION OF THE BANK'S HEAD OFFICE



II. IMPLEMENTATION OF ACTION PLANS FOR FISCAL 2004

The following outlines the implementation of action plans presented in the Strategic Framework for Fiscal 2004.

A. Policy Planning Support and Research

1. Enhancing policy planning and research, with the aim of overcoming deflation and securing sustainable economic growth

a. Assessing the current economic situation, looking at developments in prices and financial markets, and engaging in related research and forecasting activities. Policy planning backed by such assessment and research.

The Bank conducted research and analysis to assess the current state of the economy and prices at home and abroad, as well as conditions in financial markets and corporate finance under the quantitative easing policy. Such research is a prerequisite for implementing policy to overcome deflation and ensure sustainable economic growth. The results were presented at Monetary Policy Meetings (MPMs), and released in the *Monthly Report of Recent Economic and Financial Developments* and the *Outlook for Economic Activity and Prices* issued biannually.

The Bank continued to take initiatives to explain the thinking behind its conduct of monetary policy as

well as its underlying assessment of economic activity and prices in a timely and lucid manner. At the MPM on October 29, 2004, the Policy Board members discussed, and later described in the *Outlook for Economic Activity and Prices*, the Bank's basic view on the future conduct of monetary policy and how to enhance its communication with the public in this regard.

b. Conducting research and analysis of medium- to long-term and/or structural issues facing the financial markets and the economy in Japan.

Taking a medium- to long-term perspective, the Bank conducted research and analysis on various financial and economic issues, and released the results in the *Nippon Ginko Chousa Kiho* (Bank of Japan Research Bulletin)² and other publications.

c. Conducting research and analysis of the relationship between economic activity and financial developments, the industrial structure and corporate activity, and regional economies.

The Bank continued preparations for the first release of the *Regional Economic Report (Summary)* in April 2005 aiming to improve its research/surveys on regional financial and economic developments and business conditions, and to ensure that these findings were reflected in policy implementation.

2. Summaries of some of the research papers were translated into English and published in the *Bank of Japan Quarterly Bulletin*.

d. Conducting research and analysis of the international financial and economic situation.

The Bank took active part in discussions on the global financial and economic situation by participating in international conferences, which included those hosted by the Bank for International Settlements (BIS), the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), the Group of Seven (G-7) countries, and the Group of 20 (G-20) countries.

The Bank improved the quality of its research and analysis on overseas financial and economic developments by working in close liaison with its overseas representative offices and other relations to strengthen its network for gathering information and conducting research on various issues such as those related to Asia.

e. Conducting studies on fundamental monetary and economic issues.

The Bank conducted research into fundamental financial and economic issues, and published the results in *Monetary and Economic Studies*. The Bank also hosted the Sixth Information Security Symposium on artifact-metrics in the financial field and the eleventh international conference on Challenges for Sustained Economic Growth under Changing Economic, Social and International Environments, and released their proceedings.

2. Taking measures to strengthen the soundness of the financial system

a. Enhancing the Bank's ability to assess conditions at financial institutions through on-site examinations and off-site monitoring.

The Bank assessed conditions at financial institutions that hold current accounts at the Bank (BOJ account holders) through on-site examinations and off-site monitoring, conducted in accordance with the "On-Site Examination Policy for Fiscal 2004," approved by the Policy Board on March 26, 2004, and released on March 29. Examinations were conducted at 153 financial institutions in fiscal 2004, an increase of 13 institutions from the previous year.

Through its examinations and monitoring, the Bank assessed financial institutions' measures with regard to nonperforming-loan (NPL) disposal, corporate rehabilitation, the establishment of risk management systems, and the strengthening of their profitability.

During examinations at financial institutions that had developed more reliable methods for internal rating of credit risk and had been putting these into practice when quantifying risks, discussions took into account assessment findings relating to the credit risk of institutions' entire loan portfolios.

Moreover, the Bank examined financial institutions' risk management systems using the mark-to-model method to assess the value of their investment in assets such as structured bonds and non-listed preferred stocks.

b. Promoting cooperation with financial institutions in preparation for the full removal of blanket deposit insurance in April 2005 and the redesigning of both financial and payment and settlement systems to accommodate this event.

The Bank conducted in-depth discussion on practical procedures for handling failures of financial institutions after the full removal of blanket deposit

insurance, in cooperation with relevant authorities and institutions.

Substantial progress has been made regarding the NPL problem, and the financial system has recovered significantly in terms of its soundness and stability. In light of this, the Bank considered measures to support the financial system after the full removal of blanket deposit insurance and made them public in "The Bank of Japan's Measures regarding the Financial System after the Full Removal of Blanket Guarantee of Deposits," which was approved by the Policy Board on March 18, 2005.

- c. Taking measures in response to the new capital adequacy ratio standards.

The Bank, as a member of the Basel Committee on Banking Supervision, contributed to the drafting of the new capital adequacy framework (Basel II) that was released in June 2004. At the same time, the Bank exchanged views with the Financial Services Agency and financial institutions on how to ensure proper and smooth implementation of the new framework in Japan.

- d. Taking appropriate measures to prevent systemic risk.

The Bank terminated its crisis management measures, in view of progress in regaining financial system stability. The amount outstanding of loans that the Bank extended under Article 38 of the Bank of Japan Law dropped to zero at the end of March 2005, following prepayment for subordinated loans made to Minato Bank before maturity and completion of bankruptcy procedures for Yamaichi Securities. The Bank stopped purchasing stocks from banks, a

measure that had been in place since November 2002, with total purchases during the period amounting to 2,018 billion yen. For loans extended to Yamaichi Securities, the Bank made final disposals in the settlement of accounts for fiscal 2004.

Through its on-site examinations and off-site monitoring, the Bank assessed the state of financial institutions' liquidity management and whether the development and operational management of their computer systems were appropriate.

- e. Taking measures to strengthen systems to ensure business continuity at financial institutions and financial markets during natural disasters and other emergency situations.

Through its on-site examinations and off-site monitoring, the Bank checked arrangements for business continuity systems at financial institutions in case of natural disasters, system malfunctions, and other problems. Moreover, by holding meetings of the Payment System Forum and interacting with industry associations, the Bank promoted the development of business continuity planning, so that financial institutions and financial markets were better prepared to deal with wide-scale disruptions.

3. Improving the financial market infrastructure to support economic vitality

- a. Taking measures to increase liquidity in Japanese government securities (JGS) markets.

At the MPM on April 8 and 9, 2004, the Bank decided to introduce a facility to provide the markets with JGSs held by the Bank, as a secondary source of these, from the perspective of enhancing liquidity and maintaining the smooth functioning of JGS markets.

The Bank also released in April 2004 a research paper in Japanese that explains the importance of JGS markets and related issues for the future.

- b. Actively contributing to improvements in the infrastructure for credit markets.

The Bank continued to support market participants' efforts to ensure the sound development of the asset-backed securities (ABS) market. As part of its undertaking, the Bank released a report, in April 2004, summarizing the discussions that had taken place at the meetings of the Workshop on Securitization. In addition, the Bank began monthly releases of the results of its Survey on the Securitization Market and other related documents, prompted by discussions at the workshop and requests from market participants.

The Bank decided at the MPM on March 15 and 16, 2005, to accept yen-denominated dematerialized CP issued by foreign corporations with domestic corporation guarantees as eligible collateral for the Bank's provision of credit and also to include such CP in the range of eligible assets for CP purchase operations with repurchase agreements, given that more market participants are likely to shift from using paper CP to using dematerialized CP with the termination of the favorable treatment of the stamp tax applied to paper CP at the end of March 2005.

- c. Cooperating in developing securities markets in Asian economies.

EMEAP launched an Asian Bond Fund 2, and in line with the Policy Board decision on December 14, 2004, the Bank subscribed to the fund as part of its cooperation with other EMEAP central banks.

With the aim of fostering bond markets in Asia, the Bank prepared a report analyzing the impediments to extending cross-border trading. In addition, as part of its technical assistance/cooperation, the Bank held seminars/workshops, targeting particularly central bankers in the Asia-Pacific region and covering issues such as central bank's involvement in capital market development.

4. Active participation in various discussions on financial and economic issues

Presenting the results of the Bank's research as a contribution to various discussions both inside and outside Japan.

The Bank actively participated in a wide range of discussions regarding financial and economic issues: at international conferences and meetings of BIS, EMEAP, the G-7 countries, the G-20 countries; with other central banks; and at forums and academic conferences.

B. Operations and Services

1. Introducing new banknote designs

Smoothly introducing new banknote designs with state-of-the-art security features.

The Bank carried out its plans regarding manufacturing and increasing stocks of the new series of banknotes as scheduled, and started to issue the new series on November 1, 2004. Given the increasing incidence of counterfeit old series banknotes being discovered, from January 17, 2005, the Bank started to pay to BOJ account holders only the new series notes, whereas it had previously paid out both new and old ones. In the meantime, the

Bank has been actively carrying out public relations activities to inform the public about the introduction and special features of the new series of banknotes. These have taken the form of postings on the Bank's web site, brochures, posters, and newspaper advertisements, as well as exhibitions at the Bank's Currency Museum and the Bank of Japan Otaru Museum.

2. Ensuring the reliability of payment and settlement systems, including the Bank of Japan Financial Network System (BOJ-NET)

a. Ensuring the stable operation of payment and settlement systems including the BOJ-NET.

The Bank conducted system disruption drills with BOJ account holders, in order to ensure smooth operation of a settlement system such as the BOJ-NET.

b. Improving the safety, efficiency, and user-friendliness of the BOJ-NET.

As for improvement in the network infrastructure of the BOJ-NET, the Bank completed measures to improve computer-to-computer connection and to accept message formats based on international standards. The Bank worked on the necessary arrangements so that it could start providing more sophisticated services via PC-based connection instead of dedicated BOJ-NET terminals by September 2006.

c. Adapting to reforms made to Japan's securities settlement system.

The Bank took part in discussions on the reform of securities settlement systems in Japan at various meetings such as those held by the Japan Securities

Dealers Association and the Legislative Council of the Ministry of Justice. In addition, to enhance the safety and efficiency of overall securities settlement systems, the Bank gave the Japan Securities Depository Center (JASDEC) DVP Clearing Corporation permission to hold a current account at the Bank and to participate in the Japanese government bond (JGB) book-entry system and the BOJ-NET. The corporation clears spot transactions involving stocks and other securities traded outside Japanese stock exchanges.

The Bank also took part in discussions with market participants on projects such as the following: the establishment of a clearing organization for JGSs, the Japan Government Bond Clearing Corporation, which started operation in May 2005; and the introduction of delivery-versus-payment (DVP) settlement to the book-entry system for bonds other than JGBs governed by the Law concerning Book-Entry Transfer of Corporate and Other Debt Securities, which is scheduled to start in January 2006. Feasibility studies were also carried out regarding the connection of such settlement arrangements to the BOJ-NET.

3. Reviewing the Bank's monetary policy tools

Conducting continual reviews of the Bank's monetary policy tools in response to financial market developments.

The Bank decided to introduce a facility to provide the markets with JGSs held by the bank, as a secondary source of these, at the MPM on April 8 and 9, 2004.

The Bank decided to accept yen-denominated

dematerialized CP issued by foreign corporations with domestic corporation guarantees as eligible collateral for the Bank's provision of credit and also to include such CP in the range of eligible assets for CP purchase operations with repurchase agreements at the MPM on March 15 and 16, 2005.

4. Improving operations involving treasury funds and JGSs, including online processing of treasury funds services

a. Promoting online processing of treasury funds services.

As part of efforts to achieve more streamlined online processing for treasury funds operations, the Bank carried out online processing smoothly and securely for the following treasury funds operations that had previously been introduced in fiscal 2003: electronic payment of government taxes and fees; electronic application for government disbursements of treasury funds; and electronic recording and transferring of treasury funds. In fiscal 2004, the first electronic payments of social security premiums and national taxes were accepted, and the number of agents at which such payments were possible also increased. Moreover, the Bank enhanced cooperation and computer system compatibility among government ministries and agencies and financial institutions, and made processing of receipt and disbursement of money submitted to the government to be held in custody or as deposits available online in March 2005.

b. Responding to changes in the systems for JGS market operations.

The Bank took the measures necessary for its

operation and computer systems to accommodate the introduction of JGB Market Special Participants in October 2004.

5. Improving statistics

a. Reviewing the corporate service price index (CSPI).

The Bank made a five-yearly revision of the CSPI. The revision includes the selection of new items, division of existing items, abolishment and combination of certain items, and change in the range of services covered by individual items.

b. Streamlining compilation procedures for statistics by such means as the introduction of electronic reporting of balance of payments statistics.

In January 2005, the Bank started an online reporting system accessed via the Internet, to accept reports required under the Foreign Exchange and Foreign Trade Law. Meanwhile, the online processing of reports and notifications based on this law is scheduled to start in July 2005. Most reporting procedures based on the law are entrusted to the Bank by the Minister of Finance.

c. Enhancing the quality and the user-friendliness of statistics.

The Bank revised its method for estimating broadly-defined liquidity in the money stock statistics, as well as substantially expanding the coverage of the flow of funds accounts statistics, with the new coverage applied retroactively to statistics as far back as the 1980s. For statistics related to the balance of payments, the Bank revised the timing and frequency of their release in addition to their contents, so as to fit in with the introduction of online reporting.

The Bank began to release statistics and a

summary of the “Bank of Japan’s Transactions with the Government.” It also decided to release on its web site the data related to the Bank’s operations and the uncollateralized overnight call rate, updated every business day.

In view of changes in the economic environment and structure and the reporting burden that the data providers have to bear, the Bank decided to discontinue compiling some statistics, and reviewed the style and frequency of issuance and the contents of the existing statistics included in the *Financial and Economic Statistics Monthly*.

The Bank participated in the government’s deliberations on improving statistical services.

6. Pursuing stable and efficient operations

a. Pursuing stable operations backed by reliable practical knowledge.

To help ensure that operations are conducted in a stable environment, the Bank worked on reviewing its operational systems, promoting the use of checklists for operational procedures, and sharing expertise among its Head Office and branches.

b. Promoting more efficient and streamlined operations.

Under the leadership of the Operational Reform Task Force, the Bank continued to improve operational management on the basis of measures laid down in the “BOJ Innovation Initiative,” a project which had been ongoing for about a year, since May 2003. Out of a total of over 1,000 proposals for improvement, the Bank started to put steadily into effect those that could be addressed immediately.

C. Organizational Management and Business Infrastructure Improvement

1. Creating a more innovative and efficient organization able to respond appropriately to a changing environment

a. Promoting concrete measures such as organizational reform in order to ensure flexible organizational management.

Under the “BOJ Innovation Initiative,” the Bank reformed its organization and personnel system by abolishing the division system in most of the departments at its Head Office, reorganizing some departments and offices at its Head Office, and introducing a unified structure for ranking managerial staff accompanied by an annual salary system based on performance and ability assessments.

b. Business process reengineering.

Under the leadership of the Operational Reform Task Force, the Bank continued to improve operational management through implementation of the measures laid down in the “BOJ Innovation Initiative,” and, out of over 1,000 proposals for improvement, started to put steadily into effect those that could be addressed immediately. Under the guiding direction of the Knowledge Management Task Force, the Bank improved its system infrastructure for information sharing by introducing a Bank-wide intranet and developing a dedicated information-sharing system. The task force also took a leading role in identifying problems within each department section and devised appropriate countermeasures.

- c. Training staff through active personnel exchanges with other organizations.

The Bank promoted personnel exchanges between the Bank and other organizations, where the latter include domestic and foreign institutions in both the public and private sectors as well as international institutions. The Bank was also active in seeking new staff with diverse skills such as professionals in mid-careers, and in the utilization of external personnel.

2. Pursuing effective and highly transparent management

- a. Pursuing appropriate and efficient organizational management.

Under the “BOJ Innovation Initiative,” the Bank reviewed its organization and personnel system and conducted business process reengineering. Moreover, the Bank formulated and released, on March 18, 2005, the “Medium-Term Strategic Framework for Fiscal 2005–2009” in which it set out the basic framework underlying its business operations and organizational management policies for the next five years, in order to maximize the Bank’s potential by encouraging its executives and staff to have a clear vision of their goals and use management resources as effectively as possible. It also released on the same day the “Action Plans for Fiscal 2005” in which it set out concrete action plans that the Bank should tackle in the fiscal year to achieve the strategic goals laid out in the medium-term framework.

The Bank decided to establish a Management Committee and a Compliance Committee as of April 1, 2005, with the aim of promoting steady advances

toward achieving the strategic goals laid down in the “Medium-Term Strategic Framework for Fiscal 2005–2009.”

The Bank compiled a streamlined budget for general and administrative expenses and costs for fiscal 2005. Emphasis was placed on appropriating a significant portion of the budget to deal with the “Major Issues and Action Plans” as listed in the “Action Plans for Fiscal 2005,” while exposing overall expenditure to a thorough examination so as to achieve a more streamlined budget. The budget was approved by the Policy Board on March 18, 2005.

The Bank began the compilation and release of a statement of its administrative costs as well as its general and administrative expenses and costs by area of business operation for fiscal 2003.

The Bank conducted an internal audit of three departments at the Head office, 13 branches, four local offices, and two overseas offices to check whether operations were being appropriately implemented in accordance with internal rules and regulations. The Bank examined risk management systems dealing with operational and other risks. The Bank also examined its business operations and organizational management, to check, for example, that the Bank’s resources were being used efficiently and that workplace discipline was being pursued.

With the basic principle of continuing to pursue appropriate and efficient operational management, the Bank retained the number of employees appropriate for carrying out its various operations. Consequently, the number of employees was 5,052 at the end of March 2005.

The Bank proceeded with the disposal of its property throughout fiscal 2004 in accordance with the basic principle decided on January 29, 1999.

b. Ensuring transparency in executing operations.

The Bank disclosed information required by the Law Concerning Access to Information Held by Incorporated Administrative Agencies, Etc.

In fiscal 2004, the new series of banknotes was inappropriately handled at the Maebashi and Kobe branches. The Bank responded with measures to prevent the recurrence of such incidents, in particular by: examining the operational procedures and supervisory system at sections that handle banknotes; improving the examination mechanism for business operations by, for example, establishing a consultation counter for employees; and enhancing the supervisory training for managerial staff at branches.

3. Strengthening the Bank's ability to respond to emergencies

a. Strengthening the Bank's ability to respond to natural disasters and other emergency situations.

The Bank responded appropriately to strong earthquakes in Niigata Prefecture and to other natural disasters such as typhoons and downpours, with respective branches and local offices working in close liaison with the Head Office. The Bank conducted emergency drills on Disaster Preparedness Day and other occasions at its Head Office and branches. In addition, the Bank tested its arrangements for addressing system disruptions with BOJ account holders.

Following the law on special measures to be put in

place in case of earthquakes in the Tonankai and Nankai regions, the Bank reexamined its disaster management operation plan. In addition, the Bank was appointed as a designated public corporation according to the terms of the People Protection Law that sets out roles and responsibilities of organizations involved in civil protection arrangements in response to armed attacks. In this role, the Bank gathered information and identified issues that need to be addressed to pursue the aims of the law.

b. Enhancing information security measures and other risk management systems.

In preparation for the enforcement of the Act for the Protection of Personal Information Held by Independent Administrative and Other Agencies, the Bank upgraded its information management system.

The Bank took various measures to ensure the security of its information system: it made sure that a security monitoring system was in place; and conducted periodic system-penetration tests. The Bank also exchanged information on security measures and risk-related information with other central banks and government ministries and agencies. Moreover, the Bank actively trained its staff and kept them fully abreast of all matters regarding information security.

4. Improving the dissemination of information and enhancing public relations activities

a. Effectively disseminating information on the Bank's policy measures and operations at home and abroad.

The Bank promptly released the minutes of MPMs and public statements on most of the Policy Board

decisions. In addition, the Bank actively utilized various opportunities and means to disseminate information, by attending and making reports to the Diet, holding regular press conferences, providing information through its web site, and organizing activities to provide financial information in cooperation with the Central Council for Financial Services Information.

With a view to improving content, the Bank replaced its monthly publication of the *Nippon Ginko Chousa Geppo* (Bank of Japan Monthly Bulletin), a report on the Bank's research, with the quarterly *Nippon Ginko Chousa Kiho* (Bank of Japan Research Bulletin) in October 2004. Other publications were also reviewed so as to achieve broader dissemination of more easily digestible information on the functions and roles of the Bank, and for provision of more readily useful information on finance and economy to readers in a more accessible format. As part of these efforts, *Nichigin Quarterly* was renamed *Nichigin* and was first released in March 2005.

- b. Appropriately operating the Currency Museum, the Bank of Japan Otaru Museum, and the Archive, and preserving and making publicly available documents, currencies, and other items of historical and cultural value.

The Bank put on permanent display at the Currency Museum some of the coins and related written materials it holds in storage. These are now available for research into the history of the currency.

The Bank of Japan Otaru Museum started offering a tour of the museum as part of its public relations activities. These museums organized special exhibitions to commemorate the introduction of the new series of banknotes.

Documents from 1882, the year the Bank was established, to 1964, were organized, listed in a catalog, and made available to the public (in Japanese) at the Archive in fiscal 2004.

- c. Enhancing public relations activities at home and abroad by improving communications tools in various areas.

In order to pave the way for more accessible information releases as well as to examine its ideas and concrete plans for further enhancing its corporate identity, in April 2004 the Bank released a proposal (in Japanese), its "CI³ Improvement Strategy." Accordingly, the Bank reviewed the editorial policies and contents of various research papers and publications in fiscal 2004. A wide range of programs were offered to enhance communications between the Bank and the general public, including launching a children's corner on its web site, opening up the underground vault at the Head Office's Old Building, and illuminating the Old Building at night.

The Bank established a Regional Information Services section at its Head Office to promote cooperation among its branches, local offices, and the Central Council for Financial Services Information. This section expanded regional public relations

3. CI is used as an abbreviation of corporate identity.

activities, particularly related to the full removal of blanket deposit insurance and introduction of the new banknotes series in fiscal 2004.

The Bank conducted an opinion poll designed to gain insight into the public's perceptions and behavior, in particular their impression of economic conditions, general mindset, and perception of the

price level, as well as to grasp the degree to which they are aware of the Bank's policies and operations. The Bank released the results in the *Opinion Survey on the General Public's Mindset and Behavior*, which, as of fiscal 2004, is now published four times a year, as opposed to twice previously.

III. MEDIUM-TERM STRATEGIC FRAMEWORK FOR FISCAL 2005–2009

The Policy Board released the “Medium-Term Strategic Framework for Fiscal 2005–2009” (MTSF) on March 18, 2005. The MTSF described how the Bank will contribute to the sound development of Japan's

economy during this period, and to this end, how it will address management issues such as resource allocations, taking due account of any changes to the domestic or overseas environment.

Medium-Term Strategic Framework for Fiscal 2005–2009

Introduction

The Bank of Japan has formulated a Medium-Term Strategic Framework (MTSF) for fiscal 2005–2009.⁷ The MTSF describes how the Bank will contribute to the sound development of Japan's economy during this period, and to this end, how it will address management issues such as resource allocations and business process reengineering, taking due account of any changes to the domestic or overseas environment.

There are two particular grounds for formulating this MTSF.

The first is the fact that the policies and business operations carried out by the Bank form the basis of the economic activities of a wide range of economic entities. In order to contribute to the sound development of Japan's economy, the Bank offers a variety of services: conduct of monetary policy, research and analysis to support policymaking, provision of payment and settlement systems, improvement of the financial market infrastructure, on-site examinations and off-site monitoring of financial institutions, and issuance of banknotes. These services affect the activities of not only the Bank's direct counterparties, such as financial institutions and the government, but also a wide range of entities including firms and individuals at home and abroad. Therefore, indicating the future direction

7. Fiscal 2005–2009 is a period from April 2005 through March 2010.

of these services over the medium term is considered to provide these entities with information useful for the planning and implementation of their activities and business.

Second, public understanding and confidence in the Bank's management have become increasingly important as the foundation of further enhancement of the services. Demand for the Bank's services is expected to expand, with financial transactions growing increasingly innovative, IT advancing, and Japan's e-government projects progressing. In order to satisfy such demand, the Bank must possess both the requisite management resources and medium-term strategies for training staff and investing in information systems. Therefore, the Bank needs to secure public understanding and confidence by explaining its policies regarding the use of its resources and management.

The Bank will continue to review the progress in implementing the MTSF, from the standpoint of whether the Bank's services are truly supportive of Japan's economy, and whether its management is accountable to the public. The Bank aims to contribute to the future development of the economy, through this ongoing evaluation and by acting promptly in response to any changes in the environment.

I. The Core Principles of the MTSF

Japan's economy is in an important phase. It is edging toward a new stage of development as the prolonged stagnation and concerns over financial system stability, both legacies of the bursting of the economic bubble, come to an end. Japanese firms and financial institutions need to adapt to the changes in their environment, such as globalization of the economy, rapid innovation in finance and IT, and reforms in the administrative, fiscal, and regulatory realms. At the same time, they face the challenge of regaining dynamism and enhancing their international competitiveness.

Against this background, the Bank's role is to help invigorate the economy by conducting monetary policy appropriately, providing a stable foundation for financial and economic activity, and by making its services well suited to the new environment.

On the basis of the above understanding, the framework is based on the following two core principles.

The first is to pursue more advanced services. The Bank aims to increase the value of its services so that they are fully consistent with the new environment and supportive for economic entities in Japan.

The second is to ensure well-disciplined management. The Bank, as a public organization, has a responsibility to improve its services as efficiently as possible. Furthermore, the Bank fully understands that fair and precise execution of its business operations is essential to gain public confidence, and that it must be firmly committed to such business integrity. The Bank will therefore ensure that its management is well disciplined, in terms of both efficiency and fairness.

II. Strategic Goals for Fiscal 2005–2009: Pursuit of More Advanced Services

The Bank, in accordance with the principles outlined above, has adopted the following eight strategic goals.

A. Strengthening Policy Planning Capabilities

Against the background detailed above, the Bank will conduct its policy appropriately, taking into consideration the ongoing structural changes both in the domestic and overseas economies. To this end, the Bank will seek to enhance the quality of its research and analysis and improve the statistics it publishes, with a view to further strengthening its policy planning capabilities.

Regarding research and analysis, a broad range of issues will be studied, including the progress in globalization, other structural and systemic changes in Japan's economy and financial markets, and the effectiveness of monetary policy, as well as the policy framework. The Bank will make use of these findings in conducting monetary policy. In addition, the Bank will undertake research in other areas such as the infrastructure of the financial system, including IT, and the history of currencies and finance. The Bank is also constantly examining ways to improve the quality of statistics it publishes.

The findings of such research and analysis will be released promptly, with the aim of sharing understanding of financial and economic issues both domestically and overseas. Furthermore, the Bank will strengthen cooperation with other central banks, domestic and foreign academia, and research institutes, to raise the quality of its research activities.

B. Attaining Safer and More Efficient Payment and Settlement Systems and Market Infrastructure

The Bank will seek to enhance the functionality and efficiency of Japan's payment and settlement systems and market infrastructure, to achieve improved levels of security and serviceability that compare favorably with international standards. Financial services and market transactions are rapidly becoming more advanced and diverse, requiring the Bank to strengthen its efforts to support new developments and innovation. To achieve this, the Bank will upgrade the functions of Japan's payment and settlement systems including the Bank of Japan Financial Network System (BOJ-NET), improve the procedures for its money market operations and other transactions, and provide support for the reform of financial markets through close dialogue with the relevant parties. The Bank will also enhance the convenience of business operations related to treasury funds (government expenses and revenues) by expanding online processing.

C. Ensuring Business Continuity Arrangements for Emergencies

The Bank will aim to ensure that the overall financial system, including payment and settlement systems and financial markets, maintains basic functioning in times of emergency. This will involve the reinforcement of the Bank's own business continuity arrangements. The Bank will also cooperate closely with financial institutions and other relevant entities and support their efforts to improve their business continuity arrangements.

D. Enhancing the Functioning of the Financial System

Given that the financial system in Japan has been regaining stability, the Bank will shift its focus from crisis management to supporting private-sector initiatives toward providing more efficient and advanced financial services via fair competition, while maintaining overall financial system stability.

From this perspective, in its on-site examinations and off-site monitoring, the Bank will place more emphasis on enhancing the functioning and robustness of the overall financial system. To this end, the Bank will support financial institutions' efforts to put in place more sophisticated risk management and general management systems, with a view to providing innovative new services to meet customer needs.

Ensuring financial system stability will be as essential as ever in the new financial environment. The Bank will promptly implement measures, including those as the lender of last resort, to prevent the manifestation of systemic risks.

E. Enhancing International Operations and Services in response to Globalization

In recent years, Japan's economy has adapted rapidly to the ongoing trend of globalization, which is likely to gather further momentum over the next five years. In particular, economic interdependence with other Asian countries will continue to deepen. Against this background, the Bank will upgrade its international operations and services and increase cooperation, including technical assistance with other central banks, particularly with those in Asia.

F. Securing Confidence in the Currency

The Bank will work to maintain an environment in which currency can circulate safely, by preventing the counterfeiting of currency. To this end, the Bank will promote faster distribution of the new series of banknotes with improved security features. The Bank will also improve its capability to detect counterfeits. In addition, the Bank will further advance research and promote public understanding regarding security and anti-counterfeiting of the currency and other means of payment, in cooperation with relevant parties at home and abroad, including other central banks and international organizations.

G. Promoting Better Understanding of the Policies and Business Operations of the Bank and Related Financial and Economic Issues

The Bank conducts various public relations activities to explain its policies and business operations as well as general financial and economic developments. The Bank will broaden such opportunities to promote a better understanding of its activities among the general public as well as professionals. In addition, the Bank will aim to make its various publications and releases better suited to the diverse needs and interests of their users. It will also cooperate with the Central Council for Financial Services Information and associated local committees to promote financial education among the general public. International public relations activities will also be stepped up with a view to improving understanding of Japan's economy overseas.

H. Improving Regional Services

In achieving the strategic goals listed above, the Bank will also place emphasis on improving various services provided in each region in Japan. For this purpose, the Bank will make effective use of its local network of branches and offices and serve local communities through provision of payment and settlement services for financial institutions and the government, distribution of currencies and appropriate response to issues involving counterfeits, business continuity arrangements in times of emergency, research on regional financial and economic developments and surveys of business conditions, and financial education and public relations activities. Information gained through these activities will be reflected in the Bank's policy implementation.

III. Well-Disciplined Management

A. Management Resources

The Bank will strive to achieve the strategic goals mentioned above by using its management resources efficiently. To this end, the Bank will manage its resources (i.e., its human resources, resources for IT investment, and administrative expenses) according to the following principles.

1. Human resources

The Bank has been steadily reducing the number of its employees since the 1980s by working actively on automation and streamlining of its operations (Chart 1). Specifically, the Bank has reduced the number of employees by 26 percent from its most recent peak in fiscal 1980. In the five-year period from fiscal 1999 through 2003, the Bank realized a net decrease of 600 employees. This was above its initial target reduction of 500 employees, or approximately 10 percent of total employees at the end of March 1999. The Bank will continue to raise the efficiency of its operations so that the existing business operations can be carried out with fewer staff, through measures such as reengineering of business processes, utilization of IT, and promotion of information sharing and outsourcing.

On the other hand, as mentioned in earlier sections, the Bank now faces growing demand for a diverse range of more advanced services, and must therefore ensure that it has the staff necessary to achieve its strategic goals for meeting this demand. Of the eight strategic goals discussed above, services related to the first three have been facing relatively severe constraints on human resources and hence require the Bank to retain the appropriate number of employees to achieve these goals. Specifically, they are the strengthening of policy planning capabilities, attaining of safer and more efficient payment and settlement systems and market infrastructure, and ensuring business continuity arrangements. However, the extra staff required to achieve strategic goals should be offset by staff reductions elsewhere, attained, as mentioned above, by streamlining the existing operations. The total number of employees should therefore, in principle, remain more or less flat for the next five years. With this in mind, the Bank will make further efforts to raise the efficiency of its operations and, to the extent possible, achieve a net decrease in the number of employees.

In line with this basic principle, the Bank will seek new staff with diverse skills, including professionals in mid-career. The Bank will also enhance the quality of its human capital through strategic job rotation, career development programs, and active personnel exchanges between the Bank and other domestic and overseas organizations.

2. IT investment

The Bank's provision of infrastructure for electronic financial transactions in Japan has evolved in line with advances in IT in financial services and in online processing of government transactions, as e-government projects have moved forward. The Bank's system development and related IT investment have therefore been required to expand accordingly (Chart 2). To meet the growing demand for the Bank's services and achieve its stated strategic goals, the Bank must continue to invest steadily in its systems to upgrade the functions of the BOJ-NET and other operations, ensure business continuity arrangements, and improve its information database.

The Bank will, however, avoid a marked expansion in the scale of system development by working actively to streamline the business procedures involved in IT planning and development. Specifically, the Bank plans to control the rise in the scale of system development, which will move from its current level of approximately 10,200 person-months² to 12,000 person-months over the five years from now. The Bank will seek to meet the needs for its services within the bounds of this constraint.

3. General and administrative expenses and costs

The Bank's general and administrative expenses and costs have been increasing, due mainly to a rise in costs related to the computerization and automation of its business operations (Chart 3). The Bank will continue to appropriate the budget necessary for human resources and IT investment described above. At the same time, the Bank will minimize the consequent rise in costs by examining thoroughly all possible reductions and streamlining of overall expenses.

B. Organizational Management

With a view to the steady pursuit and achievement of its stated strategic goals, the Bank has put in place the following principles with respect to organizational management.

1. MTSF and performance review

The Bank will formulate and release in its Action Plans, published every fiscal year, the concrete actions it plans to achieve its strategic goals, at the same time specifying the management resources required to carry out these actions. At the end of each fiscal year, the Bank will evaluate its progress toward these strategic goals by reviewing the results of the planned actions. The evaluation will be released in Japanese in the *Gyoumu Gaikyo Sho* (Outline of Business Operations), excerpts of which will be translated into English and included in the *Annual Review* published every September.

2. Enhancement of the management system for execution

The Bank will enhance its management system by establishing a Management Committee.³ This committee is responsible for examining Bank-wide issues such as implementation of the MTSF and strengthening the functioning of the organization as a whole, thereby supporting the Governor's execution of the Bank's business.

In addition to the above, the Bank specifies the following principles with respect to the conduct of duties in light of its mission to serve the public.

2. In system development, one person-month is the workload equivalent of one person working for one month.

3. The members of this committee will comprise the Deputy Governors and all Executive Directors, one of whom will be appointed as chairman by the Governor.

3. Fairness and accuracy in conducting duties

The Bank will ensure that all its executives and staff are, without exception, fully aware of the Bank's mission to serve the public and perform their duties properly. Moreover, while pursuing more efficient organizational management, the Bank will apply due diligence to ensure that it maintains accuracy in its operations. To this end, the Bank will formulate and review regulations and manuals and improve staff education and training programs for acquiring practical knowledge and workplace discipline.

4. Enhancement of compliance

The Bank will establish a Compliance Committee in order to ensure that the executives and staff perform their duties fairly and in compliance with the relevant laws and regulations.⁴ Also, under the committee, the Bank will enhance the management of information security in its operations.

Conclusion

The Bank has worked continuously to ensure that its business operations are properly carried out. It reduced the number of employees by more than 10 percent during the five-year period starting from fiscal 1999 while streamlining its business operations. Since fiscal 2003, it has been exerting itself to further enhance its services and organizational vitality as a whole, in line with its watchwords "Strategy, Initiative, and Achievement." Based on its achievements so far, this MTSF is intended to maximize the Bank's potential by encouraging its executives and staff to have a clear vision of their goals and use management resources as effectively as possible.

The Bank is committed to continuing its efforts to retain public confidence and fulfill its mission of contributing to the sound development of the economy, through the steady implementation of this MTSF.

4. The members of this committee will comprise some of the Deputy Governors and Executive Directors, the Director-General of the Internal Auditors' Office, and one or more legal experts from outside the Bank, one of whom will be appointed as chairman by the Governor.

Chart 1

Number of Employees at the Bank

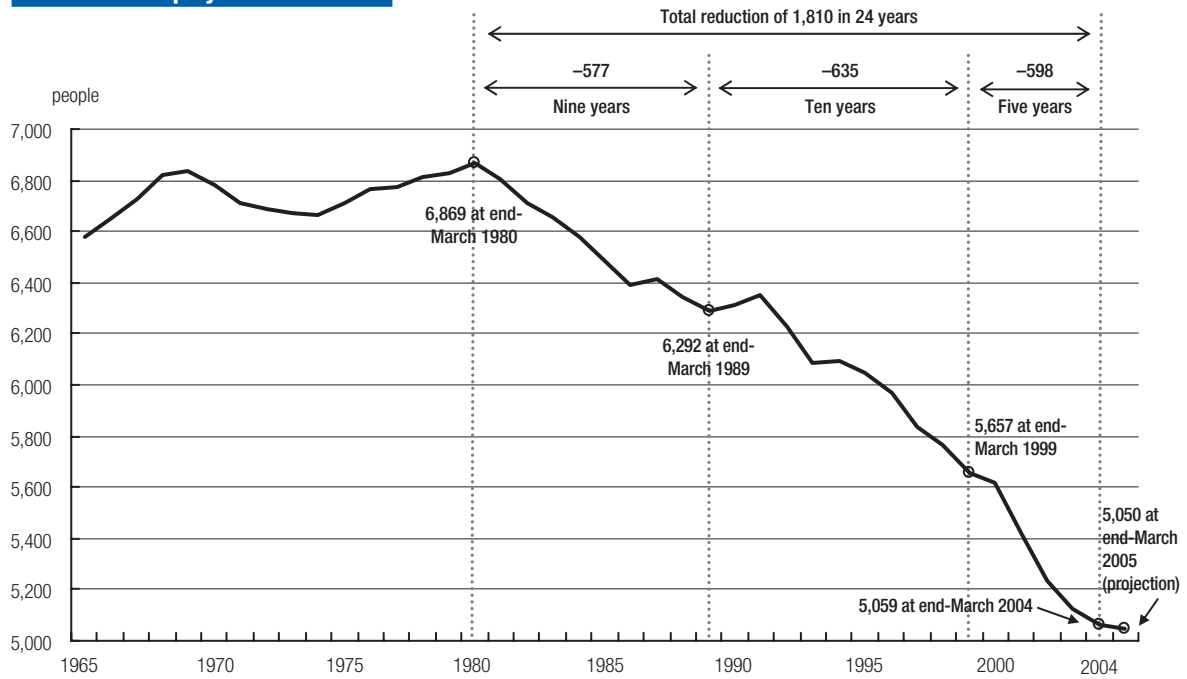


Chart 2

Scale of System Development at the Bank

person-months¹

Fiscal 1998 (A)	Fiscal 2003 (B)	Changes in fiscal 1998–2003 (B - A)	Reference: Projection for fiscal 2004
8,045	10,274	2,229	About 10,200

Note: 1. In system development, one person-month is the workload equivalent of one person working for one month.

Chart 3

General and Administrative Expenses and Costs of the Bank

bil. yen

	Fiscal 1998 (A)	Fiscal 2003 (B)	Changes in fiscal 1998–2003 (B - A)
General and administrative expenses and costs ¹	192.2	211.1	18.9
Cost of production of banknotes	64.5	64.1	-0.4
Administrative expenses for treasury business and government securities	27.6	41.2	13.6
Personnel expenses	59.9	49.3	-10.6
Expenses for computerization	15.6	29.4	13.8
Cost of fixed-asset purchases	17.3	8.8	-8.5
Total	209.5	219.9	10.4

Note: 1. Excludes the cost of fixed-asset purchases.

IV. ACTION PLANS FOR FISCAL 2005

The Policy Board released the “Action Plans for Fiscal 2005” on March 18, 2005. This comprises the set of issues and concrete action plans that the Bank should

tackle in the fiscal year in order to achieve the goals of its “Medium-Term Strategic Framework for Fiscal 2005–2009.”

Action Plans for Fiscal 2005

Introduction

The Bank of Japan has formulated and today released the Medium-Term Strategic Framework (MTSF) for fiscal 2005–2009.⁷ The “Action Plans for Fiscal 2005” comprises the set of issues and concrete action plans that the Bank should tackle during the coming fiscal year in order to achieve the goals of its MTSF. It also contains principles for the Bank's organizational management and the resources (i.e., its administrative expenses, resources for IT investment, and human resources) necessary to fulfill the planned actions. At the end of the fiscal year, the Bank will evaluate its progress toward the strategic goals stated in the MTSF by reviewing the progress of the actions planned here, and will release in Japanese the evaluation in the *Gyomu Gaikyo Sho* (Outline of Business Operations), excerpts of which will be translated into English and included in the *Annual Review* published every September.

I. Major Issues and Action Plans

The major issues facing the Bank in fiscal 2005 and action plans to tackle them are classified according to the eight strategic goals laid out in the MTSF. The Bank will further enhance its services by undertaking the following.

A. Strengthening Policy Planning Capabilities

With the Japanese economy undergoing change as it moves toward a new stage of development, the Bank will endeavor to enhance the quality of its research and analysis to support policymaking and thereby gain a more accurate picture of economic developments from a broad range of perspectives, and will release the findings of such research and analysis to the public.

1. Enhancing the quality of both theoretical and empirical research and analysis of the effects of structural and institutional factors on economic activity, prices, and the effectiveness of monetary policy.
2. Enhancing the quality of research on regional economies and surveys of business conditions to gain an accurate understanding of gaps in economic conditions between different regions or firms that may occur along with

7. Fiscal 2005–2009 is a period from April 2005 through March 2010.

- structural changes in the economy. The Bank will publish a quarterly report on regional economies (the "Regional Economic Report") after each meeting of general managers of the Bank's branches, starting from April 2005.
3. Enhancing the Bank's ability to identify financial developments and their effects on economic activity against the background of significant changes in the environment surrounding the financial markets and financial system.
 - a. Publishing a semiannual report, the "Financial Markets Report," starting approximately from July 2005, which will review Japanese financial markets.
 - b. Starting publication of a regular report on the stability and functionality of the financial system (see Section I.D.4).
 4. Strengthening the Bank's IT research capability, given the increasing importance of IT for the development of financial services and ensuring financial system stability. The Bank will establish the Center for Information Technology Studies as part of the Bank's Institute for Monetary and Economic Studies (IMES) in April 2005. The center will promote research on information security and anti-counterfeiting technologies, contributing to formulating and introducing international standards for financial data exchanges, and information sharing related to IT within the financial sector.
 5. Enhancing the activities of the Archive and the Currency Museum.
 6. Using scheduled reviews and revisions to improve the quality of statistics compiled by the Bank.
 - a. Revising the base year for the Input-Output Price Index of Manufacturing Industry by Sector to the year 2000, for release in 2005; preparing for the revision of the base year for the Corporate Goods Price Index to 2005, for release in 2007; and preparing for the revision of the sample firms in the *Tankan* (Short-Term Economic Survey of Enterprises in Japan) in 2006.
 - b. Taking part in international initiatives to revise the Balance of Payments Manual to be released by the International Monetary Fund (IMF) in 2008.

B. Attaining Safer and More Efficient Payment and Settlement Systems and Market Infrastructure

The Bank will work to achieve further sophistication of its payment and settlement services, by making full use of advanced information technology, and will also improve procedures of its money market operations and other transactions. In order to enhance Japan's payment and settlement systems and market infrastructure so that they can support more firmly the development of the nation's financial services, the Bank will actively make recommendations and encourage the private sector to take action.

1. Ensuring the daily, smooth operation of its online payment and settlement system, including the Bank of Japan Financial Network System (BOJ-NET).
2. Upgrading the functions of the BOJ-NET as follows:
 - a. Working toward the development of new more user-friendly BOJ-NET terminals, equipped with improved security features, and making use of Internet technology, to be available for practical use from around the middle of fiscal 2006; and considering the measures to enhance the safety and efficiency of funds settlement over the BOJ-NET.

- b. Making necessary system modifications to the BOJ-NET in view of private-sector initiatives such as the launch of a clearing organization for Japanese government securities (JGSs) (the Japan Government Bond Clearing Corporation), and the introduction of delivery versus payment (DVP) for the settlement of book-entry corporate bonds.
- 3. Taking the initiative in promoting further improvement in the safety and efficiency of private-sector payment and settlement systems. Publishing annual reports on developments in payment and settlement systems, starting from fiscal 2005.
- 4. Improving the procedures of its money market operations and the acceptance of eligible collateral in order to conduct market operations more smoothly and improve the convenience of counterparties in these operations.
- 5. Moving forward with initiatives for improving the functioning of the money market, the JGS market, and credit markets (e.g., the corporate bond and dematerialized CP markets and the market for securitized assets).
- 6. Modifying business procedures and computer systems to promote further progress in online processing of treasury funds (government expenses and revenues), and expanding the use of the electronic services offered.
 - a. Considering and preparing for the introduction of collective online payment of tax returns and salaries for government employees to expand the range of electronic payment services offered.
 - b. Encouraging individuals and firms to use electronic payment of tax and other treasury funds transactions, given the considerable progress in consolidating the infrastructure.
 - c. Strengthening business continuity measures, particularly those for the bookkeeping system which came online in fiscal 2003.

C. Ensuring Business Continuity Arrangements for Emergencies

The Bank will identify issues where business continuity arrangements for major disasters require further strengthening, and address these in order of priority.

- 1. Enhancing the business continuity planning (BCP) for emergencies at the Bank's Head Office.
 - a. Improving the Bank's alternative operational bases for use should its Head Office be damaged and unable to function. This will be achieved by expanding the range of business operations that can be continued, and increasing the number of staff and upgrading facilities for emergency operations.
 - b. Further strengthening the backup capabilities of the Bank's computer systems.
- 2. Taking the initiative in cooperative endeavors with relevant entities to enhance the business continuity ability of the overall financial market, payment and settlement system, and financial system, in the face of a possible wide-scale disruption.
 - a. Encouraging financial institutions and other relevant entities to improve their business continuity arrangements in accordance with the Bank's report "Business Continuity Planning at Financial Institutions," released in July 2003.

- b. Supporting market participants' voluntary BCP efforts by, for example, specifying in advance the roles and actions the Bank will take in emergencies and arranging coordinated actions with financial institutions.
3. Improving drills in preparation for emergency operations.
4. Preparing the Bank's action plans in accordance with the People Protection Law stipulated to ensure safety and security of Japanese citizens in the case of an armed attack and other such emergencies.

D. Enhancing the Functioning of the Financial System

The Bank will conduct on-site examinations and off-site monitoring of overall financial institutions by placing more emphasis on enhancing the functioning and robustness of the financial system in Japan, taking into account the effects on the system of the full removal of blanket guarantee of deposits in April 2005. It will also push forward with research and analysis of the financial system.

1. Promptly implementing measures, including those as the lender of last resort, to prevent the manifestation of systemic risks.
2. Conducting on-site examinations and off-site monitoring of financial institutions with a view to supporting private-sector initiatives toward providing more efficient and advanced financial services.
 - a. In its on-site examinations and off-site monitoring after the full removal of blanket guarantee of deposits, assessing the economic value and volatility of financial institutions' assets and financial transactions, and encouraging them to introduce integrated risk management that is best suited to their business conditions.
 - b. Hosting open seminars on a regular basis, mainly targeting the management and officers of financial institutions in Japan. The Bank needs to ensure that as many financial institutions as possible share its understanding of the issues that needed to be addressed in enhancing the availability of more efficient and advanced financial services. The seminars will be the Bank's third direct channel of communication with financial institutions, in addition to on-site examinations and off-site monitoring.
 - c. Establishing the Center for Advanced Financial Technology in its new Financial Systems and Bank Examination Department² approximately in July 2005 (see Section II.D.3).
3. Supporting refined financial data exchange with financial institutions. In fiscal 2005, the Bank will start exchanging financial data in extensible business reporting language (XBRL) format, which is considered to be an advantageous file format for exchanging firms' financial statements.
4. Reinforcing research and analysis of the financial system. Microeconomic information gathered through on-site examinations and off-site monitoring will be analyzed and utilized in the Bank's assessment of the stability and functioning of the overall financial system. In fiscal 2005, the Bank will start to compile the results of its analysis and release regular reports, the contents of which will be mainly the Bank's assessment of the stability and functioning of the financial system and the measures being taken on this front.

² The new department will be established approximately by July 2005, by integrating the present Financial Systems Department and Bank Examination and Surveillance Department.

5. Enhancing the transparency of its on-site examinations. The Bank will make public the names of the financial institutions examined on site and the timing of the examinations conducted in the previous fiscal year in the Bank's *Annual Review*.
6. Participating in discussions on financial system policy held at global forums, and applying the outcomes for providing more efficient and advanced financial services.

E. Enhancing International Operations and Services in response to Globalization

In view of the ongoing trend of globalization in the economy and financial services, particularly the development of closer links between Japan and other Asian economies, the Bank will strengthen cooperation with other central banks. The Bank will also implement measures to help ensure the stability of the currency system and foster financial markets in Asia.

1. Strengthening the relationship with other central banks through, for example, technical assistance and seminars, as well as personnel exchanges.
2. Working to enhance the stability of the currency system in Asia by, for example, considering measures to improve and expand the network of bilateral swap agreements in the Asian region.
3. Cooperating in fostering efficient financial markets in Asian economies. Of relevance here is the launch of operations of the Asian Bond Fund 2 (ABF2) and the effective use of the fund by, for example, cooperating with private financial institutions.
4. Managing the Bank's foreign currency assets in a stable and efficient manner.

F. Securing Confidence in the Currency

The Bank will implement the following measures to ensure the safe and secure use of the currency and other means of payment, in light of the increasing number of crimes related to the counterfeiting of banknotes, coins, and cash cards.

1. Promoting the faster distribution of the new series of banknotes introduced in 2004, by providing only the new series to financial institutions and encouraging them to return the old series to the Bank. Both of these measures were begun in January 2005 ahead of schedule. The Bank will start publishing regularly a report on the progress in replacing the old series of banknotes with the new series.
2. Improving the Bank's counterfeit detection capability through such means as the introduction in fiscal 2005 of new automatic banknote examination machines with enhanced counterfeit detection features.
3. Strengthening efforts to ensure the security of the currency and other means of payment, and prevent counterfeiting.
 - a. Enhancing communication and cooperation with related entities such as ministries and government agencies, and conducting further research on anti-counterfeiting technologies.
 - b. Improving public relations activities aimed at achieving better public understanding of anti-counterfeiting measures.

G. Promoting Better Understanding of the Policies and Business Operations of the Bank and Related Financial and Economic Issues

In order to secure public understanding, the Bank will continue with efforts to expand its opportunities to explain the Bank's policies and business operations, and improve its explanatory materials to focus on plainness and accessibility.

1. Working toward timely publication of the progress in measures listed in the MTSF and the Action Plans.
2. Promoting better understanding of the Bank through speeches and other means.
 - a. Making various publications and releases better suited to the needs and interests of readers, for example, by reviewing the style and contents of the web site and publications.
 - b. Introducing new styles of speeches by executives and staff, for example, to those inviting audiences' participation, and improving the Bank's In-House Tours to make them available to a wider range of visitors such as families and schoolchildren, and make their contents more interesting and attractive.
3. Improving the Bank's international public relations activities.
4. Contributing to better financial education among the public via the following:
 - a. Assisting financial education projects carried out by the Central Council for Financial Services Information, including participation in projects by the Bank's executives and the dispatch of speakers from the Bank.
 - b. Producing teaching materials for schools and promoting their use, in cooperation with people engaged in education.

H. Improving Regional Services

In achieving the strategic goals listed above, the Bank will provide regional services, making effective use of its nationwide network of branches and offices.

1. Promoting the faster distribution of the new series of banknotes with improved security features, and encouraging the online processing of the government expenses and revenues.
2. Making use of information gained through research on regional economic developments in the Bank's policy implementation, and strengthening monitoring activities to ensure the stability of regional financial systems and improve their functioning.
3. Ensuring the accountability of the Bank by thoroughly explaining its policies and business operations, and contributing to financial education in local communities.
4. Enhancing business continuity arrangements.

II. Management Resources and Organizational Management

A. Budget for General and Administrative Expenses and Costs

The Bank's budget for general and administrative expenses and costs for fiscal 2005 (the 121st fiscal year) is as follows (tables 1 and 2).³ Note that, while appropriating a significant portion of the budget to deal with the "Major

³ The Bank prepares a budget for general and administrative expenses and costs 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 Law before the beginning of each fiscal year. For fiscal 2005, the Bank sought approval on March 18, 2005, and will implement the budget upon authorization from the Minister of Finance.

Figures appearing in the text and tables of the "Action Plans" are rounded.

Issues and Action Plans” outlined in the preceding section, the Bank has also thoroughly examined overall expenditure to achieve a more streamlined budget.

1. The Bank has made great progress in cutting costs. The budget for general and administrative expenses and costs for fiscal 2005 (excluding the cost of fixed-asset purchases and the contingency funds) decreased by 1.6 percent from the previous year to 222.3 billion yen, due mainly to the following decreases from the previous year: 6.9 percent in the cost of production of banknotes; 3.0 percent in administrative expenses for treasury business and government securities; 0.9 percent in personnel expenses; 6.1 percent in the cost of expendable supplies; and 7.5 percent in expenses for electricity and water supply. On the other hand, expenses for computerization increased by 7.5 percent from the previous year due mainly to the upgrading of BOJ-NET terminals.
2. The Bank appropriated a total of 13.8 billion yen for fixed-asset purchases, a decrease of 16.9 percent from the previous year. The decrease is due mainly to the absence of the cost of purchasing land for the renovation of the Bank of Japan Naha branch, which was appropriated in the budget for fiscal 2004. The cost for updating automatic banknote examination machines, however, increased. The Bank appropriated 1.0 billion yen for the contingency funds in fiscal 2005, which was the same amount as in the previous year.

B. IT Investment

The scale of system development for fiscal 2005 was set at 10,700 person-months⁴ (including outsourcing man-hours of 8,100 person-months), slightly higher than the expected level for the previous fiscal year (projected at approximately 10,200 person-months). The Bank will complete the ongoing system development projects begun the previous fiscal year, and select new development projects and set operational tasks in accordance with basic policies specified below.

1. In planning large-scale projects, the Bank will prioritize those that will contribute to fulfilling its MTSF for fiscal 2005–2009: in particular, those for attaining safer and more efficient payment and settlement systems and market infrastructure; and ensuring business continuity arrangements for emergencies. As for projects relating to the renewal of existing systems, the Bank will prioritize those needing urgent attention, while any additions to systems will be made subject to a rigorous examination of their necessity and the minimization of associated development costs.
2. For automation projects other than the above, execution will be considered in light of the extent to which each project is likely to contribute to the realization of the Bank's objectives, as well as subject to the relevancy, urgency, and cost-effectiveness of the project and whether or not a necessary review of the business and operational procedures to which the system is to be introduced has been carried out.

4. In system development, one person-month is the workload equivalent of one person working for one month.

3. In developing the system, the Bank will seek to reduce man-hours for development and other costs by, for example, making use of new technology and evaluation results of ongoing projects as well as by integrating projects that use similar technologies. The Bank will also aim to keep projects streamlined and simply executed, thereby realizing swift implementation of projects and establishing highly flexible systems adaptable to changes in the environment.

C. Ceiling on the Number of Employees (Table 3)

The Bank will ensure that it has the staff necessary to achieve its “Major Issues and Action Plans” and will do its utmost to save manpower by raising the efficiency of existing business operations. This policy forms the premise for the ceiling on the number of Bank employees for fiscal 2005, which was set at 5,260, as in the previous fiscal year.

D. Organizational Management

1. The Bank will establish a Management Committee on April 1, 2005. Using this committee, the Bank will enhance its management system for execution to steadily implement the MTSF and the Bank's Action Plans for each fiscal year, assess its progress, and evaluate the progress toward its published strategic goals.
2. The Bank will establish a Compliance Committee on April 1, 2005. Under the committee, the Bank will make arrangements and improve its system for the appropriate information security according to the Law Concerning the Protection of Personal Information.
3. The Bank will implement the following organizational reform of its Head Office effective from around July 2005 to achieve the strategic goals set out in the MTSF for fiscal 2005–2009 efficiently and effectively (see Attachment).
 - a. Establishment of the Financial Systems and Bank Examination Department. The new department will be established by integrating the present Financial Systems Department and Bank Examination and Surveillance Department. Its responsibilities are issues concerning financial system stability that will be transferred from the two departments, and also the enhancement of the functioning of the financial system. The Center for Advanced Financial Technology will be set up in the new department (see Section I.D for details).
 - b. Establishment of the Payment and Settlement Systems Department. The new department will be responsible for issues including the improvement of payment and settlement systems, business continuity planning, and security issues regarding the currency and other means of payment.
4. With the aim of enhancing organizational flexibility, the Bank will abolish the division system currently in place in the Currency Issue Department, Operations Department, and Administration Department in fiscal 2006, and make necessary arrangements to divide the departments by section (division systems had been in place in the other twelve of the Bank's departments, offices, and IMES, but were abolished in July 2004).
5. In conducting its daily business operations, the Bank will continue the stable and precise execution of its business operations backed by reliable practical knowledge through measures such as the reengineering of business

processes and improvement of its audit methods. The Bank will maintain its efforts to raise the efficiency and increase the value of operations by pushing ahead with measures that have been ongoing since 2003, such as continuing with business process reengineering and information sharing, automation, and enhanced communication and cooperation between the Bank's Head Office and its branches and local offices.

6. The Bank will increase its recruitment activities aimed at acquiring new staff with diverse skills. Moreover, with a view to achieving a more flexible allocation of human resources and building staff skills, the Bank will promote strategic job rotation and active personnel exchanges between the Bank and both firms in the domestic private sector and overseas organizations.

Table 1

Budget for General and Administrative Expenses and Costs for Fiscal 2005 (The 121st Fiscal Year)

Item	Initial budget (thous. yen)	Share ¹ (percent)	Change from the previous year (percent)
Cost of production of banknotes	64,495,972	29.0	-6.9
Administrative expenses for treasury business and government securities	42,084,478	18.9	-3.0
Personnel expenses	50,692,712	22.8	-0.9
Remuneration of executives	445,544	0.2	0.2
Remuneration of staff	41,056,917	18.5	-0.2
Retirement allowances	9,190,251	4.1	-4.1
Expenses for transportation and communications	6,421,412	2.9	1.3
Expenses for transportation	2,367,938	1.1	1.8
Expenses for communications	4,053,474	1.8	1.1
Expenses for maintenance and repairs	1,868,506	0.8	9.9
Other expenses and costs	56,764,416	25.5	4.8
Cost of expendable supplies	2,062,968	0.9	-6.1
Expenses for electricity and water supply	2,231,192	1.0	-7.5
Leasing fees for buildings and equipment	13,968,592	6.3	11.9
Expenses for maintenance of buildings and equipment	9,465,436	4.3	5.2
Miscellaneous expenses	29,036,228	13.1	3.4
Subtotal	222,327,496	100.0	-1.6
Cost of fixed-asset purchases	13,833,724	...	-16.9
Of which: Subject to the approval of the Minister of Finance ²	8,603,541	...	7.2
Contingency funds	1,000,000	...	0.0
Total³	237,161,220	...	-2.7
Of which: Subject to the approval of the Minister of Finance ²	231,931,037	...	-1.3

Notes: 1. "..." indicates that figures are not applicable.

2. Excludes the cost of purchasing fixed assets used for the Bank's business operations.

3. Of the budget for general and administrative expenses and costs, expenses for computerization amounted to 34,327,664 thousand yen, a 7.5 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.

The budget for expenses related to computerization reflects an estimate for outsourcing man-hours stipulated in Section II.B.

Table 2

Budget for General and Administrative Expenses and Costs for Fiscal 2000–2005

bil. yen

Item	Fiscal year					
	2000	2001	2002	2003	2004	2005
Budget for general and administrative expenses and costs ¹	207.5	205.5	219.2	222.8	226.0	222.3
Reference: Expenses for computerization	25.5	28.6	31.6	30.9	31.9	34.3
Cost of fixed-asset purchases	31.9	25.8	24.7	12.2	16.6	13.8
Total budget for general and administrative expenses and costs ²	240.4	232.4	245.0	236.0	243.7	237.2

Notes: 1. Excludes the cost of fixed-asset purchases and the contingency funds.
2. Includes the contingency funds.

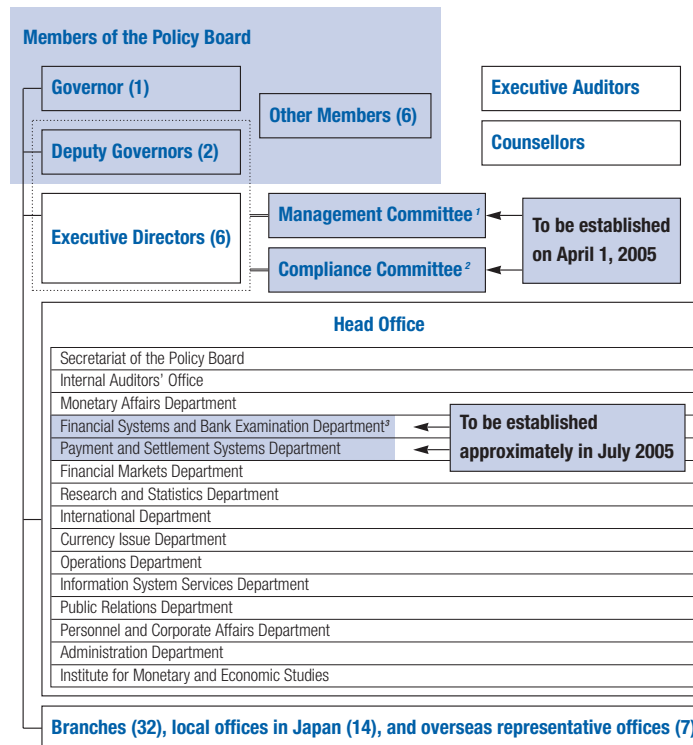
Table 3

Annual Ceiling on the Number of Employees for Fiscal 2000–2005

people

Fiscal year	2000	2001	2002	2003	2004	2005
Ceiling on the number of employees	5,750	5,530	5,370	5,260	5,260	5,260

ATTACHMENT: NEW ORGANIZATION OF THE BANK OF JAPAN AFTER THE REORGANIZATION



Notes: 1. To be established in order to examine and manage Bank-wide issues regarding the Bank's operations.
2. To be established in order to ensure that the executives and staff perform their duties fairly and in compliance with the relevant laws and regulations. This committee will include the Director-General of the Internal Auditors' Office and one or more legal experts from outside the Bank.
3. Established by integrating the present Financial Systems Department and the Bank Examination and Surveillance Department.

