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Bank of Japan

## **The Bank of Japan's Strategic Priorities for Fiscal 2012-2014**

### **I. Introduction**

"The Bank of Japan's Strategic Priorities for Fiscal 2012-2014" describes the basic principles for the Bank's business operations and organizational management during the three-year period.

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

### **II. Background**

Various structural changes have been taking place in Japan's economic and financial environment, including globalization, the growing significance of emerging and commodity-exporting economies to the world economy, and technological innovations in fields such as information and communications technology. While these structural changes may well contribute to global economic growth, the accompanying economic and financial developments have been marked by complexity and volatility. This may cause imbalances to accumulate in the economy, triggering large-scale economic adjustments. The current global economic adjustment apparent particularly in the advanced economies is a case in point, and careful attention should be paid, for example, to developments in the world economy and global financial markets in the face of the European debt problem.

Japan's economy is faced with the challenge of strengthening its medium- to long-term growth potential at a time when a shrinking population, a low birth rate, and population aging have been causing its growth rate to trend downward. The country also has some

more immediate tasks to deal with, such as restoration and rebuilding after the Great East Japan Earthquake and addressing concerns about the electric power supply. In this situation, in order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, it is necessary that the Bank continue to maintain accommodative financial conditions and ensure financial market stability, as well as provide support to strengthen the foundations for economic growth. Regional differences in economic structure as well as consequent disparities in profitability and financial strength among regional financial institutions are likely to remain.

Meanwhile, international discussion on maintaining financial system stability has deepened in response to the global financial crisis following the Lehman shock. There has been progress toward establishing new rules for financial regulation and supervision that are consistent on an international basis, as well as in the relevant efforts being made by individual countries and regions.

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

The Bank must maintain the stability and efficiency of its central banking operations, while ensuring that working arrangements offer sufficient diversity for employees to improve their work-life balance<sup>1</sup> in response to changes in Japan's social structure. As a public organization, the Bank is also required by the public to constantly maintain the fairness and efficiency with which it runs its business.

### **III. Management Principles**

Based on the above understanding, in order that the Bank's full resources may be deployed smoothly and in an integrated fashion to fulfill its mission, the following three management principles have been set out under the Strategic Priorities: stability and efficiency in all

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

business operations; learning in action; and enhancement of communication channels.

#### **A. Stability and Efficiency in All Business Operations**

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

#### **B. Learning in Action**

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

#### **C. Enhancement of Communication Channels**

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

#### **IV. Issues and Action Plans**

In accordance with the three management principles described in Section III above, the Bank has continued to address a wide range of issues and has moved forward with a number of action plans.

In the wake of the Great East Japan Earthquake on March 11, 2011, the Bank, recognizing that maintaining confidence in the normal functioning of financial infrastructure was a top priority, made efforts to provide ample funds to the financial markets and to ensure that payment and settlement systems, which form the foundations of people's lives and economic activity, continued to be fully functional; it also decided to further enhance monetary easing. In addition, the Bank took measures on its premises as necessary to meet the need to conserve electric power following the disaster. The Bank's responses to the disaster included the temporary suspension of some of its business operations, such as some on-site examinations of financial institutions and in-house tours.

Given the Bank's performance review as well as the recent developments in Japan's economic and financial environment described in Section II, the Bank will address new issues and implement new action plans during fiscal 2012-2014, taking into account the experience gained from responding to events such as the earthquake. The following provides an overview of these new issues and action plans.

##### **A. Matters Relating to the Conduct of Monetary Policy**

In order for Japan's economy to overcome deflation and return to a sustainable growth path with price stability, the Bank will pursue powerful monetary easing through the comprehensive monetary easing measures that it has in place and will also engage in efforts, as central bank, to support strengthening the foundations for Japan's economic growth. At the same time, the Bank will do its utmost to ensure financial market stability. In support of these policy operations, the Bank will enhance the quality of its research and analysis regarding developments in economic activity, prices, and the financial environment both at home and abroad. To this end and also with regard to the macroprudential perspective, the Bank will further strengthen its analysis of the effects of developments in global financial

markets on Japan's financial and economic activity, as well as its analysis of movements in other risk factors such as the accumulation of financial imbalances.

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

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

## **B. Matters Relating to the Financial System**

International discussion on maintaining financial system stability deepened in light of the global financial crisis following the Lehman shock. More specific progress has been made toward establishing new international rules regarding financial regulation and supervision, as well as in corresponding efforts by individual countries and regions around the world. Meanwhile, the scope of discussion at international forums has widened to include the international monetary system and the resolution frameworks for financial institutions. Given these developments, the Bank will conduct research and planning related to the financial system, giving due consideration to institutional factors unique to each country as well as Japan's past experience. The Bank will make use of the findings to actively contribute to policy formulation both at home and abroad.

The business environment surrounding financial institutions has continued to change, and there remain disparities among institutions in terms of their profitability and financial strength. Under these circumstances, the Bank will ensure that it accurately grasps the business conditions at financial institutions by continuing to conduct its on-site examinations and off-site monitoring efficiently and effectively, while strengthening the feedback between them. The Bank will also encourage financial institutions to step up efforts to improve their management of risks through activities organized by the Bank's Center for Advanced Financial Technology (CAFT).

At the same time, the Bank will further refine its methods for analysis and assessment of the financial system in line with "The Bank of Japan's Initiatives on the Macprudential

Front," released in October 2011, and will effectively communicate its findings to the public.

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

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

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

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

At the same time, the Bank will firmly monitor the safety and efficiency of payment and settlement systems both at home and abroad as well as encourage relevant parties to make improvements, in accordance with the set of basic oversight policies adopted by the Bank in keeping with the "Principles for Financial Market Infrastructures," the new international standards issued by the Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO).

With a view to further enhancing the stability and efficiency of financial markets and in consideration of international developments, the Bank will carry out research and planning related to improving financial market structures and adjusting market infrastructure. It

will work toward securing improvements in these areas, in discussion and cooperation with relevant parties at home and abroad.

Based on its experience following the Great East Japan Earthquake and the government's reappraisal of potential damage scenarios, the Bank will assess the current business continuity framework and improve contingency arrangements as necessary. It will also step up efforts to ensure the effective and efficient implementation of such arrangements, in cooperation with relevant parties, including ministries and government agencies as well as financial institutions.

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

#### **D. Matters Relating to the Regional Economic and Financial Environment**

The Bank will maintain a sound grasp of regional economic and financial conditions, including the progress of restoration and rebuilding following the disaster caused by the Great East Japan Earthquake, through close and frequent communication with local businesses and financial institutions. The Bank will make use of its findings in its conduct of monetary policy and other actions. In addition, the Bank will take advantage of such occasions to communicate with local business communities, and to provide a clear and accessible explanation of its view of economic and financial conditions both at home and abroad, as well as its thinking on the conduct of monetary policy.

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

contribute to efforts to improve the functioning of the financial system in regional economies.

#### **E. Matters Relating to Banknotes, Treasury Funds, and Japanese Government Securities (JGS) Services**

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

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

#### **F. Matters Relating to Communication with the Public**

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

### **V. Organizational Management**

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



## **A. Stable and Efficient Business Operations**

The Bank will continue to ensure that all operations are backed by accurate practical knowledge and executed with precision and deliberation. In particular, it will ensure that the necessary operational procedures are put in place in a swift and appropriate manner to implement policy measures effectively. The Bank will assess its business processes in order to identify where operational risks -- including those associated with information security -- exist, and how such risks are controlled. It will then revise its business processes as necessary and work toward further strengthening its risk management.

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

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

## **B. Human Resources**

From fiscal 2012 to 2014, the Bank will apply itself to further increasing the overall efficiency of its business operations, while securing the staff needed to enhance its capabilities in both policy formulation and the system development necessary for successful policy implementation. In addition, the Bank will continue to promote working arrangements that take into account employees' work-life balance, while holding down total personnel expenses.

With these precepts guiding its human resource management, the Bank has set the ceiling on the number of full-time employees for fiscal 2012 at 4,900.

With a view to enhancing communication channels and strengthening its capacity to respond smoothly to changes in circumstances both at home and abroad, it has become increasingly important for the Bank to acquire and train employees who possess the practical skills to build and manage relationships both inside and outside Japan in executing the Bank's business operations and organizational management. To achieve this and to further raise employee motivation, the Bank will also continue to be more active in sending/receiving employees to/from outside institutions, in addition to improving job rotation and human resource development programs.

### **C. Budget for Expenses**

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

In keeping with these principles, the Bank has set its budget for expenses for fiscal 2012 (the 128th fiscal year) as shown in the Attachment.

### **D. Performance Reviews**

The Bank will evaluate the progress made in the improvement of business operations and organizational management described in the Strategic Priorities at the end of every fiscal year. It will release the results of this evaluation in the *Gyomu Gaikyo Sho* (Outline of Business Operations).

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

### **Budget for Expenses for Fiscal 2012**

The Bank of Japan's budget for expenses for fiscal 2012 (the 128th fiscal year) is as follows (Table 1).<sup>2</sup> While appropriating a significant portion of the budget to deal with the issues and implement the action plans outlined in the Strategic Priorities, the Bank has also thoroughly examined and streamlined each item of expenditure.

Specifically, the budget for expenses for fiscal 2012 was more or less unchanged from the previous fiscal year, an increase of 0.8 percent, of which the amount subject to the approval of the Minister of Finance decreased by 0.1 percent. "Other general and administrative expenses and costs" and "cost of fixed-asset purchases" increased by 2.6 percent and 11.4 percent, respectively, mainly in accordance with efforts to establish the new BOJ-NET and expenses related to the improvements to the Bank's premises. On the other hand, reductions were made in the following range of items: 0.4 percent in the cost of production of banknotes; 2.3 percent in administrative expenses for treasury business and Japanese government securities; 0.3 percent in personnel expenses; 4.4 percent in expenses for transportation and communications; and 2.3 percent in expenses for maintenance and repairs.

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<sup>2</sup> The Bank prepares a budget for expenses every fiscal year. Its budget for core operations, excluding the cost of purchasing fixed assets used for the Bank's business operations, is subject to the approval of the Minister of Finance under Article 51, paragraph 1 of the Bank of Japan Act before the beginning of each fiscal year. For fiscal 2012, the Bank sought approval on March 23, 2012 and will implement the budget upon authorization from the Minister of Finance. All figures, including those in Table 1, are rounded off to the nearest whole number.

Table 1  
**Budget for Expenses for Fiscal 2012**  
**(The 128th Fiscal Year)**

Item	Initial budget (thous. yen)	Change from the previous year (percent)
<b>Cost of production of banknotes</b>	<b>49,744,700</b>	<b>-0.4</b>
<b>Administrative expenses for treasury business and Japanese government securities</b>	<b>18,883,466</b>	<b>-2.3</b>
<b>Personnel expenses</b>	<b>50,527,703</b>	<b>-0.3</b>
Remuneration of the officers	352,302	-16.2
Remuneration of the employees	40,238,721	-0.8
Retirement allowances	9,936,680	2.5
<b>Expenses for transportation and communications</b>	<b>4,929,556</b>	<b>-4.4</b>
Expenses for transportation	1,994,695	-6.6
Expenses for communications	2,934,861	-2.9
<b>Expenses for maintenance and repairs</b>	<b>1,997,675</b>	<b>-2.3</b>
<b>Other general and administrative expenses and costs</b>	<b>56,378,377</b>	<b>2.6</b>
Cost of expendable supplies	1,325,974	-6.1
Expenses for electricity and water supply	2,224,085	7.1
Leasing fees for buildings and equipment	11,048,024	2.9
Expenses for maintenance of buildings and equipment	9,824,164	-0.0
Miscellaneous expenses	31,956,130	3.4
<b>Subtotal</b>	<b>182,461,477</b>	<b>0.2</b>
<b>Cost of fixed-asset purchases</b>	<b>11,211,125</b>	<b>11.4</b>
Of which: Subject to the approval of the Minister of Finance <sup>1</sup>	2,449,636	-18.2
<b>Contingency funds</b>	<b>1,000,000</b>	<b>0.0</b>
<b>Total<sup>2</sup></b>	<b>194,672,602</b>	<b>0.8</b>
Of which: Subject to the approval of the Minister of Finance <sup>1</sup>	185,911,113	-0.1

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

2. Of the budget for expenses, those related to computerization amounted to 35,242,000 thousand yen, a 2.6 percent increase from the previous year, and are included in expenses for communications, leasing fees for buildings and equipment, expenses for maintenance of buildings and equipment, and miscellaneous expenses.

Budget estimates of computerization expenses assume required outsourcing man-hours of approximately 11,402 person-months (one person-month describes the workload equivalent to one person working for one month in system development), and total man-hours of approximately 14,414 person-months if the workload of the Bank's employees is included.