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Bank of Japan

The Bank of Japan's Strategic Priorities for Fiscal 2013-2015

I. Introduction

"The Bank of Japan's Strategic Priorities for Fiscal 2013-2015" 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. 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 ongoing global economic adjustment reflecting, for example, the worldwide accumulation of financial imbalances can be considered a case in point.

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 rebuilding after the Great East Japan Earthquake. In this situation, in order for Japan's economy to overcome deflation as early as possible and

achieve sustainable growth path with price stability, efforts by a wide range of entities to strengthen the economy's growth potential and support from the financial side are essential. Other critical challenges are the implementation of bold regulatory and institutional reforms and the establishment of a sustainable fiscal structure. Attention should continue to be paid to the disparities in economic conditions among regions as well as in profitability and financial strength among regional financial institutions, reflecting factors such as regional differences in economic structure.

With international discussion on maintaining financial system stability deepening, it is important for Japan to involve itself appropriately in establishing new international rules regarding financial regulation and supervision in view of their impact on, for example, the financial intermediation function. In addition, it is essential for individual countries and regions around the world to achieve steady progress in their respective efforts to attain financial system stability.

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 in Japan as well as to retain public confidence, it needs to continue conducting its central banking operations properly.

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

III. Management Principles

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

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

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

A. Stability and Efficiency in All Business Operations

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

B. Learning in Action

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

C. Enhancement of Communication Channels

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

external relationships and enhance communication channels.

The above three management principles have been in place without modification since they were formulated in fiscal 2009 to show the basic thinking behind the Bank's Strategic Priorities, and they are now in their fifth year. The Bank has taken this opportunity to assess, in light of the three principles, the major efforts it has made to date based on the Strategic Priorities.

IV. Issues and Action Plans

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

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 2013-2015. In the process, it will focus on strengthening the growth potential of Japan's economy. The new issues and action plans relate to not only its conduct of monetary policy but also its business operations across a wide range of areas including the financial system, payment and settlement systems, and market infrastructure. The following provides an overview of these new issues and action plans.

A. Matters Relating to the Conduct of Monetary Policy

The Bank will pursue aggressive monetary easing, aiming to achieve at the earliest possible time the "price stability target" introduced in January 2013. More specifically, the Bank will continue with its virtually zero interest rate policy and purchases of financial assets, as long as it judges it appropriate to do so. In addition, the Bank will provide support for financial institutions' efforts to strengthen the foundations for economic growth and to increase their lending. Taking into consideration that it will take considerable time before the effects of monetary policy permeate the economy, the Bank will ascertain whether there is any significant risk to the sustainability of economic growth, including from the accumulation of financial imbalances.

In support of these policy operations, the Bank will continue to 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, the Bank will further strengthen its analysis of the effects of monetary policy and their transmission through the economy. Taking a macroprudential perspective, the Bank will do the same for 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.

At the same time, the Bank will communicate its thinking on the conduct of monetary policy to the public effectively and disseminate the findings of the research and analysis underpinning its policy decisions.

B. Matters Relating to the Financial System

With international discussion on maintaining financial system stability deepening, it is important for Japan to involve itself appropriately in establishing new international rules regarding financial regulation and supervision in view of their impact on, for example, the financial intermediation function. In addition, it is essential for individual countries and regions around the world to achieve steady progress in their respective efforts to attain financial system stability. 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 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 disparities remain among institutions in terms of their profitability and financial strength. In this situation, some financial institutions, mainly major banks, have actively expanded their global business and have been susceptible to developments in overseas economies and global financial markets. Furthermore, the new capital requirements are being phased in

from 2013. 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 continue to refine its methods for analysis and assessment of the financial system in Japan in line with "The Bank of Japan's Initiatives on the Macroprudential Front," released in October 2011, and will communicate its findings to the public effectively.

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 for 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 oversight policy adopted by the Bank in keeping with the "Principles for Financial Market Infrastructures," the 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 and by making use of the new BOJ-NET, scheduled to be phased in during fiscal 2013-2015.

Based on its experience following the Great East Japan Earthquake and the government's reappraisal of potential damage scenarios such as those for Tokyo Inland Earthquakes, 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 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 impact on the workload at its Head Office and branches from 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 taking account of lessons learned in responding to the earthquake disaster, the Bank will proceed with its reappraisal of the division of roles among its operating locations, such as the Head Office and branches; it will also proceed with the reappraisal of 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 -- taking into account the latest trends in technology -- 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, 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 exist -- including those associated with information security -- 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 by 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 2013 to 2015, 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 2013 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 each item of expenditure and achieving a more streamlined overall budget; at the same time, it will appropriate a portion of its 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 2013 (the 129th fiscal year) as shown in the Attachment. As a provisional and exceptional measure for fiscal 2012 and 2013, the Bank has made cuts to its officers' and employees' remuneration in support of rebuilding efforts following the earthquake disaster.

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 2013

The Bank of Japan's budget for expenses for fiscal 2013 (the 129th fiscal year) is as follows (Table 1).² While appropriating a significant portion of the budget to deal with the issues and implement the action plans outlined in the Strategic Priorities, the Bank has also thoroughly examined each item of expenditure to achieve a more streamlined overall budget.

Specifically, the budget for expenses for fiscal 2013 marked a decrease of 2.7 percent from the previous year, of which the amount subject to the approval of the Minister of Finance decreased by 2.5 percent. The overall decrease in the budget was due to reductions in the following range of items: 4.8 percent in personnel expenses mainly reflecting a provisional and exceptional measure that reduced the Bank's employees' remuneration in support of rebuilding efforts following the earthquake disaster; 4.2 percent in administrative expenses for treasury business and Japanese government securities; 3.2 percent in the cost of production of banknotes; and 1.7 percent in other general and administrative expenses and costs. On the other hand, cost of fixed-asset purchases increased by 5.1 percent, mainly due to an increase in expenses incurred in updating automatic banknote examination machines.

² The Bank prepares a budget for expenses every fiscal year. Its budget for core operations, excluding the cost of purchasing fixed assets used for the Bank's business operations, is subject to the approval of the Minister of Finance under Article 51, paragraph 1 of the Bank of Japan Act before the beginning of each fiscal year. For fiscal 2013, the Bank sought approval on March 15, 2013 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 2013
(The 129th Fiscal Year)

Item	Initial budget (thous. yen)	Change from the previous year (percent)
Cost of production of banknotes	48,161,301	-3.2
Administrative expenses for treasury business and Japanese government securities	18,086,881	-4.2
Personnel expenses	48,121,955	-4.8
Remuneration of the officers	343,394	-2.5
Remuneration of the employees	38,017,274	-5.5
Retirement allowances	9,761,287	-1.8
Expenses for transportation and communications	4,902,413	-0.6
Expenses for transportation	1,978,093	-0.8
Expenses for communications	2,924,320	-0.4
Expenses for maintenance and repairs	1,997,344	-0.0
Other general and administrative expenses and costs	55,421,175	-1.7
Cost of expendable supplies	1,280,513	-3.4
Expenses for electricity and water supply	2,162,266	-2.8
Leasing fees for buildings and equipment	9,831,632	-11.0
Expenses for maintenance of buildings and equipment	11,039,253	12.4
Miscellaneous expenses	31,107,511	-2.7
Subtotal	176,691,069	-3.2
Cost of fixed-asset purchases	11,781,868	5.1
Of which: Subject to the approval of the Minister of Finance ¹	3,523,322	43.8
Contingency funds	1,000,000	0.0
Total²	189,472,937	-2.7
Of which: Subject to the approval of the Minister of Finance ¹	181,214,391	-2.5

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 35,054,067 thousand yen, a 0.5 percent decrease from the previous year, and are included in expenses for communications, leasing fees for buildings and equipment, expenses for maintenance of buildings and equipment, and miscellaneous expenses.

Budget estimates of computerization expenses assume required outsourcing man-hours of approximately 10,508 person-months (one person-month describes the workload equivalent to one person working for one month in system development), and total man-hours of approximately 13,541 person-months if the workload of the Bank's employees is included.