

Basic Policies for Economic and Fiscal Management and Structural Reform 2005

The Japanese Economy's Emergence from the "Post-Bubble Period"—Entering the Concentrated Consolidation Period (FY2005 — FY2006)

(Emerging from the negative legacy of the burst of the bubble — Tackling three tasks)

★ Three reforms to achieve “small and efficient government”

➤ Changing the flow of funds

★ Privatization of the Japan Post

- Make efforts towards enactment of related bills

★ Reform of policy-based finance

- CEFP to deliberate through autumn
- Formulate basic policy direction

★ Strengthening management of government assets and debts

- CEFP aims to publish the basic policy direction around autumn 2005

➤ Changing the flow of work

★ Shift from the central to local government

- To implement reform of subsidies, transfer of tax revenue resources of approximately three trillion yen, and reform of local allocation tax in order to complete the reform package of three issues by FY2006

★ Enactment of “Bureaucratic Reform Bill”

- Swiftly engage in preparations for submission of a draft proposal of the “Improvement of Public Services Efficiency Bill (or Market Testing Bill) (provisional title)” to the Diet within FY2005

★ Reform of the budget system

- Shifting “Model Projects”, whose aim is to make efficient budget execution by setting quantitative targets, from a trial to a general framework
- Clarify the basic policy direction for modalities for earmarked revenue sources of special accounts within the concentrated consolidation period

➤ Changing personnel and organization

★ Thorough administrative reform of central and local governments

- Publish FY2006 policy for reviewing local branch offices
- Provide information enabling comparison of “intensive reform plans” of local governments

★ Reforming total personnel expenses for public employees

- Set clear objectives such as “net reduction target” of number of employees in central and local governments
- Central government to set net reduction target for the period covered by the next personnel reduction plan
- Publish basic policy direction for reforming total personnel expenses for public employees by autumn 2005
- Basic policy direction to be reflected in budget and the local financial plans for FY2006 and beyond

★ To realize a new dynamic era —Overcoming aging and globalization—

➤ Vigorous implementation of fiscal structural reform

- Promote reform of both expenditure and revenue in an integrated manner on the basis of three principles
 - Principle of “small and efficient government”
 - Principle of vitality
 - Principle of transparency
- Provide options for the direction of the reform and a roadmap within approximately one year

➤ Ensuring safety and reassurance of the nation

- Promote investment in disaster prevention measures such as those against large-scale earthquakes and others
- Promote safety measures for public transportation on land, sea and air
- Promote measures to improve public law and order and to revive “Japan as the safest country in the world”

➤ Building a sustainable social security system

- Concerning the increase of social security benefits, taking note of medical services, set a policy objective aiming for a substantive achievement in rationalizing medical expenses
 - Necessary measures will be taken to achieve this objective after reviewing the achievements periodically
 - Reach conclusion on the objective to be reached by the end of 2005, along with concrete measures to achieve it

➤ Fostering the next generation

- Promotion of a national campaign to reverse the trend of declining birth rate
- Set guidelines for external assessment of schools during FY2005, and spread freedom of choosing schools nationwide

➤ Strengthening human capability

- Enhance and Strengthen the plan to convert 200,000 “freeters” to regular workers
- Make a comprehensive study of the possibility of accepting foreign workers

➤ Strengthening global strategy

- CEFP to publish “Global Strategy” by Spring 2006
- Strategic expansion of ODA volume, and ODA reform
- Steady implementation of the Kyoto Protocol Target Attainment Plan

★ To achieve private demand-led economic growth

➤ Emerging from deflation

★ The Government will, together with the Bank of Japan, further strengthen and expand policy efforts

- Expect BOJ's effective monetary policy management

➤ Policy shift for revitalization

“Three Principles for Revitalization”

- Shift policy towards “individuals”
- Shift to support front-runners
- Shift to global competition

★ Regulatory reform and opening up to the private sector

★ Financial system reform

★ Tax reform

★ Expenditure review for revitalization

- Public investment to continue making steady efforts to achieve the target level
- Strengthening of selection and concentration as well as ex post verification of science and technology policy, and reflection of the results in formulating the next “Science and Technology Basic Plan”

➤ Basic direction of FY2006 budget

★ Maintaining and strengthening expenditure reform without exception

★ Prioritization and streamlining of budgetary allocation

★ Suppression of total personnel expenses and other expenditures

(note) Summarized by the Cabinet Office from the Basic Policies 2005