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Basic Policies for the Economic and Fiscal Management and Reform 2014:

From Deflation to an Expanded Economic Virtuous Cycle

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**Basic Policies for the Economic and Fiscal Management and Reform 2014
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Chapter 1: Achievements to date of Abenomics and challenges facing the Japanese economy

1. Ending deflation and revitalizing the Japanese economy

Japan's economy has experienced twenty years of stagnation due to low economic growth and protracted deflation. The Abe administration has been implementing a set of new economic policies designed to end the prolonged deflation as soon as possible and revitalize the Japanese economy in an integrated manner. Known as Abenomics, these policies are made up of "three arrows": aggressive monetary policy, flexible fiscal policy, and a growth strategy that promotes private investment. Now, with a virtuous economic cycle being set in motion, the Japanese economy is beginning to regain confidence that had been lost in the prolonged recession and deflation.

The government will accelerate this virtuous cycle, ensure the end deflation and revitalization of the economy and thus keep expectations for growth high. To these ends, the government will work to steadily increase demand. The closing gap between supply and demand is providing a valuable opportunity to take on new challenges. Seizing this opportunity, the government will strive for a growing economy where innovations are continually produced, and high value-added goods and services are produced.

(Achievements of Abenomics and future policy)

Japan has been taking a range of steps under Abenomics. The Bank of Japan has been implementing the policy of quantitative and qualitative monetary easing.¹ The government has been steadily carrying out an economic package totaling some 10 trillion yen.² It has formulated the Japan Revitalization Strategy aimed at stimulating private investment.³ Also, the government has taken specific measures in accordance with the Industrial Competitiveness Enhancement Action Plan.⁴ In its decision last October to raise the consumption tax rate to 8%, the government has come up with the Economic Policy Package⁵ to address the downside risks to the economy. This package consists largely of tax measures totaling 1 trillion yen and new economic measures totaling 5 trillion yen. To follow up on this package, the government has formulated Economic Measures for Realization of Virtuous Cycles.⁶ The government is promptly executing these measures by setting targets of implementation rates in the FY2013 supplementary budget and the FY2014 initial budget. The "three arrows" strategy has been having a positive impact on the Japanese economy. Real GDP increased for the sixth consecutive quarter. During the same period, the diffusion index rose across the board, including in the SME sector. Capital investment has been on the rise as well. Economic conditions

¹ "Introduction of 'Quantitative and Qualitative Monetary Easing,'" issued by the Bank of Japan on April 4, 2013

² "Emergency Economic Measures for the Revitalization of the Japanese Economy" (Cabinet Decision of January 11, 2013)

³ "Japan Revitalization Strategy" (Cabinet Decision of June 14, 2013)

⁴ Industrial Competitiveness Enhancement Action Plan (Cabinet Decision of January 24, 2014)

⁵ "Raising the National and Local Consumption Tax Rates and Associated Responses" (Cabinet Decision of October 1, 2013)

⁶ Economic Measures for Realization of Virtuous Cycles (Cabinet Decision of December 5, 2013)

improved significantly in every region of Japan. Steady improvements are also seen in employment. The ratio of new job offers to new applicants has reached 1:1.6. The unemployment rate has dropped to the middle of the 3-4% range.⁷ Thus the Japanese economy is regaining its robustness. Price trends are no longer pointing to deflation. All these pieces of evidence show that the economy is making steady steps forward to break free from deflation.

It is important to set the Japanese economy into a virtuous cycle where increased corporate earnings lead to higher wages and the resultant increase in private consumption leads to further increase corporate earnings. The Government-Labor-Management Meeting for Realizing a Positive Cycle of the Economy ("Government-Labor-Management Meeting") last year provided the first impetus in that direction. Now, there are increasingly robust and widespread moves toward higher wages. The most recent available data show that in this year's annual spring wage offensive, the average monthly wages increased at least 2%, the highest level in ten years. Bonuses also rose significantly.⁸

On the fiscal front, the government has been making efforts to improve the fiscal balance in accordance with the Basic Framework for Fiscal Consolidation: Medium-term Fiscal Plan ("Medium-term Fiscal Plan"),⁹ putting Japan on a firm track to fiscal consolidation.

Given the current state of the economy, the government should take the following three policies in economic and fiscal management. The first policy is to continue to forge ahead with the first and second "arrows" in order to support the sustained growth in demand as part of efforts to ensure an exit from deflation. The second policy is to push further ahead with the third "arrow", or Growth Strategy, by seizing the opportunity provided by closing the gap between supply and demand. This is a valuable opportunity to encourage such key economic actors as individuals and businesses to take on challenges in creating new jobs, increasing investments, and expanding business frontiers. The third policy is to make a shift from crisis response mode to normal mode, replacing temporary and exceptional measures to stimulate the economy in the aftermath of the economic shock that followed the collapse of Lehman Brothers with ordinary ones.

(Four challenges ahead)

In light of these policies, Japan needs to take on the following four challenges in economic and fiscal management.

The first challenge is to cope adequately with a consumption fall after the last-minute rise in demand before the consumption tax hike in April this year. Many analysts say the shrinkage so far is within their expectations. It is most likely that economic measures will be executed without a major hitch and that the impact of the wage increase will manifest itself. The Japanese economy is therefore expected

⁷ The rate of growth in the number of households on welfare is falling.

⁸ The results of the seventh tally of wage hike settlements in the 2014 Spring Struggle for a Better Life as released by the Japanese Trade Union Confederation on June 4, 2014.

⁹ Basic Framework for Fiscal Consolidation: Medium-term Fiscal Plan (August 8, 2013 Cabinet approval)

to overcome the consumption fall and remain on a recovery path. The government will do its utmost to revitalize the economy. To this end, the government will continue to carefully monitor the implementation of economic measures and trends in demand for durable goods among others and make policy responses as necessary in a timely and flexible manner.

The second challenge is to expand the nascent virtuous cycle of the economy and encourage initiatives by businesses. Amid the improving employment situation, there are labor shortages in some industries and regions. Labor scarcity may linger against a declining population. As the economy recovers, it is increasingly necessary to look at the supply side as well as the demand side in policy management. Attention should be paid, for example, to the need for improved productivity. The first step in that direction is to reduce mismatches within the labor market and encourage people who have given up finding a job to reenter the labor market. In addition, the Growth Strategy needs to be strengthened and deepened to improve productivity. The government will bolster the confidence of private economic actors in the future of the economy, encouraging their initiatives in economic activities and stimulating their innovation. The government will thus work to expand the virtuous economic cycle, paving the way for average annual growth rates of around 3% in nominal GDP and about 2% in real GDP over the "new decade of revival" (FY2013-FY2022).

To maintain and expand the virtuous cycle, the government, labor and management need to conduct their own activities designed to put into practice the conclusions reached at the Government-Labor-Management Meeting last year. To this end, it is important for the government, labor and management to do two things: (i) work together to follow up on these activities, and (ii) study how employment, wages, and related systems should be adjusted to the structurally changing labor market.

A sharp drop in Japan's current account surplus has been largely caused by rising energy prices as well as increasing prices of imported goods due to exchange rate fluctuations, in addition to the structural change of the Japanese economy and declining demand in emerging economics. Two measures need to be taken for the short term. One is to address rising energy costs and secure an affordable and stable supply of energy and natural resources, and the other is to strengthen Japan's bargaining power on prices of these resources by, for example, reducing their consumption and acquiring interests in natural resources overseas. These efforts will help to increase the rate of growth in real gross national income (GNI), which serves as an index for the real affluence of Japan.

The third challenge is to implement institutional and system reforms toward a promising future for Japan. Japan's population is declining and aging rapidly. The government will carry out reforms that are necessary to stem this tide by 2020 and put the economy on track to stable and sustained growth.

The fourth challenge is to achieve fiscal consolidation that is compatible with economic revitalization. In order for the "three arrows" strategy to be sustainably effective, the government needs to firmly maintain fiscal discipline. The government aims to realize a strong economy and increase tax revenues through economic growth. By thorough expenditure cuts of discretionary spending and mandatory

spending, the government also seeks to create a virtuous cycle in which economic revitalization facilitates fiscal consolidation, and progress in fiscal consolidation contributes to further economic revitalization.

2. Charting a basic direction toward progress in economic revitalization

The key to robust progress in economic revitalization is to enhance both the quantity and quality of labor and capital, and to enhance productivity in the creation of value added by labor and capital through increasing total factor productivity (TFP)¹⁰. Innovation and corporate governance provide an essential tool to that end.

Hence, given an expected decline in the laborforce, the government will take drastic measures to overcome the declining birth rate. It will also aim to realize a society where all people – men and women, young and old – could be dynamically engaged according to their willingness, personalities and capabilities. In addition, the government will develop high-quality human resources through such means as reviving education and training and improving career and vocational education.

To stimulate private investment and attract Foreign Direct Investment (FDI) to Japan, the government will make Japan the easiest country worldwide in which to do business by corporate tax reform, review of regulations through, for example, the utilization of National Strategic Special Zones, and an affordable and stable supply of natural resources and energy. It will also reinforce the supply of funds for growth by utilizing private funds and promoting stable medium- to long-term investment. In addition, the government will seek to sophisticate the management of public and quasi-public funds.

The government will encourage innovation (the creation of new value through ingenuity).¹¹ It will work to develop a "national system of innovation" where innovations are constantly created in Japan and such innovations developed into new industries.¹² In today's advanced networks on the Internet, the government will work to improve value-added productivity¹³ and create new markets in the service and other sectors through such means as accumulating and utilizing knowledge capital, including the brand, making more investment in human capital, and innovating marketing methods. With promoting enterprise renewal and aiming to turn the country into "an entrepreneurial powerhouse", the government will also work to boost Japan's economic dynamism. Above all, it is important that the government encourage innovation with more interaction of some resources—manpower, goods, capital and information, which is made possible by promoting the international interaction of investment in the service and other sectors and strengthening economic partnerships as represented by the Trans-Pacific

¹⁰ TFP is a major index of productivity. An increase in TFP points to an improvement in productivity that does not depend on the input of such production factors as labor and capital.

¹¹ The R&D Reinforcement Act (Act No. 63 of 2008) defines the "creation of innovation" as "to bring about a major socioeconomic change by creating new value through such means as developing or producing a novel product, developing or delivering a novel service, and introducing a novel method of production or sale, service delivery, or business administration".

¹² A system whereby the commercialization of innovative technology seeds, the strengthening of the capacity to create technology seeds, and the development and increased mobility of human resources are promoted in an integrated and strategic manner.

¹³ Value-added productivity refers to the amount of added value created by a unit production factor.

Partnership (TPP).

Through improving corporate governance, it is needed for Japanese enterprises to reform themselves so as to be able to make management decisions, with enhancing their earning power as their top priority, and strategically concentrate their resources on carefully selected domains. Moreover, the government will encourage to utilize dynamism as incorporated organizations in such sectors as agriculture, healthcare, and childcare.

By above described efforts, enhancement of value-added productivity and acquisition of export competitiveness will be realized, and the terms of trade will be improved by producing goods and services that are purchased even at high price. It is important to create a new growth mechanism as to boost the rate of growth in real GNI, which are made by improving the terms of trade and increasing income from foreign investment and the export of technologies and services.

It is essential to link the growth of the economy as a whole with the development of local communities. The outcomes of the Growth Strategy are being expanded to mid-tier enterprises, SMEs, and micro enterprises as well as local economies. The government needs to take resolute measures ("Local Abenomics") to ensure that such fruits will be enjoyed in every corner of the country and that local economies will have bright medium- to long-term prospects.

3. Reconstructing Tohoku from the Great East Japan Earthquake as a land of creativity and potential

Without the reconstruction of disaster areas, there can be no revival of Japan. More than three years have passed since the great earthquake struck. The reconstruction process is entering a new stage. Reconstruction work is in full swing, including housing reconstruction work. As for the reconstruction and revitalization of Fukushima, various programs designed to promote an early return of evacuated residents and build housing for long-term evacuees are now in full motion. The government will accelerate even further the reconstruction process.

To this end, the government will work to strengthen the control-tower functions of the Reconstruction Agency and ensure a thorough focus on needs in the field. It will also secure financing for reconstruction in the intensive reconstruction period and execute the reconstruction-related budget in a timely and flexible manner. In the process, the government will strictly monitor the use of such budget allocations in order not to invite criticism that they are misappropriated.

In accordance with the new stage of reconstruction, the government will continue to engage in the revitalization and reconstruction of Fukushima, including housing reconstruction, community development through reconstruction, industrial and livelihood reconstruction, and support for healthcare and living, with the effective use of measures taken by not only the Reconstruction Agency but the whole of government.

The areas affected by the Great East Japan Earthquake pose the fundamental question of how local communities should evolve amid a declining and aging

population. The government will work to develop a "New Tohoku" as "Future Society with Creativity and Potential" with a view to developing a model for Japan as well as the world, whereby the reconstruction process is not limited to restoring these areas to their original condition but will also be taken advantage of in order to solve some of the problems facing most local communities across Japan, such as a declining and aging population and the hollowing-out of industry.¹⁴

Government measures for the recovery and reconstruction from the nuclear disaster include (i) accelerating the decontamination process, waste treatment, and the establishment of Interim Storage Facilities; (ii) continuing with its support programs for long-term evacuees and their early return; and (iii) studying community development in such a way as to accommodate the needs and desires of evacuees regarding their return, the future visions for local economies,¹⁵ and the post-construction grand design. The central government will do its utmost to decommission the reactors at the Fukushima Daiichi Nuclear Power Station of Tokyo Electric Power Company (TEPCO) and clean up the contaminated water. It will take the lead in these processes, not leaving them up to TEPCO alone. It will steadily implement radiation monitoring both in land and at sea as well as measures against harmful rumors.

4. Reforming institutions and systems that affect the future of Japan

(Overcoming the rapidly declining and aging population¹⁶)

Another major hurdle needs to be cleared after ending deflation and revitalizing the economy. Japan's population is declining and aging rapidly. Japan will not be able to put its economy on a stable and sustained growth track unless this tide is turned.

It is not easy to turn the tide of the rapidly declining and aging population. Even if the tide is turned, it will take a long time until the policy effect will appear. If the tide is not turned, the Japanese economy will shrink and fall into a contraction spiral. In this case, there are few chances to recover any more. It is time that Japan carried out fundamental reforms and changes designed to turn tide of rapidly declining and aging population by 2020, which requires to carry out a fundamental review of institutions and systems in all areas, including education, social security, social infrastructure development, local government administration and finance, industrial promotion, taxation as well as social welfare, in terms of check whether these institutions and systems benefit the youth, children, and generations to come, and whether they are suited to marriage and child-rearing.

If Japan is able to turn the tide by 2020 by creating an environment where people

¹⁴ "Toward Creation of a 'New Tohoku' (recommendations)," released on April 18, 2014 by the Reconstruction Promotion Committee.

¹⁵ One such vision is the "vision for a Fukushima international research and industrial city (Innovation Coast)," released on June 23, 2014 by the study group on a Fukushima international research and industrial city (Innovation Coast).

¹⁶ Japan's population is shrinking at an average rate of about 160,000 per year. The elderly ratio, or the ratio of people aged 65 or older, in the total population stands at around 25%. According to "Population Projections for Japan" by the National Institute of Population and Social Security Research, the country's population will decline at a rate of one million a year and the elderly ratio will rise to at least 35% in 25 years. A population that will shrink according to this projection is referred to here as a rapidly declining and aging population.

can work, get married, and raise child as they wish and thus change their mindset significantly, the country will be able to maintain a population of about 100 million with a stable demographic structure in 50 years.

(Policies toward a preferable future)

Turing the tide of a rapidly declining and aging population and implementing reforms and changes toward a preferable future will lead to the following way:

- (1) Sharing a sense of crisis over a rapidly declining and aging population among the people and set out to maintain a population of about 100 million with a stable demographic structure in 50 years.
- (2) Sustaining growth by opening up the economy to the world, continuously developing innovations, and producing high value-added goods and services.
- (3) Building a society, institutions, and systems that empower people to unlock their potential according to their willingness, personalities and capabilities regardless of their age or gender.
- (4) Implementing regional strategies that take advantage of local characteristics and advancing the integration and vitalization processes in regional area, thereby developing local communities where jobs are available and sustainable livelihoods are ensured.
- (5) Cherishing institutions, culture, and public-spiritedness that constitute the foundations of society.

It is important to implement measures that must be taken totally as to their different priorities so that their implementation will not be partial, while sharing a preferable future and the way to such a future. Now is the time to promptly address challenges for overcoming the tide of a rapidly declining and extremely aging population in order to put the Japanese economy on a stable and sustained track while sustaining the momentum toward ending deflation and economic revitalizing the economy allowing for the revitalization and development of regional communities with securing the sustainability of social security programs and government finances. It is especially important to push ahead with an integrated policy designed to maintain the vitality of regional communities, stem the tide of over-concentration in Tokyo, and overcome a low birthrate and a shrinking population. The government will set up a headquarters to promote policies for this purpose by the government as a whole.

It is important to make Abenomics and other government initiatives better understood by the people of Japan and people in the world. Government ministries and agencies will continue to adequately work together to implement proactive and effective public relations regarding, among others, the basic policies of the Cabinet.

Chapter 2: Priorities toward progress in economic revitalization and medium- to long-term development

Toward the progress in the economic revitalization, the government will address three challenges. The first is the immediate challenge of overcoming reactionary demand decline after the front-loaded increase in demand before the consumption tax increase, sustaining the economic recovery, and further expanding the virtuous economic cycle. The second is a short- to medium-term challenge of putting the economy on track to full-fledged growth. The third is a medium- to long-term challenge of achieving stable and sustained growth.

Under the Japan Revitalization Strategy as revised in 2014¹⁷ and this set of basic policies (this document), the government will work as one to implement related measures.

The Tokyo 2020 Olympic and Paralympic Games in, etc.¹⁸ ("Tokyo Olympics, etc.") are special festivals for Japan as a whole. They offer a golden opportunity to advertise the country to the world and provide an impetus for Japan to regain its vitality. The government is working as one to organize these events.

1. Enhancing and exploiting the capacity of human resources, especially empowering women and rebuilding education

(1) Empowering women and reforming gender-based labor practices

The government will pursue a society where women shine. To this end, the government will work with various stakeholders to discuss and develop mechanisms whereby gender-based labor institutions, practices, public awareness, and work-life balances are fundamentally reformed and men and women are allowed to manage their jobs together with childbirth, childcare and nursing care according to their willingness and capabilities.

The government will take various measures to empower women. First, the government will develop infrastructure that supports women's social participation.¹⁹ Second, it will encourage information disclosure and the use of public procurement mechanisms to attain the target of increasing the percentage of women in executive and management positions. Third, the government will support businesses that encourage their employees to combine work with childcare or nursing care. Fourth, it will provide support according to different life stages of women. Fifth, the government will study ways to make the tax system and social security programs gender-neutral.

The government will work to promote telework as well as a variety of regular employment as exemplified by job-based regular employees and short-time regular

¹⁷ Japan Revitalization Strategy as revised in 2014 (Cabinet Decision of June 24, 2014)

¹⁸ This includes the Rugby World Cup 2019.

¹⁹ Such measures include implementing the Plan to Accelerate the Elimination of Childcare Waiting Lists, developing and implanting a Comprehensive After-School Childcare Plan, and securing human resources for childcare and child-rearing support.

employees. It will also help businesses with their efforts to change their employees' mindset about their working hours and improve their personnel evaluation systems so that the outcomes of their work are properly evaluated.²⁰

The central government will take the lead in employing more women and appointing them to more responsible positions. At the same time, it will promote a sound work-life balance for its employees.

(2) Implementation of educational rebuilding and promoting sports, culture and arts

(Educational rebuilding)

Human resources constitute a main driver for economic growth. Here, educational rebuilding comes into play for the revitalization of the Japanese economy. The government will implement measures to rebuild education in a comprehensive manner including considering reform of the educational system toward realizing the philosophy of the Basic Act on Education²¹. Mindful of the recommendations of the Council for the Implementation of Education Rebuilding, the government will take these measures based on the Second Basic Plan for the Promotion of Education²².

The government will strive to achieve academic performance at the international top level and normative consciousness. It will work to cultivate not only knowledge but also the capabilities to successfully survive in society in such areas as thinking, decision-making and expression. The government will also nurture the understanding of Japan's traditions and culture as well as public-spiritedness as a responsible member of society.²³ Amid an increasingly declining birthrate, the government will place more emphasis than ever on the quality of education. To this end, it will work to improve and strengthen the quality and ability of teachers while encouraging more planned recruitment of them in view of projections for the number of children in the future. The government will review the guidelines on the consolidation of schools, which is based on the commuting distance and so on, with view to optimizing the sizes of schools with attention paid to local realities. It will take advantage of specialists, ICT and other resources for efficient improvement of education.

The government will promote the all-out internationalization of colleges and universities.²⁴ It will work to train talent who can better cope with globalization through such means as nurturing natural scientists and engineers and bolstering

²⁰ Government support will also cover initiatives to redouble efforts to improve health management and prevent overwork, including more strict oversight and guidance for rectifying the practice of working long hours.

²¹ Basic Act on Education (Act No. 120 of 2006)

²² Basic Plan for Promotion of Education (Cabinet decision of June 14, 2013)

²³ Focus will be placed on strengthening English-language, science and mathematics, information and communications technology (ICT), moral education, and special support education as well as promoting education for Japanese children overseas and education exchange between urban and rural areas.

²⁴ Measures to achieve this goal include encouraging classes taught in English, scaling up liberal arts education that defies the dichotomy between the domain of humanities, social sciences, and fine arts on one hand and that of natural sciences on the other, creating an environment in which young people are encouraged to study abroad, through cooperation between the government and private sector, promoting accepting more foreign students.

education and research infrastructure. University reforms constitute another focus area. As far as national universities are concerned, the government will fundamentally review the present practices concerning evaluating universities and allocating grants for operational expenses. It will also study a focused and strategic allocation system that favors universities that make concerted efforts to improve the quality of their education and research. Also, the government will encourage universities to evaluate their students more strictly and adopt more strict standards for granting diplomas. Furthermore, the government will encourage better content of courses. It will allow national universities to set their tuition fees freely within an appropriate range to improve the quality of education and research. In view of the cost of education the students have to bear, the government will promote increased support for them with tuition waivers, as well as scaled up scholarships made possible by cooperation between industry and universities. The government will encourage regional universities to train unique talent of their own. To this end, it will help transform them into regional hubs of education and research excellence that make better use of the areas of expertise their regions have. This will be achieved by the government taking initiatives to create such hubs and designating universities that will do so for special support. Also, the government will encourage educational institution to provide student support in the forms of scholarships and tuition discounts and waivers. Moreover, the government will increase support for vocational schools for advanced vocational education.

The government will phase in the program designed to realize free preschool education while securing necessary financial resources based on the Second Basic Plan for Promotion of Education and so on.

(Promoting sports, culture and the arts)

The government will strive for the realization of a “Sports Nation”. Measures to this end will include improving the nation's ability in international competitions, realizing a society in which people can take part in athletics and sports throughout their entire lives, and supporting fitness promotion through sports. The government will also consider reviewing its administrative institutions to support such a nation while respecting consistency with the basic policies of its administrative reforms. This may include the establishment of a Sports Agency.

The government will also strive for nation building based on culture and the arts. Measures to this end include (i) promoting the attractive aspects of Japanese culture, including the possible designation of them as Japan Heritages; (ii) securing opportunities for children to experience arts and culture; (iii) enhancing the functions of national cultural facilities; (iv) nurturing practitioners in arts and culture; and (v) preserving, utilizing, and acceding on to future generations cultural properties. These measures will be taken in appropriate cooperation with local authorities, private organizations and other entities engaging in the promotion of culture and the arts. In the process, the government will respect the context of industrial promotion as well as collaboration with tourism and other related industries.

(3) Empowering young people by offering multiple career development paths

(Empowering young people, etc. and supporting their second change in career development)

Taking the current improvement in the supply and demand situation in the labor market as a good opportunity, the government will forcibly take the following measures: To empower young people and the like, the government will forcibly carry out a comprehensive package that will be designed in view of the current state of affairs, including legislative measures. It will also take necessary measures to smoothly change the typical season for job hunting and recruitment for new graduates.²⁵

The government aims to improve the prevailing situation in which those who have failed in their career development have difficulty getting a second chance. To this end, it will work to ensure that multi-layered and multi-tracked paths to career development are available. The government will also study and create an environment conducive to unlocking the potential of each individual in consultation and discussion with labor, management and other stakeholders. The situation of non-regular workers is a major area of concern for the government. To rectify the situation, the government will ensure that such workers will be better treated and given opportunities for education and training. It will also encourage employers to promote non-regular workers to the status of a regular worker if they are non-regular workers against their will. The government will improve its support so that people will have more chances to start up their own businesses. Also, the government will provide job replacement and other support for ex-prisoners and other disadvantaged people, including subsidies for employers who hire such people.²⁶

Moreover, the government will strive for a universal society. To this end, it will create an environment where the disabled play active roles in society through such means as improving support for them in terms of social participation, especially support for them to secure and maintain a job, as well as encouraging their cultural and artistic activities.

(Enhancing human resource development so that people will be able to capitalize on their capacity throughout their lives, developing labor market infrastructure, and addressing labor shortages)

The government aims to ensure that people can capitalize on their capacity throughout their lives while adapting themselves to new technologies and industries. To this end, it will work to create an environment conducive to human resources development that allows people to upgrade their expertise. Measures for this purpose will include (i) fundamentally improving human resources training and

²⁵ These measures include (i) improving career and vocational education; (ii) increasing job placement support for new graduates; (iii) improving support for freeters (job-hopping part-time workers) and NEETs (young people who are Not in Education, Employment, or Training) to enter the workforce; (iv) improving and strengthening measures against businesses and other employers that allegedly use employees as disposables; and (v) extending support to people suffering from hikikomori (social withdrawal).

²⁶ Such support includes vocational training for prisoners and other disadvantaged people.

vocational training;²⁷ (ii) providing quality vocational training that better meets the needs of industry and the private sector; (iii) offering more re-learning opportunities; and (iv) support for people to adjust or change their careers according to their stage of life. The government also wants to see a society where a variety of opportunities are available for all children commensurate with their various capabilities independent of their parents' capacity to support them or of their child-rearing environment. To this end, the government will formulate a charter regarding measures to address the poverty of children and work with the private sector to promote such measures, thereby avoiding the reproduction of economic inequality.

In addition, the government will develop labor market infrastructure.²⁸ It will take a comprehensive package of measures to secure and train human resources in sectors where labor shortages are looming, including healthcare and social welfare, construction, transportation, and shipbuilding. At the same time, the government will work to build a multi-layered safety net that centers on unemployment insurance programs and job-seeker support programs. It will also try to raise the minimum wage while offering support to SMEs and micro enterprises.

(4) Stemming the declining birth rate

We must share a sense of crisis over the rapidly declining and aging population and break out of the current situation that can be described as a declining-birthrate crisis. The government will boost measures to stem the declining birth rate. Above all, it will provide seamless support that covers marriage, pregnancy, childbirth and child-rearing while sharing the awareness that support for childbirth and child-rearing constitutes a major pillar for social security and learning from experiences in other countries that have successfully achieved a recovery in the birthrate. For this purpose, it will drastically increase resource allocations to support children while securing necessary financial resources.²⁹ Furthermore, the government will study out-of-the-box solutions so that couples will be able to have as many children as they wish, with the capacity of families and local communities in mind. These solutions may include special assistance to parents who have three or more children that covers childbirth, child-rearing and education.

The government will complete a new charter on addressing a declining birthrate by the end of fiscal 2014. It will work under the policy of launching a new child and child-rearing support system in April 2015. The government will make steady efforts to secure funding for quantitative and qualitative improvements to support for preschool education, childcare, and child-rearing based on this new system. In the process, it will take appropriate steps regarding the domains outside the consumption tax. It is important for central government and local governments – prefectures and municipalities – to play their distinctive roles in addressing the problem of fewer children that accommodate the characteristics of urban and rural

²⁷ This includes offering reeducation for women who are willing to rejoin the workforce and workers who are reaching their retirement age, as well as reeducation and vocational training for non-regular workers and non-employed people.

²⁸ This will include making people's expertise and ability more transparent with a vocational qualification system, as well as strengthening the matching functions with better use of ICT.

²⁹ This includes support for securing obstetricians.

areas. The government will promote intergovernmental cooperation in this regard. It will also launch an initiative to share the need to overcome the declining-birthrate crisis among the full range of stakeholders, including the general public, the private sector, schools and the media as well as public authorities. In addition to this, the government will advance measures against child abuse.³⁰

(5) Capitalizing on a long, healthy life expectancy to activate society

Japan needs to create a society where the elderly can stay healthy longer and where their experiences and capabilities are put to better use. A possible environment where senior citizens will continue to work until the age of 70 if they so wish is an important issue to be studied. Such an environment will help secure a necessary workforce amid a declining population. Hence, the government will take measures to develop an environment conducive to creating such a life-long active society. They will include providing a setting that facilitates more active roles for the elderly in their local communities. This may be achieved by helping them to find a job and encouraging them to participate in voluntary activities.³¹

At the same time, the government will unleash the power of the private sectors through regulatory reforms and thus lay bare latent demand in various aspects of the health sector, thereby fueling economic growth.³²

2. Reforming economic structure toward shifting to the economy growth path led by private demand through promotion of innovation

(1) Innovation

The government will intensively implement the Comprehensive Strategy on Science, Technology and Innovation 2014,³³ which largely targets a period from 2020s to 2030, under the newly-transformed Council for Science, Technology and Innovation. In the process, it will strategically implement a number of measures, including strengthening the function of serving as a connector for commercializing innovative technology seeds, enhancing the capacity to create technology seeds, promoting the development and mobility of human resources, and establishing a system of “Special National Research and Development Corporations (as tentatively called)” as early as possible. Special emphasis will be placed on overcoming the hurdle of commercialization.³⁴ To turn Japan into the world's leading Intellectual Property (IP) nation, the government will implement IP and

³⁰ These include creating an environment where anyone can feel free to consult child guidance centers.

³¹ Other measures will include turning other aspects – guidance services that offer guidance on diet and exercises based on guidance and advice by doctors, self-medication that includes simple checkups (measurements), and disease prevention and health promotion, among others – into new industries that take advantage of ICT.

³² The government will expand the system for combining insured and uninsured medical services to allow prompt use of, among others, drugs that have not been approved in Japan, while steadfastly maintaining universal health insurance coverage in Japan. It will also give shape to a nonprofit holding company-type corporation system (as tentatively called) that will allow such corporations to manage multiple medical and nursing corporations in an integrated manner. In the process, the government will study ways for university hospitals to transform themselves into different corporations from the universities they once belonged to so that they will be able to participate in the envisaged system.

³³ "Comprehensive Strategy on Science, Technology and Innovation 2014" (Cabinet Decision of June 24, 2014)

³⁴ Specific measures will include better use of unused patent rights as well as efforts to concentrate needs, funding, talent, and knowledge on research institutions.

standardization strategies designed to promote innovation at businesses with developing necessary human resources.

The government will constantly support to create new value in a wide variety of aspects. This will be made possible by reforming Japan's industrial structure dynamically, which in turn will be achieved by promoting the restructuring and renewal of industry as well as creating and expanding startups and new businesses through such means as boldly carrying out regulatory and institutional reforms with National Strategic Special Zones serving as a breakthrough, and increasing the capacity to supply risk money aiming to turn the country into "an entrepreneurial powerhouse". In particular, the government will work to increase the supply of funds for growth by stimulating private investment and promoting stable, medium- to long-term investment³⁵ and begin to concrete examination with concerned ministries and agencies. To intensively promote the utilization of ICT, the core of innovation, the government will steadily undertake the initiative of "the Declaration to be the World's Most Advanced IT Nation"³⁶ and will also implement "the Smart Japan ICT Strategy" with a national commitment involving both the public and private sectors and in collaboration with National Strategic Special Zones.

We will strengthen Japan's locational attractiveness and enhance competitiveness of Japanese companies. In this context, we aim to reduce the effective corporate tax rate to the internationally-comparable level and embark on corporate tax reform to be more growth-oriented.

To that end, we aim to reduce the percentage level of the effective corporate tax rate down to the twenties in several years. We will start the first phase reduction from the next fiscal year.

As regards the revenue sources to fund such rate reduction, including the fact that the Japanese economy is pulling out of the deflation and showing structural improvements, in order to be consistent with the FY2020 target to achieve primary surplus, permanent revenues will be secured through such measures as broadening the tax base and so forth. We will continue to discuss this issue towards the end of this year when we will reach conclusions on the specifics.

In light of the need to achieve primary surplus in FY 2020 at the national and local level, we will proceed with the implementation of the tax reform while checking the progress towards the fiscal consolidation target.

(2) Corporate governance

To realize the virtuous economic cycle, it is important that corporate profit derived by enhancement of corporate earning power is appropriately passed along to a

³⁵ Specific measures will include expanding NISA and Japan's Stewardship Code, developing listed stock exchange for infrastructure, utilizing private equity funds and mezzanine finance, increasing the supply of medium- to long-term financing, and boosting socially responsible investment.

³⁶ Declaration to be the World's Most Advanced IT Nation (Cabinet Decision of June 14, 2013, as revised on June 24, 2014)

variety of stakeholders through various channels, especially in the forms of wages and dividends. In the case of enterprise exposed to global competition, this will be achieved through improved corporate governance, which in turn may be achieved by reconsidering the current practice of exercising voting rights of equity share crossholdings or considering and promoting the introduction of independent outside directors. Enterprises that create jobs in the local community can enhance their earning power with business management support from regional financial institutions. For its part, the government will work to create an environment where sound and robust enterprises are nurtured.

(3) An open country

Toward economic revitalization, the government will encourage Japanese businesses to expand their shares in the global market. At the same time, it will create a chain of innovations in the process of making Japan as a top of tourist destination and amid increased cross-border interaction involving human talents, goods and funds as well as information and increased diversity and relationships as a result.

(Outward globalization)

The government will continue to work toward an early conclusion of Trans-Pacific Partnership (TPP) negotiations. Concurrently, it will promptly and strategically advance negotiations for economic partnerships such as Regional Comprehensive Economic Partnership (RCEP) in East Asia, the Free Trade Agreement (FTA) among Japan, China and the Republic of Korea, and the Japan-EU Economic Partnership Agreement (EPA). Through these partnerships, Japan will play a central role in advancing the creation of rules on global trade and investment rules.

The government will also support Japanese businesses in expanding their shares in the global market. Such support may take the forms of (i) encouraging in exports of infrastructure systems including those using official development assistance (ODA); (ii) promoting the aviation, space and marine industries; (iii) helping mid-tier enterprises, SMEs, micro enterprises and service providers to expand their business operations overseas; or (iv) promoting the "Cool Japan"³⁷³⁸ through public-private partnerships.

(Internal globalization)

The government aims to double inward FDI stocks by 2020. To this end, the Council for Promotion of Foreign Direct Investment to Japan will identify potential investment opportunities and invite foreign investment. The government will work with the councils concerned to carry out necessary institutional reforms including

³⁷ The Cool Japan initiative covers the exports of Japanese food and alcoholic beverages and content and the creation and promotion of culture.

³⁸ Other measures to be taken by the government include (i) strategically utilizing economic cooperation; (ii) developing human resources who support globalization, (iii) supporting institution building, including legal system development in areas in which Japan enjoys a comparative advantage; (iv) promoting bilateral financial agreement; (v) helping financial institutions to expand their business operations overseas; and (vi) deepening strategies for emerging economies.

regulatory reforms. It will develop global human resources and boost multi-language services.³⁹ It will also take measures to establish the Tokyo market as an international financial center.

Note that utilizing human resources from overseas is not an immigration policy. Japan will strengthen cooperation with countries with which it shares basic values. The government will create an environment where highly skilled talent and students from overseas, including researchers of excellence, can readily take advantage of their skills. The central government will rectify the way the Technical Intern Training Program is managed with stronger intervention in view of the program's original objectives. In particular, it will also make improvements to the program, including a longer internship period. The government will study how human resources from abroad should be used in the context of empowering women and promoting medium- to long-term economic growth. Issues to be studied will include a mechanism for using such resources under an adequate management system within the framework of National Strategic Special Zones and the possibility of accepting employees of overseas subsidiaries of Japanese businesses in Japan in the manufacturing industry.

(4) Natural resources and energy

Rising energy costs and concerns over energy supply impede new investments and job creation, affecting the economy. The government will take prompt action to address rising energy costs, which are causing problems now and expected to continue in the medium to long term, thereby securing an affordable and stable supply of natural resources and energy. Measures to be taken to this end will include (i) assiduously conserving energy especially by means of investment,⁴⁰ (ii) replacing end-of-life thermal power plants with high efficiency ones (coal/LNG) at the time of renewal; (iii) promoting electricity and gas systems reforms; (iv) diversifying supply sources with resource diplomacy; and (v) maintaining and bolstering the supply chains of oil and LP gas.⁴¹

Regarding nuclear power plants, safety must come first under any condition. The government must do its utmost to dissolve public concerns. Based on this recognition, the government will leave the issue of safety to the specialist judgment of the Nuclear Regulation Authority (NRA). If the NRA decides that a nuclear plant meets the world's strictest regulatory requirements, the government will respect such a decision and put that plant back on line. In the process, the government will take the lead in winning the understanding and cooperation of stakeholders, including local governments in and around that particular plant.

The government will engage in the development of technologies for reducing the volume and toxicity of radioactive waste, nuclear non-proliferation, and international cooperation in developing technologies that contribute to upgrading the safety of high-temperature gas-cooled reactors. It will also engage in the development of human resources in this field.

³⁹ These services include translating Japanese laws and regulations into foreign languages.

⁴⁰ Other means include improving energy utilization efficiency with the use of smart grids.

⁴¹ Building electricity and gas systems that are resistant to natural disasters is yet another measure to this end.

Also, the government will promote the exploitation of such domestic marine resources as methane hydrate.

The government will phase in renewable energy resources⁴² with a view to achieving economic viability in the medium- to long-term. It will steadily implement a number of measures in this respect. They include (i) ensuring stable and proper management of the feed-in tariff (FIT) system; (ii) reinforcing interconnections between areas in accordance with plans to be developed by the soon-to-be-established Organization for Nationwide Coordination of Transmission Operators; and (iii) promoting strategic R&D and standardization. The government will comprehensively assess FIT and other systems designed to promote the use of renewable energy sources. It will explore the possibility of introducing such systems as much as possible while trying to strike a balance between the benefit of such introduction and the ensuing cost to the public. To this end, the government will take necessary measures.

The government will swiftly offer a future vision of energy mix after accurately assessing progress both in introducing renewable energy and in putting nuclear plants back on line as well as international discussions over global warming.

(5) Regulatory reforms

To dynamically change the industrial structure, it is important to create and increase business opportunities through such means as removing obstacles to ingenuity on the part of businesses, NPOs and other entities, stimulating innovation, and unleashing latent consumer demand. To implement these measures, the government will meticulously review regulations so as to accommodate changes in the economic environment and the development of new technologies.

In the process, focus will be placed on developing the health and medical industries, allowing for various and flexible working styles, opening up new fields of business, turning agriculture into a growth industry, and promoting foreign direct investment in Japan.

In implementing such regulatory reforms, the government will steadily follow up on reform items that have been identified in the Plan for Implementation of Regulatory Reforms⁴³ and develop a system that allows regulators (competent ministries and agencies) to review regulations voluntarily and proactively. In these processes, the government will respect the need to offer various options to the public, secure safety more efficiently, and make a shift from ex-ante regulations to ex-post checks.

The government will accelerate measures for National Strategic Economic Growth Areas during a two-year intensive implementation period that ends in FY2015.

3. Building an attractive local community and revitalizing agriculture, forestry and fisheries and SMEs

⁴² They include sunlight, wind power, geothermal power, hydropower, and wood-based biomass.

⁴³ "Regulatory Reform Implementation Plan" (Cabinet Decision of June 24, 2014)

(1) Creating a “New Tohoku”

The government will seek to realize five visions for a “New Tohoku”: (i) a community that offers a safe environment where vibrant and healthy children are nurtured; (ii) a vibrant super-aged community with "the elderly as standards"; (iii) a community based on sustainable energy (autonomous and decentralized energy); (iv) a progressing community with the introduction of robust and highly resilient infrastructure (systems); and (v) a highly influential community that makes use of local resources.

Tapping into new demand envisioned in such a new philosophy and vision toward creating "a New Tohoku" in association with the regional community and economy, the government will aim for regional development that strikes a balance between the growth of "regional key industries" that gain income largely from outside of the region and local industries that support local livelihoods and employment. To this end, the government will continue with the reconstruction process of developing an autonomous and sustainable regional economy, thereby creating a virtuous cycle of the creation of a "New Tohoku" and economic revitalization. While primarily tapping into the power of the private sector, the government will take advantage of a range of special measures of not only the Reconstruction Agency but also the government as a whole, as well as ordinary measures for regional revitalization and industrial promotion.⁴⁴

To achieve such a virtuous cycle, it is important to create a mechanism whereby a wide range of public and private stakeholders work together successfully. Specifically, the government will take a comprehensive package of measures under the leadership of the public-private partnership promotion council for a "New Tohoku." These measures will include (i) accelerating innovative initiatives such as model initiatives for a "New Tohoku" and applying successful ones out of these initiative to other parts of the region with the use of reconstruction grants (for impact promotion projects) and other funds; (ii) accepting support from the private sector, which may take the form of staffing service or advice on starting up a new business or venture; and (iii) developing a mechanism that facilitates investment in the disaster areas.

(2) Preparing for the Tokyo Olympic and Paralympic Games in 2020

In organizing Tokyo Olympics, etc., the government will keep in mind that these events will have many benefits, including increased human, economic, and cultural interaction with participating countries; progress toward a sports nation; increased globalization; regional revitalization; tourism promotion; and more opportunities to promote Japan's environmental technologies and S&T innovations.⁴⁵

Using the Tokyo Olympics, etc. as a major driver, the government will promote

⁴⁴ The industrial reconstruction and creation strategy in areas affected by the Great East Japan Earthquake, as released on June 10, 2014 by the taskforce on the promotion of industrial reconstruction.

⁴⁵ The government will steadily carry out the host city/town initiative in which many local governments across Japan will participate, as well as disaster reduction measures in accordance with an agreement with the Tokyo Metropolitan Government.

community revitalization, make more public facilities accessible for all, and increase safety and security in metropolitan areas. Measures to be taken in the period up to the Tokyo Olympics, etc. will include encouraging international contribution and donations through the promotion of the Olympic movement within and outside Japan, promoting sports for the disabled, and implementing cultural programs by working with local governments across Japan. The government will accelerate efforts to identify potential tourism resources and promote things by taking advantage of the Japan Brand. It thus aims to increase the annual number of foreigners visiting Japan to at least 20 million by 2020.⁴⁶

To that end, it is essential to significantly increase the services of low cost carriers (LCCs) to regional airports. To cope with more and more foreign visitors as the Tokyo Olympics, etc. approach, the government will systematically collect and analyze information that is vital both to the implementation of customs immigration and quarantine (CIQ) at national and regional airports and seaports and to public security for the Tokyo Olympics, etc. It will mobilize physical and human resources need for this purpose.

The government will develop a Symbolic Space for Ethnic Harmony by 2020 to promote the reconstruction of the Ainu culture.

The government will also construct related facilities after carefully examining their necessity and construction methods with their use beyond 2020 in mind. It will put the construction of these facilities in a wider context of a grand design that involves a range of urban renaissance and rural/regional revitalization projects under public-private partnerships.

(3) Revitalizing both urban and rural areas through tourism and human interaction, promoting decentralization, and supporting integration and revitalizing processes

(Revitalizing communities and regions)

The government will make sure that the fruits of Abenomics will be enjoyed in every corner of the country and encourage local initiatives to develop attractive local communities, thereby revitalizing local industries and creating virtuous cycles of local economies. Specific measures to be taken to this end include (i) developing a "platform for revitalizing local economies" for inter-ministerial measures; (ii) creating businesses with a high labor absorption capacity, implementing the distributed energy infrastructure project⁴⁷ across the country for commercialization

⁴⁶ To cope with a spike in construction demand associated with the Tokyo Olympics, etc., the government will take policy measures to allow trainees who have completed a construction course in the Technical Intern Training Program to engage in construction work until these events. These measures are known as emergency measures on the use of foreign human resources in the construction sector, which were announced on April 4, 2014 by the ministerial council on emergency measures on the use of foreign human resources in the construction sector. The government will take similar measures for the shipbuilding industry; there is a high level of mutual mobility of human resources between the shipbuilding and construction industries. It will also improve the ICT environment for foreign visitors, including providing more free public wireless LAN services.

⁴⁷ This project is designed to develop a local energy system that is independent, sustainable, and disaster-resilient with the introduction of renewable energy or the combined use of gas-fired power generation and waste heat and incorporate new markets that will be opened up after the electricity reform into local

and communicating data that highlights the allure of local communities with full implementation of the “public cloud”⁴⁸ system .,through the forcible implementation of “Regional Vitalization Plan” in partnership with industry, academia, the regional financial sector, and local government.

The government will encourage regional financial institutions, which play an important role in bolstering self-sustained regional development, to strengthen their financial position. Specifically, it will urge them to improve their capacity to lend to community-based businesses with more focus on their economic viability and offer business management support for them. It will also encourage the revitalization and superseding processes for local/regional industries largely by taking advantage of the functions of the Regional Economy Revitalization Support Organization. In addition, the government will upgrade existing mechanism of encouraging the back-flow of human resources to the regions in ways to make better use of both the expertise of external talent and a mix of "UIJ turns".⁴⁹⁵⁰

In depopulated areas and disadvantaged areas⁵¹ such as remote islands, Amami, and peninsulas, the government will promote networking with key settlements at its core while taking into account the need to promote their development in ways to harmonize with surrounding areas.⁵² The government will work to revitalize settlements by maintaining necessary transportation infrastructure and other facilities designed to support daily life there as well as promoting local industries. It will also support ingenious attempts to take advantage of local resources and features to that end.

Tourism has high potential for growth in regional/local economies. With this in mind, the government will support tourism from both the supply and demand sides.⁵³ The government will review the prevailing holiday-taking practices in Japan and encourage workers to take a long vacation in autumn with better use of paid holidays. It will steadily implement the Action Program toward the Realization of Japan as a Tourism-Oriented Country 2014⁵⁴, which was compiled this June. The government will formulate and implement a basic plan on transport policy.⁵⁵ It will develop a wide-area high-speed transport network⁵⁶ as soon as possible. By

economies.

⁴⁸ An information infrastructure available for joint use by various parties including private-sector firms, through using the information-system infrastructures of local governments and cloud-computing technologies to integrate and consolidate systems and make administrative data available to the public.

⁴⁹ This is a general term referring to the move of residents in metropolitan areas to rural areas. The U-turn refers to the move to their hometown, the J-turn the move to local cities near their hometown, and the I-turn the move to other local cities.

⁵⁰ Specifically, the government will organize the framework for managing the "platform for revitalizing local economies" and bolster community-reactivating cooperator squad.

⁵¹ Some experts argue that disadvantaged areas play an important role in conserving national land and other aspects.

⁵² This may be carried out by building "compact living base" or "settlement network areas."

⁵³ Specifically, the government will create an environment where workers are encouraged to take paid holidays and more and more foreign tourists are attracted to Japan and promote the tourism industry as well as broad-based sightseeing.

⁵⁴ Action Program toward the Realization of Japan as a Tourism-Oriented Country 2014, as endorsed on June 17, 2014 by the Ministerial Council on the Promotion of Japan as a Tourism-Oriented Country.

⁵⁵ This plan shall be formulated in accordance with Article 15 of the Basic Act on Transport Policy (Act No. 92 of 2013).

⁵⁶ Such a network will involve high-standard highways, new Shinkansen lines, and the Linear Chuo Shinkansen line.

taking advantage of such a network, the government will increase mass transportation and physical distribution within and outside Japan.

The government will promote the society of mutual assistance overflowing with vitality through developing important players, such as NPOs and social enterprises, in solving social problems and revitalizing local communities. In addition, supporting the activity of mutual assistance financially, ministries and agencies concerned cooperate and promote breeding of the culture of donation.⁵⁷

(Urban renaissance, etc.)

Toward developing Compact Cities, Smart Cities and the like, the government will promote urban renaissance and the restructuring of regional public transportation networks that involve integrating urban functions. It will also promote the revitalization of downtown areas. For these processes, the government will take advantage of private funds and expertise. Focus will also be placed on (i) housing and urban development that facilitates child-rearing and the lives of the elderly; (ii) urban development that respects the townscape and embraces disaster reduction as highlighted by such features as the elimination of all utility poles,⁵⁸; (iii) projects to eliminate traffic jams at railroad crossings; and (iv) the development of sustainable communities as highlighted by Eco-model cities.

For Tokyo and other metropolitan areas, the government will implement urban renaissance in such a strategic manner to turn them into a center of creativity with international competitiveness, for example.

The government will promote the division of functions among regions as well as cooperation among them. It will take advantage of such instruments as fixed-term land leasehold and real estate securitization. The government will upgrade built-up areas where wooden buildings are clustered together in such a way to precipitate a chain reaction. For this purpose, the government will put public real estates to effective use. Other measures will include improving the system for publicizing urban land prices and revitalizing the secondhand housing and renovation markets.

(Development of Okinawa)

The government will continue to proactively implement a comprehensive package of measures to promote development in Okinawa as a national strategy so that Okinawa can serve as a driving force in making Japan's economy more energetic as a leading region of Japan. In the process, it will take advantage of the potential and advantages of Okinawa, which is regarded as a gateway to a growing Asia. The government will promote tourism in Okinawa and work to turn the region into an innovation powerhouse in view of the designation of Okinawa as a National Strategic Special Zone and the plan to construct more runways in Naha Airport. It will explore consider expansion of the Okinawa Institute of Science and Technology Graduate University (OIST) and support an advancement of the formation of a

⁵⁷ They will also encourage donations for the Tokyo Olympics, etc.

⁵⁸ Other features include an adequate green space, urban farming, and the elimination of closed stores that have been left as they are for long.

global intellectual and industrial cluster with OIST at its center. In addition, the government will promote the effective use of the returned US military installations, including the introduction of advanced medical functions to the West Futenma Housing area.⁵⁹

(Carrying out decentralization)

The government will press ahead with devolution and regulatory reforms by putting into action reform proposals that are collected from local governments,⁶⁰ in addition to existing efforts to solve local problems. The idea is to respect their initiative and diversity so that they will be able to take advantage of their characteristics in making themselves self-reliant. In addition, the government will enhance information dissemination so as to allow the people to feel the benefits of the reforms to date and encourage them to participate in local administration of their own accord. This may involve the use of SNSs and national symposia. Necessary study of consolidation of the present regional administrative structure into larger administrative units will move forward in line with developments on the proposed bill setting up a basic law for such consolidation.

(Long-term efforts)

Addressing a number of challenges that make it difficult to stem the tide of a rapidly declining and extremely aging population is an issue of particular importance for local. The government will set up a headquarters for pushing ahead with an integrated policy designed to address this issue. It will begin the process of fundamentally reviewing the land use, infrastructure development, public service delivery including education, and policy instruments so that local governments' ingenuity and efforts will be put to better use for long-term regional revitalization.

Local governments will implement regional strategies that take advantage of local characteristics. Such strategies seek to create jobs at the community level through such means as boldly introducing private funds and expertise, taking advantage of local resources such as regional landscapes, history and culture, and capitalizing on wide-area networks involving people-to-people and information exchange and cooperation. The government will help develop local communities where young people can continue to fulfill their potential, thereby instigating the flow of people from metropolitan areas to the regions. Such communities will offer favorable living conditions for senior citizens with adequate access to healthcare and nursing care services there.

The government will promote the integration of urban functions or the development of regional central urban areas⁶¹ if local governments concerned so agree, thereby integrating public services and revitalizing economic activities there.⁶² In the

⁵⁹ This includes the relocation of University of the Ryukyus School of Medicine and its affiliated hospital.

⁶⁰ This involves the introduction of the proposal collection system and the "raising-one's-hand" system.

⁶¹ A regional central urban area refers to an area in and around a prefectural capital or regional hub city with common social and economic characteristics.

⁶² This may involve efficient management of public assets (including improving efficiency in the physical aspect of asset management as well as in the physical and non-physical aspects of facility management) and the restructuring of regional public transportation networks.

process, the government will encourage local governments to actively use local bonds to finance abolition costs associated with the integration and consolidation processes. It will also work to remove obstacles to urban renaissance, whereby accelerating the integration process. Also, the government will work to expand the flow of funds and the social responsibility investment market at the regional level by revitalizing regional economies including regional finance.

The government will formulate a national land grand design in light of the changing environment surrounding Japan's national land in recent years as highlighted by a declining population and imminent gigantic natural disasters. Based on this, it will review the National Spatial Planning. The government will also promote improvements to land registers in urban areas as well as the use of geospatial information.⁶³

(4) Creating vitality for agricultural, forestry and fishery industries and local communities

The government will aggressively manage agriculture, forestry and fisheries and turn these into growth industries. At the same time, it will pass on beautiful, traditional rural communities to future generations. Under these guiding principles, the government will steadily implement the revised Plan to Create Vitality for Agricultural, Forestry and Fishery Industries and Local Communities⁶⁴ to double the average income for farmers and other rural residents over a decade. In view of the basic directions charted in this plan, the government will review the Basic Plan for Food, Agriculture and Rural Areas.

The government will work to enhance the competitive edge of agriculture, including the livestock and dairy industries, through such processes as (i) utilizing innovations to turn agriculture into a growth industry; (ii) increasing exports of agricultural produce; (iii) achieving food safety; (iv) accelerating the process of developing the sixth industry out of agriculture; (v) consolidating and concentrating farmland on motivated individuals and entities; (vi) training and securing various types of individuals and entities, including businesses and new farmers;⁶⁵ and (vii) developing production infrastructure. Also, the government will steadily review the Farm Income Stabilization Program to achieve food security.

For vibrant rural communities, the government will promote education exchanges between urban and rural communities, the combination of agriculture and tourism, and cooperation among settlements.

In forestry, the government will focus on creating new demand for lumber and building a stable and efficient system for supplying domestic lumber while recycling abundant forest resources. In fisheries, the government will focus on managing marine resources while respecting the characteristics of each shore, managing

⁶³ Geospatial information refers to various kinds of information linked to positions, such as maps, aerial photos.

⁶⁴ The Plan to Create Vitality for Agricultural, Forestry and Fishery Industries and Local Communities, as revised on June 24, 2014 by the Headquarters on Creating Dynamism through Agriculture, Forestry and Fishery Industries and Local Communities.

⁶⁵ The government will study the Green Employment Program for this process.

sustainable fishing and aquaculture industries, and increasing consumption and exports of marine products.

(5) Advance in mid-tier enterprises, SMEs, and micro enterprises

Mid-tier enterprises, SMEs, and micro enterprises play a significant role in supporting local economies, communities, and employment. Micro enterprises, which accounts for about 90% of this category of enterprises in number, play a particularly important role in this respect. To encourage further progress, the government will support mid-tier enterprises, SMEs, and micro enterprises in many aspects. They include (i) starting up new ventures; (ii) developing markets within and outside Japan with good use of IT; (iii) expanding their business operations overseas; (iv) securing employees; (v) expanding business with good use of local resources;⁶⁶ (vi) encouraging young people and women to start up businesses and revitalize traditional shopping streets; (vii) developing a wide-area network involving various local stakeholders; and (viii) improving support for the development of new goods and services by core businesses or under industry-academia-public partnerships.⁶⁷ Special focus will be placed on those that excel in global operations and serve as a driver for the Japanese economy (global niche top companies). Government support will cover the succession of businesses and M&A in the context of better technology and expertise as well as the sustainable development of business including the maintenance of stable employment. The government will systematically implement comprehensive measures for micro enterprises with focus on new market development and other aspects in accordance with the Basic Act on the Promotion of Small-Sized Enterprises.⁶⁸ At the same time, the government will continue to do its utmost to facilitate the passing along of the consumption tax in the wake of its recent hike. It will appropriately follow the oversight policy and financial monitoring basic policy so that financial institutions will lend adequate loans to businesses with more focus on their economic viability without depending too much on guarantees or collaterals.⁶⁹ The government will encourage financial institutions to observe the guidelines on business owners' personal guarantees.⁷⁰ While monitoring progress made by financial institution in this regard, the government will continuously review the system of business owners' personal guarantees.

⁶⁶ One example is the development of "hometown specialties."

⁶⁷ The government will reexamine the past policy measures and analyze the roles played by the Fraunhofer Institute for Secure Telecooperation of Germany.

⁶⁸ The Basic Act on the Promotion of Small-Sized Enterprises, as established on June 20, 2014.

⁶⁹ The Ministry of Economy, Trade and Industry plans to develop a technical evaluation system that is useful for regional financial institutions when they make credit decisions for businesses based on their economic viability.

⁷⁰ The guidelines on business owners' personal guarantees, as announced on December 5, 2013 by the study group on the guidelines on business owners' personal guarantees.

4. Securing the foundations for a safe and secure life and a sustainable economy and society

(1) Strategic diplomacy, national security and defense

(Promoting strategic diplomacy and making Japan's voice heard)

Embracing "diplomacy that takes a panoramic perspective of the world map," the government will promote robust economic diplomacy and proactive contribution to peace." Under this policy, focus will be placed on (i) strategically communicating what Japan has to say to the rest of the world; (ii) promoting economic diplomacy; (iii) utilizing ODA in an appropriate, efficient and strategic manner; (iv) studying assistance schemes for ODA graduate countries and promoting international contribution including enhanced contribution of human resources; (v) securing natural resources and energy; and (vi) ensuring the safety of Japanese nationals and businesses overseas. To these ends, the government will work to enhance its comprehensive diplomatic capacity, including improving staffing arrangements and physical infrastructure at Japanese diplomatic missions abroad.

Special emphasis will be placed on strategic external communication. The government will explore the possibility of setting up diplomatic posts for public relations and cultural promotion abroad to communicate what Japan is really like as well as many of the attractive aspects of Japan. These efforts will be reinforced by taking advantage of knowledge bases of the public and private sectors and promoting diplomacy based on public relations and Japanese language education.

(National security and defense)

The government will expand and deepen cooperative relations with other countries in view of the National Security Strategy,⁷¹ from the perspective of proactive contribution to peace based on the principle of international cooperation, and with the Japan-U.S. Alliance as the cornerstone. The government will strengthen the control-tower functions of the National Security Council (NSC). The government as a whole will enhance Japan's diplomatic and defense capabilities. This will include better intelligence and crisis management functions. While bolstering Japan's resilience in terms of national security, the government will implement more strategic and systematic national security policies.

Amid an increasingly severe national security environment surrounding Japan, the government will efficiently develop the country's effective and integrated defense capabilities to increase the country's deterrence and responsive capacity. This process will be implemented based on the National Defense Program Guidelines for FY2014 and beyond⁷² and the Mid-Term Defense Program⁷³. In the process, the government will steadily implement the personnel system reform, build up infrastructure for defense production and technology, promote standardization, and further accelerate the procurement reform, including enhancing project

⁷¹ The National Security Strategy (Cabinet Decision of December 17, 2013)

⁷² The National Defense Program Guidelines for FY2014 and beyond (Cabinet Decision of December 17, 2013)

⁷³ The Mid-Term Defense Program (FY2014-FY2018) (Cabinet Decision of December 17, 2013)

management throughout the project life cycle. It will also work to streamline expenses with better use of the PDCA cycle.⁷⁴ This initiative will also cover military base affairs.

(2) National resilience, disaster prevention and mitigation

The government will promote the interagency initiative for national resilience in accordance with the Basic Act for National Resilience Contributing to Preventing and Mitigating Disasters for Developing Resilience in the Lives of the Citizenry.⁷⁵

In view of the objectives of this act as well as the findings of vulnerability assessment, the government formulated the Fundamental Plan for National Resilience⁷⁶ and the action plan for national resilience⁷⁷ this June. The government will implement these two plans in a focused and efficient manner. In the process, focus will be placed on (i) clarification division of roles between the central and local governments and between the public and private sector; (ii) strategic focuses and priorities; (iii) an optimal combination of structural and non-structural measures; (iv) effective dual use of facilities in emergencies and ordinary times; (v) the use of the power of the private sector; and (vi) accurate assessment of cost-effectiveness; and (vii) PDCA.

The government will support and encourage the development and implementation of a fundamental plan for regional resilience by each local government.

The government will take disaster prevention and mitigation measures, especially in anticipation of major natural disasters, under such plans as the Nankai Trough earthquake countermeasures basic plan,⁷⁸ the Tokyo Inland Earthquake Countermeasures Basic Plan,⁷⁹ and the Government Functions Continuity Plan (for Tokyo Inland Earthquake Countermeasures).⁸⁰

The government will work to boost community preparedness with volunteer fire corps playing a pivotal role.

It will also continue to improve and strengthen measures against nuclear disasters, including radiation monitoring.

(3) Safety and security of citizens (public safety, consumer policy, etc.)

(Public safety, the judiciary, crisis management, etc.)

⁷⁴ The cycle of plan, do, check, and action.

⁷⁵ The Basic Act for National Resilience Contributing to Preventing and Mitigating Disasters for Developing Resilience in the Lives of the Citizenry (Act No. 95 of 2013)

⁷⁶ The Basic Plan for National Resilience (Cabinet Decision of June 3, 2014)

⁷⁷ The action plan for national resilience, as finalized on June 3, 2014 by the National Resilience Promotion Headquarters.

⁷⁸ The Nankai Trough earthquake countermeasures basic plan, as finalized on March 28, 2014 by the Central Disaster Prevention Council.

⁷⁹ The Tokyo Inland Earthquake Countermeasures Basic Plan (Cabinet Decision of March 28, 2014)

⁸⁰ The Government Functions Continuity Plan (for Tokyo Inland Earthquake Countermeasures) (Cabinet Decision of March 28, 2014)

To maintain the favorable public safety situation, the government will take measures against cybercrimes, cyber-attacks, terrorism (including counterintelligence), organized crimes, smuggling, stalkers, spousal violence, special frauds, and illegal over stayers, based on the Strategy to Make "Japan the Safest Country in the World."⁸¹ Other measures will include (i) bolstering human resources and physical infrastructure necessary to maintain public and maritime safety as well as relevant international networks; (ii) ensuring marine safety; (iii) securing the crisis management functions; (iv) preventing recidivism in terms of prison, probation and parole (including bolstering infrastructure that supports probation officers; (v) ensuring a dependable judiciary that offers general legal support; (vi) bolstering the framework for investigations into the causes of death⁸²; (vii) securing traffic safety; (viii) ensuring cyber security; (ix) developing and utilizing space infrastructure; and (x) ensuring the safety of water resources.

(Promoting consumer policy)

To ensure consumer safety and security, the government will take a number of measures, including (i) redressing and improving food leveling practices; (ii) preventing damage to consumers; (iii) supporting recovery from consumer damage; (iv) training local leaders such as consumer life advisors; (v) combatting harmful rumors; and (vi) addressing issues related to the consumer market and prices, including price monitoring.

(4) Contribution to the global environment

The government will steadily implement the Actions for Cool Earth: The Proactive Diplomatic Strategy for Countering Global Warming⁸³ to address global environmental issues, including reducing global greenhouse gas emissions. It will promote, among others, (i) the development of innovative environmental energy technologies, including hydrogen energy; (ii) the wider use of technologies through the bilateral offset credit mechanism; (iii) public-private partnerships for assisting the developing world; (iv) better use of the International Renewable Energy Agency (IRENA); and proactive engagement in the COP20⁸⁴ process.

Even before a new plan for combating global warming is finalized, the government will take measures to address global warming that are on par or above the Kyoto Protocol Target Achievement Plan⁸⁵ while monitoring progress in this regard.⁸⁶ Specific measures will include (i) steadily increasing the use of renewable energy and developing infrastructure necessary to this end⁸⁷; (ii) reducing GHG emissions through such means as promoting private investment with environmental financing;

⁸¹ The Strategy to Make "Japan the Safest Country in the World" (Cabinet Decision of December 10, 2013)

⁸² The government will do so under the Plan to Promote Investigations into Causes of Death and Other Matters (Cabinet Decision of June 13, 2014).

⁸³ Actions for Cool Earth: The Proactive Diplomatic Strategy for Countering Global Warming, as reported on November 15, 2013 to the Global Warming Prevention Headquarters.

⁸⁴ The 20th Conference of the Parties to the United Nations Framework Convention on Climate Change

⁸⁵ The Kyoto Protocol Target Achievement Plan (Cabinet Decision of March 28, 2008)

⁸⁶ The immediate-term policy on measures to combat global warming, as finalized on March 15, 2013 by the Global Warming Prevention Headquarters.

⁸⁷ Such infrastructure development will include properly managing the feed-in tariff (FIT) system, reinforcing interconnections, and streamlining regulations.

(iii) implementing adaption measures against climate change; and (iv) addressing the issue of forest carbon sinks. The government will waste no time in comprehensively exploring new mechanisms for forest carbon sinks and financing local governments' initiatives to combat global warming with the cost and benefit of forest development in mind.

The government will pursue a recycling-oriented society as well as a nature-symbiotic society, which involve conserving sato-chi, sato-yama, and sato-umi. It will also continue to address the problem of particulate matter (PM2.5) within the framework of technical cooperation among Japan, China, and South Korea as part of its efforts to create a safe and secure environment.

Chapter 3: A virtuous cycle of economic revitalization and fiscal consolidation

1. Guiding principles in pursuing both economic revitalization and fiscal consolidation

Without economic revitalization, there can be no fiscal consolidation. And without fiscal consolidation, there can be no economic revitalization. For these reasons, it is essential to construct a virtuous cycle of economic revitalization and fiscal consolidation. As for fiscal consolidation, the government will make its utmost efforts both on the expenditure and revenue sides to ensure that the current extremely deteriorated fiscal situation will not hinder progress in economic revitalization. In spite of the situation that the discretionary spending will be relatively shrinking along with the population aging, the government will prioritize and streamline public expenditures so that they will contribute to economic growth and development more effectively. On the revenue side, it will seek a more growth-oriented tax system.

Under the assumption that an aging society with decreasing birthrate will rapidly progress, the baby boomers will get older, household savings are expected to dwindle and the current account surplus to shrink, it is essential to construct sustainable public finances and social security. For these reasons, the government will seek to achieve economic revitalization, fiscal consolidation and sustainable social security simultaneously.

(Toward the short-term target for fiscal consolidation)

Under the principles described above, the government aims to halve the primary deficit of the central and local governments to GDP ratio by FY2015 from the ratio in FY2010 and to achieve a primary surplus by FY2020, thereafter the government will seek to steadily reduce the public debt to GDP ratio.

The government will continue its efforts to improve the primary balance by thoroughly prioritizing and streamlining expenditures, in line with the Medium-term Fiscal Plan, and aims to steadily achieve the FY2015 target.

Toward the realization of a primary surplus by FY2020⁸⁸, the government will make efforts so that a concrete roadmap for fiscal consolidation could be made public early, taking the budget formulation for FY2015, etc. into consideration.

Regarding growing social security expenditures amid an aging population, the government will seek to make steady progress toward a sustainable social security program while aiming to strike a balance between benefits and the costs over the medium term. It will curtail other expenditures as much as possible by prioritizing and streamlining expenditures further.

⁸⁸ “Economic and Fiscal Projections for Medium to Long Term Analysis” released by the Cabinet Office this January predicts a primary balance deficit of around 1.9% of GDP (around 11.9 trillion yen) for FY2020 even under a favorable economic climate. To eliminate a deficit of 11.9 trillion yen by FY2020, an annual average surplus of about 2 trillion yen is needed over the six-year period

The Council on Economic and Fiscal Policy will assess process in fiscal consolidation, reviewing economic and fiscal developments every six months.

Through these efforts toward fiscal consolidation, the government will secure trust in government bonds, respond appropriately to the risk of a rapid increase in long-term interest rates, and eradicate unease among households and enterprises concerning public finances, thereby encouraging growth in private consumption and investment.

(Corporate tax reform)

We will strengthen Japan's locational attractiveness and enhance competitiveness of Japanese companies. In this context, we aim to reduce the effective corporate tax rate to the internationally-comparable level and embark on corporate tax reform to be more growth-oriented.

To that end, we aim to reduce the percentage level of the effective corporate tax rate down to the twenties in several years. We will start the first phase reduction from the next fiscal year.

As regards the revenue sources to fund such rate reduction, including the fact that the Japanese economy is pulling out of the deflation and showing structural improvements, in order to be consistent with the FY2020 target to achieve primary surplus, permanent revenues will be secured through such measures as broadening the tax base and so forth. We will continue to discuss this issue towards the end of this year when we will reach conclusions on the specifics.

In light of the need to achieve primary surplus in FY 2020 at the national and local level, we will proceed with the implementation of the tax reform while checking the progress towards the fiscal consolidation target. (Reproduced)

2. Principles in prioritizing and streamlining major expenditure items

In prioritizing expenditures and streamlining expenditures for greater efficiency, a review needs to be conducted across discretionary and required expenses, leaving no expenditures untouchable. This prioritizing and streamlining of expenditures will be carried out by identifying individual basic approaches on some individual expenditure areas, chiefly those relating to social security, social infrastructure, and local public finances, which account for high percentages of the nation's general account expenditures, and responding to structural changes in the economy and society in other areas.

(1) Social security reform

(Guiding principles)

Social security benefits in Japan are constantly increasing at a rate higher than that of economic growth amid a further declining birthrate and aging population. It is therefore important to curtail the increasing burden on the public. To this end, the

government will work to create an environment conducive to self-help and self-reliance while strengthening the functions of social security so as to meet public needs. It is necessary to review social security benefits, including the so-called natural increase, with focus on healthcare and nursing care to thoroughly streamline and optimize such expenditures. In this context, it is important for the central and local governments as well as insurers to play their roles appropriately. In the process, the government will rigorously analyze what contributes to the natural increase, including the increase due to an aging population and other factors.

In this context, it is important to explore the possibility of applying good practices in one area to other areas and conducting an across-the-board review of institutions. In particular, the government will make region-wide healthcare and nursing care information more transparent with the wider use of ICT. Based on the findings of a comparison of data from different regions, the government will streamline and optimize healthcare and nursing care spending.

To ensure intergenerational and intragenerational equity, the government will promote a shift to a program that better reflects the capacity to pay.

(Optimizing the systems for health and nursing care delivery)

The government will optimize the system for healthcare delivery promptly through consultations among stakeholders and effective administrative instruments by prefectural governments. This may involve restructuring of hospital beds. In the process, the government will develop a regional healthcare vision that assess different medical functions and the necessary amount of home healthcare services based on future estimates of regional healthcare demand and other information. Based on such an initiative, the government will set targets concerning the number of beds and other aspects and verify the policy effects. It will also promote PDCA management for medium- to long-term process management. The government will combine such restructuring of the healthcare delivery system with the promotion of a comprehensive community care system that offers home healthcare and nursing care services. In this way, it will optimize inpatient services so that patients will have access to appropriate services according to their conditions.

The government will consider reviewing the medical cost optimization plan so that targets will be set concerning medical cost levels and healthcare service delivery that are consistent with prefectures' regional healthcare visions toward the planned revision of the healthcare insurance system in 2015 and that measures to that end will be accelerated. The central government will come up with standard calculation formulae for prefectures to set such targets.

As for nursing care, PDCA management will be conducted so that in the process of formulating the sixth and subsequent nursing care service plans, municipalities and prefectures will be able to estimate the supply of services, benefits, and premiums up to 2025 and conduct medium- to long-term process management in step with the above-described measures in health care.

The central government will provide municipalities and prefectures with training in developing regional healthcare visions and medical cost optimization plans or

support for them to provide such training themselves.

(Strengthening the functions of insurers and promoting disease prevention and health management)

Strengthening the functions of insurers is essential for more efficient service delivery and higher quality.

The financial management function of National Health Insurance will likely be transferred from municipal to prefectural governments, while other functions will be appropriated between the two. The government will study a system that allows prefectures to comprehensively design the levels of regional healthcare service delivery and standard contributions to be paid by local residents, as well as a decentralized system that will not hamper the willingness of municipalities to manage insurance operations. It intends to submit a bill that accommodates these systems to the 2015 ordinary Diet session. The government will continue to use special financial equalization grants to support measures to optimize medical costs for National Health Insurance. At the same time, the government will consider adopting the adding/subtracting system of the supportive contribution to the health insurance system for the elderly aged 75 or over to provide more incentives for optimizing medical costs.

It is necessary to ensure intergenerational and intragenerational equity regarding contribution rates. The government will consider setting the rate of supportive contribution to the health insurance system for the elderly aged 75 or over in such a way as to strike a balance in the paying capacity of the insured and that of the insurer. In addition, the government will consider launching a phased process of reviewing the special measure to reduce the contribution to the health insurance system for the elderly aged 75 or over. It will also consider making the portion of the costs borne by elderly patients better reflect their capacity to pay in order to increase the sustainability of the health insurance system over the medium to long term and strike a balance in relation to the costs to be borne by the working population.

In the context of taking advantage of ICT even further, the government will encourage: (i) the insurer to convince the insured to take generic drugs with the use of their health insurance claim statements, health checkup results and other data; (ii) family doctors to convince the insured to give up the practice of seeing doctors more often than necessary; (iii) the insured to receive early treatment of lifestyle-related illnesses to prevent their aggravation; (iv) the insurer to adopt the PDCA cycle, including evaluation that uses the outcomes of streamlining medical costs as criteria in view of the incipient initiative of disease prevention and health management that involves the use of services not covered by public insurance ("Data Health"). In the Data Health initiative, insurers are encouraged to strengthen their functions as insurers of their own accord for greater efficiency by, for example, increasing incentives in coordination with private services. It will also encourage insurers to give incentives to the insured according to their efforts for disease prevention and health management. Moreover, the government will encourage

insurers to coordinate with community-based health and employer-based health.⁸⁹

Also, the government will promptly explore the possibility of introducing social-security/tax numbers, and the like to health insurance claim statement data so that insurers maintain access to medical and health checkup information on the insured even if the insured (the public) move from one insurer to the next when they quit or change jobs or get married.

(Working to revise the remunerations for elderly care and medical treatment)

Nursing care remuneration will be revised in 2015. In the revision process, the government will optimize such remuneration in light of internal reserves of social welfare corporations and the financial condition of nursing care providers. It will work to improve the treatment of nursing care staff and establish a community comprehensive care system with the backing of stable funding. It will take a similar stance when remunerations for the disabled persons' welfare services are revised.

Toward revising the remuneration for medical treatment, the government will explore the possibility of introducing the perspective of cost-effectiveness when it evaluates drugs and medical equipment for possible insurance coverage and study what form such remuneration should take if it is to encourage healthcare providers to implement quality and efficient operations.

(Promoting reforms associated with prescribed medicines and their prices)

The government will evaluate the relevance and appropriateness of technical fees for dispensing and pharmaceutical management under the separation of dispensing and prescribing functions. For evaluation in terms of the remuneration for medical treatment, it will study the possibility of shifting in focus from dispensing to drug administration management and guidance. In the process, it will study a refill system whereby pharmacists repeatedly use the same prescription for a certain period after directly confirming that there is no need to change the prescription with attention paid to its implications for the Medical Practitioners Act.

The government will optimize the prices of prescribed medicines after assessing the effects of the system that was introduced in the 2014 revision of the remuneration for medical treatment and is designed to review the prices of drugs that have not been replaced by generic drugs or long-term listed items and changes in the marketing situation brought about by the change of the price system for generic drugs. In addition, the government will closely monitor and encourage the early formation of a prevailing market price, which serves as a basis for calculations for National Health Insurance drug prices.

Under the current arrangement where a drug price survey and revision is carried out every two years, the redemption price from health insurance remains unchanged for the time being even if the trading price of a drug is falling. This affects the portions of costs covered by patients, contributions, and public funds,

⁸⁹ This involves studying how municipalities and insurers share information in the context of, for example, increasing the rate of cancer screening.

respectively.

Given this situation, the government will study possible improvements to the current drug price surveys and revisions, including changing their frequencies, so that prevailing market prices are appropriately reflected. In the process, it will pay adequate attention to the costs of surveys and revisions, take account of the impact on other statistics and the situation of market price formation, and assess its impact on the remuneration for medical treatment itself.

The government will strike a balance between optimizing the pharmaceutical benefits and maintaining and strengthening the capacity to develop new advanced drugs so as not to lose incentives for developing such drugs.

To promote self-medication, the government will take measures to accelerate the conversion of drugs from prescribed ones to over-the-counter ones (switch OTC) with specific targets. It will work to increase the prevailing rate of generic drugs to the levels in other major countries. To this end, it will implement measures to facilitate the communication of information on the quality and other aspects of generic drugs to doctors and ensure their stable supply.

(Reexamining the pension system)

The government will steadily implement the macroeconomic slide mechanism for the pension system. Based on the fiscal review, the government will study a range of aspects: (i) the design of the macroeconomic slide mechanism; (ii) expansion of the coverage of employee insurance to include part-time workers; (iii) a design for pensions that accommodates the conditions of each pensioner in view of diverse occupational lives of the elderly; (iv) a design of pensions for high income earners; and (v) better use of corporate pensions. The government will work to increase the payment rate for the contributions to the national pensions and promote the application of employees' pension insurance.

(Addressing the issue of livelihood protection and assistance for the needy)

The government will strengthen measures designed to help the needy to become self-reliant before they have no recourse but to claim livelihood protection in accordance with the act for supporting the self-reliance of the needy.⁹⁰ As the number of elderly households who receive livelihood protection is on the rise, the government will focus on the recipients of such assistance in their 40s and 50s, offering more incentives for them to find a job. It will also improve the environment surrounding the recipients.

To optimize medical assistance, which accounts for about 50% of livelihood protection assistance, the government will encourage recipients to use generic drugs. It will also encourage local governments to provide them with healthcare guidance, thereby supporting their health management and optimizing their visits to medical institutions.

⁹⁰ The act for supporting the self-reliance of the needy (Act No. 105 of 2013)

It is important to ensure equity between the levels of various kinds of assistance for recipient households, including housing assistance and additional assistance for winter, and those of non-recipient counterparts in the same area. To this end, the government will meticulously examine their economic condition and, based on the findings of such examination, take necessary optimization measures in 2015.

(2) Social infrastructure development

(Guiding principles)

Amid severe fiscal conditions, there is a need for more systematic social infrastructure development that makes the best of existing facilities with consideration to the future of people's lives.

With more focus on such issues as enhancing the country's international competitiveness, revitalizing local communities, promoting national resilience, preventing and mitigating disasters, and addressing deteriorating facilities, Japan needs to systematically implement social infrastructure development that stresses the management aspect while pursuing efficiency by making the most of the power of the private sector amid a declining and aging population and severe fiscal conditions.

For this reason, the government will review a number of aspects in the context of the integration and revitalization processes and urban renaissance rural/regional revitalization. These aspects include the focuses and priorities for the objectives of social infrastructure development, how best to use infrastructure, and how policy instruments can be put to more effective and efficient use. Based on such review, the government will implement the measures described below:

(Capitalizing on private-sector capabilities)

The government will take advantage of private-sector funding and expertise to develop and operate infrastructure effectively and efficiently while minimizing dependence on tax revenue. The central and local governments will strive to achieve predetermined numerical targets (2-3 trillion yen for the next three years for concessions) within a predetermined period of intensive activity, thereby accelerating the implementation of the Action Plan Toward Fundamental Reforms of PPP⁹¹/PFI⁹² .⁹³

The government will proactively introduce concessions to the development of such facilities as airports, waterworks and sewer systems, and roads. In view of the

⁹¹ Public-private partnership. It refers to a partnership between government and the private sector to utilize the strengths of each to provide optimal public services and maximize value to the community and satisfaction of residents.

⁹² Private finance initiative. It refers to a method of utilizing private-sector funding, management capabilities, and technological capabilities in areas such as construction, maintenance, management, and operation of public facilities, pursuant to the Act on Promotion of Private Finance Initiative (Act No. 117 of 1999).

⁹³ The Action Plan Toward Fundamental Reforms of PPP/PFI, as finalized on June 6, 2013 by the Council for the PFI .

legislative amendment that allows for large-scale renovations of expressways with the use of space above the roads as part of urban renaissance, the government will accelerate the process of studying the implementation of specific PPP projects and the possibility of easing floor area ratios in the context of stimulating private investment. It will focus on investments that maximize the impact of public-private partnership so as to create incentives for local governments.

The government will promote facility operation, maintenance and renewal with PPP/PFI projects that capitalize on revenue-generating facilities. It will also support local governments that are planning to take the lead in introducing PPP/PFI in the public housing sector.

To support such initiatives by local governments, the central government will strengthen relevant frameworks and work with them to enhance their capacity to formulate PPP/PFI projects.⁹⁴

Also, the government will encourage the inflow of private funds to the PPP/PFI market through more active roles played by regional financial institutions and the creation and development of a market for listed infrastructure funds.

The government will help local governments to promote PPP/PFI. It will encourage private businesses, including local entities to participate in PPP/PFI projects through such means as developing supplementary accounts of local governments on an accrual basis and accounts of public enterprises, including fixed asset ledgers. Also, the government will study how best to support the costs of preparatory projects that are implemented by local governments with infrastructure concessions.

It is important to ensure that engineers and skilled workers who support social infrastructure development will not be in short supply and be able to support such development to cover the medium to long term. To this end, the government will work to improve the treatment of such human resources, upgrade education and training for them, and achieve labor savings for construction production systems and make them more efficient while supporting construction industry to expand overseas.

(Using existing infrastructure smartly)

For aging infrastructures, the government will make the most of private sector vitality in developing and introducing ICT and new technologies. It will thus implement strategic operation, maintenance and renewal in all sectors in an integrated and planned manner, thereby securing public safety and security and reducing or standardizing medium- to long-term costs.

⁹⁴ Specific measures will include (i) establishing a public-private partnership framework; (ii) forcibly promoting project formulation by taking advantage of the Agency for the Promotion of the Private Finance Initiative; (iii) creating an environment conducive to providing information that facilitates proposals from the private sector; (iv) encouraging the formation of local platforms; and (v) developing networks of local governments and sharing expertise among them.

Under the basic plan for the longer life of infrastructures,⁹⁵ the central and local governments will accelerate the process of developing and implementing an action plan. In the action plan, they will compile infrastructure information into a database, promote cross-sectoral sharing of it, developing a maintenance cycle, and promote use change and consolidation at the time of renewal. They will also have clear forecasts of medium- to long-term costs of operation, maintenance and renewal. Optimal use of existing infrastructure networks will be promoted. Furthermore, the central and local governments will work together to make optimal use of public assets at the local level.

Most infrastructure is managed by local governments, which are encouraged to develop and implement a public facilities comprehensive management plan⁹⁶ designed to achieve integrated and systemic management. The central government will offer special assistance to local governments that do so as well as general support for all local governments in human resources and technical aspects, including necessary knowledge and expertise.

(Concentrating resources on clearly prioritized areas)

Amid a declining and aging population and severe fiscal conditions, the central government will concentrate its resources on infrastructure that will (i) have a substantial impact on stimulating private demand or offers high investment efficiency; (ii) enhance the country's international competitiveness (such as an airport in the Tokyo metropolitan area, international strategic container ports, and metropolitan ring roads including three ring roads in the Tokyo metropolitan area); or (iv) contribute to national resilience and disaster prevention and mitigation. It will promote the integration and revitalization processes with the use of Compact Cities and implement effective and efficient operation, maintenance, and renewal of infrastructures. Local governments will advance the integration and revitalization processes, including reviewing existing incentives and city plans. For new infrastructure, they will try to curtail the total cost covering everything from planning, design, construction, operation, maintenance, and renewal.

Governments will implement the strategy of incorporating physical and non-physical measures into a package with clear priorities. They will also establish a mechanism whereby governments evaluate the need and priority of projects and policy measures concerning social infrastructure services as well as progress on performance indicators in the PDCA cycle, which in turn are reflected in projects or policy measures.

(3) Local-government administrative and fiscal systems

(Guiding principles)

⁹⁵ The basic plan for the longer life of infrastructure, as finalized on November 19, 2013 by the inter-ministerial liaison council on the promotion of measures against aging infrastructures.

⁹⁶ This plan is designed for each local government to manage its public facilities in an integrated and systematic manner. The basic plan for the longer life of infrastructure expects local governments to formulate a basic plan (action plan) which corresponds to a public facilities comprehensive management plan.

The government will make a shift from crisis response mode in the aftermath of the economic shock that followed the collapse of Lehman Brothers to normal mode in accordance with progress in economic revitalization. Achieving both economic revitalization and fiscal consolidation will call for a range of measures to be taken by local governments with consideration to their future prospects. These include revitalizing local communities, increasing efficiency in public and fiscal service delivery, consolidating public facilities, integrating urban functions, striving to secure funding, creating an environment where local governments can cope smoothly with socioeconomic structural changes such as a declining population, and accelerating efforts toward fiscal consolidation at the local government level.

(Making regions vibrant)

It is important for cities with a substantial population as well as the status of a regional hub, or at least potential to serve as such a hub, to align themselves with surrounding municipalities based on the idea of consolidation and networking and revitalize the region, thereby forming a regional hub of urban areas or self-settlement areas. To this end, the government will help such areas to drive area-wide economic growth, integrate high-level urban functions, and secure and improve life function services. It will also support disadvantaged areas in promoting cooperation at the municipal and prefectural levels. It will also analyze good practices in dividing roles and costs associated with inter-municipal or even inter-prefectural cooperation and encourage other areas to apply them.

The central government will support motivated local governments over the long term with local vitality creation expenses, which calculate fiscal demand for local economy revitalization in its tax grants to local governments. It will also work with local governments to bolster the pay-your-taxes-to-your-hometown scheme with, for example, more simplified procedures.

(Local fiscal reforms)

Local governments will work to fill the gap in revenues to realize fiscal consolidation as soon as possible. This will be achieved in line with the policies defined in the Medium-term Fiscal Plan while securing the total amount of general revenues and in view of trends in tax revenues.

On the revenue side, local governments will strive to increase local taxes while ensuring progress in local/regional revitalization. The government will work to develop a local tax system in which sources of revenues are not distributed unevenly and tax revenues are stable. On the expenditure side, local governments will prioritize and streamline expenditure items, including securing issue-based funding, in step with central government measures and while reviewing expenditure items in the local fiscal plan.

As for public enterprises, the government will provide appropriate support, including offering new ideas for the business management of such enterprises and guidelines on management reforms for quasi-public corporations so as to pursue thoroughly effective and sound business management of public enterprises and quasi-public corporations.

In the healthcare sector, the Ministry of Internal Affairs and Communications(MIC) and the Ministry of Health, Labour and Welfare will work together to evaluate the outcomes of efforts that have been implemented under the Public Hospital Reform Plan (Five-Year Plan). MIC will formulate new public hospital reform guidelines by the end of this fiscal year in parallel with the development of the community healthcare vision.

(Strengthening fiscal management by improving the transparency and predictability of local finances)

The government will take the following measures to strengthen fiscal management on the part of local governments.

- Promoting easy-to-understand information disclosure about local finances, including publicizing the budget, the contract amount, and actual expenses of each public works projects every quarter, and disclosing the settlement of accounts for general administrative expenses in more detail.
- Promoting the development of local public-sector accounting according to unified standards so as to facilitate comparison of fiscal conditions of different local governments; and developing fixed asset ledgers with the use of ICT and promoting the management of projects and public facilities.
- Encouraging local governments which have not applied public enterprise accounting to apply it to small-scale water supply and sewerage operations.
- Encouraging local governments to develop a public facilities comprehensive management plan, which allows them to get a general picture of public facilities and manage such facilities in a comprehensive and systematic manner from a long-term perspective, including renewing and consolidating them and extending their useful period.

3. Public sector reforms

(1) Wider use of IT and operational, administrative and civil service reforms

The central and local governments will promote wider use of IT and operational reforms in a simultaneous and integrated manner. Through administrative and civil service reforms, they will improve the quality of public services, thus creating an efficient and effective public sector.

(i) Wider use of IT and operational reforms

The government will strive to make Japan the world's most advanced IT nation under the leadership of the IT Strategic Headquarters. The Government CIO (Chief Information Officer) will play a leading role in drawing up a roadmap to this end. The government will thoroughly reduce the costs of operating government information systems, streamline and restructure information infrastructure, including promoting

the use of cloud-computing technologies in the central and local governments, and promote open data.⁹⁷ The government will convene a Ministerial Council on E-Government⁹⁸ under the IT Strategic Headquarters. All the central government offices will make a united effort to carry out a number of measures in a forcible and flexible manner. They include reviewing the ways of working with the widest possible use of electronic payments and wireless LAN/WEB conferences, as well as implementing operational reforms associated with the introduction of social-security/tax numbers and ICT investment. In addition, the government will support more efficient operations and the improvement of productivity and the quality of public services through the development and implementation of operational reform policies.

(ii) Administrative reforms

In accordance with the Act for the Partial Revision of the Act on General Rules for Incorporated Administrative Agencies,⁹⁹ the government will introduce a common system that serves as a basis for managing such agencies in April 2015. This system will allow incorporated administrative agencies to fulfill their policy implementation functions and improve the quality and efficiency of their operations while holding themselves accountable to the public. For the consolidation of such agencies and the abolition of special accounts, the government will take appropriate measures based on the basic policy on the reform of incorporated administrative agencies.¹⁰⁰

For the review of administrative services, the government will increase objectivity with better use of data and quantitative indicators. It will also encourage incorporated administrative agencies to do more, including appropriately reflecting employees' voluntary action for improvement in personnel evaluation.

The government will review the organization and machinery of the Cabinet Secretariat and the Cabinet Office for greater efficiency so that these offices will fulfill their intrinsic functions, including the control-tower functions in relation to important policies.

(iii) Civil service reforms

To strategically allocate personnel in response to the Cabinet's important policies and establish a comprehensive human resources strategy for the government, The Cabinet Personnel Bureau will implement the integrated personnel management of senior officials, aim to hire more women and appoint them to higher positions through training young officials, and promote a work-life balance that allows for the rearing of children while maintaining a career.

⁹⁷ Opening public data to the private sector.

⁹⁸ "Convening a Ministerial Council on E-Government," as finalized on June 24, 2014 by the Director-General of the Strategic Headquarters for the Promotion of an Advanced Information and Telecommunications Network Society

⁹⁹ The Act for the Partial Revision of the Act on General Rules for Incorporated Administrative Agencies (Act No. 66 of 2014)

¹⁰⁰ The basic policy on the reform of incorporated administrative agencies, and other matters (Cabinet Decision of December 24, 2013)

The government will formulate a basic policy on the personnel management and total personnel expenses of central government employees that aims to develop a framework that enables the government to cope adequately with important issues with a limited amount of human resources and create an environment where they can perform their duties with a sense of mission and pride. The government will also develop a basic policy on the machinery and quota management. Thoroughly implementing operational reforms with the use of ICT, the government will reduce the quota by 10% or more every year over a period of five years from FY2015 and reallocate personnel to better implement important policies. The government will appropriately handle the salaries of central and local government employees in accordance with the Handling of Salary Revision of Government Employees.¹⁰¹

(2) Improving the quality of public finances

The government will instigate efforts to strengthen the Council on Economic and Fiscal Policy's checking and proposing functions based on analyses while making reference to similar moves in other countries. The Council on Economic and Fiscal Policy will explore areas as appropriate that will contribute to economic revitalization and fiscal consolidation in coordination with other government offices while monitoring progress in this direction. In its budgetary requests and budget compilation, the government will make effective use of the outcomes of policy evaluations, reviews of administrative services, and budget execution surveys. Through these activities, the government will further improve the effectiveness of PDCA for more efficient distribution of resources.

In formulating and revising their policies that concern the economy and public finances, government offices maintain close coordination with the Council on Economic and Fiscal Policy to secure macroeconomic comprehensiveness and integrity. To maintain transparency of public finances, the government will continue to disclose fiscal data on the national and local governments in an accessible manner. This includes the disclosure of budgets of public works projects. The government will study ways to make good use of the central government's financial documents.

The government will implement public service reforms which aim for more efficient administrative work and privatization as necessary as well as the utilization of operational flow cost analysis. It will also engage in smooth introduction and wider use of social-security/tax numbers as well as in the utilization of related data.

Special funds¹⁰² do have some strengths, but some analysts point out the difficulty in managing their execution. The government will strictly restrict the creation of new funds of this kind and the additional financing of existing ones from the perspective of fiscal discipline. It will disclose all information on the execution of special funds that have been created by incorporated administrative agencies, public-service

¹⁰¹ The Handling of Salary Revision of Government Employees (Cabinet Decision of November 15, 2013)

¹⁰² They refer to monetary reserves that are held by incorporated administrative agencies, public-service corporations, and local governments for certain uses and managed differently from other properties. They are funded largely by grants from the central government.

corporations, and local governments using subsidies granted by the central government. It will review their performance and consider having such organizations return those funds that have a slim chance of being used.

Chapter 4: Guiding principles in budget formulation for FY2015

1. Principles in economic and fiscal management

(1) The current and future developments of the economy, and principles in economic and fiscal management in the short-term

The Japanese economy is beginning to regain its robustness as evidenced by the fact that price trends are no longer pointing to deflation. Many analysts have stated that recoil reduction in consumption after the rush demand before the recent consumption tax hike so far is within their expectations. However, the recovery process from this reduction needs to be closely monitored. To put the Japanese economy on track to growth early, the government will continue to implement the "three arrows" strategy in an integrated manner. It has set targets of implementation rates in the FY2013 supplementary budget and the FY2014 initial budget. The central and local governments are making their utmost to realize a prompt execution of these budgets. With an eye on the supply side as well as the demand side, the government will create an environment where both a virtuous economic cycle that ensures growth in income and economic growth driven by private demand are nurtured. It will take into consideration growing concern about the labor shortage in some industries amid improvements in the supply and demand situation. Due to these policy responses, it is likely that the Japanese economy will generally continue to grow during FY2014, supported by robust domestic demand.

Given that the global economy is expected to recover, it is expected that the recovery of the Japanese economy that is driven by private demand and involves increases in employment and income will likely continue in FY2015 owing to the implementation of measures based on the principles in economic and fiscal management described above. It should be noted, however, that there are some downside risks ahead: developments in financial and capital markets, developments in overseas economies such as Asian emerging nations, and constraints on the electric supply.

The government expects that the Bank of Japan will achieve the two percent price stability target at the earliest possible time.

(2) Measures to be taken in light of medium- to long-term economic and fiscal prospects

With regard to the economy and public finances, which interact with each other, it is important to consider policy management and regulatory reforms, etc. while looking at prospects over the medium to long term in an integrated and consistent manner, using quantitative analysis and estimates. For this reason, the budget in each fiscal year needs to be formulated in line with a roadmap for realizing both economic revitalization and fiscal consolidation.

FY2015 is the target year by which the government aims to halve the primary deficit to GDP ratio. While ensuring overcoming deflation and economic revitalization, the government aims to steadily achieve this target. The government will make its utmost efforts in line with the Medium-term Fiscal Plan, as in the budget for FY2014.

By the end of 2014, the government will decide whether it will raise the consumption tax rate to 10%, which is to be implemented in October 2015, taking into account the economic conditions and other factors in a comprehensive manner in accordance with the Act for Fundamental Tax Reform.¹⁰³ The Council on Economic and Fiscal Policy will conduct necessary consideration for assessing the economic conditions and other factors.

2. Guiding Principles in compiling the national budget for FY2015

Taking this basic principles as well as the Revised Japan Revitalization Strategy 2014 and the Medium-term Fiscal Plan into account, the government aims to achieve economic revitalization led by private demand and fiscal consolidation targets simultaneously in the budget for FY2015, as in that for FY2014, and will review priorities of policy measures strictly and seek to strengthen the prioritization of budget. In the process, the government will meticulously examine subsidies in terms of whether they will genuinely help enhance Japan's growth potential. It will make good use of other means such as loans.

In the primary expenditure, i.e. the General Account expenditure excluding debt repayment and interest payment, in the budget for FY2015, the government will suppress Non-social security expenditure¹⁰⁴ as much as possible compared to the FY2014 budget. It will also review social security expenditure thoroughly to suppress the increase over the previous fiscal year to minimum extent.

¹⁰³ Supplementary Provision 18 of the Act to Amend the Consumption Tax Act, etc., to Make Fundamental Reform of the Tax System for Securing Revenue to Fund the Increased Cost of Social Security (Act No. 68 of 2012) and Supplementary Provision 19 of the Act to Amend the Local Tax Act and the Local Allocation Tax Act to Make Fundamental Reform of the Tax System for Securing Revenue to Fund the Increased Cost of Social Security (Act No. 69 of 2012)

¹⁰⁴ Excluding expenditure related to the decision of raising the consumption tax rate to 10%, which is to be implemented in October 2015