

Basic Policy on Economic and Fiscal Management and Reform 2015

(Table of Contents)

Chapter 1: Current situation, challenges and basic policies for the Japanese economy ----- 1

1. Current situation and challenges of the Japanese economy
 - [1] Current economic and fiscal situation
 - [2] Challenges
2. Advancing to the next stage of reconstruction after the Great East Japan Earthquake

Chapter 2: Priorities for extending virtuous economic cycles and achieving medium-to long-term growth----- 7

1. Boosting Japan’s potential and making reforms for the future
 - [1] Improving the business environment and creating growth markets toward strengthening earning power
 - [2] Strengthening coordination with growing global markets
 - [3] Realizing a national system for innovation and reforming the industrial structure with IT and robotics
2. Exert power of diverse human resources, especially empowering women and reforming education
 - [1] Exert power of diverse human resources such as women and young people
 - [2] Supporting marriage, childbirth, and childcare
 - [3] Implementing educational reform and promoting culture, the arts, and sports
3. Regional revitalization that supports virtuous cycles in local economies
 - [1] Revitalizing local economics
 - [2] Regional revitalization
 - [3] Efforts toward hosting the Tokyo 2020 Olympic and Paralympic Games
4. Securing the foundations for a safe and secure life and a sustainable economic society
 - [1] Diplomacy, national security and defense
 - [2] National resilience, disaster prevention and reduction
 - [3] Safety and security of citizens (Public safety, consumer policy, etc.)
- [4] Contributing to the global environment

Chapter 3: Framework of “Integrated Economic and Fiscal Reforms” - “The Plan to Advance Economic and Fiscal Revitalization”----- 29

1. Current economic and fiscal situation and challenges
2. Basic concept of the Plan
3. Targets, the scenarios to achieve, and the reform process
4. Concept and approach for reforming expenditure measures, etc.
 - [I] Industrialization in public-related services
 - [II] Incentive reform
 - [III] Innovation in public services
5. Basic policy and important challenges for reforms in each major policy area
 - [1] Social security
 - [2] Social infrastructure development
 - [3] Local-government administrative and fiscal reform, and cross-sectorial initiatives
 - [4] Education, science and technology, foreign diplomacy, and national security and defense, etc.
 - [5] Reforming revenue measures and compression of assets and liabilities

Chapter 4: Guiding principles in budget formulation for FY2016----- 60

1. Principles of economic and fiscal management
 - [1] The current and future development of the economy, and principles in economic and fiscal management in the short-term
 - [2] Measures to be taken in light of medium- to long-term economic and fiscal prospects
2. Guiding principles in compiling the budget for FY2016

Chapter 1: Current situation, challenges and basic policies for the Japanese economy

1. Current situation and challenges of the Japanese economy

[1] Current economic and fiscal situation

(1) The benefits of Abenomics thus far

Thus far, the Abe Cabinet has advanced its economics policy package (Abenomics), consisting of the “three arrows” strategy—bold monetary policy, flexible fiscal policy, and a growth strategy that promotes private investment—in an integrated manner. Due to the efforts associated with the three arrows strategy, major progress had been made both in overcoming deflation and revitalizing the economy and in fiscal consolidation.

The Japanese economy is reaching a favorable condition on both the micro and macro fronts for the first time in nearly a quarter century, since the burst of the Japanese asset price bubble at the beginning of the 1990s. Between October–December 2012 (before the Abe Administration was inaugurated) and January–March 2015, GDP increased by approximately 12 trillion yen in real terms and 27 trillion yen in nominal terms. Although the real GDP decreased by 0.9% in FY2014 due to the effect of the consumption tax hike, after having grown by 2.1% in FY2013, it is expected to grow steadily from this point forward. The rate of increase in consumer prices has been dulled by the effect of falling oil prices, but this effect is expected to gradually diminish. Moreover, growth in the GDP deflator (excluding the effect of the consumption tax hike), which shows the prices of property and services produced in Japan overall, turned clearly positive in FY2014 for the first time in 22 years. Corporate earnings also showed significant improvement, and the market valuation of listed companies set a new record high for the first time since 1989. In addition, on the employment front, the effective ratio of job offers to applicants reached a 23-year high, wage increases during the spring 2014 wage negotiations averaged more than 2%, the largest increase in 15 years, and the 2015 increase is on course to surpass that. The unemployment rate fell to an 18-year low of 3.3%, and the percentage of expected graduates finding work reached its highest level in seven years for college graduates and in 23 years for high school graduates.

Furthermore, at present a virtuous economic cycle is steadily beginning. This is a cycle in which the economic recovery leads to higher employment and higher wages, which in turn increase consumption and investment. In local economies, the consumption varies by area; however, the spillover effects of the improvements in employment and income are extending, as shown by the fact that the effective ratio of job offers to applicants has risen in every area since the inauguration of the Abe Cabinet and that the number of companies raising wages has increased.

Japan's current account surplus shrank rapidly due to structural changes in the economy and decelerating growth in demand from emerging markets, coupled with rising energy prices and rising import prices due to exchange rate fluctuations. The effect of increased imports associated with the consumption tax hike of April 2014 resulted in a temporary current account deficit, but since fall 2014 the current account surplus has expanded, owing to the influence of falling energy prices, an increased number of tourists from overseas, and higher income from foreign assets.

Moreover, the non-performing loans of Japanese banks and other financial institutions and the "three excesses" of Japanese businesses (excess debt, excess capacity, and excess employment), which have undermined Japan's economic dynamism since the collapse of the asset price bubble, have been nearly resolved in recent years, outweighing the effect of the Lehman Shock.

In response to these improvements on both the microeconomic and macroeconomic fronts, Japan's fiscal situation has also begun to improve. Based on the initial budget for FY2015, tax revenue in the government's general account is expected to increase by 12.2 trillion yen, from 42.3 trillion yen in FY2012 to 54.5 trillion yen in FY2015 (the anticipated increase amounts to 5.9 trillion yen even if the increased revenue from the consumption tax hike is excluded). The ratio of the primary deficit of national and local governments to GDP ("PB") is expected to fall by half in FY2015 compared to FY2010 (from -6.6% to -3.3%), in view of the tax revenue increases under Abenomics, the increase of the consumption tax rate to 8%, as well as efforts for more efficient expenditures.

(2) Effects of the 2014 consumption tax hike and postponement of an additional tax hike

Real GDP declined by -0.9% in FY2014, due to weakness in consumer spending and other areas. Factors contributing to this decline included the repercussion of last-minute demand leading up to the consumption tax hike, the influence of unusual summer weather, rising import prices, suppressed real compensation for employees due to average wage increase rates falling below the general rate of inflation, and the effect of the consumption tax hike on the deflationary mind-set of business managers. With the deflationary mind-set still in place, these factors exerted downward pressure on the economy.

Given these circumstances, the government decided to postpone its planned increase of the consumption tax rate to 10% from October 2015 to April 2017, in order to ensure that deflation would be overcome and to extend the virtuous economic cycle. In addition, to encourage private consumption and deliver the benefits of Abenomics to local economies, the government has formulated "Immediate Economic Measures for Extending Virtuous Cycles to Local Economies"¹ and is steadily

¹ "Immediate Economic Measures for Extending Virtuous Cycles to Local Economies" (Cabinet Decision on December 27, 2014).

implementing the FY2014 supplementary budget for the economic measure and the FY2015 budget.²

[2] Challenges

(1) Efforts to revitalize the economy

To revitalize the Japanese economy, there is a need for the construction of a mechanism for further stimulating private-sector economic activity and achieving sustainable growth over the medium to long term by overcoming deflation while extending the virtuous economic cycle. We will need to advance the initiatives discussed below as we focus efforts from all angles to boost Japan's growth potential.

Through these initiatives, the government aims to achieve economic growth over the medium to long term surpassing approximately 2% for real GDP and 3% for nominal GDP. Such growth will thereby increase the real gross national income (real GNI), which indicates Japan's actual level of wealth, by improving the terms of trade through the creation of competitive goods and services.

To realize this outcome, self-motivated participation in reforms—not only by the government, but broadly by citizens, businesses, and local governments—will be essential. Sharing a sense of crisis among all citizens regarding the Japanese economic situation, the private sector must strive to abandon the deflationary mind-set and actively boost its competitiveness and growth potential, while the government must implement reforms to eliminate inefficient expenditures and improve the quality of public services by increasing businesses' participation in the public service sector and motivated citizens to contribute.

To educate Japanese citizens and others around the world about Abenomics, the Integrated Economic and Fiscal Reforms, and other government initiatives like the Cabinet's basic policies, the government will promote internal and external PR in a proactive and effective manner.

(i) Extending the virtuous economic cycle

To stimulate private-sector economic activity and thus extend the virtuous economic cycle, the linking of corporate revenue to wage hikes and business investment, which leads to additional consumption and business investment, must continue and be deepened to include small- to medium-sized enterprises (SMEs) and local economies. Because it is important for employees' real compensation to increase, the government will promote efforts among the government, economic

² In addition to encouraging consumption in local economies by such measures as supporting the issuance of premium product vouchers, it was determined that nearly the entire budgeted amount for the Subsidies for Immediate Livelihood Support for Local Residents, intended to support regional initiatives based on actual local situations, will be granted during FY2015.

world, and labor sector in line with government-labor-management agreements³ and decisions.⁴

(ii) Boosting Japan's economic growth potential

To boost Japan's economic growth potential, it is necessary to strengthen initiatives to boost productivity and other efforts on the supply side, while steadily working to secure demand by opening new markets. The key to significant improvement in productivity is to invest in knowledge capital, such as human capital and R&D, to generate new concepts and ideas that will bring about continuous innovation (creating new value through ingenuity), while also investing in labor-saving methods and IT. Further innovation can be generated by improving the business environment to make Japan a hub for the exchange of human capital, products, money, and information. Some ways in which this can be accomplished are reforming the corporate tax structure to reward growth, reforming regulations, attracting foreign direct investment, and enhancing Japan's appeal as an international financial center. In terms of labor supply, the government will raise the labor participation rate for women, young people, and the elderly by curbing the trend toward rapid depopulation and a super-aging society, providing a wider variety of work options, reducing working hours, and fostering an environment in which people who want to work can easily do so. Moreover, to open new markets in Japan and overseas to secure latent demand, the government will take proactive steps to address globalization by transforming the healthcare, tourism, agriculture-forestry-fisheries, energy, and other industries into growth industries; by accelerating efforts in utilization of robotics, artificial intelligence, big data, and open data; and by strengthening economic partnerships with other countries.

(iii) Revitalizing local economies

To end the chain of vicious cycles of depopulation and shrinkage of local economies and to establish virtuous economic cycles in their place, the government will draw out the earning capability, comprehensive powers, and private knowledge of each region to boost regional reinvigoration in line with the "Overall Strategy on Vitalizing Local Economies."⁵

(2) Formulating a plan for achieving both economic revitalization and fiscal consolidation

Japan's fiscal situation continues to be extremely serious, with public debt amounting to roughly twice GDP and still growing; therefore, achieving both economic revitalization and fiscal consolidation is an important challenge. Although, the primary deficit to GDP ratio is projected to halve in FY2015 compared to five years earlier, there is an additional need to formulate a concrete plan to achieve the

³ "The Efforts of Government-Labor-Management toward Realizing a Positive Cycle of the Economy" (Agreement at the Government-Labor-Management Meeting toward Realizing Virtuous Economic Cycles in the Japanese Economy on December 16, 2014).

⁴ "Policy Initiatives on Price Imputation, Support and Cooperation and Policy Initiatives toward Raising Productivity in the Service Sector" (Decision at the Government-Labor-Management Meeting toward Realizing Virtuous Economic Cycles in the Japanese Economy on April 2, 2015).

⁵ "Overall Strategy on Vitalizing Local Economies" (Cabinet Decision on December 27, 2014).

fiscal consolidation target by FY2020. To do so, the Plan to Advance Economic and Fiscal Revitalization is formulated in Chapter 3 of this Basic Policy, with the aim of achieving both economic revitalization and fiscal consolidation in an integrated manner.

2. Advancing to the next stage of reconstruction after the Great East Japan Earthquake

(1) Current status and challenges of reconstruction

As Japan enters the final year of its five-year intensive reconstruction period following the Great East Japan Earthquake of 2011, reconstruction is advancing to the next stage: the rebuilding of houses is progressing on a full scale, especially in the areas affected by the earthquake and tsunami, and recovery is progressing even in the areas affected by the nuclear disaster, with residents' return in sight.

Under these circumstances, the government's fundamental stance is to steadily advance the current initiatives while implementing the necessary support measures in the areas affected by the earthquake and tsunami, with the objective of completing the recovery and reconstruction work as early as possible within the ten-year reconstruction period. For the areas affected by the nuclear disaster, the government continues to take responsibility for their progress from recovery to full-scale reconstruction and revitalization. To achieve this, the necessary funding will be secured for the reconstruction period FY2016–FY2020, based on the Cabinet decision “Scale and Funding Sources for Recovery and Reconstruction Work during the Reconstruction Period including the Five-Year Period Starting in FY2016,”⁶ while keeping in mind its compatibility with the fiscal consolidation efforts.

The reconstruction support must appropriately address the challenges that may arise during the reconstruction and lead to the independence of the disaster-affected areas, with an eye toward realizing the socioeconomic vision for these areas. The aim is to drive Japan's revitalization and growth and to serve as a model for regional revitalization.

(2) Reconstruction work and budget

It is necessary to ensure that the reconstruction work and budget truly contribute to the reconstruction of the disaster-affected areas, through constant review of the work selection, areas covered, and completion dates, and overall reconstruction progress, as well as careful cost-benefit and efficiency analysis. With due consideration to their fiscal conditions, local governments of the disaster-affected areas will also bear a share of the expenses for the reconstruction work that also assumes the character of addressing common national issues.

⁶ “Scale and Funding Sources for Recovery and Reconstruction Work during the Reconstruction Period including the Five-Year Period Starting in FY2016” (Cabinet Decision on June 30, 2015).

(3) Reconstruction and revitalization after the nuclear disaster

Reconstruction and revitalization after the nuclear disaster will be advanced based on the Revision of the Cabinet decision “For Accelerating the Reconstruction of Fukushima from the Nuclear Disaster”⁷ and related measures.⁸ The government will steadily advance measures to address nuclear reactor decommissioning and cleanup of contaminated water, as well as R&D and human resource development for the medium- to long-term decommissioning of nuclear reactors. It will also promote decontamination, development of interim storage facilities, and transport of removed soil, and move forward steadily with regard to the treatment of radioactive waste. Measures also will be steadily implemented to counter harmful rumors. The government will promote the lifting of the evacuation orders, accelerate efforts such as the development of reconstruction and revitalization bases toward promoting residents’ return, and expand efforts in rebuilding and fostering the independence of businesses, livelihoods, and living conditions. The future vision of the 12 municipalities that were issued evacuation orders during the disaster will be compiled from a medium- to long-term and broad-based perspective, based on considerations described in the “Fukushima Innovation Coast Vision.”⁹ Necessary initiatives, including coordination with related parties, will be advanced to ensure early development and siting of the vision’s proposed base facilities for reactor decommissioning R&D, robotics research and validation, and international industry-academia collaboration, with due consideration to a broad-based perspective, sustainability, and the timing of the lifting of evacuation orders.

⁷ Revision of “For Accelerating the Reconstruction of Fukushima from the Nuclear Disaster” (Cabinet Decision on June 12, 2015).

⁸ Related measures include the Act on Special Measures concerning the Handling of Environmental Pollution by Radioactive Materials Discharged by the Nuclear Power Plant Accident Accompanying the Earthquake that Occurred off the Pacific Coast of the Tohoku Region on March 11, 2011 (Act No. 110 of 2011).

⁹ “Fukushima International Research Industry City (Innovation Coast) Vision,” Fukushima International Research Industry City (Innovation Coast) Vision Study Group, June 23, 2014.

Chapter 2: Priorities for extending virtuous economic cycles and achieving medium-to long-term growth

The Japanese economy is reaching a favorable condition for the first time in nearly a quarter century. Utilizing this opportunity, the government will expand and accelerate its economic growth strategy¹⁰ and will drive growth toward surpassing the country's growth potential by roughly 2%, through innovation, encouraging business renewal, streamlining labor transitions, and fostering the empowerment of women. It will achieve these goals by developing the public service sector into a new engine for growth through the promotion of expenditure and income reforms that contribute to economic revitalization. In addition, the government will support increases in the real income of its citizens and further bolster economic growth potential driving growth of demand by promoting continued improvement of the terms of trade, enhanced sophistication of the industrial structure, and the development of higher value-added products and services.

The Tokyo 2020 Summer Olympic and Paralympic Games (the "Tokyo Olympics"), etc.¹¹ are nationwide events for Japan and represent a golden opportunity to promote Japan to the world. The government will make a concerted effort in the hosting of these events, which will serve as a springboard for Japan to regain its dynamism.

The government work to set the Japanese economy on a new growth trajectory will include initiatives such as the following:

1. Boosting Japan's potential and making reforms for the future

[1] Improving the business environment and creating growth markets toward strengthening earning power

(Enhancing the sophistication of the economic structure, promoting higher value-added products and services, and improving the terms of trade)

Going forward, it is expected that the balance of labor supply and demand will tighten further, the GDP gap will rapidly disappear, and Japan will overcome deflation. Such a situation will provide an opportunity for individuals to transition to jobs in growth sectors and with better conditions and for businesses to advance renewal projects and earn high revenues. The government will work to maintain a favorable macroeconomic environment while streamlining labor transitions and enhancing businesses' efforts with regard to renewal. The result will promote increased employee income business earnings. Moreover, the government will strengthen the corporate governance structure to improve the

¹⁰ Revision of "Japan Revitalization Strategy" for 2015 (Cabinet Decision of June 30, 2015).

¹¹ Including Rugby World Cup. 2019, to be held in 2019.

effectiveness of management oversight by boards of directors, promote effective and efficient disclosure and digitization of information for investors, and promote an increase in the number of businesses voluntarily adhering to International Financial Reporting Standards (IFRS).

Also, since the end of 2014, falling in oil prices and other factors have improved Japan's terms of trade, contributing to a substantial increase in Japan's real income (trade gains in the period from January to March 2015 boosted real GNI growth by about 1.1 percentage points). Moving forward, through the efforts mentioned above, Japan will continue to improve its terms of trade by promoting the transition of employment, investment, and other resources into Japan's competitive growth industries, starting with those sectors that compete with companies in emerging countries and face price-cutting competition, to ensure competitive pricing. Also, in order to stabilize prices for the resources and energy that Japan imports, the government will work to diversify procurement sources, including internal development, and boost price negotiating power.

(Boosting productivity in the service sector)

Overcoming shortages in the labor force is one of the greatest challenges faced by Abenomics going forward. The government will promote a productivity revolution in the service sector, which accounts for more than 70% of Japan's employment and GDP and has high potential for productivity improvements. To serve as a base for this nationwide citizens' campaign, the International Conference on Productivity Improvement in Service Industries were established as a joint effort of government and private citizens in five areas (retail, beverage, hotels, nursing care, and road transportation). The conference promotes initiatives to apply Kaizen improvement activities from the manufacturing industry to the service industry and to utilize IT, big data, and other tools. These efforts will make service industries attractive for workers, including young people.

Furthermore, the government will steadily promote the Service Industry Challenge Program,¹² the Nihon Service Award, and other means of spreading best practices to advance higher value added in service industries, including SMEs.

(Addressing SMEs and microenterprises)

To extend the virtuous economic cycles, SMEs and microenterprises must increase their wages. The business community will comprehensively engage in supporting supplier companies as well as passing on prices, due to higher purchasing costs. The government will also seek to raise the minimum wage while also supporting SMEs and microenterprises.

¹² "Service Industry Challenge Program," Headquarters for Japan's Economic Revitalization, April 15, 2015.

Based on the decisions made in the Seiroshi (Government, Labor, and Corporate Management meetings), the Japan Business Federation will request that its member businesses across the country take actions, including price imputation, to ensure the appropriate setting of transaction prices through prior agreements with suppliers on the sharing of costs and profits based on fluctuations in raw material costs and in the balance of supply and demand for products and services.

The government requests that the business community follow subcontracting agreements in a thorough fashion in business dealings. Furthermore, in the first half of FY2015, the utmost efforts will be made to ensure that proper price imputation is being carried out, through intensive on-site inspections of approximately 500 companies. In conjunction with these efforts, the government will continue its thorough measures to address the imputation of consumption tax.

The government will also improve the earning capacity of SMEs and microenterprises, by supporting innovation and the opening of sales channels domestically and overseas, strengthening management consulting and support systems, and reinvigorating shopping districts.

In addition, it is necessary to take precautions regarding SMEs' cash flow, while at the same time encouraging financial institutions to engage more actively in supporting management improvements and productivity. To achieve this, the government will move forward with deliberations about the way in which the credit guarantee system operates, to ensure appropriate risk assumption by financial institutions and to indicate its policy orientation in terms of the ideal form of the system.

(Streamlining financing)

To strengthen sectors that contribute to medium- and long-term productivity improvements, it is important to transition flows of funds that have relied too heavily on credit over to equity or mezzanine capital (a form of capital that is between credit and equity). To accomplish this, the government will diversify the flow of funds into multiple streams in accordance with the summary compiled by the Review Committee for Promotion of Growth Financing,¹³ by cultivating human resources that are knowledgeable about funding sources, establishing funds that address diverse needs, and complementing the private sector through government financial institutions.

(Regulatory reforms)

In the current environment of increasingly rapid socioeconomic change in Japan and overseas, the Japanese government will explore its regulatory approach and pursue continuous regulatory reform to achieve regulations that are in harmony with the times.

¹³ "Interim Summary of the Review Committee for Promotion of Growth Financing," November 20, 2014.

In particular, reforms will be advanced with a focus on the following areas: (i) promoting diverse ways of working, (ii) attracting tourism and revitalizing local economies in other ways, and (iii) spurring innovation and investment.

With the aim of promoting regulatory reform, steady follow-up of the items determined in the Plan for Implementation of Regulatory Reforms¹⁴ will be conducted and a system for the proactive review of regulations by the government agencies that administer them will be advanced.

The government will further accelerate its efforts on National Strategic Economic Growth Areas and make further progress on “rock-solid regulations” for which reform has been resisted by vested interests. In addition, it will designate the second round of special regional reinvigoration zones (a tertiary designation of National Strategic Economic Growth Areas) as rapidly as possible during 2015 and validate near-future technologies.

(Attracting foreign direct investment)

Based on the “Five Promises for Attracting Foreign Businesses to Japan”¹⁵ decided at the Council for Promotion of Foreign Direct Investment in Japan, the government will work to promote multilingualization of retail shops, restaurants, hospitals, public transportation, etc.; promote the preparation and simplification of usage procedures for free public wireless LANs in urban areas; develop a protocol for receiving business jets with short advance notice at regional airports; support the employment of foreign students in Japan; and advance the Investment Advisor Assignment System, which enables foreign businesses that have made important investments in Japan to consult directly with the State Minister.

Efforts will also be made to discover and attract investment projects to Japan through endorsement by the Prime Minister and other Cabinet ministers, as well as by further strengthening coordination with foreign diplomatic offices, the Japan External Trade Organization (JETRO), and local governments.

(Focusing on resources and energy)

With regard to energy, which is the foundation of citizens’ lives and social activities, in order to achieve safety, energy security, economic efficiency, and sustainable environment (3E+S) all at the same time, based on the outlook for energy supply and demand in FY2030, the government will strive to realize a thorough energy-saving society by strengthening energy savings in industry, offices, households, and transportation sectors, promoting energy management, and promoting the proliferation of energy-saving houses, next-generation vehicles, and smart communities. It will also work to achieve both

¹⁴ “Implementation Plan for Regulatory Reform” (Cabinet Decision of June 30, 2015).

¹⁵ “Five Promises for Attracting Foreign Businesses to Japan” (Decision by the Council for Promotion of Foreign Direct Investment in Japan on March 17, 2015).

maximum implementation of renewable energy and minimum burden on citizens, by expanding the introduction of geothermal, hydroelectric, and biomass power, which provide reliable power regardless of natural conditions, and reducing the instability and costs of solar and wind power. In addition, the government will strive to increase the efficiency of coal power generation, secure resources and diversify supply sources to ensure availability, stability, and low prices, and maintain and strengthen oil and LP gas supply chains.

To build a more diverse and flexible energy supply-demand structure, the government will advance efforts toward the realization of a hydrogen society, promotion of negawatt transactions and other demand responses,¹⁶ and initiatives aimed at surveying and commercializing methane hydrate, sea-floor hydrothermal deposits, rare earth metals, and Japan's other marine resources.

Concerning nuclear power, safety will be given priority above all else. In case that The Nuclear Regulation Authority will confirm the conformity of nuclear power plants with the new regulatory requirements, which are of the most stringent in the world, the government will respect the Authority's judgment with regard to restarting the nuclear power plants. Efforts will also be advanced in selecting final disposal sites for high-level radioactive waste, developing technologies for improved safety in nuclear power generation, cultivating human resources, and developing the environment in which the nuclear power business operates.

The government will steadily advance reforms in power generation, city gas, and heat supply systems, increase consumer benefits by providing appropriate information on energy supply, and foster a strong energy industry that will enable economic growth. International expansion of energy industry will also be a focus.

(Advancing the agriculture, forestry, and fisheries industries)

The government will advance its strategy with regard to the agriculture, forestry, and fisheries industries, transforming them into growth industries and handing beautiful, historic agriculture, forestry, and fisheries communities on to the next generation. Under this basic approach, the government will steadily implement policy measures based on the "Plan to Create Dynamism through Agriculture, Forestry, and Fisheries and Local Communities"¹⁷ and the "Basic Plan for Food, Agriculture, and Rural Areas."¹⁸

¹⁶ Demand responses refer to the implementation of peak time cuts and other methods of power supply and demand adjustment in which power companies, etc. purchase the power consumption saved by businesses, etc. (negawatt transactions), and other demand responses refers to initiatives for changing patterns of energy consumption.

¹⁷ "Plan to Create Dynamism through Agriculture, Forestry, and Fisheries and Local Communities" (Revision by Headquarters on Creating Dynamism through Agriculture, Forestry and Fishery Industries and Local Communities on June 24, 2014).

¹⁸ "Basic Plan for Food, Agriculture, and Rural Areas" (Cabinet Decision of March 31, 2015).

The government will promote enhanced competitiveness in the agriculture industry, including livestock and dairy, by transforming agriculture into a growth industry through innovating, ensuring food safety; expanding exports to the global food industry; strategically advancing the “sixth industrialization” (a combination of primary, secondary, and tertiary industries); strengthening efforts on middle-management mechanisms for the accumulation and consolidation of farmland for agricultural leaders, corporation management, new agricultural workers, and the cultivation and securing of businesses and new agricultural leaders; and developing the foundations for production. Regarding projects to improve soil quality, further steps will be taken to promote larger partitions and commoditization of farmland, which will contribute to higher value added and lower production costs as well as improved maintenance and conservation. Moreover, through the steady advancement of policy reforms for rice and other areas, the government will create an environment in which agricultural managers can select crops based on their own judgment and work to ensure food safety. In addition, the government will implement integrated reforms of agricultural cooperatives, agricultural committees, and agricultural production corporations to create an environment in which motivated agricultural leaders are proactive.

Toward the creation of dynamic agriculture, forestry, and fisheries communities, the government will foster educational exchange between urban areas and agriculture, forestry, and fisheries communities, coordinate agriculture and tourism, coordinate among villages, and promote urban agriculture.

With regard to forests and the forestry industry, the government will promote CLT¹⁹ and the creation of additional new types of lumber and build a stable, efficient supply structure for Japanese lumber, while recycling and reusing Japan’s abundant forest resources. In the fisheries industry, the government will promote resource management, sustainable fishing operations and aquaculture, and increased consumption and exports, taking into account the unique characteristics of each coastal area.

(Attracting tourism)

Based on the “2015 Action Program toward the Realization of Japan as a Tourism-Oriented Country,”²⁰ the government will make a concerted effort in a unified public-private initiative to attract tourists to Japan and reach the “20 million tourist era” by 2020. In this effort, the government will strive to create broad-area tourism circuits; disseminate information about the attractions of individual localities; invigorate shopping tourism by capitalizing on the opportunity to expand the consumption tax exemption system; strategically relax visa requirements and improve the visa examination system; enhance airport gateway functions, build and systematically improve dynamic systems for customs,

¹⁹ Cross Laminated Timber

²⁰ “2015 Action Program toward the Realization of Japan as a Tourism-Oriented Country” (Decision of the Ministerial Council on the Promotion of Japan as a Tourism-Oriented Country on June 5, 2015).

import/export management, and quarantine (CIQ), in regional airports and seaports; increase the penetration of low-cost carriers in regional airports; develop an environment for allowing cruise ships to make port calls in Japan; enrich the high-speed bus transportation network; and advance barrier-free construction.

The government will also promote the formation and support of Japanese versions of DMOs,²¹ which manage the creation and development of tourism areas, the development of the free public wireless LAN environments, the spread of integrated circuit (IC) cards for transportation, and other steps aimed at invigorating tourism within Japan.

(Promoting Reform Policies on Paid Employee Leave)

Enriching individual lives and thereby enriching the whole of society requires lifestyle changes. Based on the “Leave Reform Working Group Report,”²² the government will create and expand consecutive holidays, which will lead to both increased tourism and local revitalization, by promoting concerted labor-management business initiatives to increase the amount of annual paid leave, and also by setting “local holidays” for each region.

[2] Strengthening coordination with growing global markets

The government will continue to work toward an early conclusion of the Trans-Pacific Partnership (TPP) negotiations in a form that maximizes Japan’s national interests. Concurrently, it will strategically and speedily advance negotiations for economic partnerships, including the Japan-EU Economic Partnership Agreement (EPA), the Regional Comprehensive Economic Partnership (RCEP) in East Asia and the Free Trade Agreement (FTA) among Japan, China, and the Republic of Korea. Through these partnerships, Japan will play a central role in creating new rules for global trade and investment.

Furthermore, the government will promote the entry of Japanese companies into global markets by (i) encouraging the exports of infrastructure systems by utilizing official development assistance (ODA) under a public-private partnership; (ii) supporting midsize, small and medium enterprises, microenterprises and service providers in expanding their business operations overseas; (iii) promoting the “Cool Japan” strategy for boosting the exports of Japan’s food, alcoholic beverages, and content, and for creating and promoting Japanese culture with the rest of the world, etc.; (iv) improving the business environment by supporting the development of the legal system under the principles of the rule of law, enhancing preventive justice in international economic disputes²³, etc.²⁴ The government will

²¹ Destination Marketing/Management Organization

²² “Leave Reform Working Group Report,” Leave Reform Working Group, November 18, 2014.

²³ Legal work that prevents international economic disputes.

²⁴ Including the translations of Japanese laws and regulations into foreign languages.

also promote the aviation, space, and marine industries.

In addition, Japan will advance the “Partnership for Quality Infrastructure.”²⁵

[3] Realizing a national system for innovation and reforming the industrial structure with IT and robotics

To become the most innovation-friendly country in the world, Japan will build a national system of innovation that induces a virtuous cycle involving human resources, knowledge, and funding from businesses, universities, and research institutes that are leaders in innovation, which is the wellspring of economic growth.

(Establishing a national system for innovation)

Under the Council for Science, Technology and Innovation, the government formulated the “Fifth Science and Technology Basic Plan” and will strongly promote the “Comprehensive Strategy on Science, Technology, and Innovation 2015.”²⁶

The government will promote open innovation via industry-academia-government partnerships, support the establishment of locations that attract diverse research bodies, encourage the provision of matching funds for private funding, strengthen bridge functions that lead the seeds of innovative technology to commercialization, cultivate young researchers and entrepreneurs and make human resources more fluid, and create a Special National Research and Development Corporation (tentative title) system as soon as possible.

Regarding universities, which lay the foundation for each generation of innovation, the government will introduce a modified allocation through the establishment of a new framework for three types of intensive support, depending on the orientation of the functional enhancement, and will enact governance and effective management reforms. It will also promote university reform and competitive research expense reform in a unified manner.

The government will promote intellectual property strategy and standardization strategy with the aim of becoming the world’s greatest intellectual-property country.

(Reforming the industrial structure via IT and robotics)

²⁵ “Partnership for Quality Infrastructure” (Announcement by Prime Minister Abe on May 21, 2015).

²⁶ “Comprehensive Strategy on Science, Technology, and Innovation 2015” (Cabinet Decision on June 19, 2015).

In striving to become the world's most advanced IT-utilizing society, Japan will steadily promote policy measures based on the Cabinet's "Declaration to Be the World's Most Advanced IT Nation."²⁷

With advancements in artificial intelligence (AI), big data, and the Internet of Things having the possibility of transforming the structure of every industry, there is a need to spur the creation of new business models that utilize data and leverage other social transformations.

In addition, the government will promote the integration of IT into society as a whole through the realization of the world's safest cyberspace, public wireless LANs, automatic language translation, other means of providing information according to attributes, the realization of sophisticated video capabilities such as 4K and 8K resolution, and research and development with an eye toward future industry and social transformation.

The government will promote a robotics revolution that will dramatically change people's lives and society in general. Through activities in the Robot Revolution Initiative Council, it will accelerate robotics implementation in society across industries and government agencies.

To achieve local revitalization through IT, the government will improve the employment environment through cloud computing, telecommuting, and remote healthcare and education, will boost the productivity of local industries, and will publicize excellent examples of these technology implementations across Japan. Based on the "Plan to Promote IT Utilization for Rejuvenation of Local Communities,"²⁸ the government will strive to support human resources through a government CIO, promote telecommuting from employees' hometowns, and encourage venture start-ups.

The government will revamp its public services through one-stop service utilizing personal number cards, electronic post office boxes, and other technologies, as well as full digitization of all government procurement processes.

The government will promote the utilization of the anonymously processed information in the revised "Act on the Protection of Personal Information," to be submitted to the ordinary Diet session in 2015, as well as the structural strengthening of the Personal Information Protection Council, which oversees the appropriate management of that information.

²⁷ "Declaration to Be the World's Most Advanced IT Nation" (Cabinet Decision on June 30, 2015).

²⁸ "Plan to Promote IT Utilization for Rejuvenation of Local Communities" (Decision by the Strategic Headquarters for the Promotion of an Advanced Information and Telecommunications Network Society on June 30, 2015).

(Promoting the integration of information and communications technologies in healthcare and other fields)

In addition to striving to promote remote healthcare for the effective and efficient utilization of healthcare resources, the digitization and standardization of data in healthcare and other fields, and coordination of healthcare data among communities, the government will intensely promote the further utilization of data for improvements in medical and nursing care quality, research and development, the rationalization of healthcare and nursing care expenses, and other healthcare and nursing care policy concerns, as well as the integration of other information and communications technologies (“ICT”) in healthcare and other areas, including the development of environments for data utilization in healthcare through private healthcare businesses.

Utilizing the patient registry developed by the National Centers for Advanced and Specialized Medical Research, the government will create a new platform for clinical development that enables pharmaceutical companies to conduct clinical trials more efficiently. The government will also comprehensively encourage the development of internationally competitive and efficient medical devices, with areas of focus specified, and return the results of that development to the public.

The government will publicize the excellence of Japan’s healthcare facilities in an effort to attract foreign patients to Japan.

2. Exert power of diverse human resources, especially empowering women and reforming education**[1] Exert power of diverse human resources such as women and young people**

The government aims to create a society in which all women shine. To achieve this, the government will accelerate its efforts based on the “Intensive Policy to Accelerate the Empowerment of Women 2015.”²⁹ The government will actively advance women’s participation in administration, economics, and all other fields; the cultivation of female science and engineering professionals to support Japan’s efforts to become a country of science, technology, and innovation; the reduction of long working hours and reform of working styles; support for businesses that engage in work-life balance initiatives; efforts to prevent women from leaving work or ending their careers to receive nursing care or for other reasons; proactive participation by men in housework, child rearing, and other aspects of household life; the elimination of maternity harassment and all other forms of harassment; and initiatives to improve the quality of women’s lives. The government will solidify the status of the tax system, social security systems, and spousal allowance and will deliberate ways to improve such systems to enable women to realize their choice of work style. Possible improvements may include allowing family income to

²⁹ “Intensive Policy to Accelerate the Empowerment of Women 2015” (Decision by the Headquarters for Creating a Society in which All Women Shine on June 26, 2015).

increase smoothly when women work more and providing safeguards to women for their employment. The government will strive to strengthen employment measures related to young people, by encouraging improvements in employment management via “visualization” of workplace information and smoothing the transition to allow more time for study between the start of a university student’s job search and recruitment activities for fourth-year university students. Furthermore, the government will make efforts to support employment independence for young people who are not currently engaged in education, employment, or training, with the aim of building a society that enables people to try again; to strengthen measures related to non-regular employment; to support the employment of people who have served prison sentences, including support for employers who hire them; to further enrich job training provided to convicts; and to develop a correctional facilities environment that supports such efforts. The government will also strive to cultivate human resources to improve productivity, and to secure and cultivate human resources in such sectors as healthcare and welfare, construction, transportation, and shipbuilding, where human resources shortages are a concern.

The government will advocate employment of the elderly toward the realization of a lifelong active society and will support the settling, employment (including in the agricultural industry), participation in society (including cultural and artistic activities), and empowerment of people with disabilities.

Note that the utilization of foreign human resources is not an immigration policy. The government will utilize foreign human resources who are well-versed in Japan, while strengthening relationships with countries that share the same basic values as Japan. The government will create an environment in which highly skilled foreign people—including researchers, business managers, and students—can readily demonstrate their skills. For skills training, the government will steadily advance radical enhancements of management and oversight systems. In addition, the government will promote human rights protection measures and other initiatives toward creating a society in which all people, including those from abroad, find it easy to make a living.

[2] Supporting marriage, childbirth, and childcare

The government will promote the “Outline of Measures for the Low Birthrate Society”³⁰ and the “Outline on Measures to Reduce Childhood Poverty.”³¹ To change the trend of low birthrates by 2020, it has designated the five-year period starting in FY2015 as the “Intensive Implementation Period for Stemming the Declining Birthrate” and will foster an environment that enables safe and secure pregnancy and delivery, including the improvement of child-rearing support and marriage support, and the development of the Comprehensive Support Center for the Child-raising Generation. The government will also promote the “National Movement to Support Children’s Futures” and other policies for combating childhood poverty, supporting single-parent and multiple-child households that

³⁰ “Outline of Measures for the Low Birthrate Society” (Cabinet Decision on March 20, 2015).

³¹ “Outline on Measures to Reduce Childhood Poverty” (Cabinet Decision on August 29, 2014).

are in economic difficulty, and otherwise introducing intensive, effective measures while securing the necessary funding sources. Broad-ranging deliberations will be undertaken with regard to measures for securing funding for these initiatives. Moreover, in conjunction with additional support for single-parent and multiple-child households, the government will formulate and advance a policy package slated for the end of this year to promote childcare by society and strengthen measures to prevent child abuse.

The government will steadily implement the “Comprehensive Support System for Children and Child-rearing” and will preferentially apply the additional income from the consumption tax hike to quantitative expansion and quality improvement of early childhood education, childcare, and child-rearing support based on that system. To achieve even greater quality improvements, funding sources other than the consumption tax will also be secured as appropriate. The “Acceleration Plan for Reducing Wait-listed Children” and the “General After-School Child Plan” will also be promoted solidly.

[3] Implementing educational reform and promoting culture, the arts, and sports

(Implementing educational reform)

Since the wellspring of economic growth is people, the cultivation of human resources through education is an extremely important investment. Toward the realization of the principles of the Basic Act on Education,³² the government will carry out comprehensive renewal of education based on the “Second Basic Plan for the Promotion of Education,”³³ while considering the suggestions of the Education Renewal Executive Council.

Early childhood education forms the basis of human character, and the government will therefore work to promote it comprehensively. From the perspective of reducing the burden on households of educational costs, and based on the “Outline of Measures for the Low Birthrate Society” and other policies, the government will strive to advance initiatives toward making early childhood education free, in stages, enlarging the interest-free scholarship program, and reducing the burden of tuition costs, while securing funding for such initiatives.

With the goal of achieving the world’s best academic performance and improving basic performance, the government will promote active learning, improved quality of faculty quality, and stronger guidance programs that enable students to remain viable in society and will also advance the utilization of diverse specialized human resources, coordination among related organizations, and special needs education, under the concept of “teach schools” that improve the educational capabilities of organizations.

The government will promote thorough internationalization of universities, including the expansion of

³² Basic Act on Education (Act No. 120 of 2006).

³³ “Basic Plan for the Promotion of Education” (Cabinet Decision on June 14, 2013).

study abroad programs and the increased acceptance of exchange students from abroad. It will also promote a revamping of the path from high school to university, including reform of high school education, university education, and the screening of university applicants, and will make grading and graduation requirements more stringent.

In addition to advancing a system in which higher education institutions provide practical job training to students, the government will promote job training and reeducation of members of society while offering opportunities for career-switching.³⁴

Given the role schools play as centers of their local communities, the government will provide customized support for the creation of dynamic schools that address the low birthrate, through such measures as the elimination and consolidation of schools, the revitalization of small schools that cannot easily be consolidated, and the reopening of schools that are not currently in operation.

(2) Promoting culture, the arts, and sports

With the aim of making Japan a country of culture and the arts, and given the “Basic Policy on the Promotion of Culture and the Arts,”³⁵ The government will strive to support cultural and artistic activities in an effective manner, disseminate Japanese heritage and other attractive aspects of Japanese culture, invigorate media arts, secure opportunities for children to experience culture and the arts, strengthen the functions of national cultural facilities, cultivate cultural and artistic leaders, and preserve and utilize cultural properties, etc.³⁶

To make Japan into a country of sports, the government will promote the improvement of international competitiveness, the realization of a lifelong sports society, the development of personal health through sports, sports for people with disabilities, and the reinvigoration of the sports industry, with Japan’s sports agency at the center of these efforts.

3. Regional revitalization that supports virtuous cycle in local economies

In aiming to overcome Japan’s rapid depopulation and super-aging society and to maintain a stable population structure into the future with a population of approximately 100 million even 50 years from now, unified engagement will be required to address several challenges.

[1] Revitalizing local economics (Spurring regional reinvigoration)

³⁴ Opportunities for career-switching may include job experience.

³⁵ “Basic Policy on the Promotion of Culture and the Arts” (Cabinet Decision on May 22, 2015).

³⁶ Other education on culture and the arts, promotion of local culture, etc.

To stem the population decline and rectify the excess concentration of population in Tokyo, in December 2014 the Abe Cabinet formulated the “Overall Strategy for Vitalizing Local Economies.” Based on this strategy, in FY2015 each regional public entity will formulate a local action plan and in FY2016 Japan will begin full-fledged promotion of specific projects.

With the aim of spurring regional reinvigoration, it will be necessary to develop highly productive industries brimming with dynamism that can attract human resources and funding to local economies and to effect a permeation of “local Abenomics” by creating workplaces that are attractive to young people and to people in their most productive years.

Specifically, the Japanese economy must regain its dynamism in such a way that human resources and funds are actively channeled into regional economies, thereby ensuring that high technology and information is shared by every corner of the country, by striving to (i) draw out “earnings capability” in each region, (ii) draw out “comprehensive powers” through incentives for passionate, motivated people in the regions, and (iii) draw out “private knowledge” based on private-sector originality and ingenuity to the maximum extent. To spur regional reinvigoration, new frameworks that transcend conventional vertically integrated projects will need to be created (through public-private cooperation and regional coordination), new leaders will need to be cultivated (through the formation of project-promotion organizations for regional reinvigoration and the securing and development of specialized human resources), and new zones will need to be created (ranging from broad-based zones to local village life zones) in line with the actual economics of living.

(Promoting a regional reinvigoration policy package and providing diverse support to regions)

To accelerate regional reinvigoration efforts even further going forward, the government will promote a policy package for reinvigoration of work, reinvigoration of people, and reinvigoration of communities, based on the “Basic Policy for Overcoming Population Decline and Vitalizing Local Economy in Japan 2015.”³⁷

Moreover, to support the smooth execution of the “Regional General Strategy,” the country will augment data support and human support through local economic analysis systems, etc., while providing fiscal support to strengthen the incentives for achievement of the Regional General Strategy initiatives. To these ends and to provide proactive support for pioneering efforts, efforts to resolve bottlenecks that regions have themselves discovered during existing projects, and the spread and progress of superior cases, related government agencies will coordinate under the integrated policy, secure funding for the regional reinvigoration budget, and create a new type of grant that provides fiscal support that transcends conventional vertically integrated projects. With regard to subsidies for regional

³⁷ “Basic Policy for Overcoming Population Decline and Vitalizing Local Economy in Japan 2015” (Cabinet Decision on June 30, 2015).

reinvigoration, reviews will be carried out to prevent the adverse effects of vertical integration; such reviews will include appropriate key performance indicators (KPIs) and plan-do-check-act (PDCA) cycles and will combine the procedures into a one-stop format.

Note that in the Tokyo area, where population aging will progress more rapidly going forward, issues in healthcare and nursing care services are expected to become more severe in the near future. To address this, the government will advance broad-based efforts in the development of healthcare, nursing care, and housing in the Tokyo area and will support people who request assistance in moving out of Tokyo to regional areas.

[2] Regional revitalization

(1) Revitalizing local economies

Local governments will promote initiatives toward extending virtuous cycles in local economies through collective regional efforts at the center of the process, thereby increasing employment and income and making the regions more resilient to energy price fluctuations and related issues. To accomplish this, through coordination among industries, academic institutions, financial institutions, and local and regional governments, the national government will advance the creation of businesses that have large capacity for job creation, the nationwide expansion of decentralized energy infrastructure projects aimed at industrialization, the opening of local government infrastructure to the private sector, job creation and recovery in local industries through data visualization and analysis support, and the promotion of flow of funds from local production for local consumption. The government will also support efforts that leverage local originality and ingenuity, by coordinating the policy measures of each government ministry via “regional revitalization platforms” and utilizing strategic grants for local reinvigoration.

The government will encourage local financial institutions to increasingly support financing and management improvements based on project assessments for businesses rooted in the local community and will utilize the functions of the Regional Economy Vitalization Corporation of Japan and other sources to revitalize local industries and promote the process of renewal in such industries.

In depopulated areas and other disadvantaged areas, including the Amami Islands and other remote islands and peninsulas, the government will maintain the harmony of surrounding areas and their interaction and collaboration³⁸ and promote the formation of small hubs, by securing and consolidating all manner of functions and services in the core village within the village living area and securing transportation networks with surrounding villages, by developing an environment conducive to

³⁸ This government work will include collaboration on World Heritage listing.

settlement by securing daily living functions, including the maintenance of necessary transportation infrastructure, by invigorating local industry, and by maintaining and rejuvenating villages by capitalizing on local resources and local originality and ingenuity.

Based on the “Basic Plan on Transport Policy,”³⁹ the government will promote diverse transportation services, barrier-free construction, and efforts toward securing distribution of goods to less populated areas.

The government will also increase the flow of people and goods in and out of the areas, by early development and utilization of broad-area high-speed transportation networks.⁴⁰

To ensure diverse leaders’ participation in mutual assistance activities and to invigorate such activities, the related government agencies and ministries will coordinate to promote efforts to increase in the number of volunteers, encourage a culture of donation, and create a mutual assistance society brimming with dynamism through nonprofit organizations (NPOs) and social businesses.

Given the changing conditions of Japan’s national lands, the government will review the “National Spatial Strategies,” the “National Land Use Plan, and other related plans.”⁴¹

(2) Promoting urban renewal

Given Japan’s declining population, the government will promote greater compactness in which urban functions are consolidated to form compact cities and public transportation networks and other networks are constructed or reconstructed. Note that a new expenditure system for the national government will be utilized in reconstructing public transportation networks. In conjunction with these initiatives, the government will promote the invigoration of central urban areas and the conversion of residential zones into welfare hubs.

Toward improving community safety, the government will promote efforts to build up urban areas of wooden residences, to make residences and other structures earthquake-resistant, to eliminate utility poles and other community developments that diminish scenery and hinder disaster prevention, and to resolve the issue of railroad crossings that open too slowly. The government will also promote the

³⁹ “Basic Plan on Transport Policy” (Cabinet Decision on February 13, 2015).

⁴⁰ Such transportation networks include arterial high-standard highways, new Shinkansen bullet train lines, and linear Chuo Shinkansen lines. Note that, based on the Nationwide Shinkansen Railways Construction and Improvement Act, the construction order for the linear Chuo Shinkansen line between Tokyo and Osaka has been given, and the necessary coordination and cooperation will be provided to ensure steady development by the construction entity.

⁴¹ Other related plans include the “Hokkaido General Development Plan,” which is scheduled to be formulated in spring 2016.

appropriate management and utilization of empty residences and stimulate the transfer of existing houses and the remodeling market through development of systems to provide real estate information and make existing residences viable for long-term use.

In preparation for hosting the Tokyo Olympics, Tokyo and other large cities will strategically promote urban renewal, including the development of an environment for use as an internationally competitive creative center and the improvement of disaster resistance.

Moreover, the government will ensure the smooth progress of land deals and private development projects by promoting the development of land registers,⁴² the recognition of public-private borders as an aid in preventing major disasters, improved disclosure of land value, and the utilization of real estate securitization methods. It will also promote the utilization of G-spatial information for disaster prevention and increased sophistication of the public transport system.

(3) Developing Okinawa

The government will continue to proactively implement a comprehensive package of measures to promote the development of Okinawa as a national strategy so that Okinawa can serve as a driving force in making Japan's economy more energetic. 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, based on the designation of Okinawa as a National Strategic Special Zone and the plan to construct more runways at Naha Airport. It will consider expansion of the Okinawa Institute of Science and Technology Graduate University (OIST) and will support the formation of a global intellectual and industrial cluster centered on OIST.

Furthermore, regarding the West Futenma Housing Area, the government will establish a system for coordinating the related government ministries and agencies and will promote the effective use of the returned US military installations, for example as a relocation site for the University of the Ryukyus Faculty of Medicine and its attached hospital or for the establishment of other high-level healthcare facilities, after having conducted specific deliberations about the concept of an international healthcare hub.

(4) Enacting decentralization reforms

Decentralization reforms, based on the idea that regions can overcome their challenges through their own ideas, originality, and ingenuity, are an extremely important theme in regional reinvigoration. In

⁴² The development of land registers will include the creation of maps that incorporate land registry information.

calls for suggestions in 2015, the government will bring to reality suggestions from regions—to the extent possible—and will further promote reforms rooted in regional ideas. At the same time, the government will strive to strengthen and support leaders of decentralization reforms, by coordinating human resources active in administrative positions and located near residents and by sharing information. It will also publicize excellent examples and disseminate information to enable citizens to experience the fruits of these reforms. The government will conduct the necessary deliberations about the regional system in light of the progress of basic bills.

[3] Efforts toward hosting the Tokyo 2020 Olympic and Paralympic Games

In preparation for the Tokyo Olympics, the Headquarters for the Tokyo 2020 Olympic and Paralympic Games will draft proposals and the government will dynamically promote its efforts based on the basic policy that is determined.

Given the opportunity of the Tokyo Olympics to create a legacy through sports, culture, and the arts, the government will advance the Olympic and Paralympic movement inside and outside Japan, promote cultural programs, and promote the utilization of science, technology, and innovation originating in Japan as it conveys Japan's allure to the rest of the world. It will steadily promote improved collection and analysis of related information and other safety and security measures, local interactions and revitalization in coordination with the preparation of host cities and towns and other aspects of the Tokyo Olympics, and systems for customers, import/export control, customs, immigration, and quarantine (CIQ), transport of spectators and other attendees, environment for promoting tourism to Japan by capitalizing on the international spotlight and for accommodating travelers from overseas, barrier-free construction, and environmental measures. The government will also consider efforts to boost its momentum internationally immediately following the Rio 2016 Olympics.

Related facilities will be developed systematically upon careful investigation of the necessity and appropriate methodology.

To encourage revitalization of the Ainu culture, the government will promote the development of “spaces that symbolize coexistence among ethnic groups,” such as the opening of a National Museum of Ainu Culture (tentative name) by 2020.

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

[1] Diplomacy, national security, and defense

(1) Diplomacy

The government will dynamically advance strategic diplomacy from a global perspective, based on the

three pillars of strengthening the alliance with the United States, strengthening relationships with nearby countries, and strengthening economic diplomacy. In particular, it will strive to reinforce safety measures for Japanese citizens abroad, Japanese companies, and Japanese schools and other facilities; improve data collection and analysis functions related to antiterrorism and other measures; show the world Japan's "true form" and its diverse attractions and cultivate affinity for and familiarity with Japan by utilization of the new Japan House (tentative name)⁴³ and other methods of disseminating information; be a leader on global issues as the holder of the next G8 summit presidency; and support overseas forays by Japanese businesses and local governments. In conjunction with these efforts, the government will promote the development of a system for carrying out diplomacy, including the necessary human and physical infrastructure, and will comprehensively increase its diplomatic power through appropriate, efficient, and strategic utilization of ODA.

(2) National security and defense

The government will strengthen the command tower function of the National Security Council (NSC), increase the country's diplomatic power and defense capabilities, including information functions and crisis management functions, and promote more strategic and systematic national security measures. To achieve these goals and based on the "National Security Strategy,"⁴⁴ the government will expand and deepen cooperative relationships with other countries, with the Japan-U.S. alliance as the centerpiece from the standpoint of positive pacifism on the basis of internationalism, and will efficiently develop highly effective overall defense capabilities based on the "National Defense Program Guidelines for FY2014 and Beyond"⁴⁵ and the "Medium Term Defense Program."⁴⁶ In doing so, the government will steadily advance reforms to the personnel system, strengthen the defense production and technological bases, and promote the sharing of equipment and technology with other countries. The government will also work to address national security and defense in space and cyberspace.

[2] National resilience, disaster prevention and reduction

The government will steadily advance national resilience efforts across its ministries and agencies, based on the "Fundamental Plan for National Resilience"⁴⁷ and the "Action Plan for National Resilience 2015."⁴⁸

In carrying out these efforts, national and local governments and the private sector will coordinate and

⁴³ The Japan House will be a hub for disseminating to people throughout Japan information about the country.

⁴⁴ "National Security Strategy" (Cabinet Decision on December 17, 2013).

⁴⁵ "National Defense Program Guidelines for FY2014 and Beyond" (Cabinet Decision on December 17, 2013).

⁴⁶ "Medium Term Defense Program (FY2014–2018)" (Cabinet Decision on December 17, 2013).

⁴⁷ "Fundamental Plan for National Resilience" (Cabinet Decision on June 3, 2014).

⁴⁸ "Action Plan for National Resilience 2015" (Decision by the National Resilience Promotion Headquarters on June 16, 2015).

share responsibility for taking intensive, efficient actions through a PDCA approach to focusing and prioritizing and combining tangible and intangible measures to improve the content of the efforts in terms of progress management and the status of disaster, via KPIs and progress schedules.

In particular, the government will support the formulation and advancement of local plans, encourage efforts by the private sector, and maximize policy effects through harmonization and collaboration between national resilience initiatives and local revitalization initiatives.

The government will back up the capital city's functions with regard to a wide range of potential natural disasters, such as a massive earthquake in the Nankai Trough, an earthquake under Tokyo, and other large-scale earthquakes, tsunamis, floods, landslides, and volcanic activity, while promoting efforts to prevent and mitigate such natural disasters, including research and the cultivation of human resources.

The government will work to improve strengthen local disaster prevention capabilities, including the core function, firefighting, while encouraging women and young people to join in the efforts and developing broad-area support structures.

The government will continue to improve and strengthen nuclear disaster monitoring measures and will secure evacuation routes by formulating evacuation plans, introducing drills, improving roads, and implementing other measures.

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

(1) Public safety, justice, emergency management, etc.

To secure public safety, based on the “Strategy to Make Japan the Safest Country in the World,”⁴⁹ the government will continue to implement measures to combat cybercrimes and cyber-attacks; measures for border control, other counterterrorism measures, and counterintelligence functions; measures to combat organized crime; measures to prevent smuggling; measures to combat illicit drugs, including dangerous drugs (new psychoactive substances), such as the development of a probation system; measures to prevent human trafficking; measures to combat stalking, spousal violence, sexual offenses, and so-called special fraud; and measures to combat residency and related issues. The government will also promote measures to prevent criminal recidivism, in coordination with corrective, rehabilitative, and prosecutorial functions, through support for the activities of volunteer probation officers and the development of facilities for relief and rehabilitation.

⁴⁹ “Strategy to Make Japan the Safest Country in the World” (Cabinet Decision on December 10, 2013).

In particular, based on “Strengthening of Terrorism Countermeasures in Response to the Terrorist Incident Regarding the Murder of Japanese,”⁵⁰ the government will steadily advance all manner of antiterrorism measures. In addition, based on a cybersecurity strategy to be formulated at a later date, the Japanese government will make its utmost effort on initiatives related to cybersecurity, the protection of personal information, and the management of information held by the government.

The government will strengthen its human and physical infrastructure and international network for public safety and maritime security, improve international response capabilities by securing and cultivating human resources fluent in other languages and cultures, and support the improvement of legal systems, primarily in Asia. The government will promote the securing of marine safety and national interests, the improvement of emergency management functions, and measures to prevent the spread of infectious diseases,⁵¹ including international response, reliable justice that includes overall legal support, improved systems for determining cause of death, improved support for victims of crimes, traffic safety, suicide prevention, the development and utilization of space infrastructure, the securing of safe water resources, and measures to allow small, remotely-piloted aerial vehicles.

(2) Promoting consumer policy

Ensuring consumer safety and security is a major prerequisite for the expansion of consumption and thus for the realization of virtuous economic cycles. Based on the “Consumer Basic Plan,”⁵² the government will strive to improve the collection and analysis of information about consumer fraud and prevent the outbreak and expansion of such fraud; strictly enforce the Act against Unjustifiable Premiums and Misleading Representations, the Food Labeling Act, and the Act on Specified Commercial Transactions; improve the legal system with regard to the realization of appropriate transactions; promote measures related to prices; encourage consumer education and consumer-oriented management; promote a system for protecting whistle-blowers; improve the consultation system to address increased globalization and other market changes; build networks that protect the elderly and other people; and strengthen coordination among related ministries and agencies and develop regional systems.

[4] Contributing to the global environment

With regard to addressing global environmental issues, including by global reductions in greenhouse gas emissions, the government will steadily implement its “Proactive Diplomatic Strategy for

⁵⁰ “Strengthening of Terrorism Countermeasures in Response to the Terrorist Incident Regarding the Murder of Japanese” (Decision by the Headquarters for the Promotion of Measures Against Transnational Organized Crime and Other Relative Issues and International Terrorism on May 29, 2015).

⁵¹ Such infectious diseases include Ebola and Middle East Respiratory Syndrome (MERS).

⁵² “Consumer Basic Plan” (Cabinet Decision on March 24, 2015).

Countering Global Warming,”⁵³ promote such efforts as the development of hydrogen energy and other innovative environmentally-friendly energy technologies, the popularization of technologies via bilateral carbon offset credit systems, developing countries through public-private cooperation, and the further utilization of the International Renewable Energy Agency (IRENA).⁵⁴ It will also submit to the United Nations a draft of its environmental promises, including Japan’s greenhouse gas reduction targets for FY2030, and actively contribute to the construction of a fair and effective international framework for all countries to participate in starting in 2020 at COP21.⁵⁵

Under a new international framework, and given the promises that it will submit to the United Nations, the government will work to create an energy-saving society, introduce renewable energy to the maximum extent while minimizing the burden on citizens, implement measures to reduce carbon emissions, adapt to the effects of climate change, and utilize forests as carbon sinks, while educating citizens about climate change and measures to address it. In addition, by the time greenhouse gas reduction targets for beyond 2020 are set in preparation for COP21, a conclusion will be reached regarding the specific way in which funding will be secured for measures to utilize forests as carbon sinks and regional measures to combat global warming. This will be effected while paying attention to benefits and costs of forest development, etc. with regard to addressing this on the fiscal front and measures to have the citizens as a whole bear the expenses required for forest development, etc., as well as the implementation of new mechanisms.

In addition, the government will advance the formation of a recycling society that incorporates effective utilization of waste as an energy source, the preservation of local lands, mountains, and marine areas, and the implementation of measures to address marine debris and microparticulate matter (PM2.5). The government will also promote efforts for the construction of local communities oriented toward recycling and coexistence.

⁵³ “Proactive Diplomatic Strategy for Countering Global Warming,” Global Warming Prevention Headquarters, November 15, 2013.

⁵⁴ International Renewable Energy Agency

⁵⁵ 21st Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change

Chapter 3: Framework of "Integrated Economic and Fiscal Reforms" - "The Plan to Advance Economic and Fiscal Revitalization"*

1. Current economic and fiscal situation and challenges

Through the advancement of the three arrows strategy in an integrated manner under the Abe Cabinet, both “overcoming deflation and revitalizing the economy” and “fiscal consolidation.” have made major progress. As has been discussed in Chapter 1, the Japanese economy is reaching a favorable condition for the first time in nearly a quarter century. Japan’s fiscal condition has also improved: The primary deficit to GDP ratio is projected to halve in FY2015 compared to five years earlier (from -6.6% to -3.3%), reflecting increased tax revenues under Abenomics, the hike of the consumption tax rate to 8%, and efforts to improve the efficiency of expenditures.

On the other hand, it is clear that public finances, which have been in the red for many years, and the social security system, which accounts for a large part of public finances, are not sustainable in their current state. The decline and aging of the population are projected to accelerate in the mid-2020s. The government must make the social security system sustainable and consolidate public finances by addressing this situation and making reforms from the perspective of responsibility to the next generation. To these ends, it is necessary to carry out the “Integrated Economic and Fiscal Reforms” as a social reform package, with participation by not only the government but also the whole nation. More specifically, the Abe Cabinet must further strengthen the measures that have been implemented during the past three years, by proceeding with the following three pillars: overcoming deflation and revitalizing the economy, expenditure reforms, and revenue reforms.

2. Basic concept of the Plan

“Without economic revitalization, there can be no fiscal consolidation.” That is the fundamental philosophy of the Abe Cabinet with regard to economic and fiscal management. It is also the basis for the five-year plan to achieve the fiscal consolidation targets by FY2020. We must pursue a path to achieve economic revitalization and fiscal consolidation at the same time.

The economy and public finances are intricately linked with each other. Always mindful of the relationship between the two factors, the government seeks to create a virtuous cycle in which economic revitalization facilitates fiscal consolidation and progress in fiscal consolidation contributes to further economic revitalization. It is necessary to carry out the “Integrated Economic and Fiscal Reforms” with unwavering resolve under “The Plan to Advance Economic and Fiscal Revitalization”

* This Plan includes the fiscal consolidation plan.

(FY2016–2020), which is designed to achieve both the economic revitalization and fiscal consolidation in an integrated manner while capitalizing on the vitality of the private sector.

(Overcoming deflation and revitalizing the economy)

In order to overcome deflation and revitalize the economy, the government will take a number of measures to accelerate the growth strategy. Specifically, it will further promote corporate tax reform, regulatory reform, utilization of public-private sector funds and the existing tax system for capital investment, economic partnerships, and foreign direct investment in Japan. The government will also transform the healthcare, tourism, agriculture, forestry, and fisheries industries into growth industries and will guide a “major industrial transformation” based on robots, artificial intelligence, big data, and open data. At the same time, it will beef up measures on the supply side, by encouraging investment aimed at improving productivity and increasing the labor participation rates for women, the youth, and the elderly. In addition, the government will further expand and deepen the virtuous economic cycle in which increased profitability of businesses leads to more jobs and higher income, which in turn boost consumption and investment. Doing so will require the involvement of SMEs and other businesses in the provinces. Through all these measures, the government will achieve sustainable economic growth of more than 2% for real GDP and more than 3% for nominal GDP, driven by private demand and increased revenue.

In addition to supporting measures to overcome deflation and revitalize the economy, the government must design expenditure reforms and revenue reforms that contribute to economic revitalization, as discussed below. These reforms are especially relevant to regional economies, in which public services—including social security and public investment—play a major role. Introducing reforms that improve the quality and productivity of these services is necessary for regional reinvigoration and thus the revitalization of regional economies.

(Expenditure reforms)

The government must call for wide participation in expenditure reforms, because expenditures of the central and local governments are used for delivering a range of public services and thus are closely related to the lives of Japan’s citizens. Expenditure reforms under the Plan will be part of a social reform package designed to achieve the following: (i) encourage voluntary participation of the public, businesses, and local governments in eliminating inefficient expenditures for public services and improving the quality of public services and (ii) curb government spending while capitalizing on the vitality of the private sector. The central government, local governments, and the private sector will work as one to address the following three challenges: industrialization in public related services, incentive reform, and innovation in public services.

(i) Industrialization in public-related services

The government will encourage private entities to work with public entities to deliver public services (including social security services such as healthcare, long-term care, and childcare; the same applies hereafter) and peripheral services closely relevant to public services, create more options for such services, and increase the efficiency of their delivery.

(ii) Incentive reform

The central government will provide incentives for citizens, businesses, and local governments to take the initiative to eliminate inefficient expenditures for public services and to improve their quality, thereby curbing the quantitative increase in public services.

(iii) Innovation in public services

To build a foundation for implementing these reforms, the government will proceed with thorough information disclosure (visualization), simplification and standardization of operations, and the promotion and extension of innovative practices.

While the Japanese economy is overcoming deflation and wage and price increases, the government will make the prices of public services sufficiently transparent, rational, and consistent with overcoming deflation. At the same time, it will eliminate waste in various public services and improve the quality of such services, through the above-mentioned reforms. This will make it possible to curb public spending while also mitigating downward pressure on the economy by, for example, creating new public services without reducing the quality of public services.

To this end, the government will formulate the reform process and associated KPIs promptly after finalizing the Plan.

Across all expenditure items, the Abe Cabinet will further strengthen the measures which have been implemented over the past three years and proceed with a thorough review without any exceptions. Local governments will also proceed with thorough reviews in accordance with the central government's reviews.

(Macroeconomic implications of expenditure reforms: capitalizing on the vitality of the private sector)

Expenditure reforms will be designed to bolster the supply side of the macroeconomy (the potential growth rate) through such measures as (i) improving the efficiency of the public sector; (ii) effectively utilizing public capital stock (social capital, land, information, etc.) and private funding (internal reserves, etc.); and (iii) optimally distributing human resources, which are increasingly in short supply, across the public and private sectors. On the demand side, expenditure reforms will be designed to contribute to economic revitalization through new services created in combination with public services.

Social security will be a priority area of such expenditure reforms. Curbing increases in social security benefits is none other than curbing increases in insurance costs to be borne by individuals and businesses. Curbing increases in the costs to be borne by the public in turn contributes to economic growth by invigorating consumption and investment. The government will steadily proceed with social security reforms while convincing the public at large that these reforms are designed to hand over the social security system to the next generation and to curb increases in the costs to be borne by the public.

(Revenue reforms)

On the revenue side, while improving the economic environment, a hike of the consumption tax rate to 10% will be implemented in April 2017 in order to maintain the social security system. The government will try to curb increases in other costs borne by the public (including social insurance contributions) as much as possible; for example, special consideration will be paid to low-income earners, etc. As part of revenue reform, the government will implement the measures listed below to provide further increases in government revenue, which will be made possible through, for example, promoting the “sophistication of the economic structure and achievement of higher value-added,” which will enable sustained stable economic growth via a shift in corporations and human resources to growing and highly-profitable sectors:

- (i) Maintaining a favorable macroeconomic condition and strengthening measures designed to facilitate and promote turnover of enterprises and labor mobility to support increases in corporate earnings and employee income, thereby boosting tax revenue, as was discussed in Chapter 2
- (ii) Increasing the private sector’s share of the economy and broadening the tax base through industrialization in public-related services” and innovation in public services, which will generate additional tax revenue
- (iii) Optimizing the collection of taxes and social insurance contributions through the utilization of the My Number system
- (iv) Securing revenue sources other than taxes, including payments from the organizations concerned.

The government will complete the ongoing, growth-oriented corporate tax reform as soon as possible, with the aim of contributing to Japan’s economic revitalization. In order to maintain and promote sustained economic growth and to establish a steady revenue resource that does not hamper economic growth, the government will proceed with a comprehensive overhaul of the tax system. By focusing on the young generation that will play a key role in Japan’s future economic growth, the government will reconstruct the social foundation to support economic growth. The government will conduct a review of the tax system’s structure in light of structural economic and societal changes as early as possible during the term of the Plan. This will aim to (i) a review aimed at maintaining the vitality of young, low-income workers and families with small children and reduce disparities; (ii) ensure neutrality and fairness with respect to people’s working and earning styles, and (iii) ensure fairness among and within

generations. The government, led by the Government Tax Commission, will begin to consider specific system designs.

(Consolidation of government assets and liabilities)

The government will proceed with the effective utilization of assets owned by central and local governments (including those on special accounts) and the sale of unnecessary assets. Revenue from such sales will be put to effective use for debt repayment and additional expenditures such as reconstruction costs after a major earthquake.

3. Targets, the scenarios to achieve and the reform process

(Targets)

Through “Integrated Economic and Fiscal Reforms,” the government will proceed with economic revitalization and firmly maintain its fiscal consolidation targets by FY2020.⁵⁶ To be specific, the government aims to achieve a primary surplus by FY2020, while reducing the primary deficit to GDP ratio. Also, the government will seek to steadily reduce the public debt to GDP ratio over the medium- to long-term. It will also consolidate its assets as much as possible to curb their ratio to GDP. Both flow- and stock-related indicators are important.⁵⁷

Given that the population decline and aging will likely accelerate after the 2020s, the government will design these reforms with an eye also on the period thereafter.

(Considerations in designing a strategy to achieve the targets)

- (i) The Plan differs from the previous ones in two aspects. First, overcoming deflation is within reach, and progress has already been made toward economic revitalization. Second, the ratio of the primary deficit to GDP is projected to halve in FY2015 compared to five years earlier. In designing the Plan, the government will incorporate these initial conditions.
- (ii) The government will develop the public service sector so that it can serve as a new engine for growth, paving the way for economic revitalization, by increasing investment in the healthcare and long-term care sectors, encouraging private investment through public private partnerships and

⁵⁶ The government aims to achieve a primary surplus of the central and local governments by FY2020, thereafter the government will seek to steadily reduce the public debt to GDP ratio (“Medium-term Fiscal Plan” (Cabinet Approval on August 8, 2013)).

⁵⁷ Expenses and funds for the recovery and reconstruction expenses for the Great East Japan Earthquake and the reconstruction bonds that have been issued for such recovery and reconstruction are excluded in referring to the fiscal condition of the central and local governments, as these measures have a framework established to secure separate revenue sources, mainly through the Special Reconstruction Tax, and be maintained for a period of several years. When assessing government performance in achieving the fiscal consolidation target, these expenses are not taken into account.

private finance initiatives (PPP/PFI) and by boosting productivity through such means as the utilization of private-sector knowledge. The new engine for growth will be made possible through promoting “Integrated Economic and Fiscal Reforms.”

- (iii) “Integrated Economic and Fiscal Reforms,” a social reform package that will involve the participation of the entire nation, is aimed at curbing expenditures and increasing revenue by changing the mind-set and actions of citizens and private entities by use of institutional reforms and other measures. Thus, the reforms will likely require some time to take effect. Over the medium to long term, however, a significant effect is expected. Given this anticipated lagged effect, the government will identify KPIs and use them to monitor the progress of efforts to change the demand for public-related services, to deliver public-related services more efficiently, and to invigorate the economy and improve the financial capacity of local governments. Such monitoring will facilitate the extension of innovative practices nationwide and the reduction of regional disparities. These efforts will be made possible by, for example, visualization efforts and the participation of private businesses. The government will identify the KPIs and conduct quantitative assessments and analyses focusing on developments in the field.

Expenditures by the central and local governments may increase due to such factors as an aging population and wage and price increases and may shrink due to such factors as a declining population. Given these factors as well as the lagged effect of the planned expenditure reforms, during the term of the Plan government, expenditures will likely increase at a slower rate than will wages and prices.

- (iv) On the government revenue side, additional outcomes are expected from increased turnover of enterprises, increased employee income, an increase in corporate and other private entities’ share of the economy, and the optimization of tax collection and securing of non-tax revenues by utilizing the My Number system.
- (v) The government will view additional increases in expenditures, such as for child and child-rearing support and family support, as necessary and will secure appropriate and For expenditures that will occur during a finite period of time, such as reconstruction following an earthquake disaster, the government will secure funding from sources such as the sale of assets to strictly maintain fiscal discipline. In line with overcoming deflation and revitalizing the economy, interest rates and the fiscal balance will be carefully monitored.

(Identifying the reform process)

(1) Intensive Reform Period and interim evaluation

The government will strictly undertake full-fledged reforms for the budget for FY2016, the first year of the Plan. Intensive effort will be made in the first three years (FY2016–FY2018), which are designated as the Intensive Reform Period. Such efforts will be reflected in the compilation of the annual budget and all the related plans, basic policies, bills, etc.

At the midpoint of the Plan (FY2018), the government will assess progress towards achieving the targets. The government will assess the progress of reform measures during the “Intensive Reform Period” by using benchmarks such as approximately 1% of the primary deficit to GDP ratio in FY2018. Regarding general expenditures of the central government, the government is making efforts for expenditure reform in line with the past achievements of the Abe Cabinet, without presupposing an increase except in social security expenditure due to population aging, while taking into account a decline in total population and changes in wages and prices. Regarding social security expenditures, the government carries out the enhancement of social security with the increase in consumption tax revenues, while considering the effects of population aging and the trend of increase in social security expenditure under the Abe Cabinet. It should be noted that the government will seek to control the year on year expenditure flexibly, not evenly. Local government expenditures shall be also controlled in line with the efforts by the central government.

Through using these benchmarks,⁵⁸ the government reviews the progress of expenditure and revenue reforms and the performance in terms of KPIs. It will consider additional expenditure and/or revenue measures to achieve the fiscal consolidation target for FY2020 if necessary while holding another pillar of the reform, “overcoming deflation and economic revitalization”.

(2) Identification of the reform process and annual budget compilation

“Integrated Economic and Fiscal Reforms” are aimed at curbing expenditure and increasing revenue by changing the awareness and behavior of citizens and private entities and reforming institutions. After finalizing the Plan, the government will promptly identify the reform process and KPIs, build an assessment mechanism, and use the mechanism to assess progress each fiscal year.

In the budget compilation process, the government will ensure that expenditure reforms, such as “industrialization in public services,” “incentive reform,” and “innovation in public services,” consistent with the Basic concept of the Plan discussed in the preceding section are reflected in the budget of each central government office. In addition, it will boldly change expenditure items, eliminating those that are insufficiently effective to instead focus on those that are more effective (wise spending). The government will thus compile a budget that is strategically focused on measures with greater expected outcomes.

⁵⁸ Regarding the benchmark of general expenditures of the central government, the trend of the past three years under the Abe Cabinet, indicating that an essential increase of approx. 1.6 trillion yen, shall be continued until FY 2018 with consideration of the future economic situation and price movements, etc. Regarding local government expenditures which will be controlled in line with the efforts of the central government, the total amount of general revenue sources which would be necessary for stable fiscal management of local governments including those receiving local allocation tax grants, shall be maintained substantially at the same level as in the FY2015 Fiscal Plan of Local Governments until FY2018, and not below.

Each central government office will pursue expenditure reforms with regard to both existing and new measures in its budget. It will also provide quantitative estimates and evidence regarding the effect of each reform.

(3) Timely and flexible action

Towards the hike of the consumption tax rate to 10% in April 2017, the government will appropriately respond to issues as necessary to ensure a suitable economic environment for smooth implementation of the hike.

(4) Assessment framework

To assess whether “Integrated Economic and Fiscal Reforms” are progressing steadily, the government will set up an expert panel investigation committee consisting mainly of Expert Members of the Council on Economic and Fiscal Policy. The committee will manage the reform process, identifying and measuring KPIs and assessing the effect of the reforms.

Each central government office will review the policy outcomes, as measured by KPIs, of the budgets under its jurisdiction and make the results public. For budgets that involve transfer of funds (subsidies and grants) from the central government to local governments, the central government offices in charge of these budgets will request that the local governments establish KPIs for the funds’ uses. The committee will assess such performance at the midpoint of the Plan (FY2018) and reflect the results in subsequent reforms.

4. Concept and approach for reforming expenditure measures, etc.

[I] Industrialization in public-related services

The government will effectively utilize private-sector knowledge, funding, and other resources to make public services more efficient and improve their quality. It will also encourage businesses, NPOs, and other entities to cooperate with the central and local governments and dramatically increase their participation in public-related services. In addition, the government will effectively utilize existing public capital stock (social capital, land, information, etc.), which previously has not been adequately utilized. Furthermore, it will promote the creation of new private-sector services through regulatory reforms, visualization of public services and data, and other means.

(Promotion of industrialization in public services, especially social security)

The government will encourage private entities to work with medical facilities, long-term care providers, insurers, childcare providers, and other entities to expand the delivery of new services.

The government will also expand the delivery of new goods and services that meet emerging needs.

Such new goods and services will include (i) health services that can be made more effective when delivered together with healthcare and long-term care services; (ii) housing for the elderly that meets the growing need for home-based healthcare and long-term care; and (iii) special transportation services.

(Outsourcing of various administrative affairs and promotion of comprehensive outsourcing to the private sector)

The government will accelerate appropriate outsourcing of administrative affairs for areas in which such practices are specialized. In particular, the government will encourage municipalities to outsource specialized practices. It will also work with the private sector to boldly expand outsourcing of other routine but specialized work, such as counter services.

(Utilization of private funding and expertise)

The government will significantly expand the utilization of private funding and expertise. In identifying candidate sectors for this effort, the government will give priority to the development and operation of social infrastructure, including water and sewerage systems, public housing, and airports, if the use of such private resources will help curb the costs to be borne by public funds. In the process, it will consider local situations and various PPP/PFI options. The government will expand the scope of the utilization of private funding and expertise while monitoring progress in the introduction of such private resources.

The government will ensure that PPP/PFI is considered on equal footing with the conventional approach to development and operation of public facilities. It will make this policy known to local governments and other entities. In addition, the government will extend nationwide best practices in efficiently delivering quality services.

The government will accelerate regulatory and other measures to ensure that the public and private sectors are considered on equal footing—an indispensable factor in industrialization of public services.

The government will expand the use of social impact bonds (SIBs)⁵⁹ and other public-private funding mechanisms in a wide range of sectors, notably for measures that address poverty and unemployment.

(Effective utilization of public capital stock)

To leverage existing capital stock and facilities, the government will promote the optimal use of assets owned by the central and local governments, by consolidating and sharing facilities among prefectures

⁵⁹ Social impact bonds (SIBs) enable NPOs and other entities to raise funds from private investors to implement social policies that traditionally have been implemented by public authorities. The social outcomes of SIBs are evaluated quantitatively, and when significant outcomes are achieved, the relevant public authorities redeem the SIBs at a premium.

and municipalities, and the sale or effective use of unused government land. It will also encourage private entities to launch new businesses.

(Creation of new services with open data)

The government will instruct each central government office and encourage each local government to disclose data on a wide range of topics—including the costs of public services, inventory of government facilities and equipment and the costs of operating and maintaining them, and government IT investment—in media accessible to everyone, thereby increasing the opportunities for private participation through PPP/PFI and encouraging the creation of new services that leverage public data.

[III] Incentive reform

To eliminate inefficient expenditures for public services and to improve the quality of public services, it is necessary to build mechanisms that encourage changes in the mind-set and actions of each citizen, business, and local government and to make reforms in ways that involve the whole nation. However, conventional administrative and fiscal mechanisms face the following challenges:

- Because public services are closely related to people’s lives, the “Integrated Economic and Fiscal Reforms” social reform package must involve the participation of the whole nation and its reforms must be widely accepted among the public. To achieve such results, there must be sufficient disclosure of necessary information.
- Under the mechanism that guarantees uniform public services across the country, cost-consciousness wanes and efforts to encourage autonomy or curb the ever-expanding demand for public services leave much to be desired. Uniform service delivery provides fewer options and less opportunity for ingenuity.
- In undertaking reforms, typically only short-term outcomes are valued; more time-consuming efforts to nurture best practices and extend them nationwide are set aside.

To address these challenges and develop a mechanism that provides the appropriate and sufficient incentives, the government will promote the following reforms:

(Shifting to a mechanism that supports individuals who try hard and providing options that better meet the needs)

The government will improve and strengthen mechanisms that encourage both the insurers and insured under the health insurance system to act more rationally and to try harder. To this end, the government will adjust the amount of money to be paid by insurers and the size of the grants provided to them according to their effort, which may be measured, for example, by the extent to which they increase the proportion of insured people who use generic drugs rather than brand-name drugs. It will also grant healthcare points to individuals who are engage in healthy activities.

By reforming incentives related to remuneration for medical treatment and long-term care, the government will encourage the consolidation of hospital beds, the optimization of medication, the control of unused drugs, and the reduction of regional disparities in medical costs.

The government will undertake reforms to eliminate national government offices' duplication and sectionalism in providing subsidies and grants. Such reforms will include the consolidation and reduction of such funds, with a view to encouraging them to work as one toward regional reinvigoration.

The government will create a new type of grants that will enable the relevant national government offices to work together under a united policy to secure revenue sources to effectively and efficiently finance regional reinvigoration efforts, especially pioneering projects and projects of excellence.

The government will encourage local governments to create additional incentives for themselves to eliminate waste in their work and to exercise ingenuity, thereby supporting efforts toward fiscal consolidation and regional reinvigoration. The government will proceed with the reform of local allocation tax grants to local governments, in particular, and the local public finance system, in general, with a view to motivating efforts by local governments, for example to revitalize regional economies and to capitalize on the power of the private sector.

(Encouraging changes in the awareness and behavior of individuals, businesses, local governments, and other entities, by use of the Top Runner program)

The government will compare public administration costs among local governments to visualize their administrative efficiency, thereby encouraging them to undertake their own administrative and fiscal reforms. It will also accelerate local governments' efforts toward expenditure efficiency, by use of the Top Runner program, in which local governments that are advanced in terms of expenditure efficiency serve as models for other local governments. The elements of the average cost level attained by these advanced local governments will be reflected in the calculation of the unit cost for allocating tax grants to local governments during the term of the Plan. The government will flesh out the Top Runner program during the Intensive Reform Period and determine when to introduce it. It will also encourage local governments to prepare for the system.

The government may offer preferential treatment only for a limited period of time as a matter of principle.

(Nationwide extension by FY2020 of best practices in providing quality services efficiently)

The government will work with the private sector to create best practices in public service delivery, through business process reengineering (BPR) and other means. It will proceed with the disclosure of information on best practices while managing progress toward quantitative targets, thereby encouraging

the nationwide extension of best practices. For example, the government will disseminate nationwide the efforts and approaches of local governments that have achieved effective preventive care and long-term care and will encourage other local governments across the country to emulate them.

The government will also extend best practices in the management of national and other public hospitals.

(Accelerating efforts to revitalize the economy, including efforts to promote work-life balance and to empower women)

During the term of the Plan, the government will steadily implement measures to support efforts to promote work-life balance, appoint more women to managerial positions, and facilitate the employment of women, young people, and the elderly, among others. In this way, the government will provide additional incentives to businesses.

[III] Innovation in public services

Thus far, the government has made insufficient efforts to quantitatively assess its performance and improve its efficiency based on the results of such assessments. It has also been slow to disclose information about its performance. Accordingly, going forward the government will focus on three key measures: (i) thorough visualization of public services (in terms of their state of affairs, costs, and policy outcomes); (ii) thorough implementation of the PDCA cycle based on evidence and using visualized information; and (iii) simplification and standardization of operations, by utilization of the My Number system and IT. Through these three measures, the government will encourage national government agencies and local governments to take action and private entities to create new services.

(Visualizing the state of public services, their costs, and policy implications for them)

As it stands, the limitation of data formats and other factors sometimes make it difficult to conduct cross-sectional or time-series analysis of public administration costs in terms of budgeted and actual figures. It is important that information on administrative expenses and capital stock and other items can be compared among central government offices and local governments. To that end, during the Intensive Reform Period the government will fundamentally improve information disclosure via media accessible to everyone.

(Thoroughly implementing the PDCA cycle based on evidence)

Based on the information disclosed, each national government office will conduct a strict review of its projects and programs, including the effect on them of expenditure reforms, and will publicize the results of the review in a periodic review of administrative services. It will also clarify and publicize how it has reflected the results in its budget request for the subsequent fiscal year.

(Streamlining and standardizing operations related to public services)

During the term of the Plan, the national government, local governments, and private entities will work together to streamline and standardize operations related to public services, including by use of IT. To this end, the national government will draft relevant guidelines and encourage local governments to follow them systematically. The government will seek to reduce the operating costs for government information systems by 30%, through such means as using IT to reform operations related to public services and transforming the information systems into cloud-based ones or consolidating them.

Through the efforts of the Council for the Promotion of the Use of IT for Regional Reinvigoration, the government will strongly promote the use of IT that contributes to regional reinvigoration.

By effective use of the My Number system, the government will extend nationwide the best practices in efficiently delivering quality public services.

5. Basic policy and important challenges for reforms in each major policy area

Mindful that “Integrated Economic and Fiscal Reforms” is a social reform package in which the whole nation must participate of its own accord, the government will strongly promote the following measures. In the process, the government will address key areas of expenditure, including social security, local-government administration, fiscal reform, and cross-sectoral initiatives.

[1] Social security

(Guiding principles)

With regard to social security, the government will steadily advance the “Comprehensive Reform of Social Security and Tax.” At the same time, the government will work on reforms aimed at achieving economic revitalization, fiscal consolidation, and sustainability of the social security system. In this way, the government will undertake reforms aimed at maintaining Japan’s universal health care coverage and universal pension coverage, which are among the best in the world, and hand them on to the next generation.

The government will work to achieve efficiency through the behavioral change of various actors under the incentive reform with a view to winning the understanding of the nation and proceeding with the reforms with their participation. It will proceed with measures designed to industrialize sectors related to social security, including achieving the expansion of related markets by making the most of the power of the private sector.

The government’s efforts will be built on five basic principles: (i) a sustainable universal healthcare system that is a combination of self-help, mutual aid, and public assistance; (ii) a social security system consistent with economic growth; (iii) healthcare service delivery that is fair, efficient, and

commensurate with a declining population; (iv) a society in which people can lead healthy and worthwhile lives; (v) a system supported by contributions that are shared fairly among the insured.

The government will undertake reforms to increase the efficiency and strategic focus of public social security benefits. As a result of these reforms and the expected increase in government revenue designated for society security, the social security burden that will be handed on to the next generation will not increase.

The government makes efforts for enhancing efficiency and promoting institutional reforms, under the benchmark where the recent trend of social security expenditures shall be sustained until FY2018, considering the achievements of the three years of economic revitalization and reforms under the Abe Cabinet, which include the trend over the past 3 years that the essential increase of social security expenditures was approximately equivalent to the level caused by population aging (approximately 1.5 trillion yen in 3 years), the future economic situation and price movements, etc. Including these considerations, the government aims to keep the increase in social security expenditures within the levels equivalent to the sum of the expected increase due to population aging and the planned enhancement of social security based on the hike in consumption tax rate, etc. toward FY2020.⁶⁰

(Time frame)

The government will steadily proceed with the “Comprehensive Reform of Social Security and Tax.” At the same time, the government will work intensively on key reforms during the Intensive Reform Period that ends in FY2018, with an eye also on the early 2020s—when the baby boomers will begin to turn 75 years of age—and thereafter. The government will give consideration without having any predictions in the process of formulating the reform plan up to FY2020. The government will begin to formulate the reform process as early as possible during FY2015.

(Optimization of the healthcare and long-term care delivery systems)

Each prefecture will formulate its own regional healthcare vision, illustrating the differences between its own healthcare delivery system and those of other prefectures, based on data analysis and a vision of the healthcare services that will be needed in the future, and will make corresponding functional differentiation among hospitals. In the process, the government will steadily work to reduce regional disparities in terms of the inpatient-population ratio, as the number of long-term care beds and the average length of a hospital stay vary greatly from region to region. For this reason, the government will promptly conduct an institutional review of the service delivery system that meets the need for both healthcare during the chronic phase of an illness and long-term care for specific health situations. It will also conduct a review regarding the fairness of cost sharing for healthcare and long-term care. To help develop a healthcare delivery system that accommodates demographic changes and varying local

⁶⁰ Separately, the government will consider the factors that may drive increases in expenditures for programs such as child-rearing support and family support, which will be financed from stable revenue sources to be secured.

realities, the government will consider the supply and demand of doctors and nursing staff while maintaining consistency with the regional healthcare visions and rectifying any uneven distribution among regions.

The government will also reduce regional disparities in outpatient medical costs. In the process, it will analyze regional differences and make efforts to minimize duplicate examinations, consultations, and medications.

In taking these measures, the government will encourage each prefecture to formulate a medical cost optimization plan that sets targets for the level of medical costs and healthcare that are consistent with the relevant regional healthcare vision. By the end of FY2015, the national government will adopt a formula for setting targets. Through these measures, the government will seek to halve the difference in per capita medical cost among prefectures.

The government will implement a PDCA approach to the management of healthcare and long-term care over the medium to long term.

Given the different characteristics of urban and rural areas, the government will develop an integrated community care system that meets a comprehensive range of needs, including terminal care at home and in long-term care facilities. It will also consider the appropriate type of healthcare for the final phase of a person's life. In addition, the government will promote the use of family doctors, by considering measures related to remuneration for medical treatment and a fixed payment for outpatients. It will also consider evaluating and improving the quality of healthcare job categories, including nurses, and the division of labor among them.

The government will support prefectural governments' efforts to restructure hospital beds and reduce regional disparities. This support will be provided through such measures as the strategic distribution of resources among integrated community healthcare and long-term care facilities with prioritized support given to prefectural governments that are committed to reforms; the determination of how to take advantage of the special provision concerning remuneration for medical treatment under Article 14 of the Senior Healthcare Assurance Act⁶¹ given progress in medical cost optimization plans since it was enacted; adoption of measures—including appropriate evaluations of the medical remuneration points for hospital beds, their calculation requirements according to their different functions, and evaluations appropriate to the profit situation—in the FY2016 revision of remuneration for medical treatment and the FY2018 revision of remuneration for both medical treatment and for long-term care; and identification of arrangements for and authority of prefectural governments. The government will

⁶¹ The formal name of the Senior Healthcare Assurance Act is the Act on Assurance of Medical Care for Elderly People (Act No. 80 of 1982).

implement these measures promptly in the order of their feasibility.

(Incentive reform)

The government will encourage every citizen to take preventive measures against cancer, other lifestyle-related diseases, and aggravation of diseases, including complications; to take preventive action to reduce the likelihood of needing long-term care; to use generic drugs; and act an appropriate receiver of medical treatment. To these ends, a mechanism must be designed to provide incentives for individuals and insurers to take appropriate actions and to increase the proportion of the population who receives health examinations and cancer screening.

For this purpose, the government will incorporate the objectives of the insurers' efforts support system into the current subsidy system for national health insurance ahead of schedule. Based on the progress achieved by this measure, the government will modify the insurers' efforts support system to further incentivize insurers' efforts and thus achieve medical cost optimization by FY2018. This reform will involve establishing a method for operating the system in a strategically focused manner; adjusting national health insurance contributions to better reflect regional gaps in medical cost; strengthening the operation of the adding/subtracting system of supportive contribution to the health insurance system for those aged 75 and over; and optimizing office expenses, examination operations, and medical insurance payment organizations.

Incentives for individuals, on the other hand, may take the form of healthcare points granted or insurance contributions deducted according to the extent in which the individual engages in healthy activities. Such incentives will encourage every citizen to take preventive measures against diseases, promote his or her health, use generic drugs, and act an appropriate receiver of medical treatment. The government will also promote self-medication, with a view toward encouraging voluntary efforts of individuals to manage their own health.

It will also analyze regional gaps in the proportion of people who are qualified for long-term care and long-term care benefits in relation to the conditions of the communities in question, including the elderly's proportion of the population, the prevalence of preventive activities that reduce the likelihood of needing long-term care, trends in the use of services, and the condition of the service providers. It will also consider institutional arrangements that encourage insurers, that is, municipalities, to take action to optimize benefits.

The government will promote measures to combat frailty of the elderly⁶² while encouraging private-sector's participation. The government will formulate an "Anticancer Measures Acceleration Plan" by

⁶² Here the term "elderly" indicates individuals who have lower mental or physical vitality due to aging, functional difficulties, conditions that qualify them for long-term care, or higher risk of death for other reasons.

the end of FY2015 to further promote measures against cancer.

(Industrialization of public services)

Data Health is an initiative taken by insurers with the aim of encouraging—in closer coordination with health management efforts by private business operators, including SMEs—health promotion, measures to prevent diseases and their aggravation, reduction in the frequency of consultations and elimination of duplicate consultations, and the use of generic drugs. The government will forcefully extend nationwide good practices with regard to these measures.

To facilitate the industrialization of various services outside the scope of public insurance but closely related to social security, the government will support various types of healthcare providers and promote the delivery of services that support integrated community care by private business operators. In the process, the government will check whether there are any impeding regulations, such as the scope in which medical corporations and healthcare providers are allowed to operate. It will consider and implement measures to remove such impediments, including use of the System to Remove the Gray Zone Areas to do so. In parallel, the government will promote the use of private business operators' knowledge and funding regarding how to increase the efficiency of organizational management.

The government will promote increased rigor in the qualifications of providers of long-term care. To boost the productivity of long-term care, it will also support business scale-up and the use of ICT and care robots.

While effectively utilizing the infrastructure of the My Number system, the government will work to achieve three objectives: (i) introduction of an online system for determining eligibility for health insurance; (ii) reduced cost borne by patients and improved patient convenience, due to coordination of information among medical facilities and long-term care providers; and improved research and development in healthcare and related sectors.

(Fairness in insurance contribution based on ability to pay and optimization of benefits)

It is important to increase the sustainability of the social security system over the medium to long term, to ensure fairness in insurance contribution among and within generations, and to base contributions on the insured person's ability to pay. From this perspective, the government will consider the optimal structure of the high-cost medical care benefit system and co-payments for people aged 75 and over and will monitor enforcement of the revised system. The government will also strive to ensure fairness in contribution for employees in active service. To this end, the government will consider, among other issues, total compensation for long-term care insurance levies, as part of the social security reform

program act.⁶³

In parallel, the government will consider a mechanism in which insurers require the insured person to share the cost burden of both health insurance and long-term care insurance but take into consideration the insured person's financial assets as reported by the My Number system. In the process, the government will also identify potential issues in implementing such a mechanism.

The government will optimize public insurance benefits after considering their scope and details in efforts to curb the increase in insurance contribution. To this end, the government will review daily life support services for people who require only low-level nursing care services and welfare equipment leases, among other benefits, to plan the next round of reform of the insurance system for long-term care. Such review may include transfer of some benefits to community support programs. In the review process, the government will consider both the spirit of the system—that the elderly are encouraged to seek to lead an independent life according to their ability—and the status of the enforcement of the newly revised system. In addition, it will consider the cost-effectiveness of insurance coverage of medicine and medical devices as a way to cope with the sophistication of healthcare. The government will introduce such cost-effectiveness analysis on a trial basis for the FY2016 revision of remunerations for medical treatment. Subsequently, it will seek to promptly introduce cost-effectiveness analysis on a full-fledged scale. The government will consider the optimal structure of the drug prescription program, including costs, especially for drugs that treat lifestyle-related diseases. It will consider reviewing insurance benefits for prescription drugs whose active ingredients are consistent with over the counter (OTC) drugs while taking into account the role of public insurance, promotion of self-medication, and the effects on patients and healthcare providers. It will also consider ways to prevent inappropriate provision of benefits.

(Reforms relating to the dispensing of drugs and compensation for drug costs)

The government will aim to increase generic drugs' quantitative share of all prescriptions to greater than 70% by mid-2017 and to greater than 80% as soon as possible between FY2018 and the end of FY2020. In mid-2017, based on progress up to that point, it will set a timetable for the 80% target. To achieve these targets, the government will take measures as necessary, including improving public confidence in the stable supply and quality of generic drugs, providing additional information to the public, and addressing the remuneration for medical treatment. The government will also consider reviewing the current pricing rules for generic drugs, with a view to reducing the burden on the public. It will also consider a mechanism under the insurance system for evaluating brand-name drugs whose patents have expired based on the prices of generic drugs. In parallel, the government will consider measures to achieve the following three objectives: a stable supply of essential drugs that are clinically in high

⁶³ The formal name for the social security reform program act is the Act on Promote the Reform to Establish Sustainable Social Security System (Act No. 112 of 2013).

demand currently and expected to be for years to come; innovation for the development of new drugs that will contribute to Japan's national growth strategy; and improved international competitiveness of the Japanese pharmaceutical industry through proper evaluation of the efficacy of new drugs.

The government will optimize the national health insurance reimbursement prices of drugs in light of prevailing market prices and will consider the most appropriate method and frequency of revising those reimbursement prices, based on the revisions made until FY2018, while also considering the relationship between drug prices and fees for medical services. The goal is to lessen the burden on the public while maintaining and even strengthening the capacity of industry to develop new, advanced drugs, for which the patent holder is compensated by a drug price commensurate with the value of the drug. In parallel, the government will work to improve the distribution of drugs toward the formation of appropriate market prices.

While working to improve the distribution of medical devices, the government will also consider optimizing national health insurance reimbursement prices for them while maintaining and even strengthening the capacity to develop the medical devices.

To promote the use of family pharmacies, the government will consider the reform of pharmacies in general and will coordinate with doctors to encourage participation in integrated community care and to effectively manage medication and leftover prescription drugs. In the FY2016 revision of remunerations for medical treatment, the government will review remunerations for medical treatment in order to separate the prescribing and dispensing functions for the good of the patient. In the process, given the profit situation of insurance pharmacies, the government will evaluate the relevance and appropriateness of dispensing fees and pharmaceutical management fees to aid in the separation of the prescribing and dispensing functions and to reinforce the role of insurance pharmacies. It will then evaluate such pharmacies in terms of their level of contribution to drug administration management and home healthcare and will evaluate the pharmacies accordingly.

In revising remunerations for medical treatment, the government will assess the effect of the latest revision and its implications for insurance medical fees and will take the results of such assessments into consideration that insurance medical fees are supported by contributions from the public. It will also explain the level and details of the revision to the public in an easy-to-understand manner.

(Pension)

The government will continue to review four major aspects of the social security reform program: the design of the macroeconomic slide mechanism; the expansion of employee insurance coverage to part-time workers; the structure of the pension system, which accommodates the conditions of each pensioner given the diverse occupational lives of the elderly; the structure of the pension system with

regard to income redistribution, including a design of pensions for high-income earners and the design of taxation on pensions, such as tax deductions in relation to public pensions.

(Public assistance)

In light of the current economic and employment situation, the government will take adequate measures to support efforts to encourage self-reliance. Such measures may include incentives for exiting livelihood protection with employment support. It will further optimize the public assistance system, which provides medical assistance among other services, but will certainly and properly follow the rules concerning application for such assistance. In parallel with the next review, in FY2017, of livelihood assistance standards, the government will consider an optimal design of the public assistance system that will incorporate such factors as age, household type, and local condition, as well as measures to encourage self-reliance. The government will review the system as a whole, without any preconditions, and will make changes as necessary.

The government will work to ensure that the system launched nationwide in FY2015 to support the self-reliance of the needy is properly implemented so that quality assistance is appropriately delivered.

The government will consider to what extent unemployment insurance should be subsidized by state funds currently. In the process, consideration will be given to the provisions in Article 15 of the Supplementary Provisions of the Employment Insurance Act as amended in 2011⁶⁴; improvements in economic and employment conditions; the financial state of employment insurance; present circumstances; and discussions among government, labor, and management.

[2] Social infrastructure improvement

(Guiding principles)

From a medium- to long-term perspective, the government will proceed with the construction, management, and operation of public facilities in order to contribute to both economic revitalization and fiscal consolidation while enhancing their efficiency in general and in terms of management.

The government will fully utilize the existing facilities to develop the social infrastructure in a strategically focused manner in order to maximize the effects of capital stock under the selection and concentration principle. In the process, it will also advance focused initiatives in order to fully capitalize on the stock effects, while concentrating resources on areas of priority given the declining population. The aims will be to enhance Japan's international competitiveness, bolster national resilience, improve

⁶⁴ The amendment (Employment Insurance Act (Act No. 116 of 1974), Supplementary Provisions, Article 15), states the following: "State subsidies for employment insurance shall continue to be under review; upon securing stable revenue sources, the temporary measure concerning such state subsidies stipulated in Article 13 of Supplementary Provisions shall be rescinded as soon as possible."

disaster prevention and mitigation, promote the Compact Plus Network, and address deteriorating facilities. The government will clarify the priority and timeline for each area of focus and reflect them in National Spatial Planning, the Priority Plan for Social Infrastructure Development, and other programs.

In the management and operation of public facilities, the government will maintain their necessary functions but optimize the number of facilities in operation over time. Given population decline and aging, the government will seek to develop highly productive, efficient communities. It will promote the consolidation and networking of facilities that are vital to people's daily lives. The government will appropriately operating and maintain deteriorating facilities and equipment in order to minimize the costs associated with them. It will also industrialize public services through facilities management.

In parallel, the government will take advantage of various PPP/PFI options to cut costs and provide new opportunities to utilize private funding and expertise for social infrastructure.

(Time frame)

The government will proceed intensively with key reforms during the Intensive Reform Period that ends in FY2018. The government will clarify the priority and time frame for each area of focus, from a medium- to long-term perspective that incorporates preparation for the Tokyo Olympics, and will reflect them in the Priority Plan for Social Infrastructure Development, which will be compiled during FY2015, as well as in other programs. The government will aim to achieve the target relating to the Action Plan toward Fundamental Reform of PPP/PFI⁶⁵ during the period of intensive activity that ends in FY2016. Based on this Plan, the government will seek to further expand the current target of 10–12 trillion yen by FY2022. The government will encourage local governments to make reforms through the end of FY2016 with regard to their public facilities, such as developing a fixed asset ledger and local public-sector accounting and accelerating efforts to formulate a comprehensive management plan.

(Measures for wise use)

The first step in optimizing the capital stock and curbing increases in operating and maintenance costs is for local governments to develop a fixed asset ledger and introduce local public-sector accounting, thereby enabling the presentation of information on public administration costs to residents and other local governments. The national government will encourage local governments to disclose information about costs, assess the wishes of residents, and consider to what extent users should bear the costs of developing a comprehensive management plan for public facilities. In parallel, the relevant national government offices will work with local governments to incorporate the consolidation of local facilities into the comprehensive management plan for public facilities, accelerate the optimal use of government

⁶⁵ "The Action Plan toward Fundamental Reform of PPP/PFI," Council for the PFI, June 6, 2013.

assets, and promote the consolidation and revitalization process through the Compact Plus network and the effective, efficient operation and maintenance of facilities. In the process, local governments will be encouraged to put existing facilities to their best uses—including consolidating facilities closely related to people’s daily lives and converting facilities into social welfare centers—and increase reinvestment of profit from the disposal of existing assets. They also will be encouraged to nurture and expand the facilities maintenance industry. The national government will play a positive role in the implementation of a comprehensive management plan for public facilities. For example, it will make the formulation of such a plan a requirement for financial assistance and improve local financial measures. Furthermore, the existing infrastructure networks will be used in an optimal manner.

(Selection and concentration, human resources, and efficient construction systems)

The government will concentrate its resources on developing social infrastructure that will have a substantial effect on stimulating private demand or will offer high investment efficiency; will enhance the country’s international competitiveness and contribute to economic growth (for example, an airport in the Tokyo metropolitan area, strategic international container ports, and metropolitan ring roads including the three in the Tokyo metropolitan area); and will contribute to national resilience, disaster prevention and mitigation, and community revitalization. The government will evaluate new infrastructure construction projects to determine whether they are appropriate given a shrinking population. For this purpose, it will clarify the total costs of all phases from planning and design to operation and maintenance. The government will systematically develop social infrastructure from a medium- to long-term perspective while taking into consideration such factors as the timing and scale of new projects, including those for the Tokyo Olympics. During the process, it will disseminate relevant information to private business operators and other entities.

It is important that engineers, skilled workers, and other human resources continue to support the development of social infrastructure over the medium- to long-term without becoming in short supply. To this end, the government will promote efforts to increase the efficiency (including labor-saving) of construction production systems while also supporting overseas expansion of the construction industry. Improved efficiency can be achieved by, for example, improving the treatment of human resources; upgrading education and training for human resources, encouraging young people and women to take on greater roles; utilizing new technologies and processes and standardizing construction periods; and distributing human resources for more efficiency.

(Utilization of private-sector capabilities)

The government will accelerate the implementation of the Action Plan toward Fundamental Reform of PPP/PFI to capitalize on private funding and expertise for more efficient development and operation of infrastructure, provision of higher-quality services, and thus further economic growth stimulated by private investment. To this end, the government will actively introduce various PPP/PFI options and

increase business opportunities for the private sector. This will entail the utilization of concessions and public real estates; effective use of public capital stock in the form of, for example, the sale of land made redundant by the consolidation of public facilities and the reinvestment of the resulting profit on disposal; comprehensive outsourcing to the private sector and integrated outsourcing of the management of operations that span two or more sectors such as water and sewerage systems.

To dramatically increase PPP/PFI, it is necessary to consider giving priority to PPP/PFI options if they lessen the burden on public finances based on the situation in each area. Specifically, the national government will design a mechanism to encourage giving priority to various PPP/PFI options for projects that are relatively large in scale and can be performed more efficiently and effectively by the use of private funding and expertise. The government will increase the application of such a mechanism as appropriate. It will also encourage local governments, especially municipalities with populations of 200,000 or more people, to take a similar approach. As part of this effort, the national government will create an environment conducive to smooth introduction of concessions and other PPP/PFI options by, for example, redoubling efforts to ensure that PPP/PFI is placed on equal footing with conventional approaches to the development and operation of public facilities. It will also make this policy widely known to local governments. In addition, the government will provide seamless assistance tailored to each project phase to encourage project formulation by local governments. Such assistance may include dispatching teams of experts in accounting, tax affairs, and other fields and further streamlining PFI procedures. Furthermore, the government will support the formation of local platforms aimed at developing and spreading PPP/PFI options. Specifically, it will systematically make the necessary institutional arrangements nationwide. It will improve coordination among local industries, governments, academic institutions, and financial institutions; extend best practices across the country; and develop the capacities of local governments and the private sector. The government will also consider using PPP/PFI to deepen regional reinvigoration.

[3] Local-government administrative and fiscal reform, and cross-sectoral initiatives

Various reform efforts have been made at the local level as well. Nevertheless, steady implementation at the national level of expenditure reforms that include institutional reviews and other means is vital for the success of expenditure reforms at the local level, since a large part of local government expenditures are stipulated by laws or regulations or financed by subsidiary programs of the national government. Local governments will make expenditure reforms in line with the national government's efforts, given a declining population and the need to hand on a sustainable local public finance system to the next generation.

In the process, both the national and local governments must share the awareness that following exclusively a traditional approach is highly risky and therefore work to simultaneously achieve two objectives: reforming and streamlining expenditures by industrializing public services, reforming

incentives, innovating in public services; and improving the quality of services to better meet the needs of users. To these ends, both the national and local governments must strive to thoroughly curb increases in expenditures and to reduce liabilities without taking such increases granted, especially given ongoing changes in social structure, such as a declining population. For this purpose, they should transform the existing institutions and mechanisms to make better use of limited fiscal resources. They should also ensure thorough implementation of a PDCA cycle based on evidence and the visualization of information about public services. Given that the national government must continue to issue bonds to cover its debts, it should redesign the mechanism for issuing deficit-covering bonds to promote “Integrated Economic and Fiscal Reforms.”

(Time frame)

The government will proceed intensively with key reforms during the Intensive Reform Period that ends in FY2018. Such reforms will involve designing a mechanism to accelerate local governments’ efforts to reform and streamline expenditures, as well as creating best practices and extending them nationwide under public-private partnerships. Based on the “Declaration to Be the World’s Most Advanced IT Nation,” the national government will seek to base government information systems on cloud computing and reduce the cost of operating them (by 30%) largely by FY2021. During the Intensive Reform Period, the government will also prepare information on capital stock (local public-sector accounting, including a fixed asset ledger, a comprehensive management plan for public facilities, etc.) and disclose it.

(Guiding principles for administrative and fiscal reforms)

In addition to cross-sectoral initiatives, the government will proceed with the following three measures: strengthening the mechanisms for supporting community revitalization and efforts by motivated local governments; reforming and streamlining expenditures, with the national and local governments working in harmony; and putting to effective use local governments’ management resources. In the process, the government will work to reform the local allocation tax grant system on the premise that improving financial resource guarantee functions will ensure the safety and security residents.

In addition, the government will proceed with a shift from emergency-response mode to normal mode, in line with the economic revitalization process. Such a shift will affect the special measures, such as extraordinary additions and special expenditure allowances, taken after the economic crisis that followed the collapse of Lehman Brothers in 2008.

(Mechanisms for supporting community revitalization and motivating local governments)

The government will create additional incentives for local governments to take initiative to exercise ingenuity in revitalizing their communities, reforming and streamlining expenditures, and undertaking administrative and fiscal reforms such as revenue reforms. It will also take the measures shown below,

with a view to making a shift by supporting local governments more than was done previously. Furthermore, amid the prospect for increased government revenues, based on the Act for Fundamental Tax Reform⁶⁶ the government will take measures aimed at rectifying the uneven distribution of tax sources among regions. It will also expand local governments' tax autonomy by granting them the right to levy their own taxes.

The government will review the design of the existing national treasury disbursements for community revitalization. To support regional reinvigoration efforts more effectively and efficiently, the national government will create and utilize a new type of grant that allows the offices concerned to work together under a united policy to secure necessary revenue sources. By boldly capitalizing on the private sector, the government will proceed with the industrialization of public services and collaboration efforts. In addition, the government will reform the local public finance system by focusing on providing local allocation tax grants to motivated local governments as soon as possible during the term of the Plan. The idea is to promote efforts to revitalize communities, to reform and streamline expenditures, and to make administrative and fiscal reforms such as revenue reforms.

(Streamlining national and local government expenditures and effectively utilizing local governments' management resources)

The government will proceed with the reform of national laws and ordinances that impede the streamlining of expenditures made directly by the national government and by local governments. The government will also encourage local governments to reform and streamline their expenditures.

Specific measures to be taken include the following:

- The government will design KPIs for to the sectors whose basic frameworks are set by the national government via laws, ordinances, national treasury disbursements, and other instruments. It will also review the relevant laws and ordinances. Based on these efforts, the government will review the allocation of national treasury disbursements and tax grants to local governments. In addition, via the BPR project the government will work with the private sector to create best practices with and implement them across the country. It will also accelerate the nationwide extension of best practices for innovation in public services.
- The government will proceed with institutional reform designed to prevent local governments' projects from prompting excessive requests for additional grants.⁶⁷
- The government will encourage local governments, including local incorporated administrative

⁶⁶ The Act for Fundamental Tax Reform is formally named 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).

⁶⁷ The national government fully considers the principles of local autonomy when it institutionally delineates the scope of the role it should play.

agencies, to take their own initiatives to proceed with a wide range of measures to deliver efficient, high-quality services at the local level. These measures will include accelerating efforts to outsource administrative affairs in areas where such practice is not yet common and the type of routine but specialized work, such as counter services, with an aim of boldly capitalizing on the private sector; delivering public services via partnerships among municipalities; and building a society of mutual assistance. In the process, the government will ensure that the number of municipalities working on innovative, replicable best practices, such as the outsourcing of counter services, doubles by FY2020.

- Given the austere condition of local public finances, local governments will further consider a fundamental reform of public enterprises, including such options as closure, privatization, and partnership with other local governments, during the term of the Plan. At a minimum, such enterprises need to improve their management—including their financial management—under a new management strategy. For quasi-public corporations, the government will promote efforts based on the “Guidelines on the Rehabilitation of Quasi-public Corporations” and will extend best practices across the country. While maintaining the safety-net function of local allocation tax grants to local governments, the government will accelerate the streamlining of local government expenditures. Such streamlining will be achieved by, for example, using the most expenditure-efficient local governments as models for other local governments. More specifically, the cost levels attained by these expenditure-efficient entities will be reflected in the calculation of standard financial requirements.
- The government will consider reviewing the proportion of reserved revenues, as necessary, in parallel with the reform of the local allocation tax grant system.
- During the Intensive Reform Period that ends in FY2018, the government will encourage local governments to disclose information via media accessible to everyone. Such information disclosure will be achieved by the visualization of information about local governments’ public administration costs and the ownership, operation, and maintenance of social infrastructure. (In turn, such visualization will be achieved by such measures as formulating a comprehensive management plan for public facilities; improving local public-sector accounting; encouraging wider application of public enterprise accounting; and identifying the principles of local allocation tax grants and the aspects of such grants that cause breakdowns and changes over time). To promote BPR, information on local governments’ progress of outsourcing to the private sector and transitioning to cloud-computing technology will be disclosed in a format that allows for easy comparison across local government.

(Wider use of IT and operational reforms)

As an intergovernmental measure, the national and local governments (including incorporated administrative agencies) will promote even wider use of IT and operational reforms, by the introduction of the My Number system. The system will include thorough cybersecurity measures to secure the

public's trust in the government's efforts toward wider use of IT. The national government will work on such measures as reforming online services; promoting operational reforms, such as increasing the efficiency of operations at each national government office; and transitioning government information systems to cloud-computing technology or consolidating them. It will also proceed with efforts to reduce the costs of operating government information systems. The national government will encourage local governments to accelerate fundamental operational reforms efforts in order to reduce public administration costs. This will be achieved by streamlining and standardizing system operation and actively promoting local government clouds.

(Efforts toward administrative reforms)

The government will gather information about public services and fundamentally strengthen the efforts to ensure thorough implementation of a PDCA cycle based on evidence. Each national government office will, without fail, set quantitative KPIs and assess its own projects—including special funds projects—more rigorously in its review of administrative services. The government will encourage the Administrative Reform Promotion Council to conduct interagency reviews on an ongoing basis. In an effort to reduce personnel expenses, the national and local governments will steadily proceed with comprehensive review of the government employee salary system.

[4] Education, science and technology, foreign diplomacy, and national security and defense, etc.

The government will advance expenditure reforms without exception, covering not only the three major expenditures items [1] through [3] above but also education, science and technology, foreign diplomacy, and national security and defense.

The government will work to achieve quality improvements to public finances, based on the idea that investment in human resources for the next generation will result in continual creation of wealth. It will make expenditures wisely and with on the goal of both long-lasting growth and addressing current issues; it will use a focused strategy to address relevant issues.

(Education and science and technology)

In education and science and technology, the government will proceed with reforms, according to the basic policy, with the following four objectives: streamlining the budget amid a declining birthrate; promoting the utilization of private-sector funding; improving the quality of the budget and prioritizing budget items; ensuring thorough implementation of a PDCA cycle based on evidence.

Given the declining birthrate, the government will review the budget while focusing on three factors: the role of schools as hubs for their local communities; revitalization of small schools that defy

consolidation; and the reopening of closed schools.⁶⁸ Measures to be taken include assigning additional teachers on a temporary basis when schools are consolidated; increasing the availability of online classes by the use of ICT; and allocating grants in a strategically focused manner to encourage cooperation among universities and restructuring and merger of faculties to increase the efficiency of the operation of national university corporations. Given the declining birthrate and corresponding efforts to optimize the scale of schools, the government will set out its vision regarding quotas for teaching staff. Based on such vision, teaching staff will be hired, trained, and allocated to local governments systematically.

The government will take two types of measures to promote the utilization of private funding. First, it will work to diversify university revenue sources, especially for their joint research projects with private-sector entities. Measures to be taken to this end include the strategic use of incentives, based on a percentage of private funds acquired, for allocating grants for the operation of national university corporations and the acceleration of the application of a matching-funds system that calls for contributions from businesses as funding for applied research in all government offices. Second, the government will consider introducing a system that offers two options—a tax credit and a tax deduction—for donations made by individuals to national university corporations, in parallel with streamlining and prioritizing grants for the operation of such corporations. In addition, the government will support the mobility of talent via a cross-appointment system. It will also encourage the use of the matching planner program.

To improve the quality of the budget and prioritize budget items, the government will reform universities and competitive research funds in an integrated manner. It will also strengthen the control-tower functions of the Council for Science, Technology, and Innovation to ensure that the budget is allocated in a strategically focused manner and streamlined by eliminating duplication and promoting coordination. In addition, the government will make joint use of research equipment by researchers a rule rather than an exception. It will promote the effective use of research funding by encouraging the combined use of research funds from two or more government offices.

The government will ensure thorough implementation of a PDCA cycle based on evidence by, for example, analyzing the budget and policy outcomes based on a scientific method.

(Foreign diplomacy, national security, and defense)

The government will use ODA appropriately, effectively, and strategically as an important diplomatic tool, while taking into account Japan's austere financial conditions compared to those of other bilateral donors. In addition to utilizing private-sector resources to support ODA, the government will try to ensure that ODA serves as a catalyst for expanding the private sector's business activity. Furthermore,

⁶⁸ See the relevant explanation in Chapter 2, section 2 [3].

the government will assess the relevance of Japan's contributions to international organizations. This assessment will be conducted as a multidimensional and quantitative evaluation of all the international organizations to which Japan contributes while clarifying the evaluation standards and criteria.

The government will develop its defense capabilities efficiently based on the Mid-term Defense Program. In the process, it will proceed with procurement reforms to improve cost-effectiveness. These reforms will include improving project management throughout the project life cycle.

[5] Reforming revenue measures and compression of assets and liabilities

(1) Revenue reforms

(i) Efforts to increase revenues

(Guiding principles)

By accelerating efforts in overcoming deflation and revitalizing the economy, the government will further secure economic growth and increase tax revenues. In parallel, it will increase government revenues through sophistication of the economic structure and achievement of higher value-added products and services.

(Basic reform policy)

- i) Increasing tax revenues due to broadened higher tax base resulting from the private sector's increased share of the economy
 - The government will bolster increases in corporate earnings and employee income by promoting turnover of enterprises and mobility of labor. These efforts will generate additional tax revenue through sophistication of the economic structure and achievement of higher value-added products and services.
 - The government will generate additional tax revenue from the private sector's increased share of the economy—which will increase the tax base—due to industrialization of public services and innovation in public services.
- ii) Improving the taxation infrastructure
 - The government will utilize the My Number system to reduce the costs of tax collection. It will promptly develop a mechanism for using My Number as a key to accurately gauge taxpaying capacity. Such a mechanism will be designed, for example, to enable the matching of information about financial and fixed assets (including registration and tax information) and income. The government will also proceed with the optimization of tax collection and social insurance contributions.
- iii) Securing non-tax revenues

- The government will secure non-tax revenues by effectively utilizing the assets owned by the national and local governments, selling unnecessary assets, and other means.

(ii) Structural reform of the tax system

(Guiding principles)

Amid major changes in the socioeconomic structure in terms of demographic trends, household composition, and working and earning styles, the government will maintain and promote sustainable economic growth. It will also conduct a comprehensive overhaul of the entire tax system in order to build a stable base that generates tax revenue but does not hinder economic growth. The government will reconstruct the social infrastructure for economic growth by focusing on the young generation that will play a key role in the future. In particular, the government will strive for a growth-sustaining society that i) accommodates the working styles of households in which both parents work and rear children securely and, at the same time, ii) defies the persistence of existing disparities and enables young people to work with hope about their future prospects.

To this end, the government will review the tax system and design specific reforms as soon as possible during the term of the Plan, based on the basic policy shown below. In the process, it will review the taxation structure in a comprehensive and integrated manner based on the concept of revenue neutrality with respect to individual income taxation, a central issue for reforms that follow.

(Basic reform policy)

i) Promoting growth-oriented corporate tax reform

- The government will complete the ongoing, growth-oriented corporate tax reform as soon as possible.

ii) Conducting a review aimed at maintaining the vitality of low-income young workers and families with small children and preventing the persistence of disparities among them

- The government will proceed with a review of the taxation structure as well as the contribution-sharing and insurance-application structure of social security. The goal is to improve work morale and support livelihood under an integrated initiative that makes it possible for people to marry and rear children, while emphasizing economic strength rather than age and taking into account the consistency of the social security benefit system with regard to low-income earners, including the young generation that will play a key role in future growth.

iii) Ensuring neutrality and fairness with respect to people's working and earning styles

- The government will work to further increase the neutrality and fairness with which people of diverse working styles are treated, while also empowering women and supporting children and childrearing.

iv) Ensuring fairness among and within generations

- The government will ensure fairness among and within generations, while stressing economic strength as measured by income or assets rather than age.
- In conducting a review of tax system, the government will take note of a number of factors. First, it is necessary to prevent a gap in opportunities, including children's educational opportunities, from causing a gap in assets later in life. Second, it is increasingly important to return individuals' inheritances back to society, given that care for the elderly is now often borne by the public
- v) Rectifying the uneven distribution of tax sources among regions
- The government will continue its efforts to reform the local tax structure where the uneven distribution of tax sources is small in scale and tax revenue is stable, so that local governments receive sufficient tax revenue to fund their own efforts in regional reinvigoration.

(2) Consolidation of assets and liabilities

The government will proceed with the effective utilization of assets owned by national and local governments, including those in special accounts, and the sale of unnecessary assets. Revenue from such sales will be put to effective use for debt repayment and additional expenditures such as reconstruction costs after a major earthquake. Through these measures, the government will reduce both assets and liabilities and curb each ratio of to GDP as much as possible.

Chapter 4: Guiding principles in budget formulation for FY2016

1. Principles of economic and fiscal management

[1] The current and future development of the economy, and principles in economic and fiscal management in the short-term

The Japanese economy is in a moderate recovery.

In FY2015, the government will continue with early implementation of the budget in order to secure the realization of a virtuous economic cycle and promptly deliver the benefits of Abenomics to local economies. The government will also make efforts to ensure that wage increases take root and to improve the environment for investment. Through these measures, the economy is expected to recover, supported by robust private demand, reflecting improved employment and income situations, a further extension of virtuous economic cycle and the improvement in terms of trade.

In FY2016, the global economy is expected to recover and Japan's government will implement reforms based on the principles of economic and fiscal management described above; therefore, Japan's economic recovery, driven by increases in employment and income and thus private demand, is expected to continue.

It should be noted, however, that there are some downside risks ahead: a downturn in the overseas economy and negative trends in the financial, capital, and commodity markets.

The government expects the Bank of Japan to achieve its inflation stability target of 2 percent, given the economic situation and price movements.

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

The government will conduct economic and fiscal management in accordance with the Plan specified in Chapter 3 to achieve the fiscal consolidation target of FY2020. While examining the medium- to long-term prospects for the economy and public finances, which are closely linked to each other, in an integrated and consistent manner, the budget for each fiscal year must be formulated in line with a roadmap for realizing both economic revitalization and fiscal consolidation.

To achieve both economic revitalization and fiscal consolidation, the government will promote efforts in industrialization in public-related services, incentive reform, and innovation in public services. Across all expenditure items, the Abe Cabinet will further strengthen the measures that have been implemented during the past three years and will proceed with a thorough review of all other expenditure items without exception. Local governments will also proceed with a thorough review of their expenditures,

in line with the central government's efforts. In the budget for FY2016, which is the first year of the Plan, the government will make major progress in expenditure reforms.

The government will formulate the Basic Principles of FY2016 Budget Formulation in line with the Plan described in Chapter 3.

The government will provide a suitable economic environment for smooth implementation of the consumption tax rate hike in April 2017.

2. Guiding Principles in compiling the budget for FY2016

In compiling the FY2016 budget, the government will ensure that expenditure reforms consistent with the basic concepts of the Plan, described in Chapter 3, such as industrialization of public-related services, incentive reform, and innovation in public services, are reflected in the budget for each national government office. The goal is to significantly advance "Integrated Economic and Fiscal Reforms."

The government will steadily proceed with the Comprehensive Reform of Social Security and Tax. It will also conduct studies and draft measures as soon as possible and may implement some measures ahead of schedule. As appropriate, the government will strive for greater efficiency and industrialization in public-related services, which will be made possible by changes in the behavior of various actors due to the incentive reform. It will also consider optimal benefit levels and contribution levels, especially with regard to the FY2016 revision of remunerations for medical treatment.

The government will strategically develop social infrastructure in order to maximize the effects of capital stock under the selection and concentration principle. In the process, it will consider ongoing changes in social structure, such as declining population, and will focus on such areas as enhancing Japan's international competitiveness, bolstering national resilience, improving disaster prevention and mitigation, promoting the Compact Plus network, and repairing deteriorating facilities. The government will promote the consolidation and optimization of public facilities that are closely related to people's daily lives. It will also utilize various PPP/PFI options, including concessions to cut costs and provide new business opportunities in exchange for private funding and expertise.

Regarding local public finances, the government will review national treasury disbursements. It will also work to create and utilize a new type of grant, with a strategically focused budget, in order to spur regional reinvigoration. The government will strengthen and promote local tax grant calculations that support motivated local governments.

In addition, the government will proceed with efforts to create and extend nationwide best practices that help to streamline the efficiency of expenditures, at both the national and local government levels, as

soon as possible.

In other areas, the government also will eliminate waste and set strict priorities for a strategically focused budget.

On the revenue side, the government will steadily increase tax revenues by growing the tax base, improving the taxation infrastructure, and securing non-tax revenues.

Through these measures, the government will improve the primary balance to the extent possible.

To produce the targeted outcomes during the Intensive Reform Period, the government will take rely on the expert panel investigation committee to properly manage, check, and assess the progress of these reforms.