

Basic Policy on Economic and Fiscal Management and Reform 2016

June 2, 2016
Draft for cabinet decision

“Basic Policy on Economic and Fiscal Management and Reform 2016” is as described in the Attachment.

(Attachment)

Basic Policy on Economic and Fiscal
Management and Reform 2016
～ Road Map to a 600 Trillion Yen
Economy～

June 2, 2016

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

1. Current situation and challenges of the Japanese economy

(1) Current global economic situation and Japan's challenges

The Abenomics policies have significantly improved the employment and income situation with the corporate profits at their highest level, the increased number of employed, and rising real wages amid the trend toward a base-pay rise for the third consecutive year. The Japanese economy has thus been making significant strides toward achieving economic revitalization and overcoming deflation, and there have been no major changes in its favorable fundamentals. However, uncertainty is growing over the global economy, reflecting the volatile global financial conditions such as the risk-off moves since the beginning of the year against the backdrop of China's slower growth and the decline in oil and other commodity prices.

Given these circumstances, G7's respective actions on national structural issues and their coordination in macroeconomic policy such as flexible fiscal policy, through Japan's leadership for a sustained and robust global growth, are significantly important agenda for both the global and Japanese economies.

Although the instability since the beginning of the year stems from external factors, the domestic economy itself lacks momentum in private demand such as private consumption and business fixed investment. Factors underlying this situation include: the decline in the expected growth rate due to the declining birth rate and the aging population; unproductive work styles that have hindered full use of IT and other innovations; still hardly noticeable improvement in the child-rearing environment; and working-age citizens' concerns regarding the future. It is therefore important to raise the potential growth rate by enhancing productivity and innovation capability through further actions on the structural issues and promoting work style reforms, and also to expand demand by exploring new markets and discovering potential domestic demand. At the same time, it is necessary to implement "Local Abenomics", which will spread the effects of Abenomics nationwide including areas where the benefits of Abenomics have not yet been fully enjoyed such as local small to medium-sized enterprises (SMEs) and microenterprises and brings about positive economic cycles in local economies.

In addition, it is important to achieve both economic revitalization and fiscal consolidation in

an integrated manner on the basis of “Without economic revitalization, there can be no fiscal consolidation.” It is necessary to continue advancing the Integrated Economic and Fiscal Reforms, including implementing steadily the budget for FY2016, which is the initial yearly budget under “the Plan to Advance Economic and Fiscal Revitalization”¹ decided by the Cabinet last year, and furthering wise spending in line with “the Economic and Fiscal Revitalization Action Program.”²

(2) Response to the Kumamoto Earthquake

The 2016 Kumamoto Earthquake caused tremendous damage, mainly in the Kumamoto area. Since immediately after the earthquake, the government has made all-out efforts to rescue, search, and support those affected. Essential utilities such as electricity, gas, and water are now back to normal operation. Infrastructure restoration is progressing, as seen in the return to full services of the Kyushu Shinkansen bullet train line and the Expressway. Special financial assistance made available by the designation of the Kumamoto quake as a disaster of extreme severity, as well as the execution of difficult projects on roads and shores by the national government on behalf of local governments, has accelerated the recovery projects. Nonetheless, a host of challenges remain, including restoring the livelihood of the victims and reconstructing small- and medium-sized businesses, agricultural, forestry and fishery businesses, tourism and other industries. Given the circumstances, the government has compiled the supplementary budget for fiscal 2016, including “Reserve fund to recover from the Kumamoto earthquake,” aimed at coping with the disaster proactively, flexibly and swiftly, restoring the livelihood, rebuilding infrastructure such as roads and facilities, preventing secondary disasters, clearing debris, and thereby ensuring reconstruction.

The supplementary budget will be appropriated to secure housing for early restoration of the livelihood, through provision of temporary housing and support for rebuilding houses. Restoration of damaged local infrastructure will also be vigorously promoted.

In addition, the government will provide comprehensive assistance, along with financing support through the government-affiliated financial institutions, for business reconstruction of the small and medium-sized enterprises as an important pillar of the local economy and employment. The government will implement special employment insurance measures,

¹ Basic Policy on Economic and Fiscal Management and Reform 2015 (Cabinet Decision, June 30, 2015) Chapter 3

² The Economic and Fiscal Revitalization Action Program :Reform with Innovation Utilizing “Visualization” and “Wise-spending” (Decision of the Council on Economic and Fiscal Policy, December 24, 2015)

including raising the employment adjustment subsidy rate and providing unemployment benefits to the deemed unemployed due to earthquake-related suspensions. The government will support meticulously the key industry of agriculture, forestry and fishery in restoring farm land and facilities or reducing the interest burden for disaster-related loans.

Moreover, the government will take steps to quickly restore tourism in the affected areas, including disseminating accurate information to prevent harmful rumors, conducting promotional activities to stimulate tourism demand, along with supporting restoration of tourist facilities.

The government will ensure immediate restoration by implementing the supplementary budget and other actions as described above. Further, the national government will provide necessary financial assistance as it examines damages on a case-specific basis, identifies true project needs, considers local government finances, and explores any possible actions further required, including expanded national treasury subsidies and arrangements to address associated local burdens.

The entire government, sharing the determination to do everything possible, will make full and concerted efforts to enable the victims to live with peace of mind and achieve restoration as promptly as possible.

2. Goal of “a Virtuous Cycle of Growth and Distribution”

(1) Promotion of the “new three arrows” of Abenomics in an integrated manner

The “three arrows” of Abenomics shifted market expectations, turned Japan’s economy into no longer a deflationary one, boosted corporate profits, and expanded national employment and income.

The “new three arrows” aim for a sustained expansionary equilibrium of the Japanese economy as a whole including local regions by consolidating the current positive cycle into “a Virtuous Cycle of Growth and Distribution” without letting it falter as a temporal one. They are a policy package toward enhancing the growth potential of Japan as a whole by overcoming its structural challenges through assisting individual citizens in fulfilling their hopes for work, marriage and child-rearing, and dispelling people’s and companies’ concerns regarding the future.

The “first arrow” of a 600 trillion yen economy will propel a productivity revolution and

innovation, create highly value-added goods and services that meet people's needs, new investments, and quality employment, in health, longevity, and childcare support services, thereby transforming the industrial structure. This will improve the quality of life of each citizen and also raise the national income.

The "second arrow" of raising the birthrate to 1.8 children per woman as desired by the public and the "third arrow" of eliminating cases in which people have no choice but to leave their jobs to provide nursing care will help individual citizens to fulfill their hopes, dispel their concerns about the future created by an aging and decreasing population, and enhance the potential for sustained growth. Changes in the work style and education will help shape a society that supports those bearing the country's future and those in need of support, and foster social engagement and contribution.

Promoting the closely-interrelated three arrows in an integrated manner will establish "a Virtuous Cycle of Growth and Distribution." Corporate activities with higher productivity will generate higher profits. Options will broaden in every aspect of life, including work, study and welfare. The enhanced distribution side will further boost the growth potential of the Japanese economy.

(2) Regional reinvigoration

Delivering "a Virtuous Cycle of Growth and Distribution" to every corner of the nation will stem the vicious cycle of population and economic declines in local regions and secure growth potential for the future. For this purpose, both the national and local governments will drive regional reinvigoration by mobilizing both public- and private-sector efforts to develop regional attractiveness ("wisdom", "human resources", and "natural resources") from the fundamental viewpoints of "redressing the concentration in the Tokyo Metropolitan area", "realizing younger generations' hopes for employment, marriage and child-rearing", and "issue-solving suited to regional characteristics").

Japan's economic revitalization with these actions, despite its declining birthrate and aging population as well as lingering deflation, will have significant implications for many advanced countries faced with similar challenges.

3. Basic approach to a 600 trillion yen economy

The "new three arrows", centering upon support for people in fulfilling their hopes under the concept of the "dynamic engagement of all citizens", enhance the positive cycle by

generating new demand and supply and distributing the obtained fruits to each citizen. This will further ensure growth above about 2% in real terms and around 3% in nominal terms.

Specifically, first, efforts toward fulfilling people's hopes for work will boost the labor supply. This, combined with the support for the rise in salaries and minimum wages, will steadily increase employee income on the distribution side.

Further, discovering "potential domestic markets" to fulfill citizens' hopes for marriage, child-rearing, skills, and health and exploring "potential overseas markets" to meet foreigners' wishes for Japanese products, food, tourism, and medical, healthcare and beauty services will realize potential demands.

At the same time, the expected productivity enhancement through innovation and the work-style reforms will foster the firms' positive stance toward business fixed investment and investment in, technology and human resources. This will improve the long-stagnant return on investment in Japan.

The government should play a significant role in establishing such a "new socioeconomic system." Essential actions to fulfill people's hopes include: implementing necessary institutional and regulatory reforms and securing stable financial resources; fostering industrial revitalization as well as cutting waste with accelerated expenditure reforms such as "visualization,"³ wise spending, and public service industrialization as part of the growth strategy; and focusing resource allocation in the medical and nursing-care field on investments in health as desired by the citizens.

Abenomics has steadily advanced both economic revitalization and fiscal consolidation. The government will work toward realizing the dynamic engagement of all citizens with measures including making use of the fruits of Abenomics.

4. Reconstruction and reinvigoration after the Great East Japan Earthquake

(1) Current status and challenges of reconstruction

Japan cannot be revitalized without reconstruction from the Great East Japan Earthquake. This April, Japan entered the "Reconstruction and Reinvigoration Period" (FY2016 to

³ "Visualization" is a scheme to publish the data and information, in such an easy-to-understand and easy-to-access way that enables to compare easily through collecting, analyzing, and processing them.

FY2020), the latter five years of the ten-year reconstruction period. The actions taken so far have achieved a steady progress of reconstruction, as seen in the rebuilding of housing, businesses and industries and the lifting of the evacuation order for some areas affected by the nuclear disaster in Fukushima.

Based on the “Basic Policy for Recovery from the Great East Japan Earthquake during the Reconstruction and Reinvigoration Period,”⁴ the government aims at achieving such reconstruction that will lead to the independence of the victims and serve as a model for regional reinvigoration, in a step toward completing the ten-year reconstruction period. To achieve this, the government will provide seamless support for victims, responding carefully to their increasingly diverse needs. At the same time, support will be provided for the rebuilding of housing and towns that can withstand future disasters. Infrastructure rebuilding will be maintained steadily as the foundation for development of the affected areas. Moreover, community building and revitalization of businesses and industries will be promoted to help victims re-start their lives and to stimulate regional revitalization.

Positioning FY2016 as the “First Year of the Recovery of Tourism in the Tohoku Region,” the government will further promote the restoration of tourism. At the same time, creative programs to revitalize the local industries will be implemented, including support for exploring sales channels for the marine product processing business as the core industry in the affected area; promoting large-scale farming; and expanding the demand for and securing stable supply of timber in the forestry industry.

(2) Reconstruction works and the budget

The government has secured around 32 trillion yen for the restoration and reconstruction projects to be carried out over the ten-year reconstruction period (including the “Reconstruction and Reinvigoration Period”) based on the decision, “Restoration and Reconstruction Works in and after Fiscal 2016.”⁵ Precise budgeting with an appropriate management of the spending scale each year will ensure progress of the restoration.

(3) Reconstruction and revitalization after the nuclear disaster

Residents are still being forced to evacuate from the affected areas, including the twelve

⁴ Basic Policy for Recovery from the Great East Japan Earthquake during the Reconstruction and Reinvigoration Period (Cabinet Decision, March 11, 2016)

⁵ Restoration and Reconstruction Works in and after Fiscal 2016 (Reconstruction Promotion Council decision, June 24, 2015)

municipalities in Fukushima where the evacuation orders were issued.⁶ The government will continue work to lift the orders for the “zone in preparation for the lifting of the evacuation order” and the “restricted residence area” by March 2017 at the latest, in a step toward the “full-scale restoration” stage. The government will also announce its policy by this summer on reviewing the “difficult-to-return zone”. Since the restoration and revitalization of Fukushima requires medium- to long-term actions, the government will continue to take the initiative after the “Reconstruction and Reinvigoration Period.”

The government will achieve steady progress on decommissioning and treatment of contaminated water, which is the premise of the reconstruction and revitalization, as well as research and development and human resource development toward medium- to long-term decommissioning. The government will tackle harmful rumors persistent at home and abroad. The government will accelerate efforts to establish interim storage facilities, to transport and dispose of radioactive waste, and to reduce and reuse the soil.

The national government will closely cooperate with local governments and private sectors in implementing and realizing the “Proposals by the Council of Experts for Future Visions for 12 Municipalities in Fukushima”⁷ developed from medium- and long-term perspectives. To promote broad-based, self-sustaining economic restoration in the Hamadori area, related government ministries and agencies will cooperate to make progress in developing industrial bases for the focus fields presented in the Fukushima Innovation Coast Vision⁸, including robotics, decommissioning, energy, and agriculture, forestry, and fishery, in promoting practical applications of technologies, and in fostering industry agglomeration and environmental development around the bases. The public-private joint team will be strengthened to accelerate the revitalization of the local communities through the restoration of local industries, businesses and livelihood.

⁶ Twelve evacuation municipalities: Tamura City, Minami Soma City, Kawamata-machi, Hirono-machi, Naraha-machi, Tomioka-machi, Kawauchi-mura, Ookuma-machi, Futaba-machi, Namie-machi, Katsurao-mura and Iitate-mura

⁷ Proposals by the Council of Experts for Future Visions for 12 Municipalities in Fukushima (Summary of opinions expressed in the meeting of the Council of Experts for Future Visions for 12 Municipalities in Fukushima on July 30, 2015)

⁸ Fukushima International Research Industry City (Innovation Coast) Vision (Fukushima International Research Industry City (Innovation Coast) Vision Study Group, June 23, 2014)

Chapter 2 Implementation of “a Virtuous Cycle of Growth and Distribution”

Toward achieving “a Virtuous Cycle of Growth and Distribution”, the government remains committed to the basic principle of “Without economic revitalization, there can be no fiscal consolidation”, postpones the consumption tax hike to 10% by two and a half years to October 2019, and observes firmly its goal of achieving a primary balance surplus for fiscal consolidation by FY2020. The government will conduct an appropriate economic and fiscal management from the short- and medium- to long-term perspectives, while attempting to make use of the fruits of Abenomics, under the framework of the Plan to Advance Economic and Fiscal Revitalization.

- Avoid a stall in the Japanese economic recovery and a return to deflation.
- Take all possible measures to support victims of the 2016 Kumamoto Earthquake. Work toward the quick recovery of the local economy and restoration of industries.
- Work actively toward international coordination for the recovery of the global economy.
- Address structural problems head-on, including the aging of society and a low birth rate. Remove various blocking “walls” one by one, to realize a Society Promoting Dynamic Engagement of All Citizens.
- Connect reinforcement of the supply side to the increase in income and demand; and connect the increase in income and demand to sustainable growth. Deepen Local Abenomics to further strengthen “a Virtuous Cycle of Growth and Distribution.”
- Firmly implement reforms including expenditure reform set in the “Plan to Advance Economic and Fiscal Revitalization,” and pursue wise spending both at the national and local level.

Specifically, the government will take the following steps. In addition, it will conduct active and effective public relations at home and abroad for the Cabinet’s basic policies, for the purpose of raising national awareness of and disseminating information overseas regarding the government efforts such as Abenomics and a Society Promoting Dynamic Engagement of All Citizens.

1. Fulfillment of hopes for marriage, childbirth, childcare, work, and learning: addressing structural bottlenecks to growth

Weak personal spending, slow capital expenditures and other bottlenecks to economic growth involve fundamental and structural problems associated with a small population and

an aging society with a low birth rate. As the population decreases and the aging of society progresses with a low birth rate, the labor supply will decrease, leading to a shrinking economy in the future. People are concerned that these conditions will lead to falling standards of living and will jeopardize the sustainability of the economy. The government is addressing these structural problems head-on with the New Three Arrows of “a robust economy that gives rise to hope,” “dream-weaving childcare support” and “social security that provides reassurance.”

The aging of society with a low birth rate is one of the most important issues that must be addressed. It should be addressed immediately, while the fruits of Abenomics are still ripe from growth, rather than put off to be dealt with later. There is an urgent need to establish environments where people can get jobs, get married, have children and raise them how and when they wish. It is also necessary to establish new working styles that balance the flexibility of the labor market and workers’ peace of mind in order to address the fourth industrial revolution.

To achieve this, the following actions will be implemented based on the Nippon Dynamic Engagement of All Citizens Plan:⁹

(1) Support for marriage and childbirth

As the problem of an aging society with a low birth rate has become serious, the government will provide supportive programs to establish environments where young people are encouraged to get married whenever they wish. Housing programs will also be strengthened to support young couples who need homes to start a family and raise children. To achieve these goals, the national government will provide support to localized activities hosted by local governments and to match-making programs hosted by employers, strengthen education for life planning and career planning, and provide housing support to couples raising children.

Consulting and other programs related to fertility treatments will be expanded to provide stronger support as well.

(2) Support for children and childcare, and measures to reduce child poverty

According to specific local situations, child care support systems that provide continuous

⁹ Nippon Dynamic Engagement of All Citizens Plan (Cabinet decision, June 2, 2016)

support from maternity to childcare will be strengthened. Comprehensive Support Centers for the Child-raising Generation will be established, support programs will be provided to families with two or more children, local childcare support centers, childcare service user support business and family support centers will be established. Community activities, in which people in the neighborhood watch over the learning and growth of children in the community, will be also promoted. Perinatal and child medical services will be strengthened as well.

Measures to address working after childbirth, working parents with small children or sick children along with various childcare needs will be implemented. Various modes of childcare, including day nurseries, company-operated childcare centers, sick childcare, after-school children's clubs and after-school classes will be provided by utilizing unused classrooms and other local infrastructure. After-school learning and activities will also be promoted. 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 government will strive to eliminate wait-listed children for nursery centers by the end of fiscal 2017 and for after-school children's clubs by the end of fiscal 2019 by implementing comprehensive childcare programs along with measures to secure sufficient numbers of child caregivers. No waiting lists should exist after arrival of the above target dates. In and after fiscal 2018, the government will continue to implement measures to expand childcare support, such as considering a further increase in the number of working women, the development of working style reform, and the policy to encourage taking childcare leave as a continuous support system, from childcare to reinstatement of work.

To recruit and retain sufficient numbers of caregivers to support these needed childcare services, the government will promote comprehensive measures to improve wages and other working conditions for caregivers in nurseries¹⁰, recruit and develop diverse human resources, reduce work burden for child caregivers by improving productivity, and create peaceful and comfortable working environments. Measures to improve caregivers' working conditions in after-school children's clubs and children's nursing homes will be comprehensively implemented, including improving their wages based according to job

¹⁰ Including staff members of certified children's houses, kindergartens and other childcare facilities defined in the "Comprehensive Support System for Children and Child-rearing."

type and experience, and reducing work burden by improving work productivity.

To promote home environments where couples can raise children with peace of mind and family members of different generations can help each other in raising children and grandchildren, the government will encourage three-generation living together in a single household or in the neighborhood. To achieve this, the government will provide financial support to families that plan to build or purchase qualified three-generation housing or home owners who plan to renovate their home into a three-generation design. Preferential income tax treatment will also be provided for the latter. Projects to promote revitalization of local residential functions will also be implemented.

It is also important to develop good educational environments to encourage young people to have and raise children with peace of mind. To avoid entrenchment in poverty arising from unequal educational opportunities, the government will create educational environments where all children can receive the education they want with hope for the future, regardless of the economic condition of their household. To achieve this, programs to reduce the burden of educational costs, address truancy or dropping out and other educational issues will be implemented.

Programs to eliminate the cycle of poverty across generations will be implemented. Environments that allow social mobility will be created to avoid entrenchment in situations of unequal opportunity. To achieve this, the government will implement measures to create places where children can visit and feel comfortable and safe, provide support for learning, support the independence of children on welfare, support parents to find jobs, implement measures to collect financial support from fathers for child-raising by divorced mothers, implement national campaigns, establish local networks and provide support to social activities. Programs to prevent child abuse will also be implemented.

To strengthen the young people's financial basis, the government will promote conversion of non-regular workers to regular employees, and improved treatment of non-regular workers. Continuous "escort runner" support covering medical services, welfare, education and employment will also be provided to children and young people who have social difficulties. To help young people find jobs and live independently, systems to provide consulting and coaching during their formal education will be established.

(3) Promoting employment of female and elderly job-seekers and improving the treatment of non-regular workers

Working style reform is positioned as the greatest challenge to be implemented to realize a Society Promoting Dynamic Engagement of All Citizens. The government will promote improvement in the treatment of irregular workers, including realizing the provision identical wages to workers who do the same job, regardless whether they are non-regular or regular employees. Reduction of long working hours will be promoted by limiting the total number of work hours. Programs to expand working style choices will be implemented. The government will also promote conversion of irregular workers to regular employees, and encourage the actual use of annual paid holidays that employees are entitled to.

It is important to increase the employment rate of the elderly. Diverse job opportunities will be provided to those elderly who wish to work by providing support to companies that extend re-employment status after retirement beyond age 65 or raise the age limit to 65, by revising the Employment Insurance Act¹¹ to provide stronger support for employment of the elderly, thus strengthening support for matching elderly job seekers with receptive businesses.

The government will promote working style reform that suits individual localities, provide support to measures implemented by regional working style reform committees, promote forward-looking actions for working style reform, and promote the flow of human resources from urban areas to rural areas.

In order to improve the environment for women who wish to work, the government will proceed to revise the tax system, social security systems and spousal allowance following the schedules. First, the government will engage in comprehensive and complete national-level discussion to reform the tax system, based on the issues summarized by the Government Tax Commission¹². Second, the government will revise the social security systems to implement institutional measures to expand the application of employees' health insurance in SMEs as well as large corporations wherein its application was extended from October 2016 under Act on Reinforcement of Pension Function¹³, and the government will steadily move forward to extend its application further with deliberations while taking into account the status of its implementation, the employment situation, and the impact on

¹¹ Act on the Partial Revision of the Employment Insurance Act (Law No. 17, 2016)

¹² Summary of important issues related to the establishment of a taxation system that is neutral with regard to the choice of working styles and other reforms in the personal income taxation system (Primary Report) (Summary report of the Government Tax Commission, November 7, 2014); Summary of important issues related to the taxation system based on the structural change in the economic society (Summary report of the Government Tax Commission, November 13, 2015)

¹³ Act on Partial Revision of the National Pension Act to Reinforce the Financial Base and the Minimum Protection Function of the Public Pension Systems (Law No. 62, 2012)

companies. At the time, the government will also thoroughly inform the “career-building subsidies program”, which provides financial support for employers seeking to retain workers by raising hourly wages for short-time workers and extending their working hours if requested by them, to promote utilization of the program for the purpose of deterring the adjustment of working hours and facilitating the expanded application of employees’ health insurance. In addition, the government will pay keen attention to the labor shortage situation and enhance the program (if required). Finally, the government have asked the National Personnel Authority (NPA) to consider the revision of the allowance for dependent spouses of national public servants and the government will take action for the revision without delay, based on the result of the NPA’s deliberations. Regarding the spouse allowances paid by private sector companies, the government will strive to widely inform the document “Matters to be Considered in Reviewing the Spouse Allowance” published by the Ministry of Health, Labour and Welfare¹⁴, and the government will encourage both labor & management to consider their approaches to this matter.

(4) Further empowerment of women

Women represent the greatest potential in Japan. Women’s talents must be fully utilized in society. Empowerment of women in various situations should be promoted so that they can realize their dreams and live brilliantly.

To achieve this, in accordance with the Important Policies for Accelerating Empowerment of Women 2016¹⁵, the government will implement working style reforms such as reducing the number of working hours, promoting men’s involvement in housework and childcare, promoting flexible working styles such as telework, establishing action plans for promoting the empowerment of women, promoting active recruitment and appointing women to important positions by publishing information about companies that are active in the empowerment of women, providing training to female candidates as future leaders, and implementing other measures to promote the empowerment of women. The government will encourage companies to establish systems that encourage women to return to work after taking time off for childcare or other reasons, or to open a wider career path for female workers. The government will also implement measures to provide opportunities for women to learn practical knowledge in colleges or technical schools. At the same time, the government will promote the establishment of various working style options that female regular or non-regular workers can choose so that they can work without worry. Measures

¹⁴ Matters to be Considered in Reviewing the Spouse Allowance (Kihatsu No. 0509-1, May 9, 2016)

¹⁵ Important Policies for Accelerating Empowerment of Women 2016 (Decision of the Office for Creating a Society in which All Women Live Brilliantly, May 20, 2016)

to prevent sexual or maternity harassment will also be implemented.

(5) Improvement of nursing care environments

To eliminate cases where employees cannot use care services and must quit work to take care of their family, and to eliminate the occurrence of elderly persons who must wait at home to be admitted to special nursing homes, the government will establish a flexible care service base that satisfies various care needs, and develop integrated community care systems. To this end, home care/facility care services will be reinforced, and research will be conducted to identify family care needs, including situations where workers are forced to resign to conduct family care. The government will introduce throughout the nation, good models of insurers and other entities that support the independent living of elderly persons or provide programs to prevent elderly people from falling into circumstances that lead to requiring nursing care. Government-owned land will be utilized in building care facilities. The government will strongly promote establishment of the foundation for providing care services.

To recruit and retain sufficient numbers of caregivers to support these needed family care services, the government will implement comprehensive measures to improve wages and other working conditions for caregivers, recruit and develop diverse human resources, reduce the work burden of caregivers by improving work productivity, and create peaceful and comfortable working environments.

A consulting system will be established under which people who require nursing care for their family members can consult with their employer, integrated community support center or other support center, and obtain necessary information concerning care services. The government will also implement the Comprehensive Strategic Dementia Plan (“New Orange Plan”) and other programs to provide support to families that take care of family members with dementia. The functions of the integrated community support centers will be strengthened. Dementia supporters will be developed and support teams for early-stage dementia will be formed. Family support programs will also be provided and use of the adult guardianship system will be encouraged.

To realize a society where no citizen hesitates to take family care leave, the government will disseminate information concerning the expanded family care leave system and encourage companies to provide working style options so that employees can continue to work while taking care of family members in need.

Although individuals themselves are responsible for making efforts to extend their healthy life expectancy, local governments, medical insurers and employers should provide environments that nurture such efforts, including developing their awareness toward healthcare. Efforts for preventing illness and for health promotion are important not only for the elderly but for those who are young and in the work force as well. Necessary measures will be implemented to encourage health-promoting efforts.

(6) Supporting the engagement of people with disabilities in society and creating a cohesive society in regions

The government will work to realize a society in which people with disabilities, cancer and other serious diseases, or other difficulties can actively participate at their best according to their abilities, disabilities or nature of their disease. To promote their participation in society and self-support, the government will provide support for job-seeking and settlement in workplaces, and for achieving a balance between medical treatment and work. The government will also promote participation of those with disabilities in cultural and artistic activities, along with people's correct understanding of sexual orientation and gender identity, and create environments where all of society respects and accepts diversity.

The government will work to realize cohesive communities where all citizens work together in creating and improving the community, their livelihood and life's purpose. To achieve this, the government will promote the development of local communities where all citizens play a role and support each other, rather than segregating them into givers and receivers. Social systems that enable people who need help to live their life by utilizing support from welfare and other public services will also be established.

2. Acceleration of growth strategies and other measures

To achieve a 600 trillion yen economy, the government will work to elevate and achieve the growth strategies.¹⁶

The government will enhance productivity through intensive efforts to promote human resource investment, business fixed investment, and innovation, actions to realize "Society5.0" (a super-smart society)¹⁷, programs in accordance with the "Declaration to Be

¹⁶ Japan Revitalization Strategy for 2016 (Cabinet Decision, 2016).

¹⁷ Mainly through initiatives that actively use cyberspace to constantly create new values and services and to bring affluence to major members of the society, the government will work to realize "Society5.0," the first super-smart society in the world and the fifth form of society in human history (the naming implies

the World's Most Advanced IT Nation"¹⁸, strengthened Intellectual property and standardization strategies, and the ICT foundation development to realize a healthy longevity society. Institutional reforms to foster industrial renovation and innovation will transform the industrial structure into one that generates higher added value.

To create new promising growth markets, the government will take actions targeting the Tokyo Olympics and Paralympics 2020, transform sports into a growth industry and tourism into a core industry, and promote aggressive agricultural, forestry and fishery industries. Moreover, under the Public-Private Strategic Project 10, the government will work to address the fourth industrial revolution, to forge a leading health-oriented nation in the world, to overcome environmental energy constraints, and to expand investments.

(1) Acceleration of measures for a productivity revolution

[1] Human resource development

The government will strengthen educational and research institutions. This includes establishing a new system of advanced educational institutions where practical vocational education is provided. The Program for inter-institutional Collaboration on innovative Doctoral Education (provisional naming), providing world-leading human resources, will also be materialized. More specialized education will be provided in specialized vocational high schools. Moreover, the government will establish systems, including Leading Initiative for Excellent Young Researchers, to develop and retain a comprehensive range of educational professionals, from elementary and secondary education to top-level researchers.

[2] Education rebuilding

Education forms the foundation of a strong economy and is an important investment. Toward the realization of the principles of the Basic Act¹⁹ on Education, the government will carry out comprehensive renewal of education based on the "Second Basic Plan for the Promotion of Education,"²⁰ while considering the suggestions of the Council for the implementation of Education Rebuilding.

that scientific and technological innovation will bring about changes that lead to the creation of a new society that follows hunting, farming, industrial and information societies).

¹⁸ Declaration to Be the World's Most Advanced IT Nation (Cabinet decision, May 20, 2016)

¹⁹ Basic Act on Education (Law No. 120, 2006).

²⁰ Second Basic Plan for the Promotion of Education (Cabinet Decision, June 14, 2013)

With the goal of achieving the world's best academic performance and improving basic performance, the government will promote active learning to develop children's abilities to live independently in society by overcoming various obstacles, such as a disadvantaged economic state for the family, disabilities, bullying, truancy and insufficient command of the Japanese language. To achieve this, the government will implement integrated measures to improve and secure the teaching system in schools, improve the quality and abilities of teachers, establish a team school administration system with the participation of dedicated staff, and promote coordination and cooperation between schools and communities. Education aiming to develop creativity or develop the diverse personalities of individual children, such as special needs education, will be promoted. The government will also promote digitization of education and preschool education. Establishment of safe and secure school facilities will also be promoted.

The government will promote thorough internationalization of universities, including expanding study abroad programs and accepting more exchange students from abroad. It will also promote revamping the path from high school to university, and job training and reeducation for members of society.

Measures to realize free preschool education will be implemented while securing financial resources for them. The government will also expand the interest-free scholarship program and will introduce a new scholarship program with income-based repayment terms. Grant-type scholarship programs will be reviewed, taking into account equality within the same generation and resources for the programs, in order to expand the program to provide grants to children who face significant financial difficulties. The government will also work to reduce the burden of tuition fees.

[3] Promotion of R&D investment

In accordance with the Fifth Science and Technology Basic Plan²¹, the government will draw a road map for the future by identifying future technological requirements in the areas of R&D related to IoT, big data and artificial intelligence. Under centralized control, R&D will be implemented with unified efforts of the government and the private sector. In addition, the government will promote R&D investments to strengthen core technologies that can generate new values, promote basic research, promote and strengthen the functions of open innovation by collaboration between industry, academia and national R&D institutions, and encourage R&D investments in the private sector. Through these measures, the

²¹ Fifth Science and Technology Basic Plan (Cabinet Decision, January 22, 2016)

government plans to achieve 4% or higher government /private sector combined R&D investments based on GDP by 2020. As for R&D investments by government-operated institutions, the government will set a goal to achieve 1% R&D investment based on GDP while maintaining consistency with the Plan to Advance Economic and Fiscal Revitalization. Assuming that the nominal growth rate during this period is as estimated in the economic revitalization scenario drawn in Economic and Fiscal Projections for Medium to Long Term Analysis²², the total R&D investments required during the period of the Fifth Science and Technology Basic Plan are estimated to be approximately 26 trillion yen. The government will also promote discussions in and outside of Japan about social and ethical problems arising from the dissemination of artificial intelligence. The government and the private sector also will exert unified efforts in establishing a world class IT infrastructure, developing human resources that manage this infrastructure, promoting use of the infrastructure in fields closely related to daily living, implementing cyber security measures, promoting intellectual property strategies, and international standardization of leading technologies.

[4] Enhancement and utilization of the growth and profit-making ability of companies

Cash and deposits held by companies are increasing, supported by the highest ordinary income ever. To put the Japanese economy on a sustainable growth track, it is necessary to encourage companies to put their retained funds into investments. It is also important to strengthen the medium- and long-term abilities of companies to grow and generate profits by taking actions including making investments in ESG (environment, society and governance), human resources, R&D and other intangible assets, and by efforts to improve their capital efficiency. To this end, the government will cooperate with exchange and other related parties to improve the viability of corporate governance. Specific measures will also be discussed for enhancing dialog between companies and investors. Public-private sector funds and government-affiliated financial institutions will be actively utilized to promote the supply of growth funds from the private sector. In addition, steps to utilize the current low interest rates to encourage investments in need will be considered.

To respond quickly and flexibly to changes in the industrial structure and the employment structure arising from the fourth industrial revolution, the government will implement revisions of regulations to promote the creation of new businesses, revitalization and succession of businesses and other measures to develop business environments in order

²² Economic and Fiscal Projections for Medium to Long Term Analysis (Submission to the Council on Economic and Fiscal Policy, January 21, 2016)

to facilitate dynamics and the restructuring of businesses and industries.

[5] Enhancing productivity in the service industry

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 a high potential for productivity improvement, to create environments that allow for wage increases and overcoming the labor shortage.

The Conference on Productivity Improvement in Service Industries was established as a joint effort of government and the private sector. In the service business area, the Conference promotes initiatives to apply know-how established in other industries (e.g. Kaizen improvement activities in the manufacturing). The Conference will also create models and standards for productivity improvements for individual business fields and introduce best practices laterally.

Under the Service Industry Challenge Program²³, best practices will be disseminated by awarding the Nihon Service Award; IT investments by small- and medium-sized service business operators will be promoted; and "Omotenashi Hospitality Standards" will be established to visualize and expand service quality standards. The government will provide support for activities implemented in accordance with the guidelines for individual business fields set under the Act on Partial Revision of the Act for Facilitating New Business Activities of Small and Medium-sized Enterprises²⁴, and promote local-level activities implemented through trade organizations for small- and medium-sized businesses.

To address the serious labor shortage, the government will promote realization of the productivity revolution in the physical distribution industry, including early realization of the automatic tandem driving of truck fleets and double-trailer trucks, quicker issuance of permits for special vehicle traveling, delivery of packages by small unmanned aerial vehicles (drones), and remote control of loading machines in ports and harbors.

(2) Creation and expansion of new promising growth markets

[1] Measures for the Tokyo 2020 Olympic and Paralympic Games

²³ Service Industry Challenge Program (Decision of Headquarters for Japan's Economic Revitalization, April 15, 2015)

²⁴ Act on Partial Revision of the Act for Facilitating New Business Activities of Small and Medium-sized Enterprises (Enacted on May 24, 2016)

The Tokyo 2020 Olympic and Paralympic Games (hereinafter the “Tokyo Games”) and the Rugby World Cup 2019 are national big events and represent the greatest opportunities to present Japan’s legacy and appeal to the world. In hosting these events, in accordance with the Basic Policy for Implementing Measures Related to Preparation and Operation of the Tokyo Olympic and Paralympic Games²⁵, the government will proceed with efficient preparations by collecting related information and implementing a thorough analysis to ensure safety and security, taking measures against the summer heat and towards environmental protection, strengthening the competitiveness of athletes, and promoting the Olympics and Paralympics movement. Measures to secure the safety of athletes, staff members and spectators in the event of a disaster or emergency situation, such as evacuation guidance, will be taken. The government will also exert unified efforts to create a new Japan in the course of preparations for and implementation of the Tokyo Games, including promotion of local vitalization and international exchange by the host town, introduction of “Oly-Para Ambassadors” to develop and expand the volunteer base, the “beyond2020” program to deliver information promoting the beauty of Japanese culture and advanced technologies, the realization of a cohesive society by showcasing the universal designs that Tokyo offers and promoting a mental barrier-free society.

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

To promote revitalization of the Ainu culture, the government will promote the development of “Symbolic Space for Ethnic Harmony,” including opening an National Ainu Museum, a National Ethnic Harmony Park and a memorial facility by 2020, targeting one million visitors.

[2] Country oriented for culture, the arts, and sports

The government will strengthen the functions necessary to meet the needs of the policy to promote Japan as a country of culture and art. By utilizing such strengthened functions to vitalize local communities and economies through more active utilization of cultural and artistic resources, including content and designs, the Japanese government will provide effective support to cultural and artistic activities; provide children with opportunities to have cultural and artistic experiences; develop leaders; strengthen the function of national cultural facilities; promote the beauty of Japanese culture; preserve and utilize cultural assets and hand them down to the next generations; and promote media arts by hosting cultural

²⁵ Basic Policy for Implementing Measures Related to Preparation and Operation of the Tokyo Olympic and Paralympic Games (Cabinet Decision, November 27, 2015)

programs such as Japonism 2018.

To establish Japan as a country of sports, the government, mainly led by the Japan Sports Agency, will promote enhancement of the international competitiveness of athletes, the realization of a lifelong sports society, sports for enhancing personal health or for international exchange and cooperation, and sports for people with disabilities. To develop sports into a growth industry, the government will also promote the improved profitability of sports facilities, collaboration with tourism and other industries and the development of sports business managers.

[3] Promotion of PPP/PFI

To expand business opportunities for private companies to participate in construction and operation projects of public facilities, the national government and municipal governments with a population of 200,000 or more will establish and operate an effective framework to prioritize PPP/PFI.. The government will also create and implement regional platforms to enhance the ability of local private companies to develop projects, and it will utilize Private Finance Initiative Promotion Corporation of Japan. By implementing these measures, the government will encourage the development of specific projects, and promote the virtuous cycle of regional economies, thereby aiming to achieve the targeted business sizes of 21 trillion yen in 10 years (from FY2013 to FY2022) as specified in the Action Plan for Promoting PPP/PFI²⁶.

[4] Development and expansion of the maintenance industry

To develop and expand the maintenance industry, which conducts maintenance, management and renewal of public facilities and private buildings, the government will promote adoption of new technologies and encourage the entry of newcomers to this industry. Expansion of maintenance technologies and maintenance companies into the international market will also be promoted.

[5] Transformation of tourism into a core industry

To promote the growth of tourism into a core industry in Japan, the government will comprehensively review regulations and systems related to tourism. Public-private sector

²⁶ Action Plan for Promoting PPP/PFI (Decision by the Council for the Promotion of Private Finance Initiatives on May 18, 2016)

funds will be utilized to vitalize or revitalize tourist sites. A world-class DMO²⁷ will be formed and a government-level support system will be established to attract MICEs²⁸. Flight routes for Haneda Airport will be reviewed and airport functions will be strengthened, by utilizing concessions. Acceptance of LCCs²⁹ by local airports will be promoted, and acceptance of cruising ships will be further promoted. Moreover, a “regional reinvigoration corridor “will be developed by utilizing express traffic networks. Connections between traffic modes will be strengthened by increasing highway interchanges. “Shifting from above-ground electric poles to an underground transmission network” will be promoted by utilizing PPP/PFI techniques. Environments friendly to bicycle riders will also be created. Building of accommodation facilities will be promoted by utilizing the relaxation of the floor-area ratio requirement. Moreover, the government will strengthen CIQ systems³⁰, such as adoption of innovative immigration inspection processes; and promote improvement of soft infrastructure, including telecommunication environments and environments for cashless settlements.

To establish a medical environment in which foreigners, including tourists, can receive medical treatment for securement, the government will promote certification of medical institutions that have systems in place to accept and treat foreign patients, and increase the number of hospitals that station medical interpreters or where patients can receive medical treatment in foreign languages. Information about these medical institutions will be made widely available.

[6] Aggressive development of agriculture, forestry and fisheries

The government will promote aggressive development of agriculture, forestry and fishery industries into growth industries. It will also take measures to pass down beautiful and historic farming, foresting and fishing communities to the next generations. Under this basic approach, the government will steadily implement measures based on the “Plan to Create Dynamism through Agriculture, Forestry, and Fisheries and Local Communities”³¹, the

²⁷ Destination Management/Marketing Organization

²⁸ Collectively refer to company meetings (Meetings), incentive trips and study trips of companies (Incentives), international conventions (Conventions) and exhibitions and events (Exhibitions/Events).

²⁹ Low Cost Carriers: Airlines that provide flight services for low prices by operating high frequency operations at low cost.

³⁰ Collectively refers to customs, immigration and quarantine.

³¹ 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, June 24, 2014)

“Basic Plan for Food, Agriculture, and Rural Areas”³² and the “Outline of Comprehensive TPP Policies”³³ to create a New Agricultural Administration Age that offers dreams and hope to farmers.

In order to strengthen the competitiveness of farmers, including livestock and dairy farmers, the government will promote agricultural innovation by utilizing information technologies, secure the safety of foods, promote the shift to a “sixth industrialization” (a combination of primary, secondary, and tertiary industries), strengthen efforts on intermediary mechanisms to accumulate and consolidate farmland for leading farmers, implement reform of agricultural cooperatives, and develop and retain diverse farmers.³⁴ For the same purpose, measures to strengthen the profit-making abilities and production bases of production areas, including hilly and mountainous areas, will be implemented. Also, the following measures are considered to further promote development into a growth industry: revision of the pricing mechanism for production materials (such as feed, farming machines and fertilizer) to improve the income of producers; establishment of Industrial distribution and processing systems to ensure stable transactions in favorable terms for producers; labeling of raw materials and country of origin on all processed foods and introduction of a “check-off system”³⁵. As for projects to improve soil quality, further steps will be taken to promote larger partitions of farmland and the use of farmland for multiple purposes, which will contribute to higher added value and lower production costs as well as improvement in the maintenance and conservation of farmland. Moreover, through the steady advancement of reforms in rice-farming and other farming policies, the government will create an environment in which farming entities can choose the crops they wish to grow based on their own judgment. These reforms will also pursue food security.

Toward the vitalization of farming, fishing and mountain villages, the government will foster educational exchange between these villages and urban areas, improve the farming employment structure, coordinate collaboration between farming and tourism and between villages, and promote urban farming.

Based on the Basic Plan for Forest and Forestry³⁶, the government will implement

³² Basic Plan for Food, Agriculture, and Rural Areas (Cabinet Decision, March 31, 2015)

³³ Outline of Comprehensive TPP Policies (Decision by the TPP Office, November 25, 2015)

³⁴ Leading farmers will be developed and retained based on “Green Employment” and other programs, including practical education in agricultural, forestry and fisheries high schools.

³⁵ A system in which producers contribute money to a fund and then utilize it to take the initiative in carrying out sales promotion activities

³⁶ Based on the Basic Plan for Forests and Forestry (Cabinet Decision, May 24, 2016)

measures to create new demand for timber, such as CLT³⁷ and CNF³⁸, while promoting cyclic use of abundant forestry resources, which will lead to the vitalization of rural communities. The establishment of a supply structure that ensures the stable and efficient supply of domestic timber will also be promoted.

In the fisheries industry, the government will promote resource management based on unique characteristics of each coastal area and sustainable fishing operations and aquaculture, while also promoting the consumption of fishery products.

(3) Enhancement of links with overseas growth markets in response to TPP and other arrangements

[1] Establishment of global value chains through the use of TPP

The government will work toward early effectuation of the Trans-Pacific Partnership (TPP) agreement and the addition of member nations and regions.

It will also 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, and investment-related agreements under the “Action Plan for Establishing Investment Environments to Promote Conclusion of Investment-Related Agreements.”³⁹ Japan will aim to play a core role in building a new broad-based economic order, leading the development of comprehensive, well-balanced, high-level global rules.

A free and fair gigantic economic zone will be created by the TPP. The Japanese economy is expected to get on a new growth track due to the creation of global value chains in various fields, promotion of the expansion of exports and business into international markets, expansion of investments from abroad, increased domestic investments and improved productivity. To maximize these effects of TPP, the government will implement necessary measures in accordance with the Outline of Comprehensive TPP Policies.

³⁷ Cross Laminated Timber

³⁸ Cellulose Nanofiber: Aggregates of cellulose fibers made from timber (pulp) and nanoized (micronized).

³⁹ Action Plan for Establishing Investment Environments to Promote the Conclusion of Investment-Related Agreements (published May 11, 2016)

Specifically, the government, local public organizations, JETRO and other supportive organizations will cooperate in Consortium for New Export Nation to provide comprehensive support for the expansion of small- and medium-sized companies into overseas markets. Alliances between exporters and convenience store chains that are expected to continue in their overseas expansion will be promoted to assist in the sales of excellent Japanese products in overseas markets. The government will promote the development of human resources at overseas business sites, provide support by establishing necessary laws and regulations, and create suitable business environments.⁴⁰ In addition, under the concept of the rule of law, the government will strengthen measures to respond to or prevent international disputes, including investor-state dispute settlements (ISDS).

[2] Further promotion of foreign direct investment in Japan

In response to TPP, aiming to make Japan a global hub for trade and investment, the government will stimulate to further promote direct investment based on the policy package adopted by the Council for Promotion of Foreign Direct Investment in Japan, which includes measures to promote investments by foreign companies and partnerships between foreign and Japanese companies by leveraging Japan's strengths.

Specifically, the government will identify and attract foreign direct investment projects in Japan through the sales pitches conducted by the Prime Minister and Cabinet Ministers, the cooperation among Japan's diplomatic missions abroad, JETRO and local government and strengthening their functions, as well as attract high value-added business divisions of foreign companies to Japan. To support mid-tier enterprises and SMEs in strengthening their technologies, expanding sales channels, etc. and growing their businesses by utilizing the business resources of foreign companies, the government will promote strengthening the collaboration between JETRO and regional financial institutions, etc. and utilize J-Good Tech to strengthen the "Promotion Scheme for Global Alliances", and strengthen measures to promote alliances, including capital alliances.

In addition to advancing the "Five Promises for Attracting Foreign Businesses to Japan"⁴¹, the government will address the initiatives to develop environments to encourage foreign direct investment, such as structural improvements to facilitate the acceptance of

⁴⁰ Including support to corporate activities to research and study laws related to overseas markets and their operation.

⁴¹ Five Promises for Attracting Foreign Businesses to Japan (Decision by the Council for Promotion of Foreign Direct Investment in Japan, March 17, 2015).

highly-skilled foreign professionals, improving educational support for foreign schoolchildren, further expanding translations of Japanese laws and regulation into foreign languages, strengthening English language education for Japanese nationals, and promoting the availability of services in foreign languages with regard to daily life.

For the purpose of fundamentally simplifying regulations and administrative procedures associated with Foreign Direct Investment in Japan, the government, mainly led by the Council for Promotion of Foreign Direct Investment in Japan, will discuss and draw conclusions within one year. Matters on which conclusions can be reached early on will be addressed ahead of others by deciding on concrete measures by the end of this year and promptly implementing them.

At the same time, to secure equal footing in international business environments, the government will constantly work on institutional reform to strengthen the competitiveness of Japan in business site selection, including further promotion of regulatory reform and strengthening industrial infrastructure.

[3] Strategic promotion of export and tourism under the “Japan Brand”

The government will promote the concept of “Japan Brand” for “safety,” “reliability,” and “high quality,” recognized across the areas of agriculture, forestry and fishery products, energy-saving and resources-saving, the infrastructure system, medical and healthcare service, and beauty service. It will also promote the "Cool Japan" strategy for boosting the exports of Japan's foods, liquor, content and other products and for creating and communicating abroad Japanese cultures, by utilizing Japanese diplomatic missions overseas and domestic promotional sites established through initiatives of private sectors.

To further promote the export of Japanese infrastructure systems, the government will steadily and effectively implement and utilize the Strategy to Export Infrastructure Systems⁴² and the Partnership for Quality Infrastructure⁴³. Based on the Initiative to Expand Exports of Quality Infrastructure⁴⁴, the government will expand the supply of risk money for infrastructure projects around the world, further improve institutional systems, reinforce the structures of related organizations and strengthen the financial base. In addition, it will

⁴² Strategy to Export Infrastructure Systems (revised May 23, 2016)

⁴³ Partnership for Quality Infrastructure (Announcement by Prime Minister Abe, May 21, 2015) and specific measures (Announcement by Prime Minister Abe, November 21, 2015)

⁴⁴ Initiative to Expand Exports of Quality Infrastructure (Announcement by Prime Minister Abe, May 23, 2016)

implement across the government such measures as strategic public relations activities abroad, promotion of “Quality Infrastructure Investments” as an international standard, Development of local human resources in partner nations, top leaders’ active engagement in soliciting activities and support for establishing their own institutional systems based on the need of partner nations. The development of the aviation, aerospace and marine industries will also be promoted.

In accordance with the Strategy to Strengthen Exports of the Agriculture, Forestry and Fishery Industry⁴⁵, and to support the aggressive efforts of private companies, the government will implement unified and strategic promotions⁴⁶; promote development of sales channels, use of wholesale markets as export sites and establishment of sales sites abroad; and promote the dissemination of technologies to transport foods under fresh conditions. It will also take measures to address relaxation or abolishment of foreign regulations related to food safety and quarantine, HACCP⁴⁷ and other food safety standards, and GAP⁴⁸. Through these efforts, the government aims at earlier achievement of exports of agricultural, forestry and fishery products and food products totaling one trillion yen by 2020 towards globalization of the Japanese food industry.

[4] Use of foreign human resources

To increase the acceptance of highly skilled foreign professionals, the government will create the world’s fastest “Japanese-version green card system for highly skilled foreign professionals,” which will drastically reduce the current five year stay requirement for submitting an application for a permanent residence permit. The government will establish immigration and foreign resident systems that are more attractive for foreigners than in other countries, and will review and promote the use of the Points-based System for Highly Skilled Foreign Professionals. It will also provide support for programs matching foreigners seeking jobs in Japan (such as foreign students studying in designated professional schools under ODA and other public programs, and foreigners who completed the JET program) with Japanese companies willing to employ foreign workers. The government will

⁴⁵ Strategy to Strengthen Exports of the Agriculture, Forestry and Fishery Industry (Summary Report by Headquarters on Creating Dynamism through Agriculture, Forestry and Fishery Industries and Local Communities, May 19, 2016)

⁴⁶ Local diverse food cultures and the agriculture, forestry and fishery industries supporting them; characteristic landscapes; and the beauty of other tourism resources will be designated as the “best sights of food and agriculture” and effectively and integrally be communicated abroad to attract foreign tourists.

⁴⁷ Hazard Analysis and Critical Control Point: A technique to manage food hygiene

⁴⁸ Good Agricultural Practice : Management of agricultural production processes

expand the JET program, aims to increase the employment rate of foreign students in Japan to 50%, and develop living and child-education environments for foreigners.

In accordance with the Economic Partnership Agreement, the acceptance of foreign candidates as certified care workers will be expanded. In addition, to promote efficient implementation of Olympics and Paralympics-related projects, programs to accept foreign workers in construction areas will be utilized.

The system to check the working state of foreigners will be improved, as will the efficiency and speed of procedures for applying and renewing resident status, including introduction of on-line procedures.

To maintain the sustainability of the Japanese economy and social infrastructure, the government will conduct comprehensive and specific discussions about the policy for accepting foreign workers, focusing on business fields where they are greatly needed.

(4) Regional reinvigoration and support to SMEs and microenterprises

[1] Regional reinvigoration

To realize a Society Promoting the Dynamic Engagement of All Citizens, regional reinvigoration is one of the most urgent issues to be addressed. In starting full-scale efforts toward regional reinvigoration, the government will, in accordance with the Overall Strategy on Vitalizing Local Economies (revised in 2015)⁴⁹ and the Basic Policy for Overcoming Population Decline and Vitalizing Local Economies 2016⁵⁰ developed with the aim of stemming the local population shrinkage and rectifying the excess population concentration in Tokyo, the government will promote (1) policy measures to spur regional reinvigoration, (2) strategies that suit individual localities, and (3) diverse support to local areas.

Specifically, the government will promote the establishment of the Japanese version of DMOs and the creation of local brands by local trading firms. A Japanese-style innovation Ecosystem will be developed to promote local innovation; IoT will be utilized to improve productivity of the local service industry; and “Compact Plus Network” and profit-making communities will be established to contribute to the realization of local Abenomics.

⁴⁹ Overall Strategy on Vitalizing Local Economies (revised in 2015) (Cabinet Decision, December 24, 2015)

⁵⁰ Basic Policy for Overcoming Population Decline and Vitalizing Local Economies 2016 (Cabinet Decision, June 2, 2016)

Relocation and settlement of people in local cities will be stimulated through vitalizing local universities and colleges as intellectual centers, curbing the high concentration of students in universities in metropolitan areas, relocating some national governmental offices to local cities, and by strengthening the functions of local offices from private companies. Working style reforms that suit situations in individual areas and forming regional collaboration among cities and suburban areas will be implemented. Thereby a social environment where people can live in local cities with peace of mind will be created.

According to the characteristics of individual cities, such as population shrinkage, for problems that have not been sufficiently addressed, the government will provide support towards efforts of local public organizations to accelerate implementation of measures and support for verification of their results.

Support will be provided in the fields of information, human resources and finance. On the information front, the Regional Economic and Society Analyzing System (RESAS) will be utilized. On the human resource front, the Regional Reinvigoration College Project will be implemented to develop human resources who will lead the regional reinvigoration. On the fiscal front, Subsidies for Regional Reinvigoration and tax credit for contributions of corporations to municipal projects supporting regional reinvigoration will be provided to support medium- to long-term regional reinvigoration efforts.

To promote the back-flow of human resources to local areas, the government will provide support to “strategic professional human resource offices” established in 46 prefectures. These offices will discover local companies with the potential to grow, and provide information on job opportunities for professionals who may wish to return/relocate to and work in local cities.

[2] Support to SMEs and microenterprises

To help SMEs and microenterprises address the fourth industrial revolution, the government will dispatch IT professionals and provide other support to promote their ICT investments and the development of IT human resources. The government will also encourage efforts for productivity improvement in accordance with the Act for Facilitating New Business Activities of Small and Medium-sized Enterprises. Support will be provided to energy-saving and labor-saving investments, and the development of sales channels in and outside Japan. Additionally, the management consulting and support system will be strengthened. These measures taken to help SMEs and microenterprises improve their profit-making abilities will also strengthen their business foundation. Support will also be provided to local shopping

areas that are making pioneering efforts. The government will cooperate with local financial institutions to promote the smooth shift of workers to growth industries.

The government will take measures to make the Agreement⁵¹ at the “Seiroushi (Government-Labor-Management) Meeting” widely well-known, and will promote the establishment of the trading practice of “paying fair prices” for “good quality” by conducting interviews with large companies, strengthening enforcement of the Subcontractor Act⁵², and improving and disseminating the use of the Subcontracting Guidelines to improve the transaction terms for subcontractors and small companies.

While satisfying the cash requirements of SMEs and microenterprises, the government will proceed with detailed designing of the revised credit guarantee system to promote further cooperation between financial institutions and business operators for improvement of business and productivity. It will aim to reach conclusions by the end of this fiscal year, including on revision of the system.

[3] Regional revitalization

(Regional revitalization)

The government will promote expansion of the virtuous cycle of regional economies by promoting a shift to regional economies resistant to fluctuations in the economic environment and through creation of local employment. To this end, industry, academia, financial institutions and the government will cooperate in developing companies that conduct advanced and sustainable business; establishing distributed energy systems to promote local energy production and consumption; and opening the infrastructure of local governments to private companies. Vitalization of local communities by an alliance of services between the local government and shopping areas utilizing My Number will also be considered.

In depopulated areas and other geographically disadvantaged areas, including the Amami Islands and other remote islands and peninsulas, the government will promote exchange and collaboration and harmonious growth with neighboring areas.⁵³ To maintain the existence of villages in these geographically disadvantaged areas and to revitalize them,

⁵¹ Initiatives by the “Seiroshi” (Government, Labor, and Corporate Management) for Continuing Virtuous Cycles of the Economy, December 16, 2014

⁵² Act against Delay in the Payment of Subcontract Proceeds, Etc. to Subcontractors (Law No. 120, 1956)

⁵³ Including collaboration on World Heritage listing

local resources and originalities will be utilized. “Small hubs” and local management organizations will be created in the village zone. Environments that encourage settlement formation in these areas will be developed by maintaining transportation systems and other functions necessary for conducting daily life activities, and by promoting the development of local industries.

The Community-Reactivating Cooperator Squad system will be expanded to actively accept young people and talented people from urban areas, and promote their settlement in rural areas.

The government will increase the flow of people and goods in and out of rural areas through early development and utilization of broad-area express transportation networks⁵⁴.

Wide-area alliance projects will be implemented to realize well-balanced regional development for the future, taking advantage of the originality of individual areas, based on a new National Spatial Strategy⁵⁵ and other plans⁵⁶ to achieve a “nation stimulating convective flow” of people, goods and information.

Autonomous efforts by local governments to develop a foundation for the lives of citizens will also be steadily implemented.

To create a vigorous mutual-assistance society, human and financial resources from the private sector will be utilized to address complex and diverse social challenges, and to activate public-interest activities by the private sector. Recognition of social performance (impact) will be promoted to stimulate implementation of results-driven business projects and financial resources from the private sector will be utilized.

Additionally, to gain international competitiveness in local core industries, the government will promote the creation of local-based global innovation in the ship-building and other industries. The logistic functions of ports and harbors will also be enhanced.

(Developing Okinawa)

The government will continue its national strategy to proactively implement a

⁵⁴ Such transportation networks include arterial high-standard highways, new Shinkansen bullet train lines, and linear Chuo Shinkansen lines. To accelerate the construction of the linear Chuo Shinkansen line, use of Fiscal Investment and Loan Program will be considered.

⁵⁵ National Spatial Strategy (Cabinet Decision, August 14, 2015)

⁵⁶ Including Comprehensive Development Plan of Hokkaido)(Cabinet Decision, March 29, 2016)

comprehensive package of measures to promote the development of Okinawa as a driving force in stimulating the Japanese economy. In the process, the advantages and potential of Okinawa as a gateway to a growing Asia will be exploited.

The government will promote tourism in Okinawa and work to develop the region into an innovation powerhouse and an international logistics hub connecting Japan and Asian countries, by taking advantage of the designation of Okinawa as a National Strategic Special Zone and through the addition of runways at Naha Airport and the renovation of ports to accept cruise ships. The government will consider expanding 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. To address children in poverty, which is a very serious issue compared to other prefectures, measures that fit Okinawa's specific conditions will be implemented.

Regarding the former housing block for the U.S. military in West Futenma, the government will engage in specific deliberations regarding the plan to develop the site as an international medical center in coordination with related government ministries and agencies. The government will also promote effective use of returned US military installations. The plan includes relocation of the University of the Ryukyus Faculty of Medicine and its attached hospital to the former housing block in West Futenma, and implementation of advanced medical and healthcare study and other advanced medical functions led by the University.

(Decentralization reforms)

Decentralization reforms, based on the idea that regions can overcome challenges through implementing their own ideas, originality, and ingenuity, are an extremely important theme in regional reinvigoration. The government aims to realize decentralization, in which local governments can make choices based on their own discretion, rather than just following the decisions of the national government. In inviting proposals for 2016 and steadily implementing decentralization reform, the government will adhere to the basic policy of deciding how proposals from local governments should be materialized. It will also publicize excellent examples and disseminate information on the results of the reform to the public. The government will conduct necessary deliberations on the regional government system in light of the progress of basic bills.

(5) Disaster control, national resilience, and public investments prioritized to enhance growth potential

[1] Prioritized infrastructure development and a productivity revolution

In accordance with the Priority Plan for Social Infrastructure Development⁵⁷, the government will fully utilize existing facilities and implement strategic measures stably and continuously. It will focus on expanding the nation's growth potential in areas of improvement such as international competitiveness, rebuilding national resilience, reinforcement of disaster prevention and mitigation, the Compact Plus Network and management and renewal of deteriorating facilities. To maximize the stock effects of the social infrastructure development, measures to improve the productivity of the construction production system will be implemented from the perspectives of realizing longer service lives for facilities and retaining construction workers in the medium- and long-term.

To achieve sustainable growth through productivity improvement despite a decreasing population, strategic development of infrastructure contributing to the improvement of social productivity will be implemented, including efficient measures to eliminate traffic congestion. The government will also aggressively pursue productivity improvements that suit individual industries including streamlining physical distribution and introducing ICT. Moreover, the government will pursue future-oriented productivity improvements (Productivity Revolution) through adopting new technologies.

[2] National resilience

The government will steadily advance national resilience efforts based on the "Fundamental Plan for National Resilience"⁵⁸ and the "Action Plan for National Resilience 2016,"⁵⁹ while adhering to the PDCA cycle.

The government will encourage more local governments to develop and implement local plans. To support their efforts, details of subsidy and other support measures provided by governmental organizations will be communicated, and follow-ups and visualization of their use status will be implemented. To further promote efforts by the private sector, the government will provide certifications to companies that take measures to ensure business continuation.

To secure people's safety and to develop new growth industries with the potential for

⁵⁷ Priority Plan for Social Infrastructure Development (Cabinet Decision, September 18, 2015)

⁵⁸ Fundamental Plan for National Resilience (Cabinet Decision, June 3, 2014)

⁵⁹ Action Plan for National Resilience 2016 (Decision by the National Resilience Promotion Headquarters, May 24, 2016)

international expansion, the government will actively promote development, testing, adoption and dissemination of technologies that contribute to national resilience, such as using supercomputers to estimate the extent of damage caused by disasters, and employing sensors, robots and small unmanned aerial vehicles (drones) in disaster damage investigations.

[3] Disaster prevention and reduction

The government will implement measures, including research activities and the development of human resources, to prevent and mitigate the effects of various large scale disasters such as a massive earthquake in the Nankai Trough, an earthquake under Tokyo, tsunamis, floods, landslides, and volcanic activity. At the same time, the government will develop back-up plans to ensure a functional capital, and secure redundant and alternative transport networks in preparation for large-scale disasters. Also, the government will implement anti-seismic retrofitting or rebuilding of governmental offices and public facilities that will serve as disaster control centers or evacuation shelters in the event of a large earthquake or other disaster.

The government will promote activities for improving urban designing to realize safer towns. Such efforts include decreasing the congestion of wooden houses in narrow spaces, anti-seismic retrofitting or rebuilding of houses and buildings, removing electric poles above the ground and burying electric lines underground for disaster prevention and improvement of the landscape, and eliminating railroad crossings that take a long time to open to prevent crossing accidents.

The government will expand support systems to help disaster-stricken people develop local voluntary disaster prevention organizations, disaster education and training, and efforts to strengthen the community-based disaster prevention power, encouraging women and young people in the community to become members of the community fire brigades. The government will also provide wide-area support programs. Taking the opportunity of establishing the “World Tsunami Awareness Day” by the United Nations, the government will communicate and disseminate the importance of implementing anti-tsunami measures.

In the area of measures against nuclear disaster, evacuation plans will be created, and human resource development programs for training and education will be created. Road projects to secure evacuation routes and construction of radiation-proof facilities will be implemented.

[4] Revitalization of cities

To vitalize cities in urban areas and create liveliness, lateral coordination will be strengthened across urban planning and other political measures (industrial development, support for child-raising, measures for the aging population, physical distribution, disaster prevention, etc.). Formation of Compact Plus Network and effective use of unused assets will be promoted. To achieve these targets, various PPP/PFI projects will be actively utilized. New urban design approaches will be developed by utilizing big data. Measures to improve the convenience of public transportation will be implemented to increase demand for it and to reestablish the public transportation network.

As for water supply and sewage systems, the user population is seriously decreasing. Given this fact, to secure stable business and to implement efficient operation and management of services, consolidation of waterworks bureaus such that a wider area is covered by a single bureau will be promoted according to the conditions of individual areas. Adoption of concessions will also be promoted, with the utilization of various PPP/PFI being considered.

In preparation for the Tokyo Games, Tokyo and other large cities will actively promote urban development by the private sector to improve international business and living environments, and to develop environments that are resistant to large-scale disasters.

Taking advantage of the Tokyo Games, adoption of universal designs will be promoted. Tourist sites and local public transportation services will adopt higher-level universal designs, promote a mentality that is free of barriers and drastically improve telecommunication environments to attract more diverse tourists, which will lead to regional vitalization.

A G-Spatial Data Center, used to share and provide geospatial information, will be established to promote the provision of reliable disaster information and to achieve efficient physical distribution services.

(6) Promotion of regulatory reforms

In making efforts to realize the New Three Arrows and to achieve a productivity revolution, drastic regulatory reforms will be implemented to develop a society where individual citizens can play more active roles in the workplace and community.

To this end, actions determined in the “Implementation Plan for Regulatory Reform” will be

steadily conducted.⁶⁰ The government will also steadily implement a system in which regulatory agencies voluntarily and actively review regulations they govern.

Based on the idea that “there is no end to regulatory reform,” the government will continuously implement the regulatory reforms after the end of July, 2016 when the limit of the current Council for Regulatory Reform’s mandate expires.

Regarding the National Strategic Special Zones, the government have designated the two-year period through the end of FY2017 as a period of intensive reform and will reform bedrock regulations, enhance our window functions to enable businesses to realize their projects and designate new zones as needed.

(7) Improvement of economic statistics

Improvement of economic statistics is essential for the proper management of the economy and finance.

Based on the policy compiled by the Statistics Commission, the Ministry of Internal Affairs and Communications will work to improve statistical accuracy in cooperation with related governmental offices.

To make a more accurate judgment diagnosis, administrative records, big data and other statistical data will be utilized. The Council on Economic and Fiscal Policy will collaborate with the Statistics Commission to improve the accuracy of GDP statistics and other statistical data, and will compile a government policy for the following future challenges:

- ① A mechanism to correctly and laterally reflect changes in the economy and social structure;
- ② Comparison of statistical methods and results generated using similar methods, and a feedback mechanism to improve statistical accuracy;
- ③ Strengthening the comparability of statistics, including standardization of regional classification across all government offices; and
- ④ Promotion of the efficient use of administrative records, big data and other new data resources.

3. Stimulating personal consumption

⁶⁰ Implementation Plan for Regulatory Reform (Cabinet Decision, June 2, 2016).

Defying concerns of a decline in demand due to population shrinkage, the government will help create goods and services needed by uncovering latent demand, which remains invisible despite the need to adapt to the falling birth rate, aging society, and globalization. The government will work to improve real income, eliminate households' and firms' concerns regarding the future, establish a mechanism to reward the working population with the fruits of decreased public spending achieved by expenditure reforms and economic revitalization, raise consumer confidence, and stimulate private consumption and business fixed investment.

(1) Raising wages and disposable income

The labor share has been on the decline in recent years, a trend which must be stopped. In the labor-management wage negotiations in spring 2016, it was deemed necessary to implement raises in both wages and bonuses following the rise seen in the two previous years. In and after 2017, the trend to raise wages according to the earnings performance of individual companies must be continued.

The government will raise the minimum wage by around 3% per year, taking into account the growth rate of the nominal GDP, to realize the national weighted average of 1,000 yen.

To this end, the government will promote the use of tax credit for the income expansion, and create an environment to provide support for productivity improvement efforts by SMEs and microenterprises.

To help young people and families with small children find housing with needed quality and space at low cost, a new system to promote the use of unoccupied housing and private rental housing will be created. To support families with small children in finding housing, a program to give a rent discount for UR rental public apartments will be created. The rent discount will be provided in cases where a family with small children lives in a UR apartment near a relative who can support their child-raising activities.

Reforms of social security systems listed in the reform schedule prepared based on the "Plan to Advance Economic and Fiscal Revitalization" will be steadily implemented. The government will work to improve the efficiency of the social security systems in order to minimize the increased burden of insurance premiums for the insured.

(2) Meeting potential consumption demand

[1] Establishment of a new social system in the healthcare field for health and longevity

The government will cooperate in the efforts of the Nippon Kenko Kaigi (Japan healthcare committee) to achieve the goals set in the committee's "Declaration to Create a Healthy Community and Workplace 2020." The government will promote adoption of advanced health programs by local governments, companies and insurers nationwide. Support and incentives will be provided to insurers and the matching of insurers with private companies will be strengthened. Good practices of these efforts for health management and the "Data Health" initiative will be communicated and introduced nationwide.

To improve the living environment for the elderly, the dynamism of the private sector will be utilized to create, develop and promote the use of healthcare/medical services and use of advanced technologies will also be promoted, including use of mobile devices and ICT in medical and nursing care or health management, and installation of a collision-avoidance system on vehicles as the standard.

[2] Revitalization of tourism and consumption by domestic and overseas travelers

To grow into an advanced tourism-promoting country, the "Tourism Vision to Support the Future of Japan"⁶¹ set the goals of attracting 40 million foreign tourists and 8 trillion yen in spending by 2020. It also set a goal of increasing spending by Japanese domestic tourists, which has been declining in recent years, to 21 trillion yen by 2020. In accordance with the "2016 Action Program for the Achievement of the Tourism Vision,"⁶² the government will exert its unified efforts and work together with the private sector to achieve these goals as early as possible.

To achieve these goals, visa requirements will be strategically relaxed and the examination system will be improved. Preservation and utilization of national parks, beautiful mountainous scenery, farming and fishing villages, and other unique tourism resources will be promoted. Attractive public facilities will also be opened to tourists, and "Japan Heritages" and other cultural assets will be integrally preserved and utilized. Environments in which anyone can tour alone safely and with peace of mind will be established. Information on the various appealing features of Japan will be communicated in and outside of Japan to attract

⁶¹ Tourism Vision to Support the Future of Japan (Decision of Meeting of the Council for the Development of a Tourism Vision to Support the Future of Japan, March 30, 2016).

⁶² 2016 Action Program Achievement of the Tourism Vision (Decision of the Ministerial Meeting on National Tourism Promotion, May 13, 2016)

tourists. Promotions targeting tourists from the U.S., Europe and Australia, or targeting the wealthy will be conducted to attract long-stay tourists.

To promote growth of the domestic tourism market, the government will promote the concept of labor unions and management working together to encourage employees to actively use their annual paid vacations. Taking staggered holidays will also be promoted, as will the establishment of “Furusato Holidays,” which are unique holidays set by individual local governments. Through these reforms in the style of vacations and holidays, the government aims to improve people’s quality of life, and stimulate tourism and local vitalization.

Installation of clean, safe and comfortable toilets that are easy for anyone to use will improve the image of tourist destinations and is expected to attract tourists. The government will promote the installation of comfortable restrooms with universal design toilets along with the provision of information on toilet locations. Adoption of higher-level universal designs will also be promoted in other areas to realize a better society and stimulate consumer spending.

(3) Stimulating consumption and investment by making use of public capital stock

Home inspection and use of defect insurance will be promoted to guarantee the quality of existing housing. The government will provide support for the development and dissemination of an integrated system, including distribution and financing, which ensures proper appraisal of long-life designed housing and other quality housing, and facilitates their market distribution.

Financial support will be provided for anti-seismic retrofitting or rebuilding of houses and demolition of unmaintained vacant houses. The government will encourage renovation to extend the life of the structure of housing, such as increasing thermal insulation properties to improve energy-saving function, improving handicapped accessibility.

Support will be provided both in tangible and intangible areas to private town development organizations that implement initiatives to increase the value of the local community, including renovation of unoccupied stores and use of public spaces.

Investment will be promoted by stimulating the flow of real estate stocks. To promote the virtuous cycle of regional economies, the function of the REIT market will be strengthened, the supply of real estate to growth areas will be stimulated, reuse of unoccupied housing will

be promoted by utilizing small-lot investments, and donated or unused real estate will be properly managed and utilized. In addition, databases will be strengthened, including for appraisal data, cadastral data, and maps registered in the land registry. To facilitate the use of unoccupied housing and urban development, registration of succession of land and buildings will be promoted.

To support people's independent efforts for asset formation in preparation for life after retirement, the convenience of the NISA system will be improved. Elimination of limitation of the investment period (currently until 2023) will also be considered.

(4) Stimulating consumer confidence

Based on the analysis of past initiatives and their results, such as premium product/travel vouchers and child-care support vouchers, additional initiatives for stimulating consumer confidence, such as nationwide sales promotion events, will be considered. Measures to prevent and relieve consumer damage will be implemented to protect consumers and secure their safety.

4. Establishment of an economic and fiscal system for growth and distribution

(1) Use of the fruits of Abenomics

Thanks to measures implemented under Abenomics, the Japanese economy has broken free of deflation, and economic indicators such as employment, wages, and corporate income, have steadily improved. As a result, tax revenues have significantly increased. Government expenditures have also improved, with a decreased number of households on welfare due to unemployment; decreased payments of unemployment benefits; an increased number of workers participating in employee's health insurance; and progression of expenditure reforms.

In the second stage of Abenomics, economic measures will be advanced more strongly. By "a Virtuous Cycle of Growth and Distribution", the government will further promote a continuous and stable economic recovery, and a virtuous cycle of fiscal consolidation.

To address the demographic problems of population shrinkage and an aging society with a low birth rate, which are bottlenecks for Japan's economic growth, based on the results of Abenomics, governments will implement measures to address important issues, including realization of a Society Promoting Dynamic Engagement of All Citizens.

(2) Simplified, streamlined and online administrative procedures

Aiming to develop Japan into the “world’s friendliest country to enterprises,” regulatory reforms and simplification and computerization of administrative procedures will be integrally promoted in order to reduce regulatory and public administrative costs for enterprises. As initial measures, regulations and administrative procedures associated with foreign direct investment in Japan will be drastically reformed and simplified. In areas other than foreign direct investment in Japan, some measures that are able to be started ahead of others will be implemented as soon as possible by deciding on specific activities within 2016. Based on the progress of these efforts, and on the results of research concerning measures taken by other countries for similar purposes, a wide range of priority issues will be selected and targets for the reduction in regulatory and administrative costs will be decided near the end of fiscal 2016 and systematical efforts will be implemented.

In addition, a system to promote one-stop services for receiving child care support, electronic procurement and other needs will be developed by utilizing My Number cards and an electronic private mail box.

(3) Establishment of a system to return the benefits of more efficient spending to the working generation and local communities

Burdens on people under the social security programs (such as taxes and social insurance premiums), structures of insurance benefits and decision processes will be reviewed across all these programs in order to implement reforms that realize sustainable social security programs, maintaining a balance between benefits and burdens.

The government will establish systems to return the benefits of reduced spending achieved by the expenditure reforms and economic revitalization under the Integrated Economic and Fiscal Reforms, to childcare support and other needs of the people. The government will also strengthen incentives for the expenditure reform by further accelerating the industrialization of public-related services that actualize latent demand.

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 the number of volunteers. Programs to develop a culture of donation will also be promoted, including a “Month of Donation” campaign to promote donations by the cooperative initiative of private non-profit organizations, companies and governmental

offices.

(4) More efficient resource allocation

While identifying the KPIs under the Action Program for Economic and Fiscal Revitalization and establishing an assessment method, the government will establish an effective PDCA cycle. By pursuing “visualization” of the processes and lateral introduction of excellent examples, the incentive reform will be accelerated. Through these efforts, wise spending by national and local governments will be promoted to realize more efficient resource allocation.

5. 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, Japan will actively contribute to solutions for global challenges, including steady implementation of actions determined in the G7 Ise Shima Summit and the 6th Tokyo International Conference on African Development. The government will reinforce safety measures for Japanese citizens, companies, schools, diplomatic missions and other facilities overseas, strengthen border control and improve information collection and analysis functions related to national security and terrorism. It will also strategically communicate accurate information about Japan to demonstrate the "Real Japan" and the diverse attractiveness of Japan to the world through the Japan House and other information and culture centers; develop pro-Japanese people; promote personal and cultural exchanges, including international youth exchanges; and provide support for overseas operations by Japanese companies and local governments. The government will also actively work toward achievement of Sustainable Development Goals (SDGs) based on the principle of human security. The government will strategically utilize international organizations as it deems beneficial, and with regard to economic cooperation through international organizations, coordination among government agencies will be strengthened through the Council on Strategy for Overseas Economic Cooperation and Infrastructure

and implementation of financial contributions will be appropriately managed and evaluated. In addition, the government will increase its total diplomatic power by improving foreign policy implementation structure including personnel structure and diplomatic missions overseas taking into account those of other countries, and by promoting appropriate, efficient, and strategic utilization of ODA and strengthening development cooperation through ODA.

[2] National security and defense

As the security environment around Japan has become increasingly severe, 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,"⁶³ the government will expand and deepen cooperative relationships with other countries, with the Japan-U.S. alliance as the centerpiece from the standpoint of proactive contribution to peace on the basis of internationalism, and will efficiently develop highly effective overall agile defense capabilities based on the "National Defense Program Guidelines for FY2014 and Beyond"⁶⁴ and the "Medium Term Defense Program."⁶⁵ In doing so, the government will steadily advance reforms of the personnel system, strengthen strategic R&D and defense production and technological bases, and promote the sharing of equipment and technology with other countries. The government will also strengthen territorial sea guard and marine watch functions based on the Strategy, and cope with issues on ocean, aerospace and cyberspace, including enhancement of "rule of law." Measures to maintain the security of manned islands near the border and local communities will also be promoted.

(2) Safety and security of citizens (Public safety, consumer policy, etc)

[1] Public safety, justice and emergency management

To secure public safety, based on the "Strategy to Make Japan the Safest Country in the World"⁶⁶, the government will continue to implement measures to combat cybercrime and

⁶³ National Security Strategy (Cabinet Decision, December 17, 2013).

⁶⁴ National Defense Program Guidelines for FY2014 and Beyond (Cabinet Decision, December 17, 2013)

⁶⁵ Medium Term Defense Program (FY2014–2018) (Cabinet Decision, December 17, 2013).

⁶⁶ Strategy to Make Japan the Safest Country in the World (Cabinet Decision, December 10, 2013).

cyber-attacks; measures for border control, other counter-terrorism measures and counter-intelligence functions; measures to combat organized crime; measures to prevent smuggling; measures to combat illicit drugs, such as the development of a probation system and treatment centers for drug addiction; measures to prevent human trafficking; measures to prevent child abuse and sexual exploitation of children; measures to combat stalking, domestic violence, sexual offenses; measures to combat so-called special fraud; and measures to combat illegal residency and related issues. Together with the private sector, the government will promote programs to prevent criminal recidivism in coordination with corrective, rehabilitative, and prosecutorial functions, including further strengthening of education and vocational training for both incarcerated and discharged inmates and improvement of correctional institutions to support them; consideration towards elderly inmates; support for the activities of volunteer probation officers; improvement of offender rehabilitation facilities and reinforcement of their human resource; and support for the employment of discharged inmates, including support for cooperative employers.

In particular, based on “Strengthening of Terrorism Countermeasures in Response to the Serial Terrorist Incidents in Paris”⁶⁷, the government will steadily advance all modes of antiterrorism measures. In addition, based on the “Cybersecurity Strategy”⁶⁸, the government will make the utmost effort regarding initiatives related to cybersecurity, the protection of personal information, and the management of information it holds.

Taking advantage of the Japanese judicial system as soft power, and looking to the hosting of Congress 2020⁶⁹, the government will comprehensively and strategically implement various international measures in the judicial field to disseminate the universal values of “rule of law” and “respect for fundamental human rights” around the world. 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 foreign languages and cultures; and support the improvement of legal systems in other countries, primarily in Asia. The government will also promote securing marine safety and national marine interests as well as improvement of emergency management functions; judicial systems to prevent disputes; and improvement of legal procedures to settle international disputes. The government will also promote development of total legal support and other reliable judicial systems; a reduction in

⁶⁷ Strengthening of Terrorism Countermeasures in Response to the Serial Terrorist Incidents in Paris (Decision by the Headquarters for the Promotion of Measures Against Transnational Organized Crime and Other Relative Issues and International Terrorism, December 4, 2015).

⁶⁸ Cybersecurity Strategy (Cabinet Decision, September 4, 2015).

⁶⁹ The UN Congress on Crime Prevention and Criminal Justice to be held in Japan in 2020

financial- and time-related burdens on law school students, financial support to legal apprentices, and other measures to strengthen the support for development of legal human resources; promotion of legal education; and promotion of measures to protect human rights, including elimination of “hate speech.” Systems for determining cause of death will be upgraded; support for crime victims will be expanded; and traffic safety measures will be strengthened. The government will also promote the development and utilization of space infrastructure, and secure safe water resources under the Basic Plan for the Water Cycle⁷⁰.

To combat infectious diseases, the government will promote comprehensive international cooperation, including establishment of an international framework to address hazards, and provision of funds, human resources and medicines, measures to combat antimicrobial resistance (AMR) and to strengthen research and development (R&D)..

[2] Promoting a consumer policy

To protect consumer safety and security, based on the “Consumer Basic Plan,”⁷¹ the government will strive to improve the collection and analysis of information regarding consumer accidents and prevent the occurrence and propagation of such accidents; promote improvement of food labeling; strictly enforce the Act against Unjustifiable Premiums and Misleading Representations, 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 business management; build networks that protect the elderly and other vulnerable consumers; and promote the use of the Consumer Hotline (188).

(3) Resources and energy (including ensuring the safety of nuclear power)

Based on the “Innovative Energy Strategy⁷²,” the government will overcome the constraints on environment and energy, achieve economic growth by expanding investments in the energy field and improving the efficiency of energy, and keep the balance between economic growth and CO₂ emission control. Specifically, the “Industrial Top Runner” system will be expanded; support will be provided to SMEs for their energy-saving efforts; the building of Net Zero Energy Houses/Buildings will be encouraged to promote energy-saving in the housing/building area; and wider use of next-generation vehicles and other energy-saving efforts in all areas will be promoted. The feed-in tariff for renewable energies

⁷⁰ Basic Plan for the Water Cycle (Cabinet decision, July 10, 2015)

⁷¹ Consumer Basic Plan (Cabinet decision, March 24, 2015)

⁷² Energy Innovation Strategy (Decision of the Ministry of Economy, Trade and Industry, April 18, 2016)

will be reviewed. System constraints will be eliminated to reduce the national burden. At the same time, maximum utilization will be promoted with balance among power sources. To establish a new energy system, the government will take measures to achieve a balance between newcomers to the electricity business and CO₂ emission control, establish an energy system that combines renewable energy and energy saving, and realize a hydrogen energy society. And, local production and local consumption of energies will be promoted by establishing distributed energy systems that combine small hydroelectric, biomass, wind-power and other small-scale renewable energy sources. The government will also implement measures to realize the “Fukushima plan for a new energy society.” International expansion of the Japanese energy industry will also be promoted.

As the resource prices are declining and investments in global resource development have been slowed down, the government will actively support investments for resources development, including increasing the supply of risk money. The government will take measure to establish better environments for the trading of LNG and natural gas in and outside Japan. In addition, the government will promote research and measures to realize the practical application of petroleum, natural gas, methane hydrate, sea-floor hydrothermal deposits, rare earth metals, and other resources of Japan. In addition, to securing a stable supply of petroleum and LP gas in Japan, measures to maintain and strengthen the supply chain will be implemented.

Concerning nuclear power, safety will be given priority above all else. In the case that the Nuclear Regulation Authority confirms the conformity of nuclear power plants to the new regulatory requirements, which are of the strictest in the world, the government will respect the Authority’s judgment and the confirmed nuclear power plants will be restarted. The government will stay in front and work to promote understanding and cooperation from local governments and other interested parties in the plant areas. Efforts will also be advanced to promote spontaneous improvement in the safety of nuclear power generation, and strengthen disaster prevention measures and the reprocessing of spent nuclear fuel and final disposition of radioactive waste. Necessary technical development, human resource development and international cooperation will also be promoted. Effective monitoring and inspection systems will be established and the organization of the Nuclear Regulation Authority will be strengthened. Regulatory standards to improve predictability and examinations will be enhanced and clarified.

(4) Contribution to the global environment

To realize early ratification of the Paris Agreement with the participation of major emitting

countries, the government will make necessary preparations and steadily implement the Actions for Cool Earth 2.0(ACE2.0)⁷³ to reduce global greenhouse gases. The government will cooperate with the private sector in supporting developing countries, promote development of innovative environment and energy technologies, and utilize the Bilateral Offset Credit mechanism to promote overseas expansion of excellent low-carbon technologies.

Based on the “Global Warming Prevention Plan⁷⁴” that incorporates measures and policies to achieve the medium-term targets set in “Japan's Intended Nationally Determined Contribution⁷⁵” and long-term policy, measures for realizing a complete energy-saving society, maximum utilization of renewable energies and their balance with people’s burden; measures to reduce greenhouse gas emissions; the national campaign to prevent global warming; and cooperation with the International Renewable Energy Agency (IRENA) and other international organizations will be implemented, “National Plan for Adaptation to the Impacts of Climate Change.⁷⁶” Meanwhile, there are a number of measures for the government to secure funds for promoting the use of forests as carbon sinks and undertaking regional measures to combat global warming. To promote the use of woody biomass as energy and the use of wood as a material to reduce CO₂ emissions during energy production, the government will use the tax for global warming countermeasures for model businesses, technical development and research. While strengthening the roles of municipal governments in forestry development and taking necessary measures to develop human resources that support the local forestry industry, citizens both in urban and rural areas will be asked to assume equal financial burdens to support the funds necessary for implementing initiatives implemented by municipal governments to develop and manage forests. To this end, the government will consider a new tax (forestry environment tax (tentative name)) and other mechanisms to generate financial resources to be applied to continuous and stable forestry development measures implemented by municipal governments. The timing of enforcement of such tax and mechanisms will be properly decided. Even before stable financial resources are secured, necessary measures will be steadily implemented to promote the use of forests as carbon sinks.

In addition, the government will advance the formation of a recycling society that incorporates effective utilization of waste as an energy source, reduction of food waste,

⁷³ Actions for Cool Earth 2.0 (ACE2.0) (Report of the Global Warming Prevention Headquarters, November 26, 2015)

⁷⁴ Japan’s Intended Nationally Determined Contribution (Decision of the Global Warming Prevention Headquarters, July 17, 2015)

⁷⁵ Global Warming Prevention Plan (Cabinet Decision, May 23, 2016)

⁷⁶ National Plan for Adaptation to the Impacts of Climate Change (Cabinet decision, November 27, 2015)

preservation of rural lands, mountains, and marine areas, and the implementation of measures to address marine litter, microparticulate matter (PM2.5) and mercury. The government will also promote efforts for the development of local communities oriented toward recycling and coexistence.

Chapter 3 Promotion of Integrated Economic and Fiscal Reforms

1. Steady promotion of Integrated Economic and Fiscal Reforms

“Without economic revitalization, there can be no fiscal consolidation.” This fundamental idea will not change and shall be continued under the strengthened economic policy in the second stage of Abenomics. The government will aim at achieving both the target of a 600 trillion yen economy and fiscal consolidation target of FY2020⁷⁷. To promote the integrated economic and fiscal reforms, it is also necessary to improve the balance of revenues and expenditures from the perspective of wise spending by capitalizing on the results of reforms. The government will further advance the reforms based on the results achieved so far to realize both the economic revitalization and fiscal consolidation.

Efforts to improve spending and revenues will be promoted under the “Plan to Advance Economic and Fiscal Revitalization.” Specific policies will be established for reforms in individual fields. Reform time schedules were created to clarify their time frame for achievement. Key performance indicators (KPIs) were set under the Economic and Fiscal Revitalization Action Program to manage and measure the progress of the reforms. Based on these time schedules and KPIs, the government will steadily advance these reforms by effectively following the PDCA cycle.

For expenditure reform, innovative and best practices will be adopted nationwide; collaboration between the national governments and local governments will be strengthened; and “visualization” of the reforms will be strongly promoted and expanded. Through these efforts, bottom-up reforms will be implemented at the national and regional level. In addition, the wise spending mechanism will be strengthened so that overall spending, including treasury disbursements and mandatory expenditures, will contribute to the economic revitalization and fiscal consolidation.

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 stable financial sources. For expenditures that will occur during a finite period of time, the government will secure funding from sources such as the sale of assets to strictly maintain fiscal discipline.

⁷⁷ The government aims to achieve primary surplus of the central and local governments by FY2020; thereafter, the government will seek to steadily reduce the public debt to GDP ratio.

2. Spreading advanced and excellent practices, enhancing cooperation between the national and local governments, and ensuring and expanding “visualization”

(1) Spreading advanced and excellent practices

The government will find excellent cases of reforms in public services, share the information among interested parties, and widely disseminate and introduce them down to the municipal government level. Adoption of innovative and outstanding measures will be encouraged and interested governmental offices will cooperate in implementing such measures. Focus will be placed on the areas of health promotion and disease prevention services, and local government public services.

[1] Health promotion and disease prevention services

In the area of health promotion and disease prevention services, to achieve both rationalization of spending and economic vitalization while maintaining and improving the quality of public services, related governmental agencies will implement specific measures and collaborate with medical service providers to promote excellent practices nationwide, based on the summary report of the “Health Promotion and Disease Prevention Service Platform.”⁷⁸

[2] Local government public services

Local governments will further increase the outsourcing of counter services to private sectors as appropriate; promote the use of ICT, such as local-government clouding; implement operational reforms, and strongly implement wider-area joint services provided beyond the borders of local governments. To achieve innovation in public services, the government will further strengthen communications and publicity generation. Actual cases will be examined to evaluate and classify how innovative approaches solved problems. Measures to promote adoption will be considered for individual innovative practices to encourage their adoption nationwide with the cooperation of prefectural governments.

(2) Enhancing cooperation between national and local governments

To ensure that national and local actions are consistent based on the same understanding,

⁷⁸ Interim Report of Health Promotion and Disease Prevention Service Platform for Lateral Adoption of Best Practice for Spending Rationalization (Submitted by the Council on Economic and Fiscal Policy, December 7, 2015)

discussions and communications between national and local governments will be maintained to steadily implement the reforms. A mechanism to adopt the proposals of local governments will be developed. Measures to support administrative reforms in local governmental offices and other local efforts will also be implemented.

(3) Ensuring and expanding “visualization”

To realize dynamic bottom-up reforms that incorporate the ideas and originality of interested parties and people working on the front lines, it is important to “visualize” the reforms so that the public, private companies, and governmental officials can share basic understanding on what the problems are, whether reform is necessary and how it should be implemented, as well as progress made and results from the reforms.

To this end, basic data sets will be published, and a central and easy-to-use system to search and view collected and analyzed data will be developed.

The success of a bottom-up reform depends on how far and deep the reform can be disseminated into the front lines of local governments. Dialog with local organizations and an awareness survey with local public organizations, as well as interviews with people working on the front lines will be continued. Symposiums will also be held and public relations activities will be conducted.

3. Enhancement of the wise spending mechanism

To improve the quality of fiscal administration and to address present problems, contents with regard to spending will be drastically changed. It is important to strengthen the wise spending mechanism to severely reduce expenditures having a minimal effect and allocate them to more effective measures. Priorities will be determined from the perspective of whether the spending contributes to both economic vitalization and fiscal consolidation. Data analysis of the effect and results will be discussed by the Council on Economic and Fiscal Policy and in other meetings, and will be properly incorporated in the process of the budget drafting.

Spending under cross-sectional or wide-area frameworks will be promoted, regardless of the type of spending, to enhance their cost efficiency.

Mandatory expenditures required under established systems will be reviewed from the perspective of reform of public services and a review of the entire system. Both benefits

paid in cash or kind and expenditures made for administration of the systems will be reviewed and not simply followed as a matter of course based on past trends, with consideration given to longer healthy life expectancy, provision of public services in a wider area, and use of information technology. The PDCA cycle will be strictly followed based on evidence obtained from the data and data analyses.

(Performance indicators for national treasury disbursements)

Treasury disbursements provided by the national government to individual local governments account for a considerable portion of the finances of local governments. These funds go through a number of processes until they are actually spent under the budgets of individual local governments. For these reasons, it is difficult to monitor the actual budget use only through the PDCA cycle during the national government's expenditure process. Accordingly, it is necessary to make additional efforts to improve the results of spending by local governments and the "visualization" of the process. Measures that fit to the nature of individual treasury disbursements must be implemented.

First, as for treasury disbursements required under the law, the overall programs will be reviewed, including related measures, to promote effective use of the budget by individual programs and to realize the purpose of the relevant measures.

Second, it is important that treasury disbursements that allow for a high degree of local government discretion create local originality and encourage actions that suit local conditions. To evaluate each local government regarding whether it has achieved the intended purpose of the disbursement, depending on the type of the disbursement, the government will develop a cross-sectional mechanism to set and evaluate national treasury disbursement performance indicators. When setting performance indicators for national treasury disbursements, it is necessary to ensure their consistency and uniformity in order to review administrative operations (national-level outcome indicators).

The controlling agencies in the national government will set the performance indicators for treasury disbursements that allow for a high degree of local government discretion. In allocating treasury disbursements to local governments, the controlling agencies must make appropriate adjustments according to the status and the progress of the measures taken by individual local governments. In addition, for each type of treasury disbursement, the payment status and progress of the measure taken by local governments will be visualized. By making a comparison between local governments based on obtained data, innovative and best practices will be actively promoted.

4. Establishment of an effective PDCA cycle

For building an effective PDCA cycle, discussions and examinations will be promoted at the Council on Economic and Fiscal Policy before deliberations on budget requests commence. It is important to follow the PDCA cycle based on the reform time schedule and on KPIs. The Economic and Fiscal Reform Promotion Committee will assume a leading role in conducting progress management, inspection and evaluation. Each national government office will appropriately incorporate the results into their budget requests.

Governmental offices will check the progress of the measures taken and indicators for each year, and will also place focus on reviewing the results over multiple years. The presently scheduled reforms are implemented through a bottom-up approach to build up the results of the reforms, not by an approach that sets a cap for each major expenditure category. Accordingly, to further advance the reforms, follow-up will be conducted to identify to what extent the reforms were disseminated and expanded and what effects were achieved. The progress of each item scheduled in the reform time schedule will be examined while keeping organic links with the policy evaluation and the review of administrative services.

To enhance the effectiveness of the PDCA cycle, it is important to improve the quality of the evaluation itself. Provision of indicators and analysis results as open data will be actively promoted. Quicker disclosure will be promoted for statistics and other data used to measure the effect of the political measures taken.

When developing a PDCA cycle, expenses included in the supplementary budget, not only the initial budget; and subsidies directly provided to private organizations, not via local governments, will also be taken into account.

The Economic and Fiscal Reform Promotion Committee will verify the progress of reforms as planned in the reform time schedule and discuss budgetary requests and how they should be reflected in the budgeting process by the end of the year. In addition, adoption of innovative and best practices will be promoted; “visualization” of the reforms will be promoted and expanded; and reform processes and KPIs will be identified, inspected and evaluated. Based on the progress of the reforms and specific decisions on new reform processes, necessary revisions will be made to the Economic and Fiscal Revitalization Action Program by the end of 2016.

5. Reform measures for each of the major fields

(1) Social security

[1] Guiding principles

In the social security area, to maintain Japan's universal health care coverage and universal pension coverage, which are among the best in the world, and hand them down to the next generation, the government will steadily undertake 44 reforms, according to the reform time schedule, including optimization of the medical and care service systems under the Plan to Advance Economic and Fiscal Revitalization; incentive reforms; industrialization of public services; fairness in insurance contribution based on ability of individuals to pay; optimization of insurance benefits; reforms related to medical costs and drugs, including NHI prices and prescriptions; pension: and public assistance.

Specifically, the following measures will be implemented:

[2] Further promotion of “visualization” and wise spending

In implementing reforms based on the reform time schedule, “visualization” of actual states of benefit payments and regional gaps will be further promoted in the medical and care service areas. Through this visualization, it is important for insurers, the government, citizens who are service users and cost bearers under the insurance programs, and medical and care service providers to review their respective behavior. These reviews, combined with proper reform measures implemented based on the “visualization,” will lead to desirable choices and actions by each citizen, the realization of efficient payment of medical or care benefits, and wise spending of limited financial resources.

Based on this perspective, the following reform measures will be implemented:

i) Medical service

(Promoting reform by creating a medical cost optimization plan and a regional healthcare service vision)

To narrow the regional gap in medical costs by half as targeted in the Plan to Advance Economic and Fiscal Revitalization, an additional review will be conducted regarding the basic policy for optimization of medical costs. By the summer of FY2016, the government will determine, based on the regional healthcare vision, a specific method to estimate inpatient medical costs reflecting the results of functional differentiation among hospitals and collaboration between hospitals, and a specific method to estimate outpatient medical costs

incorporating measures to optimize medical costs and analysis of their results. Specific measures to optimize medical costs will also be determined. The medical cost optimization plan will expressly describe a program to promote use of generic drugs, with a goal of achieving an 80% or higher use rate. Targets will be set to avoid double medication and to work on anti-smoking measures; and measures to educate and promote vaccinations will be set to promote implementation of the corresponding reform measures.

To ensure the proper use of drugs, measures to ensure accurate prescriptions of multiple kinds of drugs will be implemented. Moreover, optimization of the use of innovative drugs will be promoted in combination with the introduction of a cost-benefit evaluation. From FY2016, the government will commence discussions on proper prescriptions of drugs for lifestyle-related diseases and will draw a conclusion by the end of FY2017.

In the area of the regional healthcare vision, the government will host workshops and provide other support to prefectural governments so that they complete the development of the plans by the end of FY2016. Functional differentiation of hospitals and cooperation between hospitals will be promoted by strategic distribution of “general funds for supporting local medical and care service providers.”

The government will engage in discussions on restructuring care facilities into efficient service businesses, paying careful attention to maintaining consistency with the healthcare plan and care insurance business (support) plan as well as previous discussions, and will draw a conclusion by the end of FY2016.

Discussions will also be carried out regarding the forecast for demand/supply of healthcare professionals and measures to rectify uneven geographical distribution of healthcare professionals. The results of the discussions will be compiled into a report within FY2016. In particular, effective measures to address uneven geographical distribution of doctors and uneven specialty distribution will be considered based on the regional healthcare vision.

(More advanced analysis of regional gaps and factors that push up medical costs; integrated analysis of medical and care service data)

The government will promote more advanced analysis of factors that cause additional medical costs other than the aging of the society and other demographic attributes, and the revision of medical service fees. Regional gaps will also be analyzed, including the regional gap with regard to the content of medical treatment. Analysis of health insurance claims by insurers will be promoted to identify the actual state of medical service. The health insurance claim data will be utilized to evaluate the quality of medical services from

individual service providers. At the same time, the government will consider a mechanism to share the results of the analysis among medical professionals to improve the quality of medical services. To implement integrated measures for medical and care services, combined data will be analyzed. To address increasing needs in political measures and in research, utilization of the expanded NDB⁷⁹ server will be promoted.

(Strengthening Data Health)

Based on data analysis, measures that fit the conditions of individual insured persons will be implemented to realize effective Data Health. Efforts by individual insurers and their results will be measured by continuously examining the healthy condition maintenance rate and other data. Discussions will be conducted regarding the division of functions for medical fees and the healthcare operation. Measures to prevent aggravation of disease, including prevention of complications, will be promoted.

The government will provide support to insurers for collecting and analyzing data, and joint operation of healthcare programs and other reform measures. To “create quality of medical services,” ICT and Big Data will be utilized to the fullest extent, and Data Health and quality of medical services will be examined and improved. To achieve this, the government will consider a new insurer support service⁸⁰ based on the results of discussions regarding the operation of insurance claim examination/payment organizations responding to the ICT era.

Adoption of good practices with regard to Data Health will be promoted nationwide through joint development of national programs with medical organizations and systematic organizing and packaging of innovative Data Health services. In FY2018, some incentive reforms will commence ahead of the original plan. Incentives are provided to local governments that work on Data Health services. In setting incentive benchmarks, their details will be clearly presented in order to contribute to the optimization of medical costs. Linkage between health management measures conducted by companies and Data Health will be further promoted.

For insurers that cannot invest sufficient resources in the Data Health service, the

⁷⁹ National Data Base, a database covering health insurance claims, metabolic syndrome health checks and other data related to healthcare services. Healthcare service data collected by the Minister of Health, Labour and Welfare from healthcare insurers are stored and controlled in the NDB, including medical expense claims and drug dispensing fee claims (“health insurance claims”), metabolic syndrome health checks and health consultation.

⁸⁰ Services to provide support to insurers for performing effective Data Health service to promote the active provision by insurers of data related to medical services and health management so that people can make informed decisions in choosing medical services with higher quality.

government will provide subsidies for the costs of initial introduction of the service and other support. Matching between insurers and private companies will also be promoted.

(Measures to promote personal healthcare, prevent diseases and the aggravation of diseases)

The government will promote community-based and employer-oriented measures to create environments that promote personal healthcare and disease prevention in daily living. Discussions will be conducted in preparation for the creation of the next “Basic Plan for Cancer Control” to be revised in June 2017. A higher target will be set for the cancer screening rate. In particular, the government will promote improvement of the screening rate for cancers unique to women. The government will also promote significant improvement of the screening rate for metabolic syndrome health checks by simultaneously providing cancer screening. Cooperation with primary care doctors will be promoted to realize effective guidance for personal health management, disease prevention and prevention of disease aggravation. Efforts to combat frailty of the elderly⁸¹ will be further promoted. Such efforts will include development and distribution of guidelines for insurers and national introduction of effective services based on good practices. The government will strengthen incentives for promoting disease prevention and personal healthcare. Based on common incentive indicators for disease prevention and personal healthcare, the government will consider specific indicators for the insurer effort support system and the adjustment of financial support provided to elderly people aged 75 and over. Improvement of psychiatry and mental healthcare service will also be promoted.

(Medical services at the terminal stage of life)

Current states of medical services provided at the terminal stage will be researched. Based on the results of this research and discussions involving the public, the government will promote the development of a community-based total care system. The government will also implement national programs to develop and train medical professionals. In addition, the government will encourage the widespread use of a process in which medical service providers provide proper information and explanations to patients, and where medical service providers and patients discuss medical treatment choices so that in principle, patients can make informed decisions by themselves concerning medical services at the terminal life stage.

ii) Care services

⁸¹ Decreased mental and physical condition of an elderly person that hinders life functions, requires care by professional care givers, or may lead to death or other dangerous condition

In the care service area, the community-based total care system will be further promoted and the government will also work to narrow regional gaps. To achieve this, development and utilization of a community-based total care “visualization” system⁸² will be promoted, through which individual insurers can analyze regional gaps in the approval rate for qualification regarding care services and benefits. Benefit payment states for individual insurers can be identified by this system. Based on the results of the analysis, effective measures for specific problems will be considered and implemented.

Nationwide adoption of good practices conducted by municipal and prefectural governments will be promoted, and the PDCA cycle of the care insurance business plan will be strengthened. Municipal governments will provide support for the independent living of the elderly and preventive activities to reduce the requirements of care services. The government will carry out discussions on an institutional framework for incentives intended for optimization of benefit payments through these efforts and draw a conclusion by the end of FY2016.

The government will promote improvement of the quality and productivity of care services by reducing the number of paper documents required by the governmental offices by half, and by utilizing care robots, ICT and other next-generation care technologies.

iii) Others

The impact of the NHI price revision in FY2016 will be examined and verified. In particular, regarding reforms related to drug dispensing fees, including establishment of a new system to evaluate the integrated and continuous management of medication and medication counseling by family pharmacies, “visualization” of the revisions and their effect will be examined from the viewpoint of separation of drug dispensing from medical practice for the benefit of patients.

Regional gaps in medical aids under the Public Assistance program and factors causing the gap will be analyzed. Based on the analysis and taking into account the characteristics of the medical aids, optimization of the system will be promoted. Each local government will develop and implement a plan to encourage the use of generic drugs and reduce the

⁸² A central system to manage data related to care insurance (such as data on care insurance claims and certification of needed care levels) and data necessary for establishing a community-based total care system (such as demographics) at a single point, widely shared among municipal governments and the public via graphs and other easy-to-understand formats.

frequency of medical consultation to an appropriate level.

Evidence-based verification will be conducted to identify factors that push up social security costs.

Review of medical and care service costs from medium- and long-term perspectives will be completed and reported within the intensive reform period, and the results of the reforms will be identified and verified.

[3] Exteriorization of the potential demand

To realize a 600 trillion yen economy, the government will actualize latent demand in the health and longevity field by utilizing the funds and wisdom of the private sector in the social security area, and expand consumption and the investment market.

Data Health and health management by insurers will be promoted, for example, in preventing disease aggravation, by involving private companies. This will lead to optimization of medical costs, improvement of people's quality of life (QOL), actualization of latent demand in the health and longevity field, and improvement of enterprises' productivity. The government will implement strong measures by referring to good practices. The government will also develop healthcare-related industries by promoting Data Health through the use of healthcare equipment. Medical ventures will additionally be promoted.

To realize the provision of various care services according to the conditions and needs of individual service users, the government will promote the use of services not covered by care insurance and the use of various living support services. Digital drug booklets issued to individual patients that record drugs dispensed to them will be utilized to promote integrated health management support by pharmacies linked to various health information resources.

(2) Social infrastructure development

[1] Guiding principles

As serious shrinkage of the population will soon begin, to maintain and improve the dynamism and attractive features of the Japanese economy and society, it is important to realize a sustainable urban structure and steadily develop social infrastructure as a foundation for growth.

To achieve this, the basic system for land use in urban areas will be reviewed. Formation of a Compact Plus Network and provision of appropriate public capital stock will be promoted to maintain efficient and effective public services, and enhance the vitality of urban and rural areas even under the population shrinkage.

In accordance with the Priority Plan for Social Infrastructure Development, the government will fully utilize existing facilities and implement stable and ongoing public investment and strategic measures to fully realize stock effects in the improvement areas comprising international competitiveness, reinforcement of national resilience, disaster prevention and mitigation, and management and renewal of deteriorating facilities.

Moreover, concessions and other various PPP/PFI techniques will be utilized in construction and operation projects of public facilities. As shrinkage of the working population is expected to occur in the future, the government will promote productivity improvement of construction production systems and retention of construction workers.

[2] Promotion of the Compact Plus Network

By 2020, 150 local governments throughout the nation will complete the creation of a “site optimization plan.” It is important to realize the plans that have been created. To this end, indicators that demonstrate the various effects of a Compact City, such as health enhancement and improvement in local finance, will be developed. Big data will be utilized in developing an effective plan based on human behavioral data. Local governments will take the initiative to promote lateral adoption of innovative practices. Related national governmental offices will also provide strong across-the-board support for the development and implementation of the adoption plan. The effectiveness of the support will be verified to further improve or narrow its focus. Measures to enhance the liquidity of land and real assets in downtown areas will be implemented, including for stimulating investments and smooth replacements. In doing so, the government will promote the rebuilding of sustainable public transportation networks in conjunction with the formation of compact cities.

[3] Provision of appropriate public capital stock

Local governments will complete the creation of comprehensive management plans for public facilities by the end of FY2016. They will proceed to the next step to develop an individual facility plan. For these processes, it is necessary to steadily concentrate/integrate public facilities. To promote these measures, specific guidelines will be developed for

effective concentrating/integrating public facilities into complexes such as water/sewage services, cultural facilities, urban parks and public housing. In addition, “visualization” to demonstrate the efforts and their results in comparable formats will be steadily promoted, such as comparisons between local governments of forecasts for medium/long term maintenance and renewal costs in a given period, and maintenance cost per citizen. Prefectural governments will also provide support for these efforts. Specific plans will be announced for consolidation of life-related infrastructure to realize wider area operations. Application of public enterprise accounting to the sewage service will be further expanded and the government will review the cost-burden situation for users, considering the future needs regarding facility renewal.

The government has disclosed all asset information concerning national government-owned properties, in principle. Fixed asset ledgers will be created for properties owned by local governments by 2017. Based on these data, the total volume of unused assets along with other data will be published to share the information among local governments and encourage entry of the private sector in the effective use of the public capital stock. In addition to non-administrative properties held by governments, administrative properties will also be used effectively. To this end, unused land and facilities that can effectively be used for other purposes than the originally intended purpose will be examined, and how they should be used will be considered.

[4] Promotion of PPP/PFI

Various PPP/PFI will be promoted. To ensure that the targeted business sizes of 21 trillion yen are reached within 10 years (from FY2013 to FY2022) as specified in the Action Plan for Promoting PPP/PFI, the PDCA cycle will be firmly maintained and “visualization” of the progress of measures will be promoted. In particular, the utilization of concessions will be expanded. In addition, the national government and municipal governments with a population of 200,000 or more will establish and operate an effective framework to prioritize PPP/PFI so that public profit-making projects and real estate projects will be developed. Human resources to be engaged in PPP/PFI practices will also be developed.

The government will also create and implement regional platforms to enhance the ability of local private companies to develop projects, and encourage active utilization of Private Finance Initiative Promotion Corporation of Japan.

[5] Strategic social infrastructure development

Under the principle of selection and concentration, the government will place focus on social infrastructure development projects that will have a strong effect on stimulating private investment or that will have stock effects for securing people's safety. Specifically, development projects will be implemented for metropolitan beltways, strategic international ports and international airports. Measures to prevent and mitigate disasters, reinforce national resilience and manage and renew deteriorating facilities will be taken to secure continuity of social and economic activity. To promote the Productivity Revolution that contributes to continuous and powerful economic growth under the condition of population shrinkage, pinpoint measures to mitigate traffic congestion will be implemented to improve the flow of people and goods, and improve society-based productivity.

In working with these measures, to incorporate the concept of maximization of stock effects into the development of social infrastructure, the government will establish a specific stock effect evaluation method and a practical operation method.

More effective provision of subsidies will be secured by setting criteria and by requiring applicants to compute and present the cost effectiveness of the proposed projects. As for social infrastructure development projects for which subsidies are provided, disused costs will be carefully examined for verification of their appropriateness. If a problem is found, the necessary measures will be taken.

ICT and other technologies will be used in such projects to improve their production efficiency, and engineers and skilled workers capable of using these new technologies will be developed. For these efforts toward improving the productivity of construction production systems, processes and a time frame for setting and achieving the KPIs will be clarified and implemented. To retain the necessary number of construction workers, and to encourage young people to work in the construction industry, specific measures to retain and develop human resources in a medium- and long-term will be implemented. In addition, the frequency in which the public certification examination for construction management skills is held will be increased to twice a year to expand the opportunity for taking the examination.

It is also important to develop the maintenance industry and human resources to strategically maintain social infrastructure. To realize this, the government will set a goal for the market size and develop specific measures to achieve it by clarifying the implementation schedule.

(3) Local-government administrative and fiscal reform, and cross-sectional initiatives

[1] Guiding principles

The government will implement measures to promote reforms of local governments by fostering introduction of appropriate outsourcing of counter services and cloud-based IT systems across the country, and to foster the cooperation of local governments for public services.

From the first year of the reforms, all reform items will be steadily addressed according to the reform time schedule. In particular, the government places priority on the following items:

[2] Reforms of local allocation tax and other fiscal systems of local governments

To encourage more local governments to spontaneously apply and implement innovative measures including improvement toward efficient spending in order to promote the nationwide adoption of innovative practices, the government will provide details of such innovative practices. In addition, the cost levels attained by local governments that implement innovative measures will be reflected in the calculation of standard financial requirements (so-called “Top Runner” program). In introducing this program, the purpose and standards for cost calculation and future schedule will be published on the national government's website to widely disseminate the information.

Outsourcing of counter services will be promoted nationwide, with the cooperation of prefectural governments. In addition to this, the Top Runner program will also be applied to other applicable operations as soon as possible by identifying and sorting out the current conditions and problems of innovative local governments in cooperation with related governmental offices.

The government will continue to discuss on specific approaches to national adoption of the outsourcing and how the Top Runner program should be utilized, based on the Revised Local Allocation Tax Act 2016⁸³.

Local governments will complete the creation of comprehensive management plans for public facilities by the end of FY2016. They will proceed to the next step to develop an individual facility plan. For these processes, it is necessary to steadily concentrate/integrate public facilities. In addition, “visualization” to demonstrate the efforts and their results in

⁸³ Act on Partial Revision of the Local Allocation Tax Act (Law No. 14, 2016)

comparable formats will be steadily promoted, such as comparisons between local governments of forecasts for medium/long term maintenance and renewal costs in a given period, and maintenance cost per citizen. Prefectural governments will also provide support for these efforts.

The government will steadily promote complete “visualization” of public enterprise accounting; fundamental reforms of public corporations (such as discontinuance of business, restructuring into private corporations, wide-area collaboration with other entities and utilization of the private sector); development of business strategies to strengthen the business foundation of public corporations; and reforms in quasi-public corporations.

[3] “Visualization” of the local public administration and finance

From FY2015, costs per citizen will be comprehensively “visualized” by sorting them according to characteristics and purpose, including a year-to-year comparison and a comparison with other comparable local governments. The government will also create a database as soon as possible that users can employ to compare data from different local governments by setting various filters. In order to promote local governments to disclose information regarding comparisons between the budget and the actual result of local governments, the government will strengthen “visualization” of the financial conditions of local governments while paying attention to the associated work burden placed on local governments.

In the Operational Reform Model Project, calculation formulas will be created on a trial basis to determine counter-service costs per citizen and the effect of streamlined spending by introduction of appropriate outsourcing. The formulas will be published and the local government will be encouraged to use them.

Administrative costs per citizen in each prefecture and financial resources appropriated to the costs will be analyzed. Economic effects obtained by the efforts of local governments and reforms of financial administration in local governments will be verified.

[4] Reforms in public administration by local governments: wider-area service; joint service

Due to the shrinking population and progression of an aging society with a low birth rate, local governments face administrative tasks such as consolidation of public facilities, management of public companies, operational reforms and outsourcing. To fulfill these

tasks, two or more local governments collaborate jointly in providing public services for a wider area, according to the conditions of individual local governments. For each such task, prefectural governments should play the role of coordinator to actively promote the provision of public service for a wider area or joint provision of public services by two or more local governments.

In “central affiliated urban city areas”, and “settlements and independence areas,” each area will, by the end of FY2016, set appropriate indicators based on its characteristics, including indicators related to increases/decreases in the social population and other factors, and create a system to verify the indicator values and publish the results of the verification.

Subsidies for Regional Reinvigoration will be provided for measures to promote local reinvigoration implemented by wide-area collaboration between local governments.

As for services and operations conducted by public corporations, consolidation or collaboration for wider-area operations will also be promoted, taking into account local conditions.

To realize consolidation or collaboration in wider-area service with regard to the water supply service, a framework for discussions will be established as soon as possible within FY2016 for discussions between prefectural governments and municipal governments. In the sewage service, consolidation and discontinuation of wastewater treatment plants, establishment of a wide-area maintenance and management system will be implemented. In FY2016, related national governmental offices will work together to promote these local efforts, for example, by encouraging establishment of a wide-area maintenance and management system in the prefectural plans.

Regarding appropriate outsourcing of counter services to private enterprises, to support the efforts of small local governments, outsourcing of all operations to a private enterprise will also be considered in the course of examining standard outsourcing specifications created for standard operation flow. The results of the consideration will be included in the “Report of the Local Public Service Sub-Committee” to be compiled by the end of FY2017. The government will provide a simple tool to measure the cost-savings to be achieved by outsourcing counter services to private enterprises, which can be used by local governments when they discuss outsourcing to private enterprises.

[5] Wider use of IT, operational reform and administrative reforms

The government will continue operational reforms and reforms of the national government's information system. It will examine the progress of the reforms and take necessary measures based on the "Report of National and Regional IT and BPR Promotion Team⁸⁴."

In addition to the realization of the on-line service reforms such as the use of My Number to issue certificates at convenience stores and the one-stop service, the related governmental offices will cooperate with each other in expanding the use of My Number for other purposes, including for use in the event of a disaster.

To promote the use of IT and BPR by local governments, the national government will provide further support to local governments that are willing to implement reforms, including support by the Government CIO, and securing human resources who will play the role of CIOs.

Regarding efforts to adopt cloud-computing, the number of adopting organizations, the number of operations that use cloud-computing and the extent of the adoption will be identified in comparable formats. Measures implemented by the cloud groups of local governments will be thoroughly examined, analyzed, and sorted into patterns from point of following views: cost-saving measures, their effects and timing of renewal for equipment. The results of the analysis will be utilized to accelerate adoption of the cloud grouping.

Through these efforts, the operation costs of information systems in local governments will be reduced by 30%.

In addition, in accordance with "Open Data 2.0⁸⁵," the government and the private sector will work together to promote project-based open data, setting "realization of a Society Promoting Dynamic Engagement of All Citizens," as focus areas.

(4) Education, science and technology, and others

In education and science and technology, the government will proceed with reforms based on the following four major policies: (1) streamlining the budget amid a declining birthrate; (2) promoting the utilization of private-sector funding; (3) improving the quality of the budget

⁸⁴ The First Report of National and Regional IT and BPR Promotion Team (Decision, June 29, 2015) and the Second Report of National and Regional IT and BPR Promotion Team (Decision, April 28, 2016)

⁸⁵ [Open Data] Promotion of Data Distribution by Unified Efforts of the Government and the Private Sector (Decision of Headquarters for the Promotion of an Advanced Information and Telecommunications Network Society, May 20, 2016)

and prioritizing budget items; (4) ensuring thorough implementation of an evidence-based PDCA cycle.

Considering the declining birth rate, problems in schools and classrooms, and political needs of municipal governments, experimental research on educational measures will be conducted by utilizing the insight of various researchers in preparation for the development of interim forecasts with regard to the quotas of teachers in individual municipalities during the intensive reform period. The research will include, for example, research and analysis on what influences and effects class size or the posting of additional teachers or dedicated staff has on classroom management, and research and analysis regarding the actual working states and working styles of teachers. University researchers will be encouraged to use data collected from the national academic ability test/study condition surveys. An evidence-based PDCA cycle will be established for the implementation of educational measures. Based on the results of these efforts, local governments will create budgetary requests according to comprehensive examination of the data related to schools and educational environments, results and costs of educational measures taken, and underlying environmental factors. In reviewing budgets and institutional systems, whether or not the purpose of the measures is effectively achieved throughout the all life stages of education, from pre-school education to advanced education and to adult education, will be verified. Cross-sectional verification will be implemented by national, prefectural, and municipal governments, according to their respective authorities.

Streamlining and reform of the school administration are urgent tasks. To address them, the actual working conditions of teachers will be investigated, and improvement measures will be implemented based on the results of the investigation.

A grant for the operation of national universities will be allocated preferentially to universities that develop plans to strengthen their functions and evaluate such plans. Through this program, alliances between universities, and restructuring and consolidation of faculties will be promoted. Grant allocation is also determined based on the increase in the percentage of private funds acquired by the university to stimulate utilization of funds from the private sector.

Acquisition of private funds will be promoted by encouraging joint research between a national university or public research institute and private enterprise. National universities will strive to diversify their financial resources, including soliciting more donations. The mobility of talented human resources and sharing of research facilities will also be promoted.

In addition to the above-mentioned major spending areas, reforms will be pursued in all spending areas without sanctuary.

(5) Reforming revenue measures and compression of assets and liabilities

[1] Revenue reforms

(Efforts to increase revenues)

The government will increase tax revenues through broadening the tax base by increasing the share of the private sector in economic activities. A mechanism of using My Number as a key to accurately gauge taxpaying capacities will be promptly established. The government will also proceed with optimizing tax collection and social insurance contributions, and will also secure stable non-tax revenues by effective utilization of assets owned by the national and local governments, selling unnecessary assets, and through other means.

(Structural reform of the tax systems)

As the structures of the economy and society have been drastically changing, the government will continue to proceed with a comprehensive overhaul of the entire tax system.

In particular, the structure of the personal income tax and property tax systems will be reviewed as soon as possible within the planned reform period in accordance with the conclusions stated in the summary report of the Government Tax Commission, based on subsequent discussions made by the Committee, and considering the structural changes in the economy and society.

In light of the recent revelations of international tax avoidance cases, the government will step up efforts to support the reconstruction of the international tax system in response to the structural changes in global business activities (such as responding to advice issued by the BEPS Project), share information among taxation offices in different countries and ensure the tax compliance of taxpayers, from both the institutional and operational perspectives.

[2] Compression of assets and liabilities

The government will promote effective utilization of assets owned by national and local governments (including those in special accounts) in cooperation with local governments

and in accordance with the national policy to realize a Society Promoting Dynamic Engagement of All Citizens. The sale of unnecessary properties will also be promoted. Revenue from such sales will be effectively appropriated to debt repayment and a one-time increase in expenditures such as reconstruction costs after the occurrence of a major earthquake.

Chapter 4: Short-term principles in economic and fiscal management and guiding principles in budget formulation for FY2017

1. Current and future development of the economy, and principles in economic and fiscal management in the short term

The Japanese economy has been favorable in terms of fundamentals, such as corporate revenues, employment and income situation, while it has been lacking strength regarding consumption and business investment. Moreover, attention should be given to the impact of the 2016 Kumamoto Earthquake on local economy and the whole Japanese economy.

The government has been accelerating the implementation of the FY2015 supplementary budget and the FY2016 budget and has also formulated the FY2016 supplementary budget to support the daily lives of the Kumamoto Earthquake and foster recovery from the disaster. Taking into account the G7 Ise-Shima Economic Initiative, the government will continue to pay careful attention to private consumption, durable goods trends, including housing and cars, overseas economies, where weakness can be seen recently, and the international financial situation, to put together a set of comprehensive and bold economic measures by this autumn, thereby overcoming and preventing a return to deflation.

The government will also implement regulatory reforms and foster incentive measures to fuel consumption and investments for higher wages and disposable income and to meet potential demand. Moreover, the government will accelerate productivity revolutions, create new promising growth markets, implement measures to provide companies with a business environment that is the most comfortable in the world, strengthen links with overseas growth markets in response to the TPP and other arrangements, and make better use of both domestic and overseas human resources for the promotion of growth strategies. Concurrently, the government will expand support to childcare and to work style reforms, aiming to achieve the dynamic engagement of all citizens in society and thereby realize “a Virtuous Cycle of Growth and Distribution.”

The Government expects the Bank of Japan to achieve the price stability target of two percent in light of economic activity and prices.

2. Guiding principles in compiling the budget for FY2017

[1] Measures in the second year of Intensive Reform Period

The success of the Plan to Advance Economic and Fiscal Revitalization will hinge upon its

outcome in FY2017, the second year of the Intensive Reform Period. The government will formulate the budget for FY2017 in line with the Plan to Advance Economic and Fiscal Revitalization, the Economic and Fiscal Revitalization Action Program, and the reform time schedule; broaden the scope of the Integrated Economic and Fiscal Reforms; and accelerate the bottom-up reform through the central and local governments.

[2] Guiding principles in budget formulation for FY2017

Specific measures to be taken intensively include the following:

1. The Council on Economic and Fiscal Policy will lead discussions and conduct close examinations to allocate necessary funds to reforms in the budgeting for the fiscal year to coincide with the examinations made by each governmental ministry and agency for budget requests. In particular, focus will be placed on the measures to give momentum to reforms and enhance their sustainability, including measures for the industrialization in public-related services, incentive reform, and innovation in public services. At the same time, evidence-based examinations and reviews will be thoroughly carried out for mandatory expenses and national treasury disbursements.
2. Aiming at health promotion, creation of the Compact Plus Network, integration and computerization of resident and public services over a wider area, the government promotes measures as follows: spreading advanced and excellent practices, enhancing cooperation between the national and local governments, ensuring and expanding the “visualization”.
3. In order to address structural bottlenecks to growth, which arise from the population decline, declining birthrate and aging population, the government will work toward resolving important issues such as realizing the dynamic engagement of all citizens with measures including making use of the fruits of Abenomics.
4. The government will compile a budget that is strategically focused on measures to promote reforms in each major policy area, described in Chapter 3.
With regard to social security, the government will steadily implement reforms according to the reform schedule, including the reform items for which a conclusion should be reached by the end of this year and those listed in the Plan to Advance Economic and Fiscal Revitalization. Also, the government will foster measures related to the medical cost optimization plan and to thorough “visualization” in the healthcare and long-term care fields. Further factors causing a rise in medical costs will be closely examined in reference to actual data and the data analysis results.

For social infrastructure development, the government will foster the creation of the Compact Plus Network and the provision of appropriate public capital stock in order to create sustainable urban structures in response to the decreasing population. Further, the government will make the maximum use of existing facilities based on the Priority Plans for Social Infrastructure Development and other plans, while pressing forward with the selection and concentration of resources to focus on social infrastructure stock that provides more economic effects in the areas as enhancing Japan's international competitiveness, bolstering national resilience, improving disaster prevention and reduction, and promoting measures against aging facilities. Moreover, by making use of a range of PPP/PFI options, including the concession method, the government will create new business opportunities while suppressing public spending.

As for local public administration and finance, the government will implement measures, to promote reforms of local governments by fostering introduction of appropriate outsourcing of counter services and cloud-based IT systems across the country, and to foster the cooperation of local governments for public services. Also, the government will proceed with the visualization of the local public administration and finance thoroughly. In addition, it will be steadily implemented to introduce the so-called top-runner program into the local allocation tax grant system.

In regard to the science and technology, the government will aim to increase the combined public-sector and private-sector R&D investment to over 4% of GDP (increase the governmental R&D investment to over 1% of GDP), based on The 5th Science and Technology Basic Plan. The government will make the governmental R&D investment, while consolidating the systems for further promotion of the utilization of private-sector funding. Furthermore, the government will place priority on these efforts by implementing the PDCA cycles.

In other areas, the government will also eliminate waste in budgeting and allocate more money to really necessary measures based on strict prioritization (for wise spending).

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

The Committee for Promoting the Integrated Economic and Fiscal Reforms will continue to manage, check and assess the progress of various reforms to ensure their effectiveness.