

Basic Principles of FY2014 Budget Formulation

(December 12, 2013)
(Cabinet Decision)

I Further thrust to initiatives for ending deflation and revitalizing the Japanese economy

1. Current status and outlook of Japan's economic and fiscal policy

If we look at the Japanese economy; partially due to the effect of “three-arrows strategy” of aggressive monetary policy, flexible fiscal policy, and a growth strategy that promotes private investment, the Japanese economy has been steadily improving as evidenced by the fourth straight quarter of positive real GDP growth. However, a sense of economic recovery is not fully felt by small and medium enterprises/small-scale businesses or regional economies, and business conditions vary from industry to industry. Likewise, in terms of price trends, we still have half-way to go to end the deflation.

In future, amidst improving employment and income environment, supported by gradual increase in consumption and improving corporate earnings and mindset, it is expected that capital expenditure will be back on track and domestic demand will continue to remain firm, and economic recovery will become a reality. However, it is necessary to continue paying attention to the downside risk of the overseas economies.

The current state of public finance in Japan continues to worsen due to declining birth rate and a growing number of elderly people. Amidst that, we had to fight on the dual fronts of dealing with the economic crisis after the collapse of Lehman brothers and handling the disaster caused by the Great East Japan Earthquake. Therefore, the condition has significantly worsened in recent years and we are in a very difficult situation.

2. Basic philosophy of economic and fiscal management

In keeping with such condition, in the next economic and fiscal management, apart from decisively implementing the measures and policies that would lead to economic growth, it is necessary to build sustainable systems and programs for future, and create a virtuous circle of overcoming deflation, economic revitalization and fiscal consolidation.

After the government led by Prime Minister Abe came into power, various economic and fiscal measures have raised expectations of ending deflation and there are signs of economic recovery. In order to ensure that such signs lead to a firm growth path, we will accelerate and strengthen the implementation of “Japan Revitalization Strategy”¹, which is the “third arrow”.

¹ “Japan Revitalization Strategy” (June 14, 2013, Cabinet Decision)

By active utilization of the Industry Competitiveness Enhancement Act² and the National Strategic Special Zones Act³, and by prioritized allocation of policies and resources, and through strong implementation of three action plans built-in this strategy, we will strengthen the growth potential of Japanese economy and deliver the fruits of this growth to every corner of the country.

Simultaneously, government, management, and workers would fulfill their respective roles and mutually collaborate, which would not only increase corporate earnings, but it would also increase wages and expand employment and investments. This would help in realizing the virtuous circle where increase of consumption and investment would promote further expansion of corporate earnings. Therefore, in order to translate the near term corporate earnings in to increase in wages, the government decided to bring forward and abolish the special corporate tax for reconstruction by one year.

These initiatives will help in restoring a strong economy, which is the foundation for insurance premium income and tax revenues. Simultaneously, raising the consumption tax rate will help in securing financial resources, enhance and stabilize the social security system, which we will pass on to the next generation. Moreover, the Government aims to achieve internationally committed fiscal consolidation targets, which are to ① halve the primary deficit of the national and local governments to GDP ratio by FY2015 from the ratio in FY2010, ② achieve a primary surplus by FY2020, and ③ thereafter steadily reduce the public debt - to - GDP ratio. The Government will make continuous improvements based on “Basic Framework for Fiscal Consolidation – Medium-term Fiscal Plan” (hereinafter referred to as “Medium-term Fiscal Plan”).

With respect to the consumption tax hike in April 2014, based on “Economic Policy Package”⁴ decided by Cabinet on October 1, 2013, for handling the downside risk of economy by mitigating downturn, and for leading the economy to a sustainable economic growth by raising the overall level of growth potential of the economy and realizing virtuous cycles of the economy, “Economic Measures for Realization of Virtuous Cycles” was decided by Cabinet on December 5, 2013. Along with FY2014 Budget, we will formulate FY2013 Supplementary Budget. Besides, we will also revise the related taxation system.

With the aforementioned initiatives, we aim to achieve both ending of deflation, and economic revitalization and fiscal consolidation.

3. Basic principles of FY2014 budget formulation

For FY2014 budget formulation, based on the aforementioned principles, including mandatory spending such as social security services, after drastically revising the budget without considering

² “Industry Competitiveness Enhancement Act” (enacted on December 4, 2013)

³ “National Strategic Special Zones Act” (enacted on December 7, 2013)

⁴ “Raising the National and Local Consumption Tax Rates and Associated Responses” (October 1, 2013, Cabinet Decision)

anything sacred, we will give priority to policies and measures that would contribute to economic growth.

Therefore, we will carefully examine the details and measures requested in the “Framework of Handling Priority Issues for New Japan”, and give priority to allocating the budget to policies and measures that are really required focusing on the items that would be highly effective in generating private-sector demand and private-sector innovation, items that are urgent, and items that need to be handled as a part of regulatory reforms.

For improving the “quality” of the budget, we will strictly implement PDCA cycle such as using government project reviews, etc. Besides, we will streamline the operations by reworking to the mechanism of rewarding the performance (of people, companies, and regions), eliminating the duplication of policies and measures between the ministries, and promoting the private-sector initiatives.

Through these initiatives, instead of simply connecting the increase in tax revenues from economic growth to increase in expenditure, we will formulate meaningful budgets, and respond to changes in internal and external socio-economic environment.

With regard to tax systems, while aiming to achieve the goals of overcoming deflation, economic revitalization and fiscal consolidation, the Government will make necessary efforts, such as considering an appropriate tax system that takes better account of socio-economic structural changes.

In FY2013 budget formulation, while achieving economic revitalization, we reversed the amount of tax revenue and newly issued National Government bonds for the first time in three years, which was the first step of fiscal consolidation. To achieve the fiscal consolidation targets steadily, the Government needs to expand tax revenues continuously, while continuing to make expenditure efficient every fiscal year.

Under this philosophy, while relying on Medium-term Fiscal Plan, through the aforementioned initiatives, we plan to bring down the General Account’s primary deficit to at least around 19 trillion yen in FY2014, and in the initial budget, improve the primary balance of the General Account by over 4 trillion yen. The Government will make its utmost efforts to keep the amount of newly issued National Government bonds below that of the preceding fiscal year for the FY2014 budget.

II Building strong Japan, strong economy, and realizing enriched, safe, and secure lifestyle

1. Implementing growth strategy

With regard to three action plans of “Industry Revitalization Plan”, “Strategic Market Creation Plan”, and “Strategy of Global Outreach” mentioned in “Basic Policy for Economic and Fiscal

Management and Reforms”⁵ and “Japan Revitalization Strategy”, ministries will collaborate for eliminating any vertical divisions, and work on initiatives upholding the government.

(1) Maximizing the private-sector initiatives (Industry Revitalization Plan)

For activating the private-sector investments, and transforming Japan into a “major entrepreneur country”, full of the entrepreneurship and business spirit, we will promote investments in advanced facilities, support new businesses, entrepreneurship and venture companies, and implement policies and measures for business reforms targeted at improving the earnings potential.

Considering the purpose of the Revised Act on Enhancement of Research and Development Capacity⁶, apart from working on strengthening personnel use and personnel development, for promoting science and technology innovation while strengthening the control tower function of “Council for Science and Technology Policy”, we will pursue “Comprehensive Strategy on Science, Technology and Innovation”⁷ such as establishing cross-ministerial “Strategic Innovation Promotion Program” and development of personnel, who can work on science and technology innovation including fundamental research. With regard to research and development corporation, the related ministries will act as one unit, and while considering the revision of overall systems and organization of independent administrative institutions, we will create new systems that would allow operating the organizations at the world’s highest level considering the characteristic features of research and development. Moreover, by implementing intellectual properties strategy and standardization strategy, we aim to become the world’s top most intellectual properties country.

While revitalizing Japanese financial and capital markets, we will collaborate with Asian countries and extend our support for building their financial infrastructure. We will strength the function of supplying risk money, and pursue financing policies that are closely linked to regions.

Besides, for securing environment friendly, low cost and stable energy supply, we will secure diverse supply systems, maintain and strengthen oil and LP gas supply chain, and introduce energy conservation measures to the maximum possible extend including energy management.

With regard to regulatory policies, in addition to thoroughly implementing “Plan for Implementation of Regulatory Reforms”⁸, we will continue to study a wide range of areas including medical and agriculture. Besides, for creating the most business friendly environment, through “National Strategic Special Zones”, “Special System for Corporate Field Tests”, etc., we will vigorously undertake structural reforms at three levels of strategic region level, company level,

⁵ “Basic Policies for Economic and Fiscal Management and Reform” (June 14, 2013, Cabinet Decision)

⁶ “Act that makes Partial Amendments to the Act on Enhancement of Research and Development Capacity and Efficient Promotion, etc. of Research and Development, etc. by Advancement of Research and Development System Reform” (enacted on December 5, 2013)

⁷ “Comprehensive Strategy on Science, Technology and Innovation” (June 7, 2013, Cabinet Decision)

⁸ “Plan for Implementation of Regulatory Reforms” (June 14, 2013, Cabinet Decision)

and national level.

Furthermore, for efficient and effective development and operation of infrastructure, and for radical shift of PPP(Public Private Partnership)/PFI(Private Finance Initiative) in projects that would spark the private-sector investments, while deepening the understanding about the benefits of these projects, we will steadily pursue the Action Plan towards fundamental reform of PPP/PFI for using 12 Trillion Yen PPP/PFI over the next 10 years.

In addition, with regard to employment system reforms and strengthening personnel capabilities; for realizing world's highest level IT society, strengthening locational competitiveness, and reforms of small and medium enterprises and small scale business operators, we will pursue the required policies and measures described in "Japan Revitalization Strategy".

(2) Developing new growth area (Strategic Market Creation Plan)

With regard to areas where Japan is internationally strong and where these areas are expected to grow as future global markets, it is important that the medium-term strategy solves social issues ahead of the world by building social infrastructure for new business development and by revising the existing regulations and systems.

From this standpoint, we will create new markets that would become the growth engine of Japanese economy by enhancing and strengthening the control tower function of research and development in the medical field and extending "healthy life expectancy" including international expansion of medical treatments; demand of clean and economical energy, safe, convenient, and economical next generation infrastructure; and by inviting private-sector funds, technology, know-how, etc. in the areas of regional resources that would drive the world.

(3) Growth utilizing globalization (Strategy of Global Outreach)

For realizing sustainable growth, in addition to aggressive expansion to global markets and leveraging economic growth in the world market, we will pursue economic partnership such as TPP, Japan-EU EPA, Japan-China-Korea FTA, and RCEP, and develop strategic markets according to actual circumstances in the emerging countries, and encourage direct investment into Japan by strengthening the framework for identifying, attracting, and supporting foreign companies.

Moreover, we will advance measures such as encouraging exports of infrastructure systems using public funds such as ODA; developing human resource to support globalization; supporting the development of systems including legal systems. We will also support overseas advancement of second-tier companies, SMEs, small businesses, and service businesses, and pursue bilateral financial agreements.

Furthermore, in addition to measures for making Japan as a top tourist destination, we will promote "Cool Japan" concepts in areas such as exports of Japanese food, alcoholic beverages, contents, and culture. We will also work on strategic global communications.

2. Accelerating recovery from the Great East Japan Earthquake

Without the recovery and reconstruction of the disaster areas, there can be no revival of Japan. More than 2.5 years have passed since the earthquake struck, and reconstruction work is gradually moving to a new stage such as relocating the neighborhoods to elevated areas and sequential commencement of work of public housing for disaster victims, and even completion of revision of areas for which the evacuation orders were issued in Fukushima.

In addition to securing the financial resources worth about 25 Trillion Yen for reconstruction in the “Concentration Reconstruction Period”, we will accelerate the initiatives that are directly linked to recovery and reconstruction from Tsunami and earthquake disaster and nuclear accident. Moreover, for creating “New Tohoku”, we will start using pilot model projects. At that time, while keeping in mind the smooth implementation of reconstruction projects, in addition to securing the required budget considering the status of execution so far, we will continue to strictly monitor the usage of funds so that it is not subject to criticism of “Misappropriation” of funds, etc.

During recovery and reconstruction, according to the characteristics features of each region, in addition to keeping in mind coexistence with nature, harmony with environment, and maintenance of landscape and scenery as a sightseeing spot, we will strive to formulate flexible budget so that we can accommodate any changes in the plan.

① Supporting people in areas affected by disasters

Along with continuing to support the construction of houses for people in areas affected by disasters and the study of students hit by disasters, we will firmly support the disaster victims on health and lifestyle aspects such as extending psychological care to them amidst the possibility of their extended evacuation.

② Restoration and reconstruction of towns

In the areas hit with Tsunami, we are firmly moving ahead with projects such as disaster prevention projects for relocating neighborhoods. Considering that town development activities are getting into full swing, we will continue to accelerate reconstruction and town development using the Great East Japan Earthquake Reconstruction Fund.

③ Advancement of industry

In order to ensure efforts for the restoration of the industries which have been making steady progress, we will continue to support recovery and reconstruction of disaster-hit small and medium companies and persons engaged in agriculture, forestry, and fisheries business.

④ Reconstruction and revitalization from nuclear accident

In light of “Towards acceleration of reconstruction from nuclear accident and disaster”⁹, with regard to reconstruction and revitalization of Fukushima, in addition to accelerating decontamination and radioactive waste material treatment, we will continue to implement measures for supporting long-term evacuees and their quick return considering the completion of revision of the areas for which the evacuation orders were issued this August.

With regard to measures for decommissioning of reactor and contaminated water in TEPCO’s Fukushima Daiichi Nuclear Power Plant, instead of just letting TEPCO handle the situation, the national government will also be actively involved and it will put all its efforts for dealing with the situation. Besides, we will also work on strengthening radioactive monitoring in land and marine areas.

3. Strengthening the foundation for enhancing capabilities and characteristics of individuals

(1) Employment and child-raising support, social security services etc.

① Women, young people, and child-raising support

For promoting the involvement of women and resolving the crisis of declining birthrate, we will vigorously pursue initiatives in “Urgent and Focused Period” (two years comprising FY2013 and FY2014) in “Accelerate the Zero Childcare Waiting List Project”, such as expanding child-care facilities by setting up new child-care centers and providing support for ensuring the availability of child-care professionals. We will put all our efforts for accelerating the initiative of position action for strengthening economic support during childcare leave period and accelerating the recruitment of women for management and executive positions.

For promoting the involvement of young people, we will strengthen our support for learning programs by revising the employment insurance system, our comprehensive support from job-searching endeavors to activities at the workplace, and our measures for companies that are suspected for engaging in “use and throw” of young people. We will take initiatives for smooth implementation of changes in the employment and recruitment process timing by offering career education and by disseminating the attractiveness of small and medium enterprises.

We will also create environment for entrepreneurship promotion and executing the activities of young people who want to take up another challenge.

② Generating employment and building safety net

For building policies and measures for giving further fillip to the environment that expanded after the collapse of Lehman Brothers, where an individual can easily demonstrate his capabilities and characteristics, rather than the environment that encourages maintaining the employment, we will facilitate labor movement without the loss of employment by drastically strengthening labor

⁹ “Towards acceleration of reconstruction from nuclear accident and disaster” (3rd recommendations for acceleration of reconstruction, November 8, 2013, Liberal Democratic Party and NEW KOMEITO)

movement support subsidy and strengthening the matching function by using private-section personnel business. Besides, we will reform the employment system by revising the labor dispatch system and laws and regulations for working hours, spreading and promoting the “diverse employees” model, and by allowing special exceptions for definite term employment.

We will work on creating a multi-layered safety net by building “society with full participation” through promoting the employment of elderly people or people with disabilities for realizing a lifelong society, and by providing job assistance to needy people, using employment insurance system, and by building the support system for job seekers. Furthermore, by carefully observing the management of economy in future such that we can create a virtuous circle of wage increase at all income levels and higher corporate earnings, while building environment such as supporting small and medium enterprises, we will strive to increase the minimum wages.

③ Enriching and stabilizing social security service

Although increase in revenue by raising the consumption tax rate will be allocated for enriching and stabilizing all social security services, in addition to permanently raising the proportion of state contribution to basic pension fund to ½, as a measure of enriching social security services using increase in consumption tax revenue, apart from strengthening support for child-raising, we will work on functional partitioning and collaboration of hospital beds and promote home healthcare. We will expand the measures for reducing insurance premium for low income persons such as national health insurance and revise expensive medical care programs keeping in mind low income persons, and we will work on strengthening medical and nursing care services by building fair and stable system for intractable diseases.

(2) Revitalization of education, promotion of culture and sports

① Revitalization of education

In keeping with the principles of “Fundamental Act of Education” and recommendations of “Council for the Implementation of Education Rebuilding”, based on the Second Basic Plan for Promotion of Education, we will aim to improve the quality of education, and pursue comprehensive measures for personnel development.

For achieving world’s highest level of academic abilities, we will strengthen English education in primary and secondary education, impart science and mathematics education, provide advanced education using ICT, enhance ethics education, provide special education support for building inclusive education system¹⁰, and thereby nurture the capabilities of surviving in the society.

For strengthening the personnel capabilities to deal with globalization, in addition to building

¹⁰ “Mechanism to ensure that persons with disabilities can receive adequate education in accordance with their age, capabilities, and characteristic features, and attention shall be paid so that to the extent possible, children or students with disabilities receive education together with children or students with no disabilities, and improve and enrich the methods and contents of education” (Source: The Basic Law for Persons With Disabilities, Paragraph 1, Article 16)

environment for overseas studies for capable and motivated young people, and pursuing the formation of a group of schools that would impart the required education, we will expand relearning opportunity according to the needs of industry and offer career education. We will also work on educational reforms and stimulating the educational research by building educational research foundation in universities by strengthening the governance.

In addition to providing assistance for learning and revising the system of free education for high school students, with regard to initiatives of providing free education to small children, we will move in a stepwise manner while securing the required financial resources, and we will also work on making the schools earthquake-proof. With this, we will build the safety net for education.

While considering the environment surrounding the children, we will look into extending the useful life of school facilities and massive consolidation and elimination, securing the means of commuting to school, and building regional community bases, and for the number of teaching faculties, allocation of teaching faculties, and number of schools, we will build the education system suitable for modern trends of fewer children and excessive declining population.

② Promotion of culture, art, and sports

In cooperation with various entities such as local public institution and private organizations that are engaged in promoting art and culture, we will work on strategic dissemination of information about Japanese culture and values; preservation, use, and succession of cultural assets; strengthening the functions of national cultural facilities, development of torchbearers of culture and arts, and providing opportunities to children for experiencing culture and art. We will aim to become a sports nation, and stimulate sports by building lifelong sports society, increasing our international contribution and international competitiveness for the success of 2020 Tokyo Olympics/Paralympics, and promoting sports for disabled persons.

4. Regional activation and urban revitalization; revitalization of agriculture, forestry, and fishery, and small and medium companies; and decentralization of power

(1) Regional activation and urban revitalization

In order to spread the benefits of Abenomics to every part of the country and actually feel economic recovery and growth, and we will aggressively work on nationwide deployment of “Plan for creating vibrancy in regions” in cooperation with the concerned ministries. Besides, we will work on aggressive supply of funds by financial institutions to the growth areas through financial administration, and strengthening the management support for small and medium companies, and small scale business operators.

In keeping with the changes faced by the country in recent years such as decline in population and imminence of a large-scale disaster, we will build a new “Grand Design for National Spatial Policy” considering long-term up to around 2050.

For promoting the consolidation of regional city function, collaboration of the relevant ministries will be strengthened so that local governments can voluntarily use policies and measures in package.

Moreover, for forming compact cities considering restructuring of overall city and forming internationally competitive large cities, based on regional strategies, we will pursue revitalization of cities and activation of public transportation including consolidation of city functions.

At that time, apart from using the system of real-estate securitization, we will promote initiatives including eliminating congested districts with close-set wooden house. Moreover, we will build cities and houses suitable to aging society, upgrade public transportation, and build sustainable regions such as “Environmental Model Cities”.

With an eye on hosting 2020 Tokyo Olympics/Paralympics, apart from upgrading the transportation infrastructure, we will aim to realize “Tourism Nation of Japan” through dissemination of information and collaboration with local regions, and we will increase the exchange population by strengthening customs, immigration, and quarantine (CIQ) systems for inviting more international conferences, and increasing city sales and arrival of foreign tourists in Japan.

For solving the issues faced by local regions and promoting their activation through NPO, social business, etc., apart from increasing the transparency and reliability of activities, we will support the development of leaders.

In the less favoured areas including peninsula such as remote areas, remote islands, and Amami, as effective and efficient measures from both hard and soft aspects through the cooperation of national and regional governments, we will maintain the required transportation foundation, secure life support function and settlement environment while introducing private-sector initiatives, and activate the settlements. Moreover, Okinawa will become 21st century growth model as the front liner of Japan, and as a national strategy, we will comprehensively and aggressively pursue measures for promoting Okinawa such as it leads to activation of the Japanese economy.

(2) Creating dynamism through agriculture, forestry and fishery industries and local communities

We will thoroughly implement “Plan for Creating Dynamism Through Agriculture, Forestry and Fishery Industries and Local Communities”¹¹, and aim to achieve the target of doubling the income of agriculture industry and farming community in the next 10 years.

We will establish the Farmland Intermediary Management Institutions that would undertake consolidation and integration of farmland to bearers, secure recruitment of new farmers, take measures for stabilizing business income and revise the rice production adjustment. We will also

¹¹ “Plan for Creating Dynamism Through Agriculture, Forestry and Fishery Industries and Local Communities” (approved by Headquarters on Creating Dynamism through Agriculture, Forestry and Fishery Industries and Local Communities on December 10, 2013)

strengthen the production sites such as fully using paddy fields for improving degree of self-sufficiency and capabilities of self-sufficiency of food products, and infrastructure development, thereby strengthening the competitiveness of agriculture.

In light of food safety and winning the trust of consumers, we will develop sixth industry through collaboration between agriculture, commerce, and industry, stimulate production and create competitive agricultural and livestock products using new technologies, promote exports, expand the Japanese food and culture domestically and internationally, and pursue overseas expansion of the food industry.

Considering that forests play the role of absorbing greenhouse gases, in addition to working creating new lumber demands and building stable and efficient supply system of domestic lumber, we will work on expanding consumption and exports of domestic marine products, and building the infrastructure essential for realizing highly profitable and sustainable fishing and aquaculture industries.

Through these initiatives, we will build “strong agriculture, forestry, and fishery industry”, and we will build “beautiful and traditional rural community for agriculture, forestry and fisheries” by implementing policies and measures concerning building of vibrant rural community by creating a “new direct payment system” for sustaining and leveraging multi-functional roles of agriculture and agricultural community and by educational exchange between urban and rural areas.

(3) Rapid progress of small and medium companies, and small scale business operators

Apart from regional economies, local small and medium companies, and small scale business operators are also the source of vigor of Japanese economy. Besides, entrepreneurship and ventures are the driving force of building and growing new industries. Therefore, we would pursue the growth strategy formulated by the respective regional competitiveness council. Moreover, by offering capital support integrated with the management support of small and medium companies and small scale business operators, we will pursue initiatives for management improvements and business revitalization. In addition, apart from national and regional public institutions, professional, associations related to small and medium companies and small scale business operators, regional financial institutions that support small and medium companies and small scale business operators will work in an integrated manner for utilization, consolidation, branding of regional resources, entrepreneurship and venture support, and business succession. Through this, we will promote metabolism and work on domestic and international frontiers. Along with this, for developing compact cities and supporting the activation of shopping streets and city centers, we will promote reformulation of city structures based on the master plan of cities. Furthermore, we will work on promoting small scale business operators and give a thoughtful consideration to public purchase.

At the time of raising the consumption tax rate, by taking practically effective measures based on the Act Concerning Special Measures for Correcting Practices Impeding Consumption Tax

Pass-on, etc.¹², we will build environment so that consumption tax is smoothly and accurately reflected in prices.

(4) Pursuing reforms for decentralization of power

In order to take robust financial measures for transferring administration and power from the national government to the regional governments, and from prefectures to the specific cities, “Fourth Comprehensive Bill” will be presented in the Diet in FY2013. Furthermore, for building independent regional economies leveraging their characteristics, we will compile outline of reforms for decentralization of power to regions and future development in the first half of FY2014, clearly define the direction of future reforms such as real autonomy of citizens and establishment of independent and self-supporting finance, and deliver the fruits of reforms to citizens and local regions.

5. Ensuring safe, secure, and sustainable socio-economic infrastructure

(1) National resilience, disaster prevention, and mitigation initiatives

In accordance with “Basic Act on National Resilience for Disaster Prevention and Mitigation for Achieving Resilient Life for People”¹³, we will work on national resilience initiatives across ministries. At the same, based on the purpose of the act and policy outline of national resilience and fundamental plan for national resilience to be formulated in the future, we will clearly define the roles and responsibilities of national and regional governments, public and private sector, and will by combine hard and soft policy and measures. We will also utilize private-sector vitality and conduct precise assessment of its benefits. Moreover, for maximizing the benefits of proactive disaster prevention and mitigation, we will conduct vulnerability assessment, and after setting performance goals for each program and time schedule, we will assign priority ranking and prioritize the initiatives, and work on appropriate budget allocation.

Moreover, we will take initiatives for disaster prevention and mitigation, and take measures for aging of social infrastructure including standardization of disaster prevention measures for smoothly offering wide area support and measures for large earthquakes such as Nankai Trough Earthquake and Tokyo Inland Earthquake, work on earthquake-proofing of public facilities, strengthening regional disaster prevention capabilities of mainly volunteer fire corps, and ensuring redundancy of transportation network.

(2) Consumer administration, security, and justice

Through various measures for preventive damage to consumers such as appropriate display of

¹² “Act Concerning Special Measures for Correcting Practices Impeding Consumption Tax Pass-on, etc.” (Law No. 41 of 2013)

¹³ “Basic Act on National Resilience for Disaster Prevention and Mitigation for Achieving Resilient for People” (enacted on December 4, 2013)

labels on food items, we will ensure safety and security of consumers.

Based on “Strategy to Make ‘Japan – The Safety Country in the World’”¹⁴, we will deal with threats of cybercrime, cyber-attacks, international terrorism or organized crime, stalker, and domestic violence, and we will work on strengthening personnel and physical infrastructure for safety, correction, and maritime safety. Besides, in addition to pursuing measures for preventing recurrence of crime by prisoners, we will realize the judicial system that is trusted by citizens by providing comprehensive legal support.

We will make efforts for ensuring the safety and security of citizens by ensuring traffic safety, maritime safety, and cyber security, maintenance of cadastral maps in the urban areas, using geographical information system (GIS), space utilization, measures for regulating nuclear power and disaster prevention, strengthening the system of Nuclear Regulation Authority and development of specialists, and securing the safety water resources.

(3) National Security and Defense Policy, and Strategic Diplomacy

In order to deal with increasingly difficult security environment surrounding the country, through “National Security Council”, apart from strengthening the control tower function of foreign and security policy, we will strengthen the information collection mechanism and crisis management function of the government.

By strengthening Japan-US alliance and pursuing practical safety and security cooperation, we will improve safety and security environment in the Asia Pacific region, and prevent occurrence of direct threats to Japan.

Besides, based on the new National Defense Program Guideline to be formulated in future, we will efficiently consolidate highly effective comprehensive defense capabilities that can adequately respond to the role that citizens expect the Self Defense Force to play. In addition to personnel system reforms from the standpoint of securing strength and effectively using personnel resources, we will undertake procurement reforms such as having common standards and strengthening project management through lifecycle. Apart from effective and efficient sourcing of defense equipments, we will maintain and strength defense production and technical infrastructure including strengthening international competitiveness.

For strengthening comprehensive diplomatic capabilities, with regard to the foreign functions of the government such as pursuing economic partnership, pursuing strategic international cooperation, ability of voicing opinion internationally, and securing natural resources and energy, we will strengthen personal and physical infrastructure, Japanese embassies, consulates and other diplomatic missions overseas. We will also strengthen the initiative for ensuring safety of overseas Japanese and overseas Japanese companies.

For contributing to healthy development of emerging economies, while using ODA, we will

¹⁴ “Strategy to Make ‘Japan – The Safety Country in the World’” (December 10, 2013, Cabinet Decision)

contribute to designing international rules, frameworks, and various systems in the emerging countries.

- (4) Achieving economic safety and security of natural resources and energy, and their cost reduction, etc.

For ensuring economic safety and security of Japan, we will strategically work on securing natural resources, and secure low cost and stable natural resources and energy. For this reason, we will pursue the development of new natural resources and energy resources including Methane Hydrate through marine development; diversify the supply sources of LNG, etc. and lower the prices; practice resources diplomacy; promote the effective use of resources; streamline thermal power generation and pursue research and development, and personal development. Moreover, by strengthening the oil industry, we will promote resilience of oil supply network.

For maximizing the implementation of renewable energy, we will vigorously pursue research and development, infrastructure development, etc. Moreover, we will work on reducing the cost of natural resources and energy through resource conservation and energy conservation.

- (5) Contributing to global environment

For solving the global warming problem including reduction of greenhouse gases across the world, in addition to developing revolutionary environmental energy technologies including hydrogen energy technology and strictly implementing “Proactive Diplomatic Strategy for Countering Global Warming”¹⁵ based on popularizing technologies through bilateral offset credit mechanism, we will work on initiatives that are equivalent or more rigorous than “Kyoto Protocol Target Achievement Plan”¹⁶.

Moreover, for building a low carbon society, we will promote investments through environment finance that draws the power of the private-sector, and we will assist carbon footprint reduction projects initiated by local regions. In addition, we will take initiatives for realizing recycling oriented society and nature-harmonious society, elucidating contamination mechanism and dealing with environmental pollution caused by micro particle matters (PM2.5) such as measures for handling cross-boundary pollution so that we can secure the health of citizens as well as maintain excellent environment.

III Priority allocation and streamlining of budget

Amidst increasing social security services costs due to aging society, for improving the basic revenue and expenditure of general account of the country based on Medium-term Fiscal Plan, it is

¹⁵ “Proactive Diplomatic Strategy for Countering Global Warming” (November 15, 2013, Report by Division Global Warming Measures)

¹⁶ “Kyoto Protocol Target Achievement Plan” (April 28, 2005, Cabinet Decision)

necessary to review and revise without exceptions through discretionary expenses and mandatory expenses. Without restricting to social security services, social capital arrangement, and local financial resources mentioned below, while dealing with socio-economic structural changes such as declining population and aging society with declining birth rate, we will work on priority allocation and streamlining of budget, and minimize the expenditure. Above all, with regard to FY2014 budget when the consumption tax rate is scheduled to be raised, when asking the citizens to share additional burden, we will put all our efforts so that the government is not subject to criticisms that costs are easily inflated and there are unnecessary overheads.

1. Expenditure reforms in main areas

(1) Social security services

In light of ageing society, increase in the social security payout significantly exceeds the nominal growth rate, and increase in the burden of public expenditure has widened fiscal deficit, which essentially means shifting this burden to the next generation. In order to have a sustainable social security system that would support the security of citizens, it is necessary to strictly restrict any new burden on citizens while responding to diverse needs, and aim for the system would allow to efficiently offer the social security services.

Amidst rapid aging of population, for building a strong society, from the standpoint of shifting from sharing of burden based on “age” to sharing of burden based on “capacity”, we will take thorough measures according to the goals of priority allocation and streamlining and process table. Besides, we will pursue reforms based on the “Program Act”¹⁷ for establishing sustainable social security service system having balance between benefit and burden, such as extending healthy life expectancy and building society having environment for independence and self-reliance.

① Medical care

Regarding extending the healthy life expectancy, with regard to conventional measures of ICT usage in medical and nursing care, we will allocate budget on priority basis from the standpoint of promotion of good health and rationalization of medical care costs, and in addition to cross-sectional evaluation of ministries by the government, we will pursue prevention and early detection of cancer, practice data health using data such as receipts and diagnosis information, prevent lifestyle diseases through specific health checkup and specific health guidance, share successful case examples such as project for preventing diabetic nephropathy from worsening, practice self-medication, and we will work on initiatives for building research and analysis foundation of health and disease database. Moreover, we will study the mechanism of offering incentives for health management and disease prevention in individuals.

¹⁷ “Act Concerning Implementation of Reforms for Establishing Sustainable Social Security System” (enacted on December 5, 2013)

With regard to reforms of the medical care system, we will submit a bill for amending the medical act for pursuing division and collaboration of medical function including reorganizing the hospital beds by strengthening effective administrative measures. Moreover, as for the new financial support in the Program Act, while strengthening the medical care delivery system such as securing the adequate number of doctors and nurses, we will ensure viability, and take effective measures so that there is no additional burden on the citizens.

While the medical cost is affected by the health level of citizens and medical care delivery system, it is financed by the cost borne by citizens, cost borne by insurance and cost borne by public funds, and it should be effectively and efficiently used in its true sense for securing the medical cost of regions required for protecting the health of citizens. In FY2014 revision of medical fees, while putting the maximum efforts on rationalization and streamlining of medical costs including natural increase in medical costs, we will appropriately deal with the problem of increase in the cost of medical institutions due to raising the consumption tax rate, and we will strive to see that it doesn't place any additional burden on the citizens. However, we must accurately deal with various problems concerning medical care in the local regions such as shortage of doctors. We will allocate budget on priority basis to the areas that are really required for medical fees itself and drug prices respectively. With regard to drug prices and prices of medical materials, apart from suitably incorporating the actual market prices, we will verify the appropriateness of price levels with generic drugs keeping in mind the significance of products registered for long-term, and then revise the prices. With regard to medical fees, considering the increasing burden on citizens due to increase in medical costs, we will conduct proper assessment in accordance with the effect of revisions made so far.

Moreover, with regard to measures that induce and lead to practical implementation of innovation for new drugs creation, and with regard to generic drugs, while securing quality and stable supply, and strengthening the provision of information, we will accelerate the initiatives aimed at expanding the penetration level.

As for revising the self-pay burden of people between 70-74 from provisional 10% to original 20%, we will consider balance with the current generation and implement in a step-wise manner from FY 2014. Regarding the income categories of high cost medical care system, we will revise so that more precise handling becomes possible.

② Nursing care

In order to facilitate elderly people and disabled persons to stay in their familiar regions as much as possible and lead an independent daily life according to their capabilities, with regard to nursing care, for robust implementation of comprehensive regional care where the life of elderly people is supported by the regional society, we will pursue organic alliance between concerning ministries and municipalities, and medical and nursing care operators. For using information such as features, issues, and initiatives of the region for preventive nursing care, with regard to nursing care and

medical information, we will facilitate so that citizens and local governments can easily use the information that is useful for them. In addition, for disabled persons, by providing the required welfare services, we will provide support for living in the regional community such as support for participating in the society including employment assistance and counselling support.

With regard to daily life security system, based on the Act that makes partial amendments to the Public Assistance Act¹⁸, we will maintain our basic philosophy of offering protection to people who really need it. Simultaneously, for strengthening self-reliance support through employment, strengthening the measures for preventing illegal receipt of living assistance, and rationalization of medical aid, in accordance with the new support system for independence of needy people based on the Act for Supporting the Independence of Needy People¹⁹, we will strive to offer support for early independence and prevent the chain-reaction of poverty.

(2) Social infrastructure development

With regard to social infrastructure development in future, amidst severe financial situation, it is necessary to keep an eye on the future of citizens' life and make planned improvements so that function of the existing facilities can be leverage effectively.

In FY 2014 budget, while aiming to simultaneously achieve early ending of deflation and revitalization of economy or restoring of fiscal health for various issues such as strengthening international competitiveness that is better than other Asian cities, activation of regions, national resilience, disaster prevention and mitigation measures, and aging measures, under three main principle of selection and focus, clearly defining the order of priority, and effectively using the private-sector capabilities, we will effectively and efficiently implement various measures while collaborating with soft policies and measures.

Under this philosophy, based on "Basic Plan for Extending the Age of Infrastructure"²⁰, national government and local government will formulate the plan for extending the age of infrastructure, and in addition to strategic maintenance, management, and upgrade of infrastructure using latest technologies like ICT, reduction and levelling of costs will be achieved in medium to long term. Especially, out of local government, we will give priority to assisting the institutions that formulate and implement plans for extending the life of infrastructure where details like maintenance cycle such as arrangement of information concerning public facilities, inspection, diagnosis, repair and upgrade, changes in usage and consolidation capturing the opportunity of upgrade are mentioned, and we would provide the required insights and know-how to them.

Moreover, in addition to selecting and focusing on infrastructure that is effective in inducing private demand and that is high investment returns, we will effectively and efficiently work on

¹⁸ "Act that makes partial amendments to the Public Assistance Act" (enacted on December 6, 2013)

¹⁹ "Act for Supporting the Independence of Needy People" (enacted on December 6, 2013)

²⁰ "Basic plan for extending the life of infrastructure" (Approved by the council of ministries related to implementing infrastructure aging measures on November 29, 2013)

building integrated infrastructure through compact cities, and maintenance, management, and upgrade of infrastructure. Along with that, we will stimulate local initiatives through public-private partnership, and implement packaged strategy by assigning priority ranking to hard and soft policies and measures, and heavily use the private-sector capabilities such as PPP/PFI. Furthermore, in addition to securing, developing, and using personnel resources responsible for social infrastructure development, we will reform the bidding and contract system, and strengthen the order placement system.

For accelerating the fundamental shift to PPP/PFI using private-sector funds and know-how, based on “Action Plan towards fundamental reform of PPP/PFI”²¹, we will build public-private alliance system and actively introduce methods for Right to Operate Public Facility. In addition, we will expedite the study of introducing policies for large scale repair of expressways using PPP, we will implement PPP/PFI system in maintenance, upgrade, and consolidation of public facilities, and give priority to investments having high public-private partnership benefit. Apart from using the project formulation support function of Private Finance Initiative Promotion Corporation of Japan, we will accelerate formulation of projects under PPP/PFI scheme in regional public institutions such as building environment for offering relevant information for stimulating proposals from the private sector.

(3) Local administration and finance systems

With regard to local financial administration, along with economic revitalization, it is necessary to shift from the crisis resolution mode after the collapse of Lehman Brother to the normal mode. For that, we will pursue income and expenditure reforms such as revising irregular addition of local tax grants or irregular framework for expenditure.

While aligning the initiatives and keynote of expenditure of the country, with regard to the total amount general financial resources of local regions required for their stable financial administration including the granted institutions, we will practically keep the same level as FY2013 regional financial plan.

For extensively supporting the regions that are putting efforts, in the local tax grant, we will use calculation mechanisms that would contribute to activation of regional economies.

We will revise the local corporate tax mechanisms and consider financial administration of regional public institutions, and take measures for correcting any bias in tax revenue sources between the regions.

For building regional systems suitable to the changes happening in the population structure, the concerned ministries will collaborate and vigorously pursue “Self-support Regional Framework”, and introduce new mechanisms that would allow flexible collaboration between local governments so that new wide area collaboration or effective and efficient division of function is achieved

²¹ “Action Plan towards fundamental reform of PPP/PFI” (Approved by Council for the Promotion of Private Finance Initiatives on June 6, 2013)

around “Regional Hub City”.

By promoting the consolidation of regional public account, we will achieve transparency and streamlining of financial administration in local regions, and we will purpose appropriate management of the public facilities in possession of the regional public institutions. We will also look into providing assistance including financial measures for dismantling and removal of old facilities.

2. Public sector reforms

For building a strong economy and realizing affluent lifestyle for citizens, we will maximize the outcome and build effective and efficient public sector where wasteful practices are completely eliminated. In addition, we will increase the transparency of administration and assume the responsibility of briefing the citizens. From this standpoint, we will conduct review based on the matters pointed out by Administrative Reform Promotion Council such as “Summary of ‘Autumn Review’”, use the review of administrative projects by incorporating them in FY2014 budget, and in addition to strictly enforcing PDCA cycle, we will work on improving government procurement. Moreover, we will pursue effective PDCA cycle through integrated approach by strengthening collaboration with the assessment of policy and measures, and review of administrative projects in each ministry.

With regard to special account reforms, for further streamlining and transparency of public finance, based on Act that makes partial amendments to the Act on Special Accounts²², from FY 2014, we will eliminate and consolidate special account and other accounting items.

With regard to independent administrative institution reforms, in keeping with the intermediate consolidation in Administrative Reform Promotion Council, using common rules of each institution as the underlying assumption, we will build systems keeping in mind the administrative and business features of each institution. For enhancing the polity implementation function expected from each institution, we will aim to implement reforms from April 2017, and take the required legislative measures at the earliest.

As for reforming the system for national government employees, we will pursue reforms aiming at setting up cabinet personal affairs bureau in autumn 2014.

With regard to salary and authorized strength of national government employees and regional government employees, we will deal appropriate according to “Handling of Salary Revision of Government Employees”²³. Especially, with regard to the authorized strength of national government employees, in FY2014 budget, we will achieve rationalization to the extent that is far beyond the target numbers in the current rationalization plan. In addition, we will appropriately deal with the important issues and restrict any increase in the number of staff members, and we will continue

²² “Act that makes partial amendments to the Act on Special Accounts” (Law No. 76 of 2013)

²³ “Handling of Salary Revision of Government Employees” (November 15, 2013, Cabinet Decision)

to aim for a significant net reduction. Moreover, we will strictly restrict the policies and measures that may hinder with restricting personnel cost and appropriate management of authorized strength of regional public institutions. Apart from that, we will ask the regional public institutions to rationalize and streamline their administration and work on appropriate management of authorized strength.

From the standpoint of increasing the convenience of citizens and streamlining the administrative operations, preparations for introducing social security services and tax number is underway in full swing. In addition, based on “Declaration on the Creation of the World’s Most Advanced IT Nation”²⁴, we are working on building world’s highest level of e-government. Moreover, in local governments, by using cloud technology and by having common and standardized administrative work, we will promote cost reduction of local governments and stimulate the use of administrative data by releasing it to the private sector.

²⁴ “Declaration on the Creation of the World’s Most Advanced IT Nation” (June 14, 2013, Cabinet Decision)