

Comprehensive Measures to Accelerate Reforms(summary)

Preamble

In response to the recent growing uncertainty concerning the nation's financial and economic conditions, the government of Japan has decided to reinforce its policy measures to bring greater stability to the financial system by working for the rapid recovery of financial intermediary functions via accelerating the disposal of non-performing loans, facilitating the smooth reallocation of resources to new growth fields, and striving to realize a rapid recovery of Japan's finance and industry.

The government will accelerate structural reforms via the four main pillars of "financial system reform", "tax reform," "regulatory reform," and "reform of the government expenditure structure;" strengthen its efforts toward the revitalization of the Japanese economy; and aim at the realization of self-sustaining economic growth led by private-sector demand while overcoming deflation. The government will make every possible effort to reinforce the nation's employment and small- and medium-sized enterprise (SME) safety nets, making best use of policies pro-actively taken by local governments, to mitigate effects from accelerating non-performing loan disposal.

To these ends, the government will rapidly prepare concrete formats for the implementation of the following policy measures; implement these measures in a comprehensive manner through integrating the administration of the FY 2002 budget and the compilation of the FY 2003 budget; and continue to examine additional measures as required to further utilize and reinforce Japan's employment and SME safety nets, considering the prospects of tax revenue. The government will continue to implement bold and flexible policy administration in accordance with future financial and economic conditions.

The government and the Bank of Japan will continue to act in unison through strong comprehensive efforts to conquer deflation. The policy announced by the Bank of Japan today has been decided in this context.

I. Revitalization of Finance and Industry

1. Policies to Accelerate the Disposal of Non-performing Loans

- (1) New framework of financial system
- (2) New framework of financial administration

2. Immediate Actions to Revitalize Industry and Enterprises

- (1) Promote the sale of non-performing loans to the Resolution and Collection Corporation
- (2) Revitalize industry and enterprises as quickly as possible.
 - Establish “Headquarter for Strategy of Revitalization of Industry and Enterprises and Employment”(tentative name). Draft “Basic Guideline” for reorganization and rapid revival of industry
 - Establish the ‘Institution for Industrial Revival’<tentative name>
 - Support the reallocation of management resources via a radical revision of the Law on Special Measures for Industrial Revitalization (the “Industrial Revitalization Law”) that will promote business restructuring, industrial reorganization, M&A activities, etc.
 - Expand and provide support to the corporate reconstruction funds.
 - Expedite and rationalize procedures via revisions to the Corporate Reorganization Law and the Civil Rehabilitation Law.
- (3) Support entrepreneurship and new business start-ups
 - Establish special exceptions to the minimum capital requirements, and ease the requirements for business organizations that do not have the minimum capital.
 - Revise the Limited Partnership Act for Venture Capital Investment, and make greater use of project finance, etc.
 - Establish a system of uncollateralized financing to support the creation of new business fields (Shoko Chukin Bank).
 - Promote research and development and commercialization activities through integrated efforts by industry, academia, and government.

II. Strategy to Accelerate Structural Reform toward Economic Revitalization

1. Advance Tax Reform toward Vibrant and Sustainable Socioeconomic Conditions

- Considering the present economic conditions, under the framework of revenue-neutral tax policy over multiple fiscal years, the government will implement tax reductions that exceed ¥1 trillion by as much as possible. With regard to tax reduction, the following themes should be examined.

(1) Corporation tax

- Implement tax reductions for research and development activities and for IT investment *etc.* Continue examining changes in the corporation tax rate considering the macroeconomic conditions, the international perspective, and the ideal overall tax structure.

(2) Inheritance tax and gift tax

- Integrate the inheritance tax and gift tax systems. Decrease the maximum inheritance tax rate.

(3) Housing tax

- Investigate the expansion of special exemption of gift tax regarding buying houses(including repairing)

(3) Land, financial, securities, and SME tax systems

- Promote “urban renaissance” program and effective land use, and simplify tax assessments. Reform these tax systems to promote shifts from savings to investment.

2. Revitalize the Securities and Real Estate Markets to also Contribute to Overcoming Asset Deflation

(1) Promote the structural reform of securities markets

- Promptly and steadily implement the “New Comprehensive Program for Promoting Securities Markets Reform” (released this August).

(2) Land, financial, and securities tax systems (aforementioned)

(3) Promote greater real estate market liquidity, etc.

- Encourage wider adoption of securitized real estate products(J-REIT *etc*)
- Facilitate the reconstruction of condominium buildings by rationalizing the conditions imposed by the Unit Ownership of

Buildings Law. Implement deregulation to support the conversion of existing office buildings to residential use.

3. Promote Urban Renaissance Program to Stimulate Private-sector Investment and Consumption

(1) Designate priority urban redevelopment areas and provide project support

- Designate priority urban redevelopment areas (44 areas, with private-sector investment of over ¥7 trillion and an estimated economic ripple effect of approximately ¥20 trillion). Conduct examinations on designating additional areas, and urgently provide intensive prioritized support.

(2) Capitalize on urban renaissance program, *etc.*

- Urgently upgrade roads designated in the City Planning Law through additions to the list of roads with announced completion periods. Upgrade such roads on a flexible and intensive basis in line with the timing of superior private-sector urban development projects through greater flexibility in approving urban development project districts.
- Make additional expansions to and approve regular international flights in Haneda Airport; Urgently develop loop roads, and bury electrical and other utilities lines underground.
- Support urban renaissance efforts nationwide toward the revitalization of regional economies and societies based on “Emergency Measures for Nationwide Urban Revitalization – from Wakkanai to Ishigaki.”

4. Accelerate Regulatory Reform to Stimulate Latent Demand

(1) Rapidly designate and upgrade special structural reform areas

- Work toward the rapid passage of the “Special Zone for Structural Reform Act” <tentative name>, based on the “Special Zone for Structural Reform Promotion Program,” including the 93 special policy items. Implement the second application period by January 2003.

(2) Implement additional regulatory reform measures, focusing on areas with strong public sector involvement.

- Conduct examinations for the special zone for structural reform and implement the nationwide items (111 items) within the prescribed time periods.
- Advance the outsourcing of public services at the national and regional levels.

III. Upgrade the Safety Nets

1. Advance Employment Measures

(1) Respond to the acceleration of non-performing loan disposal

- Establish the Special Fund for Employment Support Accompanying NPL Disposal <tentative name>, hold consultations at various locations, etc.
- Create and revise various subsidy measures to support re-employment.

(2) Create new employment opportunities

- Utilize the “Emergency Regional Employment Creation Special Grants Works,” effectively.
- Utilize Green Employment Program contributing to the promotion of migration to rural areas
- Establish a system of “Special Subsidies for Works Providing Employment to Regional Middle-aged and Elderly Workers” <tentative name>.

(3) Support private-sector efforts to adjust the labor supply-demand balance, and to create more diverse employment formats

- Expand the fields for which temporary employment agencies are permitted to dispatch workers (to include the manufacture of physical goods) and, in principle, extend the maximum period of one year for the dispatch of temporary workers.
- Expand the maximum length of fixed-term employment contracts, and expand the range of specialists that may be employed under such contracts.

(4) Revise the employment insurance system

(5) Give greater consideration to workers who lose their jobs

- Ease the eligibility requirements for loans to cover living expenses.
- Actively implement the emergency scholarship system for the

dependents of parents and guardians who become unemployed or suffer other sudden changes in their household finances.

- Steadily implement the system for changing the terms on Housing Loan Corporation loans for borrowers who face repayment difficulties due to unemployment, etc.

2. Advance Measures for SMEs

(1) Sufficient considerations for the SME financing

(2) Expand the safety net loans, guarantees, etc.

① Positively utilize policy finance measures

- Raise the maximum limits under the “credit crunch uncollateralized financing system.”
- Include in the DIP finance target group those SMEs being restructured under the private-sector adjustment guidelines.
- Ease the third-party guarantor requirements for small-scale enterprises.

② Expand credit guarantees

- Provide additional safety net guarantees for those SMEs that still have a potential for revival and that are suffering from reduced financing because of the restructuring of regional financial institutions, or whose credits have been transferred to the Resolution and Collection Corporation (RCC), or that are being revived under the Civil Rehabilitation Law, etc. (SMEs with DIP guarantees).
- Expand the range of safety net debt guarantees for construction industry SME and middle-echelon subcontractors.

(3) Special considerations for SMEs depending on subcontracting network

(4) Establish “Headquarter for Strategy of Revitalization of Industry and Enterprises and Employment”(tentative name).(aforementioned)

3. Actively Utilize Policy Finance During the Intensive Disposal of Non-performing Loans

During the period of intensive disposal of non-performing loans, policy finance is actively utilized in such areas as improving safety-net, revival of enterprises, revival and progress of financial system for the maximum facilitation of SMEs financing, while appropriate consideration is given

that the market mechanism plays its due role to the utmost extent. Including this aspect, the Council of Economic and Fiscal Policy will continue investigation on the roles that policy finance should play, in line with “The Basic Framework on Radical Reform of Policy Finance.” The conclusion is expected to be finalized by the end of this year. .