

## Comprehensive Measures to Accelerate Reforms

### 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

### 1.1 Policies to Accelerate the Disposal of Non-performing Loans

In order to restore confidence in the Japanese financial system and financial administration, as well as to create a globally-esteemed financial market, it is first necessary to resolve the issue of the non-performing loans of major banks. By FY2004, we will halve the ratio of non-performing loans of major banks, and along with these efforts to normalize the problem, aim for the building of a more solid structure for the financial system. To this end, in regard to the tightening of asset assessments at major banks, the strengthening of the capital base and the enhancement of governance, the policies below will strengthen administration.

#### (1) New framework of financial system

In “‘Program for Financial Revival,’ 1. New framework of financial system,” the items below are referenced.

--Developing a financial system which people can rely on without anxiety

--Termination of non-performing loan problems toward FY2004

#### (2) New framework of financial administration

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† “Program for Financial Revival” in this sentence refers to the “Program for Financial Revival – Economic Revitalization Through Resolution of the Non-performing Loans of Major Banks,” finalized and announced at the Financial Services Agency (FSA) on October 30, 2002. The same applies below.

In “Program for Financial Revival Plan’ 3. Framework of the New Financial Administration, 4. Future Steps,” the items below are referenced.

--Tightening of assessment of assets

--Enhancing capital adequacy

--Strengthening governance

--Future Steps

## 2. Immediate Actions to Revitalize Industry and Enterprises

In order to proceed further with industrial structural reform and strengthen the global competitiveness of Japanese enterprises, excessive supply structures will be corrected through industrial reorganization so as not to dissipate managerial resources in the process of accelerating the disposal of non-performing loans, and the early revitalization of business will be pursued to separate valid managerial resources from excessive debts as soon as possible. In addition, besides the preparation of an environment to promote the creation and opening of new businesses, new business and employment opportunities will be created through the further revitalization of research and development among industry, academia and government.

(1) Promote the sale of non-performing loans to the Resolution and Collection Corporation (RCC)

“Program for Financial Revival’ 2. New framework of corporate revival (2) Further utilization of the RCC and corporate revival” is referenced.

(2) Revitalize industry and enterprises as quickly as possible

In order to advance an industrial and financial policy in an integrated manner, in conjunction with the acceleration of disposal of the non-performing loans held by financial institutions, the Government will move to strengthen the revival of business and industry.

1) Establishment of the “Headquarters for Strategy of Revitalization of Industry and Enterprises and Employment” (tentative name)

The Government will accelerate the disposal of non-performing loans, and in order to advance industrial revival and employment measures in an integrated fashion, the existing “Headquarters for Industrial Structural Reform and Employment Measures” is to be thoroughly reorganized, and instead the “Headquarters for Strategy of Revitalization of Industry and Enterprises and Employment” (tentative name) is to be established with the Prime Minister as chief. This Headquarters will formulate a Basic Guideline in order to address the excess debt problem, structural oversupply and other concerns, and strongly promote the revitalization of businesses, strongly promoting the revitalization of enterprises and industries.

2) Establishment of the “Institution for Industrial Revival” (tentative name)

--The “Institution for Industrial Revival” (tentative name), the new institution acting to revitalize businesses, shall be established alongside the Resolution and Collection Corporation (RCC) under the auspices of the Deposit Insurance Corporation. The institution, in line with the Basic Guideline, upon judging the enterprise to be viable based on a restructuring plan agreed to between the enterprise and its main bank, takes the debts of enterprises classified into categories such as “special attention” by financial institutions and buys them at fair market price, in consideration of the revival of the enterprise, and principally from non-main financial institutions. In order to ensure the fairness of the restructuring plans and buying prices, an “Industrial Revival Committee” (tentative name) made up of experts will be established within the institution.

--The institution will act as a financial institution (is set up as joint stock company with pre-determined period of duration) providing the functions of supplementary financing and investment, trust, and guarantees for the revival of enterprises. The establishment and operation of

the institution will be assured through obtaining personnel and financial support as much as possible from the private sector, including requesting the dispatch of a specialists with expertise from finance and industry, while at the same time the Government will ensure the necessary human and financial support by investing government guarantees for transfers from related ministries and agencies and for the raising of funds by institutions.

--A reasonable share of the debt of an enterprise will be held by the institution and the main bank, and business restructuring and rehabilitation will be strongly advanced. The creation of the enterprise revival measures will utilize the information, know-how, capital (and with it, relief funds and new money) and human resources of the main bank to the maximum. The institution will gain the cooperation of the whole government, and in regard to enterprises that can be considered unviable without reorganization in an industry, based on information amassed within the institution and in line with the "Basic Guideline," it will establish and carry out enterprise revival measures with a view to industrial reorganization. Investment and financing from policy finance institutions will also be applied.

### 3) Drastic revision of the Industrial Revitalization Law

The Law on Special Measures for Industrial Revitalization (Industrial Revitalization Law) will be drastically amended, and based on the "Basic Guideline" and necessary support measures will be taken in regard to efforts toward business reconstruction, joint business reorganization and the revitalization of managerial resources. In this way, in addition to the business reconstruction of individual enterprises, reorganization of industry reorganization that goes beyond the segmentation of a business and the early revitalization of exploitable operating resources will be accelerated.

4) Enhancing the support function for business revitalization and industrial reorganization through the Development Bank of Japan

--Upgrade of the system of lending to the corporation reconstruction fund, and expansion of the loans system for third party businesses acquiring or inheriting the assets of enterprises undergoing reconstruction will be implemented.

--To revitalize the finance markets and provide appropriate funding, support will be provided for the improvement of finance structures, which include the utilization of credit derivatives such as the Collateralized Loan Obligation (CLO).

5) Enhancement of the judicial function contributing to the revitalization of industries and businesses

--Amendments to the Corporation Reorganization Law (during this Extraordinary Diet Session)

-- Relaxation of approval requirements for proposed reorganization plans, introduction of written vote at decisions on the proposed plans and shortening of the reimbursement period based on reorganization plans in pursuit of speedier, more rational procedures.

- -Amendments will be made to the Civil Rehabilitation Law from the perspective of rationalizing the procedure, including the introduction of a written vote at decisions on proposed reorganization plans.

--Amendments to the Code of Civil Procedure, the Law of Civil Execution

The smooth disposal of non-performing loans and revitalization of industries and businesses is sought through upgrading and acceleration of civil suits, including the advancement of plan hearings and enhancements to the procedures for collecting evidence, as well as through taking steps to improve the civil execution system, including improvements in the effectiveness of mortgages and measures addressing execution obstruction on properties.

6) Expectations for the Bank of Japan in regard to industrial and business revitalization

“‘Program for Financial Revival’ 2. New Framework of Corporate Revival (3) Developing

favorable environment for corporate revival (d) Measures to deal with the stock price volatility

risk” is referenced.

### (3) Support formations and start-ups of new business

Apart from the improvement in the environment for promoting broad-based creation and opening of new businesses, new businesses and new employment opportunities will be created through the further revitalization of research and development in industry, academia and government. Moreover, by applying policy finance, small and medium businesses that open new business fields will be supported.

--Special exceptions to the minimum capital requirements for establishing a company, etc. (Amendment to the Law for Facilitating the Creation of New Businesses [this Extraordinary Diet session])

--Expansion of investment choices for the Limited Partnership for Venture Capital Investment, etc. (Amendment to Limited Partnership Act for Venture Capital Investment [this Extraordinary Diet session])

--Relaxing of requirements for membership of joint enterprise cooperatives (Amendment to Law on the Cooperative Association of Small and Medium Enterprises [ this extraordinary Diet session] ]

--Creation of an uncollateraled loan system for small and medium businesses opening new business fields through original technology or ideas (Shoko Chukin Bank)

--Promotion of research and development and commercialization activities through integrated efforts by industry, academia and government

The Council for Science and Technology Policy decided on the “Principle Promotion Policy for Cooperation among Industry, Academia and Government” in June this year, in which the following things will be clarified: issues and specific measures of each form (technology transfer, university ventures, etc.) and each area (life sciences, information technology, environment, nanotechnology and materials) of cooperation among industry, academia and government, for the promotion of science and technology in regional areas, and reform of

universities from the perspective of cooperation among industry, academia and government and revitalization of people-to-people exchange. Based on this policy, efforts such as the formation of the foundation and the development of the environment for cooperation among industry, academia and government, research and development that will lead to corporatization, and assistance for the smooth transfer, practical application and commercialization of research achievement will be aggressively promoted.

--Promotion of the “Move Japan!” Urgent Industry-Academic-Government Project

From the perspective of increasing the productivity of businesses through technological innovation and management reorganization and revitalize the economy of “Move Japan!”, Urgent Industry-Academic-Government Project will be promoted.

## II. Strategy to Accelerate Structural Reform toward Economic Revitalization

### 1. Advance Tax Reform for Revitalization of Sustainable Economic Society

Efforts will be made for fundamental reform toward building the “ideal tax system” to revitalize sustainable economic society. Considering the present economic conditions, the government will implement tax reductions to the fullest extent possible and certainly in excess of ¥1 trillion. By striving toward a tax system that is fair, simple and easy to understand, under the framework of revenue-neutral tax policy over multiple fiscal years, among the items that should be submitted at the next session of the Diet as one bill, with regard to tax reduction, the following themes should be examined.

#### (1) Corporation tax

The engine of the economy is the active operation of businesses. In corporation tax-related matters, tax reductions for research and development activities and for IT investment, etc. will be

implemented. Examinations will be continued in the corporation tax rate considering the macroeconomic conditions, the international perspective, and the ideal overall tax structure.

(2) Inheritance tax and gift tax

In light of the advancement of the aging society, in order to facilitate the transition of capital held by the elderly including home equity, to the next generation, inheritance tax and gift tax systems will be integrated. In addition, the maximum inheritance tax rate will be decreased.

(3) Housing tax

Incentives in the tax system concerning the promotion of home investment such as the expansion of special exemption of gift tax regarding buying houses (including repairing) will be investigated.

(4) Land tax system

In order to promote the “urban renaissance program” and effective land use, the land tax system will be reformed.

(5) Financial and securities tax systems

Drastic reform of the financial and securities tax systems will be conducted in order to simplify tax assessments concerning stocks and to promote shifts from savings to investment.

(6) Small and medium-sized enterprise tax system

In order to strengthen the management base of small and medium-sized enterprises with vitality, the small and medium-sized enterprise tax system will be reformed.

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

## Deflation

The slumping trend of securities and real estate markets is one of the factors for the decline of overall price index. From this perspective, an environment will be created in which efforts will be made for revitalization of the securities and real estate markets, which will contribute to overcoming asset deflation.

### (1) Promote the structural reform of securities markets

The “New Comprehensive Program for Promoting Securities Markets Reform” (released on August 6, 2002) which aims at developing a market where anyone can easily invest and securing a market that can gain the trust of investors, will be promptly and steadily implemented beginning with those matters whose implementation is possible.

--In order to advance the participation of many investors, by decreasing the minimum capitalization requirements and introducing the dealership system, the sales channels via securities companies will be improved.

--In order to ensure fairness and transparency in the markets, by the reform of the modality of the certified public accountants system (such as increasing the number of people and improving quality), efforts will be made to enhance and strengthen accounting and auditing. Furthermore, various ways of disclosure will be improved through releasing “risk information” in asset securities reports and quarterly releases of listed companies.

--In order to improve the stability and efficiency of markets, by expanding the scope of qualified institutional investors, measures such as developing a non-public offering warrant market will be taken. Furthermore, securitization of housing loan bonds, which is currently being conducted by the Government Housing Loan Corporation, will be promoted and efforts will be made for the smooth circulation of asset-based securities for housing loans.

--In addition to developing markets with depth, to strive for the revitalization of the financial markets, the Development Bank of Japan will utilize securitization methods in coordination with private financial institutions.

(2) Financial and securities tax systems (aforementioned)

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

Efforts will be made for the revitalization of the real estate market such as the promotion of securitization of real estate, the development of new markets and by measures that will contribute to the promotion of efficient use of existing stocks.

--Promote securitization of real estate

--Actively implement wider adoption of securitized real estate products (J-REIT etc.) and increase awareness of such products.

--By promoting the development of indices and databases concerning J-REIT, the provision of information to investors will be enhanced.

--Facilitate the reconstruction of condominium buildings by rationalizing the conditions imposed (by the Unit Ownership of Buildings Law and the Amendment to the Law Concerning the Facilitation of Reconstruction of Condominium Buildings [this Extraordinary Diet session]).

--In order to promote the conversion of existing office buildings to residential use, rationalization of regulations concerning lighting in residences (developing of notifications based on the Building Standard Law) will be implemented together with the creation and popularization of design and implementation guidelines for repair works, and in addition, popularization of subsidy devices in the event of conversion of office buildings into urban-type leasing housing for families will be promoted.

--For the promotion and spread of a performance indication system concerning existing residences based on legislation in relation to the promotion of ensuring quality of residences,

during autumn 2002, in addition to designating the first group of residence performance assessment institutions that will assess existing residences, efforts will be made for active public relations for the system.

(4) Land tax system (aforementioned)

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

As it has been established that measures toward urban renaissance will be promoted, by utilizing private sector capital and know-how, in addition to awakening new private investment and consumption, the resolution of the issue of non-performing loans will be stimulated through the revitalization of capital markets.

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

Based on the Urban Renaissance Special Measure Law, priority urban redevelopment areas will be designated in 44 areas nationwide (with private-sector investment of over ¥7 trillion and an estimated economic ripple effect of approximately ¥20 trillion). In the future, in addition to conducting examinations on designating additional areas, in regard to designated areas, urgent and intensive prioritized support will be provided toward the promotion of private urban development investment, such as the utilization of the Urban Renaissance Special Measure Law and financial measures and development of necessary public facilities.

--Actively implement urban renaissance support activity by the Organization for Promoting Urban Development

--Intensively implement urban residence renaissance loans and urban area redevelopment loans by the Government Housing Loan Corporation

--Expand urban renaissance-related loans by the Development Bank of Japan

--Facilitate private urban development by intensive implementation of cadastral surveys

--Intensively implement effective land use activity by the Urban Development Corporation

(2) Capitalize on the Urban Renaissance Program, etc.

In light of the “Basic Policies for Economic and Fiscal Policy Management and Structural Reform 2002 (Cabinet decision of June 25, 2002),” by utilizing the Urban Renaissance Program, etc. and intensively advancing the development of various types of urban foundations, efforts will be made to improve the international competitiveness and attraction of cities, and private investment and consumption in urban areas will be induced.

--In order to urgently upgrade roads, including the additional public release of the City Planning Law, the period of completion and services will be clarified, and this will be intensively supported, aiming for the two-fold increase of efforts to advance services. Furthermore, such roads will be upgraded 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.

--Urban renaissance projects such as the following will be promoted.

--Make additional expansions and approve regular international flights to Haneda Airport, develop a high-speed railway link to Narita Airport, form an international hub by developing a high-specification container terminal, etc.

- Urgently develop loop roads.
- Develop dense urban areas deemed susceptible to great damage in the case of disaster and bury electrical and other utilities underground.
- Establishing it so that the percentage of physical barriers eliminated at railway stations (which are used by more than 5,000 people on average every day) is 60% by FY2005 (approximately twice the number for FY2000), based on the Law Concerning the Promotion of the Construction of Special Buildings that Can Be Used Easily by the Elderly and Handicapped Persons (Heart Building Law) that was revised in FY2002, targeting 100% of special

designated buildings (those for which the floor area relating to new and extension construction is more than 2,000 m<sup>2</sup>), in addition to making mandatory the conformity to usage facilitation standards, by taking various support measures, a barrier-free society will be actively promoted.

- Promote shore urban renaissance.

--Urban renaissance efforts nationwide toward the revitalization of regional economies and societies based on “Emergency Measures for Nationwide Urban Revitalization—from Wakkanai to Ishigaki” that will promote private investment will be supported.

#### 4. Accelerate Regulatory Reform to Stimulate Latent Demand

By extracting private sector vitality as much as possible and by expanding private sector corporations, the economy will be revitalized. Thus, the promotion of special zones for structural reform will begin and regulatory reform will be strongly and promptly promoted. In addition, in order to convert to the ex ante and relief-type society, an environment will be developed for competitive strategies, justice system, etc.

##### (1) Rapidly designate and upgrade special structural reform areas

Upon receiving the “Special Zone for Structural Reform Promotion Program (October 11, 2002),” the rapid passage of the “Special Zone for Structural Reform Act <tentative name>” whose contents include the basic policies for the promotion of structural reforms, procedures for requests and certification and special measures (93 items) for regulations that can be implemented in special zones, will be aimed for (extraordinary Diet session). Furthermore, in order to enhance efforts for special zones, the second round of proposals will be accepted from local governments and private sector corporations (until January 15, 2003).

##### (2) Implement regulatory reform measures, focusing on areas with strong public sector

involvement

Toward the “Second Report (December 2002)” of the Council for Regulatory Reform, efforts will be made in areas with strong public sector involvement (such as medical care, welfare, education and agriculture) and considerations will be made concerning further regulatory reform. Furthermore, outsourcing, etc. of public services conducted by national and local governments will be advanced.

--Toward the “Second Report (December 2002)” of the Council for Regulatory Reform, further discussion will be deepened regarding the contents of the “Interim Report on the prioritized Regulatory Reform plans for economic vitalization.”

--In the Special Zone for Structural Reform Promotion Program, the items that can be implemented at the national level (111 items) will be considered with a view to the “Second Report” within the prescribed time periods.

--Further advancement will be made for reducing and improving efficiency of administrative institutions, etc. as they will contribute to the entry of the private sector into public service.

--In order to facilitate cooperation between industry and academia and accelerate the creation of university-launched ventures, regulatory reform such as the following will be conducted.

- Improving flexibility of the approval of the establishment of universities and easing standards for establishment of universities (revision of the School Education Law (extraordinary Diet session), etc.).
- Improving flexibility of the conditions of use for state-owned facilities (exceptions to the Law to Promote Research and Exchange by the Special Zone for Structural Reform Act [tentative name] [this Extraordinary Diet session]).
- Making it possible for local governments to contribute funds to national universities, etc. (revision to the enforcement ordinance of the Local Fiscal Reconstruction Promotion Special Measures Law)

--In order to accelerate the transfer of technology from universities to private sector corporations,

procedures concerning certification, etc. that relate to commission development work to be implemented by the Japan Science and Technology Corporation will be abolished (Institution for the Promotion of Science and Technology by Independent Administrative Institutions Bill [this Extraordinary Diet session]).

### III. Upgrade the Safety Nets

#### 1. Advance Employment Measures

In response to the effects through the acceleration of non-performing loan disposal, employment measures will be promoted, structural reform of the labor market will continue, together with work toward the elimination of mismatches arising in the labor market, corresponding with the needs from market. The vitality of the private sector will be brought out and a detailed response will be provided for the actual employment situation and job mobility possibilities.

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

Systemic re-employment support for people who will be forced to leave their jobs due to the acceleration of non-performing loan disposal will be carried out. In addition, policy meetings will be held at the national and local level with the participation of the concerned government ministries.

--Create and revise various subsidy measures to support re-employment.

- Establish the Special Fund for Employment Support Accompanying NPL Disposal (tentative name), etc. Support employment activities through direct and trial employment (use the Emergency Employment Creation Special Fund)
- Relax the requirements for payment of the Labor Mobility Support Subsidy and carry out special measures to apply the Employment Adjustment Subsidy

--Career consulting at “Hello Work” (employment centers) and consulting services provided by dispatched consultants. Provide free job training to people who are still employed but whose

positions are scheduled to be terminated.

(2) Create new employment opportunities

Create urgent and temporary employment through local authorities (New Public Service Employment), and new employment opportunities for middle-aged and older people through private sector enterprises.

Utilize the “Emergency Regional Employment Creation Special Grants,” effectively. Review programs designed to help and encourage workers who have lost their jobs due to the effect of the non-performing loans disposal and improve their management. 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) and offer support in cases where newly established companies contribute to the public good by employing middle to older aged job-seekers. (Utilize the Emergency Employment Creation Special Fund)

--Utilize actively the New and Growth Areas Employment Creation Special Fund which gives subsidies to owners of businesses in new and growth areas (in 15 medical- or welfare-related fields) who bring forward the employment of involuntarily unemployed middle and older aged people.

--Relax the age requirements for the Cooperative Employment Opportunity Creation Subsidy for the Elderly which provides subsidies to older people who establish joint capital companies.

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

Adjust the labor supply-demand balance quickly, smoothly and in a focused way and make the most of private sector vitality. In addition, while creating more diverse employment formats workers can independently choose from, the government will guarantee fair employment

conditions for those formats, and provide for smooth settlement of disputes.

Examine relaxation of regulations governing fees and prohibition of dual employment with respect to job placement agencies, expansion of the range of the notification system with respect to free job placement agencies, and implementation of free job placement services in local authorities.

--Expand the fields for which temporary employment agencies are permitted to dispatch workers (to include the manufacture of physical goods) and examine extension of the maximum period of one year for the dispatch of temporary workers and take measures to implement it.

--In regard to fixed-term employment contracts, examine possibilities and take measures to implement extension of the maximum length of the contracts and expansion of the range of specialists who may be employed with three-year contracts.

--Examine possibilities and take measures to simplify the operational procedures and expand the range of activities and applicable workplaces of a flexible time system.

--Publish Hello Work job vacancies on the Internet, listing the names of companies seeking workers.

--Implement employment training directed towards practical vocational training that combines study at private educational and training institutes and practical training in companies, and that promotes the establishment of new businesses.

#### (4) Revise the employment insurance system

From a macroeconomic perspective, the employment insurance system has an automatic stabilizing effect on the economy. In order to guarantee stable management as a safety net in the future, rapid re-employment will be promoted, response to diversification of employment formats will be provided together with a review of the system, which will give priority to benefits to

respond to the difficult situation with regards to reemployment.

(5) Give greater consideration to workers who are forced to leave their jobs

Detailed measures will be taken to help workers who are involuntarily unemployed and face financial difficulties.

--Ease the eligibility requirements for loans to cover living expenses.

The government will relax the eligibility conditions of the Unemployed Workers Support Fund which gives loans for living expenses to owners of failed businesses and unemployed people who are no longer eligible for unemployment benefit because their eligibility period has expired. For example, the repayment period will be extended.

---Upgrade the Scholarship System

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.

--Measures for Housing Loan Corporation Borrowers Facing Difficulties

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

(6) Headquarter for Strategy of Revitalization of Industry and Enterprises and Employment  
(tentative name) (aforementioned)

## 2. Advance Measures for SMEs

In order to support the recovery of small and medium-size enterprises (SMEs) that are creative, flexible and motivated, in continued cooperation with regional public bodies the financial policy will be strengthened.

(1) Sufficient considerations for the SME financing

Refer to “‘Program for Financial Revival,’ 1. New framework of financial system (2) Due considerations to loans to SMEs”

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

1) Positively utilize policy finance measures

By positively utilizing policy finance measures, the supply of funds to motivated and sound SME's will be facilitated and the SME safety net will be guaranteed.

--Raise the maximum limits under the “credit crunch uncollateralized financing system.” (Shoko Chukin Bank)

--Include in the DIP finance target group those SMEs being restructured under the private-sector adjustment guidelines (Japan Finance Corporation for Small Business, Shoko Chukin Bank and Okinawa Finance Corporation).

--Establish a system to provide finance to viable SME's whose credits have been transferred to the Resolution and Collection Corporation (RCC) (Japan Finance Corporation for Small Business, Shoko Chukin Bank and Okinawa Finance Corporation)

--Establish a council in order to guarantee finances for viable SMEs through the Japan Finance Corporation for Small Business, the Shoko Chukin Bank, the Federation of Credit Guarantee Corporations, the Deposit Insurance Corporation of Japan, the RCC, the Financial Services Agency, and the Ministry of Economy, Trade and Industry

--Carry out appropriate measures to revitalize businesses using the Industrial Recovery Mechanism (tentative name)

--Ease the third-party guarantor requirements for small-scale enterprises (National Living Expenses Finance Corporation, Okinawa Finance Corporation)

--Establishment of the “Credit Squeeze Special Consultation Outlet” (Japan Finance Corporation for Small Business, National Living Expenses Finance Corporation, Shoko Chukin Bank, Okinawa Finance Corporation)

## 2) Expand credit guarantees

By expanding safety net guarantees through Credit Guarantee Corporations, facilitate the supply of funds to motivated and viable SMEs.

--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).

--Carry out appropriate measures to revitalize businesses through the “Industrial Recovery Mechanism” (tentative name) (aforementioned).

--Establish a business recovery guarantee system (DIP guarantee) for SME’s that have initiated legal reconstruction procedures and have been issued an approved recovery plan. (Revision of the SME Credit Insurance Law (extraordinary Diet session))

--Aim at further growth of the accounts receivable collateral finance system through promotion of nontransferable special contract termination, simplification of procedures, and flexible operation of the system.

--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

Because Japan is in a very severe financial and economic situation, subcontracting SME’s transactions will be made fairer, by ensuring that parent businesses thoroughly comply with the Subcontractors Late Payment Prevention Law.

## (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 will be actively utilized in such areas as improving the 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 on Economic and Fiscal Policy will continue investigation on the roles that policy finance should play in line with “The Basic Framework on Drastic Reform of Policy Finance.” The outcome is expected to be finalized by the end of this year.