

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

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

1. Current situation and challenges of the Japanese economy

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

- No major changes have been seen in Japan’s economic fundamentals. However, downside risk has been rising in the global economy since last summer. The domestic economy lacks momentum in private demand such as private consumption and business fixed investment.
- It is important to raise the potential growth rate by enhancing productivity and innovation capability and promoting work style reforms, through addressing underlying structural issues including the decreasing and aging population and the working-age citizens’ concerns regarding the future. It is also important to expand demand by exploring new markets and discovering potential domestic demand.
- In addition, it is important to achieve both economic revitalization and fiscal consolidation in an integrated manner on the basis of, “Without economic revitalization, there can be no fiscal consolidation.”

(2) Response to the Kumamoto Earthquake

- The entire government, sharing the determination to do everything possible, including the implementation of the FY2016 supplementary budget, will make full and concerted efforts to enable the victims in the earthquake-hit regions to live with peace of mind and achieve restoration there as promptly as possible.

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

- The “new three arrows” aim for a sustained expansionary equilibrium of the Japanese economy as a whole including local regions by establishing “a Virtuous Cycle of Growth and Distribution.”
- Driving regional reinvigoration will stem the vicious cycle of population and economic declines and secure growth potential for the future.

3. Basic approach to a 600 trillion yen economy

- The “new three arrows,” centering upon support for people in fulfilling their hopes under the concept of the “dynamic engagement of all citizens,” enhance the positive cycle by generating new demand and supply and distributing the obtained fruits to each citizen. This will deliver growth above about 2% in real terms and 3% in nominal terms.

4. Reconstruction and reinvigoration after the Great East Japan Earthquake

- The government aims at achieving such reconstruction during the “reconstruction and reinvigoration period” (FY2016–FY2020) that will lead to the independence of the victims and serve as a model for regional reinvigoration.
- The government has secured around 32 trillion yen for the restoration and reconstruction projects to be carried out over the ten-year reconstruction period.

- The government will continue work on lifting the evacuation orders by March 2017 at the latest for the Preparatory Zones for the Lifting of Evacuation Orders and the Restricted Habitation Areas in the disaster-hit areas of Fukushima.

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

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

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

- The declining birthrate and aging population are pressing issues that need to be addressed with top priority. With Abenomics starting to bear fruit, no time can be lost in proceeding with relevant initiatives in view of the Japan’s Plan for Dynamic Engagement of All Citizens.

(1) Support for marriage and childbirth

- Support initiatives by municipalities tailored to each region’s unique features; support corporate initiatives to promote marriage; reinforce education programs that help individuals plan their personal and working lives; provide housing support for young and child-rearing households; and expand access to fertility treatment.

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

- Provide expanded and continuous support during pregnancy and throughout the child-rearing period.
- To address diverse childcare needs, secure childcare capacity and dissolve waiting lists of children seeking childcare; improve the working conditions of childcare providers at nurseries, After-school Kids’ Clubs, and foster homes; and encourage three generations of a family to live under one roof or nearby each other. Alleviate the burden of educational costs; implement initiatives to break the cycle of poverty across generations; and strengthen the economic foundation of youth.

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

- Work on improvement in working conditions of non-regular workers including realization of “equal pay for equal work” and improvement in practices of long working hours ,which leads to options of various working styles . Encourage the switching of non-regular workers to regular positions.
- Enhance the employment rate of the elderly; and execute reforms in work styles in line with each region’s unique characteristics.

- Proceed to review the tax system, social security systems, and spousal allowance to improve the environment for women who wish to work.

(4) Further empowerment of women

- Based on the Important Policies for Accelerating Empowerment of Women 2016, pursue working-style reforms, encourage men to become more involved in housework and child-rearing, and promote formulation of and disclosure of corporate action plans for empowering women.

(5) Improvement of nursing care environments

- Enhance home-based and facility-based nursing care services; seek nationwide proliferation of successful practices demonstrated by insurers; enhance foundations for nursing care; and improve the working conditions of nursing care providers. Realization of the Comprehensive Strategy for the Promotion of Dementia Measures; widely publicize the expansion of the nursing-care leave system; spread work styles that allow workers to engage in nursing care without giving up work; and adopt initiatives to extend healthy life expectancy.

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

- Support people with disabilities, intractable diseases, and cancer sufferers in finding and securing employment and undergoing treatment while leading a work life; encourage people with disabilities to engage in art and cultural activities, participate in society, and gain self-reliance.

2. Acceleration of growth strategies and other measures

- The government will enhance and implement growth strategies to achieve a 600 trillion economy. It initiates Public-Private Strategy Project 10 to address the fourth industrial revolution and forge a leading health-oriented nation.

(1) Acceleration of measures for a productivity revolution

- Human resources development (practical vocational training, strengthened education and research bases, systematic development measures, etc.)
- Educational reform (achieve the world's top-tier academic performance and improve basic performance, establish "team schools," deliberate establishment of scholarships, etc.).
- Promote research and development on the Internet of Things (IoT), big data, and artificial intelligence (AI) based on public-private collaboration. Aim at realizing combined public and private sector R&D investment equivalent to 4% or higher of GDP (1% by the government) by 2020.
- Strengthen corporate growth and earnings capacity over the medium- to long-term. Enhance productivity in the service industry.

(2) Creation and expansion of new promising growth markets

- Aim at making Japan a nation focused on culture, art and sports through such efforts as hosting the 2020 Tokyo Olympics and Paralympics.
- Promote public private partnerships and private finance initiatives (PPP/PFI); foster and expand the infrastructure maintenance industry.
- Position tourism as one of Japan's core industries; take aggressive measures for agricultural, forestry and

fishery.

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

- Take necessary measures for establishing new global value chains by capitalizing on TPP. Accelerate effectuation of the Trans-Pacific Partnership (TPP) agreement and advance negotiations for other economic partnerships including the Japan-EU Economic Partnership Agreement (EPA), the Regional Comprehensive Economic Partnership (RCEP) in East Asia and the Free Trade Agreement (FTA) among Japan, China, and the Republic of Korea.
- Further promote direct foreign investment in Japan based on a policy package aimed at fundamentally simplifying administrative procedures and other systems within one year. Secure an equal footing with other countries in terms of business environment.
- Leveraging the established reputation of Japanese products as being “safe,” “reliable,” and “high quality,” promote products across sectors including agriculture, forestry, fisheries, and infrastructural systems under the “Japan brand”; promote the Cool Japan strategy; and stimulate exports and tourism.
- For the purpose of recruiting a larger number of foreign professionals, improve the immigration / residence status management system to make it more appealing than its counterparts in other nations by establishing a “Japanese-version green card for foreign professionals,” which will be one of the quickest available permanent resident statuses in the world. Improve the living environment of foreign professionals including the educational environment for their children.

(4) Regional reinvigoration and support to SMEs and microenterprises

- Promote policies to spur regional reinvigoration based on the Overall Strategy on Vitalizing Local Economies (2015 revised version)” and the Basic Policy for Overcoming Population Decline and Vitalizing Local Economies 2016.”
- Support investment in information and communications technology (ICT) and human resources development in the area of information technology (IT) to empower SMEs and microenterprises to tackle the fourth industrial revolution. Advance measures to enhance productivity and strengthen business management foundations.
- Promote regional revitalization (including accelerated development and utilization of broad-area high-speed transportation networks), develop Okinawa, and advance decentralization reforms.

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

- Improve social infrastructure in a selective and focused manner, promote productivity revolution, national resilience, disaster prevention and reduction, and barrier-free construction to energize cities.

(6) Promotion of regulatory reforms

- Undertake regulatory reforms seamlessly beyond the duration of the current Council for Regulatory Reform (until the end of July 2016). In the National Strategic Special Zones, execute reforms of “rock-solid regulations” by designating the two years up to the end of FY2017 as a period for implementing enhanced and intensive measures to execute reforms.

(7) Improvement of economic statistics

- Compile by the end of the year a policy for measures to improve the quality of various statistics.

3. Stimulating personal consumption

- The government will help create new goods and services in response to the changing times such as the declining birthrate, aging population, and globalization, instead of being obsessed with a dwindling demand due to the decreasing population.

(1) Raising wages and disposable income

- Put a brake on the decline in labor's share of corporate profits. Develop an environment for achieving ongoing raises in wages and disposable income.
- Curb the increase in social insurance contributions by streamlining the social security system.

(2) Meeting potential consumption demand

- Proliferate nationwide the advanced initiatives undertaken by municipalities and corporations/insurers in pursuit of healthy longevity. Generate, develop and promote the use of private-sector health and medical care services to enhance the living environment of the elderly.
- To stimulate tourism/travel consumption by both domestic and inbound travelers, aim for accelerated achievement of a "Tourism Vision to Support the Future of Japan" based on the "2016 Action Program for the Achievement of the Tourism Vision."

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

- Stimulate market distribution of high quality housing stock, promote renovations that help housing last longer, support renovations of unused stores to enhance the value of their local areas, and spur real estate investment.

(4) Stimulating consumer confidence

- In view of the analyses on premium product/travel vouchers and child-rearing support vouchers issued in the past, deliberate measures to stimulate consumer confidence including nationwide sales promotion events.

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

(1) Use of the fruits of Abenomics

- With regard to government revenues, Abenomics has brought about a significant increase in tax revenues. Tangible results are also starting to be seen in government expenditures, driven by a decrease in the number of working-age families receiving public assistance, a decline in the amount of unemployment benefits received by the working population, and expenditure reforms.
- To address structural issues such as the decreasing and aging population and declining birthrate, which are bottlenecks for Japan's economic growth, the government will advance initiatives for important issues including promotion of the dynamic engagement of all citizens while making use of the fruits of Abenomics.

(2) Simplified, streamlined and online administrative procedures

- The government will advance regulatory reforms, simplify administrative procedures, and proliferate the use of IT in an integrated manner to reduce regulatory/administrative procedure costs incurred by businesses.

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

- The government will establish a system whereby the positive results of expenditure reforms and restrained spending resulting from economic revitalization can be returned to the public by supporting child-rearing and other areas.

(4) More efficient resource allocation

- The government will encourage wise spending by the national and local governments and achieve efficient resource allocation.

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

(1) Diplomacy, national security and defense

- Dynamically advance strategic diplomacy. Expand and deepen cooperative relationships with other countries based on the “National Security Strategy.” Efficiently develop a highly effective Dynamic Joint Defense Force based on the “National Defense Program Guidelines for FY2014 and Beyond.”

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

- Implement measures to secure public safety based on the “Strategy to Make Japan the Safest Country in the World,” measures in the area of justice, and initiatives for ensuring consumer safety and security.

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

- Based on energy reform strategies, strive for economic growth by expanding and improving the efficiency of investments in the energy industry while simultaneously curbing CO₂ emissions.

(4) Contribution to the global environment

- Implement measures to combat global warming including reduction of global greenhouse gases, and to build a recycling- and coexistence-oriented society.

Chapter 3: Promotion of Integrated Economic and Fiscal Reforms

1. Steady promotion of Integrated Economic and Fiscal Reforms

- “Without economic revitalization, there can be no fiscal consolidation.” The government will aim at achieving the target of GDP of 600 trillion yen and the fiscal consolidation target of FY2020. To advance reforms in both revenues and expenditures under the Plan to Advance Economic and Fiscal Revitalization, the directions of reforms in major areas will be specified, and a PDCA cycle will be effectively implemented based on the Economic and Fiscal Revitalization Action Program.
- The government will view additional increases in expenditures, such as for child and child-rearing support and family support, as necessary and will secure appropriate and stable financial sources. For expenditures that will occur during a finite period of time, the government will secure funding from sources such as the sale of assets to strictly maintain fiscal discipline.

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

(1) Spreading advanced and excellent practices

- Share among relevant parties case examples of reforms in health promotion / preventive health services and public services, and widely proliferate them for adoption by municipalities nationwide.

(2) Enhancing cooperation between national and local governments

- Promote discussions and repeated dialogues between national and local governments to steadily strengthen cooperation. Expand measures to support the creation of mechanisms for cooperation including fostering proposals by local governments, regional administrative and fiscal reforms, and efforts by motivated local governments.

(3) Ensuring and expanding “visualization”

- Disclose data sets that form the basis of “visualization.” Build a system that allows consolidated and analyzed data to be easily browsed and searched in an integrated manner.

3. Enhancement of the wise spending mechanism

- Through discussions at the Council on Economic and Fiscal Policy, the government will appropriately incorporate into the process of budget compilation the order of priority and analyses of the evaluation of effects based on data analysis.
- With respect to mandatory expenses, the government will review the entire system and rigorously implement an evidence-based PDCA cycle in light of the extended healthy life expectancy and the expanded area coverage and computerization of resident services.
- More creative ideas need to be applied in accordance with the nature of national treasury disbursements in order to achieve stronger effects and “visualization.” With respect to matters over which local governments have considerable discretion, cross-sectional mechanisms will be built for setting and evaluating the key performance indicators (KPIs) for national treasury disbursements.

4. Establishment of an effective PDCA cycle

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

5. Reform measures for each of the major fields

(1) Social security

- The 44 reform items upheld in the Plan to Advance Economic and Fiscal Revitalization will be steadily executed in line with the reform schedule. The reform items include the following:
 - Additionally deliberate the basic policy for optimizing medical costs to reduce regional differences in medical costs by half.
 - Examine the supply and demand trend of healthcare professionals and take effective measures aimed at rectifying the uneven distribution of doctors across regions and clinical departments.
 - Further analyze factors driving medical costs up and regional differences in medical costs. Analyze healthcare data together with long-term nursing care data in order to undertake measures for both

healthcare and nursing care in a comprehensive manner.

- Strengthen Data Health by providing insurers with support in consolidating and analyzing data and conducting joint operations of healthcare projects.
- Increase the proportion of the population receiving designated medical checkup and cancer screening.
- While taking into consideration the national debate on how healthcare should be provided in the final phase of a person's life, strive to proliferate a final-life-phase healthcare process based basically on the patient's own wishes following the provision of appropriate information and explanation by healthcare professionals.
- Examine institutional frameworks associated with incentives for undertaking initiatives aimed at optimizing benefits through enhancing the functions of insurers, supporting self-reliance of the elderly, and preventing the elderly's need for nursing care.
- Investigate and verify the effects of the FY2016 revision of remunerations for medical treatment.

(2) Social infrastructure development

- Foster the creation of the Compact Plus Network and the provision of appropriate public capital stock.
- Promote stable and ongoing public investment in order to maximize the effects of capital stock in such effort areas as enhancing Japan's global competitiveness, building national resilience, improving disaster prevention and reduction, and promoting measures against aging facilities. Clarify concrete methods of assessing stock effects, and establish practical operation methods.
- Increase the productivity of construction production systems and secure human resources.
- Develop indicators that clarify the diverse benefits of compact cities.
- Formulate concrete guidelines for concentrating and integrating water and sewerage systems, cultural and educational facilities, urban parks, and public housing.
- Steadily promote "visualization" of information such as the quantity of public facilities by comparison with other local governments
- In ten years under the Action Plan for Promoting PPP/PFI, rigorously implement a PDCA cycle and "visualize" progress status to ensure that the business sizes target of 21 trillion yen is achieved for the purpose of promoting various PPP/PFI.
- Streamline the flow of people and goods by taking measures against congestion on a point-by-point basis. Achieve increased productivity in the social base.

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

- The government will promote reforms of local governments by fostering introduction of appropriate outsourcing of counter services and cloud-based IT systems across the country, and to foster the cooperation of local governments for these public services. Centered on these initiatives, the government will tackle the following initiatives:
 - In introducing the so-called top-runner program into the local allocation tax grant, announce and publicize the objectives, calculation criteria for expenses, and the future schedule.
 - Starting from the FY2015 accounting, implement exhaustive "visualization" of administrative costs per resident by nature and objectives, including make it available for comparisons both over time

within a municipality and with other municipalities.

- Accelerate introduction of a database that allows users to make comparisons among municipalities based on setting some necessity conditions.
- Cooperation of local governments for public services considering the circumstances of each region in order to enable municipalities to address the issues they face, including concentration of public facilities.
- Grasp the status of progress based on the Report by the National and Regional IT Adoption and BPR (business process reengineering) Promotion Team, and take the necessary measures.
- Provide local governments with support by the national government's chief information officer (CIO) and securing human resources can play a role in local governments in order to advance their wider use of IT and BPR.
- Reduce the operational costs of information systems at local governments by 30%.

(4) Education, science and technology, and others

- Execute reforms adhering to the basic policy of streamlining the budget in light of a declining birthrate, promoting the utilization of private-sector funding, improving the quality of the budget and prioritizing budget items, and ensuring thorough implementation of a PDCA cycle based on evidence.
- Advance experimental study on education policy to formulate a medium-term outlook on the quotas for teaching staff.

In addition to the major expenditure areas described above, reforms will be executed in all expenditure areas without any exception.

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

- To increase government revenue, generate additional tax revenue based on a broadened tax base. Promptly develop a mechanism for using My Number as a key measure. Optimize tax collection and social insurance contributions.
- Amid major changes in the socioeconomic structure, continue to proceed with a comprehensive overhaul of the entire tax system. In light of the recent revelations of international tax avoidance cases, step up efforts to support the reconstruction of the international tax system in response to the structural changes in global business activities, from both the institutional and operational perspectives.
- Promote effective utilization of assets owned by the national and local governments, selling unnecessary assets and through other means, in view of how they can contribute to the promotion of dynamic engagement of all citizens.

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

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

- Taking into account the G7 Ise-Shima Economic Initiative, the government will continue to pay careful

attention to private consumption, durable goods trends, including housing and cars, and overseas economies to put together a set of comprehensive and bold economic measures by this autumn, thereby taking effective measures to overcome and prevent a return to deflation.

- The government will raise wages and disposable income, implement regulatory reforms, and foster incentive measures to fuel consumption and investment, while realizing “a virtuous cycle of growth and distribution” through the acceleration of growth strategies and establishment of dynamic engagement of all citizens in society.
- The government expects the Bank of Japan to achieve the price stability target of two percent in light of economic activity and prices.

2. Guiding principles in compiling the budget for FY2017

(1) Measures in the second year of Intensive Reform Period

- In line with the Plan to Advance Economic and Fiscal Revitalization, the Economic and Fiscal Revitalization Action Program, and the reform schedule, the Integrated Economic and Fiscal Reforms will be implemented in an intensive manner and bottom-up reforms will be accelerated through national and local governments.

(2) Guiding principles in budget formulation for FY2017

- Specific measures to be taken intensively include the following:
 1. The Council on Economic and Fiscal Policy will lead discussions and reviews based on evidence before budget requests are examined, and the Integrated Economic and Fiscal Reforms will be incorporated into the budget formation.
 2. Aiming at health promotion, creation of compact cities, integration and computerization of resident and public services over a wider area, the government promotes measures as follows: spreading advanced and excellent practices, enhancing cooperation between the national and local governments, ensuring and expanding “visualization.”
 3. In order to address structural bottlenecks to growth, which arise from the population decline, declining birthrate and aging population, the government will work toward resolving important issues such as realizing the dynamic engagement of all citizens with measures including making use of the fruits of Abenomics.
 4. The government will compile a budget that is strategically focused on measures to promote reforms in each major policy area, described in Chapter 3.