

Provisionary translated. In quotation, please refer to the Japanese version.

Overview of the Integrated Economic and Fiscal Reforms

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June 29, 2015

This document was prepared by compiling the provisional draft of the 2015 Basic Policy, tabled at the Council on Economic and Fiscal Policy (“the Council”, hereafter) on June 22 2015 meeting, and other documents submitted to the Council by expert members, to present an overview of the reform in a comprehensible manner. Please keep in mind some details of the “provisional draft” may change through future process of discussion.

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I. Achievements of Abenomics and Realization of Integrated Economic and Fiscal Reforms

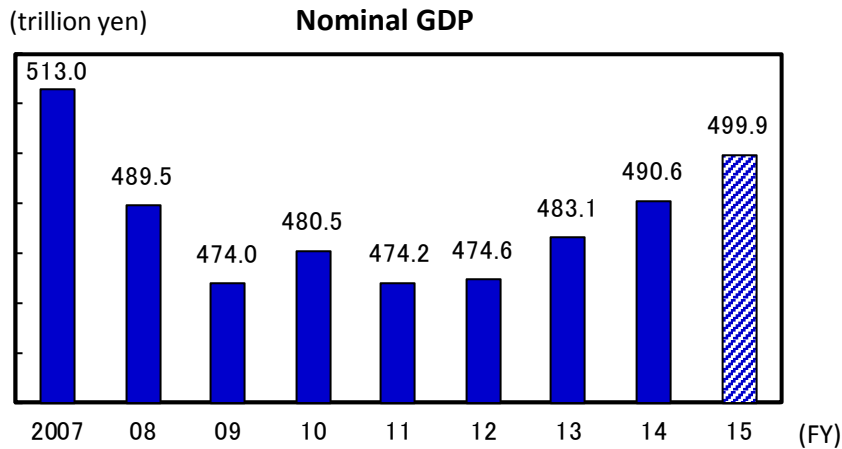
I. Achievements of Abenomics and Realization of Integrated Economic and Fiscal Reforms

- With the so-called “three excesses” (of debt, facilities and employment) being resolved, owing to “three arrows” strategy of Abe Administration, macroeconomic environment has dramatically changed along with business and individual minds.
- It is noteworthy that “sextuple whammies” (yen appreciation, lagging economic partnership, corporate tax burden, high electricity cost, excessive environmental and employment regulations) for Japanese companies and decrease in household income under deflation have been alleviated and a virtuous economic cycle has been generated. Japan has steadily progressed for overcoming entrenched deflation and revitalizing economy.
- In this context, Japan has achieved favorable economic condition for the first time in nearly a quarter century. It is important to sustain the momentum. To enhance sustainable economic growth led by private demand, the government promotes and accelerates growth strategies aiming at corporate governance reforms, labor-market reforms and productivity growth, etc.
- At the same time, the government has been firmly committed to fiscal consolidation, i.e. halving primary deficits (PB) to GDP ratio in FY 2015 from the level in FY 2010 through measures including a hike in consumption tax rate to 8%. Even under these circumstances, the Japanese economy has maintained sound performance.
- Based on the “Basic Policy 2015”, integrated economic and fiscal reforms will be implemented toward achieving the fiscal consolidation target in FY2020. With the principle that “without economic revitalization, there can be no fiscal consolidation”, these reforms represent unprecedented innovations of fiscal system. The reforms include industrialization in public services, which should mitigate downward pressure on the economy caused by fiscal consolidation, and development of autonomous mechanisms to save costs and enhance efficiency through offering incentives to citizens, business, and local governments.

I (1) Favorable Economic Condition for the First Time in Nearly a Quarter Century

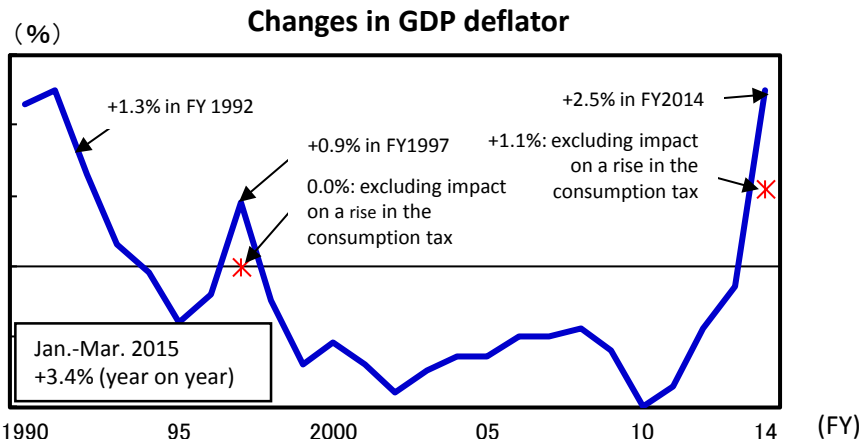
- Changes in Macroeconomic Environment -

- Nominal GDP over 500 trillion yen has come in sight for the first time since 2007.
- GDP deflator (excluding an influence of the consumption tax hike) showed clear positive growth (1.1%) for the first time in 22 years since FY1992.
- “Sextuple whammies” have been steadily alleviated.



Current situation of and main efforts for so-called “sextuple whammies”

Sextuple whammies	Current situation and main efforts
Yen appreciation	79.5 yen to a dollar (November 14th 2012) ⇒ 122.97yen to a dollar (June 19th 2015)
Economic partnership	While making efforts toward an early engagement of the Trans-Pacific Partnership (TPP) to maximize Japanese national interests, the government will move forward to other economic partnership negotiations, such as the Japan-EU Economic Partnership Agreement (EPA), the Regional Comprehensive Economic Partnership (RCEP) and the Free Trade Agreement (FTA) among Japan, China and the Republic of Korea.
Corporate tax burden	Aiming at reducing effective corporate tax rates below 30% within several years, it was already decreased by 2.51% from 34.62% in April 2015.
High electricity cost	For inexpensive and stable electronic power supply, fundamental reforms of electric system will be started for the first time in 60 years, including separation of electric power production from distribution and transmission in 2020.
Environmental regulations	With steady implementation of “Actions for Cool Earth”, the government will make efforts for developing innovational environmental energy technologies, including hydrogen energy technology.
Employment regulations	Promoting institutional reforms which enable to select various ways how people work, according to reevaluation of flexitime and discretionary labor systems, and creation of “advanced professional system”.

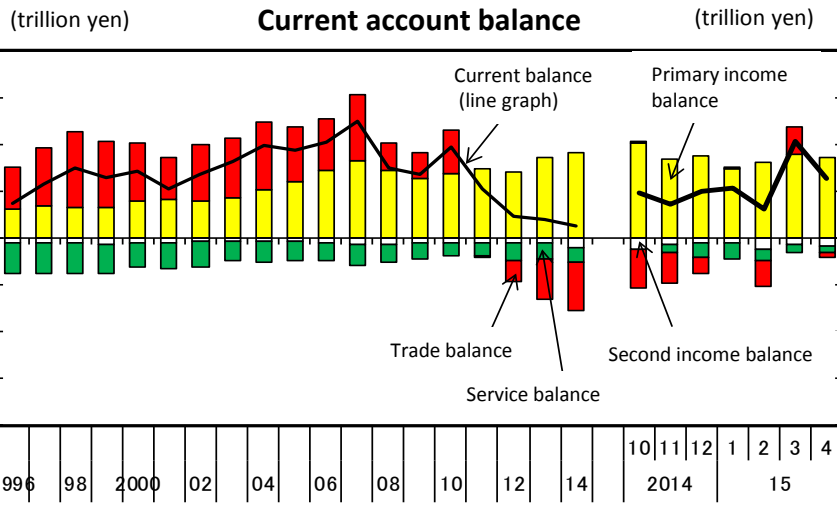


- Note: 1. “Achievement of the “third arrow” reforms and new measures ” by industrial competitiveness council and outline of “Basic Policy on Economic and Fiscal Management and Reform 2015” (Provisional draft)
2. Dollar-yen exchange rate is central rate of Tokyo foreign exchange market.

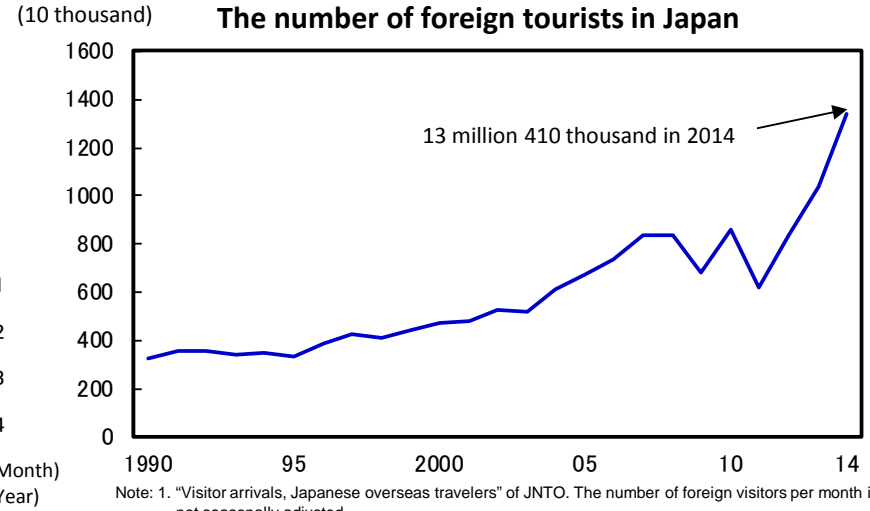
- Note: 1. “National Accounts of Japan” by Cabinet Office
2. Values before FY1994 are from “Time-series data of GDP by demand components estimated by chained prices in 2000.

I (1) Favorable Economic Condition for the First Time in Nearly a Quarter Century - Improvement of Terms of Trade -

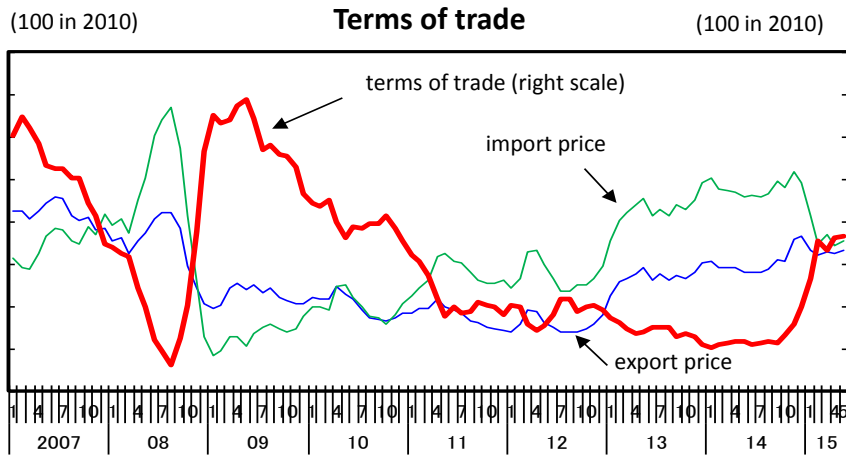
- Current account surplus has increased after continuous decrease from 2011 due to a decrease in trade and service account deficits.
- Since the end of 2014, terms of trade have drastically improved by a fall in oil prices.
- The number of foreign tourists to Japan exceeded 13 million in 2014, a record high suggesting that Japan attracts attention from the world again.



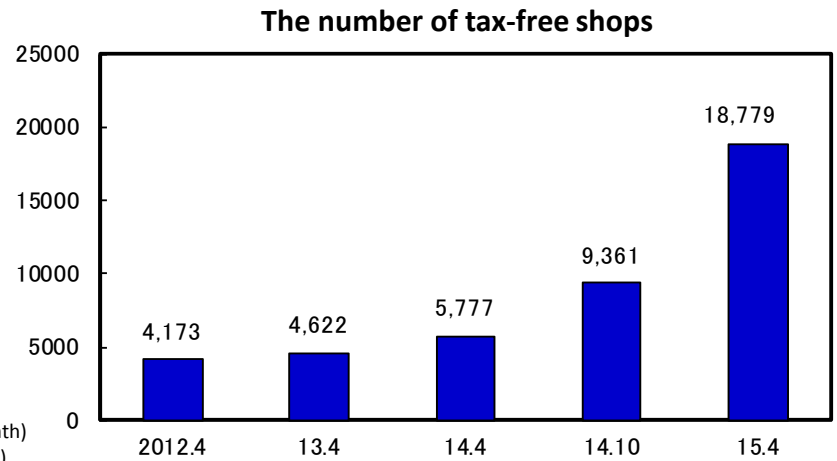
Note: "Balance of payments statistics" by Ministry of Finance



Note: 1. "Visitor arrivals, Japanese overseas travelers" of JNTO. The number of foreign visitors per month is not seasonally adjusted.
2. The number of foreign visitors reached a highest ever since the record began in 1964.



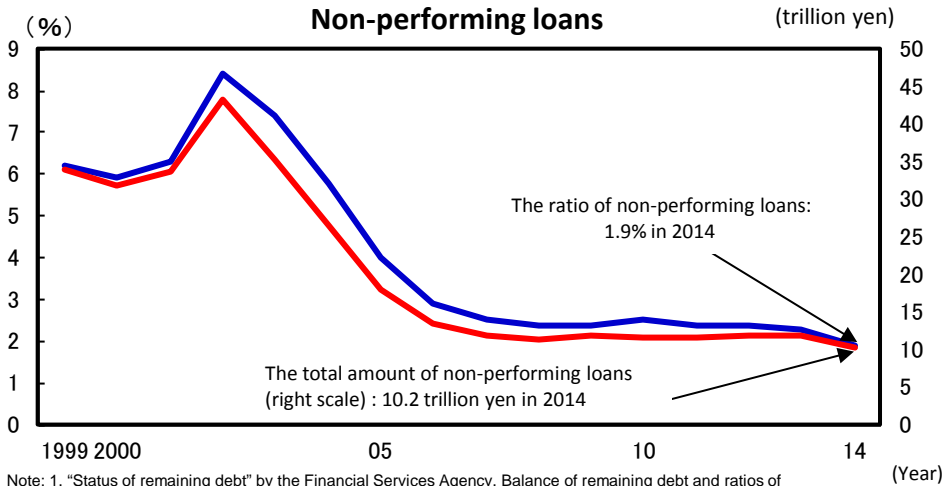
Note: "Corporate goods price index" of Bank of Japan



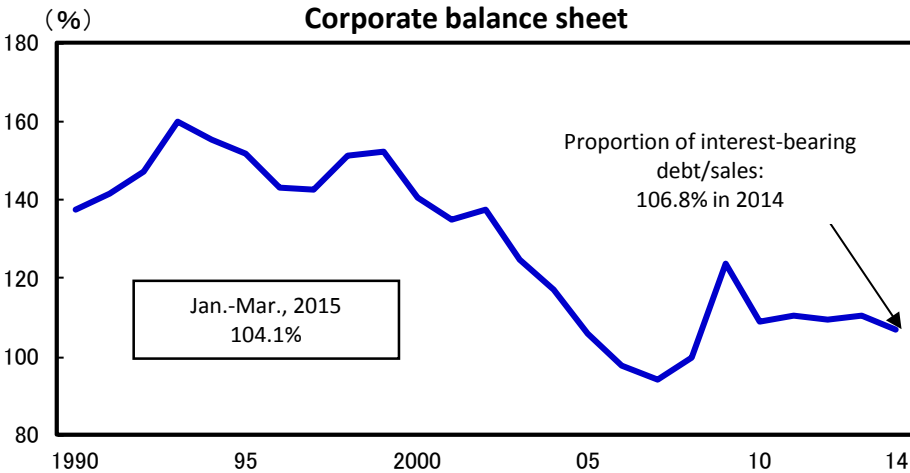
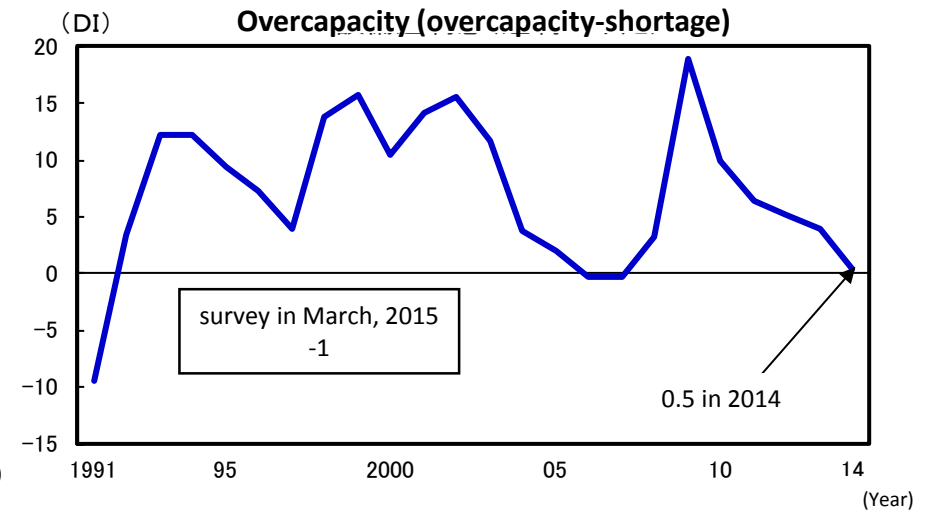
Note: Japan Tourism Agency.

I (1) Favorable Economic Condition for the First Time in Nearly a Quarter Century - Resolution of "Three Excesses" -

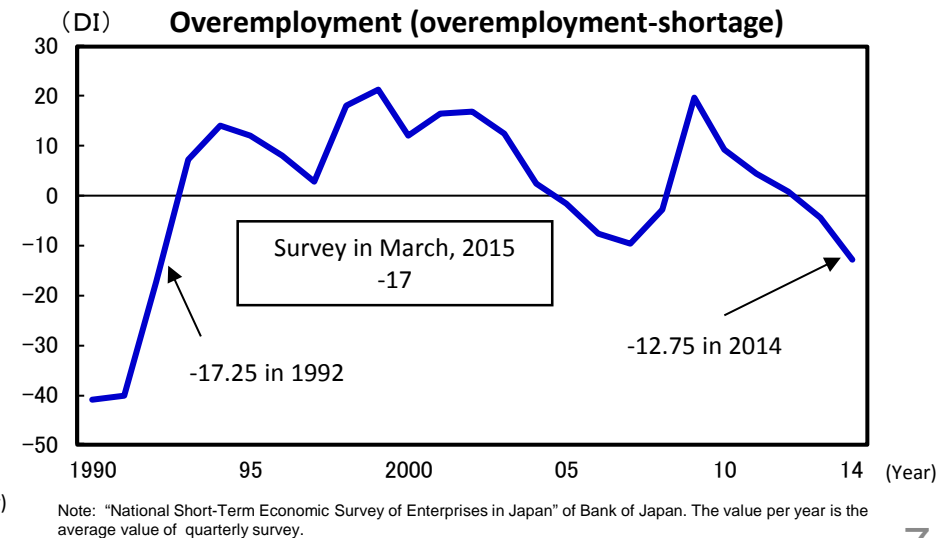
- Non-performing loans held by banks have decreased. The ratio has also decreased. Balance sheet adjustment by corporations has progressed.
- Diffusion index for excess facilities has been improving.
- Diffusion index for excess employment became the lowest level in 22 years, showing labor shortage.



Note: 1. "Status of remaining debt" by the Financial Services Agency. Balance of remaining debt and ratios of non-performing loans of banks in Japan.
2. Values are from data on March each year



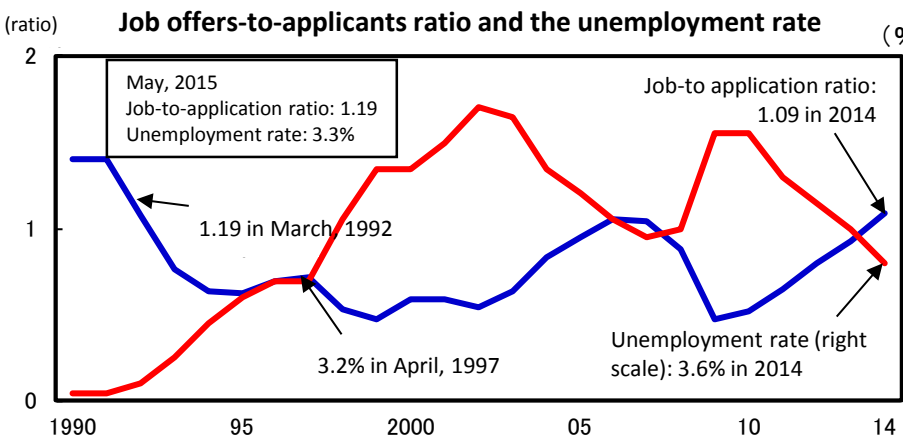
Note: 1. "Financial Statements Statistics of Corporations by industry, Quarterly" by Ministry of Finance.
2. All industries at whole enterprise sizes.
3. Interest-bearing debt includes borrowed money financed from a financial institution in floating debt, and corporate bond and borrowed money financed from financial institutions in fixed debt.



Note: "National Short-Term Economic Survey of Enterprises in Japan" of Bank of Japan. The value per year is the average value of quarterly survey.

I (1) Favorable Economic Condition for the First Time in Nearly a Quarter Century - Improvement of Employment and Income-

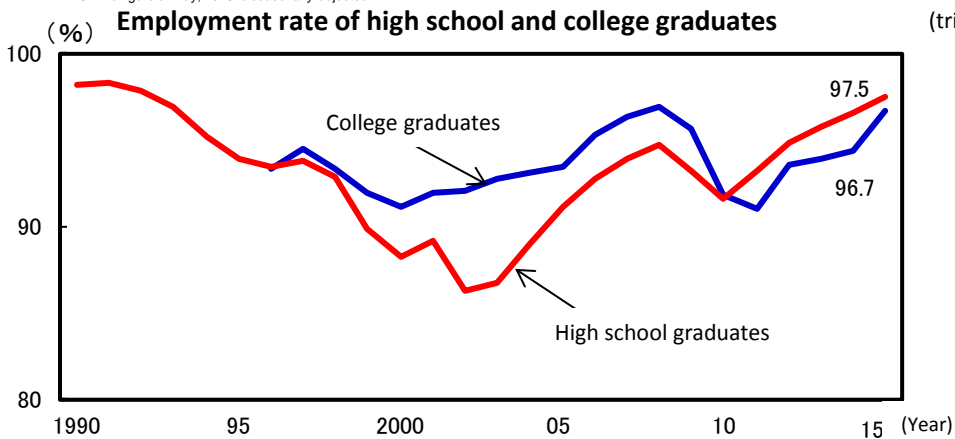
- The effective ratio of job offers to applicants reached the highest level in 23 years. The total unemployment rate is in the lowest level in 18 years.
- Percentage of high school graduates who found work reached the highest level in 23 years (percentage of college graduates who found job reached the highest level in 7 years).
- Growth of special pay reached the highest level in 23 years. Wage increase rate at the annual spring wage offensive reached the highest level in 15 years. (it is expected to reach higher level in 2015.)
- The amount of household financial assets reached a record high.



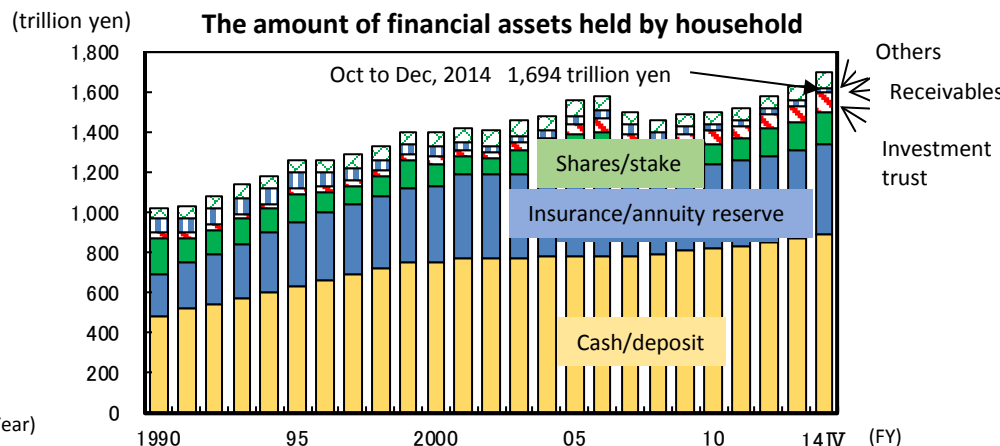
Note: 1. "Labor force survey" by Ministry of Internal Affairs and Communications and "Report on Employment Service" by Ministry of Health, Labour and Welfare.
2. The unemployment rate in 2011 is an estimated value in Japan, complementing Iwate, Miyagi and Fukushima Prefectures.
3. The figure of May, 2015 is seasonally-adjusted.



Note: "The Monthly Labor Survey" by Ministry of Health, Labour and Welfare and "Spring Offensive" by Japanese Trade Union Confederation



Note: 1. "Labor force survey" by Ministry of Internal Affairs and Communications and "Employment situation of college graduates and high school graduates"
2. The employment ratio in 2011 is an estimated value in Japan, complementing Iwate, Miyagi and Fukushima Prefectures.
3. The employment ratio of high school graduates as of the end of March, that of college graduates as of 1st of April.

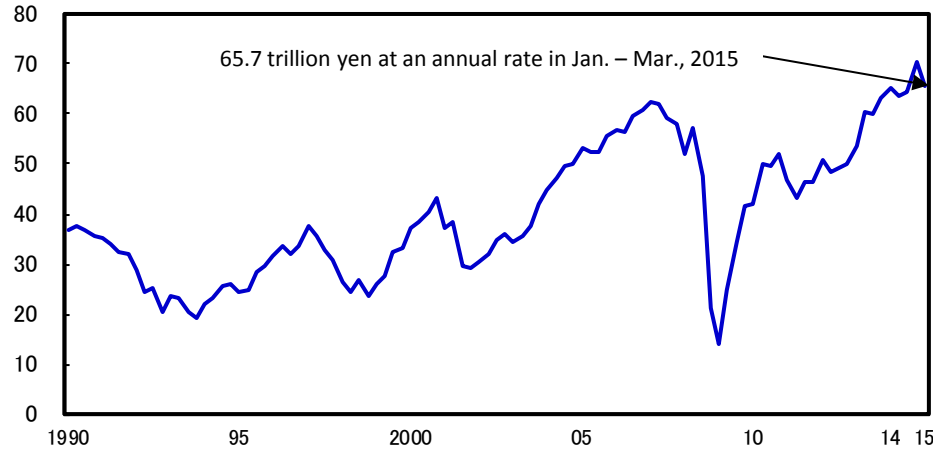


Note 1. "Flow of Funds" by Bank of Japan
2. Receivables are the values excluding beneficiary certificate of investment trust from certificate without shares, including government bonds/ fiscal investment and loan program bonds, local bonds, agency bond, bank bond, industrial bond, interests in trusts and beneficial interest.
3. Values until FY2013 are definitive as of the end of each year. The value of Oct - Dec, 2014 are preliminary data.
4. The latest figure reached a highest ever since the end of Mar 1980.

I (1) Favorable Economic Condition for the First Time in Nearly a Quarter Century - Improvement of Corporate Sectors -

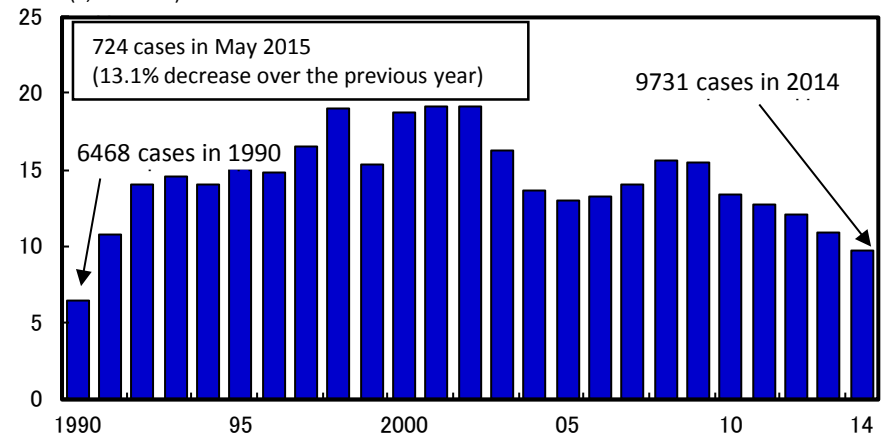
- Corporate earnings reached the highest level.
- The ratio of current profits to total sales reached a record high.
- The number of bankruptcy were below 10,000 for the first time in 24 years.
- Aggregate market value of companies listed in the first section of the Tokyo Stock Exchange reached the highest level, exceeding that of 1989.

(trillion yen at an annual rate) **Corporate earnings**



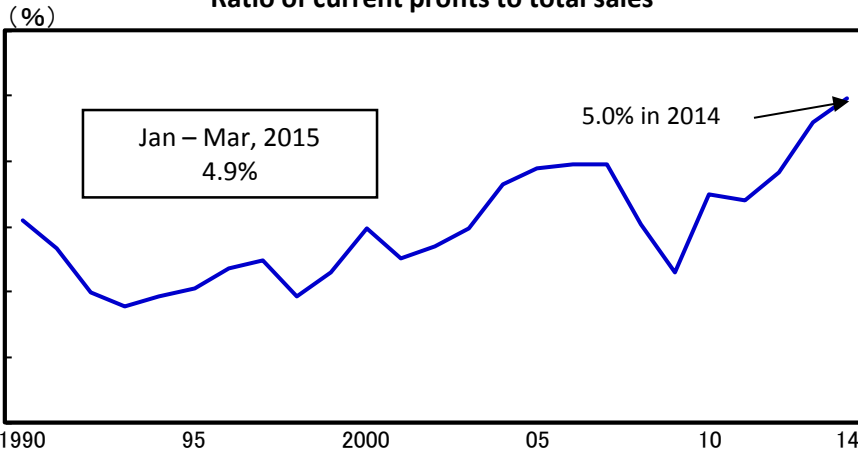
Note: 1. "Financial Statements Statistics of Corporation by industry, Quarterly" by Ministry of Finance
 2. All industries at full enterprise size. Seasonally adjusted.
 3. The value in Oct to Dec, 2014 reached a highest ever since Apr to Jun, 1985.

(1,000 cases) **Bankruptcy cases**



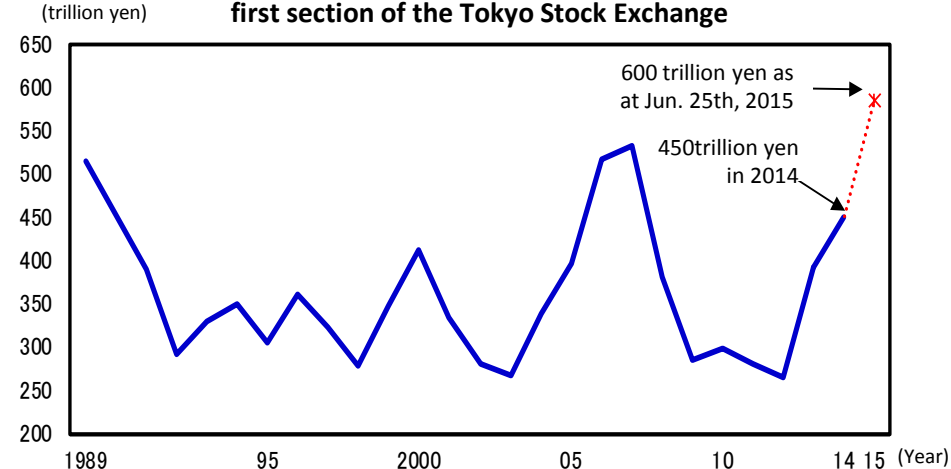
Note: "Monthly Bankruptcy Report" by Tokyo Shoko Research Ltd.

Ratio of current profits to total sales



Note: 1. "Financial Statements Statistics of Corporation by industry, Quarterly" by Ministry of Finance
 2. All industries at whole enterprise sizes. Seasonally adjusted for quarterly data
 3. Reached a highest ever since 1955

Aggregate market value of companies listed in the first section of the Tokyo Stock Exchange

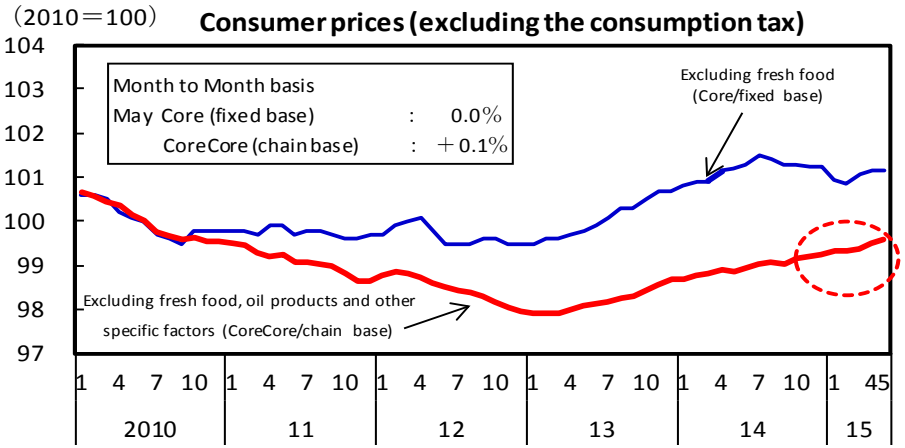


Note: 1. Bloomberg
 2. The highest value as of 3 PM is 601 trillion yen on Jun 1st, 2015.

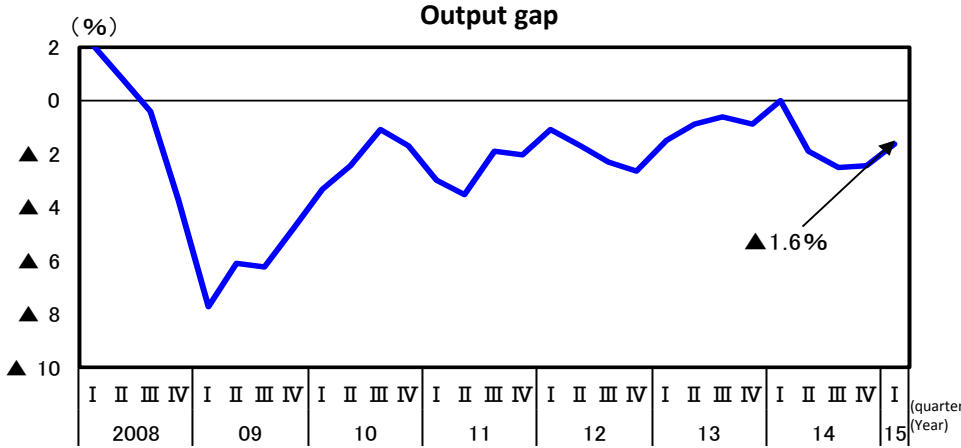
I (2) Progress toward Overcoming Entrenched Deflation

“Japanese economy is on a moderate recovery and is progressing toward overcoming deflation”

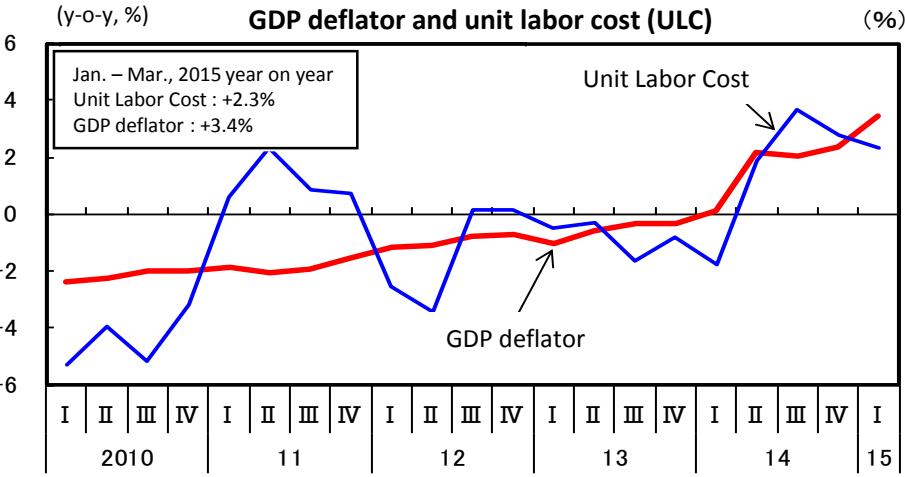
- Recently, consumer prices (Core Core) are rising moderately.
- Output gap became smaller recently. With improving GDP deflator and nominal wages, expected inflation rate remains stable.
- It is important to ensure an economic environment in which Japan will never fall into deflation.



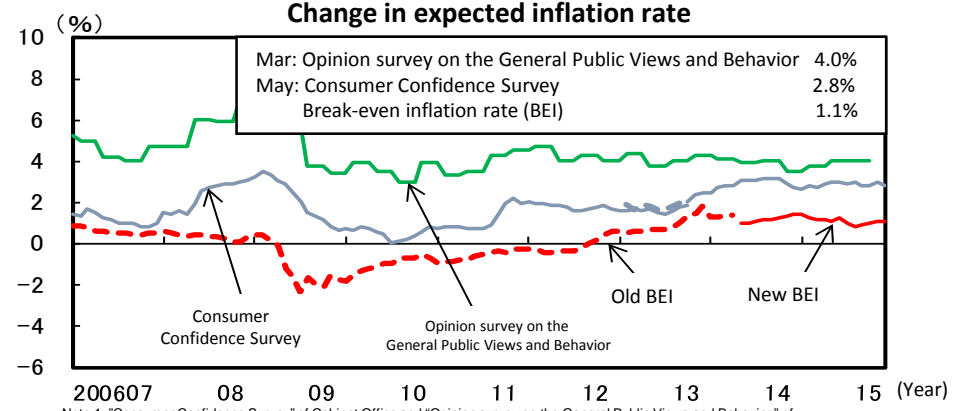
Note: 1. "Consumer Price Index" of Ministry of Internal Affairs and Communications
 2. Excluding fresh food, oil product and other specific factors (Core Core) is excluded oil products (gasoline, heating oil, propane), electricity expense, city gas expense and other utility charges from excluding fresh food (Core)



Note: Estimated by Cabinet Office. Output gap means (actual GDP-potential GDP)/potential GDP



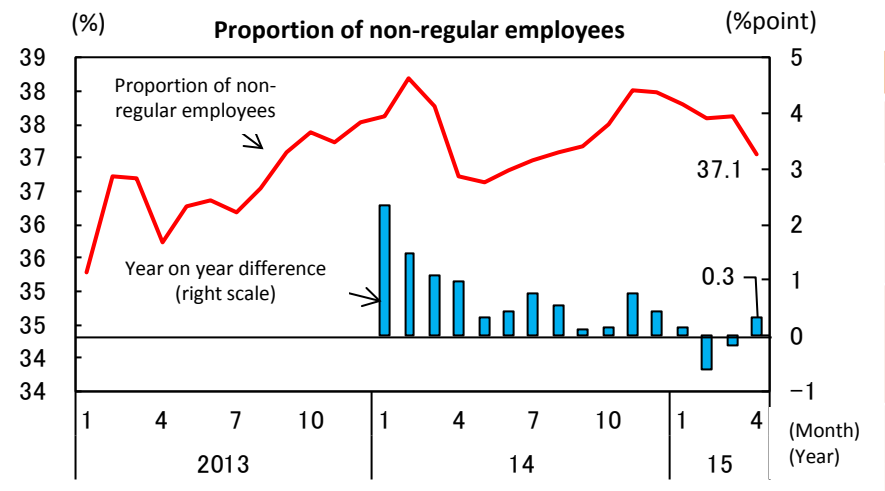
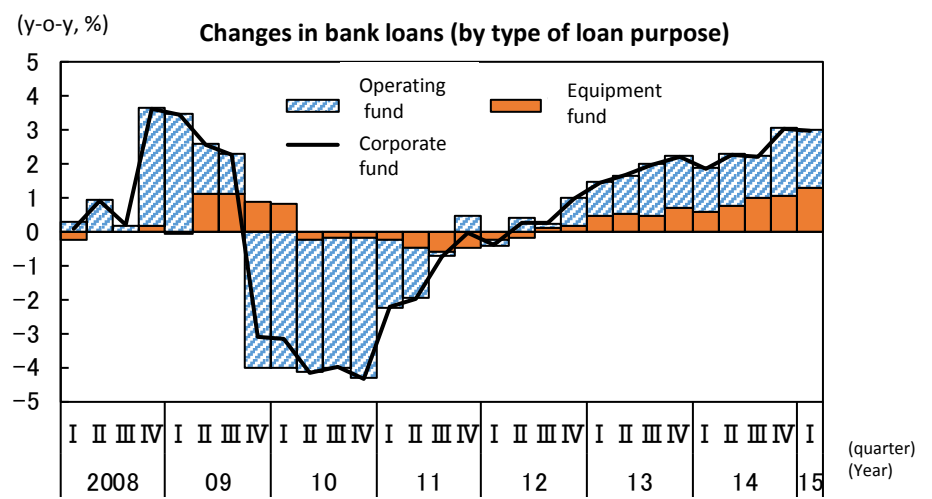
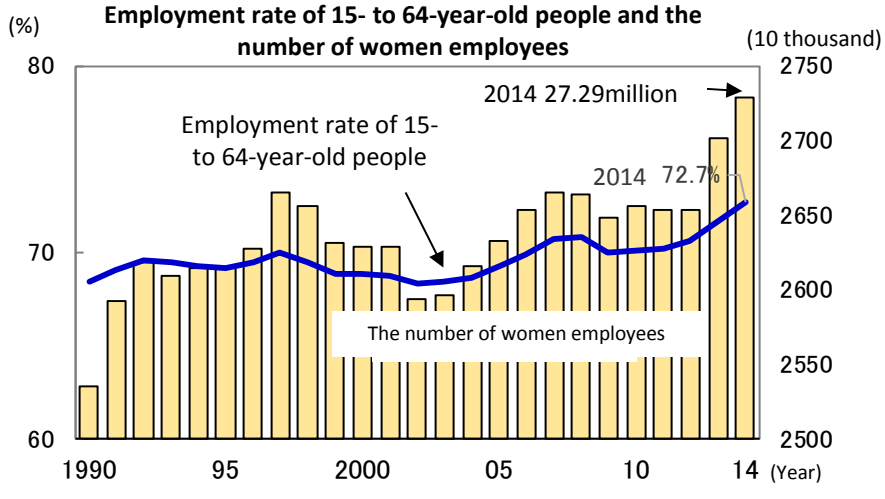
Note: "National Accounts of Japan" by Cabinet Office. Unit labor cost=nominal employee expenses/real GDP



Note: 1. "Consumer Confidence Survey" of Cabinet Office and "Opinion survey on the General Public Views and Behavior" of Bank of Japan and the data from Bloomberg
 2. "Consumer Confidence Survey" (to general household, consisting of more than two family members) does not exclude impact on the consumption tax. "Opinion survey on the General Public Views and Behavior" excludes influence of consumption tax.
 3. Because of change from door-to-door survey to mail survey, discontinuity of figures arose in "Opinion survey on the General Public Views and Behavior".
 Dash line part (from Jul, 2012 to Mar, 2013) is the value to be used only as a reference according to testing survey by mail.
 4. The break-even inflation rate (BEI) are values of the one having longest duration among each period.
 Applying old inflation indexed bonds for Old BEI, and new inflation indexed bonds (10 year duration) for new BEI.

I (3) Progress toward Enhancing Growth Potential ①

- The employment rate of 15- to 64-year-old people has increased. The employment rate of women reached the highest level. The rising trend in the proportion of non-regular employees to the total number employees is coming to a halt.
- Bank lending including for equipment investment steadily increased.
- Focusing on productivity enhancement, a policy package will be summarized in the revised “Japan Revitalization Strategy” of 2015.



Note:1. “Loans and Bills Discounted by Sector” of Bank of Japan
 2. “Operating fund” is the amount deducting equipment fund from the total loaned money.

Main efforts for productivity enhancement	
Vitalization and productivity enhancement of the service sector	<ul style="list-style-type: none"> Implementing “Challenge programs for the service sector”
A package for strengthening human resources (measures for employment and education) who will support the future	<ul style="list-style-type: none"> Establishing a recognition system of “development program of vocational training” at universities
Practice of innovation and national system	<ul style="list-style-type: none"> Managerial strategy of national universities (vitalizing competition among universities aiming to strengthen management capabilities) Active introduction of “cross-appointment” system
Realization of the world’s best IT society	<ul style="list-style-type: none"> Maximum use of IT infrastructure including introducing social security and tax number system Promotion of competition and improvement of environments for the usage of the mobile sector.

Note: “Labor force survey” by Ministry of Internal Affairs and Communications. The proportion of non-regular employees means the percentage of non-regular employees in the whole employees (sum of regular and non-regular employees).

Note: Revised “Japan Revitalization Strategy” of 2015 (framework)

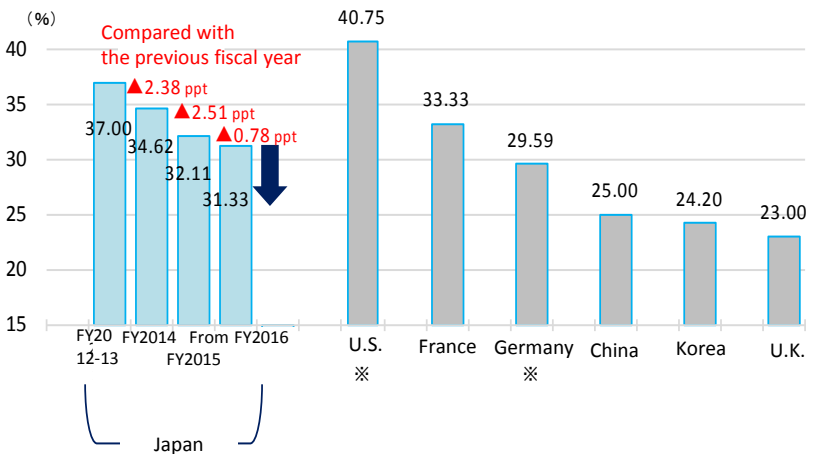
I (3) Progress toward Enhancing Growth Potential ②

- ◆ Steady implementation and promotion of growth strategies for strengthening earning power
 - Enhancing reforms of corporate taxation for growth⇒It was determined to lower the rate by 5.67% points in total for past three years compared with levels in FY2013 (including abolishment of the special reconstruction corporate tax ahead of schedule). In addition the government promised to lower the corporate tax rate below the 30% (at some point in 20% levels) within several years.
 - For improving environments to create sound and strong corporations, the government strengthens corporate governance, such as amending Companies Act and enforcing new regulations to corporations listed on the Tokyo Stock Exchange.
 - For promotion of direct investment to Japan, the government implements a scheme of “putting vice ministers in charge of certain corporations” to significant investment cases.
- ◆ Review progress and amend all timetable in the process of revising “Japan Revitalization Strategy” for 2015. Efforts for productivity enhancement (in the previous page), further improvement of locational competitiveness, structural reforms of healthcare, clean energy and the tourism industry will be included.

Reducing effective corporate tax rates

FY2015 Tax Reform by ruling parties (December, 2014)
 “To continue reforms aiming to decrease corporate tax to the 20% levels in tax reforms after 2016”.

Basic Policy 2015 (provisional draft)
 “From the viewpoint of contributing to economic revitalization, achieving early completion of growth-oriented reforms of corporate tax which is being progressed”



Note: 1. “Basic Policies for Economic and Fiscal Management and Structural Reforms in 2014 (cabinet approval on June 24th 2014)”, and “FY2015 Tax Reform (cabinet approval on January 14th 2015, created by Ministry of Finance)”.
 2. National and local corporate tax (standard tax rate).
 3. US refers to California and Germany refers to the average of all regions.

Enhancing corporate governance

Feb 2014	Formulating Japanese version of Stewardship Code
Jun 2014	Amending Companies Act to encourage to introduce external board members
Jun 2015	Starting to apply “Corporate Governance Code” in the Tokyo Stock Exchange <ul style="list-style-type: none"> • Explanation of purposes and reasonability on cross-shareholdings • Publication of policy of payment to top officials and selection of top officials • Selection of more than two independent outside directors

Note: “Abenomics is progressing” by Cabinet Secretariat

“Five promises for attracting foreign businesses to Japan” (outline) (Decided in “Invest Japan” in March 17th, 2015)

1. Multi-lingualization in retailers, restaurants, hospitals and public transportation system
2. Promotion and simplification of usage procedure of free public wireless LAN on the street
3. Preparation for accepting business jets according to short-term prior notice at local airports.
4. Job hunting support in Japan for foreign students
5. Implementation of putting vice ministers in charge of certain corporation which made a significant investment.

Note: “Basic Policy 2015 (provisional draft)”, prepared based on a conference material by “Invest Japan” in March 17th, 2015



II. Integrated Economic and Fiscal Reforms

II (1) Pillars of “Integrated Economic and Fiscal Reforms”

- ◆ The economy is in a favorable condition for the first time in nearly a quarter century (see section I) . Enhance and accelerate the growth strategies to take advantage of this great opportunity.
- ◆ Simultaneously, the government will implement “Expenditure Reform” and “Revenue Reform” which contribute to economic revitalization. Through reforms, the public service area will be turned into a “New Engine of Growth”. The Japanese growth potential will be raised above 2% approx. through stimulating innovation, vitalizing corporate activities, smoothing labor turnover, and supporting further success of women in the workplace.

Three elements for improving primary balance (PB) to GDP ratio

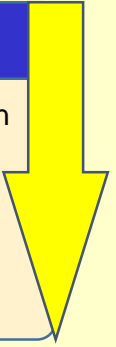
$$\text{PB to GDP ratio} = \frac{\text{(Revenue - Expenditure)}}{\text{Nominal GDP}}$$

- Control expenditure
- Increase revenue
- Growth (increase nominal GDP)

Expenditure reform


→ Eliminate inefficient expenditures and improve quality in the public services, and create new services

- Industrialization in public services
- Incentive reform
- Innovation in public services



Revenue reform

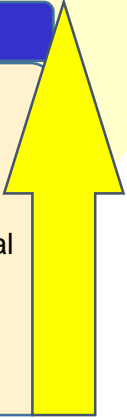
- Increase tax revenue by realizing the revitalization scenario
- Realize additional revenue increase (through higher tax revenue elasticity to nominal GDP. This can be achieved by faster growth in taxable corporate profits and wage income, resulted from the expansion of the private sector through industrialization of public services, and general changes in economic structure to produce higher value-added.)



Overcoming Deflation and Economic Revitalization

- Accelerate growth strategies (e.g. the corporate taxation reform, regulatory reforms, investment promotion, engaging economic partnership, promotion of direct investment to Japan, utilization of robotics, AI and the Big Data, etc.);
- Complete the corporate taxation reform in the early stage of the planned period (FY2016-2020)
- Launch discussion on specific institutional issues (such as income and property taxation) toward a structural reform of taxation to meet socio-economic structural changes

→ Realize a sustainable economic growth exceeding 2 % in real term, and 3 % in nominal term, through extending the current virtuous economic cycle



II (2) Making Public Service Area a “New Engine of Economic Growth”

Industrialization in public services

- ◆ Providing new services effectively by utilizing private expertise and funds. Improving efficiency and quality of public services. Expanding options for public services
- ◆ Utilizing “public stocks” (e.g. social capital, land, information, and so forth.) effectively.
- ◆ Creating new private services through visualization and disclosure of information on administration costs and holding facility and infrastructure.

Incentive reform

- ◆ Setting “the mechanism to reward those who make efforts (or no efforts no gain)”
 - Introduction of fiscal reallocation rule according to the outcome of efforts
 - Introduction of the “front runner” system
- ◆ Setting incentives for health promotion and cost saving. “Health point, etc.” for citizens, “adjustment of financial burdens to support the elder health insurance system” for insurers, and “medical fees” for doctors and hospitals.

Thorough visualization of public services

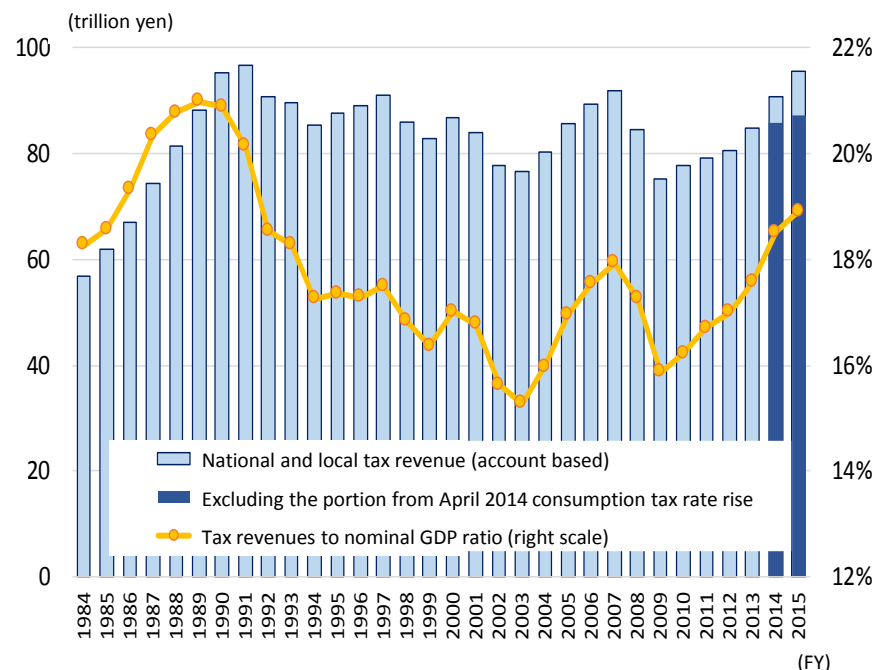
- ◆ Making public service thoroughly visible
- ◆ Evidence based PDCA
- ◆ Simplifying and standardizing business process

- * Establish a system to share best practices of aforementioned reforms among all areas in Japan
- Establish a platform (participants from national and local governments and other relevant forums)
 - In the platform, carry out discussion on 1) the selection of best practices, 2) standardization of know-hows to share nationwide, 3) implementation of the BPR in “model” local governments with collaborations of private companies, and 4) institutional revision (i.e. budget, taxation and regulation), for the purpose of revising social security services to help realizing healthier life, and of improving and creating public services based on ingenuity of the private sector.

II (3) Fiscal challenges facing Japan (i)

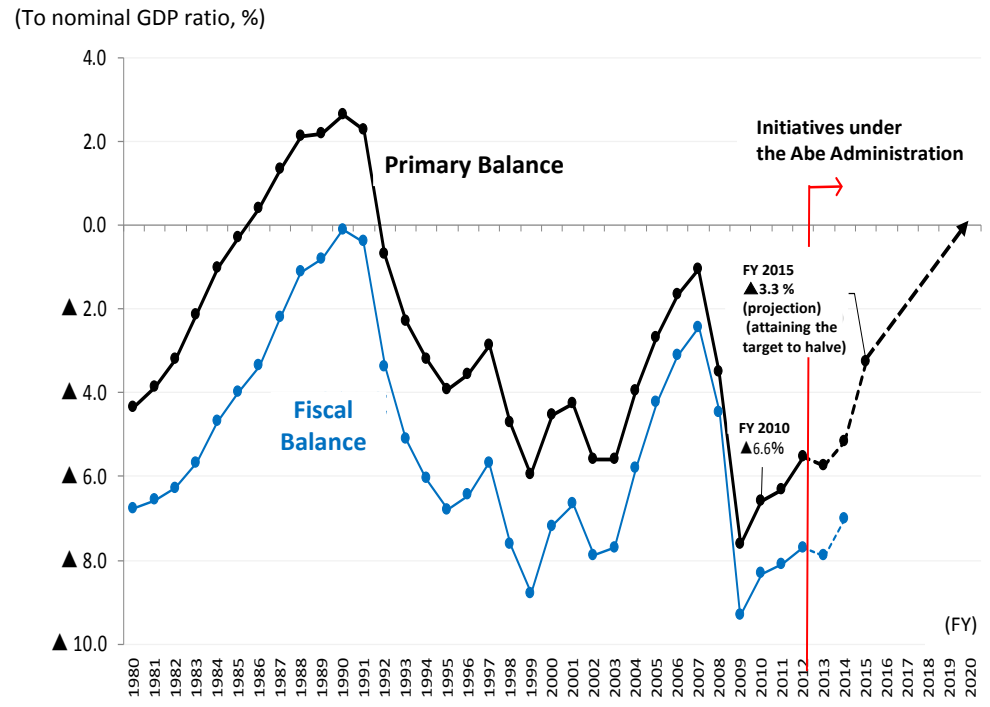
- ◆ Japan's fiscal situation has improved, reflecting increased tax revenue under Abe administration, a hike in the consumption tax rate to 8 % and efforts for improving expenditure efficiency. Primary deficits (to GDP ratio) in FY 2015 is projected to halve compared with levels five years ago.
- ◆ Having said that, it is necessary to launch a new fundamental fiscal consolidation plan, as population decline and aging will advance further in coming years. The social security system should be focused as it has been a major cause of long lasting fiscal deficits.
- ◆ For regenerating and vitalizing local economies, it is indispensable to improve the quality and productivity of public services. Public services and public investment account for a large share in local economies. Therefore, special emphasis is placed on social security, and local administrative and fiscal reforms.

National and Local Tax Revenues



Note: Compiled using data from "National Accounts of Japan (SNA)" by Cabinet Office, "Financial Statistics" by Ministry of Finance, and "Annual Bulletin of Local Fiscal Statistics" by Ministry of Internal Affairs and Communications. Sum of tax revenues in the National General Account and tax revenues in regional general accounts (the sum of local taxes and local transfer taxes) and its nominal GDP ratio. The figures for FY 2013 and later are based on the calculation table in "Economic and Fiscal Projections for Medium and long term analysis" by the Cabinet Office; the figures for FY 2014 are based on the supplementary budget; and the figures for FY 2015 are based on the original budget.

Fiscal and primary balance

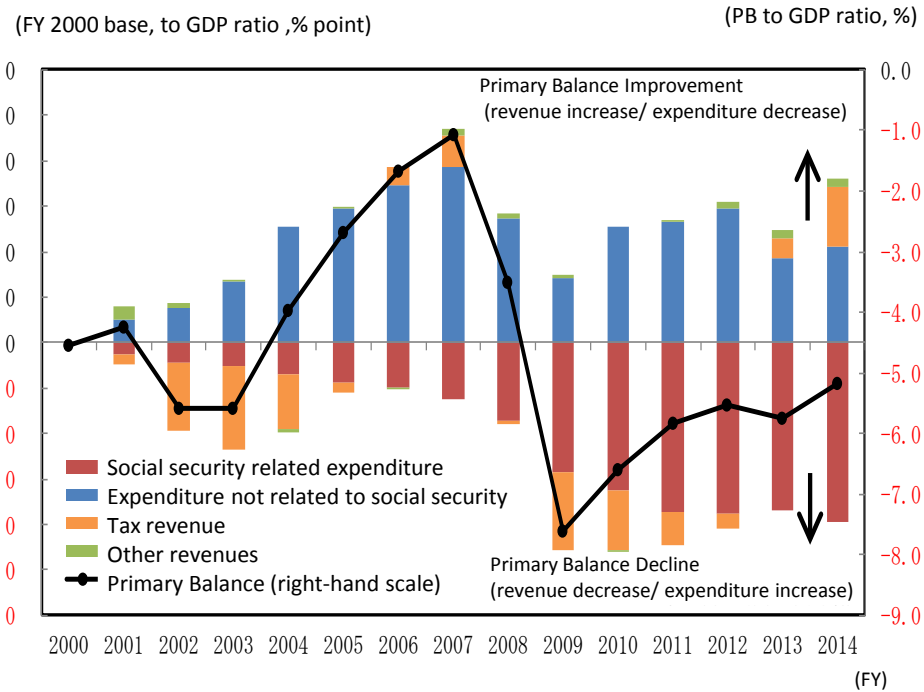


Note: Actual data up to FY 2011 are obtained from "National Accounts of Japan (SNA)" by Cabinet Office (FY 2000 figure was used as the baseline for the years from FY 1980 to FY 2000, while FY 2005 figure was used as the baseline for the years from FY 2001). Data for FYs 2012 and 2013 are estimates by the Cabinet Office, Central and Local government based.

II (3) Fiscal challenges facing Japan (ii)

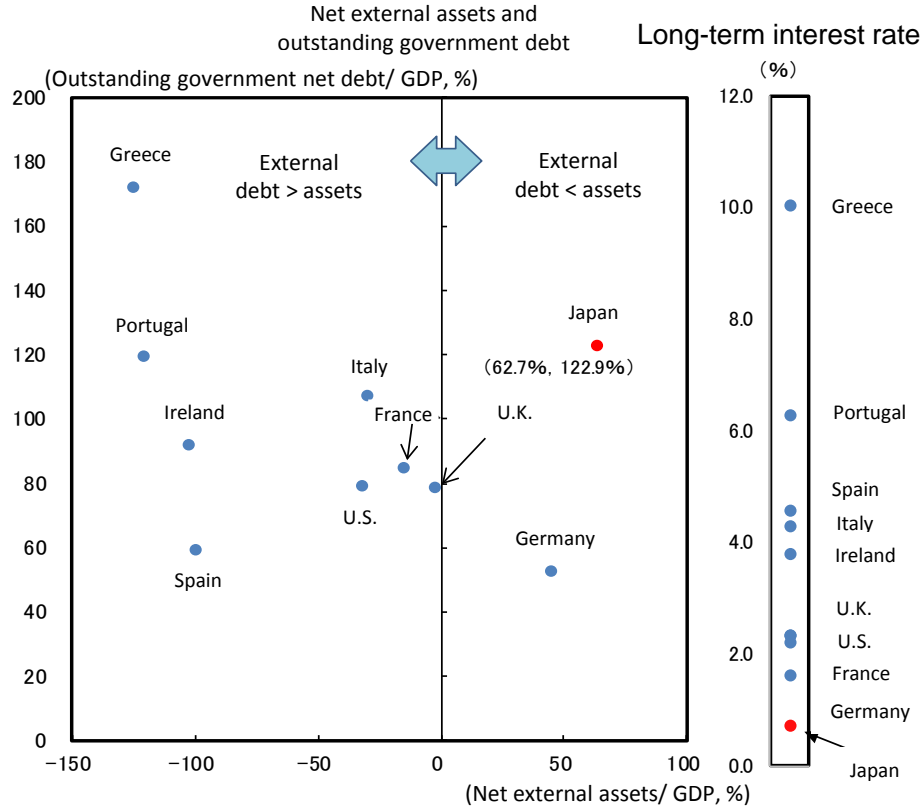
◆ It is necessary to reduce the public debt to GDP ratio steadily over the medium- to long-term. However, fiscal consolidation should be promoted steadily without trapped by the pessimism given the current conditions, e.g. net public debt (to GDP ratio) is 123 %; majority of the government bonds is held within the country; and Japan's net external assets is the highest in the world.

Decomposition of changes in Primary Balance (social security, non-social security and tax revenue)



Note: Compiled based on the data from "National Accounts of Japan (SNA)", "Fiscal 2015 Economic Outlook" (cabinet approval), and "Economic and Fiscal Projections for Medium to Long Term Analysis" by Cabinet Office. Central and local government based.

Net external assets, outstanding net debt and interest rates of respective countries



Note: Compiled based on the data as of 2013 from "International Financial Statistics" and "World Economic Outlook Database, April 2015" by IMF. Government net outstanding debt was obtained by subtracting government financial assets (including social security related reserve funds) from its gross outstanding debt. The net balance of external assets is obtained by subtracting liabilities from the assets owned. The mean value of the interest rates for 10 year the national bond products in 2013 was used to represent the long-term interest rate

II (4) Framework of “Integrated Economic and Fiscal Reforms”

(Principle)

- ◆ The principle, “without economic revitalization, there can be no fiscal consolidation” shall be embraced in formulating the “Economic and Fiscal Revitalization Plan (Tentative title)”, which covers a five-year period (FY 2016–FY 2020). “Overcoming Deflation and Economic Revitalization”, “Expenditure Reform”, and “Revenue Reform” will be the three pillars in its implementation.
- ◆ The reforms aim to achieve a primary surplus in FY2020, by reducing primary deficits to GDP ratio. The government will steadily reduce the public debt to GDP ratio over the medium- to long-term. Assets shall also be compressed as much as possible, to control its ratio to GDP.
- ◆ “Integrated Economic and Fiscal Reforms” shall be carried out as a social reform involving not only the government but also all citizens. For that purpose, central and local governments and private sectors shall promote in full coordination “Industrialization in public services”, “Incentive reform”, and “Innovation in public services” to turn the public service area into a “New Engine of Growth”.

(Expenditure and Revenue Reforms)

- ◆ Central and local governments expenditures are influenced by such upward pressures as population aging, wage and price increase, as well as downward pressures as population decline. Based on these factors, and with the effects of expenditure reforms, expenditure growth is expected to be contained below the wage and price growth during the reform period.
- ◆ In terms of revenues, additional effects are expected from further corporate restructuring, increased wage income, and the expansion of corporate and other private sector share in the total economic activities.

(Intensive Reform Period)

- ◆ The first three years (FYs 2016–2018) are to be designated as the “Intensive Reform Period” in which intensive efforts will be made for “Integrated Economic and Fiscal Reforms”.
- ◆ Toward FY 2017, when next hike of the consumption tax rate is scheduled, the government will appropriately respond to issues as necessary to ensure a suitable economic environment for smooth implementation of the hike.

(Interim Evaluation, etc.)

- ◆ The state of progress towards attaining benchmarks for the target will be evaluated at the midpoint of the plan (FY 2018).
- ◆ A dedicated committee will be established under the Council. The committee specifies reform schedule and KPIs, monitors the progress of the reforms, carries out check and evaluation of the reforms.

Basic Framework outlined in the draft of the Basic Policy for 2015

I. Outline of total amount of general expenditure

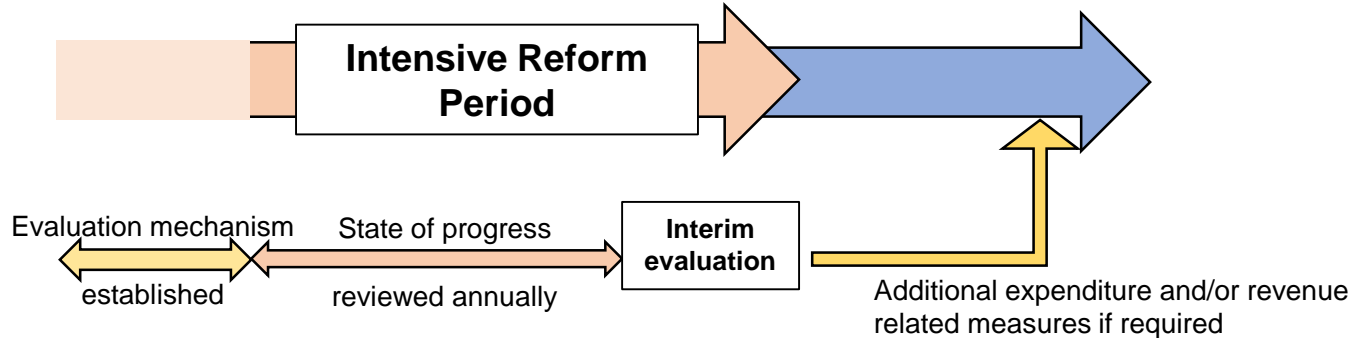
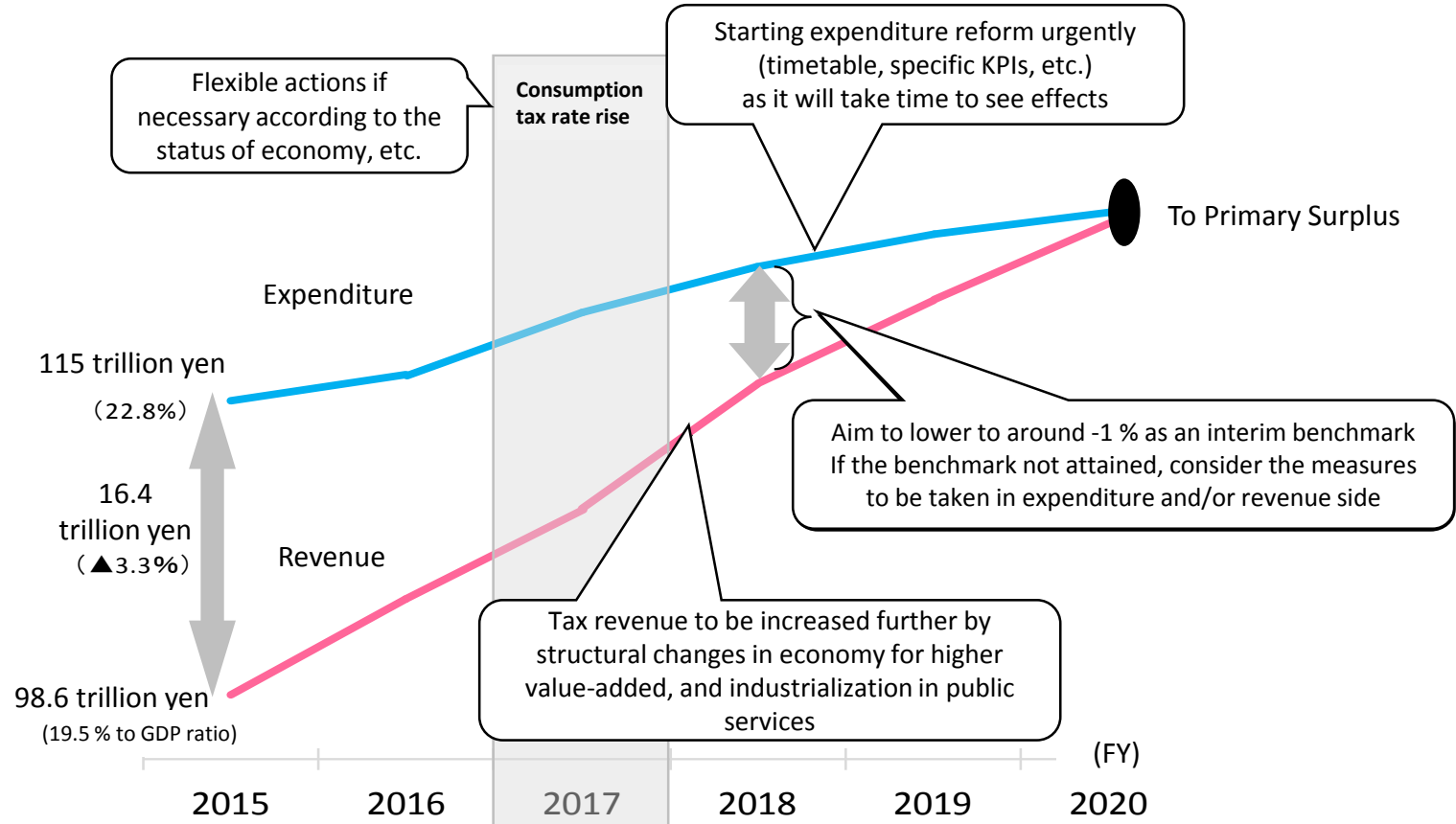
- ◆ A benchmark is established to lower the primary deficits to GDP ratio by around -1 % in FY 2018. Regarding general expenditures of the central government, the government makes efforts for expenditure reform in line with the past achievements of Abe administration, without presupposing an increase except those in social security expenditure due to population aging, while considering a decline in total population and changes in wages and prices. Regarding social security expenditures, the government carries out the enhancement of social security with increase in consumption tax revenues, while considering effects of population aging and past changes under Abe administration. Note that the government will not stick to make the year on year expenditure control even. Local government expenditures shall be also controlled in line with the efforts by the central government.
- ◆ At the interim evaluation, according to these benchmarks(*), the government considers additional expenditure and/or revenue measures to achieve the fiscal consolidation target of FY2020 if necessary while holding another pillar of “overcoming deflation and economic revitalization”.

(*) Regarding the benchmark of general expenditures of the central government, the trend of the past three years under Abe administration indicating a substantial increase of approx. 1.6 trillion yen, shall be continued until FY 2018 with a consideration of future changes in economy, prices and etc. Regarding local government expenditures which will be controlled in line with the efforts of the central government, the total amount of general revenue sources which would be necessary for stable fiscal management of local governments including those receiving local allocation tax grants, shall be ensured substantially until FY 2018, so as to maintain levels in FY 2015 Local Financing Program.

II. Outline of social security measures

- ◆ Regarding the increasing public social security provision, it should at least be ensured that the burden of social security shall not be passed down further to future generations by carrying out reforms to enhance efficiency and prioritization and increasing revenues for social security through efforts for economic revitalization.
- ◆ The government makes efforts for enhancing efficiency, promoting prevention including institutional reforms while sustaining the trend of social security expenditures until FY2018, considering the achievements of the three years of economic revitalization and reforms under Abe administration which include the past record that a substantial increase in social security expenditures was approximately equivalent to levels caused by population aging (approx. 1.5 trillion yen) and future changes in economy, prices and etc. Including these considerations, the government aims to keep the increase in social security expenditures within the levels equivalent to the sum of the expected increase due to population aging, the planned enhancement of social security based on the increase in consumption tax rate and etc.

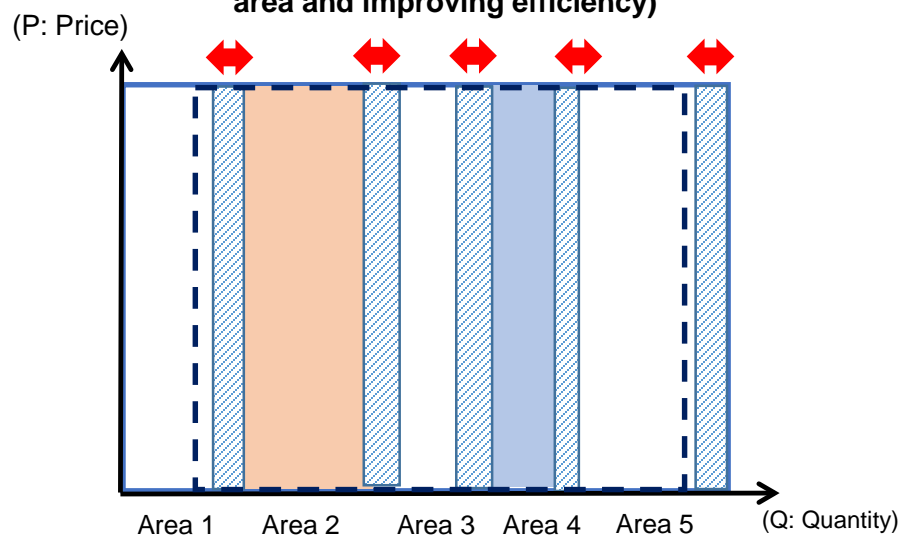
Concept of Primary Balance improvement through Integrated Economic and Fiscal Reforms



II (5) Improving Budget Formulation Process to Promote Reforms

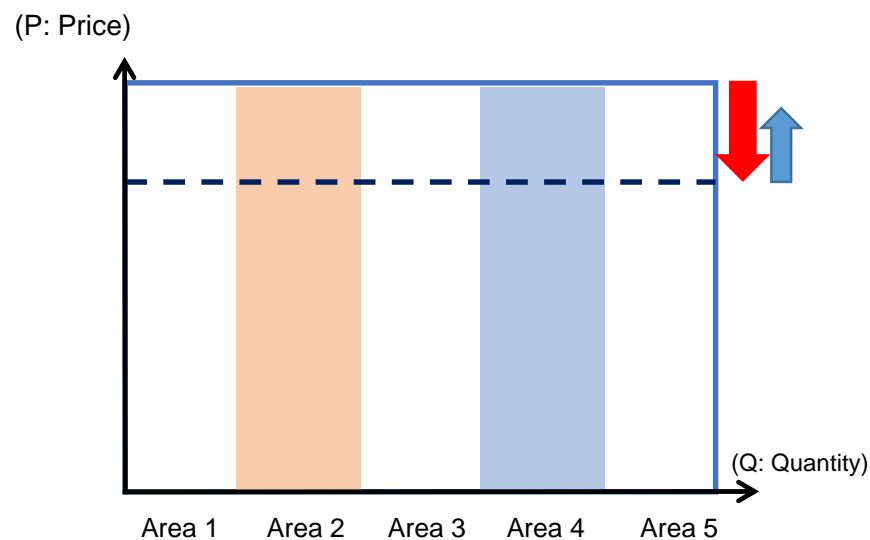
- ◆ The guideline for budgetary requests will spell out the direction that all policy-related expenditures be the subject of reforms (namely “Industrialization in public services”, “Incentive reform”, and “Innovation in public services”) and embrace a mechanism to promote reallocating resources to more effective expenditures (i.e. wise spending), rather than noting a limit for respective spending fields.
- ◆ Local government expenditures shall be reformed in line with the efforts by the central government.
- ◆ The respective ministries should reflect the idea of the expenditure reform and wise spending in their budgetary requests for the next fiscal year as much as possible.
- ◆ The dedicated committee under the Council on Economic and Fiscal Policy shall evaluate each ministry’s efforts for the expenditure reform and wise spending while the Ministry of Finance will collaborate with it to proceed budget formulation procedure.

Proposed expenditure reform
(By eliminating unnecessary expenditures in each area and improving efficiency)



- Specify institutional reform, etc., to eliminate inefficiency in public services and improve efficiency through citizen participation
- Budget will be allocated for necessary services (quality improvement)
- Substantial impacts are expected over the medium- to long-term

Uniform expenditure control
(By controlling prices (including the payroll))



- Budget for necessary services will also be reduced uniformly
- Partially incompatible with policies to overcome deflation (e.g. employment costs)
- If it goes too much, it may lead to a backlash one day



Specific Issues

[Specific Issues] Point of Economic and Fiscal Revitalization Plan (1)

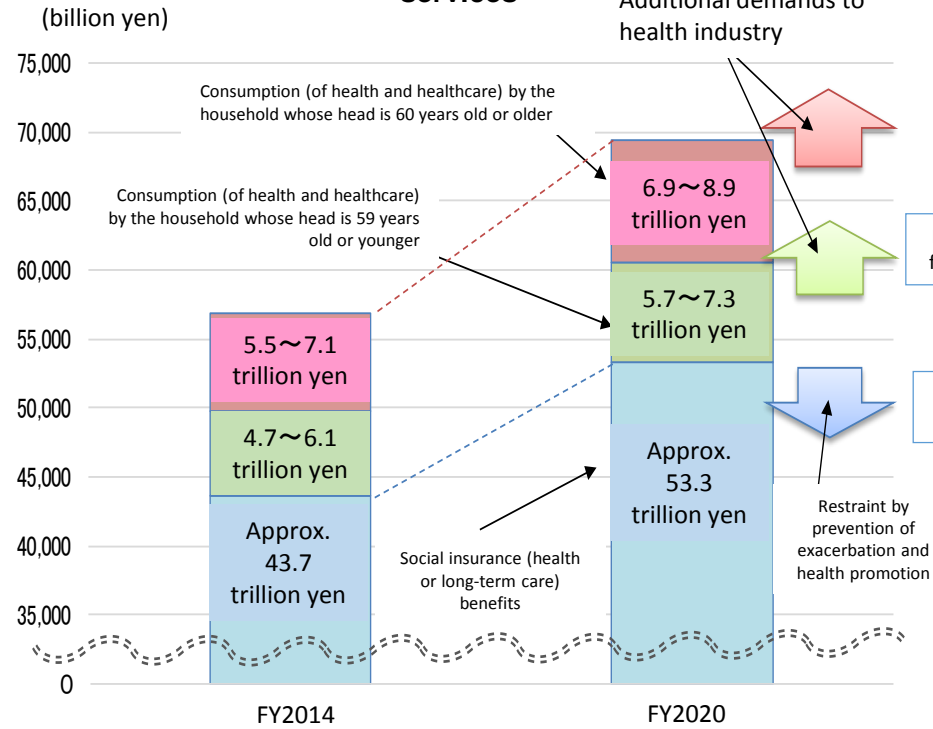
Expenditure Reform: Social Security ①

◆ Industrialization in social security services (e.g. improvement of the environment for using healthcare related data, by utilizing the newly introduced social security number system; promotion of partnership and joint-venture between medical institutions and private firms, and support activities of health-related professionals such as the nurses through regulatory reforms)

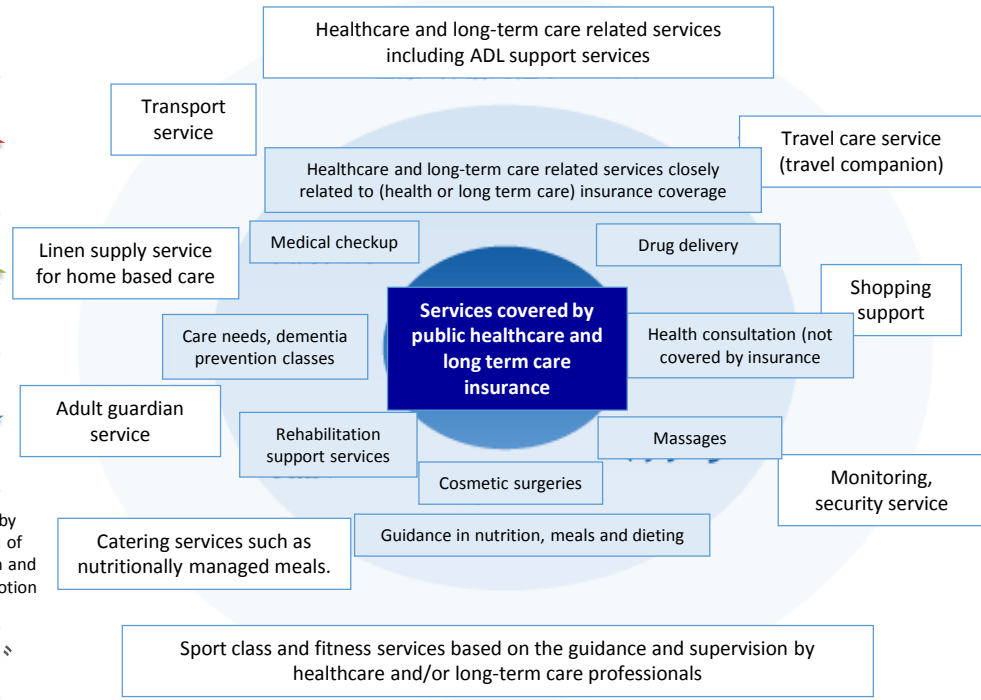
- Population aging and other factors are expected to put upward pressure not only on social insurance benefit expenditures, but also on household budget for such items as drugs, health products and devices, and health promotion consumables. It is important to promote industrialization of services which meet citizen's health needs, thereby preventing exacerbation of chronic disease (and, at the same time, prevention of economic loss from illness), and raising health longevity and QOL.

- Extending private sector share will accelerate availability of new services for prevention of exacerbation, etc. Potential demands in health- and longevity-related area shall be identified and health management initiated by citizen shall be promoted. As home based healthcare and long-term care based on the comprehensive community care services increase, expansion of relevant services that are efficient and meeting those needs, such as IT, housing, transport and food (including catering) services shall be promoted.

Projection of demands for public and private social security services



Summary of healthcare and long-term care related services



* Closer the area (scope) to the center, closer the service becomes to medical act (itself)

Note: The figure on the left represent the estimation based on the data from "Household Survey" by Ministry of Internal Affairs and Communications, "Household Projections for Japan "by National Institute of Population and Social Security Research, and "Economic and Fiscal Projections for Medium to Long Term Analysis" and "National Accounts of Japan (SNA)" by Cabinet Office
 The 2014 figure for per-age consumer expenditure by the head of the household is multiplied by the number of households in the same year, and adjusted to match the SNA consumption in family finance consumption. The results are used to extrapolate the nominal growth rate (Cabinet Office estimation) and the house hold number (National Institute of Population and Social Security Research estimation) in FY 2020
 The figure on the right is from the Society to Think about the Industry Surrounding Healthcare and Long-term Care website

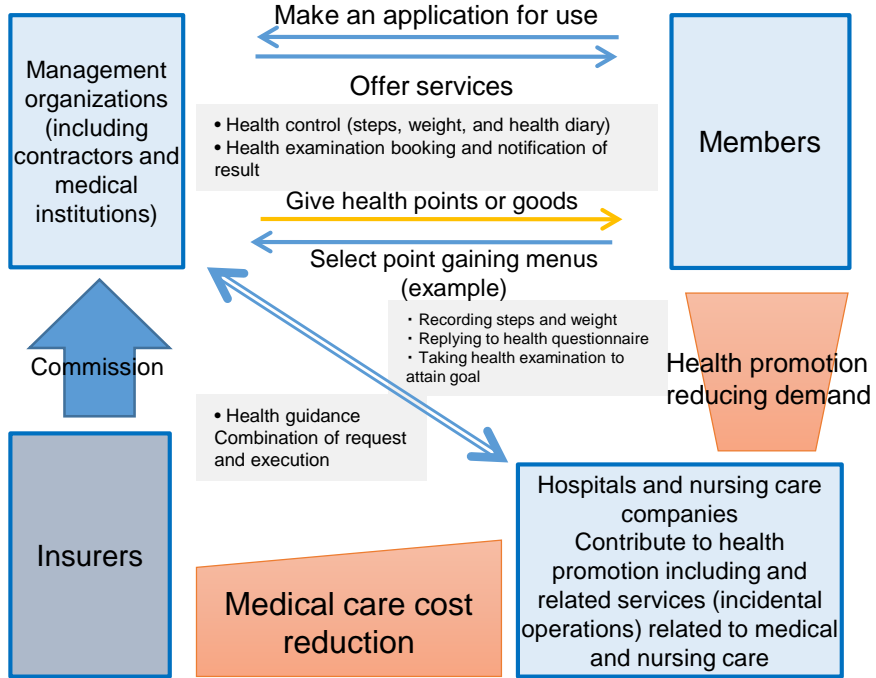
[Specific Issues] (1) Expenditure Reform: Social Security ②

◆ Implementation of an incentive reform to work on the actions (by promoting rational actions of each of the “citizens” (health point, etc.), insurers (assistance premium system, etc.), and hospitals (NHI care fees, etc.) for health promotion, improved efficiency and cost saving)

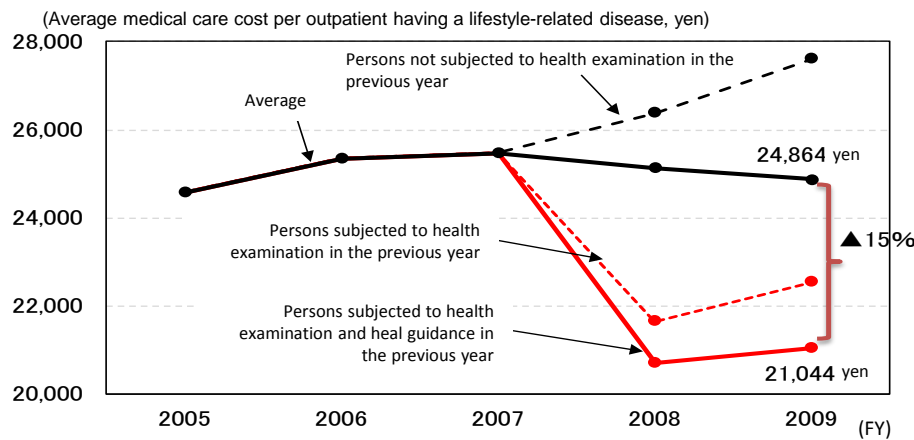
- Giving incentives to individual persons has double merits: one is economic growth (more room for labor supply) and the other is a reduction in medical and nursing care costs.

- Amagasaki City, Hyogo Prefecture reduced the cost for lifestyle-related diseases by 15% by promoting health examinations and guidance, while Saza Town, Nagasaki Prefecture decreased the certification rate by 6% through preventive care. If both actions apply to all the municipalities, the total medical and nursing care cost will reduce by about 3.3 (1.5 + 1.8) trillion yen.

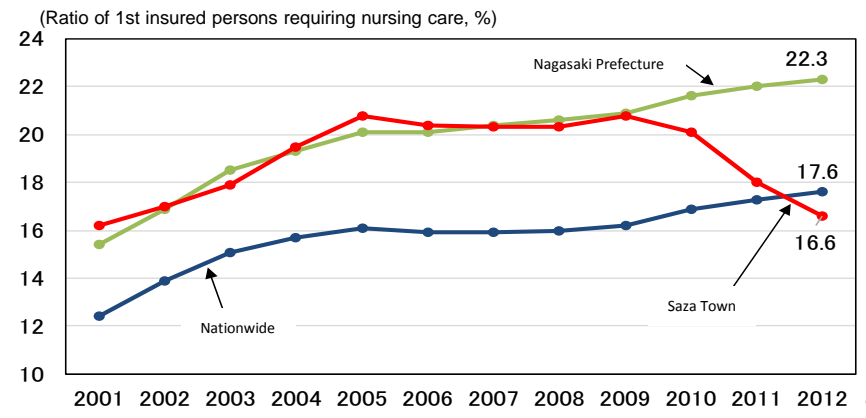
Relationship between the health point system and self-help efforts/medical care cost reduction



Effect of preventive actions on the medical cost for lifestyle-related diseases (Amagasaki City)



Effect of preventive measures on the certification rate of nursing care (Saza town)

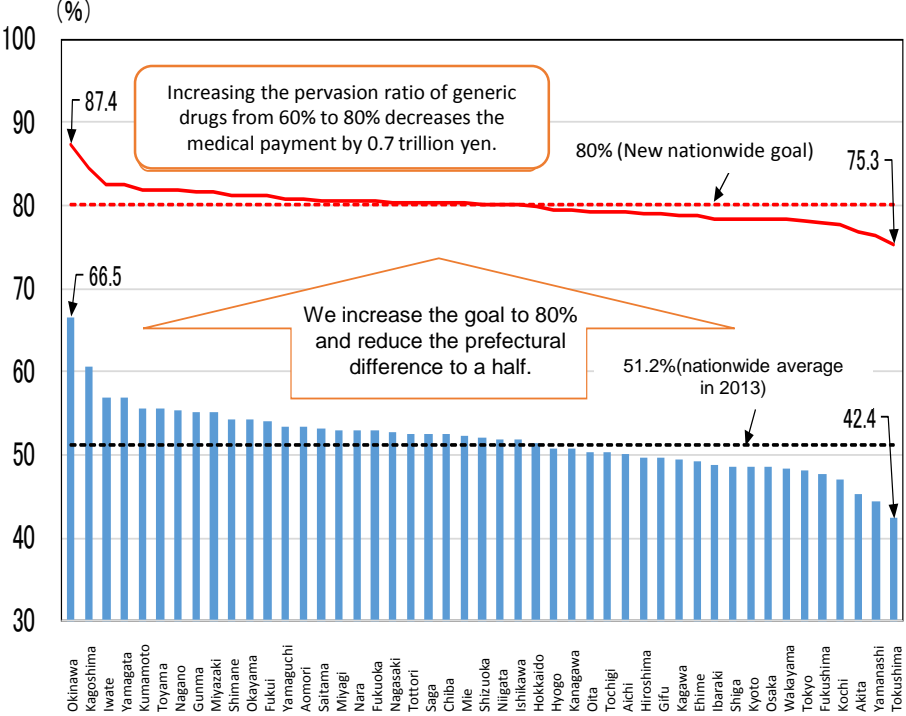


Note: The two graphs on the right are according to a document issued by MHLW.
 • In the upper graph, the cost reduction will be 1.5 trillion yen in 2020, which is given by multiplying the estimated medical and drug costs (10 trillion yen) for lifestyle-related diseases including circulatory disorders and diabetes by 15% (0.95% for insurance cost and 0.58% for public expenditure). The personal payment reduction will be 0.28 trillion yen.
 • In the lower graph, the cost reduction will be 1.8 trillion yen in 2020 if the certification rate of 1st and 2nd care reduces by 20% and that of 3rd to 5th care decreases by 10%. Each of the insurance and public expenses will reduce by 0.9 trillion yen, and the personal payment reduction will be 0.2 trillion yen when its rate is 10%.

[Specific Issues] (1) Expenditure Reform: Social Security ③

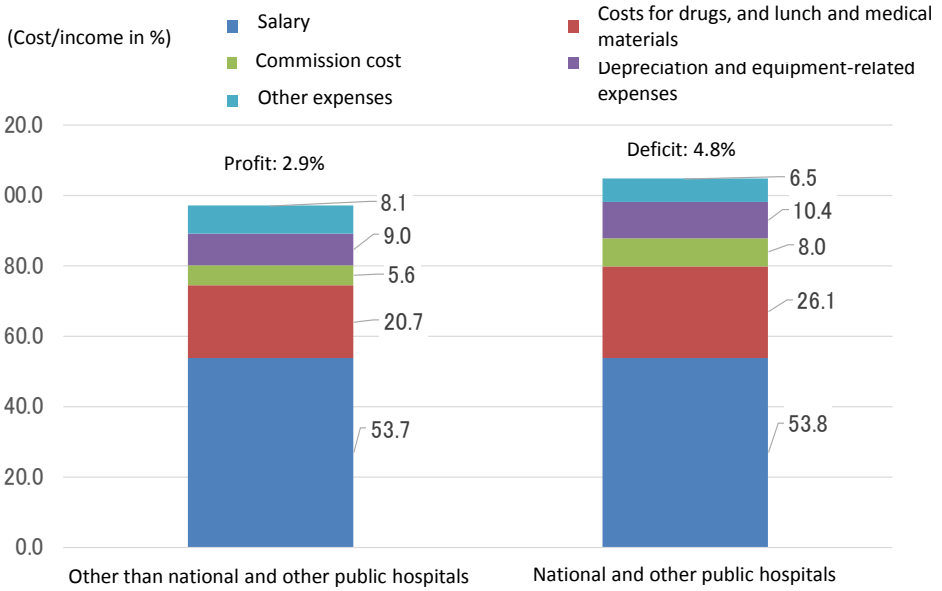
- ◆ Promote various efforts to increase the efficiency of social insurance system
 - Raise the target of the pervasion ratio of generic drugs (to more than 70% by the middle of 2017). Revise insured pharmaceutical prices for three consecutive years and improves transaction practices.
 - Launch the structural reform of separated dispensing and prescribing functions (reforming the locations of dispensing pharmacies and reviewing their roles) and review rewards including technical fees for dispensing.
 - Promote the reform of public hospitals by applying successful cases of management reforms, thereby improving fiscal conditions.
 - Review the role and coverage of provision of nursing care insurance (including transfer to local support services).
 - Activate the “Macroeconomic slide” system in the calculation of public pensions.

Prefecture-by-prefecture pervasion ratios of generic drugs and effect of a rise in goal



Profitability of public hospitals (FY 2012)

- The ratio of medicine and material costs to the income in public hospitals is more than 5% points higher than the ratio of private hospitals. The balance should be improved by applying best practices of management reforms.



Note: The left figure is created from “Trends in Drug and Medical Treatment Costs (Part Calculated with Computers in FY 2013)” issued by MHLW, while the right figure is made from “19th Survey of Actual Medical Economy (2013)” issued by MHLW.

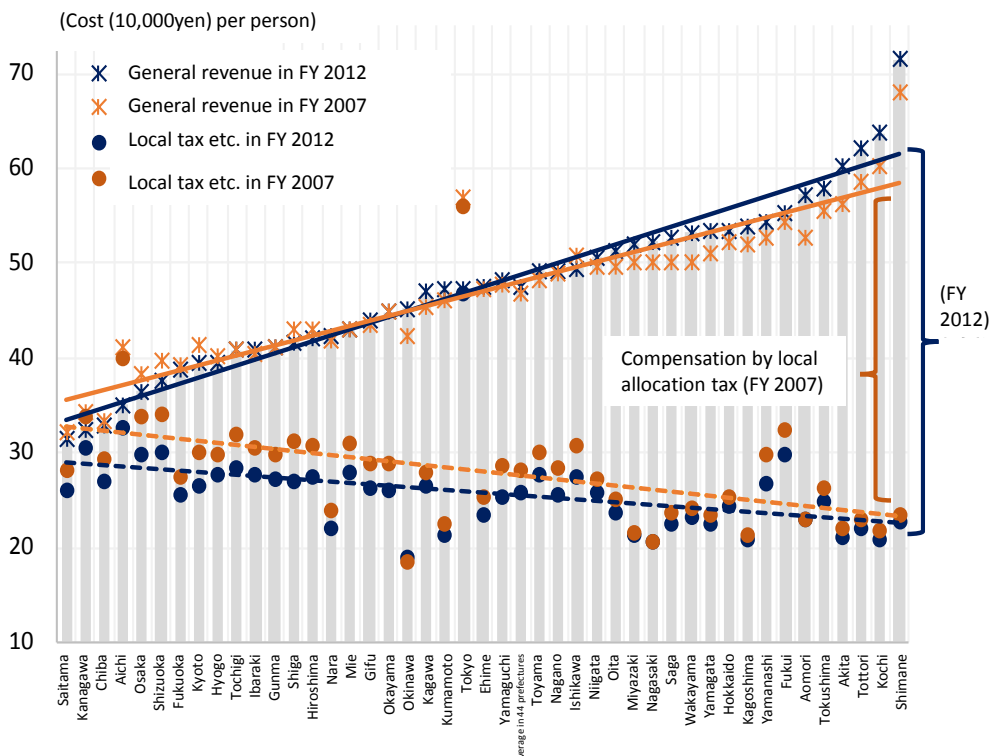
• The red solid line represents the resulting pervasion ratio assuming that a nationwide average of 80% (red dash line) is attained and the difference among prefectures is halved. The medical cost reduction will be 0.7 trillion yen when the goal increases by 20 points from 60% to 80% as the document issued by the MOF on October 8, 2014 shows that an achievement ratio of 100% and 60% reduce the medical cost by 1.7 and 0.4 trillion yen respectively. It consists of insurance and public cost reductions of 0.4 and 0.25 trillion yen. The personal payment will reduce by about 0.12 trillion yen. The dividing ratio is acquired from “Basic Document Related to Medical Insurance—Medical Costs in 2012” issued by MHLW.

[Specific Issues] (1) Expenditure Reform: Local Administrative and Fiscal Reform—Introduction of “Front Runner System”

◆ Reforming the local allocation tax grants system

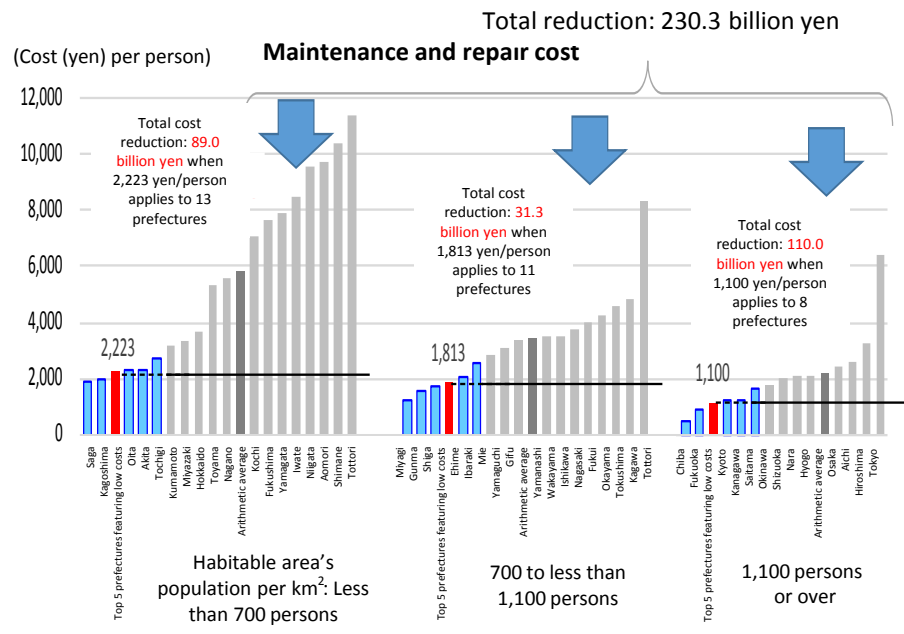
- In a “front runner system”, a cost level attained by advanced local governments through model approach for improving expenditure efficiency will be reflected in the calculation of unit costs for local allocation tax grants in a planned period.

General revenue and local allocation tax grant per person



Note: The figure above is created according to the area-by-area statistical data provided by MIC. The cost per person in a prefecture is given by dividing the sum of taxes paid and allocated to the prefecture and municipalities (amount after account settlement) by the population. The Local allocation tax grant consists of ordinary and special ones. The local tax revenue is the sum of local and transfer taxes. The three prefectures suffering from the disaster are excluded.

Image of the front runner system
~ Selecting prefectures featuring low costs to calculate allocation taxes ~



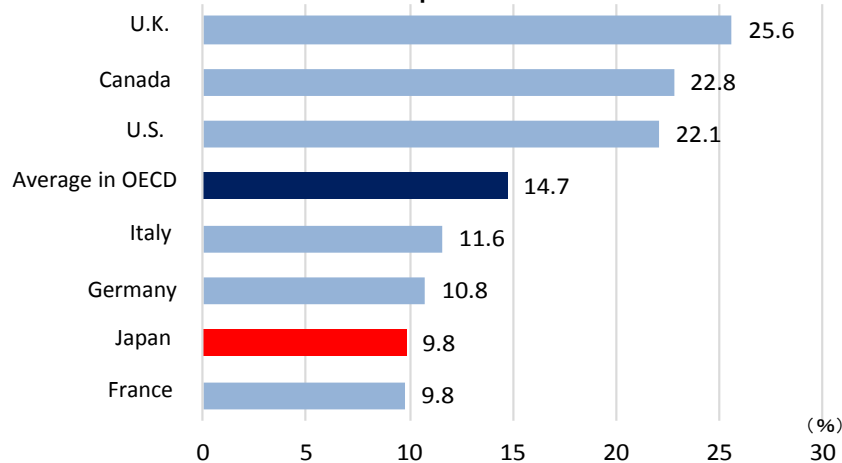
Note: The graphs above are created from data Statistics Bureau makes according to “Survey of Local Financial Conditions” made by MIC.

- The red value shows the total cost reduction when the average cost per person attained by the top five prefectures featuring low costs in a group applies to the other prefectures.
- The maintenance and repair cost includes general affairs, public welfare, health, labor, agriculture-forestry-fisheries, commerce-industry, earthwork, fire-fighting, police, and education expenses.
- The same calculation reduces the labor, non-personnel, and aid expenses by 1,149.6, 571.1, and 329.9 billion yen in total respectively.

[Specific Issues] (1) Expenditure Reform: Local-Government Administrative and Fiscal Reform—Preferential Work on PPP/PFI

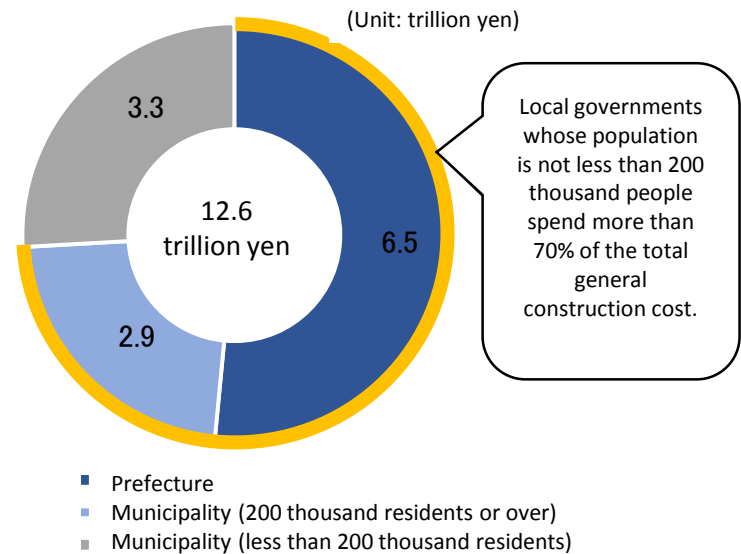
- ◆ In municipalities, outsourcing shall be accelerated in areas where such practices are not progressed. The government plans to double the number of municipalities that engage advanced reforms, such as outsourcing counter services, by FY 2020.
- ◆ Best practices (which enhance efficiency in spending or operations) shall be applied to 1,800 local governments all over the country.
- ◆ For example, the government will install a mechanism to let local governments with a population of not less than 200 thousand introduce PPP or PFI affirmatively, for further prevalence and development.

Ratio of the outsourcing cost to the governmental expenditure



Note: The figure above is created from Tables 3.22 and 3.47 in "Government at a Glance 2013" issued by OECD.
 • The figure shows the ratio of expenses for outsourced assets and services (e.g. for accounting and IT-related operations) spent by a general government itself to the total expenditure.

General construction costs spent by local governments (on a population basis)



Note: The accompanying graph is made from the area-by-area statistical database MIC has.
 • Data for the prefectural population and general construction cost are of FY 2013 and FY 2012 respectively. The municipal population and general construction cost are data in FY 2010 and FY 2011 respectively. The number of municipalities having not less than 200 thousand residents is 131.
 • The local governments have about 54% of the total public fixed assets in FY 2013.

Examples of the effect of making operations efficient and integrated

- **“General affairs centralizing center” in Yokohama City**
 - The city abolishes divisional intermediate operations, keeps the allowance certifying accuracy constant, and eliminates defects and simple mistakes by receiving an application via the system.
 - **The city reduced the workload by approx.198 thousand hours in FY 2013.**
- **“Joint system for national health insurance, pensions, and taxes” in Okazaki and Toyohashi Cities**
 - In the insurance and pension system, both cities aim to **reduce the 5-year running cost by 25%.**

Note: The above is described according to a document presented by MIC.

[Specific Issues] (1) Expenditure Reform: Cross-Sector Initiatives

- ◆ Thorough visualization of public service activities
 - Disclosure: data of administrative costs, facilities possessed and maintained, IT investment, and stocks (e.g. a list of fixed assets, financial statements of public-sector accountings, and management plans for public facilities) of respective local governments.
 - Comparison: current situations and policy costs among local governments can be compared.
 - Innovation: disclosing data above in an easy-to-use format should encourage private institutions to create new services.
- ◆ Implementation of reforms in business process (BPR) by utilizing IT
 - Central government: reforms on-line services, improves the efficiency and promotes labor-saving of administrative operations, and reduces the cost for running the information system by 30%.
 - Local governments: accelerate the BPR and save administrative costs through simplification, standardization, and further utilization of clouds.

Example of the disclosure of basic public data

Data is disclosed as PDF files annually and on a prefecture or municipality basis, but it is difficult to analyze the budgeted or settled administrative cost between local governments or in time series.

平成27年度 地方税に関する参考計数資料

全体版(4.3MB)

目次

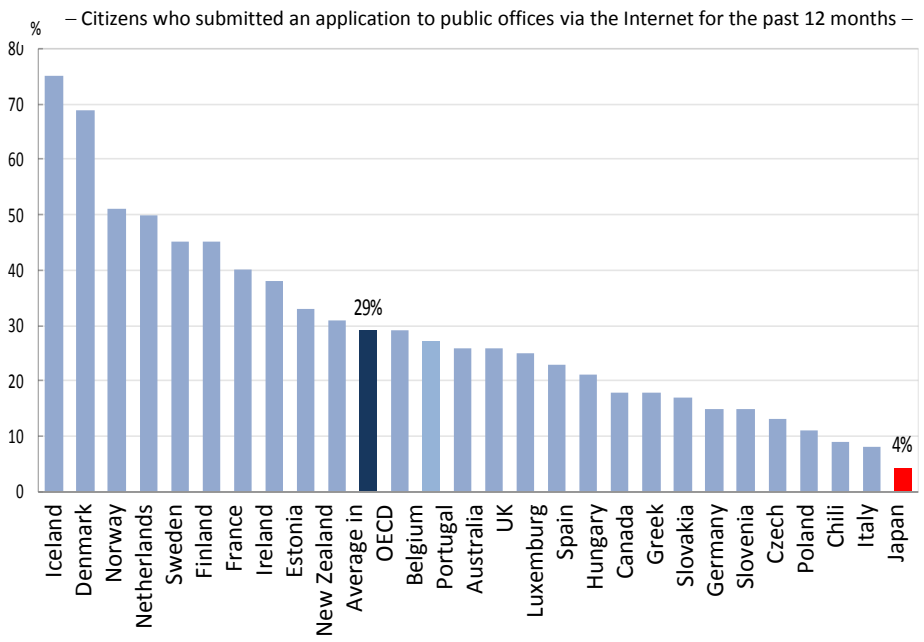
- 1 地方税及び地方譲与税収入見込額(平成27年度)
- 2 税制改正による事項別増減収見込額(平成27年度)
- 3 国民所得、地方財政規模、地方税収入等の推移
- 4 国税及び地方税の累年比較
- 5 国(一般会計)と地方(普通会計)の歳出規模の比較
- 6 国民所得に対する国税及び地方税負担率の累年比較
- 7 国民1人当たり国税及び地方税負担額の累年比較
- 8 租税総額中に占める直接税及び間接税等の割合
- 9 地方歳入中に占める地方税収入の割合の推移
- 10 地方税の税目別収入額及びその割合の推移

項目	平成26年度	平成27年度	増減	増減率
地方税収入見込額	11,324.4	11,324.4	0.0	0.0%
増減収見込額	24.6	24.6	0.0	0.0%
国民所得	28.9	28.9	0.0	0.0%
地方財政規模	31.4	31.4	0.0	0.0%
国税	30.8	30.8	0.0	0.0%
地方税	29.2	29.2	0.0	0.0%
国民所得に対する負担率	28.9	28.9	0.0	0.0%
1人当たり負担額	30.7	30.7	0.0	0.0%
租税総額	30.7	30.7	0.0	0.0%
直接税	18.1	18.1	0.0	0.0%
間接税	12.6	12.6	0.0	0.0%

PDF is not appropriate for data analyses.

Time-series data is available as a PDF file. Analyzing it requires users to type the year-by-year data.

Introduction of IT in administration

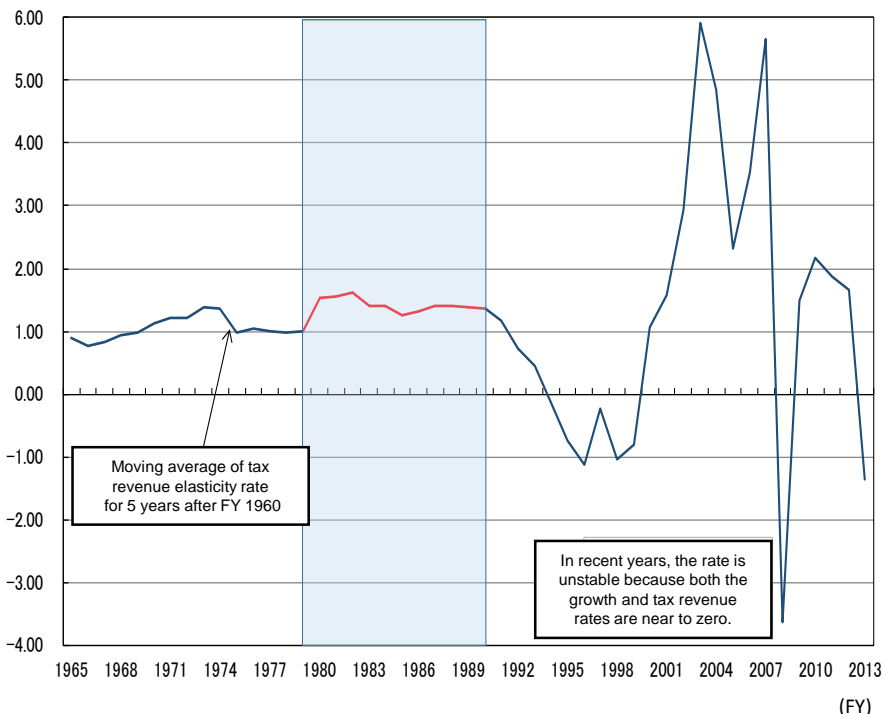


Note: The graph is created from Figure 9.6 in "Government at a Glance 2013" issued by OECD.
 • OECD sums up data from ICT Database. The data is acquired from a survey in 2012 (2009 in Canada). The number of countries surveyed is 27.
 • The graph shows the ratio of persons who submitted an application to public offices regardless of the central or local government via the Internet for the past 12 months.

[Specific Issues] (2) Revenue Reform

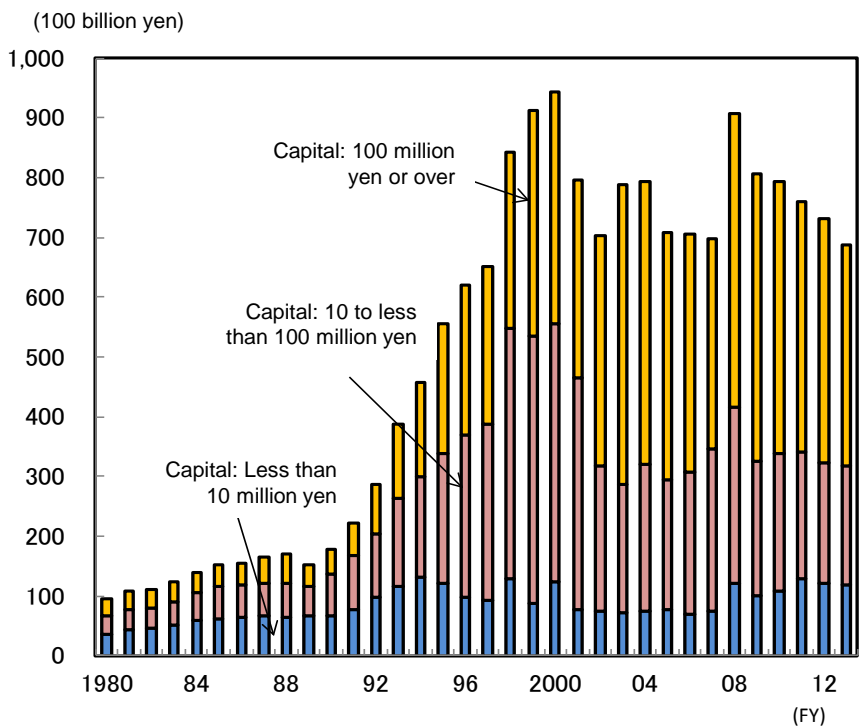
- ◆ Tax revenue elasticity to nominal GDP would be assumed 1 or a little bigger than 1 in the medium- to long-term projection. Indeed, the observed elasticity was around 1.2 to 1.3 during the period with stable growth (1980s).
- ◆ While the Integrated Economic and Fiscal Reforms should contribute to improve the economic structure for achieving higher value-added, the elasticity would stay around levels realized in the past period.

Tax revenue elasticity



Note: The graph above is "National Accounts of Japan" by Cabinet Office. The tax revenue is the sum of taxes (received) imposed on products and imports as well as ordinary taxes (received) put on incomes and riches. Tax revenue elasticity rate is defined as the ratio of tax revenue change to that of nominal GDP.

Trends in the amount of losses carried to the next fiscal year



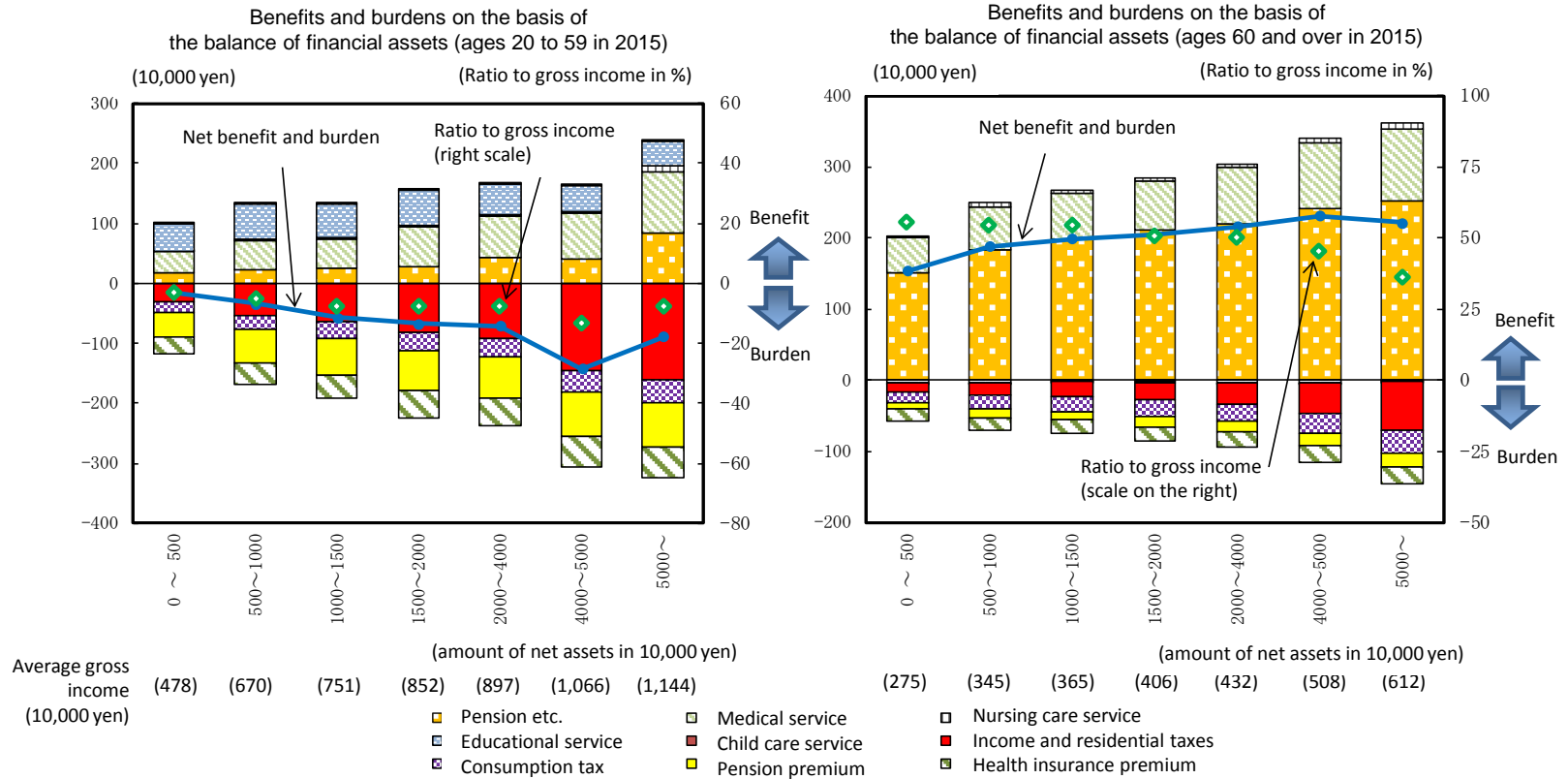
Note: The graph above is created from "Actual Conditions of Corporate Businesses from a Tax Statistics Point of View" issued by NTA.

- The account was settled in January to February before 2005 or in March to April after 2006. Since 2011, capital grouping has changed from ". . . to . . .", so companies having a capital of 10 million yen move from a group whose capital is 10 to less than 100 million yen to one whose capital is up to 10 million yen. Therefore, regarding data after 2011, the adjustment has done using the absolute average of year-on-year differences in each group as a moving amount.

[Specific Issues] (2) Revenue Reform

Work on Income and Property Taxation following Corporate Taxation reform

- ◆ Generally, working-age generation tends to bear a net burden, while elder generation tends to enjoy a net benefit. Dividing respective generation data by size of financial assets, large asset holders tend to receive larger benefits, e.g. pension in elder generation.
- ◆ The government reconstructs the social infrastructure for economic growth by focusing on young generation that plays a key role in future growth. Moreover, the government takes the following measures as soon as possible in the planned period: (1) reviewing measures for young workers with low income and families with small children to support their economic viability and to avoid fixing income gaps among them, (2) ensuring the neutrality and fairness among various type of working and earning, and (3) reviewing the taxation to ensure fairness between and within generations based on structural changes in economy and society.



- Notes:
1. The gross income includes a salary, pension, business income, and earning from property etc. Pension etc., includes a public pension, child allowance, and welfare benefit.
 2. A reduction in national pension and insurance premiums given to low-income persons are not taken into consideration.
 3. The holding property is given by subtracting debts (except housing loans) from the financial assets (savings).
 4. The graphs above are excerpted from the document shown at the Council on Economic and Fiscal Policy, CAO in June 1, 2015.