

# Abenomics is progressing!



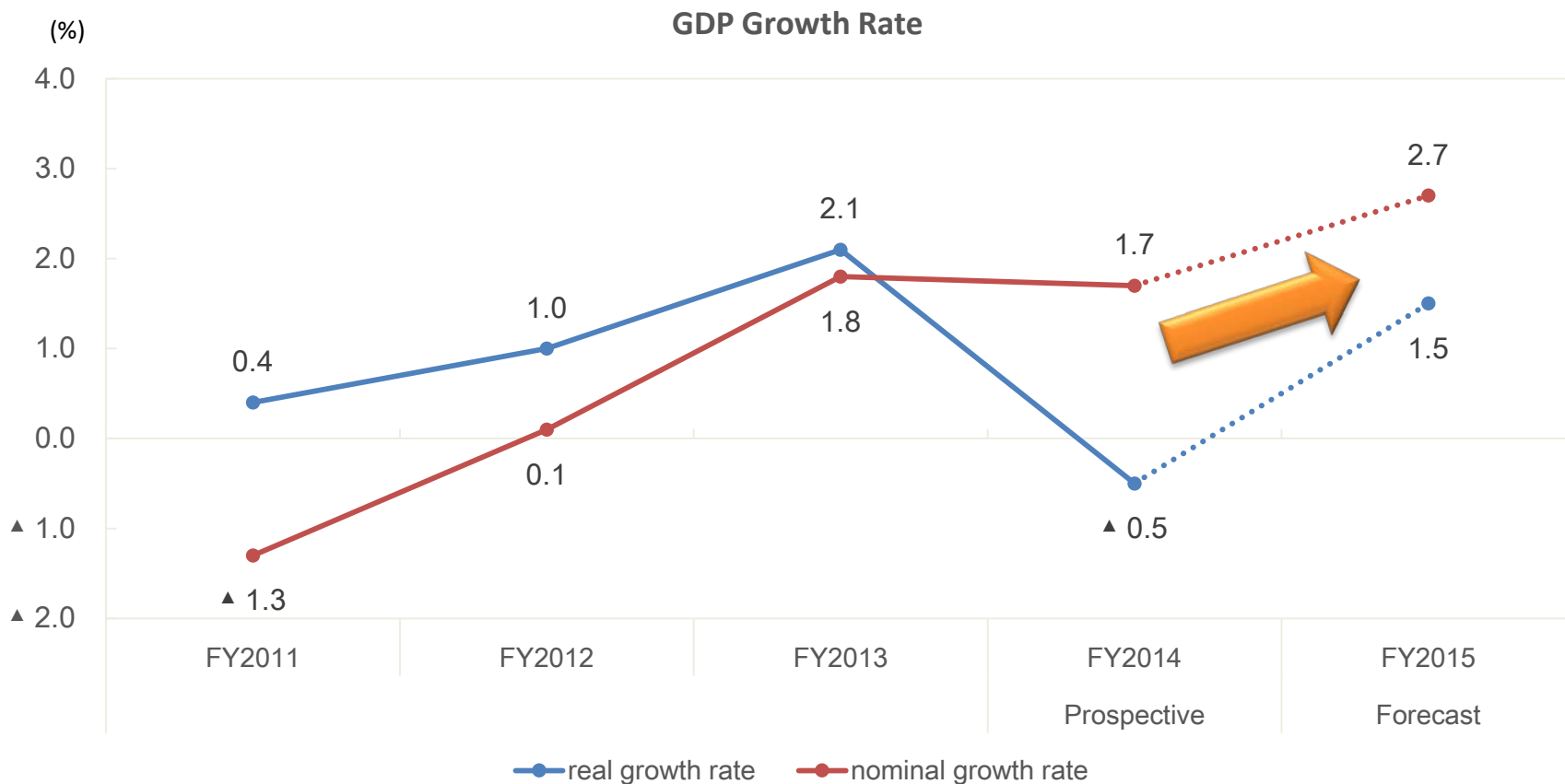
**Towards the reinvigoration of the Japanese Economy**

February 2015

# I. Recovery Track for Japan's Economy

Real GDP in Q4 2014 (Oct-Dec) increased at an annual rate of 2.2%, representing the first such rise in three quarters.

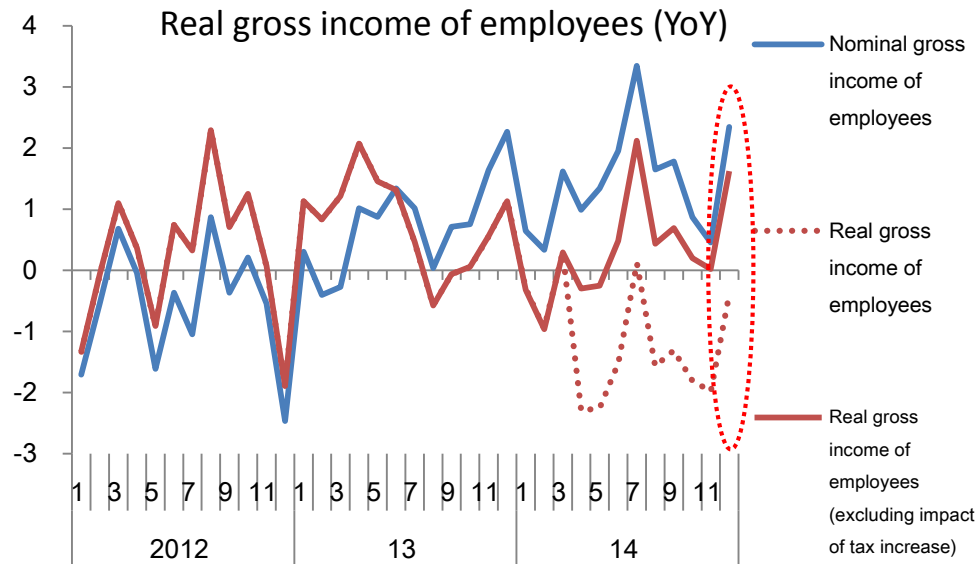
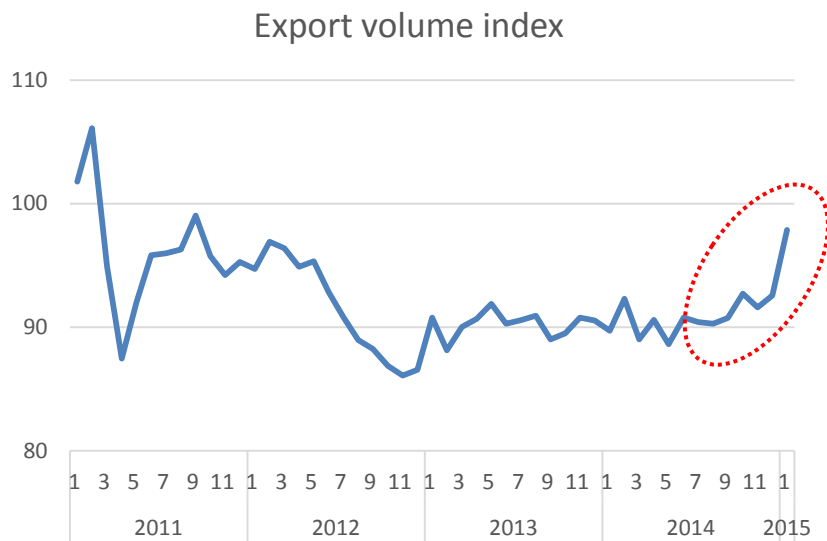
Due to factors such as BOJ's monetary easing, the yen depreciation, falling crude oil prices, and anticipated real wage increases, Japan's economy is expected to exit deflation and is on track for a steady recovery.



# I. Recovery Track for Japan's Economy

## Positive factors towards economic recovery:

- ◆ Business leaders agreed to **raise wages** again in 2015, following wage hikes in 2014, and to **support and cooperate with SMEs in negotiating prices to be able to pass on higher raw material costs** (agreed at a Government-Labor Union-Management Meeting in Dec. 2014). This will contribute to wage increases among SMEs.
- ◆ Nominal and real **wages** are expected to increase, due to wage hikes anticipated for 2015 and the waning impact of the consumption tax rate increase. Consumption will also be stimulated by the Immediate Economic Stimulus Package (compiled in Dec. 2014 and totaling approximately 3.5 trillion yen), which includes measures to support consumers in regional areas.
- ◆ **Exports** are on an upward trend, and **Japanese companies' profits** earned overseas increased in yen terms.
- ◆ **Crude oil prices** have fallen by 50% from Jun. 2014 to Dec.2014, which would, according to estimates by the Cabinet Office, have the effect of boosting nominal corporate profits by 2-3 trillion yen, as well as nominal compensation of employees by 2-3 trillion yen.

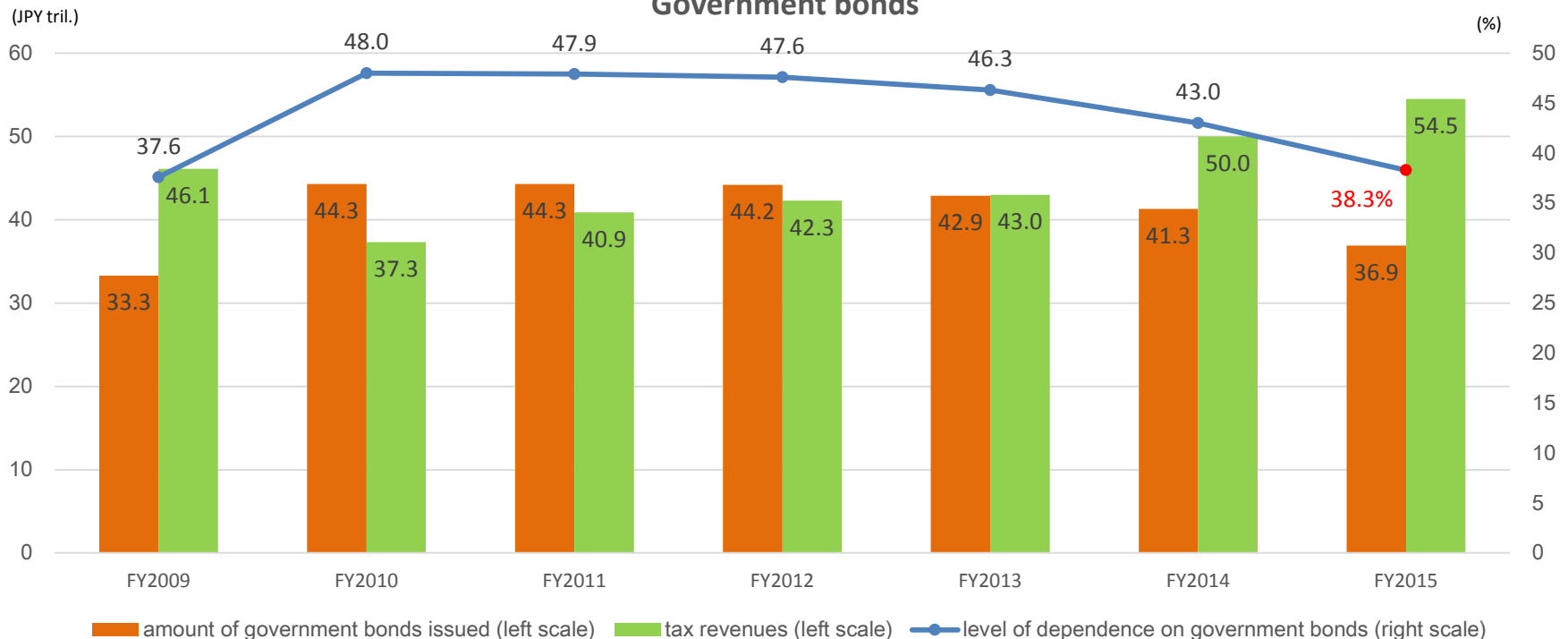


## II. Steady Progress towards Fiscal Consolidation

### Steady progress has been made towards fiscal consolidation

- ◆ Reflecting the current Japanese economic situation, tax revenues are expected to increase in FY2015 draft budget. In addition to this, through prioritization and streamlining of expenditures, **the amount of newly issued JGBs was reduced by 4.4 trillion yen from that of FY2014.** (The amount of newly issued JGBs in FY2015 was 36.9 trillion yen, the first 30 trillion yen range since the FY2009 initial budget.)
- ◆ As a result of the government's efforts towards fiscal consolidation, **the target of halving the primary deficit to GDP ratio, which was announced in Aug. 2013 (FY2010: -6.6% → FY2015: -3.3%), is expected to be achieved.**
- ◆ The consumption tax increase from 8% to 10% will be implemented in Apr. 2017. The government maintains its fiscal consolidation target of achieving a primary surplus by FY2020. A concrete fiscal consolidation plan will be prepared by this summer.

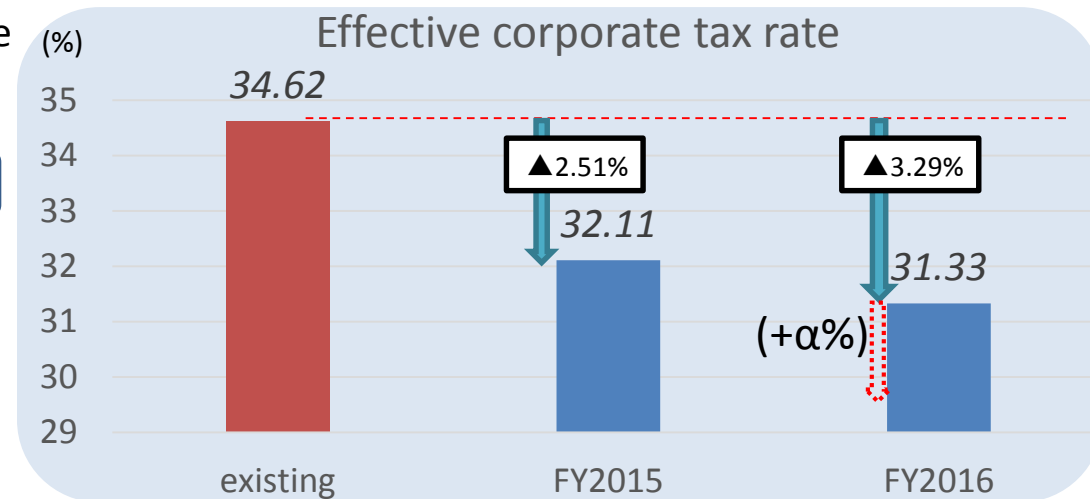
Government bonds



# III. Restoration and Enhancement of Corporate Earning Power

## Reduction of the effective corporate tax rate

- The effective corporate tax rate, already reduced by 2.4% in Apr. 2014, will be lowered **by 2.51% from Apr. 2015 and by a further 3.29% from Apr. 2016, compared with the current 34.62%.**
- In parallel, the government will secure permanent revenues through such measures as broadening the tax base. However, the decision was made to frontload tax reductions. (decided on Jan. 14, 2015).
- The tax rate will be reduced to within the 20% range in the next several years.



## Enhancement of corporate governance

- Japan's version of the Stewardship Code was formulated (Feb. 2014) and the Companies Act was revised to encourage the appointment of outside and independent directors (Jun. 2014)
- **The draft Corporate Governance Code was formulated in Dec 2014.** Listed companies will be required to comply with the principles of the Code, or to publicly explain the rationale for why they have not complied

### Corporate Governance Code (draft)

- Explanation on the objective and rationale of stock cross-holdings
- Providing information on nomination and remuneration policy for board members
- Appointment of no less than 2 independent outside directors

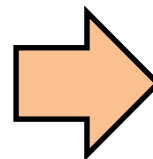
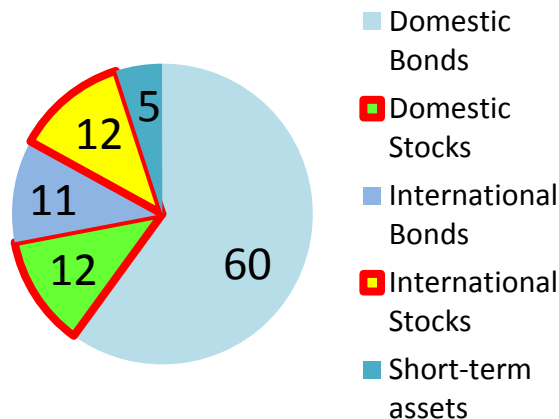
➔ **As a result of proactive management, corporate profits increased and 30% of listed companies will raise dividends (improvement of ROE)**

## IV. Stimulation of Financial and Capital Markets

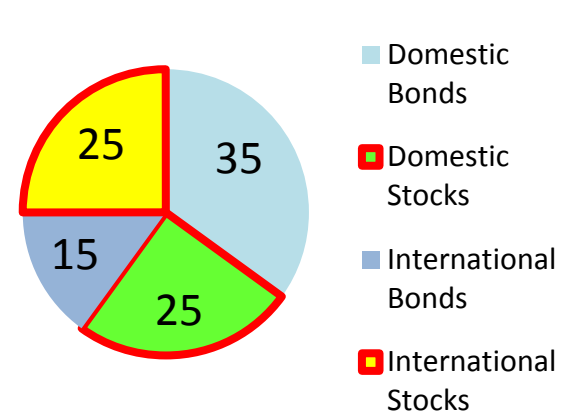
### - Government Pension Investment Fund (GPIF) - Revision of the policy asset mix and reinforcement of the governance structure

- To respond to the long-term changes in the economic and investment environment such as the exit from deflation and the transition to an appropriate level of inflation, GPIF (Government Pension Investment Fund) adopted a new policy asset mix on October 31, 2014.
- Reinforcement of the governance structure of GPIF is now in progress.

**Previous portfolio**



**New portfolio**



# V. Reform of the Agricultural Sector

## Encourage entrepreneurialism among farmers; seek new market entrants

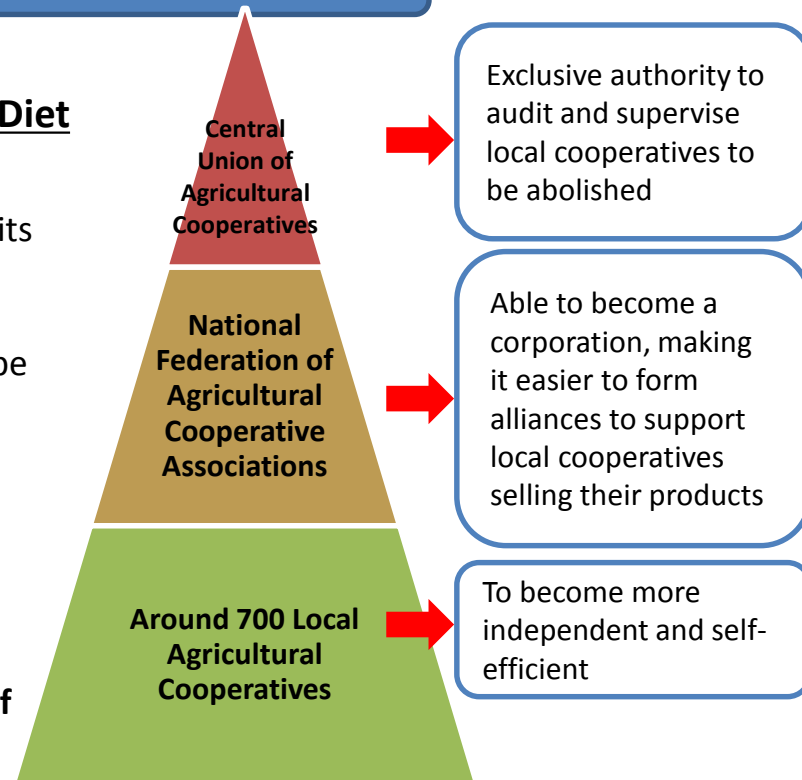
- **Reform the Agricultural Cooperative System for the first time in 60 years (bill to be submitted during the current Diet session)**

The Central Union of Agricultural Cooperatives will be stripped of its exclusive authority to audit and supervise local cooperatives. Local cooperatives, by appointing members skilled in sales or management to half of all board positions, will be encouraged to be **more independent and to improve management.**

- **Relax the requirements for Agricultural Production Corporations (bill to be submitted during the current Diet session)**

Cooperation between farmers and companies will be encouraged, which will contribute **to the growth of corporations, innovation of management and technologies, and expansion of added value**

( Share of voting rights by non-agricultural investors: up to 25% → up to 50%  
Minimum number of board members engaging in agriculture: half → no less than one )



### ***Deregulation in the National Strategic Special Zones***

*Prior to the reforms noted above, in regional cities such as Yabu and Niigata, private companies will be able to enter the agricultural sector to grow crops including rice, and able to open restaurants on their farmland, which was not allowed thus far.*

- **Remove the Rice Production Adjustment program that had lasted for more than 40 years**

From 2018, producers can grow crops, based on market demand and their own management decisions.

# V. Reform of the Agricultural Sector

## Consolidation of scattered farmland and optimization of use

- **Each prefecture has established a regional government supported institution for farmland consolidation.**
  - Annual nationwide target: transfer and consolidation of 140,000-150,000 hectares.
  - Applications to rent farmland: 230,000 thousand hectares (as of the end of Sep. 2014).
- **Reform of agricultural committees for the first time in 60 years (bill to be submitted during the current Diet session)**

Instead of election by regional farmers, members of committees will be selected by the mayor, to ensure agricultural committees are more active in promoting the use of farmland in their regions.

### *Deregulation in the National Strategic Special Zones*

*In addition to the reforms noted above, in regional cities such as Yabu and Niigata, all or a part of the procedures related to transfer of farmland will be **managed by the city mayor**, no longer by Agricultural Committee, so as to promote efficient use of farmland.*

## International expansion of markets

Japanese food is becoming increasingly popular throughout the world, making international market development and branding timely.

- **Establish category-specific export organizations to promote exports (already established for rice and processed rice, beef, tea, woodland produce, flower and fishery products)**

**Record high exports** of agriculture/forestry/fisheries products and foods in **2014: USD 6.1 billion (+11.1% compared with 2013)**





# VI. Reform of the Healthcare Sector

Inspire the healthcare industry and provide high quality services

## Accelerate the commercialization of regenerative medicine

- Reforms have already been enacted to make outsourcing of culturing and processing of cells available, and to establish an adaptive licensing approval system, which makes Japan the fastest country in terms of the procedure for commercialization of regenerative medicine. (Enacted Nov. 2013, took effect in Nov. 2014).
  - ◆ Pharmaceutical venture **SanBio (developing and marketing regenerative therapies): transferred its headquarters function from California to Tokyo** (Jan. 2014)
  - ◆ Pluristem Therapeutics (Israel) (culturing cells): examining the possibility of an alliance with Japanese companies
  - ◆ ReNeuron (UK) (stem cell regenerative therapies): investment in Japan under consideration
  - ◆ Terumo Corporation (JP): entry into regenerative medicine market under consideration

## Create a new “healthcare corporation system based on alliances in a region”

- Create a new “healthcare corporation system based on alliances in a region” (provisional name) to allow consolidated and integrated management of multiple medical corporations and so on (A bill will be submitted to the currently held Diet session).
- This will facilitate the comprehensive provision of efficient and high-quality medical and nursing care services in each region.

# VII. Reform of the Energy Market

## The first comprehensive electricity and gas market reform in 60 years

- **Total liberalization of the retail energy market scheduled for 2016 is attracting various new entrants to the retail market across regions from different sectors**
  - ◆ **Number of participating companies able to provide retail power sales has increased by around 80% in the last 17 months.**
  - ◆ Kansai Electric Power participated in the retail market in the Tokyo Metropolitan area (Apr. 2014).
  - ◆ Companies from sectors such as oil, gas, and telecommunications are considering entering the retail market.
- **Also in the area of power generation, alliances between companies across regions and across sectors have been successively realized**
  - ◆ **Final agreement of comprehensive alliance between TEPCO and Chubu Electric Power in the fields of fuel procurement and power generation (Feb.2015)**
- **A bill to legally unbundle generation, transmission and distribution will be submitted to the currently held Diet session, aiming to be completed by 2020**
  - ◆ On Dec. 16, 2014, **Hitachi and Switzerland ABB announced the creation of joint-venture**, aiming to tap into the market for electricity transmission equipment.

Step 1:  
Expanding use of the nationwide grid (to be undertaken by approx. 2015)



Step 2:  
Complete liberalization of the retail electricity sector (to be undertaken by approx. 2016)



Step 3:  
Legal separation between electricity generators and distributors, and abolishing retail price regulations. (to be undertaken between approx. 2018 and 2020)

- **Gas market reform will also be undertaken, based on similar principles to the electricity market. A bill aiming to fully liberalize the retail gas market toward 2017 will be submitted during the current Diet session. Unbundling of gas infrastructure in metropolitan areas is under discussion.**

## VIII. Progress on National Strategic Special Zones

Area	Examples of Reforms	Approval
<p><b>Yabu, Hyogo Pref.</b> (Center for agricultural reform in hilly and mountainous areas)</p>	<ul style="list-style-type: none"> <li>Aiming to promote the trade of farmland for efficient use, giving careful consideration to community. <b>All procedures related to the transfer of farmland are managed by the Yabu City mayor, rather than the Agricultural Committee.</b></li> </ul>	<p>Sep. 2014 Zone Plan approved</p>
<p><b>Fukuoka city</b> (Center for employment system reform for business creation)</p>	<ul style="list-style-type: none"> <li>Fukuoka city, aiming to support start-ups, <b>created an Employment Consultation Center</b> for start-ups in order to clarify the conditions of employment.</li> <li>Due to deregulations on the exclusive use of roads, <b>MICE (conferences, exhibitions etc.) can be made more attractive and promoted by holding events that attract tourists and business people.</b></li> </ul>	<p>Sep. 2014 Zone Plan approved</p>
<p><b>Kansai area</b> (Center for innovation in medical care, entrepreneurial support)</p>	<ul style="list-style-type: none"> <li><b>Accelerate assessment procedures for advanced medical treatment for medicines</b> already approved for use in countries such as the U.S., U.K., France, which have not yet been approved in Japan, in specific hospitals or medical centers.</li> <li><b>Increase in the number of hospital beds is planned through exceptional measures.</b></li> </ul>	<p>Sep. 2014 Zone Plan approved (added in Dec.2014)</p>
<p><b>Tokyo area</b> (International business and innovation hub)</p>	<ul style="list-style-type: none"> <li>Aiming to support foreign companies and ventures, <b>Employment Consultation Center will be established</b> for start-ups to clarify the conditions of employment and work. (Added in Dec.2014.)</li> </ul>	<p>Dec. 2014 Zone Plan approved</p>
<p><b>Niigata city</b> (Center for agricultural reform in large-scale farming)</p>	<ul style="list-style-type: none"> <li>Due to the deregulation on Agriculture Production Corporations, <b>private companies will be able to enter agricultural businesses to grow crops including rice</b>, and open restaurants within their farmland.</li> <li><b>A part of the procedures related to transfer of farmland is managed by the Niigata City Mayor, as opposed to the Agricultural Committee.</b></li> </ul>	<p>Dec. 2014 Zone Plan approved</p>

# IX. Enhancement of Women's Participation and Advancement

## Support to balance work and childcare

- **Secure additional childcare capacity for approximately 400,000 children** by the end of FY2017 (including filling latent needs).
  - Childcare will have expanded for another 191,000 children by the end of 2014.
- Expanded childcare leave benefits  
**50% → 67%** of salary prior to start of leave for the initial 6 months (Act took effect in Apr. 2014).

◆ **Increase in the number of women working: 1.03 million in the two years** since the start of the Abe administration

## Encourage the advancement of women

Target : Increase the proportion of women in management positions to **30% by 2020.**

- Make public progress for the promotion and advancement of women in companies (Data from 1,232 companies (around a third of listed firms) presented on the Cabinet Office website)
- Oblige companies to specify the percentage of women in executive posts in Annual Securities Report (Due to come into force in March 2015).
- Create a new legal framework for the participation and advancement of women (submission of a bill to the current Diet session).

◆ Percentage of women in management positions: **6.9% (Jun. 2012) → 8.3% (Jun. 2014)**

◆ Pledge by listed companies to appoint at least one female director.

◆ Increase in female government officials with a position equivalent to chief of bureau or higher: 8 women (before the personnel reshuffling of this summer) → 15 women (after the reshuffle)

\*As of Aug. 2014

# X. Attraction of Talented People from Overseas

- **Attract highly skilled foreign professionals**
  - Relaxed requirements for highly skilled foreign professionals to work in Japan.
    - Revised standards such as salary levels and research achievements (Dec. 2013)
  - Created a new type of residence status with an unlimited period of stay (Jun. 2014)
- **Revise Current Technical Intern Training System (Bill to be submitted to the current Diet session)**
  - Drastically strengthen the management and supervisory structures including the establishment of new public administrative authority
  - Expand job categories covered by the system, including nursing care
  - Extension of training period (from maximum of 3 years to 5 years)
  - Expansion of admission quota
- **In National Strategic Special Zones, the following themes will be examined :**
  1. Promoting entrepreneurship for non-Japanese to start businesses, revising requirements for status of residence.
  2. Accepting foreign housekeeping support workers
- **Accept foreign workers at overseas subsidiaries of Japanese corporations**

## **Manufacturing**

Accept foreign workers at overseas subsidiaries of Japanese corporations.

- Limited to the cases meeting certain conditions, such as short-term transfer within corporate groups for technical training.  
(Detailed system to be formulated by the end of Mar. 2015)

## **Nursing**

- Enable foreign nationals who have obtained the national nursing qualifications to work in the field of nursing care through study in Japan.
- Incorporation of “nursing” as a job covered by Technical Intern Training System to be considered.

## **Housekeeping Support**

Enable people from abroad to work as housekeeping support workers in National Strategic Special Zones.

- Private housekeeping support service companies will be the employers, while local municipalities monitor the system.