

Abenomics is progressing!



Towards the reinvigoration of the Japanese Economy

June 2015

I. Recovery Track for Japan's Economy

Q1 2015: GDP +**3.9%**

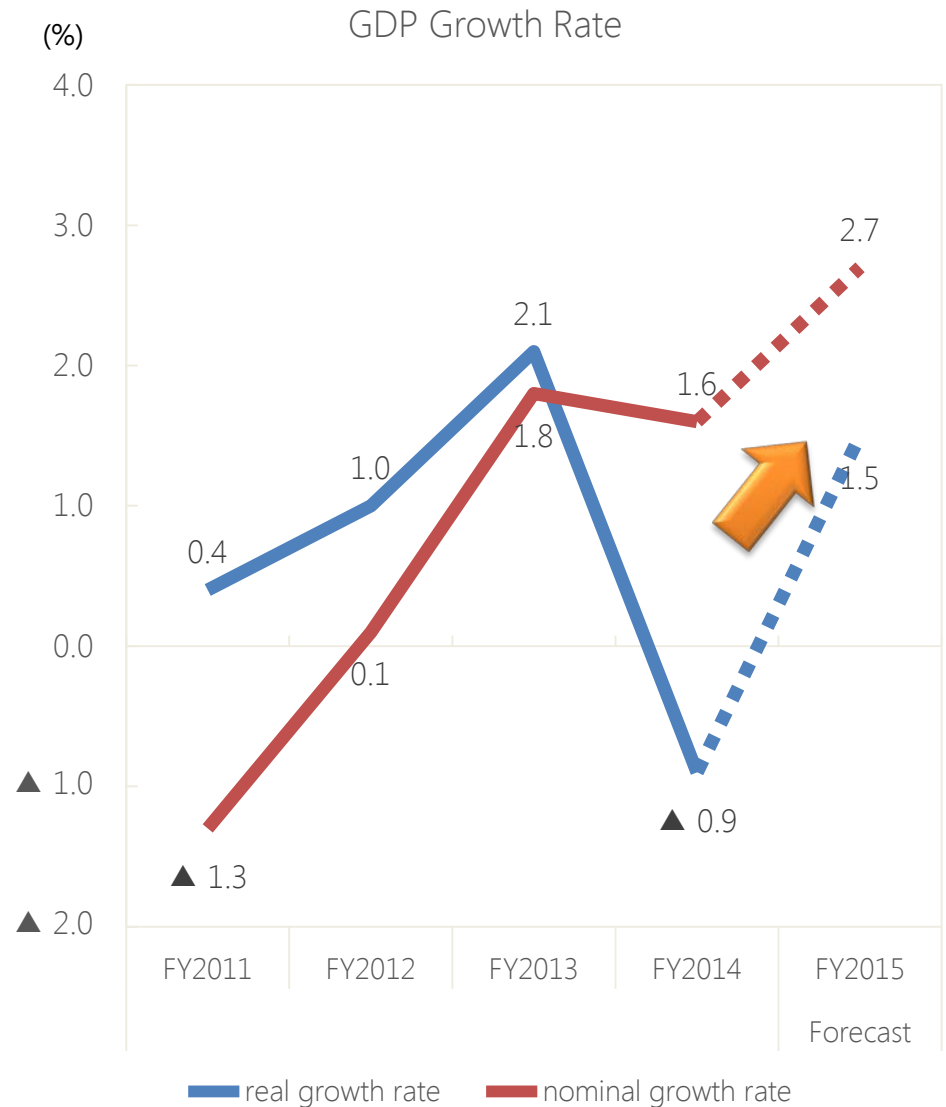
Q4 2014: GDP +**1.2%**

(at an annual rate)

Two consecutive quarters of positive economic growth

The economy is expected to exit deflation and is on track for a steady recovery, due to factors such as

- **BOJ's monetary easing**
- **yen depreciation**
- **falling crude oil prices, and**
- **anticipated real wage increases**



I. Recovery Track for Japan's Economy

Positive factors

a) Wage hikes in 2015 and acceptance of appropriate prices of suppliers reflecting higher raw material and energy costs

Committed by business leaders at a Government-Labor Union-Management Meeting in Dec. 2014

b) Exports: on an upward trend

c) Japanese companies' profits earned overseas: increased in yen terms

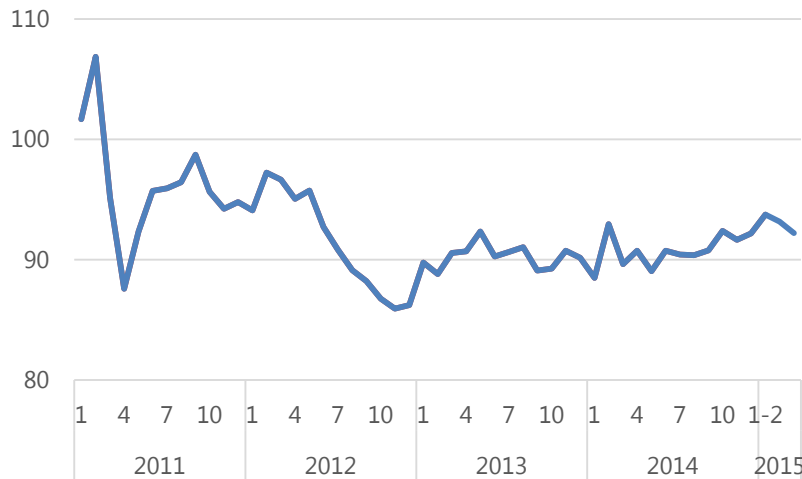
d) Decline of crude oil prices by 50% between Jun. 2014 and Dec. 2014

The average wage increase in 2015 for 4,488 enterprise unions: **2.23%** (compared with 2.08% in 2014)

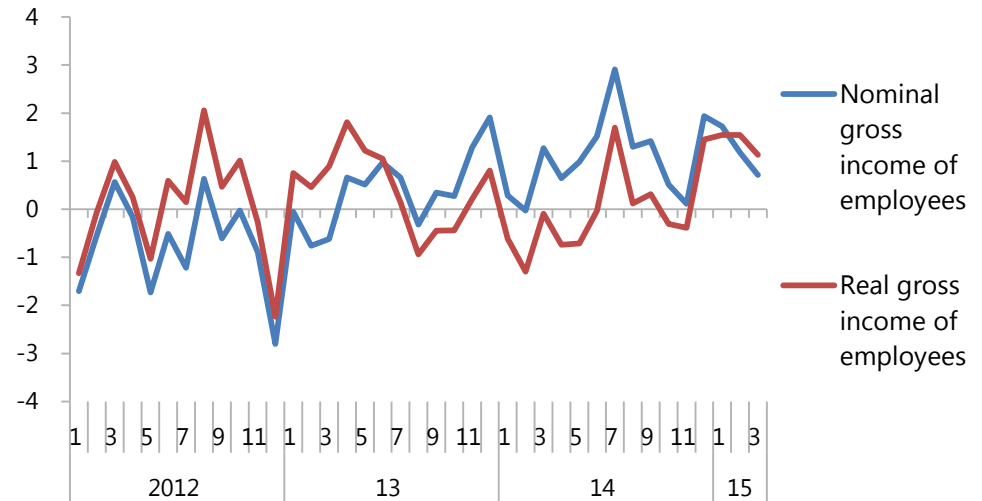
Effects of decline of oil prices by 50% (estimations by the Cabinet Office)

- increase of nominal corporate profits by 2-3 trillion yen
- increase of nominal compensation of employees by 2-3 trillion yen

Export volume index



Gross income of employees (YoY)



Notes: Prepared from "Foreign trade statistics" from Ministry of Finance.
2015 1-2 is the mean value of Jan. and Feb. 2015.

Note: Prepared from "Monthly labour survey" from the Ministry of Health, Labour and Welfare, "Labour Force Survey" from the Ministry of Internal Affairs and Communications and "National Accounts Statistics" from the Cabinet Office.
*Real gross income of employees excludes impact of consumption tax increase (assumed to be 2%) after Apr. 2014.

II. Steady Progress towards Fiscal Consolidation

FY2015 draft budget

- Amount of newly issued JGBs reduced by 4.4 trillion yen (from that of FY2014)

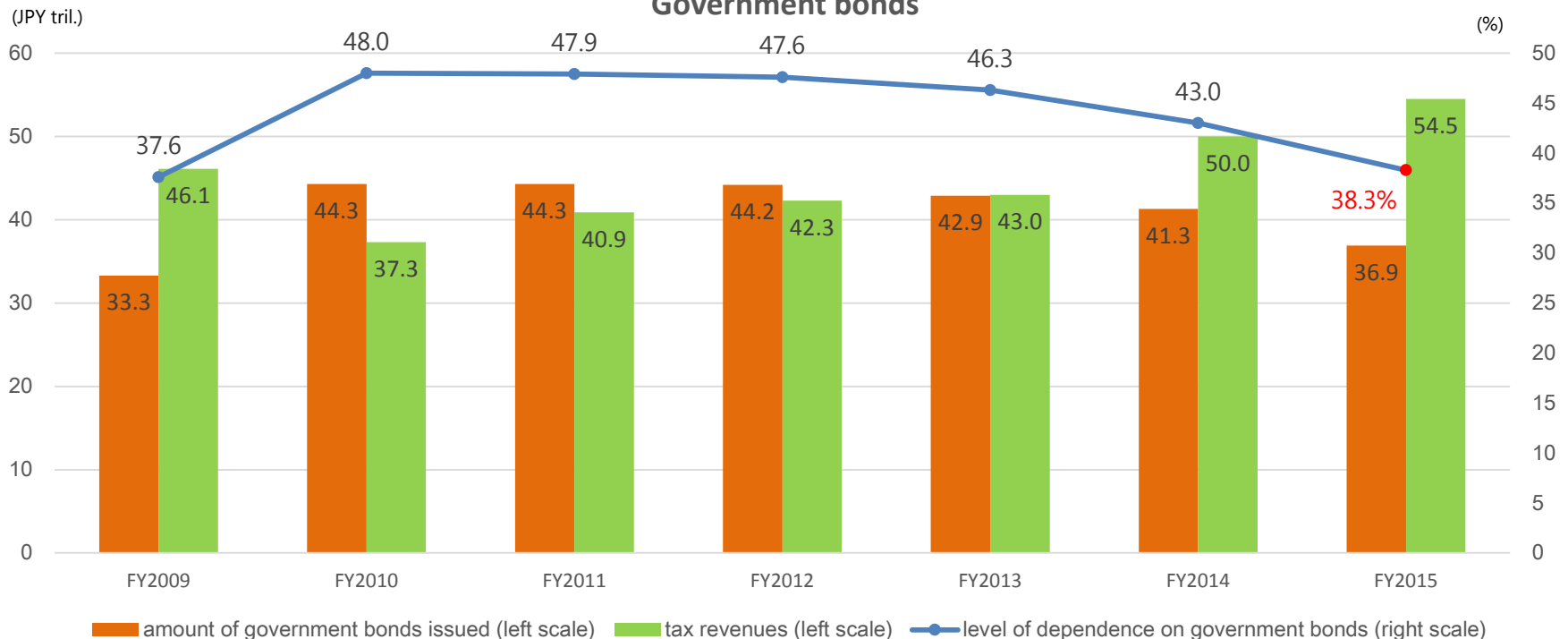
(Amount of newly issued JGBs in FY2015: 36.9 trillion yen
(First 30 trillion yen range since FY2009 initial budget))

- Target of halving the primary deficit to GDP ratio (FY2010: -6.6% → FY2015: -3.3%): **expected to be achieved**

Target of achieving a primary surplus by 2020

- **Maintained**
- **A concrete fiscal consolidation plan** under preparation (to be decided by this summer)
- Consumption tax increase from 8% to 10% will be implemented in Apr. 2017.

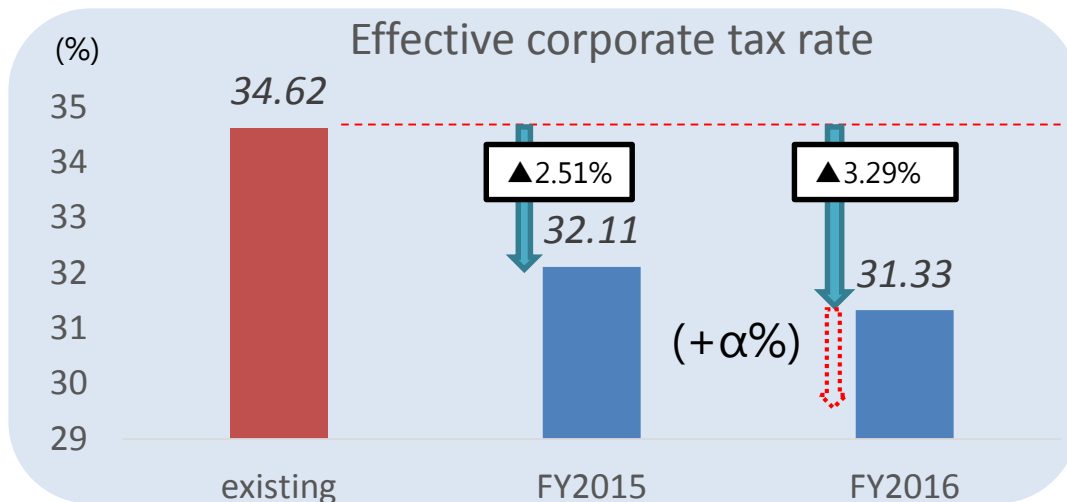
Government bonds



III. Restoration and Enhancement of Corporate Earning Power

Reduction of the effective corporate tax rate (currently 34.62%)

- Lowered **by 2.51% from Apr. 2015** and **by a further 3.29% from Apr. 2016** (decided on Jan. 14, 2015)
 - ✓ The government will secure permanent revenues through such measures as broadening the tax base, but the decision was made to frontload tax reductions.
- Further reduction to **within the 20% range** in the next several years.



Corporate Governance Code

- Published by JPX and took effect since Jun. 2015**
 - ✓ 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

- 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**
- **30% of listed companies will raise dividends (improvement of ROE)**

cf. Measures undertaken

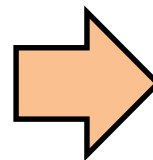
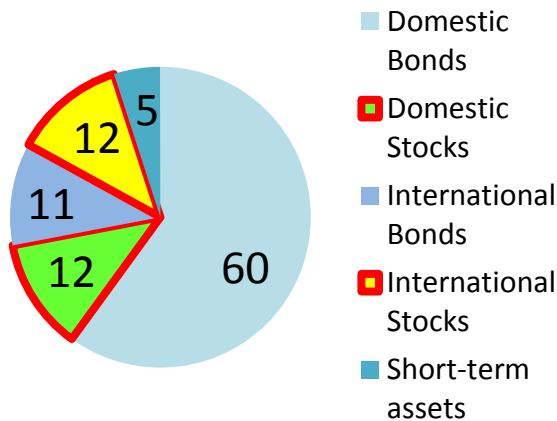
- Japan's version of the Stewardship Code (Feb. 2014)
- Companies Act revised to encourage the appointment of outside and independent directors (Jun. 2014)

IV. Stimulation of Financial and Capital Markets

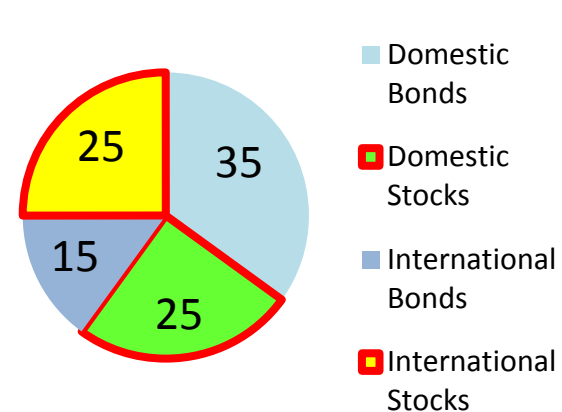
Government Pension Investment Fund (GPIF)

- **New policy asset mix adopted on Oct. 31, 2014**
 - ✓ 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
- **Reinforcement of the governance structure now in progress**

Previous portfolio



New portfolio



V. Reform of the Agricultural Sector

Encourage entrepreneurialism among farmers; seek new market entrants

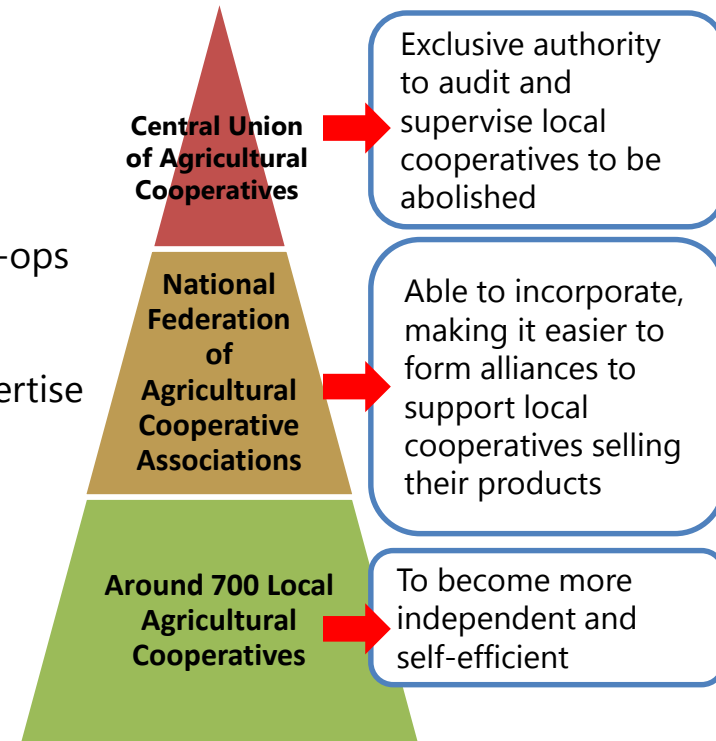
- **Reform the Agricultural Cooperative System for the first time in 60 years**

(a bill submitted during the current Diet session)

- ✓ The Central Union of Agricultural Cooperatives:
stripped of its exclusive authority to audit and supervise local co-ops
- ✓ Local cooperatives:
more independent, encouraged to improve management, by appointing certified farmers or persons with professional expertise in sales/management to half of all board positions

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

- ✓ More cooperation between farmers and companies
Expected effects:
Growth of corporations, Innovation of management and technologies, 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

- **A regional government supported institution for farmland consolidation established in each prefecture**
 - ✓ Annual nationwide target: transfer and consolidation of 140,000-150,000 hectares
- **Reform of agricultural committees for the first time in 60 years (bill to be submitted to the current Diet session)**
 - ✓ Members of committees selected by the mayor, instead of election by regional farmers
 - Expected effect: agricultural committees to be 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: increasingly popular throughout the world
Timely for International market development through branding strategies

- **Establish product-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: 611.7 billion yen (+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 (enacted Nov. 2013, took effect in Nov. 2014)

- **Allow outsourcing of culturing and processing of cells**
- **An adaptive licensing approval system, which makes Japan the fastest country in terms of the procedure for commercialization of regenerative medicine**

- ◆ Pharmaceutical venture SanBio (developing and marketing regenerative therapies):
Transferred its headquarters function from California to Tokyo (Jan. 2014)
- ◆ Pluristem Therapeutics (Israel) (culturing cells):
Considering an alliance with Japanese companies
- ◆ ReNeuron (UK) (stem cell regenerative therapies):
Investment in Japan under consideration
- ◆ Terumo Corporation (JP):
Entered regenerative medicine market

Create “patient-requested cure system” (Act passed in May 2015)

- Create a new system for combining insured and uninsured medical services (“patient-requested cure system”), which allows, upon requests from patients, immediate reception of an advanced medical care in familiar medical institutions

Create a new “healthcare corporation system promoting alliances in a region”

- The new system allows **consolidated and integrated management of multiple medical corporations** and other types of healthcare entities.
(a bill submitted to the current Diet session)

Expected effect:

Provision of high-quality and efficient medical 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**

- ✓ Various new entrants to the retail market across regions from different sectors

- ◆ Number of companies able to provide retail power sales has increased by around 80% in the last 19 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 successively realized between companies across regions and across sectors

- ◆ Final agreement of comprehensive alliance between TEPCO and Chubu Electric Power for fuel procurement and power generation (Feb. 2015)

- **Unbundle of generation, transmission and distribution by 2020**

(a bill submitted to the current Diet session)

- ◆ 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 by approx. 2020)

- **Gas market reform also to be undertaken** (a bill submitted to the current Diet session)

- ✓ Full liberalization of the retail gas market toward 2017

- ✓ Unbundle of gas infrastructure in metropolitan areas toward 2022

VIII. Progress on National Strategic Special Zones

Area	Examples of Reforms	Approval
Yabu, Hyogo Pref. (Center for agricultural reform in hilly and mountainous areas)	<ul style="list-style-type: none"> Aiming to promote the trade of farmland for efficient use, giving careful consideration to community. All procedures related to the transfer of farmland are managed by the Yabu City mayor, rather than the Agricultural Committee. 	Sep. 2014 Zone Plan approved (added in Jan. 2015)
Fukuoka city (Center for employment system reform for business creation)	<ul style="list-style-type: none"> Fukuoka city, aiming to support start-ups, created an Employment Consultation Center for start-ups in order to clarify the conditions of employment. Due to deregulations on the exclusive use of roads, MICE (conferences, exhibitions etc.) can be made more attractive and promoted by holding events that attract tourists and business people. 	Sep. 2014 Zone Plan approved and added
Kansai area (Center for innovation in medical care, entrepreneurial support)	<ul style="list-style-type: none"> Accelerate assessment procedures for advanced medical treatment for medicines 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. Increase in the number of hospital beds is planned through exceptional measures. 	Sep. 2014 Zone Plan approved (added in Mar. 2015)
Tokyo area (International business and innovation hub)	<ul style="list-style-type: none"> Employment Consultation Centers were created in Tokyo and Osaka. Aiming to support foreign companies and ventures, "Tokyo One-Stop Business Establishment Center" was established for start-ups to serve as a single point of contact for incorporation procedures 	Dec. 2014 Zone Plan approved (added in Mar. 2015)
Niigata city (Center for agricultural reform in large-scale farming)	<ul style="list-style-type: none"> Due to the deregulation on Agriculture Production Corporations, private companies will be able to enter agricultural businesses to grow crops including rice, and open restaurants within their farmland. A part of the procedures related to transfer of farmland is managed by the Niigata City Mayor, as opposed to the Agricultural Committee. 	Dec. 2014 Zone Plan approved

VIII. Progress on National Strategic Special Zones

- 3 new zones selected from the perspective of “Overcoming Population Decline and Vitalizing Local Economy”

Zone	Overview of Zone Policy Drafts
<p>Senboku City, Akita Pref.</p> <p>(Center for the reform for “agriculture and forestry/ international exchange”)</p>	<ul style="list-style-type: none"> • Allowing private sector to utilize the national forest, for grazing and technology demonstrations of drones, etc. • Promoting international exchange by accepting foreign doctors at local clinics under the advanced clinical training system
<p>Sendai City, Miyagi Pref.</p> <p>(Center for the reform for “Women’s active social participation and start-ups”)</p>	<ul style="list-style-type: none"> • Accelerating the start-up procedures and conducting additional qualification exam for nursery teachers in designated areas to promote start-ups by women, young people and seniors • Technology demonstration, including auto-traveling vehicle
<p>Aichi Pref.</p> <p>(Center for the general reform for education, employment, agriculture for “fostering industry leaders”)</p>	<ul style="list-style-type: none"> • Fostering human resources for industries, utilizing “public schools run by private sector” • Creating the center for growing industries and advanced technologies through demonstrations of next-generation technologies • Promoting transfer of farmland and utilization of abandoned farmland through reforms on the agriculture committee

IX. Labor Market Reforms: Reform on Working Styles

In terms of work-life-balance, improve practices of long working hours, realize flexible and various working styles ,and enhance labor productivity

(A bill submitted to the current Diet session in 2015)

- **SMEs obliged to pay extra wages (50%) to overtime work exceeding 60 hours a month (currently 25%)** (from Apr. 2019)
 - ✓ Big enterprises under the same obligation since Apr. 2010
- **Promotion to take annual paid leave**
 - ✓ Employers obliged to designate at least five days' annual paid leave (from Apr. 2016)
- **Revision of Flex-time System**
 - ✓ The adjustment period for working hours extended from one month to three months (from Apr. 2016)
- **Revision of Discretionary Working System**
 - ✓ Activities covered under Discretionary Working System increased to include such activities as "sales with solution proposals"
(currently applied to those whose activity is planning, drafting, investigation or analysis). (from Apr. 2016)
- **Create a new system "Highly Professional Working system," based on the evaluation of performance rather than working hours** (from Apr. 2016)
 - ✓ Applied to workers who satisfy certain requirements
 - annual remuneration: more than 10.75 million yen (to be determined)
 - workers with clearly defined duties and high professional skills (limited to workers who give consent)
 - ✓ Employers obliged to implement at least one of the following measures to ensure workers' health;
 - (i) interval regulation,
 - (ii) regulation on maximum working hours for a month or for three months,
 - (iii) regulations obliging to give holidays

IX. Labor Market Reform:

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 has 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 (an act took effect in Apr. 2014).
 - ◆ **Increase in the number of women working: 0.78 million** since the start of the second Abe administration (Dec. 2012: 26.53 million → Apr. 2015: 27.31 million)

Encourage the promotion of women

Target: increase the proportion of women in management positions to 30% by 2020

- **Make public progress for the promotion 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** (took effect in Mar. 2015).
- **Create a new legal framework to oblige enterprises to make an action plan for the participation and advancement of women** (a bill submitted 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 last summer) → 15 women (after the reshuffle) *as of Aug. 2014

IX. Labor Market Reform: Invite 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 (enacted in Jun. 2014, due to come into force in Apr. 2015)
- **Revise current Technical Intern Training System** (a bill 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
 - ✓ 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 included**
(a bill submitted to the current Diet session)
 - ✓ Promoting entrepreneurship for non-Japanese to start businesses, revising requirements for status of residence
 - ✓ Accepting foreign housekeeping support workers
- **Accept foreign workers at overseas subsidiaries of Japanese corporations**
- **Enable foreign nationals to work in the field of nursing care**
 - ✓ Enable foreign nationals who have obtained the national nursing qualifications by learning at Japanese schools, to work in the field of nursing care.
 - ✓ Incorporation of “nursing” as a job covered by Technical Intern Training System to be considered

X. Promoting Foreign Direct Investment into Japan

"Five Promises for Attracting Foreign Businesses to Japan" was adopted in Mar. 2015.

Through this program, Japan will immediately address the issues foreign companies have suggested as inconvenient.

1. Overcome Language Barrier in Daily Life

- **Retailers**: Set the standard for QR codes through which mobile phones can read out product information in English and other multiple languages.
- **Restaurants**: Make multiple-language menus generally available at restaurants used by a large number of foreigners.

2. Make Internet Connection Easier

- **Free Wi-Fi**: Create an environment in which foreign visitors can use free public wireless LAN (Free Wi-Fi) simply and easily at various locations around cities without a contract with a Japanese telecommunications carrier.

3. Receive Business Jets in Local Airports

- **Customs, Immigration, Quarantine (CIQ)**: Consider accepting business jets if you notify CIQ offices one week prior to the flight at local airports currently requiring two-week advance notice.

4. Enhance Educational Environment for Foreign Children from Overseas

- **International school**: Encourage prefectures to loosen their criteria for accrediting international schools as Miscellaneous Schools (which receives various benefits, such as exemption from consumption tax on tuition fees).

5. Strengthen Consultation Service for Foreign Companies

- **Investment Advisor Assignment System**: Set up a system in which State Ministers act as advisors for foreign businesses that have made an important investment in Japan.