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Summary of the "Front-Loaded Reform Program"

October 26, 2001

Chapter I. Basic Principles

1. Current situations of the economy

The economy continues to deteriorate. Not only the US but also the world economy as a whole is beginning to show a clear sign of slowdown of economic expansion, which has slashed exports and industrial production, and thereby decreased corporate profits and business investment as well. Some weakness has recently been observed in private consumption, and the unemployment rate has risen to an ever-highest 5 per cent level. Furthermore, the economy suffers from deflation, which has clouded business outlook and increased personal and corporate debts in real terms.

As for short-term prospects, a decline in corporate profits is likely to further cut business investment, and a concern grows over adverse effects of the terrorists' attacks on the world economy.

2. Basic principles

Based on the "Outline of Basic Policies for Macroeconomic Management and Structural Reform of the Japanese Economy," (Cabinet decision of June 26, 2001), the government committed itself to formulating a "Reform Schedule" outlining the sequence of structural reform initiatives, including medium-term measures. The Reform Schedule contains certain initiatives which must be formulated and implemented in advance of the general body of reform. These initiatives, including those measures to be included in the supplementary budget, are brought into the Front-Loaded Reform Program.

The Front-Loaded Reform Program actively contains measures for regulatory reform and other forms of institutional reform. Measures requiring a supplementary budget are limited to highly urgent ones with a direct linkage to structural reforms. The Front-Loaded Reform Program excludes simple demand-increasing measures, including such public works projects, and focuses on measures which can be expected to generate prompt and tangible results in job creation and the revitalization of private-sector economic activities.

Based on the above general principles, the program is compiled to achieve the following three objectives: First, activate the economy and enable private sector to operate lively; Second, ensure the strength of safety net, paying attention to the possible adverse effects on employment and SMEs; Third, deal with the trend of the economy such as dissemination of IT and progress in ageing.

In order to attain these objectives, the program incorporates various measures summarized in five pillars shown below:

1. vitalize the economy through actively promoting regulatory reform, facilitating competition and innovation, creating new industries and encouraging challengers to start new businesses;
2. reform securities markets and financial system, thereby reallocating resources to growth sectors more efficiently;
3. reinforce the safety net for the unemployed by helping the young and, in particular, the middle-aged and old job losers to get new jobs and providing financial supports to stabilize their lives;
4. support start-ups and management innovations in SMEs on the one hand, and also help restructuring, thereby preventing SMEs from going into chain-reaction bankruptcies, on the other;
5. selectively promote highly urgent measures to enhance the convenience of the public, promote human resources development in line with the advance of the IT revolution, and empower women and other individuals and private businesses to realize their full potential, thereby accelerating the process of structural reform.

Because the measures included in this report shall be brought into practice swiftly, legislative and budgetary measures shall be taken, in principle, at this extraordinary session of the Diet.

Promotion of structural reform planned in the report shall enable domestic demand-led economic growth. Pursuing structural reform, the government shall conduct economic management, if necessary, in a bold and flexible manner.

In addition, the government strongly hopes that the Bank of Japan will implement monetary policy in an appropriate and flexible manner to eliminate deflationary tendency, in view of future developments of the economy, price developments in particular, and the government's substantial measures to accelerate structural reform.

Chapter Chapter II. Specific policies

1. Institutional reforms and other measures to invigorate the economy and generate new industries, challengers, and employment

(1) Active promotion of regulatory reform

Regulations shall be eliminated as much as possible to promote competition and invigorate innovation so as to revitalize the economy and to develop consumer- and people-oriented social and economic structures. Particular attention shall be given to rigorously implementing regulatory reform in IT-related fields and such "people-oriented service fields" as medical services, welfare and childcare, human

resources, education, the environment, and urban rejuvenation where reform has remained relatively behind. For this purpose, a maximum effort shall be made to observe "Interim Summarization concerning Six Priority Areas" of the Council for Regulatory Reform and to implement its recommendations ahead of schedule.

a. In IT-related fields, regulatory reform shall be carried out, for example, in the following areas:

- Promoting the use of under-utilized optical fiber networks;
- Facilitating the installation of optical fibers in multi-unit housing; and
- Preparing legislation for establishment of rules of responsibility for Internet service providers and others.

b. In "people-oriented service fields," various measures shall be implemented to promote appropriate responses to changes in employment conditions and to accelerate structural reforms in areas of particular interest to the public. Furthermore, bold measures for regulatory reform shall be taken in a fashion not bound by traditional institutional frameworks.

- Medical services
 - Promoting use of IT in medical services such as recording receipts
 - Allowing patients to choose more freely between medical services with and without a public insurance scheme
 - Reviewing regulations concerning management of medical institutions
 - Reviewing system of doctor's fees (e.g. extended use of lump sum payments for certain diseases)
- Welfare and childcare
 - Lifting the ban on corporate management of care houses and other facilities
 - Promoting private-sector participation in the management of childcare facilities
 - Promoting the diversification of childcare services
- Human resources (labor)
 - Legislating a special temporary bill to facilitate hiring of the middle-aged or elderly as dispatched workers
 - Fundamentally easing regulations pertaining to employment agencies
 - Reviewing management of the temporary job-placement system with a view to permanent employment
- Education

- Establishing standards of accreditation for private elementary and junior high schools
- Developing new types of elementary and junior high schools
- Environment
 - Comprehensive measures in preparation for the ratification of the Kyoto Protocol.
 - Establishing measures for soil detoxification in urban areas and other areas
- Urban rejuvenation
 - Further disclosing real estate related information
 - Promoting the circulation of second-hand housing
 - Facilitating the rebuilding of multi-unit housing

(2) Structural reform of securities markets and financial system

In order to revitalize the economy, it is necessary to reallocate resources to growth sectors more efficiently through securities markets and financial system. Thus comprehensive measures shall be taken to undertake structural reform in securities markets and financial system.

a. Structure reform of securities markets

Highly transparent securities markets shall be developed to enable the general public to participate in these markets with ease. In particular, a bill to reform securities settlement system shall be submitted to the next ordinary session of the Diet at latest.

In line with the transition from preferential treatment of savings to preferential treatment of investment, from January 2003, capital gains on listed equities shall be subject to self-assessed separate tax system uniformly, there shall be lower tax rates and carry-overs of losses from the past transactions shall be permitted. Moreover, as for newly obtained listed equities, taxes on capital gains shall be made exempt under certain conditions by new legislation planned for this extraordinary session of the Diet.

b. Reinforcing disposal of NPLs (non-performing loans) and enhancing intermediate functions

In order to normalize the NPL problem within three years at the latest, the following measures will be taken urgently in order to intensify the disposal of NPLs and invigorate intermediate functions of finance at the same time as promoting of structural reforms in other fields:

- Enhancing availability of loans
 - Facilitating loans to "healthy" customers

- Taking measures promptly and decisively to ensure soundness of banks' assets
 - Upgrading inspections of major banks by increasing the frequency of comprehensive inspection from once every two years to once every year
 - Requesting major banks to disclose their financial statements and other information
- Utilizing RCC to speed up disposal of NPLs and corporate restructuring
 - Making purchase price setting of NPLs by DIC and RCC more flexible, thereby disposing NPLs intensively by the end of FY 2003. These institutions shall diversify ways to dispose the obtained assets and try to sell them in three years after the acquisition. Furthermore, on November 1, RCC shall set up headquarters for corporate restructuring in order to facilitate rehabilitation of failed companies.
 - Making loans from the DBJ (Development Bank of Japan) and other public financial institutions available to companies under restructuring
 - Requesting the DBJ, private investors and RCC to set up and/or participate in funds, which will buy shares issued by companies with promising restructuring plans (and obtained by banks through debt-equity swaps) and help those companies to realize the plans.
- Paying attention to carrying out the final resolution of NPLs (within 2 years for existing NPLs and within 3 years for new NPLs)
 - Taking necessary measures to prevent sound SMEs from going into chain-reaction bankruptcies

2. Measures for strengthening safety nets relating to employment and SMEs

(1) Employment measures

With the unemployment rate exceeding 5%, the situation in labor markets is becoming increasingly severe. In view of this fact, in addition to the implementation of institutional reforms and other measures for the creation of new employment, "the Bill for Emergency Employment Measures" shall be submitted to this extraordinary session of the Diet and other efforts shall be made to further strengthen employment-related safety nets.

a. Improving job-placement function through utilizing private-sector initiatives

In view of increased unemployment due to mismatching in the labor markets, private-sector initiative shall be utilized to improve job-placement functions.

- Extending eligibility for employment subsidies to hirings through private job-placement services
- Strengthening supports to temporary and permanent transfer from depressed businesses
- Providing want ads on Internet
- Reinforcing function of supporting system at job-placement offices

b. Strengthening job training and capacity building programs

While allowing for maximum individual choice, all education and training resources, such as private education and training institutions, universities, and private employers, shall be utilized to strengthen various job training and capacity building programs which are especially effective for displaced middle-aged and older white collar workers.

c. Encouraging reemployment efforts and supporting lives of the unemployed

Systems for unemployment benefit payments with job training shall be substantially extended to support reemployment efforts. Support measures for employers shall also be reviewed to promote job creation in new growth areas.

A new program shall be launched to provide financial supports to the unemployed who used to be self-employed and, therefore, are not under the employment insurance scheme.

d. Employment in new types of public service

In order to cope with employment problems during a period of intensive adjustment (forthcoming period of 2 to 3 years), funding shall be established for the creation of emergency and temporary employment (jobs in new types of public services) in the public sector (including private businesses and NPOs). Such jobs shall target middle-aged and older unemployed persons and persons not receiving unemployment insurance benefits, and shall include the following: teachers' assistants at schools, support personnel for police force, and forestry workers for environmental preservation.

(2) Measures for SMEs

In conjunction with the progress of structural reform, support shall be provided for the establishment and business innovation of highly motivated small and medium-sized enterprises with outstanding potential. Appropriate steps shall be taken in conjunction with such support to avoid moral hazards. To prevent chain-reaction bankruptcies and to support business innovation among such highly motivated and promising SMEs, safety net mechanisms shall be further strengthened, including the creation of new financial measures and facilities for SMEs, esp. a loan guarantee using credit sales as collateral and a loan program for SMEs under restructuring.

3. Highly urgent measures for accelerating structural reforms

Highly urgent measures shall be implemented for accelerating the process of structural reform. The following specific measures shall be considered for the purpose of enhancing the convenience of the public, promoting human resources development in line with the advance of the IT revolution, and empowering women and other individuals and private businesses to realize their full potential.

a. Realization of electronic government

- "E-Japan priority program" and "e-Japan 2002 program" shall be actively promoted to realize e-Government in 2003.

b. Promotion of information infrastructure in schools

- LAN system shall be developed in public elementary and junior high schools.

c. Promoting zero waiting-list for nursery schools and development of after-school childcare systems

- The number of openings at nursery schools shall be increased by 150,000 by FY 2004 through utilizing a scheme where the public sector build facilities and the private sector manage their operations.
- Facilities for after-school children shall be increased by 15,000 by FY 2004.

d. Urgent improvement of waste disposal facilities (control of dioxin emissions, etc.)

- Construction of waste disposal facilities meeting a new standard (stipulated by a special law for controlling dioxin emission and other chemical substances) will be supported.

e. Innovation and the creation of new industries for revitalizing local economies based on the promotion of local science and technology through the cooperation among industry, university and government.

- Formation of human network between industry, university and government will be encouraged.
- Ties between research institutes, local governments and companies will be facilitated.

f. Promoting PFI contributing to urban rejuvenation, urban development, and improvement of public facilities

- Private initiatives shall be fully utilized in building or rebuilding central government offices and multi-unit houses for government officials

Appendix

Budgetary measures from the general account of the central government to implement the measures incorporated in the Front-Loaded Reform Program

| | Billion yen |
|---|------------------------------|
| Employment measures | 550.1 (note 1) |
| Employment in new public services | 350.0 |
| SME Measures | 251.1 (note 2) |
| Highly urgent measures to accelerate structural measures | 198.9 (note 3) |
| Realizing E-government | 47.0 |
| Promoting information infrastructure in schools | 29.5 |
| Promoting zero waiting-list for nursery schools and development of after-school childcare systems | 21.0 |
| Improving urgently waste disposal facilities | 44.5 |
| Innovation and the creation of new industries for revitalizing local economies based on the promotion of local science and technology through the cooperation among industry, university and government | 46.9 |
| Promoting PFI contributing to urban rejuvenation, urban development, and improvement of public facilities | 10.0 |
| <u>Total</u> | <u>1 trillion yen</u> |

Note

1. For implementing a trillion yen projects in total.
2. For loans and guarantees worth 4.5 trillion yen in total.
3. For implementing 0.3 trillion yen projects in total.