



2017

GROWTH STRATEGY

Japan

Japan’s 2017 Hamburg Growth Strategy

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A. Economic Objective and Context

Japan's economic fundamentals are solid as Abenomics has made steady progress. For instance,

- Real GDP has been growing above its potential for five consecutive quarters through Q1 2017. The momentum toward achieving the price stability target of 2% has been maintained.
- For the past three years, wage increase has been at the highest level in this century. This trend is continuing this year as well.
- The labor market remains tight. In April 2017, the unemployment rate stayed at 2.8 percent, and the job-to-applicant ratios were 1.48, above one in all prefectures.

Going forward, it is important to ensure that growth in consumption and investment continues to strengthen. To achieve such a virtuous circle, sustained and stable wage increases are crucial. Structural reforms aimed at raising potential growth will also contribute to achieving such wage increases.

The government will continue to accelerate Abenomics by using all policy tools - monetary, fiscal and structural, in cooperation with the Bank of Japan.

B. Implementation of Past Growth Strategies

Japan has made substantial progress in implementing structural reforms, including in female labor participation and “work-style reform.”

Female labor participation

- Passed bills to expand application of employee insurance for part-time workers and to revise the spouse exemptions in the income tax.
- The rate of female labor participation rose from 49.6 percent in 2015 to 50.3 percent in 2016.

“Work-style reform”

The government developed the “Action Plan for the Realization of Work Style Reform” in March 2017 and published achievements in FY 2016 (April 2016 – March 2017) as follows:

- Presented the directions of legal revisions to eliminate the irrational gaps in the working conditions between regular and non-regular workers, based on a draft guidelines for “equal pay for equal work,” which was made public in December 2016.
- Presented the directions of legal revisions to define a regulatory limit on overtime work with penal regulations.
- Launched supportive measures including a subsidy to encourage firms to keep on hiring employees aged over 65.
- Raised minimum wages in FY2016 by 3 percent on average.

C. Major New Policy Actions Supporting Growth - Hamburg Summit

C1. Macroeconomic Policies

On the fiscal front, in March the Diet passed the FY2017 budget, with the total amount of 97.5 trillion yen, or 18 percent of GDP.

To achieve both economic recovery and fiscal consolidation, the budget has shifted its focus from quantity to quality by prioritizing expenditure. For instance, the government is focusing public investment on areas that would lead directly to higher potential growth (e.g., promoting science and technology, infrastructure investment to strengthen logistics networks).

At the same time, we have achieved the expenditure benchmarks in the fiscal consolidation plan for two consecutive years, including through social security reforms.

On the monetary front, the Bank of Japan introduced Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control in September 2016 as a means of strengthening the previous frameworks for monetary easing, with a view to achieving the price stability target of 2% at the earliest possible time.

The new policy framework consists of two components. The first is an inflation-overshooting commitment: the Bank of Japan will continue expanding the monetary base until the year-on-year rate of increase in the actual CPI exceeds 2% and stays above that level in a stable manner.

The second is yield curve control: the Bank of Japan will facilitate the formation of the yield curve that is considered most appropriate for maintaining the momentum toward achieving the price stability target of 2%, taking account of developments in economic activity and prices as well as financial conditions.

C2. Structural Reform and Other Actions to Foster Strong, Sustainable, Balanced, and Inclusive Growth

Japan's priority is to overcome population aging and declining birthrates through structural reforms.

In this respect, the Government of Japan will continue to advance "**work-style reform**," which promotes labor participation of women and the elderly and raises labor productivity, along the action plan developed in March. The reform would not just raise actual growth but also enhance inclusiveness. Specifically, our policy priorities include the following:

- Addressing the duality between regular and non-regular workers
- Correcting long working hours
- Advancing human resource cultivation and supporting reemployment
- Promoting flexible work styles

- Introducing new scholarship programs to equip children of low-income families with skills and knowledge in tertiary education before their entry into the labor market

We adopted the 2017 Growth Strategies in June. One of the key elements of the Strategies is to accelerate our efforts to realize “**Society 5.0,**” where physical space and cyber space are seamlessly connected through IT networks, by advancing innovation through the fourth industrial revolution (e.g., AI, IoT, big data, robots). These efforts would strengthen the resilience of our economy by raising potential growth. Our priority area includes the following:

- Health (e.g., utilization of AI, IoT, big data, robots)
- Transportation (e.g., unmanned travelling)
- FinTech (e.g., regulatory reform)

Annexes

Annex 1. Key Economic Indicators

	Key Indicators*					
	2016	2017	2018	2019	2020	2021
I. Macroeconomic Indicators						
Real GDP (% yoy)	1.2	1.5	1.8	2.0	2.1	2.3
Nominal GDP (% yoy)	1.1	2.5	2.9	3.7	3.8	3.7
Output Gap (% of GDP)**	0.0	n/a	n/a	n/a	n/a	n/a
Inflation (% yoy) <i>(Consumer Price Index (all items))</i>	-0.1	1.1	1.7	2.5	2.5	2.0
Fiscal Balance (% of GDP)***	-5.2	-4.9	-3.8	-3.5	-3.0	-3.1
Unemployment (%)	3.0	2.9	2.9	2.9	2.9	3.0
Savings (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a
Investment (% of GDP)	23.4	24.0	n/a	n/a	n/a	n/a
Public Fixed Capital Investment (% GDP)	4.8	4.9	n/a	n/a	n/a	n/a
Private Fixed Capital Investment (% GDP)	15.4	15.7	n/a	n/a	n/a	n/a
Total Fixed Capital Investment (% GDP)	23.3	23.7	n/a	n/a	n/a	n/a
Current Account Balance (% of GDP) (From FY 2018, Balance by Sector, Overseas)	3.7	4.3	4.7	5.0	5.1	5.2

*All indicators are presented on a fiscal year basis

**A positive (negative) gap indicates an economy above (below) its potential.

***A positive (negative) balance indicates a fiscal surplus (deficit). "Fiscal Balance" refers to that of the central and local government combined. It excludes the expenditures and revenues related to the recovery and reconstruction from the Great East Japan Earthquake.

Sources: "Quarterly Estimates of GDP: January – March 2017 (The Second Preliminary)" (Cabinet Office, June 2017); "Fiscal 2017 Economic Outlook and Basic Stance for Economic and Fiscal Management" (Cabinet Office, January 2017); and "Economic and Fiscal Projections for Medium to Long Term Analysis" (Cabinet Office, January 2017) (Economic Revitalization Case).

Annex 2. Implementation of Past Growth Strategies – Hangzhou, Antalya and Brisbane commitments

Key Commitments

List of key commitments already fully implemented at the time of Hangzhou Summit

1. Corporate Governance reforms
2. Reduction of regulatory uncertainty by introducing a new mechanism under which enterprises are able to check in advance whether any regulatory restrictions apply to their business
3. Enactment of a law for equity crowd-funding
4. Regulatory reforms in National Strategic Special Zones
5. Regulatory reforms of airport access by bus
6. Regulatory reforms in the agricultural sector
7. Regulatory reforms in the energy sector
8. Expanding trade openness through trade facilitation measures
9. Improving child care benefits
10. Disclosure of the number of women in executive position among the listed companies

Key Commitments for Monitoring Purposes

Enhance women's labour participation	Reduce the number of women who leave workforce due to childbirth/child rearing and to increase women in leadership position.	
Inclusion of the commitment in growth strategies	This measure was initially included in the Brisbane growth strategy.	
Detailed implementation path and status	Interim Steps (include deadlines) for Implementation	Status
	<ol style="list-style-type: none"> 1. Raise childcare leave benefits from 50% to 67% of wages prior to leave for the initial 6 months of leave period. 2. Introduce over 10,000 integrated after-school childcare services/programs and secure the capacity of after-school childcare centers for about 300,000 children by the end of March 2020. 3. Oblige listed companies to disclose the number of women in executive positions in their financial reports before by March 2015. 4. Review tax and social security system to be neutral with regard to how women choose to work. 	<ol style="list-style-type: none"> 1. Achieved in April 2014. 2. Developed an action plan in July 2014. 3. Implemented necessary regulatory reforms in March 2015. 4. Passed bills to expand application of employee insurance for part-time workers and to revise the spouse exemptions in the income tax.
Impact of Measure	Aim to raise the female employment rate (aged 25-44) from 70.8% in 2014 to 77% in 2020 and to increase the share of women in leadership positions to at least 30% by 2020.	

Work-style reform	Aim to increase productivity and labour participation and realize a society where everyone can choose various and flexible work styles.	
Inclusion of the commitment in growth strategies	This measure was initially included in Hangzhou growth strategy.	
Detailed implementation path and status	Interim Steps (include deadlines) for Implementation	Status
	<ol style="list-style-type: none"> 1. Eliminate the irrational gaps in the working conditions between regular and non-regular workers and reduce the ratio of people who are forced to work as non-regular workers against their will 2. Address the issue of long working hours: define the maximum hours of overtime work and revise legislation that will concretely establish a limit that cannot be exceeded even in temporary and special situations 3. Enhance the employment of the elderly 4. Increase minimum wages 	See Section B.
Impact of Measure	<ol style="list-style-type: none"> 1. Raise the wage level of part-time workers per full-time workers ; reduce the ratio of people who are forced to work as non-regular workers against their will to 10% or lower by 2020 2. Reduce the ratio of workers working more than 49 hours a week 3. Raise the employment ratio of people above the age of 65 to the extent that all the elderly wishing to work will be employed (65.9%) 4. Raise minimum wages at an annual rate of approximately 3% to reach 1,000 yen, considering the growth rate of nominal GDP. 	

Enhance the competitiveness of Japanese companies	Aim to reduce the effective corporate tax rate to the internationally-comparable level and embark on corporate tax reform to be more growth-oriented	
Inclusion of the commitment in growth strategies	This measure was initially included in the Brisbane growth strategy.	
Detailed implementation path and status	Interim Steps (include deadlines) for Implementation	Status
	Reduce the effective corporate tax rate from 32.11% in FY2015 to 29.97% in FY2016 and to 29.74% in FY2018.	Passed a bill in 2016.
Impact of Measure	Japan aims to be among top 3 developed countries in the World Bank’s “Doing Business” ranking (ranked 19th in 2015).	

Non-key Commitments

In the table below, please list your non-key commitments and provide an update on their progress by indicating whether the policy measures are fully implemented, in-progress, or abandoned.

The policy action	Status of Implementation	Impact of the policy
1. Fiscal consolidation	in-progress	Ensure that the current deteriorated fiscal situation will not hinder economic revitalization
2. Robot revolution	in-progress	Promote innovation of science and technology which is linked with new business opportunities
3. Promotion of PPP/PFI	in-progress	Encourage private entities to engage in infrastructure concession
4. GPIF (Government Pension Investment Fund) reforms	implemented	Secure sound pension finance over an extended period of time
5. Promotion of EPA/FTA	in-progress	Promote TPP and reach agreements including Japan-EU EPA, RCEP and the Japan-China ROK FTA
6. Creation of new growing markets in agriculture, health, environment, sports-related and renovation industries.	in-progress	Make these industries more profitable and competitive
7. QQE (Quantitative and Qualitative Monetary Easing) with a negative interest rate	in-progress	Achieve the price stability target of two percent
8. Local Abenomics	in-progress	Revitalize key sectors in rural areas

Annex 3. Major New Policy Actions Supporting Growth - Hamburg Summit

QQE with Yield Curve Control	
Objective(s) of policy	QQE with Yield Curve Control was introduced as a means of strengthening the existing framework for monetary easing, with a view to achieving the price stability target of 2% at the earliest possible time.
Implementation path and expected date of implementation	QQE with Yield Curve Control was introduced in September 2016. The Bank of Japan will continue with QQE with Yield Curve Control, aiming to achieve the price stability target of 2%, as long as it is necessary for maintaining that target in a stable manner.
What indicator(s) will be used to measure progress?	The yield curve has been formed smoothly in a manner consistent with the guideline for market operations. The momentum toward achieving the price stability target of 2% has been maintained.
Explanation of additionality or adjustment (where relevant)	<p>QQE with Yield Curve Control strengthens the two previous policy frameworks of QQE and "QQE with a Negative Interest Rate." The new policy framework consists of two major components.</p> <p>The first component is an inflation-overshooting commitment: the Bank of Japan will continue expanding the monetary base until the year-on-year rate of increase in the actual CPI exceeds 2% and stays above that level in a stable manner. This commitment is intended to demonstrate to the public the Bank of Japan's unwavering determination toward achieving the price stability target.</p> <p>The second component is yield curve control: the Bank of Japan will facilitate the formation of the yield curve that is considered most appropriate for maintaining the momentum toward achieving the price stability target of 2%. Yield curve control enables the Bank to make more flexible adjustments than the previous frameworks, according to developments in economic activity and prices as well as financial conditions, and enhances the sustainability of monetary easing.</p>

Work-style reforms	<ol style="list-style-type: none"> 1. Address the duality between regular and non-regular workers 2. Correct long working hours 3. Promote flexible work styles such as teleworking, side jobs and multiple jobs
Objective(s) of policy	<p>Aim to increase productivity and labour participation and realize a society where everyone can choose various and flexible work styles.</p>
Implementation path and expected date of implementation	<p>[From the “Action Plan for the Realization of Work Style Reform”]</p> <ol style="list-style-type: none"> 1. Aim to promptly submit a bill to eliminate the irrational gaps in the working conditions between regular and non-regular workers and enable non-regular workers to be fairly evaluated and to work with higher motivation. 2. Aim to promptly submit a bill to define a regulatory limit on overtime work with penal regulations, which cannot be exceeded even in temporary and special situations. 3. Support relearning of individuals, such as by enabling women, who once take child-rearing leaves, to receive recurrent education for skill improvement and re-employment. 4. Promote teleworking, side jobs and multiple jobs with a variety of measures including the revision of guidelines. 5. Establish new scholarships programs to encourage children to attend higher education regardless of economic status so that they can develop necessary skills and knowledge before their entry into the labor market
What indicator(s) will be used to measure progress?	<ol style="list-style-type: none"> 1. The wage level of part-time workers per full-time workers and the ratio of people who are forced to work as non-regular workers against their will 2. The ratio of workers working long hours 3. The number of recurrent education courses and the number of workers who receive education and training benefits 4. The ratio of companies introducing telework and the ratio of teleworkers 5. The percentage of students with low income household who attend higher education
Explanation of additionality or adjustment (where relevant)	<p><i>In September 2016, The Council for the Realization of Work Style Reform was set up a conference body where the Prime Minister Abe inaugurated as a chairman and top leaders from both labor and management as well as intellectuals gather together. On March 28, 2017, the Council has formed a promising plan, “The Action Plan for the Realization of Work Style Reform.”</i></p>

Realizing “Society 5.0”	
Objective(s) of policy	Advance innovation through the fourth industrial revolution
Implementation path and expected date of implementation	<p>Implement reforms in the following areas:</p> <ul style="list-style-type: none"> ➤ Health: <ol style="list-style-type: none"> 1. Promote remote medical care through the Internet 2. Promote the use of AI (Artificial Intelligence), IoT (Internet of Things), big data and robots in the health industry ➤ Transportation: <ol style="list-style-type: none"> 3. Reform regulations on unmanned travelling on public streets 4. Reform regulations on drone’s use in delivering packages ➤ FinTech and other innovation in the financial industry <ol style="list-style-type: none"> 5. Amend the Banking Act to promote open innovation between financial institutions and FinTech corporations 6. Establish the interbank payments system (Zengin System) available 24hours 7. Digitalize the receipt in credit card payments to promote cashless economy 8. Increase the number of ATMs (Automatic Teller Machines) that could accept credit and banking cards issued overseas.
What indicator(s) will be used to measure progress?	<ol style="list-style-type: none"> 1. Change public medical treatment fee 2. Implement regulatory reforms 3. Start the experiment at more than 10 sites in FY2017 and make the business viable by 2020 4. Start the experiment in mountain areas in 2018 5. Enforce the amendment of the Banking Act and increase the number of banks introducing the open API 8. Increase the ATM s owned by the top three biggest banks
Explanation of additionality or adjustment (where relevant)	

Annex 4. Past commitment – St. Petersburg fiscal commitment

Medium-term projections, and change since last submission (required for all members):

Estimate Projections

	2014-15*	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Gross Debt	184.7	186.0	189.5	188.5	186.7	183.5	180.1
<i>ppt change</i>	-6.7	-4.4	0.9	0.6	-	-	-
Net Debt	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<i>ppt change</i>	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Deficit	-5.5	-4.5	-5.2	-4.9	-3.8	-3.5	-3.0
<i>ppt change</i>	0.9	0.9	-0.3	0.2	-	-	-
Primary Balance	-3.9	-3.0	-3.7	-3.4	-2.4	-2.1	-1.4
<i>ppt change</i>	0.4	0.3	-1.1	-1.0	-	-	-
CAPB	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<i>ppt change</i>	n/a	n/a	n/a	n/a	n/a	n/a	n/a

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.

** Figures in this table refer to those of the central and local government combined. They exclude the expenditures and revenues related to the recovery and reconstruction from the Great East Japan Earthquake

*** Figures of the latest projections are based on o8SNA. Figures of St. Petersburg fiscal commitment are based on 93SNA.

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for growth:

Estimate Projections

	2014-15*	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Real GDP growth	-0.4	1.3	1.3	1.5	1.8	2.0	2.1
<i>ppt change</i>	-1.4	-0.7	-0.6	-0.5	-	-	-
Nominal GDP growth	2.1	2.8	1.5	2.5	2.9	3.7	3.8
<i>ppt change</i>	-1.0	-0.9	-2.4	-1.0	-	-	-

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.

** Figures of the latest projections are based on o8SNA. Figures of St. Petersburg fiscal commitment are based on 93SNA.

Source: - "Economic and Fiscal Projections for Medium to Long Term Analysis" (Cabinet Office, January 2017).