

ANNEX

Progress in structural reforms

A. Enhancing dynamism and innovation in Japan's business sector

Recommendations in previous <i>OECD Surveys of Japan</i>	Actions taken or proposed since 2015 by the authorities
Strengthen competition and improve the allocation of resources	
Upgrade corporate governance to increase pressure on management to act in shareholders' interests.	Over 200 institutional investors accepted Japan's Stewardship Code, and more than 2 000 listed companies are subject to the Corporate Governance Code. In 2016, 99% of listed companies on the first section of Tokyo Stock Exchanges appointed outside directors, and the three mega banks released numerical targets for reducing their cross-shareholdings.
Reduce product market regulation and promote labour market flexibility and mobility to promote the reallocation of resources in favour of innovative firms.	The government changed the focus of employment adjustment programmes from employment stability to support for labour mobility.
Increase Japan's integration in the world economy by removing obstacles to inflows of foreign direct investment.	In 2016, the government launched the "Policy Package for Promoting FDI into Japan to Make Japan a Global Hub". It includes the "Japanese Green Card for Highly Skilled Foreign Professionals," and Improving the living environment for foreign nationals in areas such as health and education.
Participate in high-level trade agreements, notably the Trans-Pacific Partnership and the Japan-EU Economic Partnership Agreement.	The Diet approved the TPP agreement in December 2016. Japan was the first of the 12 original TPP signatories to notify the Depository in January 2017 that it had completed domestic procedures. Negotiations to create the Japan-EU EPA are continuing.
Upgrade the innovation system	
Strengthen the linkages between academia, the business sector and government research institutes.	In 2016, the government launched the Program on Open Innovation Platforms with Enterprises, Research Institutes and Academia (OPERA) to enhance university-industry partnerships to accelerate open innovation. It is funded by the business sector and the government.
Promote start-ups and venture capital-backed enterprises	
Improve the entrepreneurial climate by ensuring second chances and developing entrepreneurial education.	Japan Finance Corporation is expanding the targets of loan programmes for start-ups in FY 2017, providing second opportunities for entrepreneurs.
Revitalise venture capital investment to promote firm creation and innovation.	The tax system for business angels was introduced in FY 2014. Companies can get tax deductions by investing in funds that the government finds to be effective in supporting venture firms.
Make the small and medium-sized enterprise sector more dynamic	
Reduce government support for SMEs to promote the restructuring of viable firms and the exit of non-viable ones.	The government is preparing legislation to revise the Credit Guarantee System: i) requirements for banks to provide both guaranteed and non-guaranteed loans with a goal to reduce dependence on credit guarantees by increasing lending based on business evaluation and consultations with SMEs; and ii) the guaranteed portion of the Safety-net Guarantee No.5 (for depressed industries) will be reduced from 100% to 80%, in order to encourage business improvement by SMEs.
Develop market-based financing of SMEs.	The Japan FSA has announced a new direction to putting more emphasis on requiring financial institutions to support SMEs' business initiatives to improve their business.

B. Achieving fiscal consolidation while promoting social cohesion

Recommendations in previous <i>OECD Surveys of Japan</i>	Actions taken or proposed since 2015 by the authorities
Develop a new fiscal consolidation plan	
Maintain the current medium and long-term fiscal targets (<i>i.e.</i> a primary surplus for central and local governments by FY 2020, while putting the government debt ratio on a downward trend during the 2020s).	The government maintains its fiscal targets. To achieve them, expenditures (including social security) were limited in the budgets for FY 2016 and FY 2017.
Set out a detailed and credible plan to constrain government spending and raise revenues so as to achieve the target of a primary surplus by FY 2020.	The government announced the Economic and Fiscal Revitalization Plan in June 2015, which includes a hike in the consumption tax and selling unnecessary assets. To implement the plan, the CEFP announced the Economic and Fiscal Revitalization Action Program, which includes spending reforms in 80 areas. The Program was updated in December 2016.
Increase government revenue, while promoting social cohesion	
Implement the planned doubling of the consumption tax rate in two stages to 10% by 2015.	The government increased consumption tax from 5% to 8% in April 2014, but postponed the planned hike to 10% from October 2015 to October 2019.
Rely primarily on the consumption tax with a single rate and a broadening of the personal and corporate income tax base to boost government revenue, while raising environmental taxes.	The final stage of the “Tax for Climate Change Mitigation”, a tax on fossil fuels, was implemented in 2016. It will generate about 260 billion yen (0.1% of GDP).
Maintain a single rate for the consumption tax to avoid the distortions associated with multiple rates, while introducing measures, notably an earned income tax credit, to address the regressive nature of the tax.	Following the 2014 tax hike, benefits for low-income people are being provided until October 2019. The government plans to introduce a reduced rate system for low-income persons when the consumption tax is raised to 10% in October 2019.
Limit government spending while fostering socially-inclusive growth	
Reform social security to limit spending increases, particularly in health and long-term care, by increasing efficiency and raising co-payments, while taking account of equity implications.	In 2016, the government introduced cost-benefit analysis for adjusting the price at which pharmaceuticals and medical devices are reimbursed by insurance. The government requires prefectures to develop community health care visions by March 2017 that include projections for demand in 2025.
Ensure the sustainability and intergenerational equity of the public pension scheme, primarily by increasing the pension eligibility age above 65 and fully applying macroeconomic indexation.	Two reforms were made in 2016 to the method of calculating pension benefits: i) a carryover system for macroeconomic indexation will be introduced in FY 2018 so that benefit revisions that are cancelled in years of negative or low inflation are added later; and ii) the pension revision is based on wage growth when it is negative and less than CPI inflation beginning in FY 2021.
Improve the targeting of public social spending.	The June 2015 Economic and Fiscal Revitalization Plan established quantitative benchmarks of expenditure reforms, including 44 reforms related to social security. It was revised in December 2016.
Introduce an earned income tax credit, initially for wage earners, while expanding it to the self-employed as transparency about their income is enhanced.	No action taken.
Reform social welfare, notably the Basic Livelihood Protection Program (BLPP), by reducing benefits and enhancing work incentives while expanding its coverage.	Work incentives have been enhanced by the introduction of an in-work benefit – a lump-sum benefit to people leaving the BLPP and an expansion of employment support services.
Ensure adequate coverage of public assistance and co-ordinate the Basic Livelihood Protection Program (BLPP) and the “second safety net”.	In 2015, the government implemented programmes to provide low-income people with consultation services to promote self-reliance. In FY 2015, 226 400 persons made consultations, 21 500 persons found jobs and 7 000 persons had increases in their salary.
Expand public loans for tertiary education to encourage students from low-income households to invest in higher education.	Public loans under the interest-free scholarship loan programme increased from 307 billion to 326 billion yen over FY 2014-16.
Build on the national surveys of well-being to identify the priorities and policies to improve well-being.	The government is identifying priorities and policies based on the “Japan Quality of Life Survey” conducted over 2012-14.
Improve the fiscal policy framework	
Strengthen the fiscal policy framework to maintain confidence in the fiscal situation and prevent a run-up in interest rates.	The government established the “Committee for Promoting the Integrated Economic and Fiscal Reforms” under the Council of Economic and Fiscal Policy. It manages fiscal reforms using a Plan, Do, Check, Action cycle. It prepared a detailed roadmap of the fiscal reform in 2015, and updated it in 2016.
Reform the fiscal policy framework through a multi-year budgeting plan and a stronger legal basis for fiscal targets.	Under the 2015 Economic and Fiscal Revitalization Plan, general account expenditures of the central government are based on benchmarks such as spending trends during the preceding three years. This is expected to limit annual spending increases to around 1.6 trillion yen through FY 2018, while taking account of the economic situation and price movements.
Ensure that the Council on Economic and Fiscal Policy (CEFP) functions as an effective impartial body to monitor and evaluate progress in fiscal consolidation.	The CEFP prepares the bi-annual economic and fiscal projections, the annual Basic Policies on Economic and Fiscal Management and Reform and the basic policy for the compilation of the budget.

C. Reforming agriculture and promoting Japan's integration in the world economy

Recommendations in previous <i>OECD Surveys of Japan</i>	Actions taken or proposed since 2015 by the authorities
Move to a more market-based agricultural system	
Reduce commodity-specific payments to and reform the role of agriculture co-operatives.	The Direct Payment for Rice will be abolished in 2018. The Agricultural Cooperatives Law was amended to allow local agricultural cooperatives to freely conduct economic operations and focus on the improvement in the income of farmers.
Phase out the production adjustment programmes	
End the production adjustment programmes over a fixed and relatively short time period to allow farmers to decide how much and where to produce, thus allowing efficient farmers to increase production, while reducing production costs.	The production quota for table rice will be phased out by FY 2018 and the Direct Payment for Rice will be abolished in 2018. Subsidies for manufacturing and feed rice will continue, along with those for other crops, such as wheat and barley.
Introduce decoupled payments targeted to explicit objectives	
Shift from market price supports to decoupled payment targeted to key policy objectives, thereby reducing the overall cost of agricultural policies and shifting the burden from consumers to taxpayers.	The Direct Payment for Rice will be abolished in 2018. However, subsidies will continue for other crops, such as wheat and soybeans.
Integrate existing support for producing specific commodities into the transitory income support for large farmers.	Subsidies will continue for crops, other than rice, such as wheat and soybeans.
Promote the consolidation of farmland to lower production costs	
Promote the consolidation of farmland so as to cut production costs by lifting obstacles to land transactions.	The "farmland consolidation banks", introduced in all prefectures in November 2014, had leased around 101 000 hectares (2% of Japan's farmland) by the end of FY 2015.
Develop an efficient farmland market to remove obstacles to needed structural adjustment, in part by allowing non-farm corporations to own farmland.	The limit on the number of voting rights held by non-farmers within agricultural corporations that are eligible to own farmland was raised in FY 2016.
Reform the tax system to discourage the holding of idle farmland near urban areas.	The tax on idle farmland was raised and the tax on farmland leased to farmland consolidation banks was reduced.
Ensure food security	
Ensure food security through a more dynamic and competitive agricultural sector, a diversification of trade partners to ensure access to stable supplies of imports, emergency reserves and the preservation of the agricultural resource base.	The new Basic Plan for Food, Agriculture and Rural Areas introduced in FY 2015 included the diversification of trade partners and ensuring adequate stockpiles.

D. Promoting green growth and restructuring the electricity sector

Recommendations in previous <i>OECD Surveys of Japan</i>	Actions taken or proposed since 2015 by the authorities
Upgrading supervision of the nuclear industry and electricity sector	
Ensure that the newly-created Nuclear Regulation Authority (NRA) is independent from line ministries responsible for energy issues.	The careful and deliberate consideration of nuclear plants' compliance with new safety regulations by the NRA, which is legally independent, shows that it is independent in practice.
Require nuclear plants to meet the criteria established by the NRA before being allowed to reopen.	As of October 2016, only eight reactors had received approval to meet the new regulatory requirements, which is a prerequisite for re-starting. The NRA is reviewing the applications of the remaining 17 plants to ensure that they meet the requirements.
Create an independent regulator for the electricity sector that is at arms' length from line ministries.	The Electricity and Gas Market Surveillance Commission (EGC) was established in September 2015 to promote competition in these markets. The Minister for Economy, Trade and Industry appoints private-sector experts to the EGC.
Improve and expand market mechanisms in the energy sector	
Introduce ownership unbundling to create a level playing field between regional monopolies and new entrants.	The amendment of the Electricity Business Act in June 2015 will implement legal unbundling, along with a code of conduct, by FY 2020. The EGC enforces strict regulations to ensure the neutrality of the electricity network.
Expand interconnection capacity, including frequency converters, and introduce real-time pricing to break down regional monopolies and create a competitive, nationwide electricity market.	Expansion of the capacity of the frequency converters is planned for 2019-21. The Organisation for Cross-regional Co-ordination of Transmission Operators and the EGC were established in 2015.

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Shift to definite-quantity contracts and real-time pricing to promote a competitive, nationwide market.	The full liberalisation of the retail market for electricity in 2016 resulted in nearly 400 new entrants competing in the market.
Promote the role of renewable energy to accelerate green growth	
Ensure that the newly-established feed-in-tariff (FIT) system provides appropriate incentives, including for R&D.	The FIT led to an increase in the share of renewable energy capacity to 12% of power generation in FY 2014. In 2016, the government revised the FIT to reduce the burden on the public.
Expand interconnections and use of smart grids to effectively manage electricity produced from renewable sources.	In 2015, the Organisation for Cross-regional Cooperation of Transmission Operators established development plans to strengthen grid capacity.
Improve policies to address climate change	
Continue efforts to achieve a comprehensive, fair and effective international agreement for the post-Kyoto framework that includes all developed and major developing countries.	In July 2015, Japan's submitted its Intended Nationally Determined Contribution, which aims to reduce the country's emissions by 26% from 2013 levels by 2030. Japan accepted the Paris Agreement in November 2016.
Introduce carbon pricing through an emissions trading system in combination with a carbon tax to promote investment in green technologies, including renewables.	The "Tax for Climate Change Mitigation", a tax on fossil fuels introduced in 2012, was hiked in 2016. In the J-credit system, 356.6 million tonnes of credit was certified and 103.7 million tonnes of credit refunded since its creation in 2013 and 2016.
Make greater use of environmentally-related taxes.	The final stage of the "Tax for Climate Change Mitigation", a tax on fossil fuels, was implemented in 2016. The revenue is used to support renewable energy and energy conservation.
Non-price instruments	
Improve energy efficiency policies, such as the Top Runner Program, in the short run, while phasing them out as market-based instruments become effective.	Nine products were added to the Top Runner Program after 2013. The Efficiency Benchmark Program was extended to the distribution sector, including convenience stores, from FY 2016, and will be expanded to hotels and department stores from FY 2017. In FY 2018, it will cover 70% of energy consumption of all industries.
Promote the innovation and diffusion of energy-saving and abatement technologies by supplementing private R&D with public investment focused on infrastructure and basic research.	The Cabinet Office Council for Science, Technology and Innovation formulated the National Energy and Environment Strategy for Technological Innovation towards 2050.

E. Labour market reform

Recommendations in previous <i>OECD Surveys of Japan</i>	Actions taken or proposed since 2015 by the authorities
Encouraging labour market participation of women, the elderly and youth	
Reform aspects of the tax and social security system that reduce work incentives for secondary earners.	The government plans to raise the upper limit on second earner's earned income for the spouse deduction in 2018 and introduce an upper limit on the first earner's earned income.
Increase the availability of affordable, high-quality childcare and encourage better work-life balance, in part by reducing working hours and enforcing the Childcare and Family Care Leave Law.	Childcare places for 0.5 million children are being added over FY 2013-17. After-school childcare centres will provide care for 0.3 million children by end-FY 2019.
Encourage better work-life balance, in part by better enforcing the Childcare and Family Care Leave Law.	The Childcare and Family Care Leave Law, which included the shortening of working hours for parents of young children and the establishment of family-care leave, was extended to employees in all firms in July 2012.
Encourage greater use of flexible employment and wage systems to improve working conditions for older workers, in part by abolishing the right of firms to set mandatory retirement at age 60.	The FY 2012 revision to the labour law, which requires firms to keep all workers who wish to work until 65, had been implemented in 99.5% of companies by June 2016. The government provides subsidies to firms that expand job opportunities for older workers.
Improve vocational education, in part by creating a standard qualifications system that is recognised by firms.	In FY 2019, the government will launch a new system of higher educational institutions to provide practical vocational programmes.
Breaking down labour market dualism	
Expand the coverage of non-regular workers by workplace-based social insurance systems, notably by improving compliance, to reduce the cost advantages of non-regular workers and improve their security.	Coverage of the Employees' Pension Insurance and company-based health insurance was extended to around 250 000 non-regular workers (1.3% of the total) starting in October 2016.

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Increase training and career consultation to enhance human capital and the employability of non-regular workers as well as to promote their transition to regular employment, thereby improving Japan's growth potential.	A FY 2012 law requiring that fixed-term contracts renewed repeatedly be transformed into open-ended contracts once they exceed five years, if the employee requests, will become binding in 2018. However, this may encourage firms to let fixed-term workers go rather than shift them to regular status. The government set numerical targets in 2016 to reduce the number of part-time workers.
Prevent discrimination against non-regular workers.	To ensure equal work and equal pay, government plan to issue guidelines and revise the law in early 2017.
Reduce the effective employment protection for regular workers so that firms can realise adequate employment flexibility without hiring increasing numbers of non-regular workers.	No action taken.

F. Improving the education system

Recommendations in previous <i>OECD Surveys of Japan</i>	Actions taken or proposed since 2015 by the authorities
Improve educational outcomes	
Invest more in ECEC to expand quality and quantity and reduce the disadvantages of children from low-income families.	The government plans to spend an additional 0.7 trillion yen, financed by the hike in the consumption tax rate, on ECEC.
Increase transparency about the performance of the tertiary sector, including labour market outcomes of graduates, to strengthen competition.	Since 2015, the "University Portrait" provides information about students' job outcomes, facilities and academic specialities.
Increase value for money	
Facilitate the consolidation of the tertiary sector.	The Central Council for Education recently started discussions on how to implement structural reform to provide high-quality education in the context of a falling number of youth.
Liberalise restrictions, including those on tuition, student caps and programme changes, while assuring equity and quality.	The government revised regulations in 2016 to promote the acceptance of foreign students at Japanese universities to promote the internationalisation of Japanese universities.
Reduce burdens on household and reverse the rising trend in inequality	
Raise the public share of spending on ECEC.	The government plans to spend an additional 0.7 trillion yen, financed by the hike in the consumption tax rate, on ECEC.
Lower the burden of out-of-school education by developing low-cost alternatives.	Learning assistance services for children from poor households is provided by the 2015 Act for Supporting the Self-reliance of Poor Persons. In FY 2017, it will be implemented in about half of the municipalities throughout the country. The government also encourages local boards of education to support out-of-school education.
Reduce reliance on private, after-school lessons, particularly in <i>juku</i> , in part by increasing school quality, and increase the accessibility of students from low-income families to after-school lessons.	To support children who fail to keep up in school due to economic or family reasons, the coverage of "Chiiki-Mirai-Juku, which provides study support free of charge, in principle, by local residents and the Internet, will be extended to half of all junior high school districts by FY 2019.
Expand public loans for tertiary education to cover a higher share of students.	Public loans under the interest-free scholarship loan programme increased from 307 billion to 326 billion yen over FY 2014-16. A grant scholarship (which does not need to be paid back) will be implemented beginning in FY 2017.
Make repayment of student loans income-contingent.	A new version of the income-contingent repayment system for interest-free scholarship loans, which allows monthly repayment amounts to fluctuate according to graduates' incomes, will be introduced in FY 2017.
Enhance links between labour market and education	
Create vocational qualifications that are recognised by firms.	The National Trade Skill Test (which covers 127 types of jobs) awarded 270 000 certificates in 2015 to those who passed the theoretical and practical tests.
Expand the vocational training role of universities, which are educating an increasing share of young people.	The Brush-up Program for Professionals was started in 2015 to certify programmes that meet the needs of firms and workers. A new system of institutions of higher education to provide practical vocational programmes will begin in FY 2019.
Expand the contribution of tertiary sector to innovation	
Boost the share of public research funds for universities that is allocated competitively.	The 5th Science and Technology Basic Plan in 2016 aims at achieving more effective use of government research grants.

G. Improving health care to limit costs and raise quality

Recommendations in previous <i>OECD Surveys of Japan</i>	Actions taken or proposed since 2015 by the authorities
Containing the growth of spending and financing it efficiently	
Promote the shift of long-term care away from hospitals toward more appropriate mechanisms using the fee schedule and closer monitoring of the classification of patients in hospitals.	The government failed to reach its target of shifting hospital beds to long-term care facilities.
Improve the payment system by reforming the Diagnosis Procedure Combination (DPC), extending its use more broadly and modifying the reimbursement for outpatient care.	The number of hospitals adopting the DPC system increased from 1 388 in 2010 to 1 667 in 2016.
Expand the use of generic medicine, for example by moving towards making them the standard for reimbursement.	The 2016 Economic and Fiscal Revitalization Action Program calls for greater use of generics.
Use monetary incentives, notably higher tobacco taxes, to encourage healthy ageing.	No action taken, although the FY 2012 tax reform stated that the tobacco tax rate needs to be raised in the future.
Introduce gatekeepers to reduce the number of unnecessary consultations with specialists.	No action taken.
Consolidate health insurers to reduce administrative costs and increase quality, while strengthening effective competition for the Social Insurance Medical Fee Payment Fund.	A 2012 law promotes each prefecture's management of the National Health Insurance in order to promote financial stabilisation and reduce disparities in insurance premiums.
Relax the rules that prevent equity finance to facilitate the restructuring of the hospital sector.	No action taken.
Shift toward general tax revenue to finance healthcare for the elderly to avoid unduly increasing labour costs.	The 2014 consumption tax hike is providing 1.6 trillion yen to strengthen health and long-term care, partly by subsidising premiums of low-income earners.
Enhance the quality of health care	
Expand mixed billing to make treatments not yet covered by public health insurance more affordable, while addressing the inequality in premium payments to promote equality.	No action taken.
Addressing the imbalances in the health-care system	
Set fees based on rigorous cost and productivity studies.	No action taken.
Reconsider wide usage of measures linking medical university education and the assignment of the working place of doctors.	The government has allowed medical universities to increase enrolments by 592 students since FY 2010 if they commit to working in specific regions after graduation. By April 2016, a regional medical support centre to help secure doctors had been established in all prefectures.
Ensuring universal coverage in the context of rising relative poverty	
Improve compliance in paying premiums.	No action taken.
Ensure that low-income households – even those not qualifying for public assistance – receive health insurance benefits.	No action taken.



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