

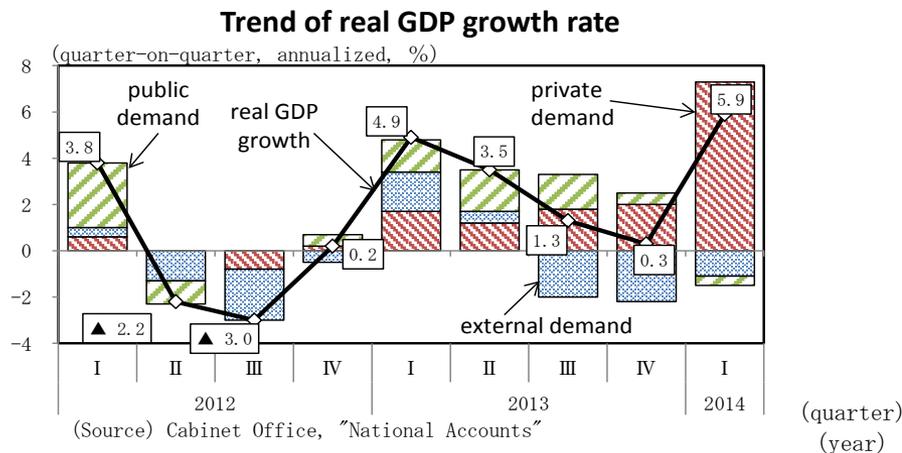
Appendix1: FAQ on Abenomics

Abenomics FAQs

Q1. Although the annualized GDP growth rate in Q1 2014 (based on preliminary figures) was 5.9%, is Japan's economy at risk following the consumption tax increase? Was the last-minute rise in demand seen before the introduction of consumption tax an indicator of possible risks?

A. Japan's Economy is still on a moderate recovery trend.

- The annualized GDP growth rate in Q1 2014 was 5.9% (real rate) and 5.1% (nominal rate) of the first preliminary report, representing Japan's sixth consecutive positive quarter.
- After the tax hike in April 1, some weaknesses were seen in private consumption and elsewhere, but these are within the expected range and are considered to be temporary.
- Business investment is increasing and the employment situation is improving steadily. The foundation of the economy remains firm and Japan's economy is still on a moderate recovery trend.
- The Japanese government will closely monitor the economy following the consumption tax hike and will work towards a prompt implementation of the FY2013 supplementary budget and FY2014 budget. In addition, the government will agree the "Basic Policies for Economic, Fiscal Management and Reform" in mid-year. It will also revise the "Growth Strategy" further and strengthen efforts to achieve sustainable growth.



Q2. Are regulatory reforms making progress ?

A. The Abe administration is moving forward with multiple reforms, and has submitted the relevant bills to the Diet.

○ Since the 'Japan Revitalization Strategy' was established last June, the Abe administration has developed multiple reform policies, including:

- Review of rice production regulations, which have been in place for more than 40 years
- Establishment of prefectural intermediary institutions, which manage and consolidate fragmented farmland ownership
- Electricity System Reform, such as the liberalization of the retail electricity sector
- Liberalization of online sales of non-prescription drugs
- Promotion of advancement of women's roles in the workforce (i.e., early implementation of 'zero waiting-lists' for childcare, etc)

○ To implement these reforms, nine related bills were enacted in the extraordinary Diet session last autumn and many bills have been submitted and discussed in the current ordinary Diet session.

(Reference) Examples of related bills submitted to this Diet session include:

- Bill for Partial Revision of the Electricity Business Act to liberalize the retail electricity sector
- Bill for the establishment of a new agency to strategically manage R&D activities in medical and related areas
- Bill for Partial Revision of the Employment Insurance Act to develop childcare leave benefits and to support recurrent education by working adults (enacted)
- Bill to encourage companies to invest in state-of-the-art equipment and venture companies (enacted)

○ Furthermore, in January the Industrial Competitiveness Council revealed an agenda that the government will use to discuss further regulatory reforms in medical services, labor, and agriculture. At the same time, Prime Minister Abe asked related ministers to tackle the agenda.

(Reference) Examples of regulatory reforms requested by the Prime Minister include:

- Reform of labor time, incorporating inhibition of prolonged work, leave privileges, and flexible work styles
- Significantly broadening the scope of advanced healthcare services

○ Further deregulation will be considered in the framework of the 'National Strategic Zones', which Prime Minister Abe has described as a gateway of regulatory reforms and 'a drill-bit to break through bedrock regulations'. Along with ongoing nationwide reforms, the government will also address even bolder regulatory reform.

Q3. How will corporate tax reform proceed?

A. Approaching an optimal form of corporate tax and taxation base.

- The effective corporate tax (national and local) rate was lowered by 2.4% and various measures to support business activities (including the new tax system to promote effective capital investment) were introduced in the FY2014 tax system revision from April. The bill proposing this revision was approved at the Diet process and been enacted.
- Furthermore, the government has set about further reform of corporate tax. To deliver a technical study, the government Tax Commission established a discussion group headed by former Minister of State for Economic and Fiscal Policy Hiroko Ohta. The government is approaching an optimal framework for corporate tax and the taxation base, considering policy effects, the relationship with other tax items and global economic competitiveness. At the meeting of the Council on Economic and Fiscal Policy on May 15, Prime Minister Abe instructed ministers to set out a direction for the Basic Policies formulated in June in order to foster a more growth-oriented corporate tax rate structure.

Q4. How is reform of the GPIF progressing?

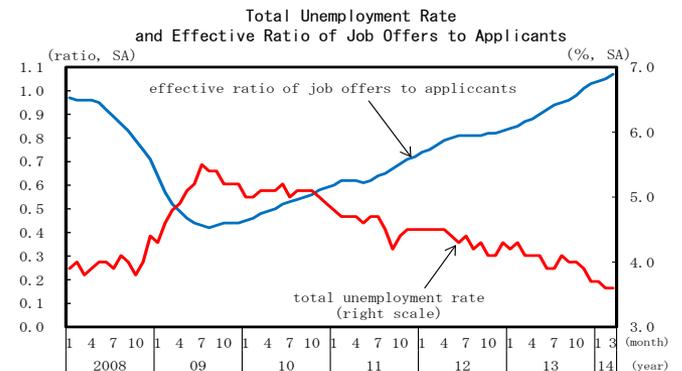
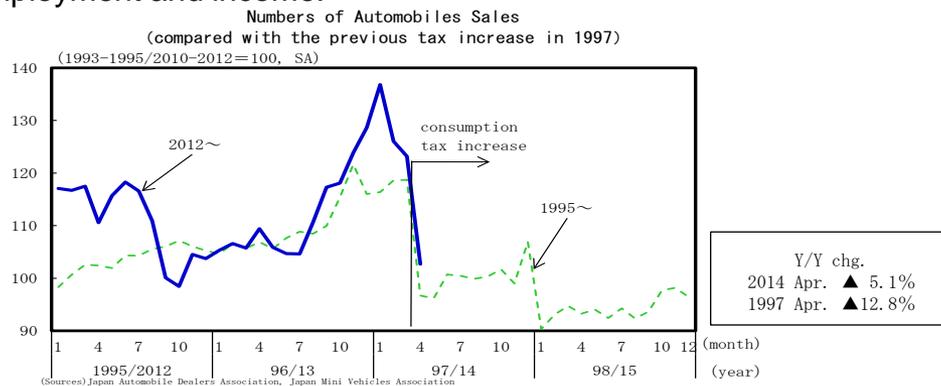
A. The Government is already implementing reforms, based on expert panel proposals.

- Last year, the expert panel of the Cabinet Secretariat proposed that public and quasi-public funds should revise their fund management and governance.
- The cabinet decided to reinforce the governance of GPIF, introducing greater flexibility for staffing numbers and the remuneration system, as the panel proposed. The Industrial Competitiveness Enhancement Action Plan (Jan, 2014, Cabinet Decision) also noted that ministries concerned with public funds would implement required measures quickly and steadily in light of this proposal.
- The advisory committee of the MHLW reported that ‘it is not necessary to instruct GPIF to focus on domestic bonds’ and that ‘GPIF should consider new investment assets on the basic premise of securing the benefits of insured persons’.
- The GPIF will decide on a new policy asset mix based on the results of the actual revaluation of pension finances. The fund is also preparing to implement required measures, is launching infrastructure investments with internal and external public institutional investors, and is introducing new benchmarks. In addition, GPIF has changed the board members of its investment committee.

Q5. How has the consumption tax increase of 8% affected the economy? When and how does Japan intend to make a decision about a further tax hike to 10%?

A. There are signs of recovery in consumer spending, which experienced a downturn after the tax hike in April. Prime Minister Abe will make a judgment within this year regarding any further increase, comprehensively taking into account economic conditions and other factors.

○After the tax hike in April 1, some weaknesses were seen in private consumption and elsewhere, but these are within expected range and are considered to be temporary. Consumption is expected to pick up gradually, supported by the improvement of employment and income.



○Throughout fiscal 2014, the Japanese economy is expected to recover, buoyed by strong domestic demand which has continued from the previous fiscal year. This reflects the implementation of economic measures and the efforts of the government, businesses and the labor force.

○Within this year, Prime Minister Abe will make a decision on a possible consumption tax rise to 10% in October 2015, comprehensively taking into account economic conditions and other factors, as stipulated in the Act for Fundamental Tax Reform.

○The judgment will be based on the progress towards economic revitalization after careful scrutiny of various economic indicators, including GDP, in the next July-September quarter.

Q6. Why haven't Japan's export volume and trade balance improved?

A. There are many reasons both domestic and external. In any case, exports are expected to pick up gradually.

- Trade balance moved from surplus to deficit as a result of increases in imports and higher fuel prices after the Great Earthquake in 2011. The trade deficit reached its maximum point in 2013.
- In 2013, the driving factors for the rise in trade deficit are believed to be:
 - Rise in import price was higher than that of export price.
 - Import volume increased as a result of expanding domestic demand and a last-minute rise in demand before the consumption tax was increased.
 - Export volume showed weakness because the demand from emerging countries and resource-abundant countries slowed and, in spite of the depreciation of the yen, Japanese companies didn't significantly lower local prices in these markets.Furthermore, there is a possibility that shifting production overseas by Japanese companies may curb exports from Japan in the mid-to-long term.
- Meanwhile, profits repatriated by overseas subsidiaries increased by 59% (y/y) in 2013, so it is expected that the repatriated cash will be funneled to capital investments in Japan. Furthermore, exports are expected to pick up gradually, mainly reflecting the steady position of overseas economies, lead by developed countries.
- It is necessary to watch the movement of trade balance and the background of this more carefully because they are affected by the situation of the world economy, changes in the Japanese industrial structure and various other factors.

Q7. How will Japan accept foreign workers as Japanese population decreases in the long term?

A. Japan will welcome talented professionals and will attract other skilled individuals from overseas, such as technical trainees.

- First of all, Japan will take all necessary measures to efficiently utilize the labor force, such as stabilizing youth employment and supporting the success of women in the workplace.
- In addition, it is important to welcome highly skilled professionals, such as researchers, from abroad in order to promote innovation in Japan. Last December, immigration procedures were deregulated. Favorable treatments for professionals, including measures to allow parents and housekeepers to accompany overseas workers, will be granted under the new procedures.
- Furthermore, to respond to the anticipated demand for construction in advance of the 2020 Olympics, foreign workers will be accepted in the construction market as an urgent and temporary measure up to 2020. Foreign workers who have already finished the Technical Intern Training in Japan will be allowed to work in the construction industry for up to 2 or 3 years.
- The government is considering how to review the Technical Intern Training framework toward its expansion and utilize the National Strategic Special Zones to accept a wider range of workers. Directions on the further measures will be reflected in the revised Growth Strategy in June although the government doesn't regard them as a part of immigration policies.