“Policies to Ensure Japan’s Growth”

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Policy Area	Progress	Potential Growth Impact (full implementation)
Female Labor Force Participation	Medium	0.25 pp per year
Immigration	Limited	0.1 – 0.2 pp per year
Labor Market Duality	Limited	“Uncertain”
Special Economic Zones	Medium	Little short-run effect
Agricultural Reforms	Medium	30% productivity gain
Electricity Reform	Significant	“Modest”
Corporate Governance	Medium	“Likely substantial”
Corporate tax reform	Significant	“Good”, but not self-financing
Trans Pacific Partnership	Medium	0.1 to 0.2 per year
Financial sector reform	Medium	0.2 per year
Wage increases	Medium	Substantial short-run

IMF Assesment of The 3rd arrow

Abenomics' third arrow: key measures and status

Policy area	Key measures planned by the authorities and status	IMF assessment and advice	Size of impact if comprehensive reform consistent with IMF advice is implemented
Labor market			
Female Labor Participation	Increase childcare facilities capacity by 200 thousand by FY2017 (implementation ongoing; 43 thousand children were on the nurseries' waiting list as of Oct 2014). Raise childcare leave benefits (implemented in FY2014). Removal of tax and social security disincentives for working spouses (under discussion but no progress observed yet). A bill requiring large companies to prepare plans to promote women will be re-submitted to the Diet, after not passing last year.	FLP has risen substantially during the past two years, in part due to "Womenomics". However, more needs to be done to increase the availability of child care. Specifically, regulatory impediments for privately provided childcare facilities and for caregivers should be relaxed and tax and social security distortions to FLP should be eliminated.	An increase in the FLP rate to the G-7 average--combined with a rise in old age labor force participation--could raise potential growth by 0.25 percent per year (Source: 2013 Art. IV Report).
Immigration	Relaxation of the current points-based preferential immigration system of highly-skilled professionals (implemented as of Dec 2013). Extending trainee program period from 3 to 5 years for foreign workers (decided). Use SEZs to encourage use of foreign human resources (decided).	Pending bills and decisions will not materially raise foreign labor. Reforms should move beyond the trainee program by introducing guest workers programs, and loosening entry requirements in sectors with labor shortages using a sector- and skill-based approach. Allow certain industries to enter in direct agreements with the government to fill labor shortages. Establish a qualification framework for recognition of skills. See Ganelli and Miake (Forthcoming, IMF WP) for more details.	Immigration equivalent to a rise of Japan's labor force by 1 percent distributed over a decade could increase potential growth by 0.1-0.2 percent per year (2013 Art. IV).
Labor market duality	Expand subsidies for job mobility (decided from FY2015 budget). Discussion underway to ease non-regular work rules (Bills related to dispatched workers and fixed-term workers submitted to the current Diet). Relax the conditionality for dismissal in SEZs (decided).	Reforms introduced so far are bypassing contract reform that would significantly reduce duality and raise productivity by clarifying the legal framework for limited regular contracts. Contract reform should also encourage greater horizontal labor mobility.	A substantial reduction in labor market duality would increase productivity, potential growth and wages, although the precise magnitude is difficult to quantify (Aoyagi and Ganelli IMF WP 13/202).
Deregulation			
Special Economic Zones (SEZ)	Six areas were designated on March 28, 2014--including Tokyo and Osaka--accounting for about 40 percent of GDP. Expected deregulation includes easing restrictions on land use and medical practices, agriculture reform, labor reform and creation of new businesses. SEZs are expected to propose specific measures--to be vetted by a national committee--in the near future.	Initial plans surprised on the upside in terms of the scale of designated areas. SEZs could become a laboratory for reforms to be implemented at the national level, but detailed measures under discussion at the local government level have been slow to progress.	Unlikely to have a significant growth effect in the short term, but could be more substantial once rolled out at the national level.
Agricultural reforms	Land banks to increase farm size established. Private companies are allowed to join agricultural enterprises, but the shareholding is limited to 25% (private companies requested for relaxing the regulation to allow a majority holding, but the discussion will restart after 2019). Review of rice production adjustments ongoing (*gentan* system to end by FY2018). Farmers' income subsidies are not abolished although they have shrunk. Japan Agriculture group approved a plan to abolish the Central union of Agricultural Cooperatives. Discussions are ongoing on reforming the public rice price setting system (gaisankin).	Measures taken so far have been steps in the right direction, but fall short of fully deregulating agriculture, including the elimination of subsidy support and allowing majority holdings of private companies in agricultural enterprises, which would raise productivity and competition.	Full deregulation in agriculture could boost productivity by up to 30 percent although the sector is small in percent of GDP (IMF estimates).
Electricity reform	First fundamental reform in 60 years to be completed by 2020, including (i) a gradual opening of grid; (ii) liberalization of the retail electricity sector; and (iii) legal separation between electricity generators and distributors and abolish retail price regulation. Legislation passed.		Likely to have a modest impact on potential growth by reducing production costs.
Business sector			
Corporate governance	Japan's Stewardship code for institutional investors introduced in February 2014. Companies Act amended in June 2014 to encourage appointment of outside directors. Corporate governance code (requiring at least two outside directors on "comply or explain" basis) became effective in June 2015.	Significant progress has been made, but more should still be done to materially affect corporate behavior. The corporate governance code could be more ambitious in its requirements for outside directors and other measures aimed at reducing incentives to hold cash (e.g. regulatory limits on cross shareholdings; removing bottlenecks which prevent takeovers; and introducing pre-packaged reorganization plans for bankruptcy procedures).	Raising shareholders' rights could result in unlocking excessive corporate savings. The economic impact is difficult to quantify but likely to be substantial (see Aoyagi and Ganelli, WP 2014) especially in combination with other reforms that reduce incentives for large cash balances stemming from precautionary demand, transactions costs, and taxation (see Sher, WP 2014).
Corporate income tax reform	Reduction of corporate tax rate (from 34.62 to 32.11 percent). Government internal discussions ongoing about elimination/reduction of existing tax incentives.	CIT reform is desirable as part of a comprehensive medium-term fiscal consolidation package.	CIT rate cut is likely to be good for investment and growth, but not self-financing, so compensatory measures will need to be identified (see de Mooij and Saito, WP 2014).
Trade			
Trans Pacific Partnership	Started participating in negotiations of the ambitious 12-nation free trade plan in July 2013. More negotiating to do after multi-lateral talks failed in Singapore in February 2014. Japan-US remain apart on the issue of tariff reduction/elimination of Japan's "sacred" agricultural products. Final decision is expected to be made by July 2015.	The decision to join the TPP negotiations was welcome and should be used as an opportunity to deregulate protected sectors.	Japan would stand to gain considerably from an agreement, provided it is a comprehensive deal that leads to widespread tariff reductions and deregulation (about 0.1-0.2 higher growth p.a., see Peterson Institute)
Financial Sector			
Financial sector reform	GPIF to shift away from JGBs towards riskier assets (decided in June 2013). GPIF governance reform was proposed but to a more limited extent than the market expected, due to the resistance from the Government. New stock market index including only profitable companies (launched in January 2014). Tax-free investment accounts (NISA) to encourage shifting household savings away from cash (launched in January 2014).	Substantial progress has been made to facilitate portfolio rebalancing, but GPIF governance needs to be strengthened. Reforms should now focus on stimulating the provision of risk capital and phasing out the full credit guarantees to SMEs, which should stimulate firm entry and exit.	Financial sector reforms that raise risk capital and induce a restructuring of the SME sector could lift potential growth by about 0.2 percentage points (Source: 2013-14 Art. IV Reports).
Wage Policy			
Policies to encourage wage increases	Tripartite Commission (employers, labor unions and government) agreed on wage hike. Tax incentives for increasing wages introduced in 2013.	Tax incentives could be expanded and better targeted. A higher than usual increase in the minimum wage could be considered to raise base wages. Tripartite bargaining should take place more often to stimulate wage-price dynamics.	If successful in stimulating wage growth, the economic impact would be substantial, both on short term growth and inflation dynamics.
Source: staff estimates	Degree of progress of reforms: Significant	Medium progress	Limited progress