

Basic Policy for a New Economic Stimulus Package

30 August 2010

I. Basic Idea

“Exit from deflation” is the priority

The New Growth Strategy (Cabinet decision in June 2010) defines Phase I, “period of overcoming deflation,” during which the Government aims to return consumer prices changes to positive by the end of FY 2011, swiftly end deflation, and put the Japanese economy firmly back on the recovery track, by means of demand oriented policies. This “exit from deflation” is the Government’s primary target at present in its economic management.

Risks of negative impact on the economy from such factors as the appreciation of yen and overseas economic conditions

At the same time, while the Japanese economy is showing signs of improvement, it still faces with difficult conditions. The foundation for autonomous economic recovery is not yet firm: the employment situation, especially for new graduates and for younger people, remains severe, and many of Japan’s regions suffer from continuing difficulties. Against this

backdrop, Japan faces heightened risks of negative impact on its economy from the appreciation of the yen and the prospect that it will remain strong over the longer term, as well as from worries that overseas economies will slow down.

Building a foundation for “exit from deflation” with flexible responses to risks of negative impact to the economy

The Government will respond flexibly to downside risks for the economy caused by such factors as the appreciation of yen, with an emphasis on speed, to keep the effects on these risks to a minimum. The primary goal of the new economic package is to implement the measures which have immediate effects to help build a foundation for Japan’s early exit from deflation.

Excessive fluctuations in currency markets have adverse effects on the stability of the economy and finance. While continuing to keep close watch on exchange rate trends, the Government will take decisive actions when needed.

Monetary policy

The Bank of Japan held an unscheduled Monetary Policy Meeting on August 30, where it decided to take further steps to ease monetary policy. The Government expects that the Bank of Japan will continue to exchange information and work closely with it, supporting the economy through implementation of appropriate, flexible monetary policy.

II. Outlines of the Measures

Two perspectives and five main pillars

The new economic package will implement carefully selected policies, with immediate impact and high effectiveness in boosting demand and employment, from two perspectives: first, responding to downside risks for the economy from such factors as the strong yen and overseas economic conditions, and second, accelerating the implementation schedule of the policies of the New Growth Strategy such as the creation of a low-carbon society. In order to build a foundation for Japan's exit from deflation, this economic package will position employment, investment, consumption, regional disaster preparedness, and regulatory and institutional reform as their five main pillars.

(1) Building a foundation for employment

- In the midst of severe employment conditions, the Government will build on the New Growth Strategy as it implements the steps outlined in the report "Emergency Measures for Employment of New Graduates" (issued on 30 August 2010 by a specially appointed team on new graduate employment issues) and rolls out employment measures focused on younger people. It will also draw on the "New Public Commons" concept in areas with latent demand (including child-rearing, medical and nursing care, the environment,

agriculture, and forestry) as it advances measures as part of this employment strategy.

In addition, employment opportunities will be ensured through financial support for small and medium-sized enterprises.

Specific measures:

- Increasing the number of university career counselors and other measures to enhance advisory support
- Enhancing the support project for hiring of new graduates (internships) and provisional hiring of new graduates (trial employment)
- Focused efforts to match small and medium-sized enterprises with new graduates and other candidates by such measures as boosting numbers of job supporters
- Model projects for personal support services
- Promotion of the practical career-enhancement strategy (career grading system)
- Enhancement of the “Projects to create jobs in prioritized fields”
- Financial support for small and medium-sized enterprises

(2) Building a foundation for investment

- The Government will promote comprehensive measures aimed at bolstering the domestic investment to stem the transfer of local factories and head office

functions to overseas locations and the hollowing out of employment in Japan, which may result from the ongoing, long-term appreciation of yen, while also supporting the creation of overseas sales channels for small and medium-sized enterprises.

Specific measures:

- Enhancement of projects to promote development of sites for job creation in low-carbon industries
- Technological development assistance for small and medium-sized enterprises
- Support for the creation of overseas sales channels for small and medium-sized enterprises

(3) Building a foundation for consumption

- The Government aims at establishing a “virtuous cycle” that leads to a revival in consumption by boosting employment and raising wages and incomes through taking emergency measures such as extending the eco-related measures, i.e. the “eco-point” system for housing, the scheme to support the purchase of high-quality homes (Flat 35S), and the home electric appliances “eco-point” system, which are highly effective in propping up the economy by boosting household demand.

Specific measures:

- “Eco-point” system for housing
- Scheme to support the purchase of high-quality homes (Flat 35S)
- Home electric appliances “eco-point” system

(4) Regional disaster prevention measures such as promoting earthquake-resistant measures and taking countermeasures for concentrated downpours

- The Government will implement emergency measures to prepare for disasters, which are directly linked to people’s safety, including measures to make structures more earthquake resistant and respond to concentrated downpours.

Specific measures:

- Measures to make hospitals and other facilities more earthquake resistant
- Emergency disaster preparation measures in response to concentrated downpours

(5) Accelerating regulatory and institutional reform

- With a view to creating new demand and employment, the Government will accelerate implementing regulatory and institutional reform in various areas.

Specific measures:

- Regulatory Reform 100 to Revitalize Japan

Regulatory and institutional reform is to be carried out as economic measures that do not require financial resources, centering on the following five areas: urban revitalization and housing, the environment and energy, health and nursing care, regional activation with a focus on boosting tourism, and economic strategies to open up Japan.

- Based on this basic policy, the new economic stimulus package will be determined on September 10, financed by “Economic Crisis Response and Regional Revitalization Reserve Fund” (approx. 920 billion yen). Depending on the economic and employment conditions moving forward, agile and flexible responses will be made if necessary, including preparing a supplementary budget.

III. Promoting and Accelerating the New Growth Strategy

In addition to the measures outlined above for flexible responses in the immediate term, the following measures will also be taken to promote and

accelerate the implementation of the New Growth Strategy.

- **Setting up the “New Growth Strategy Realization Promotion Council (tentative name)”**

In order to promote and accelerate the implementation of the New Growth Strategy, the “New Growth Strategy Realization Promotion Council” will be established, chaired by the Prime Minister with participation by relevant Ministers, heads of related organizations, business community and labor union representatives, and private-sector experts.

- **Holding Employment Strategy Dialogues**

Employment strategy dialogues will be held to promote and accelerate the implementation of the “Employment and Human Resources Strategy.”

- **Formulating the “Domestic Investment Promotion Program”**

The policies implemented over the next half- to one year to tackle such key issues as promoting the domestic establishment of factories and businesses, encouraging companies to locate their headquarter operations in Japan, and supporting small and medium-sized enterprises, are to be formulated by October-November as “Japan’s Domestic Investment Promotion Program,” with

the goal being to push forward comprehensive measures aimed at re-strengthening domestic investment.

Tax-related measures to encourage business investment and technology development in the environment-related area will be taken.

- **FY 2011 Budget preparation**

In formulating the fiscal year 2011 budget, the New Growth Strategy will be fully implemented by such measures as intensively allocating resource to the policies which highly create demand and employment, utilizing “Special Budgetary Allocation for Revitalizing Japan.”