

Outline of the
Economic Policy Package:
Measures to Support People's Daily Lives

October 30, 2008

Joint Meeting of
the Government and the Ruling Parties Council on the
New Economic Measures
and the Ministerial Meeting on Economic Measures

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Chapter 1: Basic concepts

1. Financial and economic conditions and the direction of this policy package

(Signs of global recession)

The global financial and capital markets have been experiencing a “once in a century” turmoil. In addition, since the middle of September, we have observed not only global financial crisis, but also weakening of the real economy, with increasing signs of global recession.

(Current situation and outlook of the Japanese economy)

The Japanese financial system is relatively sound compared to its foreign counterparts and has remained stable so far. However, the Japanese economy seems to have entered a recession following the global economic slowdown, and may further turn into a prolonged severe downturn.

(Impact on people’s daily lives)

The downturn will eventually be felt by all the Japanese people, and in particular, can negatively affect those economically disadvantaged. It is an urgent and essential task to reinforce safety nets and support “people” feeling anxiety in their daily lives, “small and medium-sized enterprises” facing difficulties in financing, and “non-metropolitan regions” lagging behind metropolitan areas.

(Prospect for renewed economic growth)

Meanwhile, in order to address current global financial and economic fluctuations, it is essential to transform the structure of the Japanese economy so as to realize sustained growth led by domestic private demand. Key measures to achieve this goal include encouraging housing investment, promoting business investment to establish a low carbon society and boosting private consumption by making better use of domestic financial assets.

2. Five basic principles

In order to safeguard people’s daily lives and the Japanese economy, this

policy package sets following five principles:

(1) Revitalize the Japanese economy by three-stage economic and fiscal policies

We will immediately start revitalizing the Japanese economy with a basic view that “its complete overhaul requires around three years”. Our three-stage economic and fiscal policies are as follows: 1) “economic recovery” in the near term, 2) “fiscal consolidation” in the mid-term; and 3) “economic growth through reforms” in the mid- to long-term.

(2) Take all possible measures for “stabilization of financial and capital markets”

We will enhance international cooperation for stabilizing international financial and capital markets. While Japan’s financial system remains most stable in the world, we will take all possible measures to further reinforce its stability.

We expect the Bank of Japan to ensure the stability of financial markets and to conduct appropriate and flexible monetary policy, taking into account the present difficult economic and financial situation both in Japan and abroad and keeping in mind this policy package and the government’s efforts toward structural reform.

(3) Establish three priority areas and give top priority to the people’s daily lives

This policy package establishes three priority areas: “easing anxiety in people’s daily lives,” “reinforcing financial and economic stability,” and “realizing latent potential of regions.” Among them, we will give top priority to efforts toward “easing anxiety in people’s daily lives”.

(4) Support a transition to achieve autonomous “economic growth led by domestic private demand”, instead of creating temporary demand

This policy package will not merely be intended to create temporary demand. Instead, in order to surely achieve economic growth led by the autonomous “expansion of domestic private demand,” the measures aim at transforming the structure of the Japanese economy so as to realize its “latent potential”.

(5) Achieve both goals of economic growth and fiscal consolidation

We will implement the measures in this policy package in compliance with past policies, *i.e.* maintaining fiscal discipline to avoid passing fiscal burden easily on to future generations while aiming at achieving both goals of economic growth and fiscal consolidation. Based on such ideas, the government will:

- ◆ Not depend on deficit-financing bonds for carrying out the measures in this policy package.
- ◆ Continue expenditure reforms, and
- ◆ Formulate a Mid-term Program for establishing a sustainable social security system and for securing its stable revenue sources as soon as possible. The program will include an overall picture of the fundamental reform of the tax system which is a prerequisite for raising the portion of the basic pension system funded by the national government to 50%.

Chapter 2: Specific measures

I. Easing anxiety in people's daily lives

1. Measures to provide immediate support to households

In order to carefully respond to anxiety felt by people, we will provide “Fixed-sum benefit” as immediate support to households by spending a maximum of two trillion yen, and will create an environment which allows for wage increases.

- Provision of the “Fixed-sum benefit”
 - (We already decided to introduce a special tax reduction and relevant special welfare benefits. For providing immediate support to households, aid in the form of benefit is more appropriate for effectively and rapidly supporting people's livelihoods, including those of lower income, with a fair and extensive coverage. “Fixed-sum benefit” will be provided by the end of this fiscal year, by spending a maximum of two trillion yen, on a single fiscal year basis. We will discuss how to allocate the benefit without delay.)
- Request to the business community to raise employees' wages
- Reduction of unemployment insurance premiums
 - (Relevant advisory councils will discuss possible cuts in the unemployment insurance premiums up to 0.4 percentage points)
- Request to electricity and gas companies to suppress and smooth hikes in electricity and gas charges for the January to March period for next year
- Review of prices of imported wheat sold by the government to reflect international market trends promptly

2. Measures to reinforce employment safety nets

We will reinforce employment safety nets, especially for non-regular workers, small and medium-sized enterprises and regional businesses that are most vulnerable to a recession, to create a foundation of employment opportunities for as many as 600,000 persons.

- Reinforced measures for non-regular employees
 - (Financial incentives provided to businesses which actively employ older “freeters

[job-hopping part-timers]”)

- Reinforced measures to support employment in small and medium-sized enterprises
(Expansion of subsidies to small and medium-sized enterprises)
- Creation of regional employment opportunities
(Establishment of the “Hometown employment revitalization special grant [a tentative name]”)

3. Measures to ease anxiety in people’s daily lives

In order to ease anxiety in people’s daily lives, we will increase the number of workforce by around 100,000 in long-term care services, support childbirth and child-rearing, and measures to assist handicapped persons, improve medical services and address the public pension problems, along with a drastic enhancement of consumer policy.

- Drastic enhancement of consumer policy including the establishment of the “Consumer Agency”
(Establishment of the “Consumer Agency”, reinforcement and improvement of local consumer consultation services, enhancement of food safety measures, promotion of measures to prevent illegal business practices and remittance-soliciting (*Furikome*) fraud)
- Improvement of working conditions for securing workforce in long-term care services: Increase the workforce in such services by 100,000
(Increasing long-term care fees by 3 percentage points from April 2009 to improve their working conditions, and measures to immediately secure and retain workforce in long-term care services)
- Enhanced measures to support childbirth and child-rearing
(Establishment of the “Fund for child-rearing [a tentative name]” to immediately upgrade services concerning childbirth and child-rearing, provision of the “Special benefit to support child-rearing [a tentative name]”, and promote measures to offer free-of-charge prenatal medical check-ups)
- Enhanced support for handicapped persons
(Extension and increase in the reserves in the fund for handicapped persons)
- Promotion of measures to improve medical services and pension systems

(Improvement of medical care systems, reinforced measures against new influenza, and measures to address the pension record problem)

II. Reinforcing financial and economic stability

4. Measures to stabilize financial and capital markets

We will enhance international cooperation for stabilizing international financial and capital markets and actively convey our messages to share experiences and lessons learned from the post-bubble economy in Japan.

- Active efforts to ensure stability of international financial and capital markets
(Promotion of international collaboration, more active efforts to convey messages to share experiences and lessons learned in Japan, and promotion of financial cooperation in Asia)
- Implementation of measures necessary for ensuring the stability of domestic markets
(Requests to corporations to repurchase their own stocks, measures to facilitate purchase by Japanese-style employee stock ownership plans, strengthening restrictions on short selling, a thorough monitoring including rigorous enforcement of strengthened restrictions on short selling, and flexible enforcement of limits on banks' share holdings)
- Utilization and improvement of the “Law on Special Measures for Strengthening Financial Functions”
(Utilization and improvement of the Financial Function Strengthening Law, and possible increase in the government's capital participation)
- Extension of government assistance in safety nets for life insurance corporations
(The rule to enable the government's financial assistance to the Life Insurance Policyholders Protection Corporation of Japan, which was originally intended to cover the period up to the end of March 2009, will be extended up until the end of March 2012)
- Support for efforts toward more appropriate accounting for financial instruments
(Clarification of methods for measuring fair values, and prompt examination of

- reclassification of financial instruments)
- **More flexibility in banks' capital adequacy requirements**
(Allow more flexibility into the capital adequacy requirements so as not to weaken financial intermediary functions of financial institutions, also in compliance with the framework of international agreements)
 - **Measures to enhance transparency and reliability of securitized financial products, and efforts to reinforce the function of secondary markets of securitized financial products**
(Support for establishment of rules for securitized financial products, and consider regulation over rating agencies)
 - **Measures to provide liquidity to financial institutions**
(The Bank of Japan is expected to provide sufficient liquidity to domestic and foreign financial institutions.)
 - **Taxation of financial and securities transactions**
(Creation of an environment which is friendly to personal investors by integrating and simplifying financial income taxation systems, extension of the current reduced tax rate of 10% for listed share dividends by three years, introduction of simple tax incentives to encourage small amount investments within the framework of the integration of financial income tax systems, and introduction of individual contributions [matching contributions] in corporate defined contribution pension plans)

Note that the ruling parties will keep discussing how to utilize Banks' Shareholdings Purchase Corporation.

5. Measures to support small and medium-sized enterprises

We will further upgrade measures to support financing of small and medium-sized enterprises and invigorate them by tax and other measures.

- Application and improvement of “the Law on Special Measures for Strengthening Financial Functions” (above mentioned)
- Immediate implementation of the financing support measures announced in the “Comprehensive Immediate Policy Package –*Easing Public Anxiety*– ”
- Additional 21 trillion yen for emergency guarantee schemes and loans provided by government-affiliated financial institutions (in addition to 9

trillion yen provided following the “Comprehensive Immediate Policy Package –*Easing Public Anxiety*–”, to provide the total of 30 trillion yen)

- ◆ Lifting the emergency guarantee frame provided by the Credit Guarantee Corporations by additional 14 trillion yen, in addition to 6 trillion yen provided following the “Comprehensive Immediate Policy Package –*Easing Public Anxiety*–” to provide the total of 20 trillion yen
- ◆ Lifting the ceiling on the loan provided by government-affiliated financial institutions by additional 7 trillion yen through revised interest rates and lending terms of safety net loans provided by the Japan Finance Corporation and through exercising the Shoko Chukin Bank’s risk management duties in response to financial crises, in addition to 3 trillion yen provided following the “Comprehensive Immediate Policy Package –*Easing Public Anxiety*–” to provide the total of 10 trillion yen
- Exercising Shoko Chukin Bank’s and Development Bank of Japan’s risk management duties in response to financial crises (already mentioned)
- Expanding loan programs for supporting Japanese companies’ overseas operation
(Utilization of the Japan Finance Corporation [Japan Bank for International Cooperation])
- Strengthening financial intermediary functions of private financial institutions
(Keeping track of funds provided by private financial institutions and requesting them to facilitate provision of funds, and measures to enable financial institutions to flexibly respond to SME’s requests to relax lending terms and thorough implementation of such measures in financial inspections)
- Facilitating cash flow of construction businesses
(Utilization of the “Loan program to reinforce management of regional construction industry”)
- Tax measures for small and medium sized enterprises, and support for their recruitment of human resources and for research and development
 - ◆ Temporary cut in the reduced corporate tax rate for SMEs
 - ◆ Restoration of the refund system allowing net operating loss carryback
 - ◆ Support for their recruitment of human resources, technology inheritance, and research and development
- Consecutive support for small and medium-sized enterprises to

commercialize and procure new technology

(Consecutive support, ranging from support and loans to encourage development of new products, product performance assessment, introduction of new products by public organizations, and to marketing and procurement of new products)

➤ **Rigorous implementation of the Subcontract Act and the Antimonopoly Act**

(Rigorous implementation of laws and utilization of the “Subcontractor protection information network”)

6. Measures to enhance growth potential

Through introducing “growth potential enhancing taxation” for strengthening corporate vitality, and promoting world-class advanced research and development, we will aim at realizing “latent potential” of the Japanese economy to achieve breakthroughs.

➤ **Temporary tax measures that enable immediate depreciation to encourage investment in energy-saving and new-energy facilities**

➤ **Repatriation of overseas income from subsidiaries’ abroad**

➤ **Promotion of energy-saving and new energy measures and encouragement of metal resources development**

(Tax measures encouraging investment in energy-saving and new-energy facilities [already mentioned], utilization of the domestic emission credit system, and support to exploration and development of rare metal and iron ore resources)

➤ **Enhancement of resource diplomacy for stabilizing crude oil markets, and market trends monitoring, including monitoring of petroleum products**

➤ **World-class cutting edge research and development and encouragement of innovation**

(Promotion of world-class cutting edge research and development, regulatory reform that contributes to new business creation in the life science sector, prevention of technological information leakage, “Innovation network corporation of Japan” [a tentative name] and the “Innovation special zones [a tentative name]”)

➤ **Creation of an environment that facilitates Japanese-style ESOP (Employee Stock Ownership Plan)**

III. Realizing latent potential of regions

7. Regional revitalization measures

In order to realize latent potential of regions that are increasingly lagging behind metropolitan areas, we will significantly reduce expressway tolls, invigorate regional economies and foster stronger agriculture, forestry and fisheries sectors.

- **Significant reduction in expressway tolls**
(From the viewpoint of supporting regional economies and people's daily lives and mitigating the global warming, we will (1) introduce reduced tolls during periods of time on weekdays, in which regular fees are now being applied, for improving efficiency of physical distribution, and (2) introduce reduced tolls to users of Shuto and Hanshin Expressways and to long-distance users on holidays in non-metropolitan areas for promoting tourism and supporting daily lives and regional economies until the end of FY 2010 for the time being.)
- **Revitalization of regional corporations and shopping areas, utilization of ICT and PFI to vitalize regional economies**
(Early establishment of the Regional Revitalization Corporation of Japan, reform of the "third sector corporations", revitalization of local shopping areas, development of ICT infrastructure and better use of ICT in local communities, smooth transition to digital broadcasting, and utilization of PFI)
- **Promotion of a Tourism Nation**
(Support for the development of tourism regions, upgrading of tourist accommodation services and facilities, revision of visa procedures with consideration given to immigration control and procedures for issuing visa)
- **Support for regional construction corporations to start new businesses and to collaborate with other industries**
- **Transportation network development which lead to safe and reliable traffic zones and reduced physical distribution costs**
(Measures for road safety at school routes and traffic intersections, barrier-free railway stations, more convenient local bus services, LRT projects, improvement of road networks that contributes to regional revitalization and international competitiveness, upgrading of urban railway networks, support for small and medium sized enterprises engaged in cargo transport, enhancement of functions of

Haneda Airport and other airports, key port facilities, development of safe sea lanes)

- **Enhancement of regional communities**
(Creation of beautiful and vibrant hometowns, promotion of settlement in under-populated areas, measures for local household wastewater treatment, prevention of oil spill from certain facilities established by the national government and sound insulation measures around such facilities)
- **Fostering management for the future of agriculture and related job creation**
(Support for farmers willing to make the fullest use of rice paddies, facilitation of the provision of loans to core farmers, support to improve facilities, support to practical training programs for those planning to become farmers, support to networking among those willing to realize agricultural corporative management, extended introduction of the latest agricultural production methods through leasing systems)
- **Accelerated technical development and cooperation among agriculture, commerce and industry, active use of domestic agricultural products**
(Promotion of utilization of IT technology, energy-efficiency enhancement in agricultural facilities, support for cooperation among agriculture, commerce and industry willing to steadily consume indigenous materials, exploration of new sales channels for local agricultural products, immediate implementation of measures to stabilize livestock businesses, collaboration with ecotourism industries, promotion of careful infrastructure development, coordination among measures related to rural communities and those by relevant ministries for revitalizing rural areas)
- **Revitalization of forests and the forestry sector**
(Increased use of domestic timber for homebuilding, utilization of woody biomass, development of forest road network)
- **Revitalization of the fishery sector**
(More marketing efforts for marine products, support to enhance profitability through more efficient and rationalized use of materials for fishing and fish feeding stuff, and development of fishery infrastructures)
- **Establishment of consumer confidence in food safety**
(Support for the businesses who unknowingly sold or processed tainted rice)
- **User-friendly and easy-to-understand administrations in charge of**

agriculture, forestry and fishing industries

8. Housing investment and disaster prevention measures

We will encourage housing investment and will promote disaster prevention measures, including reinforcement of public facilities against earthquakes.

- Extension and expansion of housing loan-related tax breaks (individual income taxation)
 - (Raising the maximum deductible amount to the highest level ever, and examining tax reductions for housing investment in energy-efficient or barrier-free upgrades for addressing issues such as environment conservation and ageing)
- Extension and expansion of various land taxation systems
- Relaxation of the floor area ratio
 - (Buildings with advanced environmental measures, excellent urban development projects etc.)
- Support for superior urban and regional development projects, promotion of securitization and liquidation of real estate
- Smooth operation and enforcement of the revised Building Standard Law and the revised Law for Architects
- Disaster prevention measures including reinforcement of public facilities against earthquakes
 - (Accelerated reinforcement of school buildings and houses against earthquakes, earthquake countermeasures for public facilities [including airports, water supply and sewage systems, waste treatment facilities, correctional institutions, and public office buildings], promotion of environmentally-friendly renovation, life extension of aging infrastructures including road bridges, implementation of countermeasures against torrential rains, tsunamis and storm surges, reinforcement of observing facilities, improved disaster prevention functions in urban areas by upgrading urban parks and other public facilities, upgrading of fire-fighting equipments for improving rescue techniques, thorough implementation of emergency fire prevention measures including support to self-inspection of firefighting equipment in commercial facilities that have many small individual rooms)

9. Support for local governments

We will support local governments to actively get involved in regional revitalization.

- Establishment of a new mechanism which allows for spending of 1 trillion yen according to local circumstances, when the earmarked revenue for roads is shifted into general revenues
- Deliberation of the establishment of a common finance institution for local governments that can provide long-term, low-interest loans to local governments (general account)
- Provision of the “Temporary grant for regional revitalization and measures to support people’s daily lives [a tentative name]” to promote careful infrastructure development that can contribute to regional revitalization
- Appropriate fiscal measures for local governments to cope with a fall in local tax revenue and five national tax revenues that serve as resources for the local allocation tax due to the recession and the implementation of this policy package

Chapter 3: Revenue sources

--Achieving both goals of economic growth and fiscal consolidation

1. National government expenditure and the total size of the policy package

- The government will not depend on deficit-financing bonds in implementing the measures in this policy package. Accordingly, the government will implement special measures such as the utilization of reserves for interest rate fluctuations in the special account for fiscal investment and loan program by suspending the transfer from the special account for fiscal investment and loan program to the special account for government debt consolidation fund in FY 2008.
- For details of the national government expenditure and the total size of this policy package, please refer to the Appendix attached.

2. Formulation of the Mid-term Program for establishing a sustainable social security system and for securing its stable revenue sources

- We will formulate a Mid-term Program which includes the following as its basic pillars in revising the tax system at the end of this year.

(1) Policy measures including tax cuts for economic recovery

In order to safeguard people's daily lives from the global economic turmoil and give top priority to achieving economic recovery within three years, we will introduce tax cuts and provide the "Fixed-sum benefits", both on a temporary basis, during such period, presupposing a fundamental reform of the tax system.

(2) Secure stable revenue sources for social security

We should reinforce and streamline social security systems, and we also have to secure stable revenue sources, including those necessary for raising the portion of the basic pension funded by the national government to 50%, to establish sustainable social security systems both for the central and local governments. For this purpose, after an upturn in the economy, we will swiftly start the fundamental reform of the tax system, including the consumption tax, and implement it step by step by the mid-2010s, with consideration for economic conditions of the time. Here we will consider

projected expenses to be spent on social security benefits (pensions, medical care and long-term care) and measures addressing the declining birthrate. We should also take into account the balance between the burden and benefit and the viewpoint of broad and fair cost sharing across generations. In so doing, we have to continue our present efforts to eliminate wasteful spending and to reform the administrative system, and we should also introduce a strict separate accounting between social security payment and other budgets, in order to gain more public support and understanding.

(3) The “overall picture” of the fundamental reform of the tax system

In order to consistently and systematically address various challenges, including securing stable revenue sources for social security systems, enhancing the growth potential of the Japanese economy, and correcting disparities in society, we will, at the end of this year, present “the overall picture of the fundamental reform of the tax system” that clearly shows basic directions of the tax reform for personal and corporate income taxes, taxes on assets, and consumption taxes in an easy-to-understand manner. We are determined to carry out the fundamental reform based on this “overall picture”.

Appendix: Size of the policy package

(trillion yen)

	National government expenditure	Total amount
I. Easing anxiety in people's daily lives	2.8	3.0
1. Measures to provide immediate support to households	2.0	2.0
2. Measures to reinforce employment safety nets	0.3	0.3
3. Measures to ease anxiety in people's daily lives	0.5	0.7
II. Reinforcing financial and economic stability	0.6	21.9
4. Measures to stabilize financial and capital markets	-	-
5. Measures to support small and medium-sized enterprises	0.5	21.8
6. Measures to enhance growth potential	0.1	0.1
III. Realizing latent potential of regions	1.6	2.0
7. Regional revitalization measures	0.8	1.0
8. Housing investment and disaster prevention measures	0.2	0.4
9. Support for local governments	0.6	0.6
Total	5.0	26.9

Note

1. An increase in the total amount due to additional 1.5 trillion yen in the fiscal investment and loan program is included.
2. Tax measures will be brought into shape in the FY 2009 tax reform.

This English outline was prepared by the Cabinet Office for explanatory purposes. Please refer to the full text (Japanese-version only) for quotes available on the Cabinet Office's Internet site:
<http://www5.cao.go.jp/keizai1/mitoshi-taisaku.html>