

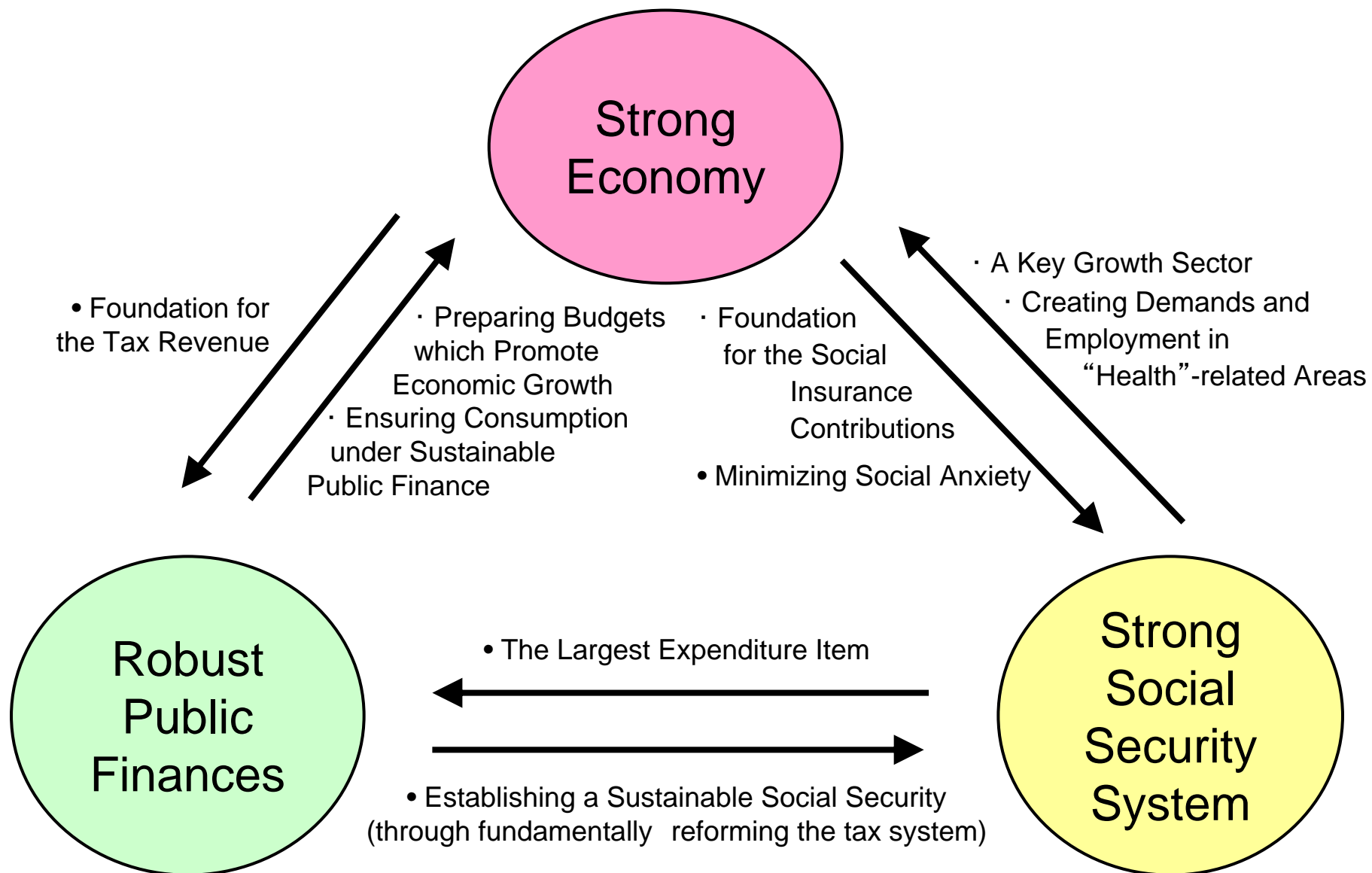
**“New Growth Strategy”
Reference**

(June 18, 2010)

Cabinet Office

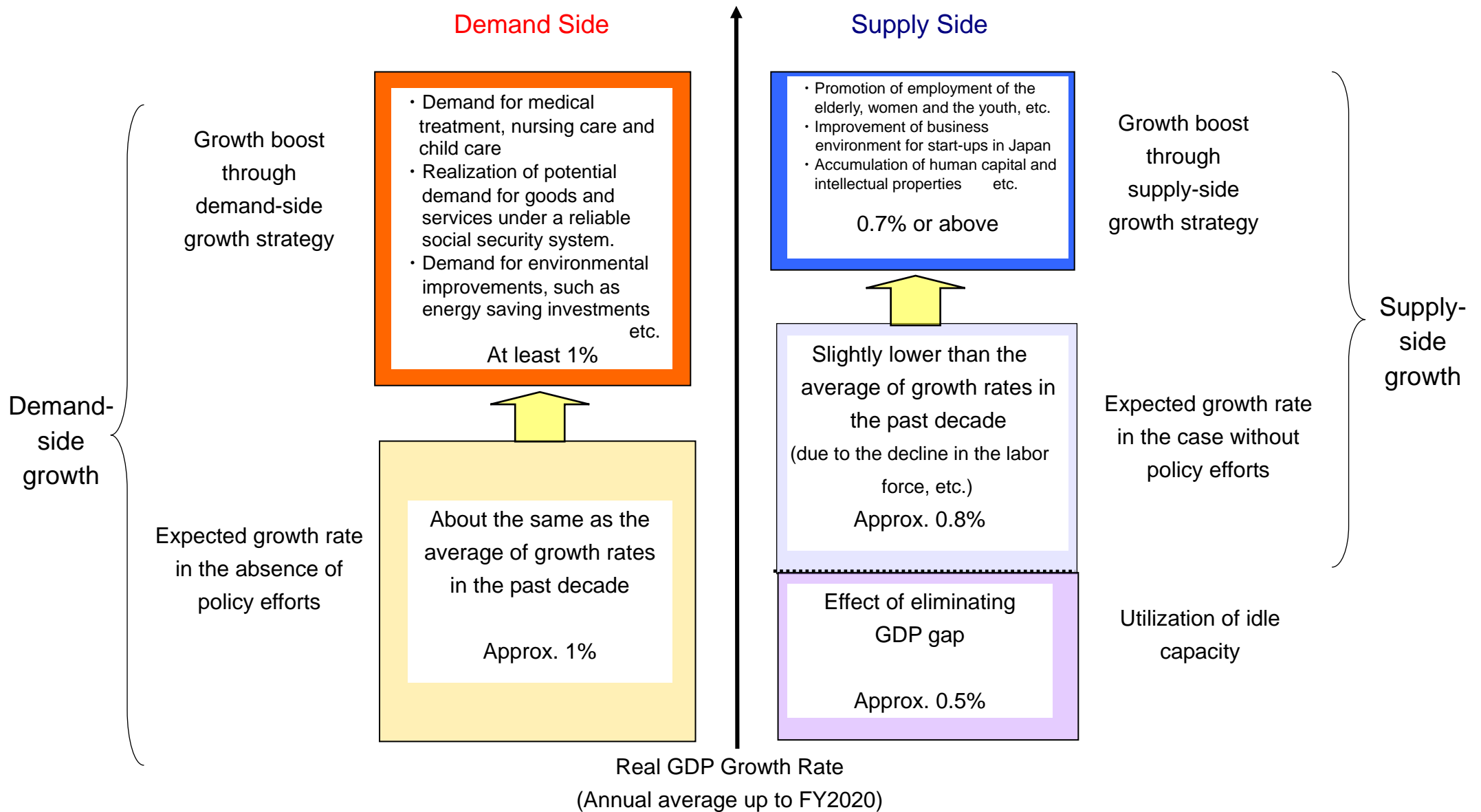
(Provisional Translation)

Shoring Up the Economy, Public Finances and Social Security in an Integral Manner

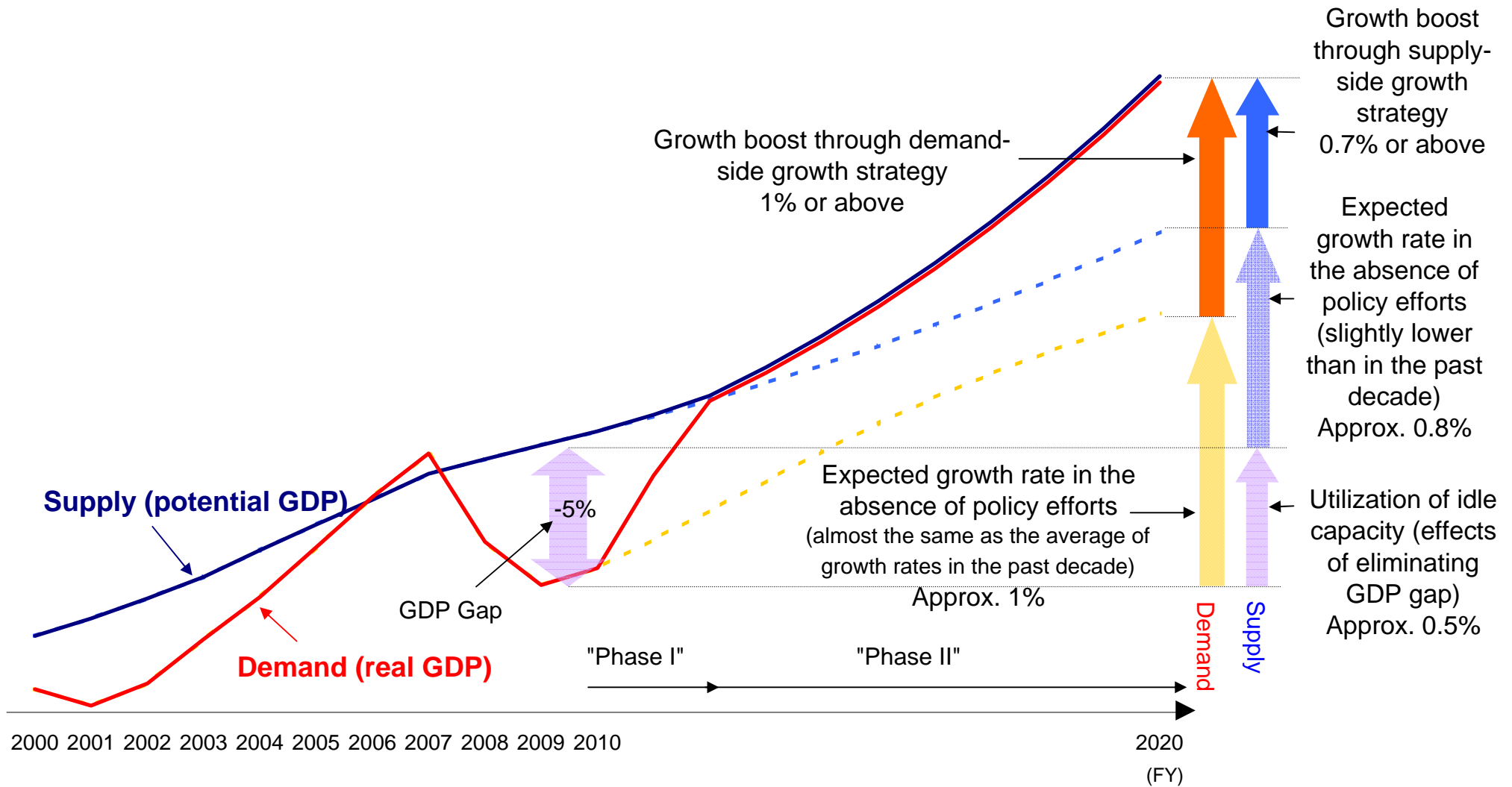


Growth Boost from Demand and Supply Sides

Realization of Real-term Growth Rate above 2%

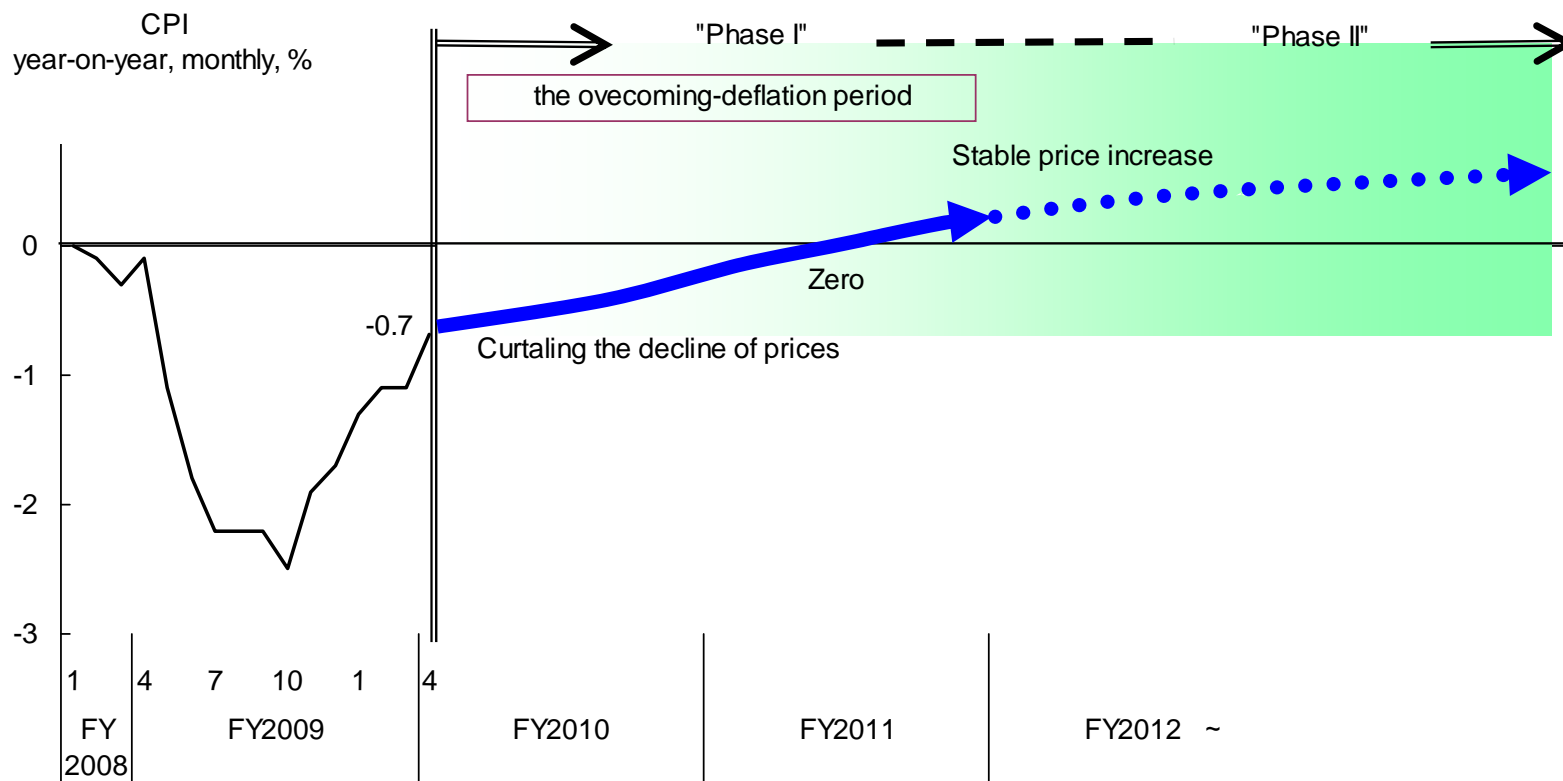


Demand (real GDP) and Supply (potential GDP)



Prices Development during “the overcoming-deflation period”

- The rate of change in CPI is likely to be positive some times in FY2011 on a year-on-year monthly basis, and a stable price increase is expected onwards.
- Deflation comes to an end during the period.



¹ The figure above shows the underlying price trend.

² The impact of “effectively free high school tuition measure,” which may cut the CPI inflation rate by 0.5 per cent for FY 2010, is not included in the figure above.

³ A possible downward revision is expected in FY2011 due to the change of CPI’s base year.

Chart 1 Demand-side Growth Strategy and Its Contributions to Growth Rate [Estimated by the Cabinet Office]

Areas	Contributions to real GDP growth rate (annual average up to FY2020)	Key policy measures
a. Demand for medical treatment, nursing care and child care.	0.3% ¹	<ul style="list-style-type: none"> • Improvement of the social security system including service benefits enhancement and cost sharing between the citizens. • Medical treatment and nursing care: Dividing functions among different medical institutions, improvement and promotion of home based medical and nursing care, reconsideration of rules (simplifying procedures for evaluation and confirmation of advanced medical care; promotion of regenerative medicine; securing hospital doctors and medical and nursing care practitioners by improving working environments and compensation, and revising the division of roles between medical and nursing care practitioners; abolition of the appraisal standard of nursing care institutions; promoting the entry for special nursing home, etc), taking safety measures by strict checking system, etc. • Child care: System reform, for example introduction of a contract system between service users and providers, encouraging the involvement of a variety of business, etc.
b. Realization of potential demand for goods and services under a reliable social security system. (including utilization of financial assets in the household sector)	0.1~0.2%	<ul style="list-style-type: none"> • Encourage consumption from saving by virtue of easing anxiety about the future through reinforcement of the safety net in the medical and nursing care sectors. • Design the public-benefit system for the citizens more specifically and review the financial system supporting small-sized institutions including NPOs, etc.
c. Demand for environmental improvements, such as energy saving investments	0.4% ²	<ul style="list-style-type: none"> • Spread renewable energy by expanding the electric power feed-in tariff, implement carbon tax and emission trading system • Reform rules for spread and expansion of renewable energy, oblige to apply energy standard for houses, strengthen fuel efficiency standard • Subsidization and tax incentive for introducing energy efficient products, etc.
d. Demand for secure and safe foods, and domestically produced lumber	Each contribution is expected to fall below the figures above	<ul style="list-style-type: none"> • Reexamining rules about agriculture and food (regulation for use of farmland, agricultural cooperatives, food label etc.), reforming regulation in forestry and use of wood (reexamining regulation for wood buildings, etc.) • Individual household income support system, unification of production, processing, and distribution, and other such efforts, improving forest road networks, etc.
e. Demand for reconstruction of aging condominiums		<ul style="list-style-type: none"> • Regulatory reforms such as facilitation of reconstruction, revision of floor area ratio, simplification of building authorization procedure, etc. • Measures to support smooth reconstruction of old condominiums, eco-housing in particular.
f. External Demand for improvements in infrastructure		<ul style="list-style-type: none"> • Establishment of the Council for National Strategic Projects, formulation of sectoral strategies • Enhancement of function and effort of government-affiliated institutions including making sure of appropriate financial function
g. Demand from promoting a tourism-oriented country		<ul style="list-style-type: none"> • Easing tourist visa requirements, creating appealing tourist attractions, improving the environment for foreign students in Japan, publicity relations • Medical interaction (Acceptance of foreign patients) • Making Japan more accessible in terms of transport routes, cultivating safe and secure communities, etc.

* Seven strategic areas described in the New Growth Strategy include various areas of growth as well as demand-side policies other than the measures described above. The numbers above do not include spillover effects.

* The figures of the contributions to the real GDP growth rate above are based on various assumptions and they may vary within a certain range.

¹ The entire effect is expected to be positive despite negative effects on demands due to necessary cost sharing among the people.

² This estimate is based on the assumption that various environmental policies are to be implemented. It should be noted that some negative effects on the industry sector are expected due to cost increases, as well as that there is a possibility that the demand abroad exceeds the assumptions.

³ The whole contribution from exports (only a part of which is included in the numbers above) is expected to exceed the past 10-year average (about 0.4%).

Chart 2 Supply-side Growth Strategy and Its Contributions to Growth Rate [Estimated by the Cabinet Office]

Areas	Contributions to real GDP growth rate (annual average up to FY 2020)	Key policy measures
a. Promotion of employment of the elderly, women and youths, etc.	0.3%	<ul style="list-style-type: none"> • Promotion of employment for youths, women and the elderly, etc. ; Implementation of “The Plan to promote regular employment among Freeters (namely, young non-fulltime workers),” enforcement of the Child Care and Family Care Leave Act as amended, hike the mandatory retirement age, promotion of continuous employment after age 60, and so on. • Eliminating “the waiting lists of children” at day-care centers and/or preschools, increasing the types of services regarding day-care and childcare, and so forth.
b. Improvement of business environment for start-ups, direct inward investment, etc.	0.1~0.2%	<ul style="list-style-type: none"> • Phased reduction of the effective corporation tax rate to the level of major countries • Improvements of business infrastructures such as logistics infrastructure, etc. • Realization of smooth financing to regional or growing companies (Promoting supply of risk money by utilizing government-affiliated financial institutions and the Fiscal Investment and Loan Program (FILP), drastic enhancement of support measures for founding or switching companies)
c. Accumulation of human capital and intellectual properties, etc.	<p style="text-align: center;">Each contribution is expected to fall below the figures above</p>	<ul style="list-style-type: none"> • Promotion of a framework for a “Practical career enhancement system” • Activating the “Plan for improving employability of the university graduates” and the “Plan for supporting businesspeople to learn.” • Developing the educational program with regard to vocational area such as information and communications technology.
d. Promotion of innovation and accumulation of intellectual properties.		<ul style="list-style-type: none"> • Enhancement of protection of intellectual properties • Study and implementation of various measures to promote R&D investment including tax treatment of R&D • Enhancement of effort for deregulation on foreign distribution • Facilitation of financing to innovative technologies including cooperation between the government and the private sector or among the ministries

* Seven strategic areas described in the New Growth Strategy include various areas of growth as well as supply-side policies other than the measures described above.

* The figures of the contributions to the real GDP growth rate above are based on various assumptions and they may vary within a certain range.

Appendix for Chart 1

a : Demand for medical treatment, nursing care and child care.

Based on the estimation made by the Ministry of Health, Labour and Welfare calculated for the New Growth Strategy, it is estimated that the additional demand for medical and nursing care and for childrearing support, excluding trend growth, will approximately amount to ¥17 and ¥1.5 trillion respectively as of 2020, at 2009 prices. The corresponding contribution to the real GDP growth rate is estimated to be about 0.3% on annual average through FY2020. This, except for the childrearing support, is part of the "new market of approximately ¥50 trillion" as of 2020, at nominal prices, mentioned in Chapter 3 (2) of the New Growth Strategy.

b: Realization of potential demand for goods and services under a reliable social security system. (including utilization of financial assets in the household sector)

Based on preceding empirical studies about excessively precautionary savings held by households due to anxiety about the future, we consider about ¥40-100 trillion out of ¥1,450 trillion of the households' financial assets to be excessively precautionary and related to the insecure social security system. We assume that once the savings are utilized by the households for consumption or housing investment gradually (4 – 10 trillion yen a year every year at 2009 prices), the corresponding contribution to the real GDP growth rate is estimated to be about 0.1% - 0.2% on an annual average through FY2020.

c: Demand for environmental improvements, such as energy saving investments

Based on the description in Chapter 3 (1) of the New Growth Strategy – "a new environment-related market over ¥50 trillion," the additional demand for environmental improvements such as energy saving investments is estimated to be ¥22 trillion after adjusting nominal price increase, etc. This corresponds to about 0.4% of annual contribution to the real GDP growth on average through FY2020 assuming that the additional demand is to be gradually actualized.

Appendix for Chart 2

a: Promotion of employment of the elderly, women and youths, etc.

Compared to the case without policy efforts where labor participation does not progress, the labor force population is instead expected to increase by 2.9 million (approximately 4%) by 2020 assuming that various policies for employment promotion listed on "Target for 2020" in the Employment Strategy Dialogue (June 3rd, 2010) are to be implemented and that the employment of the elderly, women and youths is to be promoted. Given those assumptions, it is estimated that the contribution to growth amounts to about 0.4% on an annual average through FY2020.

b: Improvement of business environment for start-ups, direct inward investment, etc.

Given that the "million start-ups of firms" is to be realized, the average number of new enterprises per year is assumed to increase by about 50,000 to 150,000. The contribution to growth is the sum of the effects of 1) capital input increase and of 2) TFP growth by the new enterprises.