

Comprehensive Package Responding to the Yen Appreciation

October 21st, 2011

Cabinet Decision

I. Basic Policy Stance

1. Current State of the Economy

i. Stagnation of European and the U.S. Economies, Sovereign Risks, and Rapid Appreciation of Yen

The yen has rapidly appreciated since this summer in the context of the significant changing tide of the world economy.

The world economy and the international monetary system are reaching a turning point in the midst of the stagnation of European and the U.S. economies and the rise of the emerging economies after the global financial crisis. The stagnation of European and the U.S. economies becomes clear, given the waning effect of the expansionary macroeconomic policies after the crisis as well as the aftermath of the global financial crisis after the Lehman shock in 2008.

Moreover, crises in fiscal and financial systems are more and more inclined to be contagious, as observed in the European sovereign debt crisis, due to the integration of global financial and capital markets.

In this context, financial and capital markets including foreign exchange market have overly fluctuated since this summer as risk aversion of investors is deepened due to the concern over long-term stagnation of European and the U.S. economies, the recurrence of the European sovereign debt crises, and the U.S. federal debt ceiling problem.

ii. Downside Risk of the Economy and Risk of Hollowing-Out of Industry Stemming from the Yen Appreciation

As more than six months have passed since the Great East Japan Earthquake, Japanese economy is picking up from the slump mainly brought by supply shocks due to the disaster, given the restoration of supply chains realised by the private sector's efforts. Relatively higher growth is expected down the road thanks to the

realisation of reconstruction demand.

However, while the Japanese economy is eventually recovering from the damage of the Great Earthquake, the rapid and lasting appreciation of yen as well as heightened concern of stagnation in European and the U.S. economies become critical downside risks to the economy. The rapid appreciation of yen, which is beyond the companies' assumption, makes it difficult for the business sector to adapt, and provokes people's concerns over the economic outlook. In addition, the Japanese economy is still in the phase of mild deflation. Under such circumstance, it is essential to prevent the economy from falling into vicious cycle in which the yen appreciation strengthens the deflation and the deflation, in turn, leads to further currency appreciation.

Furthermore, the current yen appreciation is not just the downside risk to the economy. From the viewpoint of improving business locating condition, Japan needs to tackle the challenges of realising the cut in the effective corporate tax rate stipulated in the FY2011 Tax Reform Act, promoting economic partnership which is relatively behind other economies, and addressing electricity supply constraint and the concern of the hike in electricity cost, and others. The rapid yen appreciation in this context involves the risk of significantly eroding competitiveness as a business location and accelerating outflows of component and material manufacturers which are the core of the supply chain, and high value-added industries which will sustain the future growth of Japan. This could damage the regional economy since domestic employment opportunities would be lost both in large sized and small and medium sized manufactures.

In order to preemptively address the downside risk of economy and the risk of hollowing-out of industry stemming from the yen appreciation, the Government will promptly execute the comprehensive countermeasures against the yen appreciation consisting of the concrete policies based on the following principles. By putting into practice this Package and the FY2011 third supplementary budget, in addition to immediately implementing the measures in this Package which can be undertaken swiftly, the downside risk of the economy will be minimised, which will ensure the path toward sustainable growth. Moreover, by implementing this Package as well as enhancing the strategies for new growth, the Government will make maximum efforts to deter the industry hollowing-out through establishing the economy that is robust against risks. These efforts will help promote the step toward the exit from the deflation.

2. Basic Principles of the Package

i. Maintaining the Stability of Markets

- In collaboration with other governments and international organisations, the Government makes efforts to take necessary actions, considering the measures contributing to securing stability of international financial markets including unconventional measures.
- Excessive move of the yen appreciation is continuing in foreign exchange market. As the excessive volatility in the foreign exchange markets has negative impact on the economic and financial stability, the Government will continuously watch its development and take decisive actions, without excluding any option, if necessary.
- Closely observing the influence on the international financial and capital markets by the overseas monetary policy and financial condition and considering the downside risks to the economy, the Government expects that the Bank of Japan will support the economy by appropriate and decisive monetary policy management while working closely with the Government.
- Given the contagion risks of crises in the current international financial markets, maintaining fiscal discipline is a critical issue for Japan with the huge government debt in order to survive under the strict selection pressure of the markets. The Government continuously makes its best effort to ensure market confidence in the government bond.

ii. Carefully Selecting Effective Policies to Respond to Yen Appreciation, Hollowing-out, and thereby to Support Growth

- The Government will improve Japan's competitiveness as a business location and develop growth potentials in the future, and establish a robust economy immunised against yen appreciation by developing "only one" companies in their own fields and companies with non-price competitiveness.
- The measures contributing to revitalising the Japanese economy including this Package and the reconstruction from the Great East Japan Earthquake should be promoted in an integrated manner. It should be noted that the reconstruction from the Great Earthquake itself is a large scale addition of demand. Therefore, the Government will support the economy for the time being by making an effort to realise the reconstruction demand early as possible.

iii. Minimizing the “Pain” and Maximizing the Merits of the Yen Appreciation

- The Government will relieve the concerns of those directly hit by the yen appreciation, including firms and workers, to prevent the people’s confidence from deteriorating and the economy from falling into a vicious cycle. Especially, maintaining job opportunities is the first priority.
- By maximizing the merits of the yen appreciation, the Government will enrich the people’s life and vitalise the industry.

iv. Producing Results through Progress Management

- Setting a numerical target and deadline for each measure in this Package, the Government tries to quickly produce visible results through progress management. The progress will be thoroughly examined in an inter-governmental taskforce, based on PDCA (“Plan, Do, Check, Action”).

v. Agenda for New Growth

- The Government will enhance its national strategy for new growth considering the situation after the Great Earthquake, as well as accelerate the realisation of New Growth Strategy (June 2010). Especially, it will squarely tackle the hardship facing companies, by accelerating the establishment of economic partnerships and overcoming the electricity supply constraint.
- The Government will make an all-out effort to fundamentally review regulations and institutions, which are essential for achieving new growth.

II. Summary of the Concrete Measures

1. Mitigating the “Pain” of the Yen Appreciation

i. Creating and Securing Employment

- Expand the Employment Creation Fund by 200 billion yen, thereby aiming at creating 100 thousand jobs until FY2013.
- Continue the subsidisation to the firms either hiring new graduates (i.e. those within three years after graduation) as regular workers or employing them on “trial” basis initially and thereafter giving them regular status, and increase the number of “job supporters,” thereby support finding jobs for 100 thousand new graduates.
- Relax the requirement of the Employment Adjustment Subsidy in order for the firms forced to temporarily downsize their business activities due to the rapid yen appreciation to quickly benefit from the Subsidy (starting from October7).
- Extend the expiry date of the fund (by three years) to help high school students in severe economic situation to continue their studies.
- Strengthen the active labour market policies by expanding the budget for vocational training to 40 thousand job seekers, as well as by subsidising the OJT expenses of the firms operating in growth areas (e.g. healthcare and environmental protection) which receive workers from the firms operating in the other areas.

ii. Expanding the financial support to the firms including SMEs

- Extend the expiry date of the special credit guarantee for the SMEs in effectively all industries which are severely affected by the yen appreciation from the end of this September to the end of March 2012, as well as relaxing the requirement for SMEs to qualify for the guarantee considering adverse effect of the yen appreciation.
- Reduce the interest rate of the loans to the SMEs, etc. by the public financial institutions (e.g. Japan Finance Corporations (JFC)) and/or the public financial institutions (including Development Bank of Japan (DBJ)) by 0.5% point at maximum.

iii. Supporting Tourism industry Suffering from Both the Earthquake and the Yen Appreciation

- Conduct the intensive promotion activity for attracting inbound tourists, and support the holdings of international conferences in Japan, etc., in order to recover the number of inbound tourists as soon as possible to the level prior to the Great Earthquake¹.
- Revise and implement the “5-year Basic Plan for Tourism-Oriented Country,” thereby reinforcing the efforts to increase the number of inbound tourists.

iv. Supporting Agriculture, Forestry and Fisheries Industry

- Strengthening competitiveness of domestic lumbers by streamlining forest paths, etc., as well as supporting the farmers and fishermen affected by the Great Earthquake to continue their jobs.

v. Early Realisation of Reconstruction Demand

- Accelerate the disposal of disaster wastes, thereby achieving the objective of removing all the disaster wastes from the afflicted areas by the end of FY2011 and conducting their final disposal by the end of FY2013, etc.

2. Establishing Robust and Resilient Economy Against Risks

i. Strengthening Competitiveness by Enhancing the Location Subsidy, etc.

- Establish the subsidy amounting to 500 billion yen to the companies that produce the components and materials indispensable for the supply chain and high value-added products, which choose Japan as their bases for R&D and production, etc., thereby creating private business investment by more than threefold of the subsidy amount.

* Subsidisation rate: one third for large companies, one half for SMEs

- Implement the cut in effective corporate tax rate stipulated in the FY2011 Reforming Tax Act, and realizing the reduction of tax burden for companies from FY2015 on, after when the corporate surtax for the purpose of financing reconstruction starting from FY2012 will be terminated.

¹ The number of inbound tourists declines by over 30% on year over year basis (in 2010 August) due to the rapid yen appreciation on top of the Earthquake and the nuclear disaster.

ii. Enhancing Demand by Strengthening Support for Installing Energy Saving and New Energy Equipments

- Create a new “Eco-subsidy for Power Saving” amounting 200 billion yen. For households, it subsidises the installation of lithium-ion battery (floor standing type), home energy management system (HEMS), housing solar power system, and fuel cell system. For SMEs and public institutions, etc., it subsidises the installation of building energy management system (BEMS) and highly efficient gas air-conditioning equipment, and the energy saving renovation of buildings.
- Enhance the subsidy for installing in-house power generation equipment.
- Resume “Housing Eco-point system” for one year (that was once terminated this July).

iii. Developing “Only One” Companies and Technologies

- Support the SMEs for the upgrade of manufacturing technologies (i.e. *monozukuri*) and for the countermeasures against technology drain, in order to develop “only one” companies (i.e. the companies whose products and technologies are so unique that they occupy high shares in the world markets) with non-price competitiveness that are robust against the yen appreciation.
- Accelerate industry accumulation of material areas etc. in Tohoku to develop “Sendai Material Valley.”

iv. Strong Support for Entrepreneurs

- Support infant venture companies having innovative technologies to commercialise them, and enhance the no-collateral and no-guarantor loan of JFC, in order to strongly support the entrepreneurs who challenge new business against the headwind of the yen appreciation.
- Discuss the issue of vitalising venture business including how to enhance the supply of risk money in the Council of Industrial Structure (Ministry of Economy, Trade and Industry).
- The Innovation Network Corporation of Japan (INCJ) is expected to steadily explore the investment opportunities to ventures, through strategic decision-making based on the medium- and long-term impact of investment in addition to its feasibility, etc.

v. Supporting the Challenge to the Global Market

- Support the exporting SMEs to open up overseas markets.
- Enhance the feasibility studies to promote export of infrastructure and system.

vi. Strengthening International Competitiveness through Promoting Comprehensive Special Zone System, etc.

- Designate the first group of the “International Strategic Comprehensive Special Zones (ISCSZ)” by the end of this year, where special treatment in regulation and tax, fiscal and financial support are audaciously provided, and then approving the ISCSZ plans as soon as possible. Around five ISCSZs will be carefully selected as those potentially having competitive advantages.
- Promote the measures to make Japan as an Asian industrial centre; swiftly enact relevant bill, and formulate a new programme by the end of this year.

vii. Measures against the Hardships Facing the Companies locating their base in Japan.

- Formulate “the Strategy for Revitalising Japan” by the end of this year, through enhancing (national) strategy toward new growth. Developing the “Innovative Environment and Energy Strategy” by summer 2012, which consists of (i) the New Energy Basic Plan (which will show the best mix of the energy sources), (ii) the Strategy for Energy and Environment Industry, and the Green Innovation Strategy. With these measures, the Government will squarely address the issues of promoting economic partnership, secure and low-cost electricity supply, and striking the balance between economic growth and environmental protection, etc.
- Minimise the risks of nearly 10% power shortage at peak hours and 20% (annualised) hike in electricity cost during the next summer, by mobilising all policy measures. For this purpose, formulate the Action Plan for Stabilising Energy Demand and Supply until the end of October.
- Promote necessary regulatory and institutional reforms to revitalize Japan that will be stronger than before the Earthquake.

3. Making the Maximum Use of Merits of the Yen Appreciation

i. Promoting foreign M&A and acquisition of natural resources by utilising the Yen Appreciation Merit

- Establish a framework in which both public and private sectors gather their

wisdom from pro-growth national viewpoint to swiftly promote foreign M&A and natural resource acquisition through utilizing lending from Foreign Exchange Financing Special Account to the Japan International Cooperation Bank (JBIC) and JBIC's investment function, etc. In so doing, the stakeholders in practical level closely coordinate to promote the use of the financial scheme the corporate sector across the board including not only large sized companies but also SMEs, under appropriate risk management. The lending facility from the Foreign Exchange Financing Special Account to JBIC is increased from about 8 to 10 trillion yen in order to attract private fund.

- Increase the investment to JOGMEC to support the private companies' acquisition of rare earth minerals and natural gas. Enhancing the investment and the limit of the government guarantee for INCJ to promote foreign M&A.
- Strategically accelerate bilateral negotiations to enhance investment agreement, for the purpose of promoting overseas investment.

ii. Sending Japanese Students Abroad and Accepting of High-Skilled Personnel

- Send around 2,000 Japanese high school and college students, etc. mainly from the region hit by the Earthquake to Asia Pacific and North America over the next one year or so, while increasing invitation of students mainly from Asia Pacific and North America to Japan.
- Introduce the "point system" that provides preferential treatment in terms of immigration control for high-skilled personnel by the end of this year.

iii. Promotion of "Visualisation" of the Merits of the Yen Appreciation

- Conduct a survey on the merits of the yen appreciation, including consumers' perception and influence on purchasing behaviour, in mid- or late-October, and publishing the result by the end of the year.
- Given reduction of imported fuel costs due to the yen appreciation, request the providers to "visualise" the merits of the yen appreciation in electricity and gas prices.

III. Scale and Effect of the Package

- Central government expenditure and total cost regarding the implementation of this Package are shown in the Appendix.
- The economic impact of this Package is roughly estimated as follows;

Impact on real GDP	approximately	+0.5%
Number of jobs created and secured	approximately	0.3 million

(Appendix)

The Scale of the Package

	Central Government Expenditure (trillion yen)	Total Cost (incl. expenditures by private sectors) (trillion yen)
<i>Mitigating the “Pain” of the Yen Appreciation</i>	1.1	12.1
Job Creation Fund	0.2	0.2
Financial Support to SMEs, etc.	0.6	11.5
<i>Establishing Robust and Resilient Economy Against Risks</i>	0.9	11.4
Location Subsidy	0.5	1.2
Energy Saving Eco-Subsidy, etc.	0.2	0.4
Housing Eco-Point	0.1	9.7
<i>Making the Maximum Use of Merits of the Yen Appreciation</i>	0.04	0.07
Total	2.0	23.6

(Note)

Central government refers to general account. Total cost is rough estimation at present.