Provisional Translation

On the Formulation of Japan's Growth Strategy Implementation Plan

1. Background and Significance

- For many years, Japan has been trapped in a deflationary, cost-cutting economy, experiencing an era in which wages remained stubbornly low despite people working hard. Meanwhile, driven by anxiety about the future, both businesses and households have adopted a defensive stance that has become the norm. Businesses refrained from future-oriented investment and hesitated to pass on costs, while households curbed consumption.
- Previous economic policies and companies' efforts to raise wages are beginning to bear fruit. In the spring labor-management negotiations, wage increases in the 5% range were achieved for the third consecutive year, and capital investment by private companies in fiscal year 2025 has reached a record high of 128 trillion yen annually.
- The Japanese economy now stands at a crossroads: will we allow these signs of change to be merely temporary, or will we turn them into a sustainable virtuous cycle and achieve a transition to a growth-oriented economy?
- Furthermore, amid large-scale and long-term fiscal spending in countries around the world, if Japan fails to move forward, businesses, jobs, and investment will flow overseas, and the domestic economy risks slipping back into a period of stagnation.
- Now is the time to stimulate domestic investment, raise Japan's potential growth rate (supply capacity), increase high-quality jobs and income, improve consumer sentiment, boost business profits, and ensure that tax revenue grows naturally. In short, we must realize a virtuous cycle driven by GDP expansion.
- Accordingly, Japan's Growth Strategy Implementation Plan will be formulated by the end of the year and will include:
  - ① the details and investment amounts of domestic investment, primarily by the private sector, over the next five years through around 2030 (the Investment Project Plan), for areas among the 17 strategic fields and 62 key products and technologies that are to be prioritized from the perspectives of current profit drivers, future growth engines, and strengthening economic security; and
  - ② multi-year budget-funded programs for major policy measures regarding the 17 strategic fields and the eight cross-sectoral challenges utilizing the Strong and Prosperous Japan Investment Framework.

●Furthermore, sustained real wage growth will take time to take hold. Since taking office, the Takaichi Cabinet has therefore implemented seamless measures to address rising prices. These include the abolition of provisional tax rates on gasoline and diesel fuel, so-called “free high school education,” as well as fuel oil subsidies and support for electricity and gas bills in response to the situation in the Middle East.

● Thanks in part to these policies, the inflation rate is at the lowest level among G7 nations, and the real wage growth rate has remained positive for eight consecutive months, standing at the highest level among G7 nations.

● Furthermore, as part of our seamless measures against rising prices, we are moving forward with preparations for the Consumption Tax and Support Payment Bill to directly ease the burden on low- and middle-income households.

● We will increase the take-home pay of the public and enrich their lives while ensuring fiscal sustainability. We will advance economic and fiscal management under the concept of responsible and proactive public finances that achieves both of these goals.

2. Overview and Schedule of the Growth Strategy Implementation Plan

● We will designate the next five years as a period of concentrated investment and formulate a plan that primarily covers this period. We will present measures that go beyond the extension of existing policies and overcome existing constraints, along with the vision we aim to achieve through them.

The 62 public-private investment roadmaps constitute a portfolio, with varying economic ripple effects and differing timelines depending on the technology and business phase. To make the plan as easy to understand as possible, we will clearly identify items such as (1) those that serve as current profit drivers; (2) those that will be next growth engines with significant ripple effects; and (3) those with particularly significant ripple effects from the perspective of economic security.

● As a first step, within the Council for Japan’s Growth Strategy, including the Strategic Fields Subcommittee, we will proceed with identifying key measures to be included in the implementation plan. These will be projects that induce private investment based on a clear winning strategy or a narrative leading to monetization or securing autonomy and indispensability, as well as projects that are highly effective in significantly raising the potential growth rate. We will determine the details in parallel with the budget

formulation process and formulate the implementation plan when the government budget proposal is finalized.

(Reference) Intensifying Global Competition in Industrial Policy

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- **As global competition intensifies, it is essential to seize the current shift in business leaders' mindset and take bold policy actions now.**
- **Should the scale and duration of our investment initiatives fall short of those of other nations' industrial policies, investment could be diverted abroad, causing Japan to miss a crucial opportunity and lose its strategic competitive edge.**

➢ **CHIPS and Science Act(August 2022) Allocates $52.7 billion (approximately ¥7.1 trillion) in funding over a five-year period.**

➢ **OBBB Act Enacted (July 2025)**

Establishes permanent full expensing of capital investments, while extending a four-year temporary measure for factory buildings and other eligible structures.

Expected to reduce federal revenues by approximately $500 billion (approximately ¥80 trillion) over ten years.

➢ **Encouraging Domestic Manufacturing through Tariffs**

After the U.S. Supreme Court invalidated tariff measures imposed under the IEEPA, the Administration implemented an alternative 10% tariff under Section 122 of the Trade Act, effective from the date reciprocal tariffs were suspended. (February 2026)

➢ **"The Future of European Competitiveness" (The Draghi Report) (September 2024)**

Calls for an additional €750-800 billion(approximately ¥122-130 trillion) in annual public and private investment.

➢ **"Clean Industrial Deal" (February 2025)**

Recommend that member states introduce tax measures, such as accelerated depreciation of clean technology assets and tax credits for companies in strategic sectors of the clean transition.

➢ **"European Competitiveness Fund" (July 2025)**

Launches a new €450 billion (approximately ¥83 trillion) fund for 2028-2034.

➢ **"Industrial Accelerator Act" (March 2026)**

Expands public support and investment incentives for renewable energy, EVs, and other net-zero technologies.

In addition, individual EU member states have introduced their own investment promotion measures.

- Germany

The "Investment Booster" Act was enacted (July 2025).

Key provisions include:

・Higher depreciation allowances (up to 30% during 2025-2027); and

・A 5-percentage-point reduction in the corporate tax rate, phased in over five years beginning in 2028.

➢ **Made in China 2025 (May 2015)**

Set a goal of achieving 70% domestic self-sufficiency in core components and key materials by 2025.

➢ **Special Government Bond Program (2024-2025)**

Issued RMB 2.3 trillion (approximately ¥46 trillion) in ultra-long-term special bonds to support equipment renewal, consumer trade-in programs, and national strategic priorities.

➢ **15th Five-Year Plan Industrial Policy (March 2026)**

Expands support beyond traditional industries to strategic emerging sectors, including AI and semiconductors.

Note: Yen equivalents are calculated using exchange rates of €1 = ¥162 and RMB 1 = ¥20, based on the exchange rates prevailing at the end of March 2024.