

On "Realizing the New Growth Strategy 2011"

January 25, 2011

Cabinet Decision

The Cabinet hereby issues "Realizing the New Growth Strategy 2011" as found in the attached materials.

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※ The translation of attachment 1 (the list of major achievements in 2010) and attachment 2 (the list of expected major achievements and issues in 2010) are omitted.

Introduction

Over the 20 years since the collapse of the economic bubble, the Japanese economy has remained sluggish, unable to escape from its impasse.

In addition to this long-term stagnation, in the future the population is expected to decline, with the workforce decreasing at an even faster rate than the population. Achieving high economic growth is more difficult than ever. However, achieving maximum economic growth is necessary in order to maintain social security and public finance and to bring greater wealth.

In order to avoid simply leaving a mountain of issues to future generations, we must realize the New Growth Strategy so that Japan can break free of its economic impasse and be revitalized. This is certainly the time to make good on this promise. However, growth means change, and we must be prepared for the changes that will occur. We must realize that we stand at a divide: we can be resolute, with the courage to face difficulties, or we can put things off until we atrophy.

In order to realize the New Growth Strategy, the results obtained through its implementation must be clearly explained to the public so that expectations for growth will rise. In other words, it is vital to make growth visible. Furthermore, it is important to promote the participation of all members of society and to raise the value added by individuals so that the public can feel the effects of growth for themselves. Achieving growth that is visible and tangible in this way will stimulate originality and ingenuity.

In order to initiate this kind of cycle, it must become widely known that measures specified by the New Growth Strategy, such as the 21 National Strategic Projects, are being steadily implemented. The progress of each measure must be carefully managed through the PDCA cycle, with the process of change made clearly visible.

"Realizing the New Growth Strategy 2011" informs the public regarding measures specified in the New Growth Strategy. It describes concrete results that appeared in 2010, achievements expected in 2011, and issues associated with their realization. It also indicates the basic ideas behind the growth strategy.

I Basic policy for the realization of the New Growth Strategy

1 Major achievements in 2010

The Council on the Realization of the New Growth Strategy has existed for a scant four months, but has concentrated on particularly important policy issues, engaging in vigorous debate. Based on the deliberations of the Council on the Realization of the New Growth Strategy, the Government was able to pursue initiatives and achieve results in the three areas below during 2010.

As for the 21 National Strategic Projects, operation schedules for the year were created in October based on the Prime Minister's instructions. Work is generally progressing according to schedule. During 2011, decisive action is needed in order to realize and accelerate the New Growth Strategy.

(i) Promotion of initiatives to open the country and clear a way to the future

A Basic Policy on Comprehensive Economic Partnerships in the New Growth Strategy was to be set by autumn 2010. The Council on the Realization of the New Growth Strategy indicated

its awareness EPAs and FTAs are important in order for Asia-Pacific nations to share in growth and prosperity.

In light of this, the Government set forth the Basic Policy on Comprehensive Economic Partnerships. It goes well beyond the previous stance, promoting high-level economic partnerships that compare favorably with world trends. It also takes the lead in promoting drastic internal reforms for the necessary strengthening of competitiveness and so on.

At the Asia-Pacific Economic Cooperation (APEC) meeting held in Yokohama, Japan clearly mapped out how it would "open the country and clear a way to the future." It was able to actively send the message that it would walk the path of growth together with the rest of the Asia-Pacific region. This was significant for APEC in terms of setting forth a tangible path towards building Free Trade Area of the Asia-Pacific (FTAAP).

Additionally, the Government is unified on the international deployment of integrated infrastructure. It has provided strong support for initiatives to support enterprises working on overseas deployment. Visible results have already been obtained in the form of Japan's selection as a partner in Vietnam in construction of two reactors at the second new power plant site and in rare earth development.

Furthermore, regarding turning Haneda Airport into a 24-hour international hub airport and promoting open skies including airports in the Tokyo area, initiatives to build up the flow of people and goods between Japan and the world are making steady progress. These include implementation of an agreement with the USA, agreements with South Korean aviation authorities, and making it easier for Chinese citizens to obtain tourist visas.

(ii) Implementation of macroeconomic policy based on a New Growth Strategy that considers economic and employment trends

The Council on the Realization of the New Growth Strategy indicated its awareness that powerful and comprehensive policy efforts including pushing forward, realizing, and accelerating the New Growth Strategy are necessary in response to situations such as the strong yen and the risk of downturns due to a loss of momentum in overseas economies.

The Government rapidly decided on three-phase approach economic measures for realizing the New Growth Strategy and comprehensive emergency economic measures against the strong yen and deflation. It carried out the utilization of a supplementary expenditure to contribute to the realization of the New Growth Strategy (Phase I) and formulation of a supplemental budget (Phase II). As Phase III, it prioritized allocations for the realization of the New Growth Strategy in its formulation of the FY 2011 budget.

(iii) Tax system revision and creation of an institutional framework for growth

The Council on the Realization of the New Growth Strategy indicated its awareness that institutional and regulatory reform to strengthen international competitiveness and bring about regional vitalization and domestic investment to promote improved corporate competitiveness and the movement of foreign firms into Japan are necessary as parts of the New Growth Strategy.

In light of this, the Government promoted the creation of a Comprehensive Special Zones system and other necessary institutional and regulatory reforms. The Meeting of the Roundtable on the Promotion of Inward Investment set forth the Inward Investment Promotion Program.

Additionally, the FY 2011 Tax Reform includes measures to lower the effective corporate tax rate for combined national and local taxes by 5 percent, lower the reduced tax rate for small and medium corporations, provide tax incentives to promote Comprehensive Special Zones and Japan as an Asian industrial center, promote environmental investment, promote employment, and implement a tax system for nonprofit organization.

2 Major achievements and issues expected in 2011

(1) Major achievements and issues expected in 2011

During 2011, the second year of the New Growth Strategy's implementation, systemic reform of regulations, taxes, and so on will become full-fledged. Execution of the budget oriented towards the realization of the New Growth Strategy will begin. System/regulatory reforms in particular will be more vigorously promoted as policy tools to advance the New Growth Strategy.

Of the measures expected to bring results during 2011, the following is an overview of major measures accompanying system reforms and interdepartmental initiatives.

Note: • indicates major measures; * indicates issues related to implementing measures.

(i) Environment and energy

○ Comprehensive Green Innovation Strategy

• For implementing various measures against climate change, such as the tax for measures against global warming, with optimized combination, Government will make a Comprehensive Green Innovation Strategy in addition to the New Growth Strategy. The key concept of the strategy is “green technology innovation”.

* The strategy needs to contribute to the reduction of Green House Gases from households and offices. It is also necessary to obtain understanding of the strategy and support for it from all stakeholders.

○ Introduction of a feed-in tariff system

• In order to introduce and expand the use of renewable energy, the New Energy Committee will issue a report on a feed-in tariff system and Government will submit to the Diet a bill reflecting its content.

* It is necessary to exchange views deeply with stakeholders in order to obtain understanding for a feed-in tariff system, aiming its introduction in FY2012.

○ Promotion of the “Future City” Initiative

• Government will complete the concept of the “Future City” Initiative. To realize the concept, Government will select very limited cities as the Future City and implement strategic projects.

* The relevant Ministries and Agencies must support for realizing the Future City. Government also needs to collaborate with other policies such as the “Comprehensive Special Zone System”.

○ Implementation of the Forest and Forestry Revitalization Plan

- We will submit a revision of the Forest Law to the Diet that enhances mechanisms for the creation of forest management plans (tentative name) by forest managers and the ensuring of proper practices in order to promote measures such as business consolidation and planned development of road networks. At the same time, we will revise the Forest and Forestry Basic Plan and the National Forest Plan, set direction for prefectures and municipalities based on the Law for the Promotion of the Utilization of Lumber in Public Buildings, and implement reforms of the processing and distribution systems for domestic lumber.

- We will drastically rethink the system for support of individual forestry businesses. We will begin direct support for businesses with the ambition and ability to tackle sustained forest management after consolidation through direct subsidy payment for forest management and environment protection.

* It will be necessary to fully convey the meaning and effects of these system reforms to forest owners and other stakeholders.

(ii) Health

○ Medical institution selection system to promote practical application of medical care

- So that global-standard drugs and medical devices can be quickly provided to patients who need them, by March we will reach a conclusion regarding improving the operation of the evaluation and confirmation process for advanced medical treatment at selected medical institutions and begin implementation.

- We aim to speed up the approval process for drugs and medical devices such that the median times from application to approval will be 12 months (4 months faster than in FY 2010) for new drugs (ordinary items) and 20 months (1 month faster than in FY 2010) for new medical devices (ordinary items). We will achieve approval periods equivalent to those of the USA at an early date so that outstanding drugs and medical devices can reach patients more quickly.

- We will clarify the scope of the Pharmaceutical Affairs Law in order to quickly implement clinical research and trials.

* It is necessary to smoothly carry out evaluation and approval of new, advanced medical care.

○ Promotion of international medical interaction

- For foreign patients and their attendants, in January we started a "medical-care visas system" approving long-term stays specifically for medical care.

- In order to develop medical language experts, by March we will implement on-the-job interpreter training at medical institutions and testing.

* Public relations activities utilizing a variety of methods will be needed to promote greater use by foreign patients.

(iii) Asian economy

○ Promotion of the deployment of integrated infrastructure systems overseas

- JICA overseas investment loans will be resumed during the fiscal year for specific cases. This will be carried out through 1) verification and improvement of a new implementation system and 2) a pilot approach that works out the rules for selection.

- We will promote a stronger consulting sector and better F/S mainly in priority nations and sectors. Based on decisions taken at Ministerial Meetings on deployment of integrated infrastructure overseas, we will also submit necessary bills to the Diet for the separation of the functions of JBIC and the Japan Finance Corp. Along with this, we will begin raising coverage rates on January 1, 2011, in order to enhance trade insurance. We will implement enhanced management of local currency exchange risk early in the fiscal year.

* It is necessary to collect appropriate information regarding each project and to build systems for prompt response.

○ Promotion of Japan as an Asian industrial center

- We will submit to the Diet a Bill on the Promotion of Japan as an Asian Industrial Center (tentative name) that devises support mechanisms for approved global corporations.

- We will complete a “program for accelerating Japan as Asian industrial center and direct investment into Japan” (tentative name) during the summer and begin implementing international public relations activities.

- Japanese financial institutions, JBIC, JETRO, and so on will collaborate to improve and upgrade the support system for the entry of small and medium enterprises into countries in Asia and other regions.

* It is necessary to develop measures so that the advantages of Japan as an Asian industrial center will spread wealth to individual members of the public as well as to corporations.

○ Training of global human resources and expanded acceptance of highly-skilled personnel

- In order to promote the acceptance of advanced human resources from overseas, by the end of March 2011 we will reach a conclusion on the basic framework for a system and begin preparing to adopt it. This system will include preferential treatment such as an approval framework that uses a point system, simplification and prioritization of entry/stay procedures, and easier conditions for permanent residency.

- In order to promote university-level interaction among Japan, China, South Korea, and the rest of Asia, we will set guidelines for credit transfers and grades among the three countries. We will begin a pilot program at an early date.

- Based on university interaction agreements and so on, we will provide new support for exchanges of Japanese and foreign students (7,000 of each) of up to three months. Along with acceptance of high-quality foreign students, this will expand opportunities for Japanese students to improve themselves overseas.

* In order to meet targets for 2020 (300,000 Japanese students overseas for study and training and 300,000 foreign students in Japan), an international strategy must be devised.

- Strategies for intellectual property and international standardization and exporting Cool Japan

- To enhance competitiveness in specified strategic sectors, we will compile an international standardization strategy by the end of March. We will promote a strategic response to international standardization.

- Regarding overall strategy on the promotion of Cool Japan, we will aim to set out an action plan for promotion by March and then strategically advance the plan.

- * Rapid compilation of actual results based on the strategies is necessary.

- Promotion of EPAs and FTAs

- In the Asia-Pacific region, we will accelerate the current EPA negotiations with Australia and initiatives to resume currently suspended negotiations on a Japan–South Korea EPA. At the same time, we will promote research on broad economic partnerships such as a Japan–China–South Korea FTA and the Comprehensive Economic Partnership in East Asia (CEPEA) concept. We will open negotiations on an EPA with Mongolia, which is now being jointly studied by both countries, as soon as possible. In addition, in parallel with improving the domestic environment, Japan will actively promote bilateral EPAs with major countries/regions in the Asia-Pacific region with which Japan has not yet started negotiation. We will expedite arrangements to enter into negotiations with the EU, Japan's largest trading partner outside the Asia-Pacific region, at an early date.

- As for the Trans-Pacific Partnership (TPP) agreement, it is necessary to act by gathering information. While moving expeditiously to improve the domestic environment, Japan will continue consultations with the TPP member countries, including the USA.

- In order to strengthen high-level economic partnership with major countries and regions, the Government of Japan, with a view to opening the country, will first promote appropriate domestic reforms.

Specifically, in the agriculture, forestry, and fisheries sector, a basic policy will be developed under the leadership of the Headquarter to Promote the Revitalization of the Food Industries, Agriculture, Forestry and Fishery in order to promote both high-level EPAs and improvement of Japan's food self-sufficiency and revitalization of its agriculture industry and rural community, and also in order to take measures aimed at fostering sustainable and strong agriculture. The Headquarter will draw up an action plan with a medium and long term perspective around October 2011..

As for how to handle the issue of nurses and certified care workers from overseas (including issues such as the proper examination system for nurses and certified care workers and thinking about examination opportunities), a study group under the Minister of State for National Policy based on the Basic Policy on Comprehensive Economic Partnerships will set basic direction by June. Specific directions for regulatory reform will be set by March.

- * Deepening public understanding and other coordination of the domestic environment is necessary.

- Strategic international container and bulk ports and privatization of port operations

- Selection of strategic international bulk ports (end of March).

- A bill revising the Port and Harbor Law will be submitted to the Diet along with regulating strategic international container ports as a new type of port under the Port and Harbor Law, it will create a port management corporation system to achieve unified management of ports from a private-sector perspective.

(iv) A tourism-oriented nation and regional vitalization

○ Creation of Comprehensive Special Zones

- A Comprehensive Special Zones Bill (tentative name) will be submitted to the Diet. It will promote the creation of Comprehensive Special Zones for International Strategy (tentative name) where industries that will drive the growth of the Japanese economy will concentrate and Comprehensive Special Zones for Regional Vitalization (tentative name) that will maximize the wisdom and ingenuity of Japan's regions.

- After passage of the bill, we will set basic policy quickly and implement recruiting and designation of Comprehensive Special Zones.

* It is necessary to build and operate the system in a way that utilizes maximum regional and private-sector originality.

○ Enhancing the PFI system

- In order to realize high-quality government services at a low cost through the vitality of the private sector, a bill revising the PFI Law will be submitted to the Diet. It will create a concession system related to rights to operate public facilities (tentative name). Along with revision of the law, measures to open public property management to the private sector will be implemented after study of target facilities, not limited to the public property sector, is carried out.

- We will create a PFI expert dispatch system (tentative name) and implement "one-stop service for local governments" (tentative name).

- We will promote the formation of specific cases for new PPPs (public-private partnerships) and PFIs.

* The system must be improved so as to be attractive and bring out the originality and ingenuity of the private sector. Initiatives to form cases and study of measures to utilize private funds are necessary.

○ Promotion of the 30 Million Annual Visitors to Japan Program and staggered vacation time

- Based on the changing situation, the entire Government will undertake a review of the Basic Plan for the Promotion of a Tourism-Oriented Nation in order to clarify the path to promote a tourism-oriented nation.

- The Comprehensive Special Zones Law (tentative name) will authorize some paid tour guides other than licensed guides.

- We will implement any necessary review of policies on individual tourist visas for Chinese nationals in July based on the situation over the past year (July 2010 through June 2011).

- Promotion of one-stop service at overseas field agencies.

- We will issue proposed changes regarding "staggered vacation times" based on discussion in the National Commission on Holiday Reform and research such as special public opinion polls by the Cabinet office.

- * Effective promotional measures are necessary in order to attract foreign tourists. A careful approach is vital in order to build a national consensus on staggered vacation times.

(v) Science, technology, and IT

○ Promotion of research and development investment

- The Fourth Science and Technology Basic Plan sets the following targets for research and development investment: "In addition to the target of combined government and private sector research and development investment of at least 4 percent of GDP, government research and development investment of 1 percent of GDP, totaling 25 trillion yen over five years (calculated from preconditions of a report by the Council for Science and Technology Policy)."

- A portion of grants in aid for scientific research will be transferred to a fund, enabling it to be used for research costs that span multiple fiscal years. This will increase convenience for researchers, use the budget more effectively and efficiently, and vitalize research activities.

- * We will establish a policy PDCA cycle to steadily promote science and technology measures in accordance with the Fourth Science and Technology Basic Plan.

- * Study and implementation of various measures for the promotion of investment in research and development.

○ Promotion of the use of IT

- Learning from investment in IT to date, we will set basic policy on the promotion of electronic government including matters related to the Government's CIO system.

- The Strategic Headquarters for the Promotion of an Advanced Information and Telecommunications Network Society (IT Strategic Headquarters) will set the direction for handling review of regulations and systems for the use of IT. These include the sale of nonprescription drugs on the internet, drug sales using videophones, utilization of Government statistical data, and the validity of electronic documents.

- Working towards realization of the "Initiative of Optical Fiber Highways" concept (every household using broadband service by about 2015), we will submit relevant bills (revisions of the Law on Temporary Measures concerning Telecommunications Infrastructure Improvement, the Telecommunications Business Law, and the Radio Law) to the Diet in order to promote infrastructure upgrades to regions still without broadband and to promote competition.

- * Electronic government must be promoted in conjunction with work process reform and review of existing rules and regulations.

(vi) Employment and human resources

○ Promotion of the integration of kindergartens and nursery schools

- We will submit necessary bills to the Diet in order to integrate kindergartens and nursery schools into "children's centers" (tentative name) and eliminate "conditions that fall short of childcare services."
- In order to urgently eliminate waiting lists for childcare, we will promote an "advance" project in which the national government unites with local governments to eliminate waiting lists.
- In order to promote the participation of diverse actors, we will review how to fund facilities improvement, maintenance, and limits on the use of operating funds, make it known that there are no limits on dividend allocation, and review the application of social welfare corporations accounting for for-profit enterprises.
- Based on the state of examination of integration into "children's centers" (tentative name), we will set forth "Guidelines for Children" (tentative name).
- * In order to realize a society that takes care of its children and guarantees every child high-quality early childhood education and care, study must be pursued with due attention to adjustment of stakeholder attitudes.

○ Adoption of a practical career enhancement system

- During FY 2010, we completed basic policy on the overall practical career enhancement system. In FY 2011, we will set forth evaluation standards and training programs for practical occupational skills in three areas (for human resources in nursing, energy conservation and greenhouse gas reduction, and the sixth industrialization of agriculture).
- * We will examine implementation of practical work for the three occupational areas during the second half of FY 2011. For the five years that began in FY 2010, we will introduce the system step by step in accordance with the progress of examination of the three areas. Adoption of the system for other growth sectors will also be examined.

(vii) Finance

○ Promotion of the creation of a comprehensive exchange (stock/finance/commodity)

- In order to realize a comprehensive exchange, after completing debate on the exchange and its regulation and oversight, we will prepare the necessary bills by the 2012 ordinary Diet session at the latest.
- * Designation of a plan that overcomes differences of opinion about points of contention among Government agencies.

(2) Implementation of follow-up

Regarding the various measures indicated in the implementation plan (schedule) for the New Growth Strategy, we will seek progress reports from those involved and undertake corrective measures as necessary. We will thoroughly manage progress using the PDCA cycle.

For items marked on the schedule for implementation during 2010, we will therefore carry out a survey of progress from the end of March into April of this year. The results will be reported

to the Council on the Realization of the New Growth Strategy. Review of items will be carried out as needed, along with policy issues discussed in the Council.

3 Upon the New Growth Strategy's 2nd year of implementation

(1) The role of the Council on the Realization of the New Growth Strategy

The Council on the Realization of the New Growth Strategy serves as the "control tower" for the realization of the targets in the New Growth Strategy. It plays the following roles as it steadily implements and accelerates measures towards that end.

(i) Setting the policy agenda

The Council on the Realization of the New Growth Strategy selects policy issues for debate, such as matters requiring interagency action, the creation of systems, and matters accompanying review.

(ii) Indicating the direction of study

Regarding the policy issues in (i), the Council seeks knowledge from government, business, academia, and labor and then indicates directions for examination by the Government.

(iii) Supporting Government initiatives

In addition to (i) and (ii), the Council verifies the status of Government initiatives. When delays or obstacles arise, it supports Government initiatives by indicating methods for resolving the issues, always considering ideas from the private sector as well.

Additionally, in light of the fact that the Prime Minister chairs the Council on the Realization of the New Growth Strategy, it promotes policy implementation through political leadership.

These roles played by the Council on the Realization of the New Growth Strategy are essential to initiatives to accelerate and expand the New Growth Strategy during 2011. The Council will continue as the mainstay of deliberation related to the realization of the targets in the New Growth Strategy.

(2) Basic ideas on the Growth Strategy

The Council on the Realization of the New Growth Strategy follows the following three basic ideas that correspond to the three levels that comprise the state: the nation, the regions, and individuals. From that perspective, the Council pursues its deliberations and works to accelerate and expand the New Growth Strategy.

(i) The 21st-century opening of Japan

The rise of emerging nations is significantly changing the world's power map in terms of both security and economics. The world faces changes so large they could even be called cataclysmic. On the domestic front as well, Japan is responding to an aging and shrinking population and is leading the world in responding to environmental issues. The nation faces a collection of problems unlike those of any other country.

In response to this state of change, Japan must construct a national model for growth that is not captive to conventional ideas.

First, Japan must make maximum use of its position in Asia, the world's growth center.

In the 20th century growth model, developed nations depended on cheap resources from emerging nations. In the 21st century growth model, it is important for developed nations to incorporate the energy of the growth of emerging nations. They must open themselves up, and promote richly creative economic activity through the vitality of the private sector and bold policy initiatives from Government. Japan must construct a growth model that enables it take its place in the world both contributing to the development of emerging nations and enjoying the fruits of their energetic growth.

In order to pursue the "21st-century opening of Japan," Japan must rethink issues such as its aging population and its concern for the environment. It must see them as opportunities for growth, rather than as obstacles as it did in the past. It must grow by solving these problems.

In other words, in the 20th century growth model, economic growth was in tension with the environment and social security, but in the 21st century growth model, they complement and strengthen each other. This shift in the growth paradigm is taking place not just in Japan but around the world. Japan is constructing a model that achieves growth by maintaining and strengthening its position as a leader in solving such problems.

(ii) Regional originality and networks

Each region will utilize its originality and ingenuity and maximize its own characteristics and strengths.

In the 20th century growth model, the two methods of government intervention and free markets butted heads. In the 21st century growth model, communication not only among government, big business, academia, and labor, but also including diverse actors such as the residents who make up each region, nonprofit organizations, and small and medium enterprises is the driving force. Building these regional knowledge networks and broadening them from "points" to "planes," while maximizing regional knowledge in collaboration with national government measures will breed innovation. We will construct a growth model in which ideas from each region thus become part of a national movement in which the regions generate growth.

(iii) Full realization of ability

We will prepare an environment in which each individual, regardless of age, sex, disability, or regional differences can maximize his or her potential.

Despite various efforts, Japan has not been able to rid itself of aspects such as long work hours performed as a matter of course and a fixed division of labor by gender roles. Moreover, the increase in non-regular employment has greatly changed the employment environment. Workers, especially young ones, face future instability in their jobs and lives. In the 21st century growth model, everyone, including women, young people, the elderly, and people with disabilities, can choose among various work styles under fair conditions and balance work and life even in this changing employment environment. We will construct a model in which each individual can reach his or her maximum potential in this way. This will increase the value each member of the public adds to society and thus generate growth.

Based on these ideas, growth and employment are the most important themes in macroeconomic management. Employment will be increased mainly in sectors where demand is expanding, and priority will be given to policies with economic growth as their keystone. Deflation will be terminated and sustained growth will be realized. Additionally, in order to prepare for the increasing medium- and long-term constraints on supply-side growth that the aging and decreasing population will exercise in the future, selection and concentration of budgetary, tax, and system/regulatory reforms will take place even in elemental sectors such as technological development, human resources development, employment, and finance.

II Basic policies for economic and fiscal policy management centering on macroeconomic management

1 Economic trends since the setting of the New Growth Strategy

Although the Japanese economy has rebounded since bottoming out in March 2009, it has been stagnant since the autumn of 2010 due to factors such as declining exports and still in mild deflation.

Since the New Growth Strategy was decided by Cabinet Resolution last June, the risk of an economic downturn has increased due to the strong yen and other factors. In order to terminate deflation and shore up the path to an autonomous recovery, the Government is therefore developing policies based on the "the Three-Step Economic Measures for the Realization of the New Growth Strategy" (Step 1-3). Partly because of the steady implementation of the New Growth Strategy, movements of an incipient recovery in employment and business investment can be seen, even though the overall economy is stagnant.

However, mismatches in labor market remain large, though they have improved. The amount of risk money available for startups and other ventures is still low. Full-fledged implementation of the New Growth Strategy is therefore necessary in order to improve this situation.

Thus, through appropriate macroeconomic management and initiatives on the New Growth Strategy, overall the Japanese economy has not deviated markedly from the assumptions in the New Growth Strategy.

2 Future basic policies for economic and fiscal management centering on macroeconomic policy management

(1) To terminate deflation

During the Phase I as a "period of overcoming deflation," the Government will emphasize on growth and employment, regarding overcoming deflation as the highest priority in macroeconomic policy management.

In the fiscal situation, for a natural increase in social security costs is projected, even meeting the targets in the Medium-term Fiscal Framework will require a considerable amount of efforts in fiscal balancing, as indicated in the Economic and Fiscal Projections for Medium to Long Term Analysis (Cabinet Office, January 21, 2011). From FY 2012 on, further efforts to control expenditures and secure revenues will be necessary.

The Government and ruling parties not only bring discussion to a proposal by mid-2011 to stabilize and strengthen social security system, but also clarify the source of the necessary funds along with tax reforms which aims revenue stabilization and the fiscal consolidation.

After that, they will pursue a national discussion. These reforms will bring peace of mind to the public, which will lead to boosting economic growth.

In order to overcome the difficult task of putting Japan's increasingly constrained finances on a sound basis while simultaneously defeating deflation, policy responses on both the fiscal and monetary sides are necessary. As for the fiscal and monetary policy mix, on the fiscal side, in light of the fact that the amount of (total) expenditures are constrained, efforts to improve quality (further prioritization of expenditures for growth and employment, etc.), effective budget enforcement (promotion of the PDCA cycle, etc.), and various policy efforts not involving fiscal spending will be pursued with increasing vigor. On the monetary side, it is expected that, with the Government, the Bank of Japan shares understanding of the policy issues and continues closely exchanging information and collaborating. Appropriately flexible monetary policy management is also expected.

By promoting the above economic and fiscal policies, continuing to avoid an excessively strong yen, overcoming deflation, and aiming for growth that balances both internal and external demand will remain the basis of macroeconomic management.

(2) To realize the medium- and long-term economic growth targets

In order to achieve the medium- and long-term economic growth targets, it is necessary to strengthen initiatives, in FY2012 and beyond, which build a foundation for growth but require considerable lead time before their effects appear. The initiatives include science and technology, education and human resources development, the supply of risk money, and adjustment of the labor market, which will be strengthened through the budget formulation, tax reform, regulatory and institutional reforms, and promotion of EPAs and FTAs.

Furthermore, we will work to improve the environment that supports the New Public Commons for minimizing public dissatisfaction, while realizing the resolution of problems in social and environmental areas and economic growth in an integral manner.

3 Economic outlook and macroeconomic goals

(1) Economic growth

The sluggish growth during the second half of FY 2010 will temporarily slow growth during FY 2011, but it will not influence in FY 2012 and beyond. In addition, through the macroeconomic management described above, the economy will free itself from the negative influences of deflation and the strong yen. The effects of concrete New Growth Strategy initiatives are projected to begin gradually appearing, so in FY 2012 and beyond economic growth should approach to 3 percent in nominal term and 2 percent in real term.

(2) Ending deflation

In the future, as the gap between supply and demand shrinks, the rate of CPI inflation is projected to increase gradually to a slightly positive figure from FY 2011's negative one.¹ Gradual correction of the market's deflation mindedness is also expected. In addition, implementation of the macroeconomic management described above is likely to send consumer prices in a stably positive direction from FY 2012 on. The rate of the increase in GDP deflator tends to be lower than that of consumer prices; even during FY 2012, a supply and demand gap is expected. Thus, any judgment regarding whether deflation has ended must take this situation into account.

(3) Employment

By prioritizing measures with high job-creation effects, the unemployment rate will be reduced to below 4 percent quickly. The employment rate is aimed to raise by arranging an environment where job seekers can find work.

The macroeconomic targets indicated in the New Growth Strategy may seem difficult to achieve in light of the slow growth of the past 10 years. Nevertheless, we intend to stick to them as the objectives for our policy efforts.

¹ It should be noted that the standards for consumer price statistics will be revised in this August.