

Minister's Summary by Minister Yosano**19th Meeting (July 7, 2006)**

- (1) Basic Policies 2006
- (2) Future economic trend and the Overall Picture of FY 2007 Budget

Kaoru Yosano here. Today, the Council on Economic and Fiscal Policy (CEFP) held its 19th meeting of the year. Regarding the Basic Policies 2006, the Prime Minister consulted with the CEFP. Following that, the CEFP submitted a report, and a Cabinet decision was made during the following extraordinary Cabinet meeting. In addition, the CEFP discussed the future economic trend and the Overall Picture for FY 2007 Budget.

With regard to the Basic Policies 2006, Mr. Tanigaki, Minister of Finance, explained the measures for fiscal administrative management aimed at a stable decrease in the ratio of the government debt against the GDP. Mr. Honma suggested that the CEFP should deepen its discussion on the Integrated Reform of Expenditures and Revenues through the continuation of past discussion and reexamination of documents. Mr. Okuda stated that the early materialization of the time schedule for reform is necessary especially for the systems that are to be reformed, such as social security.

The Prime Minister made the following statement.

(Concerning the status of the government and the parties, an expert member commented on American style and British style. This is the Prime Minister's opinion on the subject.) Japanese style changes depending on the time and on who the Prime Minister is at any given time. Japanese style is very wide-ranging. Ways of questioning in the committees of the Diet is completely different in each country.

(Concerning the summary on FY2007 budget made by Mr.Yosano) I (the Prime Minister) agree to the direction proposed. I request that the achievement of the reform over the past five years be used for achievement in the next five years. I request the simultaneous realization of economic vitalization and expenditure cuts. Speaking of expenditure cuts, the attitude of the ruling party has been reformed and I would like to request a compilation of the budget request for FY2007.

This is all for today's agenda. I would like to add some comments as we have reached a certain stage in our achievements today. First of all, the Basic Policies 2006 now positions

the strategy for economic growth and fiscal consolidation as the two pillars of top priorities in the government's economic policy. This is what I have been insisting for several years. And in whatever position I will hold in the future, I will try my best to achieve them.

Secondly, the expert members have worked quite hard and I am very grateful for their contribution. Especially for myself, high-quality discussions including academic wisdom were valuable, and I have always received valuable recommendations. When you check the Basic Policies 2006, you will find that all the frameworks are based on these proposals. For example:

The necessity to establish a virtuous circle of growth policy and policy for fiscal consolidation

The idea not to focus only on the primary balance but to have mid- and long-term goals of a stable decrease in the ratio of total government debts against GDP and to implement measures consistently, continuously, and gradually

The importance of basing fiscal policy on prudence, which is based on sound assumption, specifically the assumption of a 3% nominal growth rate

The flexible attitudes to slow the pace of advancing fiscal consolidation down or to accelerate it depending on the economic situation

I think these basic ideas are quite important as the government works toward fiscal consolidation for the future.

Concrete proposals presented at the CEFPP included the following:

Balanced advancing of fiscal consolidations between the central and local governments

The necessity of further prioritizing and greater efficiency of social security; the necessity of securing stable sources of revenue

The necessity of continuing the reduction of public investments

Ideas concerning the selling of government assets

The idea of using the revenue from any new burdens on citizens for the benefit of citizens themselves instead of using it to expand the public sector

I think we had proposals which have led discussions on the Integrated Reform of Expenditures and Revenues in the ruling party and others.

I am also grateful for the members of the LDP and the Komeito. We asked the ruling

party to summarize the ideas on expenditure cuts and revenue reform for the next five years, and they worked very diligently and constructively. I cannot thank them enough. I would especially like to express my sincere appreciation to the Chairmen of Policy Research Councils and of the Research Commissions on the Tax System of both the LDP and the Komeito.

Regarding revenue reform, the ruling party's Research Commission on the Tax System usually conducts discussion conventionally at their own pace and separately from the government. This time, however, the Cabinet decision was made with very good synchronization of discussions at the ruling party's Research Commission and at the CEFP. I think it was quite innovative in the sense that the foundation was made for the ruling party and the government to work together.

As for the relationship between the CEFP meeting and the ruling party, the previous style was that the Minister of State for Economic and Fiscal Policy and Financial Services made in-depth proposals under the auspices of expert members in the CEFP meeting, and afterwards proceeded to have occasional friction with the ruling party. This approach is also important. It is effective for the project to be forced through at some point. I thought, however, that it was not an efficient way to tackle the issues related to wide-ranging economic policy such as the Integrated Reform of Expenditures and Revenues. It takes considerable time to make adjustments which include procedural coordination with the ruling party .

Since I was appointed for this position, the expert members took the initiative with knowledge and wisdom and they led the CEFP meeting from a neutral standpoint. The CEFP meeting concentrated on forming a big frame and basis for ideas rather than adjusting individual interests. I think that the CEFP performed its primary role very in its entirety and that its ideas were fully utilized in the Basic Policies 2006.

As the Minister in charge, while on the one hand taking the big picture into consideration, and on the other taking responsibility for interfacing with the ruling party, I have taken the approach that the ruling party and the CEFP should promote their respective works and examinations simultaneously and in parallel. I think what is excellent about the CEFP is that the content of the discussion and the document are published immediately. The documents considered to be most important among those submitted in the past CEFP meetings were submitted once more today. I think such an effort contributes greatly towards improving transparency in the process of policy planning.