

**Minister's Summary by Minister Ota****29th meeting (December 14, 2006)**

(1) On the new medium-term policy (first draft)

Hiroko Ota here. Today, the Council on Economic and Fiscal Policy (CEFP) held its 29th meeting of the year and discussed a first draft of the new medium-term policy "Course and Strategy for the Japanese Economy."

Major points made at today's meeting are as follows:

For the implementation of "Course and Strategy," it is necessary to steadily put into effect the "Economic Growth Initiative", compiled mainly by the Ministry of Economy, Trade and Industry.

The progress in the implementation of "Course and Strategy" should be discussed at an open forum such as CEFP.

The "Economic Growth Initiative" should be subjected to follow-up assessments for possible revision and enhancement.

In budget compilation, a special quota should be set for economic growth strategies. It is important to offer an economic growth outlook that is in line with the goal of achieving annual real growth rate of 2.2 % set under the "Economic Growth Initiative."

With regard to this last point, I pointed out that consideration should be made to the fact that the "Economic Growth Initiative" is targeting an annual economic growth of 2.2 % over a period of 10 years, while "Course and Strategy" has a time span of only five years.

There was also an argument that it is necessary to avoid the folly of neglecting fiscal reconstruction efforts as a result of relying on overly optimistic economic growth projections. In this regard, it is important to allow for a certain margin of tolerance for the growth outlook by taking into consideration risk factors as well as a blueprint for ensuring the achievement of fiscal reconstruction, according to this argument.

It was pointed out that the first draft of "Course and Strategy" presented today also stipulates that it is necessary to take account of uncertainty factors for the economic growth and allows for such a tolerance margin for the growth outlook.

Other opinions expressed today included:

The government should underscore its resolve to reverse the declining birth rate now.

In order to improve the productivity and international competitiveness of Japanese industry, it is important to further introduce ICT (information and communication technology).

Although "Course and Strategy" pays heed to fiscal policy for the period beyond its time span of five years, it is also necessary to map out a longer-term strategy for economic growth and try to achieve concrete results.

Concerning policy-based finance, an issue referred to in the expert members' paper, there were some discussions on the reform of Shoko Chukin Bank(the Central Cooperative Bank for Commerce and Industry).

The expert members suggested that there may be room for Shoko Chukin to accept a variety of minority shareholders after its full privatization. Although the reform plan (under the Law on Administrative Reform Promotion) requires that only associations of small and medium-size companies and their members should qualify as shareholders of Shoko Chukin during a transition period before full privatization, what it says about a post full privatization period is only that restrictions concerning shareholder qualification criteria and other necessary measures will be provided for, the expert members pointed out.

To this, the following objections were raised.

Shoko Chukin constitutes the essential pillar of financing for small and medium-size companies, and the restriction concerning shareholder qualification is an important means to ensure that the bank performs its stated goal of facilitating such financing.

Shareholder qualification criteria should be stipulated in law, rather than in articles of incorporation, which may be easily revised.

The issue of Shoko Chukin's shareholder composition should be considered in the light of the bank's stated goal of facilitating financing for small and medium-size companies.

The expert members responded as follows:

As the purpose of privatization is utilizing market discipline, full privatization of Shoko Chukin should mean that the bank will become an ordinary bank. Therefore, restrictions concerning shareholder qualification should not be too stringent.

The wording of the privatization plan's provision concerning the shareholder restriction indicates that a decision on whether to limit shareholders only to associations of small and medium-size companies and their members should be made after a further study.

To this, yet more counterarguments were made as follows:

The point of the Shoko Chukin reform is not creating a new bank but implementing full privatization while maintaining the bank's characteristics. There is no plan to establish a new law applicable only to post-privatization Shoko Chukin. Lengthy discussions have been made at the ruling-party level over how to secure financing for small and medium-size companies. If the issue of the shareholder restriction is to be brought up again with no regard to the past discussions, debate on the whole issue of Shoko Chukin privatization will have to start over from scratch.

Also, there was a suggestion that the transition period of five to seven years planned for full privatization of institutions involved in policy-based finance should be shortened by one year or so if possible.

I concluded today's discussions as below.

CEFP should continue deliberations on "Course and Strategy" based on the discussions made at today's meeting.

The exchange of arguments over policy-based finance at the meeting will be explained to Mr. Sata (Minister of state for Administrative Reforms, etc.). If necessary, this issue should be discussed again at future CEFP meetings.

The Prime Minister concluded the meeting with the following remarks.

"Course and Strategy" should make clear the basic principle of the government's economic policy as it sets out a comprehensive list of economic policy measures necessary to create the kind of nation the government envisions. This point should be born in mind in consultations with ministries and agencies concerned as well as with the ruling parties for the formulation of the new medium-term policy.

With regard to the reform of policy-based finance, ministers concerned should ensure the enactment of relevant laws based faithfully on the Law on Administrative Reform Promotion and the past decisions made by the Cabinet and the Administrative Reform Promotion Headquarters, thereby avoiding accusations of backtracking on reform.

(End)