

**Minister's Summary by Minister Ota****30th Meeting (December 20, 2006)**

- (1) On the Fiscal 2007 Economic Outlook
- (2) On the Government's draft budget for FY2007
- (3) Intensive Deliberation (7): Reform to improve productivity

Hiroko Ota here. Today, the Council on Economic and Fiscal Policy (CEFP) held its 30th meeting of the year and discussed the Fiscal 2007 Economic Outlook and Basic Stance for Economic and Fiscal Management and the Government's draft budget for FY2007. Also, reform to improve productivity was on the agenda for the seventh round of intensive deliberation.

I explained the Economic Outlook to the other CEFP members, and then Mr. Fukui, governor of the Bank of Japan (BOJ), made the following comments.

The BOJ concluded its latest Monetary Policy Meeting yesterday and wrapped up its assessment of the economic conditions and prices.

The BOJ's conclusion is that the Japanese economy is expanding moderately and is expected to continue expanding moderately.

Private consumption has been on an increasing trend, although the pace of increase has been modest. But the economy is continuing to benefit from a virtuous circle.

The BOJ can envision such a state of the economy as is depicted by the government's Economic Outlook.

The BOJ intends to continue to conduct its monetary policy management in ways to provide support for the economy to achieve sustainable growth with price stability.

Meanwhile, Mr. Omi, Minister of Finance, explained the government's draft budget for FY2007. In the ensuing free discussions, the fiscal 2007 budget plan was praised for featuring clear-cut priorities.

On reform to improve productivity, the expert members pointed out several problems related to Japan's productivity and listed policy direction toward a solution in a paper presented at today's meeting. The expert members recommended that the CEFP should draw up by around April next year a "Productivity-Boosting Program" (tentative name), which would comprise measures to be carried out intensively over the "take-off" period of the next two years, and an agreement was reached on this recommendation.

At today's meeting, Mr. Amari, Minister of Economy, Trade and Industry, and Mr. Suga, Minister of Internal Affairs and Communications, also presented their own proposals about reform to improve productivity backed by economic data and other materials. The CEFP will work out the Productivity-Boosting Program by around next April based on these proposals as well as the expert members' suggestions. As recommended by the expert members, the program should be subjected to reviews as they are implemented.

The following comments were also made with regard to reform to improve productivity.

Information technology (IT) is the key to the reform.

It is important to enhance the compatibility among IT software programs used by small and medium size companies.

It is necessary to strengthen the information and telecommunications industry.

The utilization of IT is limited to communications between companies' own internal business divisions.

Review of the financial and tax systems is also necessary.

It is important to enhance productivity in both manufacturing and services sectors.

Also, some CEFP members made references to the issue of education, offering the following comments. I will convey these comments to the Minister of Education, Culture, Sports, Science and Technology.

Japan should introduce the double degree system, already available in the United States, Europe and Asian countries such as China, thus allowing Japanese students to enroll and earn degrees both at Japanese and foreign universities at the same time based on a credit interchange agreement.

A U.S. university planning to open a branch school in Japan, for example, would face a range of restrictive rules, including the requirement for land ownership. Restrictions such as this should be removed.

In another example of problems in the education field, there was a complaint in India that it is difficult to collaborate with Japanese universities.

The Prime Minister made the following comments.

Although the economic conditions are basically firm, it is currently estimated that it will be difficult to achieve the goal of realizing a higher growth rate in nominal terms than in real terms in fiscal 2006. The government and the BOJ should work together toward their shared

goal of pulling the Japanese economy completely out of deflation at an early date and achieving sustainable growth with price stability.

For reform to improve productivity, it is necessary to carry out the reform in line with the government's key policy of pursuing economic growth, with a view to enabling people to have confidence in the prospect of a better life next year than this year.

Economic growth is also necessary to maintain the social security system, which is the key to enabling people to feel safe about their life. Japan should show to the world that even with the handicap of having a shrinking population, it is possible to achieve economic growth rate of more than 2% in real terms and more than 3% in nominal terms. The key to this is productivity. The CFP should draw up a program for productivity enhancement as proposed by the expert members and promote it by setting a bold and easy-to-understand numerical target, such as "doubling of productivity."

I will work on such a numerical target and propose it to the CFP in due course.

Lastly, I reported on the selection of members of the Expert Committee on Labor Market Reform.

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