

Minister's Summary by Minister Yosano**6th Meeting (March 16, 2006)**

- (1) Integrated Reform of Expenditures and Revenues
- (2) Enhancement of growth potential and competitiveness (Strategy in the Globalizing Economy)

Kaoru Yosano here. Today, the Council on Economic and Fiscal Policy (CEFP) held its sixth meeting this year. First of all, the Integrated Reform of Expenditures and Revenues was discussed. After that, our guests Minister Aso and Minister Nakagawa elaborated on the enhancement of growth potential and competitiveness, including Strategy in the Globalizing Economy. As for the latter issue, only an explanation of the materials was possible today due to lack of time and we didn't conduct any discussions.

Regarding the Integrated Reform of Expenditures and Revenues, Minister Tanigaki introduced the estimate with reference to the contribution to the fiscal consolidation by this reform, and what we should do in order to advance the fiscal consolidation through expenditure cuts alone. During the CEFP meeting on February 15th, I requested that Mr Tanigaki report on these subjects. According to the explanation, projections of general account are based on several assumptions for economic growth rate and interest rate. But due to the development of aging, even with the achievement of reform considered, mid- and long-term balance will deteriorate and government debt will diverge. The realization of a primary balance at the beginning of the 2010s is important. If the ratio of government debt to GDP is steadily reduced afterwards, and based on the prudent assumption of interest rate that is about 1% higher than the growth rate, it will be necessary for the government to achieve a primary balance surplus of about 1.5% of GDP in FY2015. Following this, Minister Takenaka made some remarks on the materials.

There were some important remarks made, and one member stated as follows:

There are different opinions on the growth rate and interest rate. Therefore, please do not base your decisions on fixed assumptions.

However, another member stated as follows.

We cannot go forward towards economic reconstruction without first deciding upon

prerequisites for growth rate and interest rate. The CEFP must decide these. All countries base their financial forecasts on the assumption that interest rates will be higher than growth rates.

The Prime Minister stated as follows.

Let's proceed with several cases for the time being, and let's not make fixed assumption beforehand.

I wish to request Minister Tanigaki to once again examine to what extent special accounts can be reduced.

I confirmed that we will henceforth be using several scenarios for establishing financial predictions. I explained that the growth rate and interest rate predictions would not be of significant influence until 2011, but could not obtain consensus on that point from all members. I simply stated that it will be impossible to sustain central government finances if about 1.5% surplus of primary balance cannot be achieved in 2015.

I asked the Minister of Internal Affairs and Communications to present materials about to what extent expenditure cuts are possible for local finances and what kind of compensation is necessary for the interim compilation planned between the end of March and the beginning of April. The Minister said analysis of results from the central and local governments are necessary in order to make any such suppositions. However, I think the Minister could report on what extent reduction is possible for local finance based on assessments of the past results of expenditure cuts conducted by the central and local governments.