

Minister's Summary by Minister Ota



20th Meeting (July 29, 2008)

- (1) Guidelines for FY2009 Budget Requests
- (2) Agenda for the future deliberation of the CEFP

Hiroko Ota here. Today, the Council on Economic and Fiscal Policy (CEFP) held its 20th meeting of the year and conducted discussions on Guidelines for FY2009 Budget Requests and Agenda for the future deliberation of the CEFP.

First, Member Nukaga (Minister of Finance) explained guidelines for FY2009 budget requests, and in response, the following comments were voiced:

Expert Member: How to allocate government budgets to priority issues under the Prime Minister's leadership is an important matter, but so far this has not always been achieved. This time, however, a framework for addressing priority issues has been established. Budget allocation consistent with the framework under Prime Minister's initiative will surely realize flexible and effective financial resources allocation, regardless of conventional ministerial sectionalism. This will indeed mark an epoch-making step toward budget formulation. What is also important is how to decide what should be included in the budget incorporated in the framework, and accordingly, the Government needs to demonstrate the process of deciding in a manner easy to understand for people. For that purpose, we, members of CEFP, would like to hear from the Ministry of Finance at the beginning of this fall about what kind of budget requests have been presented by each ministry.

Prime Minister Fukuda made the following comments:

Member Nukaga has worked out a framework which can achieve financial consolidation and address priority issues at the same time. The full-scale process for FY2009 budget formulation will soon begin, and policies and administrative measures incorporated in "Basic Policies 2008" should be realized immediately for addressing problems the country's economy is now facing. For that purpose, we must take advantage of the framework which is a great deal larger than those in the past for addressing really urgent issues. Moreover, to secure revenue sources for the framework, we need to conduct a complete zero-based review of conventional budgets, assessing all costs from scratch, and generate additional revenue sources, by achieving a "zero futility" government and by

making an inventory of policies. In either case, we will formulate sharp FY2009 budgets by sharing the standpoint of people.

Regarding the agenda for the future deliberation of the CERP, first, expert members explained their papers. In response, the following comments were voiced:

Expert Member: Recent price hikes for crude oils and foods should be considered as an opportunity to change the country's economic structure, not as natural hazards, such as tropical storms, to which disaster reduction measures should be developed. For example, the income fishermen earn from marine products is quite different from the price end-users or consumers pay for them. Accordingly, we should thoroughly streamline distribution systems for fishery products. Taking the agricultural sector as an example, we need to reform structures which discourage farmers from producing more so that a normal mechanism will work. In other words, in the agricultural sector, too, one should establish a system that can make better use of common-sense mechanisms so that one is encouraged to produce more what sells well. Growth potential is another important issue, and the New Employment Strategy still holds the key to it. We need to offer a variety of working styles and let motivated job-seekers and workers to make better use of their skills.

Expert Member: In my opinion, the Fukuda administration has achieved much for the past 10 months, by shifting the earmarked revenues for road construction into general revenues, reforming the civil servant system, facilitating the transition to a low-carbon society, achieving a "zero futility" government and directly addressing other long-standing major pending issues. For completing these works, the second half of this fiscal year will be a crucial period, and under Prime Minister's leadership we have to complete them. The CERP also has to squarely address and sincerely discuss longstanding priority issues such as social security benefits and burdens, growth potential enhancement in the world of globalization and the tax reform. Speaking of growth potential, though, in the shorter term, the economic environment is still difficult for the country's economy, in a sense this is an opportunity to make better use of strengths of the country. It is essential to develop environmental energy technology, and it is also important to push forward the agricultural reform so that farmers are encouraged to grow safer and higher-quality agricultural products. In addition, carrying out the fundamental tax reform is essential. Japan's existing corporate tax rate, which is at the highest level among OECD nations, makes it difficult for the country to achieve economic growth. At the same time, with the country's social security issues and declining birthrate, the Government is required to clearly demonstrate the way to achieve the tax reform. Pushing forward EPA negotiations is important, too, and particularly, accelerating EPA negotiations with the EU is essential. The Government needs to convey more positive messages to people. In addition, carrying out the decentralization reform in the government itself and realizing e-Government are also

important.

Mr. Yoshitaka Shindo, Vice Minister of Economy, Trade and Industry: I also recognize that the recent price hikes for crude oils and other natural resources are not transient. Structural efforts to develop technology for saving energy and resources and to reduce corporate spending are necessary. Ministry of Economy, Trade and Industry will also make its best efforts to create new demand for energy-efficient technical development and energy-saving equipment.

Member Nukaga: As expert members have pointed in their papers, when discussing and implementing the tax reform, we have to consider its possible effects not only on the taxation itself but also on expenditures including spending for social security and for growth potential enhancement. For example, the benefit of social security itself will generate some economic effects. Accordingly, effects of the tax reform should be analyzed from a more comprehensive perspective. Expert members have also proposed in their papers the need for discussing targets which should be set for the third stage of the fiscal consolidation. This is to discuss what kind of specific targets we will have to set for the mid-2010s in order to steadily reduce the debt/GDP ratio after achieving a combined surplus of the primary balance in Fiscal 2011. This is not just a target-setting, and it is necessary to consider what kind of specific targets are to be achieved. In addition, as expert members have proposed, regarding macroeconomic management, the Government would like to move closely together with those concerned within government authorities, and from time to time share information with the Bank of Japan.

At the end of the meeting, Prime Minister Fukuda made the following statements:

In the second half of the fiscal year, we have to push forward reforms important for the future of Japan. For that purpose, too, we should prioritize which reform is more important, and study really important issues in a concentrated manner. Regarding economic management, we need to carefully watch economic trends overseas and their possible influence on the Japanese economy so that we can flexibly respond to them if necessary. In that sense, too, the role of the CEFPP is extremely important, and I appreciate your continuous efforts and participation.

(End)