

Basic Policies for Economic and Fiscal Management and Reform
- Ending Deflation and Revitalizing the Economy -
(Summary)

June 14th, 2013, Cabinet Decision
Government of Japan

**Chapter 1: Policies to end deflation and revitalize the Japanese economy;
economic and social vision that Japan should pursue**

After experiencing 20 years of stagnation, it is clear that the “three-arrows” strategy is essential for achieving “a new decade of revival” and that it must be implemented in an integrated manner. Based on these recognitions, the *Basic Policies* presents broad directions of economic and fiscal policy management and its basic strategy.

- The “three-arrows” strategy or “Abenomics”, whose components work to complement each other, has been implemented in an integrated manner and to a different extent from the past in both its scope and its reach. This has already significantly changed market expectations. The real economy is also picking up.
- At the same time, **the three positive cycles** below need to be fulfilled by fully exploiting the impacts of the “three-arrows” strategy.
 - **A positive cycle of sustained economic growth:** Positive spillovers from corporate profits to wages/employment, to domestic investment, and to consumption shall lead to their expansion. Generating these positive cycles will require a comprehensive approach based on close cooperation between the government, business and workers.
 - **A positive cycle between the macroeconomy (business conditions) and microeconomic aspects (structural issues):** The improved macroeconomic conditions shall enhance the effect of the growth strategy.
 - **A positive cycle between economic revitalization and fiscal consolidation:** Secured market confidence shall facilitate the revitalization of the Japanese economy, which will further promote fiscal consolidation.
- **Macroeconomic vision that Japan should aim for in a new decade of revival**
 - Labor productivity growth by **2 percent** or more in the medium- to long-term with a faster increase in wages than prices, accompanied by increased job opportunities
 - Growth of gross domestic product (GDP) by around **3 percent** in nominal terms and around **2 percent** in real terms, with a higher growth rate to be set for the late 2010s
 - Under the conditions specified above, it is expected that nominal gross national income (nominal GNI) per capita will grow by more than **3 percent** in the medium- to long-term, resulting in an increase of **1.5 million yen** or more in 10 years.
- **Economic and social vision that Japan should pursue**
 - An economy and society that guarantees free and fair competition and open economic

- environments, equipped with great attractiveness to the rest of the world;
- An economy and society that offers everyone opportunities to achieve a high quality of life with safety and security;
 - An economy and society that includes a diversity of players and generates dynamism and innovative ideas; and
 - An economy and society that is sustainable in the long-term;

<p>Chapter 2: Realizing a strong Japan and a strong economy and ensuring a high quality of life with safety and security</p>

<p><u>To achieve Japan’s economic and social vision, the <i>Basic Policies</i> sets out a basic design for the growth strategy, together with other policy measures such as enabling all people to fully exercise their abilities and individuality; accelerating recovery from the Great East Japan Earthquake and revitalizing local communities; building foundations for greater sustainability; and reforming the public sector.</u></p>
--

- **Basic design of the growth strategy:** With the long-term commitment of the government, concrete growth strategy measures shall be developed and implemented in accordance with its basic design. The growth strategy will help both individuals and entrepreneurs to take on challenges or investment projects which entail risk.
 - (1) **Plan for the Revitalization of Japanese Industry:** Labor productivity shall be increased by the promotion of private investment, human capital development, and innovations. The market mechanism shall be enhanced to allow the private sector to exert its full potential.
 - (2) **Strategic Market Creation Plan:** To help expand business and develop new frontiers of growth in the areas where Japan has comparative advantages, measures shall be taken to develop social infrastructure and reform regulations and institutions with the aim of solving challenges in advance of other countries.
 - (3) **Strategy of Global Outreach:** Measures for maximizing the benefits of globalization shall be taken to foster sustained growth.
- **Accelerated recovery from the Great East Japan Earthquake:** Measures for accelerating the reconstruction, supporting the recovery and revival of Fukushima, and creating a “New Tohoku” shall be implemented.
- **Strengthening basis for enabling all people to exercise their abilities and individuality through education and other measures:** Measures shall be taken to: rebuild education; promote culture, art and sports; enable women to realize their full potential; overcome the declining birthrate; promote the participation of young and elderly people; and build a safety net.
- **Revitalizing local communities, agriculture, forestry and fisheries industries, and small and medium-sized enterprises, thereby revitalizing Japan:** Measures shall be

taken to: develop local communities based on their unique distinctive features; vitalize local communities through agriculture, forestry and fisheries industries; and help small and medium-sized enterprises and small business proprietors achieve significant growth.

- **Ensuring foundations of the economy and society sustainable in the long-term:** Measures shall be taken to: encourage medium- to long-term investment with emphasis placed on sustainability; make contributions to the global environment; make Japan more resilient (nation's resilience); prevent or mitigate damage from disasters; realize a safe and secure society (through consumer policy, public security and the judiciary, national defense, etc.); ensure economic dimensions of national security including energy and resources; and promote strategic diplomacy.
- **Public sector reform as the foundation for a strong economy and a high quality of life:** Measures shall be taken to: promote administrative reform; carry out decentralization; accelerate the entry of private-sector businesses into public sector; and realize a world-class e-government. Aggressive initiatives shall also be carried out to promote the reform of the public service personnel system.

Chapter 3: Pursuing both economic revitalization and fiscal consolidation

The *Basic Policies* aims for the creation of a positive cycle between economic revitalization and fiscal consolidation such that the progress of fiscal consolidation resulting from the economic revitalization could in turn help the economy revive further.

- **Targets for fiscal consolidation:** Both economic revitalization and fiscal consolidation shall be pursued with the aim of cutting the ratio of primary deficit to GDP of the national and local governments in half between FY2010 and FY2015 and achieving a surplus by FY2020. In addition, a steady decline in the ratio of public debt to GDP will be aimed for, thereafter.
- **Broad directions of fiscal consolidation:**
 - In accordance with this *Basic Policies*, the *Medium-term Fiscal Plan* will be prepared as early as possible. An economic and fiscal projection for the medium- to long-term analysis will also be presented.
 - To achieve this goal by FY2015, expenditure, including non-discretionary expenditure, shall be scrutinized. With regard to local government finance, budgets shall be consolidated in line with efforts at the national level, while the total amount of revenues for general purposes shall be secured to ensure stable fiscal management by local governments. The PDCA cycle, including the appropriate reflection of the *Review of Government Programs*, as well as policy evaluation, will be applied strictly with the aim of eliminating unnecessary spending, prioritizing and streamlining the budget, and ensuring the proper use of tax expenditure.
 - A steady reduction in the gap between expenditure and revenue in terms of their GDP

ratio will be required to achieve the goal of a primary surplus by FY2020.

○ **Basic stance for the prioritizing and streamlining of the major expenditure items**

- **Social security:** Healthy aging and the wider use of ICT and generics should be promoted with the aim of developing the system to provide social security services efficiently and improving the health of people effectively. The reform of the social security system should be discussed at the National Council to make further progress in the comprehensive reform of social security and tax.
- **Social infrastructure development:** Faced with challenges such as fiscal constraint, demographic change, addressing large-scale disasters and aging social infrastructure, measures shall be taken to:
 - (1) prioritize projects based on the degree of stimulative impact on private demand and cost effectiveness of investment;
 - (2) utilize social infrastructure more efficiently and effectively by extending the life-cycle and make it more cost-effective; and
 - (3) actively promote conversion to Public-Private Partnership (PPP) / Private Finance Initiative (PFI) to utilize funds and skills in the private sector.
- **Local government finance:**

It is necessary to switch from an emergency mode to normal mode in line with economic recovery, while securing the necessary revenue. For that purpose, it is important to reform local government expenditure and revenue by securing the local tax revenue in line with economic growth and by prioritizing and streamlining expenditure.

Chapter 4: Basic stance for compiling the FY2014 budget

○ **Approaches to the budget compilation:**

- Based on the *Medium-term Fiscal Plan*, the FY2014 budget should be compiled with clear prioritization, aiming to achieve both economic growth led by private demand and fiscal consolidation, as in the case of the FY2013 budget.
- In accordance with the *Basic Policies* and the *Growth Strategy*, priority should be given to programs highly effective for increasing demand and/or promoting innovation in the private-sector, those which are urgent, and those which need to be implemented in tandem with regulatory reform.

- **Processes and their schedule:** To indicate a clear path for achieving both sustainable growth led by private demand and fiscal consolidation, the Council on Economic and Fiscal Policy will prepare the *FY2014 Budget Overview* by the summer, which describes the economic and fiscal prospects and the outline of the budget for the following year. Following the presentation of a medium- to long-term estimation of the economic and fiscal situation, the *Medium-term Fiscal Plan* and the *Guidelines for Budgetary Requests* will be formulated.