



Economic Policy and Reform Agenda of the Abe Administration

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International Economics**

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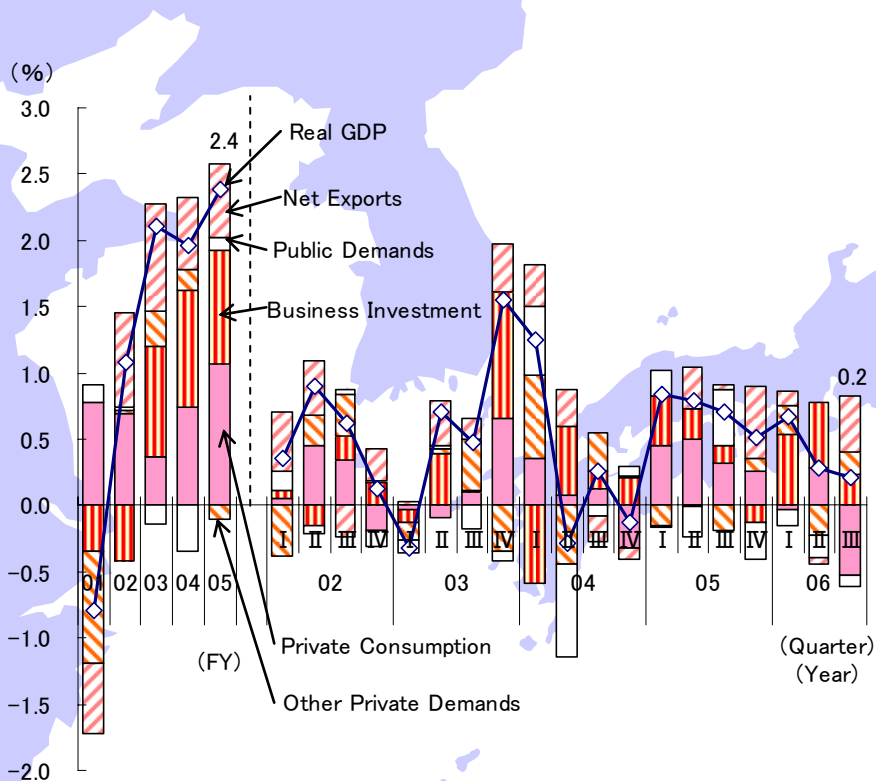
Minister of State for Economic and Fiscal Policy

Cabinet Office

Government of Japan

1. Current Macroeconomic Situation and Prospects

Developments of Real GDP



(Note) 1. Cabinet Office "System of National Accounts"
2. Percentage change from the previous fiscal year/ quarter

Government's Economic Outlook

		<%, (%pt)>		
		FY2005 (actual)	FY2006 (estimate)	FY2007 (forecast)
Growth Rate of GDP	Real	2.4	1.9	2.0
	Nominal	1.0	1.5	2.2
Private Consumption	Real	1.9	0.9	1.6
	Nominal	1.1	0.8	1.8
Business Investment	Real	5.8	7.1	3.6
	Nominal	5.5	7.3	3.7
Contribution of Net Exports	Real	(0.5)	(0.5)	(0.3)
	Nominal	(-0.5)	(0.0)	(0.2)

	FY2005 (actual)	FY2006 (estimate)	FY2007 (forecast)
Rate of Change in Prices(%)			
Domestic Corporate Goods Price Index (CGPI)	2.1	2.7	0.7
Consumer Price Index(CPI)	-0.1	0.3	0.5
GDP Deflator	-1.3	-0.4	0.2

(Note) 1. "Economic Outlook and Basic Stance for Economic and Fiscal Management" (Cabinet Approval)
2. Percentage change from the previous fiscal year
3. Figures in the parenthesis are the contribution to the GDP growth rate.

2. The Council on Economic and Fiscal Policy

● Role

- The Council on Economic and Fiscal Policy (CEFP) is chaired by the Prime Minister. Its purpose is to facilitate the full exercise of the Prime Minister's leadership and to reflect the opinions of private-sector experts in economic and fiscal policy formation.
- The CEFP includes the Chief Cabinet Secretary, the Minister of State for Economic and Fiscal Policy, other relevant ministers, the Governor of the Bank of Japan, and four private-sector experts in business and academics.
- Since its creation in January 2001, the CEFP has played a key role in structural reform of Japan's economy and public finance as a "reform vehicle." The Cabinet Office serves as the secretariat for the CEFP.

● Members

- **Shinzo Abe**, Prime Minister (Chair)
- **Yasuhisa Shiozaki**, Chief Cabinet Secretary
- **Hiroko Ota**, Minister of State for Economic and Fiscal Policy
- **Koji Omi**, Minister of Finance
- **Akira Amari**, Minister of Economy, Trade and Industry
- **Yoshihide Suga**, Minister of Internal Affairs and Communications
- **Toshihiko Fukui**, Governor of the Bank of Japan
- **Takatoshi Ito**, Professor, Faculty of Economics and Graduate School of Public Policy, University of Tokyo
- **Uichiro Niwa**, Chairman of the Board, ITOCHU Corporation
- **Fujio Mitarai**, President and CEO, Canon Inc.
- **Naohiro Yashiro**, Professor of Economics, College of Liberal Arts, International Christian University

● Major Items of Deliberation

"Basic Policy for Economic and Fiscal Management and Structural Reform" (Drafted by the CEFP, Adopted by the Cabinet)

- Formulates basic policy on structural reform and fiscal policy

"Budget Overview" (Compiled by the CEFP)

- Clarifies estimated annual expenditures and budget allocation to priority areas

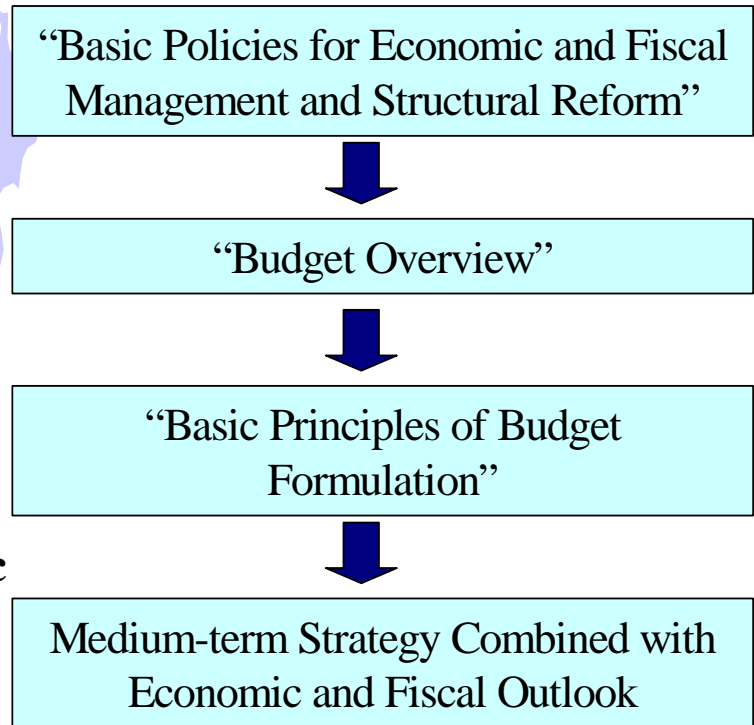
"Basic Principles of Budget Formulation" (Drafted by the CEFP, Adopted by the Cabinet)

- Articulates basic principles of the budget for the next fiscal year

Medium-term Strategy Combined with Economic and Fiscal Outlook (Drafted by the CEFP, Adopted by the Cabinet)

- Presents policy direction -for the medium-term economic and fiscal management and outlook for the developments of economy and public finance

Budgeting Cycle in Japan



3. Structural Reform of the Abe Administration

● Reform to Enhance Japan's Growth Potential

Aiming to accomplish a transition to a new growth stage in about five years

- **“Open”**: Building open economic system to incorporate the dynamism of Asia
 - Aiming to triple the number of EPA/FTA partners in two years (From four to twelve)
 - Examining the feasibility of various proposals on Asian multilateral EPAs
- **“Innovation”**: Boosting productivity through innovation
 - Making maximum use of ICT and raising efficiency in the service sector
 - Comprehensive reform of labor market (“Labor Market Big-Bang”)
 - Opening up government-driven market to the private sector (regulatory reform, market-testing)
- Encouraging renewed challenges
 - Comprehensive support for job searching



● Fiscal Consolidation

- Implementing the “Integrated Reform of Expenditure and Revenue”
 - To achieve a surplus in the primary balance of the central and local governments combined by FY2011
 - To improve the primary balance further toward the mid-2010s, thereby preventing an explosion in the debts to GDP ratio and reducing it stably

- Tax reform
 - Starting full-fledged and specific discussion from this autumn, aiming at fundamental reform of the tax system around FY2007

4. Medium-term Outlook

● Reform Scenario

(Steady implementation of structural reform, favorable economic environment)

- Gradual increase in the potential growth rate
- Real growth rate could reach around 2% or more in the coming 5 years

(Nominal Growth Rate: around 3.5% or more)

● Risk Scenario

(Slowdown of the world economy)

- A fall in the potential growth rate, with the decline in population contributing to reduce the growth rate by 0.2~0.3% annually
- Real growth rate remains at around just over 1% or below in the medium-term

(Nominal Growth Rate: around just over 2% or below)



Thank you very much for your attention!

Please visit our website

- **Council on Economic and Fiscal Policy (CEFP):**

<http://www.keizai-shimon.go.jp/english/index.html>

- **Cabinet Office:**

<http://www.cao.go.jp/index-e.html>