

Economic Policy Speech by Akira Amari, Minister of State for Economic and Fiscal Policy, to the 189th Session of the Diet

February 12,2015

1. Introduction

I would like to state my policies as the Cabinet Office Minister of State for Economic and Fiscal Policy.

2. Basic principles for economic and fiscal management

(Recognition of the current state of the economy, and the outlook)

In order to pave the way to overcoming prolonged deflation as soon as possible and revitalizing the economy, the Abe Cabinet has been boldly promoting the “three arrows strategy” as a package including “aggressive monetary policy”, “flexible fiscal policy”, and “a growth strategy that promotes private investment”. Under such policies, the effective ratio of job offers to applicants rose to its highest level in 22 years and the growth in nominal compensation of employees is largest in 17 years. Meanwhile, corporate ordinary income reached its highest level ever, the ROE (return on equity) for listed companies increased about 50% since the launch of the administration, and bankruptcies fell to under 10,000 per year for the first time in 24 years. While the Japanese economy is on a moderate recovery, at present weakness can be seen in private consumption and other areas. There are some possible causes lying behind such weaknesses in the economy. They include the decline in demand as a reaction after last-minute demand before the consumption tax increase, the impact of unseasonable weather in the summer, and the fact that increase in headline inflation, which includes the effect of rising import prices, moreover the consumption tax hike, has so far outpaced the rate of growth in household income.

The “Fiscal 2015 Economic Outlook and Basic Stance for Economic and Fiscal Management”, decided by the Cabinet today, projects an economic recovery supported by robust growth of private demand in FY2015. The employment and income conditions will continue to improve, leading to a further extension of the virtuous economic cycle. An improvement in terms of trade partly owing to the decline in oil prices will also support the recovery. As a result, GDP for FY2015 is expected to increase by around 1.5% in real terms and by around 2.7% in nominal terms.

(Economic and fiscal management at the moment)

In view of the current economic conditions, at the end of December 2014 the Cabinet decided the “Immediate Economic Measures for Extending Virtuous Cycles to Local Economies” with the goal of securing the realization of a virtuous economic cycle and broadly delivering the benefits of Abenomics to local economies by focusing on the vulnerable areas of the economy and intending to address such vulnerabilities as soon as possible.

The Immediate Economic Measures include providing support for consumers and business operators affected by the current economic state, reinvigoration of regions through effective initiatives for addressing structural changes they are faced with, and action to address disasters and crises, including accelerating recovery and reconstruction after disasters. In consideration of the intent of the formulation of the measures, we will work with a sense of speed to bring them to fruition.

Moreover, at the “Seiroshi” (Government, Labor, and Corporate Management) Meeting, it was agreed that the business community will make its utmost efforts to raise wages, and comprehensively engage in supporting supplier companies as well as passing on price, due to higher purchasing costs, in tandem with initiatives to be taken by the government to create better environment, and initiatives are to be promoted, based on mutual cooperation between labor and management to enhance productivity in the service industries. Going forward, by conducting follow-up activities, we will strive for the continuation of wage increases this spring and again next spring with the aim of expanding the virtuous cycle of the economy.

Last October, the Bank of Japan decided to expand its “quantitative and qualitative monetary easing” among other measures it is advancing to achieve a “price stability target” of 2% inflation. The government expects this target to be achieved in light of economic activity and prices.

(Execution and realization of growth strategy)

In the growth strategy pursued by the Abe administration, it is of the utmost importance to execute and realize in a dynamic manner at an unprecedented speed.

To achieve this, at the end of December of last year, the Headquarters for Japan’s Economic Revitalization decided the “Execution and Realization of the Growth Strategy under the Abenomics Policy”, which states the government’s policies to quickly work out specific measures and put them into practice with regard to the matters pointed out in the growth strategy, led by reform of the so-called bedrock regulations, such as agriculture, employment, healthcare, and

energy, with the aim of making Japan the most innovative country in the world by carrying out social and economic structural reforms. In addition, with the revision of the “Action Plan for Strengthening Industrial Competitiveness” having just been decided by the Cabinet pursuant to the Industrial Competitiveness Enhancement Act, we will work toward the steady implementation of each policy measure in the growth strategy. Furthermore, to change the structure of the corporate tax to one that is growth oriented, we decided to reduce the percentage level of the effective corporate tax rate down by 2.51% and aim to continue reducing it to twenties in several years.

With regard to health and healthcare, we will steadily advance the “Healthcare Policy” recently decided by the Cabinet, for instance by making the necessary preparations toward the establishment of the Japan Agency for Medical Research and Development in April of this year.

More than 40 laws related to the growth strategy have been enacted in the period from the formulation of the “Japan Revitalization Strategy” the year before last through to the recent extraordinary Diet session. We will robustly implement these laws and also continue to submit the bills needed to execute the growth strategy at this ordinary Diet session.

Moreover, the Industrial Competitiveness Council will proceed with examinations toward the advancement of the growth strategy with an eye toward a midyear revision of the growth strategy.

In addition, we will accelerate the implementation of an action plan toward the dramatic reforms of the PPP/PFI to achieve economic growth through encouragement of private-sector investment.

With regard to volunteering support policy, we will promote the society of mutual assistance overflowing with vitality through developing important players, such as NPOs, in solving social problems and revitalizing local communities and breeding of the culture of donation.

(Efforts to drive the TPP)

The Trans-Pacific Partnership (TPP) is an ambitious attempt with the countries that share universal values to create new 21st-century rules for an economic integration in the Asia-Pacific region. It is expected to trigger a regional growth and bring great wealth to people living there, and at the same time, contribute to Japan’s economic development.

In the TPP leaders’ and ministerial meeting held in Beijing last November, it is

confirmed that the end of the negotiations are coming into focus and significant momentum toward an early conclusion was generated.

Japan will work toward an early conclusion of the negotiations and will make utmost efforts to work on the negotiations to make sure that Japan's national interests are fully reflected in the final outcome.

(Efforts in pursuing both economic revitalization and fiscal consolidation)

A robust economy is a source of national strength for Japan. By steadily implementing the measures I have described so far, we will secure the realization of a virtuous economic cycle and solidly hike the consumption tax rate to 10% in April 2017.

While seeking to achieve economic revitalization, we will simultaneously make efforts toward fiscal consolidation steadily. In the budget proposal for FY2015, newly issued National Government bonds was kept under 40 trillion yen for the first time in six years, with an improvement of the primary balance of the General Account from FY2014 by 4.6 trillion yen. The target of halving the primary deficit of the central and local governments to GDP ratio is expected to be achieved. We are making steady steps forward fiscal consolidation, and we will continue making efforts both on the expenditure and revenue sides. To achieve both economic revitalization and fiscal consolidation, we will consider a concrete plan for achieving a primary surplus by FY2020 in the Council on Economic and Fiscal Policy and thereafter formulate it by this summer.

(Progress in the comprehensive reform of the social security and tax)

With a shrinking and aging population, Japan will continue working toward comprehensive reform of the social security and tax from the perspective of securing stable funding for our social security, and at the same time, fiscal consolidation. In the budget proposal for FY2015, we are implementing support for children and child-raising among other social security expansions as planned whenever possible. Moreover, to fulfill our responsibility to hand down a social security system that Japan boasts to the world to the next generation, we will solidly hike the consumption tax rate to 10% in April 2017, and promote reforms with improving and stabilizing social security in accordance with the schedule for social security system reform. In addition, we will promote the "visualization" of healthcare and nursing care information to enable more efficient and appropriate expenditures that take into account the results of comparisons among conditions in each region, while in the Council for the Promotion of Social Security Reform, made up of academics and experts, we will proceed with deliberations on medium- to long-term reforms with an eye

toward 2025.

3. Conclusion

The top priority of the Abe Cabinet is to overcome the deflation Japan has endured for over 15 years and achieve both economic revitalization and fiscal consolidation. Therefore, we must powerfully rev up the virtuous economic cycle, where corporate profit expansion leads to an increase in wages and employment, which, in turn, leads to further profit expansion through an increase in consumption and investment.

This year is veritably a crucial period, wherein we will exert ourselves to the fullest to ensure that the economic recovery is felt in every corner of the country by advancing and developing Abenomics more vigorously than ever before.

As such, I would greatly appreciate the understanding and cooperation of all citizens and the members of the Diet.