

Economic Policy Speech by Akira Amari, Minister of State for Economic and Fiscal Policy, to the 190th Session of the Diet

January 22, 2016

1. Introduction

I would like to state my views about the economic challenges facing Japan and the government's basic approach to the management of economic 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)

The Abe Cabinet has been promoting the economic and fiscal policies in an integrated manner, comprised of the “three arrows” of “aggressive monetary policy,” “flexible fiscal policy,” and “a growth strategy that promotes private investment.” Under such policies, Japan's real GDP has increased by 12 trillion yen, and the nominal GDP by 28 trillion yen since the Cabinet's inauguration. Business environments surrounding companies have improved, as the corporate earnings reach their highest level and the bankruptcies fall below 10,000 for the second consecutive year. Employment and income environments have improved, as the jobs-to-applicants ratio rose in all prefectures with the national average at its highest level in 23 years, the number of employees expanded by more than 1.1 million, the rate of wage increase rose for the second consecutive year, with the minimum wage raised substantially for three straight years, and employee compensation shows an upward trend in both nominal and real terms. Moreover, the fiscal situation has improved with the help of the improved economic situation, as the sum of national and local tax revenue the next fiscal year relative to fiscal 2012 is expected to increase by about 21 trillion yen and by about 13 trillion yen even without the increase attributable to the consumption tax hike. Thus, efforts toward overcoming the deflation and revitalizing the economy have steadily progressed overall, putting the Japanese economy on a moderate recovery.

According to the “Fiscal 2016 Economic Outlook and Basic Stance for Economic and Fiscal Management”, decided by the Cabinet today, the Japanese economy in fiscal 2016 is expected to recover, supported by robust growth in private demand. A further extension of the positive cycle of economy reflecting the improvements in employment and income conditions and the favorable terms of trade will support the recovery. Consequently, the real GDP is projected to increase by approximately 1.7%, and the nominal GDP is expected to increase by approximately 3.1%.

(Economic and fiscal management at the moment)

The government will make progress in overcoming deflation and revitalizing the economy and fiscal consolidation on the basis of the achievements of Abenomics to date.

To overcome deflation and revitalize the economy, the government set a target of raising nominal GDP to 600 trillion yen, Japan's largest in the post-war era, by around 2020 in the second stage of Abenomics. Aiming to attain this target, the government will promote the new first arrow, "a robust economy that gives rise to hope," which is an enhancement of a combination of prior three arrows of Abenomics to date. Following the beginning of the positive economic cycle, more and more people are regaining confidence, and it is now time for Japan to shed its long-held deflationary mindset, with companies making more aggressive investments and helping expand consumption through increasing wages by making better use of their corporate earnings, which are at the highest level. Utilizing the fruits of growth obtained through efforts to realize a robust economy, the government will promote the new second arrow, "dream-weaving childcare supports," and the new third arrow, "social security that provides reassurance." The new three arrows will enhance the positive cycle of growth and distribution through the mechanism of the new second and third arrows contributing to the realization of a robust economy.

To this end, it is required that the government implement urgent policies to realize a robust economy, as stated in "Urgent Policies to Realize a Society in Which All Citizens are Dynamically Engaged" at the end of last November, including promoting investments and realizing revolution in productivity; driving consumption through raise of the minimum wage and wages; promoting the engagement of women, youths, the elderly and the disabled etc.; and strengthening added-value creativity in local communities through promoting Local Abenomics. For example, in order to foster investment, the effective corporate tax rate will be lowered by 2.14% to attain the target of "less than 30%" in fiscal 2016, or the second year of reform. While expecting industry to raise wages in accordance with corporate earnings sitting at their highest levels, the government will raise the minimum wage at the rate of 3% per year, in consideration of the growth rate of nominal GDP. The goal of this effort is to raise the weighted average of the minimum wage nationwide to 1,000 yen. Through these efforts, the government will accelerate a momentum toward realizing an economy which attains 600 trillion yen of nominal GDP and ensure progress toward overcoming deflation, hence supporting the current economic recovery.

As for measures to be taken on a medium-term basis, including those for the

fourth industrial revolution, as well as the initiatives to be implemented to strengthen the supply side, which will help raise wages and income, to expand consumption by actualizing a range of potential needs, and to build the economic and fiscal system for achieving growth and distribution, we will foster discussions through the Council on Economic and Fiscal Policy and others with an eye to presenting the entire picture of the plan to achieve the 600-trillion-yen economy in the “Basic Policy on Economic and Fiscal Management and Reform” this year.

The Government continues to expect the Bank of Japan to achieve the price stability target of two percent in light of economic activity and prices.

(Promotion of the plan to advance economic and fiscal revitalization)

Fiscal consolidation cannot be achieved without economic revitalization. Japan aims to achieve both economic revitalization and fiscal consolidation. In keeping with “The Plan to Advance Economic and Fiscal Revitalization” stipulated in the “Basic Policy on Economic and Fiscal Management and Reform 2015”, the government will firmly maintain the fiscal consolidation targets to be achieved by fiscal 2020 and will implement reforms consisting of the following three pillars: overcoming deflation and revitalizing the economy, expenditure reforms, and revenue reforms. Based on the specific reform process and KPIs set in “The Economic and Fiscal Revitalization Action Program”, which focuses on “visualization” and “wise spending,” we will manage, inspect and evaluate the progress of reforms and foster dynamic reforms by attributing importance to the creative ideas of all concerned, in each workplace and encouraging them to devise reforms of their own in a bottom-up manner.

(Execution and realization of growth strategy)

The growth strategy fostered by the Abe Cabinet represents a core policy to realize a robust economy. We will implement the strategy even more decisively and swiftly, while promoting a revolution in productivity through future-oriented investment and also fostering Local Abenomics.

We have been boldly, speedily and powerfully implementing the reform measures since they were launched three years ago, and a number of achievements have been made in a variety of fields, including those that were protected by so-called bedrock regulations.

More than 60 laws related to the growth strategy have been enacted in the period from the formulation of the “Japan Revitalization Strategy”. We will robustly implement these laws and also submit the bills needed to execute the growth strategy to this ordinary Diet session.

The world is entering a new age characterized by the so-called fourth industrial revolution, which will be driven by the IoT, big data and artificial intelligence. In response, we will examine proposals to advance the growth strategy through the Industrial Competitiveness Council. Also, through the scheme of “Public-Private Dialogue towards Investment for the Future”, which was established last October, we will foster the sharing of visions between the public and private sectors in the growth and investment fields for the future of our society, and will speedily and effectively implement measures to make necessary regulatory and system reforms across all levels of government.

With regard to healthcare and medical care, we will steadily implement the “Healthcare Policy”, with the Japan Agency for Medical Research and Development established last April taking the lead, including giving support to all levels of research, from basic research through to the practical application of results.

(Efforts to drive the TPP)

The Trans-Pacific Partnership (TPP) represents the taking on of a challenge to build a free and fair economic zone in the Asia-Pacific region for the 21st century. The economic partnership covers 800 million people and a collective GDP of 3,100 trillion yen—about 40% of global GDP—creating a market unprecedented in its size. It is expected that the TPP will help boost Japan’s GDP by about 14 trillion yen and provide employment for about 800,000 people.

In order to take specific measures to enjoy the economic effects of the TPP and alleviate public concerns about adverse impacts of the Partnership, we formulated the “Comprehensive TPP-related Policy Framework” and allocated funding for some of the TPP policies in the supplementary budget for fiscal 2015 and the budget for fiscal 2016. Further, by this fall, we will set specific strategies to foster the growth of the agriculture, forestry and fisheries industries and solidify the policies to make Japan a global hub for trade and investment.

Based on the Policy Framework, all levels of government will implement effective measures, working for the early signing and enforcement of the TPP agreement with a view to making the best use of the advantages provided by the TPP and thereby realizing a robust economy.

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

With a shrinking and aging population, Japan will continue working toward comprehensive reform of social security and taxation from the perspective of

securing stable funding for our social security and, at the same time, fiscal consolidation. To fulfill our responsibility to hand down to the next generation a social security system that Japan can boast of to the world, we will work to enhance and stabilize the current system while promoting the “visualization” of healthcare and nursing care data to enable more efficient and appropriate expenditures that take into account the results of comparisons among conditions in each region. Meanwhile, 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.

As for the My Number system, personal numbers began to be provided to citizens last October, and the system started to be used this January. We will proactively cooperate with the related governmental agencies to foster the utilization of the system.

3. Conclusion

The Abe Cabinet has put the utmost priority on the economy, which is on a moderate recovery and no longer in a deflationary condition. It can be said that Japan is on the edge of escaping the gravity of the deflation that has lasted for more than 15 years. In order to further ensure the positive economic cycle created by Abenomics, it is critical to dispel concerns about the country’s future and create an environment with active consumption and investment. In addition, we need to face and address the structural challenge of the working-age population decrease caused by low fertility and population aging.

Distributing the fruits of economic growth to supporting child-rearing and strengthening social security foundation fosters reassurance, which will bolster consumption and investment, while achieving social diversity will help improve the labor participation rate and productivity through innovation. These will, in turn, encourage further growth and deliver more resources for distribution. We will make an all-out effort to build such a “positive cycle of growth and distribution”.

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