

Economic Policy Speech by Nobuteru Ishihara, Minister of State for Economic and Fiscal Policy, to the 193rd Session of the Diet

January 20, 2017

1. Introduction

I would like to offer my views on 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

(Basic principles)

Since the inauguration of the second Abe Cabinet, Japan's nominal GDP has grown by 44 trillion yen and its real GDP by 25 trillion yen, and the economy is no longer in a deflationary condition. The number of employees has climbed by nearly 2 million, the unemployment rate has fallen from about 4% to around 3%, and wages have risen more than 2% for the third consecutive year. The employment and income environments, which matter most to people's livelihoods, have substantially improved, and the economy remains on a moderate recovery path.

However, we must remain alert to uncertainties in overseas economies and the effects of fluctuations in financial and capital markets. We also need to deliver the benefits of Abenomics to every corner of the country, small and medium-size enterprises, and small-scale entrepreneurs. To adequately address such risks and issues, we will successfully develop the emerging positive cycle into a virtuous

cycle of growth and distribution.

(Economic and fiscal management at present, and economic outlook for the future)

In our economic and fiscal management, we continue to adhere to the basis of “Without economic revitalization, there can be no fiscal consolidation,” and we are aiming both to realize an economy with a nominal GDP of 600 trillion yen and to achieve our fiscal consolidation targets for fiscal 2020.

First, we must swiftly and steadily implement “Economic Measures for Realizing Investment for the Future”, which supports domestic demand and leads to sustained economic growth led by private-sector demand and to steady realization of a society in which all citizens are dynamically engaged.

Striving for an economy with a nominal GDP of 600 trillion yen, we will fully mobilize all available policies – including work style reform, regional reinvigoration, national resilience, and empowerment of women – and by raising the potential growth rate through scientific and technological innovation in order to ensure the economy overcoming deflation and an economic virtuous cycle.

The Government continues to expect the Bank of Japan to achieve the price stability target of 2% in light of economic activity and prices.

Taking these into account, the government's outlook for the Japanese economy over the coming fiscal year that was decided by the Cabinet today anticipates an economic recovery centered on private-sector demand, with real growth of 1.5% and nominal growth of 2.5%, as the employment and income environments continue to improve and an economic virtuous cycle makes headway.

The government will also undertake reforms on its economic statistics as the basis for assessing the economic conditions and structure, in accordance with the "Basic Policy for the Fundamental Reform of Economic Statistics" compiled by the Council on Economic and Fiscal Policy.

(Implementing/realizing a growth strategy)

As technological innovation moves ahead with unprecedented speed worldwide, we will need to further accelerate our growth strategy.

There are two keys to accomplishing this. The first is encouraging innovations that produce new added value in the fields of artificial intelligence, the Internet of

Things, Big Data, and robotics. The second is enabling companies and individuals to utilize and benefit from these innovations and extensively using them to resolve social issues or, in other words, pursuing the social implementation of innovations. We will robustly undertake both of these approaches to bring about a super-smart society, “Society 5.0”, in which people can enjoy lives of comfort and prosperity in all respects. Accordingly, “the Growth Strategy Council-Investment for the Future” that serves as the command center for our growth strategy has been discussing, among other things, a productivity revolution at construction sites to resolve manpower shortages, the full-scale introduction of medical and nursing care systems that revolve around preventive medicine, health management and self-help to extend healthy lifespans, and private-sector access to the infrastructure and data possessed by the national and local governments in order to create new promising markets.

From this point forward, we would like to conduct a general review of structural reforms, thoroughly discuss what more is needed to step up private-sector activities and what is holding back the social implementation of innovations, and then concretely present our findings in the growth strategy to be announced mid-year.

As part of our health and medical care strategy, the Japan Agency for Medical

Research and Development will provide research assistance, while the public and private sectors will team up to lay the foundations for new medical and nursing care systems and to expand the health, medical and nursing care industries internationally.

In seeking to establish and operate public facilities in growth sectors such as airports and lifestyle-related sectors such as water supply and sewerage, we will pursue PPP/PFI, starting with a concession approach, and aim to expand private investment and business opportunities while easing the public burden.

With concerns intensifying worldwide over the rise of protectionism, Japan, which itself achieved economic growth through free trade, must play a leading role in bringing into effect the TPP Agreement approved in the previous Diet session and in advancing free trade based on liberal, fair and common rules in order to halt the spread of protectionism. The government will be tenaciously striving via various opportunities in future to build common ground with other countries on the importance of free trade and to promote economic partnerships.

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

Without economic revitalization, there can be no fiscal consolidation. While trying

to achieve both economic and fiscal revitalization, we will thoroughly review total expenditures without making any exceptions, in keeping with “The Plan to Advance Economic and Fiscal Revitalization” and “Economic and Fiscal Revitalization Action Program 2016.” During fiscal 2017, the second year of our reforms, we will continue to fully ensure and expand “statistical visualization,” and steadily advance efforts based on the specification of the reform and the reform time schedule. We will also check and assess the progress of reforms, reinforce analysis of the effect of the political measures taken, and fastly enhance the PDCA cycle.

(Promoting comprehensive reform of social security and taxation systems)

With a shrinking and aging population, we will continue working toward comprehensive reform of social security and taxation systems to simultaneously secure reliable sources of funding for social security and restore our fiscal health. To fulfill our responsibility to pass on our world-class social security system to the next generation, we will work to enhance and stabilize the current social security system and promote the reform. We will also step up the “statistical visualization” of the actual state of healthcare and nursing care in each region, and, taking into account the results of comparisons among these conditions, we will improve the efficiency and rationality of the expenditure.

3. Conclusion

Our efforts over the past four years have achieved substantial improvements in the employment and income environments, and in the creation of the economy no longer in a deflationary condition. The global economy on the whole has been picking up since the second half of last year, and the government last month upgraded its assessment of the Japanese economy for the first time in 21 months.

To overcome deflation and to grow vigorously in a sustained fashion, it is essential that wage be increased and directed towards improving disposable income and expanding consumption, and that corporate investment be encouraged. We will make an all-out effort to set in motion a virtuous cycle of growth and distribution in which greater income distributed by economic growth through wage increases fosters further growth and generates resources for further distribution.

I would greatly appreciate the understanding and cooperation of all members of the public and of the Diet.