

**Minister's Summary by Minister Ota****31st Meeting (December 26, 2006)**

- (1) On the government's draft budget for FY2007
- (2) On the new medium-term policy(second draft)

Hiroko Ota here. Today, the Council on Economic and Fiscal Policy (CEFP) held its 31st meeting, the last of the year and discussed the draft budget for FY 2007 and the second draft of the new medium-term policy.

For the FY 2007 draft budget, Mr. Omi, Minister of Finance, made an explanation. No specific opinions were presented for this.

The following opinions were expressed regarding the new medium-term policy.

The draft refers to the anticipation that a real economic growth rate of approximately 2% or much higher will come into sight within the next five years. As the government starts mobilizing all measures to improve productivity from now, it is essential to get the Japanese economy to take off as early as possible for achieving highest possible growth rate.

What is most important amid the falling population is to constantly achieve a real growth rate at a desirable level and raise the potential growth rate as a basis for this. To this end, price stability is required.

Meanwhile, the draft expressed anticipation that a nominal growth rate of around 3.5% or much higher will come into sight. But this is a difficult hurdle. Structural reform should be steadily implemented.

Tax revenue increase recently should not alone be grounds for optimism, but medium-term reform should be steadily implemented.

The medium-term policy must be backed by institutional reform, otherwise such a policy cannot be achieved. Timetables for programs including the correction of the high cost structure of social security should be established to have the program steadily implemented.

Then, Mr. Omi raised three objections and discussions of each point are summarized as follows.

1. When discussing the case scenario for a higher growth rate, we should attach preconditions that a higher rate is expected to come into sight only if the policies included in the "Course and Strategy for the Japanese Economy" are implemented with its effect being exerted to the maximum and, at the same time, the economic environment in Japan and abroad remain

sound.

To this, I (Minister Ota) stated that the above case will occur if sufficient effects are produced, but that the phrase “to the maximum” might be inadequate because the writing of the medium-term policy allows for a wide margin of growth rate. According to another opinion, too much reservation should not be expressed because of a margin. Thus, this portion remained the same as the draft.

2. When it comes to the section mentioning a case where risks become apparent, a phrase such as “if policy efforts are not devoted” makes it sound as if the government is doing nothing. It is unnatural to write that the government makes no policy efforts.

This matter was also pointed out by several CEFP members and their remarks were quite right. Therefore, the phrase in question was changed to: “if the effects of policies are not sufficiently produced.”

3. As for the positioning of the growth rate, we should make it clear that the figure is not a “target” but “prospect” related to the future.

Since Japan is not a country with a planned economy, the figure here is a “prospect.”

The following opinions were expressed as well:

This is not a suggestion for revising the portion in the “Course and Strategy” mentioning pension reform and the restructuring of the Social Insurance Agency. But the third-party institution involved in the SIA reform is extremely important and the Prime Minister’s Office should take a solid initiative in personnel selection.

In the reform of policy-based finance institutions, the Prime Minister’s Office should also lead appointment of top management.

In his concluding remarks, the Prime Minister stated that he promises to take responsibility for personnel selection of the third-party institutions and appointment of new policy-based finance institutions’ top management.

The main points of Prime Minister’s remarks today are as follows:

Within the past three months, an important pillar of the Abe Cabinet’s economic and fiscal policy was formed.

The CEFP demonstrated the resolution to achieve fiscal consolidation both domestically and internationally through government’s draft budget for FY2007 featuring clear-cut priorities. At the same time, programs such as boosting of productivity and acceleration of EPA will be established.

These several policies have been discussed at the CEFP.

These issues have been included in the “Course and Strategy,” but I would like to incorporate them into the “Basic Policies 2007” based on deliberations to be conducted after the beginning of the New Year.

I will continue tackling these issues with the CEFP as the engine for reform next year.

Today’s meeting was the last of the year, so I would like to summarize seven drastic reform areas to be given priority.

For reforms addressing globalization, an expert committee will be set up and an interim report will be issued next spring. The EPA timetable will be revised at that time.

For labor market reform, an expert committee will also be established.

For reform to improve productivity, the Productivity-Boosting Program will be formulated next April.

For decentralization reform, a move to establish a new comprehensive decentralization law within three years is in progress. It is not that the CEFP will do nothing for the next three years, but rather that it will advance discussions on the four-part reform package concerning subsidies, the transfer of tax revenue sources, local allocation tax reform and municipalities bonds.

For social security reform, a high-cost structure correction program will be formulated in collaboration with the Ministry of Health, Labor and Welfare to be incorporated into the “Basic Policies 2007”.

For tax reform, the CEFP will invite the Chair of the Tax Commission next April and after hearing arguments conducted by the commission, its basic tax philosophy will be included in the “Basic Policies 2007”.

For the government reform, the CEFP will discuss new rules for public investment and bid-rigging prevention based on proposals to be given by the ministers concerned at the end of this fiscal year.

For civil servant system reform, I would like to advance discussions on issues such as a proposed ban on government ministries’ job mediation for retiring officials by taking advantage of their regulatory and budget-spending authority.

Conducting intensive deliberations on seven issues for two months and a half was a rather hard schedule, but I think that we could incorporate a part of the results of our deliberations into the “Course and Strategy” and make preparations for next year’s “Basic Policies 2007”. The CEFP will continue discussions on these issues and match them with policies next year.

(END)