

Minister's Summary by Minister Yosano

31st Meeting (December 26, 2008)

- (1) **"The mid-term program"**
- (2) **A budget plan of FY2009 (proposal)**
- (3) **The first draft of "medium- to long-term fiscal policy and an economic and fiscal outlook for next ten years (provisional)"**



Kaoru Yosano here. Today, the Council on Economic and Fiscal Policy (CEFP) held the 31st meeting of the year.

The first subject on the agenda was "the mid-term program" which was approved in a cabinet meeting on December 24, 2008.

The second subject was a budget plan for fiscal year 2009. Member Nakagawa (Minister of Finance) gave his report on the subject.

The third subject was the first draft of "medium- to long-term fiscal policy and an economic and fiscal outlook for next ten years (provisional)."

At the next CEFP meeting, I would like to present the whole draft of "economic and fiscal outlook for next ten years," including details of financial consolidation, which will be prepared based on today's discussion after consultation with responsible ministries and agencies.

In addition, a person in charge of clerical work presented a report on the progress of tasks concerning macroeconomic estimates and trial calculation of future fiscal management. The calculation results presented are still tentative, and those in charge of the estimate and calculation will again report their findings at the next CEFP meeting, after closely investigating data that will be recognized and reflected later in the calculation.

CEFP expert members made the following comments:

One member questioned the need for still setting as an unbinding target that the Government should achieve a surplus of the primary balance by fiscal year 2011, while achieving the surplus by fiscal year 2011 will be impossible. He concluded that there would be no harm in changing the Government's target because this is the consequence of drastic changes in the world economy. However, he stated that the Government must not relax the fiscal disciplines and needs to restore the primary balance into the black at the earliest possible date, pointing out the need for differentiating the target that the Government should achieve a combined surplus of the primary balance by 2011 and the timetable towards public expenditure reduction and the need for clearly articulating the fiscal disciplines as they are.

Another expert member pointed out that "Basic Policies 2006" incorporates elastic clauses, suggesting that the Government needs not adhere to the achievement of a surplus of the primary balance in 2011, though the Government should steadily comply with annual government expenditure reduction targets, as listed in the table attached to "Basic Policies 2006," because sudden changes in Japan's external economic activities have unexpectedly and inevitably reduced annual government revenues. He cited recent studies by IMF which indicated that, though an ordinary economic slowdown will last for only a year, one caused by credit crunch and housing bubbles will persist much longer, and he stressed the need for careful consideration to possible downside risks in economic management.

Still another expert member said that what is important in growth strategy is the implementation of concrete and intensive projects ahead of schedule, emphasizing the importance of infrastructures that make it possible to realize the fundamental power of the Japanese economy for manufacturing goods, regional vitalization, food supply, forestry and employment. He expressed his hope for the implementation across all ministries and suggested the establishment of criteria for selection of projects that should be promoted.

Another member suggested the creation of special sectors that should be known for being among the best in the world, from the medium to long-term economic viewpoint.

Yet another expert member pointed out the need for reviewing fiscal policies, stating that severe fiscal circumstances would persist for the time being.

I found our discussion on "medium- to long-term fiscal policy and an economic and fiscal outlook for next ten years" today still rough enough, and I would like to again discuss the subject based on the first draft in the next CEFP meeting at the beginning of 2009.

(End)