

Embarking on a *Decade of New Challenges* : three challenges facing the Japanese economy, which has become lean in form

- Fully realizing the new growth potentials

The core country of Asia as a world's growth center; the most advanced energy-saving systems and technology in the world; the consumer market seeking sophistication and high quality

- Overcoming the burden of the decline and aging of the population, and the repayment of the Government's enormous debts

About 10 more years left until the falling birthrate begins to impose serious economic burdens; structure which would leave the debts to future generations for repayment; intensification of competition around the world

- Addressing the disequilibrium in citizens' lives, and between urban and rural areas

Gaps in educational and employment situations, particularly among younger generations; increased concerns about the future; social unrest caused by heinous crimes committed by young people

## **1. Enhancing the growth potential and international competitiveness**

### > Enhancing the growth potential by promoting the Economic Growth Initiative

- Strengthening international competitiveness (promoting innovations and utilization of Asia's dynamism, etc.)
- Improving productivity through IT and innovations in services industries
- Revitalizing local economies and SMEs (including Urban Renaissance)
- Creating new demand through the opening up of public services to the private sector, and relevant regulatory reforms
- Establishing institutional infrastructures to improve productivity (human resources, equipment, money etc.)

### > Reforming systems and rules to enhance the strengths of the private sector

- Conducting regulatory reform
- Reinforcing corporate governance, implementing stringent competition policy
- Promoting the Consumer Basic Plan, encouraging NPO activities

## **3. Achieving a safe, secure, flexible and accommodating society**

### > Comprehensive reform of social security systems

Promoting integrated review of the overall social security systems

### > Supporting opportunities for second-chance

Providing access to diverse options at every life-stage

### > Promoting comprehensive measures against the falling birthrate

Implementing measures to support child raising; reforming the ways of working; promoting national campaigns

### > Coping with the risks in daily life

Implementing disaster control measures, public safety and order measures, and anti-terrorism measures; establishing a Sound Material-Cycle Society

### > Developing an environment in which citizens can live a well-off life

Promoting early childhood education; improving the cultural, art, and sports environments

## **2. Advancing fiscal consolidation**

### > Integrated Reform of Expenditures and Revenues

- Promoting the integrated reform on the economy and public finance, and carrying out the Reform of Expenditures and Revenues based on the Seven Principles for the reform
- *Targets for Advancing Fiscal Consolidation* - Phase II: Achieving a surplus of primary balance of the central and local governments by FY2011

(i) Amount required for achieving a surplus: around 16.5 trillion yen (based on prudent economic assumption)

(ii) *Expenditure reform* Expenditure cut measures: around 14.3 to 11.4 trillion yen

\* Reducing expenditures in various sectors with emphasis on appropriate areas, including reviews of institution

\* Flexibly responding to changes in economic and social situations, and making necessary reviews of reform

- *Targets for Advancing Fiscal Consolidation* - Phase III: by mid-2010s, ensuring stable reduction of the ratio of total debts of the central and local governments to GDP, and also aiming at stable reduction of the ratio of debts of the central government alone to GDP

- *Revenue reform*

Not only filling the gap between expenditure cuts and the total amount necessary to achieve the balanced budget in Phase II, but also committing to make fundamental and integrated tax reform based on the following:

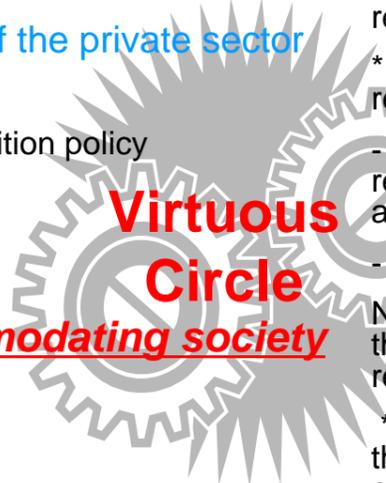
\* Addressing policy issues (providing stable financial resources for social security, revitalizing the economy, coping with the falling birthrate, securing local tax sources); avoid causing confusion through frequent changes in taxation

\* Securing the required revenue on a net basis; considering whether to clearly designate the consumption tax as a stable source for social security, taking into account the link between the benefits and the revenue source.

\* Preparing conditions capable of attaining the medium to long-term targets for advancing fiscal consolidation in a structurally sustainable manner

### > Efforts for establishing a lean and efficient government

- Postal privatization; policy-based finance reform; reform of government assets and debts; special accounts reform; market testing



**Virtuous Circle**