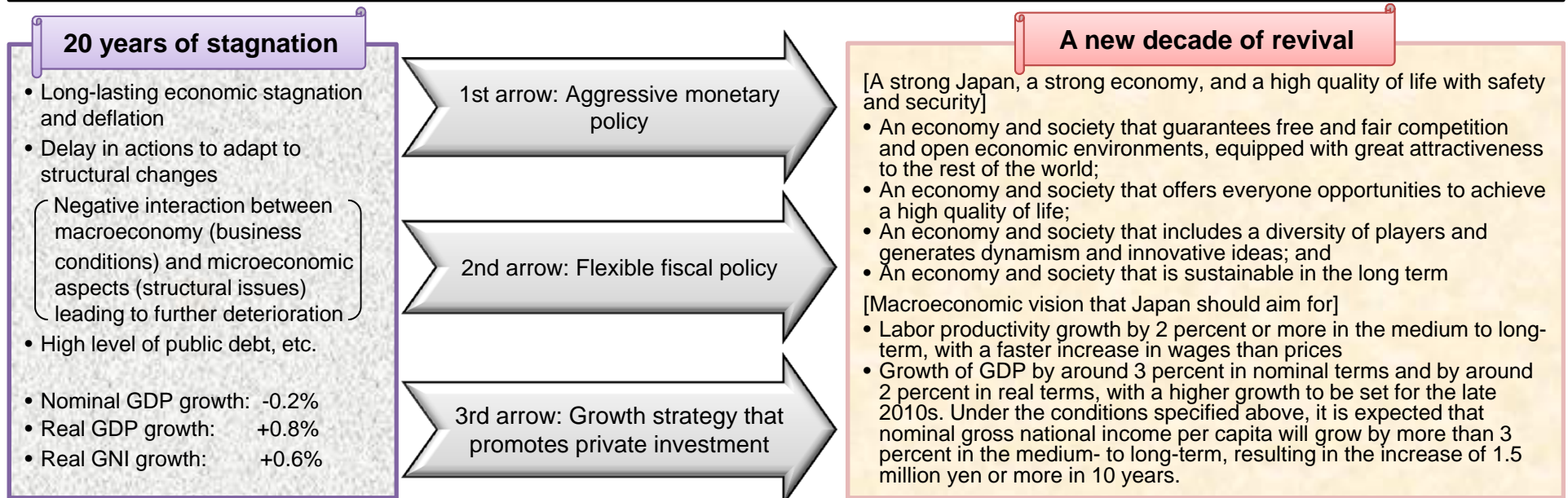


Key points of the Basic Policies for Economic and Fiscal Management and Reform

Economic and fiscal policy management and its basic strategy for “a new decade of revival”

- The “three-arrows” strategy or “Abenomics”, the components work to complement each other, has been implemented in an integrated manner. This has already significantly changed market expectations. The real economy is also picking up. The *Basic Policies* presents macroeconomic vision and the path to be followed to achieve that vision.
- The government is committed to the steady and persistent implementation of the growth strategy, as well as priority policy measures stated in the *Basic Policies*. It aims to end deflation as early as possible and revitalize its economy. The *Basic Policies* presents the economic and social vision that Japan should pursue through the implementation of policies.



Three positive cycles to be fulfilled



Realizing a strong Japan and a strong economy and ensuring a high quality of life with safety and security

1. Basic design of the growth strategy

With the long-term commitment of the government, concrete growth strategy measures shall be developed and implemented in accordance with its basic design

① Plan for the Revitalization of Japanese Industry

Labor productivity shall be increased by the promotion of private investment, human capital development, and innovations

② Strategic Market Creation Plan

In areas where new frontiers of growth are expected to develop, measures shall be taken to develop the social infrastructure and reform regulations and institutions with the aim of solving challenges in advance of other countries

③ Strategy of Global Outreach

Measures for maximizing the benefits of globalization shall be taken to foster sustained growth

2. Accelerated recovery from the Great East Japan Earthquake

Measures for accelerating the reconstruction, supporting the recovery and revival of Fukushima, and creating a “New Tohoku” shall be implemented

3. Strengthening basis for enabling all people to exercise their abilities and individuality through education and other measures

Measures shall be taken to: rebuild education; promote culture, art and sports; enable women to realize their full potential; overcome the declining birthrate; promote participation of the young and elderly people

4. Revitalizing local communities, agriculture, forestry and fisheries industries, and small and medium-sized enterprises, thereby revitalizing Japan

Measures shall be taken to: develop local communities based on their unique distinctive features; vitalize local communities through agriculture, forestry and fisheries industries; and help small and medium-sized enterprises and small business proprietors achieve significant growth

5. Ensuring that the foundations of the economy and society are sustainable in the long-term

Measures shall be taken to: encourage medium- to long-term investment with the emphasis placed on sustainability; make contributions to the global environment; make Japan more resilient (nation's resilience); prevent or mitigate damage from disasters; realize a safe and secure society; ensure economic dimensions of national security including energy and resources; and promote strategic diplomacy

6. Public sector reform as the foundation for a strong economy and a high quality of life

Measures shall be taken to: promote administrative reform; carry out decentralization; accelerate the entry of private-sector businesses into public sector; and realize a world-class e-government. Aggressive initiatives shall also be carried out to promote the reform of the public service personnel system

Pursuing both economic revitalization and fiscal consolidation

Directions for fiscal consolidation

- The Medium-term Fiscal Plan will be prepared as early as possible. An economic and fiscal projection for the medium- to long-term analysis will also be presented.
- To achieve this goal by FY2015, expenditure, including non-discretionary expenditure, shall be scrutinized. The PDCA cycle will be applied strictly.
- A steady reduction in the gap between expenditure and revenue in terms of their GDP ratio will be required to achieve the goal of a primary surplus by FY2020

Basic stance for the prioritizing and streamlining of the major expenditure items

- **Social security**: Healthy aging and the wider use of ICT and generics should be promoted with the aim of developing a system that provides efficient social security services and effectively improves the health of people. Making further progress in the comprehensive reform of social security and tax.
- **Social infrastructure development**: Measures shall be taken to: prioritize projects; utilize social infrastructure more efficiently and effectively by extending the life cycle and make it more cost-effective; actively promote conversion to PPP/PFI to utilize funds and skills in the private sector
- **Local government finance**: It is necessary to switch from an emergency mode to normal mode in line with economic recovery, while securing the necessary revenues.

Targets for fiscal consolidation

- **PB of the national and local governments**
 - Cutting the ratio of primary deficit to GDP in half between FY2010 and FY2015
 - Achieving a surplus by FY2020
- **Public Debt**
 - A steady decline in the ratio of public debt to GDP will be aimed for after achieving a surplus in PB

Basic stance for compiling the FY2014 budget

Approaches to the budget compilation

- Based on the Medium-term Fiscal Plan, the FY2014 budget should be compiled with clear prioritization, aiming to achieve both economic growth led by private demand and fiscal consolidation, as in the case of the FY2013 budget

Processes and their schedule

- The Council on Economic and Fiscal Policy will prepare the FY2014 Budget Overview by the summer, which describes the economic and fiscal prospects and the outline of the budget for the following year
- Following the presentation of a medium- to long-term estimation of the economic and fiscal situation, the Medium-term Fiscal Plan and the Guidelines for Budgetary Requests will be formulated.