

Economic Policy Speech by Akira Amari, Minister of State for Economic and Fiscal Policy, to the 183rd Session of the Diet

February 28, 2013

1. Introduction

I would like to state my policies as the Cabinet Office Minister of State for Economic and Fiscal Policy.

2. Basic stance on economic and fiscal policy

The greatest mission of the Second Abe Cabinet is to restore a robust economy. The Japanese economy has been beset by deflation for many years, and although countless attempts have been made to conquer it, these have all been deflected. Accordingly, the Abe Cabinet is investing all possible policy resources in bold steps that are not bound by conventional approaches, and we are now beginning to be able to see “the first glimmers of hope for overcoming deflation”.

Without the revitalization of a robust economy, there will be no way to rebuild public finances and construct a sustainable social security system. As well as overcoming the prolonged period of deflation early and achieving economic recovery accompanied by increases in both employment and income, it is necessary to strengthen the economy's growth potential through innovation and the creation of new business. Therefore, we will implement a three-pronged strategy, focused on aggressive monetary policy, flexible fiscal policy, and a growth strategy that encourages private sector investment.

Moreover, to provide a framework for promoting this strategy, we established the Headquarters for Japan's Economic Revitalization and reactivated the Council on Economic and Fiscal Policy. With these two bodies serving as the command center, under the leadership of the Prime Minister, we will implement policies swiftly and steadily, transcending the boundaries between ministries.

I would now like to describe the priority tasks for the future under this basic stance.

3. Future economic and fiscal policy (Economic and fiscal management in the immediate future)

Last summer, the economic climate in Japan began to falter, with exports and production falling against the background of a slowdown in the world economy, and fears of a further decline emerged. In order to conquer this situation and move toward self-sustaining growth, aggressive monetary policy – the first prong of the strategy – is vital. In January this year, the Government and the Bank of Japan released a joint statement on strengthening their policy coordination, which incorporated details of the tasks that they should undertake as part of their respective responsibilities, with a view to overcoming deflation early and achieving sustainable economic growth with price stability. The Government strongly expects the Bank of Japan to pursue aggressive monetary easing to dispel people's deflationary expectations and achieve the price stability target at two percent in terms of the year-on-year rate of change in the consumer price index at the earliest possible time.

Amid ongoing deflation, both the spillover effect of fiscal policy in the private sector and the economic revitalization effect of the growth strategy will be limited. This is another reason why monetary policy is extremely important. The Council on Economic and Fiscal Policy will regularly review the progress in the conduct of macroeconomic policies including monetary policy, the current condition and future prospects of prices in the context of the price stability target under those policies, the economic and fiscal situation including employment conditions, and progress in economic structural reform.

In terms of a flexible fiscal policy, which is the second prong of the strategy, we have put together the Emergency Economic Measures for the Revitalization of the Japanese Economy, involving approximately 10.3 trillion yen of government expenditure, with the total size of the package amounting to around 20.2 trillion yen. We will devote all possible efforts to promptly implementing these emergency economic measures and ensuring that their effects are felt early, and we will also conduct thorough follow-up endeavors to check that each measure is bringing about an improvement in the lives of the people.

Moreover, the budget for the fiscal 2013 year has been combined with the supplementary budget for the fiscal 2012 arising from these emergency economic measures, and is structured as what is termed a "15-month budget". We will implement these measures seamlessly, striving to avoid further deterioration of the economy, as well as endeavoring to overcome deflation early and strengthen the economy's growth potential.

Furthermore, it is necessary to generate a virtuous circle in which economic recovery leads to increases in workers' incomes. For this reason, it is necessary for the Government, the business community, and the workforce to join forces, so as well as establishing measures in the tax reform for the fiscal 2013 to encourage companies to increase salaries and other pay, we have requested that the business community take steps including the provision of increases in remuneration by companies that are experiencing improved business performance. Moreover, employment problems are a pressing issue for young people and women, and it is important to boost growth by proactively promoting their involvement in economic activities, as well as ensuring that they can fully reap the benefits of growth. Accordingly, we have launched the forum for the promotion of activities for the young and for women, and are moving forward with effective initiatives, while listening to a wide range of views from young people and women.

In light of these endeavors, the Economic Outlook and Basic Stance for Economic and Fiscal Management decided by the Cabinet today forecasts that the real GDP growth rate in the fiscal 2013 is expected to be around 2.5%, while the nominal growth rate is expected to be around 2.7%, as it is expected that steady demand and employment will be generated, given the anticipated modest recovery in the world economy.

(Strategy for growth)

The third prong is a growth strategy that encourages private sector investment. In order to ensure that the recovery of the Japanese economy leads to self-sustaining growth, it is necessary to expand private investment and consumption. The Industrial Competitiveness Council, which has been established under the Headquarters for Japan's Economic Revitalization, will put together a new growth strategy around the middle of this year, gathering insights from experts from various fields.

Ahead of the rest of the world, Japan is facing serious and challenging issues, including the aging of the population coupled with a declining birthrate, the population decline, the aging of public infrastructure, as well as energy and environmental constraints. Taking the lead in tackling these issues and resolving them, we would like to make contributions to the world by presenting a prescription for the solution of such challenges.

In formulating the growth strategy, we will set the vision of our desirable society as the strategic target for resolving these issues. In order to achieve the target, we will encourage private sector investment by drawing up a roadmap to devote full range of policy resources such as intensive investment in research and development of core technologies, regulatory reform, and the promotion of relevant investment. We will also make efforts to increase personal income through the strengthening of Japan's locational competitiveness and expansion of employment, and to work on the formulation of the global strategy to incorporate overseas growth.

While working on the development of the growth strategy from this perspective, it is essential for the Government to make a commitment to the growth strategy, steadily implement the strategy, and produce visible results for the success of the growth strategy and the attraction of dynamic private sector investment. With regard to the pressing issues that have become apparent at the Council's deliberations, the Headquarters for Japan's Economic Revitalization will immediately take action to address them under the strong leadership of the Prime Minister, without waiting for the completion of the growth strategy.

As we move forward with the three-pronged strategy, we have recently begun to see signs of the easing of deflation expectations and the real economy is also changing as evidenced by the fact that the economic assessment in the Monthly Economic Report has been revised upwards for two months in succession. We will make efforts to lead such favorable changes to steady economic recovery through appropriate policy responses.

(Initiatives aimed at simultaneous realization of fiscal consolidation and the revitalization of the Japanese economy)

In conjunction with these measures, it is necessary to work on efforts to build a sustainable fiscal framework in the medium to long term.

In accordance with the fiscal consolidation goal, the budget for the fiscal 2013 curtails bond issuance as far as possible, in order to ensure confidence in government bonds, so as to recover the structure under which tax revenue exceeds bond revenue for the first time in four years. However, it is expected that there will still be a substantial deficit in the primary balance of national and local governments for the year.

Once confidence in government bonds were to waver, it could have a severe impact on the economy, public finance, and the lives of the people due to a variety of factors, including rises in long-term interest rates, and reduced policy flexibility resulting from an increase in government debt servicing costs. We shall aim to halve the deficit ratio to GDP in FY 2010 by FY 2015 and to achieve a surplus by FY 2020 for the national and local government primary balance.

The Council on Economic and Fiscal Policy will examine a policy system to revitalize the Japanese economy, approaches to initiatives aimed at the medium- to long-term fiscal soundness, and the path to simultaneous realization of fiscal consolidation and economic revitalization, to develop a basic reform program of economic and fiscal management (so-called “Basic Policies”) in the middle of this year.

(Promoting comprehensive reform of social security and tax)

Amid the escalation of the aging of the population coupled with a declining birthrate, it is essential to build a sustainable social security system that maintains the balance between benefits and contribution, while securing a stable revenue source. Therefore, in order to ensure that the people can have peace of mind in their daily lives, we will steadily promote comprehensive reform of social security and tax. We will move forward with endeavors aimed at translating further reforms into reality, tirelessly engaging in discussions in order to reach a conclusion by August this year, which is the end of the period for the National Council on Social Security System Reform, in accordance with the Act on Promotion of Social Security Reform.

4. Conclusion

Just over two months have passed since the inauguration of the Second Abe Cabinet. During this time, we have formulated policies in rapid succession, centered on a three-pronged strategy. I attended the recent World Economic Forum in Davos on Prime Minister Abe's behalf and my speech on "Abenomics", which drew worldwide attention, was highly acclaimed by the international community.

By swiftly and steadily implementing measures under the leadership of Prime Minister Abe with a sense of urgency, with the aim of achieving a bright future of growth, I would like to continue to work in partnership with the people to restore a strong Japan.

As such, I would greatly appreciate the understanding and cooperation of all citizens and members of the Diet.