

Economic Policy Speech by Akira Amari, Minister of State for Economic and Fiscal Policy, to the 186th Session of the Diet

January 24, 2014

1. Introduction

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

2. Basic principles for economic and fiscal management

(Recognition of the current state of the economy, and the outlook)

In order to pave the way to overcoming deflation early and revitalizing the economy, the Abe Cabinet has been boldly promoting the three arrows strategy, focused on aggressive monetary policy, flexible fiscal policy and a growth strategy that promotes private investment. Thanks partly to the effects of such policies, the Japanese economy is regaining momentum, as evidenced by the fourth straight quarter of positive real GDP growth, and the effective ratio of job offers to job applicants reaching one for the first time in almost six years. Compared with the situation seen just before the Abe administration was formed, business conditions have improved in a wide range of industries, including small and medium-sized enterprises, with improved business confidence in all regions across Japan. In terms of prices, the economy is no longer in a deflationary condition. We are steadily moving forward towards overcoming deflation. One year after Abenomics got underway, Japan's economic deadlock has been broken, with the economy looking brighter throughout. Promoting the positive trend of broad growth and realizing virtuous economic cycles of the economy are challenges the Abe Cabinet must address in the second year.

In Fiscal 2014 Economic Outlook and Basic Stance for Economic and Fiscal Management, decided by the Cabinet today, despite some caution needed regarding the recoil reduction as a reaction to the rush demand associated with the consumption tax rate hike, Japanese economy in FY2014 is expected to recover supported by firm domestic demand continuing from the previous fiscal year brought about by the implementation of economic measures, and virtuous cycles of the economy will be gradually realized. The real GDP growth rate is expected to be approximately 1.4%, and the nominal growth rate is expected to be about 3.3%.

(Economic and fiscal management at the moment)

With respect to the consumption tax rate hike in April, we need to steadily implement the "Economic Policy Package", which includes "the Economic Measures for Realization of Virtuous Cycles", decided by the Cabinet last December. This policy package is aiming to mitigate the rush demand and recoil reduction, and to address downside risks of Japanese economy, and then raise the overall level of growth potential of the Japanese economy to realize virtuous cycles of the economy, as well as leading the economy to a sustainable economic growth.

The Economic Measures include policy programs for strengthening competitiveness of the Japanese economy, for supporting women, the young, the elderly, and the disabled, and

for accelerating measures for reconstruction after the Great Earthquake, disaster prevention, and safety. The project amounts to 18.6 trillion yen in total, which includes 5.5 trillion yen appropriated from the national budget. To ensure that the Economic Measures will produce effects as intended, and that the recoil reduction associated with the consumption tax rate hike will be properly managed, the government will hasten to incarnate the measures, monitor their progress, and release the results in an appropriate manner.

To realize virtuous cycles of the economy, where corporate profit expansion swiftly leads to an increase in wages and employment, which, in turn, leads to further profit expansion through an increase in consumption and investment, the government will introduce bold tax arrangements, including an enhancement of tax measures for promoting expansion of income abolishment of the special corporate tax for reconstruction a year ahead of schedule, as well as provide small and medium-sized enterprises and micro enterprises that offer a pay increase with preferential treatment in distributing subsidies, etc. The “Government-Labor-Management Meeting for Realizing Virtuous Cycles of the Economy” has just agreed on initiatives they should each pursue to realize virtuous cycles of the economy as a common understanding among them. The government will continue working hard, fully committed to developing environments needed for the initiatives, and confirm the achievement of these initiatives.

Last April, the Bank of Japan introduced “the Quantitative and Qualitative Monetary Easing” with a view to achieving the price stability target of 2% inflation at the earliest possible time, with a time horizon of about two years and currently they are pursuing the program. The government expects the Bank of Japan to achieve the target at the earliest possible time.

To deliver the fruits of Abenomics to every corner of the country, the government ministries and agencies concerned must work together in a focused manner for revitalizing local communities in taking advantage of the successful bid of Japan to host the Olympic Games, encouraging development of regional industrial clusters, and addressing other challenges. In addition, the government will promote the society of mutual assistance overflowing with vitality through developing important players, such as NPOs and social enterprises, in solving social problems and revitalizing local communities.

(Growth strategy)

The growth strategy of the Abe administration is an evolving strategy, and the formation of the strategy is not a goal, but a mere starting point. To turn a nascent movement of the Japanese economy toward recovery into sustainable development, the government will continue working hard to pursue the growth strategy.

First, the government will work all out to carry out policy measures included in the Japan Revitalization Strategy formulated last year. The previous extraordinary session of the Diet, which was referred to as a “the Diet to Execute the Growth Strategy,” passed several landmark laws, including the Industrial Competitiveness Enhancement Act, and the Act on National Strategic Special Zone. The government will securely implement these new laws by, for instance, designating specific locations as national strategic zones in March. In addition, under the Industrial Competitiveness Enhancement Action Plan decided by the Cabinet, the government will work for steady implementation of policy measures included in the Japan Revitalization Strategy.

For revising the Growth Strategy around the middle of the year, the Industrial Competitiveness Council has recently formulated the Agenda for the Evolution of the Growth Strategy. Based on the Agenda, the government will work further for structural reform in the fields of, among others, labor market, agriculture, and healthcare and medical services, to make the most of the potential Japan has left untapped. Most particularly, to turn Japan into an incubator of innovations that might change the world, the government will pursue initiatives for establishing the function of a control tower in the field of science and technology, and translating achievements of research and development into business. Another main pillar of the Growth Strategy is active social participation by women. The government will use all policy measures available to make the most of the power of women, the greatest potential Japan holds.

In addition, for encouraging private-sector investment and strengthening the potential for economic growth, the government will work steadily to carry out Action Plan towards fundamental reform of public-private partnerships (PPP) and private finance initiatives (PFI). We will also strive to secure appropriate management of the Private Finance Initiative Promotion Corporation of Japan, and maintain close cooperation with the Cooperation.

(Efforts to establish the TPP)

The Trans-Pacific Partnership (TPP) is an ambitious attempt for countries sharing universal values to create new 21st-century rules for integrating the economies in the Asia-Pacific region, which will trigger regional growth and bring great wealth to people living there.

The ministerial meeting held in last December in Singapore, despite failure to complete the agreement, made substantial progress on the majority of key outstanding issues toward a successful conclusion of negotiations.

Japan will work with other TPP countries to reach an agreement as early as possible, and, at the same time, we will continue striving throughout negotiations to make sure the outcome reflect our national interests.

(Initiatives for realizing virtuous cycles of overcoming deflation, economic revitalization, and fiscal consolidation)

In addition to the above policy measures, the government will work to achieve both economic revitalization and fiscal consolidation, aiming to create virtuous cycles, in which economic revitalization promotes fiscal consolidation and progress in fiscal consolidation contributes to further economic revitalization.

As for the budget for FY2014, public debt will be decreased from the previous year with a natural increase in tax revenues entailing economic growth, and streamlining of expenditure, resulting in a greater improvement for the primary balance of the General Account by more than the target set out in the “Medium-term Fiscal Plan”.

By continuing measures both on the expenditure and revenue sides, the government aims to halve the primary deficit of the national and local governments to GDP ratio by FY2015

from the ratio in FY2010 and to achieve a primary surplus by FY2020, thereafter steadily reduce the public debt to GDP ratio.

(Initiatives for the medium- and long-term development of Japan)

In the next half century, great changes will confront the environment around Japan, such as its demography and the global economy. Some people forecast that Japan will decrease its share of the global economy in its scale. However, such negative views can be overturned by policy initiatives and the will of the people. In other words, we need to “determine our own future”.

In order to make the movement toward recovery arisen by Abenomics more stable and to realize the medium and long-term development of Japan, it is crucial to detect problems which should be addressed intensively as cross cutting matters, and comprehensively tackle to solve them considering structural changes expected to come into being, such as shrinkage in population.

For this purpose, the government set up a “Committee for the Japan’s future”, and we will discuss to execute concrete measures toward 2020.

Based on discussions by this committee, the Council on Economic and Fiscal Policy will work to identify medium- and long-term challenges the Japanese economy will face, and continue deliberation to find a path to realize virtuous cycles of overcoming deflation, economic revitalization and fiscal consolidation so as to prepare for the Basic Policy for Economic and Fiscal Management and Reform in the middle of the year.

(Steady progress in the comprehensive reform of the social security and tax)

With ongoing aging of the population coupled with a declining birthrate, Japan must address comprehensive reform of the social security and tax for improving and stabilizing our social security, and at the same time, consolidating public finance. Last year, based on discussions at the National Council on Social Security System Reform, a law was enacted that presented an overall picture of social security system reform and procedures for the reform. According to the law, the government will introduce necessary bills to the Diet and set up the Headquarters for the Promotion of Social Security Reform, composed of relevant ministers, and the Council for the Promotion of Social Security Reform, made up of academics and experts, for carrying out the reform in a steady manner.

3. Conclusion

One year has passed since the inauguration of the second Abe Cabinet. The Japanese economy has since been regaining momentum. However, I fully realize that we can meet the great expectations for Abenomics set forth at the recent World Economic Forum in Davos only by exerting further effort.

Last December, I went into hospital to undergo an operation for early-stage tongue cancer. Here, I would like to apologize for any inconvenience caused by my absence. Fortunately, I was allowed to return to my duties soon after the operation. It was a tough time for me as I had never previously undergone an operation of any kind. However, at the same time, I fully realized that I live with the support of many people. Now I understand

that was an opportunity for me to stop and feel appreciation for what I owe to them. I am convinced that what I must do now is exert further effort, devote myself, and make more than double the contribution to the state and people.

Under the leadership of Prime Minister Abe, I will continue working with all my might to pursue relevant policy measures quickly and steadily through deliberations at this regular session of the Diet, or “the Diet to bring about an economic virtuous cycle,” and create more jobs for people ready to work hard, especially for women and young people, so that every person in Japan will taste the fruits of economic growth.

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