

Economic Policy Speech by Toshimitsu Motegi, Minister of State for Economic and Fiscal Policy, to the 198th Session of the Diet

January 28, 2019

1. Introduction

I would like to offer my policy remarks as the Cabinet Office Minister of State for Economic and Fiscal Policy on the present state and issues of the Japanese economy and the government's basic stance on policy management.

2. Basic principles on economic and fiscal management

The Japanese economy has greatly improved over the past six years through the promotion of Abenomics. Nominal GDP is at its highest ever at 550 trillion yen, and corporate earnings, too, have posted an all-time high of 83 trillion yen. The employment situation has also improved substantially, with the jobs-to-applicants ratio at its highest level in 44 years and the unemployment rate at a 25-year low. The current economic recovery was launched with the start of Abenomics and entered its seventh year last December, now ranking among the longest recoveries in the postwar era.

The government's economic outlook approved at today's Cabinet meeting anticipates a robust economic recovery centering on domestic demand over the next fiscal year as all possible measures are taken to address the consumption tax rate hike scheduled for October, with real economic growth expected to be around 1.3% and nominal growth 2.4%.

We will be making our utmost efforts to manage the economy while paying due attention to such risk factors as the impact of trade issues on the global economy as well as economic uncertainty overseas and fluctuations in financial and capital markets.

3. “ All-generation” social security reforms and new growth strategy approaches

To sustain and accelerate further economic growth, we think it necessary to commit ourselves fully to addressing three issues that constitute major hurdles for the Japanese economy: the declining birthrate and aging population, the simultaneous pursuit of economic growth and fiscal consolidation, and protectionism and trade issues.

The first hurdle is the rapidly falling birthrate and aging of the population. We will be endeavoring to develop qualified human resources by making education free of charge and enhancing recurrent education, and striving to ensure people live long and healthy lives. Looking ahead to an age in which people regularly live for one hundred years, we intend to revamp the existing employment and social security systems, making reforms that produce “all-generation social security” whereby

citizens of any age can enjoy peace of mind and play active roles in society.

First, we will be considering raising the continuous employment age limit to over 65 years old by this coming summer, with the hopes of creating a society in which elderly persons wishing to work can continue to do so regardless of their age. We will also be re-examining the annual mass hiring of new university graduates and looking to expand the hiring of mid-career and experienced personnel as we strive for a society in which all individuals can fully exercise their capabilities.

The purposes of these reforms are to boost the quality of human resources and to enable “life redesign”, and the realization of these will serve as the foundations for an “all-generation” social security system. Once these foundations are established, we will begin this coming summer actively considering comprehensive reform of social security system, including benefits and burdens.

To improve the potential growth rate, an issue for the Japanese economy, we will need to accelerate our growth strategy. Around the world, an emerging “Society 5.0” will lead to more sophisticated economies and more convenient and affluent living brought about by AI, IoT, Big Data and other technological innovations resulting from the Fourth Industrial Revolution.

We see the growing labor shortage in Japan as an opportunity to improve labor productivity through such means as “next-generation mobility” featuring driverless vehicles and “next-generation health systems” that utilize Big Data to provide optimal preventative, care, and treatment services. These, together with FinTech and cashless transactions in the financial sector, are some of the approaches being rapidly adopted to bring about “Society 5.0”.

4. Fiscal consolidation and the consumption tax rate hike

The second hurdle is simultaneous pursuit of economic growth and fiscal consolidation. Under the basic policy that “without economic revitalization, there can be no fiscal consolidation,” the government will be consistently implementing Integrated Economic and Fiscal Reforms with the aim of achieving a primary surplus by FY2025 and steadily reducing the public debt to GDP ratio.

The consumption tax rate hike scheduled for October of this year will be essential for not only fiscal consolidation but also “a revolution in human resources development” as exemplified by making early childhood education and higher education free and by enhancing and stabilizing social security.

However, a significant demand fluctuation due to last-minute demand prior to the rate increase and a recoil reduction afterwards could undermine the economy's ability to recover, which would have adverse consequences for both the economy and government finances. We will be taking advantage of our experiences from previous rate hikes to mobilize all measures and respond robustly.

The real burden imposed by the consumption tax rate hike will be held to about two trillion yen, thanks to measures already approved that are designed to ease this burden, including making early childhood education free and introducing reduced tax rates. A 2.3 trillion yen package of budget and tax measures will be implemented to overcome the economic effects of the higher consumption tax rate, a package containing such measures as new assistance programs for low-income earners and small and medium-sized companies as well as small-scale entrepreneurs, measures to level demand for durable consumer goods, namely automobiles and houses, and measures to underpin macroeconomic demand through efforts to prevent and reduce disasters and otherwise increase national resilience.

5. Protectionism and trade issues

The third hurdle is protectionism and trade issues. In the midst of protectionism spreading worldwide, Japan must take the lead in protecting the free trade system.

TPP-11 entered into force on 30th December last year. This success was achieved indeed by Japan's leadership in pushing the negotiations forward after the US withdrawal from the TPP in January 2017. The Japan-EU EPA will also enter into force on 1st February this year. The combined economic benefits of TPP-11 and the Japan-EU EPA are estimated to be considerable, boosting Japan's GDP by 13 trillion yen and creating 750,000 jobs in Japan, thus both agreements are expected to serve as a new growth engine for the Japanese economy.

Now we see concerns over protectionism and overseas economic risks, and because such concerns are raised, Japan, as the standard-bearer for free trade, is expected to take leadership in spreading, to the rest of the world, the free and fair common rules suitable for the 21st century established by TPP and the Japan-EU EPA .

Japan will also be engaging in discussions with the US on these issues. An agreement was reached in last September's Japan-US summit meeting to begin talks on a Japan-US trade agreement on goods. In the Japan-US joint statement issued after this meeting shows Japan's position including the point that for Japan, with regard to agricultural, forestry and fishery products, outcomes related to market access as reflected in Japan's previous economic partnership agreements

constitute the maximum level. In accordance with this joint statement, we will do our utmost in negotiating with the US in line with Japan's national interests.

6. Conclusion

The issues confronting Japan that present hurdles the Japanese economy must overcome are also issues that face other developed countries, and indeed all countries. As a “developed country facing new challenges”, Japan will be a front runner in offering model solutions to the rest of the world, and will do so with firm determination. I would greatly appreciate the understanding and cooperation of all members of the public and of the Diet.