

**Economic Policy Speech by Nishimura Yasutoshi, Minister of State for Economic and Fiscal Policy, to the 201st Session of the Diet**

January 20, 2020

## **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. Present Economic Situation and Current Economic and Fiscal Management**

The second Abe administration launched at the end of 2012, when Japan was dealing with an economic downturn and deflation. The administration thus made a difficult start. At that time, being appointed the State Minister of Cabinet Office in charge of economic and fiscal policy, I devoted myself to the launch and promotion of Abenomics, being strongly aware of the need to place first priority on the economic revitalization of the country. I have since been working to promote Abenomics.

Over the seven years since then, the Japanese economy has greatly improved through the promotion of Abenomics. As a result of making efforts to end deflation, Japan has achieved record-high GDP in both nominal and real terms. While the working-age population is decreasing, the number of people employed has substantially increased to hit a record high.

Last October, following a consumption tax rate hike in April 2014, the government raised the consumption tax to enhance and stabilize social security in an aging society while also achieving fiscal consolidation. As a result of introducing reduced tax rates

and implementing temporary and special measures to mitigate the impact of the tax rate hike, the last-minute demand prior to the hike and subsequent drop-off have not been as severe as with the previous tax rate hike.

However, we need to speed up measures for the restoration and reconstruction of the areas impacted by a series of natural disasters which include Typhoon Hagibis. We must also pay due attention to the economic downside risks posed by factors outside Japan, including U.S.-China trade frictions, the outlook for the Chinese economy, Brexit, and situations in the Middle East.

Last December, in consideration of these issues, the Cabinet decided on the “Comprehensive Economic Measures to Create a Future with Security and Growth”. These measures involve plans to spend about 13 trillion yen for fiscal expenditures, aiming to steadily overcome the economic downside risks and make sure that Japan will follow a path toward an exit from deflation and toward economic revitalization.

Based on this economic package, the government will press forward with combination of appropriate measures to ensure optimal macroeconomic management under the concept of a “15-month budget.” In this initiative, the government will formulate a supplementary budget for FY2019 and plan temporary and special measures for FY2020 in an appropriate and seamless manner.

We expect that the economic package will help the Japanese economy achieve growth rates of 1.4% and 2.1% in real and nominal terms respectively for the next fiscal year, mainly driven by domestic demand.

### **3. Investing for the Future and Maintaining and Enhancing Economic Vitality**

The world is witnessing a “Fourth Industrial Revolution,” which is being brought about by new technologies such as AI, IoT, robots, big data and blockchains. These changes are helping to improve people’s living standards, and national governments and companies around the globe are in intense competition to take advantage of these technologies. In order to maintain and enhance economic vitality on a medium- to long-term basis under these circumstances, Japan needs to accelerate investments and the review of its systems as we move toward a new era.

(Implementation of the “digital new deal”)

The government is thus required to implement measures to deal with the current economy while also working on structural reforms to build a new era for the country. In order to meet this requirement, we will not simply work to increase demand. Instead, in the economic package, we have included measures to encourage investments for the future and for the achievement of Society 5.0 based on the idea of wise spending. This includes investments to promote the practical use and spread of IT and digital technologies, develop post-5G systems, and spur innovations in new frontiers, such as quantum and AI technologies. It is now time for us to implement the “digital new deal”

as a national strategy, thereby promoting the “smartization” of industries and people’s lives.

It is also important to develop human resources who can make full use of new technologies to further innovation. To this end, we will push ahead with initiatives to support the creation of an environment in which each student is provided with an information technology device and can make full use of it.

(Promoting investments for the future and maintaining regional vitality)

In order to work on structural reforms to build a new era for Japan, we need to do the following: first, encourage investments in new fields; second, establish the rules for the digital market and review the legal systems for the Fintech and financial fields in line with the progress of a digital society; and third, review regional systems in response to changes in local social structures for the maintenance of local infrastructures. We deal with these requirements in the interim report made last December, “Interim report for formulation of New Action Plan of the Growth Strategy”.

Based on the report, we will submit bills to this session of the Diet aimed at increasing the transparency of transactions between digital platform operators, revising the regulations on financial service payment and settlement, establishing a legal system for cross-sectoral financial services intermediaries, and exempting passenger bus service operators and regional banks from the application of the antimonopoly law. Moreover,

we will make more specific examinations for the national growth strategy and formulate New Action Plan of the Growth Strategy this summer, thereby further enhancing Japan's growth potential.

(Maintaining the trend of wage increases)

In the face of weak foreign demand, we need to boost domestic demand in order to put Japan's economy on a growing path. To this end, it is critical for companies, including SMEs, to increase their productivity in order not only to continue the trend of wage increases, but also strengthen it.

For six straight years, the level of wage increase has been a record high for the 21st century. In order to keep this trend going and to continue and enhance the virtuous cycle of growth and distribution, the government will support measures that contribute to higher productivity in a prompt manner through the economic package and Action Plan of the Growth Strategy.

(Taking in foreign demand and expanding the rules for the 21st century)

For Japan to strongly continue its growth in the face of a decreasing population, it is essential to proactively take in foreign demand.

Under such circumstances, the Japan-U.S. Trade Agreement entered into force on January 1st. Together with the TPP11 and the Japan-EU Economic Partnership

Agreement, which entered into force about one year ago, free, fair and rule-based market that encompasses 60 percent of the world economy has been formed, and Japan sits at the hub of this market. This market will provide great business opportunities to small and medium enterprises with advanced technological capabilities as well as farmers, foresters and fishermen who have supported safe and delicious foods. In order to take full advantage of these opportunities, we will steadily implement measures based on the “Comprehensive TPP-related Policy Framework”, which was revised last December. We will make an all-out effort to support Japanese companies, including small and medium enterprises, and Japanese products to seize new markets overseas, and to enhance domestic agriculture, forestry and fisheries and their communities. Also, Japan will encourage the TPP11 signatories to complete their applicable legal procedures of the agreement, and maintain and expand free, fair and rule-based trade order by continuing to demonstrate leadership for expanding the countries joining the TPP11.

#### **4. Supporting People in Leading Their Lives with More Peace of Mind**

For Japan to embrace new challenges, it is important to help each citizen lead their lives with more peace of mind.

(Social security for all generations)

For the Abe administration, the greatest challenge for this year is to set forth reforms to develop social security for all generations. With a strong commitment to completing reforms to pass down a sustainable social security system to future generations, I will

continue to work to the best of my ability as the Minister in charge of social security reforms for all generations.

Last September we launched the Council on Social Security Reform for All Generations to reform the social security system in a comprehensive manner, including work styles. The goal is to help all age groups— from old to young, including parenting families and working generations —lead their lives without worrying about their future. At the end of last year, we published an interim report based on the discussions held in the Council. In order to let more people move from the “supported” side to the “supporting” side, we deem it necessary to rebalance the “supporting” and “supported” sides, with aiming to provide sustainable and comfortable social security systems for all generations and to curb increasing fiscal burdens on the working generations. Toward the publication of the final report in this summer, we will deepen discussions at the Council while listening to the opinions of the ruling party and a range of participants.

At this ordinary session of the Diet, we will do our best to work toward the enactment of bills on the items which the interim report points out as bills needed to be submitted to the ordinary session, including bills for pension reforms, such as expanding the application of the employee pension system, ensuring employment opportunities for people aged up to 70, and promoting mid-career employment and the employment of experienced workers.



(Support for the “employment ice age” generation)

The “employment ice age” generation is defined as those who had to search for jobs after bursting of the so-called bubble economy. To support them, it is urgently necessary for the government to take measures and deem the solution of this issue as this is important to the lives of the individuals involved and also for the future of the entire country. In the aforementioned economic package, the government therefore set a policy of securing enough financial resources for the stable implementation of measures for the ice age generation over three years, while enhancing and linking the counseling and supporting organizations for the generation and offering even more extensive support measures to them. Moreover, we established a new subsidy to encourage the creative implementation of regional measures to help people in the generation find jobs and participate more in society. Toward the future, we will steadily encourage support measures for the generation based on the action plan formulated at the end of last year, such as making the company possible to target the recruitment only to those belonging to the generation. We will sincerely listen to the opinions expressed by people in the generation, their support organizations, labor-management organizations and other related parties mainly through the platforms established for public-private collaborations and also through various opportunities, so that the government can provide the support that is optimal for each individual in response to their individual needs and situations.

## **5. Promotion of the New Plan to Advance Economic and Fiscal Revitalization**

Although Japan's fiscal situation still remains severe, the situation is improving. The central and local governments' total tax revenues increased by more than 30 trillion yen on an initial-budget basis over the past eight years, and the new issuance of government bonds will decrease by about 12 trillion yen in terms of nominal value. We will continue to steadily implement measures under the basic concept, "Without economic revitalization, there can be no fiscal consolidation," and also in line with the New Plan to Advance Economic and Fiscal Revitalization, thereby aiming for the primary surplus of the central and local governments by FY2025 and reducing the public debt to GDP ratio steadily. To this end, we revised the reform time schedule for the New Plan at the end of last year. The schedule includes the policy which will promote early realization of the next-generation administrative services, which aim for enhancement of administrative efficiency through utilization of AI, cloud computing and other digital technologies, and which aim to shift toward more higher-quality administrative services to citizens, including one-stop administrative procedures. Based on the schedule, we will strongly continue to promote expenditure reforms.

## **6. Conclusion**

This year we will host the Olympics and Paralympics in Tokyo, and it will be an important year that will mark the beginning of a new dynamic era for Japan. Each citizen and company play a leading role in this movement and courage to take a step forward is the driving force to forge a better future while regarding the coming great changes as

great opportunities. The Japanese government will support them by taking all possible measures, such as through budget, taxation and reformation of regulations. I will devote myself to fulfill my responsibility as a member of the Cabinet, so that in the future Society 5.0, people will look back on 2020 as a remarkable turning point that marked a start of the new era.

To this end, I would greatly appreciate the understanding and cooperation of all members of the public and of the Diet.