

Economic Policy Speech by Shindo Yoshitaka, Minister of State for  
Economic and Fiscal Policy, to the 213th Session of the Diet

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## 1. Introduction

As the Cabinet Office Minister of State for Economic and Fiscal Policy, I would like to offer my opinions on the current state and challenges of the Japanese economy as well as the government's basic stance on policy management.

First of all, I would like to extend my deepest condolences for the people who lost their lives in the recent earthquake and to their bereaved families. I also offer my sincere sympathy to all of the people affected by the earthquake. Fully giving attention to the damage caused by the earthquake and its economic impact, I will make every effort to steer economic and fiscal management.

## 2. Current State Assessment of the Economy and Economic and Fiscal Management (Current State Assessment of the Economy)

The Japanese economy is showing positive signs such as wage increase, capital investment and stock prices, at their highest level for 30 years. I recognize that Japan is being presented with a golden opportunity to overcome deflation and push the economy forward to a vibrant new stage.

The Japanese economy is recovering at a moderate pace, although it recently appears to be pausing in part. The business sector is doing well.

The diffusion index (DI) that gauges business conditions is the highest since the period of the economic bubble for the non-manufacturing sector. The DI for

the manufacturing sector has turned positive from negative even for small and medium enterprises. Firm's fixed investment plans show 12.6 percent rise from a year earlier.

However, the actual investment is at the lower level than planned and Prices increases faster than wages gains. We need to proceed the economic revitalization such as the recovery of private consumption with a view to overcoming deflation.

We aim to bolster income over the near term through public-private cooperation, to enhance their earning power of businesses and to use these revenues for sustainable and structural wage increases. This, in turn, will increase consumption and investment, leading to further economic growth. Such a virtuous cycle of income and economic growth is what we aim to achieve.

(Economic and fiscal management for the immediate future)

To this end, we put together the Comprehensive Economic Measures for Complete Overcoming Deflation last November in order to overcome price increases and strengthen the supply capacity. This economic package involves six items of tax reform, as well as 36 items of institutional and regulatory reform, the largest number of items of this kind in economic packages since 2013. We will promptly implement these and other economic measures and steadily execute the fiscal 2023 supplementary budget, which is designed to be closely linked with the

fiscal 2024 budget. Thus, we will make every effort to steer economic and fiscal management for the immediate future.

With regard to the additional support of paying 70,000 yen to every household that is exempt from residential taxes, almost all municipalities have begun procedures for paying the benefit. Also, we will swiftly work on supplementary benefits, that is, benefits for wider low-income households and extra benefits for child-rearing households. In this year's spring labor-management negotiations, we expect higher wage hikes than in last year's negotiations. We will implement flat tax cuts from June, when bonuses are paid. With all these measures, we will work to further increase household income.

To increase consumer spending, we will also work to expand the scope of the wage hike momentum to include small and medium enterprises and expand the number of regions, and to sustain such wider momentum. To this end, we will enhance the wage-hike promotion tax system and strengthen measures to allow the rising costs to be appropriately passed on, which is the key to wage increases.

To facilitate the passing through of labor costs as well as raw material costs to prices, we will ensure that the Guidelines for Price Negotiations for Appropriate Pass-through of Labor Costs, which was developed last November, will be strictly followed. We will also expand the initiative of the Declaration of Partnership Building, which is aimed at fostering coexistence and co-prosperity between large

and small enterprises.

Taking into consideration the expected effects of all these efforts, we predict that the Japanese economy will grow about 1.3 percent in real terms and 3.0 percent in nominal terms in the next fiscal year.

### 3. Strengthening supply capacity

Next, let me discuss the strengthening of the supply capacity.

The potential growth rate has recently remained low, at slightly over zero percent. To raise it, it is crucial to ramp up policy responses in three dimensions: capital, labor, and total factor productivity.

#### (Capital)

Capital is used longer in Japan than in most other developed countries. Plans and equipment are aging in this country. To win through fierce international competition, ramping up capital investment is a must.

To this end, we will introduce a new tax break according to the amount of production in semi-conductor and other strategic sectors. We will also create a system to subsidize the construction of new plants by medium-sized and small enterprises. To encourage labor-saving investment by small enterprises, we will provide support in a catalogue format for convenience and prompt efficiency. In

addition to such financial support, we will press ahead with the domestic investment promotion package, which involves institutional and regulatory reforms.

(Labor)

There is a growing sense of a labor shortage among enterprises amid a low unemployment rate and a job-offers-to-seekers ratio of more than one. As such, we will develop an environment where people wishing to work further, who are increasing in number, can expect working.

A growing number of enterprises have abolished the mandatory retirement age with the introduction of a job-based personnel management system. In view of this, we will put together a set of easy-to-understand guidelines for introducing such a personnel management system. The government will work with the private sector to offer employment support through such measures as reskilling all generations, including experienced senior citizens.

Some workers have no choice but to limit their working hours, when they face what is called “annual income barriers.” To address the issue, we developed a package of measures last September, which enables people to work as long as they wish. By implementing the package, we will create an environment where people can work without considering the “annual income barriers,” to secure enough amount of labor force.

(Productivity and innovation)

Innovation is the most important element in creating added value. We will develop frontiers in outer space, oceans, and other global commons. We will also proceed with the social implementation of digital and other new technologies to build next-generation logistics that take advantage of self-driving trucks and drones. Furthermore, we will create tax privileges for income that is generated from intellectual properties such as patent rights derived from research and development in Japan in order to encourage investment in intangible assets. Through these and other efforts, we will tap into the power of innovation to significantly increase the productivity of the Japanese economy.

We will scale up stock option taxation to ramp up support for startups that lead innovation. Additionally, we will give shape to the Global Startup Campus Initiative. We will also pursue the formation of ecosystems that organically coordinate this initiative and industry-academic-government support in many parts of Japan and nurture startups that are relevant in the global market.

Tapping into the economic vitality of other countries is essential in boosting productivity. We will promote the export of agricultural, forestry, and fishery products and support small enterprises in expanding their operations overseas. We will also facilitate foreign direct investment in Japan and strengthen economic

partnerships with other countries.

In this regard, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) has high-level rules and provides a successful example of an advanced and ambitious trade system. The CPTPP not only brings about economic benefits but also contributes to peace and prosperity in the world. Going forward, we will deepen discussions on such issues as how to respond to accession requests, how to further develop trade and investment rules through the General Review of the agreement, and how to deal with market distorting measures and economic coercion. Japan will take the initiative in ensuring that this agreement will continue and develop as a framework that offers the “gold standard.”

#### 4. Ensuring the sustainability of the economy and society

Now, let me move onto the issue of how to ensure the sustainability of the Japanese economy and society.

(Measures to tackle the declining birthrate, and a social security system for all generations)

An aging society, a falling birthrate, and a shrinking population are the greatest crises Japan needs to overcome. Japan needs to reverse the trend of a declining birthrate before it enters the 2030s, when the youth population is projected to

plunge.

Children are the treasure of the nation. Under the “Future Strategy for Children,” which we developed last December, we will beef up our measures designed to tackle the declining birthrate on an unprecedented scale with a budget of some 3.6 trillion yen. This will raise the ratio of family-related expenditures per child to GDP from about 11 percent to about 16 percent, putting Japan on par with Sweden, which ranks top among OECD countries.

We will also build a social security system for all generations, in which people in all generations help one another according to their abilities to help, in line with the “Reform Plan for Building a Social Security System for All Generations,” which we drew up last December. Such a system will ensure security for all generations, including generations to come, thereby increasing the sustainability of Japan’s social security. In the process, we will analyze the causes of unsolved issues. Based on such analysis, we will press ahead with related reforms one at a time.

(Economic revitalization and fiscal consolidation)

Revitalizing the Japanese economy is the top priority in economic and fiscal management. With the concept of “the economy is the foundation of public finance,” the government will ensure public trust in financial administration by rebuilding the economy and restoring fiscal health.

In implementing the reform time schedule for the New Plan to Advance Economic and Fiscal Revitalization, we will proceed with both the promotion of digital transformation (DX) and the creation of a data-driven society. Through evidence-based policy making (EBPM) and plan-do-check-act (PDCA) activities, we will commit ourselves to wise spending.

(Looking to build an economy and society in which people can feel prosperous and happy)

Since last autumn, we have been discussing medium- and long-term policy issues, including expected socioeconomic changes and how to turn them to our advantage. The goal is to overcome an aging society, a falling birthrate, and a shrinking population, all of which can be described as national disasters, and to build an economy and society in which people can feel prosperous and happy. We will reflect the outcomes of such discussions in the next Basic Policy on Economic and Fiscal Management and Reform.

## 5. Conclusion

The national economy supports people's lives. The Japanese economy now has a golden opportunity to achieve a virtuous cycle of income and economic growth. Its trajectory over the next ten years will depend on whether we can take advantage of

this opportunity.

I have a strong determination to make this a reality. With this determination, I will put my heart and soul into ensuring that there is a unity in measures taken by different ministries and agencies and that all possible policy instruments are mobilized. The goal is to transform the Japanese economy into a growth-oriented economy driven by sustainable wage increases and vibrant investment.

I would like to ask the Japanese public and all members of the Diet for their understanding and cooperation in this regard.