

Report on Economic Situation

Working Lunch

Remarks by Senior Vice Minister Hideaki Omura

Thank you Mr. Chairman. The Japanese economy has experienced a sustained expansion, due to a robust expansion of the world economy and also the positive effects of a series of structural reforms by the former Koizumi Cabinet. The current Abe Cabinet is continuing on the reform track, seeking further improvement.

I would like to make a brief comment on the economic outlook and then look at fiscal policy in Japan.

Economic Outlook

Primarily due to high corporate profit, we have seen sustained growth in private sector investment. As compensation for employees has been growing gradually, consumption has also recovered.

The corporate sector is expected to remain robust in the near future, having a favorable effect on the household sector. We expect the current expansion, led by private domestic demand, will continue at a pace of around 2 percent real growth per annum.

Fiscal Consolidation

Now I would like to say a few words about our efforts towards fiscal consolidation.

Japan is currently implementing a spending-cut program, which was decided last summer, in order to achieve a primary surplus in the national and local governments combined budget by 2011. After that, we will continue fiscal consolidation to prevent the debt-to-GDP ratio from mounting up in an explosive way and to reduce it steadily toward the middle of the next decade.

The 2007 budget represents the first step toward that goal. We reduced the issuance of new government bonds by 4.5 trillion yen, slightly below 1 percent of GDP, the largest amount ever. The primary deficit has improved for five consecutive years, from 5.7 percent of GDP in fiscal 2002 to 0.6 percent in fiscal 2007, that is, an improvement of more than 5 percentage-points.

In compiling future budgets, we will continue to cut expenditures including social security, personnel costs and public works. We will also stick to the principle, which was decided in January this year, that tax revenue increases should not be allocated to extra expenditures, but instead allocated to the reduction of taxpayers' future burdens.

"No fiscal consolidation without growth." We will seek to enhance our economic growth potential by improving productivity while at the same time steadily proceeding with fiscal consolidation.

Thank you.