

# Fiscal Management Strategy (Executive Summary)

## —For the Security and Hope of the People—

### I . Basic Concept

#### 1. Current economic and fiscal situation

- Since the collapse of the bubble economy, policies for economic growth did not work sufficiently, and the nominal economic growth rate for the past 10 years was minus.
- Fiscal situation is worsening and the outstanding amount of government debt has increased by around 470 trillion yen in the past 20 years.

#### 2. Determined actions against the risks of public finance crisis

- These problems need to be addressed in order to prevent the collapse of public finance like other countries such as Greece. Should such a situation occur, fiscal autonomy would be lost, resulting in a sharp decline in social security services and a devastating effect on the economy and people's lives.
- However, it is not necessary to be pessimistic. Japan is able to recover, with correct understanding of the causes of economic and fiscal problems and implementation of reforms with a strong political leadership.

#### 3. Lessons from past experiences

- ① Past administrations continued inefficient investment that did not lead to employment and growth, without reforms to the inflexible expenditure structures.
- ② Tax reforms necessary for securing revenue source has been neglected. As a result, the government debt keeps accumulating, thus increasing people's concern about the future and suppressing the economic recovery.

#### 4. Implementation of the New Growth Strategy

- Due to deflation, even in a phase of economic recovery people do not actually feel it, and the tax revenues have not increased much, resulting in the worsening of the fiscal balance.
- It is necessary to get the economy back on track toward recovery through creating new demand, markets and employment in growth areas such as ① environment and energy, ② medical, care and health services, ③ Asia-related areas, ④ tourism and local revitalization, ⑤ science and technology and IT, ⑥ employment and human resources, ⑦ financial services.
- The government should make every effort, in cooperation with the Bank of Japan, to bring deflation to an end.

- By implementing the New Growth Strategy in conjunction with the Fiscal Management Strategy, the government aims at achieving over 3% of nominal growth rate and over 2% of real growth rate on average until FY2020.

## **5. Reconstruction of the social security system**

- Enhancement of the social security system will ensure people's security and stimulate consumption, and will promote growth through creation of employment.
- In order to reconstruct a social security system that is sustainable and trusted by the people, the government, local governments, employers and users need to play their roles appropriately so as to support the system by the whole society.
- The government will promote selection and prioritization of measures within the social security area and concentrate resources on measures that contribute to economic growth through expansion of consumption and employment.
- Regulations need to be reviewed in order to provide satisfactory services. It is necessary to eliminate the wasting of money and construct an efficient system to prevent the costs shared by the people from becoming excessive.

## **6. The Fiscal Management Strategy of the new government**

- In addition to thorough reforms to expenditures, the comprehensive reform of the tax system should be advanced so that the expense necessary for the security and growth is shared by the whole nation. The country requires a fiscal management based on a new approach that shows the people a bright hope for the future and aims for fiscal consolidation as well as promoting growth.
- To what extent expenditures should be cut, and how to progress the thorough tax reform to secure the revenue – the government, without delay, will present options to the people and implement reforms with a strong political will.

⇒ Integrated realization of “Strong economy”, “Strong public finances” and “Strong social security system”

## **II . Specific Measures**

Consideration should be given to (1)Prudent economic assumptions, (2)Flexibility to economic fluctuations, (3)Honesty and transparency in accounting and communications with markets

### **1. Fiscal consolidation targets**

#### **(1)Flow targets**

- ① Primary balance of national and local governments:
  - By FY2015 at latest, halve primary balance deficit relative to GDP
  - By FY2020 at latest, achieve primary balance surplus
- ② Primary balance of the national government: same as above
- ③ Continue fiscal consolidation efforts in and after FY2021

#### **(2)Stock target**

Achieve stable reduction in the amount of public debt relative to GDP from FY 2021

#### **(3)Publication and examination of the progress towards the targets**

Examine and publish the progress towards the targets each year.

When it is decided that achieving the targets is unrealistic due to events such as a major economic crisis, appropriate adjustments to the targets will be made.

### **2. Basic rules on fiscal management**

#### **(1)Pay-as-you-go rule**

Whenever policies that increase expenditure or reduce revenue are introduced, stable revenue sources must be secured by permanent reductions in expenditures or revenue-raising measures

#### **(2)Fiscal deficit reduction rule**

Fiscal situation must be steadily improved each year in order to achieve the flow targets

#### **(3)Securing revenue sources for structural expenditures**

Stable sources of revenue must be secured for items that are structural factors of expansion of expenditure

#### **(4)Basic principles for reviewing expenditure**

Eliminate wasteful expenditures in all areas including the Special Accounts and implement drastic reorganization of the budget

#### **(5)Stable management of local government finances**

Fiscal consolidation should be conducted by both national and local governments in mutual cooperation. The national government does not implement measures that transfer burdens to local governments.

### **3. Medium-term Fiscal Framework**

#### **(1) Towards integrated realization of the strong economy, public finances and social security**

The 3 year period from FY2011 will form the first stage towards integrated realization of the strong economy, strong public finances and the strong social security.

#### **(2) Measures on revenue and expenditure**

##### **① Restraining the amount of government bonds issuance**

The government will make every effort to ensure that the amount of new government bonds issuance in FY2011 does not exceed that in FY2010 (around 44 trillion yen), and steadily decreases thereafter.

##### **② Measures on the revenue side**

The government will soon determine the details of the comprehensive reform of taxes including personal income tax, corporate tax, consumption tax and tax on assets, so that necessary revenue will be secured towards achievement of fiscal consolidation targets.

##### **③ Measures on the expenditure side (FY2011~FY2013)**

- The amount of General Account expenditure (excluding debt repayment and interest payment) will not, in substance, exceed that of the previous fiscal year. (“Overall Expenditure Limit”)
- The total amount of general revenue sources of local governments will be secured at virtually the same level as FY2010.
- When permanent increases in revenue are secured by tax changes (for policies such as a package for integrated enhancement of the economy, public finances and the social security), the corresponding amount can be added to the “Overall Expenditure Limit” within the restraint on the government bonds issuance.

#### **(3) Budget formulation in each fiscal year based on the Medium-term Fiscal Framework**

Budget requests must be made within the limits allocated to each minister.

#### **(4) Revisions to the Medium-term Fiscal Framework**

The Medium-term Fiscal Framework will be revised each year so as to cover the 3 year period starting from the next fiscal year.

# Fiscal Management Strategy

—For the Security and Hope of the People—

Economic and  
fiscal situation

- ✗ Negative nominal growth in the past 10 years
- ✗ Govt debt increased by ¥470tn in the past 20 years

Lessons from  
past experiences

- ✗ Inefficient public works not leading to growth
- ✗ Neglect of tax reforms needed to secure revenue

New Fiscal  
Management Strategy

- ✓ Implementation of the New Growth Strategy
  - ✓ Reconstruction of sustainable social security
  - ✓ Sharing of the expense for security and growth
- ⇒ Fiscal consolidation that brings a bright hope to the people and promotes economic growth

**Integrated realization of  
strong economy, public  
finances and social  
security**

Stable  
social security

Sustainable  
economic growth

Sound  
public finance

## Fiscal consolidation targets

### Flow targets

- By FY2015 at latest halve the primary balance (national and local governments) deficit relative to GDP
- By FY2020 at latest achieve primary balance surplus  
(The same targets are set for the national government alone.)

### Stock target

- Stable reduction in the amount of public debt relative to GDP from FY2021

## Medium-term Fiscal Framework

### **Multi-year measures on both revenue and expenditure**

- Aiming that the new government bonds issuance in FY2011 does not exceed that in FY2010 (around ¥44tn), and steadily decreases thereafter
- Determine soon details of the comprehensive reform of taxes including consumption tax
- Overall Expenditure Limit: During FY2011~2013, general account expenditure (excluding debt repayment and interest payment) will remain the same or below that of the previous FY (can be increased when permanent revenue sources are secured for policies such as integrated enhancement of economy, public finances and social security).