

**Opening Statement by the Honorable Ichiro Miyashita,
State Minister of Finance, Government of Japan
At Tokyo Fiscal Forum
10th June, 2015**

(1. Introduction)

Good morning, ladies and gentlemen. Welcome to Japan. I am Ichiro Miyashita, State Minister of Finance. I am delighted to welcome you all from Asian countries and other areas, and from the international institutions, the IMF and ADBI. It is my great pleasure to deliver the opening statement at this forum.

First of all, I would like to offer my deepest condolences to all those affected by the earthquake in Nepal, which caused serious damages including massive casualties. Besides, I would like to offer my deepest condolences to the victims of the tragic accident in Yangtze River in People's Republic of China too.

Today, I would like to talk about the topics related to the theme of this forum, that is, the aging society facing Japan, and the current administration's economic policy and fiscal consolidation to achieve economic growth in such aging society.

(2. Aging society)

Nowadays, many countries face problems caused by aging, but Japan is the most rapidly aging country in the world. As a result, Japan's social security system faces big challenges.

Now, a half century has passed since Japan established the universal health care and pension system. Today, Japan's average life expectancy is at around 84 years. This is the longest in the world. In the meantime, the aging of the Japanese population has rapidly progressed. Lately, one in four people in Japan is 65 years or older. Now, we are entering a "Super-Aging Society." No other country has experienced this yet.

(3. Fiscal Sustainability)

In fact, the current situation of social security finance in Japan is absolutely severe. Social security expenditure accounts for around 55% of the national general expenditure of Japan. The social security expenditure amounts to over half of the national general expenditure as the aging progresses. And considering the total national budget, tax revenue only covers around 57% of all national expenditure. Most of the rest is covered by public debt. With the further aging, the social security expenditure is expected to increase more and more in the future. It should not be acceptable to continue increasing the burden of social security expenditure of the current generation to the next generation without balancing the benefit and burden. Reinforcement of growth power, revenue enhancement, and expenditure reform are urgently required.

After the regime change in December 2012, under Prime Minister Abe's leadership, we have made progress with the "three-arrows" of policies or so-called "Abenomics," consisting of an aggressive monetary policy, flexible fiscal policy, and growth strategy to encourage private-sector investment, in order to overcome the deflationary recession. As a result of these efforts, Japanese corporate earnings are at a record high level, the jobs-to-applicants ratio is at the highest level in 23 years, and the average increase in monthly wage reached 2.23%. This is above the level of last year, which was the highest in 15 years. A virtuous cycle of the economy is surely observed. Tax revenue increased by around 12 trillion Yen during the three years since the inauguration of the Abe Cabinet, partly due to the effect of the rise in the consumption tax. With all these efforts, the target to reduce the primary deficit is expected to be attainable with the FY2015 budget.

In terms of the reform of social security itself, we are taking measures aiming to secure the financial resources to improve and maintain the social security system as well as fiscal consolidation. We raised the consumption tax rate from 5% to 8% in April 2014. All of the additional revenue by this consumption tax hike is devoted to improving and stabilizing the social security system.

(4. The road to fiscal consolidation)

The road to fiscal consolidation is long and steep. The government is fully committed to achieving the primary balance in 2020. Concrete plans to achieve this goal will be prepared by this summer. The three pillars for fiscal consolidation are the reinforcement of growth power, revenue enhancement, and expenditure reform.

(4.1. Reinforcement of Growth Power)

The first is the reinforcement of growth power. To continue the virtuous cycle of the economy, in which wage increases and employment expansion stimulate consumption and investment, the government has taken various measures: holding the Government-Labor-Management Meeting twice, pro-growth corporate tax reform, corporate governance reform, and reform of the "bedrock" regulations in the agriculture and energy sectors. 44 bills related to Growth Strategy came into effect in the previous Diet sessions, and we have submitted more than 20 in the current session.

In addition, we are trying to improve labor productivity against the shrinking population. We will also continue the measures to eliminate the employment mismatch in order to enhance the participation of all people who are eager to participate in the labor market, including elderly people and women.

(4.2. Revenue Reform)

Second, in terms of revenue enhancement, we are surely going to raise the consumption

tax rate to 10% in April 2017. Besides, as revenue reform, I believe that the time is ripe for re-considering the structure of the tax system, with the structural changes of the economy and society including demographic changes and globalization in mind.

(4.3. Expenditure Reform)

The third is expenditure reform. The Abe cabinet has made efforts for expenditure reform as well as revitalizing the economy so far. For example, the FY2015 budget improves labor conditions for long-term care staff, and reduces the expenditure for long-term care benefits on the whole. So it restricts the increase of long-term care contribution and reduces the user-charge. We continue our efforts for expenditure reform under the Abe cabinet, and will make radical progress, leading to efficient social security with consideration for demographic change.

(5. Closing)

All countries have different economies, fiscal situations, and challenges. However, what we all have to keep in mind is that the fiscal policy and management choices we make today do not only affect current generations but also future generations. In deciding fiscal policy and designing fiscal systems, we need to take into account fiscal sustainability, inter-generational equity, long-term growth, and effectiveness of spending. I believe it is meaningful for you to share Japan's experiences and lessons.

At the same time, we would like to learn from you all. I hope the various ideas, backgrounds, and experiences of the participants join to bring about splendid outcomes from this forum.

Let me stop here, and thank you very much for your attention.

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