

December 24, 2011

**Statement by Yasuchika Hasegawa, Chairman of Keizai Doyukai
On the fiscal 2012 government budget draft**

1. The cabinet released its fiscal 2012 national budget draft. In accordance with the Medium-term Fiscal Framework, the total of the general expenditure and the new government bond issuance were both restricted to below 68.4 trillion yen and about 44 trillion yen respectively. However, when combined with the specially allocated budget for reconstruction cost of the Great East Japan Earthquake and for pension balance payment, the overall budget draft is the largest ever. It is hard to describe that this is a budget aimed at rehabilitating Japan's fiscal balance in the near future.
2. Needless to say, Japan is facing substantial long-term public debt of 900 trillion yen—twice as large as its own GDP—to which 40 trillion yen of additional debt is added each year. In order to reduce and resolve this inflating debt, it is essential to carry out bold fiscal reform, such as restructuring the framework of non-mandatory expenses.
3. Consumption tax rate should be raised to increase tax revenue as presented in the supplementary provision 104 of the Fiscal 2009 Tax Reform Act. At the same time, it is absolutely necessary to execute a substantial cut in ever-increasing social security expenses, whose share in the general expenditure is the greatest. By these means, the target committed by the Fiscal Management Strategy, namely, halving the fiscal deficit by 2015 compared to that of 2010 and turning the primary balance positive by 2020, needs to be achieved without any delay.
4. In finalizing the budget, consideration should be taken to avoid duplication with the fiscal 2011 supplementary budgets—especially in regards to the spending for the reconstruction from the quake damage, infrastructure investment and policies under the framework of the Priority Measures to Renovate Japan. With the above in mind, it is necessary to consistently prioritize budget items. For example, it is indispensable to make additional cuts in public works and to implement the budget as efficiently and effectively as possible once finalized. The results and outcomes from the budget spending should also be thoroughly evaluated.