KEIZAI DOYUKAI

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Statement by Yasuchika Hasegawa, Chairman of Keizai Doyukai

On the Approval of the Fiscal 2014 Government Budget Draft

Today, the cabinet approved a draft budget for fiscal year 2014 totaling a record high of 95.9 trillion yen. While the effect on the economy of the two step increase of consumption tax must be considered, the size of this budget is problematic in light of the need to achieve fiscal soundness.

Looking at revenues, the government expects an increase in tax revenues of about 50 trillion yen and a reduction in new government bond issues of more than 1 trillion yen. These improvements are due to next April's consumption tax increase to 8 percent and an estimated increase in corporate tax revenues. As a result, the government is expected to achieve its goal of improving the primary balance by 4 trillion yen, as announced in the mid-term fiscal plan this August. We appreciate these efforts and hope the government will achieve this goal.

Looking at expenditures, the increase in public works and defense spending is likely unavoidable considering the issues of disaster prevention and defense of remote islands. However, the potential consequences of revising the medical fee reimbursement system are a cause for concern. The proposed revision would increase the burden of households and businesses by 0.1 percent for two years until the end of 2015. In addition, the total cost of social security including medical services will surpass 30 trillion yen for the first time. Considering this, bold reforms of tax and social security systems will be necessary in order to achieve a budget surplus by fiscal year 2020.

While measures to achieve fiscal soundness continue to increase the burden on households, the tax incentives for private corporations are included in the tax reform package for fiscal 2014, approved on December 12th. These incentives include a reduction in the effective corporate tax rate (accomplished by abolishing the special corporate tax for the Great East Japan Earthquake recovery a year ahead of schedule) and a reduction in investment taxes. These incentives are expected to improve corporate cash flow and make Japan a more competitive location for business. However, the potential revision of entertainment tax to allow more business meals to be tax deductible requires further deliberation. Though this revision may spur on domestic demand, it would not be appropriate if applied to corporations that are not paying taxes.