

November 17, 2014

**Statement by Yasuchika Hasegawa, Chairman of Keizai Doyukai
On July-September GDP Flash Report**

The Cabinet Office announced today that Japan's GDP contracted annual 1.6 percent in real terms during the July-to-September period in its preliminary release. It is the second consecutive quarterly decline. It indicates the slowdown of Japan's economy due to the delayed recovery of the consumption dampened by the consumption tax hike. The recovery seems negatively impacted by factors such as cooler weather in the last summer.

The outlook, however, is that the economy will keep its gradual upward momentum, despite the much-lower-than-expected indicator suggesting the recent economy in a fairly unfavorable condition. It is because the adverse effect of the tax increase to the consumption is fading away while the better corporate earnings are expected to take effect on the year-end bonus and the wage increase in the coming year.

The government's pledge is a far-reaching tax system reform including the consumption tax in order to achieve both enhancement/stabilization of the social security system and the fiscal consolidation. Thus, the consumption tax should be increased to 10 percent as originally scheduled despite a short-term pain, as it is one of the pillars of the integrated reform of social security and taxation and has a legislative endorsement in the tripartite agreement.

Should the government place on the table the feasibility to delay the consumption tax hike due to the concern with the economy, it is requested to present the measures, based on the demographic change in the future and the current fiscal condition, to have a balance between benefits and burdens in the social security system sustainable for a long term, ensuring the confidence of the international community to our fiscal health.

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