KEIZAI DOYUKAI

December 22, 2023

Statement by Takeshi Niinami, Chairperson of Keizai Doyukai on FY2024 Government Budget Draft

1. The Cabinet has approved today a government budget draft for the fiscal 2024. The general account total expenditure is ¥112 trillion, smaller than the year before for the first time in twelve years as the contingency reserve was trimmed. Japan still has a long way to go before reaching its goal of squeezing the size of expenditure to a level for fiscal health.

2. The social security expenditure is record-high ¥37.7 trillion as the principal portion of the medical service fees is set to increase. It is crucial now, at a pivot point of the times, to break away from the regime of the Showa and Heisei era, for a drastic shift to a Reiwa structure. In this regard, the revisions made in the draft budget are just insufficient. We are aware that better remunerations for hospital physicians are necessary and are addressed by the budget draft. However, further full-fledged reforms are inevitable, if the government strives to increase working generation's disposable income in a continuous and stable manner, which is a key measure to reverse the declining birthrate. On the premise that working generation's burdens of social security costs would not increase any further, the government should consistently follow the agenda on the trajectory and timetable of reforms via thorough DX (digital transformation), while ensuring and accelerating the EBPM (evidence-based policymaking) with higher viability. Beyond such initiatives is the crystallization of the social security system for all generations, which strikes a balance between better public services and well-controlled public expenditure.

3. The Japanese economy must return to the normal conditions where interest rates recover their functions, so that its dynamism will be restored, driven by the private sector. For this to happen, it is essential to have fiscal discipline to cover not only initial but also supplementary budget, in addition to even more wise spending. Furthermore, the government must rationalize the size of expenditure and, at the same time, improve its quality, by clarifying KGIs (key goal indicators) and KPIs (key performance indicators) in all policy spheres, ensuring the EBPM, and shifting budget resources, including those in use now, to policy measures that have higher multiplier effect from medium- to long-term perspectives.

4. Amid the sticky and structural labor shortage, a virtuous cycle of moderate inflation and wage hikes will be realized by accelerating labor mobility and promoting economic renovation. Besides the budget compilation, we expect the government to implement, in an integrated manner, far-reaching institutional reforms of the systems that distort workers' choices such as so-called "annual income ceiling," as well as drastic regulatory reforms in the sectors such as healthcare,

considered as a new frontier of growth. Meanwhile, businesses will pursue innovations that solve social challenges, while actively endeavoring to increase investment in people for reskilling based on career design and to expand options for work style in line with each life stage.

###