

**Fiscal 2009 Economic Outlook
and
Basic Stance for Economic and Fiscal Management**

January 19, 2009
Cabinet Decision

1. The Japanese economy in FY2008

In FY2008, facing the global economic slowdown triggered by the global financial market crisis, the Japanese economy has been in a recession due to stagnant domestic and external demand. In addition to rapidly worsening employment situations, businesses are suffering from cash flow problems.

Consumer prices are expected to stabilize in the coming years, following sharp drops in crude oil prices.

As a result, the GDP growth rate at constant prices (Real GDP growth) in FY2008 is estimated to be around minus 0.8%, and the GDP growth rate at current prices (Nominal GDP growth) to be around minus 1.3%, respectively.

2. Basic Stance for Economic and Fiscal Management in FY 2009

From the viewpoint of safeguarding people's daily lives and the Japanese economy, the Government employs three-stage economic and fiscal policies focusing on "economic recovery" in the near term, "fiscal consolidation" in the mid-term, and "economic growth through reforms" in the mid- to long-term. The Government has so far responded to the current economic and financial situation by formulating the "Comprehensive Immediate Policy Package –Easing Public Anxiety–"¹, the "Economic Policy Package: Measures to Support People's Daily Lives"² and other measures. The Government continues its efforts by steadily implementing the "Immediate Policy Package to Safeguard People's Daily Lives"³, coupled with the implementation of the "Economic Policy Package: Measures to Support People's Daily Lives" and the tax reform. In addition, the Government is determined to take bold actions promptly and flexibly in response to changes in global economic and financial conditions while maintaining basic directions toward fiscal consolidation based on the "Medium- to Long-term Fiscal Policy and An Economic and Fiscal

¹ "Comprehensive Immediate Policy Package –Easing Public Anxiety–" a decision by the Joint Meeting of the Government and the Ruling Parties Council on the Comprehensive Immediate Policy Package and the Ministerial Meeting on Economic Measures, August 29, 2008.

² "Economic Policy Package: Measures to Support People's Daily Lives", a decision by the Joint Meeting of the Government and the Ruling Parties Council on the New Economic Measures and the Ministerial Meeting on Economic Measures, October 30, 2008.

³ "Immediate Policy Package to Safeguard People's Daily Lives", a decision by the Ministerial Meeting on Economic Measures, December 19, 2008.

Outlook for Next Ten Years⁴”, while aiming at achieving economic growth through reforms by drawing up and boldly implementing a scenario for future growth, building on the foundation of the “New Economic Growth Strategy”⁵.

The Government expects the Bank of Japan to support the Japanese economy through appropriate and flexible monetary policies by sharing basic perspectives on macroeconomic management with the Government in the face of the difficult domestic and external economic and financial conditions.

3. Economic Outlook for FY2009

Although both domestic and external demand is expected to be sluggish thorough FY2009 in the context of prolonged worldwide economic recession, positive impact of the economic policy packages (the “Comprehensive Immediate Policy Package -Easing Public Anxiety-,” “Economic Policy Package: Measures to Support People’s Daily Lives” and “Immediate Policy Package to Safeguard People’s Daily Lives”) and improved terms of trade can be expected, and it is anticipated that the Japanese economy starts to emerge from the stagnation in the second half of FY2009 partly due to a gradual recovery in private demand.

Prices will decrease compared with the previous year, reflecting weak price movement for crude oils and raw materials.

Accordingly, in FY2009, the real GDP growth rate is expected to be around 0.0%, and the nominal GDP growth rate to be around 0.1%, respectively, as shown by main economic indicators in the attached paper.

It should be noted that a deterioration in global economic and financial conditions can further worsen and prolong the downturn.

(1) Real Gross Domestic Product

① Private Consumption Expenditure

In spite of the continuation of severe employment and income situations, private consumption is expected to recover gradually, supported by the impact of the economic policy packages. (Private consumption is expected to be up by approximately 0.4% from the previous fiscal year.)

② Private Residential Investment

Private residential investment is expected to turn upward, (and is expected to be up by approximately 4.7% from the previous fiscal year), due to effects of tax reform and other measures.

③ Private Non-Residential Investment

While improved terms of trade and effects of tax reform are among the factors driving growing corporate investment, private non-residential investment will remain in a difficult

⁴ “Medium- to Long-term Fiscal Policy and An Economic and Fiscal Outlook for Next Ten Years”, Cabinet decision, January 19, 2009.

⁵ “New Economic Growth Strategy (2008 revision)”, Cabinet decision, September 19, 2008.

condition due to declining external demand. (Private non-residential investment is expected to be down by approximately 4.2% from the previous fiscal year.)

④ Government Expenditure

Government expenditure is expected to rise above the level of the previous fiscal year because both public-sector fixed asset formation and government final consumption expenditure will increase due to steady implementation of the economic policy packages (and is expected to be up by approximately 2.5% from the previous fiscal year).

⑤ External Demand

External demand is expected to decrease because of global recession and the strong yen. (The contribution of external demand to the real economic growth rate will be approximately minus 0.3 %.)

(2) Labor and Employment

While the implementation of the economic policy packages will restrain pressure for employment adjustment, the unemployment rate will record a rise over the previous fiscal year. (The unemployment rate will reach approximately 4.7 %.)

(3) Industrial Production

Industrial production will fall continuously because of weak domestic and external demand (by approximately 4.8% from the previous fiscal year).

(4) Prices

Domestic corporate goods prices and consumer prices will turn downward, reflecting weak moves in crude prices and raw material prices. (Corporate goods prices and consumer prices are expected to decline by approximately 2.1% and 0.4% over the previous fiscal year, respectively.) The GDP deflator will remain generally unchanged (and will increase by approximately 0.1% from the previous fiscal year).

(5) Balance of Payments

Japan's export will decrease and its import is expected to decline considerably because of weak moves in crude oil prices and raw material prices, and its trade balance surplus is expected to increase. Japan's favorable balance of current account will grow to a certain extent (and the current account balance as a percentage of the nominal GDP will reach approximately 3.7 %).

Note 1: These economic forecasts have been prepared assuming the economic and fiscal management set out in "2. Basic Stance for Economic and Fiscal Management in FY2009."

Note 2: The Japanese economy mainly consists of private activity and is influenced by unforeseeable market fluctuations and other changes, especially those in the international environment. Accordingly, main economic indicators should be recognized as being subject to upside and downside risks.

Main Economic Indicators

	FY2007 (Actual)	FY2008 (Estimate)	FY2009 (Forecast)	Percentage changes over the previous fiscal year					
				FY2007		FY2008		FY2009	
				Trillion yen (Current prices)	Trillion yen (Approx) (Current prices)	Trillion yen (Approx) (Current prices)	% (Current prices)	% (Constant prices)	% (Approx) (Current prices)
Gross domestic product	515.9	509.4	510.2	1.0	1.9	-1.3	-0.8	0.1	0.0
Private consumption expenditure	291.9	293.8	291.9	0.7	0.9	0.6	0.2	-0.6	0.4
Private residential investment	16.6	16.2	16.9	-11.5	-13.0	-2.7	-4.1	4.9	4.7
Private non-residential investment	82.7	79.4	76.1	2.7	2.3	-3.9	-4.7	-4.2	-4.2
Increase in private inventory	3.0	2.9	3.1	(0.1)	(0.1)	(- 0.0)	(-0.0)	(0.0)	(0.0)
Government expenditure	113.7	114.4	117.0	1.2	0.7	0.6	-0.5	2.3	2.5
Government final consumption expenditure	93.1	94.1	96.1	2.4	2.2	1.0	0.3	2.2	2.6
Public-sector fixed asset formation	20.4	20.0	20.6	-4.1	-5.8	-1.5	-3.7	2.9	2.2
Exports of goods and services	92.2	88.7	82.1	9.9	9.3	-3.8	-0.2	-7.5	-3.2
Less: Imports of goods and services	84.2	85.9	77.0	9.7	1.8	2.0	-1.5	-10.4	-1.5
Contribution of domestic demand				0.8	0.7	-0.3	-1.0	-0.3	0.3
Contribution of private demand				0.5	0.5	-0.4	-0.9	-0.8	-0.3
Contribution of public demand				0.3	0.2	0.1	-0.1	0.5	0.6
Contribution of external demand				0.2	1.3	-1.0	0.2	0.4	-0.3
National income	374.8	369.0	367.7	0.3		-1.5		-0.3	
Compensation of employees	265.7	264.4	263.4	0.5		-0.5		-0.4	
Property income	16.6	15.6	15.3	-5.7		-6.0		-2.0	
Corporate earnings	92.5	89.0	88.9	0.9		-3.8		-0.1	
Labor and employment	Ten thousands	Ten thousands (Approx)	Ten thousands (Approx)		%		% (Approx)		% (Approx)
Total labor force	6,668	6,625	6,605		0.1		-0.7		-0.3
Total employment	6,414	6,350	6,295		0.4		-1.0		-0.8
Employees	5,523	5,515	5,490		0.7		-0.2		-0.4
Unemployment rate	%	% (Approx)	% (Approx)						
	3.8	4.2	4.7						
Production	%	% (Approx)	% (Approx)						
Industrial production	2.6	- 5.5	- 4.8						
Prices	%	% (Approx)	% (Approx)						
Domestic corporate goods price index	2.3	4.1	- 2.1						
Consumer price index	0.4	1.3	- 0.4						
GDP deflator	-0.9	-0.5	0.1						
Balance of payments	Trillion yen	Trillion yen (Approx)	Trillion yen (approx)		%		% (Approx)		% (Approx)
Balance of goods and services	9.1	3.9	5.7						
Trade balance	11.7	5.7	7.4						
Exports	80.9	76.9	69.9		9.9		-5.0		-9.0
Imports	69.3	71.1	62.5		9.6		2.7		-12.1
Current balance	24.5	18.0	18.9						
Current balance as a percentage of GDP	%	% (Approx)	% (Approx)						
	4.8	3.5	3.7						

* Figures in parentheses represent contribution to GDP growth.

(Note) We have assumed the world GDP (excluding Japan), the yen's exchange rate and the crude oil import price as follows. These assumptions are neither projections nor forecasts of the Government.

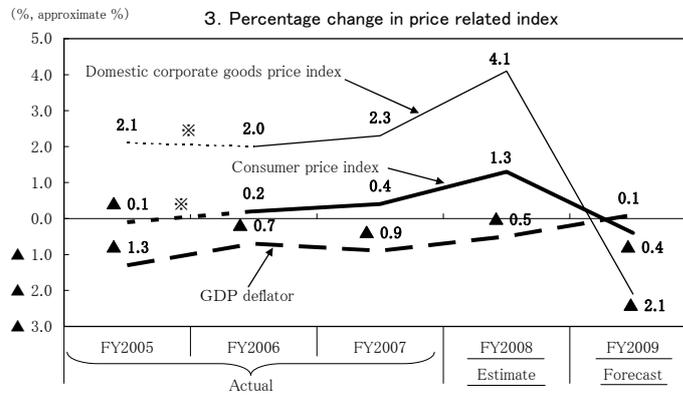
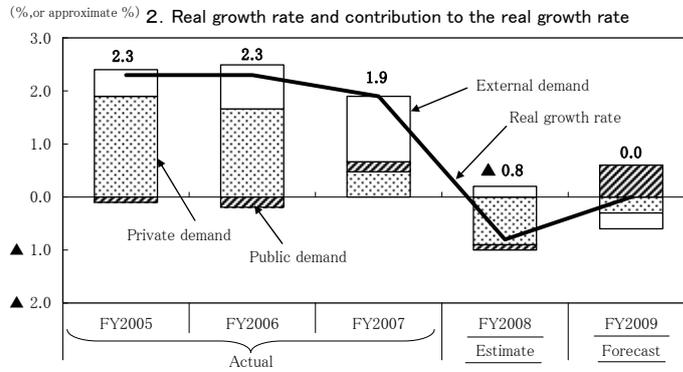
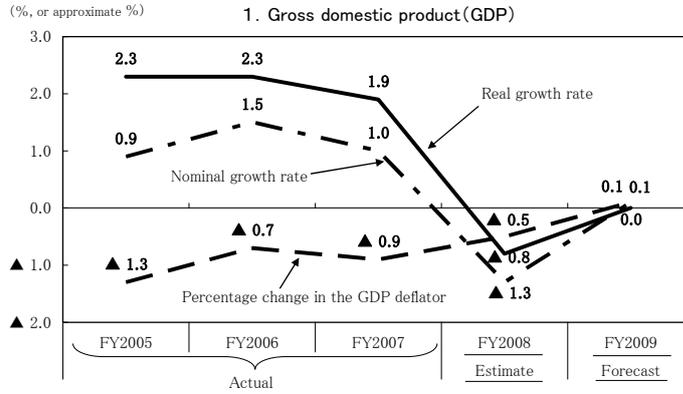
	FY2007	FY2008	FY2009
Real growth rate of world GDP (excluding Japan) (%)	4.0	2.0	1.2
Exchange rate (yen/dollar)	114.2	101.7	96.9
Crude oil import price (dollar/barrel)	78.5	94.3	58.4

Remarks

1. The real growth rate of world GDP (excluding Japan) has been calculated based on economic forecasts of international organizations and other institutions.
2. The exchange rate is assumed to stay constant on and after December 1st, 2008 at the monthly average (96.9 yen/dollar) from November 1, 2008 through November 30, 2008.
3. The crude oil import price is assumed to stay constant on and after December 1st, 2008 at 58.4 dollar/barrel, which includes the monthly average spot crude oil price from November 1, 2008 through November 30, 2008 and freight and insurance.

(Reference)

Main economic indicators



Note: Figures for fiscal year 2005 represent percentage changes from 2000, and those for fiscal year 2006 through fiscal year 2009 represent percentage changes from 2005, respectively.

