

**Fiscal 2010 Economic Outlook
and
Basic Stance for Economic and Fiscal Management**

(January 22, 2010
Cabinet Decision)

1. Japanese Economy for FY2009

The Japanese economy in FY2009 is expected to pick up, despite a difficult situation such as unemployment rate remaining at a high level.

Prices have shown a mild deflationary phase, and consumer prices turned to decline for the first time in four years due to a significant excess supply and in reaction to an upsurge in oil prices in the previous fiscal year.

The GDP growth rate at constant prices (real GDP growth) in FY2009 is estimated to have improved from the previous year but to remain at around minus 2.6%, because the initial level for growth was extremely low. The GDP growth rate at current prices (Nominal GDP growth), which more directly reflects people's sentiment toward the economy, will decline by approximately 4.3%, showing a sharp decline for the second consecutive year.

2. Basic Stance for Economic and Fiscal Management in FY2010

In order to make the economic pick-up more certain, the Government will steadily carry out the "Emergency Economic Countermeasures for Future Growth and Security"¹ (hereinafter referred to as "Countermeasures") and implement the corresponding second supplementary budget for FY2009 and the budget for the FY2010 as one body. The Government will put a special emphasis on policies regarding children, employment, the environment and science and technology under the budget for FY2010 as well as carry out major policies in response to the promise to the people, and expand growth frontiers through the promotion of the "New Growth Strategy (Basic Policies)"² for the purpose of creating new demand and employment. Furthermore, the Government will both make economic growth compatible with fiscal discipline and enhance fiscal sustainability from the viewpoint of ensuring economic growth, supporting people's daily lives, and strengthening safety nets.

The Government will continue to keep a close eye on economic conditions and take decisive

¹ "Emergency Economic Countermeasures for Future Growth and Security" (Cabinet decision on Dec. 8, 2009)

² "New Growth Strategy (Basic Policies) Toward a Radiant Japan" (Cabinet decision on Dec. 30, 2009)

actions when necessary. In the course of economic and fiscal management, the Government will take much account of nominal economic indicators that directly reflect people's lives and make united efforts with the Bank of Japan (BOJ) to implement powerful and comprehensive measures to overcome deflation.

The Government hopes that the BOJ will continue to underpin the economy by conducting monetary policy in an appropriate and flexible manner, while sufficiently exchanging views and working together with the government so that its policy and the above-mentioned government's measures are mutually compatible.

3. Economic Outlook for FY2010

In FY2010, the economy is expected to recover moderately, with the Countermeasures and other measures included in the FY2010 budget to financially assist households expected to prop up private demand. The world economy is also anticipated to recover moderately.

Prices are estimated to continue declining mildly due to a significant excess supply, although the magnitude of the decline will shrink. The unemployment rate is highly likely to remain at a high level.

As a result, the real GDP growth rate is expected to turn positive for the first time in three years, standing at around 1.4%. The nominal growth rate will also turn positive to around 0.4%.

As future risks, we should consider a deterioration of the employment situation, a slump in demand due to deflationary pressure, a slowdown in overseas economy, and exchange rate movements.

(1) Real Gross Domestic Product

(i) Private Consumption Expenditure

Despite the remaining of severe employment and income difficulties, private consumption is expected to show a larger growth than the previous fiscal year (up by approximately 1.0% over the previous fiscal year) thanks to the Countermeasures and various measures to financially assist households.

(ii) Private Residential Investment

Amid moderate economic recovery, private residential investment is expected to turn upward thanks to the Countermeasures, etc. (up by approximately 4.4% over the previous fiscal year).

(iii) Private Non-Residential Investment

Private non-residential investment is expected to pick up, thanks to the increase in exports and production and the effects of the Countermeasures, etc (up by approximately 3.1% over the previous fiscal year).

(iv) Government Expenditure

Government final consumption expenditure is expected to rise gradually, but public-sector fixed asset formation will decrease below the level of previous fiscal year in response to a

significant rise during the previous fiscal year and due to a review of public-works spending (the contribution of public demand to the real economic growth rate will be approximately minus 0.2%).

(v) External Demand

External demand is expected to increase, backed by moderate recovery of the world economy (the contribution of external demand to the real economic growth rate will be approximately 0.4%).

(2) Labor and Employment

Despite being propped up by the Countermeasures, the employment situation will remain severe, and the unemployment rate will stay at a high level (around 5.3%). The number of employees will start to increase moderately for the first time in three years (up by approximately 0.3% over the previous fiscal year).

(3) Industrial Production

Industrial production will turn to an increase for the first time in three years, thanks to the increase in domestic demand and external demand,(up by approximately 8.0% over the previous fiscal year).

(4) Prices

Prices will continue to show a mild deflationary phase, and domestic corporate goods prices and consumer prices will continue to decline (corporate goods prices and consumer prices are expected to decline by approximately 0.9% and 0.8% over the previous fiscal year, respectively). The GDP deflator will also decline (by approximately 1.0% over the previous fiscal year).

(5) Balance of Payments

Both the trade balance surplus and current account balance are expected to increase against the background of moderate recovery of the world economy, (the current account balance, as a percentage of the nominal GDP, will reach approximately 3.3%).

Note 1: These economic forecasts have been prepared to assuming the economic and fiscal management set out in "2. Basis Stance for FY2010 Economic and Fiscal Management."

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

4. Economic Effects of the Countermeasures

In compiling this Economic Outlook, we have estimated that the Countermeasures will work to push up the real GDP by approximately 0.7% in around one year. Furthermore, the Countermeasures will work to prop up and create employment for approximately one million people (prop up employment for 800,000 employees and create jobs for 200,000 people) in about one year's time.

Main Economic Indicators

	FY2008 (Actual)	FY2009 (Estimate)	FY2010 (Forecast)	Percentage changes over the previous fiscal year					
				FY2008		FY2009		FY2010	
				% (Current prices)	% (Constant prices)	% (Approx.) (Current prices)	% (Approx.) (Constant prices)	% (Approx.) (Current prices)	% (Approx.) (Constant prices)
	Trillion yen (Current prices)	Trillion yen (Approx.) (Current prices)	Trillion yen (Approx.) (Current prices)						
Gross domestic product	494.2	473.1	475.2	-4.2	-3.7	-4.3	-2.6	0.4	1.4
Private consumption expenditure	288.1	283.4	283.0	-1.8	-1.8	-1.6	0.6	-0.2	1.0
Private residential investment	16.4	13.1	13.6	-1.2	-3.7	-20.2	-16.9	4.0	4.4
Private non-residential investment	76.7	61.9	63.4	-5.7	-6.8	-19.4	-16.5	2.5	3.1
Increase in private inventory *1	1.5	-1.2	-0.5	-0.2	-0.1	-0.5	-0.4	0.1	0.1
Government expenditure	113.4	116.8	115.9	-0.1	-1.3	3.0	4.3	-0.8	-0.6
Government final consumption expenditure	93.6	95.2	96.4	0.7	-0.1	1.8	2.3	1.2	1.4
Public-sector fixed asset formation	19.6	21.4	19.3	-3.5	-6.6	8.8	14.4	-9.8	-9.5
Exports of goods and services	78.3	58.3	61.6	-15.1	-10.4	-25.6	-14.4	5.7	8.3
Less: Imports of goods and services	80.2	59.0	61.7	-4.7	-4.4	-26.4	-11.1	4.5	5.2
Contribution of domestic demand				-2.2	-2.6	-4.5	-2.2	0.3	1.1
Contribution of private demand				-2.2	-2.3	-5.2	-3.2	0.5	1.3
Contribution of public demand				0.0	-0.3	0.7	1.0	-0.2	-0.2
Contribution of external demand				-1.9	-1.1	0.2	-0.5	0.1	0.4
National income	351.5	333.2	336.4	-7.1		-5.2		0.9	
Compensation of employees	262.4	252.3	250.6	-0.3		-3.9		-0.7	
Income from properties	13.5	12.0	12.6	-19.2		-11.2		4.8	
Business income	75.6	69.0	73.2	-23.3		-8.8		6.2	
Labor and employment	Ten thousands	Ten thousands (Approx.)	Ten thousands (Approx.)		%		% (Approx.)		% (Approx.)
Total labor force	6,648	6,615	6,625		-0.3		-0.5		0.2
Total employment	6,373	6,260	6,275		-0.6		-1.8		0.3
Employees	5,520	5,445	5,465		-0.1		-1.3		0.3
Unemployment rate	%	% (Approx.)	% (Approx.)						
	4.1	5.4	5.3						
Production	%	% (Approx.)	% (Approx.)						
Industrial production	-12.7	-11.2	8.0						
Prices	%	% (Approx.)	% (Approx.)						
Domestic corporate goods price index	3.2	-5.4	-0.9						
Consumer price index	1.1	-1.6	-0.8						
GDP deflator	-0.5	-1.7	-1.0						
Balance of payments	Trillion yen	Trillion yen (Approx.)	Trillion yen (Approx.)		%		% (Approx.)		% (Approx.)
Balance of goods and services	-0.9	2.9	4.2						
Trade balance	1.2	4.4	5.0						
Exports	67.7	51.8	55.2		-16.3		-23.3		6.6
Imports	66.6	47.4	50.3		-3.9		-28.5		6.0
Current balance	12.3	14.0	15.8						
Current balance as a percentage of GDP	%	% (Approx.)	% (Approx.)						
	2.5	3.0	3.3						

*1 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.

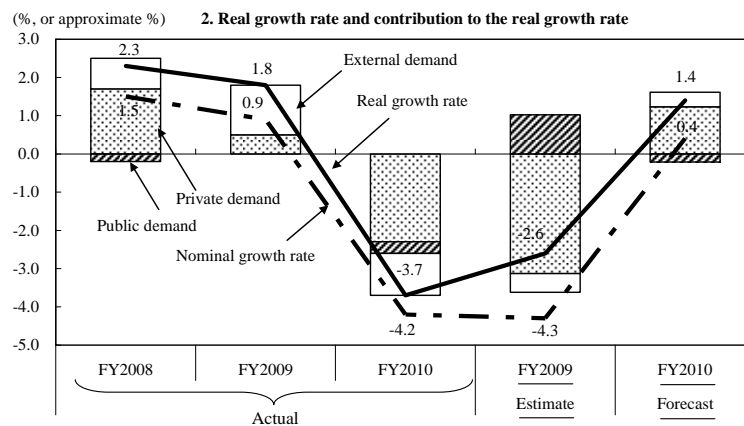
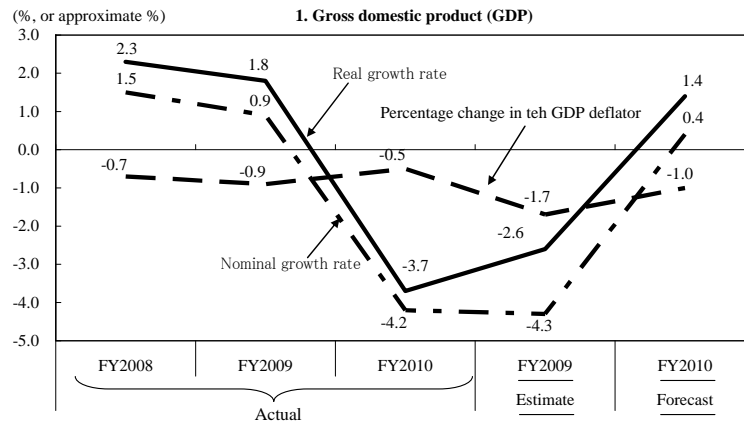
	FY2008	FY2009	FY2010
Real growth rate of world GDP (excluding Japan) (%)	0.4	-0.6	3.2
Exchange rate (yen/dollar)	100.4	92.4	89.1
Crude oil import price (dollar/barrel)	90.3	70.0	80.5

(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 after December 1, 2009 at the monthly average (89.1 yen/dollar) from November 1, 2009 through November 30, 2009.
3. The crude oil import price is assumed to stay constant after December 1, 2009 at 80.5 dollar/barrel, which includes the monthly average spot crude oil price from November 1, 2009 through November 30, 2009 and freight and insurance.

(Reference)

Main Economic Indicators



※Note: Contribution ratios of private demand, public demand, and external demand show their contributions to the real growth rate.

