

Fiscal 2013 Economic Outlook and Basic Stance for Economic and Fiscal Management

(February 28, 2013
Cabinet Decision)

1. Japanese Economy in FY2012

In FY2012 the Japanese economy showed recovery over the summer, supported by reconstruction demand from the Great East Japan Earthquake and the onset of policy effects. After then, the economy, however, showed weakness and the further deterioration of economy was concerned, with exports and production decreased due to the slowdown of the world economy.

In response, the Government implemented its “Emergency Economic Measures for the Revitalization of the Japanese Economy¹” (“Emergency Economic Measures” hereafter) in January 2013. A modest pick-up in the world economy as well as the policy effects brought on by the measures are expected; the Japanese economy is expected to recover modestly.

With regard to prices, mild deflation is persisting. Consumer prices declined for the fourth successive year.

The real GDP growth rate for FY2012 is projected to be approximately 1.0% because overseas demand decreased due to the world economy slowdown after the summer, in spite of economic propping up by reconstruction demand, while the nominal growth rate is expected to be about 0.3%.

¹ Cabinet decision dated January 11, 2013

2. Basic Stance for FY2013 Economic and Fiscal Management

Towards revitalising the Japanese economy, the Government will aim to overcome deflation and correct the prolonged excessive appreciation of the yen, thereby increasing employment and income by a three-pronged strategy consisting of bold monetary policy, flexible fiscal policy, and a growth strategy that promotes private investment.

The Government will promptly implement its “Emergency Economic Measures” as a first step, avoid further deterioration of the economy, and make a smooth transition to a strategy towards sustained economic growth.

(Fiscal Policy)

The Government will avoid further deterioration of the economy with prompt and flexible economic and fiscal policy management. Thus, the Government will support the economy and implement seamless economic measures by combining the FY2012 supplementary budget² for implementing the Emergency Economic Measures and the FY2013 budget,³ based on the idea of the so-called “15-month budget.” The Government will reduce wasteful expenditures of the budget for FY2013 to the fullest extent, and prioritise budget items drastically to avoid deterioration of its fiscal condition. In doing so, the Government will not only accelerate the reconstruction from the Great Earthquake, but also focus on the areas that would contribute to the sustained economic growth or on the promising areas that would support Japan’s future.

It is necessary to achieve the fiscal consolidation goal: the combined ratio of primary deficit to GDP of the central and local governments in FY2010 should be halved by FY2015, and the primary balance should be surplus by FY2020. Thus, the Government will take the fiscal consolidation goal into account in the budget for FY2013, reduce government bond issuance as much as possible and pursue the sustainable fiscal structure with a view to securing confidence in the government bond market.

² Cabinet decision dated January 15, 2013

³ Cabinet decision dated January 29, 2013

(Monetary Policy)

The Government expects the Bank of Japan to pursue aggressive monetary easing to achieve the price stability target of two percent in terms of the year-on-year rate of change in the consumer price index at the earliest possible time, as mentioned in the joint statement of the Government and the Bank of Japan⁴.

The Council on Economic and Fiscal Policy will regularly review the progress in the conduct of macroeconomic policies including monetary policy, the current condition and future prospects of prices in the context of the price stability target under those policies, economic and fiscal situation including employment conditions, and progress in economic structural reform.

(Foreign Exchange Policy)

Although the market has recently observed correction of the excessive yen appreciation, correcting excessive appreciation of the yen and overcoming deflation early is a paramount challenge. The Government will continue monitoring the trends of the foreign exchange market carefully and address them appropriately.

(Growth Strategy)

The Government will revitalise the dynamism of the Japanese economy and encourage private-sector investments in those areas such as facilities with advanced technologies and innovative research and development, thereby creating wealth with sustained economic growth. At the same time, the Government will promote global strategy that links return on foreign investment to the economic growth of Japan and pursue the “Hybrid-Economy,” driven by twin engines for growth that consist of establishing both a “trade-oriented country” and an “industrial investment-oriented country.”

⁴ Cabinet Office, Ministry of Finance and the Bank of Japan, January 22, 2013. “Joint Statement of the Government and the Bank of Japan on Overcoming Deflation and Achieving Sustainable Economic Growth”

3. Economic Outlook for FY2013

In FY2013, with the modest recovery of the world economy expected, the Japanese economy will recover, driven by domestic demand as implementation of the measures shown in “Basic Stance for FY2013 Economic and Fiscal Management” is expected to create steady demand and employment.

With regard to prices, the rate of increase in consumer prices is forecasted to be approximately 0.5%, while the GDP deflator will turn to positive. Owing to an increase in the number of employees, the unemployment rate is set to decrease.

In consequence, the real GDP growth rate in FY2013 is expected to be around 2.5% (the nominal growth rate is around 2.7%).

Downside risks include the following: uncertainty in overseas economy such as the European sovereign debt crisis, developments in foreign exchange markets, and constraints on the electric supply.

(1) Real Gross Domestic Product

(i) Private Consumption Expenditure

Private consumption is expected to maintain its modest uptrend (up by approximately 1.6% from the previous fiscal year) as the employment and income conditions improve. An increase in consumption prior to the consumption tax hike is expected.

(ii) Private Residential Investment

Private residential investment should continue to rise (up by approximately 6.8% from the previous fiscal year) due to the impact of policy measures on reconstruction in addition to the improvement in the employment and income conditions. An increase in private residential investment prior to the consumption tax hike is expected.

(iii) Private Non-Residential Investment

Private non-residential investment is expected to turn upward (up by

approximately 3.5% from the previous fiscal year), owing to increases in exports, production, improved business sentiment, and the impact of Emergency Economic Measures.

(iv) Government Expenditure

Government expenditure will continue to rise above the level of the previous year due to steady implementation of the Emergency Economic Measures and the increase in social security expenditures. (The contribution of government expenditure to the real GDP growth rate will be 3.1%)

(v) External Demand

Exports are expected to increase, backed by the expected modest recovery of the world economy. Imports will also increase, along with increase of domestic demand. (The contribution of external demand to the real GDP growth rate will be approximately 0.0%)

(2) Labor and Employment

Under a moderate economic recovery, backed by the effects of Emergency Economic Measures to create employment, the number of employees will continue to increase (up by approximately 0.9% from the previous fiscal year). The unemployment rate will decline (approximately 3.9%).

(3) Industrial Production

Industrial production is expected to turn to upward under the impact of a recovery in exports and increase in domestic demand (up by approximately 3.4% from the previous fiscal year).

(4) Prices

The rate of increase in consumer prices will be approximately 0.5%. The domestic corporate goods prices will show a slight increase (up by approximately 0.8% from the previous fiscal year). The GDP deflator will

turn to positive (increasing by approximately 0.2% from the previous fiscal year).

(5) Balance of Payments

The trade balance will continue to post a deficit, because imports exceed exports, even though exports will increase, backed by the modest recovery of the world economy. The current surplus will increase moderately, backed by an increase of income balance. (The current account balance will be approximately 1.0% as a percentage of nominal GDP.)

Note 1: The preparation of these economic forecasts is premised on the economic and fiscal management set out in “2. Basic Stance for FY2013 Economic and Fiscal Management.”

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

(Appendix)

Main Economic Indicators

	FY2011	FY2012	FY2013	Percentage changes over the previous fiscal year					
	(Actual)	(Estimate)	(Forecast)	FY2011		FY2012		FY2013	
	Trillion yen (Approx.) (Current prices)	Trillion yen (Approx.) (Current prices)	Trillion yen (Approx.) (Current prices)	% (Current prices)	% (Constant prices)	% (Approx.) (Current prices)	% (Approx.) (Constant prices)	% (Approx.) (Current prices)	% (Approx.) (Constant prices)
Gross domestic product	473.3	474.9	487.7	-1.4	0.3	0.3	1.0	2.7	2.5
Private consumption expenditure	287.3	289.2	294.2	0.9	1.5	0.7	1.2	1.7	1.6
Private residential investment	13.5	13.8	14.8	4.2	3.7	2.3	3.1	7.5	6.8
Private non-residential investment	63.8	63.1	65.4	3.1	4.1	-1.1	-0.7	3.6	3.5
Increase in private inventory * ¹	-2.8	-2.4	-2.0	(-0.5)	(-0.5)	(0.1)	(0.1)	(0.1)	(0.1)
Government expenditure	117.9	121.6	125.8	0.9	0.9	3.1	4.2	3.5	3.1
Government final consumption expenditure	96.8	98.4	99.6	1.3	1.5	1.6	2.9	1.3	1.1
Public-sector fixed capital formation	21.0	23.2	26.2	-1.6	-2.3	10.2	10.2	13.0	11.9
Exports of goods and services	70.9	69.0	73.6	-3.9	-1.6	-2.8	-1.8	6.8	4.3
Less: Imports of goods and services	77.3	79.3	84.2	11.2	5.3	2.5	4.0	6.2	3.7
Contribution of domestic demand				0.8	1.3	1.2	1.9	2.7	2.5
Contribution of private demand				0.6	1.0	0.4	0.8	1.8	1.7
Contribution of public demand				0.2	0.2	0.8	1.0	0.9	0.8
Contribution of external demand				-2.2	-1.0	-0.8	-0.9	-0.0	0.0
National income	346.8	349.1	358.9	-1.6		0.7		2.8	
Compensation of employees	245.3	244.8	247.9	0.6		-0.2		1.2	
Income from properties	19.7	19.7	20.7	-2.4		-0.2		5.1	
Business income	81.7	84.5	90.3	-7.3		3.4		6.8	
Labor and employment	Ten thousands	Ten thousands (Approx.)	Ten thousands (Approx.)		%		% (Approx.)		% (Approx.)
Labor force	6,578	6,547	6,550		-0.8		-0.5		0.0
Employed persons	6,279	6,270	6,297		-0.3		-0.1		0.4
Employees	5,501	5,511	5,559		-0.1		0.2		0.9
Unemployment rate	% 4.5	% (Approx.) 4.2	% (Approx.) 3.9						
Production	%	% (Approx.)	% (Approx.)						
Industrial production	-1.0	-2.9	3.4						
Prices	%	% (Approx.)	% (Approx.)						
Domestic corporate goods price index	1.4	-1.2	0.8						
Consumer price index	-0.1	-0.1	0.5						
GDP deflator	-1.7	-0.6	0.2						
Balance of payments	Trillion yen	Trillion yen (Approx.)	Trillion yen (Approx.)		%		% (Approx.)		% (Approx.)
Balance of goods and services	-5.3	-9.3	-9.3						
Trade balance	-3.5	-6.4	-6.6						
Exports	62.6	61.0	65.3		-2.8		-2.5		7.0
Imports	66.1	67.4	72.0		14.0		2.0		6.8
Current balance	7.6	4.4	5.0						
Current balance as a percentage of GDP	% 1.6	% (Approx.) 0.9	% (Approx.) 1.0						

*1 Figures in parentheses represent contribution to GDP growth.

(Note1) The figures for Consumer Price Index are general.

(Note2) The figures for Labor and employment in FY2011 are estimated, using supplementary - estimated figures

(Note3) We have assumed the real growth rate of world GDP (excluding Japan), the yen's exchange rate and the crude oil import price as follows. These assumptions are not projections of the Government.

	FY2011	FY2012	FY2013
Real growth rate of world GDP (excluding Japan) (%)	3.4	2.4	2.9
Exchange rate (yen/dollar)	79.0	81.9	87.8
Crude oil import price (dollar/barrel)	114.1	113.6	112.5

(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 at 87.8 yen/dollar (average from December 26, 2012 to January 18, 2013) on January 21, 2013 onward.
3. The crude oil import price is assumed to stay constant at 112.5 dollars/barrel (the average spot price of Dubai, plus freight and insurance) on February 1, 2013 onward.

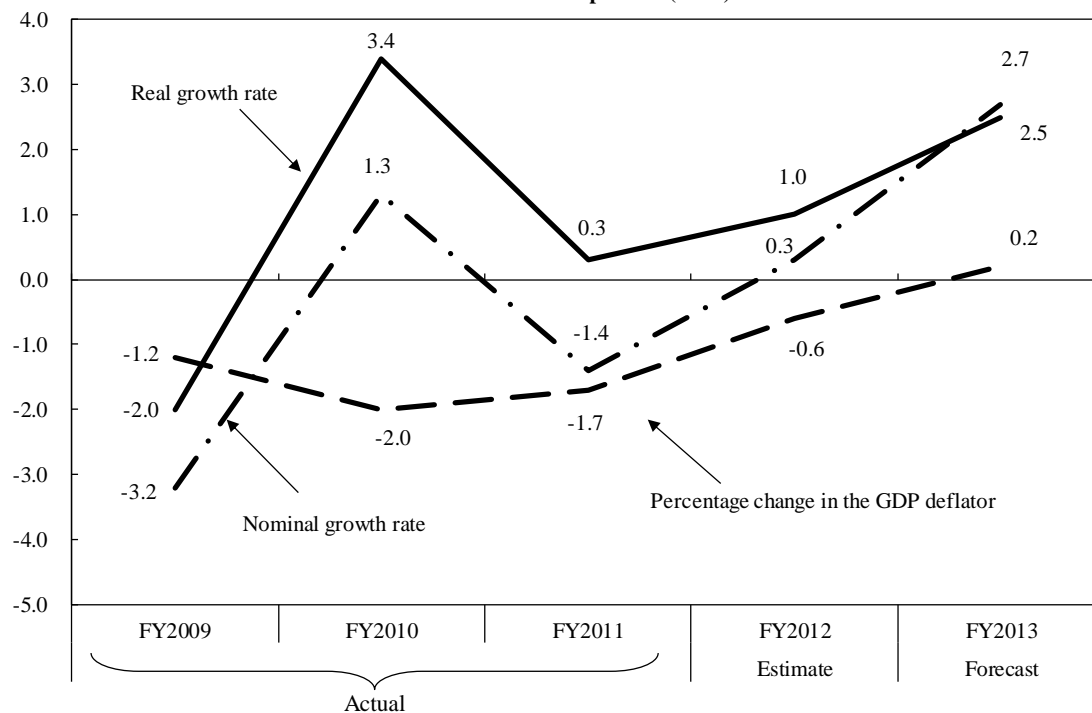
The average spot price of Dubai from December 26, 2012 to January 18, 2013, is assumed to stay constant on January 21, 2013 onward.

(Reference)

Main Economic Indicators

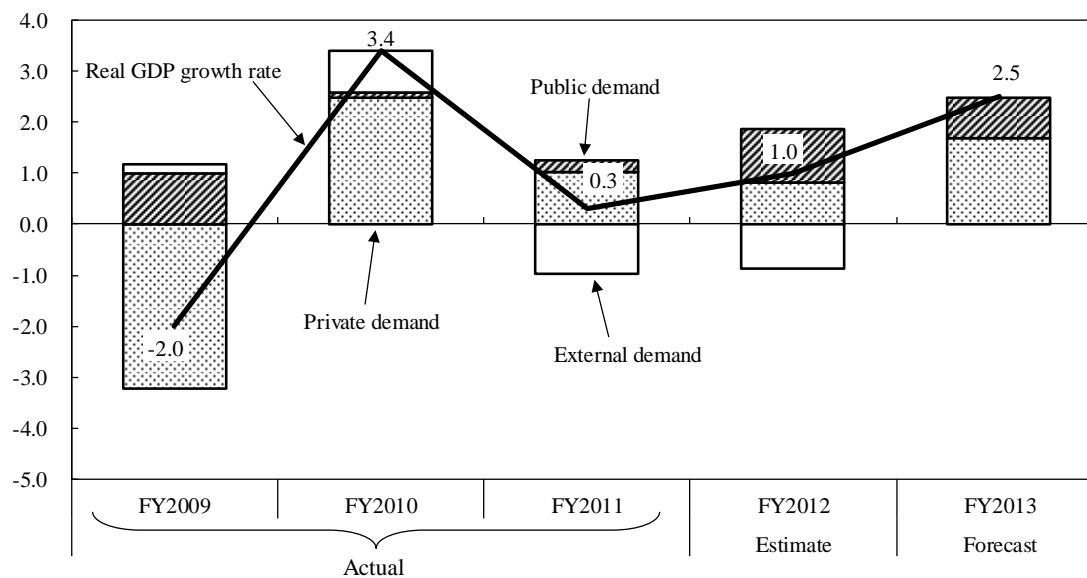
(%, or approximate %)

1. Gross domestic product (GDP)



(%, or approximate %)

2. Real GDP growth rate and contributions to the real GDP growth rate



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

