

Fiscal 2018 Economic Outlook and Basic Stance for Economic and Fiscal Management

(January 22, 2018
Cabinet Decision)

1. Japanese Economy in FY2017

In FY2017, the Japanese economy is recovering at a moderate pace, supported by improvements in the employment and income situations, thanks to the promotion of Abenomics. Exports and industrial production continue to pick up, reflecting the recovery of overseas economies, and private demand is improving as private consumption and business investment are also picking up. As a result, a positive cycle of the economy is now being realized.

The government decided the “New Economic Policy Package” on December 8, 2017 in order to tackle the biggest challenges of falling birthrate and aging population by promoting “Supply System Innovation” and “Human Resources Development Revolution” as two wheels on the same axle heading toward the realization of sustained economic growth. In addition, the government decided the FY2017 supplementary budget to properly deal with additional fiscal demands including disaster response on December 22nd, 2017. The economy is expected to continue recovering reflecting the effects of various policy measures, accompanied by continued improvement in the employment and income situations.

With regard to prices, the rate of increase in the Consumer Price Index (all items) is increasing from the previous year, reflecting the increase in crude oil prices, etc.

Consequently, in FY2017, the real GDP is projected to increase by approximately 1.9%, and the nominal GDP is expected to increase by approximately 2.0%. The rate of increase in Consumer Price Index (all items) is projected to increase by approximately 0.7%.

2. Basic Stance for FY2018 Economic and Fiscal Management

The government remains committed to the basic principle of “Without economic revitalization, there can be no fiscal consolidation,” and aims to achieve a 600 trillion yen economy.

In order to tackle the biggest challenges of falling birthrate and aging population, the government will promote both “Supply System Innovation” and “Human Resources Development Revolution” as two wheels on the same

axle heading toward 2020. The government will regard leading “Supply System Innovation” which is gaining momentum worldwide, and being the first in the world to realize this initiative as the most important challenge by FY2020. By setting a period of three years as an intensive investment period, the government will work on realizing this initiative. Although “Human Resources Development Revolution” is a long-term challenge, the government will lay the foundation for creating a new mechanism beyond the confines of conventional institutions and practices by FY2020.

Through the virtuous cycle of growth and distribution, all the people will be able to enjoy economic growth. By reforming the social security system into a system which accommodates the needs of “all generations”, the government will aim for a society where all citizens from the youth to the senior citizens have opportunities and can live securely without any childcare or nursing care concerns.

With regard to fiscal consolidation, the government will maintain its goal of fiscal surplus in the primary balance, and simultaneously aim to steadily reduce the public debt to GDP ratio. To achieve this goal, the government will announce the period it achieves a fiscal surplus in the primary balance, and develop a concrete and highly effective plan to support this as part of the “Basic Policies on Economic and Fiscal Management and Reform” for the this year after closely examining its previous efforts for integrated reform of finance and the economy. In FY2017, the final year of the intensive reform period in the “Plan to Advance Economic and Fiscal Revitalization¹,” the government will steadily implement expenditure reform, etc. as set out in the plan.

The government expects the Bank of Japan to achieve its price stability target of 2% inflation in light of economy activity and prices.

3. Economic Outlook for FY2018

In FY2018, with the recovery of overseas economies continuing, the Japanese economy is also expected to recover driven by the growth in private demand, as improvements in the employment and income situation continue, helped by the implementation of the policy measures described in “2. Basic Stance for FY2018 Economic and Fiscal Management,” which will lead to further extending the positive cycle of the economy.

Prices are expected to increase, under tightening supply and demand conditions along with the economic recovery. In this way, progress toward

¹ “Basic Policy on Economic and Fiscal Management and Reform 2015”, Chapter 3 (June 30, 2015, Cabinet Decision)

overcoming deflation is expected.

Consequently, in FY2018, the real GDP is projected to increase by approximately 1.8%, and the nominal GDP is expected to increase by approximately 2.5%. The rate of increase in Consumer Price Index (all items) is projected to be approximately 1.1%.

Attention should be paid to the uncertainty in overseas economies and the effects of fluctuations in the financial and capital markets, etc.

(1) Real Gross Domestic Product

(i) Private Consumption Expenditure

Private consumption expenditure will increase, supported by improvements in the employment and income situations. (An increase of approximately 1.4% is projected.)

(ii) Private Residential Investment

Private residential investment will remain almost flat, under an accommodative monetary environment. (An increase of approximately 0.6% is projected.)

(iii) Private Non-Residential Investment

Private non-residential investment will increase owing to increases in industrial production and improved corporate earnings, etc. (An increase of approximately 3.9% is projected.)

(iv) Government Expenditure

Government spending will increase owing to an increase in social security-related costs, etc. (An increase of approximately 1.6% is projected.)

(v) External Demand

External demand will increase owing to a recovery of overseas economies. (The contribution of external demand to the real GDP growth rate will be approximately 0.1%.)

(2) Real Gross National Income

Real gross national income will grow approximately at the same rate as real GDP owing to an increase in income from abroad. (An increase of approximately 1.8% is projected.)

(3) Labor and Employment

With improvement in the employment situation, the number of employees will continue to increase, mainly owing to the participation of women and the elderly in the labor market. (An increase of approximately 0.7% is projected.) The unemployment rate will decline slightly (to approximately 2.7%).

(4) Industrial Production

Industrial production will increase owing to increases in exports and domestic demand, etc. (An increase of approximately 2.7% is projected.)

(5) Prices

The rate of increase in the Consumer Price Index (all items) will be approximately 1.1%, under tightening supply and demand conditions along with the economic recovery. The GDP deflator is expected to continue to rise. (An increase of approximately 0.8% is projected.)

(6) Balance of Payments

The surplus in the balance of goods and services and current account balance will increase owing to an increase in exports on the back of the recovery of overseas economies, and an increase in income from abroad, etc. (The current account balance will be approximately 4.0% as a percentage of nominal GDP.)

(Note 1) The preparation of this economic forecast is premised on the economic and fiscal management set out in “2. Basic Stance for FY2018 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 indicators above should be recognized as being subject to upside and downside deviations.

Main Economic Indicators

	FY2016 (Actual)	FY2017 (Estimate)	FY2018 (Forecast)	Percentage change over the previous fiscal year					
				FY2016		FY2017		FY2018	
				Trillion yen (Current price)	Trillion yen (Approx.) (Current price)	Trillion yen (Approx.) (Current price)	% (Current price)	% (Constant price)	% (Approx.) (Current price)
Gross domestic product	539.3	550.3	564.3	1.0	1.2	2.0	1.9	2.5	1.8
Private consumption expenditure	300.5	305.2	311.5	▲ 0.2	0.3	1.6	1.2	2.1	1.4
Private residential investment	17.0	17.5	17.9	5.9	6.2	3.0	1.1	2.2	0.6
Private non-residential investment	83.6	87.6	92.3	0.4	1.2	4.8	3.4	5.3	3.9
Change in private inventory *1	▲ 0.3	▲ 0.2	0.7	(▲ 0.3)	(▲ 0.3)	(0.0)	(0.0)	(0.2)	(0.1)
Government expenditure	133.2	135.9	137.3	0.3	0.5	2.1	1.3	1.0	0.4
Government final consumption expenditure	106.2	107.8	109.1	0.2	0.5	1.5	1.0	1.2	0.8
Public-sector fixed capital formation	27.0	28.1	28.2	0.6	0.9	4.2	2.6	0.1	▲ 1.2
Exports of goods and services	88.6	96.5	102.5	▲ 3.4	3.4	9.0	4.8	6.2	4.0
Less: Imports of goods and services	83.3	92.3	97.9	▲ 9.5	▲ 1.1	10.8	3.3	6.1	3.4
Contribution of domestic demand				▲ 0.1	0.4	2.2	1.6	2.5	1.6
Contribution of private demand				▲ 0.1	0.3	1.7	1.3	2.2	1.5
Contribution of public demand				0.1	0.1	0.5	0.3	0.2	0.1
Contribution of external demand				1.1	0.8	▲ 0.2	0.3	0.1	0.1
National income	391.7	402.9	414.1	0.4		2.8		2.8	
Compensation of employees	269.9	274.5	281.2	2.4		1.7		2.4	
Income from properties	24.1	25.3	26.7	▲ 5.0		4.9		5.5	
Business income	97.7	103.1	106.2	▲ 3.7		5.5		3.1	
Gross national income	556.3	570.5	585.7	0.4	0.9	2.6	1.8	2.7	1.8
Labor and employment	万人	万人程度	万人程度			%		%程度	
Labor force	6681.0	6735.0	6759.0			0.7		0.8	0.4
Employed persons	6479.0	6546.0	6580.0			1.0		1.0	0.5
Employees	5764.0	5835.0	5877.0			1.4		1.2	0.7
Unemployment rate	%	%程度	%程度						
Production	3.0	2.8	2.7						
Industrial production	1.1	4.7	2.7						
Prices	%	%程度	%程度						
Domestic corporate goods price index	▲ 2.3	2.6	2.3						
Consumer price index	▲ 0.1	0.7	1.1						
GDP deflator	▲ 0.2	0.2	0.8						
Balance of payments	兆円	兆円程度	兆円程度			%		%程度	
Balance of goods and services	4.4	2.8	3.3						
Trade balance	5.8	3.7	3.1						
Exports	70.7	77.4	82.8			▲ 3.4		9.5	7.0
Imports	64.9	73.7	79.7			▲ 10.9		13.6	8.2
Current balance	20.4	21.4	22.8						
Current balance as a percentage of GDP	%	%程度	%程度						
	3.8	3.9	4.0						

(Note 1) The figures for Consumer Price Index include all items.

(Note 2) We have assumed the real growth rate of world GDP (excluding Japan), the yen's exchange rate, and the crude oil import price as below. These assumptions are neither projections nor the outlook of the government but are made solely for the sake of preparing this work.

	FY2016	FY2017	FY2018
Real growth rate of world GDP (excluding Japan) (%)	2.9	3.4	3.4
Exchange rate (yen/dollar)	108.4	111.9	112.6
Crude oil import price (dollar/barrel)	47.3	55.5	61.6

(Remarks)

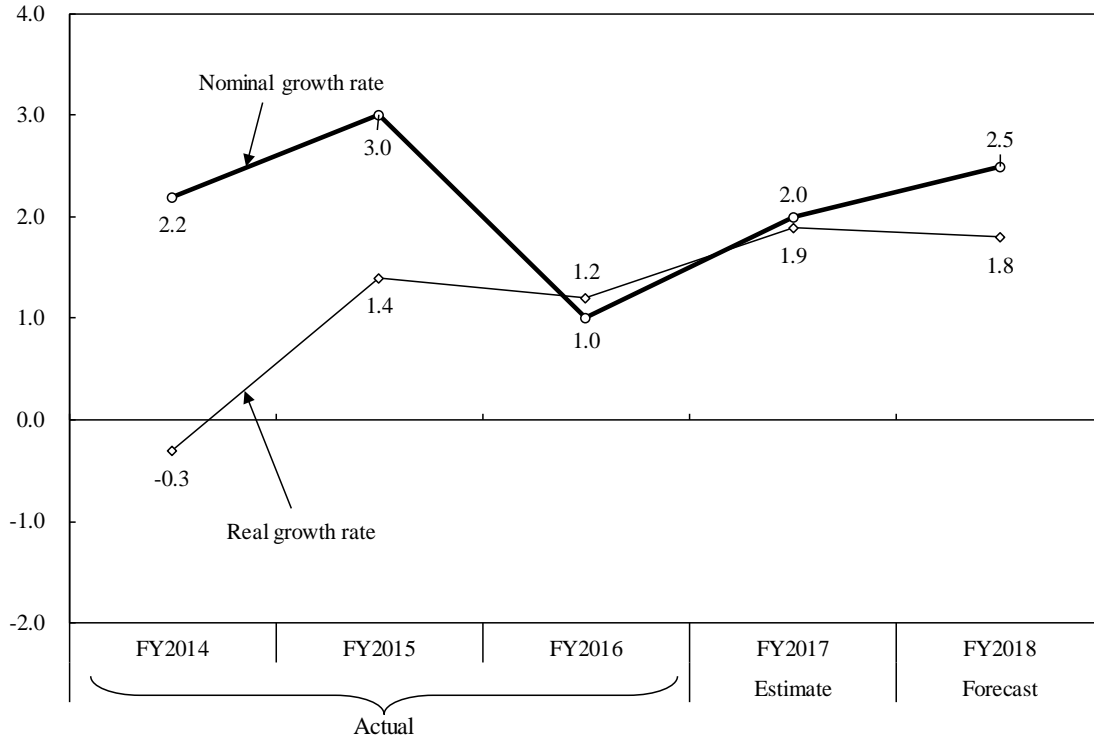
1. The real growth rate of world GDP (excluding Japan) has been calculated based on economic forecasts of international organizations and other institutions.
2. The exchange rate is assumed to stay constant at 112.6 yen/dollar (average from November 8 to December 7, 2017) from December 8, 2017 onward.
3. The crude oil import price is assumed to stay constant at 61.6 dollars/barrel (the average spot price of Dubai from November 8 to December 7, 2017, plus freight and insurance) from December 8, 2017 onward.

(Reference)

Main Economic Indicators

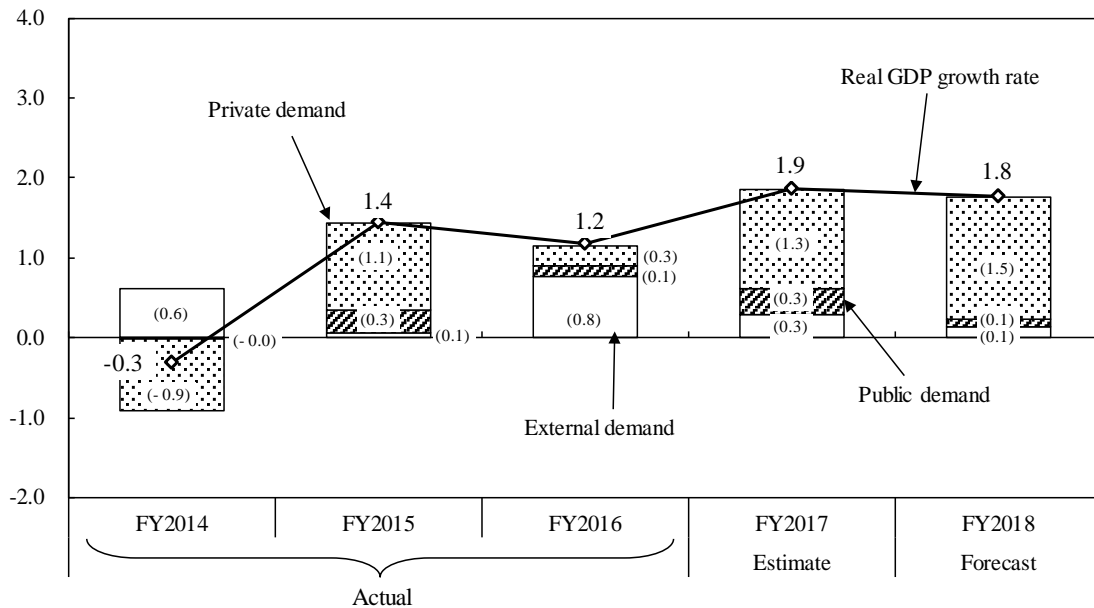
(%, or approximate %)

1. Gross domestic product (GDP)



(%, or approximate %)

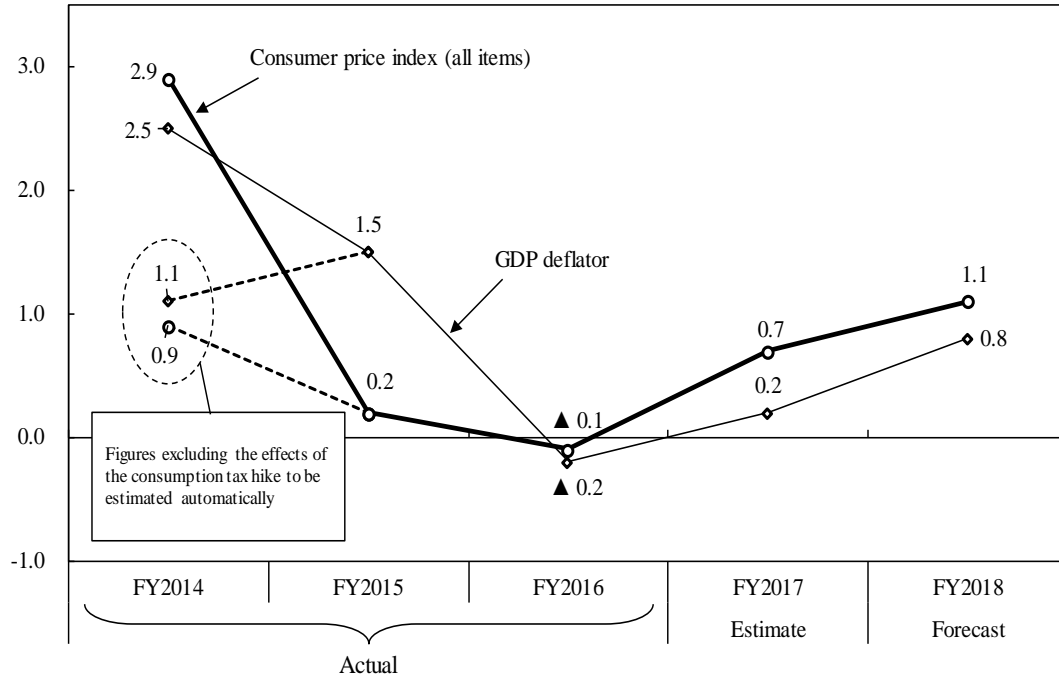
2. Real GDP growth rate and contributions to the real GDP growth rate



※Note: Contributions show for private demand, public demand and external demand represent their contributions to the real growth rate.

(%, or approximate %)

3. Percentage change in price related indices



(%, or approximate %)

4. Unemployment rate and the number of employees

(Ten thousands, or approximate Ten thousands)

