

## **Fiscal 2015 Economic Outlook and Basic Stance for Economic and Fiscal Management**

( February 12, 2015  
Cabinet Decision )

### **1. Japanese Economy in FY2014**

In FY2014, the Japanese economy has been modestly recovering thanks to the policy effect of the “three arrows strategy” that consists of “aggressive monetary policy”, “flexible fiscal policy” and “a growth strategy that promotes private investment”. Meanwhile, some weaknesses, especially those related to consumer spending, have been observed, resulting in negative growth of real GDP (gross domestic product) in the first half of FY2014.

There are some possible causes lying behind such weaknesses in the economy. They include a decline in demand as a repercussion of last-minute demand before the consumption tax increase, bad weather in the summer, and rising import prices. Moreover, the increase in headline inflation, which includes the impact of the consumption tax rise, has so far outpaced the rate of growth in household income.

Based on these conditions, the government formulated a package of economic measures “Immediate Economic Measures for Extending Virtuous Cycles to Local Economies” on December 27, 2014, in order to secure the realization of a virtuous economic cycle and deliver the benefits of economic growth to local economies. The Japanese economy is expected to recover moderately reflecting the effect of various policies including economic packages and collaborative effort involving the government, labor and management, accompanied by an improvement in employment and income conditions.

While the pace of rising prices is decelerating due to the effect of the decline in crude oil prices, the rate of increase in consumer prices (total) is projected to be approximately 3.2% reflecting the progress of the virtuous cycle and the effect of the consumption tax rate hike.

Consequently, the real GDP for FY2014 is projected to decline by approximately 0.5%, and the nominal GDP is expected to increase by about 1.7%.

### **2. Basic Stance for FY2015 Economic and Fiscal Management**

To secure the realization of the virtuous economic cycle, the Abe government will continue to implement the economic policy package which is known as “Abenomics”, consisting of the “three arrows strategy”. Implementing the

growth strategy and collaborative efforts based on agreement between the government, labor and management, the government aims to link higher corporate earnings to increased private investment, income growth and further improvement in employment and income conditions. Moreover, the government aims to realize further progress of the virtuous economic cycle and to deliver the benefits of Abenomics to local economies, implementing “Immediate Economic Measures” targeted at vulnerable areas of the economy immediately.

Besides, through increasing revenue by realizing a strong economy and further accelerating cuts in expenditure without exceptions, the government aims to create a virtuous cycle, in which economic revitalization facilitates fiscal consolidation, and progress in fiscal consolidation contributes to economic revitalization. For this goal, the FY2015 budget focuses on measures which encourage sustainable economic growth, led by an increase of private demand, through reviewing and revising the budget items including discretionary expenses and mandatory expenses, while making a full effort to reduce waste. While it is expected to achieve the target of halving the ratio of primary deficit of central and local governments to GDP by FY2015 compared to the ratio in FY2010, the government continuously aims to realize the overcoming of deflation and revitalizing the economy, and will firmly maintain the target for achieving a primary surplus of central and local governments by FY2020. Based on the FY2015 budget, for economic revitalization and fiscal consolidation, the government will formulate a concrete plan for achieving a primary surplus by the summer of FY2015.

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

### **3. Economic Outlook for FY2015**

In FY2015, the Japanese economy is expected to recover, supported by robust growth of private demand. The implementation of the economic policy measures shown in “2. Basic Stance for FY2015 Economic and Fiscal Management” and the collaborative efforts based on the agreement between government, labor and management will lead to a further extension of the virtuous cycle with improvements in employment and income conditions accompanied by an increase in compensation of employees in real terms. An improvement in terms of trade will also support the recovery.

With regard to prices, while the drop in oil prices has an effect, the rate of increase in consumer prices is expected to be about 1.4%, and the rate of change in the GDP deflator is anticipated to be positive, reflecting the effects of “quantitative and qualitative monetary easing” implemented by the Bank of Japan. In this way, it is expected to steadily progress toward overcoming

deflation.

Consequently, the real GDP for FY2015 is projected to increase by approximately 1.5%, and the nominal GDP is expected to increase by about 2.7%.

Downside risks include the following: slowing down of overseas economies and developments in financial, capital and commodity markets.

## **(1) Real Gross Domestic Product**

### **(i) Private Consumption Expenditure**

Private Consumption Expenditure will turn into a moderate increase, supported by an improvement in employment and income conditions and the effects of “Immediate Economic Measures”, etc. (approximately 2.0% increase is projected).

### **(ii) Private Residential Investment**

Private residential investment will pick up moderately reflecting the improvement in employment and income conditions and the effects of housing-related policies, etc. (approximately 1.5% increase is projected).

### **(iii) Private Non-Residential Investment**

Private non-residential investment will continue to increase owing to increases in exports and production, higher corporate earnings, and policy effects, etc. (approximately 5.3% increase is projected).

### **(iv) Government Expenditure**

Despite the implementation of the Immediate economic package and an increase in social security-related costs, government spending will decrease as the budget allocated in past economic packages has been implemented (approximately 2.1% decline is projected).

### **(v) External Demand**

External demand will increase as the world economy moderately recovers (The contribution of external demand to real GDP growth rate will be approximately 0.1%).

## **(2) Real Gross National Income**

Real Gross National Income will grow faster than real GDP due to an improvement in terms of trade and an increase of income from overseas (approximately 2.1% increase is projected).

## **(3) Labor and Employment**

With the improvement in employment conditions, the number of employees will continue to increase moderately mainly due to further participation of women in labor market (approximately 0.3% increase is projected). The

unemployment rate will remain at the same level (at approximately 3.5%).

#### **(4) Industrial Production**

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

#### **(5) Prices**

The rate of increase in the consumer price index (total) will be approximately 1.4%, reflecting the effects of “quantitative and qualitative monetary easing” implemented by the Bank of Japan. The rate of increase in GDP deflator is expected to rise due to an improvement in terms of trade (about 1.2% increase is projected).

#### **(6) Balance of Payments**

The trade deficit will narrow, and the current account surplus will increase due to an improvement in terms of trade on the back of a moderate recovery of the world economy, etc. (The current account balance will be approximately 2.0% 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 FY2015 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.

(Appendix)

## Main Economic Indicators

	FY2013 (Actual)	FY2014 (Estimate)	FY2015 (Forecast)	Percentage changes over the previous fiscal year					
				FY2013		FY2014		FY2015	
				Trillion yen (Current price)	Trillion yen (Approx.) (Current price)	Trillion yen (Approx.) (Current price)	% (Current price)	% (Constant price)	% (Approx.) (Current price)
Gross domestic product	483.1	491.4	504.9	1.8	2.1	1.7	-0.5	2.7	1.5
Private consumption expenditure	296.5	295.3	303.5	2.7	2.5	-0.4	-2.7	2.8	2.0
Private residential investment	15.9	14.6	14.9	12.5	9.3	-7.8	-10.7	1.9	1.5
Private non-residential investment	68.2	69.6	73.3	4.9	4.0	2.2	1.2	5.3	5.3
Increase in private inventory *1	-3.9	-1.5	-1.5	(-0.5)	(-0.5)	(0.5)	(0.4)	(-0.0)	(-0.0)
Government expenditure	122.4	126.8	124.5	3.3	3.2	3.7	1.3	-1.9	-2.1
Government final consumption expenditure	98.8	101.9	103.1	1.3	1.6	3.1	0.9	1.2	1.0
Public-sector fixed capital formation	23.6	24.9	21.4	12.4	10.3	5.8	2.4	-14.2	-15.0
Exports of goods and services	80.0	87.2	93.8	13.6	4.7	9.0	6.0	7.5	5.2
Less: Imports of goods and services	95.9	100.8	103.6	18.7	6.7	5.1	2.5	2.8	3.9
Contribution of domestic demand	/			3.0	2.6	1.2	-1.0	2.0	1.4
Contribution of private demand				2.2	1.8	0.3	-1.3	2.5	2.0
Contribution of public demand				0.8	0.8	0.9	0.3	-0.5	-0.6
Contribution of external demand				-1.2	-0.5	0.5	0.5	0.8	0.1
National income	362.1	367.6	376.7	2.9	/	1.5	/	2.5	/
Compensation of employees	248.3	253.4	259.7	1.0	/	2.1	/	2.5	/
Income from properties	23.1	23.4	23.9	7.5	/	1.4	/	2.4	/
Business income	90.7	90.8	93.1	7.3	/	0.2	/	2.5	/
Gross national income	501.1	511.7	526.9	2.3	2.0	2.1	-0.2	3.0	2.1
Labor and employment	Ten thousands	Ten thousands (Approx.)	Ten thousands (Approx.)			% (Approx.)		% (Approx.)	
Labor force	6,578	6,589	6,596			0.3		0.2	
Employed persons	6,322	6,354	6,364			0.7		0.5	
Employees	5,564	5,601	5,617			1.0		0.7	
Unemployment rate	3.9	3.6	3.5						
Production	%	% (Approx.)	% (Approx.)						
Industrial production	3.2	-0.5	2.7						
Prices	%	% (Approx.)	% (Approx.)						
Domestic corporate goods price index	1.9	3.1	-1.0						
Consumer price index	0.9	3.2	1.4						
GDP deflator	-0.3	2.2	1.2						
Balance of payments	Trillion yen	Trillion yen (Approx.)	Trillion yen (Approx.)			% (Approx.)		% (Approx.)	
Balance of goods and services	-14.4	-11.7	-8.2						
Trade balance	-11.0	-8.3	-4.8						
Exports	69.8	74.5	80.9	12.2		6.8		8.6	
Imports	80.8	82.8	85.7	19.7		2.5		3.5	
Current balance	0.8	5.1	10.2						
Current balance as a percentage of GDP	0.2	1.0	2.0						

\*1 Figures in parentheses represent contribution to GDP growth.

(Note 1) The figures of Consumer Price Index are totals.

(Note 2) Excluding the estimated effects of the consumption tax hike mechanically, the consumer price index (total) is expected to be about 1.2% and the GDP deflator is expected to be about 0.8%.

(Note 3) We have assumed the real growth rate of the world GDP (excluding Japan), the yen's exchange rate, and the crude oil import price as below. These assumptions are neither projections nor outlook of the government but are made solely for the sake of preparing this work.

	FY2013	FY2014	FY2015
Real growth rate of world GDP (excluding Japan) (%)	3.0	3.1	3.6
Exchange rate (yen/dollar)	100.2	109.9	118.7
Crude oil import price (dollar/barrel)	109.6	94.5	69.3

(Remarks)

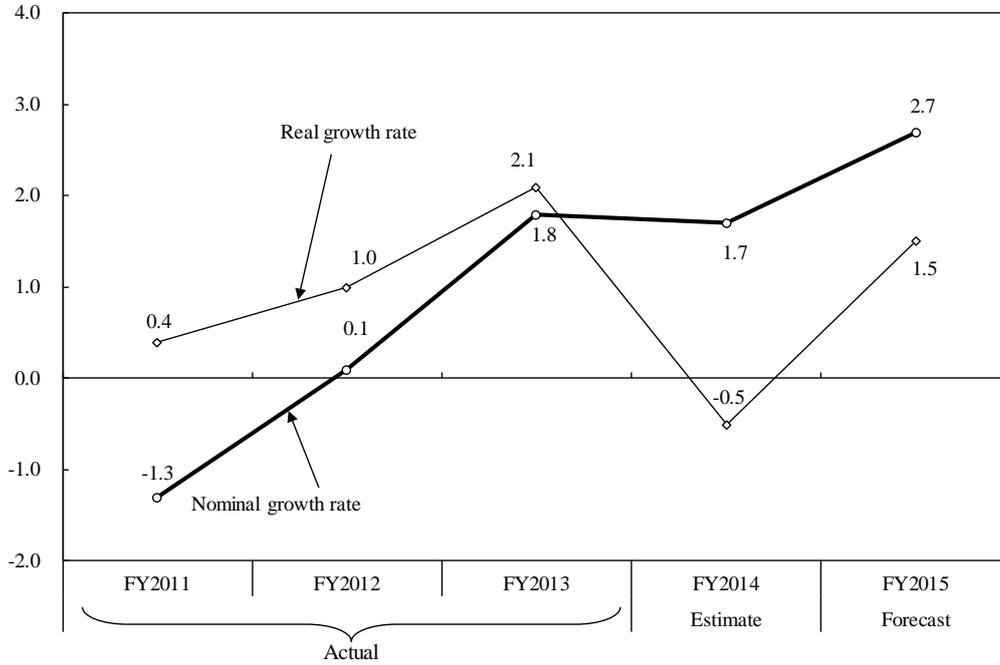
1. The real growth rate of the world GDP (excluding Japan) has been calculated based on economic forecasts of international organizations and other institutions.
2. The exchange rate is assumed to stay constant at 118.7 yen/dollar (average from November 25 to December 19, 2014) from December 20, 2014 onward.
3. The crude oil import price is assumed to stay constant at 69.3 dollars/barrel (the average spot price of Dubai from November 25 to December 19, 2014, plus freight and insurance) from December 20, 2014 onward.

(Reference)

## Main Economic Indicators

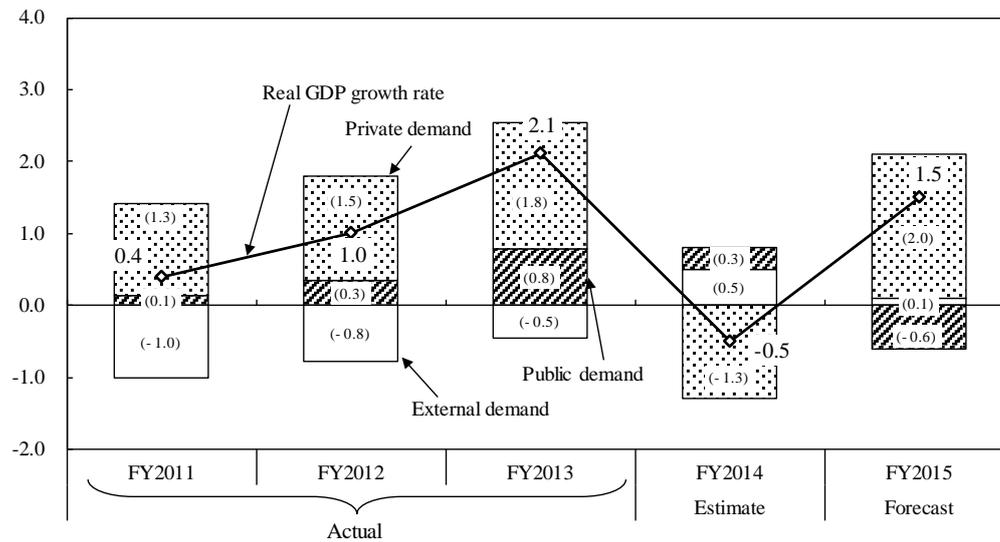
(%, or approximate %)

### 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.

