Provisional translation

Fiscal 2016 Economic Outlook and Basic Stance for Economic and Fiscal Management

January 22, 2016
Cabinet Decision

1. Japanese Economy in FY2015

In FY2015, thanks to the policy effect of the “three arrows strategy” which consists of “aggressive monetary policy”, “flexible fiscal policy” and “a growth strategy that promotes private investment”, the Japanese economy is on a moderate recovery trend supported by an improvement in employment and income conditions and favorable terms of trade reflecting a decline in crude oil prices. Meanwhile, in the first half of FY2015, the slowdown of economic growth in emerging economies including China led to a weakness of exports, while the recovery of private consumption and business investment was delayed.

The government formulated a package of policy measures “Urgent Policies to Realize a Society in Which All Citizens are Dynamically Engaged” on November 26, 2015, in order to realize “a robust economy that gives rise to hope”, “dream-weaving childcare supports” and “social security that provides reassurance”. The Japanese economy is expected to recover moderately reflecting the effect of various polices including the urgent policy package, accompanied by an improvement in employment and income conditions.

While the decline in crude oil prices has had an effect, the underlying trend of consumer prices is moderately increasing, reflecting progress of the positive cycle of economy.

Consequently, the real GDP for FY2015 is projected to increase by approximately 1.2%, and the nominal GDP is expected to increase by approximately 2.7%, reflecting the improvement in terms of trade. The rate of increase in consumer prices (total) is projected to be approximately 0.4%.

2. Basic Stance for FY2016 Economic and Fiscal Management

The government will make progress in “overcoming deflation and revitalizing the economy”, and “fiscal consolidation” on the basis of the achievements of Abenomics to date.

In regard to “overcoming deflation and revitalizing the economy,” the government set a target of raising GDP to 600 trillion yen, Japan’s largest in the post-war era, by around 2020 in the second stage of Abenomics. Aiming to attain this target, the government will promote the new first arrow or “a robust economy that gives rise to hope,” which is an enhancement of a combination of prior “three arrows” of Abenomics to date. Utilizing fruits of growth obtained through efforts to realize a robust economy, the government will promote the new second arrow or “dream-weaving childcare supports” and the new third arrow or “social security that provides reassurance”. With the policies implemented to date for regional revitalization, national resilience and women’s active roles, the new “three arrows” will enhance the positive cycle of growth and distribution through the mechanism of the new second and third arrows contributing to the realization of a robust economy.

By implementing the urgent policies to realize a society in which all citizens are dynamically engaged, the government, together with efforts made by the private sector, will promote investment, realize revolution in productivity and encourage consumption through continuous increases in both wages and the minimum wage. Through these efforts, the government will accelerate a momentum toward realizing an economy which attains 600 trillion yen of nominal GDP and ensure progress toward overcoming deflation, hence supporting the current economic recovery.

Moreover, based on a “Comprehensive TPP-related Policy Framework,” the government will advance efforts to promote future growth and development, through encouraging Japan’s domestic industries to pursue overseas development, business expansion, and improved productivity, while enhancing the competitiveness of the agriculture, forestry and fishery industries.

The government will steadily promote revolution in productivity through future-oriented investment and local Abenomics, based on the “Japan Revitalization Overcoming Strategy Revised in 2015”.

In keeping with “The Plan to Advance Economic and Fiscal Revitalization” stipulated in the “Basic Policy on Economic and Fiscal Management and Reform 2015,” the government will firmly maintain the fiscal consolidation targets by FY2020. Designating the first three years (FY2016-18) as the “Intensive Reform Period,” the government will implement reforms which consist of the following three pillars: overcoming deflation and revitalizing the economy, expenditure reforms, and revenue reforms, while assessing the progress of reform measures by using benchmarks such as approximately 1% of the primary deficit of national and local governments to GDP ratio (“PB”) in FY2018. In FY2016, the first year of the plan, the government will accelerate efforts to overcome deflation and revitalize the economy, and steadily promote expenditure and revenue reforms along with “The Economic and Fiscal Revitalization Action Program”.

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

3. Economic Outlook for FY2016

In FY2016, the Japanese economy is expected to recover, supported by robust growth in private demand. Implementation of the economic policy measures shown in “2. Basic Stance for FY2016 Economic and Fiscal Management”, will lead to a further extension of the positive cycle of economy with improvements in employment and income conditions. An improvement in terms of trade will also support the recovery.

With regard to prices, the rate of increase in consumer prices is expected to increase, reflecting the tightening of demand and supply conditions with the progress of the positive cycle. In this way, it is expected to further progress toward overcoming deflation.

Consequently, the real GDP for FY2016 is projected to increase by approximately 1.7%, and the nominal GDP is expected to increase by approximately 3.1%.

Downside risks include the following: slowing down of emerging economies including the Chinese economy, developments in financial, capital and commodity markets and geopolitical uncertainty amid the advance in the process of U.S. monetary policy normalization.

(1) Real Gross Domestic Product

(i) Private Consumption Expenditure

Private Consumption Expenditure will increase moderately, supported by an improvement in employment and income conditions. An increase in consumption prior to the consumption tax hike is expected (approximately 2.0% increase is projected).

(ii) Private Residential Investment

Private residential investment will increase moderately, supported by an improvement in employment and income conditions. An increase in private residential investment prior to the consumption tax hike is expected (approximately 3.8% increase is projected).

(iii) Private Non-Residential Investment

Private non-residential investment will increase moderately owing to higher corporate earnings and policy effects, etc. (approximately 4.5% increase is projected).

(iv) Government Expenditure

Despite the effect of the supplemental budget for FY2015 and an increase in social security-related costs, government spending will remain almost flat as the budget allocated in past economic packages has been implemented (approximately 0.0% increase is projected).

(v) External Demand

Despite a moderate recovery of the world economy, external demand will decrease as imports grow reflecting domestic demand (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 a moderate 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 the further participation of women and the elderly in the labor market (approximately 0.4% increase is projected). The unemployment rate will decline slightly (approximately 3.2%).

(4) Industrial Production

Industrial production will increase owing to increases in exports and domestic demand, etc. (approximately 3.2% increase is projected).

(5) Prices

The rate of increase in the consumer price index (total) will be approximately 1.2%, reflecting the tightening of demand and supply conditions with the progressing positive cycle of economy. GDP deflator is expected to continue to rise (approximately 1.4% increase is projected).

(6) Balance of Payments

A trade surplus is expected, 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 4.2% 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 FY2016 Economic and Fiscal Management."

(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 solely for the sake of this preparation work.

(Appendix)

Main Economic Indicators

	FY2014 (Actual)	FY2015 (Estimate)	FY2016 (Forecast)	Percentage changes over the previous fiscal year					
				FY2014		FY2015		FY2016	
	Trillion yen (Current price)	Trillion yen (Approx.) (Current price)	Trillion yen (Approx.) (Current price)	% (Current price)	% (Constant price)	% (Approx.) (Current price)	% (Approx.) (Constant price)	% (Approx.) (Current price)	% (Approx.) (Constant price)
Gross domestic product	489.6	503.1	518.8	1.5	-1.0	2.7	1.2	3.1	1.7
Private consumption expenditure	293.2	295.9	304.9	-0.8	-2.9	0.9	1.0	3.0	2.0
Private residential investment	14.4	14.8	15.6	-8.5	-11.7	2.7	2.8	5.0	3.8
Private non-residential investment	68.4	70.7	74.7	1.6	0.1	3.4	2.8	5.6	4.5
Increase in private inventory *1	0.2	1.1	0.3	(0.6)	(0.6)	(0.2)	(0.2)	(-0.2)	(-0.2)
Government expenditure	124.7	124.0	124.6	1.9	-0.3	-0.6	-0.6	0.5	0.0
Government final consumption expenditure	101.0	102.3	103.2	2.2	0.1	1.3	1.4	0.9	0.4
Public-sector fixed capital formation	23.7	21.7	21.4	0.4	-2.6	-8.4	-8.5	-1.1	-2.1
Exports of goods and services	88.4	90.4	95.7	10.5	7.8	2.3	2.1	5.8	4.8
Less: Imports of goods and services	99.7	93.8	97.0	3.9	3.3	-5.9	1.4	3.4	5.2
Contribution of domestic demand				0.5	-1.6	1.1	1.1	2.7	1.8
Contribution of private demand				0.1	-1.5	1.3	1.2	2.6	1.8
Contribution of public demand				0.5	-0.1	-0.2	-0.2	0.1	0.0
Contribution of external demand				1.0	0.6	1.6	0.1	0.4	-0.1
National income	364.4	374.2	385.9	1.5		2.7		3.1	
Compensation of employees	252.5	256.0	262.4	1.9		1.4		2.5	
Income from properties	25.0	25.6	26.0	9.6		2.3		1.8	
Business income	87.0	92.6	97.4	-1.7		6.5		5.2	
Gross national income	510.7	527.1	543.8	2.1	-0.4	3.2	3.0	3.2	2.1
Labor and employment	Ten thousands	Ten thousands (Approx.)	Ten thousands (Approx.)	%		% (Approx.)		% (Approx.)	
Labor force	6,593	6,606	6,620	0.2		0.2		0.2	
Employed persons	6,360	6,385	6,405	0.6		0.4		0.3	
Employees	5,607	5,643	5,665	0.8		0.6		0.4	
Unemployment rate	% 3.5	% (Approx.) 3.3	% (Approx.) 3.2						
Production	%	% (Approx.)	% (Approx.)						
Industrial production	-0.4	0.1	3.2						
Prices	%	% (Approx.)	% (Approx.)						
Domestic corporate goods price index	2.8	-2.9	0.2						
Consumer price index	2.9	0.4	1.2						
GDP deflator	2.5	1.5	1.4						
Balance of payments	Trillion yen	Trillion yen (Approx.)	Trillion yen (Approx.)	%		% (Approx.)		% (Approx.)	
Balance of goods and services	-9.3	-0.9	1.5						
Trade balance	-6.6	0.5	1.9						
Exports	75.6	75.7	79.0	8.4		0.1		4.4	
Imports	82.2	75.2	77.2	1.8		-8.6		2.7	
Current balance	7.9	18.5	21.7						
Current balance as a percentage of GDP	% 1.6	% (Approx.) 3.7	% (Approx.) 4.2						

*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 0.9% and the GDP deflator is expected to be about 1.1%.

(Note 3) 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.

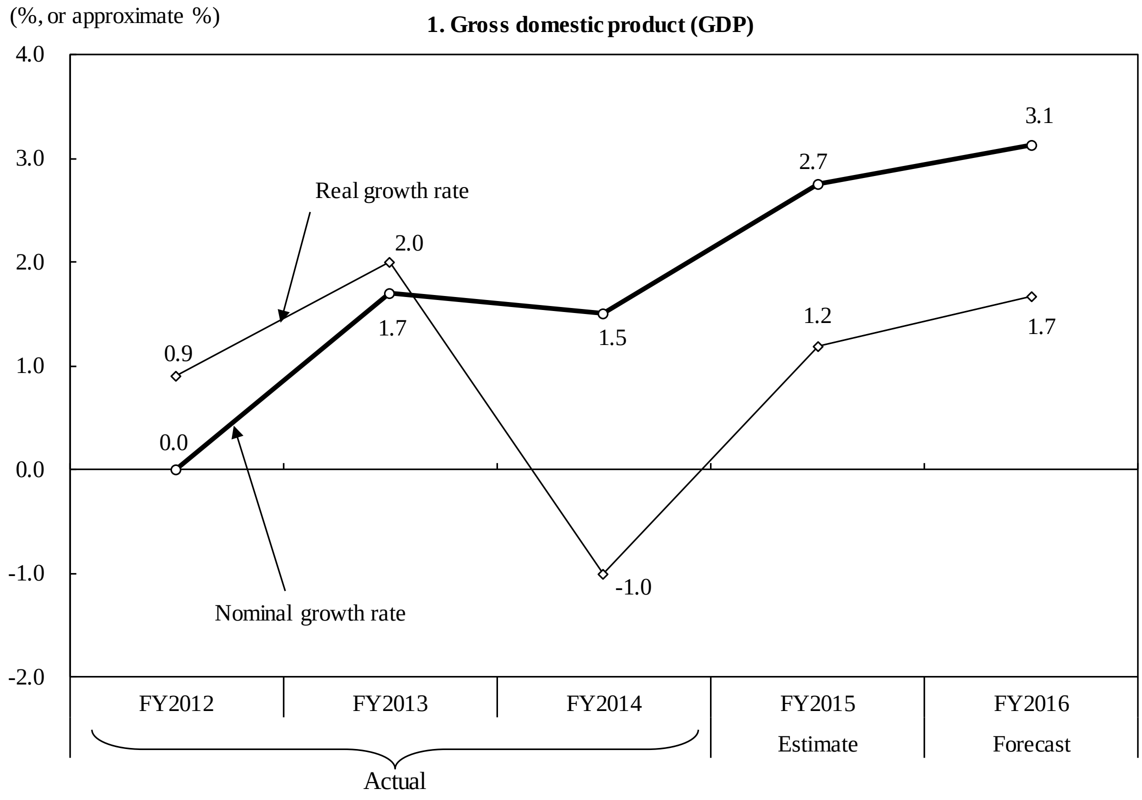
	FY2014	FY2015	FY2016
Real growth rate of world GDP (excluding Japan) (%)	3.1	2.8	3.3
Exchange rate (yen/dollar)	110.0	122.0	122.6
Crude oil import price (dollar/barrel)	90.6	52.1	44.0

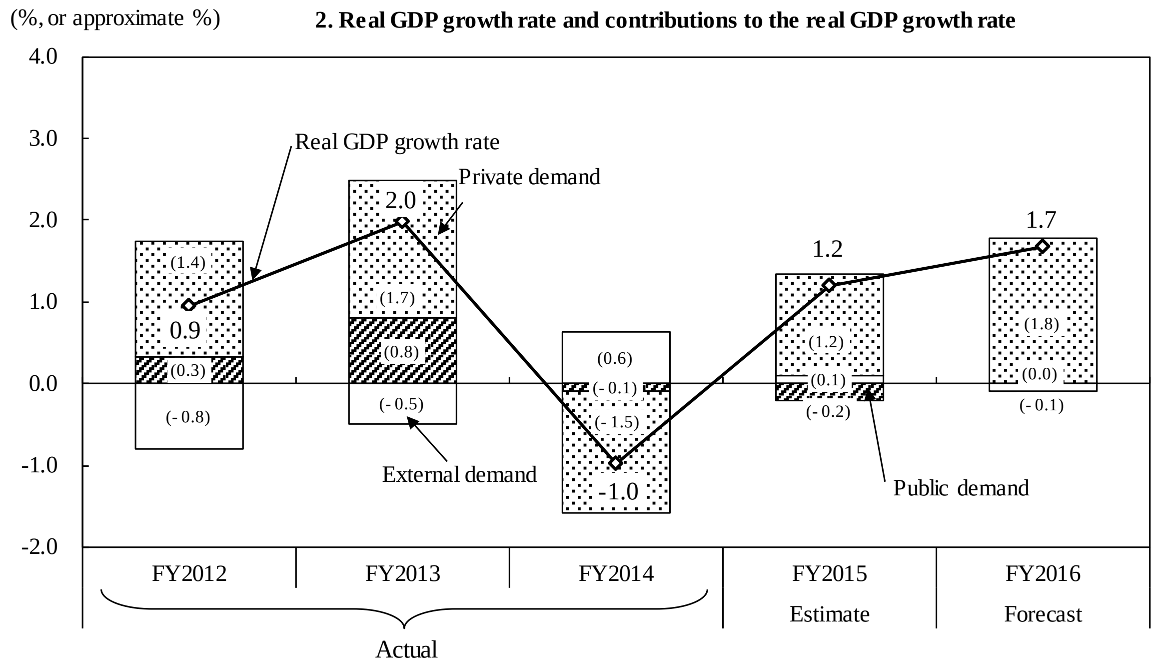
(Remarks)

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 122.6 yen/dollar (average from November 1 to November 30, 2015) from December 1, 2015 onward.
3. The crude oil import price is assumed to stay constant at 44.0 dollars/barrel (the average spot price of Dubai from November 1 to November 30, 2015, plus freight and insurance) from December 1, 2015 onward.

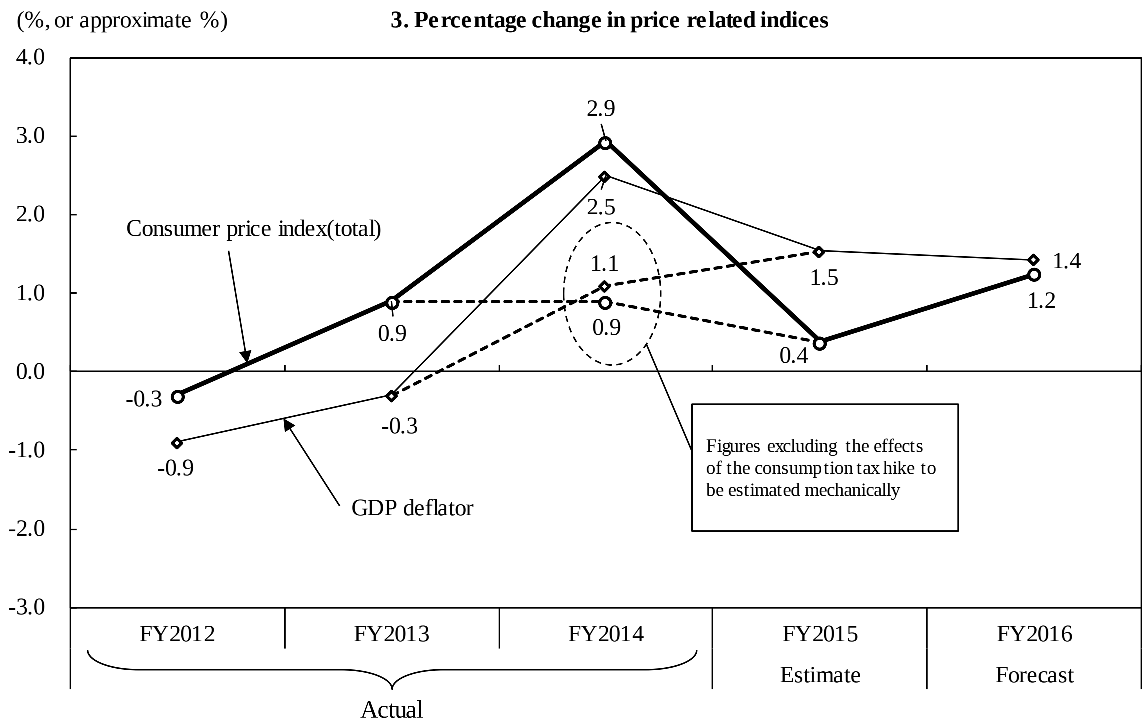
(Reference)

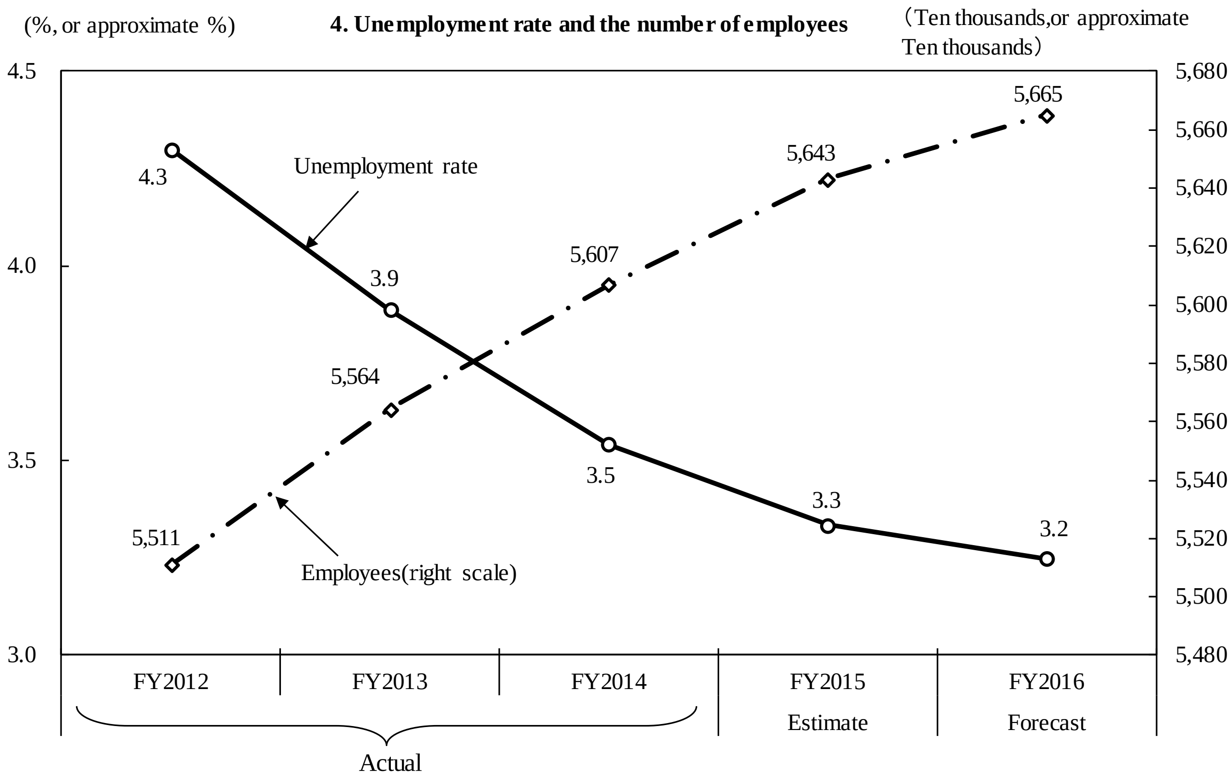
Main Economic Indicators





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


(%, or approximate %)
3. Percentage change in price related indices
4.0
3.0
2.0
1.0
0.0
-1.0
-2.0
-3.0
2.9
2.5
Consumer price index(total)
1.1
1.5
1.4
0.9
0.9
1.2
0.4
-0.3
-0.3
-0.9
GDP deflator
Figures excluding the effects of the consumption tax hike to be estimated mechanically
FY2012
FY2013
FY2014
FY2015
Estimate
FY2016
Forecast
Actual


(%, or approximate %)
4. Unemployment rate and the number of employees
（Ten thousands,or approximate Ten thousands）
4.5
4.0
3.5
3.0
5,680
5,660
5,640
5,620
5,600
5,580
5,560
5,540
5,520
5,500
5,480
5,665
5,643
4.3
Unemployment rate
5,607
3.9
5,564
3.5
3.3
3.2
5,511
Employees(right scale)
FY2012
FY2013
FY2014
FY2015
Estimate
FY2016
Forecast
Actual