

Fiscal 2020 Economic Outlook and Basic Stance for Economic and Fiscal Management

(January 20, 2020
Cabinet Decision)

1. Japanese Economy in FY 2019

The Japanese economy has been recovering at a moderate pace in FY 2019, mainly driven by domestic demand reflecting an improvement in the employment and income situation, despite weakness in external demand due to a slowdown in overseas economies. In raising the consumption tax rate in October 2019, the government has implemented a series of countermeasures such as a reduced tax rate and the Temporary and Special Measures from a viewpoint of avoiding negative impacts on the economic recovery trend.

Concerning short-term prospects, a moderate recovery is expected to continue. However, it is necessary to continue paying careful attention to the economic developments after the consumption tax rate hike, further accelerate the restoration and reconstruction of the areas affected by natural disasters, including typhoons, and prepare for the downside risks from overseas economies such as tensions over trade issues between the United States and China.

Against this background, the government formulated the Comprehensive Economic Measures to Create a Future with Security and Growth¹ under the concept of a 15-month budget, focusing on restoration and reconstruction from natural disasters and securing safety and security, providing intensive support for those striving to overcome economic downside risks, and investing for the future and maintaining and enhancing economic vitality beyond the 2020 Tokyo Olympics and Paralympics. Based on the Comprehensive Economic Measures, the government will take timely and thorough actions by combining the initial budget for FY 2019, including the contingency budget, the supplementary budget for FY 2019² and the Temporary and Special Measures in the initial budget for FY 2020. The government aims not only to stimulate demand for the time being, but also to achieve sustainable economic growth led by private demand.

With regard to prices, the inflation rate measured by the Consumer Price Index (all items) has been declining compared to the previous year, reflecting a decline in crude oil prices and other factors.

¹ Cabinet Decision on December 5, 2019.

² Cabinet Decision on December 13, 2019.

Consequently, in FY 2019, real GDP is projected to grow by approximately 0.9%, and nominal GDP is expected to grow by approximately 1.8%. The Consumer Price Index (all items) is projected to grow by approximately 0.6%.

2. Basic Stance for FY 2020 Economic and Fiscal Management

With regard to economic and fiscal management, the government will tackle the challenges of overcoming deflation, economic revitalization and fiscal consolidation in an integrated manner and aim to achieve an economy of 600 trillion yen nominal GDP around 2020 and the fiscal consolidation target in FY 2025 under the basic principle of “Without economic revitalization, there can be no fiscal consolidation.”

With a smooth and steady implementation of the Comprehensive Economic Measures, the government aims to overcome economic downside risks and achieve sustainable economic growth led by private demand through boosting productivity and growth potential, in addition to accelerating restoration and reconstruction from the national disasters.

The government aims to boost growth potential by raising potential growth rate, stimulate investment and innovation in human resources and technology toward the age of “Society 5.0” by mobilizing corporate cash and deposits, and increase productivity dramatically.

In order to expand the virtuous cycle of growth and distribution, optimization of transactions of subcontracted SMEs will be promoted while expanding corporate profits, continuing the trend of wage hikes that will boost consumption, and capturing external demand.

The government will also tackle the challenge of the falling birthrate and aging population squarely and aim to build a society in which all citizens, including young people, the elderly, women and people with disabilities and intractable diseases, are dynamically engaged and can find their own motivation. To achieve these goals, measures for “the desirable birthrate of 1.8,” “no one forced to leave their jobs for nursing care,” “Human Resources Development Revolution” and “Work-style Reform” will be promoted while expanding opportunities for people of the so-called Employment Ice-Age Generation. The government is promoting sustainable reforms across social security to make the system oriented to all generations.

Furthermore, the government is working on important issues such as recovery from natural disasters and strengthened resilience, regional reinvigoration through tourism and agriculture and cooperation with the global economy and society, including policies for SDGs such as global warming.

With regard to fiscal consolidation, the government aims to achieve a primary surplus of the central and local governments combined by FY 2025 in accordance with Integrated Economic and Fiscal Reforms³. The government aims to reduce the public debt-to-GDP ratio simultaneously. In the FY2020 budget, the government will steadily implement expenditure reform as set out in the Basic Policy on Economic and Fiscal Management and Reform 2018 and the Basic Policy on Economic and Fiscal Management and Reform 2019⁴.

The government expects the Bank of Japan to achieve its price stability target of 2%, taking into account the developments in economic activity and prices as well as financial conditions.

3. Economic Outlook for FY 2020

An economic recovery driven by the growth in domestic demand is expected in FY 2020, as improvements in the employment and income situation continue and the virtuous cycle in the economy develop helped by the policy measures described in “2. Basic Stance for FY 2020 Economic and Fiscal Management,” such as smooth and steady implementation of the Comprehensive Economic Measures.

Prices are expected to increase gradually under tightening supply and demand conditions due to economic recovery, making progress toward overcoming deflation.

Consequently, in FY 2020, real GDP is projected to grow by approximately 1.4%, and nominal GDP is expected to grow by approximately 2.1%. Inflation measured by the Consumer Price Index (all items) is projected to be approximately 0.8%.

Attention should be given to the risks, including the developments over trade issues, overseas economies such as the prospect of the Chinese economy, the United Kingdom’s exit from the European Union and the situation in the Middle East, and the effects of fluctuations in the financial and capital markets.

(1) Real Gross Domestic Product

(i) Private Consumption Expenditure

Amid improving employment and income conditions, private consumption

³ “Basic Policy on Economic and Fiscal Management and Reform 2018”, Chapter 3 (June 15, 2018, Cabinet Decision)

⁴ Cabinet Decision on June 21, 2019.

expenditure will increase, supported by the effect of the Comprehensive Economic Measures (approximately 1.0% increase compared to the previous fiscal year).

(ii) Private Residential Investment

Private residential investment will decrease owing to the continuing downward trend of the construction of houses for rent. (approximately 1.9% decline compared to the previous fiscal year.)

(iii) Private Non-Residential Investment

Private non-residential investment will increase helped by the impact of the Comprehensive Economic Measures and reflecting the need to address labor shortages (approximately 2.7% increase compared to the previous fiscal year).

(iv) Government Expenditures

Government spending will increase owing to an increase in public investment in the Comprehensive Economic Measures and in social security-related expenditures (approximately 1.8% increase compared to the previous fiscal year).

(v) External Demand

External demand will remain almost flat. While exports will increase along with the moderate recovery of overseas economies, imports will also increase 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 at about the same rate as real GDP growth (approximately 1.3% increase compared to the previous fiscal year).

(3) Labor and Employment

With the continued improvement in the employment situation, the number of employees will increase, mainly owing to higher participation of women and the elderly in the labor market (approximately 0.6% increase compared to the previous year). The unemployment rate will remain almost flat (at approximately 2.3%).

(4) Industrial Production

Industrial production will increase, mainly owing to increases in domestic demand and exports (approximately 2.1% increase compared to the previous fiscal year).

(5) Prices

The inflation rate measured by the Consumer Price Index (all items) will be approximately 0.8% under tightening supply and demand conditions owing to economic recovery. The GDP deflator is expected to rise (by approximately 0.8%).

(6) Balance of Payments

The surplus in the current account balance will remain almost flat as the surplus in income from abroad continues. (The current account balance as a percentage of nominal GDP will be approximately 3.3%.)

(Note 1) The preparation of this economic forecast has been premised on the economic and fiscal management set out in “2. Basic Stance for FY 2020 Economic and Fiscal Management.”

(Note 2) The Japanese economy consists mainly of private economic activity and is influenced by changes in the international environment. Accordingly, the indicators above should be recognized as being subject to upside and downside deviations.

Main Economic Indicators

	FY2018	FY2019	FY2020	Percentage change over the previous fiscal year					
	(Actual)	(Estimate)	(Forecast)	FY2018		FY2019		FY2020	
	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	548.4	558.3	570.2	0.1	0.3	1.8	0.9	2.1	1.4
Private consumption expenditure	304.7	308.5	314.2	0.5	0.1	1.2	0.6	1.8	1.0
Private residential investment	16.5	17.0	16.9	▲ 3.4	▲ 4.9	2.9	1.5	▲ 0.3	▲ 1.9
Private non-residential investment	88.0	90.3	93.2	2.5	1.7	2.6	2.2	3.2	2.7
Change in private inventory *1	1.5	1.7	1.9	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)
Government expenditure	136.8	140.1	143.6	1.3	0.8	2.5	1.6	2.5	1.8
Government final consumption expenditure	108.5	110.4	112.3	1.0	0.9	1.8	1.3	1.7	1.3
Public-sector fixed capital formation	28.2	29.7	31.3	2.4	0.6	5.2	3.6	5.3	3.9
Exports of goods and services	100.6	96.4	99.1	2.3	1.6	▲ 4.2	▲ 1.2	2.8	2.4
Less: Imports of goods and services	99.7	95.7	98.8	6.8	2.2	▲ 4.0	0.3	3.2	3.1
Contribution of domestic demand				0.9	0.4	1.8	1.2	2.2	1.5
Contribution of private demand				0.6	0.2	1.2	0.8	1.6	1.0
Contribution of public demand				0.3	0.2	0.6	0.4	0.6	0.5
Contribution of external demand				▲ 0.7	▲ 0.1	▲ 0.0	▲ 0.3	▲ 0.1	▲ 0.1
National income	404.3	408.1	415.2	0.8		1.0		1.7	
Compensation of employees	284.7	289.3	293.8	3.0		1.6		1.6	
Income from properties	27.0	27.4	28.1	5.9		1.3		2.7	
Business income	92.5	91.5	93.3	▲ 6.6		▲ 1.1		2.0	
Gross national income	568.4	580.1	592.0	0.3	▲ 0.2	2.1	1.4	2.0	1.3
Labor and employment	Ten thousands	Ten thousands (Approx.)	Ten thousands (Approx.)			% (Approx.)		% (Approx.)	
Labor force	6,847	6,891	6,901			1.4		0.6	0.2
Employed persons	6,681	6,730	6,744			1.8		0.7	0.2
Employees	5,955	6,015	6,048			1.8		1.0	0.6
Unemployment rate	% 2.4	% (Approx.) 2.3	% (Approx.) 2.3						
Production	%	% (Approx.)	% (Approx.)						
Industrial production	0.3	▲ 1.7	2.1						
Prices	%	% (Approx.)	% (Approx.)						
Domestic corporate goods price index	2.2	0.3	1.0						
Consumer price index	0.7	0.6	0.8						
GDP deflator	▲ 0.2	0.9	0.8						
Balance of payments	Trillion yen	Trillion yen (Approx.)	Trillion yen (Approx.)			%	% (Approx.)	% (Approx.)	
Balance of goods and services	▲ 0.0	▲ 0.1	▲ 0.4						
Trade balance	0.7	0.3	▲ 0.5						
Exports	80.3	75.9	78.0			2.6	▲ 5.5	2.7	
Imports	79.6	75.6	78.4			8.0	▲ 5.0	3.7	
Current balance	19.2	19.5	18.9						
Current balance as a percentage of GDP	% 3.5	% (Approx.) 3.5	% (Approx.) 3.3						

*1 Figures in parentheses represent contribution to GDP growth.

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

(Note 2) The effects of the consumption tax hike in October 2019 on the consumer price index (all items) and GDP deflator for FY2019 and FY2020 are estimated to be approximately 0.5% points and 0.4% points, respectively. The effects of free early childhood education on the consumer price index (all items) for FY2019 and FY2020 are estimated to be approximately ▲0.3% points. The effects of free tertiary education on the consumer price index (all items) for FY2020 are estimated to be approximately ▲0.1% points.

(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 the outlook of the government but are solely for the sake of this preparation work.

	FY2018	FY2019	FY2020
Real growth rate of world GDP (excluding Japan) (%)	3.3	2.9	2.9
Exchange rate (yen/dollar)	110.9	108.7	108.9
Crude oil import price (dollars/barrel)	72.0	67.1	65.6

(Remarks)

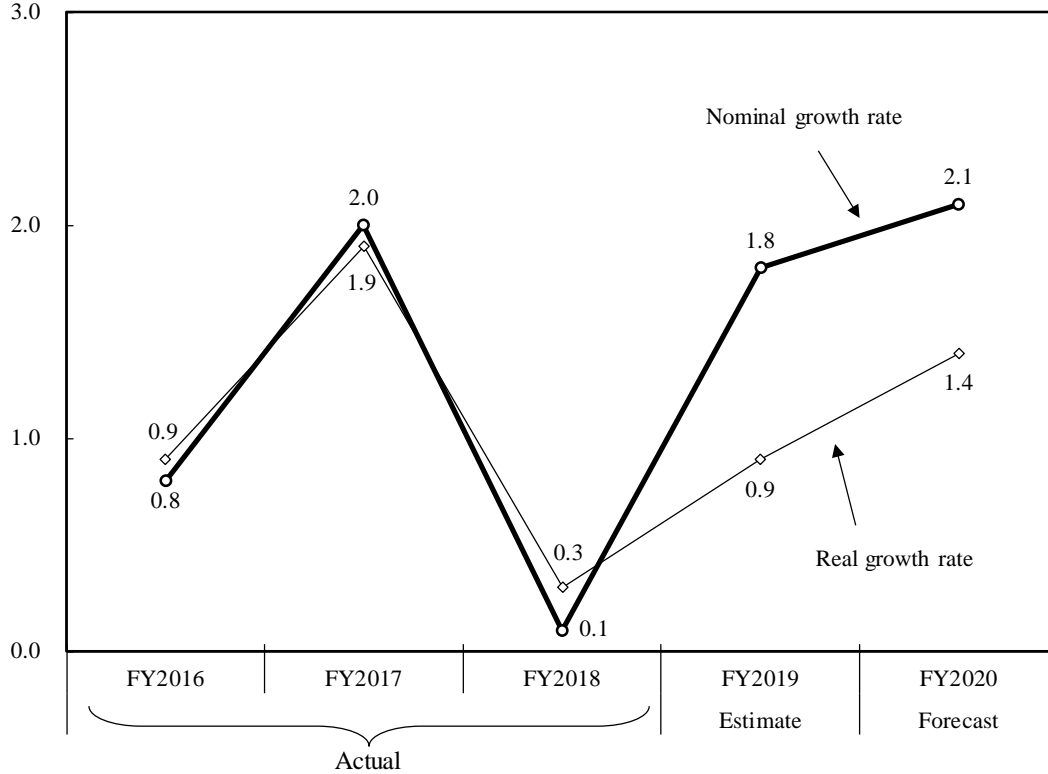
1. The real growth rate of the world GDP (excluding Japan) has been calculated based on economic forecasts of international organizations and other institutions.
2. The exchange rate is assumed to stay constant at 108.9 yen/dollar (average from November 1 to November 30, 2019) from December 2019 onward.
3. The crude oil import price is assumed to stay constant at 65.6 dollars/barrel (the average spot price of Dubai from November 1 to November 30, 2019, plus freight and insurance) from December 2019 onward.

(Reference)

Main Economic Indicators

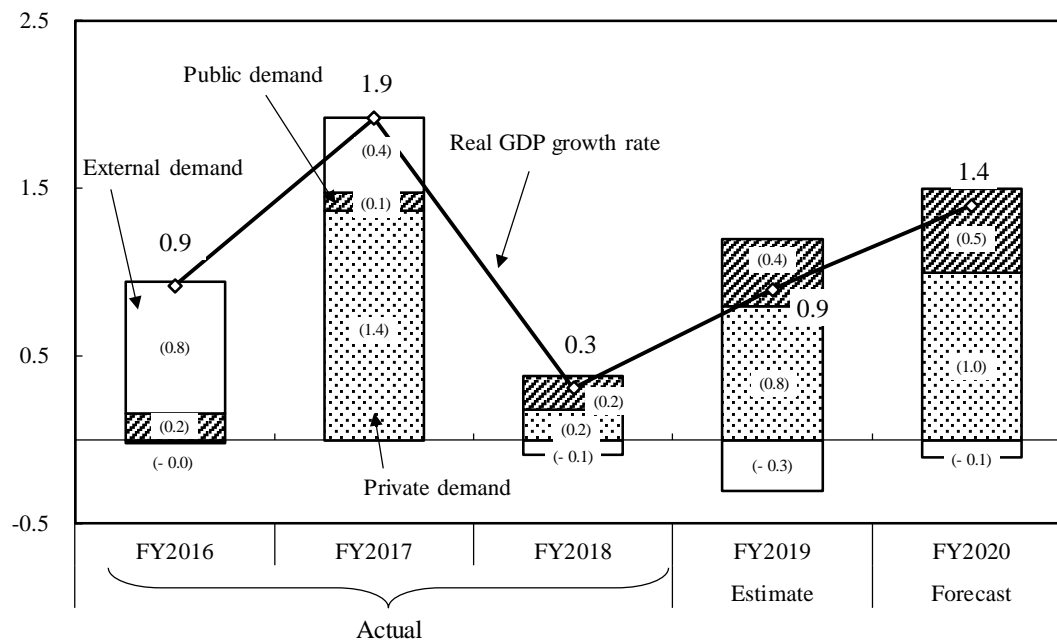
(%, or approximate %)

1. Gross domestic product (GDP)

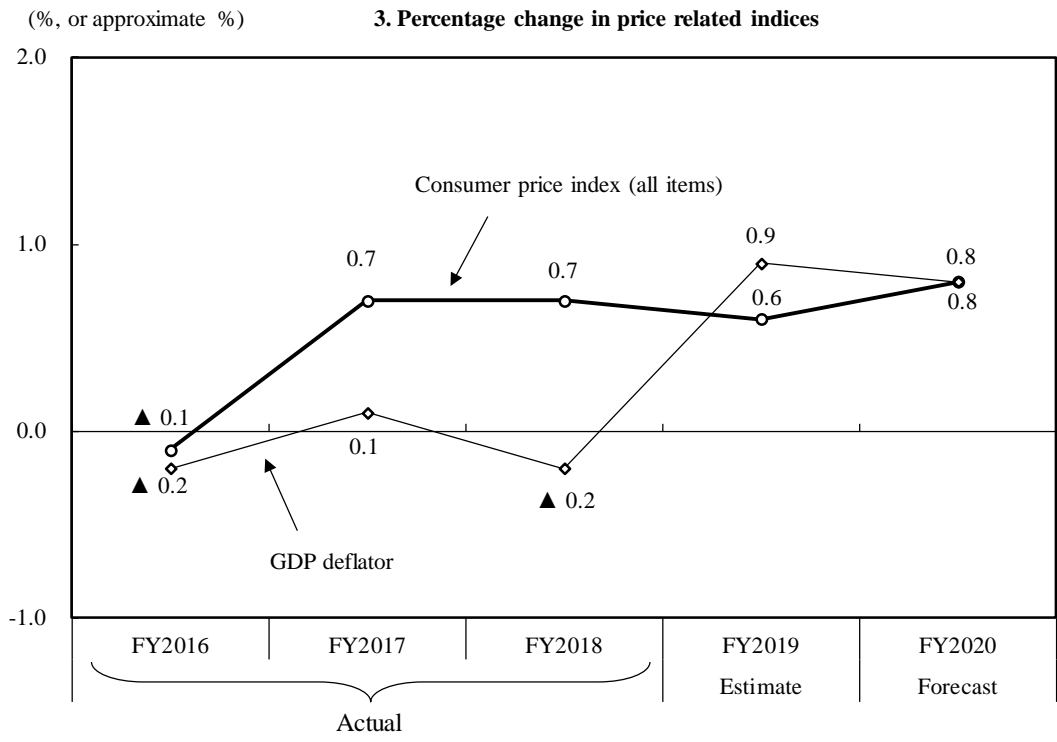


(%, or approximate %)

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



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



* The effects of the consumption tax hike in October 2019 on the consumer price index (all items) and GDP deflator for FY2019 and FY2020 are estimated to be approximately 0.5% points and 0.4% points, respectively. The effects of free early childhood education on the consumer price index (all items) for FY2019 and FY2020 are estimated to be approximately ▲0.3% points. The effects of free tertiary education on the consumer price index (all items) for FY2020 are estimated to be approximately ▲0.1% points.

