

# Fiscal 2021 Economic Outlook and Basic Stance for Economic and Fiscal Management

January 18, 2021

Cabinet Decision

## 1. Japanese Economy in FY 2020

In FY 2020, the Japanese economy is still in a severe situation due to the Novel Coronavirus. While it is showing the movements of picking up with the supports of the Emergency Economic Measures to Cope with COVID-19<sup>1</sup> and the first and second supplementary budgets for fiscal 2020, the full recovery remains to be seen with the level of the economy below the pre-pandemic level.

Against this backdrop, the government developed the Comprehensive Economic Measures to Secure People's Lives and Livelihoods toward Relief and Hope (hereinafter referred to as the "Comprehensive Economic Measures")<sup>2</sup>, which is focused on ensuring safety and security through measures to prevent the spread of infectious diseases, the transformation of the economic structure toward the Post-COVID era and the realization of virtuous cycles, disaster prevention and mitigation, and the promotion of national resilience. The government also formulated the fiscal 2020 third supplementary budget. Furthermore, in response to the recent spread of infection, the government will implement infection prevention measures controlling the infection under the declaration of a state of emergency. In order to mitigate the adverse effects on the economy, the Government will steadily implement the FY 2020 third supplementary budget and provide further supports by utilizing the reserve fund.

In the future, as measures are being taken to prevent the spread of infection, it is expected that the recovery trend will continue due to the effects of various policies such as the steady implementation of the Comprehensive Economic Measures, and the improvement of overseas economies. However, full attention should be given to the further downside risks to the domestic economy which is affected by the domestic and foreign spread of the infectious disease. Also attention should be given to the effects of fluctuations in the financial and capital markets.

With regard to prices, Consumer Price Index (all items) have been negative year-on-year owing to the decline in crude oil prices and other reasons.

Consequently, in FY 2020, the real gross domestic product (real GDP) growth rate is expected to be approximately -5.2%, and the nominal gross domestic product (nominal GDP) growth rate is expected to be approximately -4.2%. Consumer Price Index (all items) is expected to drop by approximately 0.6%.

---

<sup>1</sup> Cabinet Decision of April 20, 2020.

<sup>2</sup> Cabinet Decision of December 8, 2020.

## **2. Basic Stance for FY 2021 Economic and Fiscal Management**

In economic and fiscal management, in order to secure the lives and livelihoods of the people, the government will balance between preventing the spread of infection and carrying out socioeconomic activities.

By smooth and steady implementation of the Comprehensive Economic Measures, the government will support the economy through public spending and stimulate business investment and other private demand, which in turn improves productivity and promotes a continuous rise in wages. With the autonomous recovery of private demand, the economy will revert to the growth path led by private-sector demand.

As the current Novel Coronavirus pandemic has revealed various social issues including these related to administrative services, the government will promote social transformation for the realization of “digital society” through intensive investment and implementation and improvement of the environment, such as digitization of administration and regulatory reform, and will accelerate investment in human capital and innovation that will support the new society.

With the goal of the realization of carbon neutral society by 2050, the government will work to generate virtuous cycles of economy and environment and to realize a green society.

In addition, in order to revitalize local societies, the government will work to improve the productivity of SMEs and raise the minimum wage nationwide. The government also work to increase income standards in local economies by promoting tourism, agriculture and forestry and fisheries, as well as by maintaining local public transport. The government will promote reallocation of skilled labour from metropolitan areas to local areas across companies especially to SMEs and start-ups, supporting local economies grow with foreign economy.

Furthermore, the government will establish a social security system that enables all generations to feel secure by promoting measures against the declining birthrate, such as the provision of inclusive supports for childcare including the application of public insurance for fertility treatment, and the expansion of childcare services, and will. In addition to promoting work-style reforms such as telework and equal pay for equal work, the government will strongly support people who work hard in employment and social participation according to individual circumstances, such as those in the Employment Ice-Age generation. The government will work to realize a regional symbiotic society in which all people, including young people, the elderly, women, and people with disabilities and intractable diseases, can play an active role.

In addition, the government will address important issues such as recovery from natural disasters, strengthened resilience, strengthening international partnerships, and maintenance and strengthening of a multilateral free trade system from the perspective of economic security.

Under the basic policy of "Without economic revitalization, there can be no fiscal consolidation" and based on the Basic Policy on Economic and Fiscal Management and Reform 2020,<sup>3</sup> the government will promote integrated reform of finance and economy

---

<sup>3</sup> Cabinet Decision of July 17, 2020.

through the optimizations both in expenditure and in revenue while ensuring the path to overcoming deflation and revitalizing the economy.

The government expects the Bank of Japan to pay careful attentions to the economic impact of the Novel Coronavirus, implement appropriate monetary policy management, and to achieve the price stability target of 2% in light of economic activity, prices and financial conditions.

### **3. Economic Outlook for FY 2021**

The real GDP growth rate is expected to be approximately 4.0% and the nominal GDP growth rate is expected to be approximately 4.4% due to the policy actions based on the "2. Basic Stance on Economic and Fiscal Management in FY 2021" especially the smooth and steady implementation of the Comprehensive Economic Measures

It is expected that the level of the economy will return to the pre-pandemic level by the end of the fiscal year.

With regard to prices, while supply and demand are tightening as the economy improves, a return to deflation will be avoided, and Consumer Prices Index (all items) is expected to rise moderately to approximately 0.4%.

However, it is necessary to continue to pay full attention to the downside risks caused by the infectious disease to domestic and foreign economy and to the effects of fluctuations in the financial and capital markets.

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

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

While the government tries to balance between preventing the spread of infection and carrying out socioeconomic activities, and as the employment and income conditions improves, private consumption expenditure will increase thanks in part to the effects of the Comprehensive Economic Measures (approximately 3.9% increase from the previous fiscal year).

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

Private residential investment will increase as housing starts to recover from a downturn caused by the infectious disease (approximately 1.8% increase from the previous fiscal year).

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

Private non-residential investment will increase in line with the expected surge of investments related to digitalization and greening partly tail winded by the effects of the Comprehensive Economic Measures, recovering from the current downturn due to the infectious virus (approximately 2.9% increase from the previous fiscal year).

##### **(iv) Government Expenditures**

Government expenditures will increase owing to the expenditures related to the Comprehensive Economic Measures and social security-related expenditures (approximately 3.3% increase from the previous fiscal year).

## **(v) External Demand**

External demand will increase as overseas economies recover from the deep trough caused by the global spread of infection (The contribution of external demand to real GDP growth rate will be approximately 0.7%).

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

The growth of real gross national income is comparable to the real GDP growth rate (approximately 3.6% increase from the previous fiscal year).

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

While the government tries to balance between preventing the spread of infection and carrying out socioeconomic activities, the employment environment continues to recover partly owing to the effects of the Comprehensive Economic Measures. In addition, owing to the expansion of labor participation mainly by women and the elderly, the number of employees will increase (approximately 0.7% increase from the previous year) and the overall unemployment rate will decrease (approximately 2.7%).

## **(4) Industrial Production**

Industrial production will increase in line with the recovery of domestic and overseas demand (approximately 9.4% increase from the previous year).

## **(5) Prices**

Consumer Price Index (all items) will rise owing to tightening supply and demand condition caused by economic improvement (up approximately 0.4% from the previous fiscal year). Under these circumstances, the GDP deflator will increase (up approximately 0.3% from the previous year).

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

While the income balance surplus continues, the trade balance will improve as the foreign economy recovers, and the current account surplus will increase (current account balance to nominal GDP ratio of approximately 3.4%).

(Note1) This economic outlook is based on the economic and fiscal management described in the "2. Basic Stance for FY 2021 Economic and Fiscal Management".

(Note2) In light of the fact that private sector activities are the main players in our country's economy and that there are many unpredictable factors, particularly in the trends of infectious disease in Japan and abroad and changes in the international environment, the above figures should be considered with some range.

(Appendix)

## Main Economic Indicators

	FY2019 (Actual)	FY2020	FY2021	Percentage changes over the previous fiscal year					
				FY2019		FY2020		FY2021	
				% (Nominal)	% (Real)	% (Approx.) (Nominal)	% (Approx.) (Real)	% (Approx.) (Nominal)	% (Approx.) (Real)
Gross domestic product	559.7	536.1	559.5	0.5	-0.3	-4.2	-5.2	4.4	4.0
Private consumption expenditure	304.2	285.9	297.2	-0.3	-0.9	-6.0	-6.0	4.0	3.9
Private residential investment	21.4	20.0	20.6	4.1	2.5	-6.3	-6.7	2.7	1.8
Private non-residential investment	91.6	83.7	86.4	-0.2	-0.6	-8.6	-8.1	3.2	2.9
Change in Private Inventories *	2.0	1.4	1.1	(-0.1)	(-0.1)	(-0.1)	(-0.0)	(-0.1)	(-0.1)
Government expenditures	141.0	146.4	151.7	2.6	1.9	3.9	3.7	3.6	3.3
Government final consumption expenditure	111.7	115.4	119.5	2.4	2.0	3.3	3.2	3.5	3.3
Public-sector fixed capital formation	29.3	30.9	32.2	3.1	1.5	5.7	5.4	4.1	3.3
Exports of goods and services	95.5	80.2	90.2	-5.8	-2.6	-16.0	-13.7	12.5	11.4
Less: Imports of goods and services	96.0	81.5	87.5	-5.6	-1.2	-15.1	-6.4	7.4	6.7
Contribution of domestic demand				0.5	-0.1	-4.1	-4.0	3.6	3.3
Contribution of private demand				-0.1	-0.6	-5.0	-4.9	2.6	2.4
Contribution of public demand				0.6	0.5	1.0	0.9	1.0	0.9
Contribution of external demand				0.0	-0.2	-0.1	-1.2	0.7	0.7
National income	401.3	377.0	393.6	-0.2		-6.0		4.4	
Compensation of employees	288.0	280.5	284.8	2.0		-2.6		1.5	
Property income	25.9	26.0	26.3	-1.1		0.4		0.9	
Business income	87.4	70.5	82.6	-6.6		-19.4		17.2	
Gross national income	581.5	556.7	578.0	0.5	-0.1	-4.3	-4.1	3.8	3.6
Labor and employment	Ten thousands	Ten thousands (Approx.)	Ten thousands (Approx.)			%	% (Approx.)	% (Approx.)	
Total labor force	6895.1	6860.9	6882.3			0.7	-0.5	0.3	
Total employment	6733.0	6651.7	6693.1			0.8	-1.2	0.6	
Employees	6020.0	5944.8	5984.1			1.1	-1.2	0.7	
Unemployment rate	%	% (Approx.)	% (Approx.)						
	2.3	3.1	2.7						
Production	%	% (Approx.)	% (Approx.)						
Industrial production	-3.8	-11.0	9.4						
Prices	%	% (Approx.)	% (Approx.)						
Domestic corporate goods price index	0.1	-1.8	0.7						
Consumer price index (all items)	0.5	-0.6	0.4						
GDP deflator	0.9	1.0	0.3						
Balance of payments	Trillion yen	Trillion yen (Approx.)	Trillion yen (Approx.)			%	% (Approx.)	% (Approx.)	
Balance of goods and services	0.2	-1.1	2.6						
Trade balance	0.7	0.9	3.8						
Exports	74.9	65.1	72.1			-6.7	-13.1	10.7	
Imports	74.3	64.3	68.3			-6.7	-13.5	6.2	
Current balance	20.1	15.3	18.3						
Current balance as a percentage of GDP	%	% (Approx.)	% (Approx.)						
	3.6	2.8	3.4						

\* Figures in parentheses represent contribution to GDP growth.

(Note 1) The figures for the 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 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 FY2020 are estimated to be approximately -0.3% points. The effects of free higher education on the consumer price index (all items) for FY2020 are estimated to be approximately -0.1% point. The effects of the GoTo campaign on the consumer price index (all items) for FY2020 and FY 2021 are estimated to be approximately -0.3% and 0.2% points respectively.

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

	FY2019 (Actual)	FY2020	FY2021
Real growth rate of world GDP (excluding Japan) (%)	1.7	-3.5	5.9
Exchange rate (yen/dollar)	108.7	105.7	104.4
Crude oil import price (dollar/barrel)	67.9	39.9	44.8

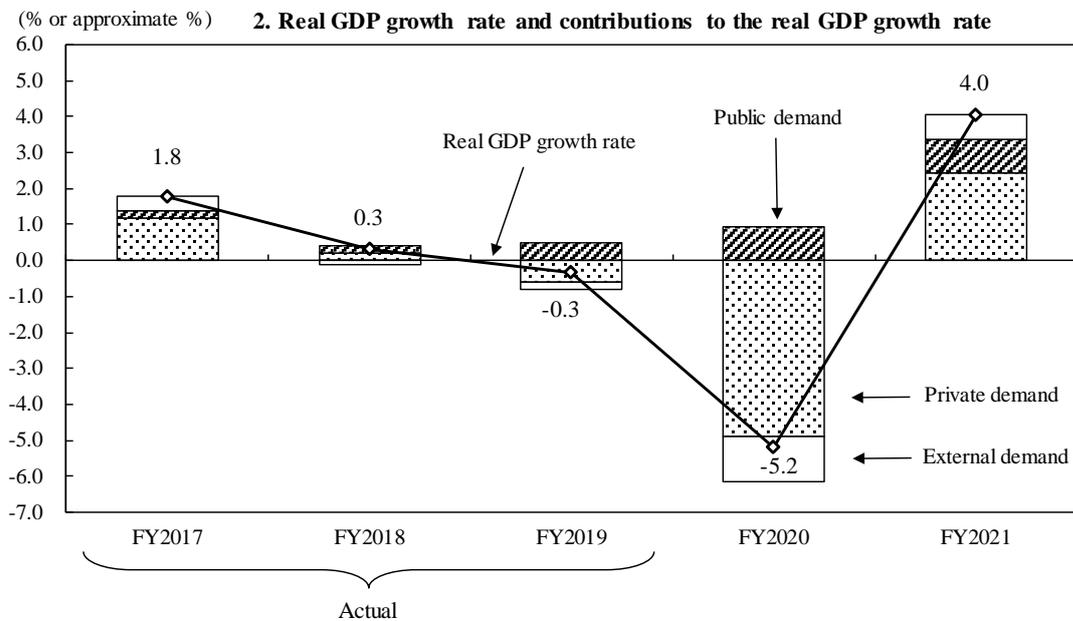
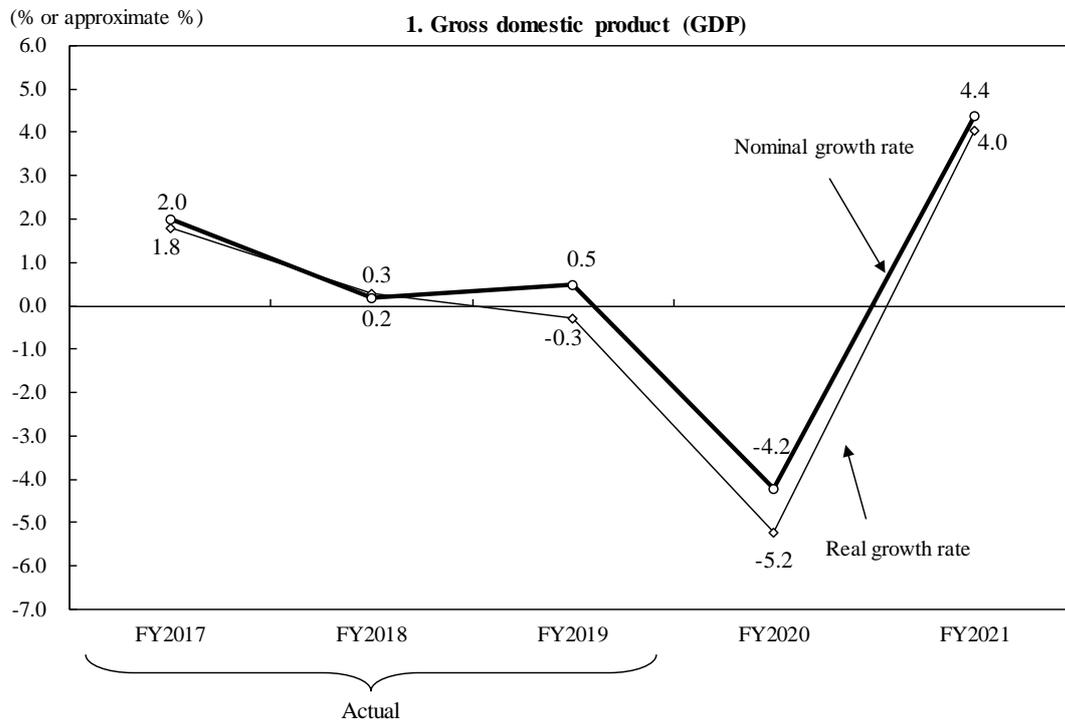
(Remarks) 1. The real growth rate of the world GDP (excluding Japan) has been calculated based on economic forecasts of international organizations and other institutions.

2. The exchange rate is assumed to stay constant at 104.4 yen/dollar (average from November 1 to November 30, 2020) from December 2020 onward.

3. The crude oil import price is assumed to stay constant at 44.8 dollars/barrel (the average spot price of Dubai from November 1 to November 30, 2020, plus freight and insurance) from December 2020 onward.

(Reference)

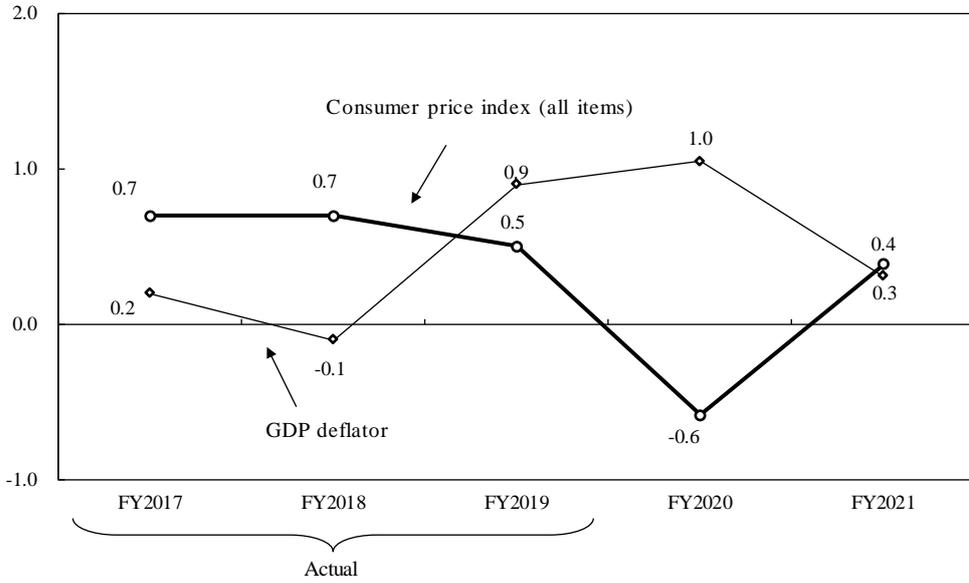
## Main Economic Indicators



(Note) Contributions 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**



(Note) The effects of the consumption tax hike in October 2019 on the consumer price index (all items) and GDP deflator for 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 FY2020 are estimated to be approximately -0.3% points. The effects of free higher education on the consumer price index (all items) for FY2020 are estimated to be approximately -0.1% point. The effects of the GoTo campaign on the consumer price index (all items) for FY2020 and FY2021 are estimated to be approximately -0.3% and 0.2% points respectively.

(% or approximate %)

**4. Unemployment rate and the number of employees**

(Ten thousands or approximate Ten thousands)

