

# Fiscal 2022 Economic Outlook and Basic Stance for Economic and Fiscal Management

( January 17, 2022  
Cabinet Decision )

## 1. Economic Trends in FY2021

The Japanese economy has been under the prolonged influence of the Novel Coronavirus, but the severe situation is gradually easing since the state of emergency and priority preventative measures were lifted at the end of September 2021; there have been movements of picking up recently.

However, full attention should be given to the effects of the Novel Coronavirus including the Omicron variant on the Japanese and overseas economies, and to the further increase in downside risks due to the effects of supply-side constraints and raw material prices. Also attention should be given to the effects of fluctuations in the financial and capital markets.

Against this backdrop, the government formulated “Economic Measures for Overcoming COVID-19 and Opening Up a New Era” (hereinafter, “Economic Measures”)<sup>1</sup> which consists of the pillars of “preventing the spread of COVID-19,” “resuming socio-economic activities in the ‘coexisting with COVID-19’ environment and preparing for the next crisis,” “launching a ‘new form of capitalism’ to open up a future society,” and “ensuring safety and security through promotion of disaster risk reduction, and enhancement of national resilience, etc.,” and so the government compiled the FY2021 supplementary budget.

To address the Novel Coronavirus, considering the recent spread of infections, the government will take all possible measures assuming the worst-case scenario. At the same time, the government will swiftly and steadily implement the Economic Measures to support the current economy and address downside risks, and when faced with the spread of infections, secure people’s livelihoods, employments and businesses, thus preventing further deterioration of economy. In addition, the government will launch a “new form of capitalism,” realize a “virtuous cycle of growth and distribution,” and put the economy on a self-sustained growth path.

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<sup>1</sup> November 19, 2021, Cabinet Decision

Under these circumstances, in FY2021, the real GDP is projected to increase by approximately 2.6% and the nominal GDP by approximately 1.7%, with GDP expected to recover to the pre-pandemic level during FY2021. The rate of change in consumer price index (all items) is expected to be around -0.1%.

## **2. FY2022 Basic Stance for Economic and Fiscal Management**

Regarding economic and fiscal management, the government will ensure safety and security while making every effort to resume and continue socio-economic activities in the “coexisting with COVID-19” environment. At the same time, it will implement the Economic Measures promptly and steadily and provide support for the economy through public spending, buttress a recovery in private demand including consumption and capital investment, and put the economy on a sustainable growth path led by private demand.

The government intends to achieve its primary target of overcoming deflation. Also the government will, without hesitation, undertake the fiscal expenditures necessary to respond to the crisis and take all possible measures. The economy is the foundation of public finance, and we must not get that out of order.

The government will thoroughly rebuild the economy and work to put public finances on a sound footing.

On top of this, the Kishida Cabinet will seek to launch a new form of capitalism which comprises as its main concept “a virtuous cycle of growth and distribution” and “developing a post-COVID-19 new society.”

Striving for growth is extremely important, and the government will do its utmost efforts to achieve growth. However, without distribution there will be no further growth. Only by properly distributing the fruits of growth will the further growth be realized.

Specifically, the government will take the initiative in pursuing a growth strategy with a view to a post-corona society and aim for economic growth through making bold investments based on the three pillars of “realizing a science and technology nation,” “‘Vision for a Digital Garden City Nation’ to revitalize localities and connect them to the world,” and “economic security,” and through regulatory and institutional

reforms in the Digital Extraordinary Administrative Advisory Committee. The government will also pursue a distribution strategy centered on pillars such as: promoting wage increases to strengthen the distributive function for workers; drastically reviewing the public prices of nursing, long-term care, childcare, etc.; and constructing a sustainable social security system oriented to all generations in which all generations support each other, including implementing measures to address the declining birthrate.

In addition, the government will actively invest for building the foundations for regional revitalization which consists of: reconstruction/revitalization from the Great East Japan Earthquake; the promotion of agriculture, forestry and fisheries including by producing high value-added products and enhancing Japan's export competitiveness; disaster prevention/mitigation including by measures against deterioration; the enhancement of national resilience; improvements to transport and logistics infrastructure; and support for tourism, culture and the arts. The government will aim to bring about effective human resource development and high-quality education suitable for the digital age tailored to age and purpose. It will also work to realize a green society with the aim of achieving carbon neutrality by 2050.

Amidst an increasingly severe international situation that changes at an unprecedented pace, the government will endeavor to reinforce the national security by bolstering its diplomatic and defense capabilities in order to protect the people and lead the international community toward resolving global challenges.

While steadily advancing initiatives based on decisions made thus far by the government and the ruling parties, the government will address the negative effects of the single-year fiscal policy and will systematically tackle national issues such as the promotion of science and technology, economic security, and the management of key infrastructure.

The government expects the Bank of Japan to pay careful attention to the economic impact of the infections and conduct appropriate monetary policy management, and achieve its price stability target of 2% in light of economic activity, prices and financial conditions.

### 3. Economic Outlook for FY2022

In FY2022, the real GDP is projected to increase by approximately 3.2% and the nominal GDP by approximately 3.6% due to the policy actions based on “2. FY2022 Basic Stance for Economic and Fiscal Management” through the prompt and steady implementation of the Economic Measures. GDP will likely reach its highest ever level. The Japanese economy will make steady progress towards self-sustained growth led by private demand and a virtuous cycle of growth and distribution, driven by a recovery in consumption and robust capital investment under the support of public spending. The rate of change in consumer price index (all items) is expected to be around 0.9%.

Nevertheless, full attention should still be given to the effects of infections on the Japanese and overseas economies and to the further increase in downside risks due to the effects of supply-side constraints and raw material prices. Also attention should be given to the effects of fluctuations in the financial and capital markets.

#### ① Real gross domestic product (real GDP)

##### (i) Private consumption expenditure

Private consumption expenditure will increase as socio-economic activities normalize and employment/income situations improve, with efforts made to both prevent the spread of infections and continue socio-economic activities. (An increase of approximately 4.0% is projected.)

##### (ii) Private residential investment

Private residential investment will remain almost flat under an accommodative monetary environment. (An increase of approximately 0.9% is projected.)

##### (iii) Private non-residential investment

Private non-residential investment will increase mainly in line with the promotion of digitalization and greening, partly due to the effects of the Economic Measures. (An increase of approximately 5.1% is projected.)

##### (iv) Government expenditures

Government expenditures will remain almost flat due to increased government spending associated with the Economic Measures and social security-related expenses, although previous government's economic measures have almost already been implemented. (An increase of approximately 0.1% is projected.)

- (v) External demand (net exports of goods and services)  
External demand will increase as overseas economies recover. (The contribution of external demand to the real GDP growth rate will be approximately 0.2%.)
- ② Real gross national income (real GNI)  
Real GNI will grow at about the same rate as the real GDP growth rate. (An increase of approximately 3.1% is projected.)
- ③ Labor and employment  
The number of employees will increase as socio-economic activities move towards normalization. (An increase of approximately 0.4% is projected.) The unemployment rate will decline (to approximately 2.4%).
- ④ Industrial production  
Industrial production will increase as the Japanese and overseas economies recover. (An increase of approximately 5.0% is projected.)
- ⑤ Prices  
Consumer price index (all items) will rise as the economy recovers and the effects of the previous year's reduction in mobile phone charges diminish. (An increase of approximately 0.9% is projected.) Under these circumstances, the GDP deflator will rise. (An increase of approximately 0.4% is projected.)
- 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 balance will be approximately 2.8% as a percentage of nominal GDP.)

(Note 1) This economic outlook is premised on the economic and fiscal management as described in 2. "FY2022 Basic Stance for Economic and Fiscal Management."

(Note 2) Considering that the Japanese economy mainly comprises private activities and that there are many unpredictable factors connected with infections in Japan and overseas as well as with changes in the international environment, some margin should be given for the various tallies above.

## Main Economic Indicators

	FY2020 (Actual)	FY2021	FY2022	Percentage changes over the previous fiscal year					
				FY2020		FY2021		FY2022	
				Trillion yen (Current prices)	Trillion yen (Approx.) (Current prices)	Trillion yen (Approx.) (Current prices)	% (Current prices)	% (Constant prices)	% (Approx.) (Current prices)
Gross domestic product	535.5	544.9	564.6	▲ 3.9	▲ 4.5	1.7	2.6	3.6	3.2
Private consumption expenditure	286.9	293.2	307.3	▲ 5.5	▲ 5.5	2.2	2.5	4.8	4.0
Private residential investment	19.8	21.0	21.5	▲ 7.3	▲ 7.8	5.6	▲ 0.5	2.8	0.9
Private non-residential investment	84.5	88.3	93.4	▲ 7.9	▲ 7.5	4.5	2.5	5.8	5.1
Change in Private Inventories *	0.1	0.4	0.6	(▲ 0.2)	(▲ 0.2)	(0.1)	(0.0)	(0.0)	(0.0)
Government expenditures	144.6	147.9	148.6	2.4	3.0	2.3	0.9	0.5	0.1
Government consumption expenditure	113.7	117.4	118.0	1.7	2.5	3.2	2.1	0.5	0.2
Public Investment	30.9	30.5	30.6	5.5	5.1	▲ 1.3	▲ 3.6	0.2	▲ 0.3
Exports of goods and services	84.1	101.6	109.6	▲ 12.1	▲ 10.5	20.8	11.4	7.9	5.5
Less: Imports of goods and services	84.5	107.5	116.5	▲ 13.4	▲ 6.6	27.2	7.4	8.4	4.1
Contribution of domestic demand				▲ 4.2	▲ 3.9	2.8	2.0	3.8	3.0
Contribution of private demand				▲ 4.8	▲ 4.7	2.2	1.7	3.7	3.0
Contribution of public demand				0.6	0.8	0.6	0.2	0.1	0.0
Contribution of external demand				0.3	▲ 0.7	▲ 1.0	0.6	▲ 0.2	0.2
National income	375.7	383.5	403.8	▲ 6.2		2.1		5.3	
Compensation of employees	283.7	288.3	293.7	▲ 1.5		1.6		1.9	
Property income	26.4	26.8	27.4	3.0		1.5		2.1	
Entrepreneurial income	65.6	68.4	82.7	▲ 24.6		4.3		20.9	
Gross national income	554.7	566.9	589.0	▲ 4.2	▲ 3.9	2.2	1.4	3.9	3.1
Labor and employment	Ten thousands	Ten thousands (Approx.)	Ten thousands (Approx.)			%	% (Approx.)	% (Approx.)	
Total labor force	6,863	6,871	6,873			▲ 0.5	0.1	0.0	
Total employment	6,664	6,681	6,705			▲ 1.0	0.3	0.4	
Employees	5,962	5,981	6,004			▲ 1.0	0.3	0.4	
Unemployment rate	%	% (Approx.)	% (Approx.)						
	2.9	2.8	2.4						
Production	%	% (Approx.)	% (Approx.)						
Industrial production	▲ 9.5	5.7	5.0						
Prices	%	% (Approx.)	% (Approx.)						
Domestic corporate goods price index	▲ 1.4	6.5	2.0						
Consumer price index (all items)	▲ 0.2	▲ 0.1	0.9						
GDP deflator	0.7	▲ 0.8	0.4						
Balance of payments	Trillion yen	Trillion yen (Approx.)	Trillion yen (Approx.)			%	% (Approx.)	% (Approx.)	
Balance of goods and services	0.2	▲ 5.3	▲ 5.8						
Trade balance	3.9	▲ 1.4	▲ 3.7						
Exports	68.4	83.8	88.7			▲ 8.4	22.5	5.9	
Imports	64.4	85.2	92.4			▲ 13.3	32.3	8.5	
Current balance	16.3	13.6	15.2						
Current balance as a percentage of GDP	%	% (Approx.)	% (Approx.)						
	3.0	2.5	2.8						

\* Figures in parentheses represent contribution to GDP growth.

(Note1) The figures for consumer price index include all items.

(Note2) The effects of "Go To campaign" on consumer price index (all items) for FY2020, FY2021 and FY2022 are estimated to be approximately ▲0.1%, 0.1% and ▲0.0% point. The effects of a reduction in mobile phone charges on the consumer price index is estimated to be approximately ▲1.3 % point in FY2021.

(Note3) The following assumptions have been made with regard to the real growth rate of world GDP (excluding Japan), the yen exchange rate, and the crude oil import price. It should be noted that these are working assumptions and do not represent government forecasts or outlooks.

	FY2020 (Actual)	FY2021	FY2022
Real growth rate of world GDP (excluding Japan) (%)	▲ 1.6	6.4	4.0
Exchange rate (yen/dollar)	106.0	111.8	114.1
Crude oil import price (dollar/barrel)	42.9	76.0	83.0

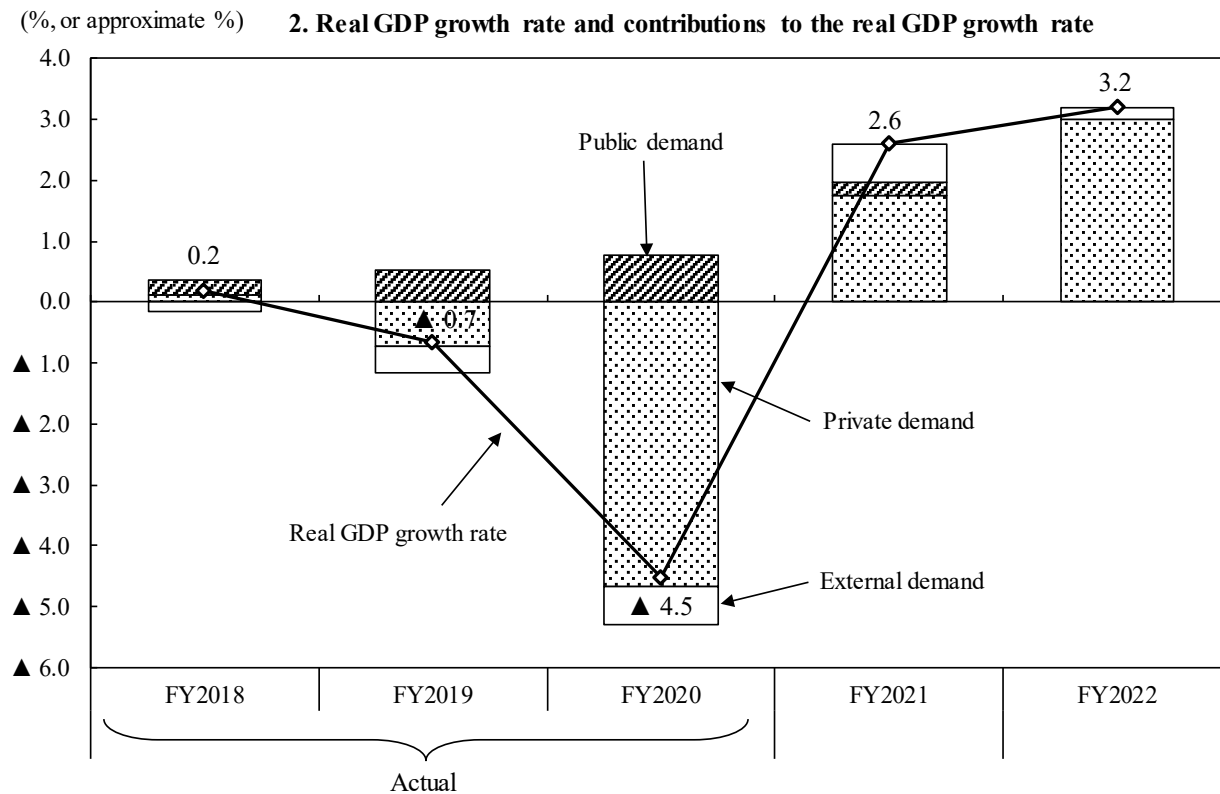
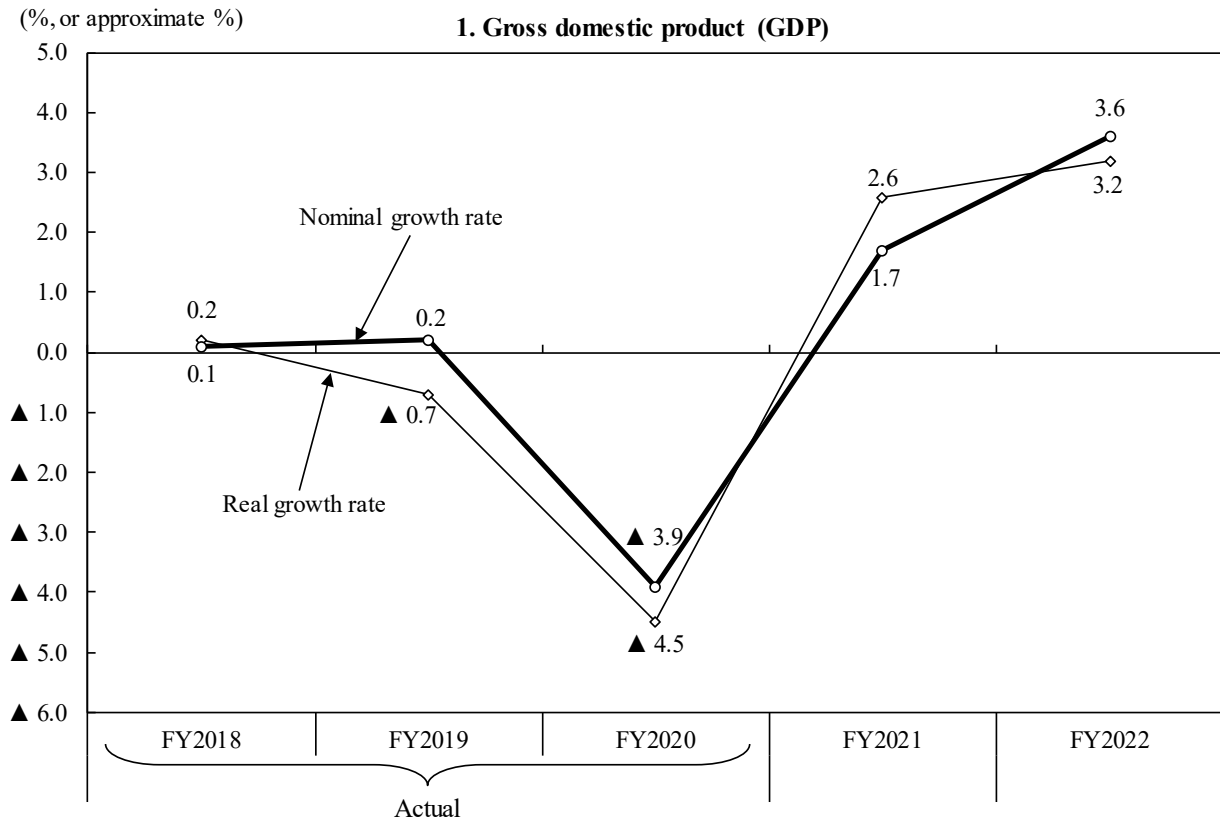
(Remarks) 1. The real growth rate of the world GDP (excluding Japan) has been calculated based on economic forecasts of international organizations and other institutions.

2. The exchange rate is assumed to stay constant at 114.1 yen/dollar (average from November 1 to November 30, 2021) from December 2021 onward.

3. The crude oil import price is assumed to stay constant at 83.0 dollars/barrel (the average spot price of Dubai from November 1 to November 30, 2021, plus freight and insurance) from December 2021 onward.

(Reference)

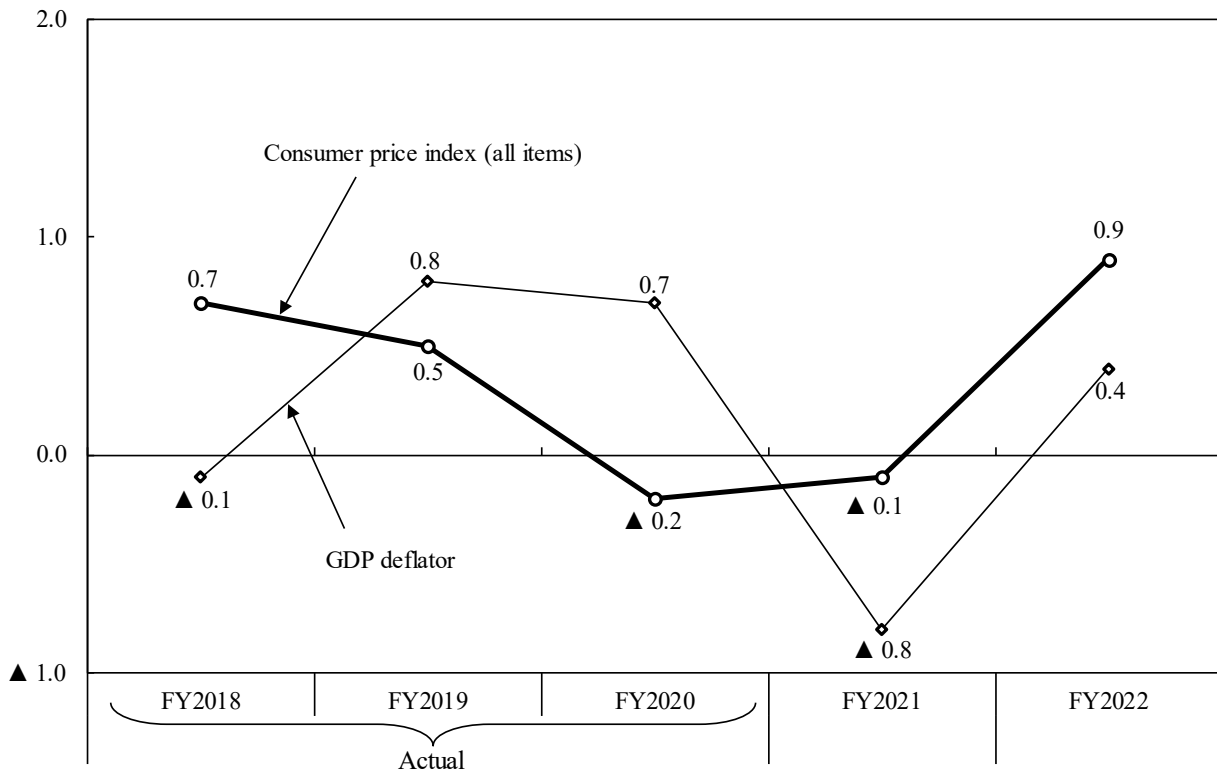
## Main Economic Indicators



(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 "Go To campaign" on consumer price index (all items) for FY2020, FY2021 and FY2022 are estimated to be approximately ▲0.1%, 0.1% and ▲0.0% point. The effects of a reduction in mobile phone charges on the consumer price index is estimated to be approximately ▲0.5 % point in FY2021.

(%, or approximate %)

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

(Ten thousands, or approximate Ten thousands)

