

# Fiscal 2023 Economic Outlook and Basic Stance for Economic and Fiscal Management

( January 23, 2023 )  
( Cabinet Decision )

## 1. Economic Trends in FY2022

The Japanese economy is picking up moderately as socioeconomic activities normalize from the COVID pandemic. On the other hand, the environment surrounding the Japanese economy is increasingly challenging, due to the soaring prices of energy and food worldwide and growing concerns of a global recession caused by monetary tightening in the United States and Europe.

To counter these downside risks and put the Japanese economy on a sustainable growth path led by private demand, the Government has formulated the "Comprehensive Economic Measures for Overcoming Price increases and Revitalizing the Economy" (October 28, 2022, Cabinet Decision; hereinafter referred to as "Comprehensive Economic Measures"), which focus on "countermeasures against the price hikes and the depreciation of yen", "structural wage increases", and "investment and reforms for growth". The Government will promptly and steadily implement the second supplementary budget for FY2022 which support the Comprehensive Economic Measures and will take all possible measures for economic and fiscal management.

Under these circumstances, Japan's economy in FY2022 is expected to see real GDP growth of approximately 1.7% and nominal GDP growth of approximately 1.8%. The consumer price index (all items) is expected to rise at a rate of approximately 3.0% due to soaring energy and food prices.

## **2. FY2023 Basic Stance for Economic and Fiscal Management**

In carrying out economic and fiscal management, the Government will promptly and steadily implement the Comprehensive Economic Measures to overcome price hikes, transform efforts to resolve social issues into an engine for growth under the banner of "new form of capitalism", and put Japan's economy on a sustainable growth path led by private demand.

The Government will maintain the framework of economic and fiscal management that integrates bold monetary policies, flexible fiscal policies, and growth strategies that encourage private investment, and will closely monitor the economic situation and conduct flexible macroeconomic management without hesitation to achieve autonomous growth led by private demand and break away from deflation.

Accordingly, the Government will promote systematic and bold investment in the priority areas, in cooperation with the private sector. Aiming to strengthen growth potential and achieve structural wage increases through private-sector initiatives, the Government will drastically step up reskilling support and other forms of "investment in people", facilitate labor migration to growth areas, and promote higher wages at local small and medium-sized enterprises and elsewhere. Bold investment in growth areas such as science, technology and innovation, startups, green transformation (GX), and digital transformation (DX) will also be undertaken based on the Startup Development Five-year Plan and the GX Roadmap.

Furthermore, Japan's economic structure will be made more resilient by pursuing domestic "aggressive investment", such as rebuilding supply chains, and encouraging companies to return to the domestic market, as well as by promoting the expansion of exports. The Government will also seek to enhance economic security by ensuring reliable supply of semiconductors and other critical commodities and fostering cutting-edge key technologies, and to bolster food and energy security.

The Government will address important policy issues in line with the Basic Policy on Economic and Fiscal Management and Reform 2022 (June 7, 2022, Cabinet Decision); bringing about an inclusive society, which involves enhanced measures to address declining birthrates and childcare issues, providing assistance to children, youth and households raising children; responding to changes in the diplomatic and security environment by developing a dynamic and potent diplomacy of realism for the new era and significantly reinforcing defense capabilities in line with the National Security Strategy (December 16, 2022, National Security Council Decision and Cabinet Decision); establishing the foundations for local revitalization; preventing and mitigating disasters; building national resilience and otherwise ensure citizens'

safety and security, and will make certain that the fruits of these efforts extend to every corner of the country.

In combatting the spread of COVID-19 infections, the Government will adopt approaches that regard the disease as endemic and that therefore seek to balance efforts to prevent wider infections with socioeconomic activities while protecting the lives and health of the public.

In managing the economy and public finances, the overriding issue is reviving the economy. Public finances depend on the economy, so these must not be prioritized in the wrong order. The Government must take the necessary policy measures to solidly rebuild the economy, and then and only then work toward fiscal consolidation. The adverse effects of thinking strictly in terms of a single fiscal year must be rectified and national issues tackled systematically to clarify the long-term direction of policies and enhance their predictability.

The Government expects the Bank of Japan to achieve the price stability target of two percent in a sustainable and stable manner in light of economic activity, prices and financial conditions.

### 3. Economic Outlook for FY2023

In accordance with "2. FY2023 Basic Stance for Economic and Fiscal Management", the Government will be pursuing measures in FY2023 to put the Japanese economy on a sustainable growth path led by private demand under the banner of "new form of capitalism", including overcoming price hikes and promoting systematic and bold investments in cooperation with the private sector. With these efforts, GDP in FY2023 is expected to grow approximately 1.5% in real terms and approximately 2.1% in nominal terms, driven by private demand. The consumer price index (all items) is expected to rise by approximately 1.7%, reflecting the effects of policies to reduce price increases.

However, the Government needs to keep paying close attention to the risk that a downturn in overseas economies could put downward pressure on Japan's economy, and the effects of rising prices, supply-side constraints, and fluctuations in financial and capital markets.

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

##### (i) Private consumption expenditure

Private consumption expenditure is expected to increase by approximately 2.2% year-on-year, with the recovery from the COVID-19 pandemic, the effects of various measures, and the improvement in the situation of employment and income.

##### (ii) Private residential investment

Private residential investment is expected to increase by approximately 1.1% year-on-year, with the effects of residential energy-saving support measures that are part of the Comprehensive Economic Measures.

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

Private non-residential investment is expected to increase by approximately 5.0% year-on-year, with private investment spurred on by the Comprehensive Economic Measures, including investments in cooperation with the private sector aimed at entrenching "new form of capitalism".

##### (iv) Government expenditures

Although the Comprehensive Economic Measures will entail government spending, the sum of government expenditures is expected to decline by approximately 1.9% from the previous year, mainly due to an anticipated decrease in the level of expenditures on COVID-19 countermeasures from the previous fiscal year.

- (v) External demand (net exports of goods and services)  
External demand is expected to decrease as overseas economies slow down (the contribution of external demand to real GDP growth is expected to be approximately -0.1%).
- ② Real gross national income (real GNI)  
Real GNI (approximately 1.8% higher year-on-year) is expected to exceed real GDP growth due to an anticipated rise in income from abroad.
- ③ Labor and employment  
The number of employees is expected to increase by approximately 0.2% year-on-year and the unemployment rate is expected to decline to approximately 2.4% as the economy recovers and the employment environment improves.
- ④ Industrial production  
Industrial production is expected to increase by approximately 2.3% year-on-year as domestic demand recovers.
- ⑤ Prices  
The rate of increase in the consumer price index (all items) is expected to be approximately 1.7%, smaller than the previous fiscal year, due in part to the effect of curbing prices of electricity, gas and fuel oil through the Comprehensive Economic Measures, although energy and food prices are expected to increase. The GDP deflator is expected to rise by approximately 0.6% year-on-year with the expansion of domestic demand.
- ⑥ Balance of payments  
Although the trade balance deficit will continue against a backdrop of rising import prices, the current account balance surpluses will remain (ratio of current account balance to nominal GDP: approximately 1.3%) as the balance of income from abroad will remain positive.

(Note 1) This economic outlook is premised on the economic and fiscal management as described in "2. FY2023 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 infection trends 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

	FY2021 (Actual)	FY2022	FY2023	Percentage changes over the previous fiscal year					
				FY2021		FY2022		FY2023	
				Trillion yen (Current prices)	Trillion yen (Approx.) (Current prices)	%	%	% (Approx.) (Current prices)	% (Approx.) (Current prices)
Gross domestic product	550.5	560.2	571.9	2.4	2.5	1.8	1.7	2.1	1.5
Private consumption expenditure	296.2	312.9	323.0	2.7	1.5	5.6	2.8	3.2	2.2
Private residential investment	21.1	21.3	21.7	6.3	▲1.1	0.9	▲4.0	1.9	1.1
Private non-residential investment	90.1	97.5	103.5	4.7	2.1	8.2	4.3	6.2	5.0
Change in Private Inventories *	1.1	1.9	1.8	(0.4)	(0.3)	(0.1)	(0.1)	(▲0.0)	(0.0)
Government expenditures	148.7	150.7	148.2	2.9	1.3	1.3	▲0.1	▲1.6	▲1.9
Government consumption expenditure	119.0	121.3	118.6	4.5	3.4	1.9	1.0	▲2.2	▲2.3
Public Investment	29.8	29.6	29.6	▲3.3	▲6.4	▲0.5	▲4.3	0.0	▲0.5
Exports of goods and services	103.6	124.2	130.0	22.8	12.3	19.9	4.7	4.7	2.4
Less: Imports of goods and services	110.4	148.3	156.4	30.1	7.1	34.4	6.9	5.4	2.5
Contribution of domestic demand				3.6	1.8	4.9	2.3	2.5	1.6
Contribution of private demand				2.8	1.4	4.5	2.3	2.9	2.1
Contribution of public demand				0.8	0.4	0.4	▲0.0	▲0.4	▲0.5
Contribution of external demand				▲1.2	0.8	▲3.2	▲0.5	▲0.4	▲0.1
National income	395.9	409.9	421.4	5.5		3.5		2.8	
Compensation of employees	289.5	295.7	304.7	2.1		2.1		3.0	
Property income	27.4	27.6	27.8	6.6		0.6		0.8	
Entrepreneurial income	79.0	86.5	88.9	19.5		9.5		2.7	
Gross national income	579.8	595.0	609.9	4.1	2.2	2.6	0.6	2.5	1.8
Labor and employment	Ten thousands	Ten thousands (Approx.)	Ten thousands (Approx.)			% (Approx.)		% (Approx.)	
Total labor force	6,897	6,915	6,920	▲0.1		0.3		0.1	
Total employment	6,706	6,738	6,753	0.1		0.5		0.2	
Employees	6,013	6,056	6,067	0.2		0.7		0.2	
Unemployment rate	%	% (Approx.)	% (Approx.)						
	2.8	2.5	2.4						
Production	%	% (Approx.)	% (Approx.)						
Industrial production	5.8	4.0	2.3						
Prices	%	% (Approx.)	% (Approx.)						
Domestic corporate goods price index	7.1	8.2	1.4						
Consumer price index (all items)	0.1	3.0	1.7						
GDP deflator	▲0.1	0.0	0.6						
Balance of payments	Trillion yen	Trillion yen (Approx.)	Trillion yen (Approx.)	% (Approx.)		% (Approx.)		% (Approx.)	
Balance of goods and services	▲6.5	▲23.7	▲28.1						
Trade balance	▲1.6	▲19.6	▲23.3						
Exports	85.6	101.6	105.4	25.2		18.7		3.7	
Imports	87.2	121.4	128.7	35.0		39.2		6.1	
Current balance	20.3	8.3	7.3						
Current balance as a percentage of GDP	%	% (Approx.)	% (Approx.)						
	3.7	1.5	1.3						

\* Figures in parentheses represent contribution to GDP growth.

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

(Note2) 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.

	FY2021 (Actual)	FY2022	FY2023
Real growth rate of world GDP (excluding Japan) (%)	6.4	2.1	2.3
Exchange rate (yen/dollar)	112.4	138.5	142.1
Crude oil import price (dollar/barrel)	76.3	100.4	89.1

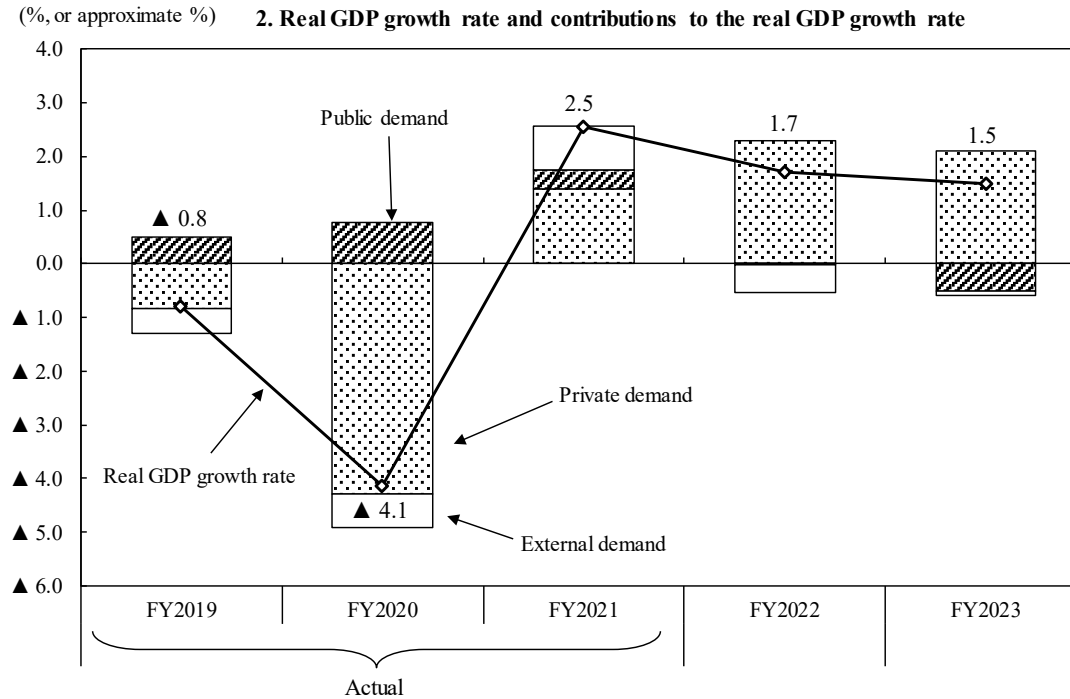
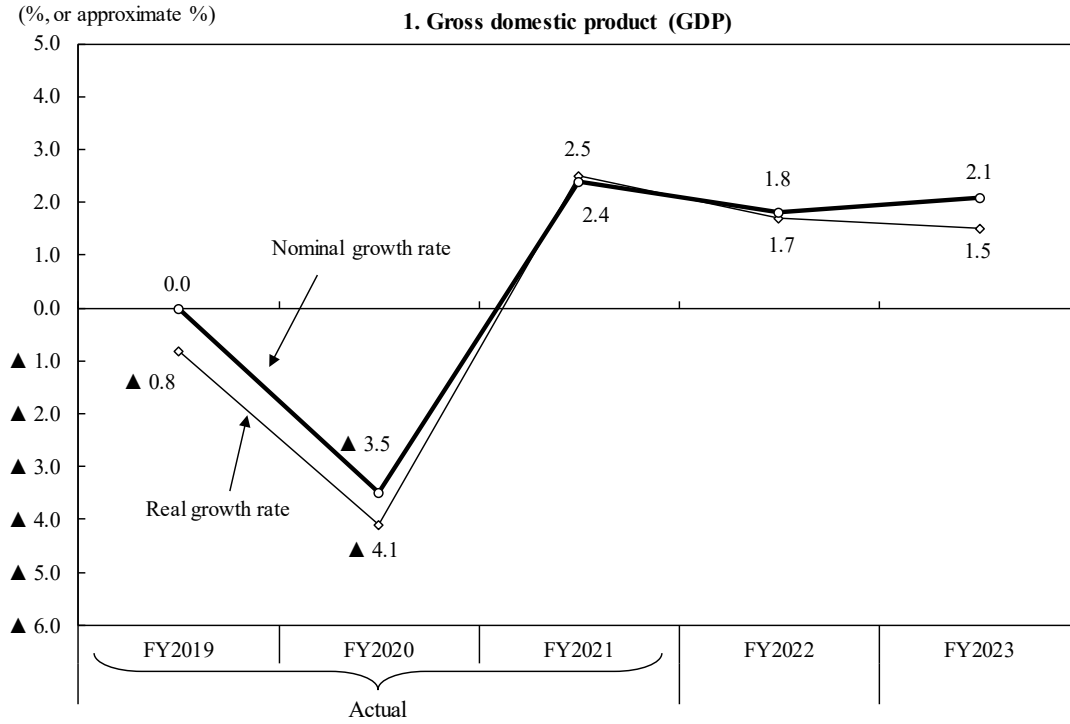
(Remarks) 1. The real growth rate of the world GDP (excluding Japan) has been calculated based on economic forecasts of international organizations and other institutions.

2. The exchange rate is assumed to stay constant at 142.1 yen/dollar (average from November 1 to November 30, 2022) from December 2022 onward.

3. The crude oil import price is assumed to stay constant at 89.1 dollars/barrel (the average spot price of Dubai from November 1 to November 30, 2022, plus freight and insurance) from December 2022 onward.

(Reference)

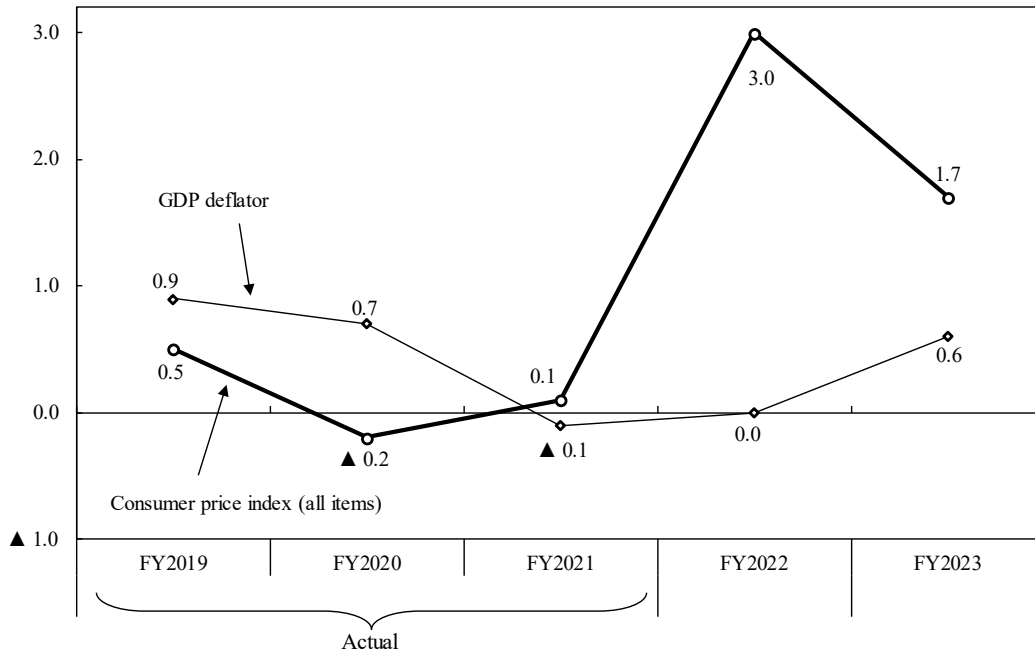
## Main Economic Indicators



(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



(%, or approximate %)

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

(Ten thousands, or approximate Ten thousands)

