

# Annual Report on the Japanese Economy and Public Finance 2016

(Report by Minister of State for Economic and Fiscal Policy)

—Establishing a Virtuous Cycle Beyond Risk—

## Summary

August 2016

Cabinet Office, Government of Japan

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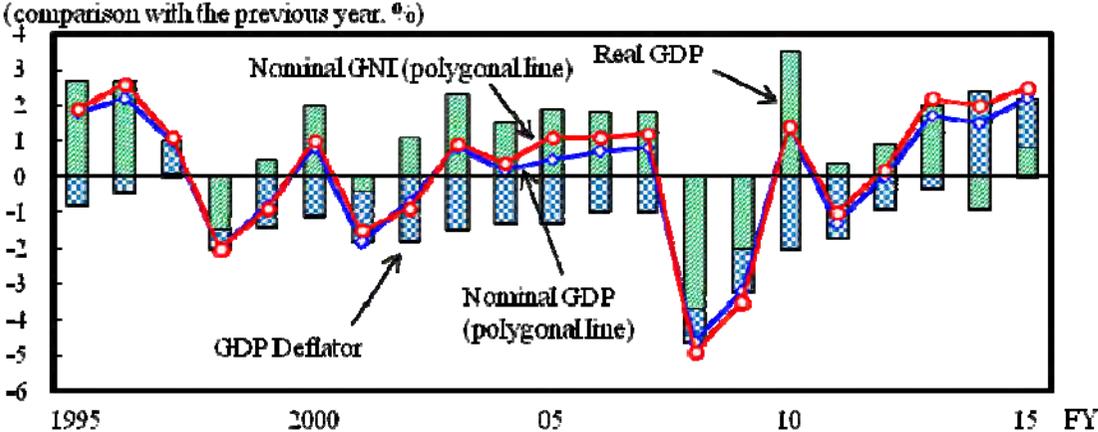
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This material has been tentatively prepared to explain the “Annual Report on the Japanese Economy and Public Finance.” For quotations and other purposes, please refer to the text of the “Annual Report on the Japanese Economy and Public Finance.”

# Chapter 1 Economic Conditions and Challenges for Establishing Virtuous Cycle

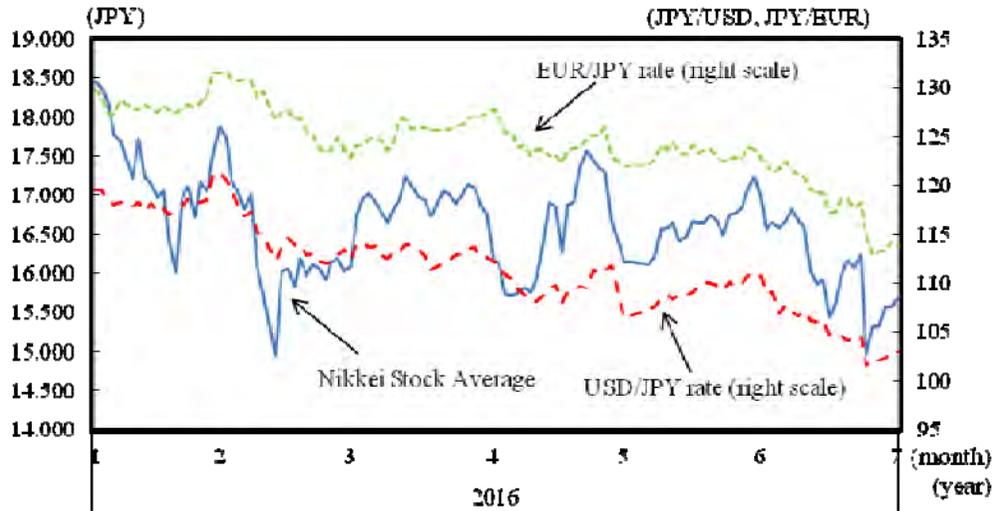
- Looking at the current state of Japan's economy, progress can be seen toward economic recovery and overcoming deflation under Abenomics. Nominal GDP, real GDP and GDP deflator in FY 2015 grew from the previous year for the first time in 18 years.
- On the other hand, uncertainty about the prospects of the world economy has increased due to the UK referendum that supported EU withdrawal, and close attention should be paid to the risk surrounding Japan's economy.

Figure 1 Year-on-year changes in nominal GDP, real GDP, nominal GNI, GDP deflator



(Notes) (Left) Based on the System of National Accounts, the Cabinet Office.  
 (Right) Based on data published by Bloomberg and Nikkei NEEDS. Closing prices as of July 14.

Figure 2 Change in stock prices and exchange rate



- In regard to employment, the working-age population has decreased but the labour force participation of elderly people and women has increased, followed by gradual recovery of the economy. Thus, the labour force has grown from the previous year since 2013. The number of regular employees in 2015 also grew from the previous year for the first time in eight years. Wage increase has remained at a higher level for three consecutive years and hourly wages of part-timers reached a record high. Thus, the spread of the base is seen in wage increases.
- In regard to price trends, the movement of wage increase is considered to lead to rising prices in the service industry. Looking at the recent situation, however, the pace of rise has become moderate due to the trend of a stronger Yen.

Figure 3 Change in labor force population

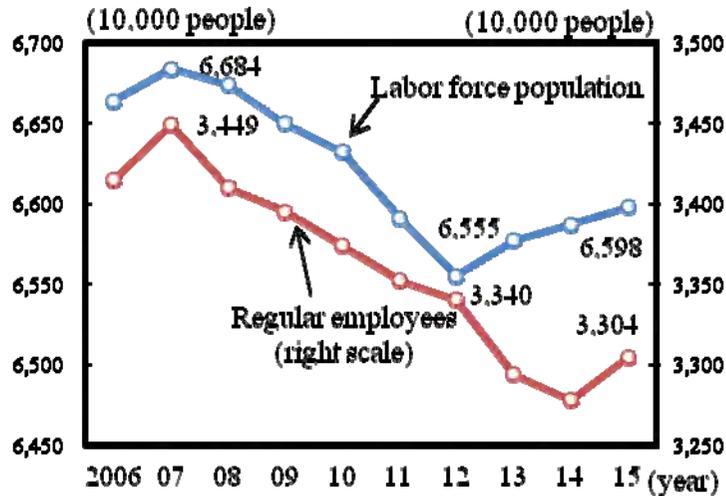
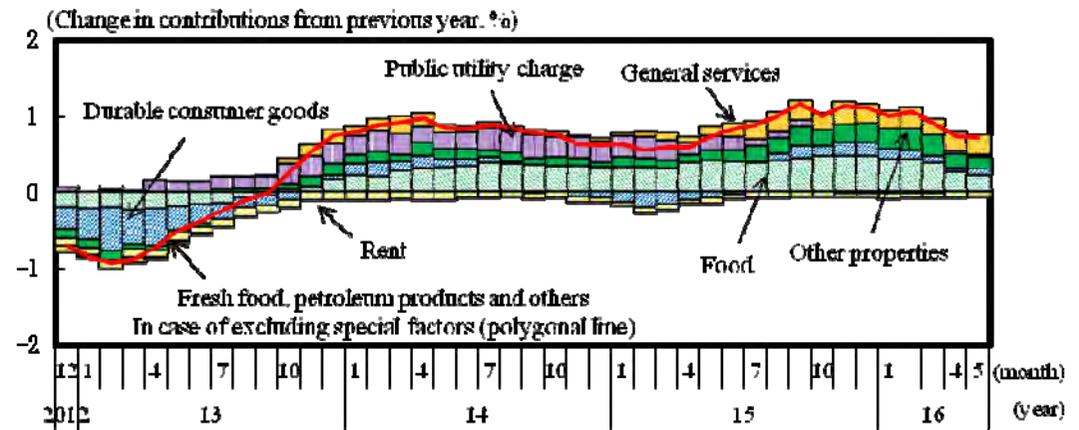


Figure 4 Change in consumer prices



(Notes) (Left) Based on the Labour Force Survey, the Ministry of Internal Affairs and Communications.  
 (Right) Based on the Consumer Price Index, the Ministry of Internal Affairs and Communications.

- In regard to personal consumption, a spread from income to expenditure is delayed due to a moderate and weak increase of compensation of employees.
- Main factors include a fizzling out of demand for durable goods due to different policies and budget saving by households with householders under 39 years of age (young child-rearing households) and early 60's unemployed households. A persistent increase in wages and efforts towards structural challenges on labor market are needed.

Figure 5 Durable consumer goods (sales amount of household appliance <nominal>)

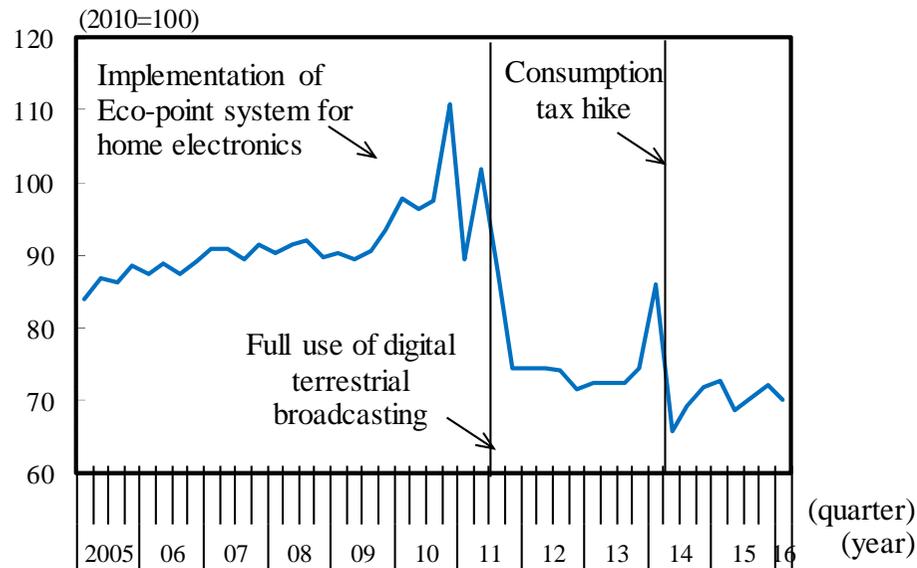
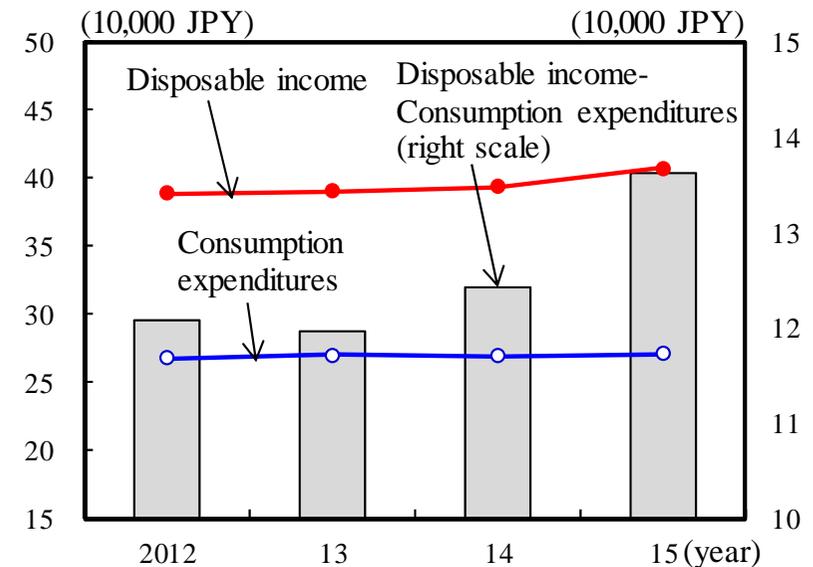


Figure 6 Income and consumption of households with householders under 39 years of age



(Notes) (Left) Based on the Current Survey of Commerce, the Ministry of Economy, Trade and Industry.

(Right) Based on the Family Income and Expenditure Survey, the Ministry of Internal Affairs and Communications. Nominal. Workers' households are those among two-or-more person households.

- In regard to current fiscal condition, the rise of the outstanding public debt ratio to GDP levelled out. An increase of tax revenues contributed to improving primary balance.
- In regard to monetary policy, signs of change are partially seen after the adoption of Quantitative and Qualitative Monetary Easing with a Negative Interest Rate, e.g. a decline in housing loan interest rates and an increase of outstanding issues of bonds.
- To establish a virtuous cycle in the economy, which has begun to turn around, addressing weak demand in personal consumption and capital investment and achieving both economic growth and fiscal consolidation are big challenges.

Figure 7 Factor-breakdown of outstanding public debt (ratio to GDP)

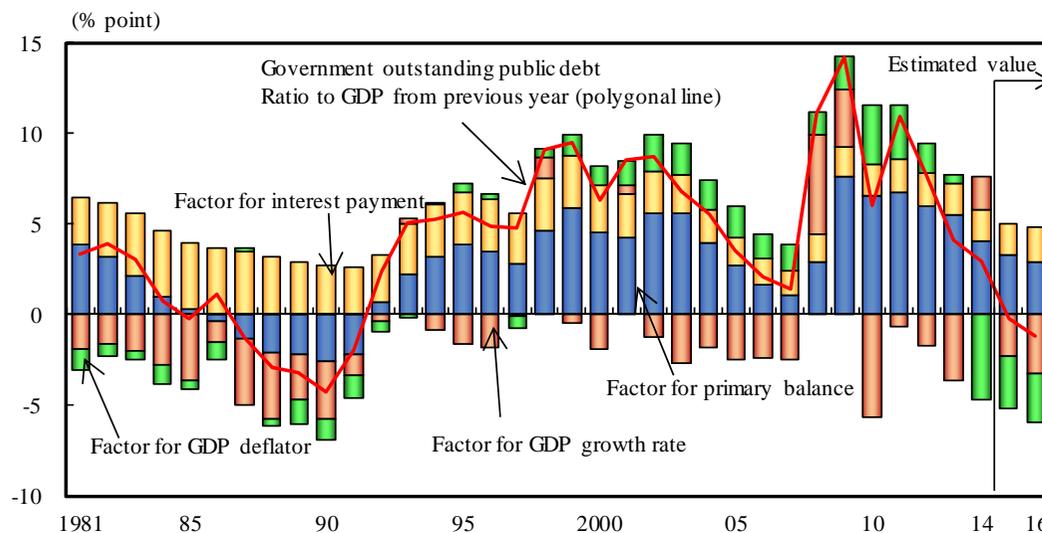
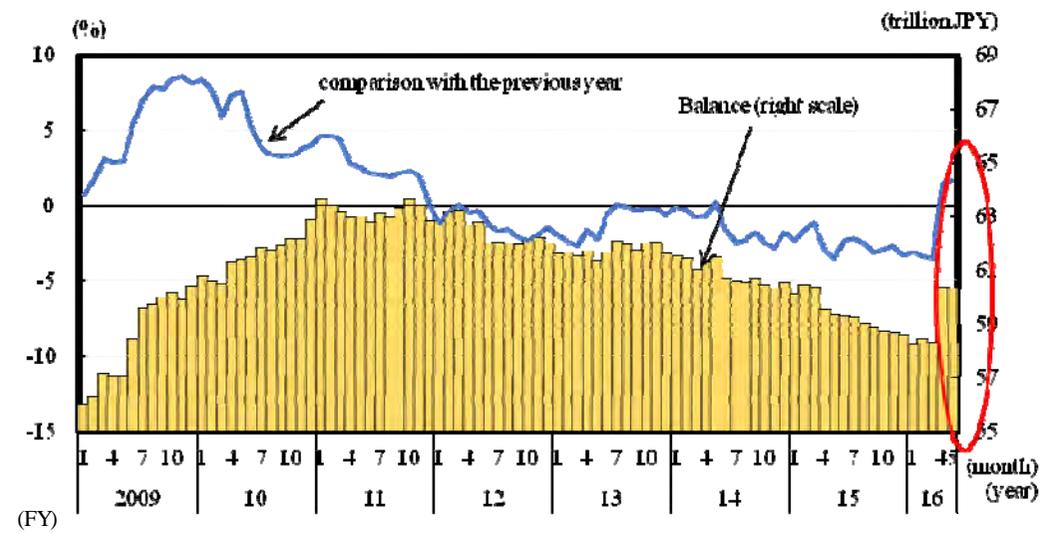


Figure 8 Outstanding issues of bonds



(Notes) (Left) Based on the System of National Accounts and Economic and Fiscal Projections for Medium to Long Term Analysis (January 2016), the Cabinet Office.  
 (Right) Based on Japan Securities Depository Center, Inc.