

The Japanese Economy and the 2018 Basic Policy

June 20, 2018

**Cabinet Office
Government of Japan**

Contents

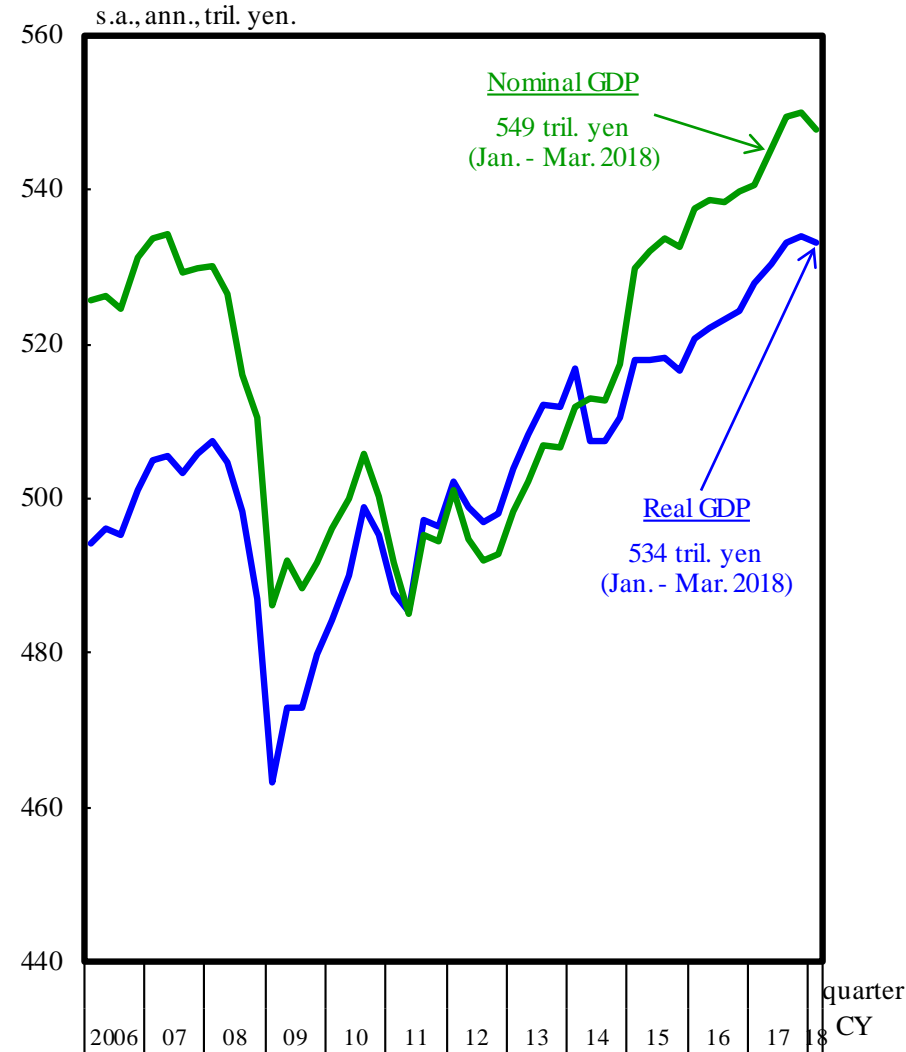
1. Recent Economic Developments and Challenges
2. Basic Policy on Economic and Fiscal Management and Reform 2018

GDP: Jan. – Mar. 2018 (Second Preliminary)

Changes and contributions to changes in real GDP (seasonally adjusted)

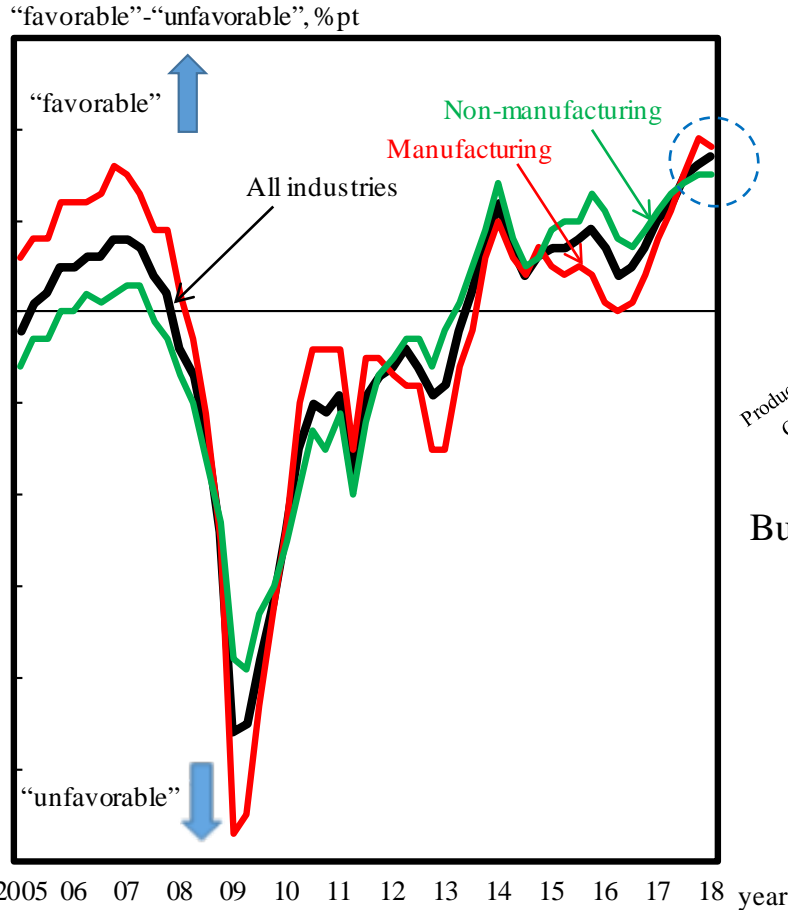
	FY2016	FY2017	2017				2018
			Jan. - Mar.	Apr. - Jun.	Jul. - Sep.	Oct. - Dec.	Jan. - Mar.
Real GDP growth rate [at annual rate]	1.2	1.6	0.7 [2.7]	0.5 [2.1]	0.5 [2.0]	0.3 [1.0]	-0.2 [-0.6]
Domestic Demand (Contributions)	(0.4)	(1.2)	(0.6)	(0.8)	(-0.0)	(0.4)	(-0.2)
Private Demand (Contributions)	(0.3)	(1.0)	(0.5)	(0.5)	(0.1)	(0.4)	(-0.2)
Private Consumption	0.3	0.9	0.6	0.7	-0.7	0.3	-0.1
Private Non-Resi. Investment	1.2	3.2	0.4	0.9	1.0	0.7	0.3
Private Residential Investment	6.2	-0.3	1.1	0.9	-1.6	-2.7	-1.8
Changes in Private Inventories	(-0.3)	(0.1)	(0.1)	(-0.1)	(0.4)	(0.2)	(-0.2)
Public Demand (Contributions)	(0.1)	(0.2)	(0.1)	(0.3)	(-0.1)	(-0.0)	(0.0)
Public Investment	0.9	1.4	0.0	4.7	-2.6	-0.4	-0.1
Net Exports (Contributions)	(0.8)	(0.4)	(0.1)	(-0.3)	(0.5)	(-0.1)	(0.1)
Exports	3.6	6.2	2.1	-0.1	2.0	2.2	0.6
Imports	-0.8	4.0	1.6	1.8	-1.3	3.1	0.3
Nominal GDP growth rate	1.0	1.7	0.1	0.9	0.8	0.2	-0.4
GDP Deflator <Year on Year>	<-0.2>	<0.1>	<-0.8>	<-0.3>	<0.1>	<0.1>	<-0.5>

Nominal and real GDP



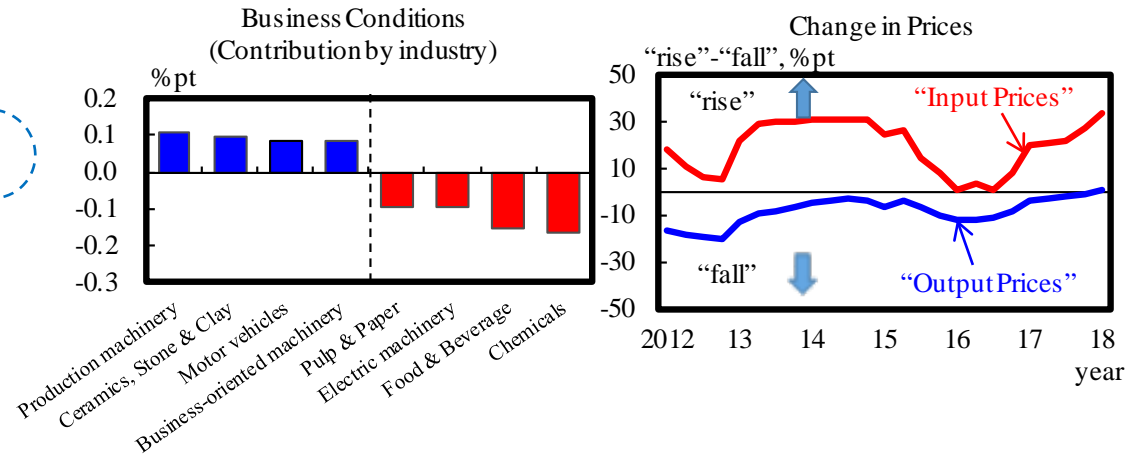
Business Conditions – “Tankan” Survey

Business Conditions

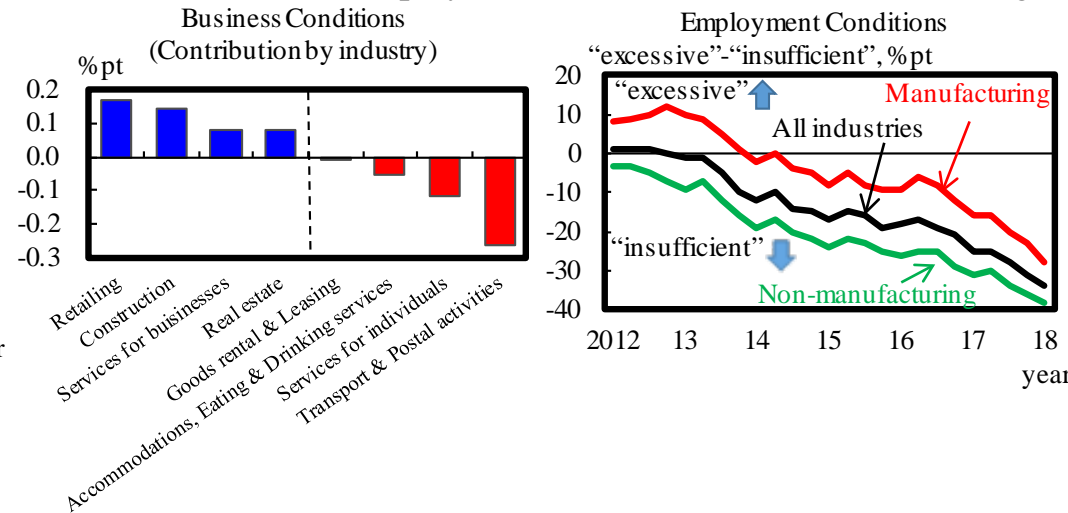


Source: Bank of Japan

Business Conditions and Change in Prices (Manufacturing)



Business Conditions and Employment Conditions (Non-manufacturing)



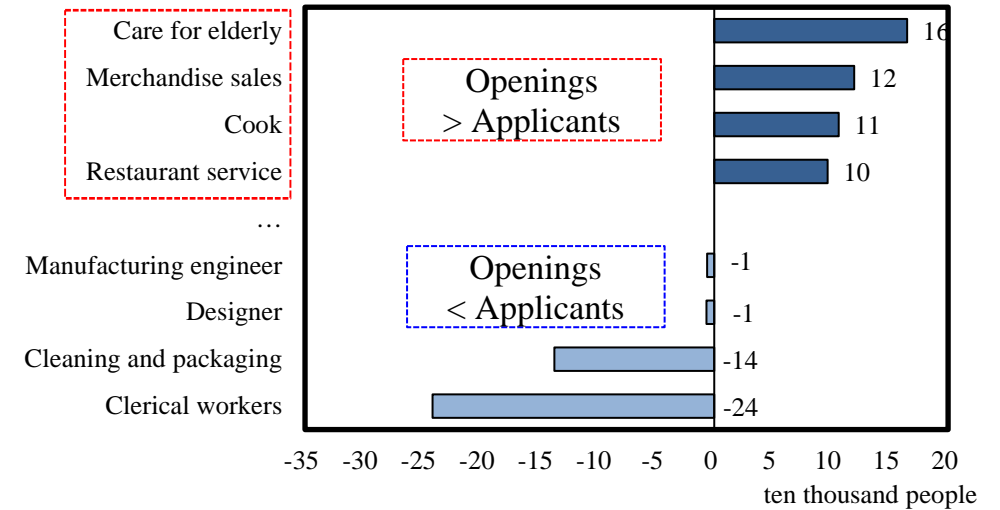
Labor Market

Unemployment rate and active job openings-to-applicants ratio



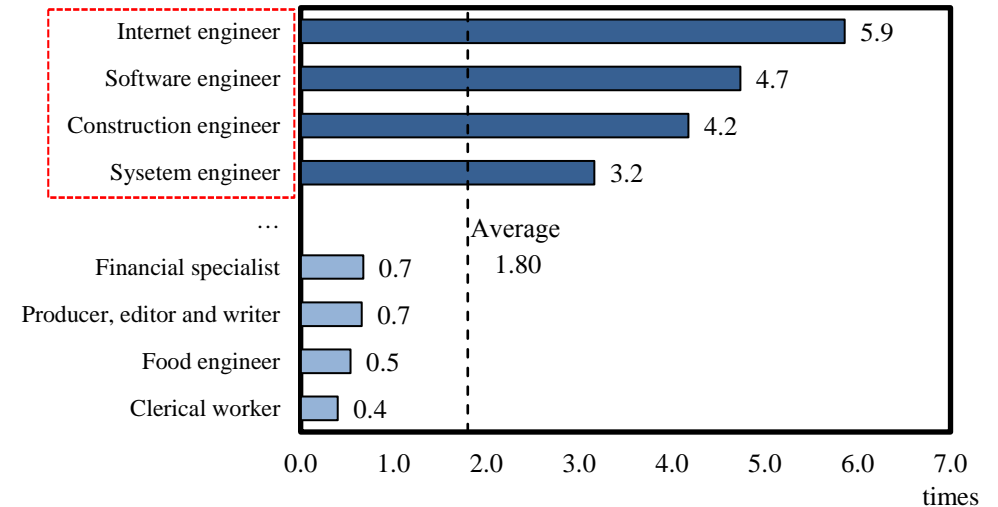
Sources: Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare.

Difference between active job openings and applicants in "Hello Work" (public employment service centers) [Jan.-Mar. 2018 average]



Source: Ministry of Health, Labour and Welfare.

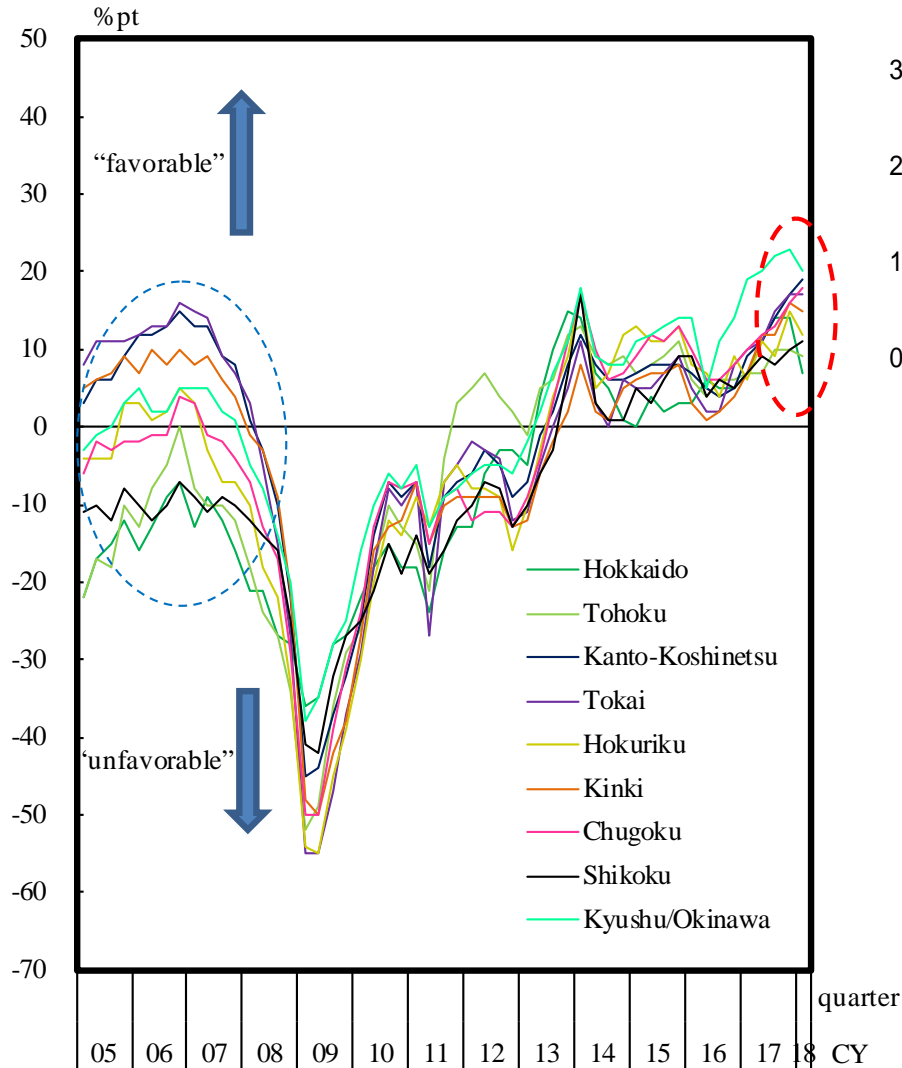
Job openings-to-applicants ratio in a private employment agency [Jan.-Mar. 2018 average]



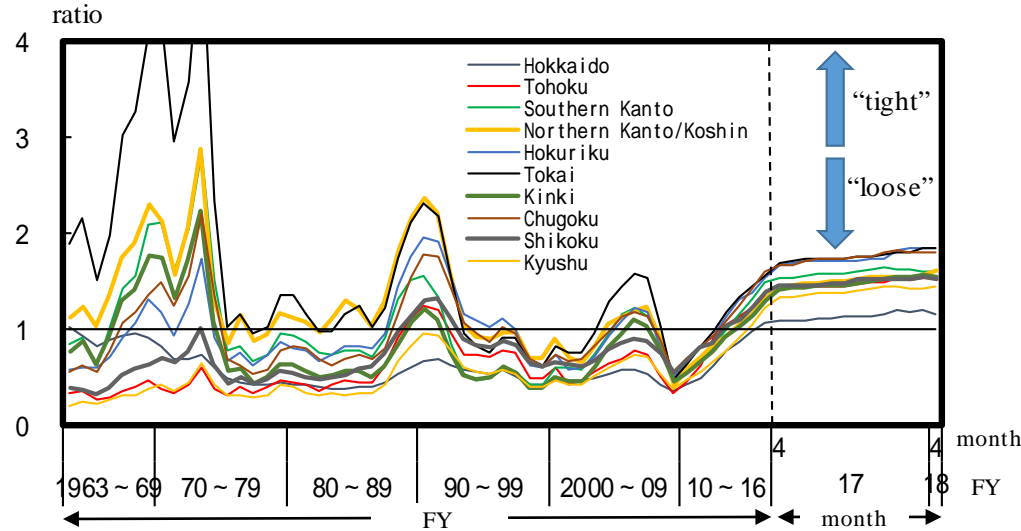
Source: Recruit Career Co., Ltd.

Regional Economy

Business conditions are improving and being converged. (“Tankan” survey)

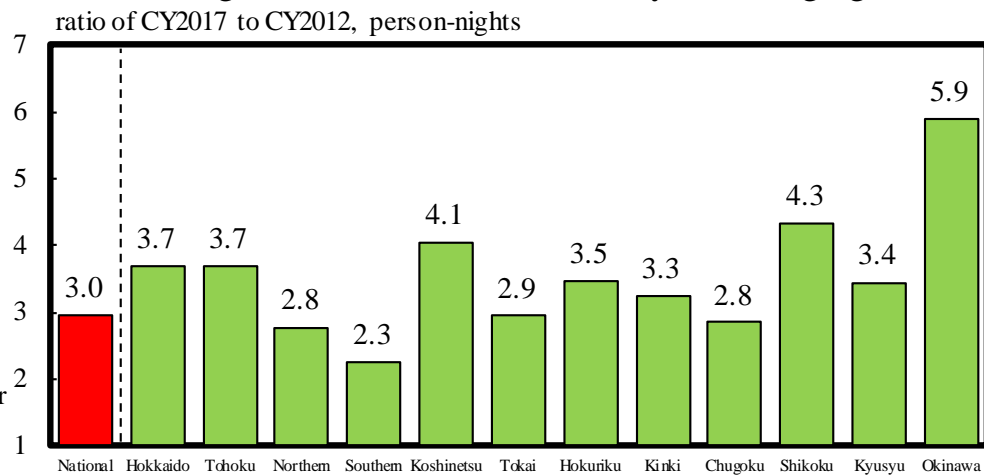


Labor markets of regional areas are tightened. (Active job openings-to-applicants ratio by region)



Source: Ministry of Health, Labour and Welfare

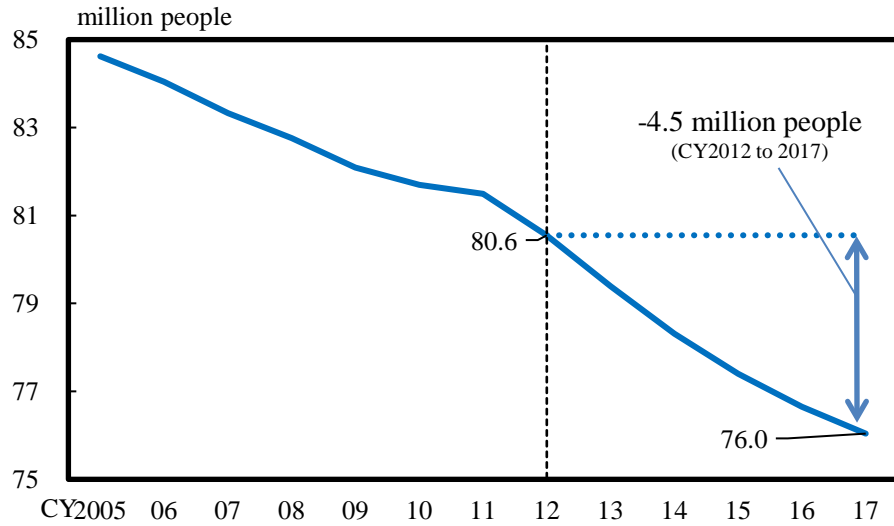
Inbound travellers are drastically increasing. (Changes in the total number of stays of foreign guests)



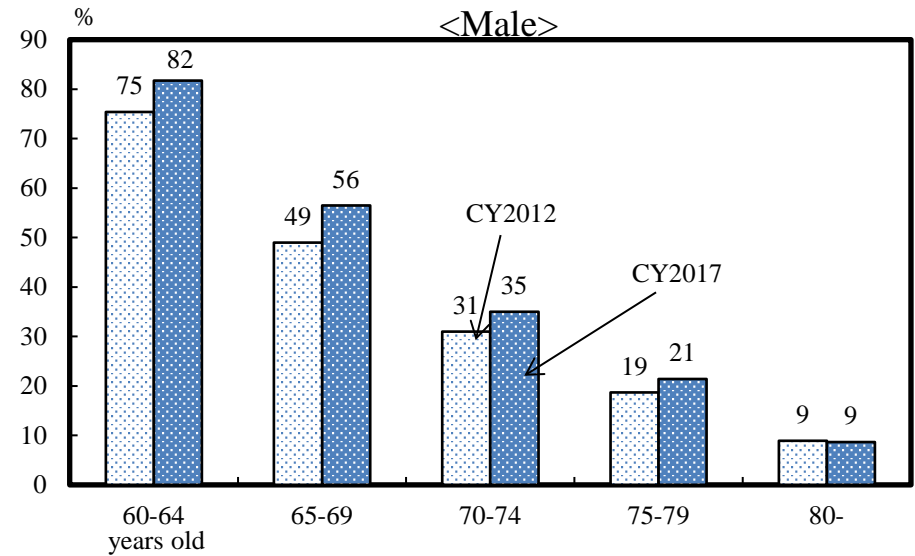
Source: Japan Tourism Agency

Human Resources (1) : Elderly

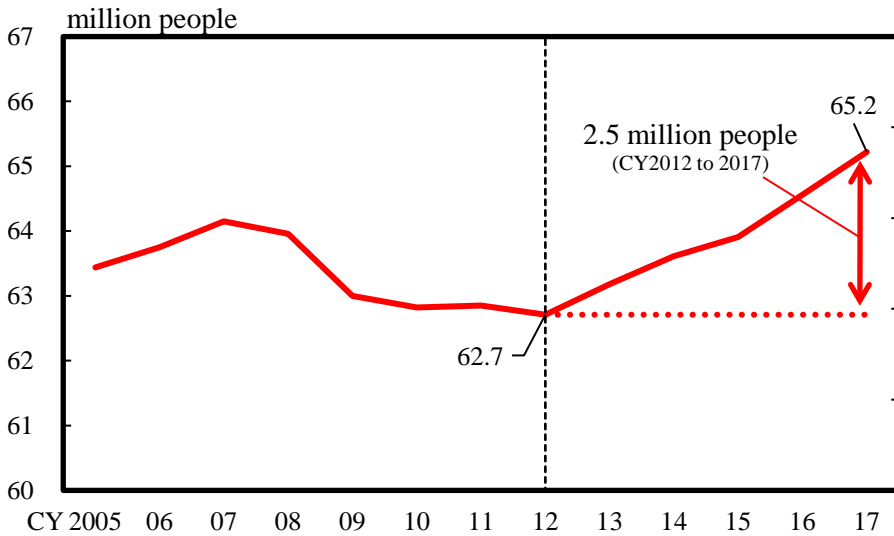
Working age population (from 15 to 64 years old)



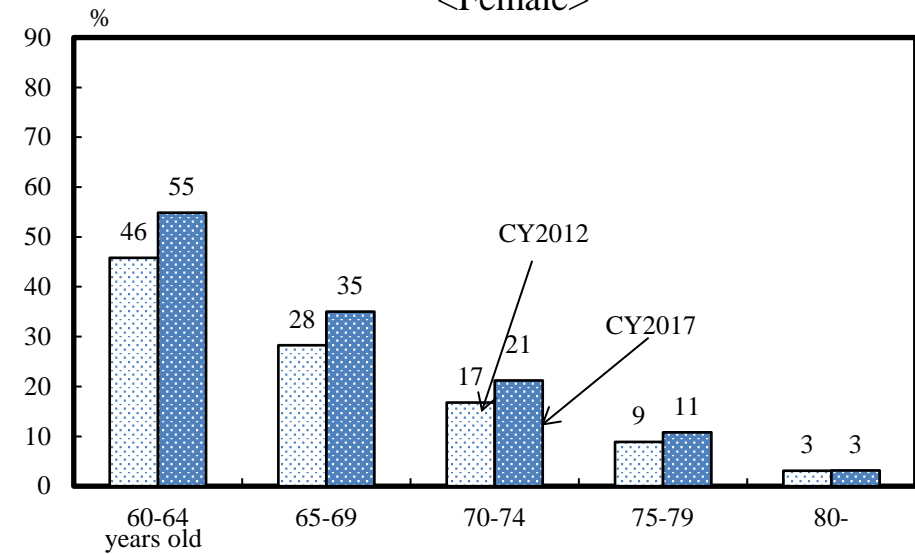
Labor participation rate of the elderly (by age)



Employed person



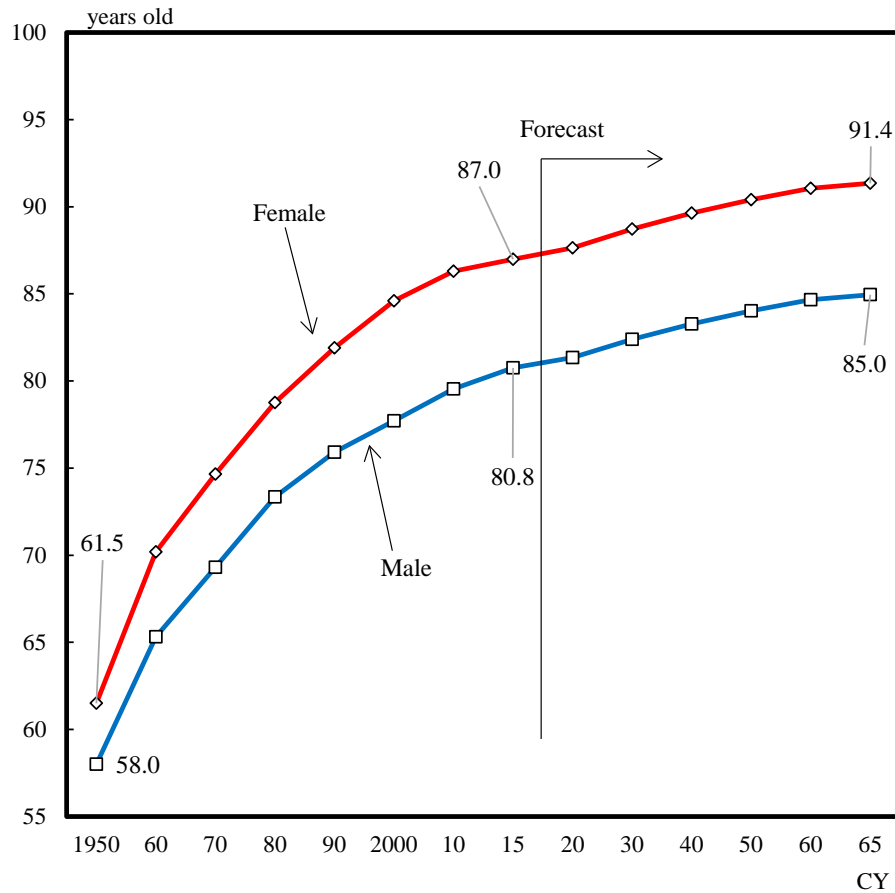
<Female>



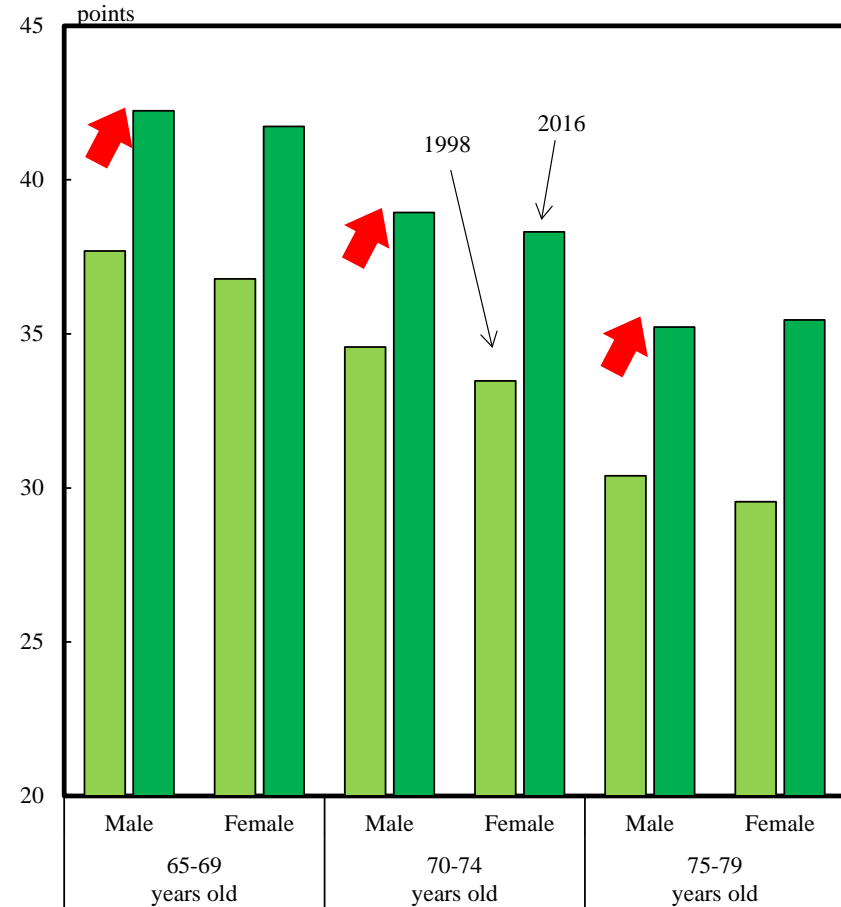
Source: Ministry of Internal Affairs and Communications.

Human Resources (2) : Longevity in Japan

Average life span



Scores of the elderly's physical strength test

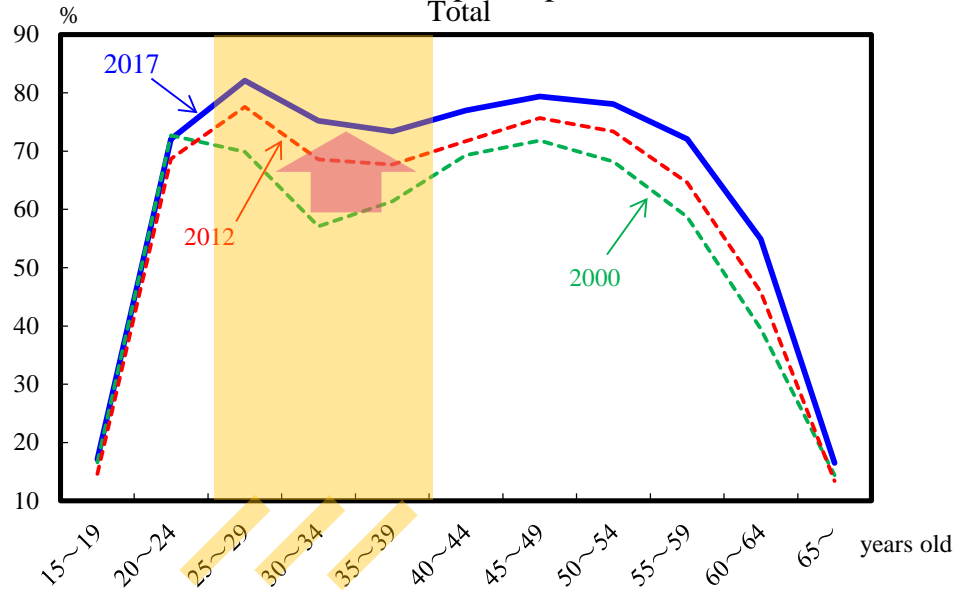


Sources: National Institute of Population and Social Security Research; Ministry of Education, Culture, Sports, Science and Technology

Note: Scores above are averages of six physical strength tests.

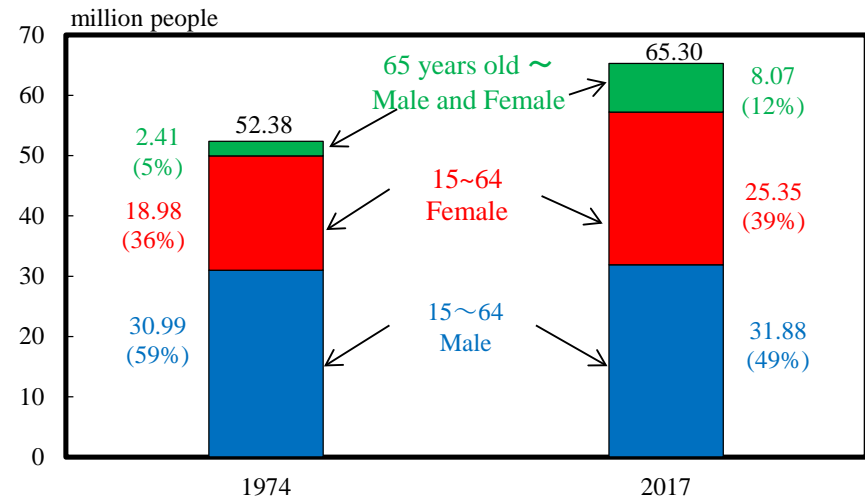
Human Resources (3) : Labor participation of Women

Female labor participation rate
Total



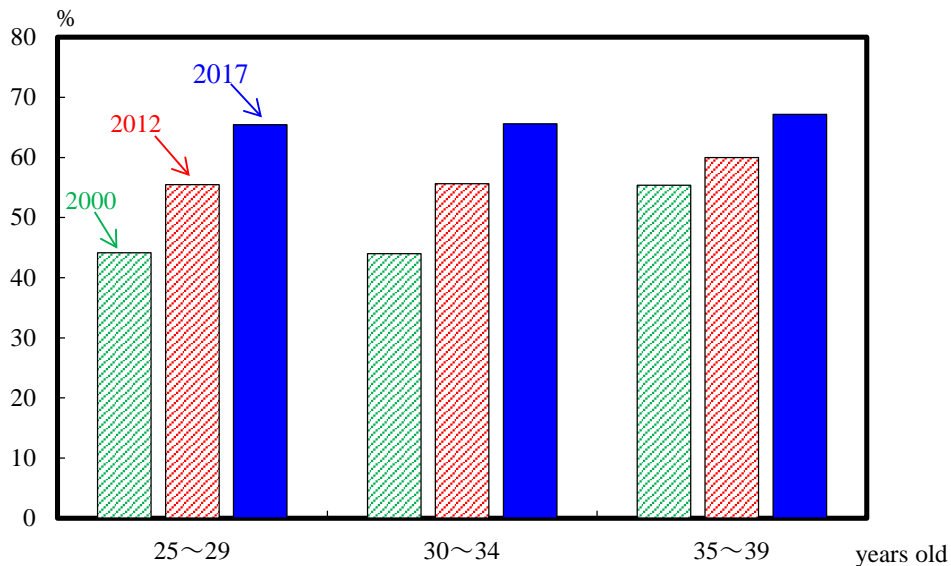
Source: Ministry of Internal Affairs and Communications

Composition of employees : Increase in female and elderly



Source: Ministry of Internal Affairs and Communications

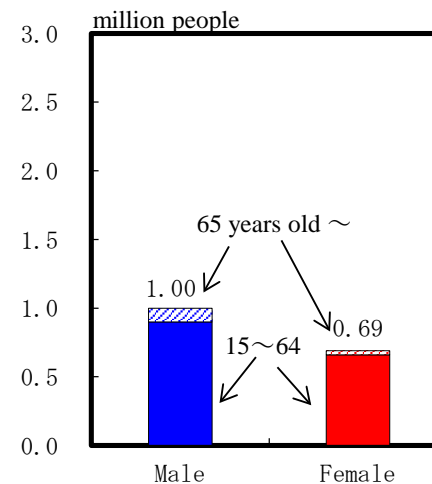
Labor participation rate of married female



Source: Ministry of Internal Affairs and Communications

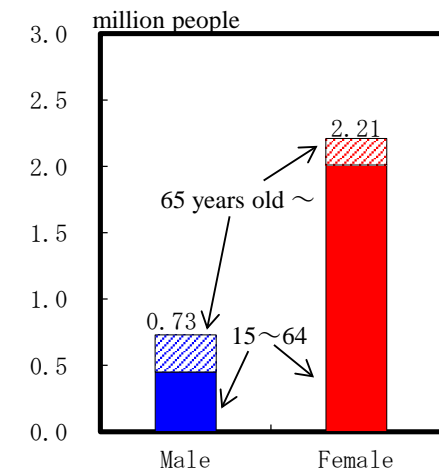
Not-in-work population

Number of unemployed persons

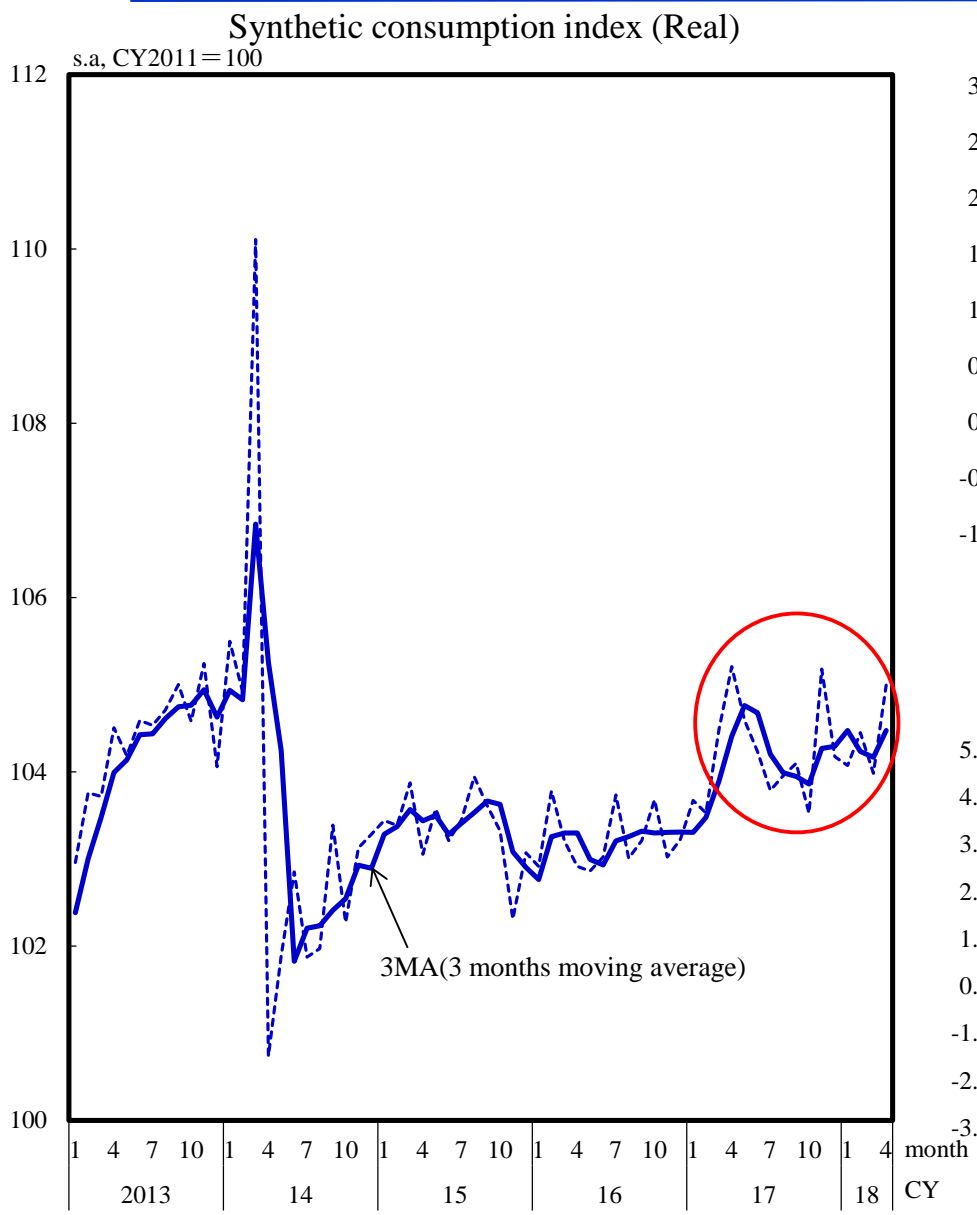


Source: Ministry of Internal Affairs and Communications

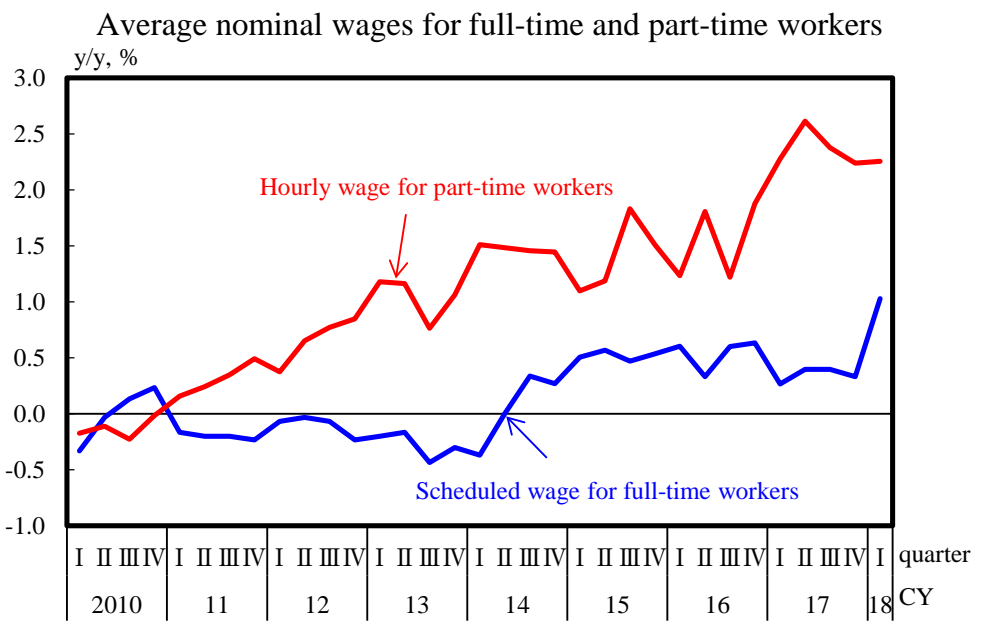
Not-in-labourforce persons who want to work



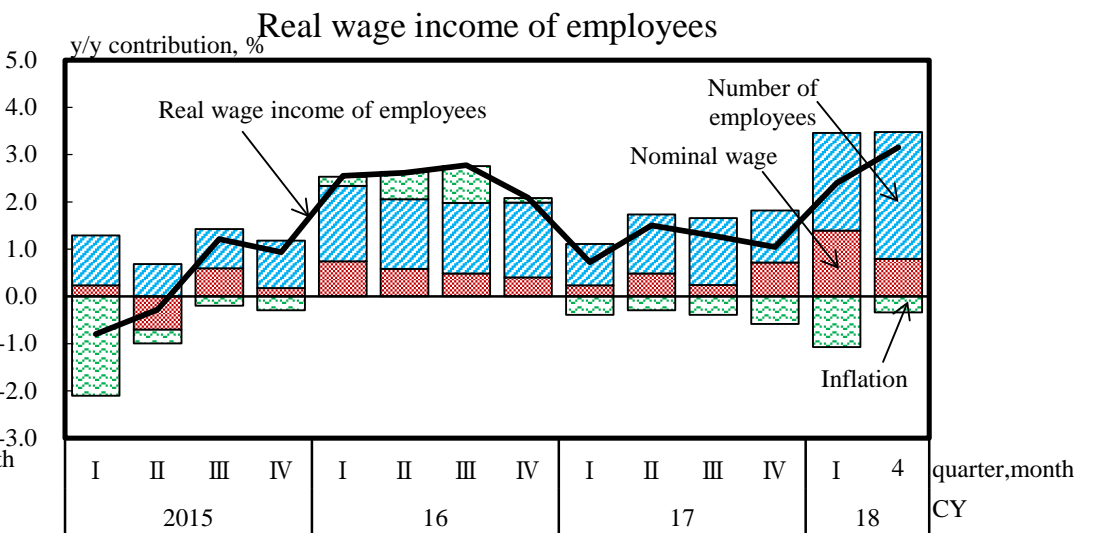
Private Consumption and Wages



Source: Cabinet Office



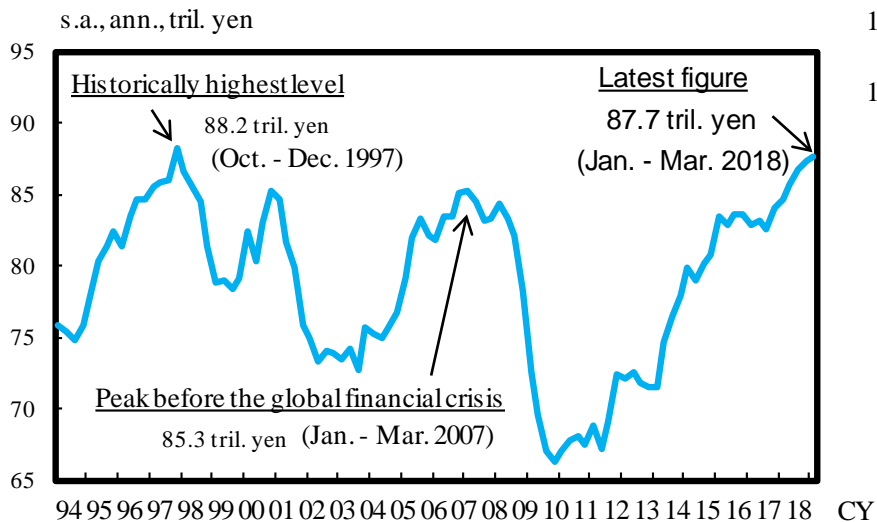
Source: Ministry of Health, Labor and Welfare



Sources: Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare; Cabinet Office

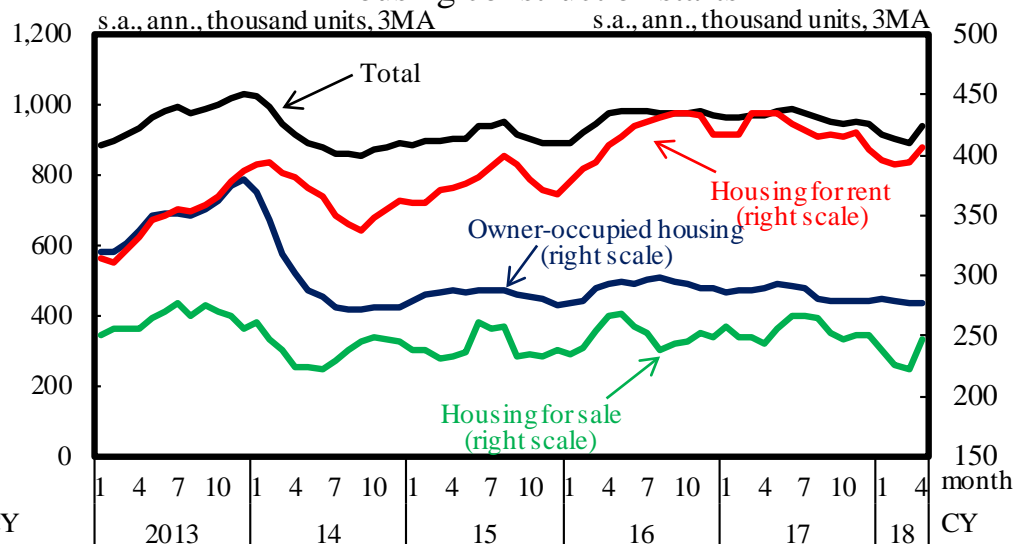
Investment

Business investment in nominal GDP



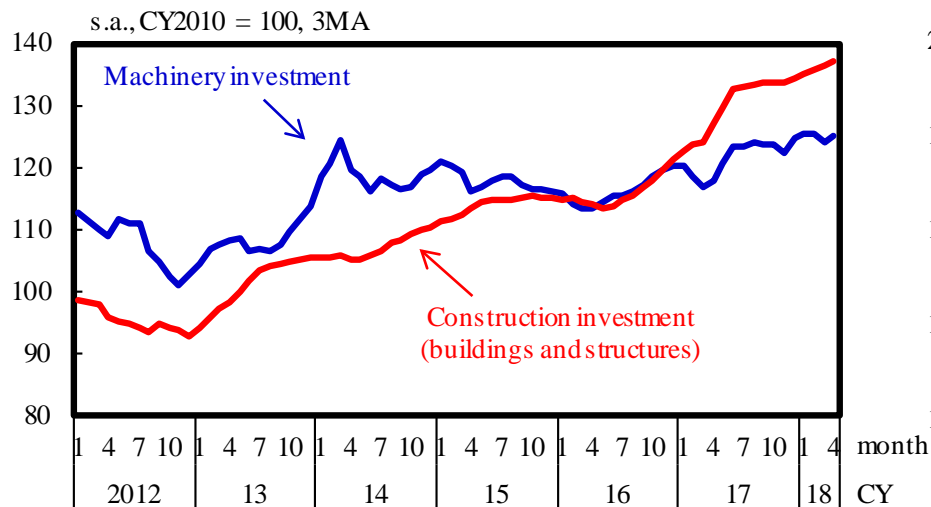
Source: Cabinet Office

Housing construction starts



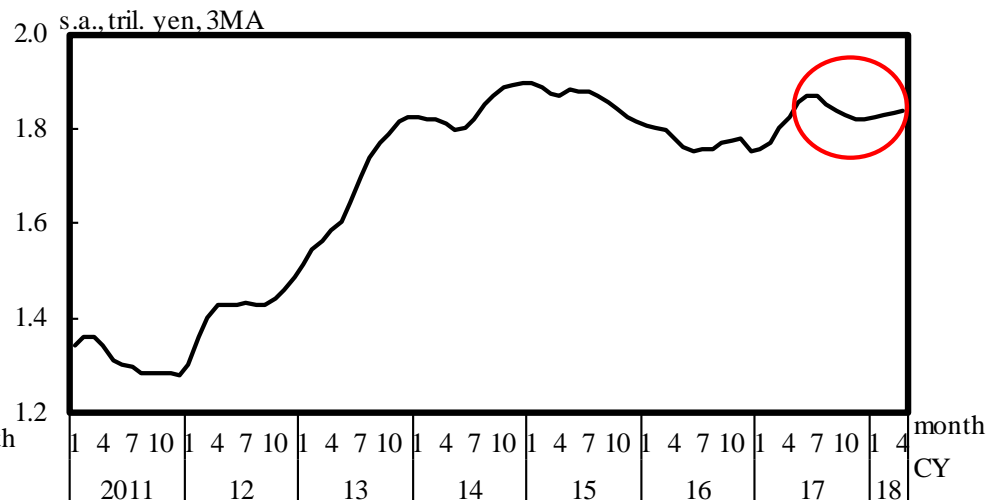
Source: Ministry of Land, Infrastructure, Transport and Tourism

Machinery and construction investment



Sources: Ministry of Economy, Trade and Industry; Ministry of Land, Infrastructure, Transport and Tourism

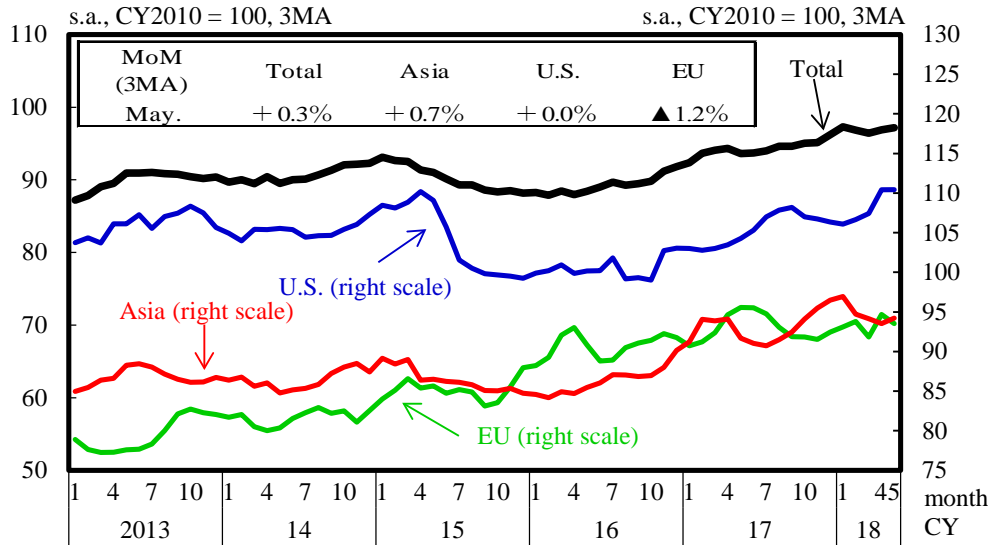
Amount of public construction completed



Source: Ministry of Land, Infrastructure, Transport and Tourism

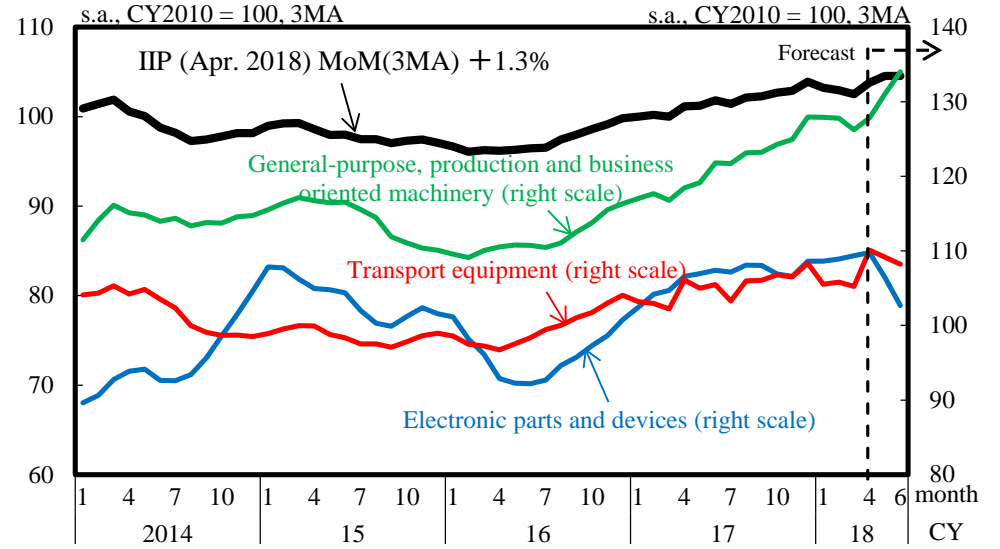
Exports, Industrial Production and Corporate Profits

Exports volume index by region



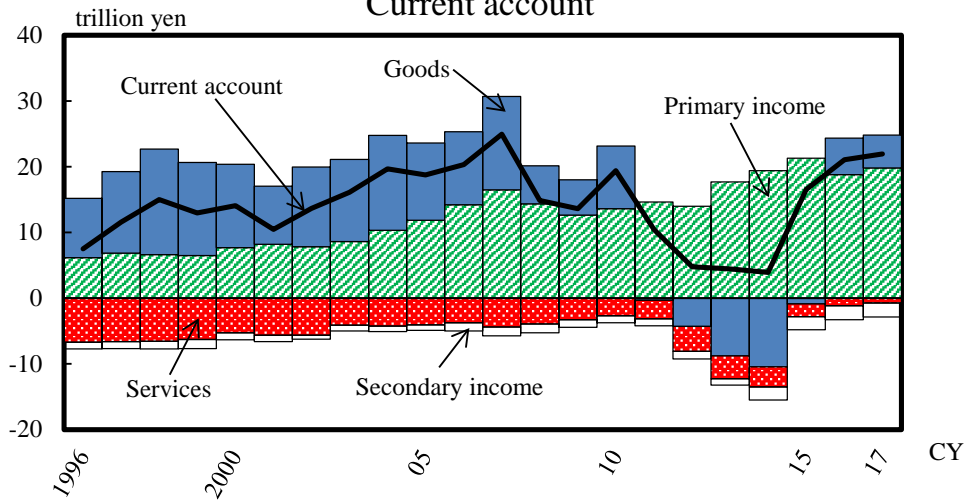
Source: Ministry of Finance

Production by industry



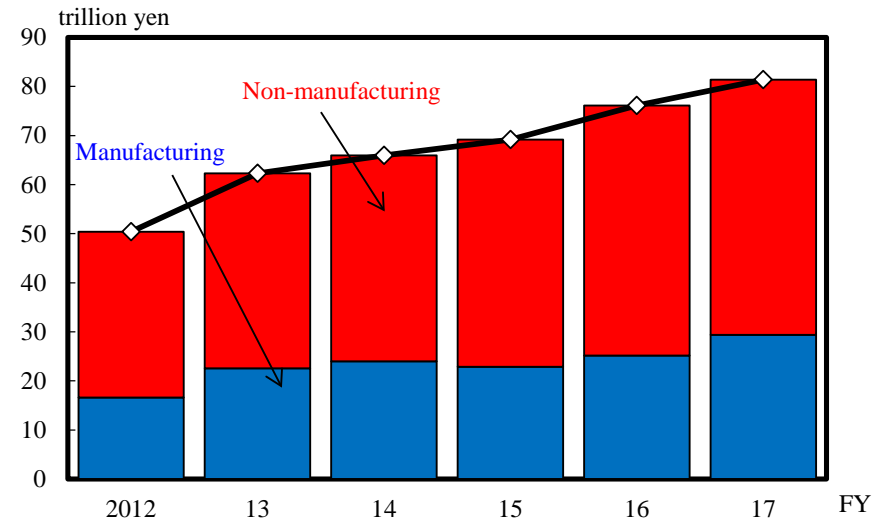
Source: Ministry of Economy, Trade and Industry

Current account



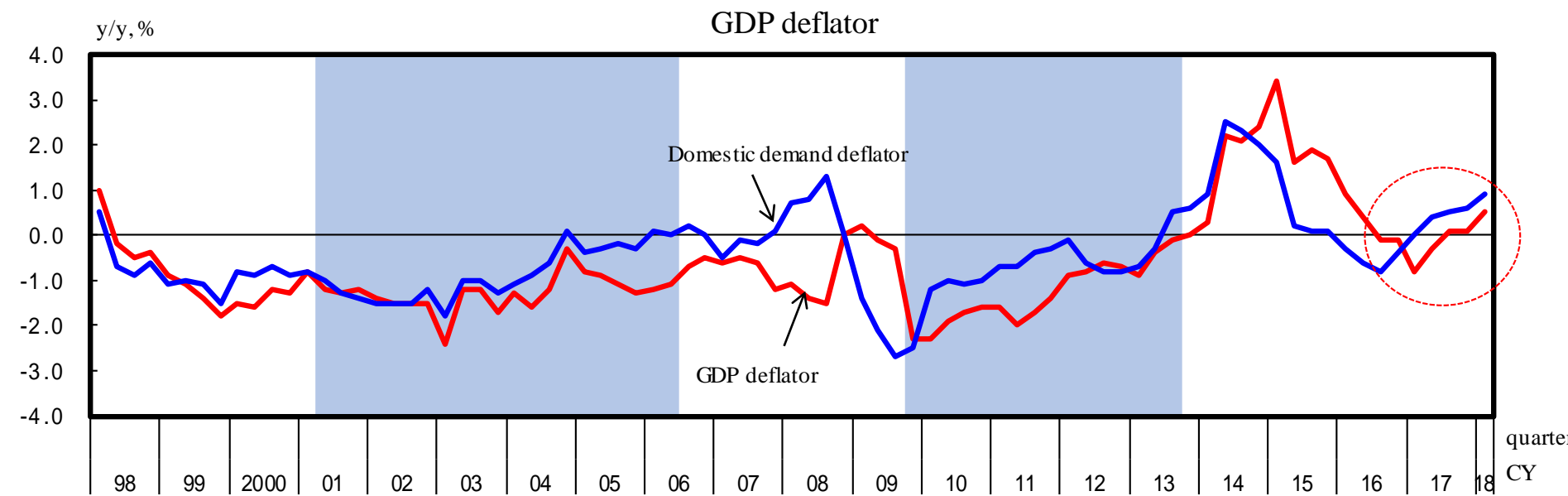
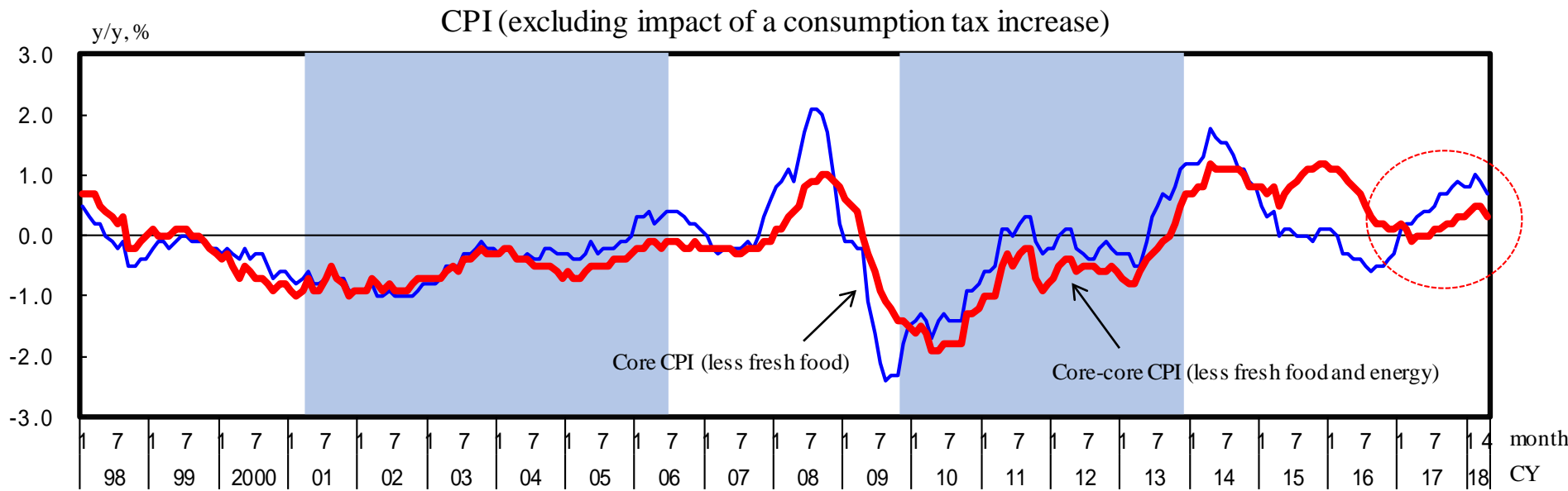
Source: Ministry of Finance, Bank of Japan

Current Profits



Source: Ministry of Finance

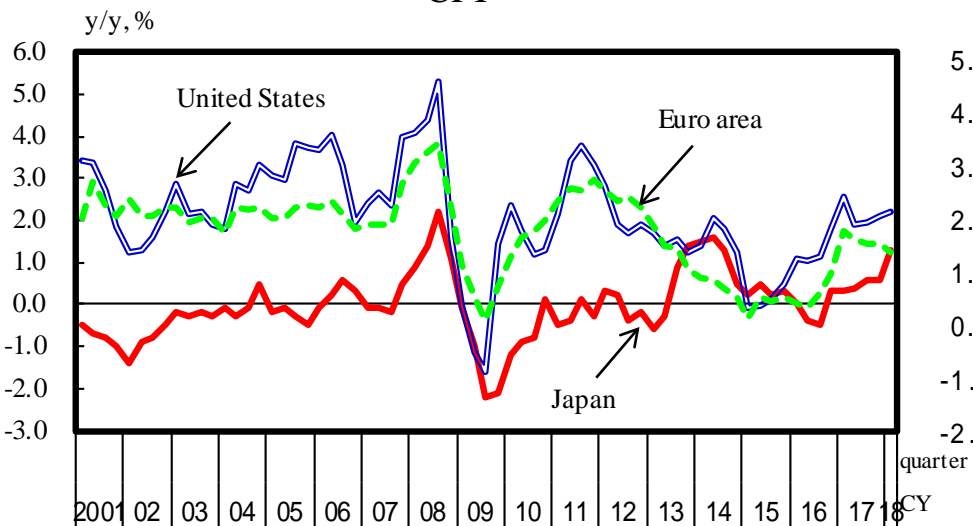
Prices (1)



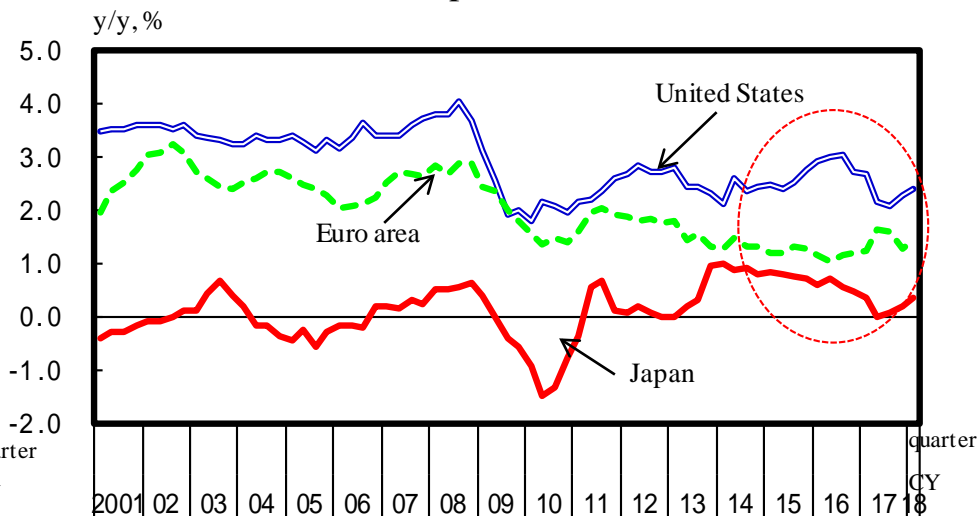
Note: Shaded areas indicate the periods when the term "deflation" was used in the Monthly Economic Report.
Sources: Ministry of Internal Affairs and Communications; Cabinet Office.

Prices (2)

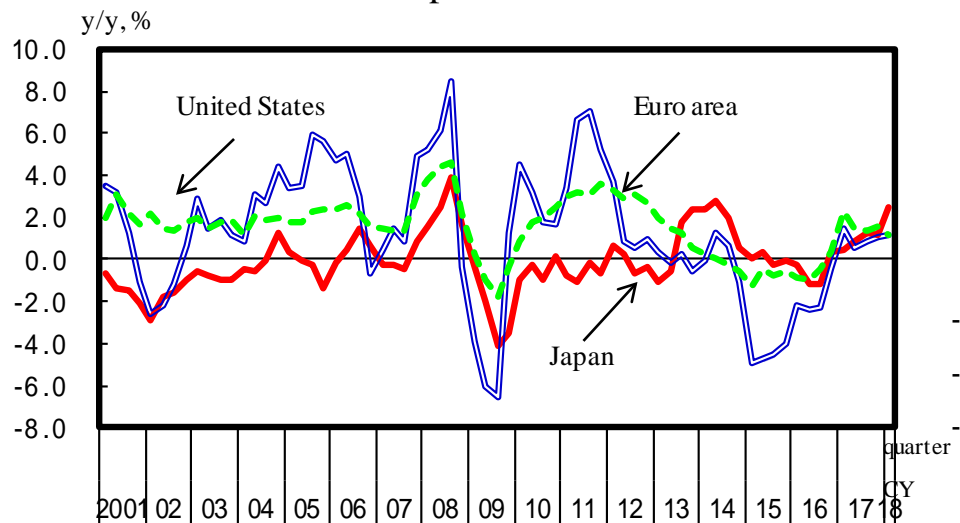
CPI



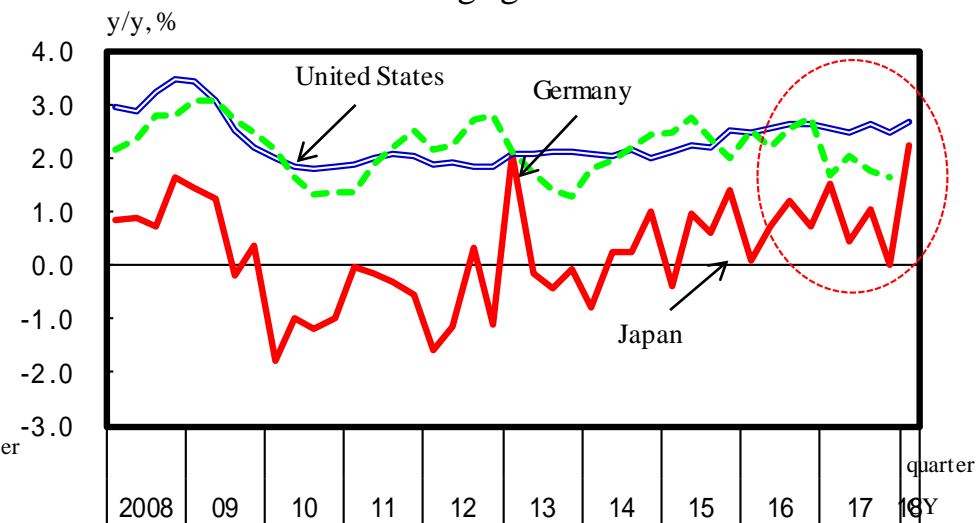
Service prices in CPI



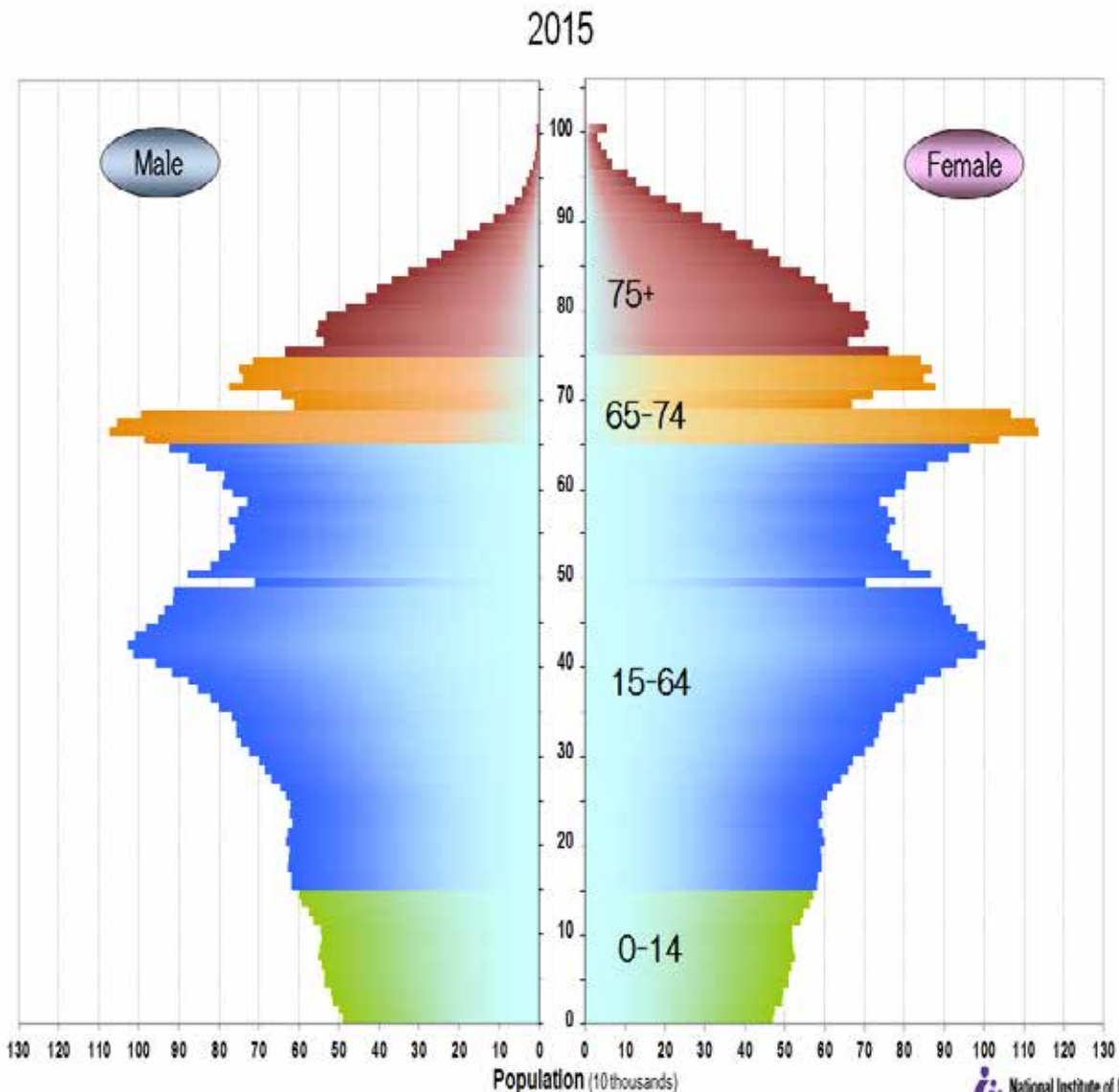
Goods prices in CPI



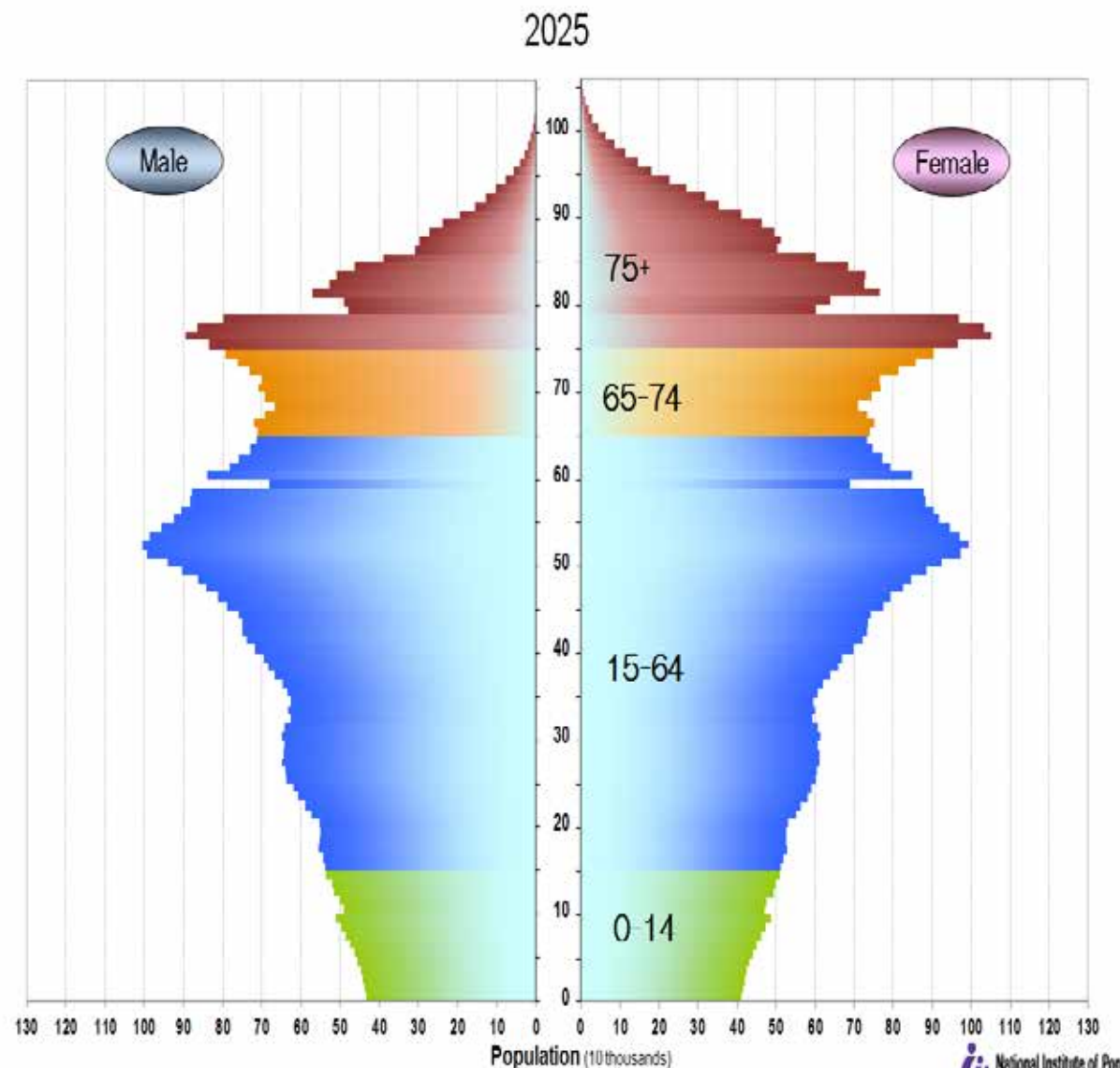
Wage growth



Population Pyramids of Japan



Source : Census (1965-2015) and "Population Projection for Japan : 2016-2065"(Medium-fertility (medium-mortality) projection)



Source : Census (1965-2015) and "Population Projection for Japan : 2016-2065"(Medium-fertility (medium-mortality) projection)

“Basic Policy on Economic and Fiscal Management and Reform 2018”

(Cabinet Decision on 15 June 2018)

Chapter 1. Recent Developments of the Japanese Economy

1. Current situation, challenges and policy directions of the Japanese economy

(1) Current situation and challenges of the Japanese economy

(2) Policy directions

- ∅ Boosting growth potential
- ∅ Consumption Tax hike and smoothing demand fluctuations
- ∅ Commitment to new fiscal consolidation targets compatible with economic growth
- ∅ Revitalization of regional economies

2. Recovery from major disasters

Chapter 2. Policy Priorities to Achieve Robust Economic Growth

1. Human Resource Development Revolution

(1) Investment in human resources

- Ø Free preschool education
- Ø Free tertiary education for low-income households
- Ø University/college reform
- Ø Recurrent education

(2) Dynamic engagement of diverse human resources

- Ø Empowerment of women
- Ø Promotion of employment of elderly people
- Ø Promotion of employment of people with disabilities

2. Productivity Revolution

(1) Basic ideas

(2) The Fourth Industrial Revolution and the “Society 5.0”

(3) Priority areas to realize “Society 5.0” and the “Flagship Projects”

- Ø Next generation mobility system
- Ø Next generation healthcare system
- Ø Energy transformation, ESG investment, FinTech and cashless society
- Ø “Digital government” projects
- Ø Smart agriculture, smart city, SME policy

(4) Creating a foundation for revamping economic structure

- Ø Providing common infrastructures for the data-driven society
- Ø Bold regulatory and institutional reforms

(5) Early establishment of an innovation eco-system

(6) A new framework for promoting the Growth Strategy

3. Work Style Reform

- (1) Correcting long working hours
- (2) Realizing equal pay for equal work
- (3) Introducing the High-level Professional System
- (4) Raising minimum wages

4. Acceptance of Foreign Workers

- (1) Introducing new visa categories to accept foreign workers with certain level of expertise and skills
- (2) Further promotion of accepting foreign workers under the existing system
- (3) Improving the environment for accepting foreign workers

5. Other Important Policies

- (1) Regulatory reforms
- (2) Promotion of investment and innovation
- (3) Promotion of economic partnerships
- (4) Regional revitalization etc.

Chapter 3. Promotion of the Integrated Economic and Fiscal Reforms

1. Progress and Assessment of the Integrated Economic and Fiscal Reforms
2. Consumption Tax hike on October 1, 2019 and smoothing demand fluctuations
 - (1) Changing the usage of the additional revenue from the Consumption Tax hike
 - (2) Implementing the Reduced Consumption Tax Rate System
 - (3) Measures to smooth demand fluctuations
 - (4) Measures to smooth demand for durable goods
3. Formulating The New Economic and Fiscal Revitalization Plan
 - (1) Basic Idea
 - “Without economic revitalization, there can be no fiscal consolidation”
 - Reform implementation plan will be formulated by the end of 2018.

(2) Fiscal consolidation targets

Ø Fiscal consolidation targets

- Achieving a primary surplus of the central and local governments combined in FY 2025.
- Maintaining the aim of steadily reducing the public debt to GDP ratio.

Ø Strengthening the foundations for achieving economic and fiscal sustainability by social security reforms between FY 2019 and FY 2021

Ø Linking the fiscal consolidation targets and the annual budget process

Ø Interim indicators (benchmarks) to track the progress in FY 2021

- Approximately 1.5% of the primary deficit to GDP ratio (half of that in FY 2017), lower 180% range of public debt to GDP ratio, and less than 3% of fiscal deficit to GDP ratio.

- Ø Further efforts towards realization of the plan
 - Social security reform in FY2020
 - Assess the progress of the reform at the midpoint of the new plan in FY 2021 and reflect that in expenditure and revenue reforms to achieve a primary surplus in FY 2025.

4. Basic Ideas and Key Challenges of Major Policy Areas

(1) Social security

(2) Social infrastructure

(3) Local government reform

(4) Education, science and technology

(5) Tax reforms, scaling back government asset and liabilities

5. Acceleration and Expansion of Policies towards Expenditure Reforms

Chapter 4. Economic and Fiscal Management and Basic Stance of the FY 2019 Budget