

Japanese Economy and Reform Policy Measures

February, 2018

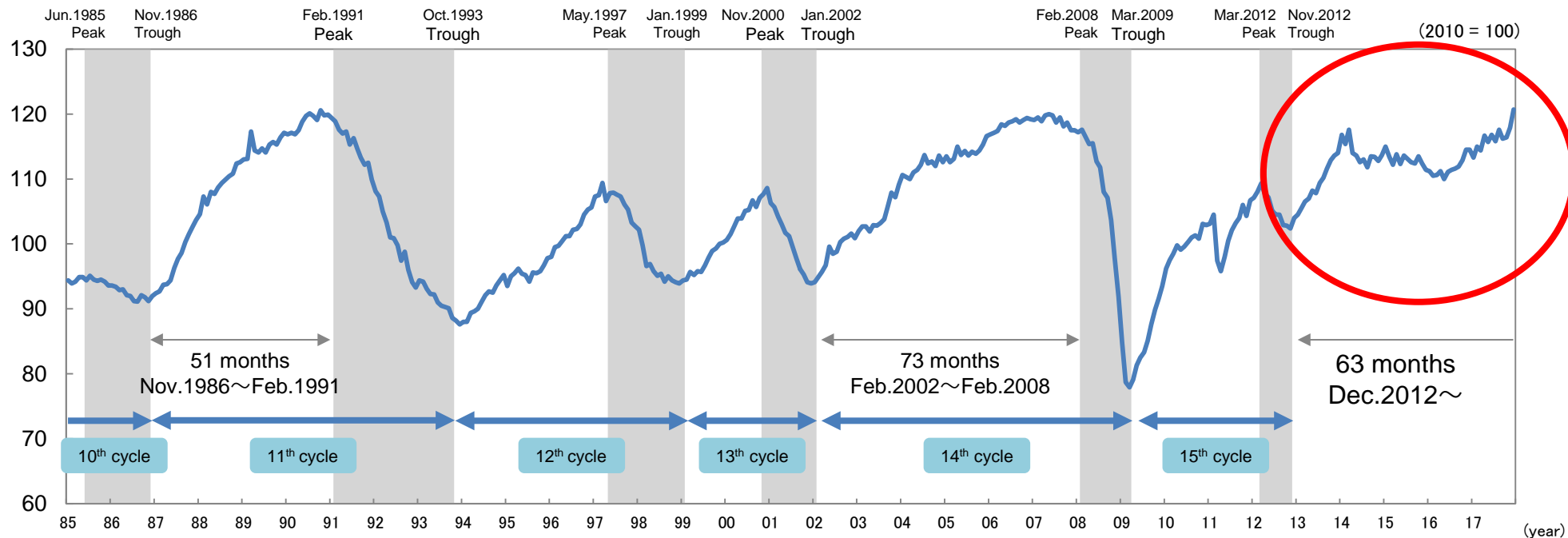
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- 1. Review of the Japan's Economic Recovery to Date**
 2. Sustainability of the Current Expansionary Phase
 3. New Growth Strategy

Business cycle

<Indexes of Business Conditions (Contractions are shown by shadow)>

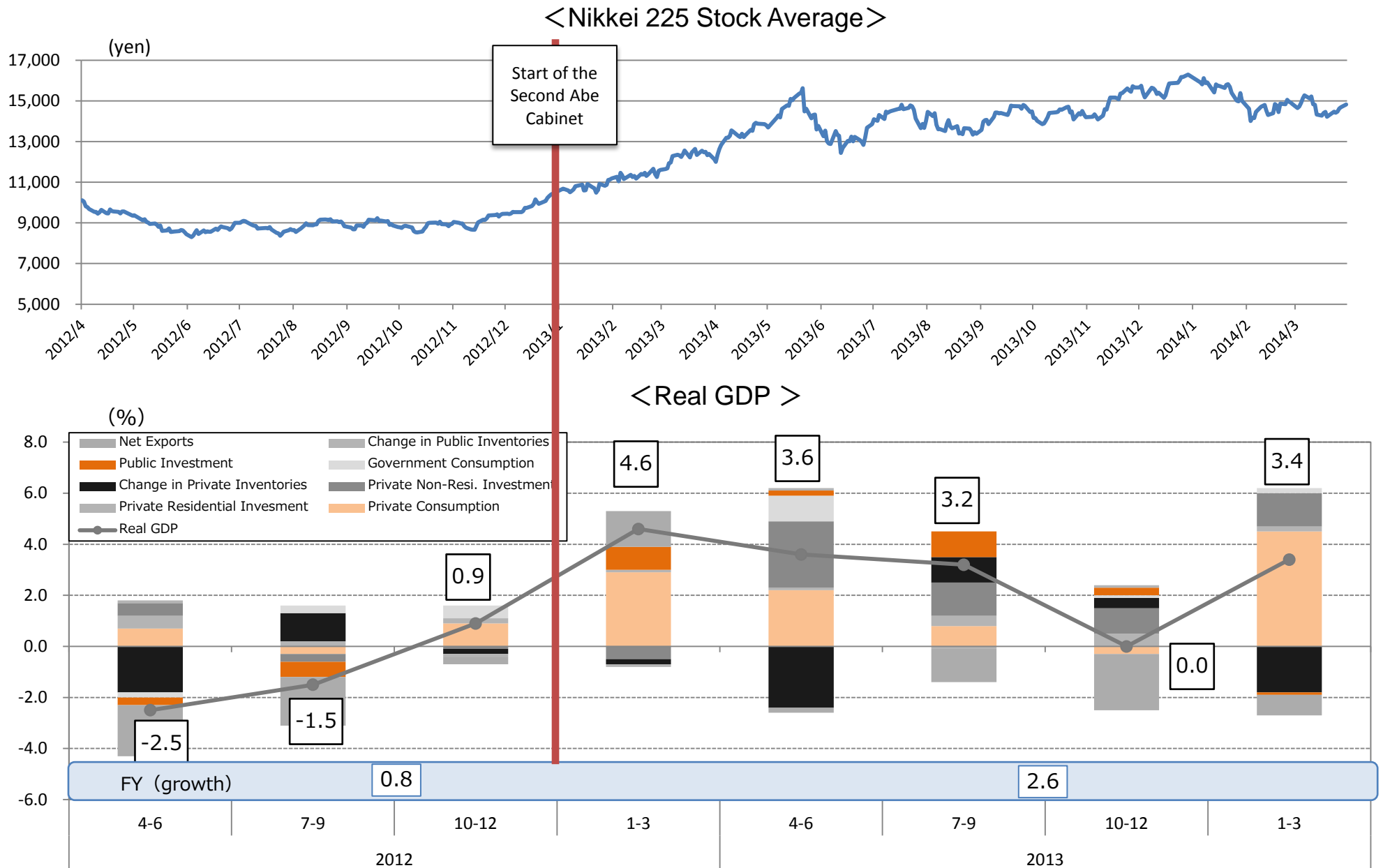


<The length of the past expansions>

	Period	
1st	73 months	Feb. 2002 - Feb. 2008
2nd	57 months	Nov. 1965 - Jul. 1970
3rd	51 months	Dec. 1986~Feb. 1991 (Bubble Boom)

63 months
Dec. 2012~present
(As of Feb. 2018)

Start of the current recovery session



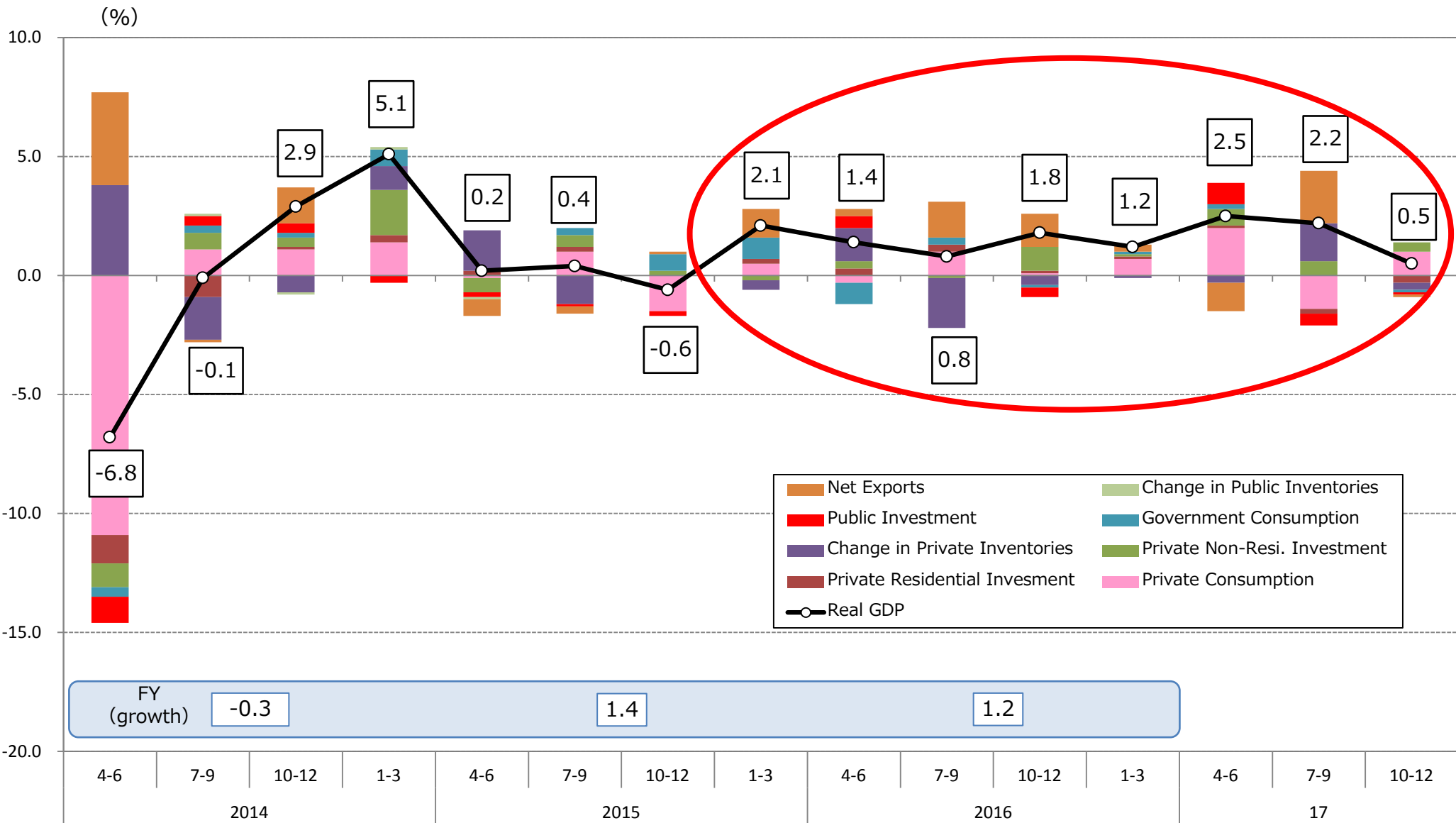
Source: Cabinet Office (2017 4Q 1st preliminary)

※ Contributions to Quarter-to-Quarter Percent Change in GDP, Annualized

USD/JPY Exchange Rates



Real GDP growth (FY2014~)



Source: Cabinet Office (2017 4Q 1st preliminary)

※ Contributions to Quarter-to-Quarter Percent Change in GDP, Annualized

Solid fundamentals...

	Units	Pre-Abenomics
Nominal GDP	JPY (trillion)	493.0 (Oct.-Dec. 2012)
Consumption (Private consumption integrated estimates)	2011=100	102.3 (Dec. 2012)
Unemployment rate	%	4.3 (Dec. 2012)
Active job openings to applicants ratio	times	0.83 (Dec. 2012)
Corporate profits	JPY (trillion)	48.5 = 9.8% of GDP (FY2012)
Capital investment	JPY (trillion)	34.4 = 6.9% of GDP (FY2012)
Business conditions (Large enterprises, Manufacturing)	Diffusion index, %pt	-12 (Dec. 2012)
Indices of industrial production	2010=100	94.7 (Dec. 2012)
Nikkei 225 Stock average	JPY	10,230 (Dec. 26 th 2012)



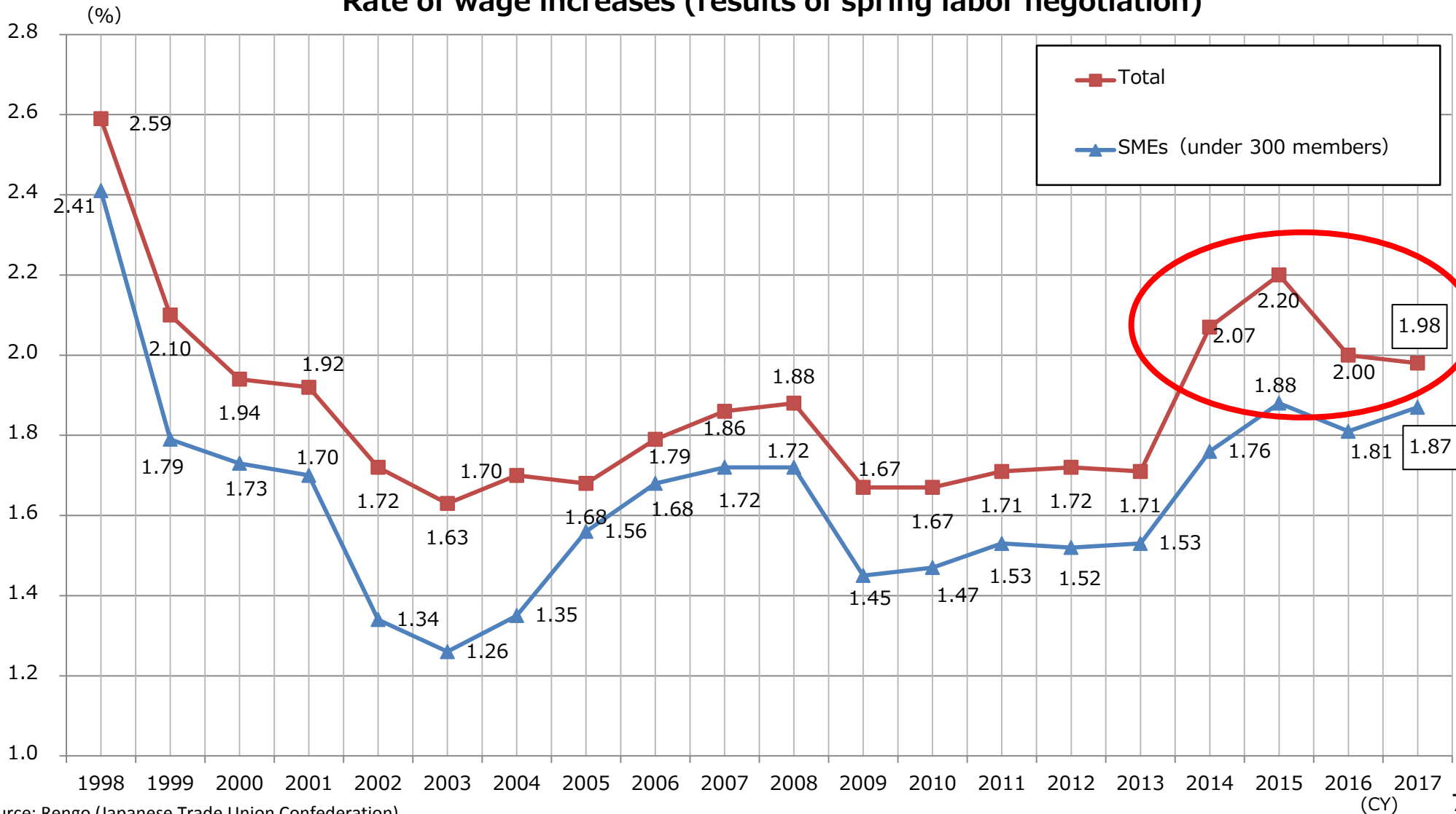
Current	Notes
548.7 (Oct.-Dec. 2017)	Record high level
104.2 (Dec. 2017)	
2.8 (Dec. 2017)	Lowest level in about 24 years
1.59 (Dec. 2017)	More than 1.0 in all prefectures
75.0 = 13.9% of GDP (FY2016)	Record high level
42.7 = 7.9% of GDP (FY2016)	Recovering the pre-global financial crisis level
25 (Dec. 2017)	Highest level in 11 years
106.5 (Dec. 2017)	
21,970 (Feb 21 st 2018)	

Source: Cabinet Office "National Accounts" "Private Consumption Integrated estimates", Ministry of Internal Affairs and Communications "Labor Force Survey", Ministry of Health, Labour and Welfare "Employment referrals for general workers", Ministry of Finance "Financial Statements Statistics of Corporations by Industry", Bank of Japan "TANKAN", Ministry of Economy, Trade and Industry "Indices of Industrial Production", Bloomberg "the Nikkei Stock Average".

Solid fundamentals

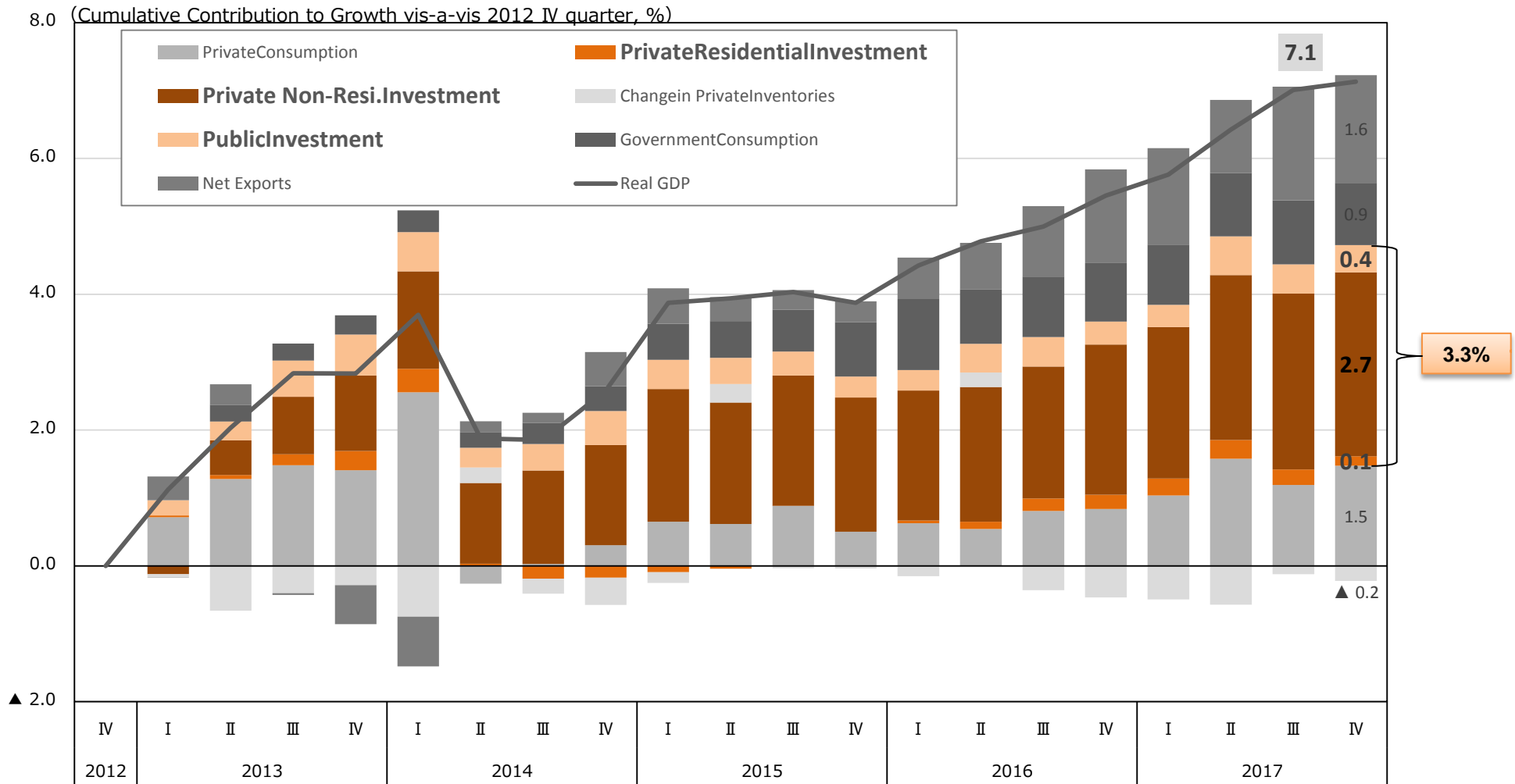
○ Rate of wage hikes in 2017 (Total) 1.98% (SMEs) 1.87% (Rate of wage hikes in 2016 : (Total) 2.00% (SMEs) 1.81%)

Rate of wage increases (results of spring labor negotiation)



Source: Rengo (Japanese Trade Union Confederation)

Growth driver?



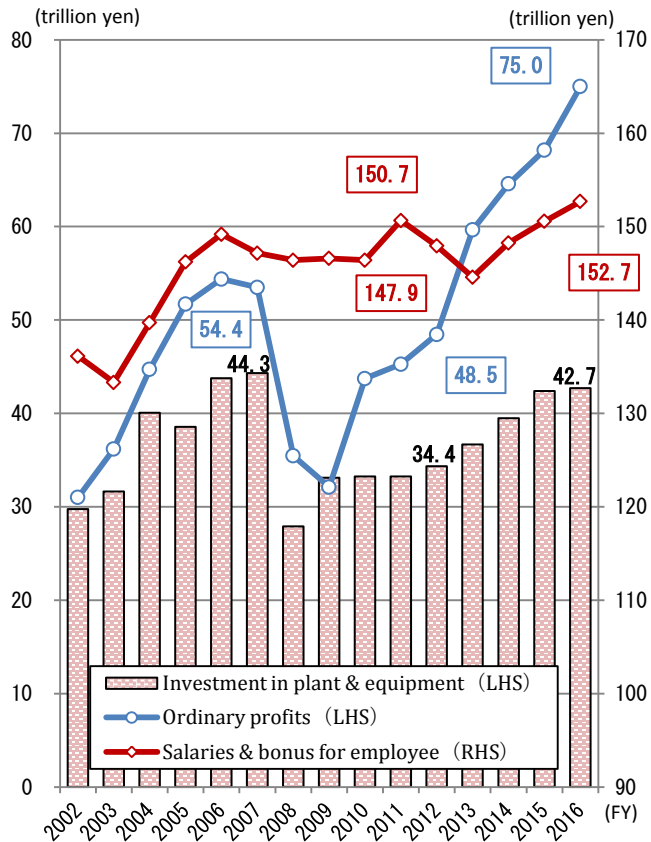
Source: Calculated by MOF staff, using data of Cabinet Office

Corporate profits/ Investment

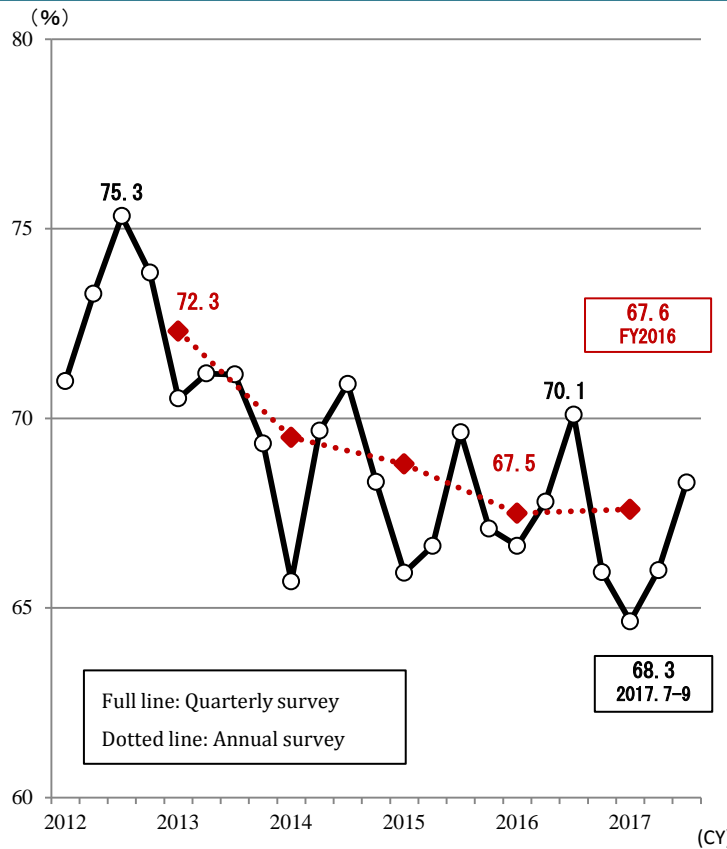
(FY)	Flow (trillion yen)		
	Ordinary profits	Salaries & bonus for employees	Investment in plant & equipment
2012	48.5	147.9	34.4
2016	75.0	152.7	42.7
Difference	+26.5 (4.1% of GDP)	+4.8	+8.3 (1.0% of GDP)

Stock (trillion yen)	
Retained earnings	Cash & deposits, etc.
304.5	190.1
406.2	228.5
+101.8	+38.4

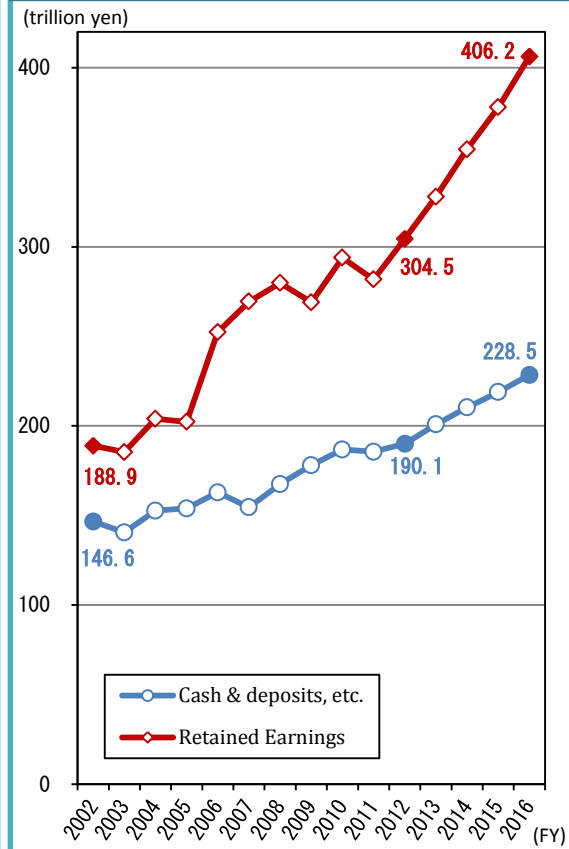
Ordinary profits, Salaries & bonus for employee, Investment in plant & equipment



Labor share



Cash & deposits, etc., Retained earnings



(Source) Ministry of Finance

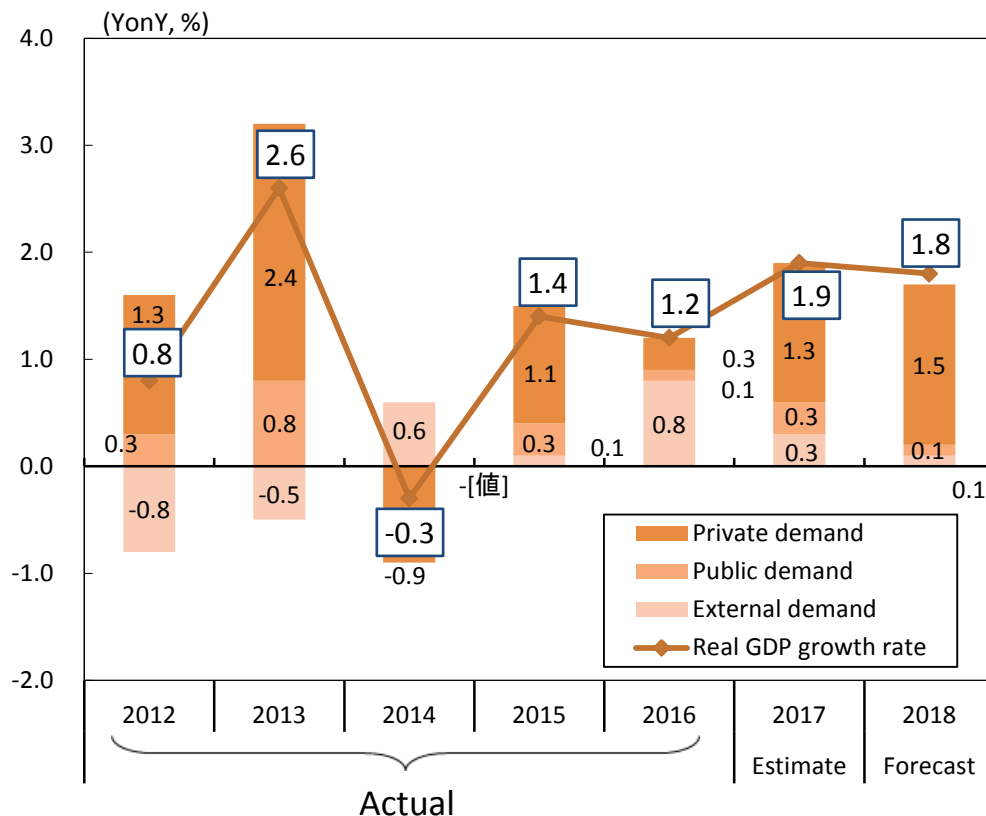
(Note) Figures in investment in plant and equipment do not include software.

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FY2018 Economic Outlook

- In FY2018, the Japanese economy is expected to recover, supported by the growth in private demand. The measures of the New Economic Policy Package will lead to an extension of the positive cycle of the economy with improvements in employment and income conditions.
- Consequently, in FY2018, the real GDP is projected to increase by approximately 1.8%, and the nominal GDP is expected to increase by approximately 2.5%.

Real GDP Growth Rate



Source: Cabinet Office

	FY 2016 Actual (%)	FY 2017 Estimate (% Approx.)	FY 2018 Forecast (% Approx.)
Real GDP	1.2	1.9	1.8
Private consumption	0.3	1.2	1.4
Private non-residential Investment	1.2	3.4	3.9
Domestic demand	(0.4)	(1.6)	(1.6)
Private demand	(0.3)	(1.3)	(1.5)
Public demand	(0.1)	(0.3)	(0.1)
External demand	(0.8)	(0.3)	(0.1)
Nominal GDP	1.0 ¥539.3 tio	2.0 ¥550.3 tio	2.5 ¥564.3 tio
CPI	- 0.1	0.7	1.1
Unemployment rate	3.0	2.8	2.7

* () represents contributions to Real GDP growth.

IMF World Economic Outlook (January 2018)

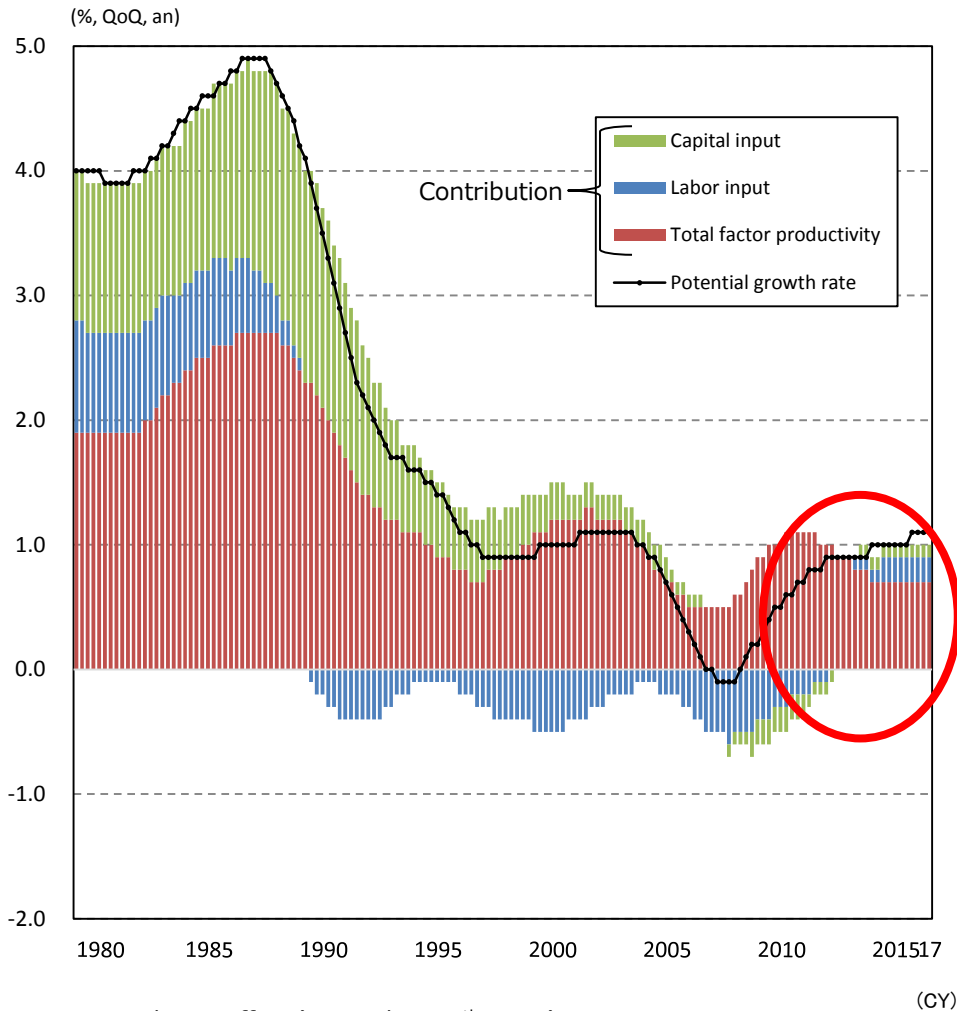
- The growth forecast for Japan has been revised up to 1.2 percent (+0.5 relative to October forecast) for 2018, and 0.9 percent (+0.1 relative to October forecast) for 2019.
- The revision reflects stronger external demand, the supplementary budget for 2018, and carryover from stronger-than-expected recent activity.

(Year-over-year real GDP growth, percent change)

	2017					2018					2019		
	As of July 2017	As of Oct. 2017	As of Jan. 2018	Difference from July	Difference from Oct.	As of July 2017	As of Oct. 2017	As of Jan. 2018	Difference from July	Difference from Oct.	As of Oct. 2017	As of Jan. 2018	Difference from Oct.
Japan	1.3	1.5	1.8	0.5	0.3	0.6	0.7	1.2	0.6	0.5	0.8	0.9	0.1
U.S.	2.1	2.2	2.3	0.2	0.1	2.1	2.3	2.7	0.6	0.4	1.9	2.5	0.6
Euro Area	1.9	2.1	2.4	0.5	0.3	1.7	1.9	2.2	0.5	0.3	1.7	2.0	0.3
U.K.	1.7	1.7	1.7	0.0	0.0	1.5	1.5	1.5	0.0	0.0	1.6	1.5	▲ 0.1
Advanced Economies	2.0	2.2	2.3	0.3	0.1	1.9	2.0	2.3	0.4	0.3	1.8	2.2	0.4
Emerging and Developing Asia	6.5	6.5	6.5	0.0	0.0	6.5	6.5	6.5	0.0	0.0	6.5	6.6	0.1
China	6.7	6.8	6.8	0.1	0.0	6.4	6.5	6.6	0.2	0.1	6.3	6.4	0.1
Emerging Market and Developing Economies	4.6	4.6	4.7	0.1	0.1	4.8	4.9	4.9	0.1	0.0	5.0	5.0	0.0
World	3.5	3.6	3.7	0.2	0.1	3.6	3.7	3.9	0.3	0.2	3.7	3.9	0.2

Demand shortage? Supply constraints?

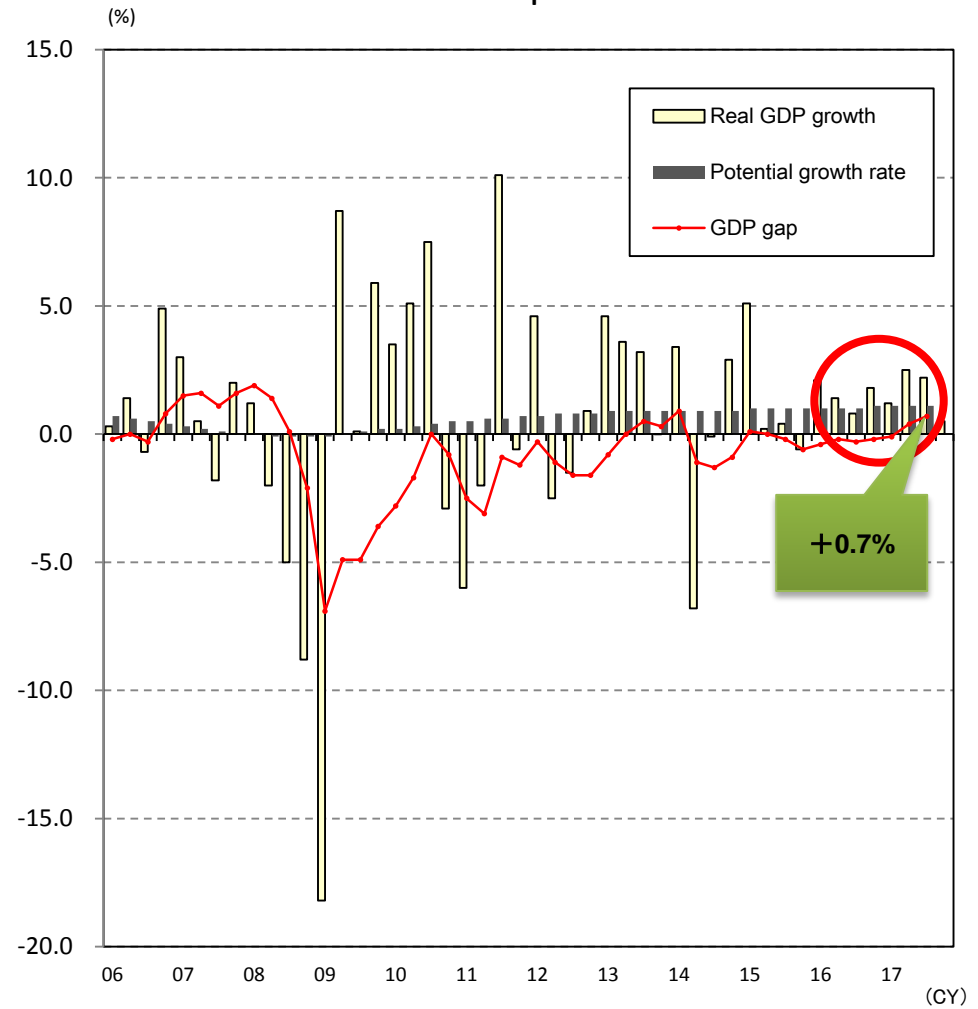
《 Potential GDP Growth 》



Source: Cabinet Office (December 18th 2017)

Potential GDP Growth Rate	16I	II	III	IV	17I	II	III
Bank of Japan (YoY)	0.89	0.86	0.83	0.83	0.85	0.85	0.85
Cabinet Office (QoQ, an)	1.0	1.0	1.0	1.1	1.1	1.1	1.1

《 GDP Gap 》



	16I	II	III	IV	17I	II	III
Bank of Japan (Output Gap)	-0.43	-0.44	-0.13	0.36	0.69	1.18	1.35
Cabinet Office (GDP Gap)	-0.4	-0.2	-0.3	-0.2	-0.1	0.4	0.7

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Human Resources Development Revolution

1. Free early childhood education
2. Elimination of childcare placement waiting lists
3. Free higher education
4. Substantive free education at private high schools
5. Improvement of compensation for long - term care workers
6. Stable financial resources to realize these measures
7. Relevance to the fiscal consolidation
8. Items to be discussed continually towards next summer
9. Regulatory and institutional reforms, etc.

Supply System Innovation

1. Supply System Innovation of SMEs and small-scale entrepreneurs
 2. Supply System Innovation through improved profitability and investment promotion of corporations
 3. Supply System Innovation through societal implementation of Society 5.0 and disruptive innovation
- The next three years until 2020 are designated as “period of supply system innovation and intensive investments”
- (i) Double Japan’s average productivity growth of 0.9 percent for five years until 2015 to 2 percent
 - (ii) Increase Japan’s capital investment amount by 10 percent by FY2020 compared with FY2016
 - (iii) Achieve more than 3 percent annual wage increase after FY2018

Thank you!