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Japan's Medium-term Economic Outlook

The New Cold War: Challenges to Japan's Economy and Corporations in the 2020s

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Summary

- We revised our medium-term outlook for Japan's economy for the first time in approximately one year. In this report, we survey Japan's medium-term economy, taking into consideration the Abe administration's growth strategy as well as fiscal and social security reforms, while at the same time focusing on prospects for the global supply chain in the era of the "New Cold War," and providing an overview of the direction of the global economy in the medium-term.
- We expect the growth rate of the Japanese economy over the next 10 years (FY2020-2029) to be at an annual average of 0.7% in real terms. In the first half of the forecast period, the economy is expected to grow mainly in the area of public demand due to measures to enhance social security and economic measures, but to slow down slightly in the second half due to an increase in population decline. In the latter half of the period when inflation is stable at 1%, the Bank of Japan's monetary policy will be revised, and interest rates are expected to rise. The average growth rate of the global economy is seen at 3.0% (CY2020-2029), and is expected to maintain a low level of growth throughout the period.
- Expansion of the global value chain has had positive effects on the global economy and has helped emerging economies catch up with developed economies. China, which has continued to grow at a high level in its role as the "world's factory," is aiming to increase the added value of its manufacturing industry. For Japan, this means that it is important to further improve the efficiency of its own global value chain and improve its technological capabilities through R&D in order to maintain competitiveness.
- Since the inauguration of the second Abe administration in 2012, a total of seven growth strategies have been announced (one for each year). Assessing these growth strategies based on key performance indicators (KPI) whose goals were to be reached by the year 2020, we see that while those associated with overseas dealings and certain aspects of the labor market have been achieved, issues associated with the employment system, regulations, and productivity are seriously behind. Future goals for growth strategy beginning in 2020 are required to achieve

policy effectiveness, prioritization and consistency, as well as to build economic and social systems tailored to the new “Society 5.0” era.

- The primary balance (PB) of central and local governments is expected to be at -3.0% of GDP in FY2025. It will be difficult to get PB back in the black by the same fiscal year. The All-Generation Social Security Review Council has shown a concrete direction of reform centering on the labor, pension, and medical fields. However, unless future benefits and burdens are forecasted, it will be impossible to establish a social security system that can ensure the peace of mind of all generations. Discussions should be made regarding the balance between self-help, social insurance premiums, and public expenditure to be aimed at, and the scale of reforms necessary for that purpose.