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# Japan's Medium-term Economic Outlook

**Japan's economy to see monetary policy normalization, population decline, social security reform, and decarbonization**

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## Summary

- The global economic growth rate for 2022-31 is expected to be +3.1% annualized. Early in the prediction period, the recovery process from the decline due to the spread of COVID-19 is expected to continue, leading to higher growth. However, the growth rate is expected to slow gradually as the reactionary phase peaks and the FRB in the U.S. and the ECB in Europe begin raising interest rates in the first half of the projection period. The global economic growth rate will converge to the potential growth rate in the second half of the projection period.
- Japan's real GDP growth rate for FY2022-31 is expected to be +1.0% annualized. The first half of the forecast period is projected to grow by 1.2%, mainly due to the normalization of economic activity resulting from the infection being brought under control, as well as the accommodative fiscal and monetary policy. In the second half of the forecast period, the CPI inflation rate will generally exceed +1.0%, and the growth rate is expected to decline to +0.9% due to the acceleration of population decline in addition to the Bank of Japan's implementation of interest rate hikes. The national and local government's primary fiscal balance in FY2025 is expected to be -3.0% of GDP, and achieving the fiscal consolidation target is extremely severe.
- In fiscal 2040, medical and nursing care benefit expenditures adjusted for CPI deflation are expected to increase by 1.3 times and 1.5 times, respectively, compared to FY2020. The medical and nursing care insurance premium burden ratio for households is expected to increase by 1.4 times. In order to realize social security system oriented to all generations, it is necessary to (1) simultaneously tackle economic growth and curtailment of benefits, (2) grasp the scale of required reforms through future estimates and reflect them in the list of reforms as appropriate, (3) strengthen the redistribution function of public finances (realization of push-type

benefits), (4) promote measures to slow the declining birthrate with enhanced effectiveness through evidence-based policy-making (EBPM), and (5) secure stable financial resources.

- The 6th Strategic Energy Plan set a target of raising the share of power generated by renewable energy to 36-38% in fiscal 2030. If this is achieved, it is estimated that Japan's GDP will expand by around 2.5 tril yen. Challenges that arise in the process of expanding the amount of power generated by renewable energy include rising electricity rates, substantial increases in capital investment, rising resource prices, and retirement costs.

### Forecast Tables (as of Jan 2022)

| (FY)                                   | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  | 2025  | 2026  | 2027  | 2028  | 2029  | 2030  | 2031  |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Real GDP (Y/y %)                       | 0.8   | 1.8   | 0.2   | -0.7  | -4.5  | 2.7   | 3.6   | 0.4   | 0.6   | 0.7   | 0.8   | 1.0   | 1.0   | 0.9   | 0.8   | 0.7   |
| Private final consumption              | -0.3  | 1.0   | 0.1   | -1.0  | -5.5  | 2.4   | 3.6   | 0.3   | 0.5   | 0.7   | 0.6   | 0.7   | 0.8   | 0.8   | 0.7   | 0.6   |
| Private housing investment             | 4.3   | -1.8  | -4.9  | 2.6   | -7.8  | -0.1  | 1.8   | -3.6  | -2.8  | -2.2  | -1.9  | -2.0  | -1.1  | -1.1  | -1.2  | -1.4  |
| Private capital investment             | 0.8   | 2.8   | 1.2   | -0.6  | -7.5  | 2.4   | 6.3   | 2.7   | 1.9   | 0.8   | 1.2   | 1.7   | 1.4   | 1.1   | 0.7   | 0.7   |
| Government final consumption           | 0.9   | 0.3   | 1.1   | 2.1   | 2.5   | 1.9   | -1.0  | -0.7  | 0.5   | 0.7   | 0.9   | 0.9   | 0.9   | 1.2   | 1.2   | 1.3   |
| Public fixed capital formation         | 0.5   | 0.6   | 0.9   | 1.6   | 5.1   | -3.7  | 2.5   | 1.5   | 2.5   | 2.3   | 2.1   | 1.7   | 1.7   | 1.7   | 1.8   | 1.9   |
| Export of goods and services           | 3.4   | 6.3   | 2.0   | -2.2  | -10.5 | 12.4  | 6.6   | 1.8   | 1.5   | 1.9   | 2.4   | 3.8   | 3.2   | 2.8   | 2.5   | 2.3   |
| Import of goods and services           | -0.5  | 3.8   | 3.0   | 0.2   | -6.6  | 7.4   | 3.8   | 1.6   | 2.0   | 2.4   | 2.7   | 3.4   | 3.4   | 3.1   | 2.8   | 2.5   |
| Index of Industrial Production (Y/y %) | 0.8   | 2.9   | 0.2   | -3.7  | -9.5  | 6.7   | 5.3   | 0.6   | 0.7   | 0.9   | 1.0   | 1.3   | 1.3   | 1.2   | 1.0   | 0.9   |
| Consumer Price Index (Y/y %)           | -0.1  | 0.7   | 0.7   | 0.6   | -0.3  | -0.1  | 1.0   | 0.8   | 0.8   | 0.8   | 0.8   | 0.9   | 1.0   | 1.1   | 1.1   | 1.2   |
| O/N call rate (%)                      | 0.0   | 0.0   | -0.1  | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.1   | 0.3   | 0.5   | 0.5   |
| Yield on 10-yr JGBs (%)                | 0.0   | 0.1   | 0.1   | -0.1  | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.3   | 0.5   | 0.8   | 1.1   |
| Y/\$                                   | 108.3 | 110.8 | 110.9 | 108.7 | 106.0 | 111.6 | 110.3 | 110.5 | 111.0 | 110.4 | 110.2 | 109.3 | 107.3 | 104.6 | 101.6 | 98.9  |
| Y/EUR                                  | 118.8 | 129.7 | 128.4 | 120.8 | 123.7 | 130.1 | 126.0 | 124.8 | 124.7 | 124.2 | 123.5 | 122.8 | 121.8 | 120.1 | 117.6 | 114.9 |
| No. employed (Y/y %)                   | 1.0   | 1.4   | 1.7   | 0.8   | -1.0  | 0.1   | 0.1   | 0.1   | -0.1  | 0.1   | -0.3  | -0.3  | -0.3  | -0.3  | -0.4  | -0.7  |
| Unemployment rate (%)                  | 3.0   | 2.7   | 2.4   | 2.3   | 2.9   | 2.8   | 2.7   | 2.6   | 2.7   | 2.7   | 2.8   | 2.8   | 2.8   | 2.7   | 2.7   | 2.7   |
| Household savings rate (%)             | 1.3   | 0.8   | 1.4   | 3.7   | 13.1  | 9.5   | 4.9   | 4.6   | 4.2   | 3.8   | 3.7   | 3.3   | 3.4   | 3.5   | 3.6   | 3.9   |
| Central & local government             |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| Fiscal balance (% of nominal GDP)      | -4.3  | -3.5  | -3.1  | -3.7  | -10.3 | -8.7  | -8.5  | -3.8  | -3.9  | -3.9  | -3.9  | -3.8  | -3.8  | -3.9  | -4.1  | -4.3  |
| Primary balance (% of nominal GDP)     | -2.9  | -2.2  | -1.9  | -2.6  | -9.2  | -7.7  | -7.5  | -2.8  | -2.9  | -3.0  | -3.0  | -3.0  | -2.9  | -3.0  | -3.2  | -3.4  |
| Debt (% of nominal GDP)                | 185.7 | 186.1 | 189.4 | 191.0 | 209.9 | 213.8 | 213.9 | 215.6 | 217.1 | 218.2 | 219.1 | 219.1 | 218.9 | 218.8 | 218.8 | 219.0 |

#### Assumptions

|  |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
|--|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| World economic growth (PPP, Y/y %; CY) | 3.3  | 3.8  | 3.6  | 2.8  | -3.1 | 5.8  | 4.5  | 3.5  | 3.2  | 3.0  | 2.7  | 3.0  | 2.9  | 2.8  | 2.7  | 2.5  |
| US (Y/y %; CY)                         | 1.7  | 2.3  | 2.9  | 2.3  | -3.4 | 5.5  | 3.6  | 2.6  | 1.8  | 1.7  | 1.4  | 2.0  | 1.8  | 1.7  | 1.7  | 1.6  |
| Euro zone (Y/y %; CY)                  | 1.8  | 2.8  | 1.8  | 1.6  | -6.5 | 5.1  | 4.1  | 2.3  | 1.6  | 1.2  | 0.8  | 1.1  | 1.3  | 1.1  | 1.1  | 1.0  |
| China (Y/y %; CY)                      | 6.8  | 6.9  | 6.7  | 6.0  | 2.2  | 8.1  | 5.4  | 5.0  | 4.9  | 4.8  | 4.7  | 5.0  | 4.6  | 4.4  | 4.2  | 4.1  |
| Oil price (WTI; \$/bbl)                | 47.9 | 53.7 | 62.8 | 54.9 | 42.3 | 71.5 | 68.8 | 71.5 | 74.2 | 75.6 | 77.2 | 81.5 | 84.8 | 87.1 | 88.8 | 90.0 |
| Population (Y/y %)                     | -0.1 | 0.0  | -0.2 | -0.2 | -0.3 | -0.4 | -0.4 | -0.4 | -0.5 | -0.5 | -0.5 | -0.5 | -0.6 | -0.6 | -0.6 | -0.6 |

Source: Compiled by DIR

Notes: 1) Through FY20: actual.

2) Fiscal balance: excl. the expenditures and the fiscal resources for the recovery and reconstruction measures.

#### Attention

This report is a summary translation. The official document is only in Japanese.