

JAPAN

The severe recession triggered by the global crisis has bottomed out, thanks in part to a rebound in exports, although production remains well below capacity. In addition, fiscal stimulus is partially offsetting the impact of falling employment and wages on domestic demand. Growth is projected to pick up gradually to around 2% in 2011, due in part to the new government's plan to increase public spending. Nevertheless, the unemployment rate is likely to stay around 5½ per cent through 2011 and deflation will persist.

The Bank of Japan should fight deflation through a strong commitment to keep interest rates at their very low current levels and to implement quantitative measures effectively until underlying inflation is firmly positive. Additional fiscal stimulus is not warranted given the expected pick-up in output growth, as well as Japan's large budget deficit and high public debt ratio. The government should thus finance its planned rise in public expenditure through cuts in other spending programmes. It is essential to develop a credible and detailed medium-term fiscal consolidation programme and to implement it once a recovery is firmly in place. Such a programme should include fundamental tax reform, accompanied by structural reforms, particularly in the service sector, to improve living standards in the face of a shrinking working-age population.

Japan: Demand and output

	2008	2009	2010	2011	Fourth quarter		
					2009	2010	2011
	Current prices ¥ trillion	Percentage changes from previous year, volume (2000 prices)					
Private consumption	293.4	-0.7	1.2	1.2	0.7	0.8	1.5
Government consumption	94.1	1.1	2.3	2.4	1.1	2.5	2.4
Gross fixed investment	117.2	-12.8	-0.8	4.4	-9.5	2.2	4.7
Public ¹	20.1	8.8	-7.9	-5.2	7.0	-9.6	-4.0
Residential	16.5	-13.3	-2.9	11.4	-22.7	8.6	10.0
Non-residential	80.6	-18.0	2.1	5.9	-11.0	4.7	6.1
Final domestic demand	504.7	-3.2	1.0	2.1	-1.5	1.4	2.4
Stockbuilding ²	2.2	-0.2	0.1	0.0			
Total domestic demand	506.8	-3.4	1.1	2.1	-2.0	1.4	2.3
Exports of goods and services	88.5	-25.1	10.8	6.2	-8.6	5.9	6.3
Imports of goods and services	87.8	-14.7	5.9	6.9	-13.0	6.0	7.2
Net exports ²	0.7	-1.8	0.6	-0.1			
GDP at market prices	507.6	-5.3	1.8	2.0	-1.1	1.4	2.2

Note: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook Sources and Methods* (<http://www.oecd.org/eco/sources-and-methods>).

Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

1. Including public corporations.

2. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.

Source: OECD Economic Outlook 86 database.

[Click here for table in excel](#)