

## JAPAN

The global crisis triggered a deep recession that is likely to be the most severe in Japan's post-war history. The contraction in world trade led to a sharp plunge in exports and business investment, while falling employment and wages have reduced private consumption, leading to a projected output decline of almost 7% in 2009. Fiscal stimulus is expected to lift output growth into positive territory from the second half of 2009, although at a rate that remains below 1% through 2010.

The Bank of Japan should fight deflation through a strong commitment to implement effective quantitative measures until underlying inflation is firmly positive. The fiscal stimulus packages are helping to cushion the downturn. However, it will be important to focus on fiscal consolidation as the economy stabilises, given the large budget deficit and high public debt ratio. Reform of the tax and social insurance systems, accompanied by structural reforms, particularly in the service sector, remain priorities to improve living standards in the face of a shrinking working-age population.

## Japan: Demand and output

	2005	2006	2007	2008	2009	2010
	Current prices ¥ trillion	Percentage changes, volume (2000 prices)				
Private consumption	285.9	1.5	0.7	0.6	-1.7	0.1
Government consumption	90.6	0.4	1.9	0.8	2.6	3.0
Gross fixed investment	116.9	0.5	0.8	-5.0	-12.3	0.0
Public <sup>1</sup>	22.9	-5.7	-7.3	-6.9	12.2	-2.4
Residential	18.2	0.5	-9.7	-7.6	-5.8	3.1
Non-residential	75.7	2.3	5.7	-4.0	-19.7	0.2
Final domestic demand	493.4	1.1	0.9	-0.7	-3.4	0.7
Stockbuilding <sup>2</sup>	1.4	0.1	0.3	-0.2	0.0	-0.1
Total domestic demand	494.8	1.2	1.2	-0.9	-3.4	0.6
Exports of goods and services	71.9	9.7	8.4	1.8	-32.3	3.5
Imports of goods and services	65.0	4.2	1.5	0.9	-12.6	2.3
Net exports <sup>2</sup>	7.0	0.8	1.1	0.2	-3.4	0.1
GDP at market prices	501.7	2.0	2.3	-0.7	-6.8	0.7

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>).

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 85 database.