

Toward a Revitalization of Japan's Economy

*Speech at the Foreign Correspondents' Club of Japan
7 February 2011*

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Governor of the Bank of Japan

Chart 1

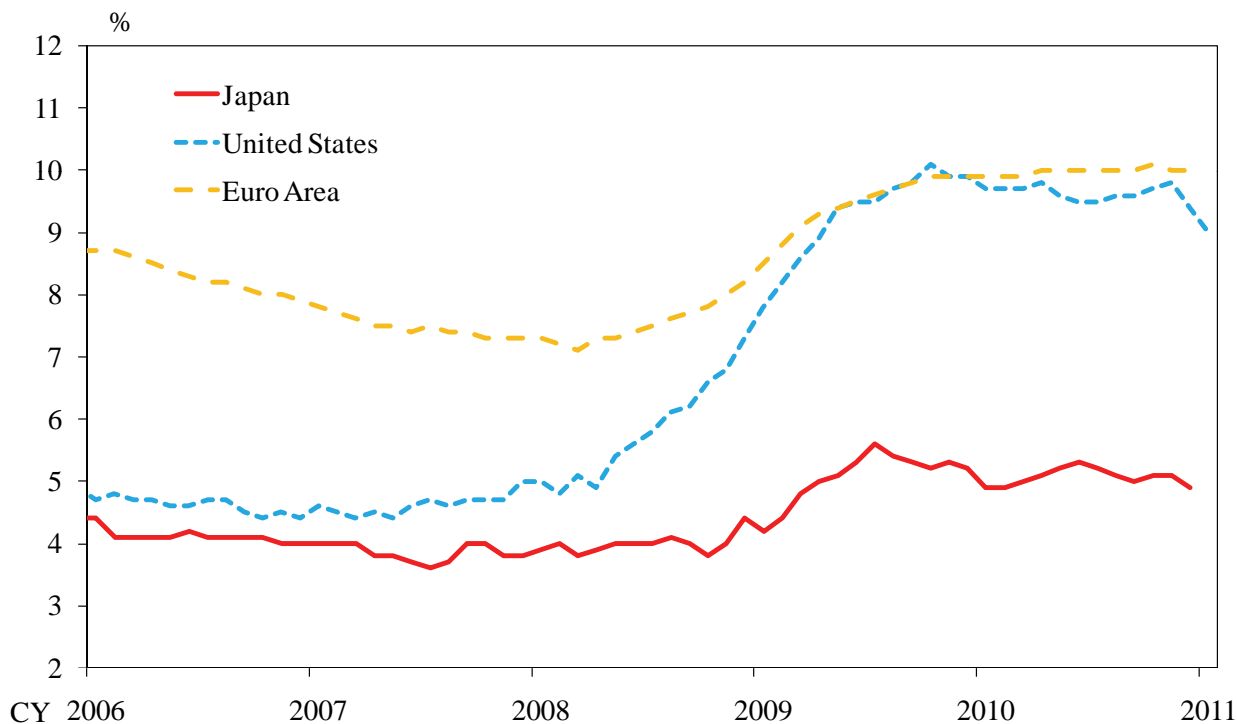
Japan's growth in 2010 is estimated to be the highest among the G7 countries.

y/y % chg.

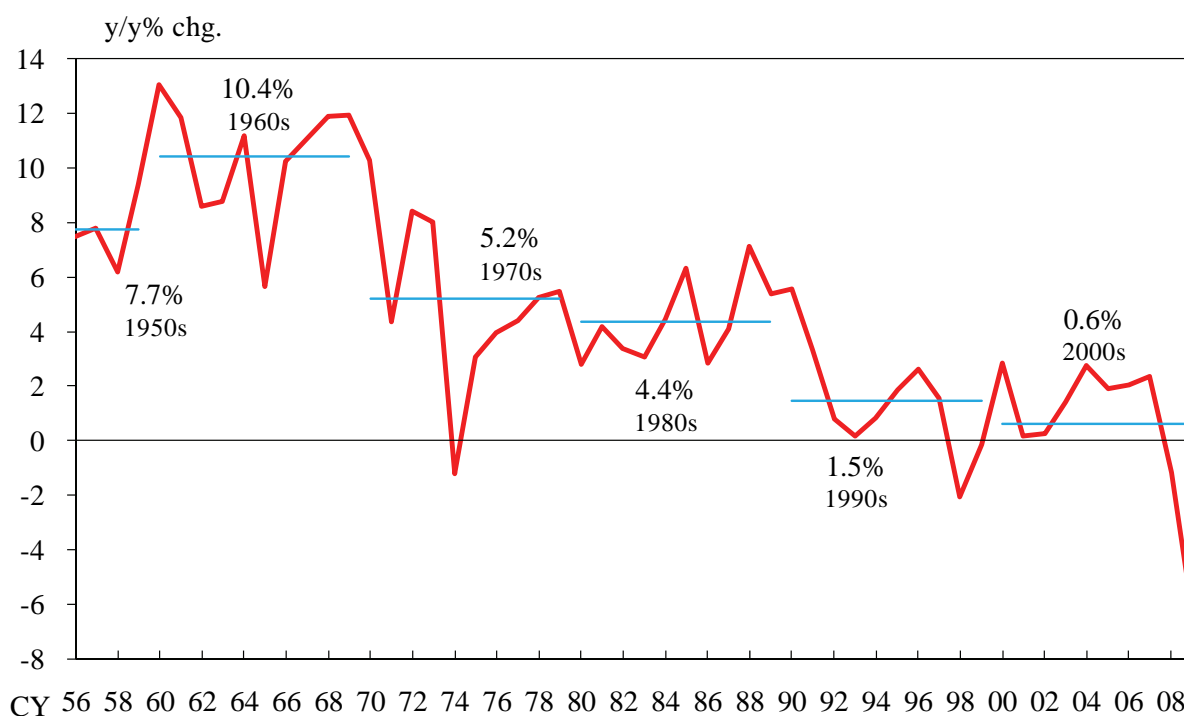
	Japan	United States	United Kingdom	Germany	France	Italy	Canada
2007	2.4	1.9	2.7	2.7	2.3	1.5	2.2
2008	-1.2	0.0	-0.1	1.0	0.1	-1.3	0.5
2009	-6.3	-2.6	-4.9	-4.7	-2.5	-5.0	-2.5
2010 Estimates	4.3	2.8	1.7	3.6	1.6	1.0	2.9

Note: Estimates by the IMF as of January 2011.
Source: IMF.

Japan's unemployment rate is far below those of the U.S. and the euro area.



Japan's growth rate is trending down.

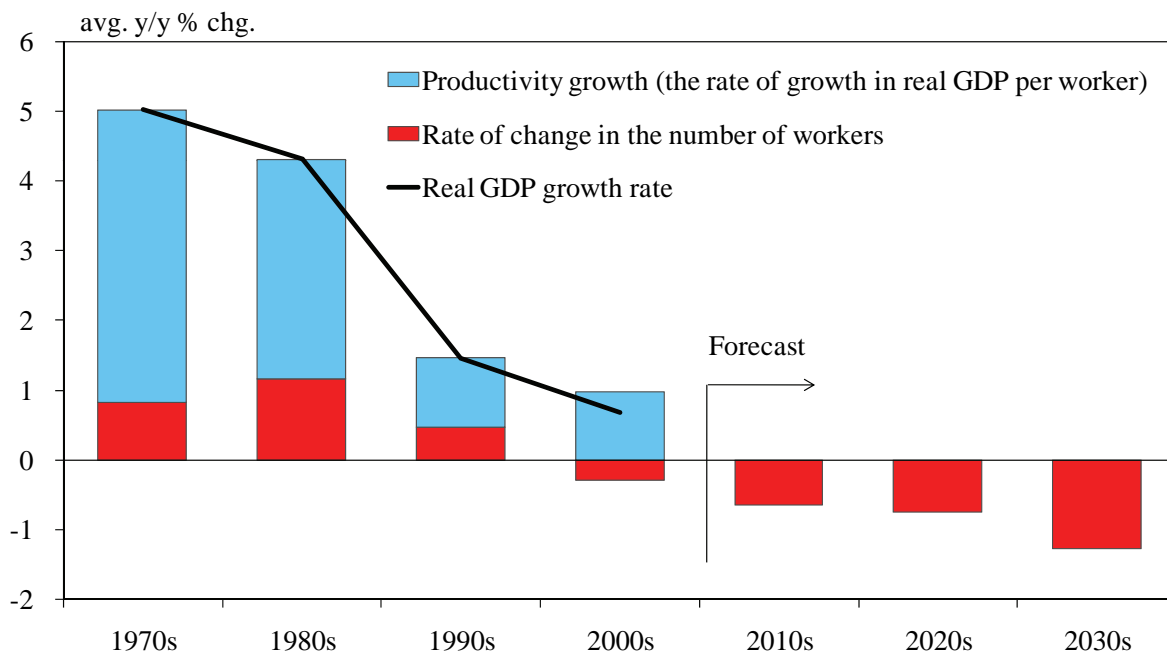


Note: Figures up to 1980 are based on the 68SNA, while those from 1981 are based on the 93SNA. The average for the 1950s is the average from 1956 to 1959.

Source: Cabinet Office, *National Accounts*.

Chart 4

Japan's GDP growth is dragged down by the decrease in the number of workers, as well as the decline in productivity growth.

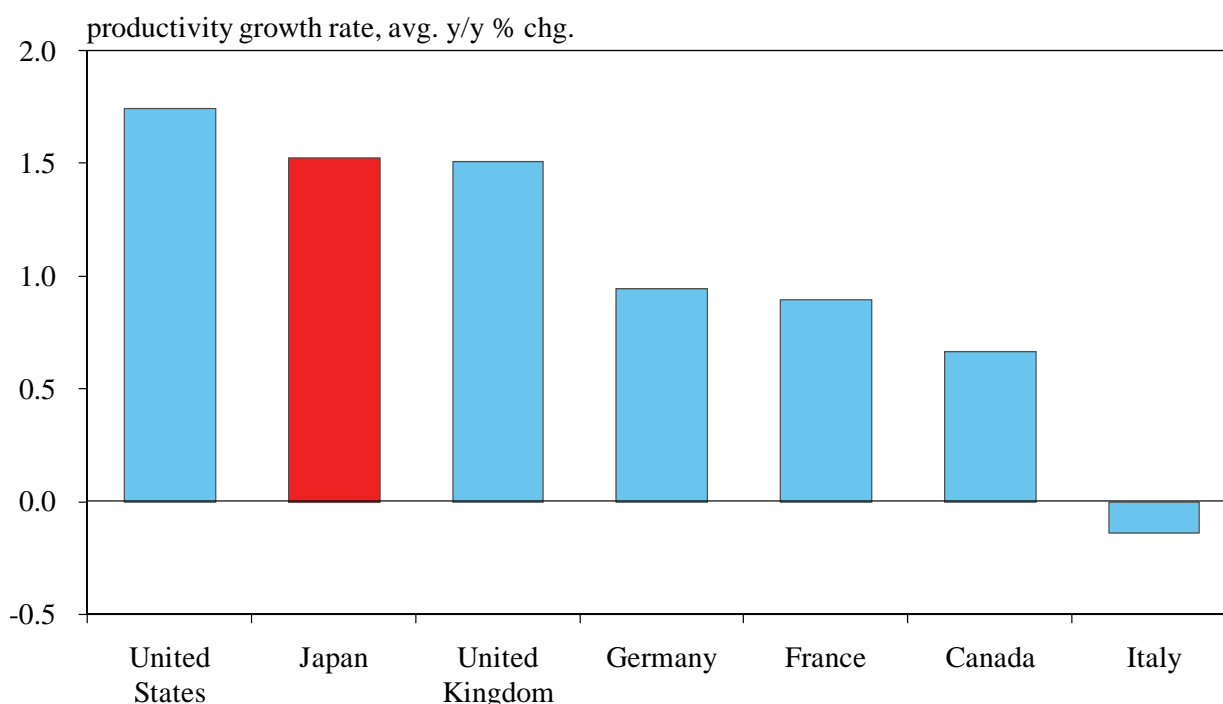


Note: Figures are on a fiscal year basis. The rate of change in the number of workers from the 2010s is calculated using the projected future population (medium variant) and the projected labor force participation rate (assuming that the labor force participation rate in each age/sex group remains the same as that in 2009).

Sources: Cabinet Office, *National Accounts*; Ministry of Internal Affairs and Communications, *Labour Force Survey*; National Institute of Population and Social Security Research, *Population Projections for Japan: 2006-2050*.

Chart 5

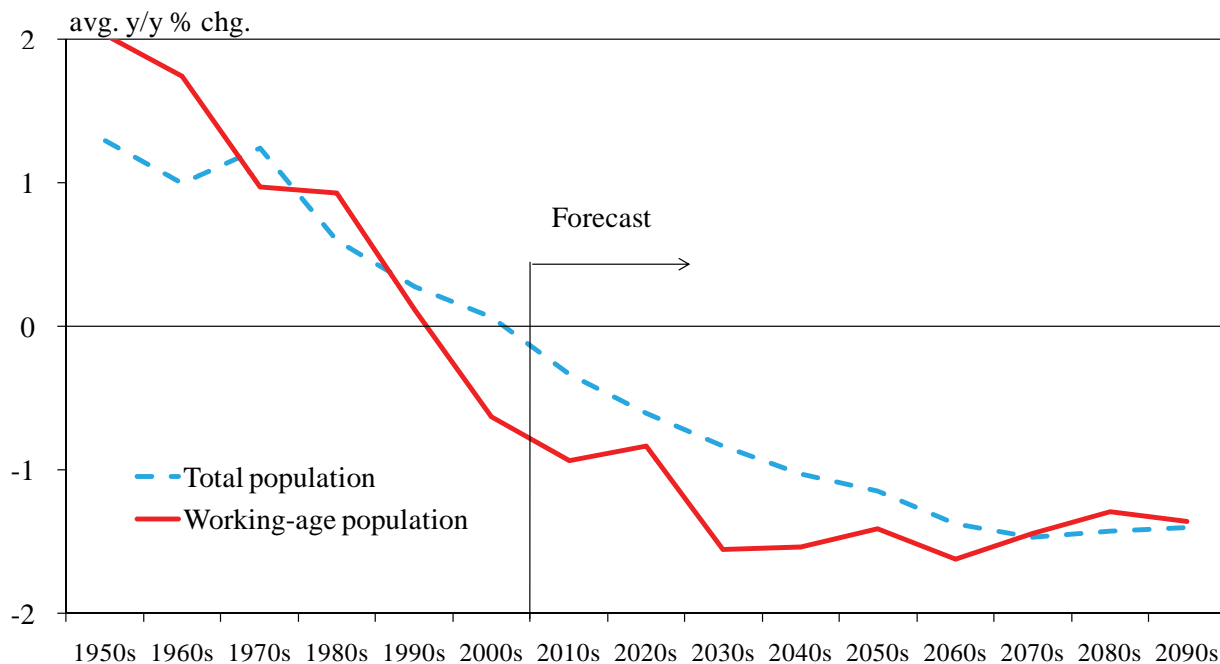
Japan's productivity growth rate, although it has decreased, remains among the highest among advanced countries.



Note: Figures are calendar 2000-2008 averages to exclude the effects of the financial crisis after the failure of Lehman Brothers.

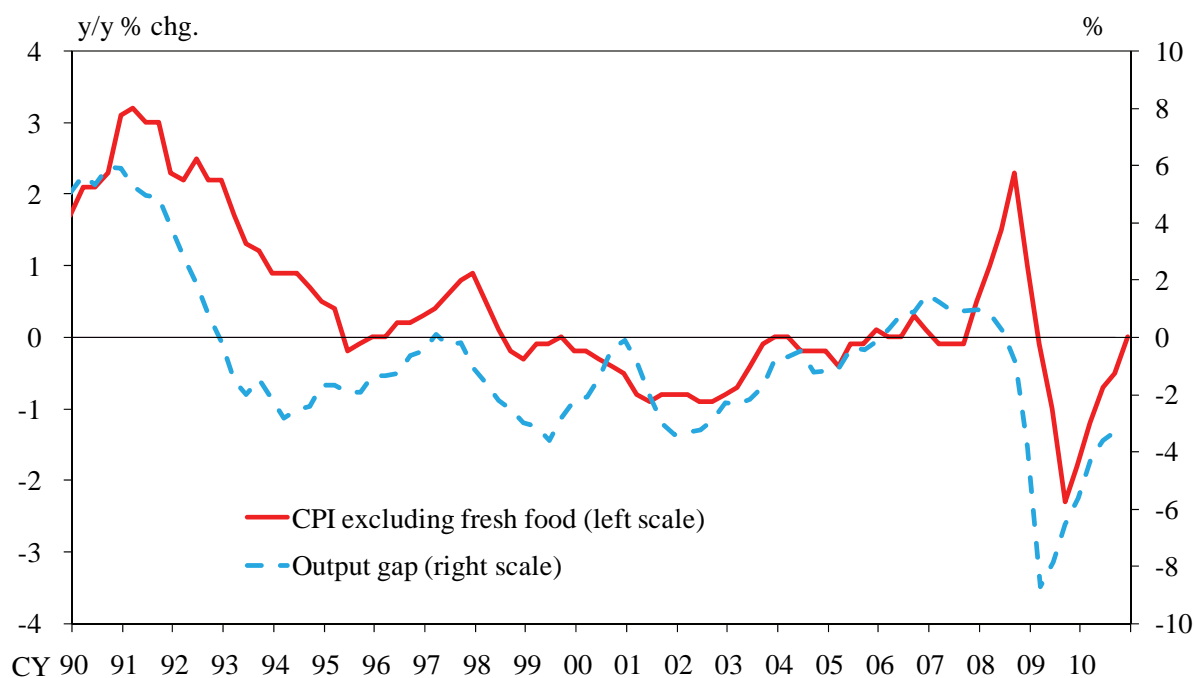
Source: OECD.

The pace of decrease in the working-age population is accelerating.



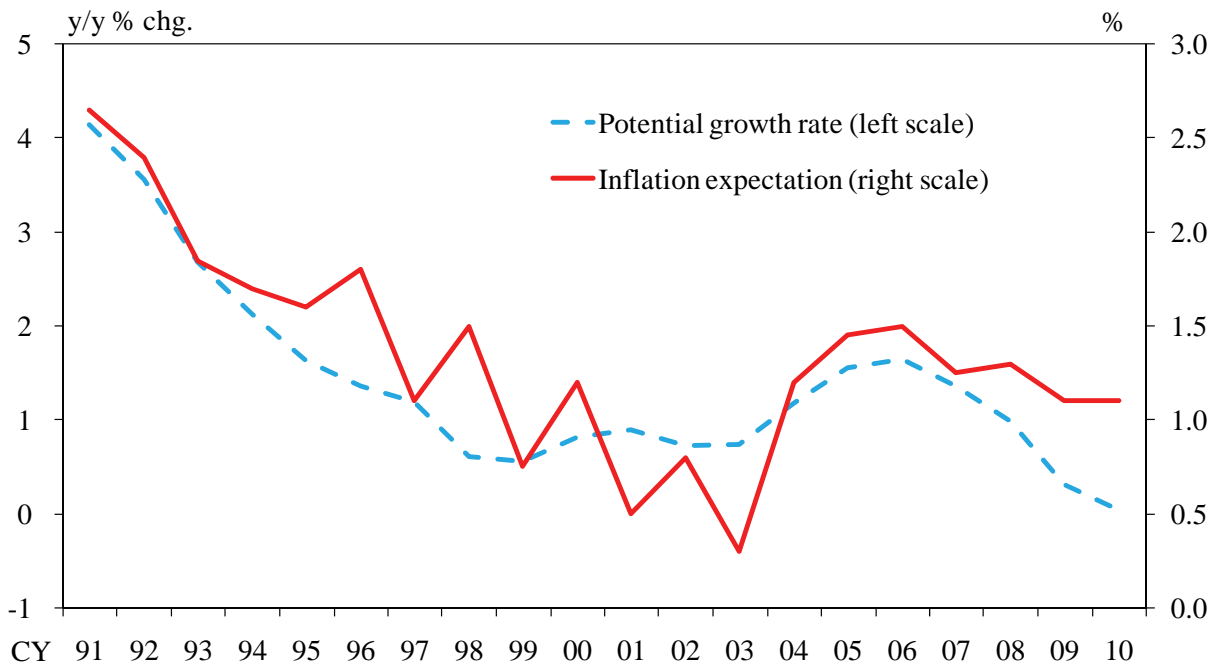
Note: Figures from 2010 are calculated using the projected future population (medium variant).
 Sources: National Institute of Population and Social Security Research, *Population Projections for Japan: 2006-2050*; Ministry of Internal Affairs and Communications, *Population Estimates*.

The direct cause of deflation is the slack in the economy.



Notes: 1. Figures for the CPI are adjusted to exclude the effects of changes in the consumption tax rate. From 2010/Q2, the figures exclude the high school fees.
 2. The output gap is estimated by the Research and Statistics Department, Bank of Japan.
 Sources: Ministry of Internal Affairs and Communications, *Consumer Price Index*; Bank of Japan.

Japan's growth potential and inflation expectations are closely correlated.



Notes: 1. Figures for the expected rate of inflation are the average of economists' projections for the CPI inflation rate (forecasts 5 to 10 years ahead) every April and October in the *Consensus Forecasts*.

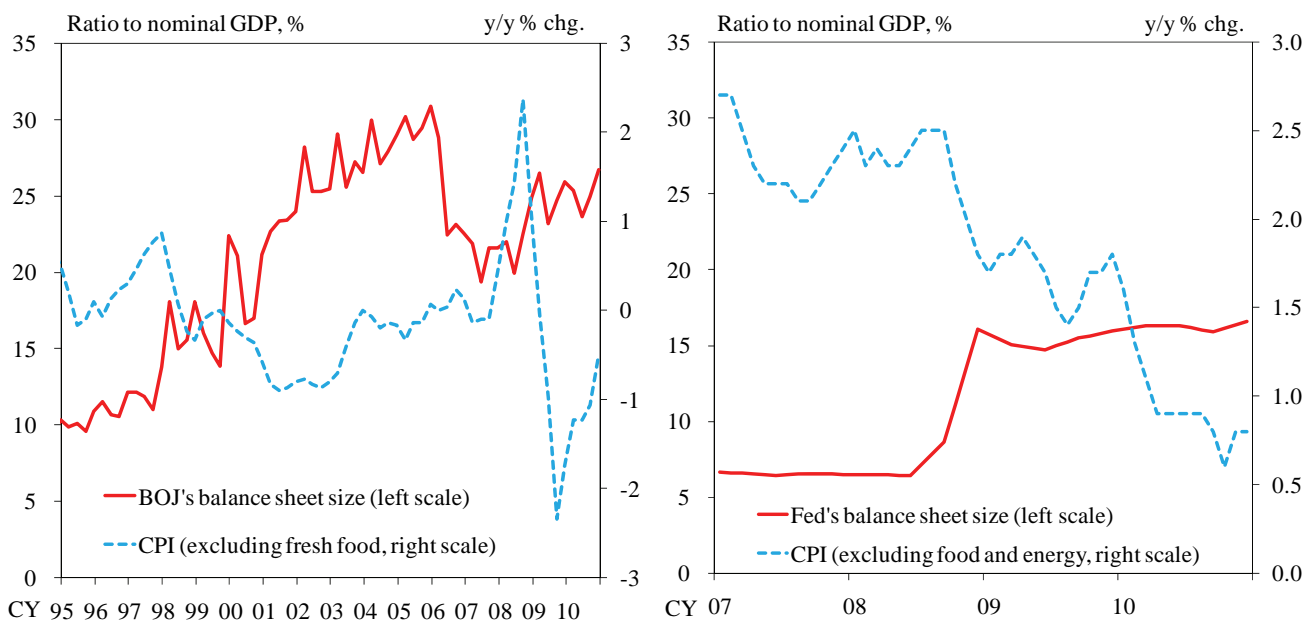
2. The potential growth rate is estimated by the Research and Statistics Department, Bank of Japan.

Sources: Consensus Economics, *Consensus Forecasts* (<http://www.consensus-economics.com>); Bank of Japan.

Both in Japan and the U.S., inflation rates have not risen despite the massive expansion of central bank balance sheets.

< Japan >

< United States >

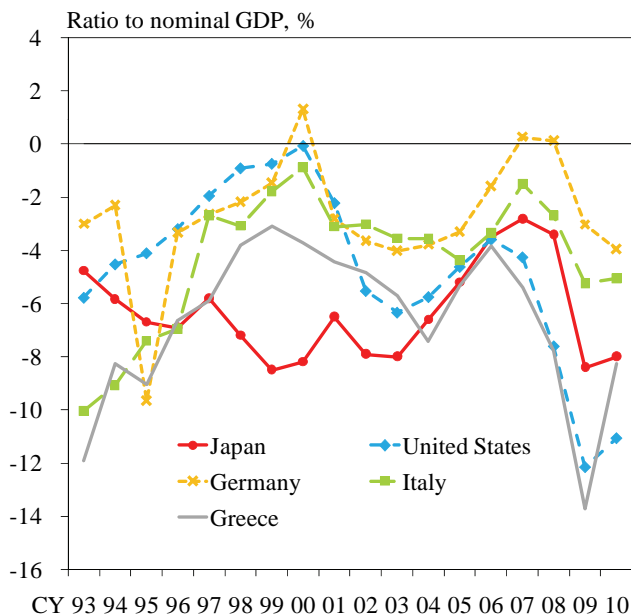


Note: Figures for Japan's CPI are adjusted to exclude the effects of changes in the consumption tax rate.

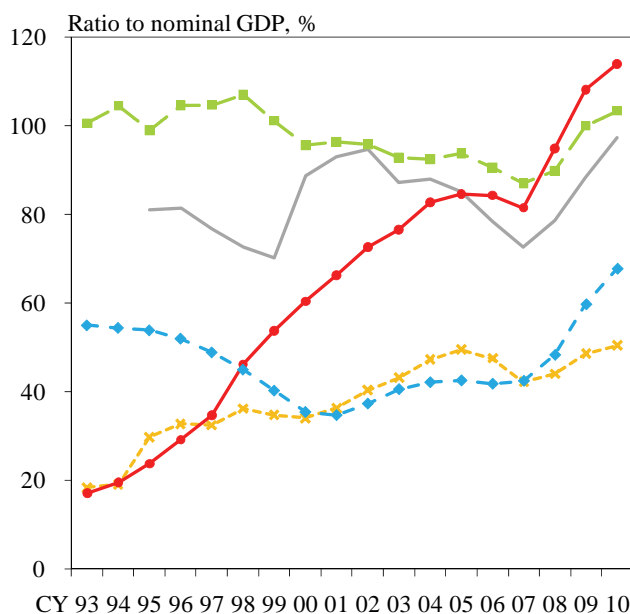
Sources: Cabinet Office, *National Accounts*; Ministry of Internal Affairs and Communications, *Consumer Price Index*; Bank of Japan; BEA; BLS; FRB.

Japan continues to have a large fiscal deficit.

< Fiscal Deficit >



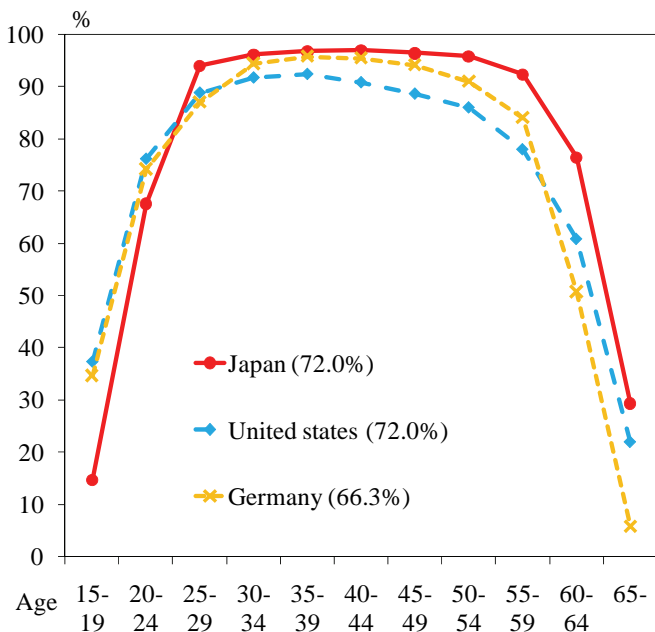
< Net Debt Outstanding >



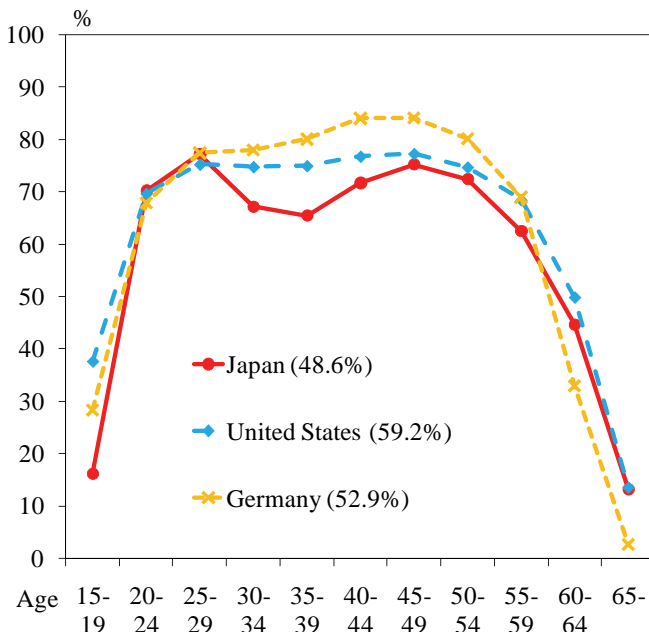
Notes: 1. Figures are for the general government. Deficit figures for Japan and the United States exclude social security funds.
 2. Net debt outstanding is gross debt outstanding minus general government financial assets.
 Sources: Ministry of Finance; OECD.

Female labor market participation in Japan remains low in international comparison.

< Male >

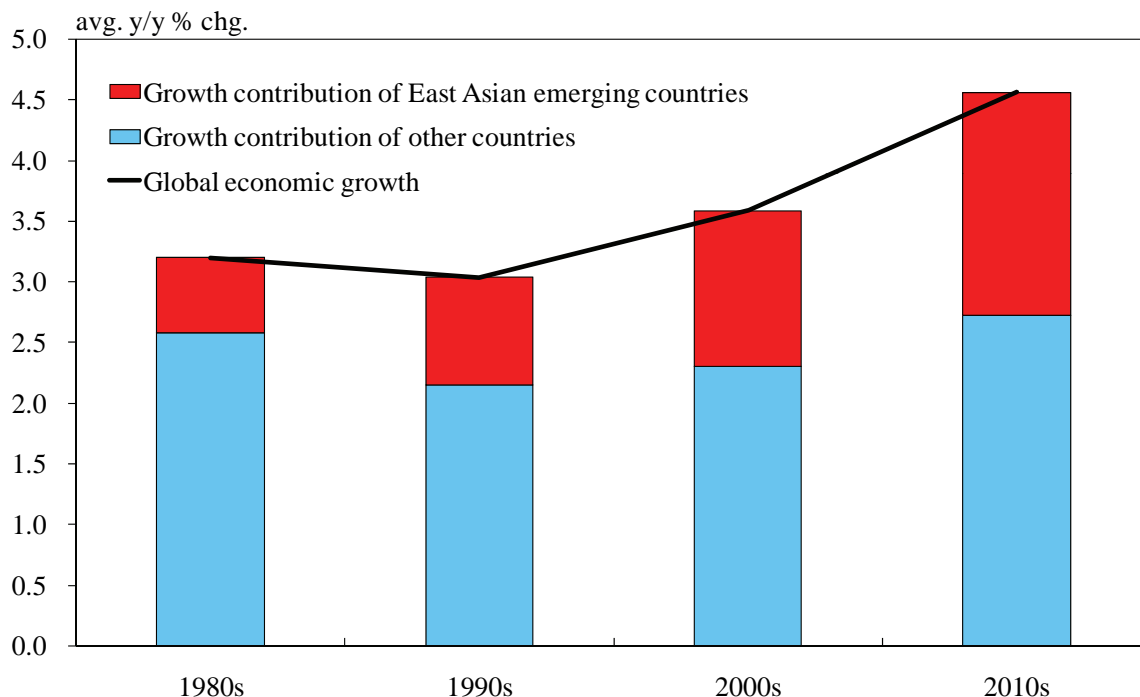


< Female >



Notes: 1. Figures are as of 2009.
 2. Figures in parentheses show the labor force participation rate of the population aged 15 and older.
 Source: OECD.

East Asian countries serve as the driving force behind the global economic expansion.



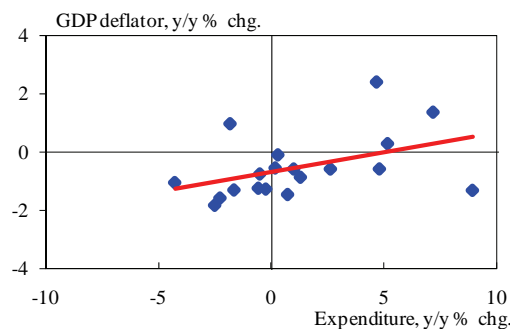
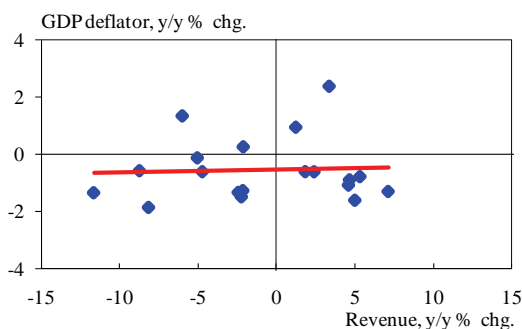
Note: East Asian emerging countries here include China, the NIEs, and the ASEAN4 countries. Figures for the 2010s are calculated using the 2010-2015 projection by the IMF as of October 2010.

Source: IMF.

Inflation does not improve the fiscal balance. A rise in real economic growth rate does.

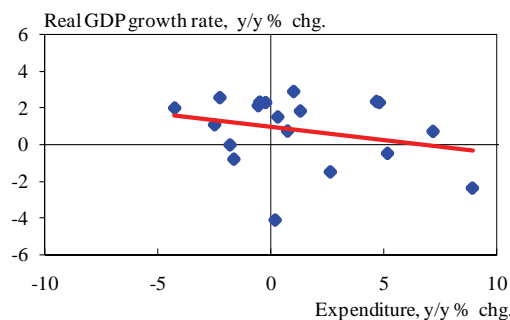
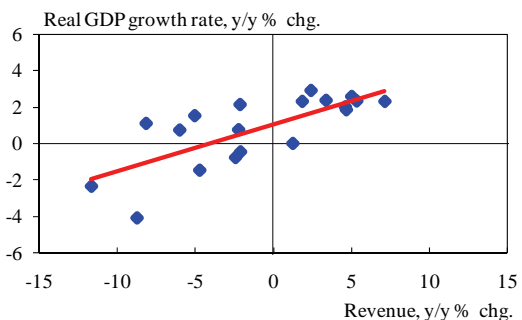
< GDP Deflator and Revenue >

< GDP Deflator and Expenditure >



< Real GDP Growth Rate and Revenue >

< Real GDP Growth Rate and Expenditure >



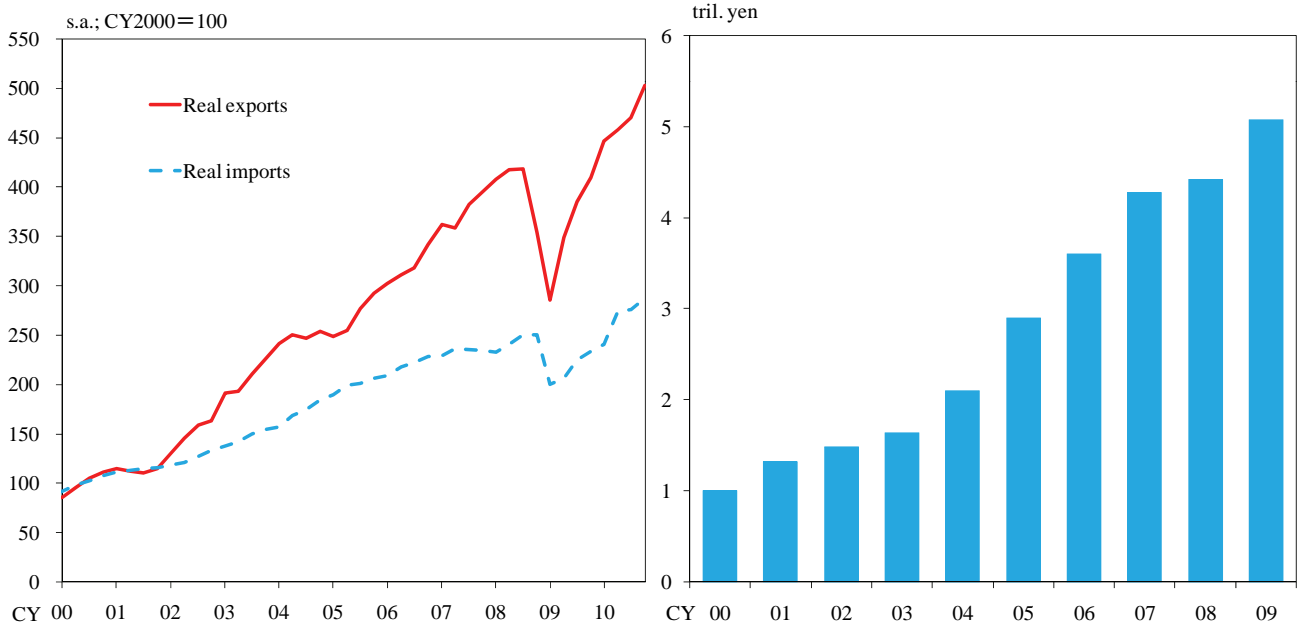
Note: The sample period is FY1991-FY2009. Figures for revenues and expenditures are those of central and local governments, which include the payment/receivable of interest.

Source: Cabinet Office, *National Accounts*.

Economic ties between Japan and China have been getting stronger.

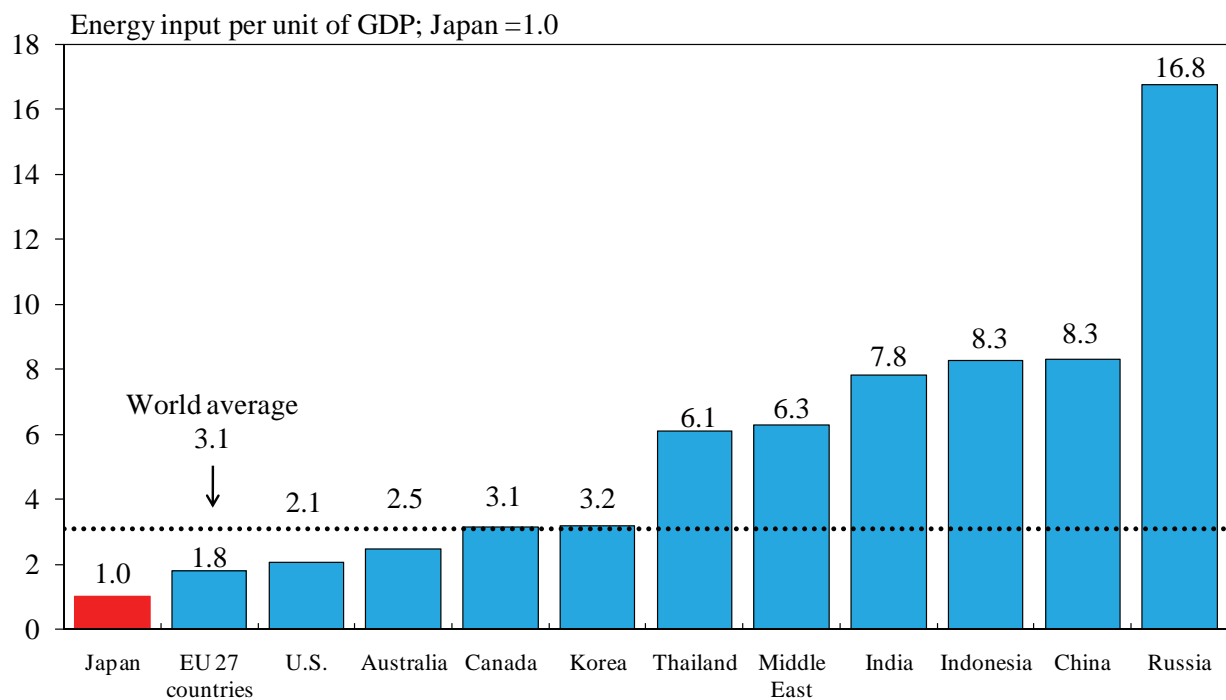
< Exports to and Imports from China >

< Japan's Direct Investment Position in China >



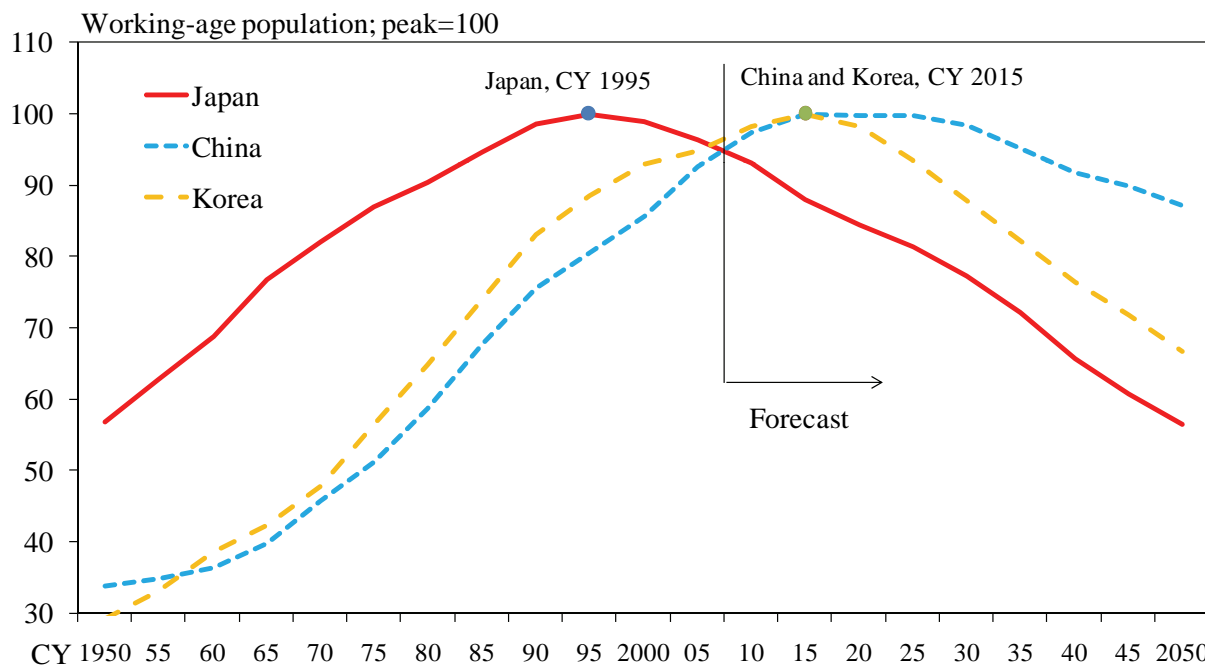
Sources: Ministry of Finance, Trade Statistics, Balance of Payments; Bank of Japan, Corporate Goods Price Index.

Japan's economy shows the most efficient energy use.



Sources: Agency for Natural Resources and Energy, 2010 Annual Report on Energy; International Energy Agency.

China and Korea will also face the challenge of aging and declining populations.



Note: Figures for Japan are calculated using the *Population Estimates* and the projected future population (medium variant) from *Population Projections for Japan: 2006-2050*. Figures for China and South Korea are based on estimates by the United Nations.

Sources: National Institute of Population and Social Security Research, *Population Projections for Japan: 2006-2050*; Ministry of Internal Affairs and Communications, *Population Estimates*; United Nations.