



JAPAN : PROMOTING INCLUSIVE GROWTH FOR AN AGEING SOCIETY

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Randall S. Jones
Head of Japan/Korea Desk, OECD



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- Japan's economic outlook
 - Long-term challenges facing Japan
 - Achieving fiscal sustainability in the context of an ageing and shrinking population
 - Policies to increase productivity and encourage inclusive growth



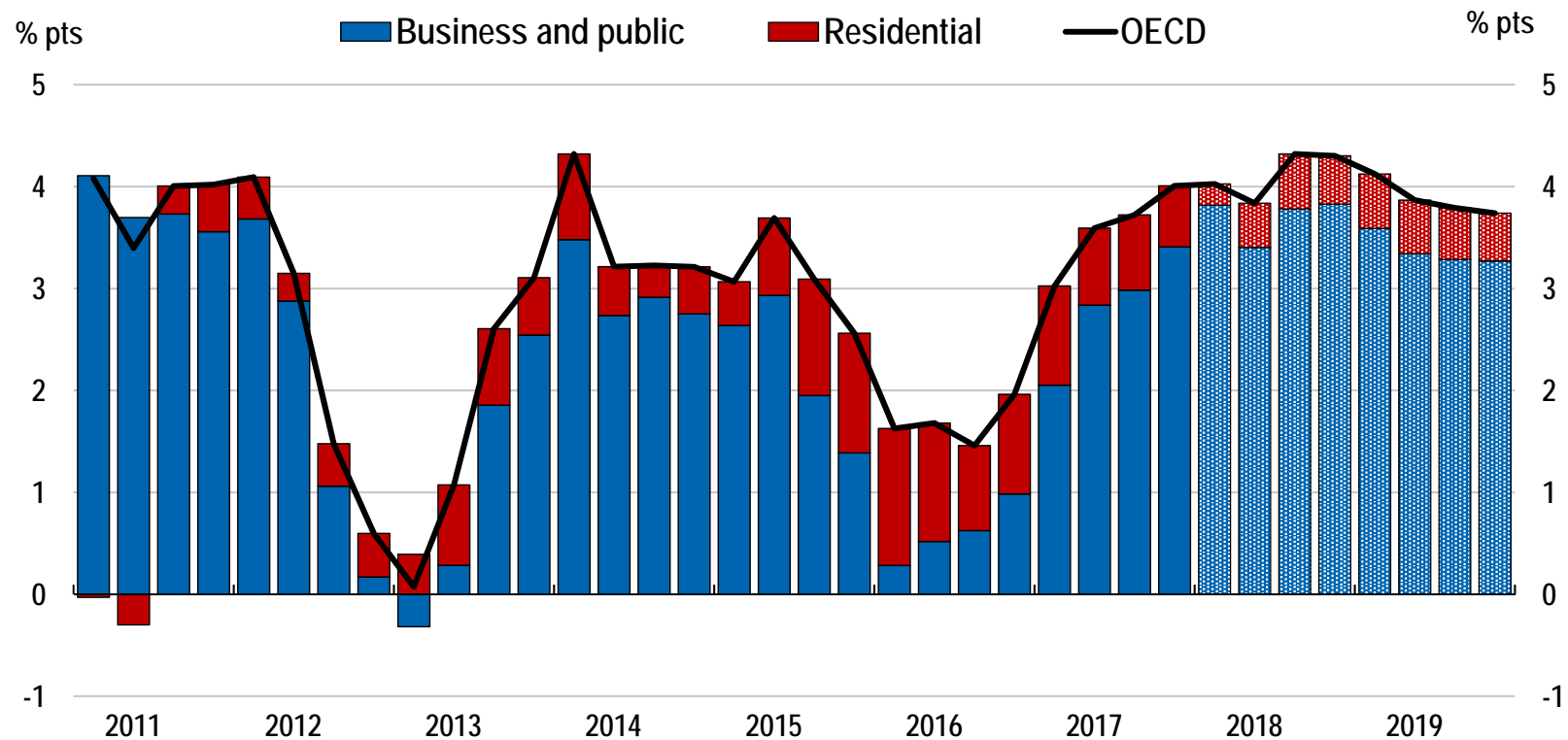
Key messages on the economic outlook

- **Global growth will be around 4%**
Investment and trade have rebounded
- **Monetary and fiscal policies have been supportive**
Three quarters of OECD countries are undertaking fiscal easing
- **Job growth has been strong**
The OECD unemployment rate will be at its lowest since 1980
- **Risks loom large over the next few years: oil prices, trade tensions, financial volatility**
Rising interest rates will pose challenges for highly indebted countries, households and corporations.
- **Now is the time to reform for sustainable and inclusive growth**
Invest in education, skills, digital infrastructure



Investment has rebounded

Contribution to investment growth *OECD economies*

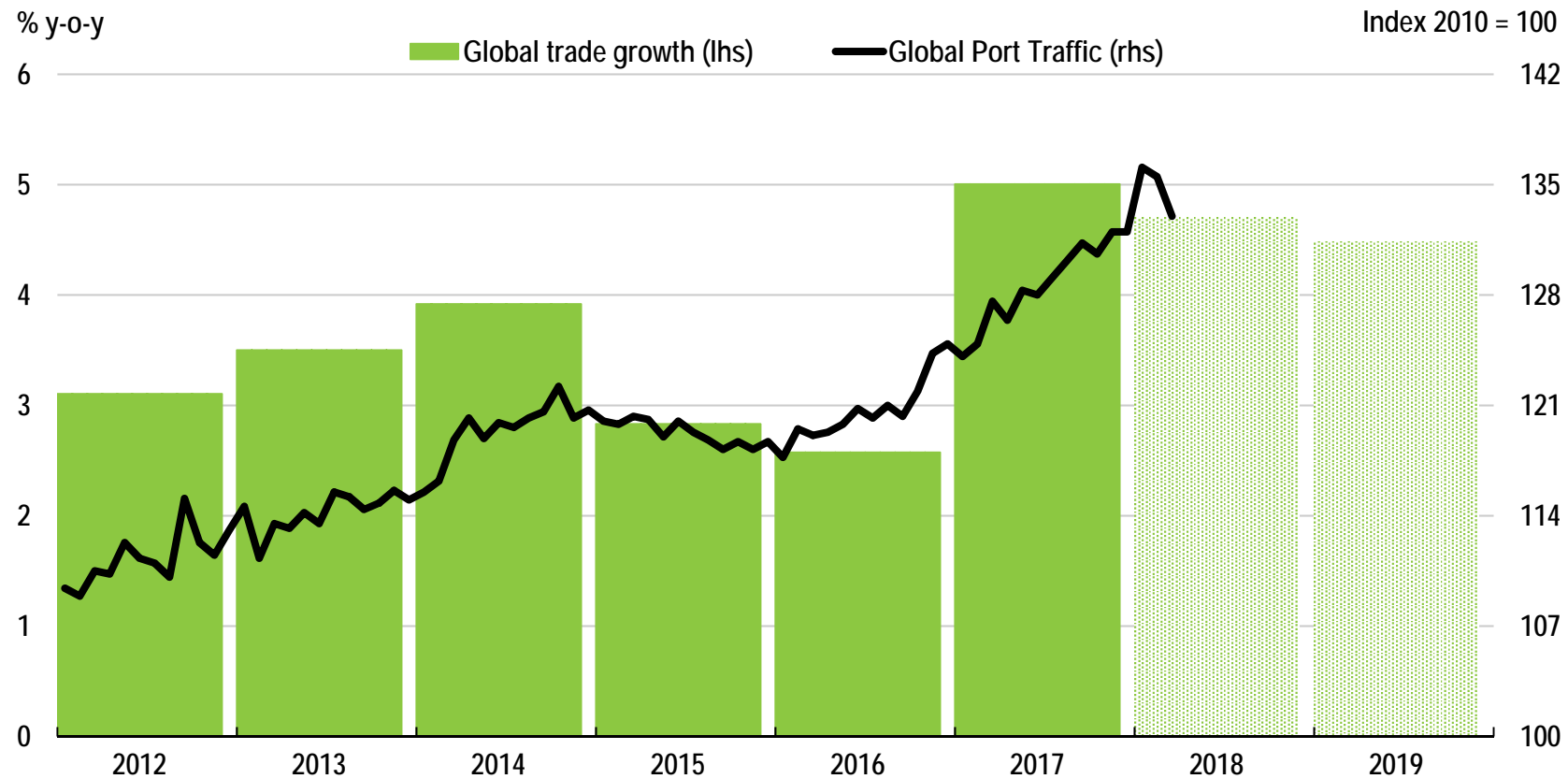


Note: Gross fixed capital formation, in volume. Data are year-on-year growth rates. Projections for 2018 and 2019.
Source: OECD Economic Outlook database; and OECD calculations.



Trade has recovered

Growth in global trade

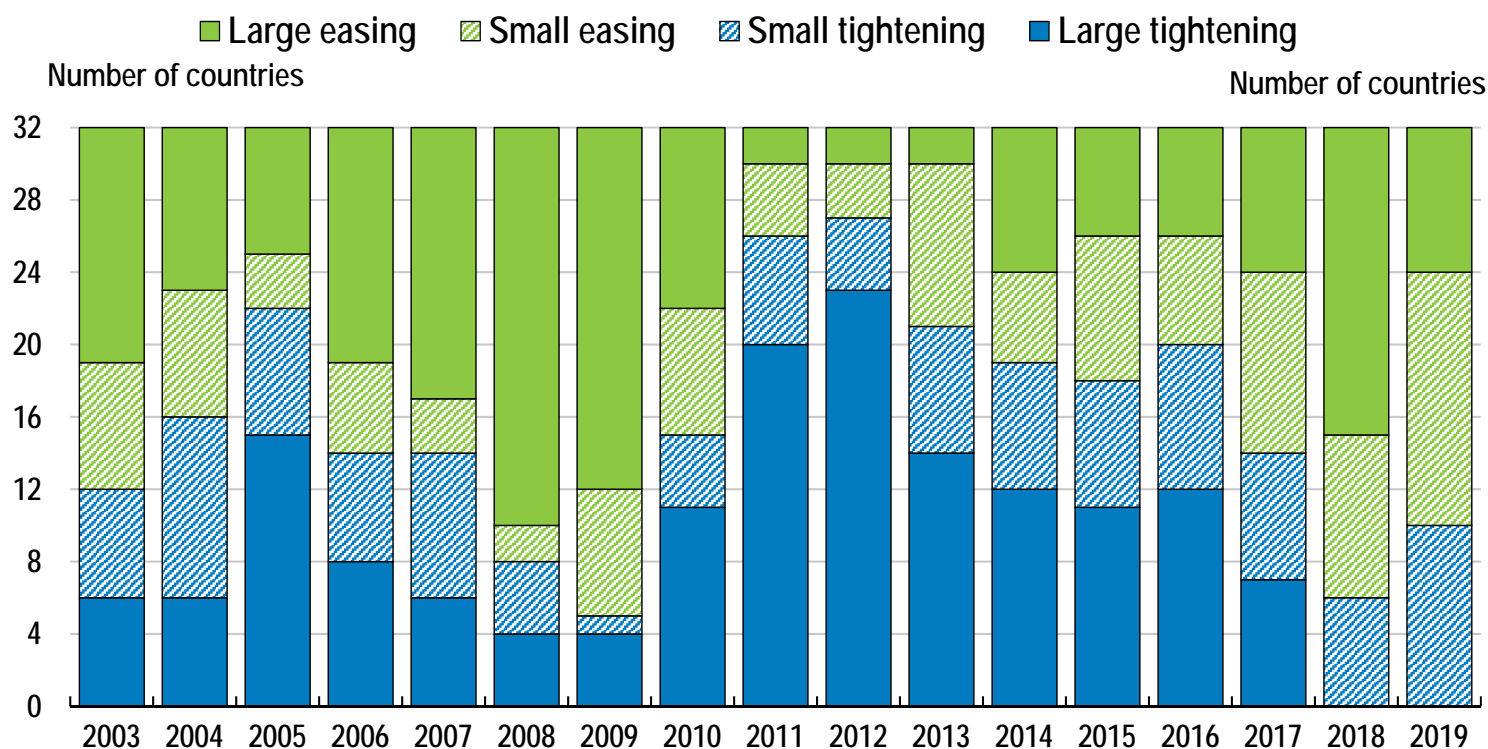


Note: World trade is measured as goods and services trade volumes measured at market exchange rates in US dollars. Global Port Traffic is measured monthly through the RWI/ISL-Container-Throughput-Index, seasonally and working day adjusted. Projections for 2018 and 2019. Source: OECD Economic Outlook database; and RWI/ISL.



Fiscal policy is easing

Change in fiscal stance in OECD countries



Note: The fiscal stance is calculated based on changes in the underlying primary balance as a percentage of potential GDP. Large fiscal easing is for a deterioration of the balance by more than 0.5% of potential GDP and small easing is for a deterioration by less than 0.5% of potential GDP. Large and small fiscal tightening are defined analogously. Chile, Mexico and Turkey are excluded due to the lack of data. Projections for 2018 and 2019.

Source: OECD Economic Outlook database; and OECD calculations.



Equity prices remain high despite a recent correction

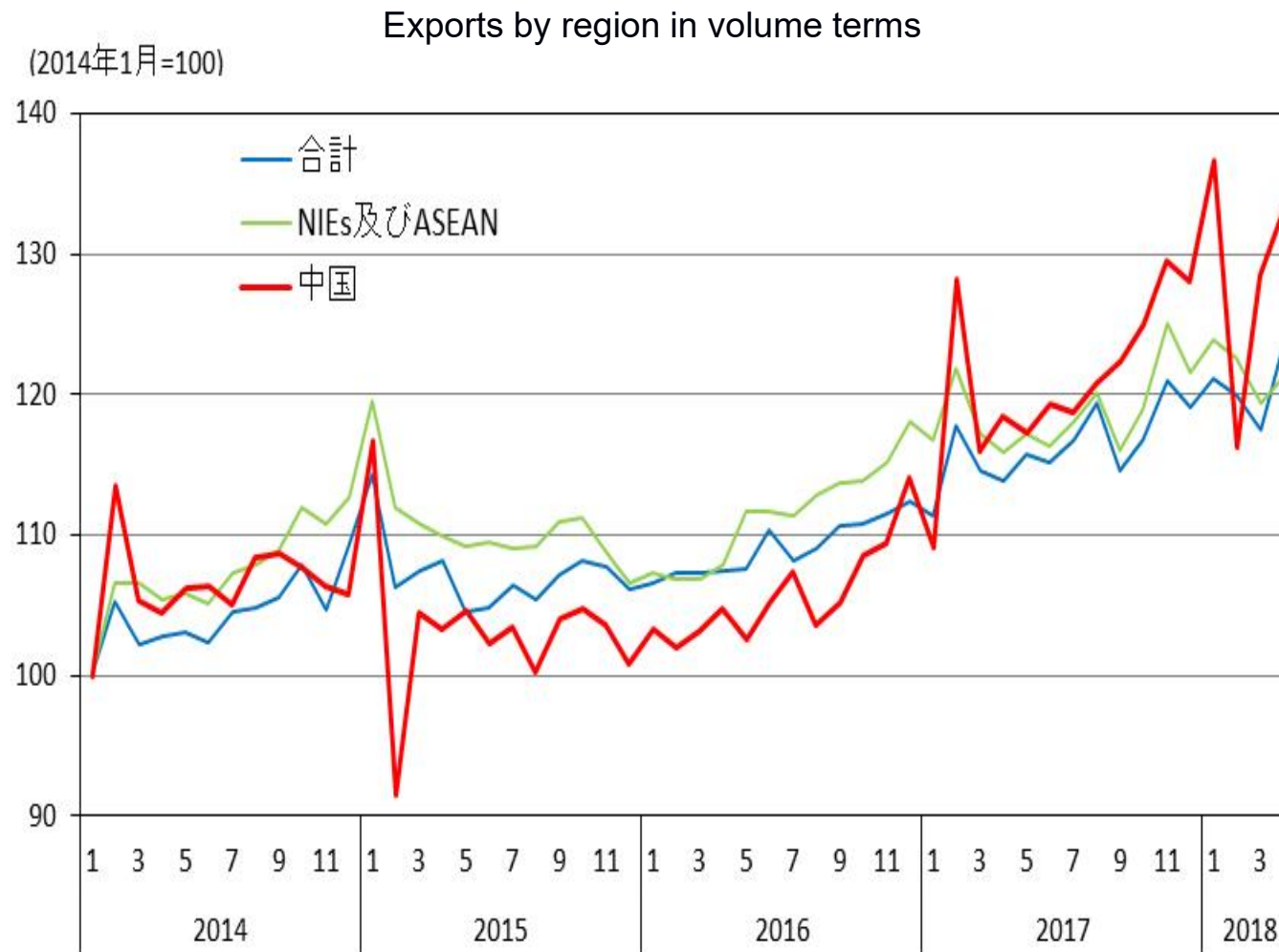
Global stock market capitalisation



Source: World Federation of Exchanges; and OECD calculations.



Exports to other Asian countries have been strong despite a recent slowdown

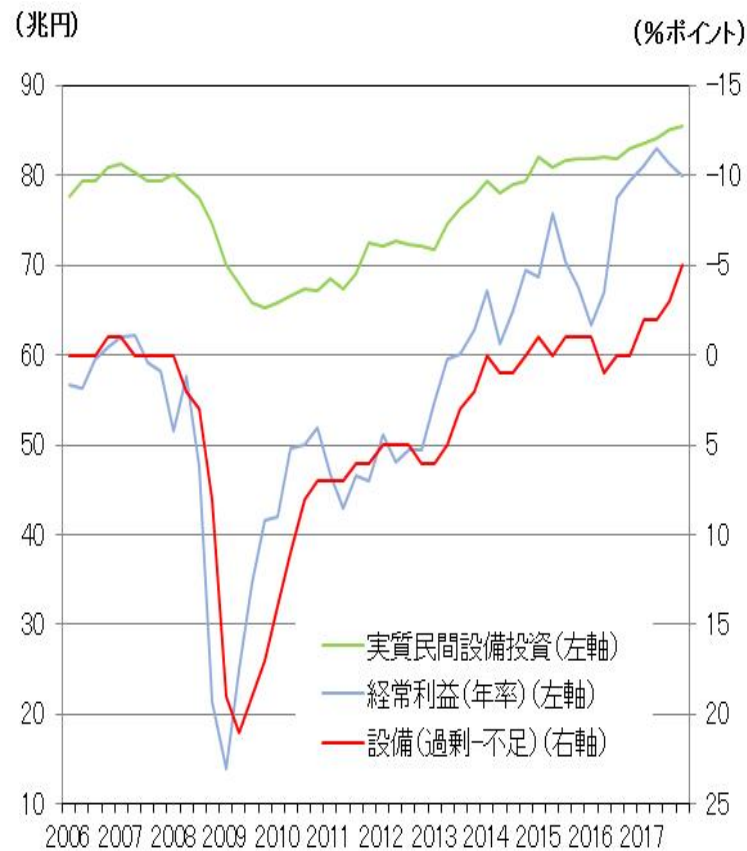


Source: Bank of Japan

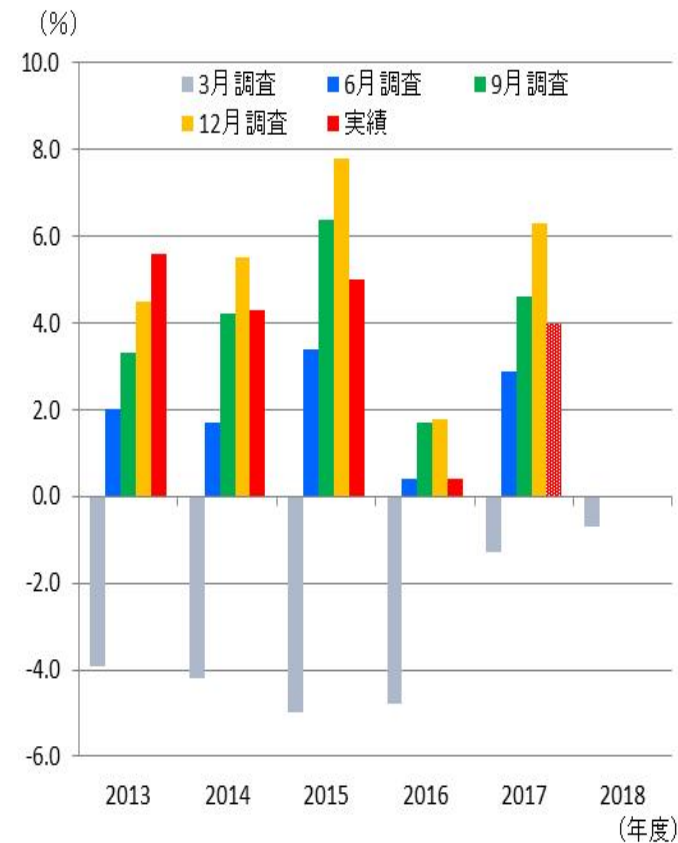


Capital investment by the business sector is gradually expanding in the context of high profits and rising capacity shortages

Capital investment, profits and excess capacity



Tankan survey of firms' capital investment plans

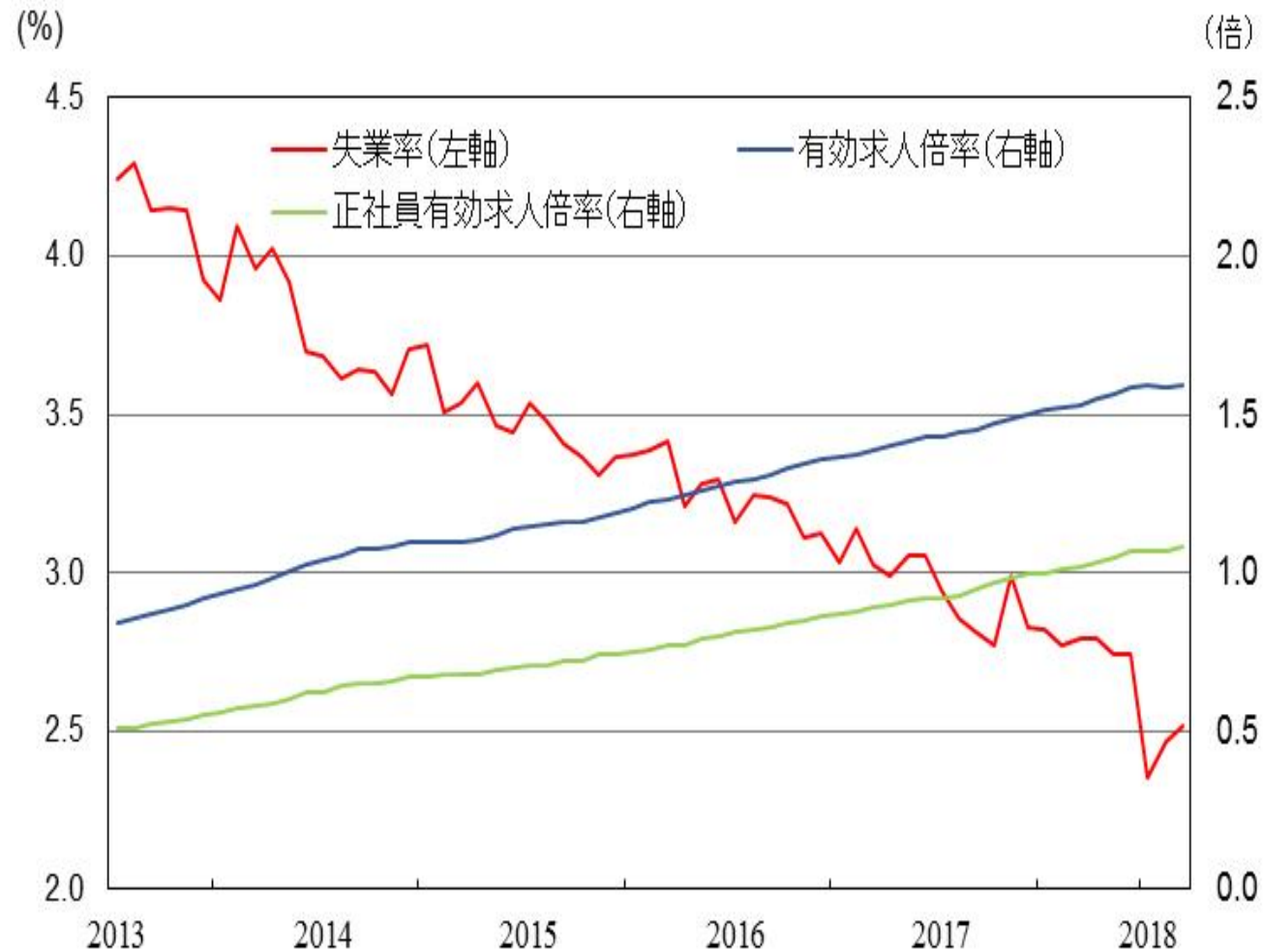


Note: For capacity (firms reporting an excess minus those reporting a shortage), the value is reversed on the right axis. Facilities capacity and capital investment plans are for all industries excluding finance and insurance.

Source: Bank of Japan; Ministry of Finance.



The labour market continues to be tight



Source: Ministry of Internal Affairs and Communications; Ministry of Health, Labor and Welfare.



While nominal wages are gradually rising, real wages have declined recently

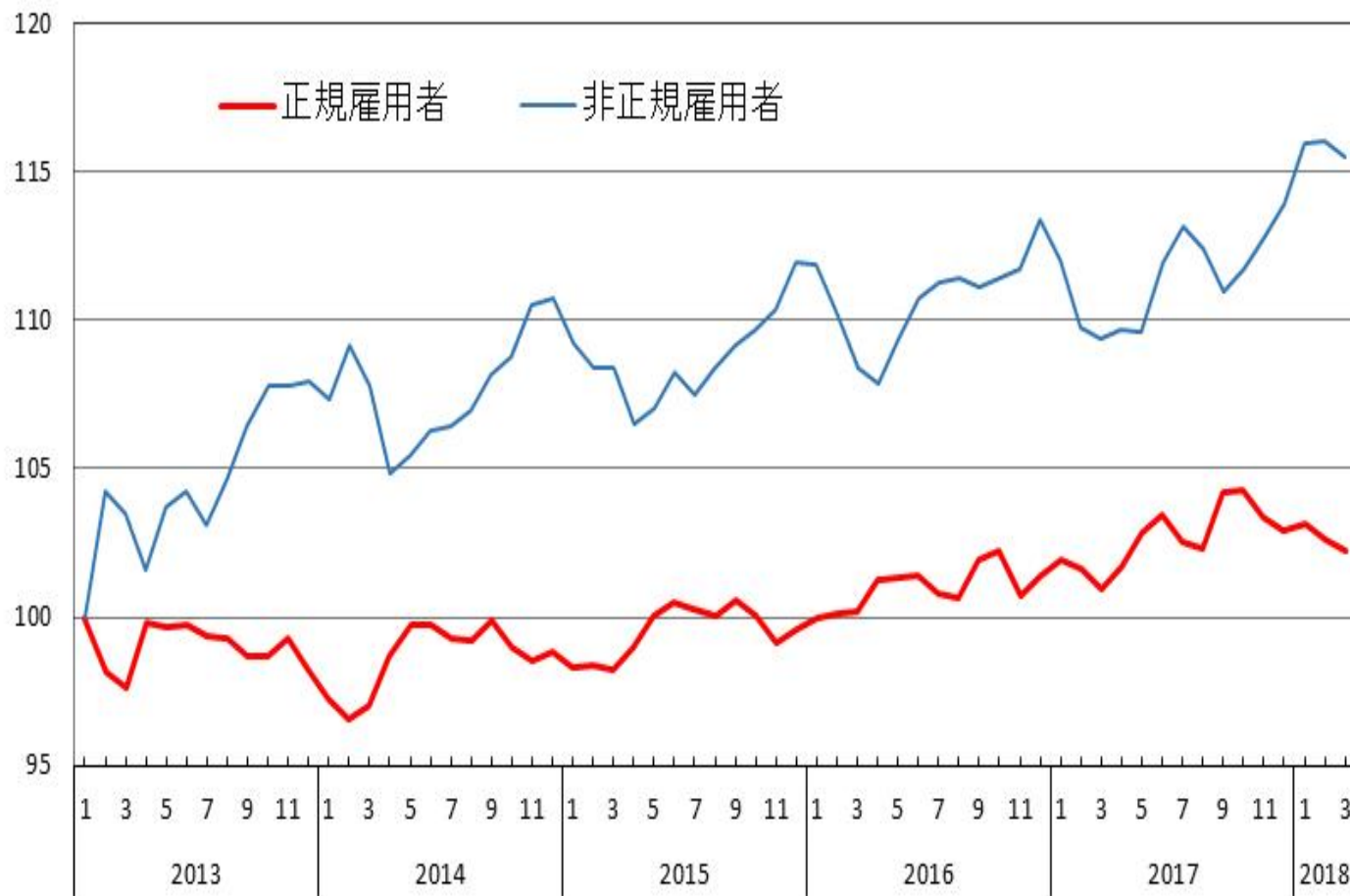


Note: Three-month moving average of seasonally adjusted index for establishments with more than 30 employees. Real wages are calculated using the consumer price index excluding rent. (出典) 厚生労働省



One factor limiting wage increases in the rapid rise in non-regular employment

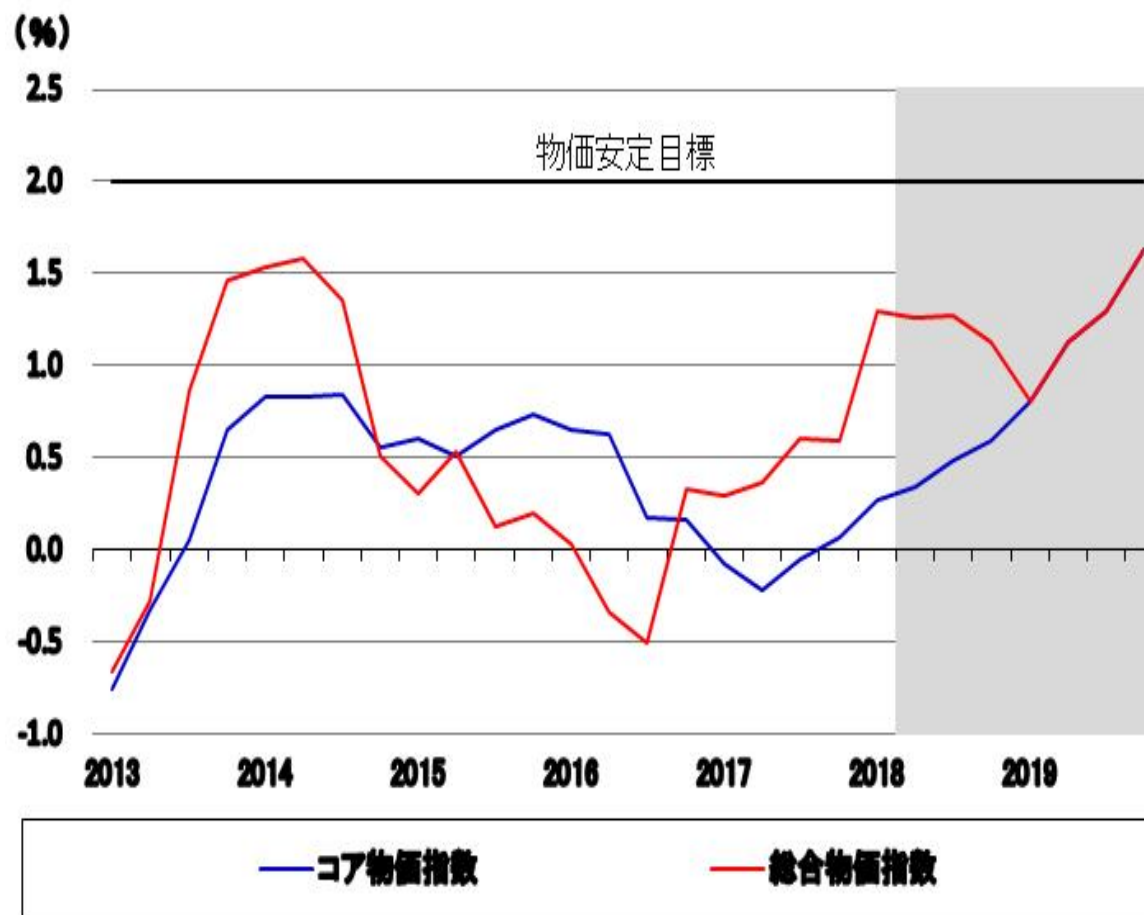
(2013年1月=100)



Source: Ministry of Internal Affairs and Communications.



Inflation remains well below the 2% target



Note: Excludes the effect of consumption tax rate increases in FY 2014 and FY 2019. Compared to the same period of the previous year. The core price index is the OECD definition, excluding food and energy prices. Shaded part is a projection.

Source: OECD Economic Outlook: Statistics and Projections (database); Ministry of Internal Affairs and Communications



OECD projections for the Japanese economy

	2014	2015	2016	2017	2018	2019
	Current prices YEN trillion	Percentage changes, volume (2011 prices)				
GDP at market prices	513.9	1.4	1.0	1.7	1.2	1.2
Private consumption	300.1	0.0	0.1	1.0	0.7	0.9
Government consumption	103.6	1.5	1.3	0.2	0.5	0.7
Gross fixed capital formation	123.1	1.7	1.1	2.5	1.2	0.6
Final domestic demand	526.8	0.7	0.6	1.2	0.8	0.8
Stockbuilding ¹	- 0.2	0.3	-0.2	-0.1	0.1	0.0
Total domestic demand	526.5	1.0	0.4	1.1	0.9	0.8
Exports of goods and services	90.1	2.9	1.7	6.7	5.0	4.5
Imports of goods and services	102.8	0.8	-1.6	3.4	3.3	2.3
Net exports ¹	- 12.7	0.4	0.6	0.6	0.3	0.4
<i>Memorandum items</i>						
GDP deflator	—	2.1	0.3	-0.2	0.1	1.0
Consumer price index ²	—	0.8	-0.1	0.5	1.2	1.5
Core consumer price index ³	—	1.0	0.4	-0.1	0.4	1.5
Unemployment rate (% of labour force)	—	3.4	3.1	2.8	2.5	2.5
Household saving ratio, net (% of disposable income)	—	0.8	2.6	2.6	2.7	2.3
General government financial balance (% of GDP)	—	-3.6	-3.4	-3.5	-3.0	-2.5
General government gross debt (% of GDP)	—	216.6	222.4	224.1	225.5	225.2
Current account balance (% of GDP)	—	3.1	3.8	4.0	3.7	4.1

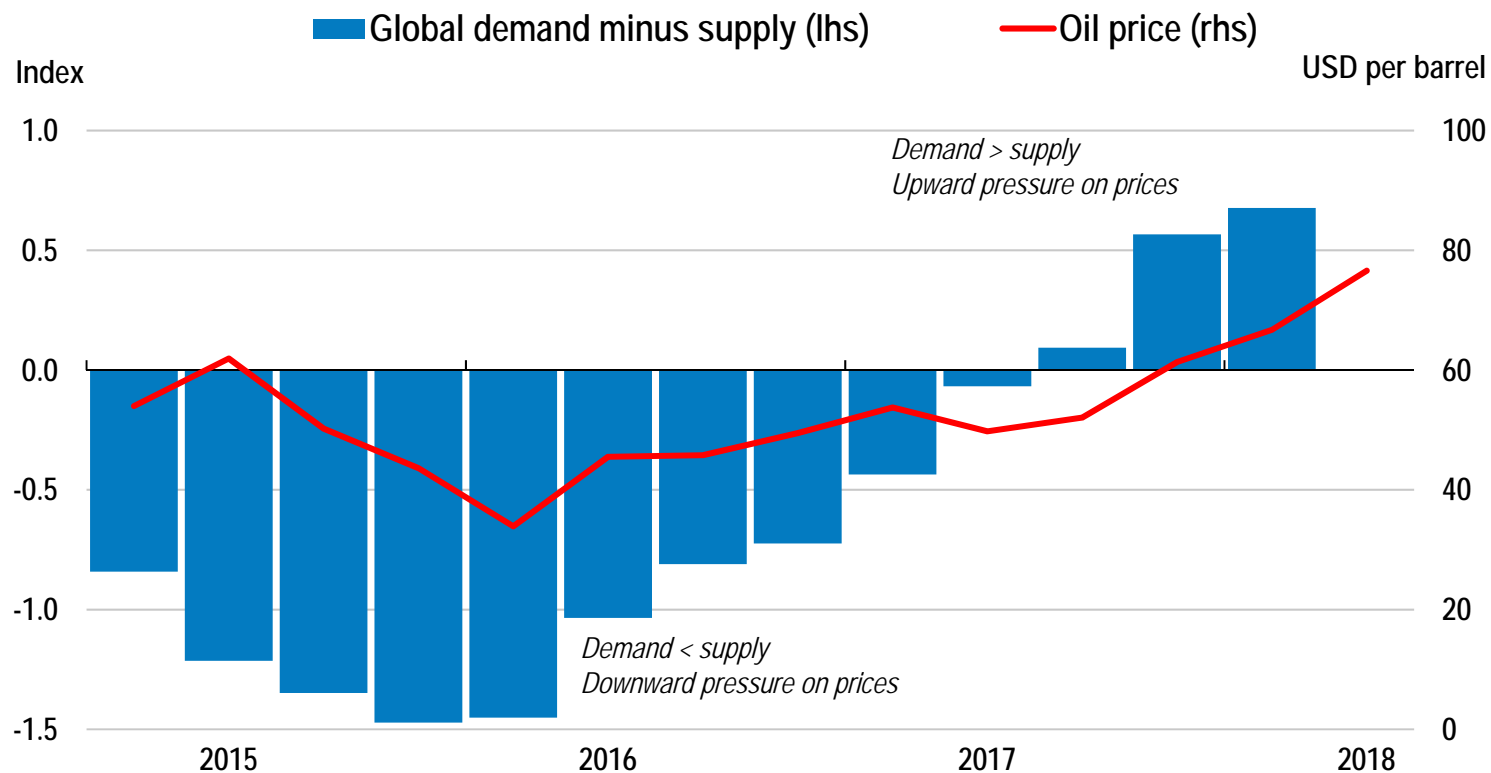
1. Contribution to real GDP change rate.. 2. It is calculated from the total of the seasonally adjusted quarterly value of each year. 3. Consumer price index excluding food and energy prices.

Source: OECD Economic Outlook, May 2018.



Oil prices have risen significantly

Global demand-supply balance and oil prices

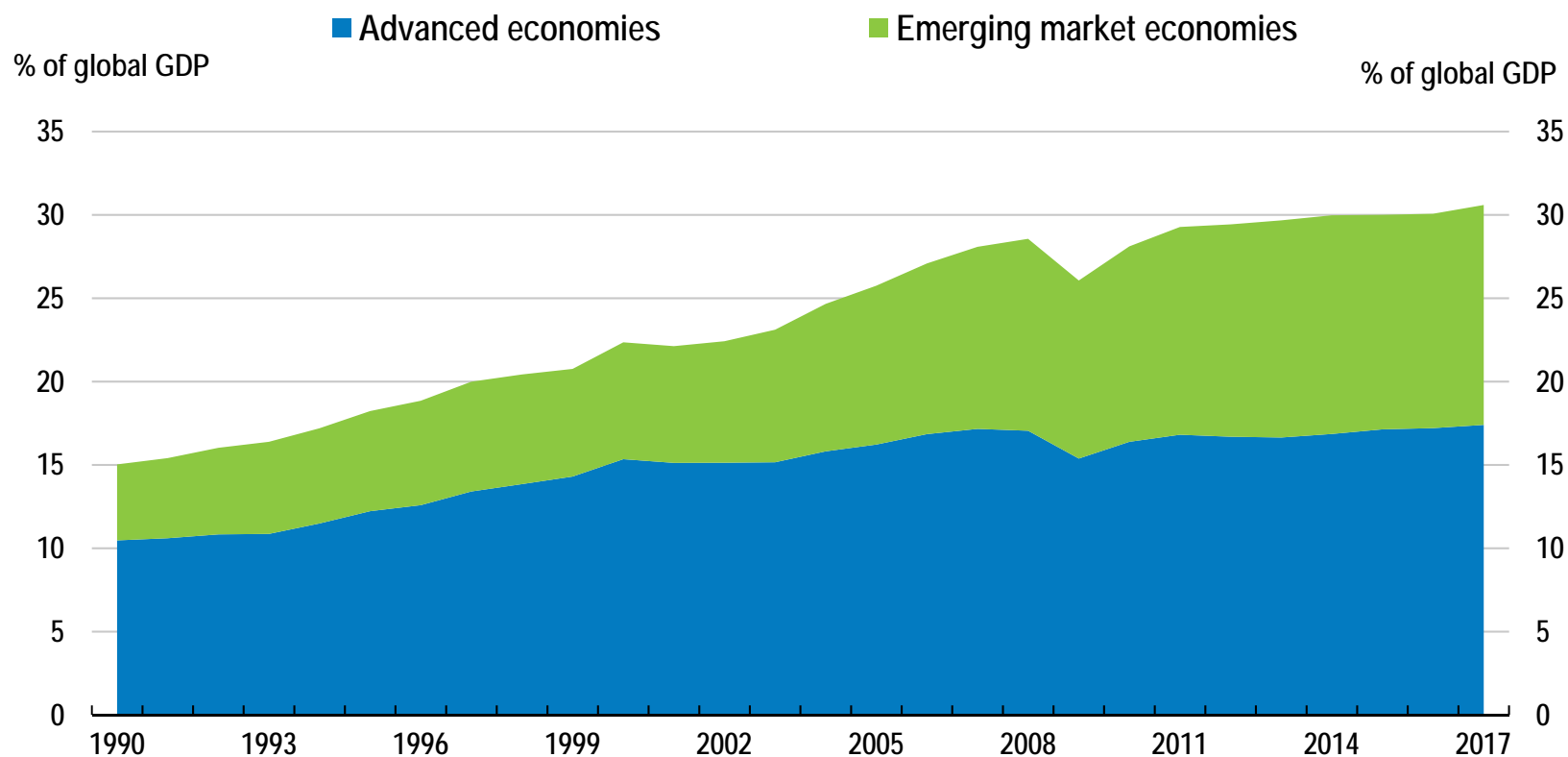


Note: The global demand-supply balance measures the difference between global supply and global demand, both indexed to 100 in 2012Q3, 4 quarter moving average. Oil price refers to crude oil Brent price. The last point for oil prices is the last available daily value, as of 28 May 2018. Source: International Energy Agency; Thomson Reuters; and OECD calculations.



A negative shock to trade would be more harmful than in the past

Global exports and imports



Note: Trade is the average of exports and imports in a given year. Both trade and GDP are measured in volumes in US dollars at market exchange rates.

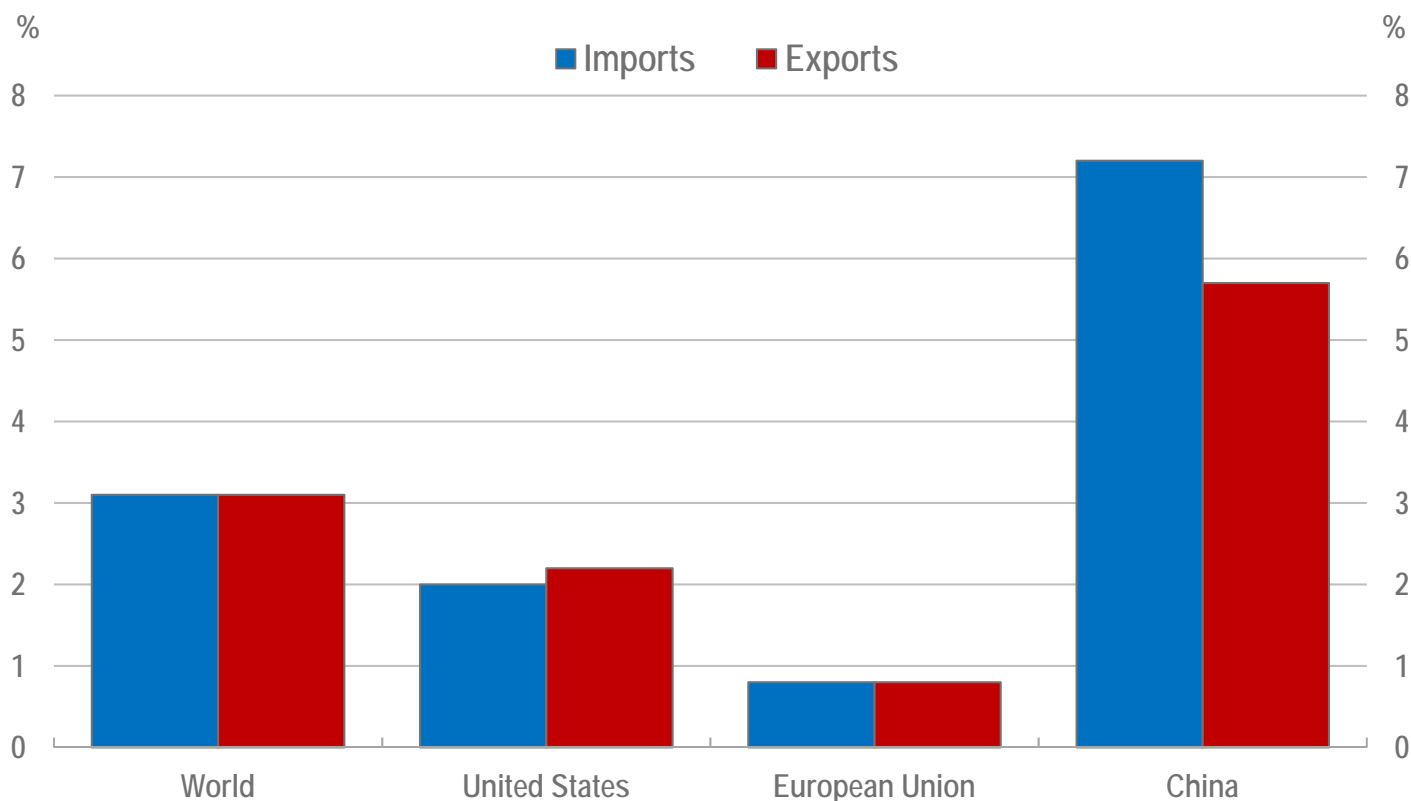
Source: OECD Economic Outlook database; and OECD calculations.



Reduce trade barriers to boost productivity and incomes

Increase in trade from multilateral tariff reductions

Estimated medium-term impact of lowering tariffs in all G20 economies



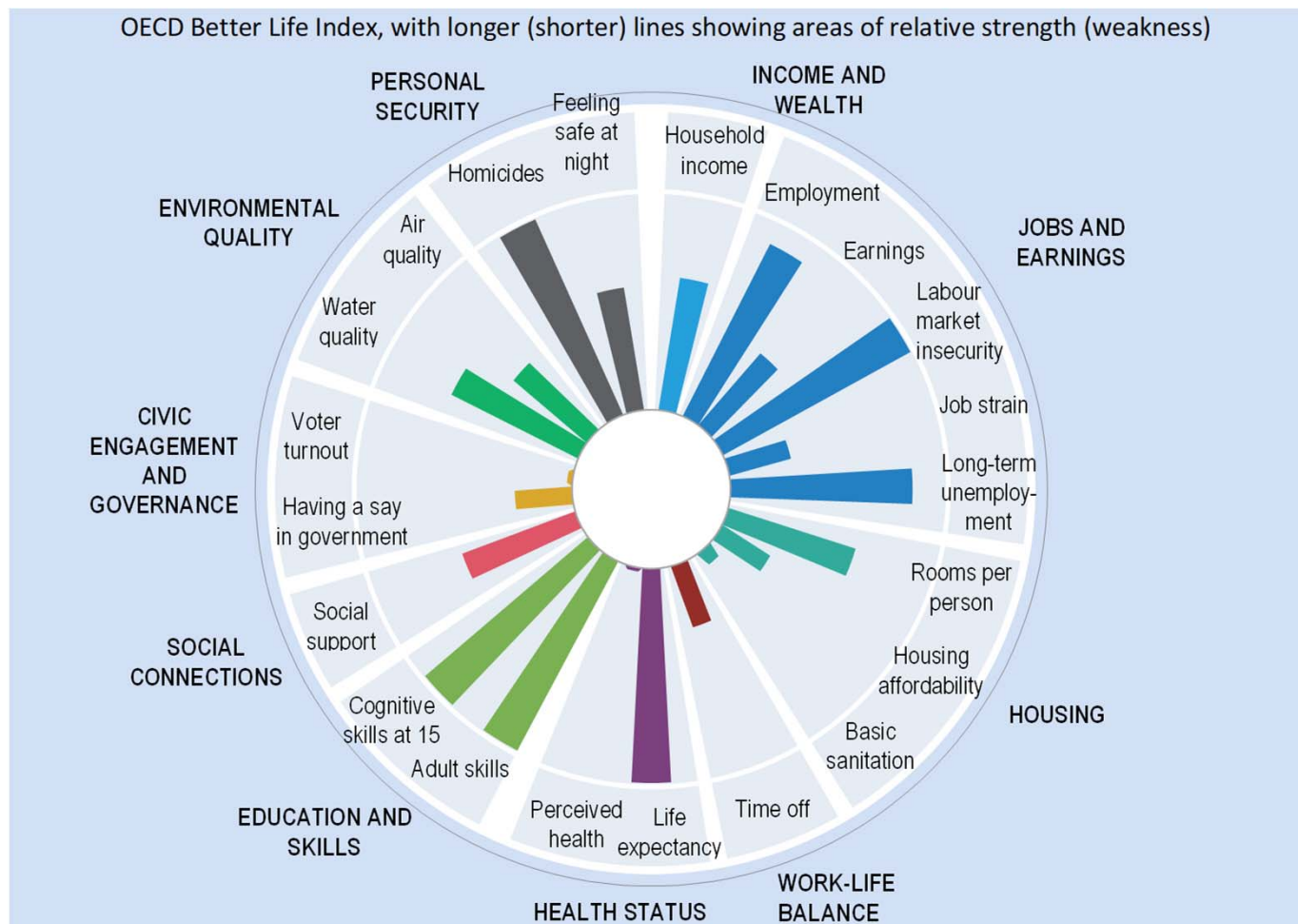
Note: Scenario in which tariffs are reduced by all G20 economies to the lowest level applied across them for each sector.
Source: OECD METRO model simulations.



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Japan's well-being record is mixed

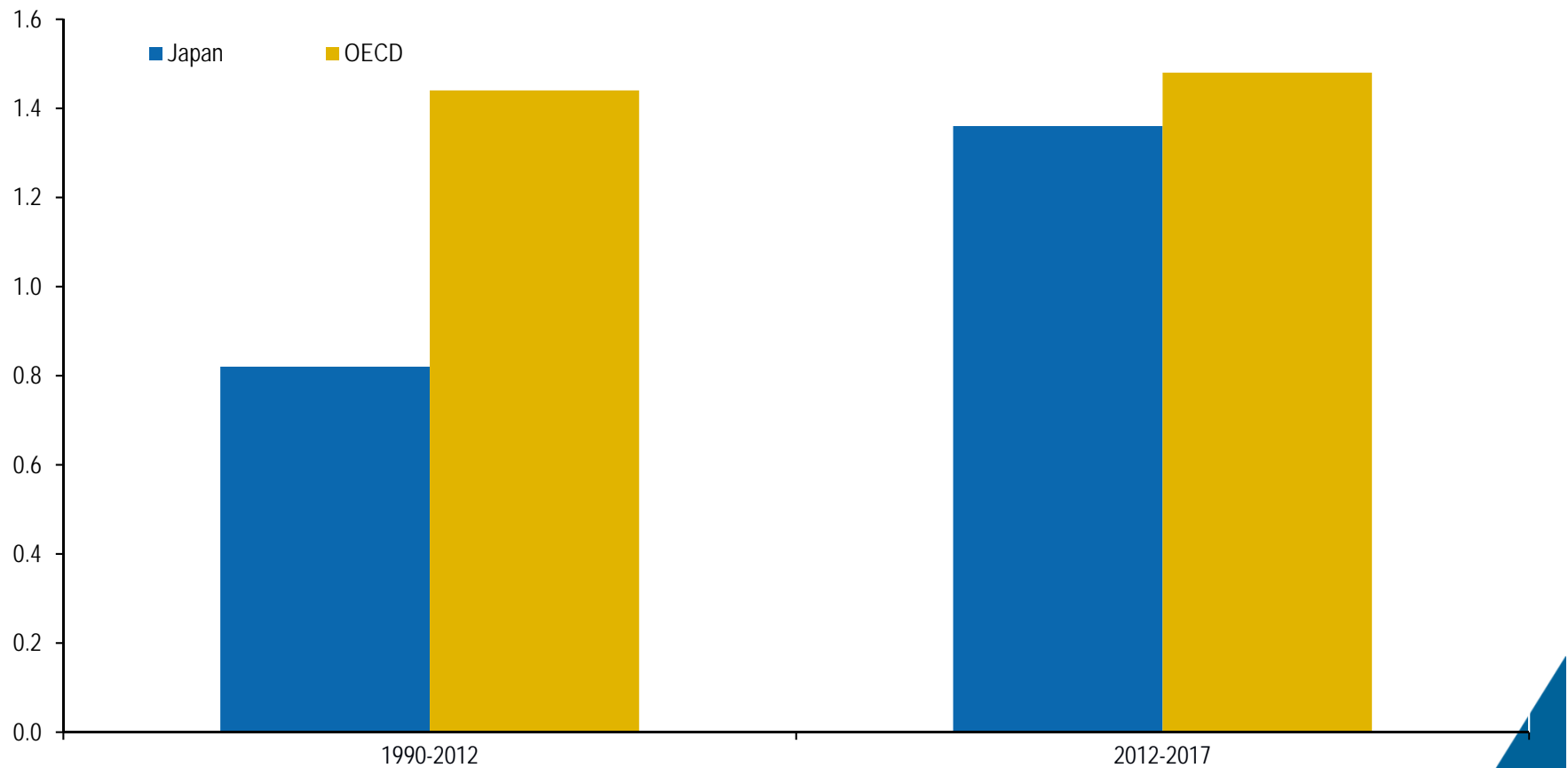


Source: OECD (2017a), *How's Life? 2017: Measuring Well-being*, OECD Publishing, Paris, http://dx.doi.org/10.1787/how_life-2017-en.



Japan's per capita output growth has picked up

Per capita output growth (%), Japan and OECD average

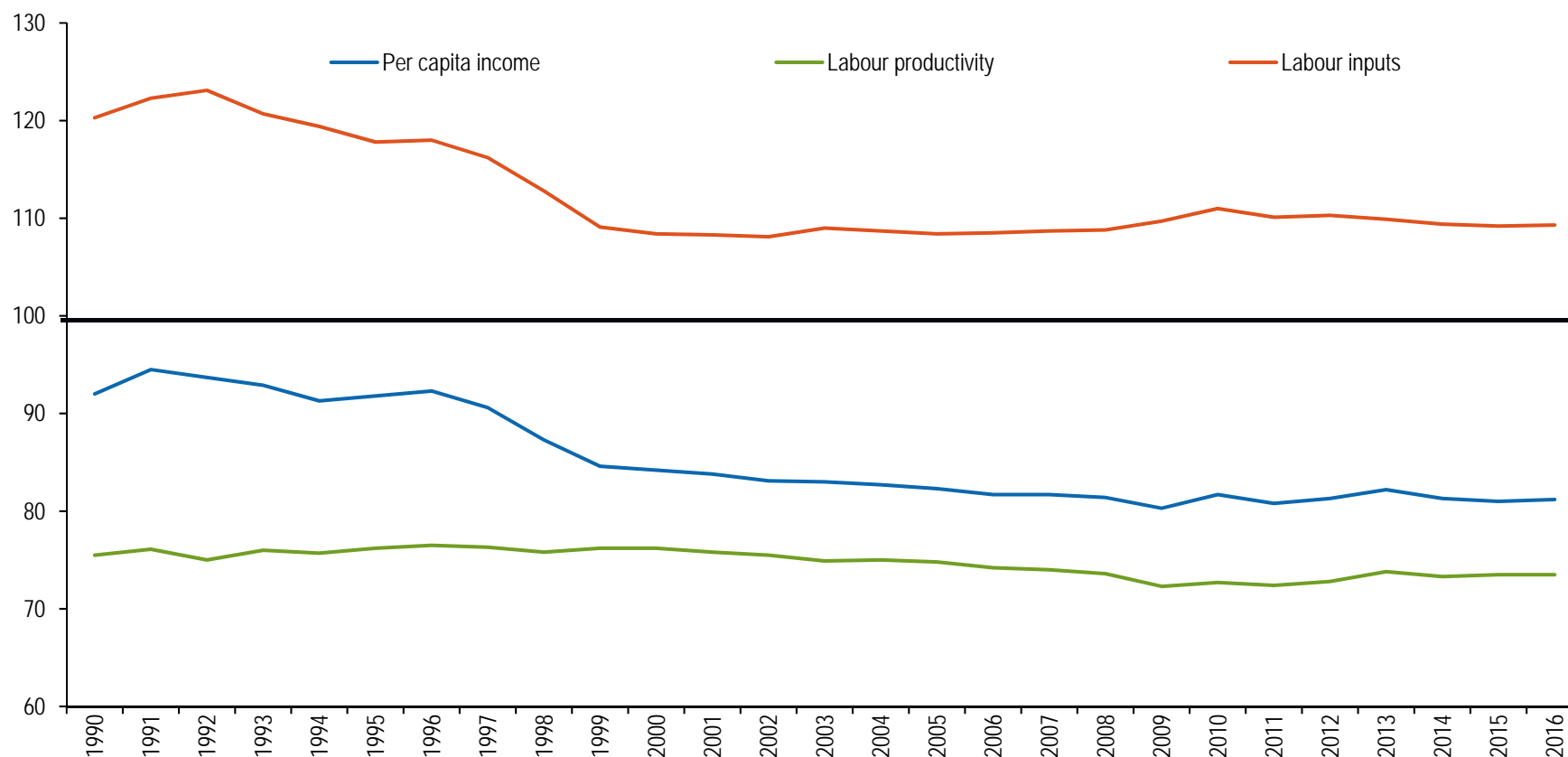


Source: OECD Economic Outlook: Statistics and Projections (database).



Per capita output and labour productivity remain well below the top half of OECD countries

Per capita income, labour productivity and labour inputs relative to top half of OECD (=100)



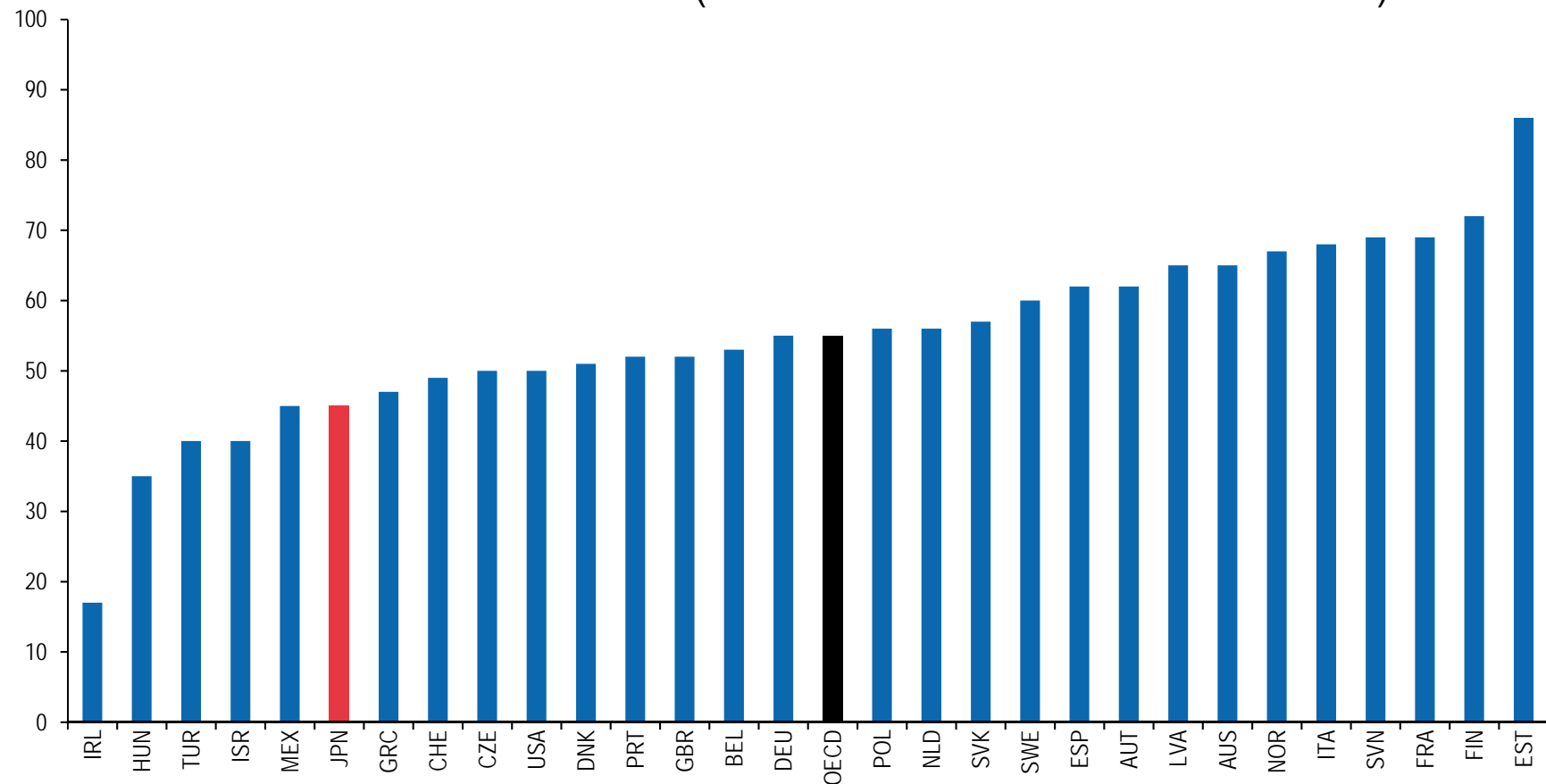
Note: Compared to the weighted average using population weights of the 17 OECD countries with highest GDP per capita in 2016, based on 2016 purchasing power parities (PPPs). The sum of the percentage difference in labour resource utilisation and labour productivity do not add up exactly to the GDP per capita difference, since the decomposition is multiplicative.

Source: OECD (2018), *OECD Economic Outlook: Statistics and Projections* (database).



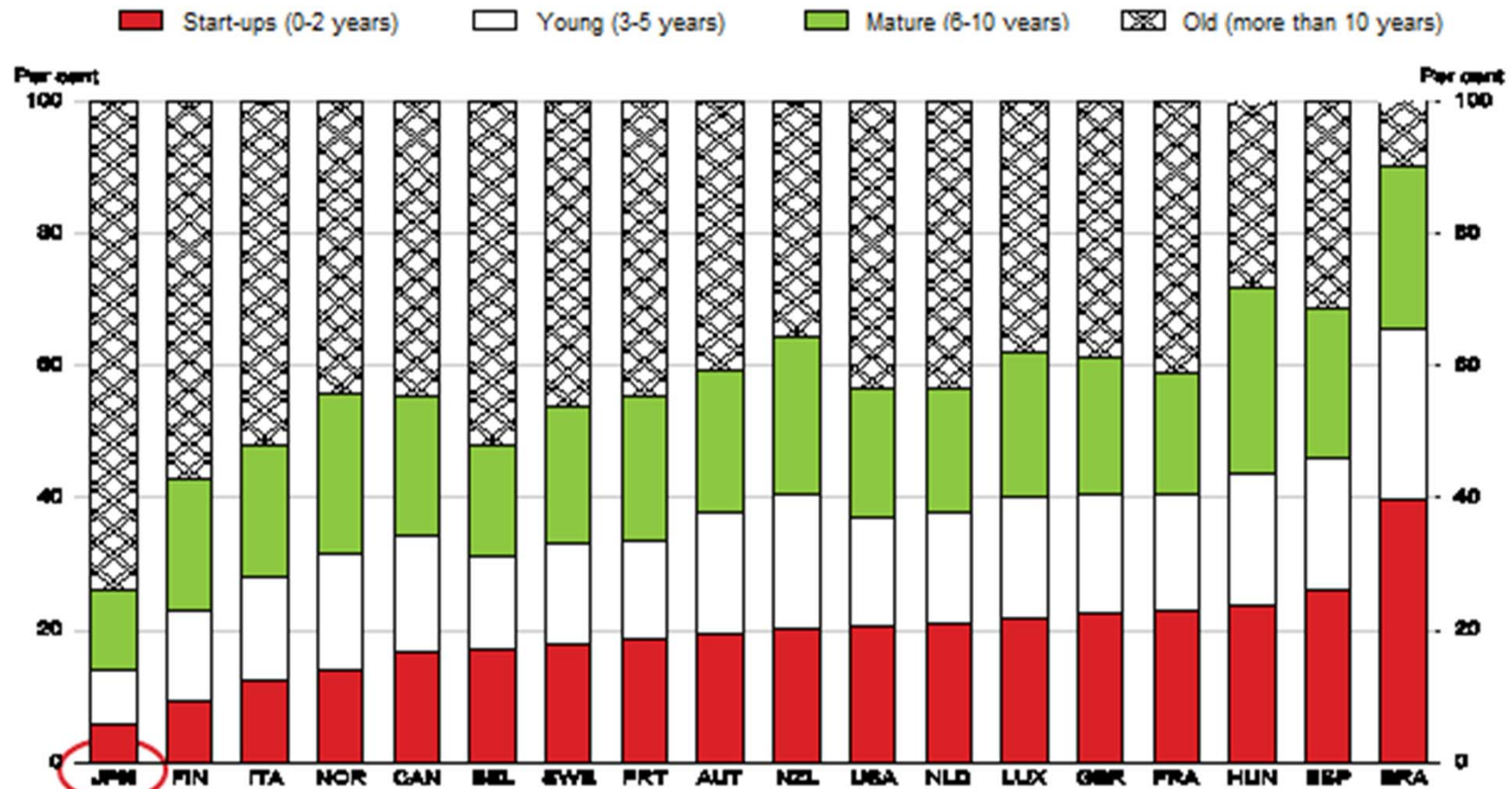
Productivity of small firms is low relative to large firms in Japan

Value added per person employed in 2013 in firms with 10-49 workers relative to that in firms with more than 250 workers (firms with more than 250 workers = 100)



Source: OECD (2016b), Entrepreneurship at a Glance, OECD Publishing, Paris, http://dx.doi.org/10.1787/entrepreneur_aag-2016-en.

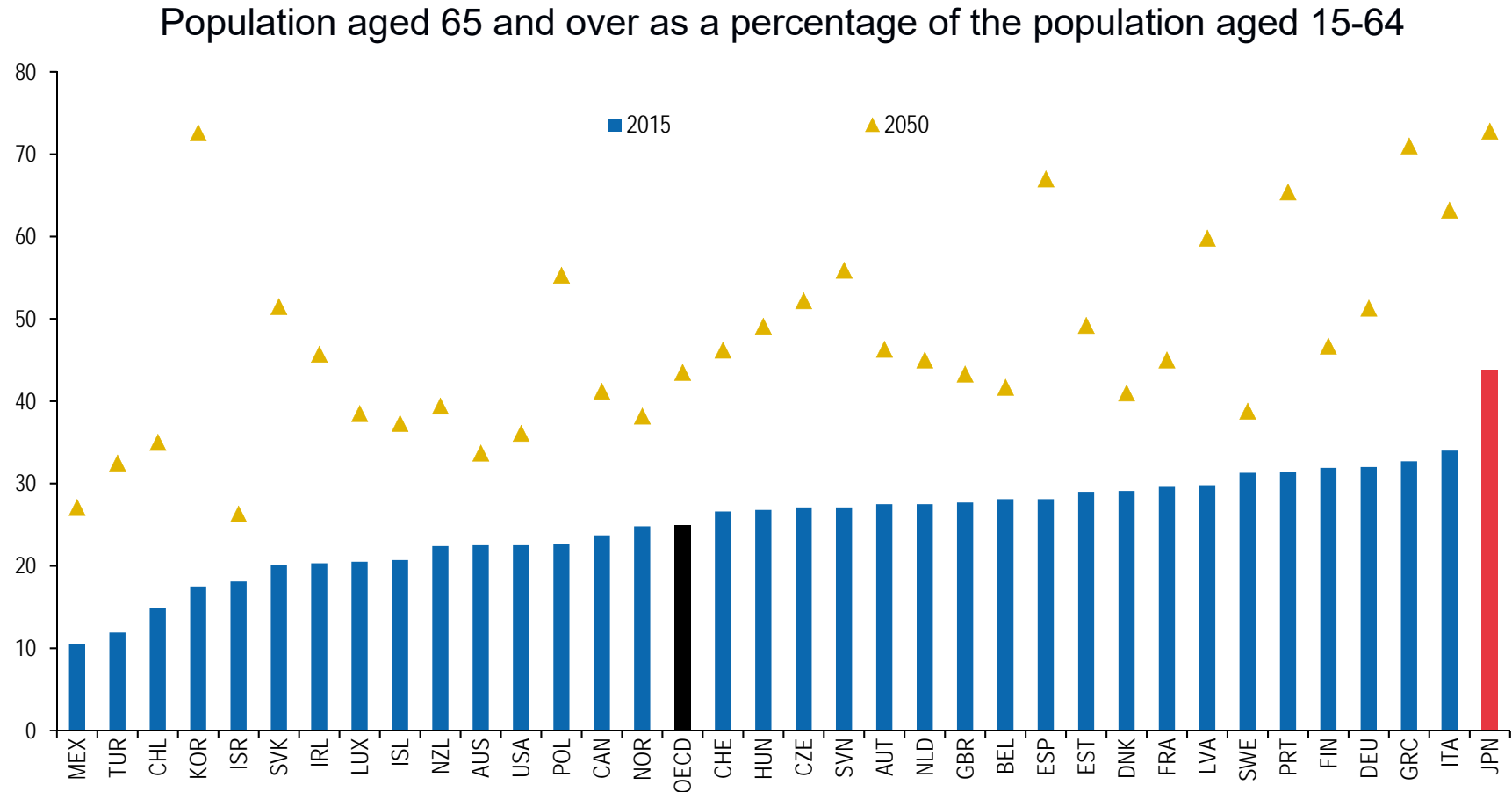
Small firms in Japan are old, suggesting a lack of economic dynamism



Source: Criscuolo et al. (2014).



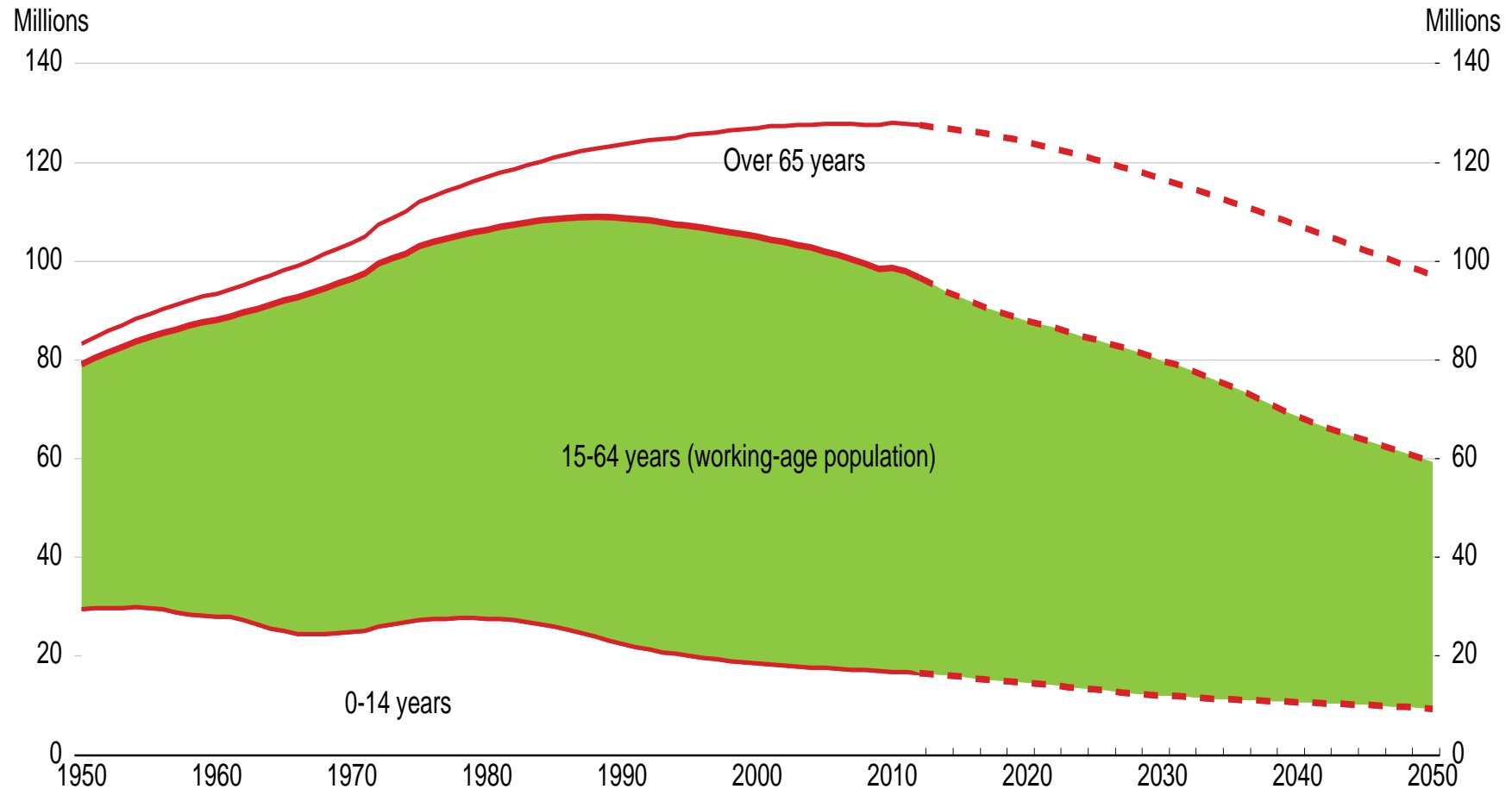
Japan's population will remain the oldest in the OECD through 2050



Source: OECD Demography and Population (database).



Japan faces a shrinking and ageing population

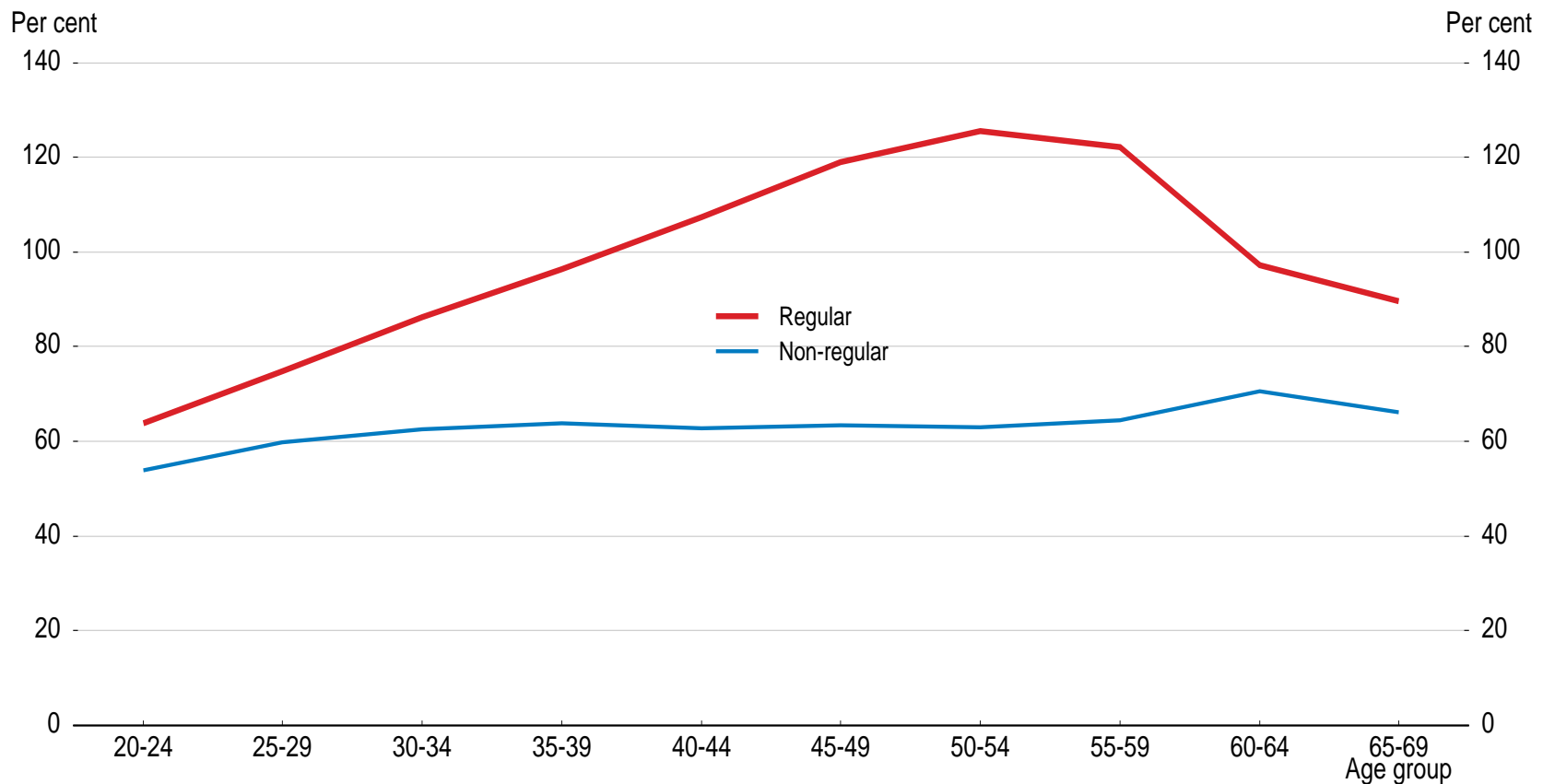


Source: OECD Demography and Population Statistics (database).



The wage gap between regular and non-regular workers is large

Wage as a percentage of the average wage of regular employees¹



1. In June 2015, excluding overtime payments and bonuses.

Source: Ministry of Health, Labour, and Welfare "Basic Survey on Wage Structure 2015".

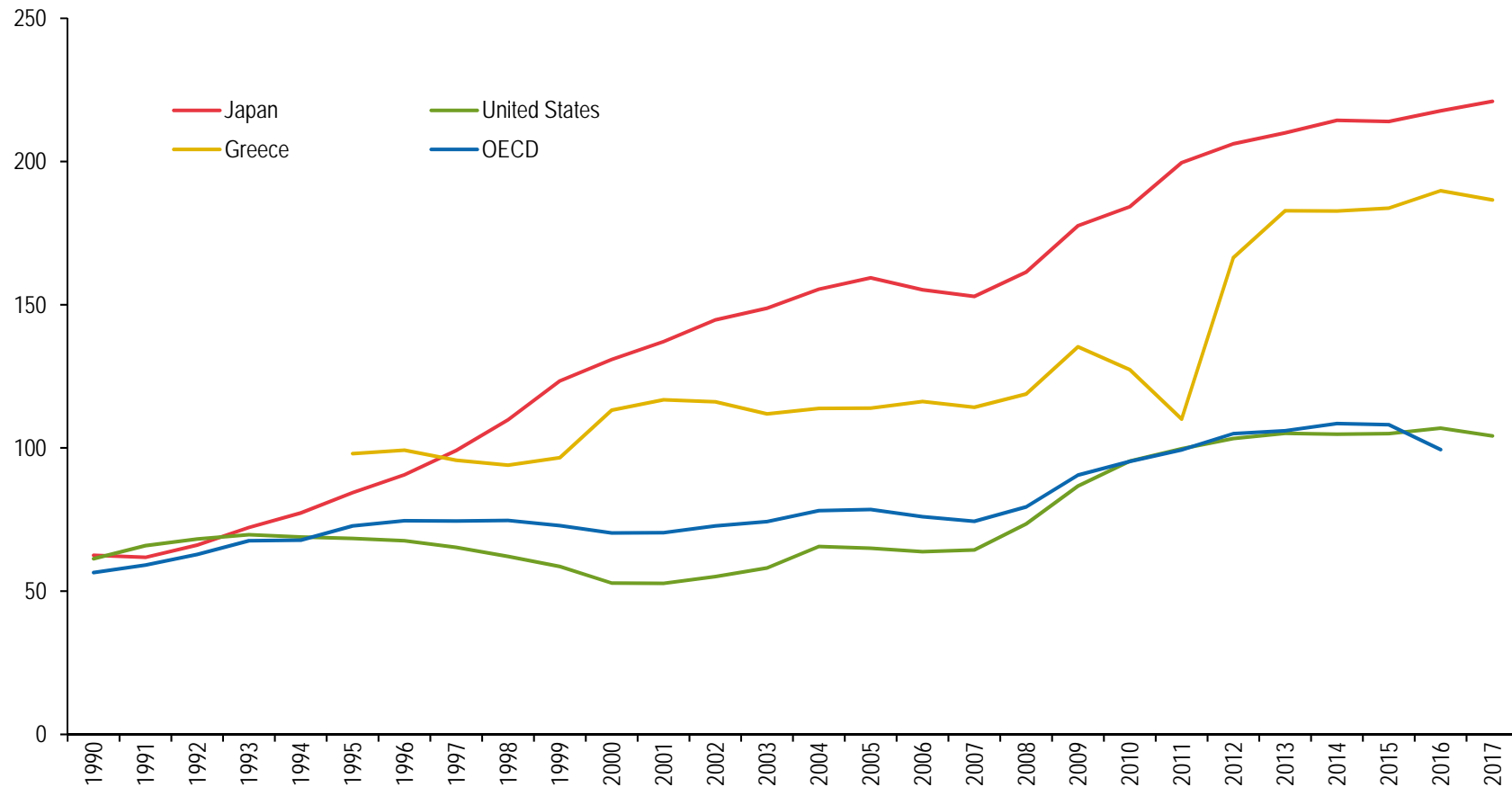


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Japan's fiscal situation has deteriorated considerably over the past 25 years

Gross government debt as a percentage of GDP

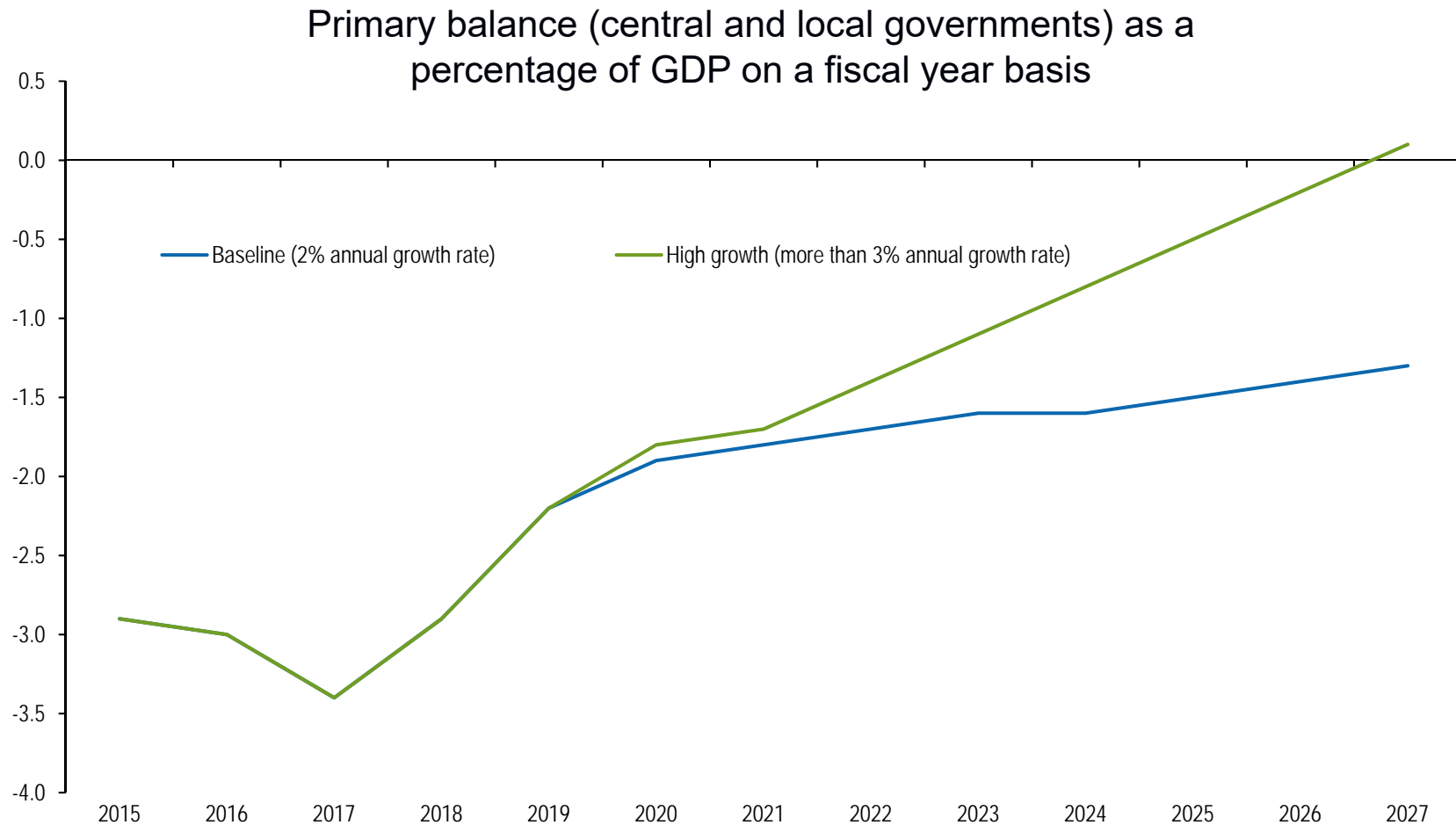


Note: OECD projections for 2016-17 for Japan and 2017 only for Greece.

Source: OECD Economic Outlook: Statistics and Projections (database).



Government projections show that the FY 2020 target for a primary surplus is out of reach



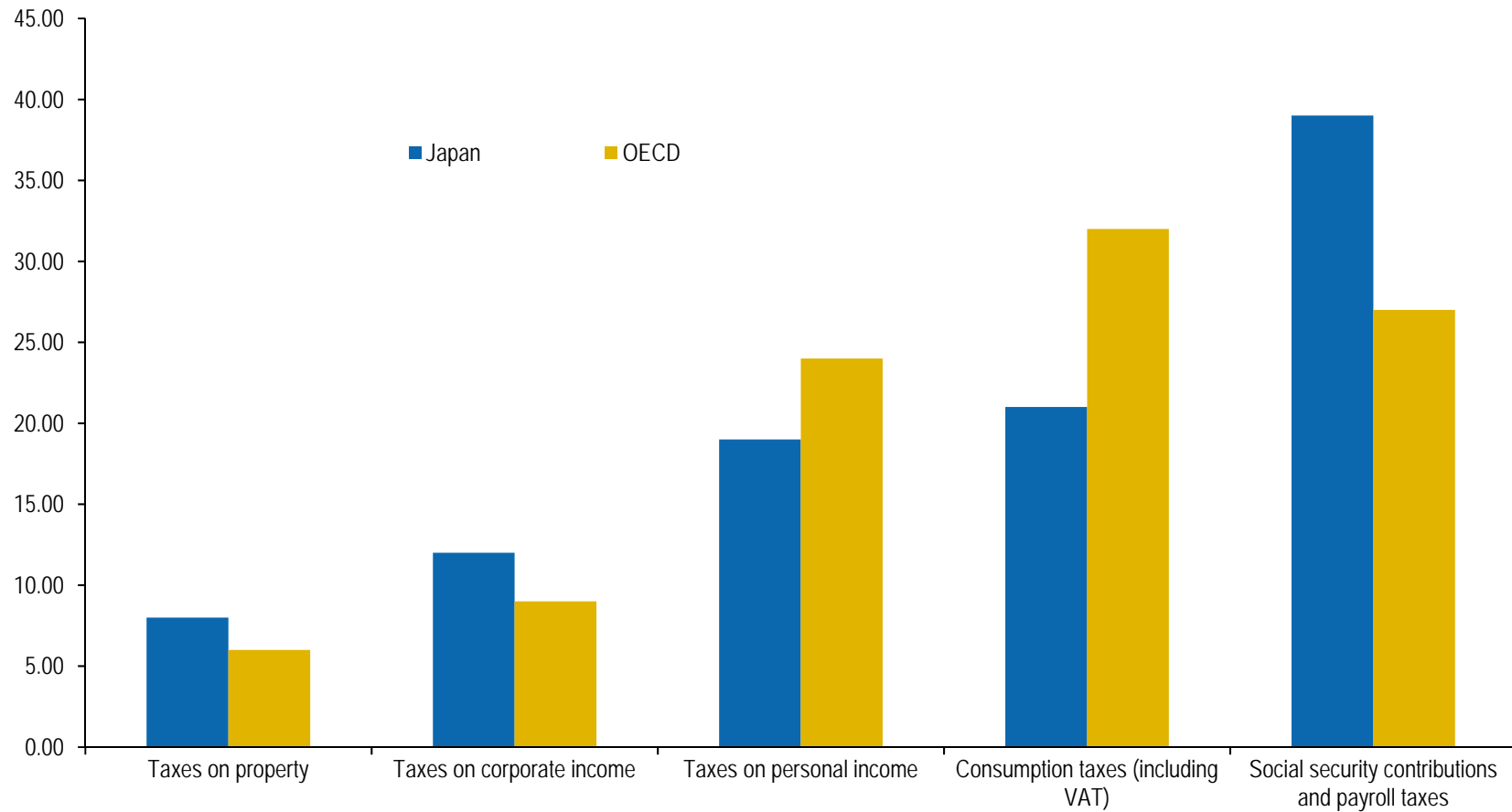
Note: January 2018 projections.

Source: Cabinet Office of Japan (2018), *Economic and Fiscal Projections for Medium to Long Term Analysis, Provisional Translation*, Cabinet Office, Tokyo, <http://www5.cao.go.jp/keizai3/econome/h30eiya1.pdf>.



Japan's tax revenue tends to rely relatively more on direct taxes

Structure of total tax revenues in Japan and the OECD in 2015



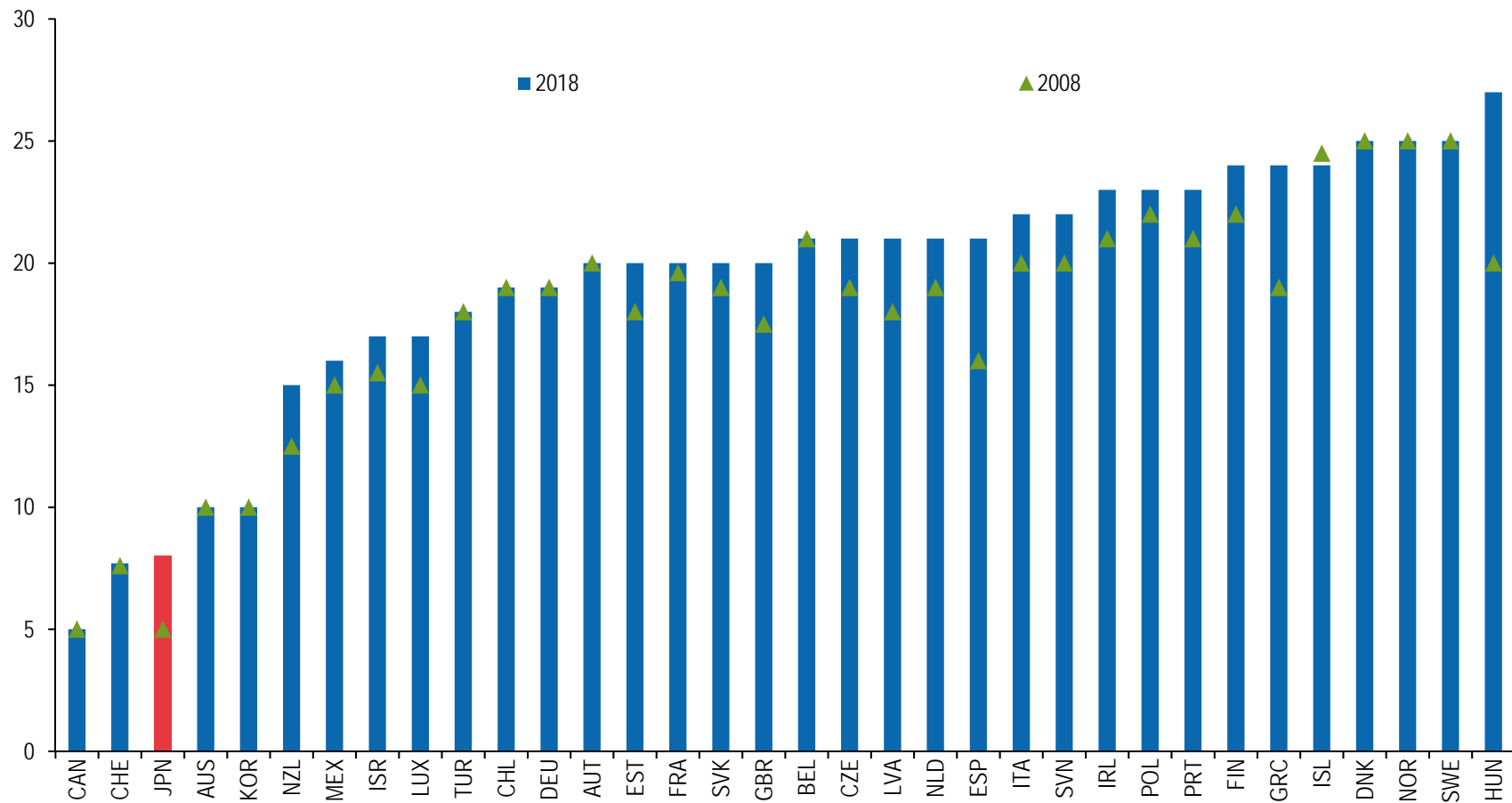
Note: In the OECD approach, revenue sources include social security contributions.

Source: OECD Revenue Statistics Database.



Japan has the third-lowest standard VAT rate in the OECD

Standard VAT rates in the OECD in % in 2008 and 2018

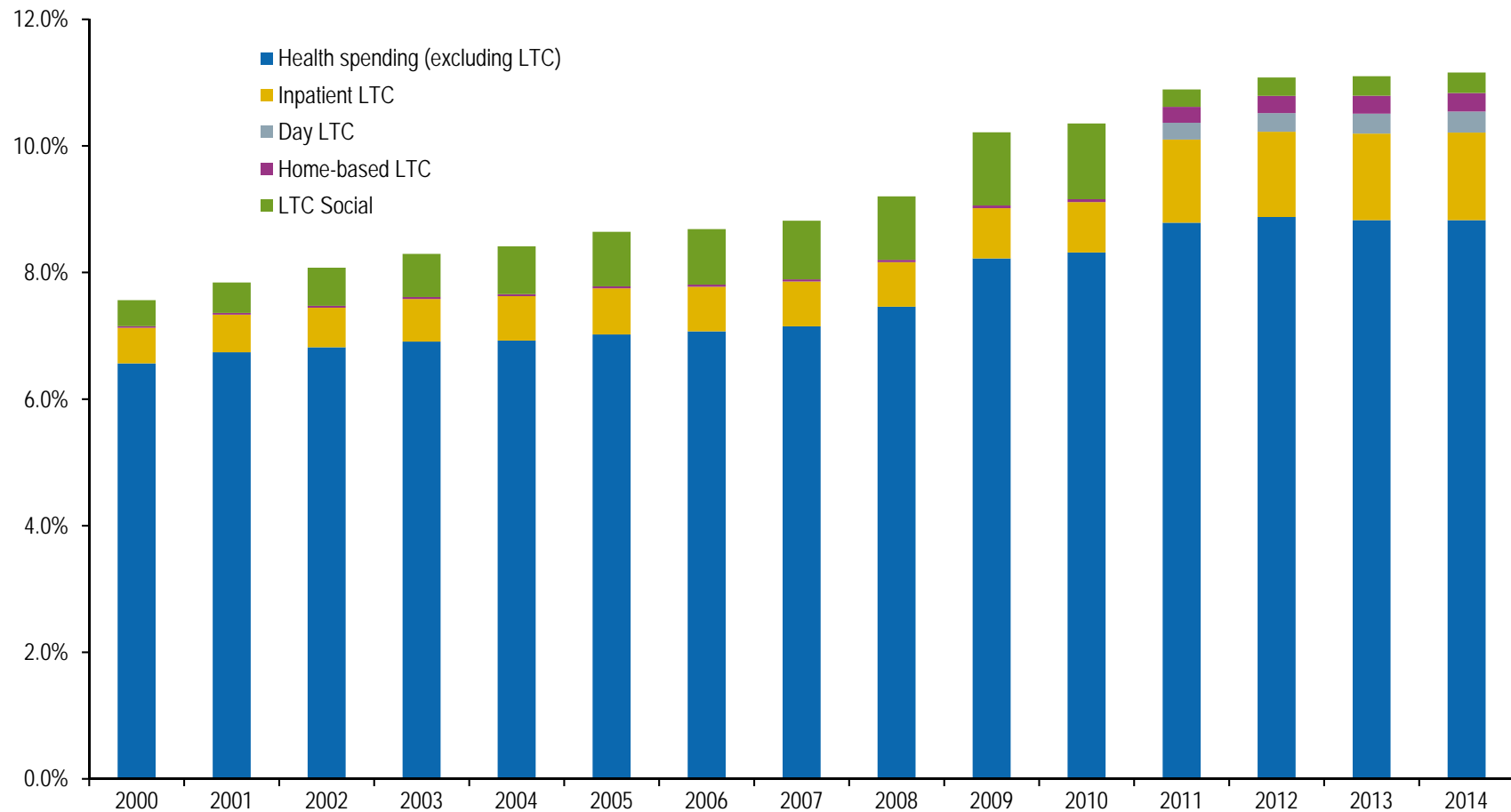


Source: OECD Tax (database).



Health and long-term care expenditures have risen rapidly in the last decade

Health and long-term care expenditures in Japan, % of GDP

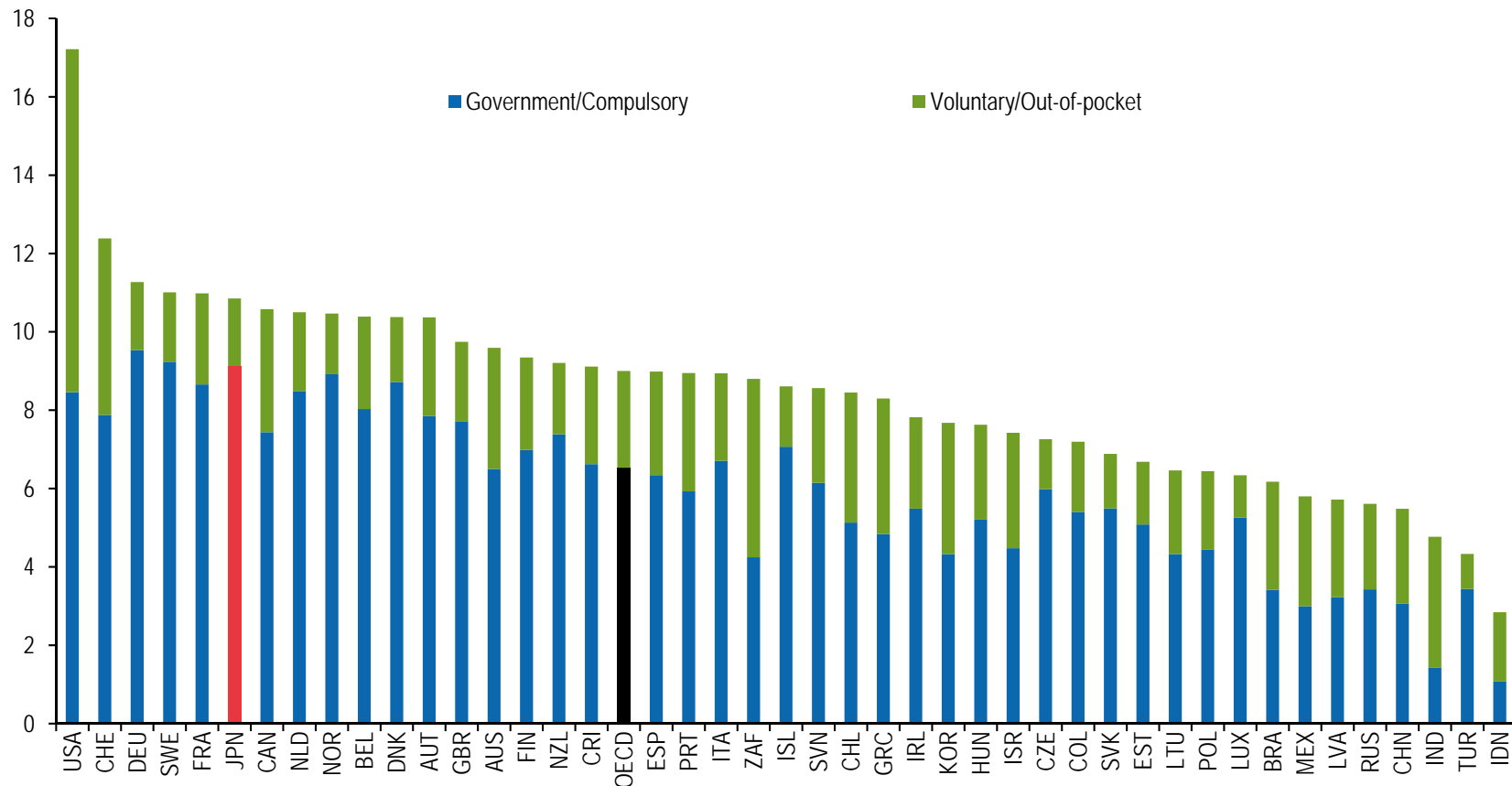


Source: OECD Health Statistics 2017.



Japan's healthcare expenditure as a share of GDP is among the highest in the OECD

Healthcare expenditure as a share of GDP, 2016 (or nearest year)



Note: Healthcare expenditure includes health-related LTC spending and excludes investments. Australian expenditure estimates exclude all expenditure for residential aged-care facilities in welfare (social) services.

Source: OECD Health Statistics 2017 for OECD countries, World Health Organization Global Health Expenditure Database for non-OECD countries.



International comparisons show room for healthcare cost savings in Japan

In 2014 or latest year available

	Number of doctor consultations per capita per year	Share of private expenditure on outpatient care (%)	Average total hospital stay ¹	Average hospital stay for acute care ¹	Total number of hospital beds ²	Number of acute-care beds ^{2,3}	Number of long-term care beds ^{2,3}	Number of beds in long-term care facilities ²
Japan	12.8	17.1	29.9	16.9	13.2	7.9	2.7	6.2
OECD average	6.8	33.3	8.3	6.4	4.7	3.6	0.6	7.3
Highest country	14.9	54.9	29.9	16.9	13.2	7.9	4.2	12.8
Lowest country	2.6	13.3	4.0	3.5	1.6	1.6	0.0	0.5

1. In days.

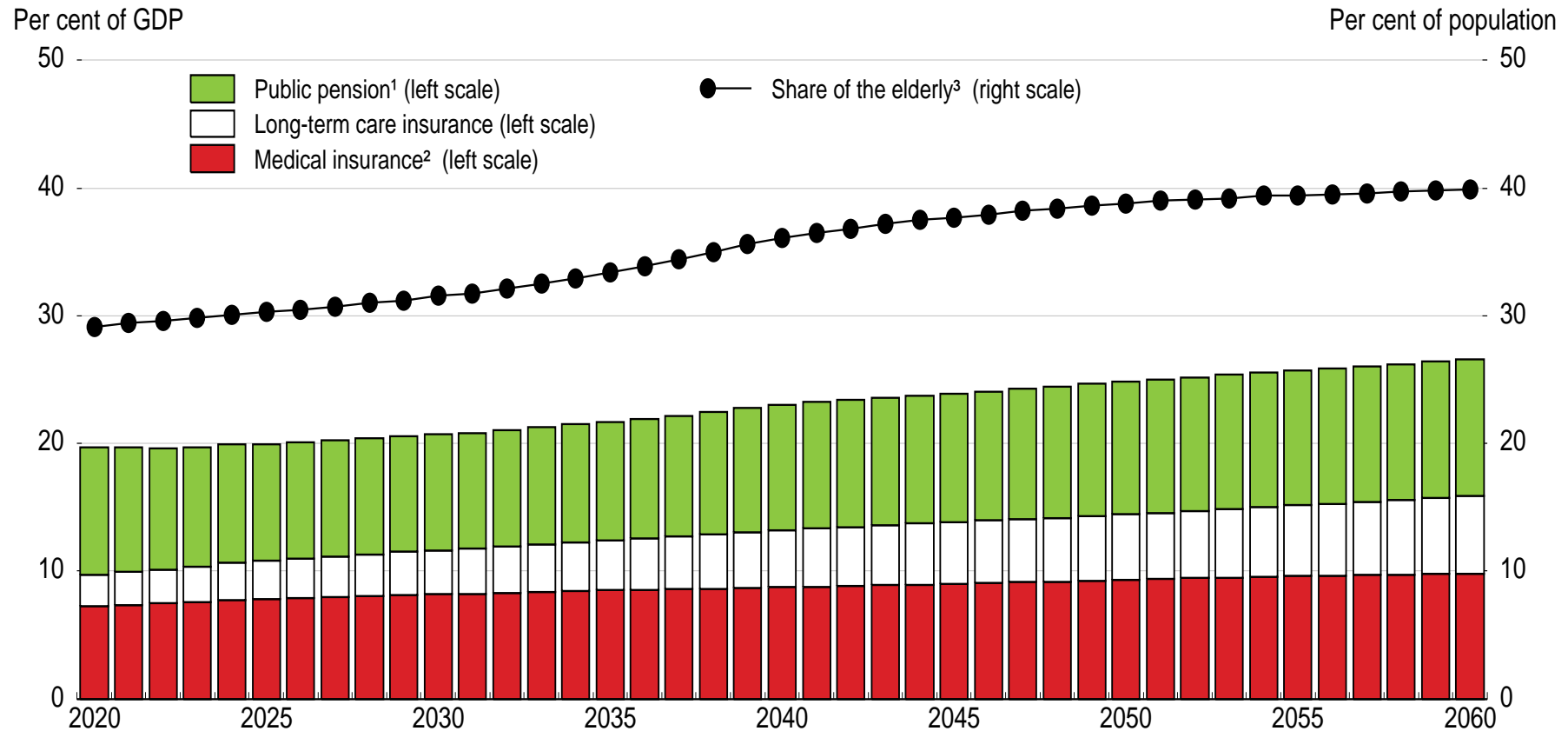
2. Per 1 000 population.

3. In hospitals.

Source: OECD (2017f), *OECD Health Statistics* (database).



Elderly-related social spending is projected to rise further



Note: Fiscal System Council estimates based on the current framework, following the method of the European Commission (2012). Ageing-related spending is defined as programmes where per capita expenditure differs by age, such as pensions.

1. Public pension spending is based on the actuarial valuation by the Ministry of Health, Labor and Welfare (2014), Case C.

2. Medical assistance in the Basic Livelihood Protection Program is included in “medical insurance”.

3. The population over age 65 as a share of the total population.

Source: Fiscal System Council (2015).



Key recommendations to ensure fiscal sustainability

1. Commit to a more detailed medium-term fiscal consolidation path with specific spending cuts and tax increases to strengthen confidence in Japan's fiscal sustainability
2. Gradually raise the consumption tax rate.
3. Enhance equity by introducing an earned income tax credit.
4. Fully apply macroeconomic indexation as soon as possible.
5. Raise the pension eligibility age above 65.
6. Take long-term care out of hospitals and reduce long-term care insurance coverage for those with less severe needs and increase the use of generic drugs.

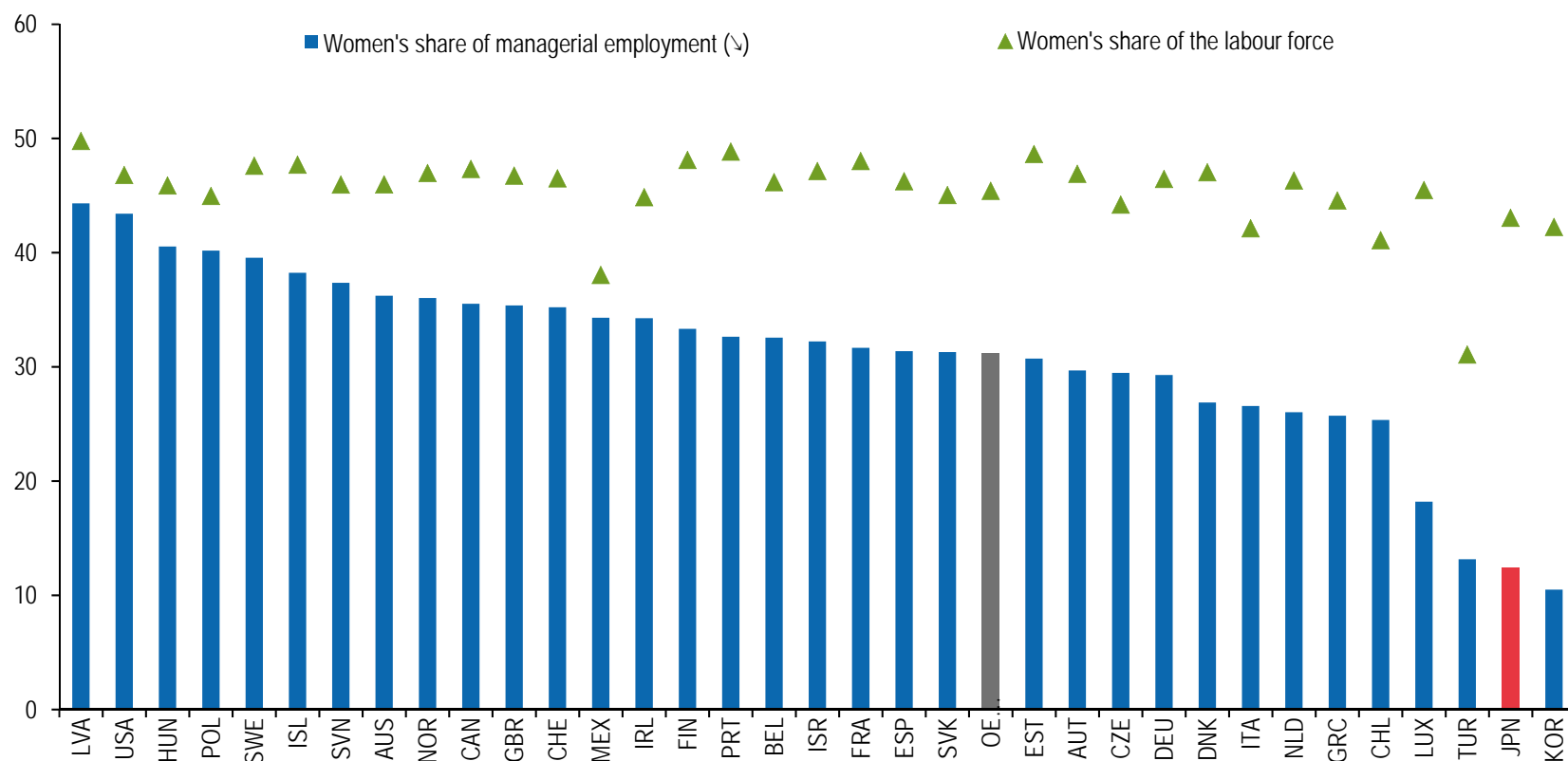


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Women are under-represented in management positions

Women's share of management employment and female share of labour force, all ages, 2015 or latest available year (%)



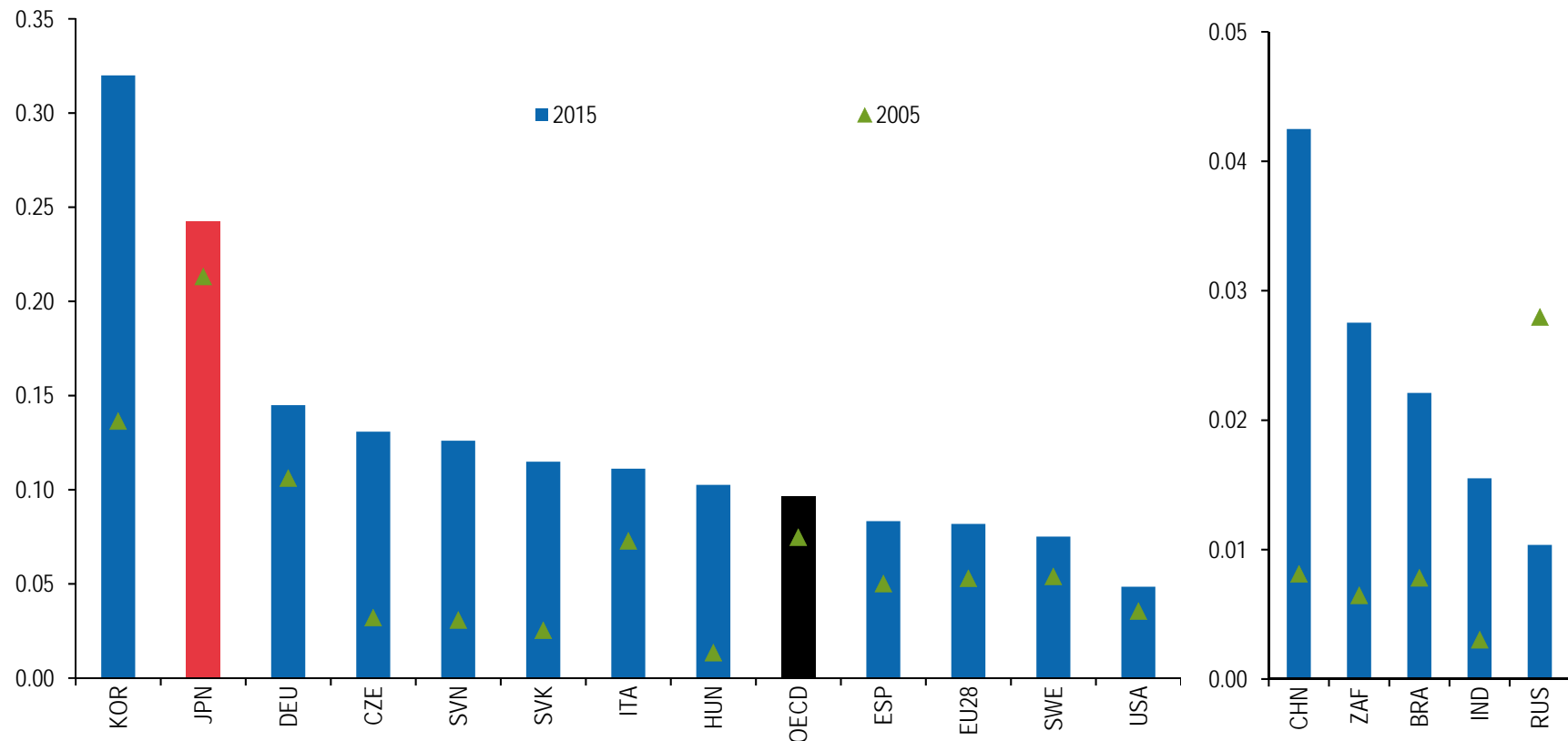
Note: For Canada, Chile and the United States, the women's share of managerial employment is for jobs classified in International Standard Classification of Occupations (ISCO) 88 category 1 (as legislators, senior officials and managers). For all other countries, the women's share of managerial employment is for jobs classified in ISCO 08 category 1 (as managers). All data are for 2015, except for the United States (2013) and Australia and Canada (both 2014).

Source: Based on OECD (2017g) [The Pursuit of Gender Equality: An Uphill Battle](http://dx.doi.org/10.1787/9789264281318-en), OECD Publishing, Paris, Figure 11.3, <http://dx.doi.org/10.1787/9789264281318-en>.



Japan is one of the most robot-intensive economies in the world

Industrial robot stock over manufacturing value added, millions USD, 2005 and 2015



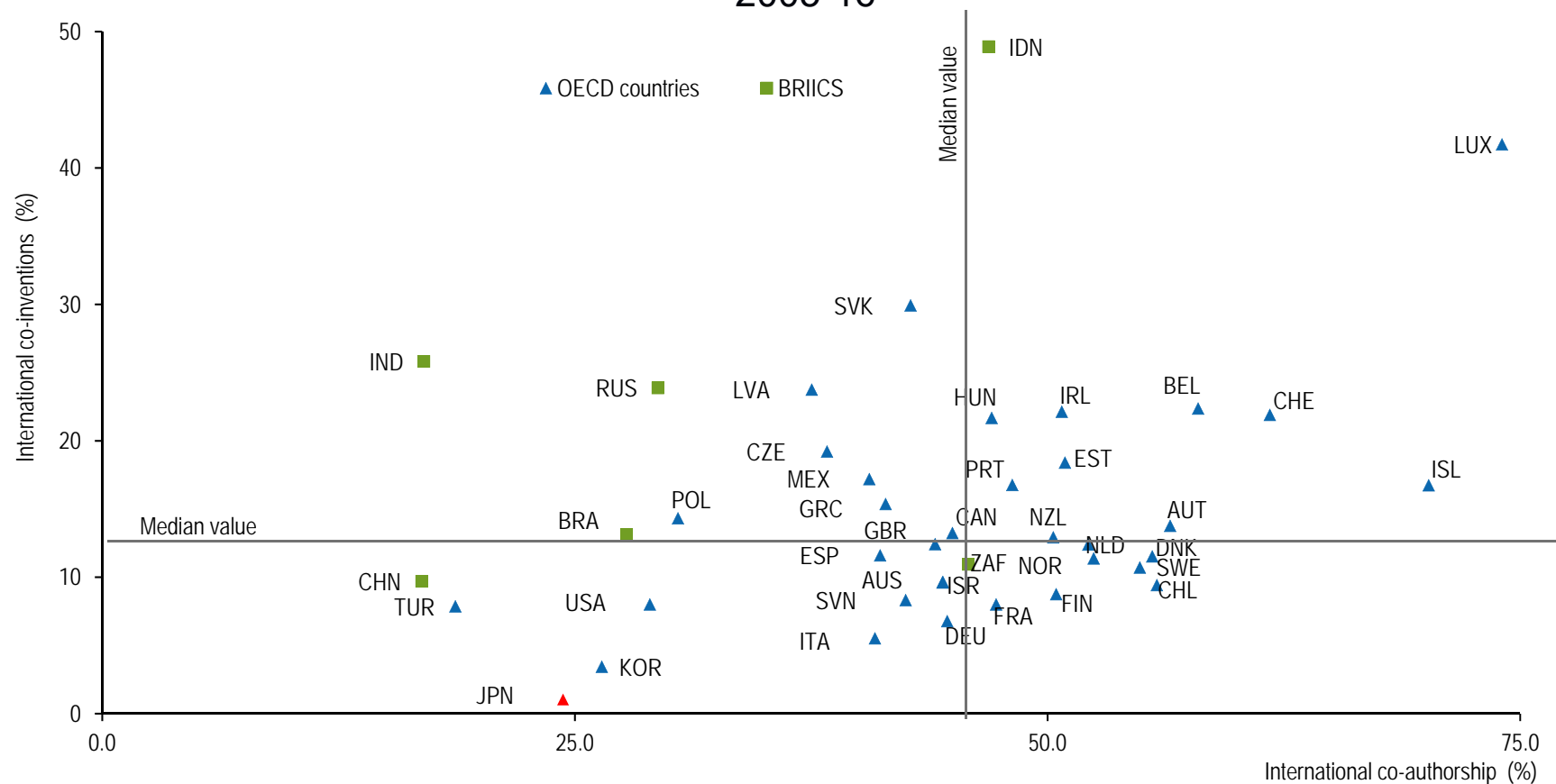
Note: OECD calculations based on International Federation of Robotics data and the World Bank, World Development Indicators Database, September 2017.

Source: OECD (2017c), *OECD Science, Technology and Industry Scoreboard 2017: The digital transformation*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/888933617377>.



International collaboration in science and innovation is relatively low

Co-authorship and co-invention as a percentage of scientific publications and IP5 patent families, 2005-16



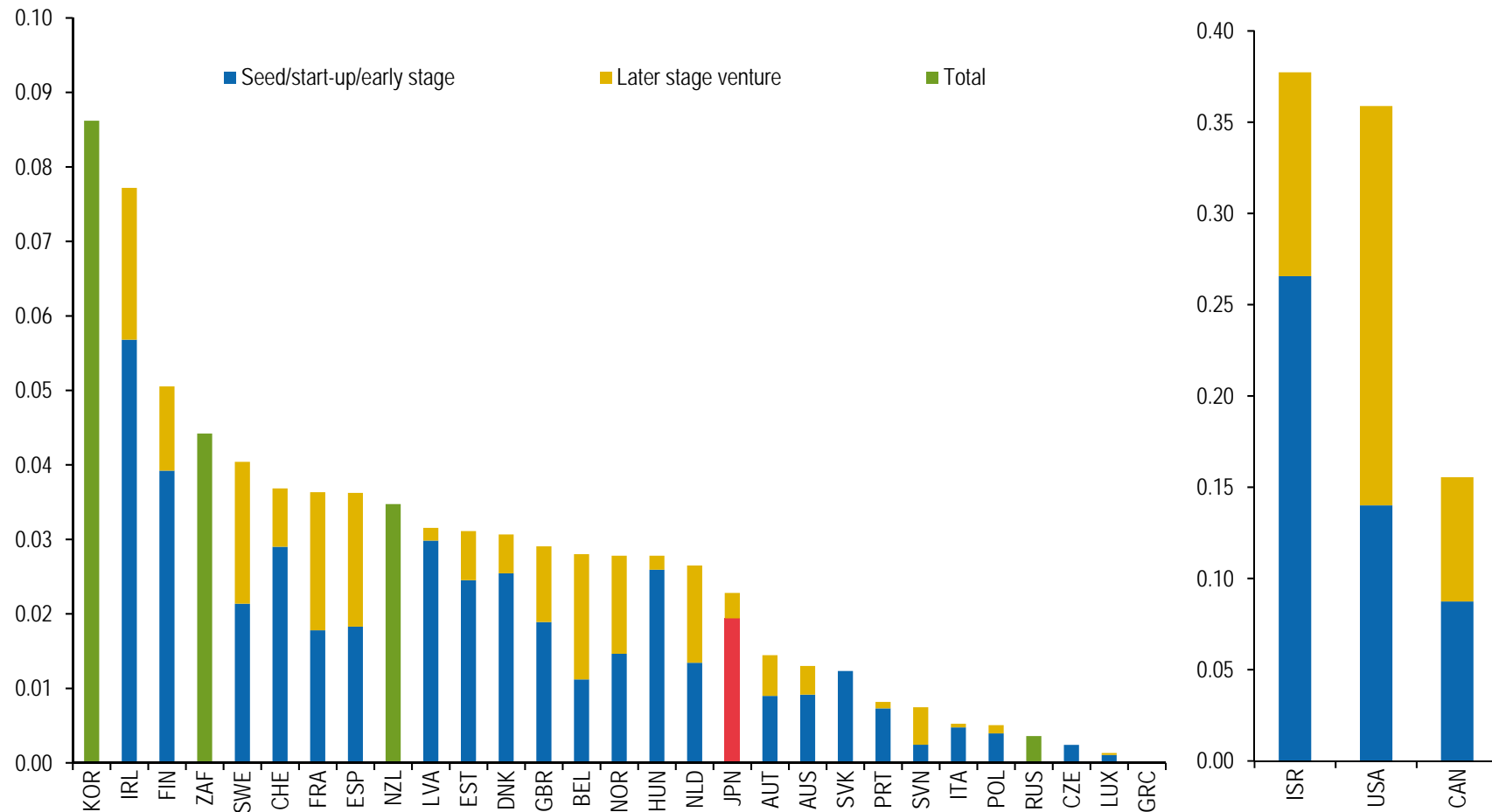
Note: The median is calculated across OECD countries plus non-members (Brazil, China, Indonesia, India, Russian Federation and South Africa).
Source: OECD calculations based on Scopus Custom Data, Elsevier, Version 4, 2017 and OECD, STI Micro-data Lab: Intellectual Property Database, <http://oe.cd/ipstats>, July 2017. See OECD (2017c), OECD Science, Technology and Industry Scoreboard 2017: The Digital Transformation, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264268821-en>.





Venture capital investments are low in Japan compared to other OECD countries

Venture capital investments as a percentage of GDP, 2016

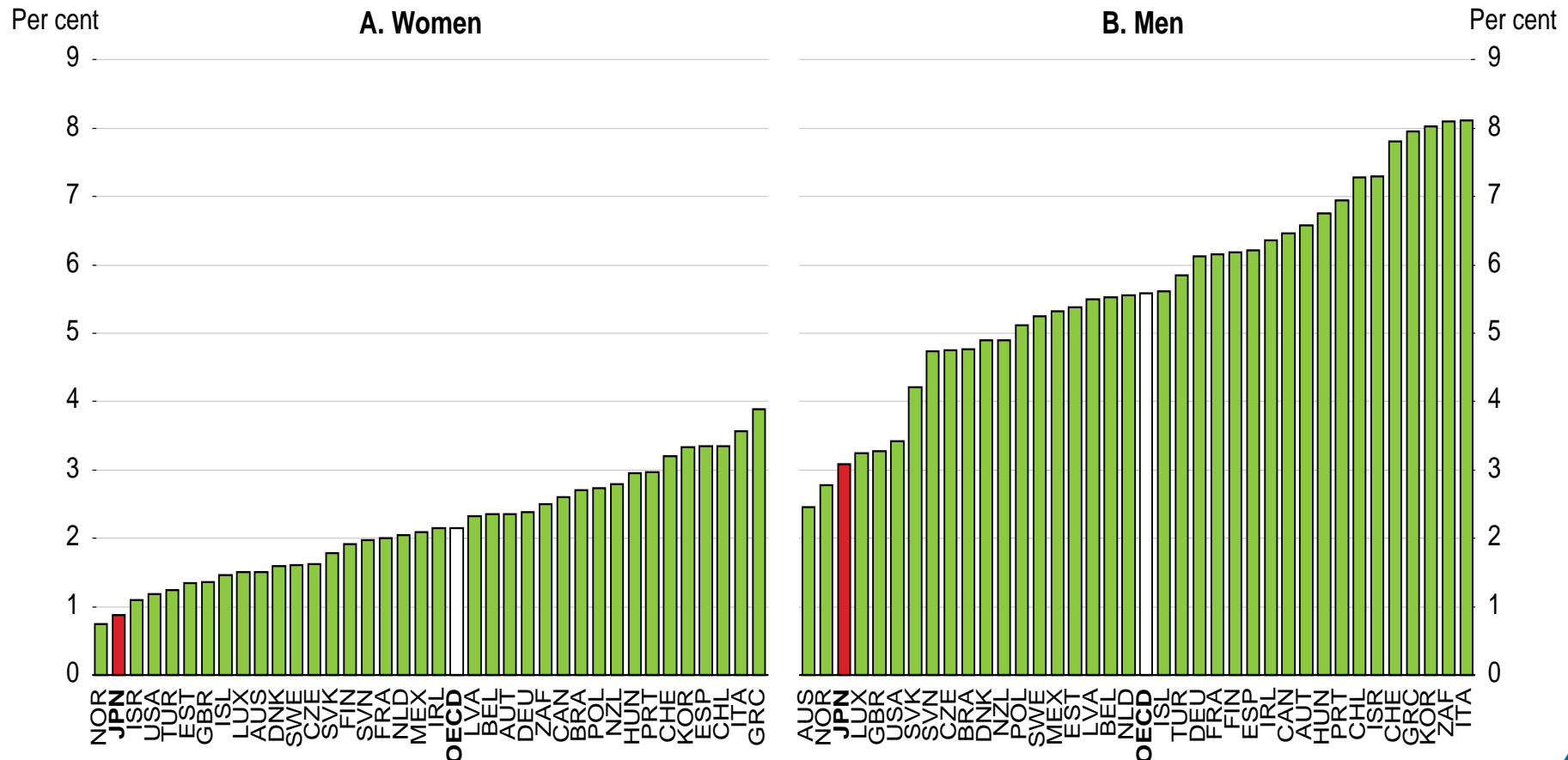


Note: For Israel and Japan, data are for 2014.

Source: OECD (2018b), *Financing SMEs and Entrepreneurs 2018: An OECD Scoreboard*, OECD Publishing, Paris
http://dx.doi.org/10.1787/fin_sme_ent-2018-en.



The share of entrepreneurs in Japan is low, especially among women

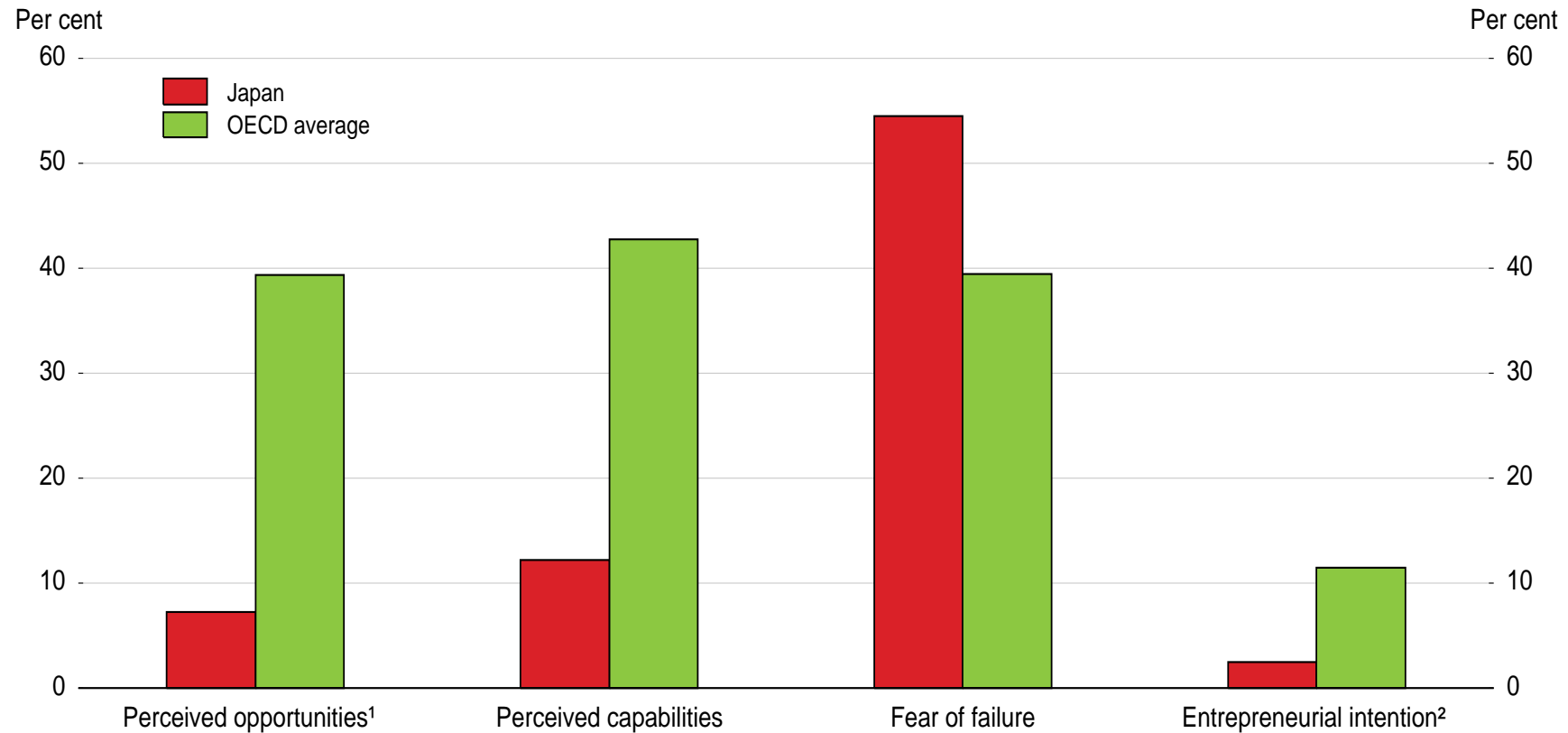


Source: OECD (2016), *Entrepreneurship at a Glance*.

- Promote second chances for failed entrepreneurs by making the personal bankruptcy system less stringent.



Views on entrepreneurship in Japan are negative



1. Share of adults who perceive good opportunities to start a business.

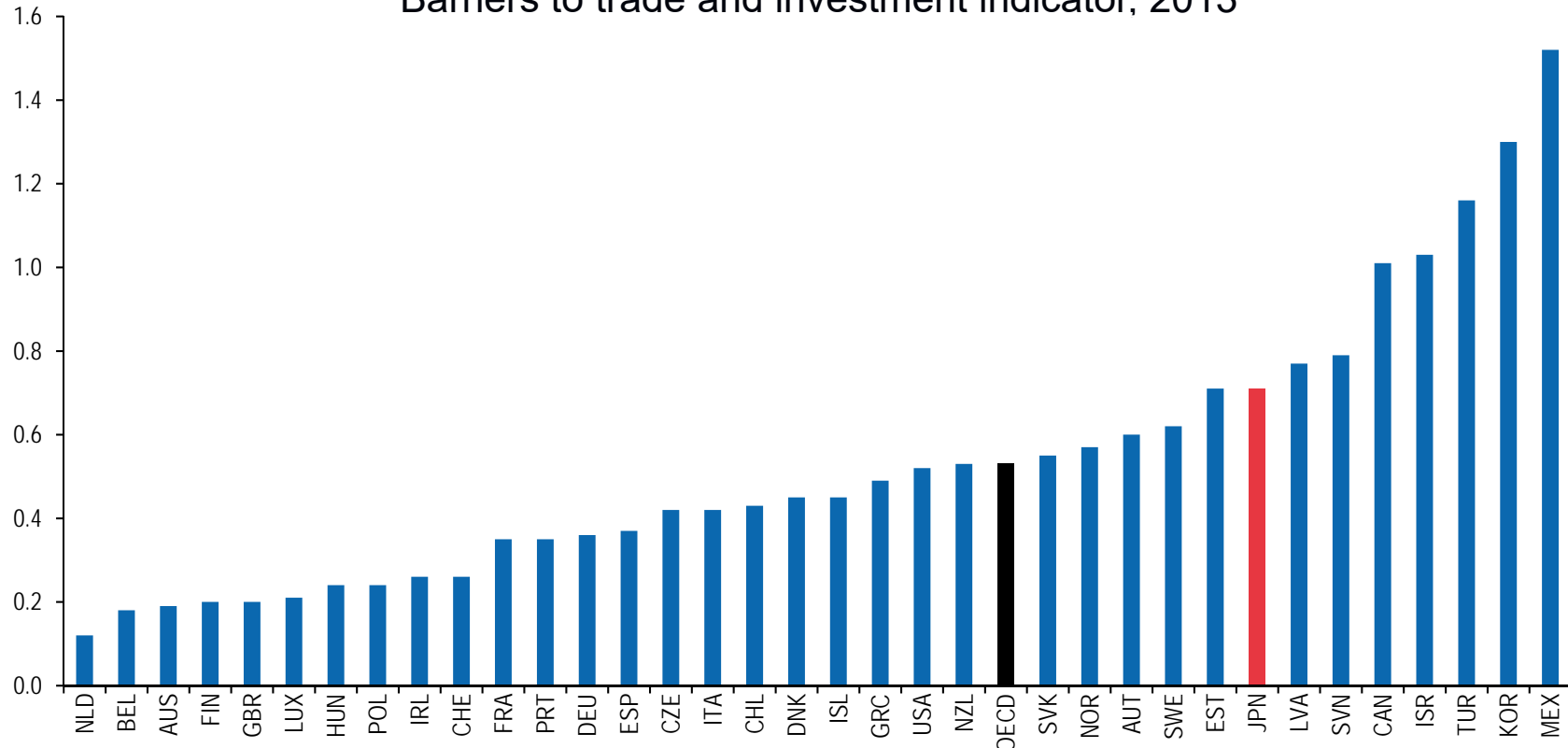
2. Share of adults who are not involved in entrepreneurial activity and expect to start a business within three years.

Source: Global Entrepreneurship Monitor (2015).



Barriers to trade and investment are high in Japan

Barriers to trade and investment indicator, 2013



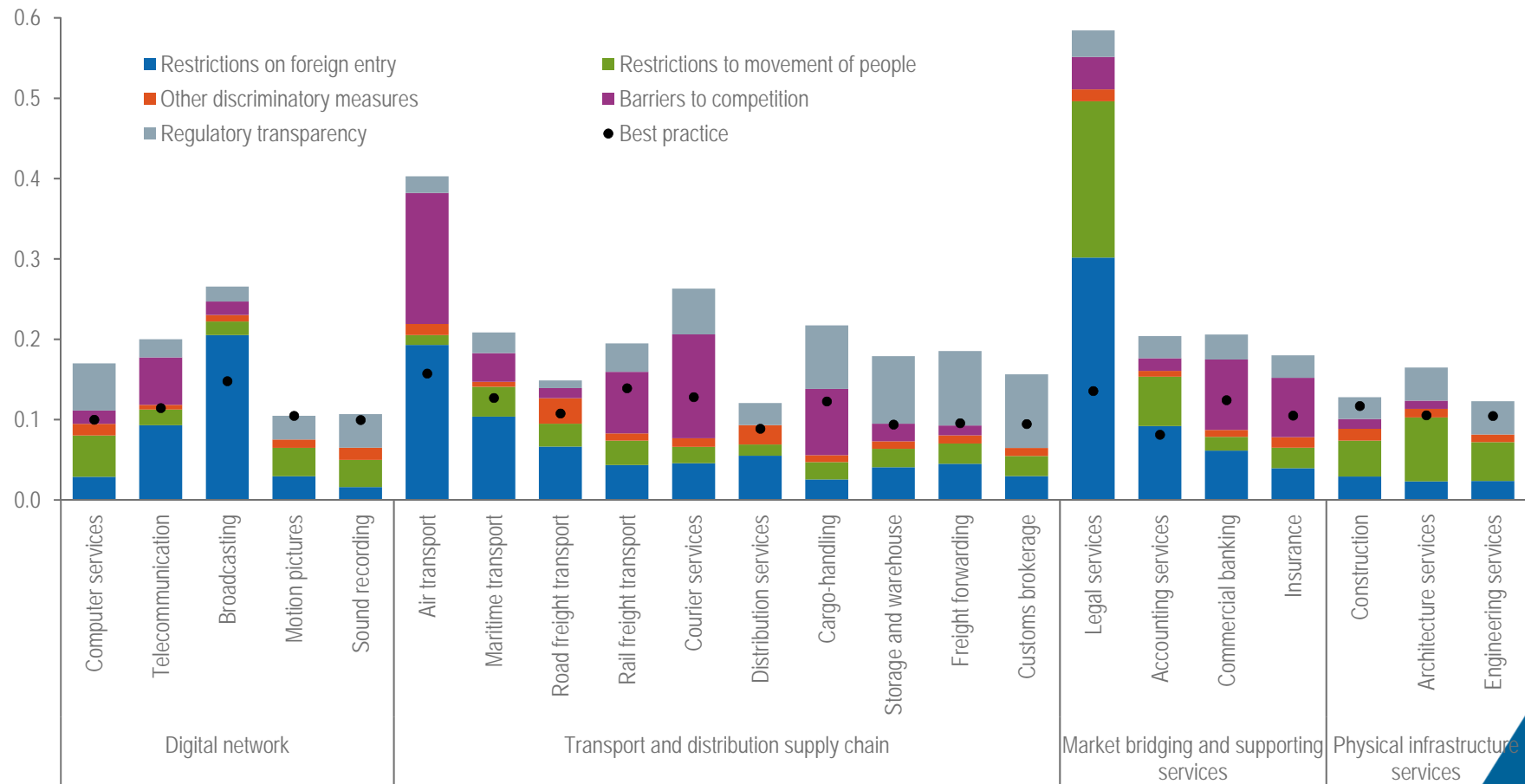
Note: The OECD Indicators of Product Market Regulation (PMR) are a comprehensive and internationally-comparable set of indicators that measure the degree to which policies promote or inhibit competition. Empirical research shows that the indicators have a robust link to performance. The indicator, which ranges from 0 (most relaxed) to 3 (most stringent), is available for 35 OECD countries. The overall indicator is based on more than 700 questions.

Source: OECD PMR Database.



Japan has room to further reduce barriers to trade in services

OECD Services Trade Restrictive Index 2017, from 0 (least restrictive) to 1 (most restrictive)

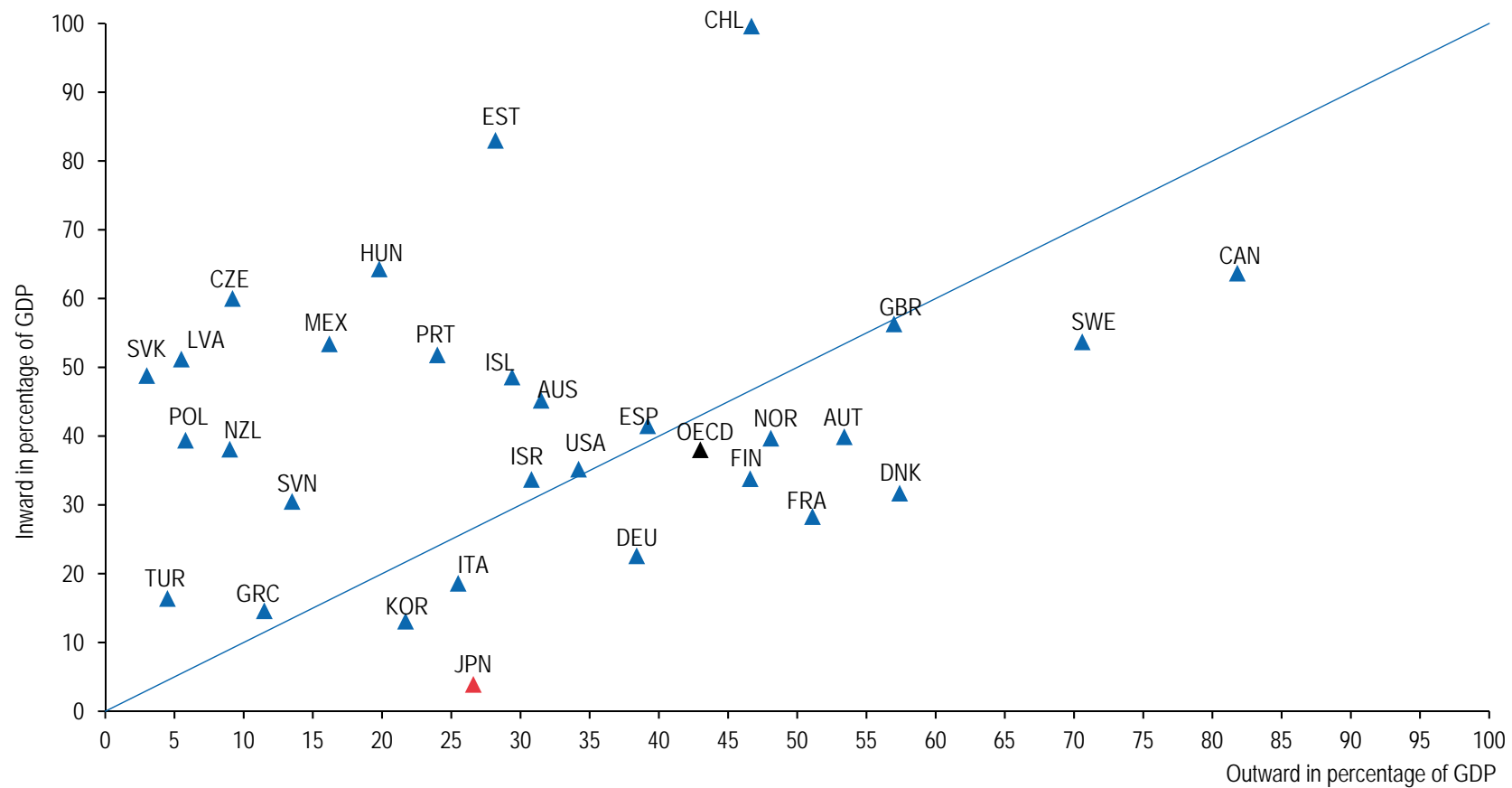


Source: OECD Services Trade Restrictiveness Index, <http://www.oecd.org/tad/services-trade/services-trade-restrictiveness-index.htm>.



Japan has a low level of FDI stocks

Inward and outward stocks of direct investment as a percentage of GDP, 2016



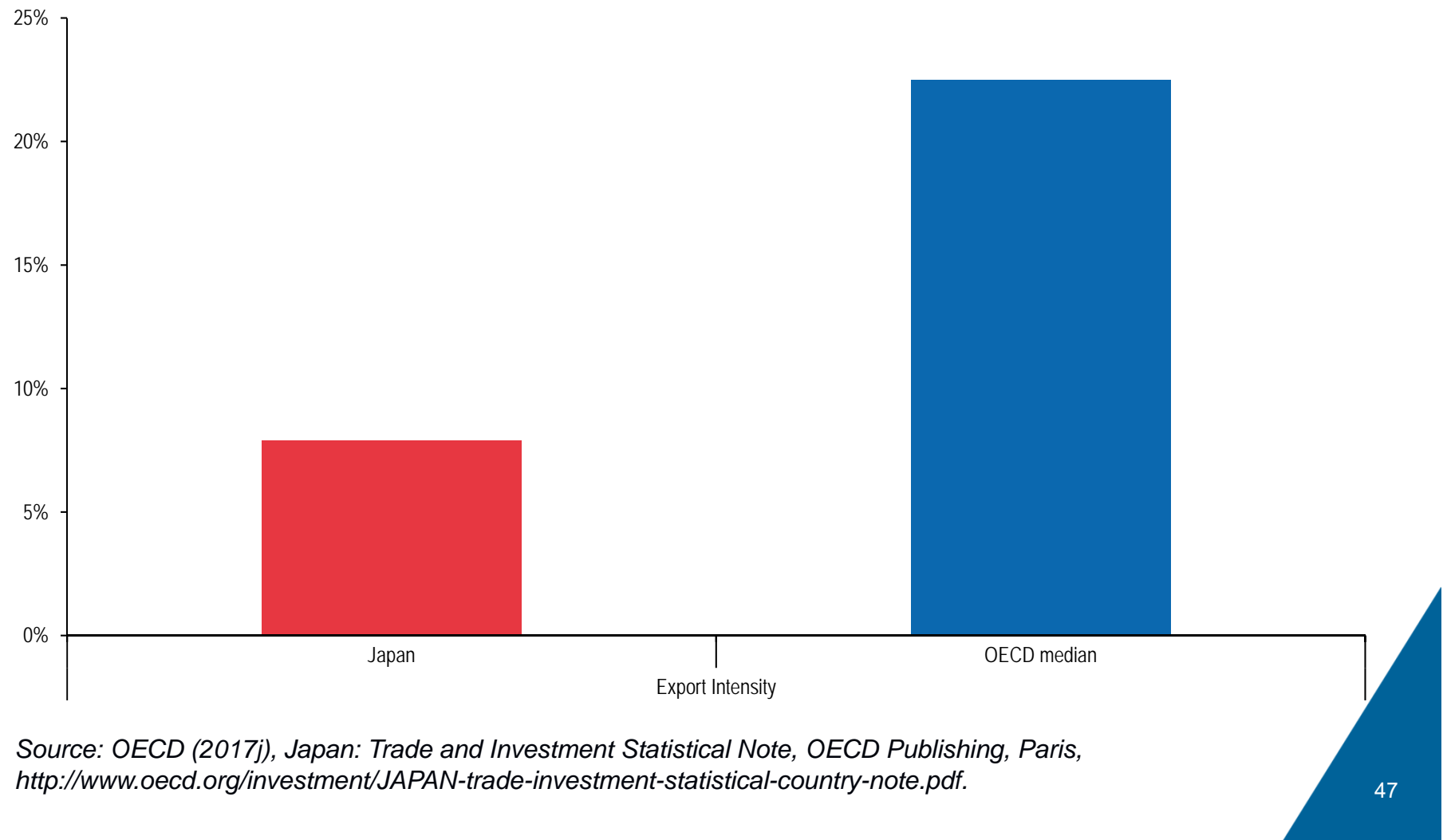
Note: Inward/outward FDI not represented: Belgium (102/122), Ireland (276/276), Luxembourg (351/353), the Netherlands (107/180) and Switzerland (130/165).

Source: OECD (2018), FDI stocks (indicator), <http://dx.doi.org/10.1787/80eca1f9-en>.



Foreign-owned enterprises in Japan have low export intensity

Export intensity of foreign-owned enterprises

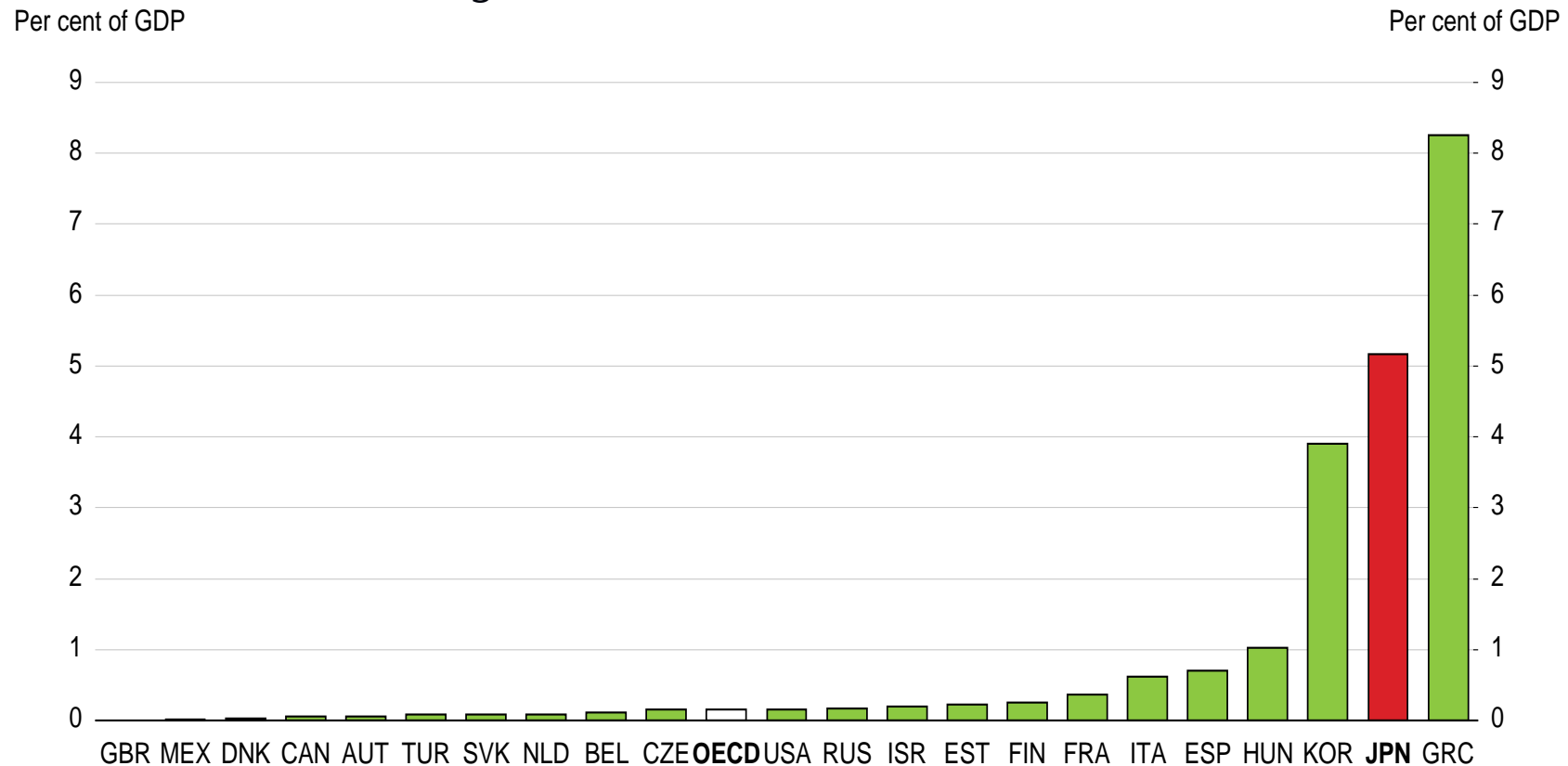


Source: OECD (2017j), *Japan: Trade and Investment Statistical Note*, OECD Publishing, Paris, <http://www.oecd.org/investment/JAPAN-trade-investment-statistical-country-note.pdf>.



Government credit guarantees to SMEs are high

Stock of guarantees as a share of GDP in 2015

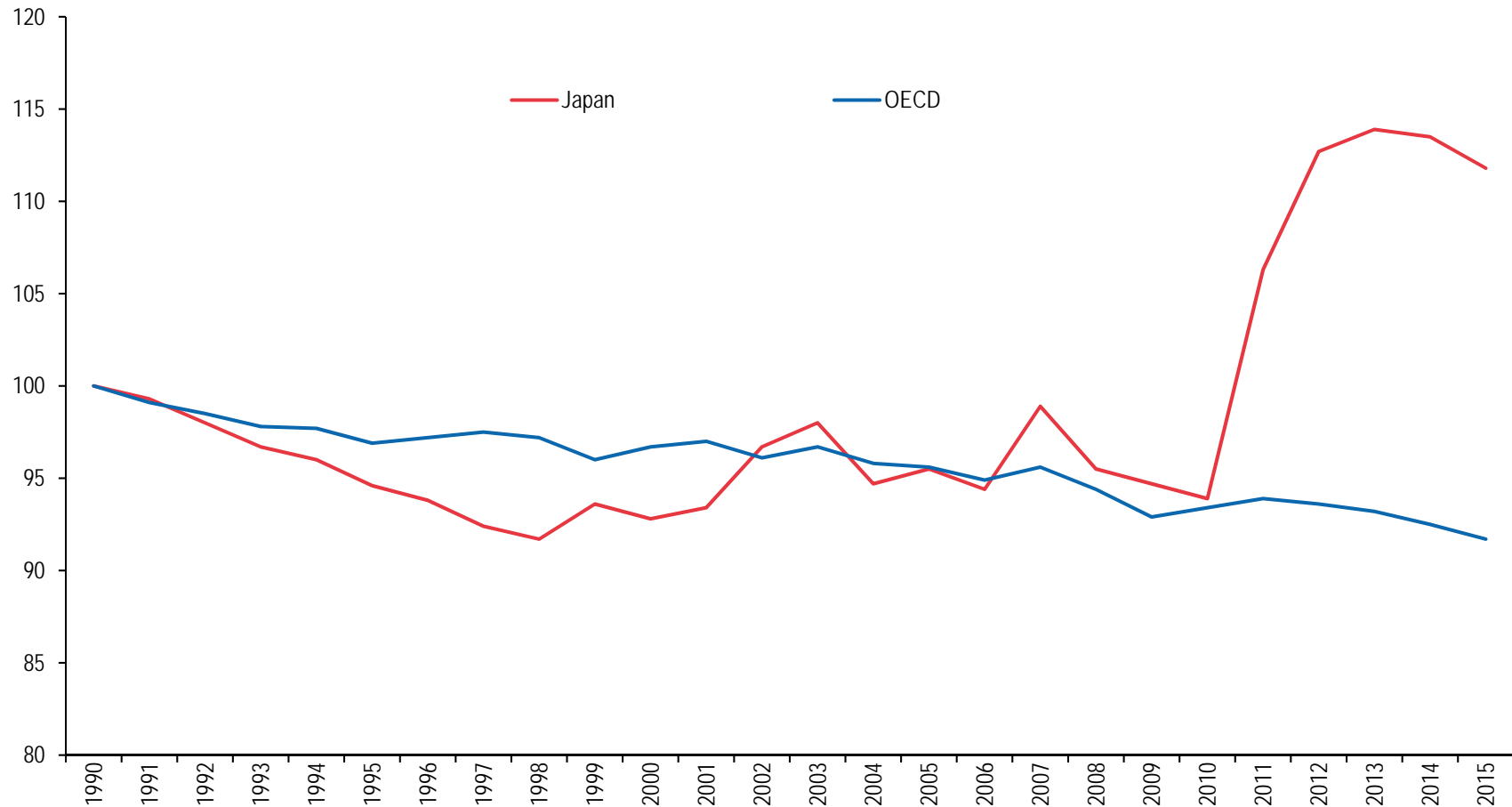


Source: *Financing SMEs and Entrepreneurs 2017: An OECD Scorecard*.



Carbon intensity of Japan's energy mix jumped after 2011 and remains high

Energy sector carbon intensity, 1990=100



Note: The IEA Energy Sector Carbon Intensity Index tracks how many tonnes of carbon dioxide are emitted for each unit of energy supplied (total primary energy supply).

Source: IEA (2018), "Indicators for CO₂ emissions", IEA CO₂ Emissions from Fuel Combustion Statistics (database), <http://dx.doi.org/10.1787/data-00433-en>.



Key recommendations to boost productivity for inclusive growth

1. Remove obstacles to female employment by increasing the capacity of childcare and improving work-life balance through a binding ceiling on overtime work.
2. Increase the productivity of SMEs by strengthening R&D links between firms and universities.
3. Facilitate the exit of non-viable firms by reducing the use of personal guarantees.
4. Promote second chances for failed entrepreneurs by making the personal bankruptcy system less stringent.
5. Implement the planned reform of the Credit Guarantee System to strengthen market forces and keep public guarantees of SME loans on a downward trend.
6. Break down dualism by relaxing employment protection for regular workers and expanding social insurance coverage and training for non-regular workers.



More information...



www.oecd.org/eco/surveys/economic-survey-japan.htm



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