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0.9% Growth estimated for 2010s

-Consumption Tax Rate Hike will not resolve Financial Risks

-Both Operating and Decommissioning Costs of Nuclear Power Plants will Amount to 4 Trillion Yen Annually

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The 38th Middle-term Economic Forecast, conducted by the Japan Center for Economic Research (JCER), takes into account various measures such as the reconstruction from the Great East Japan Earthquake and the effects of a potential consumption tax rate hike being considered by the government. The growth rate for fiscal 2011-2020 will stand at an average of 0.9%. We have revised our December forecast by incorporating the government's tax hike plan (3% increase in FY2014 and 2% in FY2015) and the slowdown of the world economy (lowering its growth rate by 0.2% to 4.7% for FY2011-15). As a result, despite reconstruction demand, the GDP growth rate for FY2011-15 will be dampened by the consumption tax rate hike and less growth in exports. In the latter half of our forecasting period, the effects of the consumption tax rate hike will weaken and we will see a 1.1% growth rate (average annual growth rate between FY2016-20). The enforcement of a consumption tax rate hike will not be enough to resolve financial risks. If the yen appreciation continues at levels higher than projected in our forecast, it may cause domestic fixed investment to become stagnant.

In terms of energy supply, if all nuclear power plants can be put back into operation, there will not be any immediate restraints for the meantime. However, under the assumption that all nuclear power plants that have been in operation for 40 years are decommissioned and thermal power and new energy sources replace nuclear power, with soaring import prices, by FY2020, increased fossil fuel imports will lead to a current-account deficit.

If nuclear power generation is maintained at levels prior to the earthquake, the costs needed to prepare for and prevent future accidents and cover increases in nuclear subsidies will amount to 4 trillion yen annually. This may further entail

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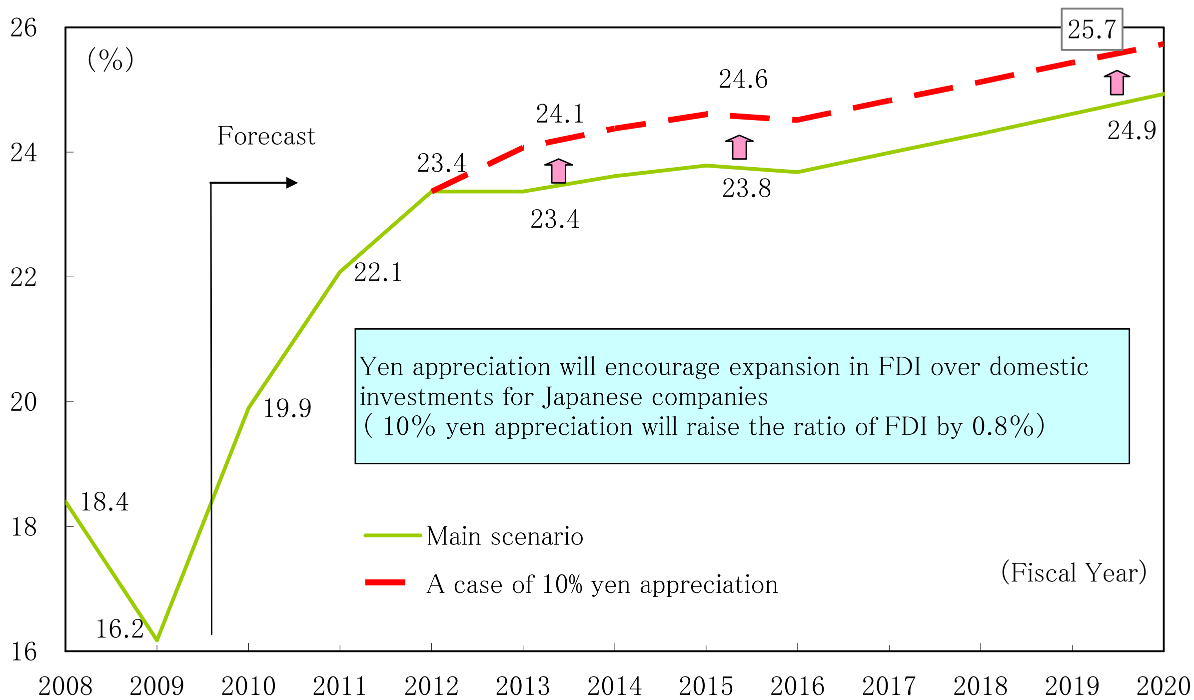
<Key Points>

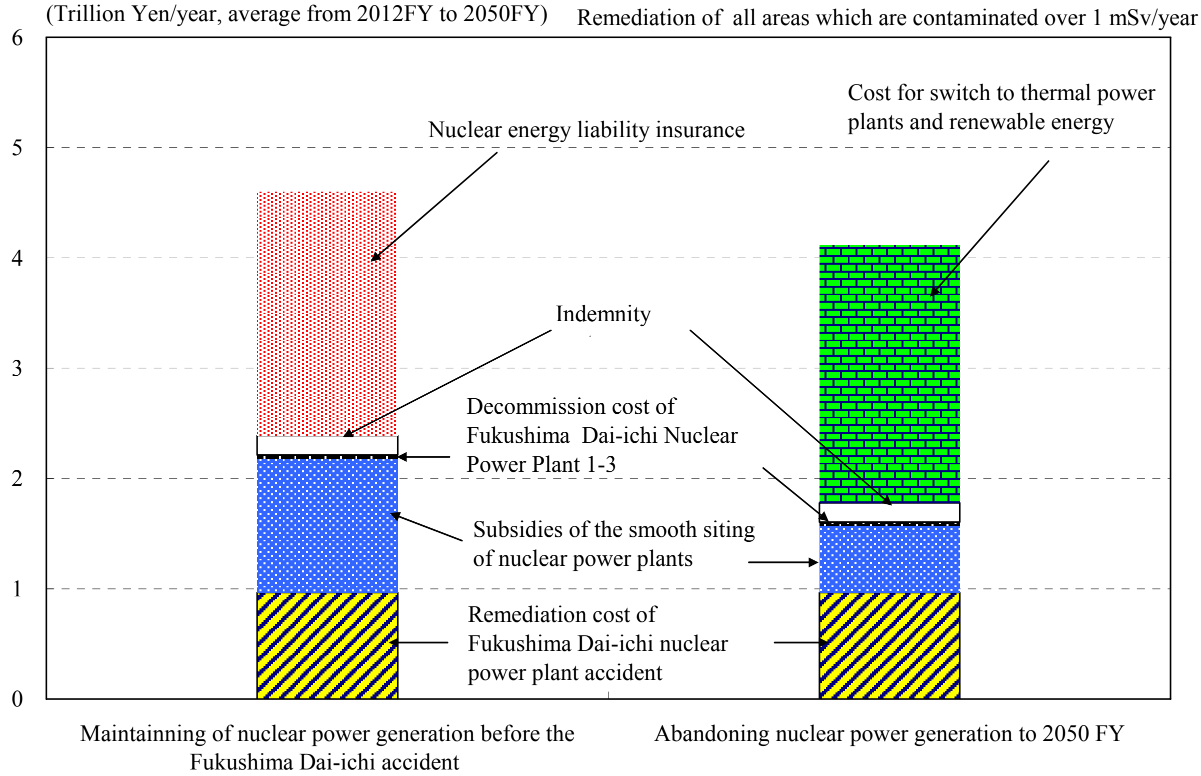
- The consumption tax rate hike will drag the economy down to 0.8% growth in the first half of the 2010s; in the latter half, the growth rate will recover to 1.1%
- A 5% consumption tax rate hike will not be enough to alleviate the primary balance deficit
- Continued yen appreciation may cause fixed investment to flow overseas
- Considering the costs needed to prepare for and prevent future accidents and cover increases in nuclear subsidies, maintaining nuclear power is not necessarily more affordable than alternative energy sources
- The U.S. growth path will not return to trends prior to the global economic crisis

Figure1 A Forecast of the Ratio of Foreign Direct Investment by Manufacturing in Japan(Simulation in the Case of 10% yen Appreciation)



Note:The ratio of Foreign Direct Investment
=Foreign Direct Investment／(Domestic Investment＋Foreign Direct Investment) ×100。
Sources:JCER forecast based on Ministry of Economy, Trade and Industry, *Survey of Overseas Business Activities* and Ministry of Finance, *Financial Statements Statistics of Corporations by Industry.*

Figure2 A Comparison between Maintaining Nuclear Plants and the “Exit Cost” from Nuclear Power in FY2050



Note: Based on the articles from the Ministry of Environment, Japan Nuclear Fuel Limited, TEPCO, Nuclear and Industrial Safety Agency, Japan Atomic Energy Commission, and Cabinet Secretariat, JCER estimated.

Table Main Economic Indicators Forecast

	FY'2001～10 : Averages			Forecast FY2011～20 : Averages		
		01～05	06～10		11～15	16～20
Real GDP growth rate (2005 prices)	0.7	1.2	0.1	0.9	0.8	1.1
Private Demand (contribution to change)	0.3	0.9	▲ 0.3	0.5	0.5	0.5
Public Demand (contribution to change)	▲ 0.0	▲ 0.1	0.1	0.1	0.2	0.0
Net Exports (contribution to change)	0.4	0.4	0.4	0.3	0.1	0.5
Potential GDP growth rate (three year backward moving average)	0.9	0.9	0.9	0.5	0.5	0.6
GDP gap ※		0.5	▲ 3.1		▲ 1.4	0.8
Nominal GDP growth rate	▲ 0.6	▲ 0.2	▲ 1.1	0.2	0.1	0.2
Consumer Price Index (general, year on year)	▲ 0.3	▲ 0.4	▲ 0.1	0.3	0.5	0.1
Primary Balance(nominal GDP ratio) ※		▲ 0.8	▲ 6.7		▲ 3.9	▲ 3.0
Government debt (Nominal GDP ratio) ※		142.2	170.7		210.0	234.4
Current Accounts (Nominal GDP ratio)※		3.8	3.4		1.3	▲ 0.4
Real GDP per capita (year on year)	0.6	1.1	0.1	1.4	1.2	1.5
Compensation of employee per capita (year on year)	▲ 1.1	▲ 1.3	▲ 1.0	0.2	0.2	0.3
Household Sector Saving rate ※		0.9	2.5		0.1	▲ 4.2
Labor force population (year on year)	▲ 0.3	▲ 0.4	▲ 0.2	▲ 0.6	▲ 0.6	▲ 0.6
Umemployment rate ※		4.3	5.0		4.2	3.9
10-years Government Bonds Rate ※		1.4	1.2		1.4	1.7
Yen / U.S. Dollar exchange rate ※		113.2	85.7		81.6	78.4
Crude Oil Price ($ per barrel, calender year) ※		56.7	79.6		120.8	154.1
Real GDP of U.S.A. (year on year, calender year)	1.6	2.4	0.7	2.5	2.5	2.5
Real GDP of China (year on year, calender year)	10.5	9.8	11.2	8.4	9.0	7.9
World real GDP growth rate(calendar year)	4.3	4.1	4.5	4.6	4.7	4.5
CO2 emisisons(percentage change from the level of FY1990)		13.5	6.0		3.3	3.7

Notes : 1.% if not otherwise specified.
2. Potential GDP, GDP gap and World real GDP are calculated by JCER.
3.All figures denoted by ※ are those in the final year ,not averages.
4. Primary balance and government debt are those of central and local governments.
Source : Cabinet Office “National Accounts”

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