

March 2015

The 41st Medium-Term Economic Forecast (FY2014— FY2025)*The Japanese Economy's Challenge in Achieving Fiscal Reconstruction and the Transition of Demographic Trends****Baseline Scenario: Economic Growth amidst Fiscal Anxiety****JCER Medium-Term Economic Forecast Team***I. Baseline Scenario****1. Issues**

Several years have passed since the population of Japan began to decline, and the downward trend is expected to accelerate in the years ahead. The population is aging, and a decline in the labor force is unavoidable in the immediate future. Given the situation, fiscal reconstruction has become an urgent need. As the worldwide trend is an aging population with a declining birth rate, it is not an easy challenge to address. However, some developed countries, including those in northern Europe, have pulled out of this trend, suggesting that there is the way to solve this problem. Japan, too, has taken the first step in reducing the fiscal deficit as it finally raised the consumption tax in April 2014.

However, the way to fiscal reconstruction is growing increasingly uncertain. Meeting the fiscal consolidation target of reducing the ratio of the primary balance of central and local governments to nominal GDP by half from FY2010 levels (-6.6%) to -3.3% by FY2015 will not be easy; postponing the scheduled consumption tax rate to 10% for a year and a half has made the target even harder to achieve. As far as the target of achieving a primary balance surplus in FY2020 is concerned, even estimates published by the government fall short¹.

In this chapter, we will explain our baseline forecast, which projects the most likely scenario, taking into account the postponement of the consumption tax hike and the proposed reduction of corporate taxes. The growth rate of the world economy and changes in oil prices also have significant impacts on the Japanese economy, hence, in Section 4, we examine alternative scenarios for the world economy and oil prices.

In the next chapter (II. Reform Scenario), we will search for measures to realize the transition of population trends, while working to reconstruct finance once again in light of the circumstances of the consumption tax hike delay. The issues discussed are as follows:

- ✓ How large is the excess supply capacity of Japan? Can the secular stagnation theory also be applied to Japan?
- ✓ What is the cause of rising non-marriage rates, one factor of the declining population? How can we solve it?

¹ In the Economic and Fiscal Projections for Medium to Long Term Analysis of the Cabinet Office (material submitted to the Council on Economic and Fiscal Policy (CEFP) on February 12, 2015), the ratio of the deficit in the combined primary balance of central and local governments in FY2020 to the nominal GDP is projected to be about -1.6%.

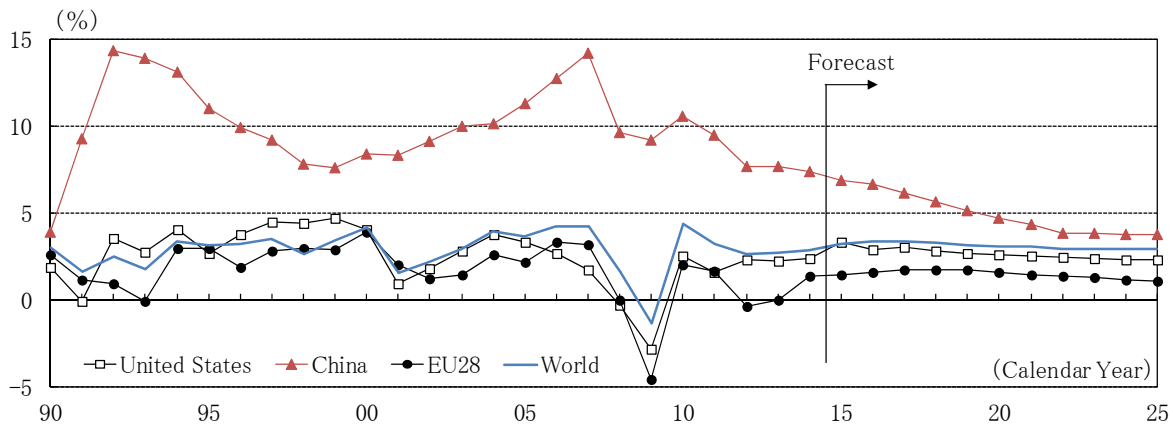
- ✓ Can fiscal reconstruction coexist with the reversal of the declining population trend?
- ✓ What are the specific measures on the side of expenditures for fiscal reconstruction?

2. Assumptions for projections

(1) The world economy and foreign exchange rates

- ✓ Growth rates of countries and regions in the world: Economic growth forecasts are based on trends using the growth rate of labor productivity (Figure 2-1-1). For China, whose per capita GDP exceeds 10,000 dollars based on purchasing power parity and whose growth rate is declining, we assume that it is entering a phase of low growth, therefore will gradually follow the declining patterns of growth as in Japan and South Korea. The world economy will grow at an annualized rate of about 3% in real terms during the forecast period.
- ✓ Exchange rates: It is assumed that the real exchange rate of the yen will return to the average level over the past 30 years after weakening until FY2016 (Figure 2-1-2).

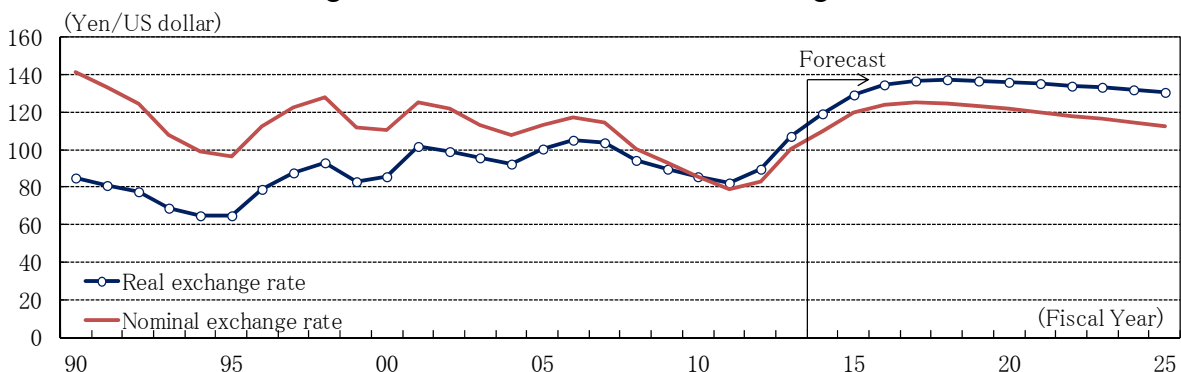
Figure 2-1-1 Growth rates of countries and regions



Note: World GDP growth rate is made by multiplying each country's GDP growth rate by the country's share as a destination of Japan's export.

Source: IMF, World Economic Outlook October 2014

Figure 2-1-2 Nominal and real exchange rate



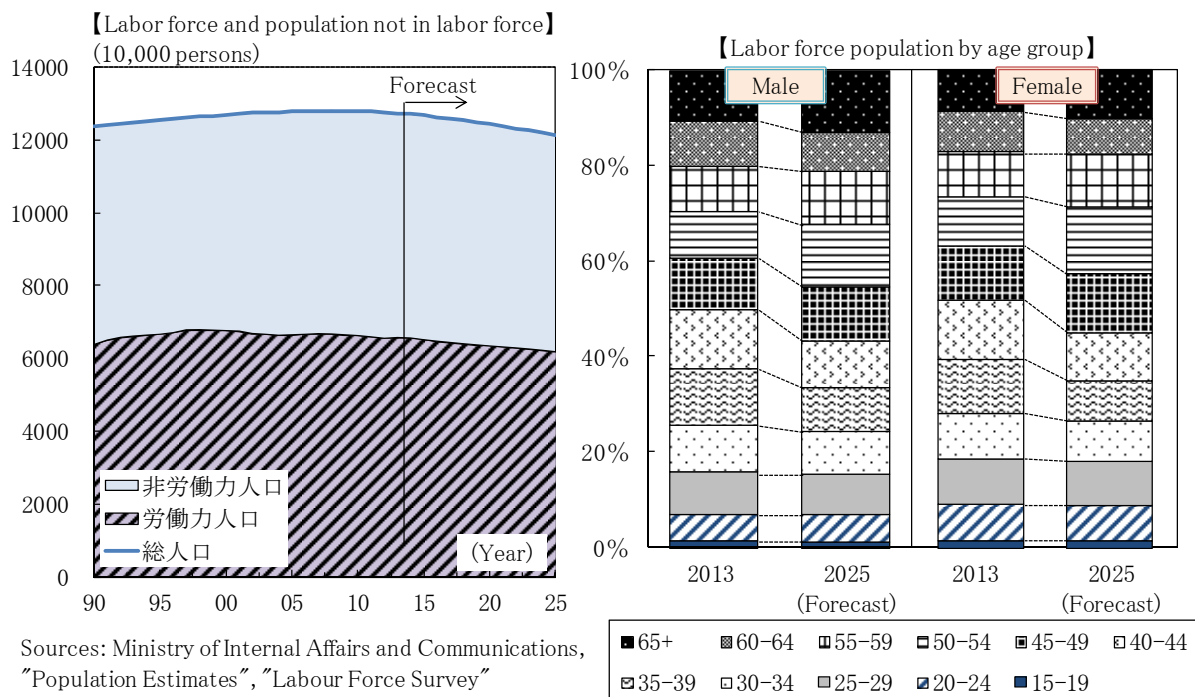
Note: Real exchange rate = Nominal exchange rate x (US producer price index / Japan corporate goods price index).

Sources: Bank of Japan "Corporate Goods Price Index" "Financial and Economic Statistics Monthly", U.S. Bureau of Labor Statistics

(2) Population and labor force

- ✓ Population: The rate of increase in the population aged 15 and over is projected at -0.1% in the first half of the 2010s, -0.2% in the second half of the 2010s and -0.4% in the first half of the 2020s².
- ✓ Labor force: The labor force will decline at an annual average rate of about 0.4% between 2014 and 2025 (Figure 2-2). The participation rate is on a downward trend, at 59.3% in the first half of the 2010s, 59.2% in the second half of the 2010s and 58.7% in the first half of the 2020s. It is assumed to remain unchanged after FY2016 for males and gradually rise for females based on the scenario of gradual advancement of labor participation³ by the Japan Institute for Labor Policy and Training in its estimate for labor supply and demand.

Figure 2-2 Labor force population



² We have updated our population forecast by adjusting actual values at the present moment. For the details of the estimation method, refer to Japan Center for Economic Research (2012) "The 38th Medium-Term Forecast" "V. Regional forecast 2. Population in 2040 by prefecture: Labor force population will fall below 50% in half of prefectures."

³ Refer to the Japan Institute for Labor Policy and Training (2014), "Reference: Scenario of gradual advance of labor participation" in the "Estimation of labor supply and demand".

(3) Government budget

- ✓ Consumption tax rate: It will be raised to 10% in April 2017 and remain unchanged thereafter.
- ✓ Corporate tax rate: It will gradually decline to a little less than 30% between FY2015 and FY2020⁴.
- ✓ Government consumption: Medical and nursing care expenses are estimated separately. Other expenses are assumed to remain flat in real terms at FY2012 levels.
- ✓ Government spending: It is assumed that government spending will remain flat in real terms at FY2010 levels after FY2017, as reconstruction demand will have run its course.

(4) Finance

- ✓ Long-term interest rates are estimated based on the GDP gap and consumer price inflation (excluding energy). The real interest rate at long-run equilibrium is estimated at about 1.6%, but it is currently about 1% below the estimated value because of the effects of quantitative and qualitative easing. The deviation below the estimate will reduce gradually by 2020.

(5) Total factor productivity (TFP)

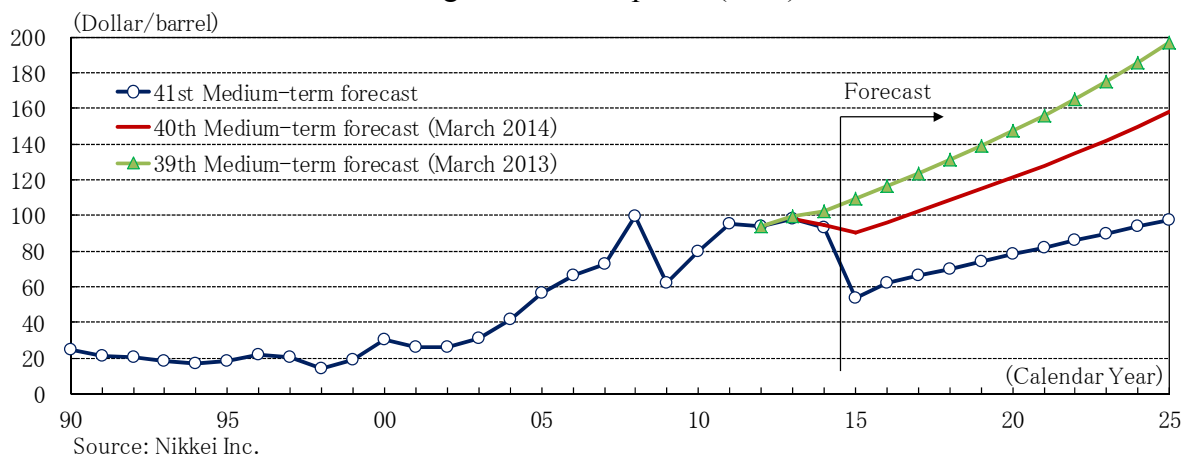
- ✓ TFP is assumed to grow at an average annual rate of about 0.6%; estimates are based on Gross Capital Stock of Private Enterprises data from 1995 to 2012.

⁴ In *Japan Center for Economic Research (2014) "The corporate tax rate should be reduced by 10%,"* we recommended reducing the effective tax rate to 25% by 2020. In the Revision of the Japan Revitalization Strategy approved by the Cabinet in June 2014, the corporate tax cut is mentioned as follows: "the government will aim to reduce the effective corporate tax rate to the 20% level in a few years. This reduction will begin in the next fiscal year." Our assumption is based on this description.

(6) Energy

- ✓ Regarding nuclear power generation, it is assumed that two plants will be brought back into operation every year from FY2015 onward, and that 10 plants will be in operation after FY2020.
- ✓ Factoring in the recent sharp fall in oil prices, projections are based on the elasticity of oil prices in relation to world income (Figure 2-6, also refer to “4. Risk Scenario”). WTI is assumed to be 97.2 dollar per barrel in 2025. This is a significant downward revision from our last projection and the projection before last.

Figure 2-6 Oil prices (WTI)



(7) Major revisions from the previous forecast (the 40th Medium-Term Forecast, March 2014)

Major revisions from the 40th Medium-term forecast are summarized as follows.

Figure 2-7 Revisions from the 40th Medium-term forecast

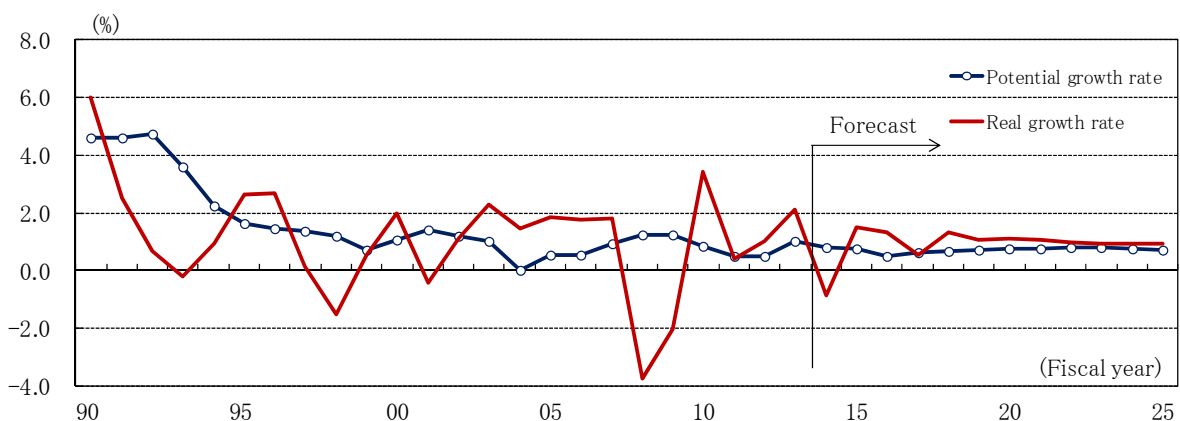
	Last forecast	Current forecast	Explanation
Labor force	Average annual growth rate of -0.5% during forecast period.	Average annual growth rate of -0.4% during forecast period.	We reflect recent increases in the labor force population.
Consumption tax rate	We assume that the consumption tax rate is raised to 10% in October 2015 and 1% every year from fiscal 2017 onward.	We assume that the consumption tax rate is raised to 10% in April 2017 and remains unchanged thereafter.	We delayed the second consumption tax hike reflecting Prime Minister Abe's announcement of its postponement and the dissolution of the House of Representatives. We purposely exclude assumptions on the path of financial reconstruction due to lack of information.
Corporate tax rate	No changes are made to the corporate tax rate (36.1%).	Corporate tax rate is reduced by around 1% every year to reach 29.6% in fiscal 2020.	We reflect the cabinet decision of the "Revision of Japan Revitalization Strategy 2014" announced in June 2014.
Resuming nuclear power plants	We assume that nuclear power plants with 10 years' lifetime remaining are resumed in order by fiscal 2016.	We assume that 2 plants are resumed every year after 2015. 10 plants will be operating after fiscal 2020.	We reflect fiscal 2014 updates in the process for resuming nuclear power plants.
Oil prices	WTI reaches 157.7 dollars per barrel in 2025.	WTI reaches 97.2 dollars per barrel in 2025.	We reflect the sharp drop in recent oil prices.

3. Macroeconomic Forecast: Growth will be maintained in the immediate future but is faced with the risk of a fiscal crisis.

(1) Growth rate: A growth rate of just under 1% will be maintained

Growth in productivity will be maintained, and investment will increase backed by low interest rates and corporate tax cuts. Consequently, the **potential growth rate** will be maintained at around 0.7% during the forecast period of 2014 to 2025, despite the decline in the labor force (Figure 3-1-1). The **real growth rate** will be 0.9%, slightly higher than the potential growth rate, given the contribution of firm investment to demand, moderate growth in consumption after the consumption tax hike has run its course, and growth in government consumption due to the expansion of medical and nursing care expenses.

Figure 3-1-1 Potential and real growth rates



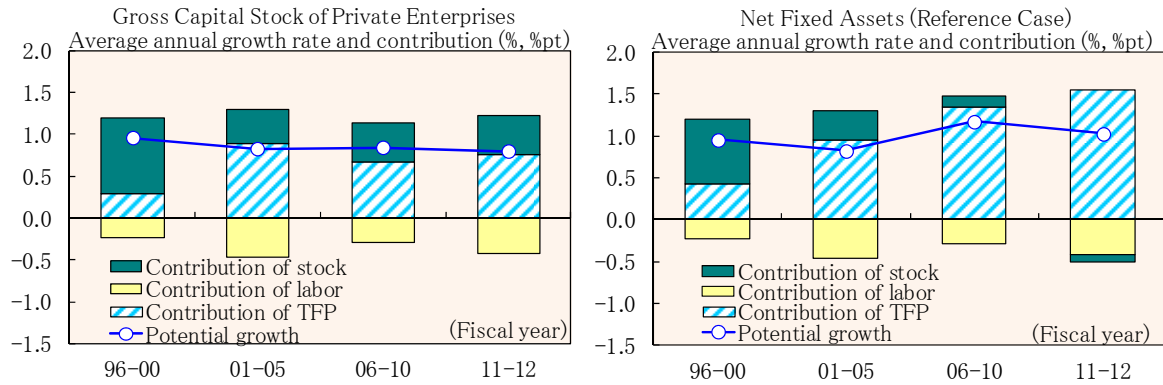
Source: Cabinet Office, "System of National Accounts." Potential growth rate is estimated by JCER.

Based on the method of growth accounting, the contribution of growth in capital, labor and TFP to potential growth can be measured, but the result will, in fact, vary greatly depending on what data is used. Many research studies use data from the Annual Reports on the Gross Capital Stock of Private Enterprises for growth accounting and economic forecasts.

The net fixed assets data published by the Cabinet Office in November 2014 is positioned in the system of national accounts. It covers capital stock in the overall economy and is based on the concept of net capital stock minus the depletion of capital, hence is probably more appropriate as the basic data for the production capacity of the overall economy.

Comparing the contribution analysis based on the gross capital stock of private enterprises (used for our medium-term forecasts) with that of net fixed assets excluding dwellings and cultivated assets, we found that the contribution of capital is currently negative when using net fixed assets and that growth is brought about only by productivity (Figure 3-1-2). As described, not only forecasts but also past interpretations can vary greatly depending on what statistics are used. However, we have estimated and forecasted the potential growth rate using gross capital stock of private enterprises this time.

Figure 3-1-2 Contribution analysis of the potential growth rate by stock data

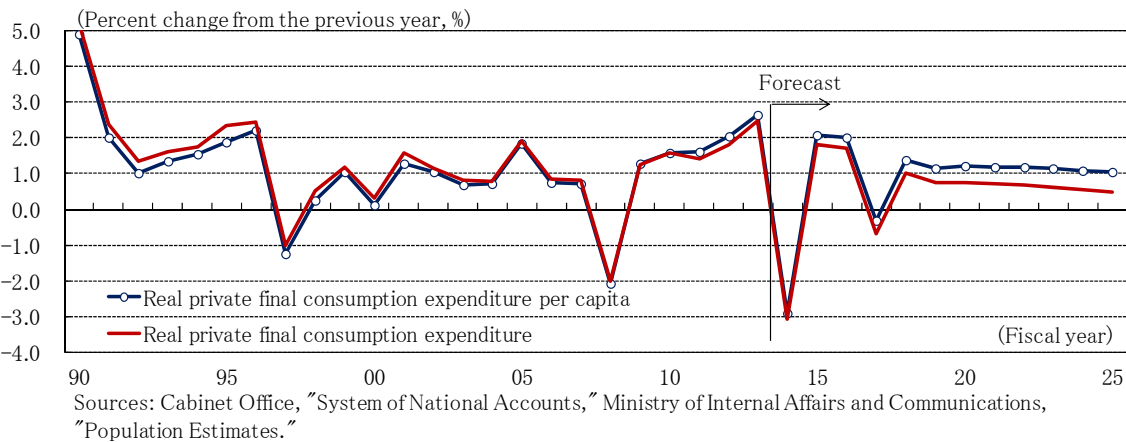


Note: We use gross capital stock of private enterprises to estimate and predict potential growth.
Sources: Cabinet Office "System of National Accounts," "Gross Capital Stock of Private Enterprises."

(2) Consumption: Growth will slow due to the population decline

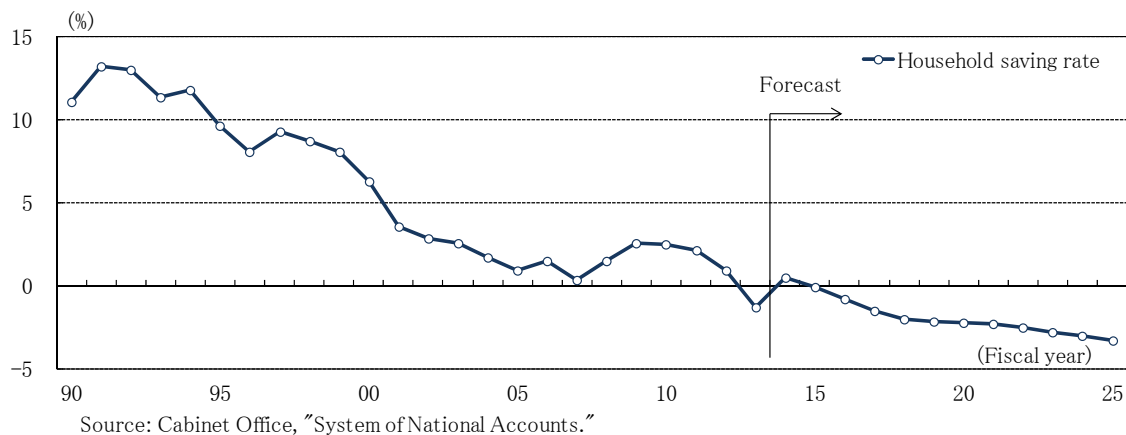
Consumption will increase only moderately, since a declining working age population and a consumption tax hike to 10% will point to a sluggish increase in income (Figure 3-2-1). On a per capita basis, consumption will maintain growth at the same pace as income, while the total amount will grow more moderately due to the effects of population decline. As social burdens will increase, household budget deficits will expand even with moderate growth in consumption (Figure 3-2-2).

Figure 3-2-1 Consumption



Sources: Cabinet Office, "System of National Accounts," Ministry of Internal Affairs and Communications, "Population Estimates."

Figure 3-2-2 Household savings rate



Source: Cabinet Office, "System of National Accounts."

(3) Prices and interest rates: The price target of the Bank of Japan will not be achieved within the forecast period

The real growth rate is not particularly high compared to the potential growth rate, and it will take time for the **GDP gap** to contract. The boosting effect of the weak yen on prices is also limited to the present. Therefore, a rise in **prices** will continue to be limited except for when the consumption tax is raised (Figure 3-3-1). It will be difficult for the price target of the Bank of Japan to be achieved within the forecast period. According to JCER's Taylor rule estimates, it is expected that the easing stance on the **monetary policy** will continue and that a rise in **short-term interest rates** will be curbed (Figure 3-3-2). As a result, **long-term interest rates** will also remain low for the time being. Long-term interest rates are expected to converge with the long-term equilibrium level (2.1% in FY2025) as the supply-demand gap will contract after FY2018. As the current monetary policy combines multiple methods, it seems possible to make a gradual exit from an easing stance. However, if concerns over the feasibility of fiscal deficit reduction spread, interest rates may jump. Looking at cases where other countries have plunged into fiscal crisis, crises break out suddenly.

Figure 3-3-1 GDP gap and prices

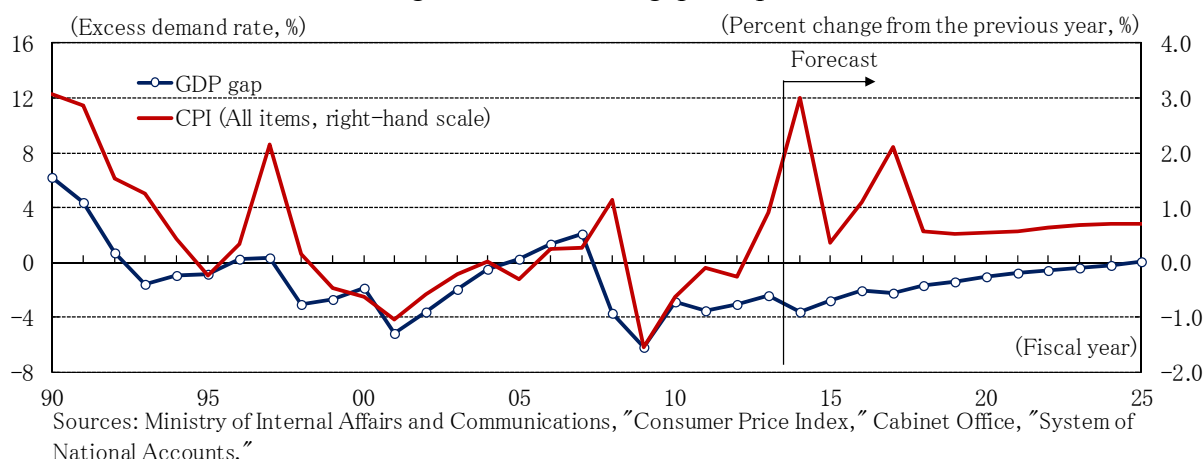
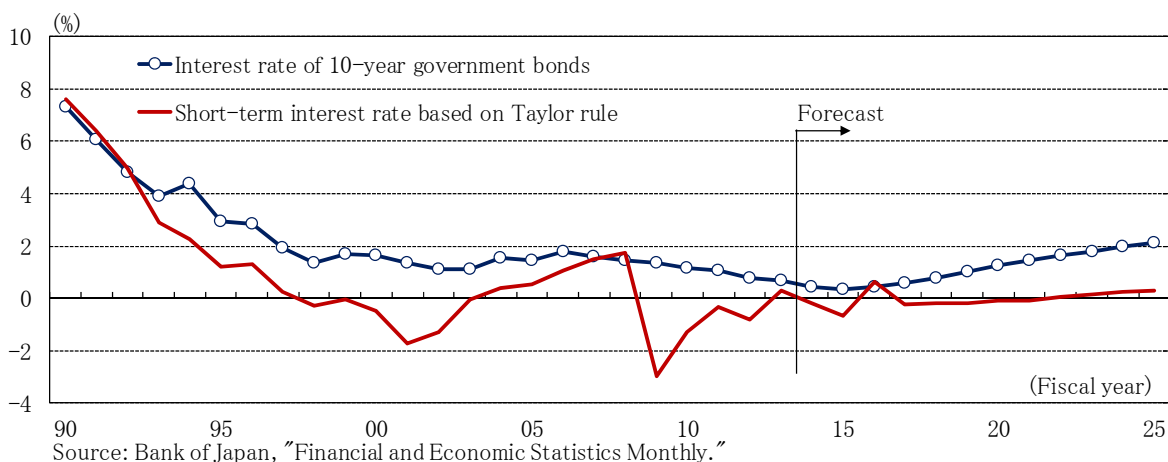


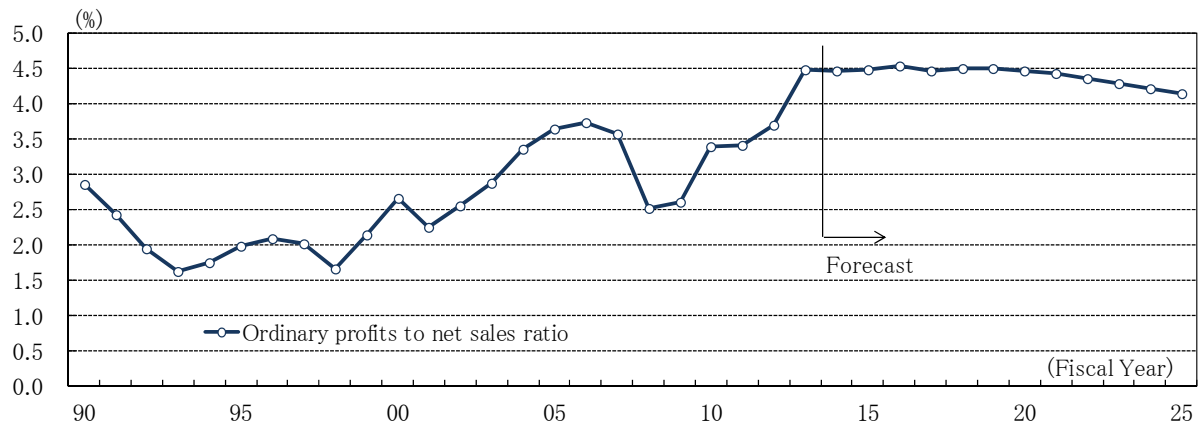
Figure 3-3-2 Short-term and long-term interest rates



(4) Corporate profits and investment: High levels will be maintained

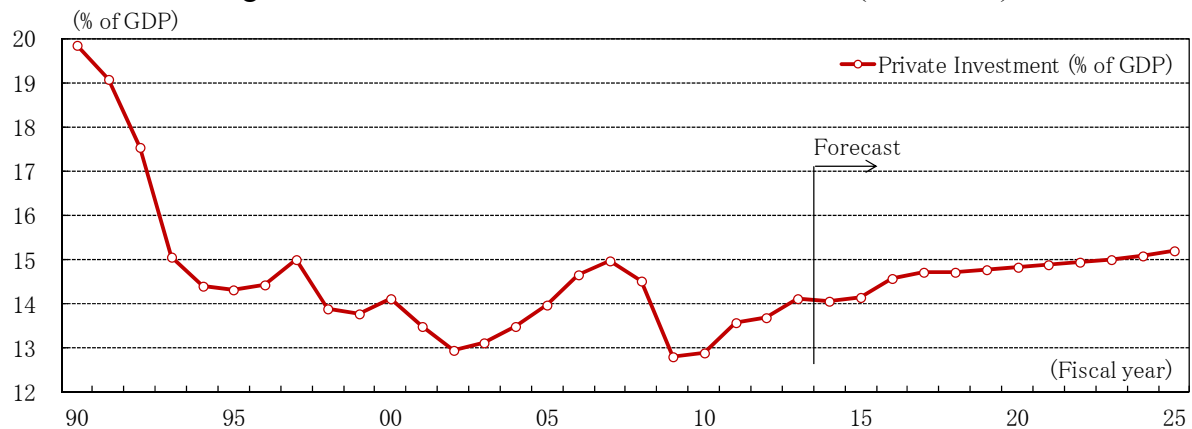
Meanwhile, the **ordinary profits** of companies will remain high, backed by low real interest rates (Figure 3-4-1). Many companies have become cautious about expanding, since they follow management strategies that take into account declining population trends. This has resulted in companies being able to easily maintain their profit levels. Their **investments** will also increase with high profits (Figure 3-4-2). However, it is expected that companies will shift their investments in physical capital to knowledge-based capital (which is not included in capital investment statistically) in the future.

Figure 3-4-1 Ordinary profits of enterprises



Source: Ministry of Finance, "Financial Statements Statistics of Corporations by Industry."

Figure 3-4-2 Private non-residential investment (% of GDP)

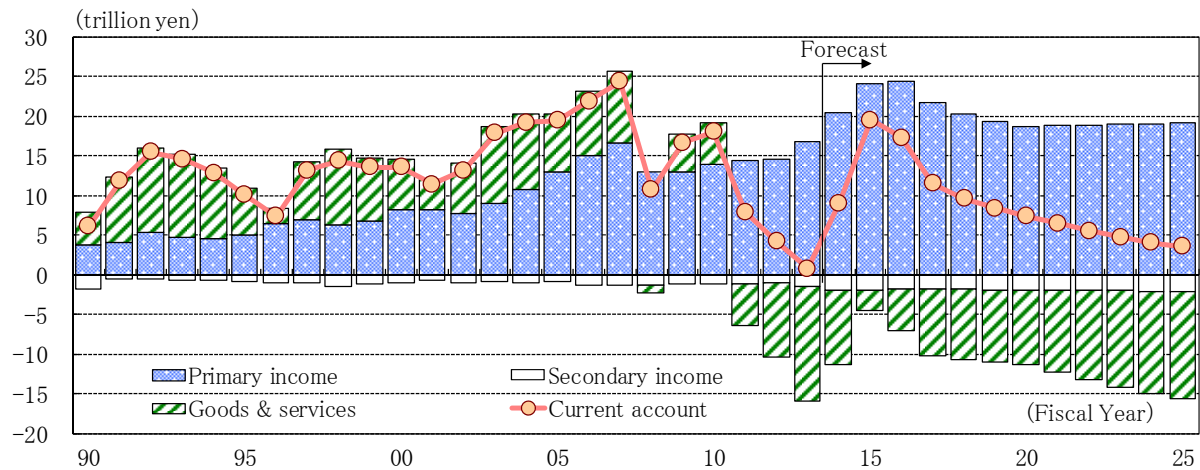


Source: Cabinet Office, "System of National Accounts."

(5) Current account: The surplus will be maintained as oil prices settle.

The balance of goods and services will improve in FY2014 due to the fall in oil prices. After that, growth in imports will be more restrained if the rise in oil prices is moderate. As exports are expected to increase with the recovery of the world economy, expansion of the goods and services deficit will be limited (Figure 3-5). Combined with the large primary income account (investment income, etc.) surplus, the **current account** is expected to remain in the black during the forecast period.

Figure 3-5 The current account balance

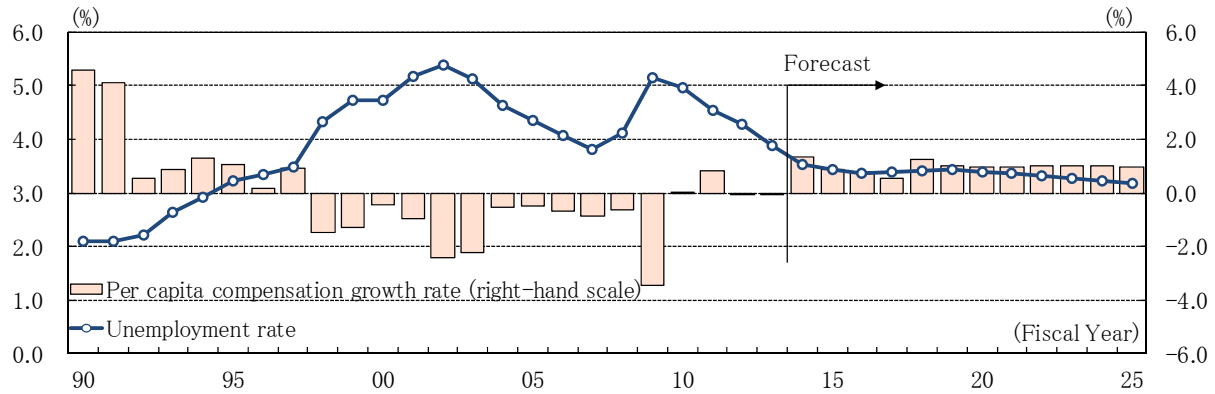


Source : Ministry of Finance and Bank of Japan, "Japan's Balance of Payments" (Forecast by JCER)

(6) Employment: The declining labor share will stabilize

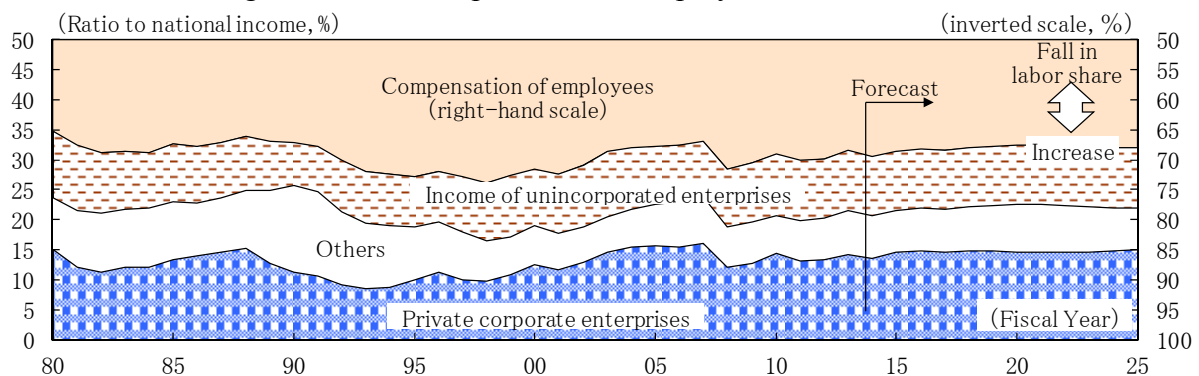
The **unemployment rate** will remain low, partly due to the contraction of the labor force. The per capita **compensation of employees** is expected to increase gradually, associated with an improvement in the supply-demand gap and the labor force population decline (Figure 3-6-1). As a result, the **labor share**, which has been declining, will stabilize (Figure 3-6-2).

Figure 3-6-1 Unemployment rate and per capita compensation of employees



Sources: Cabinet Office, "System of National Accounts", Ministry of Internal Affairs and Communications, "Labour Force Survey"

Figure 3-6-2 Compensation of employees and labor share



Note: "Others" includes property income such as interest or rent, and income of public corporations.

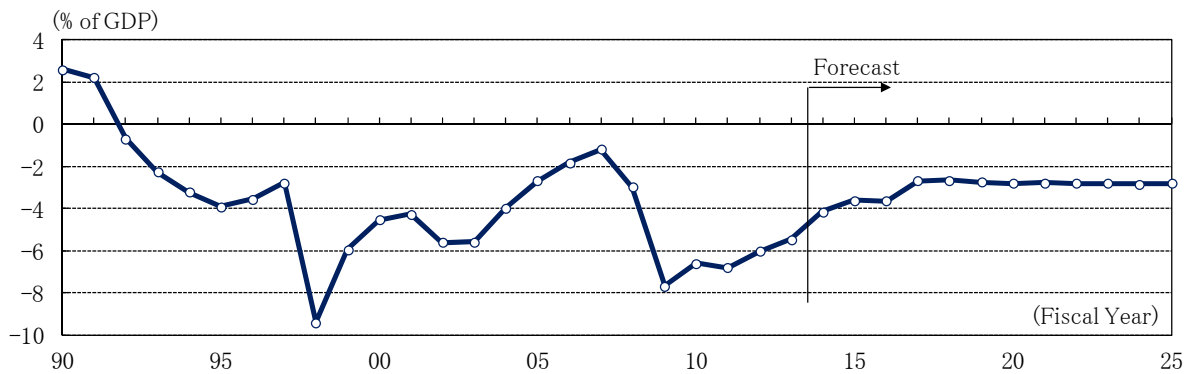
"Income of unincorporated enterprises" includes the imputed rent of owner-occupied dwellings.

Source: Cabinet Office, "System of National Accounts"

(7) Government budget: Government debt will continue to increase

The **combined primary balance of central and local governments** to nominal GDP ratio will decline to around -3% as a result of the consumption tax hike to 10% due in April 2017 (Figure 3-7-1). However, the way to improve the primary balance from there is uncertain. The **combined debt of central and local governments** to nominal GDP ratio will continue to rise and reach 210% at the end of FY2025 (Figure 3-7-2).

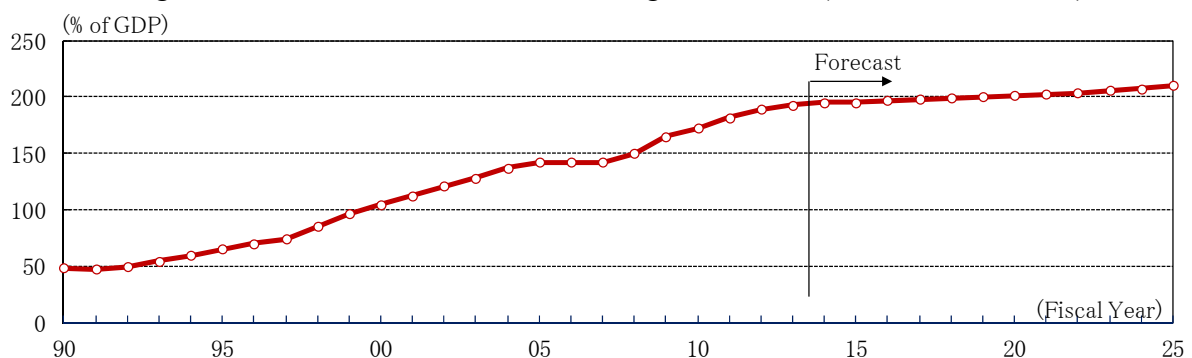
Figure 3-7-1 Primary balance of central and local governments (% of nominal GDP)



Note: The primary balance data does not reflect the impact of factors such as transfers from the fiscal investments and loans special account.

Source: Cabinet Office "System of National Accounts"

Figure 3-7-2 Debt of central and local governments (% of nominal GDP)



Note: Outstanding government debt is total of ordinary Japanese government bonds (JGBs), local government bonds and the outstanding balance of local allocations and transfers.

Sources: Cabinet Office, "System of National Accounts", Ministry of Finance, "Annual Statistics for Japanese Government Bonds", Ministry of Internal Affairs and Communications, "White Paper on Local Public Finance"

(8) Summary

To summarize the above, the Japanese economy is expected to grow moderately until FY2025 amidst fiscal anxiety (Figure 3-8). Although the labor force will decline at an annual rate of 0.4% each year, the economy will continue to grow at a rate of just under 1% as in the past. Unless oil prices rise, the current account will maintain a surplus for the time being, and the sustainability of the external balance will not be considered an issue. However, although the Japanese economy will not return to deflation, inflation is unlikely to reach the 2% target set by the Bank of Japan. The government's fiscal reconstruction target of reaching a primary balance surplus by FY2020 will not be achieved, though improvements are being made. With respect to the gross debt of central and local governments to nominal GDP ratio, movements toward financial collapse will not stop. The birth rate will also remain low.

Figure 3-8 Summary

Indicator	Unit	(Fiscal Year)			
		2006 ~10	2011 ~15	2016 ~20	2021 ~25
Real GDP	annualized growth rate, %	0.2	0.8	1.1	1.0
Nominal GDP	annualized growth rate, %	-1.0	1.0	1.2	1.1
Consumer Price Index	annualized growth rate, %	-0.1	0.8	1.0	0.7
Primary balance (ratio to GDP)	period average, %	-4.0	-5.2	-2.9	-2.8
Outstanding debt (ratio to GDP)	end year, %	172.3	195.1	201.2	210.3
Current accounts (ratio to GDP)	period average, %	3.7	1.7	2.1	0.9
Compensation of employee per capita	annualized growth rate, %	-1.1	0.6	0.9	1.0
Ratio of ordinary profits to sales	period average, %	3.2	4.1	4.5	4.3
Household savings rate	period average, %	1.7	0.4	-1.7	-2.8
Unemployment rate	period average, %	4.4	3.9	3.4	3.3
Yen to US dollar exchange rate	period average, yen/USD	102.1	98.4	123.8	116.2
Crude oil price (WTI)	end year, USD/barrel	79.6	53.4	78.1	97.2
Real world GDP (weighted by exports from Japan)	annualized growth rate, %	4.5	3.9	3.9	3.2

(Note) 1. Crude oil price and world GDP figures are shown in calendar year format.

2. Ratio of ordinary profits to sales figures are of corporations with capital of over 10 million yen.

3. This forecast is based on all data that was available up to and including 16th February 2015, when "Quarterly Estimates of GDP Oct. - Dec. 2014 (The First Preliminary)" was released.

4. Risk Scenario: Increasing uncertainty over oil prices and the world economy

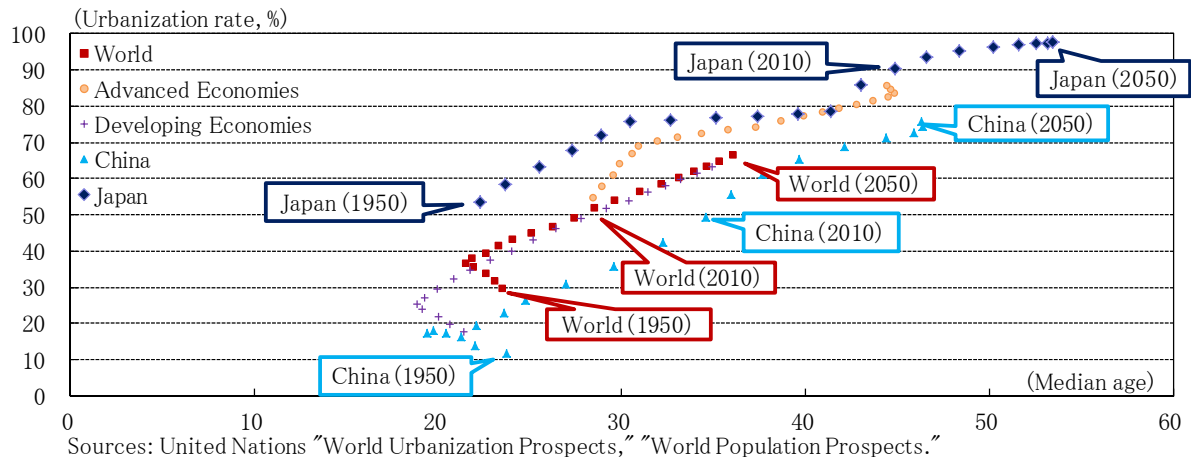
Slower growth in China and other emerging countries and the behavior of oil prices are risk factors to keep in mind for the Japanese economy. To also serve as the sensitivity analysis of projections based on the baseline scenario, we will simulate cases in which oil prices rise at a rate similar to our previous forecast, and the world economy falls into stagnation.

(1) Population increase, aging and urbanization as long-term trends in the world economy

First, we assess the long-term trends in the world economy. Although the birth rate is declining, the world population will continue to increase at an annual rate of about 1% for the time being. A rise in the average age and aging is progressing not only in Japan but also in other major developed countries and even China (Figure 4-1-1). As urbanization⁵ is also still progressing, demand for goods and services (particularly infrastructure) necessary for an urban life will increase.

⁵ Urbanization is defined by the ratio of the population living in urban areas to rural areas.

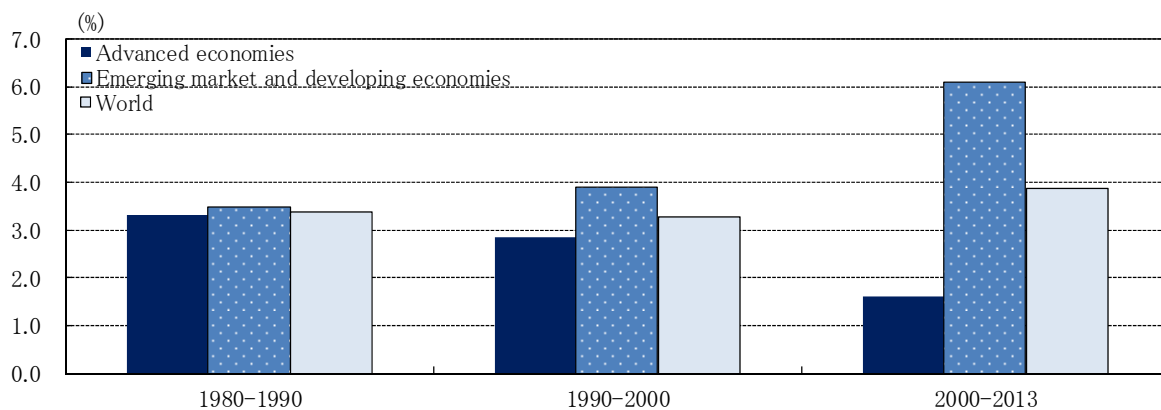
Figure 4-1-1 Urbanization and average age increases



If labor productivity continues to improve, with population increase and demographic shifts to cities, sustainable growth of the world economy can be expected in the future. In fact, the world economy has been growing at a rate of 3 to 4% in real terms since the 1980s. Subsequently, from the 2000s onward, the drivers of global economic growth have changed, from advanced economies to emerging and developing economies (Figure 4-1-2).

The growth rate of developed countries has been lower than in the past since the 2000s. Many economists have begun mentioning the "secular stagnation theory", that the potential growth rate in developed countries has declined due to the global financial crisis⁶. To achieve continued global growth, the return of growth in developed countries is essential; developed countries, including Japan, must make further efforts. The additional monetary easing implemented by the Bank of Japan in October 2014 was a measure to avoid a rise in real interest rates and can also be regarded as a response to the secular stagnation theory.

Figure 4-1-2 World economic growth rate



Source: IMF "World Economic Outlook, October 2014"

(2) Divided projections for oil prices

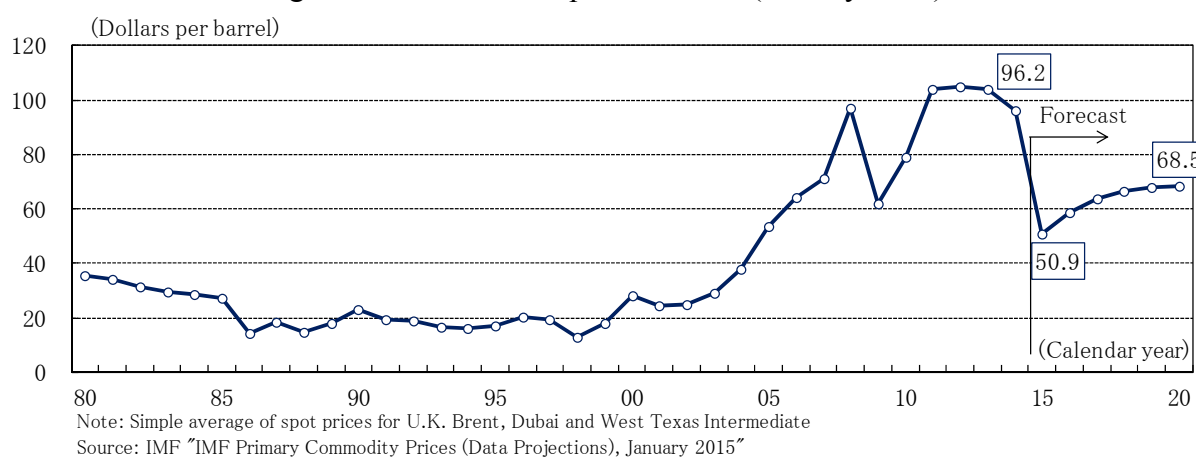
Energy prices, particularly oil prices, are closely related to long-term trends in the world economy. Although oil prices stayed at around 20 dollars for a long time from the late 1980s onward, they sharply rose in the 2000s and have been staying at around 100 dollars for the

⁶ Refer to "II. Reform Scenario, 1. Secular stagnation theory and the excess supply capacity of Japan."

last few years. However, as the Organization of Petroleum Exporting Countries (OPEC) decided to produce more oil in the second half of 2014 to compete with US shale oil and emerging oil producers such as Russia, oil prices fell below 50 dollars as of February 2015,

Not only factors on the supply side, but also a slight weakness in the world economy appears to have spread the view that the pace of increases in crude demand will slow down in the future. The advancement of responses to long-term high oil prices and the expansion of the use of energy saving technologies are also major factors that support this view. However, the International Monetary Fund (IMF) anticipates a moderate rise in oil prices in its forecast (Figure 4-2-1).

Figure 4-2-1 IMF Oil price forecast (January 2015)



If the world economy regains strength in the medium and long term, demand for fossil fuels will also increase in the future. In its latest forecast, the International Energy Agency (IEA) also expects that the import price of crude oils will still rise under the current policy scenario (Figure 4-2-2)⁷. We need to establish a variety of scenarios as fluctuations in oil prices will have a substantial impact on the Japanese economy.

Figure 4-2-2 IEA fossil fuel price forecasts (Current policies scenario, 2014)

		(Calendar year)			
	Unit	2013	2020	2030	2040
IEA crude oil imports	Dollars/barrel	106	136	205	286
Natural gas					
United States	Dollars/MBtu	3.7	6.4	10	15.7
Europe imports	Dollars/MBtu	10.6	13.5	19.5	25.9
Japan imports	Dollars/MBtu	16.2	17.6	23.9	31.9
OECD steam coal imports	Dollars/tonne	86	125	173	229

Sources: IEA "World Energy Outlook 2014 (Current Policies Scenario)"

(3) Three patterns in the type of economic growth — Is it possible to realize energy efficient growth by 2030?

The elasticity of oil prices in relation to real world GDP between 1980 and 2001 was 0.73 (if the growth rate rises by one percentage point, oil prices rise 0.73%). During the period

⁷ Please note that the IEA forecast was released before factoring in the sharp fall in oil prices in the second half of 2014.

when developed countries led growth, energy saving also made progress. After the 2000s, however, by including data between 2001 and 2006 when energy-intensive growth was realized, the elasticity of oil prices in relation to real world GDP rose to 1.95, due to the rise of emerging countries such as China, that enjoyed double-digit growth. It rose to an even higher level of 2.97, including data between 2007 and 2011, when oil was increasingly perceived as a financial product. Meanwhile, primary energy consumption increased at an average rate of 1.6% between 1980 and 2001, and the growth rate doubled to 3.2% on average between 2002 and 2006. Primary energy consumption also increased 2.1% between 2007 and 2011, suggesting that energy demand has been increasing sharply.

Given the analyses above, we have prepared two risk scenarios in addition to the baseline scenario for the world economy and oil prices in the future. The baseline scenario assumes that energy saving will make gradual progress toward 2030. Specifically, the elasticity of oil prices in relation to the real world GDP will slowly decline from 1.95 between 1980 and 2006 to 0.73 in 2030. In this case, WTI will follow an upward trend once again from 53.4 dollars in 2015 to 97.2 dollars in 2025.

In contrast, the first risk scenario assumes rising oil prices, where the economic growth in emerging countries will continue to be energy-intensive, and oil prices will rise to 140 dollars in 2025, a level close to the our previous forecast (refer to Figure 2-6)⁸. The growth rate of the world economy is assumed to be the same as that of the baseline scenario.

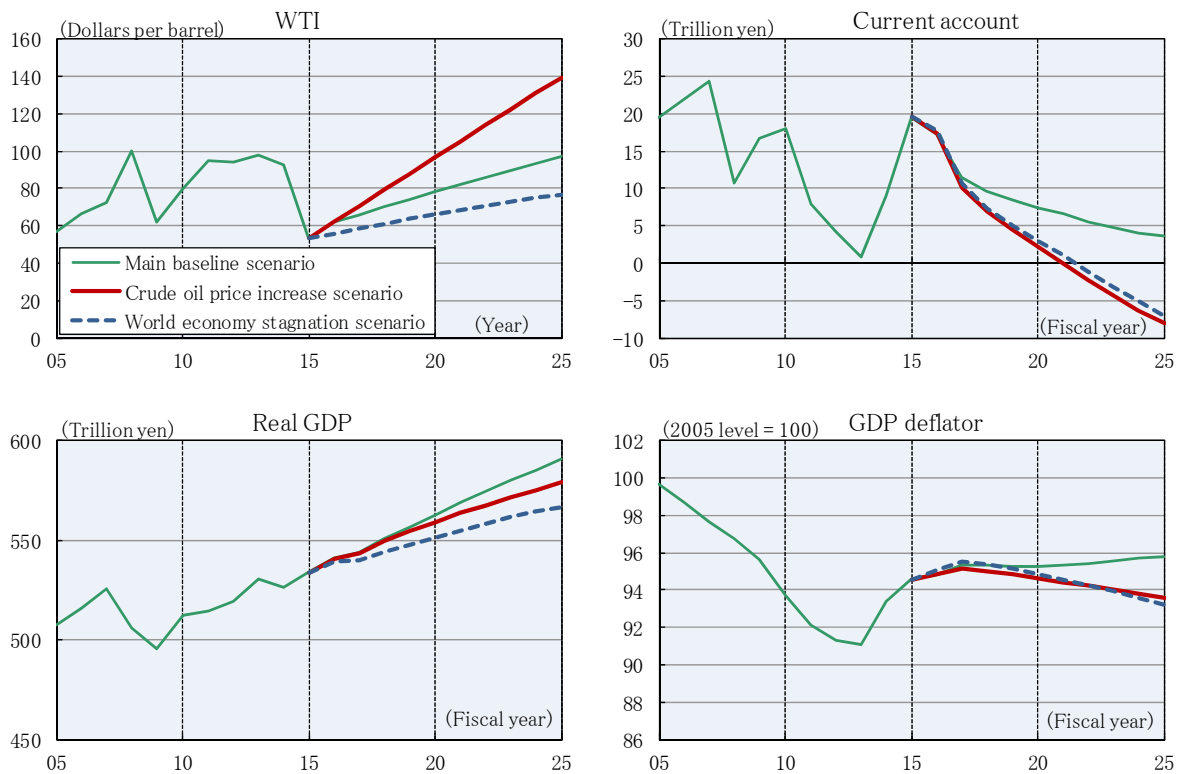
The second risk scenario assumes stagnation in the world economy, resulting in moderate oil prices. While the above elasticity of oil prices is used, the world growth rate during the forecast period is assumed to be about one percentage point lower than that in the baseline scenario. This is because strong growth like in the past could not be realized in emerging countries, while long-term stagnation is a concern in developed countries. In particular, the risk of stagnation in China cannot be ignored.

Figure 4-3 compares the impact of the three different scenarios for oil prices. As can be seen from the movement of the current account, the balance of payments will be affected greatly by oil prices. Although a current account surplus can be maintained during the forecast period in the baseline scenario supported by strong primary income, the current account will go into the red in the early 2020s in the scenario assuming rising oil prices. In the scenario assuming stagnation in the world economy, the current account will almost follow the same path.

The lower left graph (real GDP) in Figure 4-3 shows that falling oil prices in itself is beneficial for the Japanese economy. However, if it is a result of world economic weakness, then it is a different story. Even if Japan is able to curb imports in nominal terms due to weak oil prices, exports will be affected. If the growth rate of the world economy falls one percentage point, the annual average real growth rate of Japan will decline 0.2 percentage points. Looking at the movement of the GDP deflator, we discover that both a rise in oil prices and the stagnation of the world economy are deflationary factors through channels of rising import prices and weak exports, respectively.

⁸ We assume oil prices are 62.1 dollars in 2016, and also calculate that the IEA projection of 205 dollars in 2030 (Figure 4-2-2) converts to 182 dollars in WTI terms; we assume oil prices will change linearly between 2016 and 2030.

Figure 4-3 Alternative scenarios for world economy and oil prices



Major trends in the world economy are population increase, aging and urbanization, and we expect that the world economy will continue to grow due to the expansion of the working age population, and urbanization, which will raise productivity. Although uncertainty in the oil price outlook has increased, falling oil prices is a trend that Japan, as an oil importer, will welcome. However, if low growth in the world economy continues, the Japanese economy will be damaged as the positive effects of falling oil prices would be offset.

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Japan Center for Economic Research (JCER)
Nikkei Inc. Bldg. 11F 1-3-7 Otemachi, Chiyoda-ku, Tokyo 100-8066, Japan
Phone: +81-3-6256-7710 / FAX: +81-3-6256-7924