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**A Forecast of the Bank of Japan's
Short-Term Economic Survey ("Tankan")
(December Survey)**

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Summary

With economic adjustments growing in severity, both in Japan and overseas, the Bank of Japan's next *Short-Term Economic Survey* ("Tankan"), due to be published on December 12 (based on the December survey), is set to confirm a further deterioration in business confidence.

The business sentiment diffusion index for December is likely to be -47 points on an all industry basis, down 11 points on the level recorded in the September survey. The continued downward trend in exports reflecting the worldwide economic recession and the start of an adjustment phase in private capital investment suggest that, in the manufacturing sector, the index will continue to decline, falling by 10 points on its September level. Given the strengthening of the deflationary trend and the decline in consumer spending since the beginning of the autumn, it is likely that, even in the non-manufacturing sector, whose performance has remained relatively firm until recently, the index will fall by 12 points on the level recorded in September. Looking to the future, as continued stagnation of

share prices and of the world economy, and a further deterioration of the Japanese economy are likely, the business sector will remain cautious for some time to come.

On an all industries/all sizes of company basis, capital investment plans in fiscal 2001 are likely to be 5.4 points down on fiscal 2000, virtually the same level as the fall of 5.3 points in September. However, given the decline in confidence and significant deterioration in business performance, it is likely that capital investment plans by major corporations will be revised downwards as compared with the September level.

The economy is, thus, deteriorating rapidly, and it is highly likely that conditions will remain harsh until at least the first half of 2002. Under these circumstances, the focus of attention will be the government's stance on monetary policy. Given that a sharp fall in government tax income is now a certainty, to insist too strongly on the formal target of restricting issuance of government bonds to ¥30 trillion would be to risk following the footsteps of the Hashimoto Administration. If the government intends to pursue its policy of structural reform, it should set out a medium-term scenario for the rebuilding of public finance, and, rather than being restricted by the framework of ¥30 trillion, should bring forward any expenditure compatible with that scenario that will contribute to the reform cause.

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