

## Japan: Core Statistical Indicators

(As of July 2, 2003)

|                            | Exchange Rates | International Reserves | Reserve/ Base Money | Central Bank Balance Sheet | Broad Money   | Interest Rates | Consumer Price Index | Exports/ Imports | Current Account Balance | Overall Government Balance | GDP/ GNP      | External Debt/ Debt Service |
|----------------------------|----------------|------------------------|---------------------|----------------------------|---------------|----------------|----------------------|------------------|-------------------------|----------------------------|---------------|-----------------------------|
| Date of latest observation | 7/2/03         | 5/03                   | 5/03                | 6/30/03                    | 5/03          | 7/2/03         | 5/03                 | 5/03             | 4/03                    | 2001                       | 2003:Q1       | End-2002                    |
| Date received              | 7/2/03         | 6/03                   | 6/03                | 7/2/03                     | 6/03          | 7/2/03         | 6/03                 | 6/03             | 6/03                    | 12/03                      | 6/03          | 5/03                        |
| Frequency of Data          | D              | M                      | M                   | Every 10 days              | M             | D              | M                    | M                | M                       | A                          | Q             | A                           |
| Frequency of Reporting     | D              | M                      | M                   | Every 10 days              | M             | D              | M                    | M                | M                       | A                          | Q             | A                           |
| Source of data             | C              | C                      | C                   | C                          | C             | C              | C                    | C                | C                       | C                          | C             | C                           |
| Mode of Reporting          | E              | E                      | E                   | E                          | E             | E              | E                    | E                | E                       | E                          | E             | E                           |
| Confidentiality            | Unre-stricted  | Unre-stricted          | Unre-stricted       | Unre-stricted              | Unre-stricted | Unre-stricted  | Unre-stricted        | Unre-stricted    | Unre-stricted           | Unre-stricted              | Unre-stricted | Unre-stricted               |
| Frequency of publication   | D              | M                      | M                   | Every 10 days              | M             | D              | M                    | M                | M                       | A                          | Q             | A                           |

**Statement by the IMF Staff Representative**  
**August 20, 2003**

1. **This statement provides an update of information that has become available since the release of the staff report.** It reflects further discussions held in Tokyo during August 4–5 with officials and private sector analysts. The statement covers recent economic, financial, and policy developments. While this information points to a better short-term economic outlook than envisaged in the main report, it does not alter the thrust of the policy recommendations in the staff appraisal.
2. **In the second quarter, GDP growth was stronger than expected, although deflation continued.** According to the first preliminary estimate, real GDP rose by 0.6 percent (*q/q* seasonally adjusted), compared with the private consensus and staff's projection of little or no growth and official assessments that economic activity had been flat. Consumption, business fixed investment, and net exports were stronger than implied by monthly indicators. Notwithstanding the pickup in demand, the GDP deflator fell by 2.1 percent (*y/y*), extending the decline that has been ongoing since mid-1998.
3. **Data on stronger second-quarter growth along with other factors has led to an improvement in the short-term outlook.** Although national accounts data are subject to substantial revisions, GDP estimates for the first half of 2003 and more optimistic projections for partner countries imply that the pickup in activity may have begun earlier than staff had anticipated. Incorporating these factors raises the staff's 2003 growth projection from 1.1 percent to about 2 percent and also raises the forecast for 2004 from 0.8 percent to about 1½ percent. However, while the increase in stock prices and the firmer external environment suggest that the risks to the outlook may have become more balanced, important downside risks are still associated with the remaining fragilities on corporate and financial sector balance sheets.
4. **Stock prices and interest rates have broadly stabilized recently, while the yen has appreciated moderately.** During the first two weeks of August, the Nikkei initially dipped but then recovered and is now about 20 percent above its April low. Yields on 10-year JGBs have declined slightly and are now around 110 basis points. Meanwhile, the yen has appreciated by about 1 percent against the dollar and the euro. Foreign exchange market intervention for the year through July totaled some ¥9 trillion.
5. **Recently released FY2002 results for regional banks confirm that significant weaknesses remain in the financial system.** The staff report noted that during FY2002, major banks experienced substantial losses and a decline in their average capital adequacy ratio, but made progress in lowering nonperforming loans (NPLs). New data show that regional banks experienced net losses of about ¥300 billion, and their average capital adequacy ratio was broadly unchanged, but they made essentially no headway in reducing NPLs. Among all banks, the rise in stock prices during recent months has boosted the value of equities on bank balance sheets, while the increase in interest rates has reduced the value of bond holdings; it is as yet unclear whether the net effect on bank balance sheets is positive