



# JAPAN

April 2022

## 2022 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR JAPAN

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with Japan, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its April 1, 2022 consideration of the staff report that concluded the Article IV consultation with Japan.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 1, 2022, following discussions that ended on January 26, 2022, with the officials of Japan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 16, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Japan.

The document listed below has been or will be separately released.

### Selected Issues

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## IMF Executive Board Concludes 2022 Article IV Consultation with Japan

FOR IMMEDIATE RELEASE

On April 1, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Japan.

The Japanese economy is recovering from the pandemic amid strong policy support and high vaccination levels. Japan had much lower rates of COVID-related infections and deaths than most advanced economies, including due to containment measures. Following a contraction of 4.5 percent in 2020, real GDP growth is estimated to have grown by 1.6 percent in 2021. Reflecting high energy prices, inflation has risen gradually during 2021 but remains well below the 2 percent inflation target. The current account surplus was 2.9 percent of GDP in 2021, and, on a preliminary basis, the external position is assessed as broadly in line with medium-term fundamentals and desirable policies. Business bankruptcies and non-performing loans are at historical lows due to strong fiscal and monetary support as well as liquidity and credit supply facilitated by regulatory easing measures. The banking system remains well-capitalized and liquid, and near-term vulnerabilities are contained.

GDP growth is projected at 2.4 percent in 2022 amid continued strong policy support, the high vaccination rate, and easing global supply constraints. Consumption will lead the recovery, with pent-up demand being unwound. As pandemic-related uncertainty and supply constraints subside, investment is seen to bounce back. The pace of recovery for domestic demand will be slowed by higher commodity prices and elevated uncertainty related to the Ukraine conflict. External demand will also be affected by the geopolitical tensions, mainly due to an expected slowdown in Europe. Inflation is expected to pick up, spurred by higher import prices and stronger domestic demand, with headline CPI inflation projected at 1.0 percent in 2022. An ageing and declining population will continue to weigh in the medium to long term. Significant scarring effects are unlikely, as the strong policy support has kept unemployment low. Fiscal buffers should be rebuilt gradually over the medium and long term in a growth-friendly manner to preserve the ability to respond to shocks. Monetary policy accommodation is warranted while taking further measures to make that stance more sustainable. Digital and green transformation could be leveraged to promote strong, sustainable, and inclusive growth after the pandemic. Reinvigorating reforms to increase labor supply, boost productivity, and support investment would lift potential growth and facilitate reflation.

### Executive Board Assessment<sup>2</sup>

Executive Directors commended the authorities' strong policy support and steady progress on the vaccine rollout, which are supporting the recovery from the pandemic. Directors noted that

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

uncertainty around the pandemic and the war in Ukraine pose significant downside risks. They stressed the importance of efforts to increase productivity and achieve inclusive and sustainable growth.

Directors emphasized that near-term fiscal policy should remain flexible and supportive, until the recovery becomes entrenched, while increasingly shifting toward more targeted measures. They underscored the need for a well-specified medium-term fiscal consolidation strategy that preserves growth to put public debt on a downward path and strengthen the ability to respond to shocks.

Directors agreed that accommodative monetary policy remains appropriate. A number of Directors expressed the view that further refinements to the monetary policy framework could help to safeguard financial stability, while some took note of the authorities' view that the current framework is effective and flexible. Directors emphasized that clear communication would help to enhance monetary policy effectiveness. Given that the effective lower bound is a constraint for Japan, most Directors considered that comprehensive and mutually reinforcing fiscal, monetary, and structural policies are essential to provide the necessary support to lift inflation durably to its target.

Directors welcomed that financial stability has been maintained and underscored that financial supervision should remain vigilant to contain vulnerabilities. They agreed that pandemic-related financial support should be scaled down as the pandemic recedes. Noting the challenges associated with prolonged low interest rates and rising demographic pressures, Directors urged the authorities to further strengthen financial supervision and regulation, broaden the scope of the systemic risk assessment, and enhance the macroprudential policy toolkit.

Directors encouraged the authorities to leverage the planned digital and green transformation to promote strong, sustainable, and inclusive growth. They welcomed Japan's carbon neutrality commitment, noting the important role that carbon pricing could play, and highlighted the need for further efforts to deliver on related targets. Directors noted that recent initiatives to promote digitalization in the private sector and establish the centralized Digital Agency should help to accelerate digitalization. They recommended avoiding job displacement of unskilled workers to ensure an inclusive digital transition.

Against the backdrop of an aging and shrinking population, Directors called for an acceleration of reforms to increase labor supply, productivity, and wages, particularly of female and older workers. They stressed that corporate governance and regulatory reforms should be broadened and deepened to improve business dynamism and spur investment. Directors welcomed Japan's continued multilateral and regional efforts to promote open, stable, and transparent trade policies.

**Table 1. Japan: Selected Economic Indicators, 2018-23**

Nominal GDP: US\$ 4,937 Billion (2021)	GDP per capita: US\$ 39,340 (2021)						
Population: 126 Million (2021)	Quota: SDR 30.8 billion (2021)						
	2017	2018	2019	2020	2021	2022	2023
						Proj.	
	(In percent change)						
Growth							
Real GDP	1.7	0.6	-0.2	-4.5	1.6	2.4	2.3
Domestic demand	1.1	0.6	0.2	-3.7	0.6	2.0	2.1
Private consumption	1.1	0.2	-0.5	-5.2	1.3	2.2	2.7
Gross Private Fixed Investment	2.0	0.3	0.8	-6.7	-0.9	1.5	4.2
Business investment	2.4	1.9	0.1	-6.5	-0.7	1.9	4.6
Residential investment	0.5	-6.4	4.1	-7.9	-1.9	-0.1	2.3
Government consumption	0.1	1.0	1.9	2.3	2.1	3.0	0.4
Public investment	0.1	0.6	1.7	3.9	-3.7	-3.4	-4.7
Stockbuilding	0.1	0.2	-0.1	-0.1	-0.2	0.0	0.0
Net exports	0.6	0.0	-0.5	-0.9	1.1	0.5	0.2
Exports of goods and services	6.6	3.8	-1.5	-11.8	11.6	5.7	5.6
Imports of goods and services	3.3	3.8	1.0	-7.2	5.2	3.2	4.7
Output Gap	-0.5	-0.7	-1.4	-2.7	-2.6	-1.7	-0.4
	(In annual average)						
Inflation							
Headline CPI	0.5	1.0	0.5	0.0	-0.3	1.0	0.8
GDP deflator	-0.1	0.0	0.6	0.9	-0.9	0.4	0.4
	(In percent of GDP)						
General government							
Revenue	33.6	34.3	34.2	35.6	35.5	35.0	35.0
Expenditure	36.7	36.8	37.2	44.5	43.2	42.8	38.5
Overall Balance	-3.1	-2.5	-3.0	-9.0	-7.6	-7.8	-3.5
Primary balance	-2.2	-1.7	-2.4	-8.3	-7.0	-7.4	-3.3
Structural primary balance	-2.4	-1.7	-1.9	-7.5	-6.4	-6.9	-3.2
Public debt, gross	231.4	232.5	236.1	259.0	263.1	262.5	258.3
	(In percent change, end-period)						
Macro-financial							
Base money	9.7	5.0	2.8	19.2	8.6	2.9	3.6
Broad money	3.5	2.3	2.1	7.3	3.0	3.4	3.4
Credit to the private sector	4.0	0.8	2.9	6.3	1.3	0.9	2.3
Non-financial corporate debt in percent of GDP	134.2	136.2	138.5	151.9	153.2	152.3	150.9
	(In percent)						
Interest rate							
Overnight call rate, uncollateralized (end-period)	-0.1	-0.1	-0.1	0.0	...	...	...
Three-month CD rate (annual average)	0.0	0.0	0.0	0.0	...	...	...
Official discount rate (end-period)	0.3	0.3	0.3	0.3	...	...	...
10-year JGB yield (e.o.p.)	0.1	0.1	-0.1	0.0	...	...	...
	(In billions of USD)						
Balance of payments							
Current account balance	203.5	177.8	176.0	148.8	141.7	117.2	142.2
Percent of GDP	4.1	3.5	3.4	3.0	2.9	2.4	2.7
Trade balance	44.1	11.0	1.4	28.8	16.4	-29.8	-21.9
Percent of GDP	0.9	0.2	0.0	0.6	0.3	-0.6	-0.4
Exports of goods, f.o.b.	689.1	735.9	695.0	631.5	748.5	806.8	856.2
Imports of goods, f.o.b.	645.0	724.9	693.6	602.8	732.1	836.6	878.1
Energy imports	117.8	148.5	131.9	89.1	127.7	195.9	168.5
	(In percent of GDP)						
FDI, net	3.1	2.7	4.3	1.8	2.4	2.9	2.8
Portfolio Investment	-1.0	1.8	1.7	0.7	-4.0	0.5	0.9
	(In billions of USD)						
Change in reserves	23.6	24.0	25.5	10.9	62.8	11.5	11.5
Total reserves minus gold (in billions of US\$)	1232.4	1239.4	1286.3	1348.2	...	...	...
	(In annual average)						
Exchange rates							
Yen/dollar rate	112.2	110.4	109.0	106.8	...	...	...
Yen/euro rate	126.7	130.5	122.0	121.9	...	...	...
Real effective exchange rate (ULC-based, 2010=100)	76.5	74.6	75.4	74.7	...	...	...
Real effective exchange rate (CPI-based, 2010=100)	75.0	74.4	76.5	77.2	...	...	...
	(In percent)						
Demographic Indicators							
Population Growth	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.4
Old-age dependency	46.0	46.9	47.6	48.3	48.7	48.9	49.3
Sources: Haver Analytics; OECD; Japanese authorities; and IMF staff estimates and projections.							

Sources: Haver Analytics; OECD; Japanese authorities; and IMF staff estimates and projections.



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## STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

March 16, 2022

### KEY ISSUES

**Context.** Pre-COVID-19, economic policies under “Abenomics” helped ease financial conditions, exit deflation, and raise labor market participation, but fell short on the deep reforms needed to raise productivity and achieve inclusive and sustainable growth. The Japanese economy is now recovering from the pandemic amid strong policy support that has helped to mitigate the downturn. Japan had substantially lower rates of COVID-related infections and deaths than most advanced economies.

**Outlook and risks.** The recovery is expected to continue in 2022 underpinned by sustained strong policy support and steady progress on the vaccine rollout. Consumption will lead the recovery, with pent-up demand being unwound. There is significant uncertainty around the outlook, including from the Russia-Ukraine conflict, however, with the balance of risks tilted to the downside.

**Near-term policy support to underpin the recovery.** In line with IMF staff advice, an additional fiscal package announced in November 2021 will provide support for health systems and affected workers and firms. As the economy normalizes, fiscal policies should shift towards facilitating resource reallocation. The Bank of Japan (BoJ) should maintain monetary accommodation, while continuing to support balance sheets of smaller firms until uncertainty about the pandemic fades. Care should be taken to ensure that these policies do not mask vulnerabilities while the pandemic is still evolving.

#### **Medium- and longer-term policies to build back better after the pandemic.**

- Fiscal buffers should be rebuilt gradually over the medium and long term to preserve the ability to respond to shocks. The transition to a sustainable fiscal position should be guided by a medium-term fiscal framework balancing short-term stabilization and fiscal sustainability and underpinned by concrete policy plans.
- The BoJ should maintain monetary policy accommodation while taking further measures to make that stance more sustainable. The Financial Services Agency should continue to strengthen supervision and regulation, broaden the scope of systemic risk assessment, and enhance its macroprudential toolkit, while facilitating business model adjustment and consolidation of regional banks.
- Digital and green transformation could be leveraged to promote strong, sustainable, and inclusive growth after the pandemic. Reinvigorating reforms to increase labor supply, boost productivity, and support investment would lift potential growth and facilitate reflation.

Approved By  
**Odd Per Brekk and  
Uma Ramakrishnan**

Discussions with officials took place virtually between January 3 and 26, 2022. The team comprised R. Salgado (mission chief), T. Hisanaga, P. Khera, P. Lopez Murphy, P. Sodsriwiboon, R. Xu (all APD), S. Fendoglu (MCM), E. Van Heuvelen (SPR), J. Schmittmann, and H. Seitani (both OAP). Executive Director T. Tanaka, Alternate Executive Director M. Kashima, O.P. Brekk (APD), and C. Sumi (OAP) joined some meetings. The mission met with Vice-Minister of Finance for International Affairs Kanda and Bank of Japan Governor Kuroda. The First Deputy Managing Director joined the concluding meeting. S. Abebe and B. Zhu (both APD) assisted in the preparation of this report.

## CONTENTS

<b>CONTEXT</b>	<b><a href="#">4</a></b>
<b>COVID-19: IMPACT AND POLICY RESPONSES</b>	<b><a href="#">4</a></b>
<b>OUTLOOK AND RISKS</b>	<b><a href="#">8</a></b>
<b>ECONOMIC POLICIES</b>	<b><a href="#">9</a></b>
A. Policies to Support the Recovery	<a href="#">10</a>
B. Building Back Better After the Pandemic	<a href="#">11</a>
<b>STAFF APPRAISAL</b>	<b><a href="#">25</a></b>
<b>FIGURES</b>	
1. Recent Economic Developments	<a href="#">27</a>
2. Inflation Developments	<a href="#">28</a>
3. Monetary and Credit Conditions	<a href="#">29</a>
4. Financial Markets Developments	<a href="#">31</a>
5. Labor Market and Wage Developments	<a href="#">32</a>
6. Fiscal Developments	<a href="#">33</a>
7. Climate Change	<a href="#">34</a>
<b>TABLES</b>	
1. Selected Economic Indicators, 2018-23	<a href="#">35</a>
2. Monetary Authority Accounts and Monetary Survey, 2019-23	<a href="#">36</a>
3. External Sector Summary, 2019-27	<a href="#">37</a>
4. General Government Operations, 2019-27	<a href="#">38</a>
5. Medium-Term Projections, 2019-27	<a href="#">39</a>
6. Financial Soundness Indicators, 2015-20	<a href="#">40</a>

**ANNEXES**

I. Health Responses to the Pandemic	<u>41</u>
II. External Sector Assessment	<u>43</u>
III. Fiscal Response to the Pandemic	<u>44</u>
IV. Risk Assessment Matrix	<u>47</u>
V. Debt Sustainability Analysis	<u>48</u>
VI. March 2021 Revisions to Monetary Policy Measures	<u>57</u>
VII. The European Experience with Negative Interest Rate Policy	<u>59</u>
VIII. Digitalization and Other Structural Reforms to Support Inflation and Growth	<u>61</u>
IX. Progress of the Work Style Reforms	<u>63</u>
X. Progress on 2017 FSAP Key Recommendations	<u>66</u>