

IMF Asia and Pacific Department  
Japan: Economic Outlook and Policy Priorities

Discussion by

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# What IMF says and what I would like to emphasize

- Inflation in Japan is rising, but is still quite low compared to other countries.
- So Japan's current macroeconomic condition is consistent with Governor Kuroda's recent statements that BOJ will continue its zero-interest-rate policy for the time being.
- **The implicit, but in fact very important objective of the zero-interest-rate policy is to keep the interest burden on JGB as low as possible and as long as possible.**

# What IMF says and what I would like to emphasize (continued)

- Rapid depreciation of the yen is certainly a concern. But, Japan-US interest rate differential is a main reason. This is not a long-term trend.
- Similarly, declining CA surplus and deteriorating terms of trade are mainly caused by recent increases in energy prices. The War in Ukraine may not be over soon, but the surge of energy prices is unlikely to be a permanent shock.
- **We should not make hasty discussions about monetary and fiscal policy by treating recent directions of the yen's value and CA balance as persistent shocks and conflating them with their long-term trends.**
- **This is particularly dangerous in the case of monetary policy.**

# Additional thoughts

- A major hidden cost of the absence of inflation is that it undermines the cleansing effect of the recession. When inflation occurs, uncompetitive firms cannot raise the price of their goods, nor can they raise their wages.
- Thus, Zombie firms will be forced to exit. Good for productivity growth.
- The similar argument can be made for Covid-19 national relief funds. Trying to save all firms in the same way was not a good idea. The safety net should have been provided for all workers, not for all enterprises.

# Comments and Questions for Dr. Salgado

- Appreciate if he could elaborate on what “revenue mobilization” means, especially when the term is used in a discussion about developed economies like Japan.
- Should BoJ continue its zero-interest-rate policy when Japanese inflation rises further to a sustained core inflation of 4-5% level?
- To avoid facing such a serious dilemma in the future, isn't it better to give up the firm commitment to a zero-interest-rate policy as soon as possible?
  - Before Covid-19, there was a sign of BOJ's *stealth tapering*.

# Further comments

- Two and half years of Covid-19 significantly worsened the fiscal situation of national economies around the world. But, once pandemic had been contained, the negative impact could have been short-lived.
- Though it has only been 100 days since the start of the war in Ukraine, it could have a more long-term, negative impact on the fiscal situation of developed economies, as it is likely to lead to increased defense spending worldwide.
- It may be difficult to avoid the trend of “bigger government” for next several decades.

- Current account deficit is a potentially serious problem for Japan economy is its potential fiscal consequence.
- But, what exactly will happen if Japan's current account balance slowly moves to a deficit, as the open economy version of the LCH and OLG model predict?
- I am asking this because it seems we don't find a good answer in economic history. No other country in the past has experienced population aging at the speed that Japan is experiencing right now.