



**UNDER EMBARGO UNTIL 07.00 GMT, WEDNESDAY, 6 AUGUST 2014**

## **JAPAN**

### *Country briefing notes*

#### **Bold government policies helped boost economic growth**

- The economy showed strong growth during the first half of 2013 on the back of aggressive monetary easing, which buoyed exports, corporate profits and recovery in consumer spending.
- However, the growth momentum slowed in the second half of the year, spurring further government stimulus amounting to 0.9% of GDP, which included public sector projects and tax cuts for corporate investment. Overall, the economy expanded by 1.5% in 2013.
- In the first quarter of 2014, private consumption jumped in anticipation of the sales tax increase in April. Private investment growth was also robust. The economy slowed in the second quarter, as consumer spending contracted by 4.6% year-on-year in April and again by 8% in May. The negative impact of the tax increase is expected to bottom out by the third quarter. Meanwhile, GDP in 2014 is forecast to grow by 1.4%.
- Import growth outpaced export growth, leading to a record high current account deficit in 2013. Oil imports rose, as more fossil fuel was required to compensate for the shutdown of nuclear power plants.
- In 2014, the current account balance has so far returned to a surplus but export growth remained flat due to sluggish demand from Europe and Asia. This was despite the depreciation of the yen, which fell by around 20% against the United States dollar in 2013.

#### **Ending the deflation episode**

- Backed by the Bank of Japan's strong commitment to achieve the 2% inflation target by early 2015, consumer prices rose on average by 0.4% in 2013 and continued to rise in 2014. The tax rate hike in April 2014 pushed the core inflation up by 3.2%.
- Looking forward, the economy appears to be on track to meet the inflation target by 2015 with the consumer price index projected to rise by 2.8% in 2014.

### Monetary expansion continued

- In April 2013, the Bank of Japan announced plans to increase the monetary base by around 60-70 trillion yen to meet the inflation target. Monetary easing continues in 2014 to support economic growth.
- The consumption tax rate is raised to 8% from 5% in April 2014 and is set to rise again to 10% in October 2015. Higher tax revenue should help stabilize public finance condition and consolidate government debt, which stood at 243% of GDP in 2013.
- The tax increase is in line with ESCAP's analysis, which finds that there is room to raise additional tax revenue in Japan, for ensuring long-term fiscal sustainability.

### Policy challenges

- As Japan escapes deflation, a key challenge is to ensure that wage rises keep up with inflation. As export growth is expected to moderate, strong private sector spending is required to sustain economic growth. Despite the fall in unemployment rates in recent months, average real wages for employees continued to fall.
- The medium-term growth outlook for Japan will depend on the impact of the ongoing reform programme – the successful implementation of the “third arrow”. The economy recorded an upturn in its growth with a set of economic stimulus policies which came into effect in 2013 and 2014, but a longer-term plan is required to reassure markets of sustainable economic growth.

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