

The Japanese Economy: Stagnation, Recovery, and Challenges

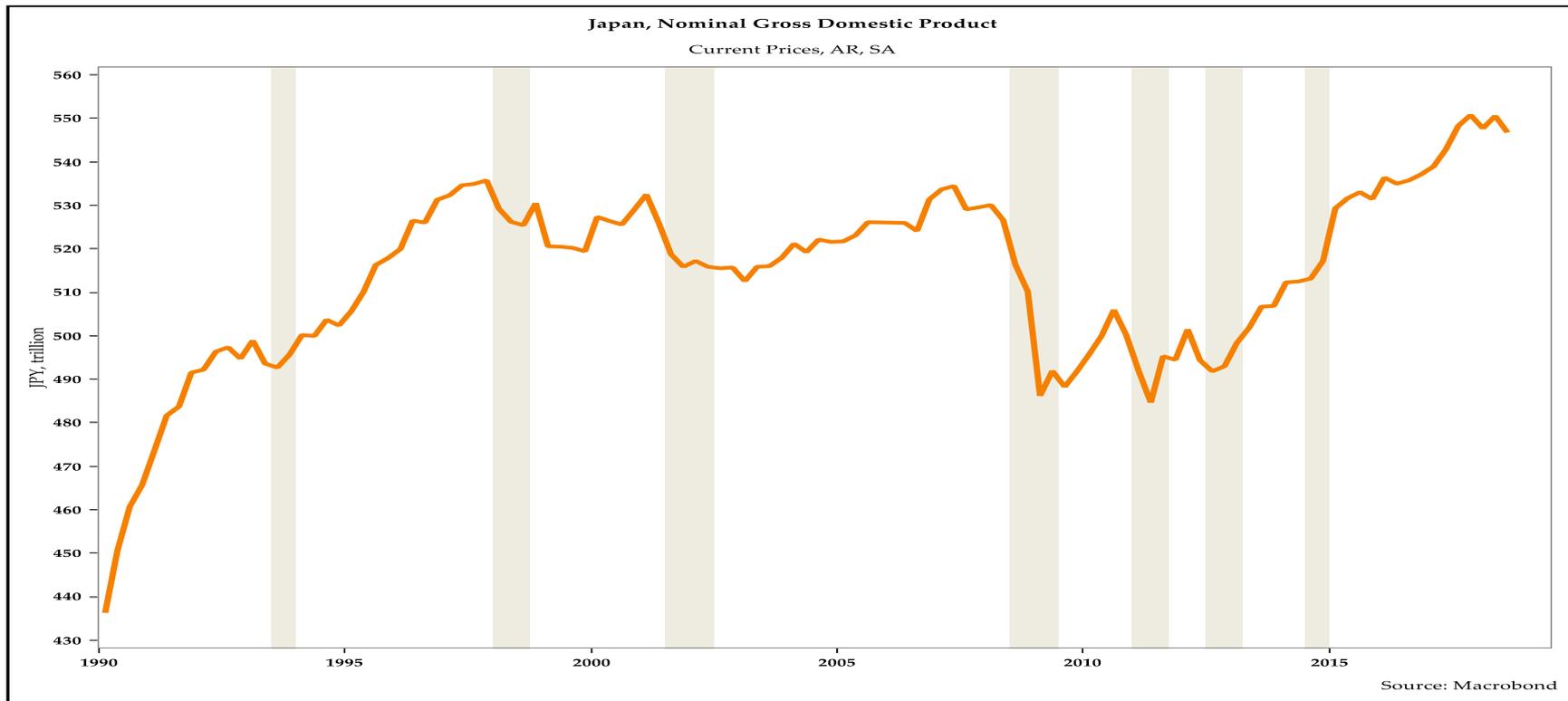
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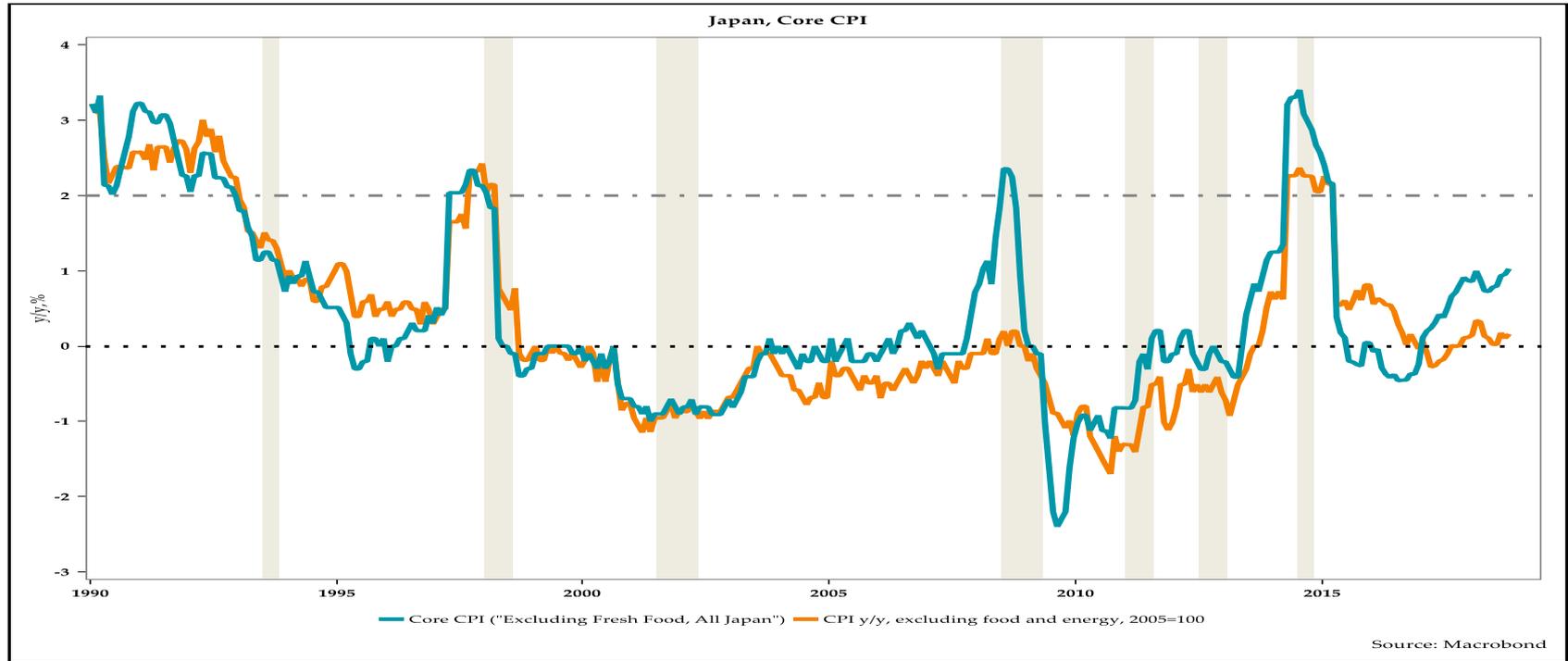
JAPAN'S NOMINAL GDP IS RISING AFTER DECADES OF STAGNATION



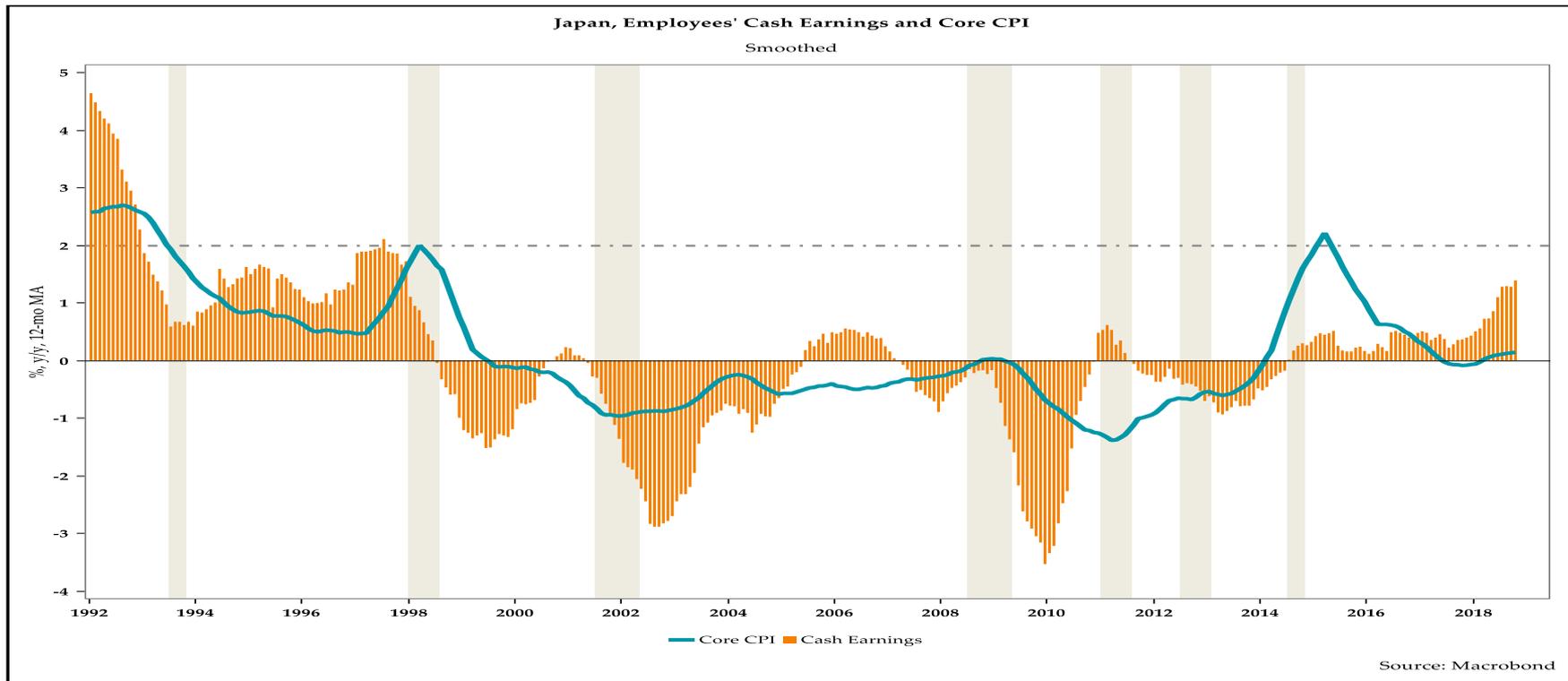
JAPAN'S GROWTH PERFORMANCE HAS BEEN DISAPPOINTING

Japan, Trend Growth Rate, %		
	Real GDP	Real GDP per capita
<i>Trend growth rate by decade</i>		
1960-1969	9.6	8.5
1970-1979	4.2	3.0
1980-1989	4.4	3.9
1990-1999	1.3	1.0
2000-2009	1.0	0.9
2010-2016	0.9	1.1
<i>Trend growth rate by era</i>		
1960-2016	3.3	2.8
1960-1994	5.1	4.3
1995-2016	0.8	0.8
Sources: World Bank; author's calculations		

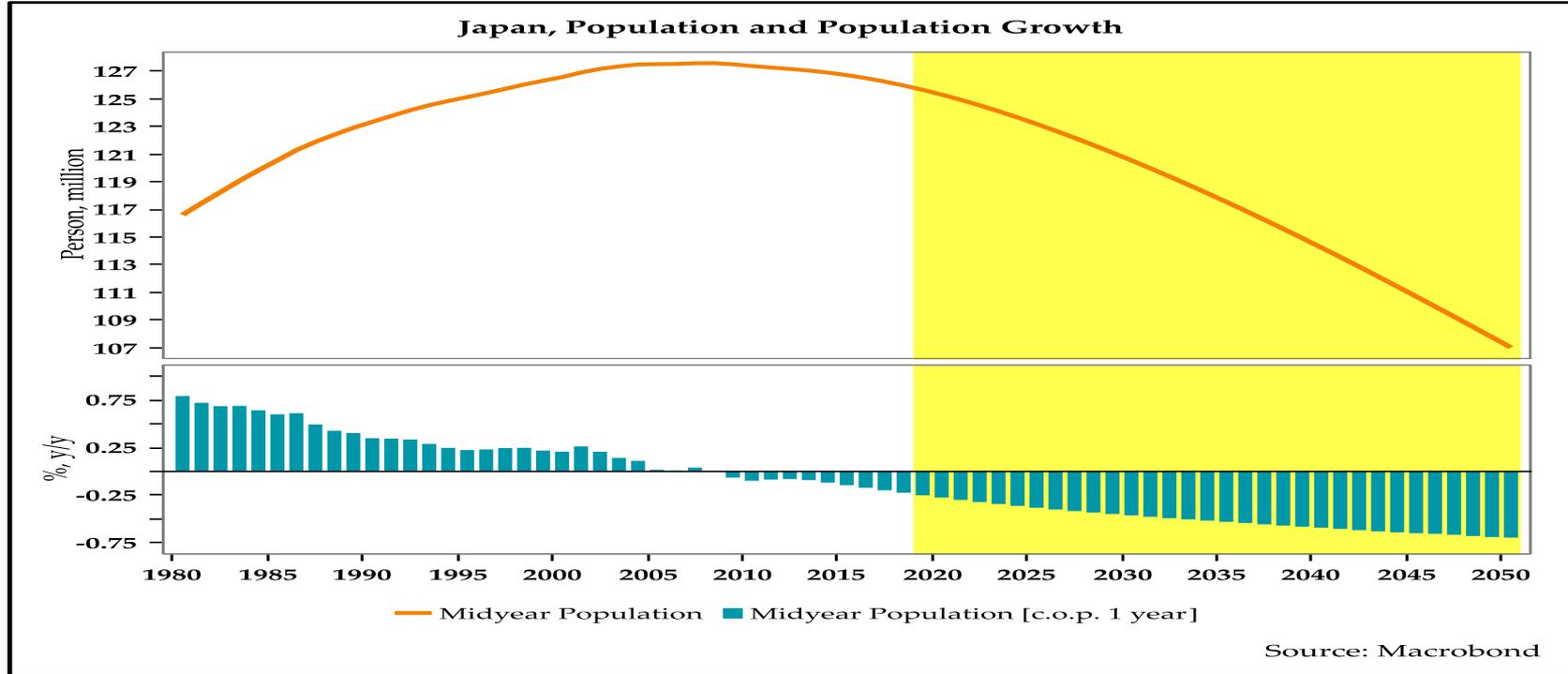
CORE INFLATION IS STILL LOW



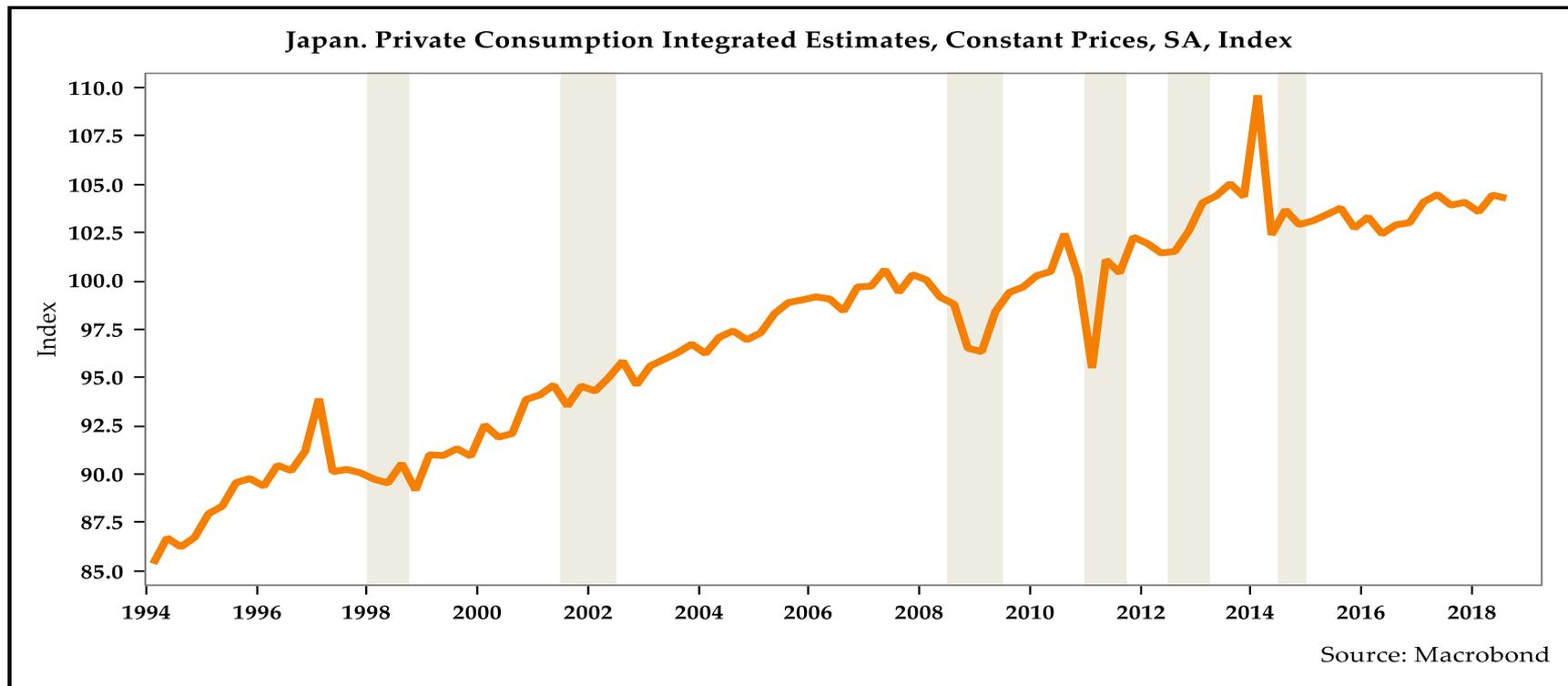
MUTED WAGE GROWTH HAS KEPT CORE INFLATION VERY LOW



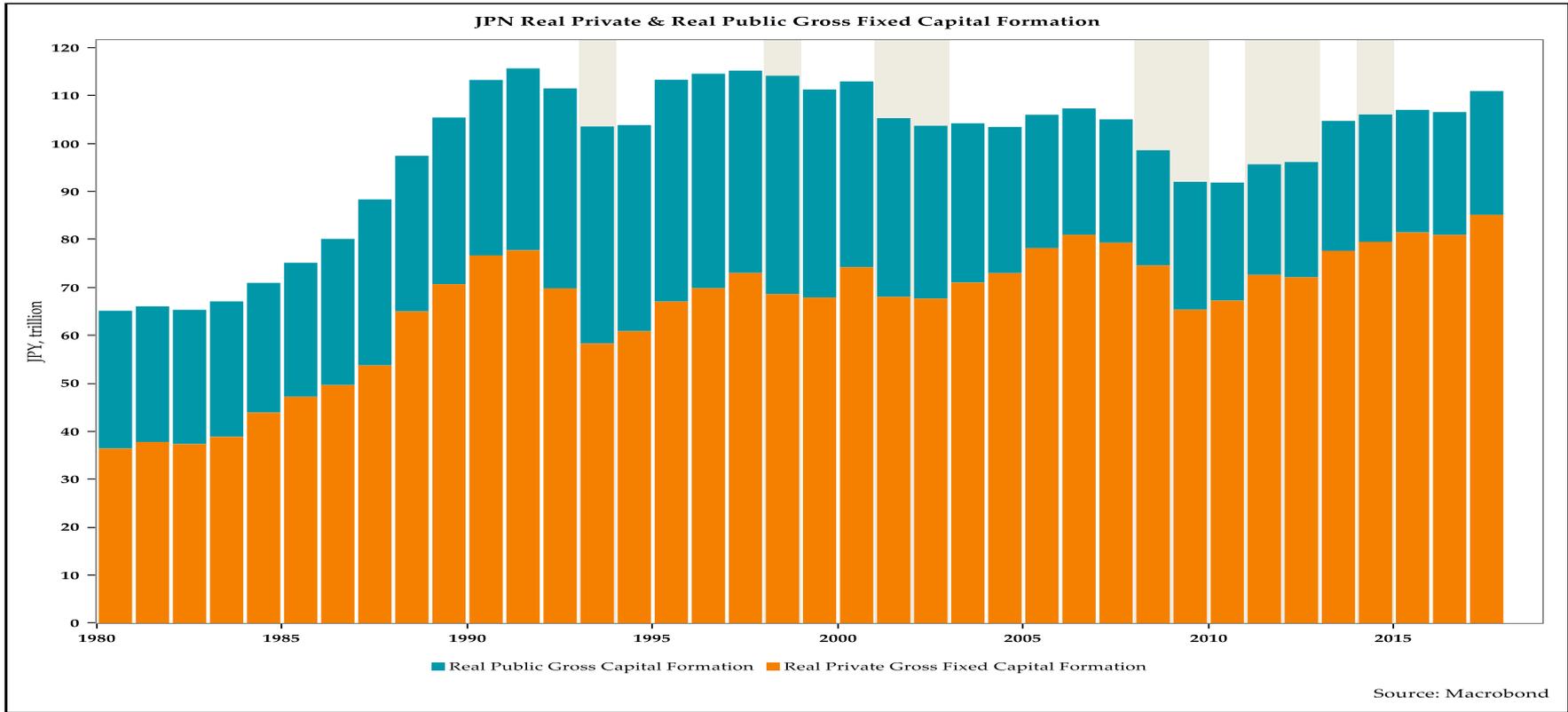
JAPAN'S POPULATION IS DECLINING



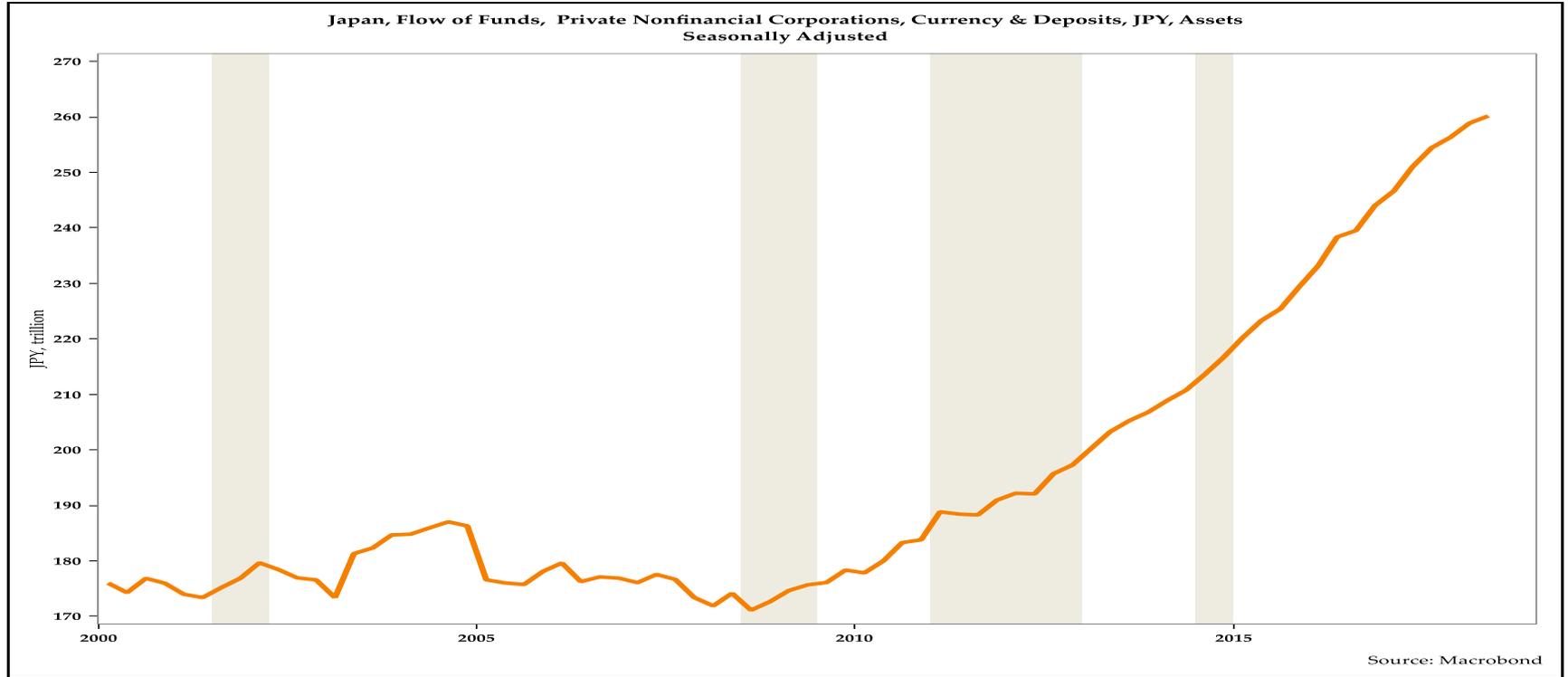
PRIVATE CONSUMPTION HAS RISEN AT A MODEST PACE



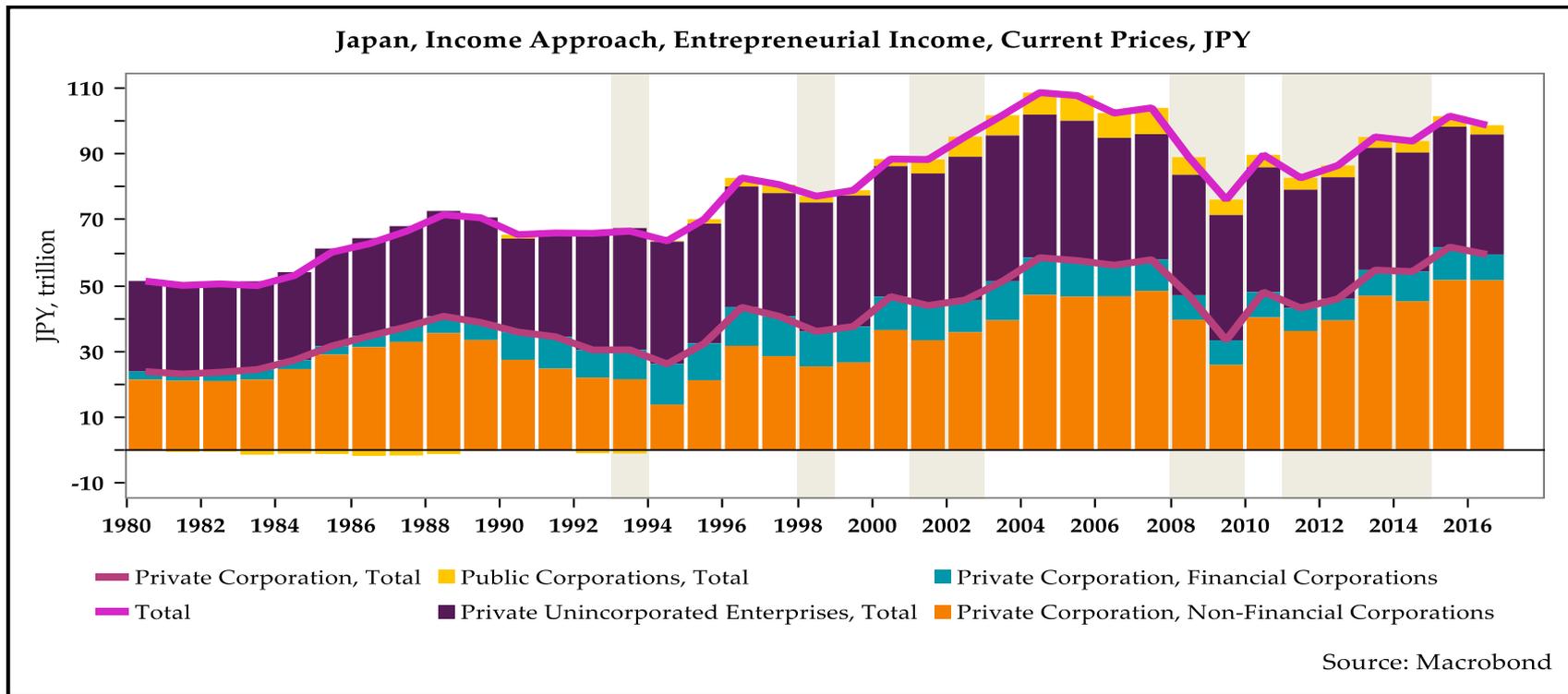
GRADUAL RECOVERY IN FIXED CAPITAL FORMATION



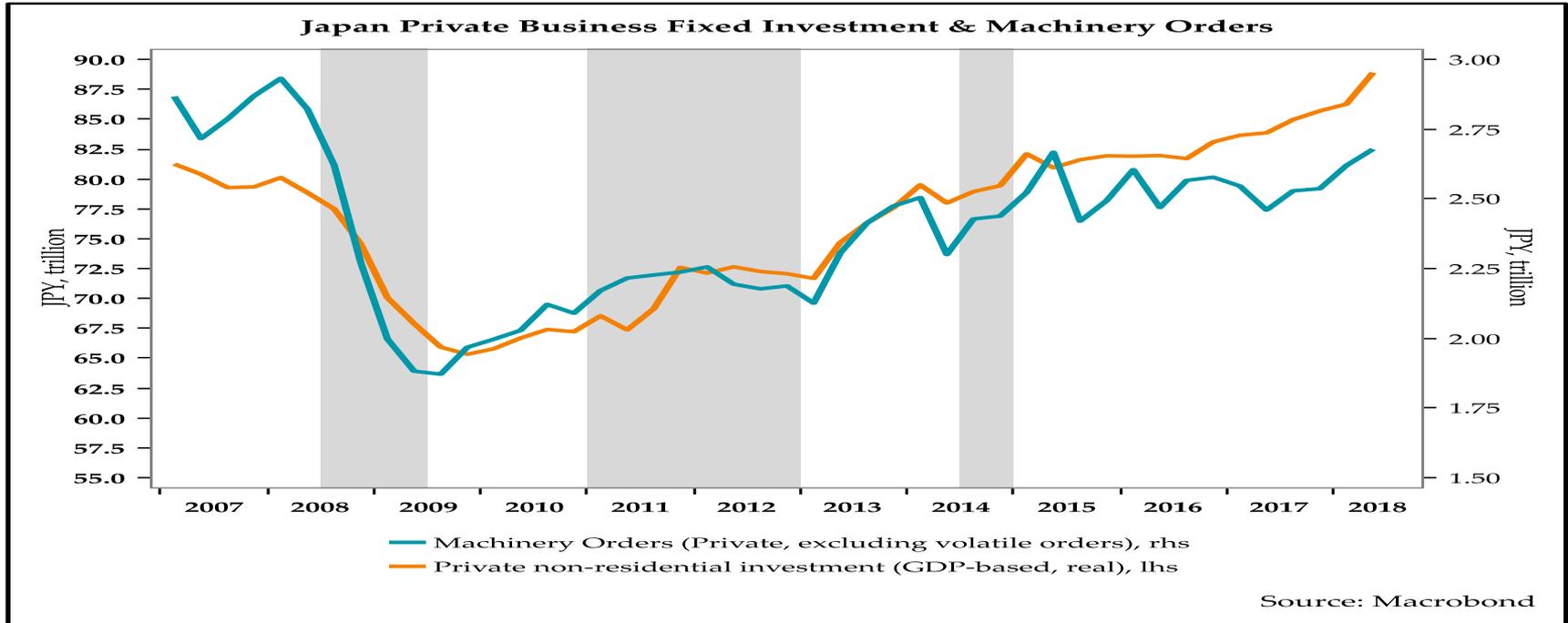
JAPANESE CORPORATIONS HAVE PLENTY OF CASH



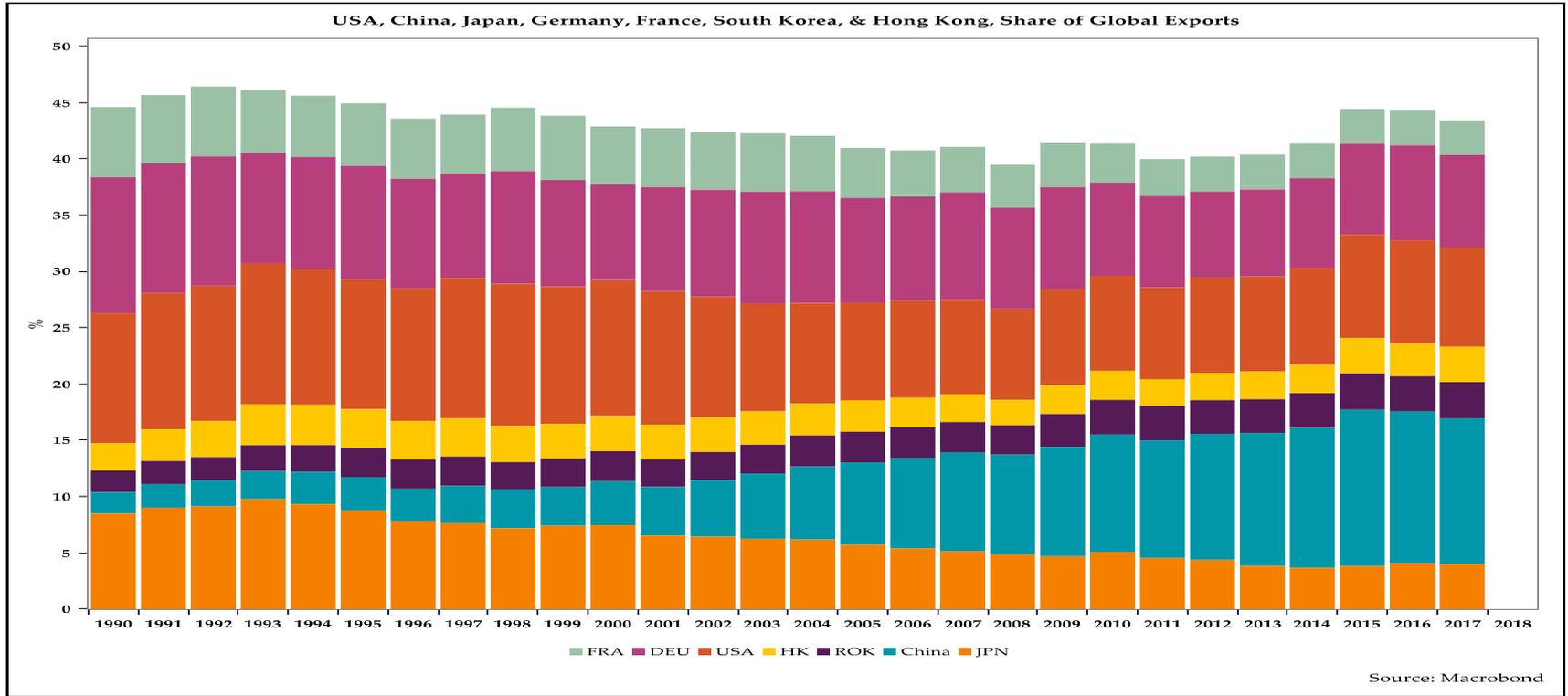
JAPANESE CORPORATE PROFITS HAVE PICKED UP



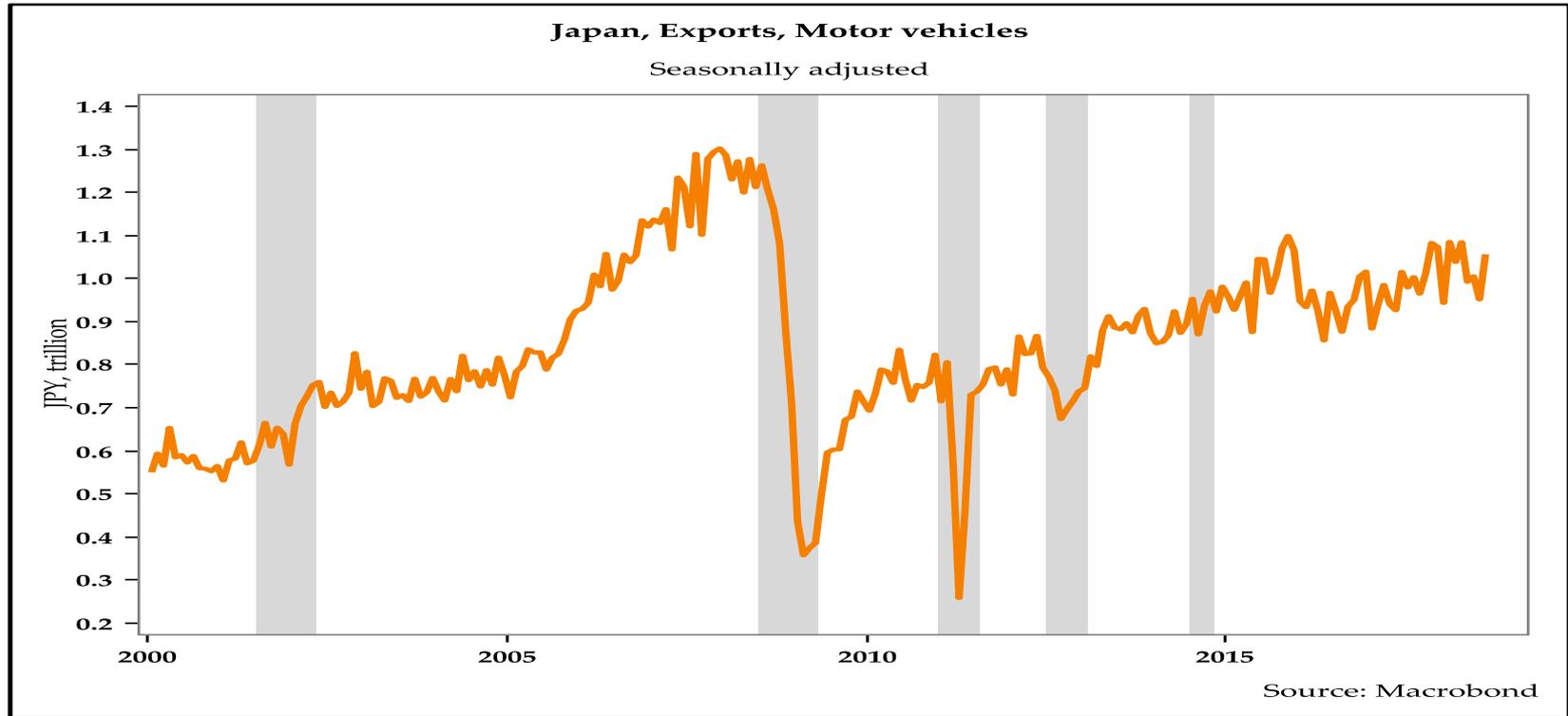
MACHINE ORDERS HAVE MODERATELY PICKED UP



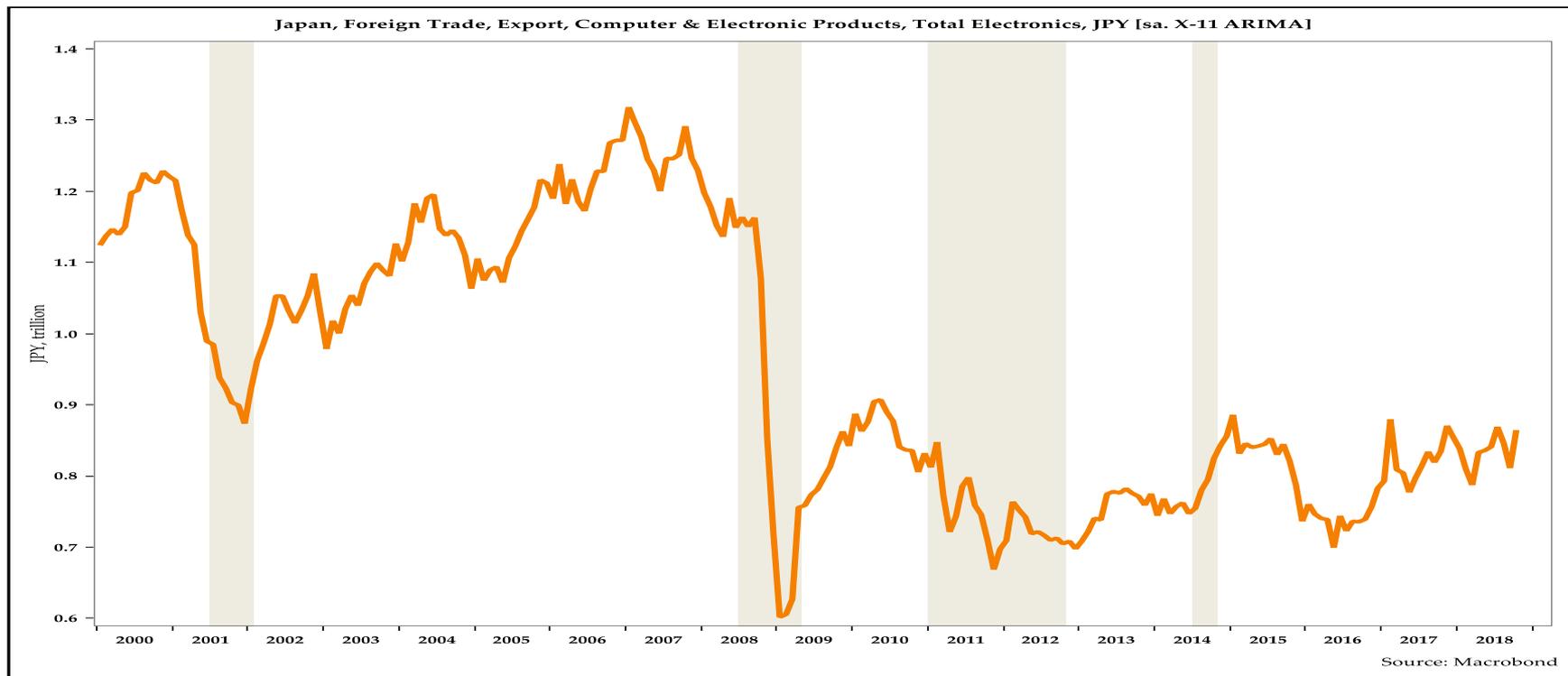
JAPAN'S SHARE OF GLOBAL EXPORTS HAVE FALLEN MARKEDLY



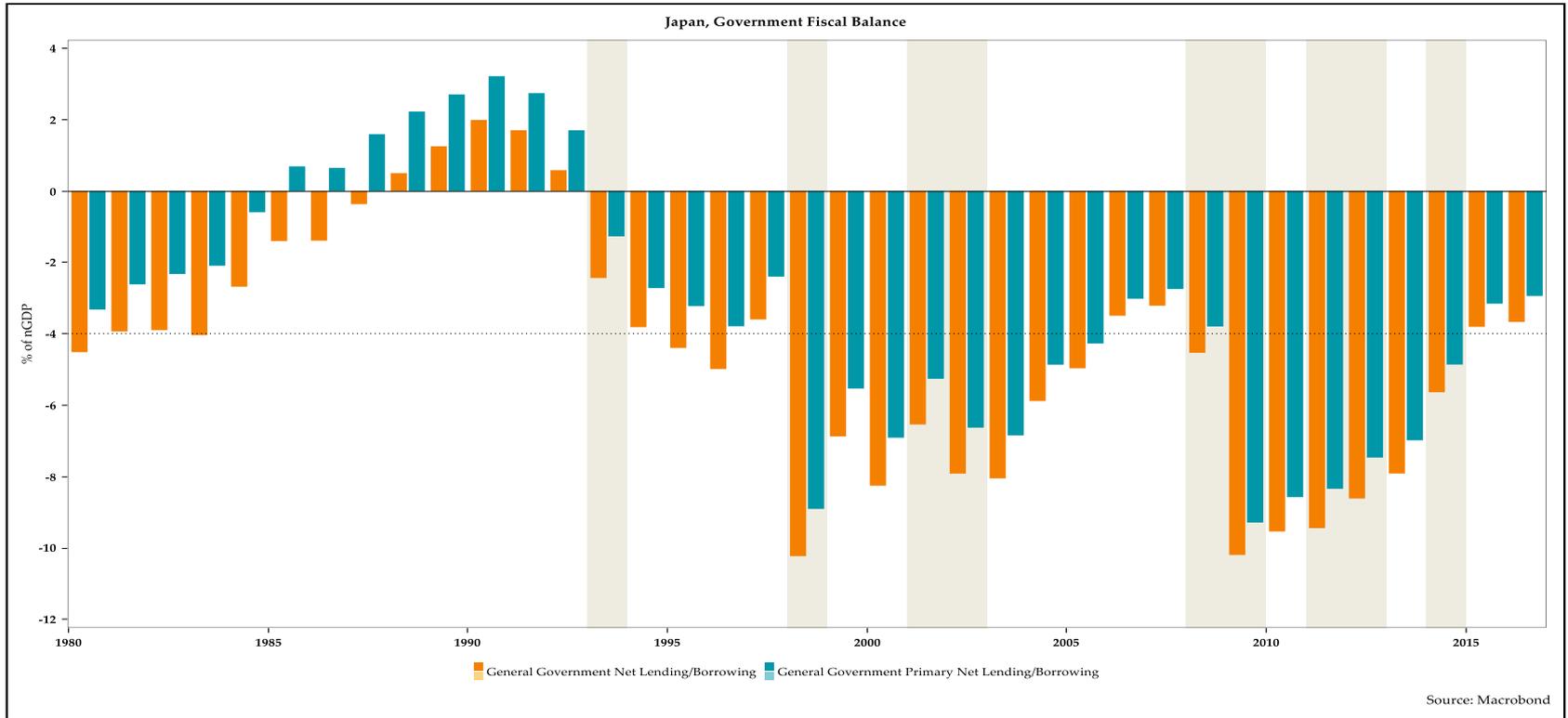
MODERATE RECOVERY IN MOTOR VEHICLE EXPORTS



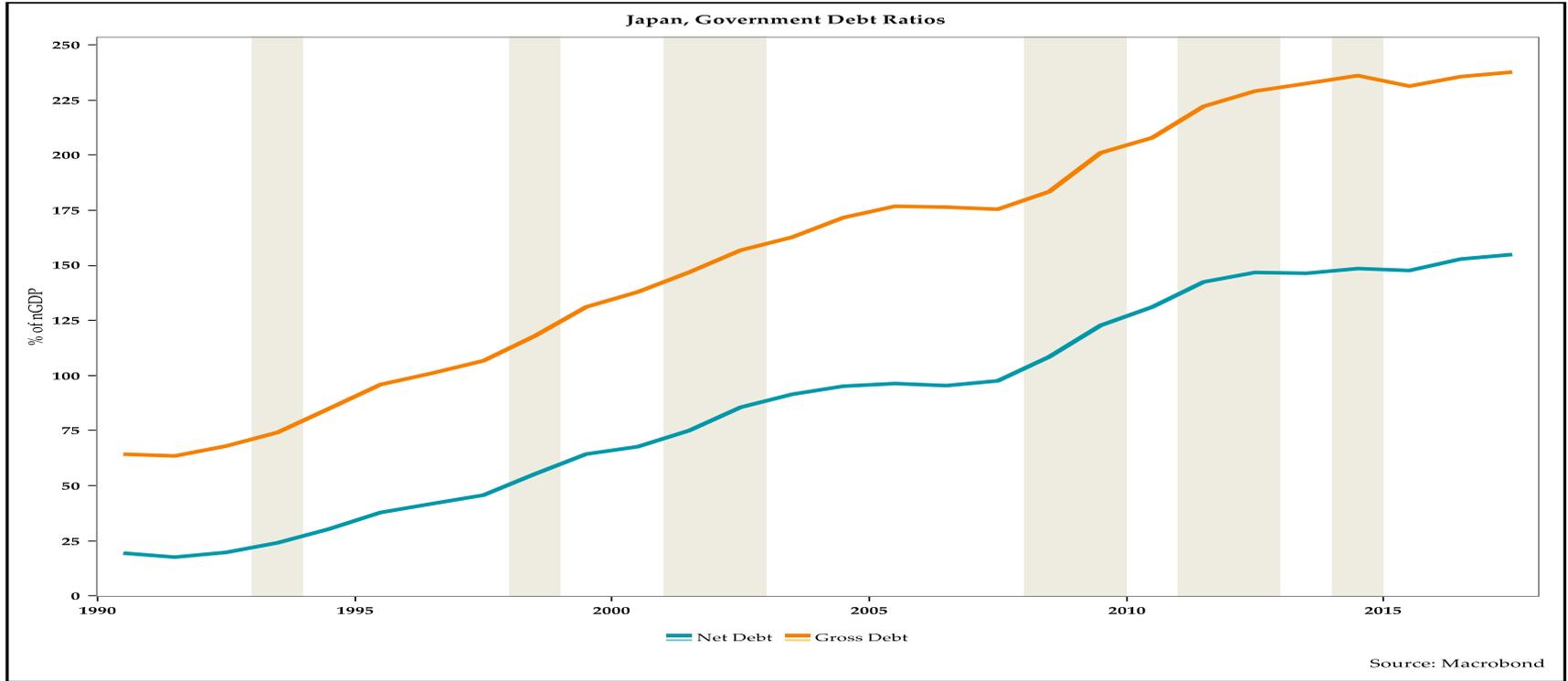
ELECTRONIC EXPORTS HAVE DECLINED NOTICEABLY SINCE 2008



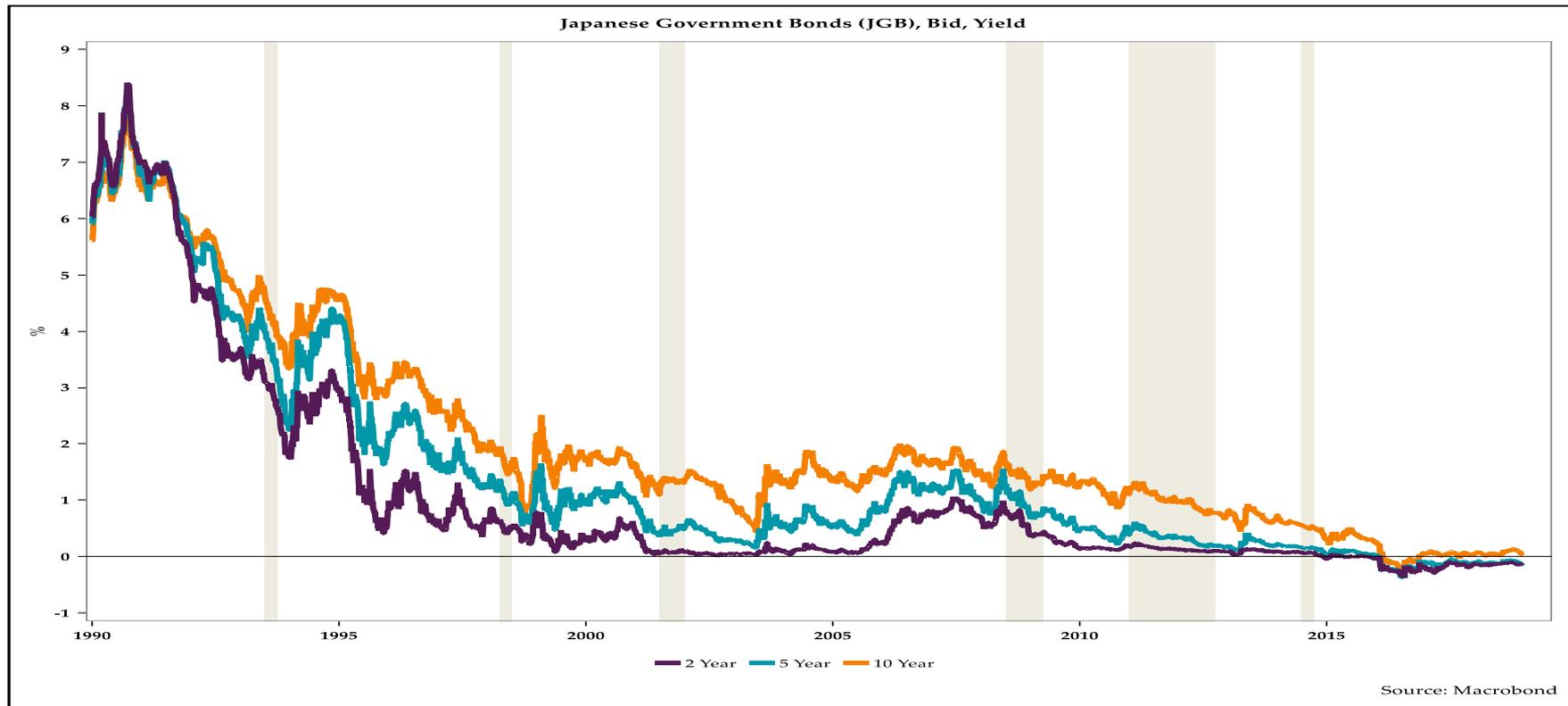
PERSISTENT FISCAL DEFICITS HAVE LED TO ...



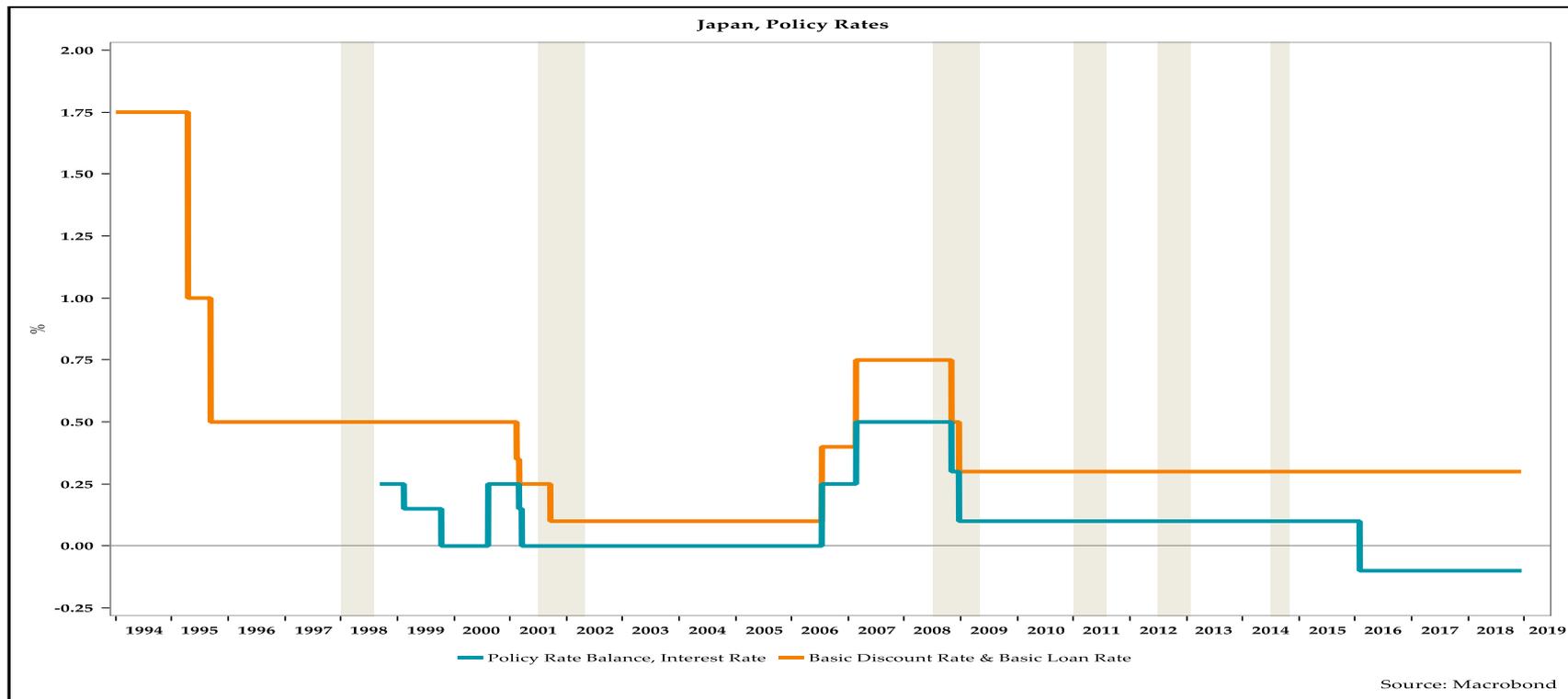
... ELEVATED GOVERNMENT DEBT RATIOS



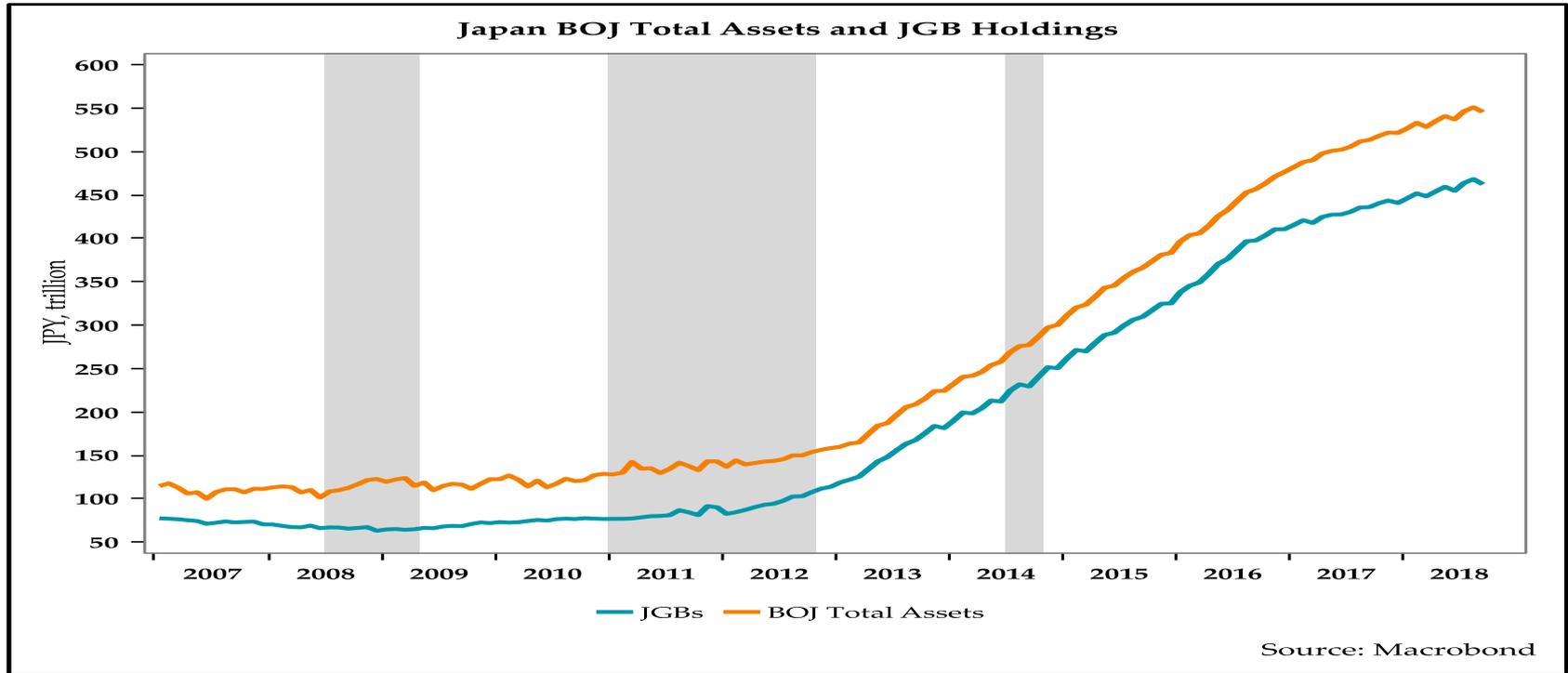
LONG-TERM INTEREST RATES ON GOVERNMENT BONDS ARE LOW



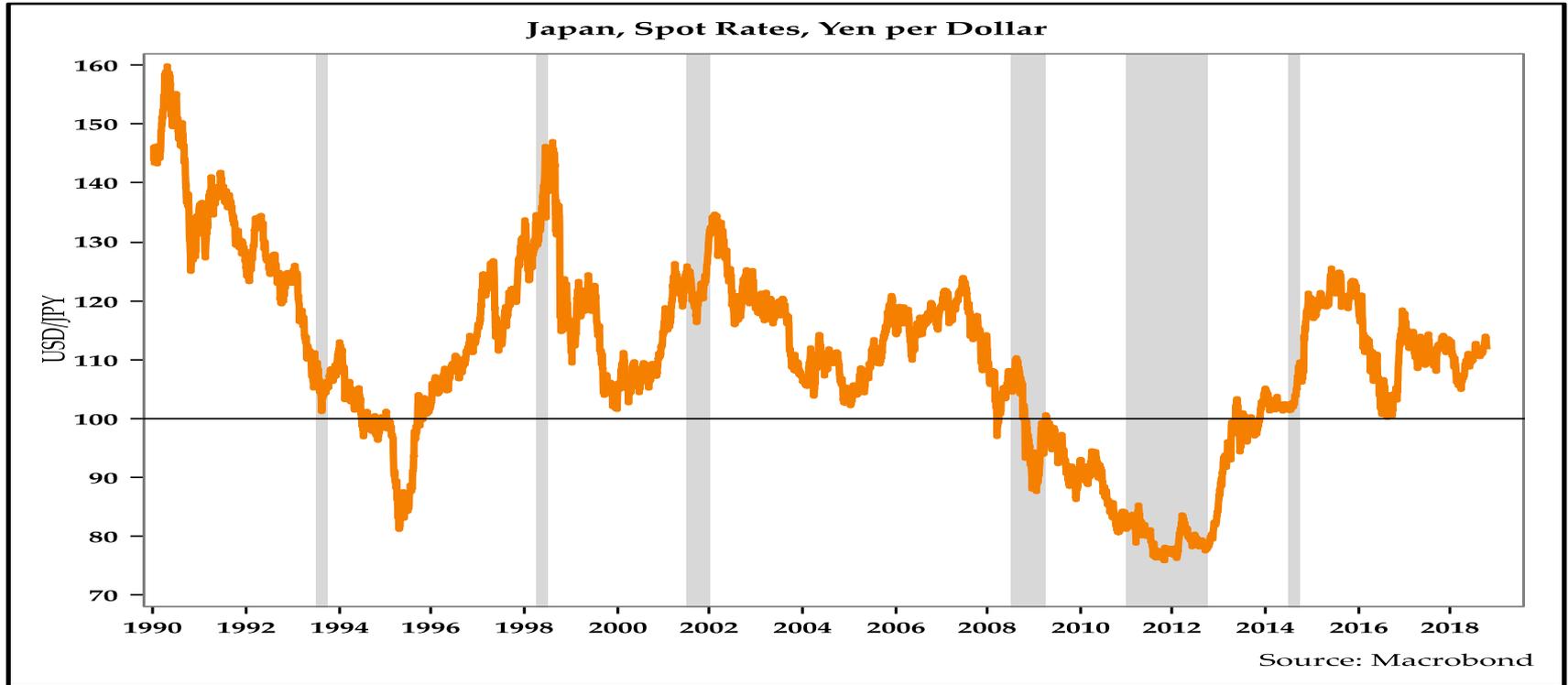
THE BOJ HAS PURSUED LOW POLICY RATES



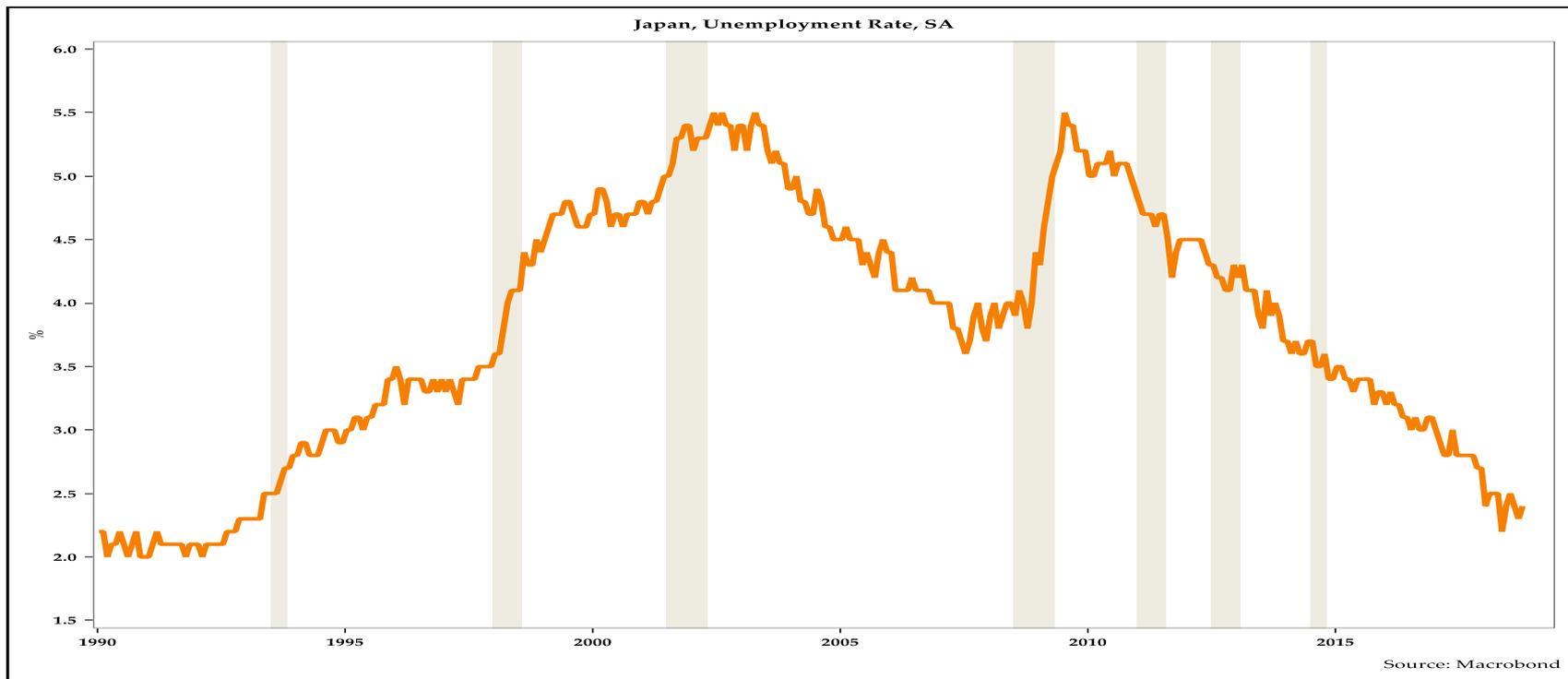
THE BOJ SUBSTANTIALLY EXPANDED ITS BALANCE SHEET SINCE 2011



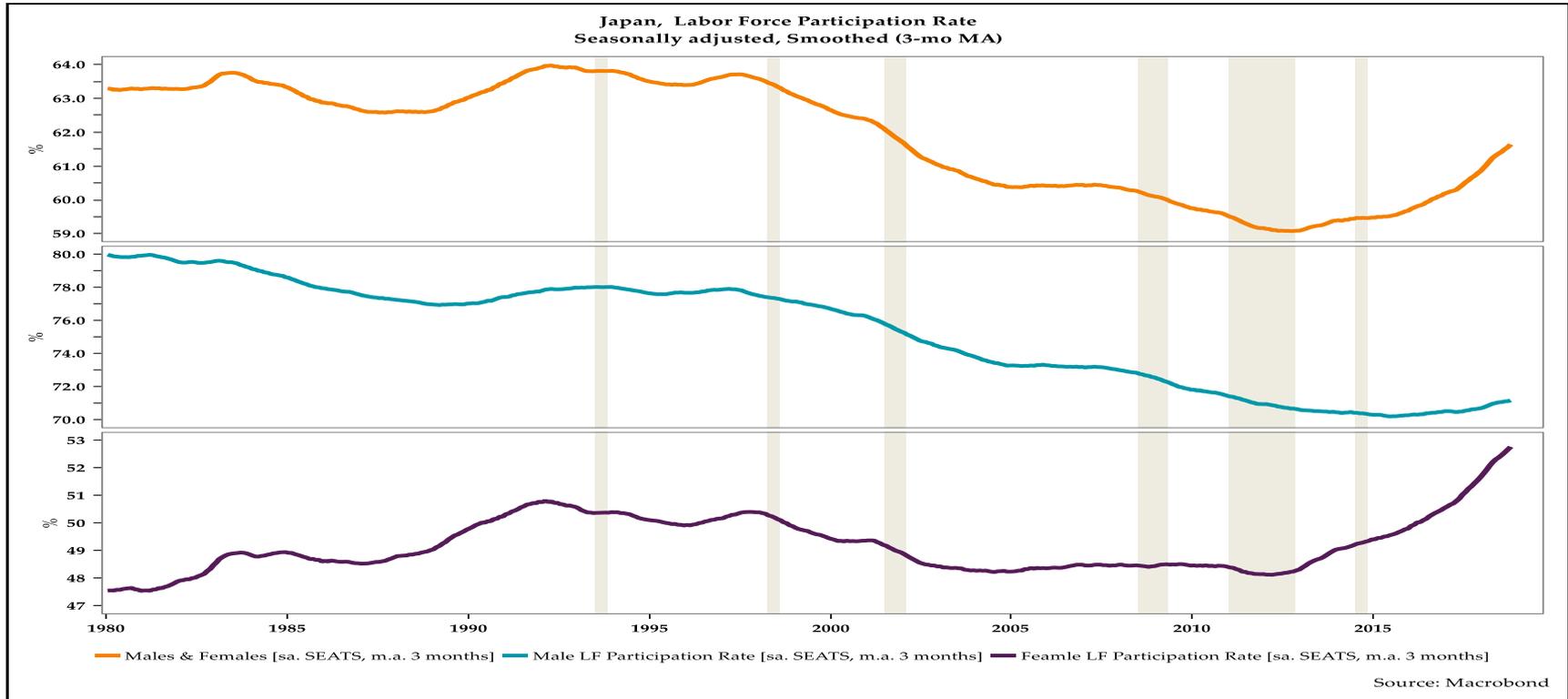
THE EVOLUTION OF THE JAPANESE YEN



THE UNEMPLOYMENT RATE IS VERY LOW



LFPR HAS RECENTLY RISEN DUE TO A HIGHER FEMALE PARTICIPATION



POLICY CHALLENGES

- Japan enjoys a **high standard of living**, social stability, cohesion, and a remarkably low unemployment rate. However, Japan has suffered for decades from low growth, low inflation/deflation, and muted wage growth. Its population is declining and aging rapidly.
- Going forward, Japan needs to continue to raise its **productivity** to ensure increased prosperity. Artificial intelligence, robotics, and other technological advances could lift productivity.
- Policy measures to raise **public and private investment** to enhance Japan's productive capacity, human capital and the capabilities of its workforce would be beneficial.
- **Japanese corporations need inducements to invest** in Japan. Corporations have plenty to cash but are reluctant to invest.

POLICY CHALLENGES

- **Policies to support effective demand and growth in real disposable income could overcome low inflation and deflationary trends.**

Accommodative monetary policy has kept JGBs' interest rates low, but has not been to attain a core inflation of 2.0% on a sustained basis.

- **The Japanese economy could benefit from openness to immigrants.**

The presence of foreign workers would address shortages of workers and boost effective demand.