

**EXECUTIVE
BOARD
MEETING**

SM/15/167
Supplement 2

July 13, 2015

To: Members of the Executive Board

From: The Secretary

Subject: **Japan—Staff Report for the 2015 Article IV Consultation—Supplementary Information**

Board Action:	Executive Directors' consideration (Formal)
Tentative Board Date:	Friday, July 17, 2015
Publication:	Yes*
Questions:	Ms. Kochhar, APD (ext. 38770) Mr. Everaert, APD (ext. 38667) Mr. Botman, APD (ext. 34214)
Document Transmittal in the Absence of an Objection and in accordance with Board Policy:	Forthwith—WTO Tuesday, July 14, 2015—European Central Bank After Board Consideration—Organisation for Economic Cooperation and Development

***Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the document will be published.**



JAPAN

July 13, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Prepared by

Asia and Pacific Department

1. This supplement contains information that has become available since the Staff Report was circulated to the Executive Board on July 2, 2015. It does not alter the staff's broad assessment of policy issues and recommendations contained in the report.

2. Data releases continue to be in line with staff projections. Private consumption rebounded in May, with the real synthetic consumption index up by 0.6 percent (m/m), while consumer confidence edged up to 41.7 in June from 41.4 in May. In May, private machinery orders (excluding volatile items) rose (0.6 percent, m/m) while industrial production fell (2.1 percent, m/m). Core inflation (excluding fresh food) rose slightly to 0.1 percent (from 0.0 percent in April).

3. On June 30, the government announced "Basic Policy on Economic and Fiscal Management and Reform 2015." One of its main pillars is a 5-year fiscal consolidation strategy to achieve a primary surplus of the central and local governments by FY2020 and contains the following key components:

- A substantially higher nominal and real growth rate than in the staff's baseline WEO projections. Higher growth is expected to stem mainly from continued implementation of the current structural reform agenda;
- An interim benchmark in FY2018 of a primary deficit for the central and local governments of around 1 percent of GDP. Additional expenditure and revenue measures will be considered if needed to reach the FY2020 target;
- Containing expenditure growth, especially for social security spending, to the trend increase of the past 3 years (approximately 1.6 trillion yen for general expenditures of the central government), depending on economic and price developments;

- Revenue neutral comprehensive tax reform with a focus on supporting low-income households and those with children, securing neutrality with regard to how people choose to work, and securing intra- and inter-generational fairness; and
- Acknowledging the need for flexibility to make sure that the economy will weather the next consumption tax hike scheduled in April 2017 but without specifying measures.

4. In its June 2015 policy meeting, the BoJ left its stance unchanged and announced a new communication framework to provide higher frequency and more detailed forecasts for Japan's economy and prices, which serve as the basis for policy decisions. The changes, which take effect from January 2016, are designed to enhance the transparency of the policy board's decision-making process and include:

- Preparing the Outlook for Economic Activity and Prices on a quarterly rather than a semi-annual basis;
- Releasing each board member's forecasts for growth and prices with a risk assessment;
- Issuing the "Summary of Opinions" in about a week after each monetary policy meeting, providing information about the policy board's debates; and
- Reducing the frequency of monetary policy meetings from around 14 to 8 times a year.