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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CURRENT ECONOMIC POSITION
AND PROSPECTS
OF
JAPAN

September 13, 1963

Department of Operations
Far East

CURRENCY EQUIVALENTS

\$1.00	=	¥ 360
¥ 1	=	\$0.0028
¥ 1,000,000	=	\$2,777.78

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BASIC STATISTICS
(FY 1963 = 1 April 1963-31 March 1964)

1. <u>Area</u>	142,313 sq. miles
2. <u>Population</u>	
Total, 1 October 1962	95,180,000
Annual rate of growth, 1958-1962	0.9%
Density per square mile	669
Labor force, average 1962	46,140,000
3. <u>Gross National Product</u>	
1962, current market prices	\$51.9 billion
Per capita	\$545
Annual rate of growth, 1951-1958	7.5%
1959-1962	11.7%
Private equipment investment, 1962	\$10.7 billion
Industrial production 1962 (1960=100)	128.6
Agricultural, Forestry, Fisheries Production 1961 (1960=100)	102.8

4. Public Finance, FY 1963 (budget)

(million dollars)

Current revenue	7,916	Current expenditure	5,956
Current savings publ. enterprises	1,789	Capital expenditure	4,822
Bond issues, in Japan	689	Transfers of invest- ment funds to private sector	2,356
abroad	56		_____
Other sources of finance	<u>2,683</u>		
	13,133		13,133

Tax Burden: In FY 1962, taxes amounted to 22.1% of the national income.

5. Balance of Payments, 1962 (provisional)
(in millions of U.S. \$)

Exports, f.o.b.	4,860
Imports, f.o.b.	<u>4,463</u>
Trade balance	397
Current invisibles	<u>- 309</u>
Current account	88
Net capital inflow	192
Errors and omissions	76
Increase in reserves	<u>356</u>

(to be continued next page)

BASIC STATISTICS (continued)

6. Money, Credit and Prices

	<u>1960</u>	end of <u>1961</u>	<u>1962</u>
Money supply (million \$)	1,228	1,461	1,710
Commercial bank credit (million \$)	35,744	45,492	53,930
Bank of credit (million \$)	1,294	3,486	3,378
Discount rate, Bank of Japan	6.94	7.30	6.57
Bank lending rate	8.24	8.15	8.33
Wholesale prices (1958=100)	102	103	101
Cost of living (1958=100)	105	111	118

7. External Public Debt (31 December 1962)

Estimated debt service in 1963	\$403 million
Debt service as % of current foreign exchange earnings	7.2%

SUMMARY AND CONCLUSIONS

i. Except for two or three years of moderate recession, real economic growth in Japan during the last decade has ranged from seven to as high as eighteen per cent a year. Despite a sharp drop in 1962, the average for 1959-62 was 11.7 per cent, over 4 per cent above 1951-58. Per capita production now is \$545, a threefold increase since 1951. An investment rate exceeding one-third of GNP with an unusually heavy concentration in private sector productive equipment has been the immediate cause of this very rapid expansion in output. The returns from investment were also augmented by structural changes in the economy which have tended to move surplus labor from the less productive primary and smaller-scale secondary industries into new and technically highly efficient manufacturing.

ii. Japan has continued to experience periodic balance of payments difficulties, the latest of which occurred in 1961. As in the past, monetary restrictions applied by the Bank of Japan worked very effectively to dampen domestic demand, thus reducing imports and increasing exports. Balance of payments equilibrium was quickly restored and the loss of foreign exchange reserves were recouped. Forecasts for the current year are for a resumption of a moderately strong upward movement of economic activity.

iii. Although the general aspect of the Japanese economy is undeniably sound and vigorous, it is not without problems and some significant deficiencies. For a number of years, economic planners have been stressing that the expansion of the private sector will eventually have to slow down unless public sector investment, particularly in transport, other social infrastructure, and housing, can be speeded up. The general guideline for the economy during the 1960s, the so-called Income Doubling Plan, is aimed at rectifying this imbalance. During the first two years of the Plan period, while public investment is on or ahead of schedule, the expansion in the private sector has been so large that the need for public sector investment is even more apparent than two years ago.

iv. The lack of an efficient, well-organized capital market in Japan outside the banking system is an important shortcoming. At the same time, the well-known dependence of the banks on the Central Bank for liquidity and their tendency to get into an "over-loaned" position in booms probably accentuates the amplitude of cyclical fluctuations. The former problem is receiving much attention at present because the Government feels that the high cost of both equity and loan funds in Japan will handicap Japanese industry in international competition. Since Japan is now to forego imposing trade and payments restrictions for balance of payments reasons (she is assuming Article VIII status in the IMF), this is a problem of some urgency. Although much progress in trade liberalization has already occurred, a hard core of restrictions remain to be lifted during the next year or so.

v. In general the competitive position of Japanese industry appears to be holding its own or possibly improving vis-a-vis her principal trading partners. Productivity has been rising somewhat faster than have real wages. However, in some industries this has not been true. Though Japan is prepared for considerable changes in industrial specialization over the longer run, special measures are contemplated for some industries to moderate the chill of foreign competition.

vi. There is also concern by the Government about recent hikes in consumer prices and their implications for wages and Japan's competitive position abroad. One may hope that the next marked increase in productivity in Japan will be in the distribution sector. There is no doubt that consumer expectations are rising, particularly for durable consumer goods. This is anticipated in the development Plan which also, however, envisages that the increase in Japanese exports will far exceed the world average during this decade. To achieve these somewhat divergent objectives of rising living standards at home and exports abroad will require, among other things, stable prices and continuing rapid growth, two of Japan's accomplishments during the last decade. A reduction in the frequency and amplitude of cyclical fluctuations would also be desirable. With the growth of public investment, counter-cyclical fiscal operations should be used to supplement the effective but somewhat drastic doses of monetary restraint (and relaxation) which have been administered in the past.

vii. The inflow of long-term capital has increased rapidly in recent years, amounting to \$142 million in 1960, \$325 million in 1961 and \$490 million in 1962. A substantial and growing portion of this was raised in the private money markets of New York and recently in Germany. The prospects for the remainder of the decade are for a continuing need for substantial capital imports. A large part of this will be offset by the long-term capital outflow required for debt repayment, reparations and other post-war settlements, direct private foreign investment and credits for the dual purpose of assisting developing countries and encouraging Japanese exports. Altogether, these amounted to \$420 million in 1962 and will increase for some time to come. While Japan can only expect to obtain a small portion of the resources needed for her development program from net capital imports, that portion may be of great importance, particularly because a sound balance of payments position is essential for steady economic growth. Japan has abundantly demonstrated her capacity to make good use of investment resources. While an increasing portion of her future borrowing should be done in private markets to the extent they are open to her, their absorptive capacity for Japanese paper at a reasonable cost to Japan is, of course, limited and insufficient to fully meet her present requirements.

viii. Japan is quite capable of servicing additional foreign debt. With the growth of her exports, service on her current foreign public debt in a normal year (1964) amounts only to about 4 per cent of her gross foreign exchange earnings. Even if present earnings on private investment in Japan are added, only about 7 per cent of gross earnings would be required. Japan has given abundant proof of her ability to make balance of payments adjustments with the use of monetary controls should the need arise to preserve or reestablish balance of payments equilibrium.

I. ECONOMIC TRENDS

Economic Growth and Use of Resources

1. The striking growth of Japan's economy since output was restored to pre-war levels in 1951 is well known. Between 1951 and 1958, the annual increase in GNP averaged 7.5 per cent. Following a cyclical downturn in the latter year, economic growth rose to unprecedented levels, amounting to 18 per cent in 1959, 13 per cent in 1960 and 14 per cent in 1961. In 1961, balance of payments difficulties necessitated monetary restraints which reduced the growth rate to 5.7 per cent in 1962, but a considerably higher rate is forecast for the current year.^{1/} Total GNP now amounts to about \$52 billion or \$545 per capita. By the end of the decade, Japanese economic planners foresee per capita production somewhat higher than that of Italy today but, of course, still well below that of the more advanced countries of Western Europe.

The pace of economic development in recent years can be summarized as follows:

Table 1

	<u>Indicators of Economic Growth</u>	
	<u>Average Annual Percentage Increase</u>	
	<u>1951-58</u>	<u>1959-62</u>
Gross National Product ^{1/} (constant prices)	7.5	11.7
National Income Per Capita ^{1/} (constant prices)	6.0	7.8
Industrial Production	11.8	17.0
Agricultural Production	3.7	1.9 ^{2/}
Import Volume	13.0	16.7
Export Volume	15.8	13.7
Wholesale Prices	0.2	-0.3
Consumer's Prices	2.4	5.3

^{1/} Fiscal years.

^{2/} Through 1961 only.

2. The basic factors that have produced rapid economic development in Japan before and after the war are, of course, the diligence and frugality of her people, the entrepreneurial capacity of Japanese businessmen and their eagerness to adopt new technological advances (industries based on new technology have accounted for about half recent increases

^{1/} The official estimate is 6.3 per cent but unofficial estimates are as high as 10 per cent.

in industrial production), and the high educational level and skills of the labor force. Literacy is almost complete; compulsory education extends to 15 years and the percentage of high school students seeking higher education is greater than in many western countries.

3. To these must be added in recent years factors of a structural character. Japan has been, and to some extent remains, a "dual" or, perhaps more accurately, a highly variegated economy, with industrial establishments ranging from the most modern shipyards, steel and electronics plants at one end of the scale, to primitive pottery and handloom weaving establishments at the other. However, the latter are declining in absolute and relative importance. This, of course, is both a cause and effect of the technological revolution. Combined with mechanization in agriculture, this decline has produced a pool of partially unemployed labor with potential for substantially greater productivity available to meet the needs of vigorously expanding manufacturing enterprises. In 1961 alone it is estimated that over a 1,100,000 workers left agriculture, forestry and fisheries to seek other employment. This trend has been evident for some time. The continuous switch of workers to industrial production is an important supplement to the natural growth of the labor force which, in the last few years, has been growing about twice as fast as the total population.

4. The traditions of job security and wage scales based on seniority rather than productivity are partially breaking down, particularly in respect of the massive inflow of young workers now entering the labor market. Thus the more efficient new industries able to pay more to younger workers have been able to recruit the cream of the crop. At the same time, the residual rigidities in the wage scale based on age has worked to the disadvantage of older industries whose labor force have a high proportion of older workers.

5. Other growth factors more particularly relevant to the post-war years are the overwhelming emphasis on investment in directly productive activities in the private sector with a very low capital-output ratio^{1/}; the low defense burden and substantial benefits from procurement for U.S. defense and aid efforts in the region; a high rate of export growth, considerably in excess of the rate of growth of total world exports. Finally, ever since the monetary stabilization of 1949, the Government has taken care to preserve the internal and external value of the currency. On three occasions (1953, 1957 and 1961) this was only possible by imposing monetary restrictions which led to a painful adjustment of the domestic economy. But, on the whole, these efforts of the Government have contributed to a stable price structure and to a high degree of confidence both at home and abroad in the future of the Japanese economy.

^{1/} The ratio of gross investment to the increment in GNP seems to have been about 2.4 during the period 1955-61.

6. The prime mover in Japan's fast economic growth has been the extremely high level of investment. Excepting the recession years 1955 and 1958, total investment has usually been somewhat over one-third of GNP, and in the course of the recent boom, it reached a peak of nearly 43 per cent in 1961.

7. Such an investment level was, of course, made possible by the traditional willingness in all layers of society to forego immediate consumption for the expansion of the production base. This is shown by both a high level of undistributed profits of enterprises and by a high level of savings out of personal disposable income (including incomes of unincorporated enterprises). This is shown in the following table.^{1/}

Table 2

(Per Cent)

<u>Fiscal Years</u>	<u>Investment of GNP</u>	<u>Personal Savings of Personal Disposable Income</u>
1955	25.3	14.0
1956	31.8	15.0
1957	31.6	15.0
1958	27.2	15.7
1959	35.0	18.5
1960	38.2	20.3
1961	42.6	21.5

8. The consequences of the Japanese habit of placing their savings in financial institutions, public and private, rather than buying securities has probably had some unfavorable results insofar as mobilizing public investment funds are concerned. However, combined with the close association that has always existed in Japan between the larger private banks and industry and viewed in the context of the Government's conservative fiscal operations, this tradition has undoubtedly encouraged a high rate of private investment.

^{1/} The propensity to save has been increasing rapidly during recent years although the marginal rate may be starting to decline somewhat from its peak in 1959. The propensity to consume durable consumer goods is rising.

	<u>Average Saving Rate</u>	<u>Marginal Saving Rate</u>
	(of personal disposable income)	
1957	15.0	26.3
1958	15.7	19.9
1959	18.5	39.4
1960	20.3	33.0
1961	21.5	28.0

9. Except for the recession years of 1955 and 1958 when it reached one-third, government investment has consistently been about one-quarter of total investment. However, this includes a substantial flow of funds to the private sector in the form of loans from public financial institutions, to industries, shipping, trade and agriculture. Investments in public sector facilities amounted on the average to about 18 per cent of total investment and 6.2 per cent of GNP between 1955 and 1961. This is now being increased.

Changes in Industrial Structure

10. By far the greater part of private investment has been devoted to the expansion of the manufacturing and construction industries, especially of the heavy and chemical industries. Therefore, the increase in manufacturing production since the beginning of the fifties has been extremely rapid, leading to a doubling of output every five or six years. Some sectors of manufacturing production have been expanding at a much faster rate, especially the production of durable consumer goods which has been increasing every year by about a third, and the production of capital goods which has been expanding every year by about a quarter.^{1/}

Table 3

	<u>Industrial Production in 1962 (1955=100)</u>	<u>Average Annual Percentage Increase, 1955-1962</u>
Durable Consumer Goods	762	34%
Capital Goods	419	23%
Producer Goods (Intermediate products)	259	15%
Construction Materials	228	12%
Non-Durable Consumer Goods	173	8%
All Manufacturing Products	271	15%

11. As the differences between these rates of growth indicate, a considerable transformation has occurred in the structure of Japanese industry, a process that is still proceeding rapidly. In 1950 light industry, including textiles constituted 50 per cent of Japanese manufacturing output and 67 per cent of her industrial goods exports. By

^{1/} The rapid increase in the production of durable consumer goods is supported by a very marked change in the pattern of consumption. This is shown in the following figures which show the percentage of urban households owning various items.

	<u>T.V.</u>	<u>Refrigerators</u>	<u>Vacuum Cleaners</u>	<u>Automobiles</u>
1960	54.5	15.7	11.0	1.2
1962	84.2	38.1	28.9	6.0

1960 this had changed to 36.5 per cent and 51.8 per cent respectively for production and exports (Appendix Table 15). To illustrate the swing to heavy industry, in 1961 Japan replaced Britain as the world's fourth largest maker of crude steel; she has been the world's largest ship-builder since 1957 and now belongs to the few largest producers of motor vehicles, rolling stock and locomotives and textile machinery. As the following table shows, Japan's concentration on heavy industry even in 1959 was greater than that of her principal export competitors.

Table 4

International Comparison of Manufacturing Output, 1959

(Per cent of Total)

	Japan	U. S.	U. K.	Germany
<u>Heavy Industry</u>				
Chemicals	14.9	10.2	10.3	12.7
Metals	12.6	7.6	8.4	7.8
Machinery	34.9	38.4	42.1	32.6
Sub-total:	62.4	56.2	60.8	53.1
<u>Light Industry</u>				
Food	7.3	12.4	10.7	17.1
Textile	9.5	3.5	7.1	8.4
Other	20.8	27.9	21.4	21.5
Sub-total:	37.6	43.8	39.4	46.9
Total:	100.0	100.0	100.0	100.0

Source: Keizai Doyukai Report on Japan in the World Economy, 1963, p. 20.

12. The growth of agricultural production since the beginning of the fifties has been at a rate somewhat over 3 per cent a year. Although the progress achieved in agricultural production was much more modest than the increase in industrial production, it has played a very important role in the economic development since the war. The increase in agricultural production, achieved on a limited cultivable area, has been sufficient to maintain near self-sufficiency in food production thus avoiding the unfavorable influence of increasing food imports on the balance of payments. At the same time, output per agricultural worker rose sufficiently to allow a continuous release of agricultural labor to manufacturing industries. The total of agricultural labor fell from 14.6 million persons in 1953 to 11.6 million in 1962.

Productivity, Wages and Prices

13. Developments between 1955 and 1961 in respect of the productivity-wage relationship appear to have (1) improved the competitive position of Japanese manufacturing industries vis-a-vis their principal competitors abroad; and (2) worsened the relative position of smaller, as against larger, industrial establishments in Japan.

14. According to official estimates, the productivity of labor in Japanese manufacturing industries increased 43.5 per cent between 1955 and 1961 and, though nominal wages increased 50 per cent, real wages rose only 32 per cent.^{1/} Thus the ratio of productivity to real wages increased 8.6 per cent. Corresponding data for the U.S. shows an increase in the ratio of 6.7 per cent but for the U.K. and West Germany it fell by 4.5 and 13.6 per cent over the same period (Appendix Table 9). Only in Italy did the gain in productivity outstrip real wages to a greater extent than in Japan.

15. This relationship alone does not account for the increasing share of Japan in world trade (3.4 per cent in 1961 as compared with about 2.5 per cent in 1955). The economical use of capital in export industries has been another important factor. However, a more rapid increase in productivity than in real wages would seem to be a necessary (though not sufficient) condition for the results Japan has achieved. Of course, in the short run a rapid increase in money wages could have an important effect in retarding export expansion.

16. The relative worsening of the position of smaller establishments was caused by some narrowing of the differential between wages paid by smaller and larger establishments to the disadvantage of the former. For example, in 1958, workers in plants employing 29 workers or less received only 44 per cent of the average monthly wage of those working in plants of over 500 employees. In 1962, workers in the small plants were receiving 57 per cent as much as those in the large plants. A similar reduction had occurred in the differential between workers in medium-sized and large-scale industry. There are no reliable data showing the increase in the wage payments to young as compared with older workers. Sample checks indicate that the labor market is getting much tighter for younger workers, particularly in small and medium-sized industries.^{2/} However,

^{1/} This compares with productivity increase of 16.6 per cent for the U.S., 9.2 per cent for the U.K., 19.7 per cent for West Germany and 44.3 per cent for Italy over the same period. Real wages in the U.S. increased only 9.3 per cent, in the U.K. 14.3 per cent, West Germany 38.5 per cent and Italy 19.5 per cent.

^{2/} The tightness of the labor market for younger workers is indicated by the increase in the ratio of vacancies to applicants among middle and high school graduates, from a ratio of 1.13 in 1955 to 2.61 in 1962.

the normal pattern still is a fairly steady increase in wages over the worker's life, which discourages the employment of older workers.

17. Since 1953, wholesale prices have been stable or declining in Japan and rising in most other countries. An important factor in the present economic situation is the tendency of consumer prices to increase and wholesale prices to remain fairly stable. The former rose by 12.5 per cent from 1960 to 1962. Factors in the rapid consumer price increase in recent years have been the rise in prices of non-cereal foods and house and land rents. More generally, the distribution sector has failed to improve its efficiency fast enough to absorb the increases in money wages as has been done by the production sector.

Foreign Trade

18. Japan is almost completely lacking in domestic supplies of such vital ingredients of rapid industrial expansion as petroleum, iron ore, natural textile fibers and rubber, bauxite, tin and nickel. In all, about 60 per cent of her raw material needs are imported. Also, with higher domestic incomes and trade liberalization, the import of finished products has expanded rapidly. Only food imports have remained fairly stable (Appendix Table 11). From 1953 to 1960 the ratio of imports to GNP (in real terms) increased slowly from 11.5 per cent to nearly 15 per cent. (Appendix Table 13).

19. Before the war, the composition of Japanese exports was strongly weighted in favor of light industrial goods. Since then the percentage of light industrial products has fallen steadily, reflecting both global trends in foreign trade and the rapid transformation in Japan's manufacturing production (Appendix Table 15). The export of the products of heavy and chemical industries, especially of ships, rolling stock, other machinery and various chemical products now constitutes about half of total industrial exports. Notwithstanding this, Japan's share in total world exports of heavy industrial products is considerably smaller than her share in total world output of these products. Heavy industries in other countries are considerably more export-oriented than is the case in Japan. Of course, the high rate of capital formation resulting in the absorption of these items in Japan is a factor but, as these industries show the fastest increase in world trade, Japan's export drive is centering on improving her competitive strength in these fields. The attainment of this objective may be assisted by export credits to less developed countries, though a larger proportion of Japanese exports have been going to highly industrialized countries in recent years (See Appendix Table 14).

20. Japan has gained considerably from an improvement in the terms of trade. From 1955 to 1962 the improvement was about 12 per cent. This in part explains the fact that Japan has been able to increase imports in real terms by 160 per cent while the quantum of exports increased only 147 per cent as between 1955 and 1962.

21. An important support for the Japanese balance of payments are the receipts from U.S. and U.N. military agencies in Japan. Except in years of serious balance of payments difficulties, these receipts resulted in a modest current account surplus. The amount of the special defense receipts is gradually declining at an average rate of \$20 million a year, having decreased from about a quarter of commodity exports in 1955 to only about 8 per cent in 1962. However barring a drastic change in the political and military situation of the cold war, Japan will continue to derive important balance-of-payments support from this source.

22. During the last two years the deficit on transport and insurance has increased considerably, primarily due to the very fast increase in both imports and exports which outstripped the growth of the Japanese merchant fleet.

II. RECENT ECONOMIC DEVELOPMENTS

Cyclical Pattern

23. Japan appears to be now emerging from the third downturn of a cyclical character after her post-war economic recovery. The other two occurred in 1953-54 and 1957-58. Just as her rate of economic growth in the last decade has surpassed that of other western countries, so has the amplitude of her deviations from the trend of that growth been greater. Taking the last ten years as a whole, fluctuations in the production index in Japan have been about 20 per cent larger than in the United States and over 80 per cent greater than in West Germany.^{1/} The following table shows the two cycles through which the economy has passed since 1955.

Table 5

Indicators of Cyclical Fluctuations

(Annual Percentage Change Except as Noted)

	1955	1956	1957	1958	1959	1960	1961	1962
GNP ^{1/}	+10.3	+ 9.0	+ 7.9	+ 3.2	+17.9	+13.2	+14.0	+ 5.7
Industrial Production	+ 8.8	+22.4	+18.1	+ 0.1	+20.0	+24.5	+19.3	+ 7.8
Gross Domestic Investment ^{1/}	+19.2	+16.5	+23.3	-21.4	+61.8	+26.9	+36.6	-15.0 ^{2/}
Personal Consumption Expenditure	+ 6.8	+ 7.9	+ 5.4	+ 5.7	+ 7.1	+ 9.0	+ 8.6	+11.0 ^{2/}
External Balance of Goods and Services ^{3/}	+205	-59	-590	+460	+339	+111	-1085	+37
Wholesale Prices	- 1.8	+ 4.4	+ 3.0	- 5.8	+ 1.0	+ 1.0	+ 1.0	- 1.7
Consumer Prices	- 1.1	+ 0.3	+ 3.0	- 0.4	+ 1.0	+ 3.5	+ 5.3	+ 6.8
Net Bank Credit ^{4/}	- 1.5	+27.3	+23.2	+ 5.8	+ 5.1	+ 9.0	+11.1	+ 8.5
Money Supply	+15.7	+16.4	+ 4.1	+12.8	+16.5	+19.1	+19.0	+17.1

^{1/} In real terms.

^{2/} Based on January-September only.

^{3/} Millions of U.S. dollars.

^{4/} Bank loans and discounts minus savings and time deposits.

^{1/} The standard deviation from the trend line of the production index in Japan was 5.9 per cent compared to 4.9 per cent for the U.S. and 3.2 per cent for West Germany.

It is clear that the last adjustment which started in mid-1961 meant only a slowing down of the economy's expansion to a normal pace rather than a real recession.^{1/} As in previous cycles, private equipment investment was the principal variant, increasing by an average of over 30 per cent in the boom years 1959-61 and turning down probably by over 6 per cent in 1962.

24. It may be useful to outline the major relationships in the typical Japanese cycle, not because they are unusual but because they appear to follow such a precise and predictable course. Starting with the recovery phase, imports of raw materials and investment goods start to increase at an accelerated pace as the boom moves on. Exports, on the other hand, tend to slacken because of the upsurge of domestic demand. The situation is aggravated by speculative imports of raw materials. The deficit in the current account of the balance of payments becomes bigger than the net inflow of capital and foreign exchange reserves begin to fall. In each of the three major trade cycles since 1951, it has been this danger signal which has prompted the introduction of restrictive monetary measures. These include increases in the official rediscount rate of the Bank of Japan, and, more important, a system of rationing of Bank of Japan credit to the commercial banks. Due to the heavy reliance of the commercial banks on central bank credit and of private enterprise on commercial bank credit for long as well as short-term capital needs, the credit squeeze has an immediate and vigorous dampening effect on business activity. From then onwards the self-induced recession will lead to a reduction of imports of raw materials and machinery and -- because of slower growing domestic demand -- to increased incentives for Japanese businessmen to promote their exports. Eventually, equilibrium in the balance of payments is restored, the losses of foreign exchange will be recouped and the monetary restrictions lifted. The resumption of bank lending, by stimulating long term investment as well as inventory replacement, will lead into another boom.

Internal Finance

25. During the three years 1959 through 1961, the increase in money supply more than kept pace with the expansion in real output (66 per cent as compared with 53 per cent). In 1959 and 1960, however, the spectacular expansion of output plus the increase in the economy's liquidity mainly in the form of savings and time deposits contained the monetary expansion and kept total effective demand for goods and services within the limits of the total resources of the economy. But in 1961 the pressure became excessive. As on previous occasions when the economy had become "overheated", there were some increases (about 4 per cent) in prices and, much more significant, a menacing deterioration occurred in the balance of payments.

^{1/} Index of employment generally was up by 6.9 per cent in 1962 over 1961. This compares with an increase of employment of 13.3 per cent in 1960 and 9.6 per cent in 1961.

26. The principal factors in the expansion of the money supply are summarized in the following table. The figures indicate clearly that bank credit was by far the most important factor, with public and external finance playing comparatively minor roles.

Table 6
Factors Affecting the Money Supply
 (Billions of Yen)

	1959	1960	1961	1962
Increase in Money Supply	526	709	838	899
Per Cent Increase	16.5	19.1	19.0	17.1
<u>Factors</u>				
1. Private Sector	1786	2581	3509	3038
Less Increase in Savings and Time Deposits	1366	1701	2158	2265
Net Private Bank Credit	420	880	1351	773
2. Public Sector	146	57	-106	71
3. Other Internal Factors	-199	-319	-122	-91
Total Internal Factors	367	618	1123	753
4. Foreign Sector	159	91	-285	146
Total:	526	709	838	899

Source: I.F.S.

27. The effective instrument of monetary control in Japan is the lending policy of the central bank. This was apparent in the pattern of the credit squeeze adopted in the middle of 1961, which consisted of raises in the official discount rate (from 6.57 per cent to 7.30 per cent), a lowering of the ceilings for Bank of Japan credit to the commercial banks, the introduction of stiff penalty rates for such credit in excess of the ceilings, and the use of the Bank of Japan's prestige in persuading the banks to restrict their credit. In view of the permanent heavy reliance of the banking system on Bank of Japan credit, due partly to the low capitalization of the commercial banks, it carries great weight in financial circles.

28. Actually, in view of large balance of payments deficit on current account in 1961 financed largely by foreign short-term borrowing (see Tables 8 and 9 below), action taken by the monetary authorities in 1961 appears to have been both rather late and initially not very effective in dampening demand for credit. The rate of interest charged on bank loans

and discounts increased only very modestly in the last half of 1961 following the increase in the official discount rate (Appendix Table 24). The demand for liquidity by the banks and the business community was met by the continuing growth of Bank of Japan credit to the commercial banks in spite of the penalty rates for credits above the ceilings. The rise in call money rates in 1961 also reflected the scramble for liquidity (Appendix Table 24).

29. However, the first half of 1962 did witness a temporary contraction of the money supply (by about 9 per cent) owing principally to the slow-down in credit expansion to the private sector (63 per cent less than in the first half of 1961). Bank of Japan credit, which had increased from 5 per cent of the total liabilities of the banks at the end of 1960 to 12 per cent in the third quarter of 1962, fell to 9 per cent in the fourth quarter of 1962. By that time there had been a considerable adjustment in the tempo of domestic activities and the balance of payments had returned to equilibrium. Monetary restrictions were removed and the official discount rate reduced in successive steps to 5.84 per cent.

30. As indicated above, fiscal operations have had only a minor influence on the monetary situation. This has been true ever since the monetary stabilization of 1949. While Treasury transactions with the public normally have a considerable seasonal impact (because of the bunching of tax collections), since 1952, excluding the transactions of the foreign exchange fund, they have had the cumulative effect of reducing money supply by only ¥500 billion. Thus the stabilizing potential of fiscal policy has been used sparingly in Japan, though small deficits were incurred in 1955, 1958 and 1962, in each case coinciding with and giving impetus to the beginning of an upswing in the trade cycle and the relaxation of credit restrictions.

31. Along with the expansion of the economy, of course, went an increase in the size of the budget. Thus the tax burden (taxes as a percentage of national income) remained fairly constant at between 19.5 and 22.5 per cent, the lower percentage occurring after a year of low profits and reduced economic growth (for instance in 1955 and 1959). The rapid growth of the economy, combined with the progressive character of the Japanese tax system, left room for regular annual tax reductions^{1/} (4 per cent in 1961 and 1962 and an estimated 2 per cent in 1963), without impairing the necessary growth in revenue.

32. A summary of the transactions of the General Account and of public savings (excluding local government) is as follows:

^{1/} "Reductions" are taxes that would have been collected if no change had been made in tax laws less taxes actually collected.

Table 7

(in billions of yen, fiscal years)

	<u>1960</u> actual	<u>1961</u> actual	<u>1962</u> estimated	<u>1963</u> budget
<u>Central Government</u>				
Current revenue ^{1/}	1,861	2,298	2,438	2,587
Current expenditure	<u>1,325</u>	<u>1,544</u>	<u>1,946</u>	<u>2,144</u>
Current surplus	536	754	492	443
<u>Public Enterprises, etc.</u>				
Investment funds generated by operations of public enterprises & gov'n't financial institutions	428	525	609	644
<u>Total Public Savings</u>	964	1,279	1,101	1,087
Per cent of GNP	6.6	7.2	5.8	5.3

Balance of Payments

33. The adjustment of the domestic economy after the introduction of the "tight money" policy in the middle of 1961 led to a rapid improvement in the balance of payments. Exports increased substantially after the middle of 1961 and imports started falling in early 1962. The trade balance swung from a deficit of almost \$600 million in the first half of 1961 to a surplus of \$500 million in the second half of 1962. Although the deficit position on current invisibles persisted (mainly due to the recently increased deficit on shipping), the overall deficit on current account which had led to considerable losses of foreign exchange especially in the second half of 1961 was reduced and subsequently changed to a surplus position. The resulting increase in foreign exchange has led to a present level of official reserves of over \$1,900 million, the equivalent of approximately five months of imports. The increase in net short-term foreign liabilities of the commercial banks in recent years (\$728 million at the end of 1962 as compared with \$467 million at the end of 1960, according to IFS) makes the total foreign exchange position somewhat less favorable than in 1960. At present Japan has no drawings outstanding from the IMF. Her quota is \$500 million.

^{1/} Excluding "receipts from surplus" in the preceding fiscal year.

Table 8

Current Account of the Balance of Payments
(in millions of dollars)

	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
Exports f.o.b.	2,847	2,875	3,412	3,982	4,149	4,860
Imports f.o.b.	<u>3,242</u>	<u>2,500</u>	<u>3,047</u>	<u>3,711</u>	<u>4,707</u>	<u>4,463</u>
Trade Balance	- 395	375	365	271	- 558	397
Transport & Insurance	- 513	- 172	- 189	- 284	- 496	- 405
Investment Income	- 49	- 40	- 37	- 33	- 48	- 78
Foreign Military Ex- penditure	449	404	381	413	389	367
Other Services and Private Transfers	- 47	- 68	- 88	- 144	- 171	- 192
Total	<u>- 555</u>	<u>499</u>	<u>432</u>	<u>224</u>	<u>- 884</u>	<u>88</u>

Source: IMF Yearbook.

34. The expansion of Japanese exports depends not only on avoiding excess demand at home but also on her capacity to export capital to a number of her trading partners among the developing countries. Exports on deferred payment increased from \$21 million in 1957 to \$196 million in 1962. In addition, reparations and other post-war settlement payments were nearly \$80 million in 1962. Another increasing outflow of capital, direct investment by Japanese abroad, is due to both export promotion and the wish to develop stable sources of raw materials. Mainly for these reasons the outflow of capital has risen from \$181 million in 1957 to \$438 million in 1961, and \$420 million in 1962.

35. At the same time, Japan has been able to attract long-term foreign capital -- direct private investment, portfolio sale of securities, official and private loan capital -- at an accelerating pace. In 1960 and 1961 the capital account was still dominated by a huge net inflow of short-term credit, a large part of which was attracted by the high interest rates prevailing in Japan. But the recovery of the balance on current account in 1962 and continuing improvements in the supply of long-term foreign capital in Japan have greatly reduced the need for short-term credit. The development in the capital account of the balance of payments is summarized as follows:

Table 9

Capital Account of the Balance of Payments^{1/}

(in millions of dollars)

	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>Provisional</u> <u>1962</u>
<u>Capital Outflow</u>						
1. Reparations	76	64	70	69	86	77
2. Direct Investment Abroad	33	27	48	79	93	77
3. Export Credits (net)	21	17	70	65	173	196
4. Amortization and Other	<u>51</u>	<u>213</u>	<u>43</u>	<u>66</u>	<u>86</u>	<u>70</u>
	<u>181</u>	<u>321</u>	<u>231</u>	<u>279</u>	<u>438</u>	<u>420</u>
<u>Capital Inflow</u>						
1. Gov. & Gov. Guarant'd Bonds	--	--	30	--	40	61
2. IBRD - Loan Disbursements	24	73	65	80	73	50
3. Direct Investment in Japan	30	12	19	6	59	70
4. Other private long-term capital	14	73	80	55	146	308
5. Short-term Credit (net)	78	-79	36	378	573	122
6. Other	<u>40</u>	<u>12</u>	<u>--</u>	<u>1</u>	<u>7</u>	<u>1</u>
	<u>186</u>	<u>91</u>	<u>230</u>	<u>520</u>	<u>898</u>	<u>612</u>
Net Inflow or Outflow of Capital	+5	-230	-1	+241	+460	+192

^{1/} Including transfer payments of the central government; excluding changes in liabilities and assets of central monetary institutions.

Source: IMF Yearbook.

36. The net short-term capital inflow of about \$950 million in the two years 1960 and 1961 came from credits to finance imports, foreign holders of liquid funds (Euro-dollars) seeking more favorable rates by depositing them in Japanese banks and loans from a group of American banks. The former accruals were, of course, initiated by foreigners and cannot be accurately segregated from normal foreign trade financing. The short-term credits from American banks amounted to about \$325 million in late 1961 and early 1962. These loans have now been repaid.

37. Supplementary to loans from IBRD, the Japanese Government and its agencies have had a number of bond issues in New York and recently in Germany. The amount of long-term funds raised in this manner from 1959 to date is \$226 million. Bond issues of private companies during this period amounted to \$116 million. The response of both the New York and the German markets have generally been favorable. The recent tax on foreign bond issues proposed in the U.S. will, if applied to Japan, may raise the cost of further borrowing in the New York market by about 1 per cent.

38. The acquisition of shares of private Japanese companies by U.S. and other interests has also gained rapidly in importance. In fiscal 1960 it amounted to \$46 million, but in 1961 it had risen to \$125 million and in 1962 it has been about \$150 million.

III. DEVELOPMENT PROGRAM

Objectives

39. In December 1960, Japan adopted the so-called Income Doubling Plan for the purpose of establishing for the period 1961-70 (1) 10-year growth targets for the economy; and (2) specific public investment targets for the principal categories of public works. The central objective of the Plan is to double national income in real terms within the 10-year period by achieving an annual growth rate of 7.2 per cent.^{1/} This would mean per capita income at 1956-58 prices of \$579 by 1970.^{2/} The Plan is based on the assumption that the factors which produced the economic growth, which Japan enjoyed during the 10 years preceding 1960/61, will continue during the decade of the 1960s.

40. In order to accomplish this rate of growth, the Plan contemplates the continuation of the conversion of the economy to modern methods of production, with consequent relative decline of primary and small-scale secondary industry. The objectives in terms of the different sectors of the economy may be summarized as follows:

Table 10

Planned Annual Average Increase in
Productivity, Employment and GNP, 1961-1970
Annual Percentage Increase from Average of Base Years 1956-58

	Productivity per worker	Employment	Growth in Output
Primary Industry	5.6	-2.8	2.8
Secondary Industry	5.5	3.5	9.0
Tertiary Industry	5.5	2.7	8.2
Transportation, Communication and Public Utilities	5.6	3.2	8.8
Whole Economy	6.6	1.2	7.8

41. Large investment is planned in heavy and chemical industries. At the same time, durable consumer goods are expected to absorb an increasing portion of national expenditures. Naturally, these developments will make for more capital intensive industrial structure. The doubling of national income is expected to be accomplished with an increase of only

1/ Using as base the average national income in the period 1956 to 1958 an annual growth rate of 7.8 per cent would have been required to bring national income up to the target level by 1970. However, on the basis of 1960 figures, 7.2 per cent is sufficient.

2/ About \$690 at 1962 prices.

about 17 per cent in total employment. Population growth and particularly the expansion of the labor force is expected to be substantially less than in the previous decade.

42. Both exports and imports are to increase at a considerably faster rate than the gross national product. The Plan expecting a slow-down of the increase in world trade (from 6.2 per cent per annum, 1950-59, to 4.5 per cent during the 1960s), a strong effort is to be made to increase Japan's share from 3.4 per cent in 1959 to 5.6 per cent in 1970. The ratio of imports to national product is to rise from 14.1 per cent to 16.7 per cent over the same period.

Use of Increased Resources

43. Despite the high growth rate envisaged, the Plan contemplates a somewhat less austere regime than has prevailed in recent years. The overall rate of capital formation is expected to decrease from 38 per cent of aggregate demand in 1960/61 to 32 per cent in 1970.^{1/}

44. Investment in the direct production sector (private and government commercial and industrial investment) is to decrease from 60 per cent to 53 per cent of total investment during the Plan period. This, of course, emphasizes the importance that the Plan places on social capital facilities.

Policy Guidelines

45. The principal policy proposals contained in the Plan are consistent with the conduct of Japan's economic affairs during the 1950s. Except for expanded social capital, education and welfare programs, the Government is to continue to play an advisory and regulatory role and encourage maximum private investment within a free enterprise system.^{2/} The

^{1/} Some striking changes in the utilization of the increase in gross national product are expected as compared with the previous five years (1957-61). Insofar as the private sector is concerned, only about 41 per cent of the increase in gross national product from 1957 to 1961 was used for personal consumption (including the construction of residential housing), whereas over 48 per cent was used for domestic investment in equipment and inventory. The Plan contemplates, however, that over 62 per cent of the increase in GNP from 1961 to 1970 will be used for personal consumption and only 22.7 per cent for domestic investment. About 2.5 per cent more of the increase in GNP is to be used for government expenditures in 1961-70 than in 1959-61. This increase is about equally spread between consumption and capital investment with consumption expenditure getting a slightly larger portion of the increase.

^{2/} The emphasis on social welfare is indicated by the fact that one of the objectives of the Plan is to increase transfer income from 4.8 per cent to 6.1 per cent of national income during the Plan period.

principal influences which the Government may have on the private sector will be exerted through public credit institutions and, to a limited extent, by fiscal and tariff policy. Preferences will, of course, be given in a number of less formal ways to certain lines of expansion in the private sector. These largely reflect already well established trends. The decentralization of industry and population are to be sought by positive government programs.

46. Monetary policy is to continue to be the principal anti-cyclical device of the Government, though the planners suggest that fiscal operations should be used more effectively and with greater flexibility as a stabilizing influence. Particularly public loans and investment are expected to play a significant compensatory role in supplementing the private money market.

47. In accordance with the general policies of the Plan, the tax system should be altered to provide maximum incentive to private investment. No specific recommendations are made except a more favorable depreciation allowance system. The ratio of total tax revenues (central and local) to national income, which has fluctuated between 19.5 and 22.5 per cent during the last decade, is expected to amount to about 20.5 per cent during the Plan period.

Public Sector Investment Program

48. As compared with the generality of the guidelines provided to the private sector, the public sector part of the Plan gives precise expenditure targets for each category of public investment between 1961 and 1970 (Appendix Table 21), though no year-to-year phasing.

49. The Government recognized that the further expansion of the private economy depends a great deal on the provision of adequate social overhead facilities, such as roads, other transportation media, housing, flood control and rehabilitation, etc. ¥16,130 billion (\$44.8 billion) in real terms has been ear-marked for investment in these facilities over the 10-year period. This would be about 8.3 per cent of GNP if Plan targets are achieved (compared with 6.2 per cent between 1955 and 1961).

50. Nearly all sectors of Japan's social capital infra-structure showed striking deficiencies at the beginning of the Plan period. For example, of the 147,000 km of road in March 1960, only 29 per cent (March 1961) was "improved" and only 12 per cent was paved. Less than 50 per cent of the nearly 10,000 km of first class national roads was paved. The objective is to have nearly all the first class national

roads paved by 1966. The need for better roads is indicated by the fact that, between 1955 and 1960 (before the large spurt in automobile consumption -- see page 4) the number of automobiles and motor cycles increased by 138 per cent, to a total of nearly 3.6 million. During the same period, the length of improved roads increased only by 26 per cent. As for urban requirements, the road area of Tokyo and Osaka is 10 and 8 per cent respectively of the total area, as compared with 43 per cent for Washington. Traffic density in Tokyo is increasing about 20 per cent a year.

51. Port facilities increased 25 per cent between 1955 and 1960, while cargoes increased 80 per cent. The number of ships held up for lack of port facilities is large and on the increase.

52. In fields of housing, sanitation, and other public services, Japan has pressing needs for large capital expenditures. The nationwide average living space per person is about 7 square meters and the number of households is about 1 million more than the number of housing units available. Only 15 per cent of the urban areas are supplied with drainage. The target for 1970 is 50 per cent. Only about half the urban population is furnished water from public sources as compared with 80 per cent for the U.S.

Financing Public Investment

53. The Income Doubling Plan is not a detailed "plan" insofar as sources of financing are concerned. Its drafters wanted to preserve flexibility so that public investment might serve an anti-cyclical function and also revenue sources could be adjusted "to keep a proper balance between the burden placed on tax payers and the rate of private capital formation."

54. The financial sources which are expected to provide for the program may be visualized, however, from the results of the first two years of the period (FY 1961 and 1962) and those contemplated for FY 1963. For the public sector program as a whole, investment during the first three years is estimated at 25.7 per cent of the 10-year total. This compares with 22 per cent, if a constant rate of annual increase implicit in the Plan had been followed (See Appendix Table 21). The amount of investment at current prices and its financing may be summarized as follows:

Table 11

Financing of Public Investment

(Billion Yen)

Fiscal Years Ending March 31

	1961 Actual	1962 Estimated	1963 Budget	Total 1961-63
Investment in Public Sector	1256.2	1486.7	1736.1	4479.0
<u>Financing</u>				
From General Account ^{1/}	519.7	617.5	705.6	1842.8
Investment funds generated by operations of public enterprises and gov'n't financial institutions	525.0	609.1	644.0	1778.1
Government Funds ^{2/}	474.3	594.0	699.7	1768.0
Sale of Domestic Bonds	162.9	177.5	247.5	587.9
Sale of Foreign Bonds	29.0	42.0	20.3	91.3
Sub-total:	1710.9	2040.1	2317.1	6068.1
Transfers to Private Sector ^{3/}	666.4	737.5	847.8	2251.7
Central Government Financing	1044.5	1302.6	1469.3	3816.4
Other ^{4/}	211.7	184.1	266.8	662.6
Total:	1256.2	1486.7	1736.1	4479.0

^{1/} Not a true current account surplus since, under Japanese practice, usually part of the difference between current revenues and current expenditures is carried forward in the general account from year to year.

^{2/} Including postal savings, pension funds, etc.

^{3/} Principally loans from government financial institutions to the private sector.

^{4/} Mainly local government contribution.

Source: Ministry of Finance.

55. About 41 per cent of public investment funds were obtained from normal public revenues and about 20 per cent from the savings of various public enterprises generally of a commercial character. Of the remaining 39 per cent, only about 2 per cent come from foreign borrowing. 37 per

cent represented transfers from the private sector either in the form of money accumulated by various government funds and financial institutions or by the sale of domestic bonds, almost all of which were sold to private financial institutions.

56. In the practical implementation of the Plan, each Ministry has set up a 5-year spending program based on the general guidelines provided in the Income Doubling Plan. During the last two years, though public investment has generally exceeded Plan expectations, industrial private investment has made even greater strides. Therefore, closing the gap in the social overhead capital has not been very successful.

57. In relation to the amount planned, the progress in housing and disaster rehabilitation was more striking than in the larger area of transportation. For example, only 23 per cent of the road program had been accomplished as compared with 27.2 per cent planned.

Reasonableness of the Plan Targets

58. No doubt the framers of the Plan were influenced by the gross under-estimation of accomplishments in the two previous Plans of 1955 and 1957, which had assumed growth rates of 5 per cent and 6.5 per cent respectively. Considering that the growth in GNP reached the peak of 17.9 per cent in 1959 and averaged 10.2 per cent during the five years, 1956-1960, the 7.2 per cent envisaged in the Plan for the decade of the 1960s seems modest enough, even when account is taken of the greater emphasis on increasing living standards and social capital facilities. In order to accomplish rising living standards, it will of course be necessary for wages to increase faster than consumer prices. However, the present concern of the Government over the rise of consumer prices illustrates the difficulty in a free economy of preserving the type of balance between rising wages, increased productivity and stable prices which is contemplated in the Plan.

59. The transfer of labor from the primary industries appears to be already occurring on a very substantial scale. The transfers that are contemplated would involve older labor to a larger extent than before and would therefore require considerable modification of traditional employer-employee relationships, as well as the strong emphasis on technical training which is included in the Plan. While the planners envisage a labor shortage developing in the latter part of the Plan period in secondary and tertiary industries, this is not likely to be a problem of serious proportions unless the economic progress is considerably greater than the Plan envisages.

60. Probably the most questionable assumption of the Plan is the premise that exports will increase over threefold as compared with the base year average or half again as fast as GNP. This is discussed in Section V.

Progress to Date

61. Data are as yet incomplete on the relation between actual and planned achievements. However, in respect of some of the major indicators, it would appear that, despite the sharp drop in economic growth in 1962, the Plan is still ahead of schedule. Gross national product in 1963 is estimated at ¥17.45 trillion or over 9 per cent ahead of the projection in the Plan (assuming a constant rate of growth). The amount of personal consumption is over 3 per cent and private equipment investment over 40 per cent above the Plan schedule.

62. The drafters of the Plan realized that cyclical fluctuations would occur and that a steady rate of growth would not be likely. Experience thus far has borne out this assumption since, although the cumulative increase in GNP is ahead of schedule, this is due to the 14 per cent growth that occurred in the first year.

63. At present, the Planners are considering whether or not the national interest would be served by a revision of the Income Doubling Plan. They appear to feel that if no unexpected adverse developments occur, the 10-year targets may be achieved in about 9 years.

IV. CURRENT ECONOMIC PROBLEMS

Trade and Exchange Liberalization and Industrial Policy

64. Japan is now taking action on various fronts to adjust its economy to freer current and capital transactions with the rest of the world. In February 1963, the IMF determined that the economy no longer requires restrictions on current payments for balance of payments reasons. Shortly thereafter, Japan told the members of the GATT that she would no longer claim balance of payments justification for the maintenance of import restrictions. She has been invited to join the OECD which will involve some liberalization of capital transfers and invisible transactions under the OECD code.^{1/} The Ministry of Finance has indicated that the necessary further liberalization of trade and exchange restrictions (to conform to Article 8 of the Fund and Article 11 of the GATT) should be completed by September 1964. Along with her program of trade and exchange liberalization, Japan is hoping to secure the removal of the discrimination against Japanese exports under Article 35 of the GATT which are currently maintained by some thirteen (as of January 1963) of Japan's trading partners chiefly in Europe and Africa. A number of the OECD members have already indicated their intention to discontinue discriminatory treatment of Japanese exports under Article 35, although special restrictions on sensitive items may remain for some time.

65. The import liberalization program has been proceeding quite rapidly since 1960. On the basis of the 1959 import list, only 41 per cent of Japanese imports were free of restrictions as of April 1960. This was increased to 62 per cent in 1961, 73 per cent in April 1962 and 89 per cent in April 1963. There are, however, several qualifications which tend to reduce the amount of effective liberalization below that implied by these percentages. The Government has naturally first removed restrictions where it was least damaging to domestic production. Those remaining are the hard core.^{2/} Also, if the items still under restriction were freed, they would probably constitute more than 11 per cent of Japanese imports.

66. The principal items still under restriction are coal, petroleum products, passenger cars, electric computers, electric generators, earth-moving equipment, high-grade steel, sugar and some other agricultural products. Most of these industries fall into two principal categories, namely (1) the coal mines which have long been a depressed sector of the

^{1/} At the time of the Mission's visit, Japan was asking for seventeen reservations under the code. Five outstanding unresolved items were restrictions on long-term ship chartering, direct foreign investment, technical assistance contracts, repatriation of foreign investments and dealings in domestic securities by foreigners. Recent press reports indicate that agreement has been reached and that Japan has been granted the exemptions requested by her.

^{2/} To date Japan has liberalized 867 items out of 1096 (Brussels Tariff Nomenclature). Remaining 229 items are subject to restrictions.

Japanese economy and which the Government considers require protection for reasons of employment and national security; and (2) segments of otherwise efficient manufacturing industries which are relatively inefficient because of the small market available for their products in Japan. Ferro-alloys, large electric computers and large earth-moving equipment are examples.

67. Coal and non-ferrous metals are approaching their adjustment problems by making long-term marketing arrangements. The coal mines are entering into long-term contracts at relatively high prices with the power and steel companies and the copper producers are making similar arrangements with the metal-using industries. This may be combined with a subsidy to the power and steel companies from the proceeds of increased import duties on the competitive product, residual fuel oil.

68. Special tax measures may also be provided for industries likely to be adversely affected by trade liberalization. Since 1956, Japan has been providing limited tax relief for industries which it particularly desired to promote (machinery industry). A law is now under consideration in the Diet that would provide similar tax relief to selected industries injured by trade liberalization.^{1/} This law will encourage combinations and mergers in such industries with a view to increasing the size of production units and avoiding "excessive competition". At this stage, it is intended that only a limited group of industries (special steels, automobiles, tires and organic chemicals) will be afforded these benefits. However, new industries may be added. The law would give the specified industries preferred access to the commercial banks or government credit institutions.

69. The Government attitude towards manufacturing industry generally is to encourage large scale production, improved production techniques, standardization and specialization, restricting "undesirable" investments, and remedying financial weaknesses such as the excessive debt-equity ratios. It is recognized that not all categories of Japanese industry will expand at the same rate. Three groups were mentioned to the Mission, namely, (1) industries that are expected to increase more or less on their own at rates equal or greater than the growth of GNP (petroleum refining^{2/}, electrical goods, aluminium, glass, cement, paper and pulp and ordinary

^{1/} Law for Temporary Measures Concerning the Promotion of Specified Industries.

^{2/} A special law is under consideration for the petroleum industry. The intent of this measure appears to be to regulate supplies coming onto the market and perhaps to apportion the market between different companies. To what extent the broad powers of price and output regulation given to the Minister in this law will be used to protect competing energy sources or special groups within the petroleum industry remains to be seen.

steel); (2) industries that have problems now but should, after some adjustment and rationalization, be able to expand (machinery, passenger cars, petrochemicals, synthetic fibers and high-grade steel); and (3) industries that are not expected to expand and will probably be able to hold their own only with special assistance and government intervention (coal mining, non-ferrous metal mining, chemical fertilizer and textiles made from natural fibers). The Government's program will be mainly concentrated on resolving the problems of the second category, though some help may be forthcoming for the third group as well.

70. The lifting of restrictions on agricultural products has lagged behind industrial products since agricultural prices are relatively high and the industry extensively subsidized. Wheat, sugar, tobacco and grain sorghums are the principal commodities that remain to be liberalized. To the extent possible under her GATT obligations, Japan would probably wish to increase tariffs when agricultural items are liberalized. In the case of sugar, a tariff quota is to be applied to protect an uncompetitive domestic beet-sugar industry when sugar imports are freed of import restrictions in April 1964.

71. Because of the steps mentioned above and the limited market in Japan for some items still subject to restriction, it is unlikely that the remaining steps towards trade liberalization will have any very crucial balance of payments effects. Liberalization of invisibles is likely to be more important. There is some concern that liberalization of travel restrictions will result in a considerable increase in foreign travel, with consequent cost in foreign exchange. However, it is probable that the liberalization of foreign travel as well as other invisible transactions will proceed on a reasonably gradual basis. Of course, without direct controls, monetary and fiscal policy becomes the first line of defense of foreign exchange reserves.

Financing Investment

72. Despite its very high rate of savings, the absence of a well organized and efficient money market is generally regarded by Japanese business and government leaders as an important shortcoming. There is extensive discussion of the need to free interest rates from direct and indirect government controls, widen the distribution of stock and bond ownership, and free industrial enterprises from their present heavy dependence on commercial banks for long- as well as short-term financing.

73. From 1957 through 1961, about 40 per cent of funds for private investment of all sorts were obtained from depreciation reserves and retained profits and the remaining 60 per cent from outside sources. (See Appendix Table 26). Even in relatively slack times such as 1962 and early 1963, according to a sample of industrial enterprises selected by the Japan Development Bank, the ratio of internal to external financing of industries was 45 per cent internal and 55 per cent external.

Thus the self-financing is rather high. However, in respect of the 60 per cent of investment capital obtained from outside sources from 1957 through 1961, less than 13 per cent was obtained by the sale of stocks and bonds directly to individual savers, and 47 per cent or nearly 80 per cent of all external financing was obtained by borrowing from banks and other financial institutions. The Government, through specialized long-term credit agencies, has been providing 11 per cent (out of the 47 per cent) or 5 per cent of total private investment funds.

74. Although an active market in shares has developed in recent years, the raising of equity capital has remained expensive. This seems to be partly the result of the conventional practice of issuing new shares at par to old shareholders. The cost of new equity capital is estimated at from 10 to 12 per cent or higher (despite the fact that shares of leading companies on the stock exchange have a dividend yield not much higher than comparable enterprises in the U.S.). There is also included in its cost the corporate income tax (28 per cent on distributed, and 38 per cent on undistributed net profits).

75. The limited bond market which exists in Japan consists largely of sales to financial institutions and, in limited amounts, to investment trust companies or mutual funds.^{1/} About 85 per cent of government and government-guaranteed obligations are held by the city and local banks. Insurance companies and trust companies hold 10 per cent and only 5 per cent are held by individuals, investment trusts, and non-financial business enterprises. It appears to be generally agreed that the banks would not be eager to purchase government bonds unless subject to some urging from official quarters because of their low yields (Appendix Table 24). In FY 1962, total new bond issues amounted to only about ¥300 billion or only about 5.6 per cent of estimated personal savings. Of these, about ¥130 billion were issued by agencies of the national government and by local governments, and about ¥170 billion by private utilities and industries.

76. A very close interconnection exists between the very short (call) and longer term rates of interest in Japan. This, of course, stems from the dependence of all sectors of the money market (including even the market for new shares) on institutional lenders, mainly the twelve city banks, and their dependence, in turn, for liquidity on the Bank of Japan.

^{1/} An attempt was made in 1961 to market bonds through the medium of private securities companies. Beneficiary certificates issued by the securities companies to the public against these securities were redeemable at any time at face value. The restrictive monetary policy of 1961 led to substantial redemptions of the beneficiary certificates, and this forced the securities companies to dispose of a part of their holdings of the underlying bonds. The contraction of the supply of call money as the lending operations of the Bank of Japan were curtailed was thus reflected in the bond market, increasing the yields on old issues from a little over 7 to more than $8\frac{1}{2}$ per cent on government-guaranteed obligations. However, this was not reflected in the yields on new issues sold to financial institutions.

While this makes monetary policy extremely effective in dampening a boom or rectifying an unfavorable balance of payments, it does give the big banks great economic power and perhaps increases the amplitude of cyclical fluctuations. It may also increase the cost of capital to new enterprises not sponsored by the city banks. Granted that the habits of the people in respect of the placing of their savings in financial institutions cannot be quickly changed, more investment institutions such as mutual funds might be encouraged and serious consideration might be given to freeing up the government bond market.

77. At present, there is widespread concern in Japan that the high rates for equity and loan funds may handicap Japanese industry in competition with foreign firms, both at home and abroad, under the trade liberalization program to which Japan is now committed. While the Government is now endeavoring to reduce interest rates to improve the competitive position of Japanese industry, it is also anxious to reduce the "over-loan" position of the Bank of Japan. Thus, there would appear to be some ambivalence in current monetary policy arising out of the desire of the Government to at once contain any latent inflationary pressures and at the same time reduce the cost of long-term investment funds.

Monetary and Credit Reform

78. In recognition of the need to smooth out economic fluctuations and provide a more efficient mechanism for the channeling of private savings into social capital construction and private investment, in June 1961, the Government began a reexamination of the financial system. The study has concentrated on steps to obtain a greater flexibility in the application of monetary policy, means of reducing the dependence of the banking system on central bank credit, encouraging greater selectivity in the flow of credit by differentiation of interest rates on loans according to the financial soundness of the enterprises involved, and checking the tendency for an excessive flow of credit from a particular bank to a single enterprise.

79. An important proposal now being implemented is that the Bank of Japan progressively reduce its credit balance with commercial banks and only extend additional credit by open market operations or by lending against collateral in the form of government-guaranteed bonds, public utility bonds and bonds of private institutions of local governments. This will give the Bank of Japan a more positive role in the control of credit, since the initiative will rest with it in carrying out open market operations.

80. Another consideration, in addition to the structural weaknesses of the Japanese capital and credit system noted above, is the feeling that, while, in the past, government surpluses accumulated during booms tended to partially offset the expansionary effect of bank credit to the private sector (because tax revenues have risen more than proportionately to the rise in national income), the need of the economy for social capital investment may preclude fiscal operations from performing this function in the future. Therefore, the need is more urgent than heretofore for strengthening and deepening the market for securities in Japan at the same time as monetary policy is made more effective as a stabilizing and not merely as an emergency device.

V. PROSPECTS

Short Term

81. Official estimates indicate that equipment investment, the principal bellwether of the Japanese economy, may be about 11 per cent higher in 1963/64 than last year. Under the stimulus of inventory expansion and increased exports, industrial production is expected to rise by about 14 per cent this year. While only a modest rise in the rate of growth of GNP is predicted officially, unofficial predictions go as high as a 10 per cent growth rate in 1963/64.

82. However, the up-turn is spotty and some sectors, such as non-ferrous metals, heavy electrical equipment and the primary material producing industries generally, are weak. The prospect of early import liberalization may be an important deterrent to investment in a number of these industries. Also, heavy investment over the past several years has created some excess capacity. Despite the fact that in April the Bank of Japan discount rate was reduced to a post-war low, and the call money rate on April 22 was the lowest since November 1956, the demand for funds continues to be rather slack.

83. There is, however, a debate going on in Japan about the wisdom of the Government's action in reversing monetary policy so sharply. Concern centers around (a) the outlook for foreign trade; and (b) the related problem of prices.

84. During the first five months of 1963, exports were 9.3 per cent higher than for the same period in 1962, and 22 per cent above 1961. Nor does it appear that the relaxation of monetary restraints which began in October 1962 has yet resulted in excessive import demand. In the period January through May of 1963 imports were 5.6 per cent higher than in 1962 and 17 per cent above 1961.

85. It may well be that import demand will pick up more momentum. Although inventories of raw and finished imported materials increased about 6 per cent in the first half of 1963, they remain well below the 1961 level, having been drawn down in 1962 as a result of the "credit squeeze". Import letters of credit showed an upward trend in 1963, increasing by over 15 per cent as compared with 1962 (export letters of credit increased by 11.2 per cent). Therefore, although Japan's trade balance usually improves in the second half of the year, it would not be surprising if foreign exchange reserves did not rise appreciably.

86. Since the start of the "relaxation" policy in October 1962, wholesale prices have risen about 2 per cent though they are still only at about the level of mid-1961 and below the 1955-57 average. The recent increase in wholesale prices appears to reflect mainly the rise of about 4 per cent in the prices of Japanese imported materials that has occurred since October 1962.^{1/} Wage increases may be lower than usual in 1963, though the rise of consumer prices (8 per cent from September 1962 to April 1963) is providing arguments for renegotiation of wage contracts.^{2/} However, any increase in labor and raw material costs should be absorbed without substantial hikes in the prices of finished goods in view of the unused capacity in a number of industries.

87. In general, therefore, the short-run growth prospects of the Japanese economy seem favorable and fears that a quick return to a restrictive policy may be necessary seem overly pessimistic. As usual, the relation between cheaper and freer credit and the balance of payments requires close continuing observation.

Longer Term Prospects and the Need for Capital Imports

88. It would require considerable assurance to raise serious questions regarding Japan's capacity to deal with her economic problems and to enjoy a continuing high rate of growth. There will undoubtedly come a time when rising living standards impinge on output to the extent that the rate of savings and investment declines, but there is certainly no clear indication that that time is imminent. The output-investment ratio may fall somewhat over the next few years as investment in social capital, housing, and welfare catches up with the more immediately productive investments in the private sector. Even if such a change in the investment mix does occur, it is likely to be offset to some extent by fuller utilization of private production facilities already in being or under construction, as a result of fuller employment and more adequate social capital facilities.

89. However, the Japanese economy is not without internal problems. There may indeed be a danger of over expansion of capital goods production. Some observers believe that it would be necessary for Japan to expand GNP faster than envisaged in the Income Doubling Plan in order to

^{1/} In general, the wholesale price movements that occurred during the short recessionary phase tended to improve the relative position of the iron and steel, chemical and machinery industries by reducing the prices of their inputs about twice as much as the prices of their outputs. Although price movements at the wholesale level were minor, the adjustments that did occur conformed well to a desirable pattern for recovery, with prices of inputs of producers' goods declining by 2.9 per cent in FY 1962/63 and articles for final demand increasing.

^{2/} In 1962 nominal wages increased by 10 per cent and consumer prices 6.8 per cent.

fully utilize the productive capacity of capital goods industries. Another danger to Japanese industrial efficiency may be the apparent desire of the Government to preserve all the existing industries that grew up under the protection of trade restrictions. The Specified Industries Promotion Act, which is now in the Diet, and the Petroleum Promotion Act, which is now in effect, seem to be pointing in this direction.

90. The important role which the ordinary banks play in industrial financing gives the bankers an important influence in investment decisions at all levels. This is sometimes considered to be a source of weakness since the decisions are apt to be made without adequate regard to technical, and sometimes, market factors. While the financial/industrial nexus has usually been considered as a restraining influence on competitive forces in the Japanese market, the post-war tendency has been for each major city bank to sponsor a group of industries in various fields, thus resulting in fast growth but also in the "excessive" competition with which government agencies and others are concerned at the present time.^{1/} The development of a free capital market in Japan appears to be the next necessary step in the economy's evolution. This should also be conducive to foreign private investment which could contribute to Japan's balance of payments as well as her internal development. The closeness of financial controls, both through the banking system and the Government, has made the introduction of foreign investment into Japan with national treatment, a point of considerable difficulty and controversy. Equal access by foreigners to the Japanese capital market is likely to be a difficult but necessary point for Japanese businessmen to concede.

91. Since it is expected that the labor force will only increase about 17 per cent during the Plan period, great emphasis is placed on increase in productivity through mechanization. However, this will require substantial shifts in the utilization of the labor force and further changes in traditional employee-employer relationships. Competition between industry and agriculture in the labor market is making it necessary to form larger units in agriculture by the introduction of mechanical methods. The changes that are already underway in respect of the utilization of Japanese labor should contribute materially to achieving Japanese output goals.

92. To the problems cited above must be added a possible continuance of rising real wages relative to productivity evidenced recently, declining marginal rates of saving and the effects of trade liberalization, all of which raise question marks as to the future. However, none of these considerations appear important enough at this juncture to raise serious doubt that Japan's growth rate will continue to be high. Aside from specific growth elements, the general vitality evidenced by the physical and mental aspect of the country is very impressive.

^{1/} The 12 city banks in Tokyo and Osaka, with assets of \$25 billion (out of the total of 70 ordinary banks with assets of \$53 billion) have been the most important factors in financing the Japanese industrial expansion during the 1950s.

93. Turning to balance of payments prospects, on the export side, Japan's exports expanded 3.18 times between 1953 and 1960 while world exports expanded 1.15 times. The Income Doubling Plan calls for an increase in exports of 10 per cent a year during the 1960s. This is indeed an ambitious target. However, the strength of Japanese export position is indicated by the fact that, in the face of generally rather disappointing world trade developments in 1962, the exports of Japan both to North America and Western Europe increased at remarkably high rates. During the first three years of the decade the Plan objective for exports was exceeded by nearly a third.

94. In general the climate for export expansion seems reasonably favorable. Japanese exports expanded during the 1950s in the face of considerable "voluntary" and involuntary restraints (from Japan's viewpoint) imposed by her trading partners. These should be less of a problem in the 1960s as Japan's position in the international community (including her purchases of secondary products from other countries) becomes more important, and as she removes import and exchange restrictions. Thus the removal of Japanese restrictions should result in compensating trade advantages. Also, Japanese plans call for a considerable expansion of exports on a deferred payments basis. While an immediate drain on Japanese resources, this promotes exports particularly to the developing countries. Therefore, while the export target may be one of the more difficult features of the Plan to achieve, it does not appear to be unattainable.

95. In respect of imports, with a combination of import controls and monetary restraints, commodity imports were held below the level of exports for four of the last five years. The authors of the Income Doubling Plan anticipate that the ratio of imports to GNP is likely to rise from about 14 per cent in 1958/59 to 16.7 per cent in 1970, due largely to the impact of trade liberalization. This will require an annual increase of imports of about 9.3 per cent a year, slightly less than the projected growth of exports. The expectation is for an upward tendency of imports of finished consumer goods because of trade liberalization and downward tendency of imports of raw materials because of technical improvements.^{1/} This will make the level of domestic production somewhat less dependent than heretofore on imports, even though the development plan contemplates an increase in the "import dependence" ratio.^{2/} Nevertheless, a sufficient supply of imports is apt to continue as a very important element. Furthermore, if exports or net capital imports are insufficient to finance the inflow of imports required under the new regime of trade liberalization, monetary restrictions imposed to protect foreign exchange reserves may be expected to have a sharp and immediate impact on economic growth.

^{1/} The ratio of foods and textiles raw materials to total imports declined from 54 per cent to 30 per cent between 1953 and 1960. On the other hand, metal ores and scrap, mineral fuels and machinery and chemicals increased from 30 to 46 per cent.

^{2/} Ratio of imports to GNP.

96. An important question mark is the effect of liberalization on invisibles. Excluding U.S. procurement expenditures in Japan, the deficit on invisible account increased from \$461 million in 1960 to \$675 million in 1962. The liberalization of invisible transactions is likely to increase the deficit on invisibles until the measures Japan is taking to build up her merchant marine show substantial results. The receipts from U.S. procurement are also declining slowly (by about \$20 million a year) though they still amounted to \$367 million in 1962 (nearly 8 per cent of commodity exports).

97. On capital account, Japan's obligations for reparations and other post-war settlements will increase to an average of about \$120 million a year over the next five years (compared with \$77 million in 1962.^{1/} Repayment of existing public debt will average about \$100 million a year. In addition, net export credits of \$200 to \$250 million a year may be expected if her export goals are to be achieved. Thus if we assume that the inflow and outflow of capital in the form of direct private investment are about the same (as in 1962), \$420 to \$470 million a year of capital inflow will be required to keep her capital account in balance. Only about \$50 million of this may be met from disbursement on existing loans so that around \$400 million of new capital inflow will be required to compensate for capital outflow.

98. A very good case can be made for Japan to have a certain amount of additional capital inflow during the next several years. Obviously, the amount of this will be fairly small in relation to domestic investment and savings and, therefore, is not susceptible to measurement by taking the difference between any estimated amounts of these variables. The principal reasons for this conclusion may be briefly summarized:

99. a. Japan's balance of payments position in the future, as in the past, is likely to be the key factor in the stability of her economic growth. The recurrent need to apply the brakes to domestic investment to cope with balance of payments difficulties has characterized the economy during the last ten years. This is still evident from the experience of 1961 and 1962. Trade and exchange liberalization will, of course, place her in a more exposed position by reducing the direct controls over the balance of payments. In view of the lack of most basic raw materials, the growth of the Japanese economy is closely related to the growth of imports. Any forced curtailment of import flow is likely to have a much more than proportionate effect on domestic production and economic growth. In other words, the economic growth due

^{1/} This does not include the Korean settlement which is still pending and which may amount to \$300 million in reparations plus a substantial amount in loans.

to capital imports may be very high. Only the import of capital on a long-term basis (as contrasted with the large inflow of short-term funds which has occurred since 1960) can provide the necessary stability to her foreign exchange position.

b. It is particularly necessary at this stage of Japan's development to expand investment in social capital facilities. To do this will require much larger transfers of funds from the private to the public sector, either through increased taxation and larger public savings or by the absorption of government securities by the private money market. In 1962, the net flow of funds from the private sector to the Government for savings and investment purposes appears to have been about ¥208 billion (Appendix Table 23). To carry out the public investment program, an increase of this flow will be required. However, at present, the domestic money market is not well developed and the real rate of interest is very high. This is an important weakness which requires correction by institutional and other arrangements. However, it would be a mistake to overburden the domestic money market at this juncture when the Government is endeavoring to bring the cost of capital to the private sector down more nearly to the international level.

c. Concomitant with this need for increased capital expenditure in the public sector is the necessity for further very heavy investment outlays in the private sector. The liberalization of imports will require considerable improvements to bolster the competitive strength of several of Japan's hitherto most protected industries. These and other parts of Japan's productive capacity need extensive modernization to withstand the impact of increased foreign competition. Another reason for modernization is provided by the prospect that Japan's comparative advantage of cheap production of part of its output in small-scale enterprises (the "dual structure") is progressively disappearing. The continuous rise in Japanese wages is affecting these sections to a larger extent than before, now that under-employment is disappearing and a situation of full employment in the Western sense is being more nearly attained. An increase in investment requirements is also resulting from the promotion of exports which, according to the Income Doubling Plan, are to increase over threefold during the 1960s. This increase in exports will require a much stronger emphasis on heavy machinery and chemical products. During the Income Doubling Plan, the share of heavy machinery and chemical products in Japanese exports is expected to climb from 37.6 to 53.5 per cent. Per unit of export, capital requirements are therefore to increase substantially.

100. From the point of view of the global use of investment resources, the net transfer of funds to Japan can be justified by the overwhelming proof of that country's ability to convert investment funds in increased productive capacity. Probably there are very few countries in the world where an addition in the total availability of investible funds will so surely result in an increase in productive capacity. Notwithstanding this consideration, the actual development of Japan's credit in the international capital markets is a comparatively slow process. Since 1960 the

Japanese Government has been making a deliberate and consistent effort to develop its access to the funds of the New York and other foreign markets. The current annual rate of bond flotations by the Japanese Government and government agencies is about \$100 million in four to five issues in the New York market and \$25 million in Germany. It is the considered opinion of the Ministry of Finance of Japan and also of its New York investment bankers that the healthy development of Japan's credit standing in foreign capital markets does not permit an immediate increase in the frequency and size of these bond flotations. The recently proposed tax on certain types of U.S. foreign investment is likely to reinforce this view.

101. Japan has an ample margin of creditworthiness to justify substantial further borrowings on conventional terms. Service on public debt now outstanding (including reparations) amounts to only about 7.2 per cent of gross foreign exchange earnings in 1962. This decreases to 4.4 per cent in 1964 and less than 4 per cent in 1965. If remittances of earnings on private investment is added, about 7 per cent of gross earnings would be required to meet these obligations in 1964. Total foreign public debt is now about \$2.3 billion, of which roughly \$2.1 billion has been disbursed. This is about 10 per cent more than official foreign exchange reserves. Japan has given adequate proof of her ability to make necessary balance of payments adjustments with the use of monetary controls.

STATISTICAL APPENDIX

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Table 1: JAPAN - EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF
 DECEMBER 31, 1962 WITH MAJOR REPORTED ADDITIONS
 JANUARY 1 TO MAY 1, 1963

(In thousands of U.S. dollar equivalents)

Item	Debt outstanding December 31, 1962		Major reported additions January 1 - May 1, 1963
	Net of undisbursed	Including undisbursed	
TOTAL EXTERNAL PUBLIC DEBT	<u>2,087,013</u>	<u>2,255,493</u>	<u>75,000</u>
Publicly-issued bonds	<u>272,164</u>	<u>272,164</u>	<u>75,000</u>
Privately-placed debt	<u>219,078</u>	<u>238,289</u>	-
IBRD loans	<u>386,404</u>	<u>448,944</u>	-
U.S. Government loans	<u>593,971</u>	<u>680,700</u>	-
Export-Import Bank	<u>103,971</u>	<u>190,700</u>	-
Settlement of Post- war Aid from U.S.	490,000	490,000	-
Reparations	<u>615,396</u>	<u>615,396</u>	-

Statistics Division
 IBRD-Economic Staff
 July 26, 1963

Table 2: JAPAN - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1962 WITH MAJOR REPORTED ADDITIONS JANUARY 1 - MAY 1, 1963 /1

(In thousands of U.S. dollar equivalents)

Year	Debt out- standing plus un- disbursed January 1	Payments during year			Year	Debt out- standing plus un- disbursed January 1	Payments during year		
		Amorti- zation	In- terest	Total			Amorti- zation	In- terest	Total
Total debt				Publicly-issued bonds					
1963	2,230,493	338,246	65,105	403,351	1963	272,164	62,863	16,720	79,583
1964	1,967,247	184,600	63,068	247,668	1964	284,301	40,442	15,640	56,082
1965	1,782,647	157,063	59,836	216,899	1965	243,859	14,765	13,984	28,749
1966	1,625,584	145,013	55,640	200,653	1966	229,094	12,067	13,223	25,290
1967	1,480,571	144,781	51,328	196,109	1967	217,027	10,490	12,564	23,054
1968	1,335,790	151,893	46,817	198,710	1968	206,537	20,070	11,741	31,811
1969	1,183,897	151,341	41,947	193,288	1969	186,467	18,441	10,466	28,907
1970	1,032,556	138,479	37,312	175,791	1970	168,026	17,111	9,375	26,486
1971	894,077	127,321	32,886	160,207	1971	150,915	17,111	8,338	25,449
1972	766,756	126,176	28,603	154,779	1972	133,804	17,111	7,302	24,413
1973	640,580	128,598	24,350	152,948	1973	116,693	17,111	6,262	23,373
1974	511,982	107,792	20,110	127,902	1974	99,582	16,361	5,225	21,586
1975	404,190	93,100	16,706	109,806	1975	83,221	15,611	4,250	19,861
1976	311,090	90,698	13,606	104,304	1976	67,610	18,611	3,239	21,850
1977	220,392	66,148	10,445	76,593	1977	48,999	18,681	2,129	20,810
Privately-placed debt				IBRD loans					
1963	213,289	136,385	6,582	142,967	1963	448,944	16,675	22,229	38,904
1964	76,904	6,990	3,656	10,646	1964	432,269	19,181	23,280	42,461
1965	69,914	12,472	3,599	16,071	1965	413,088	22,674	23,007	45,681
1966	57,442	11,127	3,068	14,195	1966	390,414	23,280	21,754	45,034
1967	46,315	11,995	2,455	14,450	1967	367,134	24,585	20,447	45,032
1968	34,320	10,996	1,809	12,805	1968	342,549	25,650	19,072	44,722
1969	23,324	10,028	1,198	11,226	1969	316,899	26,775	17,634	44,409
1970	13,296	4,866	731	5,597	1970	290,124	28,114	16,128	44,242
1971	8,430	1,550	497	2,047	1971	262,010	29,203	14,550	43,753
1972	6,880	1,546	403	1,949	1972	232,807	27,072	12,946	40,018
1973	5,334	1,397	312	1,709	1973	205,735	28,628	11,401	40,029
1974	3,937	1,397	229	1,626	1974	177,107	20,788	9,882	30,670
1975	2,540	1,394	146	1,540	1975	156,319	19,549	8,663	28,212
1976	1,146	230	63	293	1976	136,770	16,669	7,616	24,285
1977	916	230	49	279	1977	120,101	17,329	6,645	23,974

See footnote at end of table.

Table 2: JAPAN - ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED AS OF DECEMBER 31, 1962 WITH MAJOR REPORTED ADDITIONS JANUARY 1 - MAY 1, 1963 /1 (CONT.)

(In thousands of U.S. dollar equivalents)

Year	Debt out- standing plus un- disbursed January 1	Payments during year			Year	Debt out- standing plus un- disbursed January 1	Payments during year		
		Amorti- zation	In- terest	Total			Amorti- zation	In- terest	Total
U.S. Govt. loans - Total					U.S. Govt. loans - Export-Import Bank				
1963	680,700	45,410	19,574	64,984	1963	190,700	13,146	7,524	20,670
1964	635,290	47,325	20,492	67,817	1964	177,554	14,249	9,254	23,503
1965	587,965	49,461	19,246	68,707	1965	163,305	15,553	8,840	24,393
1966	538,504	50,817	17,595	68,412	1966	147,752	16,056	8,043	24,099
1967	487,687	50,371	15,862	66,233	1967	131,696	14,736	7,183	21,919
1968	437,316	47,837	14,195	62,032	1968	116,960	11,306	6,413	17,719
1969	389,479	48,757	12,649	61,406	1969	105,654	11,306	5,786	17,092
1970	340,722	49,697	11,078	60,775	1970	94,348	11,304	5,157	16,461
1971	291,025	49,401	9,501	58,902	1971	83,044	10,042	4,546	14,588
1972	241,624	50,391	7,952	58,343	1972	73,002	10,042	3,987	14,029
1973	191,233	51,406	6,375	57,781	1973	62,960	10,042	3,426	13,468
1974	139,827	39,190	4,774	43,964	1974	52,918	10,042	2,865	12,907
1975	100,637	26,490	3,647	30,137	1975	42,876	10,032	2,305	12,337
1976	74,147	25,127	2,688	27,815	1976	32,844	8,255	1,761	10,016
1977	49,020	29,862	1,622	31,484	1977	24,589	5,431	1,317	6,748
Settlement of Post-war Aid of U.S.					Reparations				
1963	490,000	32,264	12,050	44,314	1963	615,396	76,913	-	76,913
1964	457,736	33,076	11,238	44,314	1964	538,483	70,662	-	70,662
1965	424,660	33,908	10,406	44,314	1965	467,821	57,691	-	57,691
1966	390,752	31,761	9,552	41,313	1966	410,130	47,722	-	47,722
1967	355,991	35,635	8,679	44,314	1967	362,408	47,340	-	47,340
1968	320,356	36,531	7,782	44,313	1968	315,068	47,340	-	47,340
1969	283,825	37,451	6,863	44,314	1969	267,728	47,340	-	47,340
1970	246,374	38,393	5,921	44,314	1970	220,388	38,691	-	38,691
1971	207,981	39,359	4,955	44,314	1971	181,697	30,056	-	30,056
1972	168,622	40,349	3,965	44,314	1972	151,641	30,056	-	30,056
1973	128,273	41,364	2,949	44,313	1973	121,585	30,056	-	30,056
1974	86,909	29,148	1,909	31,057	1974	91,529	30,056	-	30,056
1975	57,761	16,458	1,342	17,800	1975	61,473	30,056	-	30,056
1976	41,303	16,872	927	17,799	1976	31,417	30,061	-	30,061
1977	24,431	24,431	305	24,736	1977	1,356	46	-	46

/1 Includes service on all debt listed in Table 1 prepared on July 26, 1963 except \$25,000,000 of privately-placed bonds for which the amortization terms are not available.

Table 3: JAPAN - GROWTH OF POPULATION, 1945-62

(thousand persons)

Year	Population ^{a/}	Livebirths	Deaths	Net Increase	Change due to Migration	Total Net Change	Percentage Increase
1945	72,200	1,576	1,369	207	3,470	3,600	4.99
1946	75,800	2,623	1,164	1,460	1,001	2,352	3.10
1947	78,101	2,718	986	1,732	318	1,905	2.44
1948	80,010	2,711	943	1,768	149	1,773	2.22
1949	81,780	2,447	915	1,532	31	1,419	1.74
1950	83,200	2,229	872	1,356	2	1,343	1.61
1951	84,500	2,058	786	1,273	6	1,265	1.50
1952	85,800	1,921	772	1,149	37	1,172	1.37
1953	87,000	1,785	728	1,057	8	1,054	1.21
1954	88,200	1,761	708	1,053	- 4	1,038	1.18
1955	89,276	1,698	707	991	- 8	893	1.10
1956	90,170	1,604	764	840	- 10	754	0.84
1957	90,920	1,630	701	929	- 7	837	0.92
1958	91,760	1,666	693	974	- 11	873	0.95
1959	92,640	1,620	712	908	- 50	775	0.84
1960	93,419	1,595	697	898	- 32	865	0.93
1961	94,280	1,617	716	902	- 8	893	0.95
1962	95,180	-	-	-	-	-	-

^{a/} Estimate as of October 1 of the years indicated.

Source: Government of Japan, Prime Minister's Office.

Table 4: JAPAN - RECENT AND PROJECTED TREND OF
TOTAL POPULATION AND WORKING AGE GROUP

<u>Year</u>	<u>Total Population</u> (000 persons)	<u>Working Age Group (15-59)</u> (000 persons)
1950	83,200	47,354
1955	89,276	52,235
1960	93,419	57,285
1965	98,245	64,036
1970	102,216	68,250
1975	106,327	70,616
1980	109,688	72,800
	<u>Average Annual Increase</u> (000 persons)	
1951-55	1,215	976
1956-60	829	1,010
1961-65	965	1,350
1966-70	794	843
1971-75	822	473
1976-80	672	437
	<u>Average Annual Increase</u> (Percentage)	
	%	%
1951-55	1.5	2.1
1956-60	0.9	1.9
1961-65	1.0	2.4
1966-70	0.8	1.3
1971-75	0.8	0.7
1976-80	0.6	0.6

Source: Bureau of Statistics, Prime Minister's Office:
Monthly Estimate of Population, July 1960.
Figures were estimated in June, 1960 by Institute of Population
Problems, Ministry of Health and Welfare.

Table 5: JAPAN - GROSS NATIONAL EXPENDITURE

(In billions of yen)

	Fiscal Years								
	1951	1955	1956	1957	1958	1959	1960	1961	1962
Total at Current Prices	<u>5,444</u>	<u>8,236</u>	<u>9,293</u>	<u>10,150</u>	<u>10,395</u>	<u>12,572</u>	<u>14,665</u>	<u>17,702</u>	<u>18,860</u>
Index at 1955* Prices	100	100	109	118	121	143	162	185	-
Consumption	<u>3,571</u>	<u>5,008</u>	<u>6,438</u>	<u>6,994</u>	<u>7,368</u>	<u>8,054</u>	<u>9,037</u>	<u>10,510</u>	-
Private	<u>3,018</u>	<u>5,119</u>	<u>5,502</u>	<u>5,980</u>	<u>6,294</u>	<u>6,877</u>	<u>7,694</u>	<u>8,920</u>	<u>10,150</u>
Government	553	889	936	1,014	1,074	1,177	1,343	1,590	1,850
Gross Investment	<u>1,664</u>	<u>2,086</u>	<u>2,955</u>	<u>3,210</u>	<u>2,832</u>	<u>4,405</u>	<u>5,607</u>	<u>7,542</u>	<u>6,820</u>
Private	<u>1,252</u>	<u>1,372</u>	<u>2,264</u>	<u>2,402</u>	<u>1,904</u>	<u>3,289</u>	<u>4,267</u>	<u>5,814</u>	<u>4,740</u>
Government	412	714	691	808	928	1,116	1,340	1,728	2,080
Surplus on Current International Account	<u>209</u>	<u>141</u>	<u>- 101</u>	<u>- 54</u>	<u>195</u>	<u>114</u>	<u>21</u>	<u>- 351</u>	<u>40</u>
Gross Investment: Percent of GNP	31	25	32	32	27	35	38	43	-

* 1955 = 100 except 1951 index which is based on 1934 - 1936 = 100

Source: Economic Planning Agency: National Income Report, Fiscal Year 1961.

Table 6: JAPAN - INDEXES OF PRODUCTION OF
AGRICULTURE, FORESTRY AND FISHERY

(1950 - 52 = 100)

	1955	1956	1957	1958	1959	1960	1961
Agriculture	124.5	117.4	122.1	127.2	130.6	133.3	134.6
Rice	124.5	109.8	115.4	120.7	125.9	129.6	125.2
Wheat & barley	109.5	104.8	98.2	94.0	104.9	108.3	106.2
Pulses	118.2	103.3	119.4	119.6	128.8	136.2	135.8
Potatoes	119.6	116.3	113.4	115.3	121.5	116.8	120.4
Vegetables	110.9	109.6	116.4	114.9	120.6	133.0	130.8
Fruits	122.0	168.0	181.7	188.8	203.2	225.1	234.0
Miscellaneous cereals	103.0	92.0	100.5	109.8	99.5	100.0	96.3
Livestock & Livestock products	173.3	178.3	189.3	216.9	224.9	247.3	316.7
Forestry	110.5	115.4	120.9	109.5	110.6	117.2	118.6
Fishery	137.3	137.6	161.1	163.3	174.3	182.4	205.7

Source: Ministry of Agriculture and Forestry.

Table 7: JAPAN - INDEXES OF INDUSTRIAL PRODUCTION BY INDUSTRY

(1960 = 100)

Year	Industrial Production	Manufacturing Production					
		Total	Ferrous Metal	Non-ferrous Metal	Machinery	Chemicals	Textiles
1958	67.0	65.7	57.2	57.7	56.5	74.7	72.6
1959	80.3	79.6	76.3	75.5	72.6	83.2	84.8
1960	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1961	119.3	119.9	126.1	119.7	129.0	113.8	107.9
1962	128.6	129.6	125.5	117.2	145.0	128.1	113.5

Source: Ministry of International Trade and Industry.

Table 8: JAPAN - INDEXES OF INDUSTRIAL PRODUCTION BY
CATEGORY OF PRODUCT

(Value added weight 1960 = 100)

Year	Capital Goods	Construction Materials	Non-Durable Consumer Goods	Durable Consumer Goods	Producer Goods
1958	61.7	69.1	85.9	48.5	64.5
1959	72.3	81.1	91.8	75.2	80.0
1960	100.0	100.0	100.0	100.0	100.0
1961	130.0	115.0	109.0	125.8	118.5
1962	143.7	119.8	119.6	144.1	124.9

Source: Ministry of International Trade and Industry

Table 9: RATIO LABOR PRODUCTIVITY TO REAL WAGES

	Japan	U. S.	U. K.	Germany	Italy
1955	100.0	100.0	100.0	100.0	100.0
1956	103.5	98.4	95.4	97.6	102.5
1957	109.0	98.7	97.4	95.7	104.9
1958	103.0	99.1	96.6	94.8	110.2
1959	104.1	102.3	97.7	94.4	117.6
1960	106.6	104.5	98.0	90.6	120.7
1961	108.6	106.7	95.5	86.4	120.8

Table 10: JAPAN - OFFICIAL LONG-RANGE ECONOMIC OBJECTIVES

	Base Year 1956-58 Av.	Target Year 1970	Year Index (Base Yr.=100)
Population (million)	91.1	102.2	112
Population over 15 yrs. of age (million)	62.2	79.0	127
Gross Natl. Prod. (¥ billion at 1958 prices)	9,744	26,000	267
Natl. Income Per Capita (dollars)	244	580	238
Gross Capital Formation (¥ billion 1958 prices)	2,947	8,283	281
Mining & Mfg. Production Index	100	432	432
Agriculture, Forest & Fishing Prod. Index	100	144	144
Export (\$ million)	2,701	9,320	345
Import (\$ million)	3,126	9,891	316

Source: Economic Council: New Long-Range Economic Plan of Japan
(1961-1970) - Doubling National Income Plan -

Table 11: JAPAN - VALUE AND COMPOSITION OF TRADE

	Total (U.S.\$ mil)	Composition (Percent)				Others
		Food	Crude Materials	Fabricated Materials	Finished Products	
Exports (f.o.b.)						
1955	2,011	6	6	0	87	1
1956	2,501	7	5	0	88	0
1957	2,858	6	4	0	89	1
1958	2,877	8	4	0	88	0
1959	3,456	7	4	1	88	0
1960	4,055	6	4	1	89	0
1961	4,236	6	4	1	89	0
1962	4,916	7	4	0	89	0
Imports (c.i.f.)						
1955	2,471	25	51	12	12	0
1956	3,230	17	54	13	16	0
1957	4,284	13	48	16	23	0
1958	3,033	17	44	17	22	0
1959	3,599	14	49	16	21	0
1960	4,492	12	49	17	22	0
1961	5,810	12	48	16	24	0
1962	5,637	13	42	19	26	0

Remark: This classification was revised in January 1961.

Table 12: JAPAN - INDEXES OF VOLUME AND VALUE OF TRADE AND TERMS OF TRADE

(1960 = 100)

	Export Volume	Unit Export Value	Import Volume	Unit Import Value	Terms of Trade
1954	39	103	49	110	93
1955	52	96	50	111	87
1956	62	99	62	116	86
1957	69	103	77	125	83
1958	72	98	65	104	94
1959	87	97	81	99	99
1960	100	100	100	100	100
1961	108	97	131	99	98
1962	128	95	129	97	97

Source: Ministry of Finance.

Table 13: JAPAN - RATIO OF IMPORTS TO GNP

(Percentage)

	<u>In Real Terms</u> ^{1/}
1953	11.5
1954	11.5
1955	10.9
1956	12.9
1957	14.8
1958	12.1
1959	13.0
1960	14.8

1/ Imports and GNP calculated at 1955 prices.

Source: MITI. White Paper on Foreign Trade, p. 184.

Table 14: JAPAN - DIRECTION OF JAPANESE EXPORTS

(Per cent)

	1934	1956	1959	1961
Asia	64	41	34	37
Europe	8	10	11	14
North America	17	26	36	31
U. S.	(16)	(22)	(30)	(26)
Canada	(1)	(4)	(4)	(5)
Latin America	2	5	4	6
Africa	6	16	12	9
Oceania	3	2	3	3
Total:	100	100	100	100

Table 15: JAPAN - DISTRIBUTION OF MANUFACTURING PRODUCTION
AND EXPORTS OF INDUSTRIAL PRODUCTS

(Per cent of total)

	1950		1955		1960	
	Prodctn	Exports	Prodctn	Exports	Prodctn	Exports
Products of Light Industry						
Textiles	26.7	53.5	21.2	41.3	14.2	32.7
Others	23.3	13.7	26.2	16.5	22.3	19.1
Sub-total	50.0	67.2	47.4	57.8	36.5	51.8
Products of Heavy and Chemical Industries						
Chemical Products	15.1	2.1	13.6	5.2	12.8	4.6
Metal Products	18.7	20.2	21.0	21.5	21.9	15.4
Machinery	16.2	10.5	18.0	15.4	28.9	28.2
General	(5.6)	(4.0)	(5.6)	(5.4)	(7.5)	(5.8)
Electrical	(3.7)	(1.1)	(4.6)	(1.7)	(9.6)	(7.5)
Transport Equipment	(6.0)	(5.5)	(6.8)	(6.6)	(10.4)	(11.8)
Precision	(0.9)	--	(1.0)	(1.6)	(1.3)	(2.8)
Sub-total	50.0	32.8	52.6	42.1	63.5	48.2
Total:	100.0	100.0	100.0	100.0	100.0	100.0

Source: Keizai Doyukai Report, p. 21, 22.

Table 16: JAPAN-FOREIGN EXCHANGE TRANSACTIONS

(Million of U.S. dollars)

	1959			1960		
	<u>Receipts</u>	<u>Payments</u>	<u>Balance</u>	<u>Receipts</u>	<u>Payments</u>	<u>Balance</u>
Merchandise	3,280	3,009	+ 271	3,874	3,727	+ 147
Special Gov't Receipt	353	-	+ 353	392	-	+ 392
Other Invisibles	<u>281</u>	<u>566</u>	<u>- 285</u>	<u>322</u>	<u>750</u>	<u>- 428</u>
Total Current	<u>3,914</u>	<u>3,575</u>	<u>339</u>	<u>4,588</u>	<u>4,477</u>	<u>111</u>
Long Term Capital				144	142	+ 2
Short Term Capital				<u>-</u>	<u>-</u>	<u>+ 409</u>
Total Capital				<u>-</u>	<u>-</u>	<u>+ 411</u>

Note: These figures differ from the official balance of payments primarily as a result of differences in classification. Data on capital transactions in 1959 are not available. The capital figures exclude changes in foreign exchange reserves.

(to be continued on next page)

Table 16 (continued)
(Million of U.S. dollars)

	1961			1962		
	<u>Receipts</u>	<u>Payments</u>	<u>Balance</u>	<u>Receipts</u>	<u>Payments</u>	<u>Balance</u>
Merchandise	3,992	4,924	- 932	4,787	4,546	+ 241
Special Gov't Receipt	371	-	+ 371	366	-	+ 366
Other Invisibles	<u>413</u>	<u>937</u>	<u>- 524</u>	<u>447</u>	<u>1,017</u>	<u>- 570</u>
Total Current	<u>4,776</u>	<u>5,861</u>	<u>-1,085</u>	<u>5,600</u>	<u>5,563</u>	<u>37</u>
Long Term Capital	319	156	+ 163	458	196	+ 262
Short Term Capital	<u>-</u>	<u>-</u>	<u>+ 610</u>	<u>-</u>	<u>-</u>	<u>+ 172</u>
Total Capital	<u>-</u>	<u>-</u>	<u>+ 773</u>	<u>-</u>	<u>-</u>	<u>+ 434</u>

Note: These figures differ from the official balance of payments primarily as a result of differences in classification. Data on capital transactions in 1959 are not available. The capital figures exclude changes in foreign exchange reserves.

Source: Ministry of Finance.

Table 17: JAPAN - GOLD AND FOREIGN EXCHANGE RESERVES^{a/}

(In millions of U.S. dollars)

End of Period	
1952	979
1953	823
1954	738
1955	769
1956	941
1957	524
1958	861
1959	1,322
1960	1,824
1961	1,486
1962	1,842
1963, January	1,884
February	1,856
March	1,863
April	1,878

^{a/} Includes gold and foreign exchange holdings of the Government and Bank of Japan only. Excludes gold and foreign exchange holdings of commercial banks and outstanding balances under bilateral payments agreements.

Source: Ministry of Finance.

Table 18: JAPAN - NATIONAL GOVERNMENT BUDGET (GENERAL ACCOUNT),
BY FISCAL YEARS

(In billions of yen)

	1959	1960	1961	1962 Budget	1963 Budget
Revenue					
Income tax	278	391	496	571	636
Corporation tax	391	573	714	763	761
Liquor tax	218	249	297	292	304
Other taxes	326	406	511	552	605
Total taxes	<u>1,213</u>	<u>1,618</u>	<u>2,018</u>	<u>2,178</u>	<u>2,305</u>
Monopoly profits	126	147	165	160	158
Other revenue	<u>136</u>	<u>96</u>	<u>115</u>	<u>100</u>	<u>124</u>
Total	1,475	1,861	2,298	2,438	2,587
Expenditure					
General administration	148	170	192	198	219
Defense	157	163	183	215	242
Economic development	325	459	546	717	751
Education	177	211	256	315	363
Social Security	196	231	302	374	430
Pensions	112	116	122	123	127
National debt service	54	26	40	68	116
Other	<u>326</u>	<u>367</u>	<u>422</u>	<u>553</u>	<u>602</u>
Total	1,495	1,743	2,063	2,563	2,850
Excess of Revenue (+) or Expenditure (-)	- 20	+ 116	+ 235	- 125	- 263

Source: Ministry of Finance.

Table 19: JAPAN - BALANCE OF TREASURY TRANSACTIONS WITH THE PUBLIC

(In billions of yen)

(-) = surplus of payments

(+) = surplus of receipts

Fiscal Year	General Account Budget	Special Accounts,		Total	Total Excluding Foreign Exchange Fund
		Public Corporations and Others	Foreign Exchange Fund		
1952	+193.7	-172.7	- 18.6	+ 2.4	+ 21.0
1953	+141.5	-176.4	+129.8	+ 94.9	- 34.9
1954	+ 43.3	-159.4	- 74.1	-190.2	-116.1
1955	+ 61.3	-168.0	-169.9	-276.6	-106.7
1956	+205.8	-105.7	+ 63.3	+163.4	+100.1
1957	+166.9	- 20.6	+113.4	+259.7	+146.3
1958	+125.7	-183.2	-193.5	-251.0	- 57.5
1959	+229.2	-211.2	-151.3	-133.3	+ 18.0
1960	+481.0	-237.7	-238.7	+ 4.6	+243.3
1961	+656.4	-380.0	+220.9	+497.3	+276.4
1	+ 48.9	- 41.8	+ 31.8	+ 38.9	+ 7.1
2	+243.0	- 65.7	+ 90.6	+267.9	+177.3
3	+ 83.6	-436.7	+ 86.4	-266.7	-353.1
4	+280.9	+164.2	+ 12.1	+457.2	+445.1
1962	+515.4	-550.2	-161.3	-196.1	- 34.8
1	+ 19.9	-122.3	+ 6.7	- 95.7	-102.4
2	+218.7	-129.0	- 32.7	+ 57.0	+ 89.7
3	+ 29.7	-496.1	- 77.9	-544.3	-466.4
4	+247.1	+197.2	- 57.4	+386.9	+444.3

Table 20: JAPAN - NATIONAL GOVERNMENT DEBT^{a/}

(In billions of yen)

Type of Debt	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	Dec. 31, 1962
Bonds											
Domestic	335.2	445.0	440.9	425.8	409.3	405.8	400.1	459.8	446.8	436.4	413.3
Foreign	<u>102.3</u>	<u>98.5</u>	<u>94.6</u>	<u>88.8</u>	<u>84.5</u>	<u>80.7</u>	<u>86.9</u>	<u>81.7</u>	<u>74.1</u>	<u>56.3</u>	<u>56.0</u>
Total	<u>437.5</u>	<u>543.6</u>	<u>535.5</u>	<u>514.7</u>	<u>493.8</u>	<u>486.5</u>	<u>487.0</u>	<u>541.5</u>	<u>520.9</u>	<u>492.7</u>	<u>469.3</u>
Short-term Bills											
Food bills	147.1	195.1	194.1	310.1	329.8	263.1	289.3	328.2	351.0	307.1	253.0
Foreign exchange Fund bills	<u>132.0</u>	<u>45.0</u>	<u>140.0</u>	<u>145.0</u>	<u>80.1</u>	<u>100.0</u>	<u>178.0</u>	<u>250.1</u>	<u>328.6</u>	<u>274.1</u>	<u>253.0</u>
Total	<u>279.1</u>	<u>240.1</u>	<u>334.1</u>	<u>455.1</u>	<u>409.9</u>	<u>363.1</u>	<u>467.3</u>	<u>578.3</u>	<u>679.6</u>	<u>581.2</u>	<u>506.0</u>
Other Borrowing	<u>110.1</u>	<u>67.4</u>	<u>63.1</u>	<u>87.4</u>	<u>96.6</u>	<u>120.7</u>	<u>121.1</u>	<u>133.2</u>	<u>139.8</u>	<u>149.1</u>	<u>143.3</u>
Grand Total	<u>826.1</u>	<u>851.1</u>	<u>932.7</u>	<u>1,057.2</u>	<u>1,000.3</u>	<u>970.3</u>	<u>1,075.4</u>	<u>1,253.0</u>	<u>1,340.3</u>	<u>1,223.0</u>	<u>1,118.8</u>

^{a/} Amount outstanding end of fiscal year.

Source: Bank of Japan.

Table 21: JAPAN - INVESTMENT IN THE PUBLIC SECTOR (IN REAL TERMS) ^{1/}

(Billion Yen)

	1961	1962 (Est.)	1963 (Budget)	1961- 1963 Total A	Total Invest- ment Amount Planned B	Ratio of Progress $\frac{A}{B}$	1961- 1963 ^{2/} Est'd Amts C	Ratio of Comple- tion $\frac{A}{C}$
Roads	299.1	363.3	463.8	1126.2	4900.0	23.0%	885.7	127.2%
Ports and Harbors	39.9	47.0	57.2	144.1	530.0	27.2	102.6	140.4
Agriculture, Forestry, & Fishery	113.5	120.3	126.3	360.1	1000.0	36.0	265.3	135.7
Subtotal:	452.5	530.6	647.3	1630.4	6430.0	25.4	1253.6	130.1
Research on Industrial Location	-	1.1	2.0	3.1	500.0	6.2	66.0	4.7
Housing	66.9	73.6	77.1	217.6	1300.0	16.7	216.1	100.7
Environment Sanitation	34.9	40.6	53.1	128.6	570.0	22.6	98.5	130.6
Welfare	31.5	33.1	40.4	105.0	400.0	26.3	87.3	120.3
Sub-total:	133.3	147.3	170.6	451.2	2270.0	19.9	401.9	112.3
Flood Control	87.8	100.4	118.4	306.6	1120.0	27.4	267.7	114.5
Rehabilitation	121.6	111.4	75.0	308.0	530.0	58.1	202.5	152.1
Sub-total:	209.4	211.8	193.4	614.6	1650.0	37.2	470.2	130.7
Other	393.3	483.2	562.1	1438.6	5280.0	27.2	1200.0	119.9
Total	1188.5	1374.0	1575.4	4137.9	16130.0	25.7	3391.7	122.0

^{1/} Deflator 1960=100.0 1961=105.7 1962=108.2 1963=110.2

^{2/} On the basis of a constant rate of increase as compared with 1960.

Source: Economic Planning Agency.

Table 22: JAPAN -- INVESTMENT IN THE PUBLIC SECTOR (CURRENT PRICES)

(Unit: 100 million yen)

Item	Fiscal Year		1955		1956		1957		1958		1959		1960		1961		1962 (1)		1963 (1)	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Road	609	14.5	795	17.2	1,147	20.1	1,401	20.9	1,793	22.3	2,055	21.5	3,161	25.1	3,931	26.4	5,111	29.4		
Harbor	92	2.2	110	2.4	142	2.5	169	2.5	270	3.4	305	3.2	422	3.4	508	3.4	630	3.6		
Agriculture Forestry and Fishery	422	10.0	464	10.1	536	9.4	599	8.9	654	8.1	1,015	10.6	1,200	9.6	1,302	8.8	1,392	8.0		
Sub-Total	1,123	26.7	1,369	29.7	1,825	32.0	2,169	32.3	2,717	33.8	3,375	35.2	4,783	38.1	5,741	38.6	7,133	41.1		
Research on Industrial Location	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12	0.1	22	0.1		
Housing	312	7.4	338	7.4	416	7.3	502	7.5	470	5.9	465	4.8	707	5.6	797	5.3	850	4.8		
Environment Sanitation	50	1.2	65	1.4	115	2.0	122	1.8	200	2.4	265	2.8	369	2.9	439	3.0	506	3.4		
Welfare	219	5.2	202	4.3	219	3.8	201	3.0	242	3.0	246	2.6	333	2.7	358	2.4	445	2.6		
Sub-Total	581	13.8	605	13.1	750	13.1	825	12.3	912	11.3	976	10.2	1,409	11.2	1,594	10.7	1,881	10.8		
flood Control	468	11.1	440	9.5	500	8.8	518	7.7	560	7.0	772	8.1	928	7.4	1,087	7.3	1,305	7.5		
Rehabilitation of Dams	601	14.3	533	11.6	491	8.6	573	8.5	832	10.3	1,188	12.4	1,285	10.2	1,205	8.1	826	4.8		
Sub-Total	1,069	25.4	973	21.1	991	17.4	1,091	16.2	1,392	17.3	1,960	20.5	2,213	17.6	2,292	15.4	2,131	12.3		
Total	2,773	65.9	2,947	63.9	3,566	62.5	4,085	60.8	5,021	62.4	6,311	65.9	8,405	66.9	9,639	64.8	11,167	64.3		
Others	1,435	34.1	1,665	36.1	2,135	37.5	2,629	39.2	3,015	37.6	3,259	34.1	4,157	33.1	5,228	35.2	6,194	35.7		
Grand Total	4,208	100.0	4,612	100.0	5,701	100.0	6,714	100.0	8,036	100.0	9,570	100.0	12,562	100.0	14,867	100.0	17,361	100.0		

Remark: (1) shows the estimated figures for ^{F.Y.}1962, and the budget figures for F.Y. 1963.

Table 23: JAPAN - FLOW OF FUNDS

(Billion Yen)

	1962	
	Assets	Liabilities
<u>Financial Sector</u>		
Money		942.5
Time and Savings Deposit		1,825.6
Trust and Insurance		436.4
Bank Debentures and Investment Trust		349.5
Other		335.6
		<u>3,889.6</u>
Loans	3,207.4	
Securities	682.2	
	<u>3,889.6</u>	
<u>Private Sector (net)</u>		
Money	937.8	
Time and Savings Deposit	2,597.2	
Securities (net)	4.5	
Other	286.8	
	<u>3,826.3</u>	
Borrowings (domestic)		3,482.6
Foreign debt		134.2
		<u>3,616.8</u>
Increase in net assets		209.5
<u>Government and Public Corporations</u>		
Loans	572.2	
Securities	82.7	
Foreign Reserves	117.9	
Other	14.8	
Money	19.5	
	<u>807.1</u>	
Postal Savings		355.1
Debentures Issues		223.3
Borrowing		297.0
Securities Issued		95.9
Foreign Debt		43.9
		<u>1,015.2</u>
Net	208.1	
Net "Rest of World"	1.4	
Increase in Net Liabilities	<u>209.5</u>	

Table 24 : JAPAN - INTEREST RATE COMPARISONS, AVERAGE YIELDS

Year	End of Month	Loans and Discounts All Banks	Loans Long-Term Credit Banks	Industrial Bonds Class A	Public Corporation Bonds	Unconditional Call Money Tokyo	Gov't Bonds	Yield on Japanese Bonds in New York <u>1/</u>
1955	June Dec.	8.98	10.74	9.00 8.82	7.43 7.80	8.03	6.33 6.34	6.28
1956	June Dec.	8.44	9.71	7.97 7.38	7.36 7.00	9.13	6.34 6.34	6.27
1957	June Dec.	8.41	9.41	7.37 7.92	7.00 7.27	21.90	6.32 6.32	5.91
1958	June Dec.	8.51	9.44	7.90 7.91	7.27 7.27	9.13	6.32 6.32	5.28
1959	June Dec.	8.12	9.39	7.90 7.91	7.27 7.27	8.40	6.32 6.32	6.12
1960	June Dec.	8.22 8.08	9.38 9.37	7.90 7.91	7.27 7.27	8.40 8.40	6.32 6.43	6.54
1961	June Dec.	7.88 8.20	9.32 9.30	7.81 7.50	7.19 7.05	9.49 13.87	6.43 6.43	6.23
1962	June Dec.	8.23 8.09	9.24 9.17	7.47 7.84	7.05 7.05	10.59 9.68	6.43 6.43	5.86
1963	March May	7.92 7.92	9.11	7.41		8.40 6.94	6.43 6.43	5.61

1/ Data 1955 through 1958 are for Japan $6\frac{1}{2}$ per cent, 1924 - 54 extended to 1964. 1959 through May 1963 are for Japan $5\frac{1}{2}$ per cent, 1959 - 74.

Source: Economic Statistics of Japan - Bank of Japan.

Table 25: JAPAN - PRICE INDEXES

Year	Wholesale Prices All Commodities (1952 = 100)	Consumer Prices (Tokyo) (1960 = 100)
1953	100.4	87.2
1954	99.7	92.0
1955	97.9	90.7
1956	102.2	91.5
1957	105.3	94.2
1958	98.4	95.1
1959	99.4	96.4
1960	101.3	100.0
1961	105.2	105.2
1962	104.9	112.2

Source: Bank of Japan and Prime Minister's office.

Table 26: JAPAN - FINANCING OF PRIVATE INVESTMENT

	(Ratio, %)					
	1957	1958	1959	1960	1961	Average 1957 - 61
Own Capital	39.5	39.0	41.8	41.5	39.2	40.2
Depreciation	22.5	28.3	24.3	22.2	21.8	23.8
Retained Profits	17.0	10.6	17.5	19.2	17.4	16.3
Outside Capital	60.5	61.0	58.2	58.5	60.8	59.8
Government Funds	4.8	5.9	5.1	4.3	3.3	4.7
Private Funds	55.6	55.0	51.7	53.4	56.6	5.4
Stocks and Shares	9.6	8.7	6.3	9.3	13.3	9.4
Industrial Bonds	1.8	2.2	3.9	3.0	5.5	3.3
Borrowings	44.2	44.1	41.5	41.1	37.8	41.7
All Banks	32.2	28.4	25.5	26.1	21.7	26.8
Trust Accounts	1.8	2.9	3.5	3.1	2.6	2.8
Mutual Loans & Savings						
Banks & Credit Association	5.2	6.3	8.7	7.2	7.8	7.0
Insurance Companies	2.2	3.0	2.4	2.0	1.5	2.2
Other	2.8	3.5	1.4	2.7	4.2	2.9
Foreign Investment	-	-	1.4	0.8	0.9	0.6
Grand Total	100	100	100	100	100	100
Own Capital	39.5	39.0	41.8	41.5	39.2	40.2
Outside Capital {						
(Direct Financing	11.4	10.9	10.2	12.3	18.8	12.7
(Indirect Financing	49.1	50.1	48.0	46.2	42.0	47.1