



International Monetary Fund



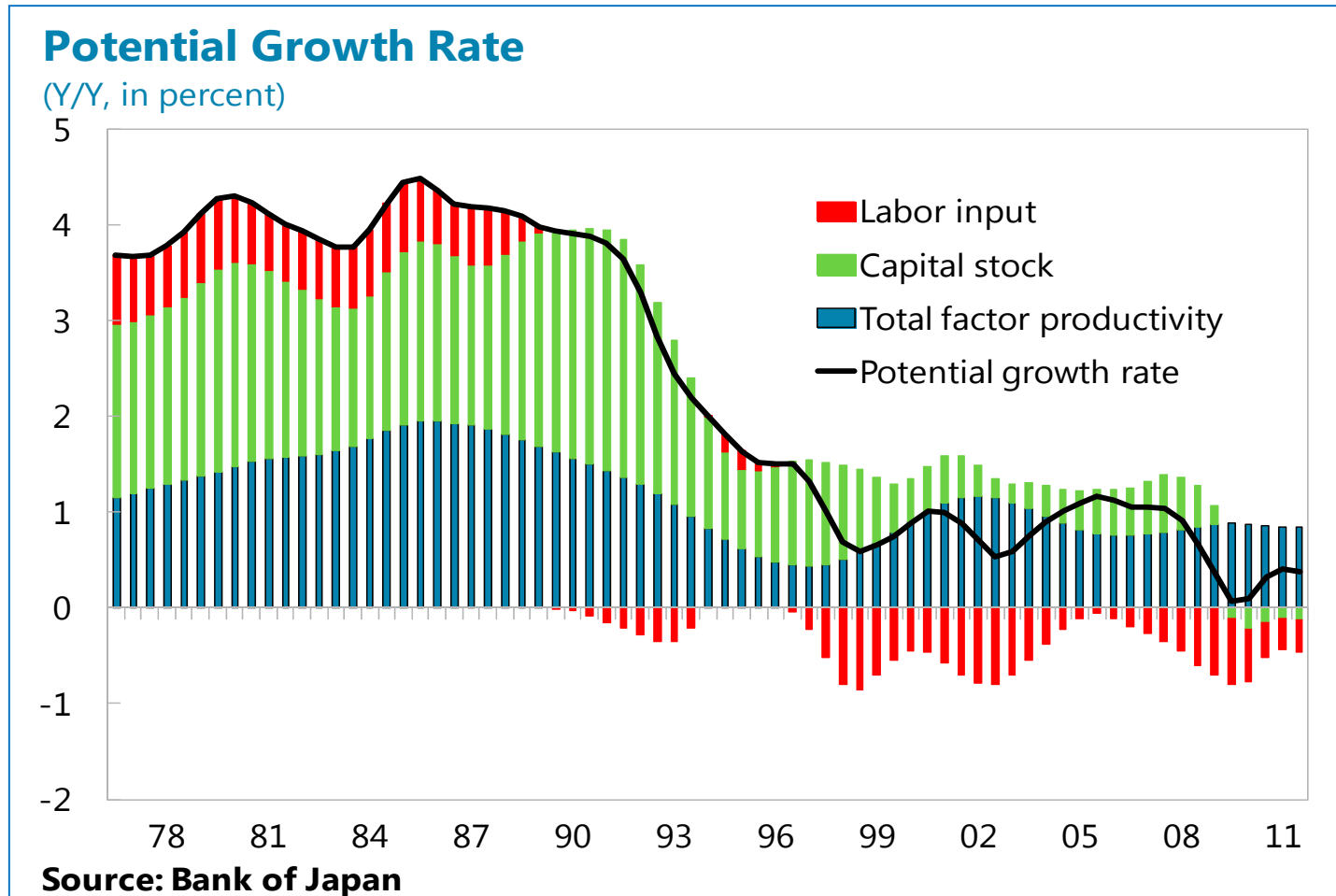
Japan's Growth Challenge **International Evidence and Reform Priorities**

Stephan Danninger (IMF)

IMF seminar: The Way Forward
Restoring Growth and Employment in Japan
Tokyo, February 7, 2013

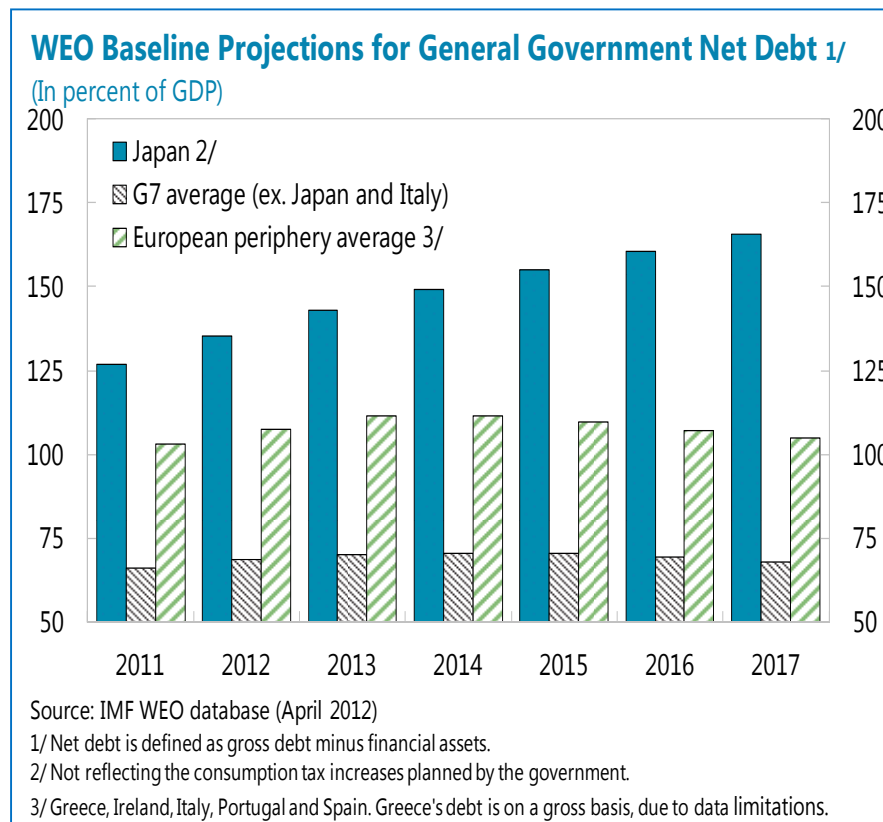
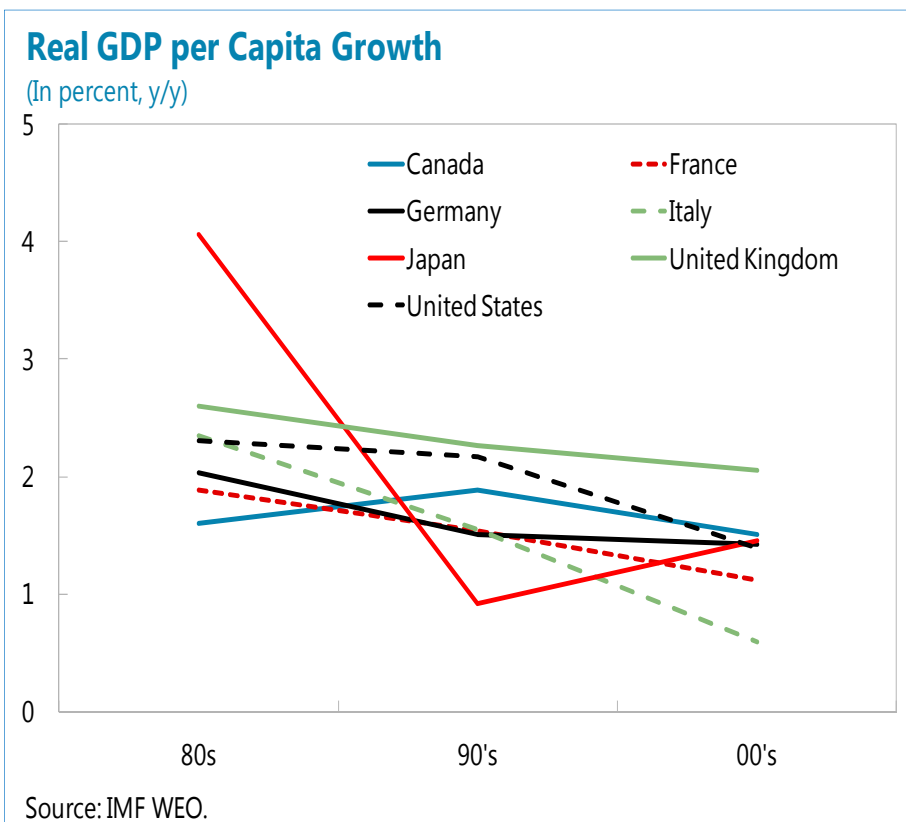


Japan's growth challenge: Declining GDP growth amid rapid aging





Robust per capita GDP growth, but faster growth needed to address fiscal problems





I. By how much can long-term growth be increased? Experience from accelerations of 1% over a decade

Event analysis

- Rise in potential growth
 - Over 10 years
 - By ≥ 1 percent
 - Sustained over 5 years
- Sample
 - Advanced economies
 - After 1980s
 - Data: IMF WEO, OECD

Results

- 7 cases
- Many are post-crisis recoveries (e.g. Sweden, Finland, New Zealand)
- Some not sustained (Iceland, Ireland)
- None of the countries faced aging and deflation

Durable potential growth rate increases 1/			
	Decade	Potential growth	
		Initially	End of decade
Canada	1988-98	2.9	3.9
Finland	1987-97	2.1	3.2
Iceland	1987-97	2.3	3.3
Ireland	1983-93	1.7	4.1
Netherlands	1982-92	1.2	2.9
New Zealand	1985-95	1.9	3.4
Sweden	1989-99	1.7	3.5

Source WEO, 1/ advanced economies only and defined as a growth rate increase by 1 percent over one decade sustained for 5 years.



Results: long-term growth can be raised substantially, but involves difficult reforms and no common recipe.

Sources of growth increase

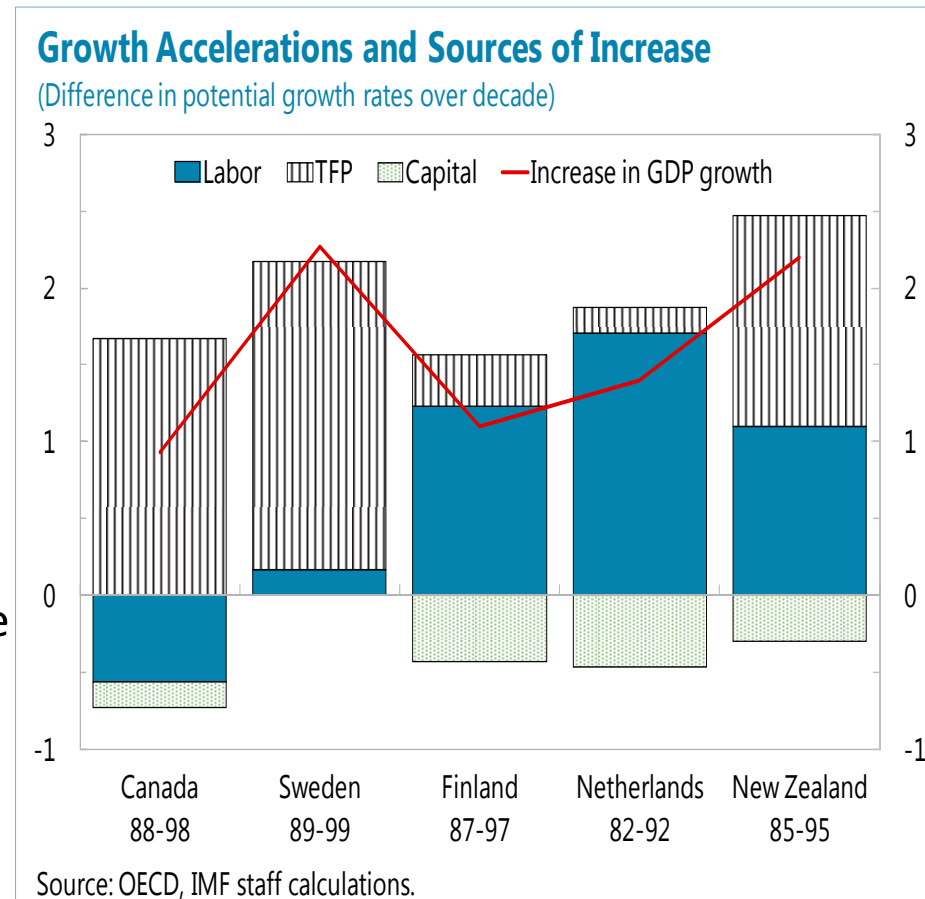
- Labor
 - Finland, Netherlands, New Zealand
- Productivity growth (TFP):
 - Canada, Sweden, New Zealand
- Little contribution from capital
 - Possible reasons: prior overinvestment, reduction in public sector capital spending

Netherlands: employment rate rise from 53 to 58 percent btw 1982-1994

- Changes in wage and work policies: wage moderation, income tax reform, more flexible work arrangements

Sweden:

- Deregulation in industry, reduction of government involvement in industry; tax reform; exchange rate depreciation





II. How can growth be raised in Japan? An overall view

No single growth measure

Comprehensive package to address

- Public debt and deflation
- Low investment and productivity
- Shrinking labor supply
- Global integration

Key elements

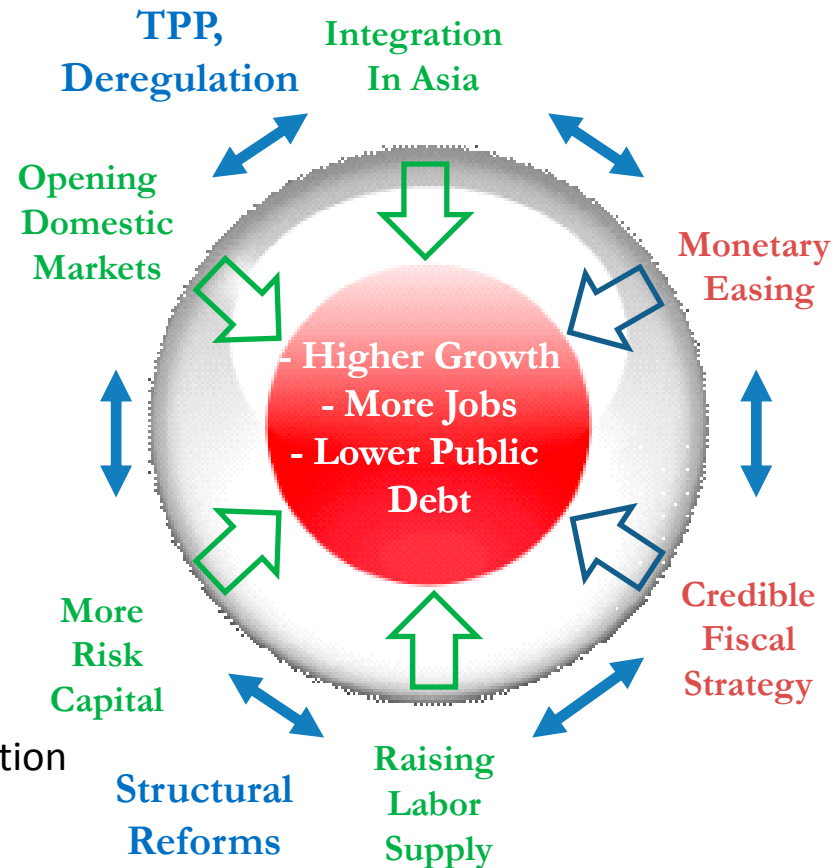
Sound macroeconomic policies

- Monetary easing
- Credible Fiscal policy

Growth strategy

- Integration in Asia
- Open domestic markets to competition
- More risk capital: foster investment
- Raise labor supply: women, aged, immigration

Move simultaneously at various fronts





TPP membership can strengthen integration in Asia and become a catalyst for domestic reforms

Fast growing market at doorstep

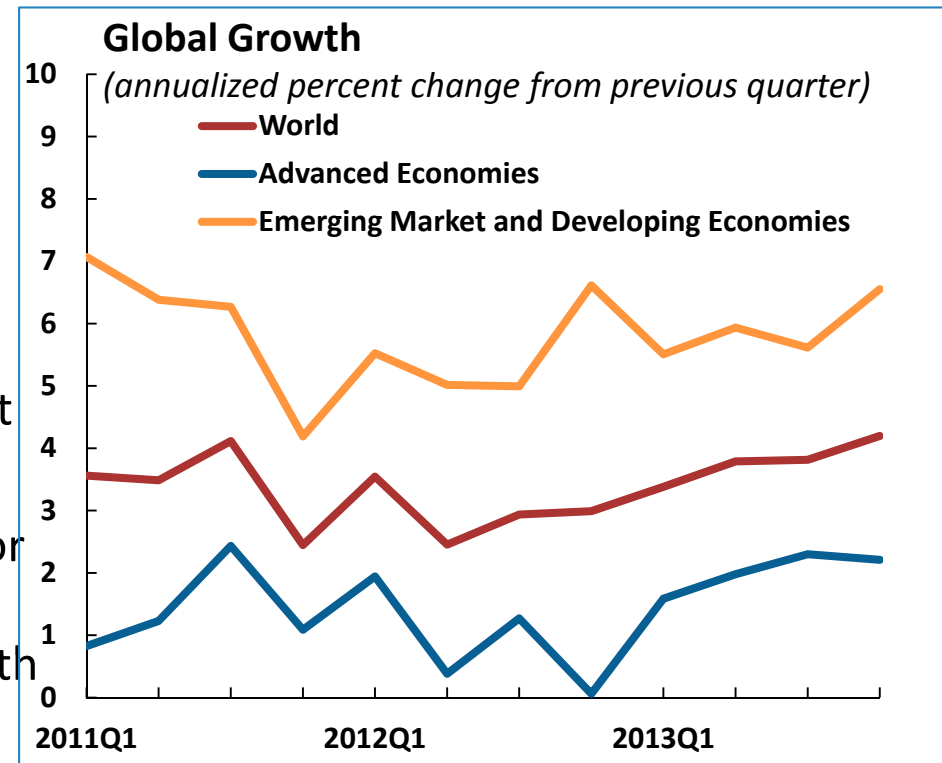
- Trade integration fast proceeding
- Japan: 50 percent of exports to Asia
- But loss in overall markets share

Benefits from TPP

- Tangible effects via higher exports
- Positive spillovers for regional partners
- Domestic market access: reform catalyst

Domestic Reforms

- Raising productivity in agricultural sector
- Promoting inward FDI
- Liberalizing growth sectors such as health
- Deregulating professional services
- Strengthening of Anti Monopoly Act



Source 2013 IMF WEO update



Raising the contribution to growth from labor

Substantial untapped labor reserve

Raising employment of women

- Increase number of childcare facilities
- Provide flexible work arrangements
- Remove tax disincentives to work

Raising contribution from “newly” old

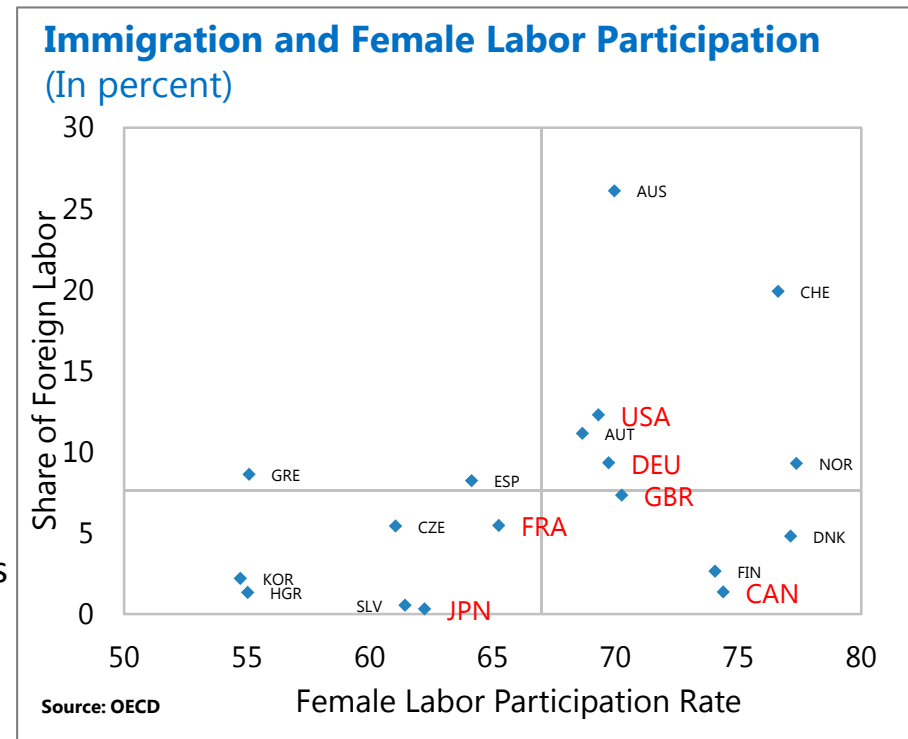
- Maintain attachment to labor market (training)
- Raise retirement age

Immigration benefits

- Address emerging shortages of skilled labor
- Meet demand for health and long-term care services
- Raise housing prices

But

- Societal preference need to be respected,
- Displacement effects possible but likely small



From: Steinberg and Nakane 2012



Despite plenty of liquidity, risk-based capital is very limited

SMEs are backbone of economy

Limited supply of risk-based capital

- Access constrained for SMEs and start-ups
- Weak investment and low productivity

Multiple factors contribute

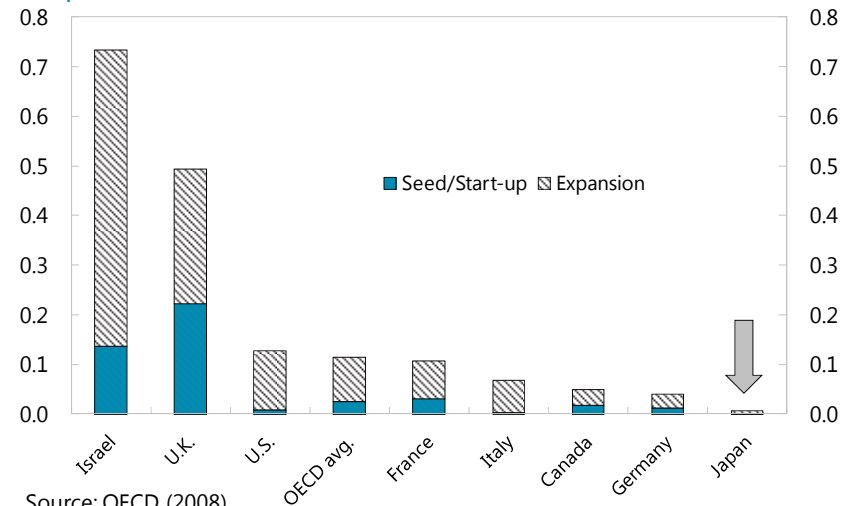
- Broad and untargeted credit support
- Lack of timely credit information
- Preference for fixed asset collateral and guarantees

Policies

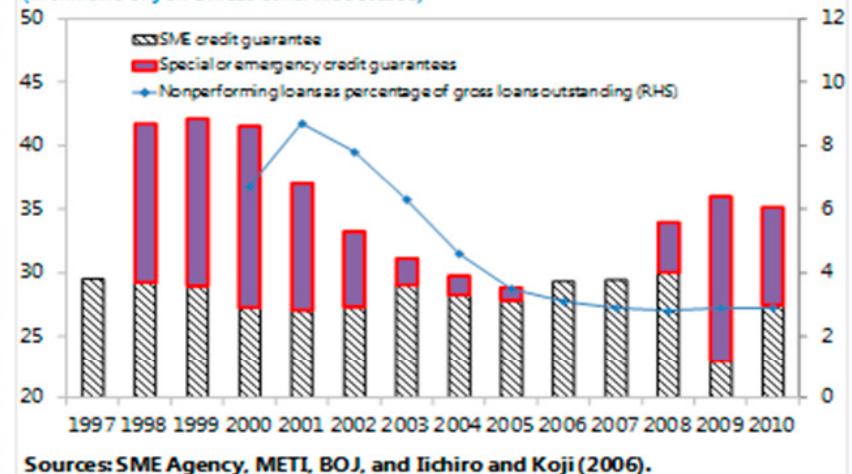
- Gradually phase out credit support
- Accelerate SME reforms
- Promote risk-based financing

From: Lam and Shin 2012

Selected Advanced Economies: Venture Capital Investment
(In percent of GDP)




SME Loans and Credit Guarantees
(in trillions of yen unless otherwise stated)





By how much could long-term growth increase?

Potential sources		Growth impact over a decade (percentage points per year)
Higher employment		
	Women and aged	0.25
	Immigration	0.1-0.2
More risk capital and SME reforms		0.2
Other		0.3-0.4
	Integration in Asia (TPP)	
	Deregulation	
	More effective and credible macro policies	

Estimates based on Japan IMF Staff Report Selected Issues 2012 and Lam and Shin 2012



THANK YOU.