

IMF Executive Board Concludes 2025 Article IV Consultation with Japan

April 2, 2025

Washington, DC: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation^[1] with Japan.

After three decades of near-zero inflation, signs are growing that Japan's economy can reach a new equilibrium with inflation sustained at the Bank of Japan's 2 percent headline inflation target and growth at the 0.5 percent potential. Temporary supply-side disruptions have led to a significant growth slowdown in 2024, but growth is expected to pick up to 1.2 percent in 2025, with private demand replacing public consumption as the main growth driver. Above inflation wage growth is expected to strengthen in 2025, boosting households' disposable income and consumption. Private investment is also expected to remain strong, supported by high corporate profits and accommodative financial conditions. Inflation is expected to converge from above to the BoJ's 2-percent target in late 2025, helped by a moderation in oil and food prices. The current account balance increased to 4.8% of GDP in 2024, with the external position assessed, on a preliminary basis, as broadly in line with the level implied by medium-term fundamentals and desirable policies. Financial conditions in Japan remain accommodative but are gradually tightening amid increasing real interest rates and rising macroeconomic uncertainty.

Risks to growth are tilted to the downside, while risks to inflation are broadly balanced. A slowdown in the global economy, weak domestic consumption, or tighter financial conditions in a context of high public debt pose downside risks to growth, while upside risks arise from faster wage increases and greater regional integration. The possibility of inflation expectations stalling below the inflation target is a downside risk to inflation. Upside risks to inflation are rising food and energy prices, as well as stronger-than-expected wage growth.

The estimated fiscal deficit and general government debt in 2024 are lower than expected at the time of the 2024 Article IV, as expenditures to support the economic recovery were partially phased out and revenues overperformed. Still, the fiscal deficit is estimated to have worsened modestly from 2.3 percent of GDP in 2023 to 2.5 percent of GDP in 2024 and under current policies is projected to continue rising over the medium term. Following a successful exit from unconventional policies in March 2024, the BoJ has initiated a tapering of JGB purchases and gradually raised the policy rate, to 0.5 percent.

Executive Board Assessment^[2]

Executive Directors commended Japan's prudent macroeconomic policies and welcomed the expected acceleration of growth in 2025 supported by rising real wages, and the ongoing transition to a growth-oriented model with headline inflation moving toward the Bank of Japan's target. Noting that risks are tilted to the downside, including from increased trade tensions, Directors underscored the need to continue to rebuild fiscal buffers, re-anchor inflation expectations, and advance comprehensive structural reforms to support potential growth in the context of an aging population.

Directors welcomed the authorities' commitment to fiscal consolidation. They emphasized the need for a clear plan to fully offset the rising cost of interest on the public debt and expenditure pressures associated with health and long-term care. Additionally, the consolidation is necessary to ensure debt sustainability and increase the fiscal space to respond to economic shocks, including natural disasters. Measures to raise revenue and improve the quality of social spending and rationalize subsidies while preserving high-quality public investment will be advisable. Directors highlighted the importance of discipline in managing

supplementary budgets and recommended strengthening the medium-term fiscal framework and having a robust debt management strategy.

Directors agreed with the Bank of Japan’s (BoJ) current accommodative monetary policy stance and noted that a gradual withdrawal of monetary accommodation will be appropriate if staff’s baseline forecast materializes. Given the uncertainty related to the neutral policy rate, the effectiveness of monetary policy transmission, and the extent of re-anchoring of inflation expectations, Directors urged the BoJ to remain data-dependent and flexible, and to continue its clear communication. In this context, they commended the BoJ for its well communicated and smoothly implemented balance sheet reduction plan, which will also improve the government bond market functioning and price discovery. They also welcomed Japan’s longstanding commitment to a flexible exchange rate regime and underscored the importance of limiting foreign exchange intervention to exceptional circumstances.

Directors concurred that the financial system remains broadly resilient. They encouraged close attention to risks arising from increasing macroeconomic uncertainty, potentially faster-than-expected interest rates increases, and bankruptcies among SMEs. They encouraged the authorities to continue to implement the main recommendations from the 2024 Financial Sector Stability Assessment to further strengthen systemic risk monitoring and financial sector oversight.

Directors broadly welcomed Japan’s commitment to multilateral economic cooperation, including its efforts to further regional integration and its support to a rules-based trade system. They also commended Japan’s support to the Fund’s capacity development efforts. Directors recommended focusing the use of industrial policy on areas with externalities and subjecting them to cost-benefit analysis.

Directors emphasized the need for structural policies to improve efficiency and productivity in the context of an aging population. These include increasing labor market participation and flexibility, including for seniors and women, facilitating labor mobility to address labor shortages, and leveraging the benefits of AI adoption. This could be achieved through expanding childcare facilities, enhancing training programs to develop IT and AI skills, and attracting foreign workers. Directors welcomed Japan’s commitment to green transformation and urged further progress.

Japan: Selected Economic Indicators, 2021-30

	Nominal GDP: US\$ 4,213 Billion (2023)				GDP per capita: US\$ 33,845 (2023)						
	Population: 124 Million (2023)				Quota: SDR 30.8 billion (2023)						
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
	Est.				Proj.						
	(In percent change)										
Growth											
Real GDP	2.7	0.9	1.5	0.1	1.2	0.8	0.6	0.6	0.5	0.5	
Domestic demand	1.7	1.5	0.5	0.2	1.1	0.9	0.6	0.5	0.5	0.5	
Private consumption	0.7	2.1	0.8	-0.1	0.9	0.7	0.6	0.4	0.3	0.3	
Gross Private Fixed Investment	1.3	1.6	1.5	0.6	1.3	1.0	0.5	0.3	0.3	0.3	

Business investment	1.7	2.6	1.5	1.2	1.3	1.1	0.6	0.4	0.3	0.3
Residential investment	-0.3	-2.7	1.5	-2.3	0.8	0.5	0.1	0.0	0.0	0.0
Government consumption	3.4	1.4	-0.3	0.9	1.3	1.2	1.0	1.1	1.3	1.4
Public investment	-2.6	-8.3	1.5	-0.9	0.3	0.0	0.2	-0.3	-0.4	-0.4
Stockbuilding	0.5	0.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net exports	1.0	-0.5	1.0	-0.1	0.1	-0.1	0.0	0.0	0.0	0.0
Exports of goods and services	11.9	5.5	3.0	1.0	2.0	1.0	1.7	1.6	1.5	1.4
Imports of goods and services	5.2	8.3	-1.5	1.3	1.4	1.6	1.7	1.4	1.3	1.3
Output Gap	-1.6	-0.9	0.2	0.1	0.2	0.0	0.0	0.0	0.0	0.0

(In percent change, period average)

Inflation

Headline CPI	-0.2	2.5	3.2	2.7	2.4	2.0	2.0	2.0	2.0	2.0
GDP deflator	-0.2	0.4	4.1	2.9	2.0	2.0	2.1	2.0	2.0	2.0

(In percent of GDP)

Government

Revenue	36.3	37.5	36.8	36.9	36.8	36.8	36.8	36.9	36.9	36.9
Expenditure	42.5	41.8	39.1	39.4	39.5	39.8	40.1	40.8	41.4	42.0
Overall Balance	-6.1	-4.2	-2.3	-2.5	-2.7	-3.0	-3.3	-3.9	-4.5	-5.2
Primary balance	-5.5	-3.8	-2.0	-2.1	-2.3	-2.3	-2.2	-2.4	-2.7	-3.1
Structural primary balance	-4.9	-3.8	-2.1	-2.1	-2.4	-2.3	-2.2	-2.4	-2.7	-3.2
Public debt, gross	253.7	248.3	240.0	236.7	233.1	230.7	228.8	227.8	227.6	228.0

(In percent change, end-of-period)

Macro-financial

Base money	8.5	-5.6	6.4	-1.0	2.2	2.2	2.2	2.1	2.1	2.1
Broad money	2.9	2.3	2.2	1.2	1.8	2.0	2.2	2.1	2.0	2.0
Credit to the private sector	2.3	3.6	4.2	3.1	1.6	1.4	1.4	1.4	1.3	1.3
Non-financial corporate debt in percent of GDP	157.1	161.2	156.7	159.5	160.9	162.1	163.3	165.3	166.0	168.3

(In percent)

Interest rate

Overnight call rate, uncollateralized (end-of-period)	0.0	0.0	0.0	0.2	...	...	...	...	...	...
10-year JGB yield (end-of-period)	0.1	0.4	0.6	1.1	...	...	...	...	...	...

(In billions of USD)

Balance of payments

Current account balance	196.2	89.9	158.5	193.0	177.9	167.7	170.1	175.2	175.5	169.3
Percent of GDP	3.9	2.1	3.8	4.8	4.4	4.0	3.9	3.9	3.8	3.5
Trade balance	16.4	-115.8	-48.2	-26.1	-11.3	-15.6	-14.4	-11.4	-8.9	-7.2
Percent of GDP	0.3	-2.7	-1.1	-0.6	-0.3	-0.4	-0.3	-0.3	-0.2	-0.1
Exports of goods, f.o.b.	749.2	752.5	713.7	692.3	700.2	706.6	722.7	736.9	755.4	771.4
Imports of goods, f.o.b.	732.7	868.3	761.9	718.5	711.5	722.1	737.1	748.4	764.3	778.6
Energy imports	127.8	195.5	152.9	138.3	124.6	108.2	98.0	90.0	83.0	76.7

(In percent of GDP)

FDI, net	3.5	3.0	4.1	4.8	4.2	4.1	4.0	4.2	4.3	4.2
Portfolio Investment	-3.9	-3.3	4.7	2.4	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4

(In billions of USD)

Change in reserves	62.8	-47.4	29.8	-64.4	11.5	11.5	11.5	11.5	11.5	11.5
Total reserves minus gold (in billions of US\$)	1356.2	1178.3	1238.5	1159.7	...	...	...	...	...	...

(In units, period average)

Exchange rates

Yen/dollar rate	109.8	131.5	140.5	151.4	...	...	...	...	...	...
Yen/euro rate	129.9	138.6	152.0	163.8	...	...	...	...	...	...
Real effective exchange rate (ULC-based, 2010=100)	73.5	62.0	56.3	51.7	...	...	...	...	...	...
Real effective exchange rate (CPI-based, 2010=100)	70.7	61.0	58.1	55.0	...	...	...	...	...	...

(In percent)

Memorandum items:

Real GDP per Capita Growth	3.0	1.3	2.0	0.5	1.7	1.3	1.2	1.1	1.1	1.1
Population Growth	-0.3	-0.3	-0.5	-0.5	-0.5	-0.5	-0.5	-0.6	-0.6	-0.6
Old-age dependency	48.7	48.8	48.9	49.2	49.7	50.1	50.5	50.9	51.4	52.0

Sources: Haver Analytics; OECD; Japanese authorities; and IMF staff estimates and projections.

[1] (#_ftnref1) Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] (#_ftnref2) At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm> (<http://www.IMF.org/external/np/sec/misc/qualifiers.htm>).

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