

# Japanese government issues economic downgrade

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The Japanese government has downgraded its assessment of the economy admitting that prospects for economic recovery are fading because of falling industrial output and corporate investment.

In its monthly report for April, the Cabinet Office said the economy was “weakening” and suffering from “moderate deflation”. It was the first time since September 1995 that the Japanese government had used the word “weakening” to describe the health of the world's second largest economy. Monthly reports usually utilise the word “recovery” or “gradual recovery” in order to downplay the seriousness of its economic stagnation.

Speaking at a news conference, Economy Minister Taro Aso said economic conditions were “severe” and warned that a slide into recession was “possible”.

On Monday, the Bank of Japan (BOJ) added to the gloom. Its monthly report said declining exports and production had left the economy in a “state of adjustment” following last month's assessment that economic recovery had “come to a pause.”

This month's report warned that industrial production was “expected to follow a declining trend”, the increase in corporate profits would be “subdued” and “recoveries in household income and consumption are projected to be sluggish.”

The government's Cabinet Office report had pointed to the same tendencies. Key sectors of the economy in decline were employment, housing, corporate profits and business sentiment. It noted that a major factor impacting on Japan is the slowdown in the United States. “Japanese exports have faltered, resulted in a decline in production,” the report stated.

Figures released in February showed that export growth slowed to just 1.3 percent from a year earlier. Vehicle exports were down 10.5 percent from a year

earlier, according to a report also released in February by the Japanese Automobile Manufacturers Association.

Alongside the reports from the BOJ and the government, figures released by the Teikoku Databank show that the deep-rooted Japanese corporate indebtedness is worsening. According to the bank, corporate bankruptcies rose 12.1 percent in the fiscal year 2000, which ended on March 31, to a record post-war high. There were 18,926 new cases, leaving debts of 25.98 trillion yen, which represented a massive 130.7 percent increase over the previous year. The level of bankruptcies topped 18,000 for the first time in 15 years.

Major industries to be affected were construction, manufacturing, wholesale, retail, transportation, communications and services.

Teikoku Databank said the pace of corporate bankruptcies was unlikely to slow in the 2001 fiscal year considering the Japanese government's recent proposals to place a two-year limit on banks to dispose of existing loans to borrowers already facing bankruptcy or which are at risk of failure. Once implemented, these measures will result in thousands more small and medium size firms also filing for bankruptcy.

“Now that banks are losing their function as financial intermediaries, we will not be able to avoid a bankruptcy rush on par or greater than (fiscal 2000),” stated Katsuyuki Kumagai of Teikoku Databank.

According to a report in the *Asahi Shimbun* newspaper, the failed companies had a total of 199,000 employees on their payrolls, the largest figure since Teikoku Databank began compiling statistics since 1987. This will surely push unemployment levels in the near future past the post-war record high of 4.9 percent

recorded last year.



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