

IMF fears Japan's economic outlook is worsening

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The International Monetary Fund has raised concerns that Japan could be facing a cycle of slowing economic activity, rising bankruptcies and a deteriorating banking system.

This bleak assessment, contained in the IMF's annual report on the Japanese economy released earlier this month, was accompanied by a warning that if such a scenario did eventuate it would exacerbate the global economic slowdown.

Revising down its growth forecast for Japan for 2001 from 0.6 percent to a contraction of 0.2 percent, it warned the Koizumi government against proceeding too rapidly with its restructuring program while the economy remains weak.

However, the government has unveiled a package of budget measures aimed at cutting spending by \$7.3 billion or 1.8 percent and targeting areas such as social security, public works, defence and education. The most significant move is the proposed 10 percent cut in public works projects in 2002, which will have a deep impact on the construction and agricultural sectors.

The budget cuts represent the first reduction in government expenditures for four years and the largest since World War II.

While echoing international warnings about too rapid a program of cuts, lest this precipitate a deep recession, the IMF report swung its support behind the program of restructuring proposed by the Koizumi government.

It described the reform blueprint of the Council for Economic and Fiscal Policy, which emphasises the importance of addressing problems in the financial sector, fiscal reforms and the introduction of measures to promote competition and enhance market forces, as "an excellent basis for action."

"While Directors recognised that restructuring could adversely affect output and employment in the short

run," the report continued, "they stressed that Japan has little choice but to embark on the long-delayed restructuring needed to achieve sustained medium-term growth."

Days before the release of the IMF's assessment of the Japanese economy, two leading credit rating agencies—Standard and Poors and Fitch—downgraded their ratings of all major Japanese banks by one level because of concerns over their deteriorating financial status.

Standard & Poors commented that the bad debt problem in the Japanese banking sector was escalating with the critical factor being the unexpectedly high rate at which loans were moving from the "healthy to bad" category. They raised concerns that government attempts to resolve the problems were only focusing on those loans already in the bad category.

News on the downgrading by the credit agencies along with other economic statistics saw the Nikkei index fall last week to 11,477.56—its lowest level since December 1984.

The Japanese government has also downgraded its economic outlook for the sixth time this year, noting that the economy had further weakened since July mainly due to declining capital expenditure, declining exports, decreasing domestic demand and lower industrial output.

Haruhito Arai, an economist with Koizumi's Cabinet Office commented: "The downgrade is due to the continuing deterioration of Japan's economy. In addition this deterioration is getting stronger."

The outlook in the domestic economy has been poor for some time. Now it is being compounded by the global slowdown which is hitting export markets. Japan's current account surplus in July declined 25.2 percent from a year earlier. Total exports were down

1.2 percent, whilst imports rose by 11.9 percent. The decrease in exports have come about because of shrinking global demand for automobiles, ships and electronic parts, in particular semiconductors.

Two recent press reports point to the social impact that the economic slump is already having and the consequences of the government's restructuring program. An article in the *Asahi Shimbun* warned that there were growing fears that spending cuts could have a "devastating effect on the employment outlook in the construction industry."

"As the construction industry has also played a significant role in absorbing workers who have lost their jobs amid the ongoing economic downturn, cutting public works spending by the 10 percent recommended in the Council on Economic and Fiscal Policy's budget guidelines could lead to a dramatic increase in unemployment," it said.

According to a recent report prepared by the Research Institute of Construction and Economy 500,000 construction jobs will be lost for a variety of reasons over three years from 2000. The planned cuts to public works spending will increase that number dramatically.

A report in the *Japanese Times* on suicide figures in 2000 revealed an increasing number of people committing suicide because of economic reasons such as debt and unemployment. Although the number of suicides in Japan in 2000 actually fell 3.3 percent to 31,957, the level has been over 30,000 for the third straight year.

The report noted that the number of suicides by people who lost their jobs increased by 139 from the previous year to 1,335, while the number of self employed workers taking their own lives rose 86 to 4,366.

"Experts warn that the number of suicides in this category could increase further as the nation undergoes the tough economic reforms advocated by Prime Minister Junichiro Koizumi. The government admits these reforms will lead to more unemployment in the near term," the *Times* said.



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