REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON
THE CONSULTATION WITH JAPAN

Addendum
Annex II to the Report

Results of Consultations between the International Monetary Fund
and the Government of Japan concluded on 18 September 1959

1. The Government of Japan has consulted the Fund under Article XIV, Section 4,
of the Fund Agreement, concerning the further retention of its transitional
arrangements.

2. The rapid cyclical recovery in Japan's economy that began from about the
middle of 1958, following the earlier recession, has been completed and Japan is
now experiencing a period of prosperity and continued expansion. Output and em­
ployment have advanced to new highs. The external payments position has continued
strong and foreign exchange reserves have increased substantially. The recovery
and the subsequent expansion have, in general, not disturbed monetary stability.
The Fund commends the cautious domestic financial policies which have helped to
make this improvement possible.

3. Wholesale prices increased by 2 per cent from November 1958 to April 1959;
they declined slightly in the following two months but this decline was partly
seasonal. Imports have been rising from the beginning of 1959 and are expected to
rise further. Exports, which had increased only slightly in 1958, have also been
improving, but the increase in exchange reserves may nevertheless slow down in the
coming months. Recently there has been some acceleration in the rate of expansion
of private credit, and the government budget for the current fiscal year visualizes
a substantial cash deficit. The Fund welcomes the assurance of the authorities
that they have these developments under close observation and that they will con­
tinue to pursue cautious and flexible financial policies so as to maintain domestic
and external equilibrium.

4. The Fund welcomes the progress made by Japan in relaxing restrictions and
reducing discrimination, including the termination of three of its remaining
bilateral payments agreements. Some progress has also been made in reducing the
scope of minor restrictive practices such as the retention quota, the linking
system, and barter trade. However, the Japanese exchange system involving a rigid
exchange budget, still has a considerable restrictive effect on import demand.

1 The footnote on page 1 of the Report (L/1080) should read "See Annex II".
discrimination still exists, and the minor restrictive practices have not been removed. The Fund believes that, especially in the light of Japan's improved balance-of-payments and reserve position and of the action taken by Western European countries in making their currencies externally convertible, further progress in all these respects is possible and desirable.

5. In concluding the 1959 consultations, the Fund has no further comments to make on the transitional arrangements maintained by Japan.