1961 CONSULTATION UNDER ARTICLE XII:4(b) WITH JAPAN

International Monetary Fund Executive Board Decision at
Conclusion of IMF-Japan Consultation
on 6 September 1961

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. Japan's economy continued to grow rapidly in 1960 and the first half of 1961. The growth was primarily due to a rapid increase in private equipment investment, supported by rising private consumption and government expenditure.

3. The expansion of the Japanese economy was achieved with relatively little disturbance to price stability and the balance-of-payments until the end of 1960. However, in the first half of 1961, a substantial deficit emerged on current international transactions, due mainly to a large increase in imports and also to some slackening in the rate of increase in exports. Despite the import surplus and a large Treasury cash surplus resulting from increasing revenues, wholesale prices rose in contrast to a decline in the first half of 1960. Bank credit expanded rapidly, largely to finance private equipment investment. The Fund welcomes the steps being taken by the Japanese authorities to curb the demand expansion and also the intention of the Japanese authorities to strengthen if necessary their tight monetary and fiscal policies so as to restore a satisfactory balance-of-payments position at an early date.

4. Substantial liberalization and simplification of the restrictive system have been achieved during the past year. Discrimination against the dollar area has been eliminated, and the retention quota system and the linking system have been abolished. The Fund welcomes these measures as well as the expected termination of the bilateral payments arrangement with China and the intention to abolish as soon as possible the bilateral arrangement with Korea. Current transactions are, however, still severely restricted and are to some extent discriminatory. The Fund notes with satisfaction the intention of the Japanese Government to accelerate its liberalization at a more rapid pace. Japan aims at completing 90 per cent liberalization on a 1959 basis a year from July 1961 or at the latest by September 1962, at which time the Japanese Government intends no longer to claim any balance-of-payments reasons for the remaining restrictions. The Fund urges the further extension of liberalization and the elimination of the remaining discriminatory practices.

5. In concluding the 1961 consultations, the Fund has no further comments to make on the transitional arrangements maintained by Japan.