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OECD Economic Surveys: Japan

Assessment and recommendations

The current expansion is entering its fourth year

The Japanese economy is in its best shape in a decade thanks to buoyant external demand, the progress in restructuring the corporate sector and economic reforms. Output has increased at an annual rate of more than 2 per cent since 2002 and 3¼ per cent excluding the negative contribution from the public sector. The pace of growth has been sufficient to boost employment during the past year and reduce the unemployment rate from its record high. Profit margins, as well as confidence in the business and household sectors, are at their highest levels since the early 1990s. These positive developments raise hopes that Japan is emerging from a decade of economic stagnation, although there are a number of risks to the current expansion.

Nevertheless, Japan faces a number of serious challenges to sustained growth over the medium term

Despite these favourable trends, Japan must successfully address a number of challenges in order to sustain a robust expansion and ensure rising living standards in the face of rapid population ageing:

- Deflation remains entrenched, though at a low rate, and nation-wide land prices fell again in 2004, the 13th consecutive annual decline. In addition, bank lending continues to fall despite progress in rehabilitating the banking system.
- Large government budget deficits have boosted gross public debt to more than 160 per cent of GDP – the highest in the OECD area – just as Japan enters a phase of rapid population ageing, reinforcing concern about fiscal sustainability.
- A lack of fiscal discipline at the local government level is contributing to the run-up in debt. Moreover, problems in the relationship between different levels of government prevent Japan from reaping the benefits of decentralisation more fully.
- A number of structural problems, including weak competition in some sectors, limit Japan's growth potential.
- Increasing dualism in the labour market creates both efficiency and equity concerns, while population ageing is reducing the size of the workforce.

In sum, the positive developments during the current expansion do not reduce the urgency of a broad programme combining macroeconomic and structural policies.

Despite the recent weakness, the economic upturn is projected to continue, bringing an end to deflation…

The expansion is projected to continue through the end of 2006, though at a more moderate pace of around 1½ per cent. The upturn has been led by business investment, reflecting the progress made in restructuring and rising profits from strong exports. China has played an important role, accounting for a third of the increase in Japanese exports during the past two years. Although the pace of business investment and export growth may slow, employment gains are likely to support private consumption. Such an outcome would help make this the longest upturn since the 1980s and may bring an end to six years of deflation, as measured by the consumer price index. However, the expansion paused in the second and third quarters and there are risks, both domestic and external, to a sustained expansion. On the domestic side, the strains related to the rising public debt and the risk of a marked increase in interest rates are most important, while a continued decline in nominal wages would weaken private consumption. On the external side, a slowdown in world trade in the context of rising oil prices, or a sharp appreciation of the yen could also weaken growth. All of these factors make the current outlook more uncertain.

… thanks in part to the Bank of Japan's policy of quantitative easing

In this uncertain context, *the Bank of Japan should remain focused on ending deflation* and its negative implications for economic growth. The quantitative easing policy has boosted the monetary base by 60 per cent over the past three years, preventing financial instability and keeping long-term interest rates low. The stability of the effective exchange rate during the first three quarters of 2004, despite no further intervention in the foreign-exchange market since March 2004, has helped to keep monetary conditions relaxed. The Bank of Japan promised in 2003 to continue the quantitative easing policy at least until core consumer price inflation (excluding fresh food, but including energy) is zero or above and the Bank's Monetary Policy Board projects it to be positive during the forecast period. The latter condition was partially fulfilled when the Board projected core inflation at 0.1 per cent in FY 2005, although it expects it to remain negative at –0.2 per cent in FY 2004.

When deflation ends, the exit from the current monetary policy should be carefully timed…

The success of the exit from the quantitative easing strategy depends in part on its timing. The stated conditions for changing monetary policy noted above leave open the possibility that an end to quantitative easing could occur when inflation is only marginally above zero. However, an early tightening of monetary policy could push Japan back into deflation. *The Bank of Japan should thus raise the threshold for ending quantitative easing to a level that is sufficiently high – such as 1 per cent – to make the risk of renewed deflation negligible*. On the other hand, maintaining the current monetary policy for too long may lead to high and sustained inflation, given the large expansion of the monetary base since 2001. On balance, though, the cost of overshooting the optimal level of inflation is less than remaining mired in deflation.

… and designed to help maintain financial-sector stability

Setting a higher inflation threshold as a condition for changing monetary policy would also help to guide private-sector expectations and prevent a large reaction in markets that could occur even before policy changes. The quantitative easing policy is implemented through central bank purchases of securities such as government bonds, commercial paper, bank bills and asset-backed securities. The Bank of Japan's purchases of government bonds have attracted private-sector investors to this market and resulted in a large run-up in bond prices. Once the current monetary policy comes to an end, there is a risk that long-term interest rates will increase substantially, leading to significant losses for financial institutions. Such a risk could be kept to a minimum by a clear communication strategy that provided as precise information as possible to the markets on how the exit strategy from quantitative easing would be conducted. At a minimum, a higher inflation threshold for ending quantitative easing as recommended above would delay the normalisation of interest rates, thus allowing banks more time to strengthen their balance sheets and increasing the scope for offsetting capital gains in other assets, including land and equities.

Further progress in rehabilitating the banking sector…

There has been progress in rehabilitating the banking sector, which is necessary for an effective monetary policy and a sustained recovery, given Japan's bank-centred financial system. The major banks, which have reduced their stock of non-performing loans (NPLs) from 8.4 per cent of their total lending in March 2002 to 4.7 per cent in September 2004, are on track to achieve the government's goal of reducing the ratio to about half of the March 2002 level by March 2005. At the same time, the banking sector has returned to operating profitability for the first time in a decade. However, the core profitability of banks remains low and there remains concern about the strength of their capital, given that "deferred tax assets" account for a third of the major banks' Tier I capital and are conditional on future profitability. This may be contributing to a decline in bank lending, adjusted for write-offs of NPLs, which has fallen for seven straight years. *The supervisory authorities should maintain the pressure on the banking sector to cut NPLs and strengthen capital.*

… particularly the regional banks, is a priority

Compared to the major banks, less progress has been achieved in restructuring the regional banks. Government policies towards these banks are driven, in part, by concerns about financing for small and medium-sized enterprises (SMEs). The authorities are monitoring plans submitted by 626 financial institutions in 2003 to revitalise SMEs and it recently bailed out a bankrupt regional bank in an effort to limit systemic risk in the region. These policies have contributed to a rising trend in regional bank lending, although this is due in part to their loans for housing, which are replacing declining public lending. However, pressuring banks to achieve targets for lending to SMEs may conflict with the banks' primary responsibility to their shareholders and may result in significant fiscal costs in the future. *To avoid such problems, the guidelines for lending to SMEs should be removed.*

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The authorities should also establish specific measures for reducing NPLs, similar to those for major banks, and use caution in implementing the new scheme for public fund injections into regional banks to avoid moral hazard problems and large budgetary costs.

Fiscal consolidation is required to ensure the sustainability of public finances…

Addressing the government's budget deficit should be an important aspect of an exit policy as it would help avoid an abrupt rise in interest rates. Strong economic growth and spending restraint reduced the deficit in the primary budget (which excludes net interest payments) from 6¼ per cent of GDP in 2003 to an estimated 5 per cent in 2004. However, the current fiscal situation is clearly not sustainable. The impact of the sharp run-up in debt over the past decade has been limited by the exceptionally low level of interest rates on government bonds, reflecting easy monetary policy, the risk aversion of investors and the persistence of deflationary expectations. Consequently, government interest payments as a share of GDP are lower than a decade ago despite the higher level of public debt. The transition to positive rates of inflation will boost interest payments, creating a risk of financing strains. As long as higher interest rates are accompanied by a pick-up in nominal growth, the risk is limited as there should be higher tax revenue, although the tax base has been eroded by various exemptions introduced during the past decade. A more serious threat to the fiscal situation would be a rise in the real interest rate.

… through a more credible and detailed medium-term plan…

The government's *Medium-Term Economic and Fiscal Perspective*, revised in early 2004 and extending through FY 2008, set a target of a primary budget surplus by the early 2010s. Indeed, a surplus is likely to be necessary to stabilise government debt, depending on the path of growth, interest rates and inflation, implying a fiscal adjustment of more than 5 per cent of GDP. The *Perspective* calls for limiting the size of general government spending to near its FY 2002 level (38 per cent of GDP) through FY 2006, combined with some unspecified revenue increases, to reduce the primary deficit by ½ per cent annually over the next four years. Preliminary budget plans suggest that a reduction of around ¼ per cent of GDP will be achieved in 2005, thanks to continued economic growth, spending restraint and some revenue measures, including a hike in the pension contribution rate. Even if consolidation advanced at the ½ per cent of GDP pace included in the *Perspective*, it would take more than a decade to meet the target, by which time gross debt might have risen to 200 per cent of GDP or more, imposing a significant burden on the economy and increasing the possibility of a rise in the risk premium. The negative impact of the high debt in Japan, however, is limited by the high private-sector saving rate and the low level of interest rates. Nevertheless, the medium-term plan should be more ambitious, even though special circumstances make fiscal consolidation more challenging in Japan than in other OECD countries. At a minimum, *the government should achieve its goal of a ½ per cent reduction in the budget deficit per year. However, if economic outturns are better than expected, the pace of consolidation should be faster. The credibility of the Perspective should be enhanced by establishing a stronger link to spending and revenue decisions, as well as by securing effective policy feedback to prevent slippage from the target. Finally, the medium-term plan should be extended beyond 2008 and should be based on more realistic economic assumptions.*

… that includes reform of the social security system and cuts in public investment…

The objective of freezing government expenditures as a share of GDP should be achieved through FY 2006 and continued efforts to restrain spending are necessary in the future. *This will likely require further reform of social security programmes – pensions, healthcare and long-term nursing care* – given the spending pressures related to population ageing. Despite the 2004 reform to cut pension benefits, social security outlays are projected to rise by 1½ per cent of GDP by 2010, and this may underestimate the impact of population ageing. Legislation passed in June 2004 to increase the pension contribution rate for the Employees' Pension Insurance from 13.6 to 18.3 per cent by 2017 may help finance rising expenditure. However, already in 2002, the proportion of pension contributions that are evaded was 37 per cent – well above the level assumed in the government's projections – and the increase in the contribution rate may further reduce participation in the system and weaken work incentives. The 2004 reform is projected to reduce the pension benefit replacement rate from 59 to 50 per cent – the minimum level allowed – over the next two decades. *Contribution rates should not be raised further, even if unfavourable developments were to require lower replacement rates. Moreover, reforms are needed to slow the growth of public spending on health and long-term nursing care*. Given the challenge of limiting social security expenditures and rising interest payments, significant cuts in discretionary outlays are required to achieve the spending ceiling. *In particular, public investment, much of which is characterised by low efficiency, should be cut further.* At 5 per cent of GDP, public investment remains above the OECD average of 3 per cent.

Fiscal consolidation will require increased tax revenues…

Achieving the target of freezing public expenditures as a share of GDP will be challenging in the context of population ageing, as well as rising interest payments. Consequently, the necessary fiscal consolidation – more than 5 per cent of GDP – will require increases in government revenue, which, at 30 per cent of GDP, is among the lowest in the OECD area. To increase revenue, *the government should put more emphasis on closing loopholes and streamling tax relief and allowances so as to broaden the tax base, thus limiting the extent of tax hikes*, which have negative effects on growth. Nevertheless, given the size of additional revenue that is needed, *higher tax rates will be necessary, particularly for the consumption tax.* However, the timing of such increases should take into account economic conditions.

… and reforming relations across levels of government

Revamping fiscal relations across levels of government, the topic of the special chapter in this *Survey*, is of paramount importance in supporting fiscal consolidation. Local government debt has ballooned from less than 15 per cent of GDP in the early 1990s to 40 per cent in FY 2003. While the negative aspects of decentralisation have thus materialised, the benefits have not yet been fully reaped. In particular, local government's ability to innovate and respond to the preferences of local citizens is constrained, the fragmented provision of publicly-funded services results in diseconomies of scale and the

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decentralised tax system is too complex. The "Trinity Reform" plans to reduce earmarked grants, reform equalisation grants and increase local taxes. However, for this reform to be fully effective, it must be accompanied by bolder initiatives in at least three areas: mechanisms to discipline local government fiscal behaviour and to improve the efficiency of intergovernmental grants and local taxes.

Reform should focus on strengthening mechanisms to discipline local government fiscal behaviour…

Mechanisms to secure fiscal discipline at the local government level need to be improved as they are too lenient and their coverage is inadequate. Such mechanisms were overridden by expansionary fiscal policies implemented during the past decade. The planned removal of the central government's approval system for local bond issues in FY 2006 calls for a strengthening of other instruments, notably fiscal rules and market instruments. *To be effective, existing fiscal rules should be hardened, while support to local jurisdictions facing financial troubles should be reduced, so as to limit moral hazard problems. Financial markets should be allowed to play a more prominent role in disciplining local government behaviour through credit ratings in bond markets. This would require that the central government state clearly that it will not intervene as a lender of last resort to local governments and ensure that adequate information on local governments' outstanding and implicit liabilities is readily available.*

… improving the grant system…

Intergovernmental grants have been used extensively for macroeconomic stabilisation and income redistribution, often at the expense of allocative efficiency. *The grant system should be reformed to promote local governments' ability and incentives to introduce managerial innovations so as to better respond to needs at lower cost*. This would require basing the equalisation criteria on objective needs, rather than actual spending, and changing the conditionality of earmarked grants from input or procedural criteria to outcomes. *In parallel, the use of earmarked grants should be reduced*, relying as much as possible on independent cost-benefit analysis and examining whether alternative financing methods – block grants or direct transfers to individuals – would be more cost-effective. *The grant system should also be amended to eliminate incentives to issue debt by removing local bond repayment costs from the formula used to calculate grant entitlements*. This would also help to contain sub-national spending or at least encourage the development of the local tax base. In addition, *the amount available for equalisation grants should no longer be set at a fixed share of annual national tax revenues* in order to avoid a pro-cyclical trend in local government spending.

… and increasing the tax autonomy of local governments to ensure neutrality

Making the cost of local public services more visible to local taxpayers can enhance fiscal discipline. *This calls for increasing the effective tax autonomy of local governments while keeping the tax system as simple and neutral as possible*. Although there are a number of local government taxes, revenues have been restricted by a proliferation of rebates and existing discretionary powers have been used in a limited and often distorted way. *Rather than* *creating new local taxes, many of the existing rebates should be removed, while introducing market valuation of property for tax purposes. In addition, the deduction of local taxes from central government tax bases should be ended, while central government permission to issue local bonds should no longer be conditional on local authorities applying tax rates at, or above, the rates set by the central government. At the same time, reliance on taxes that are highly volatile or can be easily shifted to other jurisdictions or which may hamper the swift adjustment of the economy over the economic cycle should be avoided.*

Special zones should be used to increase local autonomy while accelerating the pace of structural reform

Getting the most out of decentralisation requires complementing greater fiscal autonomy for local governments with more independence in the regulatory framework. The major initiative in this regard is the creation of special zones in which key regulations are abolished or modified on a trial basis. Since April 2003, 328 such zones have been created, based on 120 special measures. Successful reforms will be expanded nation-wide following evaluation by a special committee. *It is essential to make this initiative an effective tool for advancing nation-wide reform rather than simply a policy for regional development. This distinction could be reinforced by separating the responsibility for regional policy from the office in charge of special zones. In addition, reforms in the zones should be applied on a national basis as quickly as possible, avoiding extended evaluation periods.* Rather than depending solely on the initiative of local governments, *there should be a top-down aspect to the programme to identify districts that are suitable for certain regulatory changes.*

Building on the success of past efforts…

Such an approach should help make the special zones an effective tool for accelerating regulatory reform, a government priority that has had some success during the past decade. For example, entry barriers in the trucking industry were eliminated, large consumers of electricity have been allowed to choose suppliers and price controls on petroleum products have been abolished. Moreover, urban zoning regulations have been reformed to encourage more efficient use of land and the requirements for starting new companies have been relaxed. According to the government, regulatory reform has boosted consumer surplus by an amount equal to almost 5 per cent of national income.

… it is essential to speed up regulatory reform…

Regulatory reform is directed by the newly created *Headquarters for the Promotion of Regulatory Reform*, which is composed of all cabinet members. *The new framework, which allows proposals to be discussed by all ministries, including those favouring change, should be used effectively to overcome vested interests opposed to reform.* It should also help narrow the gap between the annual report prepared by the private-sector council of experts and the *Three-Year Plan for Promotion of Regulatory Reform*, which is updated annually by the government. The 2004 version focuses on opening "government-driven markets" to the private sector. *The government should make the reform of these sectors, concentrated in social welfare areas such as medical services and nursing care, a priority given rapid population ageing.* A new initiative is the introduction of "market testing" to determine what services currently provided by the government could be produced more efficiently by the private sector. *Such an approach should be used effectively to benefit consumers, promote fiscal consolidation and provide new opportunities to the business sector.*

… and introduce measures to enhance competition, especially in network industries…

Opening government-dominated markets to the private sector would enhance competition, which appears weak in Japan according to a number of indicators. Stronger competition would help lower prices that are high by international comparison and promote innovation, thus boosting consumer welfare and improving resource allocation. *A priority is to upgrade competition policy by increasing surcharges on violations of the Anti-Monopoly Act*. This would make firms take competition policy more seriously and allow the introduction of an effective leniency programme for firms reporting collusive activities to the competition authority. In addition, *a whistleblower programme to counter widespread anti-competitive collusion should be implemented to protect individuals*. Competition is also weakened by a *regulatory policy framework for network industries that still needs to be improved*. Most OECD countries have established sectoral regulators, independent of the government, to ensure pro-active *ex ante* regulation, a necessary condition for introducing competition in markets dominated by strong incumbents. Japan tries to achieve these objectives through government ministries. In the electricity and natural gas sectors, competition has been hampered by market structures characterised by local monopolies. The reforms in the past year were important steps for the establishment of physical interconnection and non-discriminatory access charges and conditions. *The vertical unbundling of activities should be considered for further enhancement of competition*.

… while increasing openness to trade and investment

Greater openness to direct investment and trade are also keys to enhancing competition. The government has established a goal of doubling the cumulative amount of foreign direct investment in Japan in five years. In fact, there was a three-fold rise between 1998 and 2003. The objective of doubling the amount is to be accomplished by reducing obstacles and pro-active measures such as disseminating relevant information. Attracting more foreign direct investment, though, will likely require additional steps. *First, regulatory tools, particularly the No-Action Letter system and the Public Comment Procedure, should be improved to enhance transparency and encourage greater foreign participation in the Japanese economy. Second, the mergers and acquisition market should be activated by removing discriminatory provisions governing the acquisition of Japanese firms by foreign investors. In addition to direct investment, barriers to trade should be reduced through multilateral trade negotiations, as well as Japan's inclusion in regional free trade agreements*. Both are likely to require reductions in the level of protection granted to farmers in Japan, including *a further opening of the rice market. Aspects of multifunctionality in agriculture, such as protecting the environment, should be dealt with by adopting well-targeted policy measures that minimise trade distortions.*

The privatisation of Japan Post is the government's top priority for structural reform

The centrepiece of the government's structural reform programme is the privatisation of Japan Post, which is the world's largest financial institution. It includes postal savings and life insurance, which dominate their respective sectors in Japan thanks to special privileges such as government guarantees and exemption from taxes. The privatisation of Japan Post offers a number of potential benefits: providing better services at a lower cost for consumers; removing government support and improving resource allocation; and shifting the flow of funds from the public to the private sector, thereby enhancing Japan's growth potential and promoting fiscal consolidation. The privatisation is to begin with the separation of Japan Post into four entities, including a Postal Savings Company and a Postal Life Insurance Company, in April 2007. However, realising the desired benefits requires that:

- *There should be a level playing field between Postal Savings and Postal Life Insurance and private institutions, including equal treatment under the regulatory framework.*
- *Postal Savings and Postal Life Insurance should not be allowed to offer new products before the establishment of equal treatment.*
- *The privatisation, which is to be finished by 2017 at the latest, should aim at a complete divestiture of the government's holdings in financial services.*

The management of Postal Savings and Postal Life Insurance should have the same independence as private institutions in formulating their business plans once a level playing field is achieved.

Reforms are needed in the labour market, where dualism is increasing…

Employment flexibility is being achieved through increased hiring of non-regular workers, who have temporary contracts, boosting their share over the past decade from 19 to 29 per cent of total dependent employment. In addition to enhancing flexibility, non-regular workers are relatively inexpensive; the average hourly wage of part-time employees, who account for three-quarters of non-regular workers, is only 40 per cent that of regular workers. The increasing dualism is creating a group, concentrated among young people, with short-term employment experience and low human capital, given the important role of firm-based training in Japan. There are also important equity problems, given that the difference in productivity between regular and non-regular workers is much smaller than the wage gap. The equity concern is magnified by the lack of movement between the two segments of the workforce, trapping a significant portion of the labour force in a low-wage category from which it is difficult to escape. *Stopping the trend towards increased dualism requires a comprehensive approach. This should include reducing employment protection for regular workers, increasing the coverage of temporary workers by social security insurance and other policies, such as training programmes, to enhance the employment prospects of non-regular workers.*

… in part to address the high unemployment rate for young people…

A significant portion of non-regular employment is concentrated among young people. Nevertheless, the unemployment rate for the 15 to 24 age group is about 10 per cent, about double the national average. Increased unemployment of young people reflects reduced hiring of new graduates as firms have cut their workforces during the past decade of sluggish growth. *Reducing employment protection for regular workers could reverse this trend by preventing the adjustment of the workforce from falling disproportionately on young people.* The government has taken steps to increase the capacity of the public employment service to assist young people. *It is important, though, to improve job training programmes aimed at young people in order to enhance their job prospects.*

… while taking measures to promote higher labour force participation of women

With women accounting for more than two-thirds of non-regular workers, reversing the trend toward labour market dualism may help to boost female participation rates by providing more attractive job opportunities. A higher participation rate of women would help buffer the impact of the decline in the working-age population, which is projected to fall by 5 per cent in the decade 2000 to 2010. Private-sector practices, such as company allowances for spouses, the importance of tenure in setting wages and the use of age limits on potential new workers may also have a negative impact on female participation in the labour force. *The government should reduce or eliminate aspects of the tax and social security system that discourage women from working full-time. In addition, relaxing licensing conditions for private-sector childcare facilities may facilitate female labour force participation. Finally, the high participation rate of older workers should be maintained by further reforming the pension system to reduce incentives to retire between the ages of 60 and 64.*

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BASIC STATISTICS OF JAPAN

THE LAND

Area (1 000 sq. km), 2002	377.9
Cultivated agricultural land (1 000 sq. km), 2001	48.0
Forest (1 000 sq. km), 2001	251.1
Densely inhabited districts[1] (1 000 sq. km), 2000	12.5

Major cities, March 2003 estimate (million inhabitants):	
Tokyo (23 wards)	8.1
Yokohama	3.5
Osaka	2.5
Nagoya	2.1
Sapporo	1.8
Kobe	1.5
Kyoto	1.4

THE PEOPLE

Population, October 2003 estimate (1 000)	127 619
Number of persons per sq. km in 2003	338
Percentage of population living in densely inhabited districts in 2000[1]	65.2
Net annual rate of population increase (1995-2000)	0.2

Labour force in per cent of total population, 2003	52.2
Percentage distribution of employed persons, 2003:	
Agriculture and forestry	4.4
Manufacturing	18.8
Service	62.8
Other	14.0

PRODUCTION

Gross domestic product in 2003 (billion yen)	497 783
Growth of real GDP, 2003	1.3
Gross fixed investment in 2003 (per cent of GDP)	24.0
Growth of real gross fixed investment, 2003	0.9

Share of agriculture, forestry and fishery in gross domestic product, at producer prices in 2002 (per cent)	1.3
Net domestic product of agriculture, forestry and fishery, at producer prices, in 2002 (billion yen)	4 747
Growth of industrial production, 2003	3.3

THE GOVERNMENT

Public consumption in 2003 (in per cent of GDP)	17.7
Current public revenue in 2002 (in per cent of GDP)	29.7
Government employees in per cent of total employment, 2003	8.8

	House of representatives	House of councillors
Composition of Parliament, December 2004:		
Liberal Democratic Party	249	114
Democratic Party	177	84
Peace and Reform (*Komei*)	34	24
Communist Party	9	9
Others	9	11
Vacancy	2	0
Total	480	242
Last elections	November 2003	July 2004

FOREIGN TRADE AND PAYMENTS

(2003, billion yen)

Commodity exports (fob)	51 934
Commodity imports (fob)	39 675
Services	–3 904
Investment income	8 281
Current balance	15 767
Exports of goods and services (in per cent of GDP)	11.8
Imports of goods and services (in per cent of GDP)	10.2

	Exports	Imports
Percentage distribution		
OECD countries	53.8	41.7
of which:		
North America	27.2	18.1
Other Asia	31.2	37.9
Other	15.0	20.4
Total	100.0	100.0
Crude material and fuels (SITC 2, 3, 4)	1.3	27.6
Semi-manufactured goods (5, 6)	18.6	16.4
Machinery and transport equipment (7)	66.8	27.6
Other (0, 1, 8 ,9)	13.3	28.4
Total	100.0	100.0

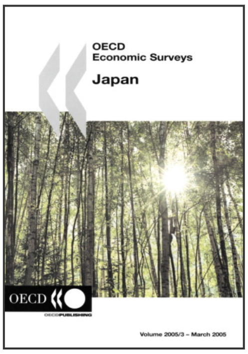
THE CURRENCY

Monetary unit: Yen

Currency unit per US$, average of daily figures:	
Year 2003	115.9
December 2004	103.9

Note: An international comparison of certain basic statistics is given in an annex table.

1. Areas with over 5 000 population whose population density exceeds 4 000 persons per sq. km.



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