資料２－１

Japan in a Higher-Rate World

Council on Economic and Fiscal Policy

Government of Japan

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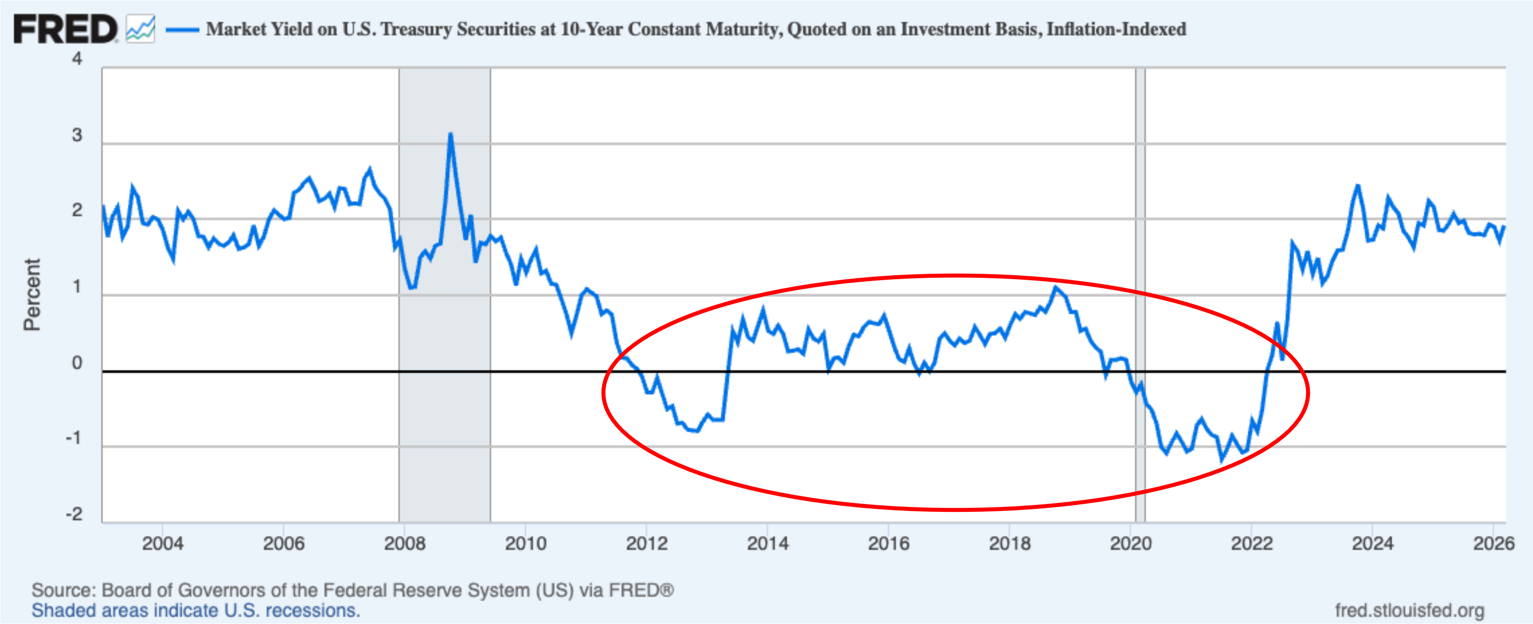
The post-crisis low-rate world was the exception for the global economy

- The global economy has moved away from the deflationary, ultra-low-rate, low-inflation world that followed the 2007–08 financial crisis through the pandemic.
- Japan is not immune to the higher global rate environment.
- Long-term rates in Japan are more likely to rise than fall, potentially reaching 3% over the coming decade.
- The forces pushing rates higher — debt, populism, geopolitical fragmentation, military spending, and AI-related investment — are likely to prove stronger than the forces that have been pushing them lower, including inequality, demography and low productivity growth.

The low-rate world is fading



Where Japan can build

- Markets are constantly being reshaped, so Japan should start from areas where it already has real strengths.
- That points especially to robotics and advanced manufacturing.
- Energy is another such area, including a larger role for nuclear power in the energy mix.
- Defense-related capabilities will also matter more in a more dangerous world; on the plus side, military R&D often has important civilian spillovers.
- The plan to make the government less reliant on supplementary budgets would increase predictability and thus help support both public and private investment.

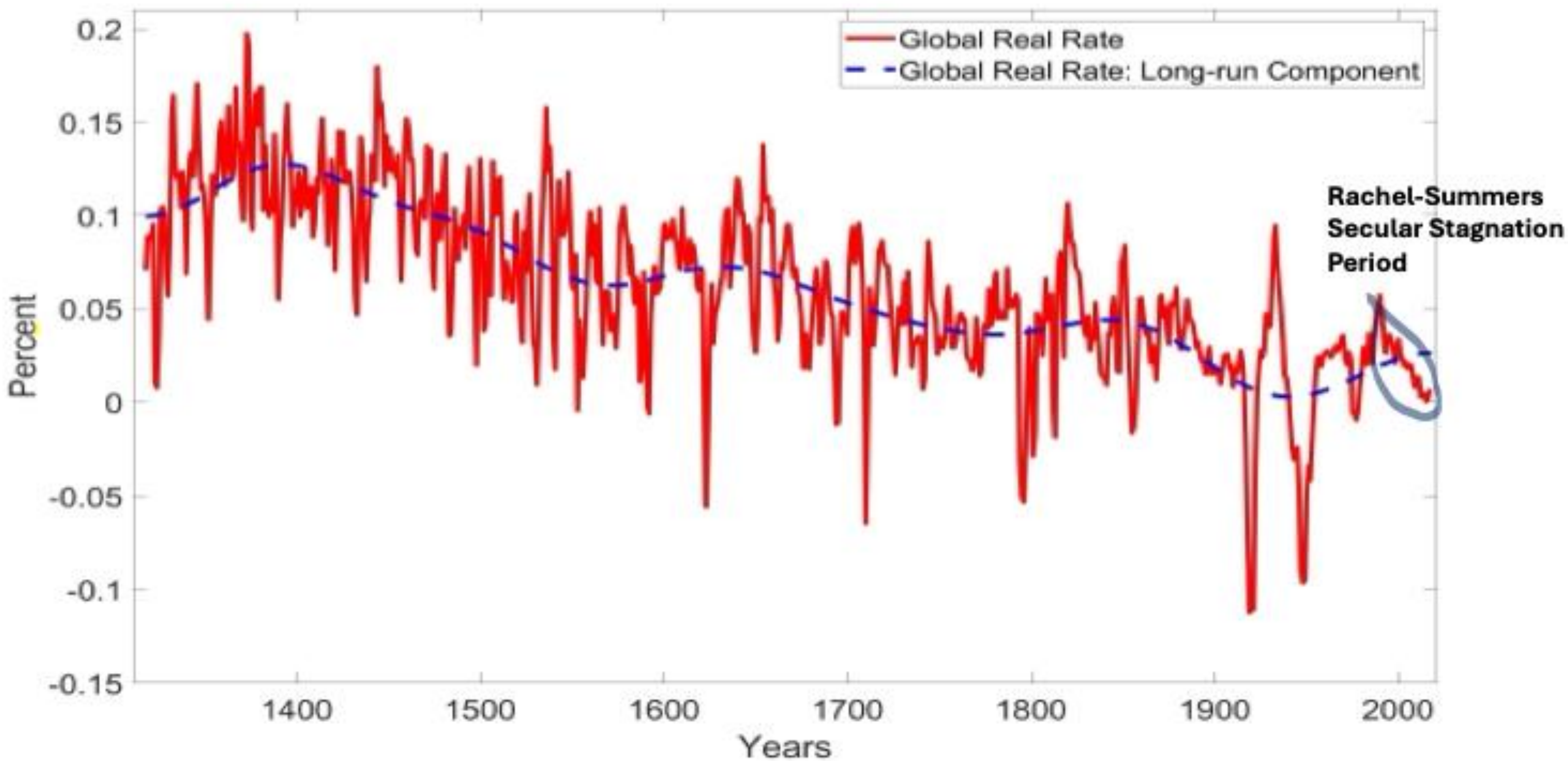
Preparing for higher rates

- In a world of higher interest rates, Japan will need to preserve room for the debt-to-GDP ratio to fall gently in normal times (which seem to be happening less and less often).
- That argues for keeping the primary deficit near balance outside crises.
- Government debt is deeply embedded in the financial system, so if rates rise too quickly, the challenge will be financial as well as fiscal.
- Consumption tax relief may make sense in some circumstances, but policymakers will need to be responsive if interest rates rise sharply.

Global instability and a weakening of dollar hegemony

- A major macroeconomic risk for Japan is growing instability in the global economy, including uncertainty over policy in the United States and other major economies.
- Alongside trade tensions, financial restrictions, and geopolitical conflict, this could weaken the dollar-centered system and hasten a shift toward a more multipolar order, with the renminbi playing a larger role in Asia and the euro, crypto assets, and gold gaining importance.
- For Japan, this raises a broader strategic question: whether it is resilient to a less stable dollar-centered system.

Appendix:
Secular stagnation was the exception



Source: Rogoff, Rossi and Schmelzing *American Economic Review* 2024 (August 2024).