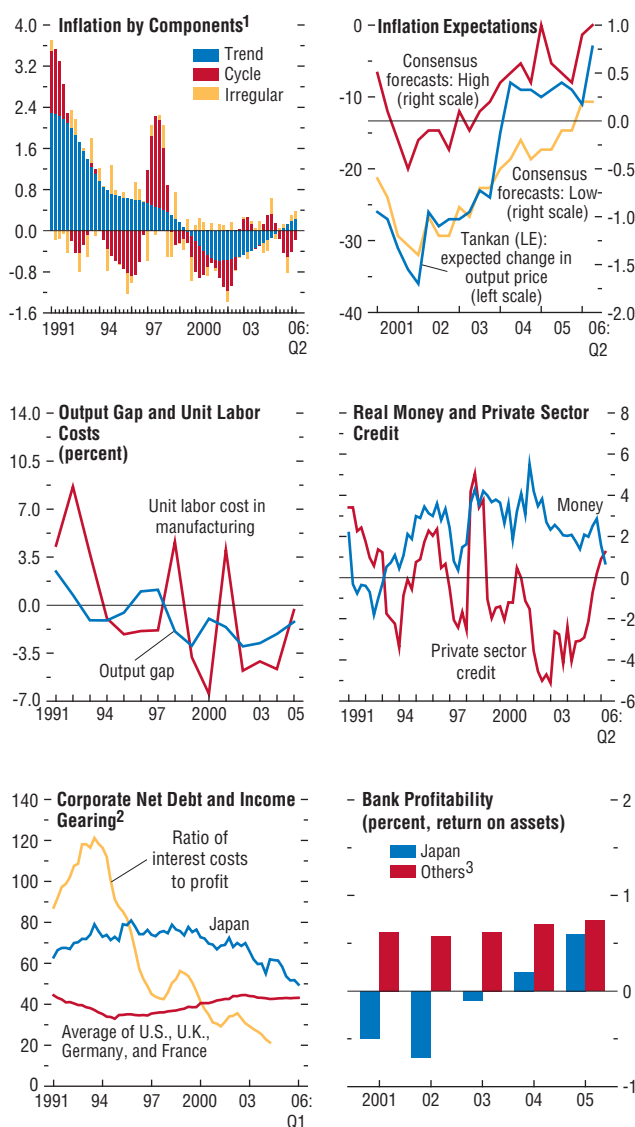


Figure 2.3. Japan: Balancing Inflation and Deflation Risks

(Percent change from a year ago unless otherwise stated)

The future path of policy interest rates in Japan needs to balance risks of deflation against those of rising inflation. Measures of expected future inflation suggest that inflation remains well anchored at low levels. At the same time, some deflation risks remain.



Sources: Bank of Japan; Consensus Economics, Inc.; Haver Analytics; IMF, *International Financial Statistics*; and IMF staff calculations.

¹Derived with a bandpass filter.

²Corporate net debt, expressed as percent of GDP, defined as financial liabilities less financial assets of the nonfinancial corporate sector. Ratio of interest costs to profit, expressed in percent, measured as four-quarter moving average.

³Averages of return on assets for Canada, France, Germany, Italy, Spain, the United Kingdom, and the United States.