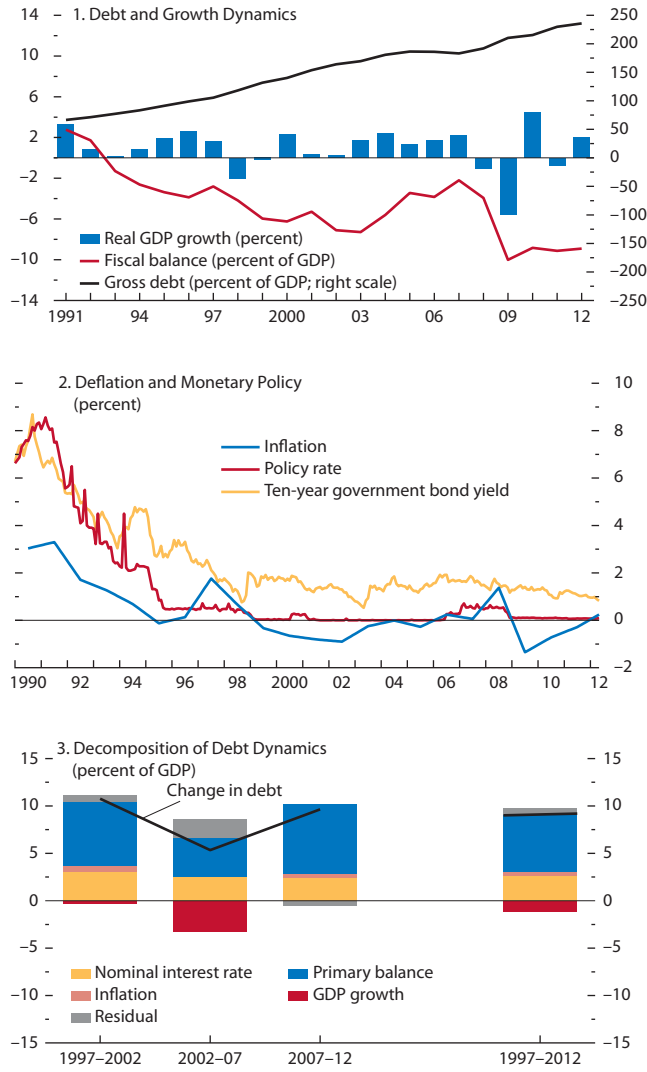


Figure 3.9. Japan: Lost Decade

After stock market and real estate bubbles burst, Japan's weak growth and large fiscal deficits caused a strong increase in the debt-to-GDP ratio. The gradual reduction in policy rates to the zero bound was not sufficient to prevent deflation.



Sources: Abbas and others (2010); Thomson Reuters Datastream; Haver Analytics; and IMF staff calculations.
 Note: The decomposition of debt dynamics is based on a linearized version of