

Japan's Role in the Global Economy –Before the G7 Summit

FPCJ Press Briefing

21 April 2016

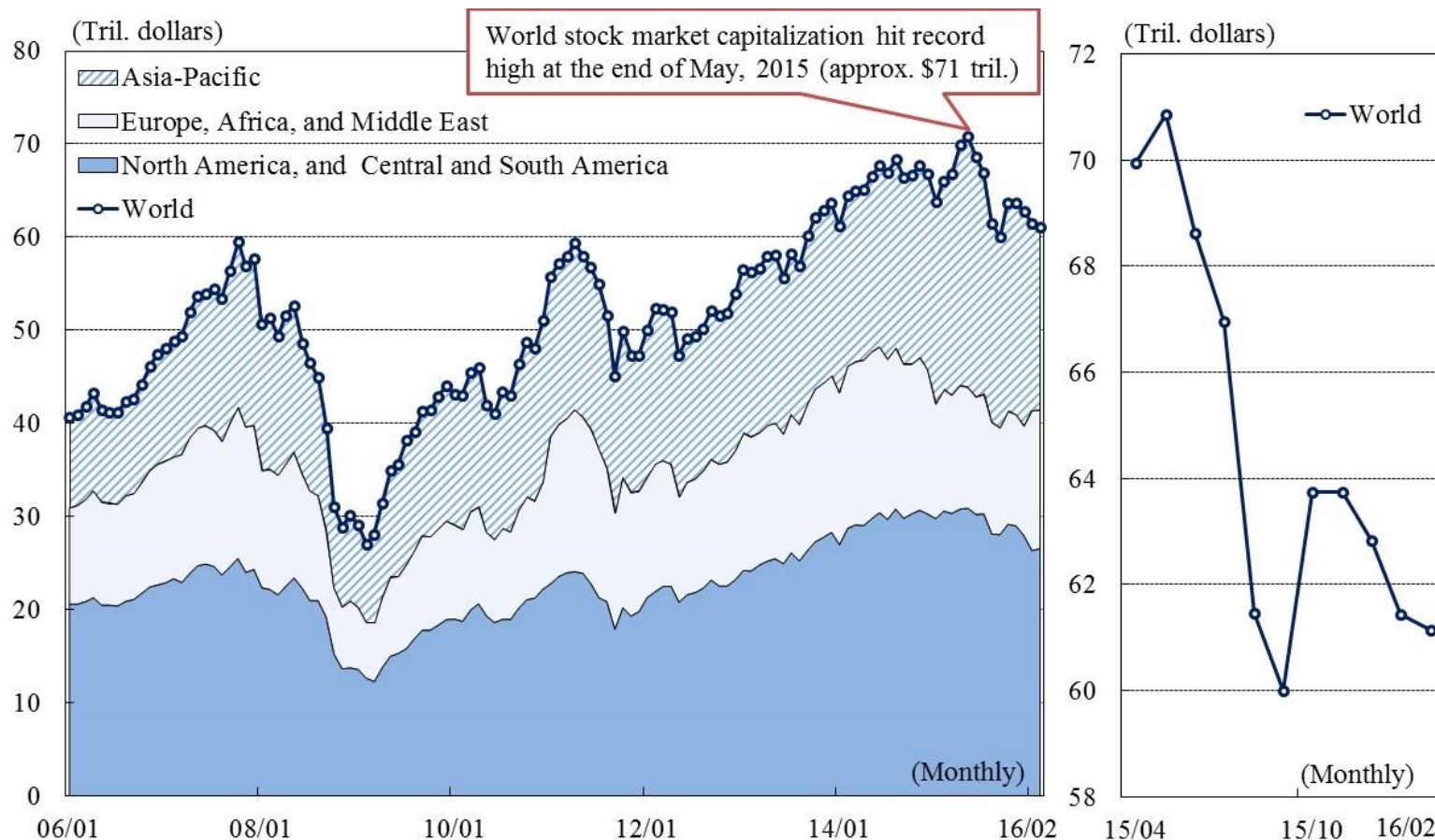
Kazumasa Iwata

President

Japan Center for Economic Research



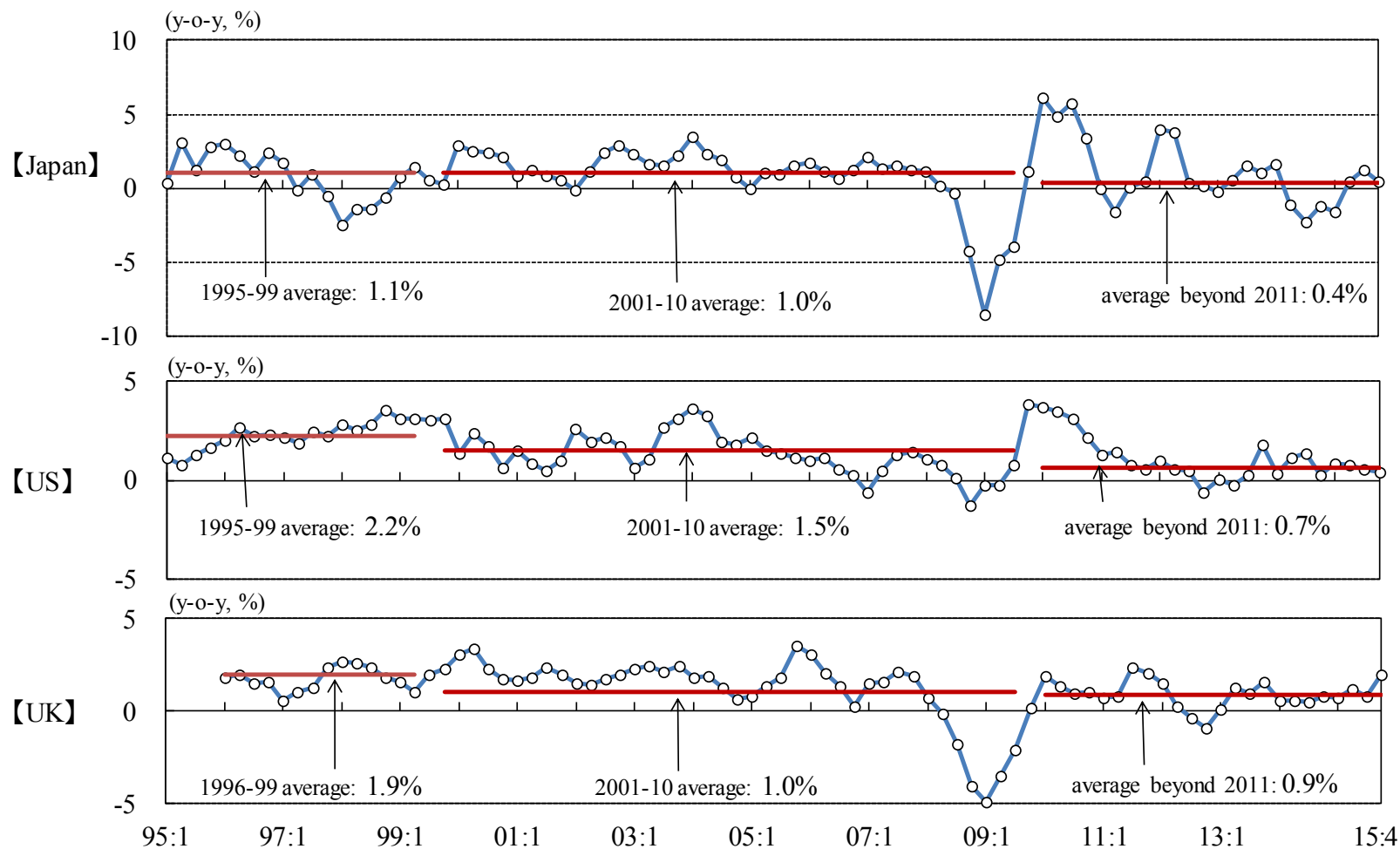
Fig. 1 World Stock Market Capitalization



Note: The data was downloaded on 14 April, 2016.

Source: World Federation of Exchanges

Fig.2 International Comparisons of Labor Productivity Growth

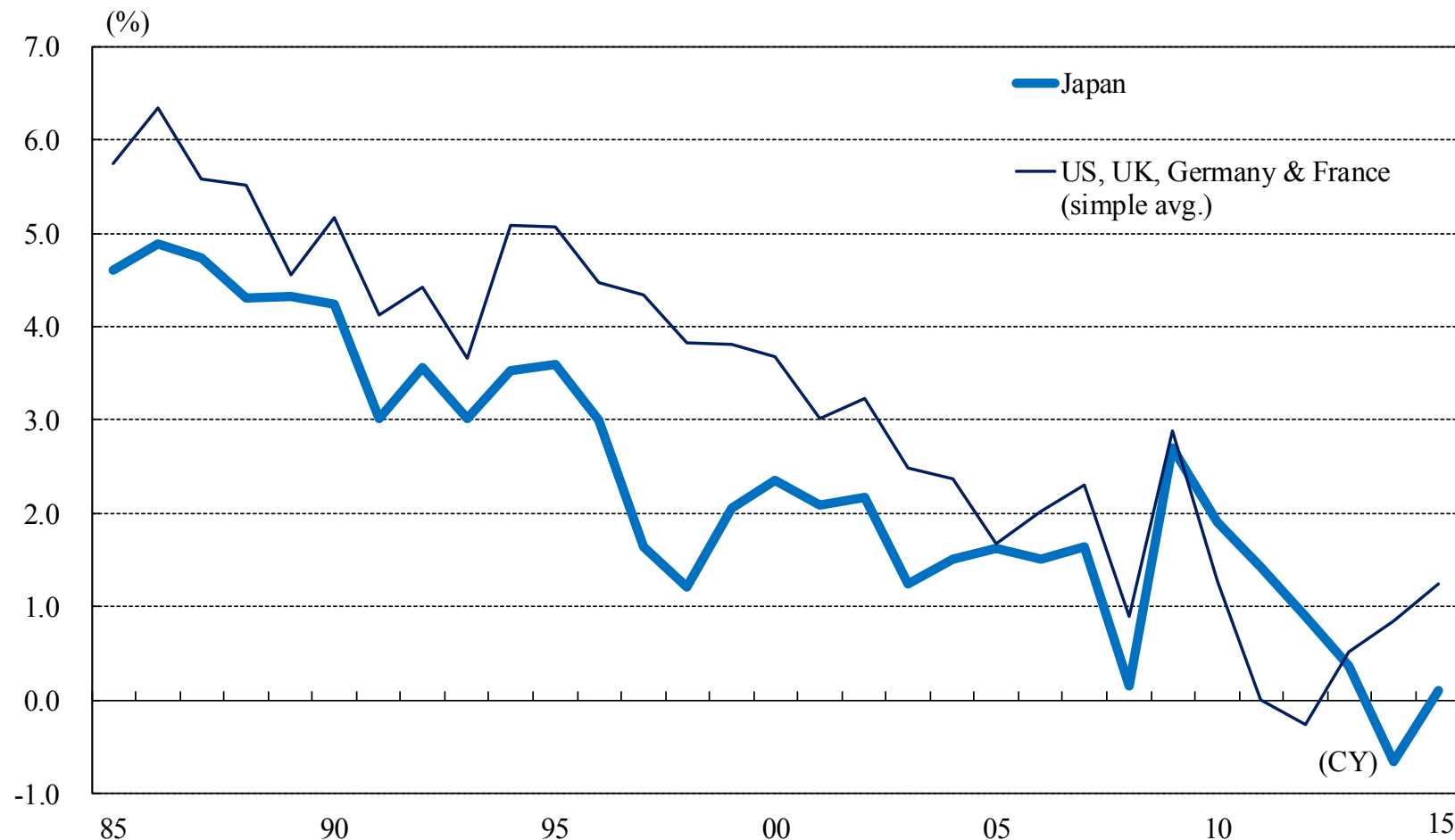


Source: Cabinet Office, Ministry of Internal Affairs and Communications (Japan);

Department of Commerce, BLS (US); Office for National Statistics, Eurostat (UK)

(Quarterly)

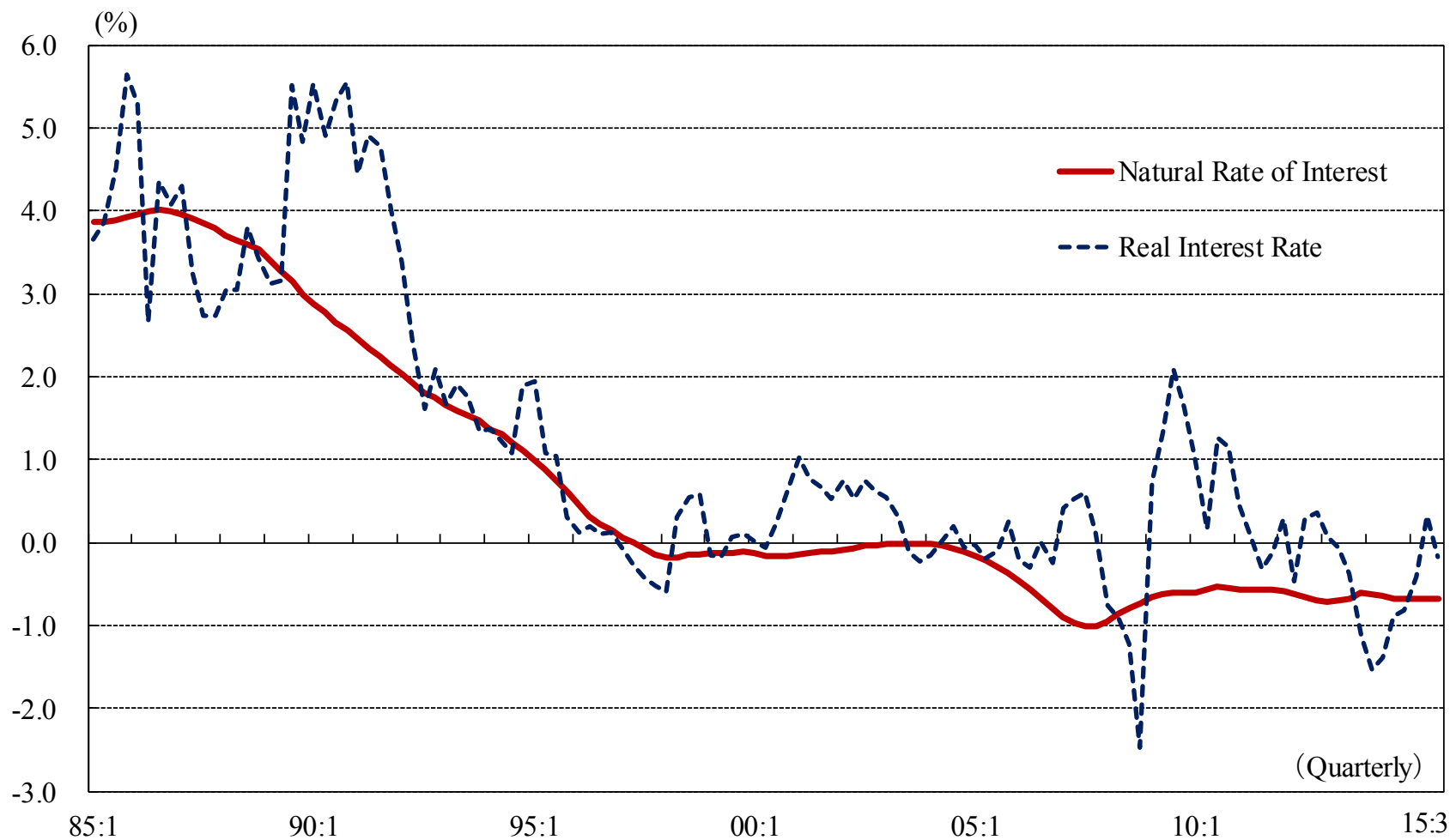
Fig.3 Real Long-term Interest Rates Declining Across the World



Note: The direct effects of the consumption tax hikes in Japan are excluded.

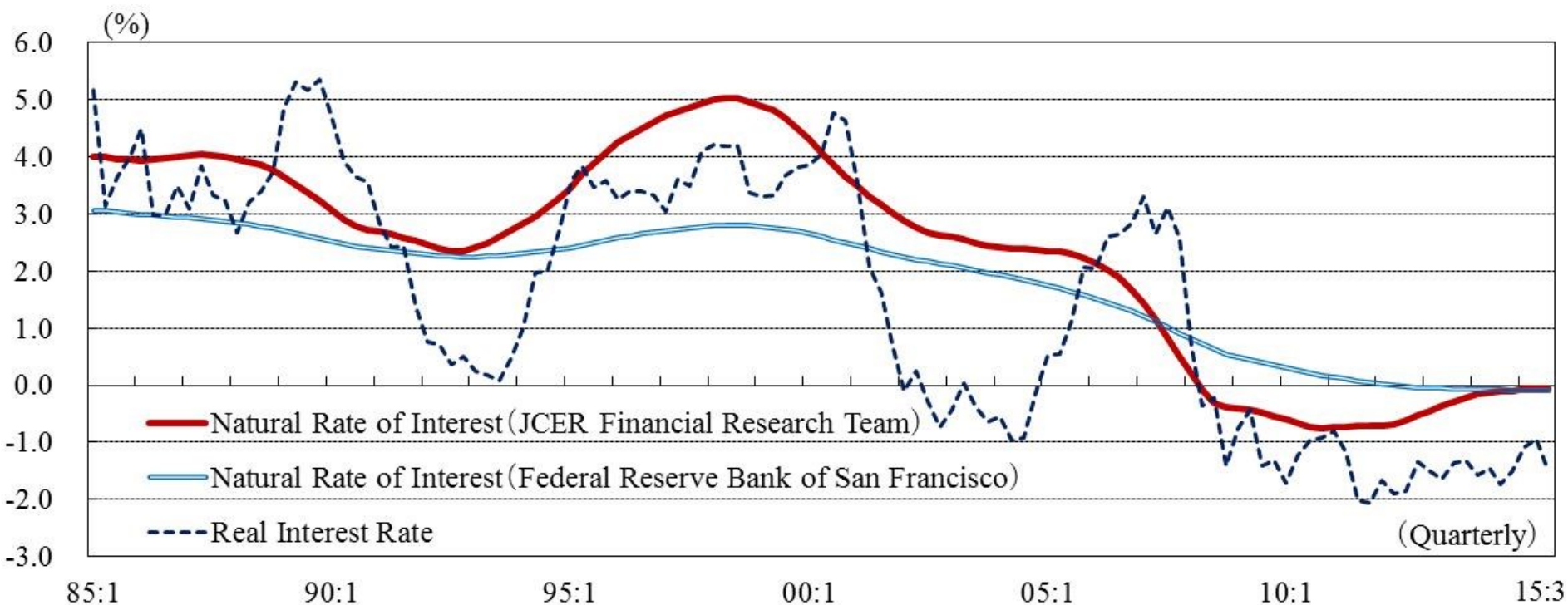
Sources: Ministry of Finance, Bank of Japan, OECD

Fig.4 The “Natural Rate of Interest” and Real Interest Rate in Japan



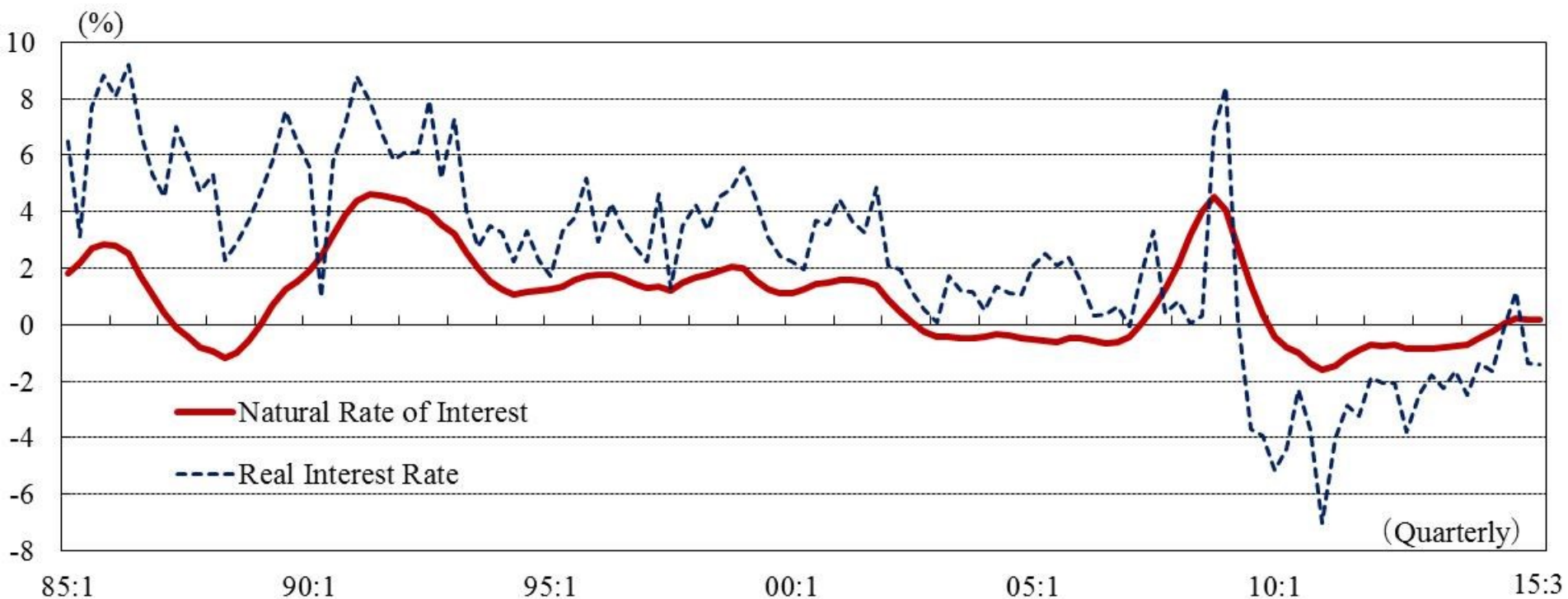
Source: Estimated by JCER Financial Research Team

Fig.5 The “Natural Rate of Interest” and Real Interest Rate in US



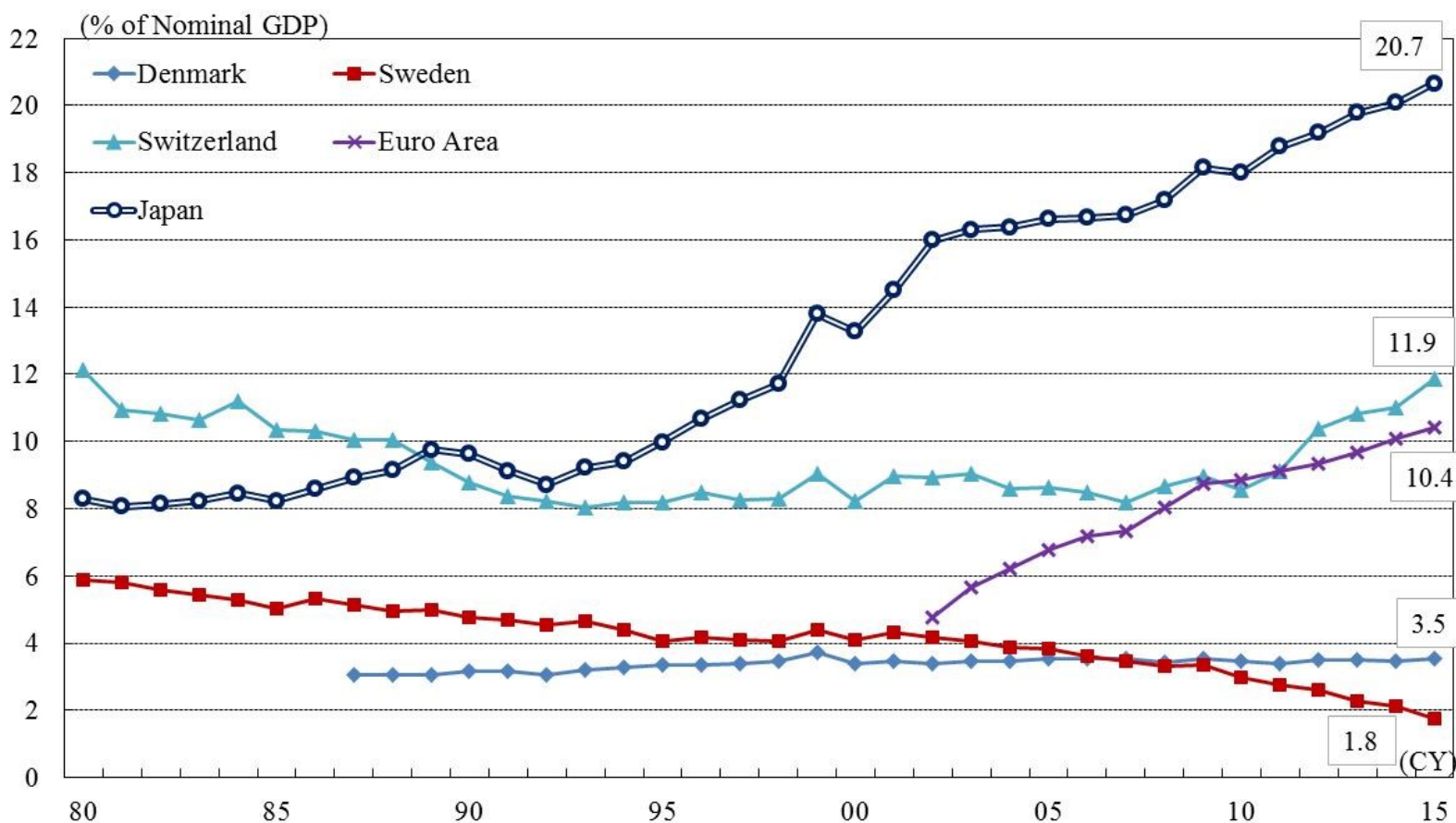
Sources: Federal Reserve Bank of San Francisco, JCER Financial Research Team

Fig.6 The “Natural Rate of Interest” and Real Interest Rate in UK



Source: Estimated by JCER Financial Research Team

Fig.7 Cash in Circulation (% of Nominal GDP)



Sources: Central bank websites, National Statistical Offices, Eurostat, Cabinet Office

Fig.8 Negative Policy Rates

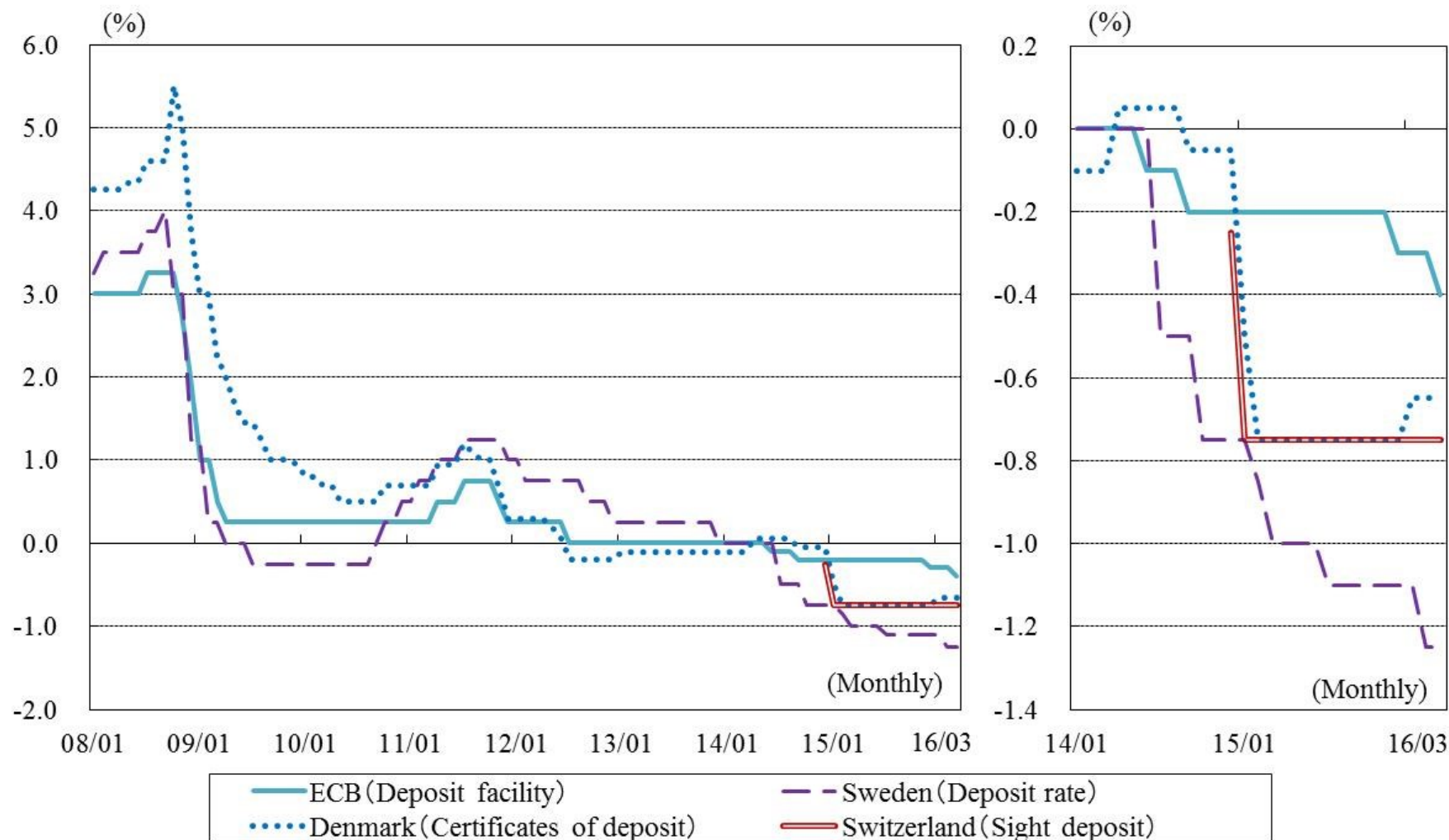
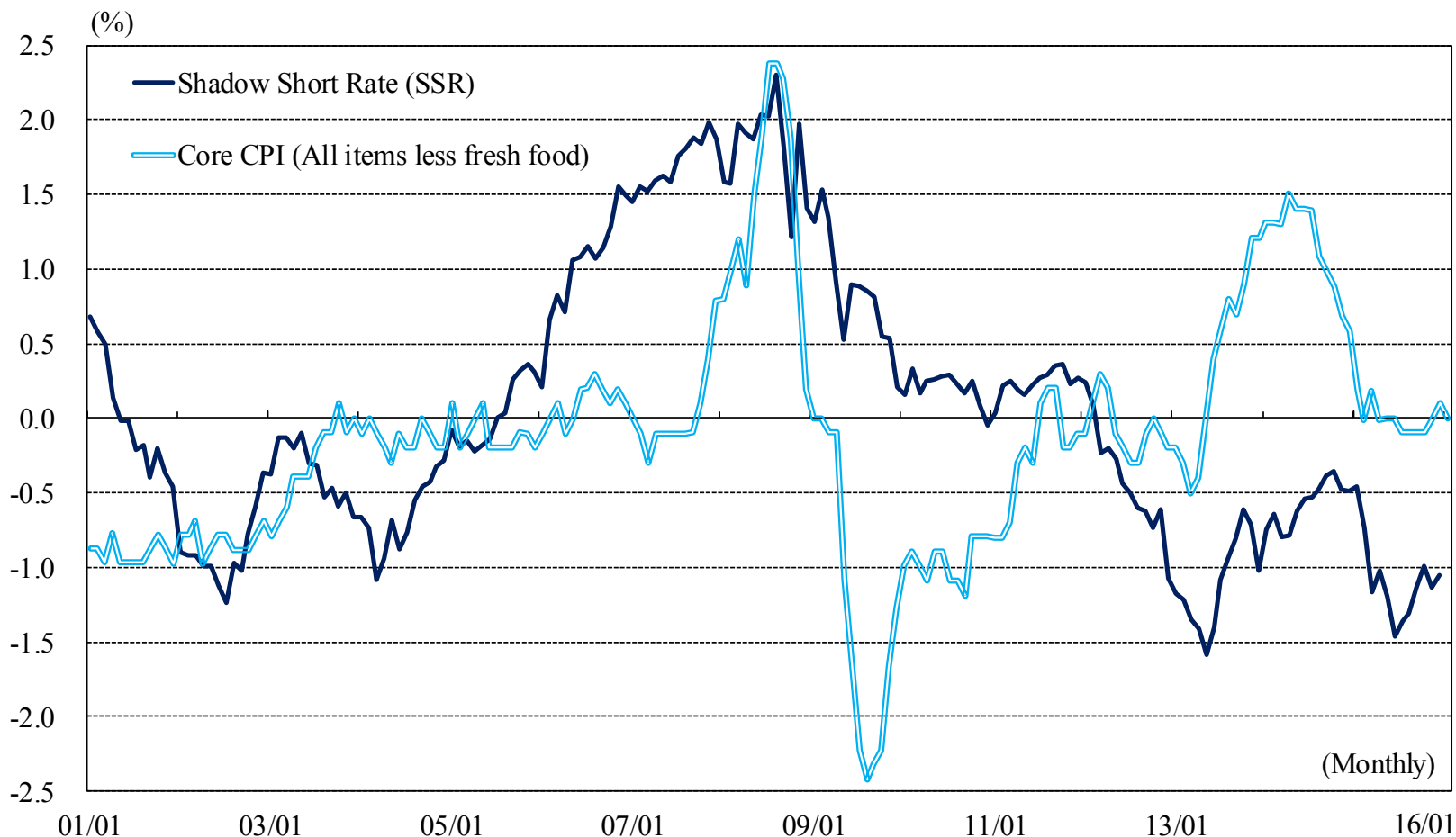


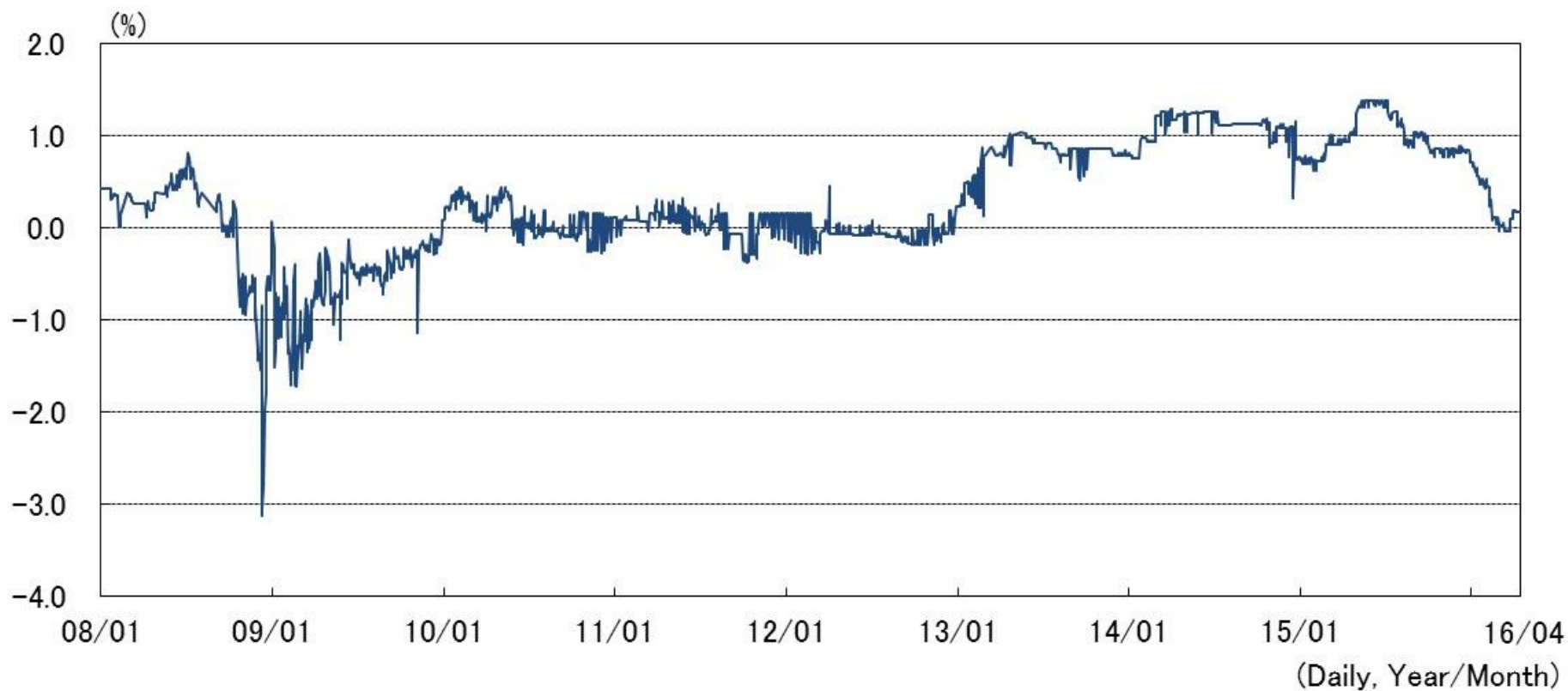
Fig.9 Japan's "Shadow Short Rate (SSR)" and Inflation Rate



Note: The direct effects of the consumption tax hikes are excluded.

Source: Estimated by JCER Financial Research Team with reference to Bank of Japan, Bauer and Rudebusch (2016)

Fig.10 5year/5year Inflation Swap Rate



Note; Data is up to April 14, 2016.

Source: Bloomberg

Fig.11 Japan's Short term Economic Outlook

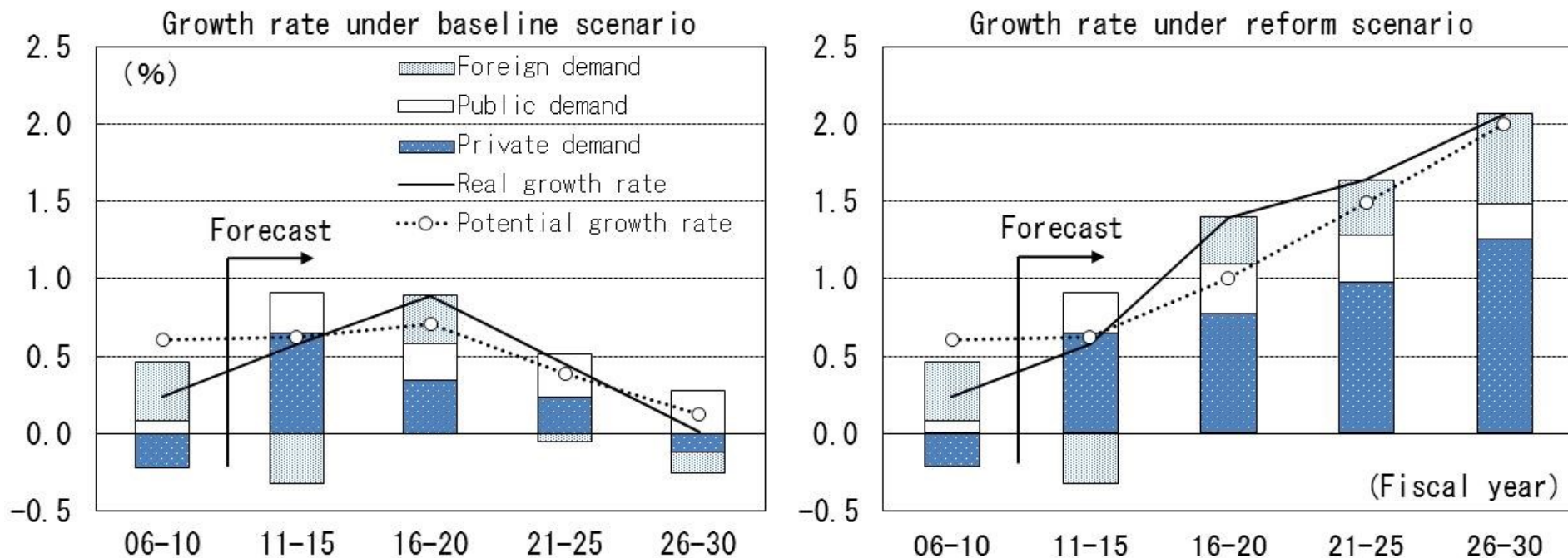
(y/y change, contributions, %, % points)

	F.Y. 2015			F.Y. 2016			F.Y. 2017		
	Real	Nominal	Deflator	Real	Nominal	Deflator	Real	Nominal	Deflator
Gross Domestic Product	0.7	2.2	1.5	1.0	1.3	0.4	0.1	0.6	0.4
Domestic Demand*	0.7			1.1			▲0.3		
Private Consumption	▲0.4	▲0.7	▲0.2	1.4	1.3	▲0.1	▲0.6	0.3	0.9
Private Residential Investment	2.2	2.3	0.1	2.5	3.5	1.0	▲5.7	▲3.2	2.6
Private Non-residential Investment	2.4	3.0	0.6	2.7	2.8	0.1	0.3	1.1	0.8
Change in Private Inventories*	0.3			▲0.3			0.1		
Public Investment	▲1.4	▲1.3	0.1	▲2.0	▲1.1	0.9	▲2.2	▲0.1	2.1
Net Exports*	0.0			▲0.1			0.4		
Exports of Goods & Services	0.1	▲0.9	▲1.0	1.4	▲0.0	▲1.4	3.2	5.5	2.2
Imports of Goods & Services	▲0.1	▲8.8	▲8.7	2.5	▲2.0	▲4.4	1.1	6.0	4.8
Gross National Income	2.7	2.7	0.1	1.7	1.6	▲0.1	▲0.3	0.6	0.9

Note: * indicates contribution to changes in GDP.

Source: Cabinet Office, "Quarterly Estimates of GDP"

Fig.12 Japan's Economic Outlook for FY2015-FY2030



Source: JCER's estimates based on "System of National Accounts" (Cabinet office)

Fig.13 Estimated Real GDP Growth through Increased Software Investment

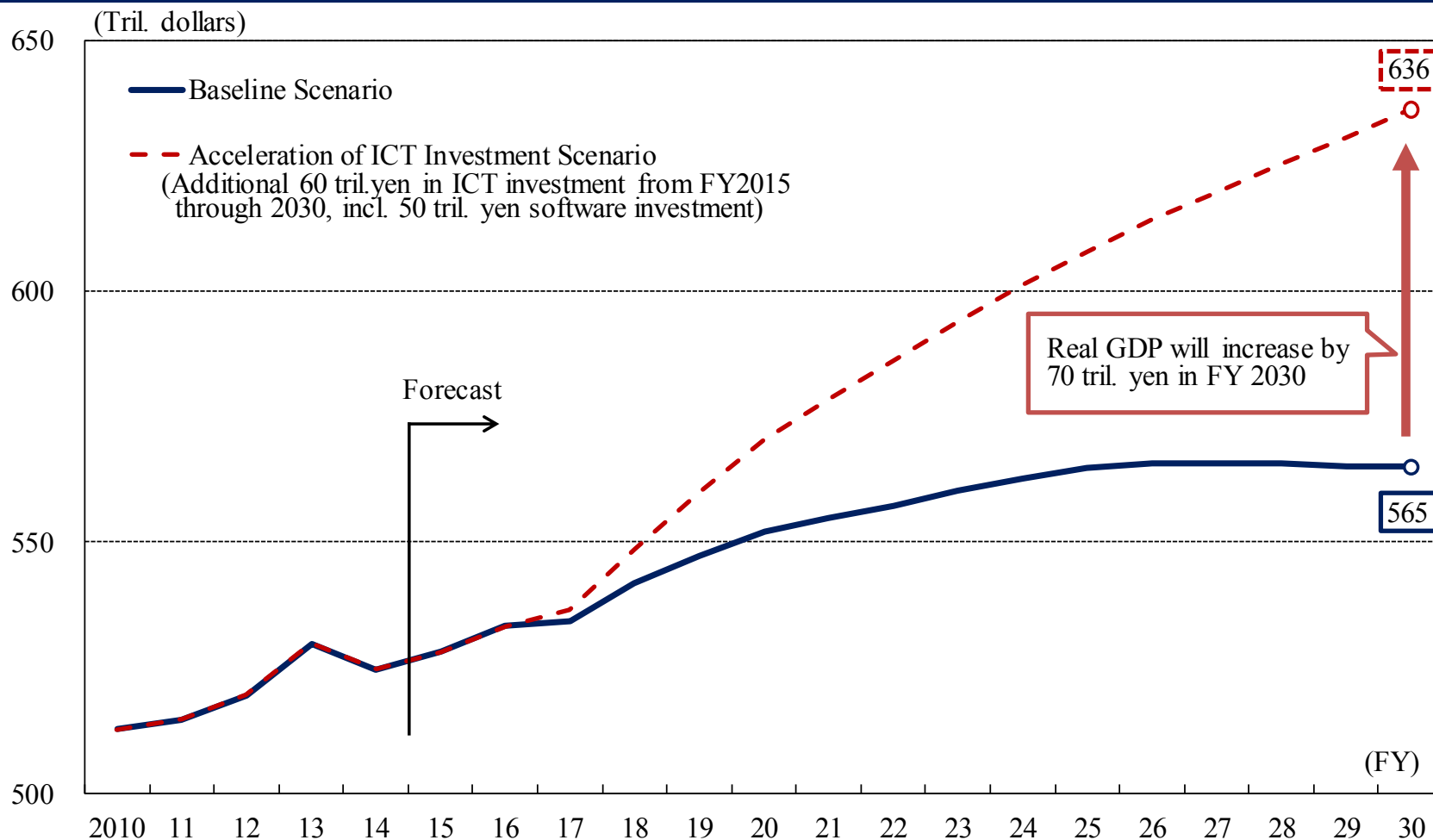
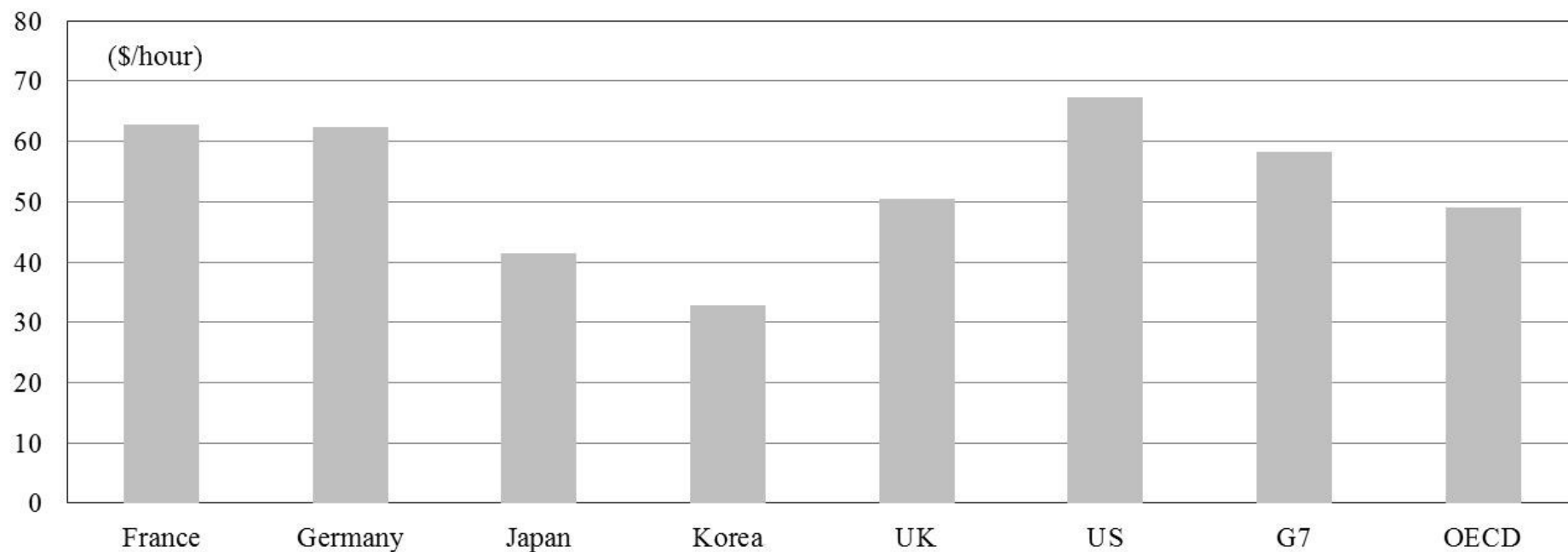


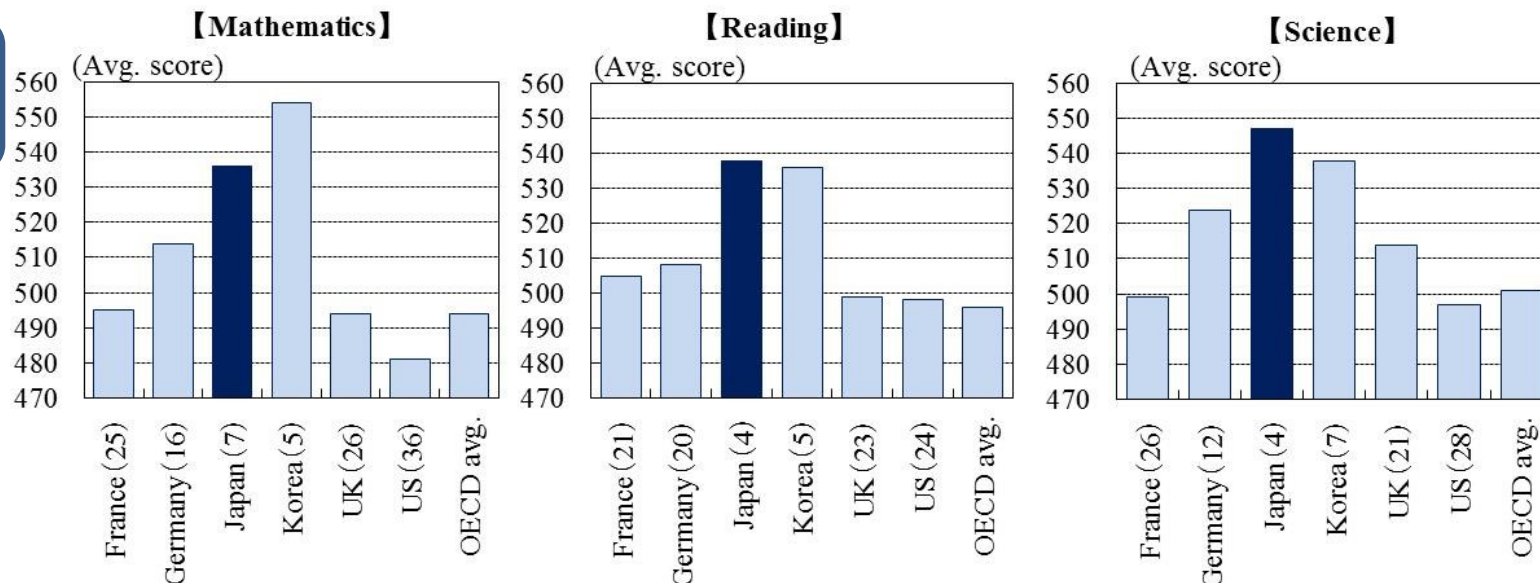
Fig.14 Level of labor productivity



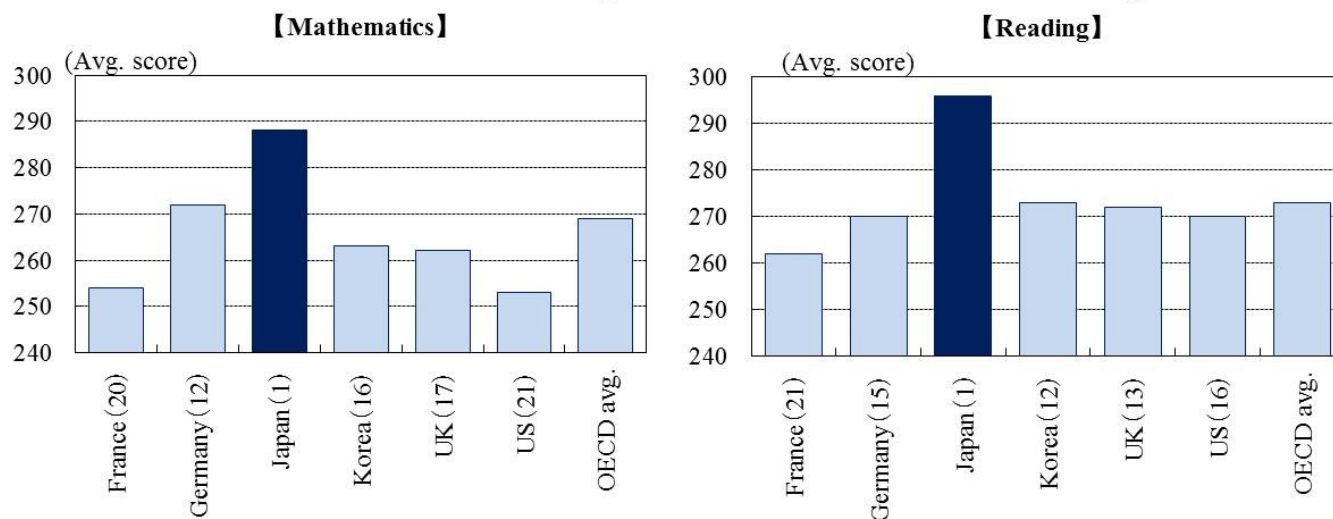
Source: OECD

Fig.15 Education Standards

PISA
(2012)



PIAAC
(2012)



Note: Ranking shown in parentheses.

Source: OECD

Fig.16 Real Effective Exchange Rate of the Japanese Yen



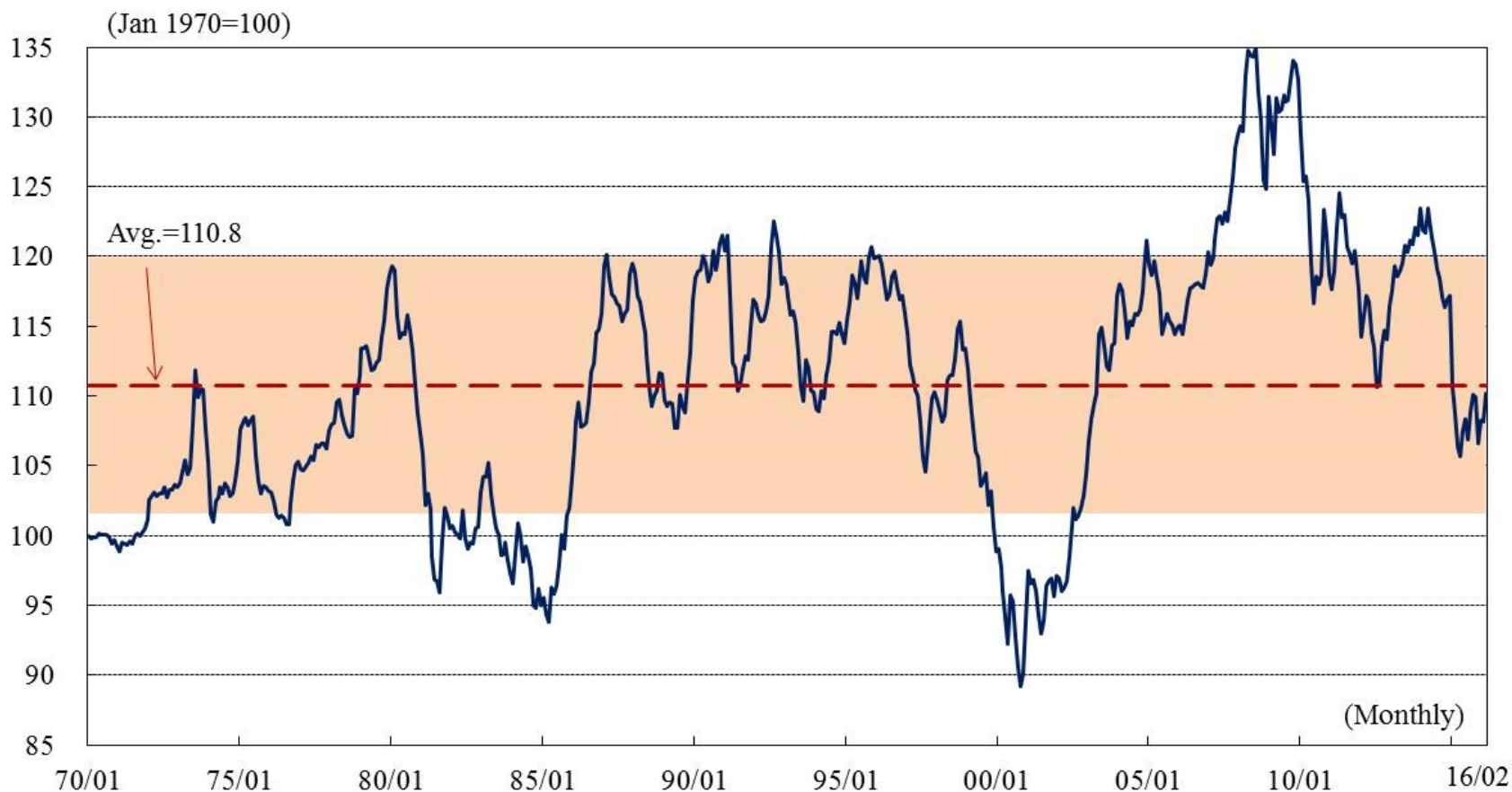
Source: Bank for International Settlements "The BIS Effective Exchange Rate Indices"

Fig.17 Real Effective Exchange Rate of the US Dollar



Source: Bank for International Settlements "The BIS Effective Exchange Rate Indices"

Fig.18 Real Effective Exchange Rate of the Euro(Euro area)



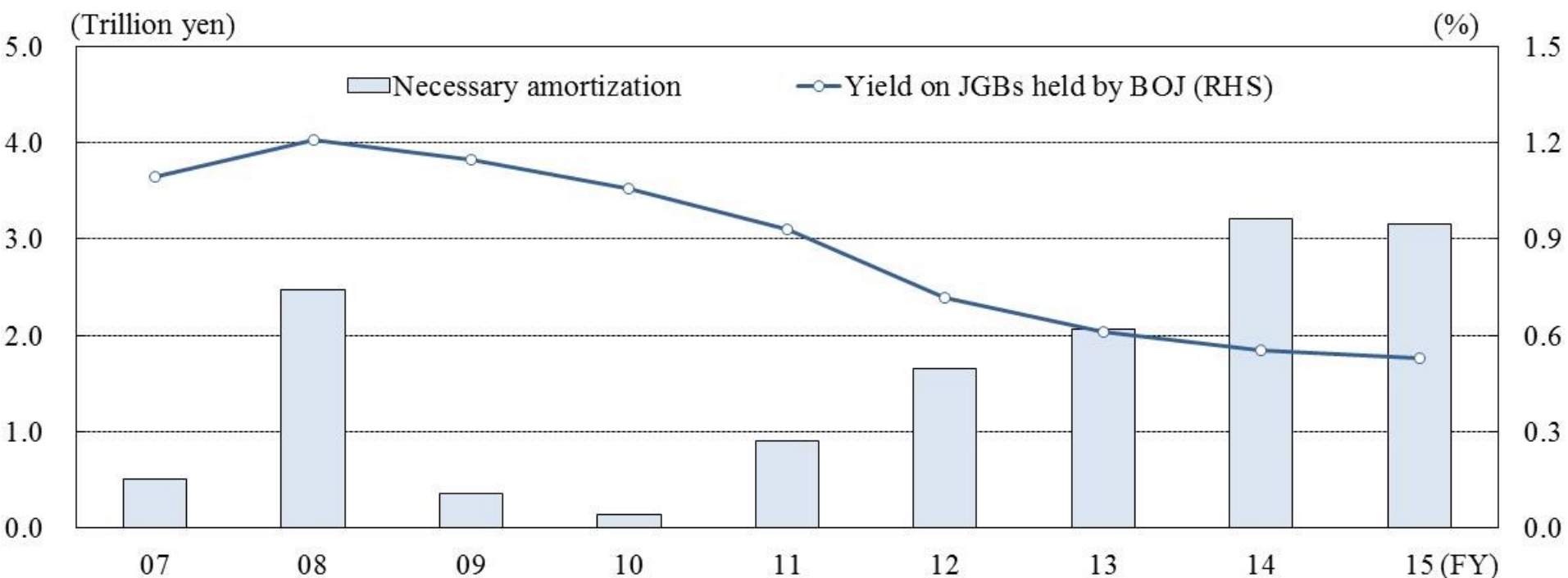
Source: Bank for International Settlements "The BIS Effective Exchange Rate Indices"

Fig.19 After QQE Supplementary Measures

	JGB holdings (End of Sept 2015)				Scenario 2 (After QQE supplementary measures)				Previous analysis (Scenario 1)
	①Total assets (Tril. yen)	②Total JGB holdings (Tril. yen)	②/① Ratio (%)		Shift in ratio (%)	③Total JGB holdings after shift (Tril. yen)	④ Supplementary measures	②-③+④ JGBs available for sale (Tril. yen)	JGBs available for sale (Tril. yen)
Banks	1,004.6	98.9	10	➡	5	50.2	13.9	62.6	74.4
Japan Post Bank	207.2	92.8	45		—	59.2	0.0	33.6	40.0
Life insurance companies	281.1	101.9	36		36	101.9	0.0	0.0	0.0
Japan Post Insurance	84.9	46.7	55		34	28.9	0.0	17.9	19.2
Property insurance companies	30.8	5.8	19		13	4.0	0.0	1.8	1.8
Public pension funds	177.0	74.7	42		35	62.0	0.0	12.7	12.7
Total	1,785.6	420.8	24		合計	306.2	13.9	128.6	148.1

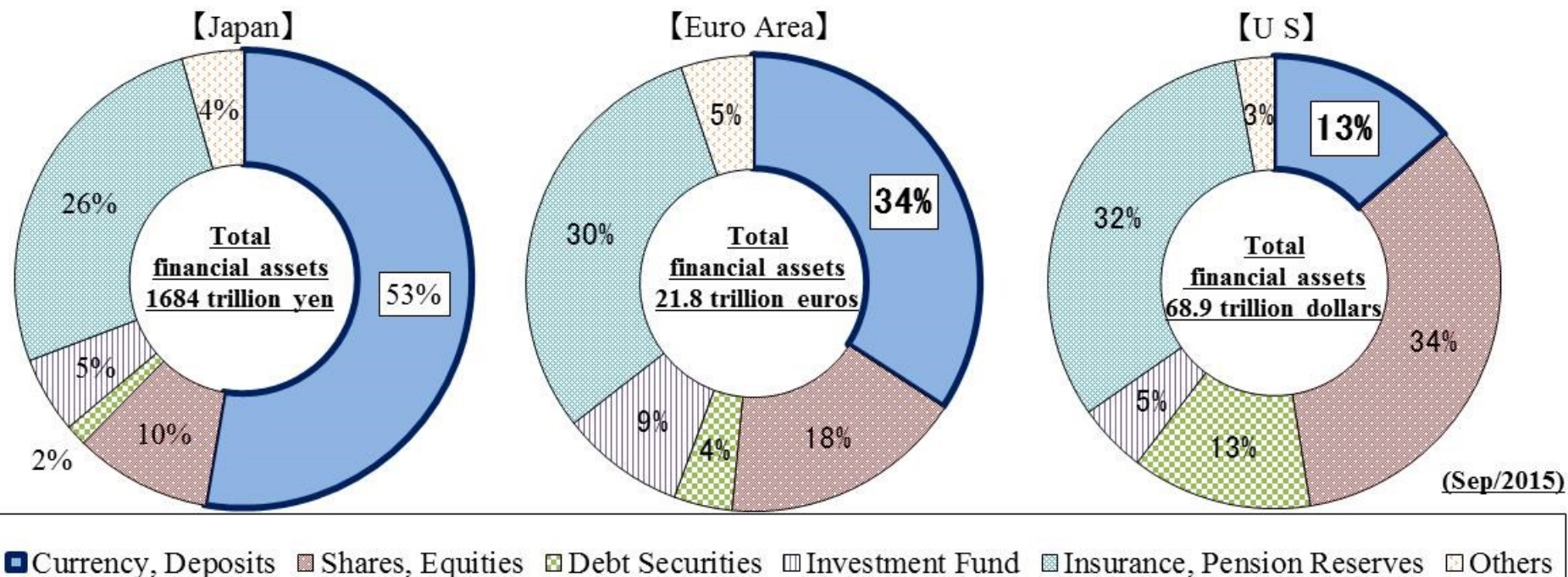
Source: Estimated by JCER Financial Research Team

Fig.20 BOJ Necessary Amortization for JGB Purchases on the Increase



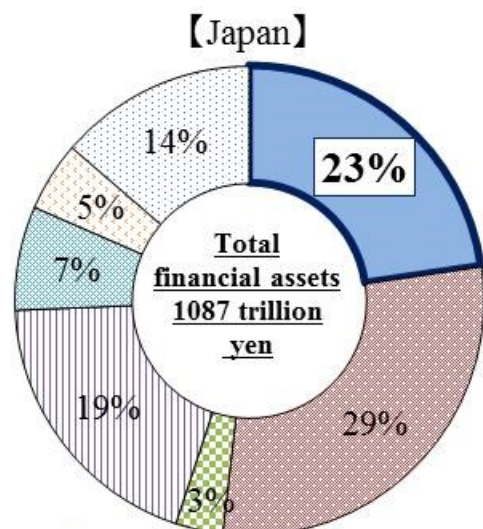
Sources: BOJ, MOF

Fig.21 Household Financial Assets

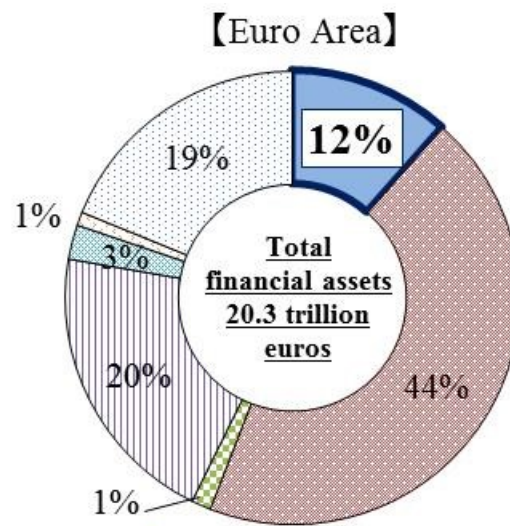


Sources: BOJ, ECB, FRB

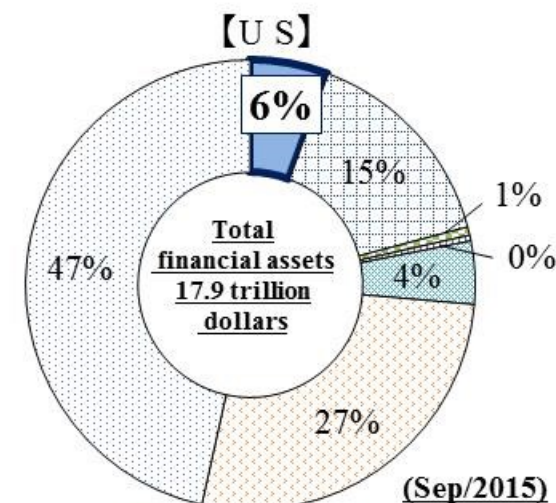
Fig.22 Nonfinancial Corporate Business Financial Assets



- Currency, Deposits
- Shares, Equities
- Other Equities
- Trade Credit
- Foreign direct investment
- Investment in foreign securities
- Others



- Currency, Deposits
- Shares, Equities
- Debt Securities
- Loans
- Investment Fund
- Insurance, Pension Reserves
- Others

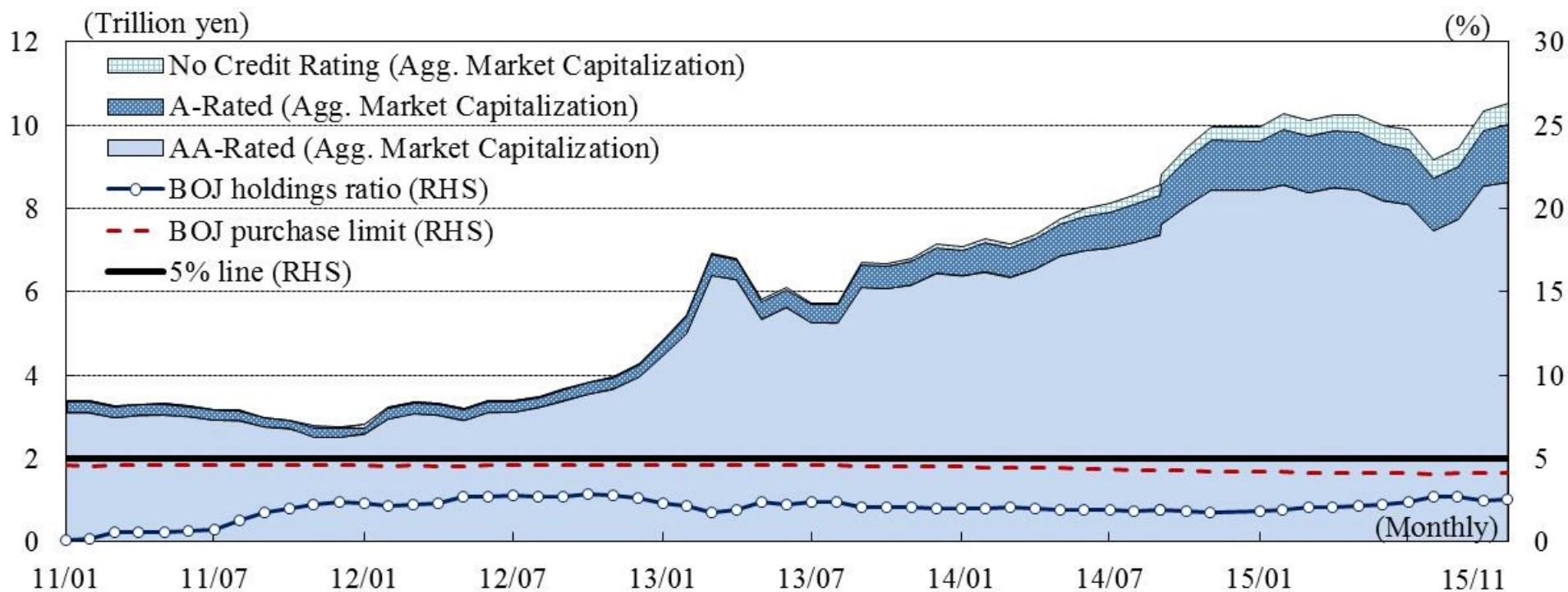


- Currency, Deposits
- Trade receivables
- Debt Securities
- Loans
- Investment Fund
- Foreign direct investment
- Others

(Sep/2015)

Sources: BOJ, ECB, FRB

Fig.23 BOJ Purchases of Real Estate Investment Trust is also reaching its Limit



Note: Maximum purchasable amount for the BOJ= Market value of AA-rated REIT x 5%

Sources: BOJ, NEEDS-Financial QUEST, Japan Credit Rating Agency, Ltd., Rating and Investment Information, Inc.

For more information,
please see our **JCER** website.
<http://www.jcer.or.jp/eng/index.html>

