

# CURRENT SITUATION AND FUTURE OF JAPAN

– CAN WE MAKE A COMPLETE BREAK  
FROM THE LOST 30 YEARS? –

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# 1. WHAT IS THE BASIC POLICY



# 1.What is the basic policy?

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## Confirmation of basic matters of the Economic and Fiscal Policy Council

- Article 18 of the Cabinet Office Establishment Act( Act No89 of 1999)is the basic law. The Economic and Fiscal Policy Council Ordinance has been based on Article 25.
- A collegial body established within the Cabinet Office for the purpose of fully demonstrating the leadership of the Prime Minister while utilizing the excellent insight and knowledge of experts on important matters related to economic and fiscal policy.
- It was established in January 2001 due to the reorganization of ministries and agencies under Hashimoto's administrative reforms. The model is the U.S. Council of Economic Advisers.
- The members are: (1) limited to a total of 11 members, including the chairman (Prime Minister) and 10 members; (2) members other than the Chief Cabinet Secretary and the Minister in charge of Economic and Fiscal Policy are not legally designated; and (3) private experts. (4) Other ministers of state may be allowed to participate in the meeting as a temporary bank with a limited number of proposals.
- Responsible affairs include (1) research and deliberation on important matters related to economic and fiscal policy; (2) research and deliberation on important matters such as national plans stipulated in the National Spatial Planning Act in response to consultation from the Prime Minister or relevant ministers; (3) Express your opinion regarding these matters.
- 70Among the internal departments of the Cabinet Office, the Policy Supervisory Department functions as the secretariat for general coordination regarding economic and fiscal policy. It is necessary to promote human resources from inside and outside the administrative organization and to promote cooperation between the Cabinet Office and the Cabinet Secretariat.



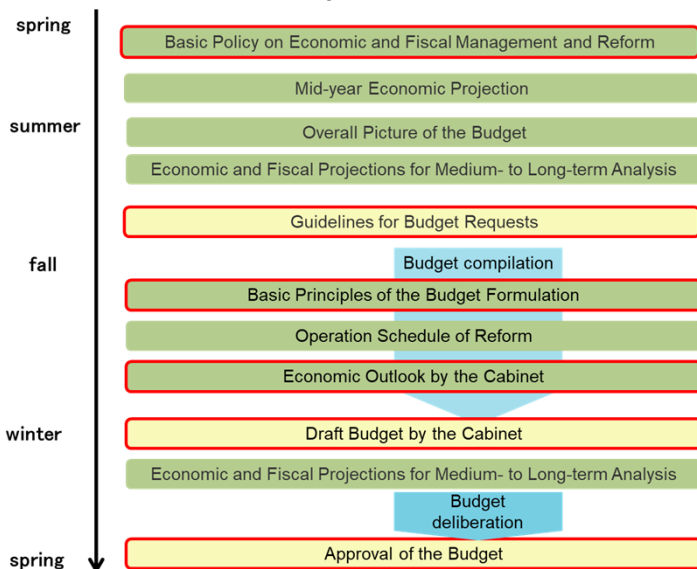
# 1.What is the basic policy?

## Specific meeting details

### ❏ List of members of the Economic and Fiscal Policy Council

|          |                   |  |
|----------|-------------------|--|
| Chairman | KISHIDA Fumio     | Prime Minister                                   |
| Member   | HAYASHI Yoshimasa | Chief Cabinet Secretary                          |
| Member   | SHINDO Yoshitaka  | Minister of State for Economic and Fiscal Policy |
| Member   | MATSUMOTO Takeaki | Minister for Internal Affairs and Communications |
| Member   | SUZUKI Shunichi   | Minister of Finance                              |
| Member   | SAITO Ken         | Minister of Economy, Trade and Industry          |
| Member   | UEDA Kazuo        | Governor of the Bank of Japan                    |
| Member   | TOKURA Masakazu   | Sumitomo Chemical's Chairman of the Board        |
| Member   | NAKAZORA Mana     | BNP Paribas's Vice Chairperson of Global Markets |
| Member   | NIINAMI Takeshi   | Suntory's CEO                                    |
| Member   | YANAGAWA Noriyuki | Professor at the University of Tokyo             |

### ❏ Relationship between macroeconomic management and the Economic and Fiscal Policy Council



After the Bank of Japan publishes its price outlook (outlook report) etc. (once every quarter), it is customary to hold "intensive deliberations on monetary policy, prices, etc."



# 1.What is the basic policy?

## Major meetings in the Kishida Cabinet

※The five councils other than the Economic and Fiscal Policy Council were established by the Kishida Cabinet.

| Meeting  | Main Agenda  | Times held (FY2023) | Constituents |         |
|--|--|---------------------|--------------|---------|
|  |  |                     | Minister     | Experts |
| <b>Economic and Fiscal Policy Council</b>                                  | Macro economic Fiscal Policy / Basic Policy on Economic and Fiscal Management and Reform | 16                  | 6            | 4       |
| <b>Council of New Form of Capitalism Realization</b>                       | Growth Strategy / Action Plan  | 10                  | 6            | 11      |
| <b>Children's Future Strategy Council</b>                                  | Child and Child-Rearing Policy   | 8                   | 10           | 19      |
| <b>GX(Green Transformation) Imprementation Council</b>                     | GX Promotion<br>(ex. GX Transition Bond, Carbon Pricing)                                 | 4                   | 6            | 12      |
| <b>Meeting on Digital Administrative and Fiscal Reform</b>                 | Digitalization of Education, Nursing care and Trantportation                             | 4<br>(Oct.~)        | 12           | 5       |
| <b>Headquarters for Social Security System Oriented to All Generations</b> | Sustainable Social Security  | 1                   | 7            | —       |



# 1.What is the basic policy?

## 2024 major points arrangement

### Important Points

#### Chapter Set

Chapter 1: Transition to a new growth-oriented economic stage

Chapter 2: Achieving sustainable economic growth by addressing social issues - Increasing income and productivity through fixed wage increases and strategic investment -

Chapter 3: Realizing a sustainable economic society in the medium to long term - "Economic and financial revitalization plan" -

Chapter 4: Immediate economic and fiscal management and ideas for FY2020 budget formulation

Completely break away from deflation and move the Japanese economy to a new stage. Income that exceeds price increases

1. "Increase in income" and "fixed wage increases" that allow you to feel affluence
2. Revitalizing mid-sized and small businesses that support affluence
3. Addressing social issues by expanding investment and implementing innovative technologies in society
4. Addressing social issues by forming startup networks and improving connectivity with overseas countries
5. Regional revitalization and responding to social issues in the region
6. Realizing an inclusive society where people can feel happiness
7. Responding to changes in the international environment as the foundation for sustainable economic growth
8. Promotion of disaster prevention/mitigation and national resilience

A six-year medium- to long-term plan until 2030 that aims to overcome the declining birthrate, aging population, and population decline and realize a sustainable economic society where the people can feel rich and happy. By ensuring real growth that stably exceeds 1% and achieving the 2% price stability target in a sustainable and stable manner, we aim to have an economy with a nominal value of around 1,000 trillion yen around 2040. The five visions are as follows. ① Improving productivity and expanding growth opportunities by solving social issues as an engine; ② Realizing a society with high levels of well-being in which everyone can play an active role; ③ Ensuring the sustainability of the economy, finances, and social security; ④ Providing support for each region. Formation of sustainable local communities that take advantage of characteristics and growth resources; ⑤ Improving connectivity with overseas growth markets and transforming the energy structure. Then strengthen EBPM

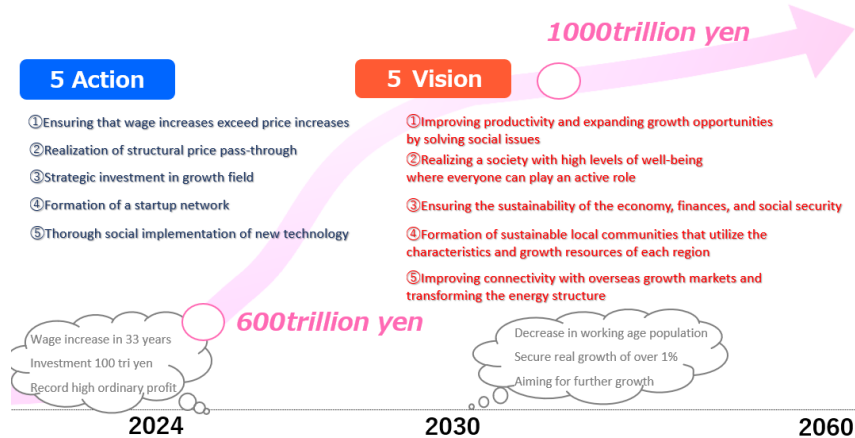
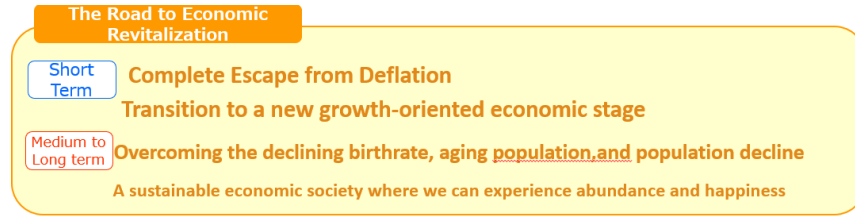
Expand the virtuous cycle of growth and distribution and formulate a budget for FY2020 that firmly maintains fiscal soundness



# 1.What is the basic policy?

Despite some criticism that it is too crowded,,, the emphasis is on Japan's competitiveness !

➤ Road to economic revitalization (Cabinet Office Minister of State for Special Missions materials)



- If I were to point out one problem with Japan, I think it would be a lack of competitiveness.
- From that perspective, I think this year's performance is more robust than in previous years, and the focus is on competitiveness.
- Japan's current location is positioned as a stage where it aims to completely break free from deflation, and we encourage productivity improvements and active investment to move to the next stage.
- Fiscal consolidation is not austerity. The goal is to invest funds in the right direction with the stance that fiscal soundness and wise spending can coexist.



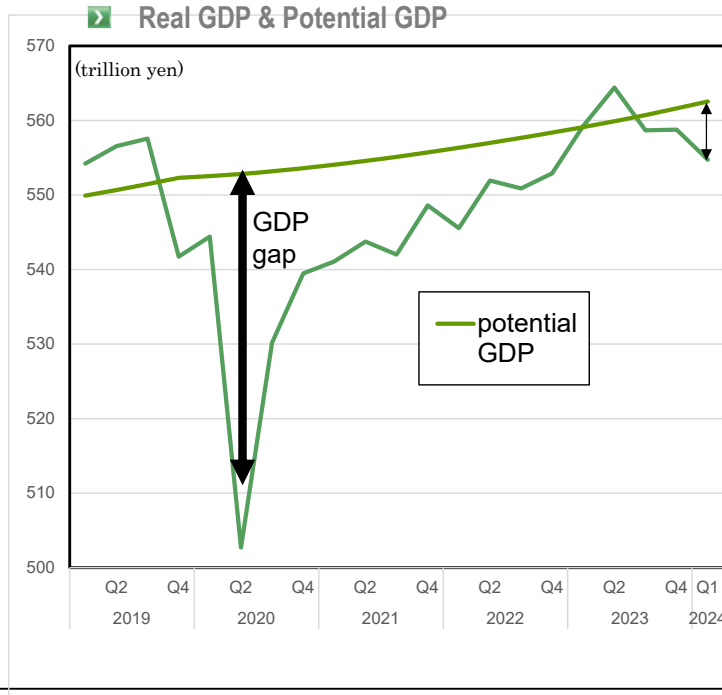
## 2. JAPAN'S CURRENT LOCATION



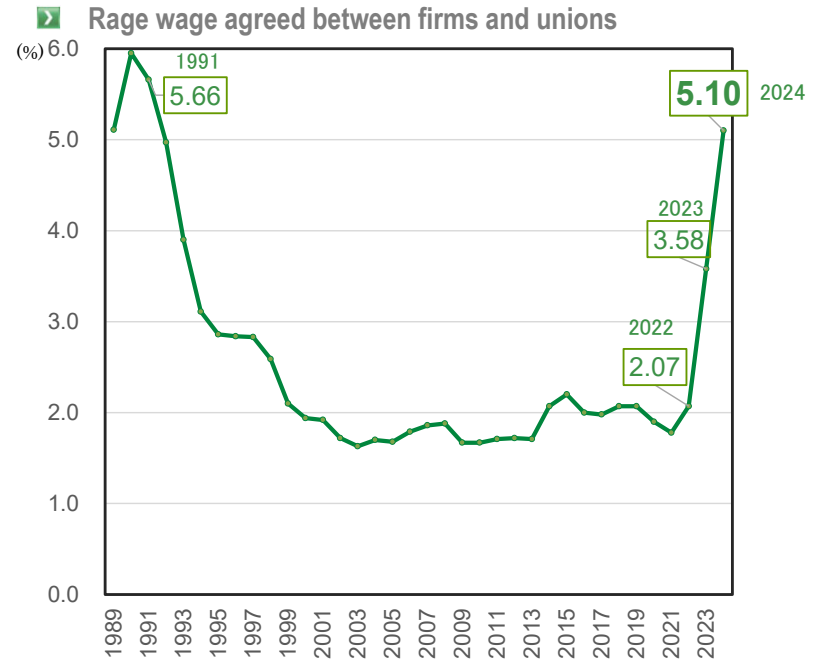


## 2. Japan's current location

GDP gap are changing from negative to positive. The highest wage increase in 33 years



Source: Cabinet Office, BNP Paribas



Source: Cabinet Office, Japanese Trade Union Confederation, BNP Paribas



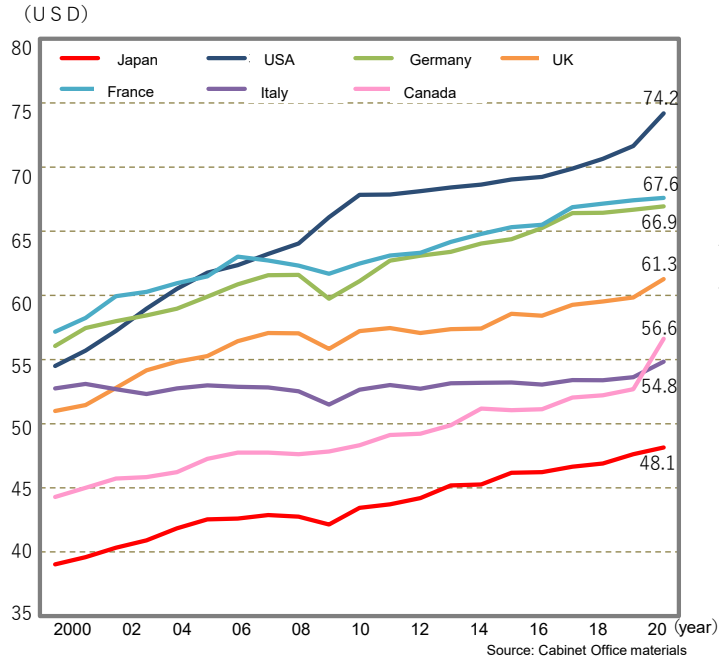
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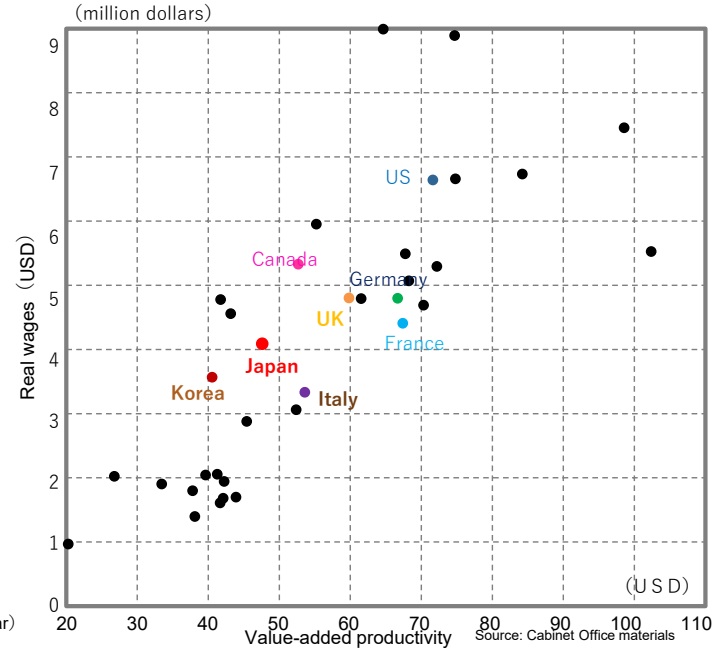
## 2. Japan's current location

The level of value-added productivity in Japan is low compared to overseas developed countries...

Changes in value-added productivity (labor productivity per hour) in major developed countries



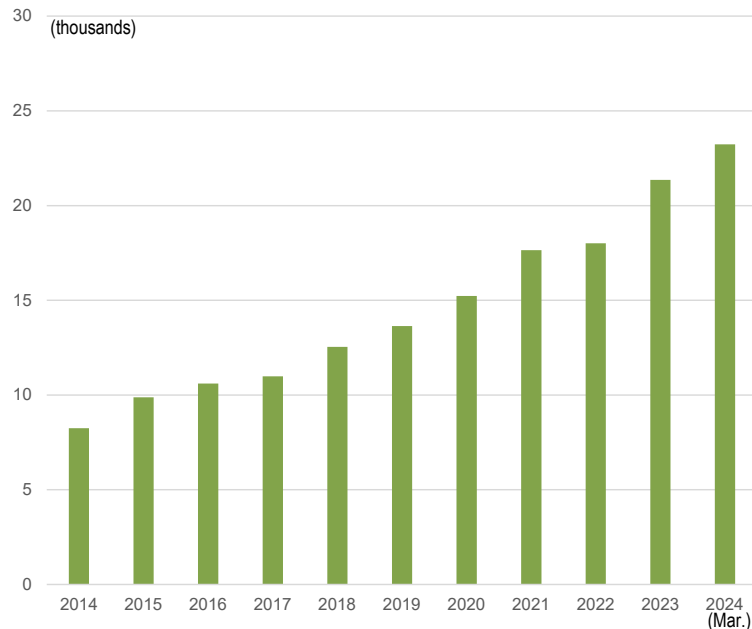
Relationship between value-added productivity and real wages (2019, OECD countries)



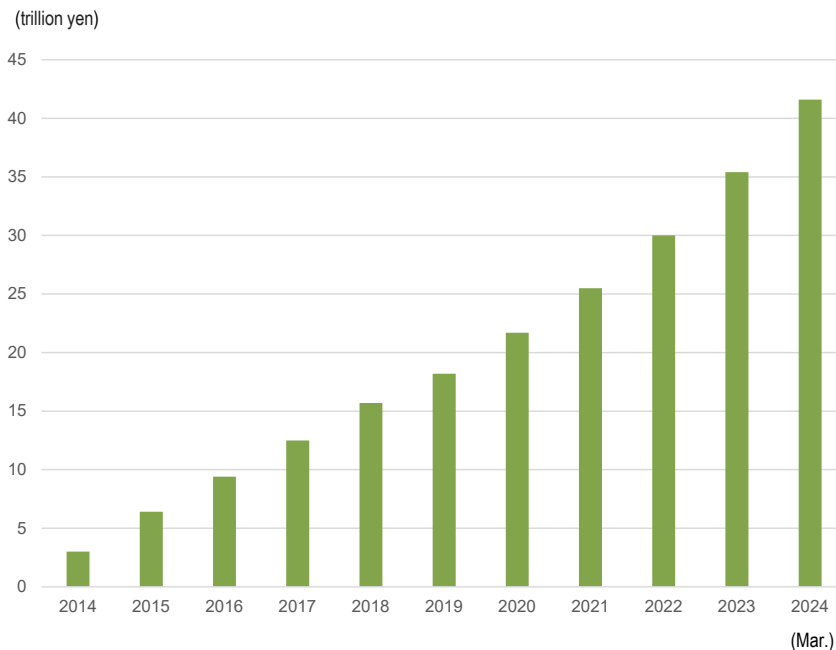
## 2. Japan's current location

NISA (Japan's new tax exemption scheme for investment by individuals) : Expanding flow from savings into investing

▶ Number of NISA accounts



▶ Purchase NISA amounts



## 2. Japan's current location

### Nikkei average recorded high after 34 years

Short range



Long range



## 2. Japan's current location

### Yen depreciation & corporate profit increase

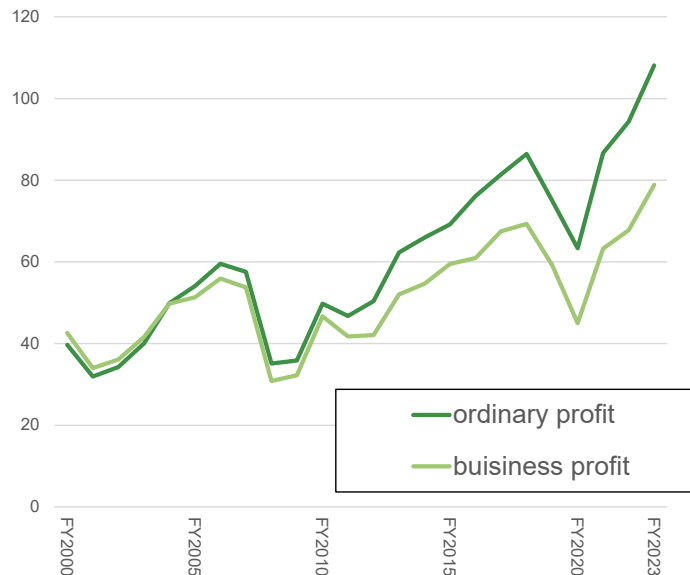
#### Yen Dollar rate

(JPY/USD)



#### Corporate Profit

(trillion yen)



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Source: Bloomberg, Ministry of Finance, BNP Paribas

## 2. Japan's current location

Are large companies the only ones driving the stock market?

RTY/ NDX



TSEMOTHER /NKY



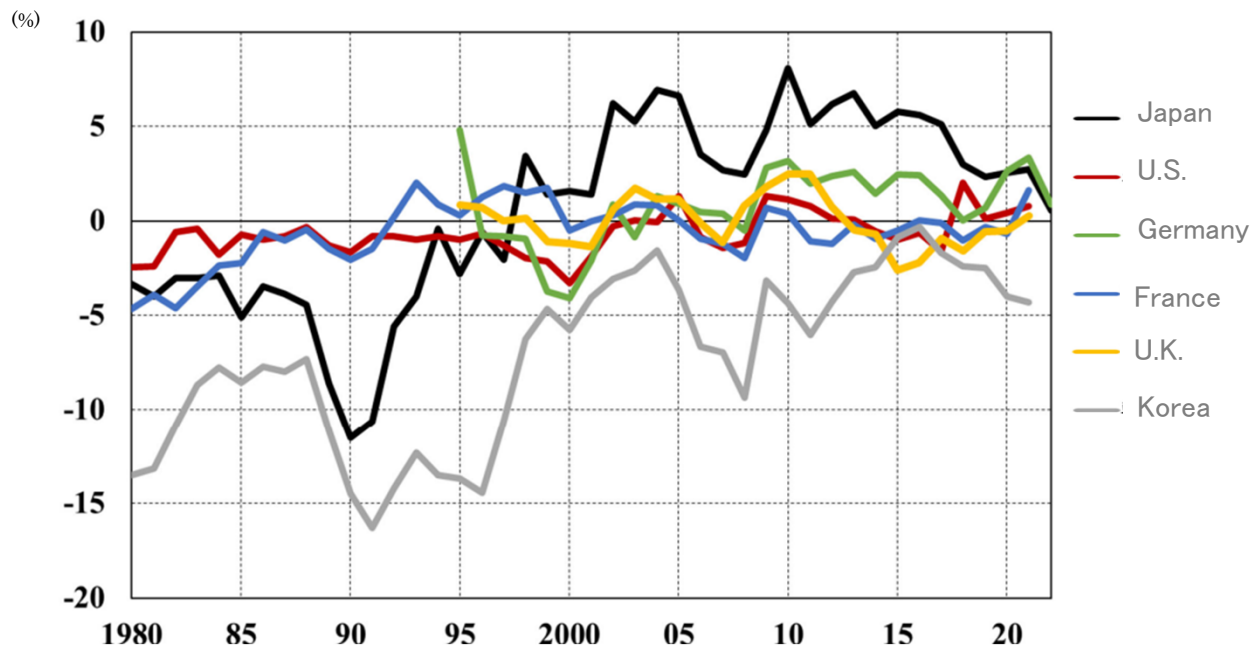
# 3. SHORT-TERM INTENSIVE MEASURES



### 3. Short-term Intensive measures

Japanese corporation's investment stance is weak, but ,,,

▣ Saving-investment balance of non-financial corporations

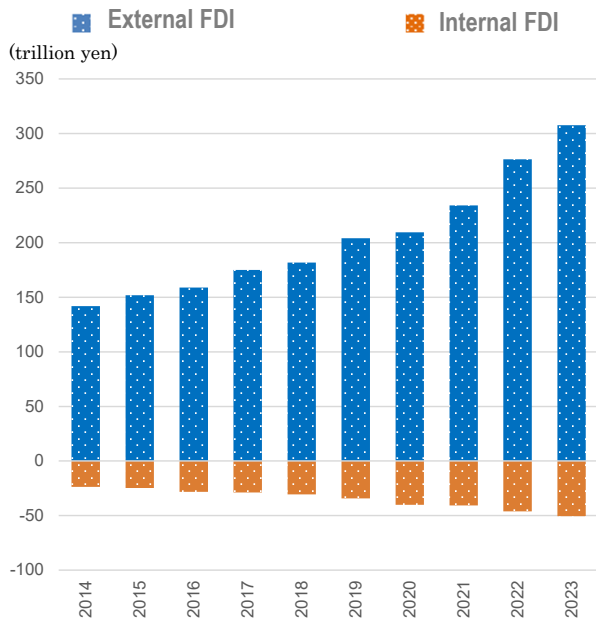




### 3. Short-term Intensive measures

#### External FDI is much larger than internal FDI

##### FDI



##### FDI promoting action plan(2023)

FDI Target:  
46tr(FY2022)⇒ 100 tr(FY2030)

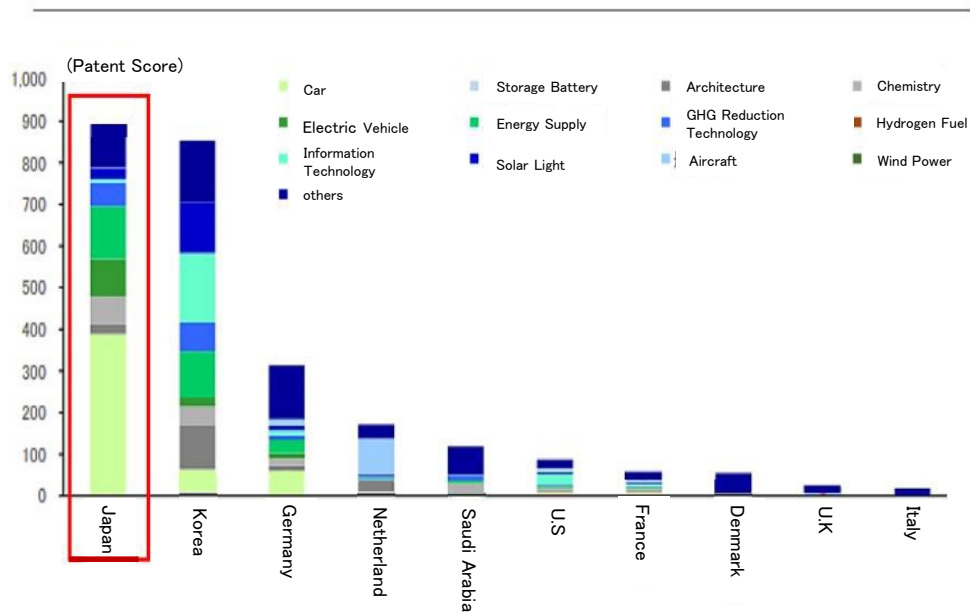
Strengthen Strategic item's supply chain  
Ex) semiconductor, biotechnology



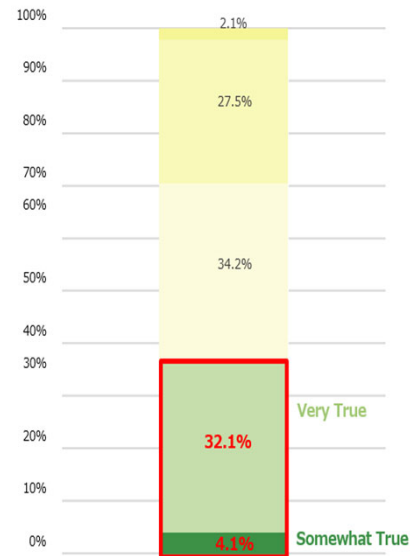
# 3. Short-term Intensive measures

## Japan has many GX-related patents

➤ GX-related patent score of company in each countries



➤ Are there many technologies which are not being utilized?



### 3. Short-term Intensive measures

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To achieve both economic growth and fiscal consolidation

#### **Trinity labor market reforms and structural wage increases**

-Reskilling, Job-based pay, Facilitating labor transfer into growth areas

#### **Expanding investment**

-GX, DX, Startup, Innovation, Inbound

#### **Sustainable economic and fiscal management**

Formulate a medium-term economic and fiscal framework



**Can we achieve 1% real GDP growth?**



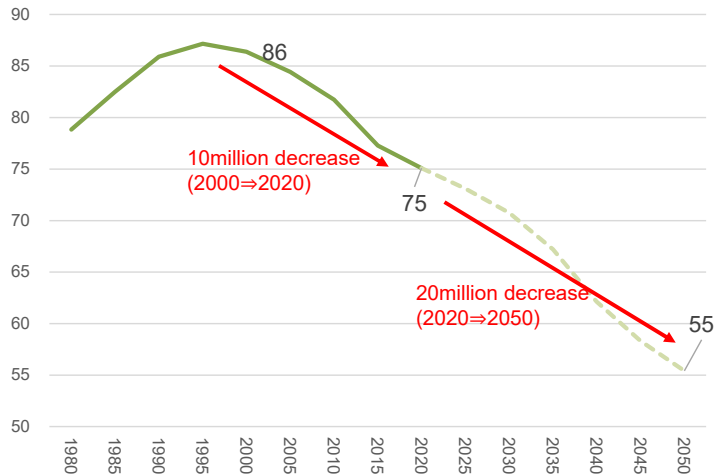
# 4. LONG-TERM COUNTERMEASURES



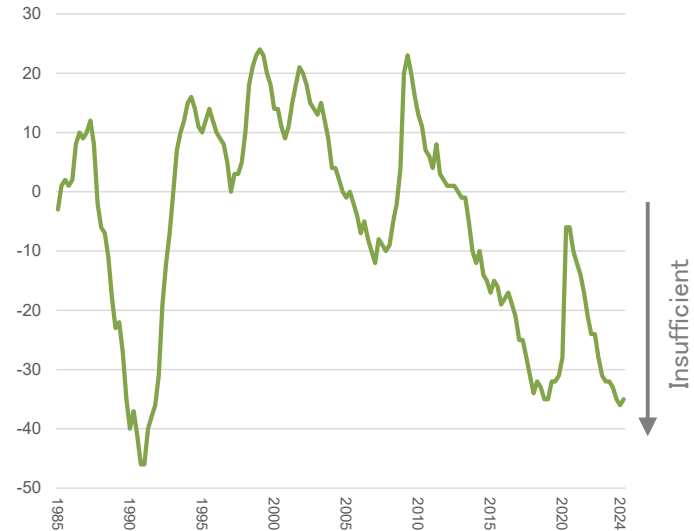
## 4. Long-term countermeasures

### Labor shortage is becoming serious problem according to population decrease

(%)  Working age population



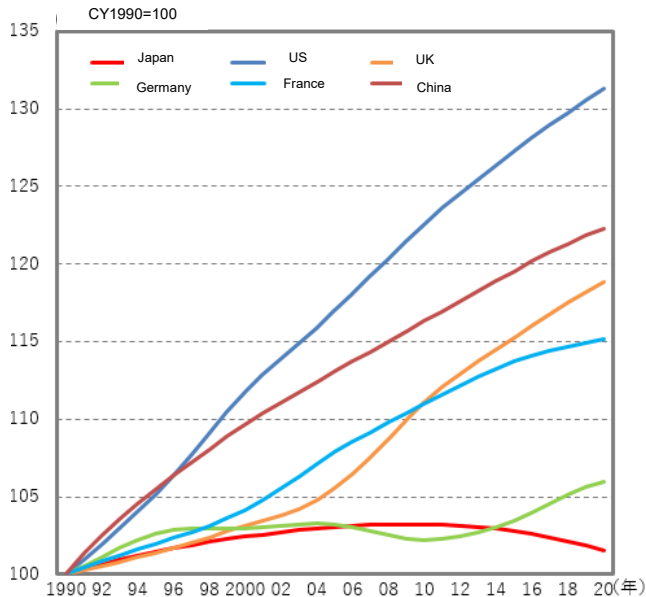
(D.I.)  Employment condition (= sufficient – insufficient)



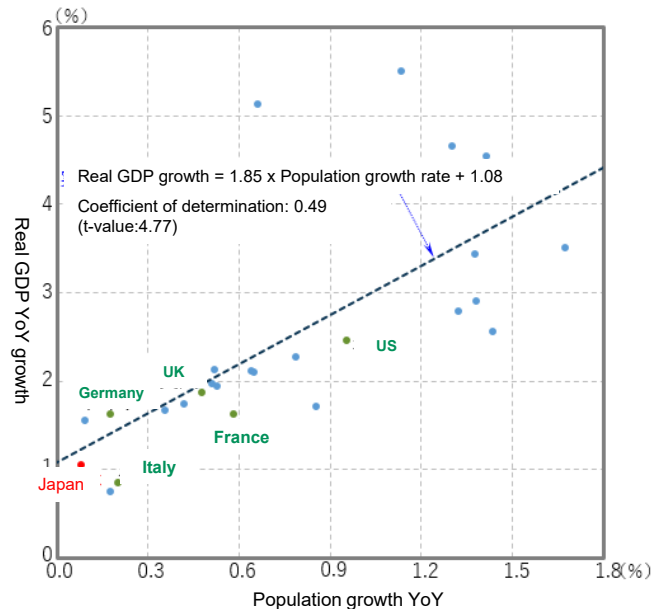
## 4. Long-term countermeasures

The last 30 years overlapped with the period of population stagnation. Declining population has a major impact on economic growth!

### Population Change



### Relationship between population growth rate and economic growth rate



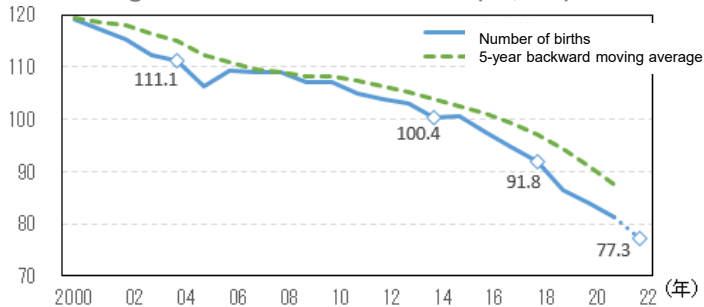
Note: OECD countries, 30-year average to 2019



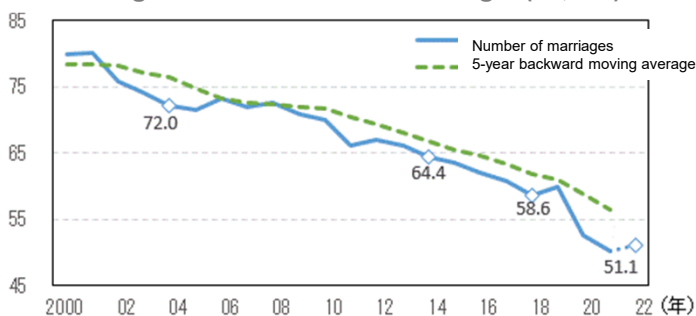
# 4. Long-term countermeasures

Countermeasures have not yet worked...

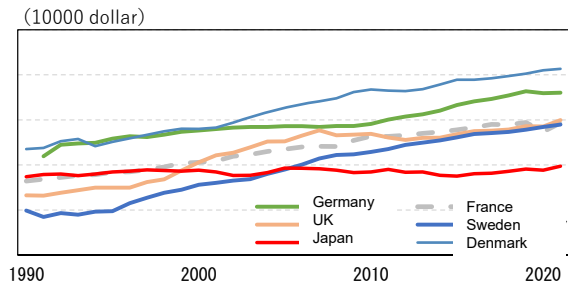
Changes in the number of births (10,000)



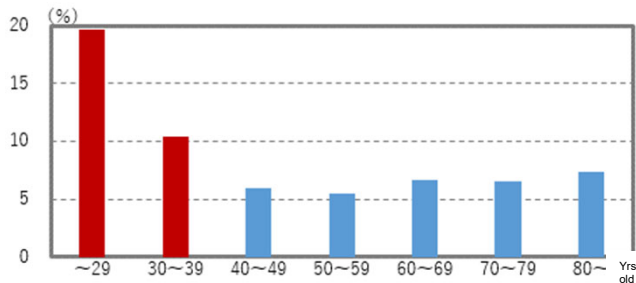
Changes in the number of marriages(10,000)



Average Wage PPP Base in Each country

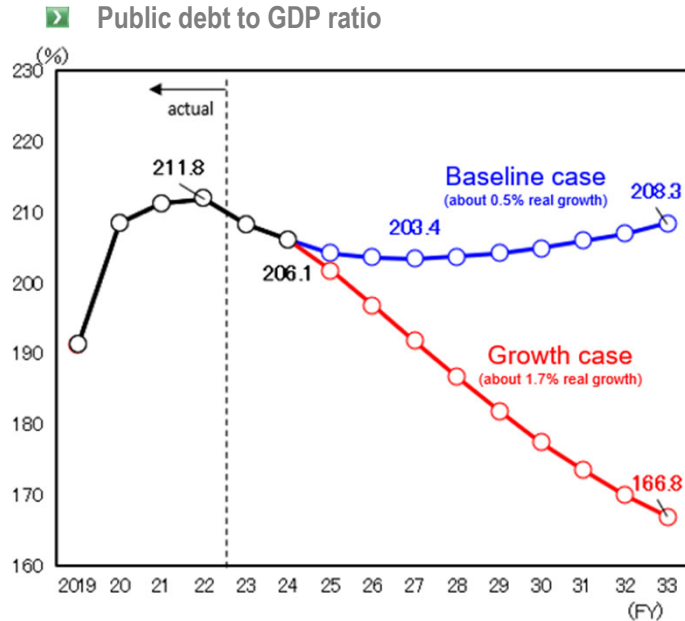
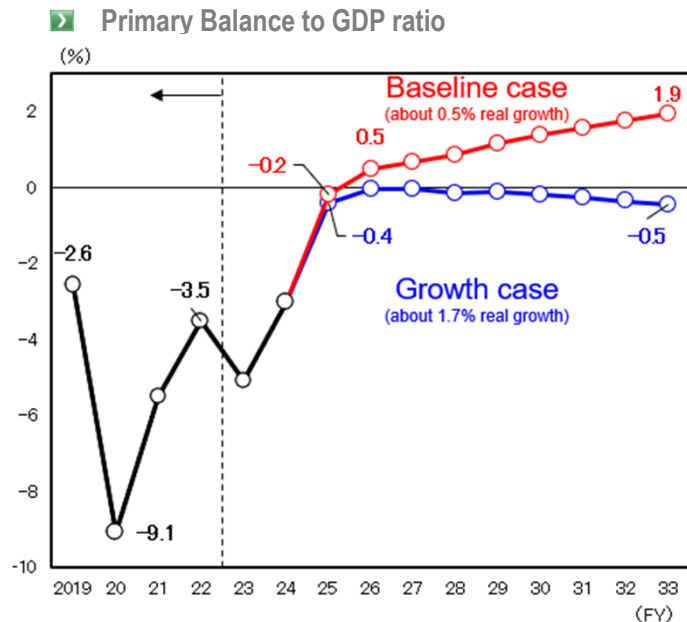


Percentage of housing expenses in consumption expenditure of two-or-more-person households (2019)



## 4. Long-term countermeasures

To achieve both economic growth and fiscal consolidation





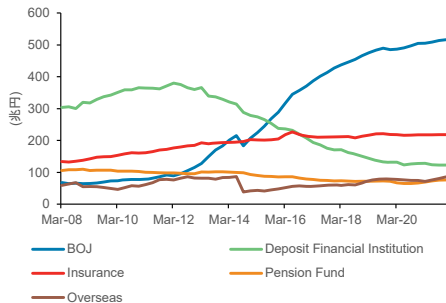
# 4. Long-term countermeasures

## Improving Japan's fiscal health and maintaining creditworthiness

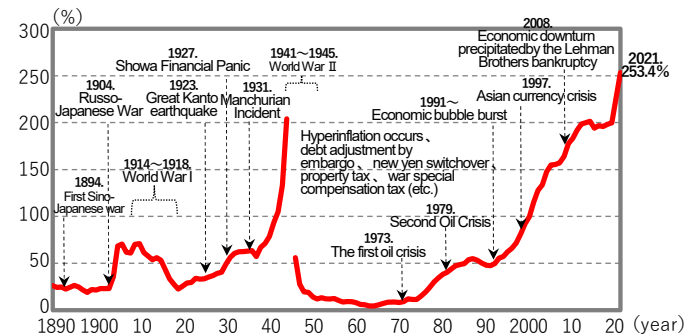
### List of developed country ratings

|               | MDY    |         | S&P    |         | Fitch  |         | R&I    |         | JCR    |         |
|---------------|--------|---------|--------|---------|--------|---------|--------|---------|--------|---------|
|               | Rating | Outlook | Rating | Outlook | Rating | Outlook | Rating | Outlook | Rating | Outlook |
| UNITED STATES | Aaa    | NEG     | AA+u   | STABLE  | AA+u   | STABLE  | AAA    | STABLE  | AAA    | STABLE  |
| GERMANY       | Aaa    | STABLE  | AAAu   | STABLE  | AAAu   | STABLE  | AAA    | STABLE  | AAA    | STABLE  |
| FRANCE        | Aa2u   | STABLE  | AAu    | NEG     | AA-u   | STABLE  | AAA    | STABLE  | AAA    | STABLE  |
| ITALY         | Baa3u  | STABLE  | BBBu   | STABLE  | BBBu   | STABLE  | BBB+   | STABLE  | A      | STABLE  |
| SPAIN         | Baa1   | STABLE  | Au     | STABLE  | A-u    | STABLE  | A      | -       | AA     | STABLE  |
| BRITAIN       | Aa3u   | STABLE  | AAu    | STABLE  | AA-u   | NEG     | AAA    | STABLE  | AAA    | STABLE  |
| CANADA        | Aaa    | STABLE  | AAA    | STABLE  | AA+u   | STABLE  | NR     | -       | AAA    | STABLE  |
| JAPAN         | A1     | STABLE  | A+u    | STABLE  | Au     | STABLE  | AA+    | STABLE  | AAA    | STABLE  |
| CHINA         | A1     | STABLE  | A+     | STABLE  | A+u    | STABLE  | AA-    | STABLE  | AA     | STABLE  |

### Breakdown of government bond holders



### Ratio of public debt to GDP(%, fiscal year)



## Market Colour

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### **Rationale for the Registration System**

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### **Name of the Credit Rating Agency Group, etc.**

Name of the Credit Rating Agency Group: S&P Global Ratings ("S&P")  
Name of the Registered Credit Rating Agency within the Group and its Registration Number:  
S&P Global Ratings Japan K.K. (FSA Commissioner (Rating) No. 5)

Name of the Credit Rating Agency Group: Moody's Investors Service ("Moody's")  
Name of the Registered Credit Rating Agency within the Group and its Registration Number:  
Moody's Japan K.K. (FSA Commissioner (Rating) No. 2)

Name of the Credit Rating Agency Group: Fitch Ratings ("Fitch")  
Name of the Registered Credit Rating Agency within the Group and its Registration Number:  
Fitch Ratings Japan Limited (FSA Commissioner (Rating) No. 7)

### **Method of Obtaining the Information about the Summaries of the Policies and Criteria for Credit Rating**

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#### **Fitch:**

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