

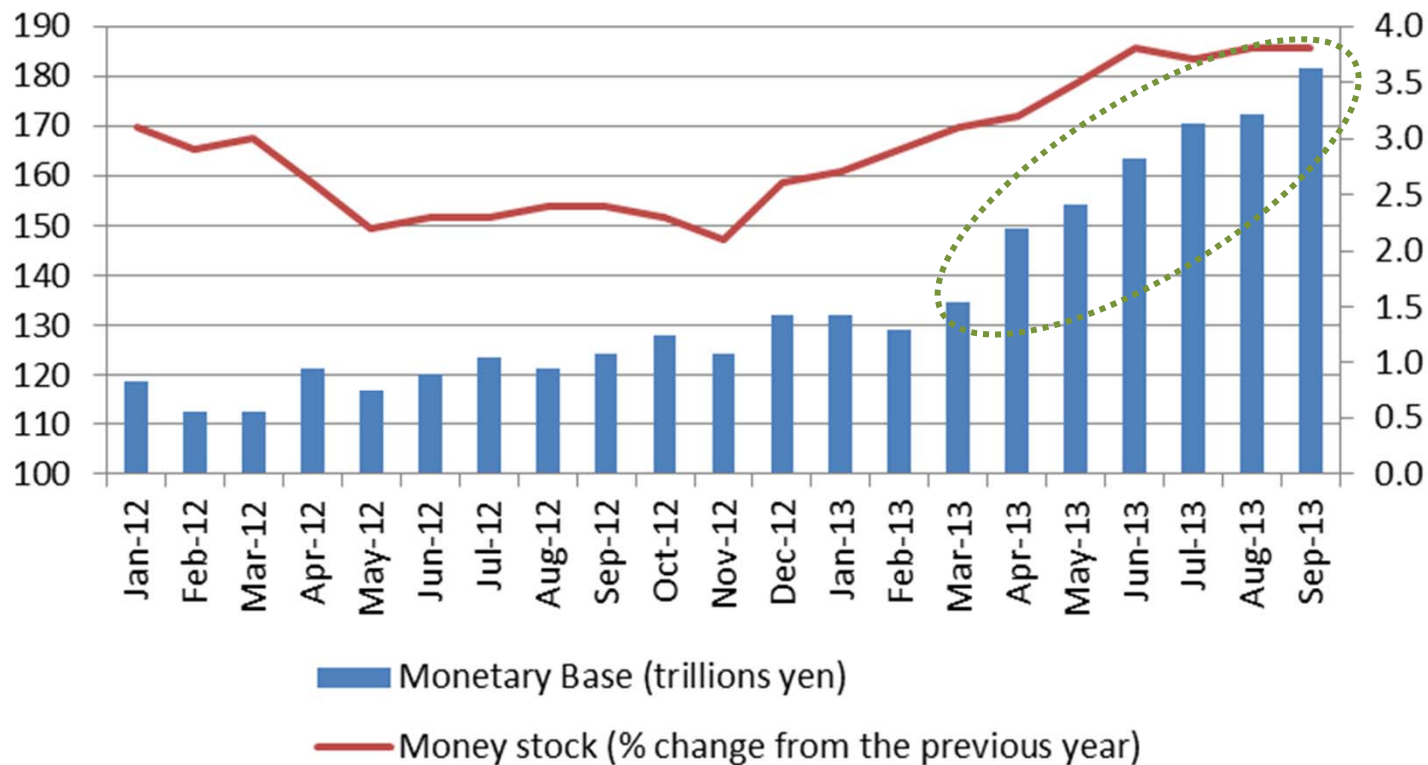
Regional Outlook: Japan

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Osaka University
Project LINK Meeting in NY
October 22, 2013

Three Targets for Japanese Economy

1. Ending deflation
 - Quantitative and qualitative monetary easing
2. Faster domestic growth
 - Fiscal stimulus
 - Structural reform in economic system
3. Fiscal consolidation
 - Consumption tax hike
 - Structural reform in social security system

A New Phase of Monetary Easing



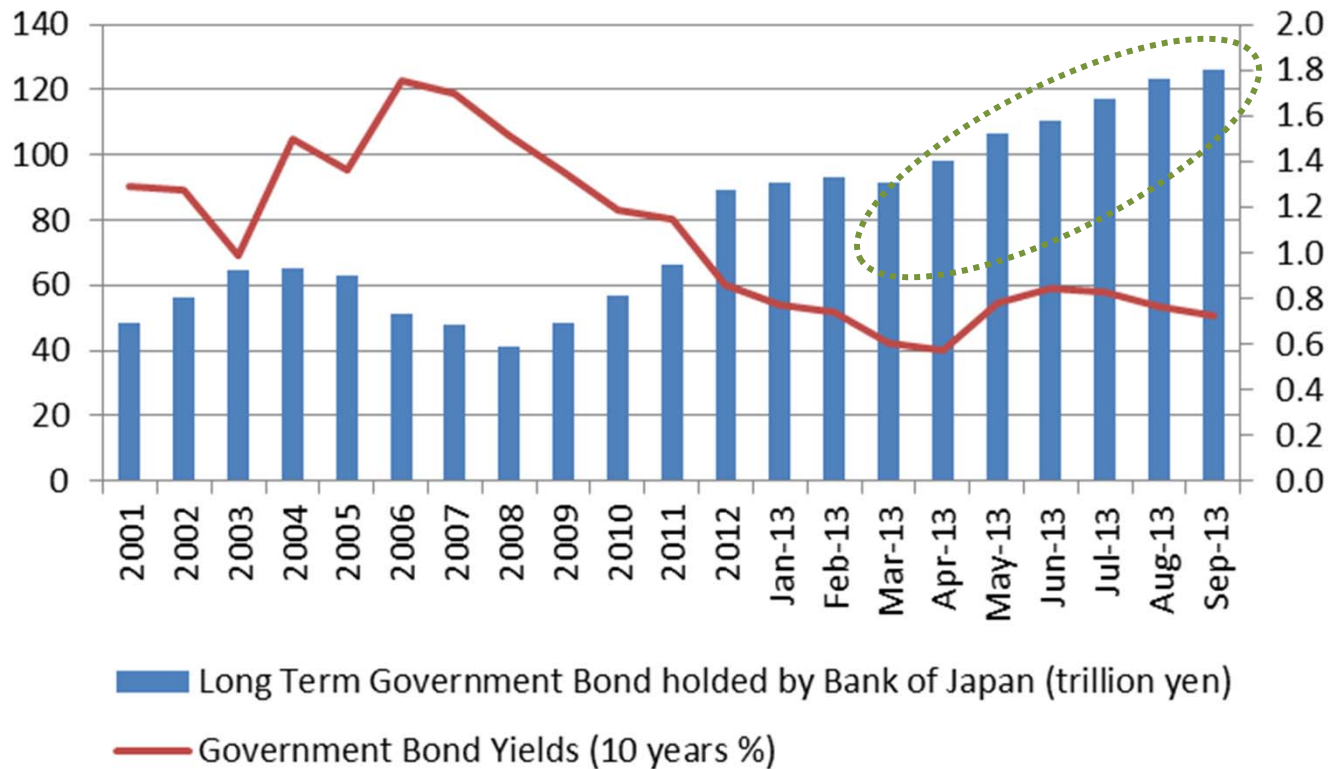
The Bank of Japan started to expand the purchases of government bond and more risky assets for ending deflation. As a result, monetary base has increased from 130 trillion yen in March to 180 trillion yen in September.

Source: Bank of Japan

Government bond held by BOJ

trillion yen

%

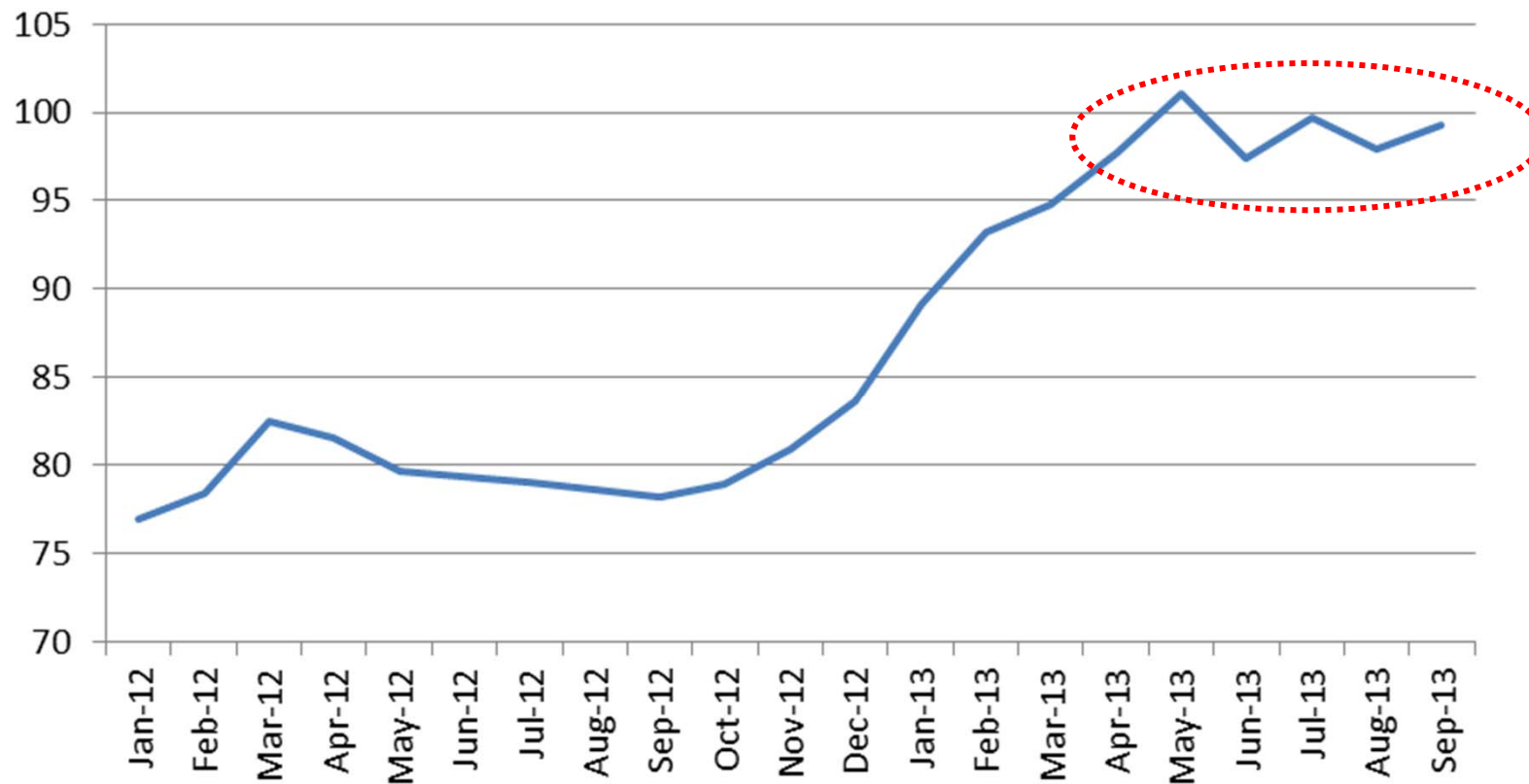


1. The amount of government bond held by BOJ has increased from 91 trillion yen in March to 126 trillion yen in September.
2. Government bond yields remain below 0.8%.

Source: Bank of Japan

Yen depreciation

Yen/US\$

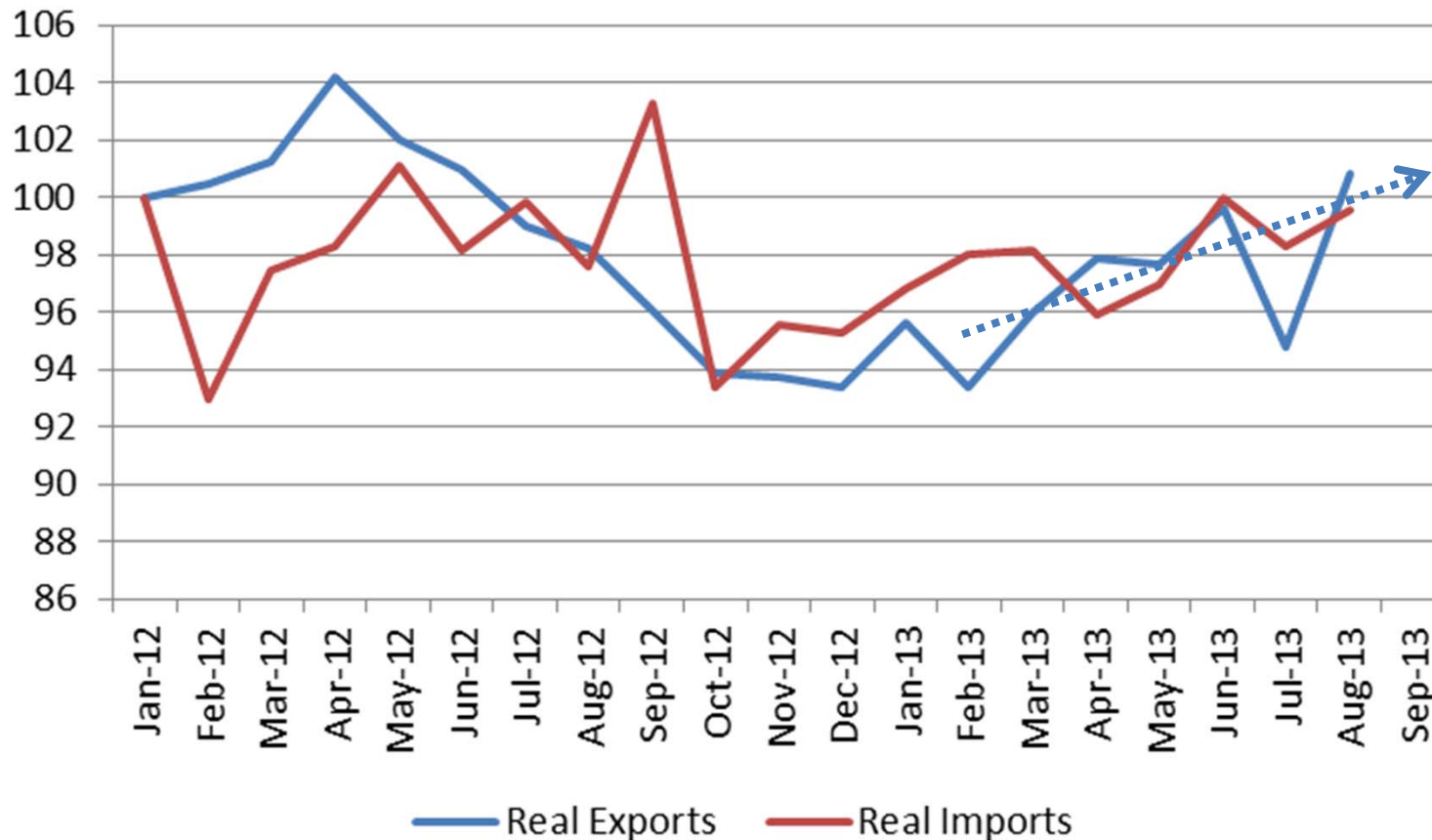


Yen has depreciated since the late 2012. Yen has fluctuated around 100 yen/US\$ since this April.

Source: Bank of Japan

Real exports and imports

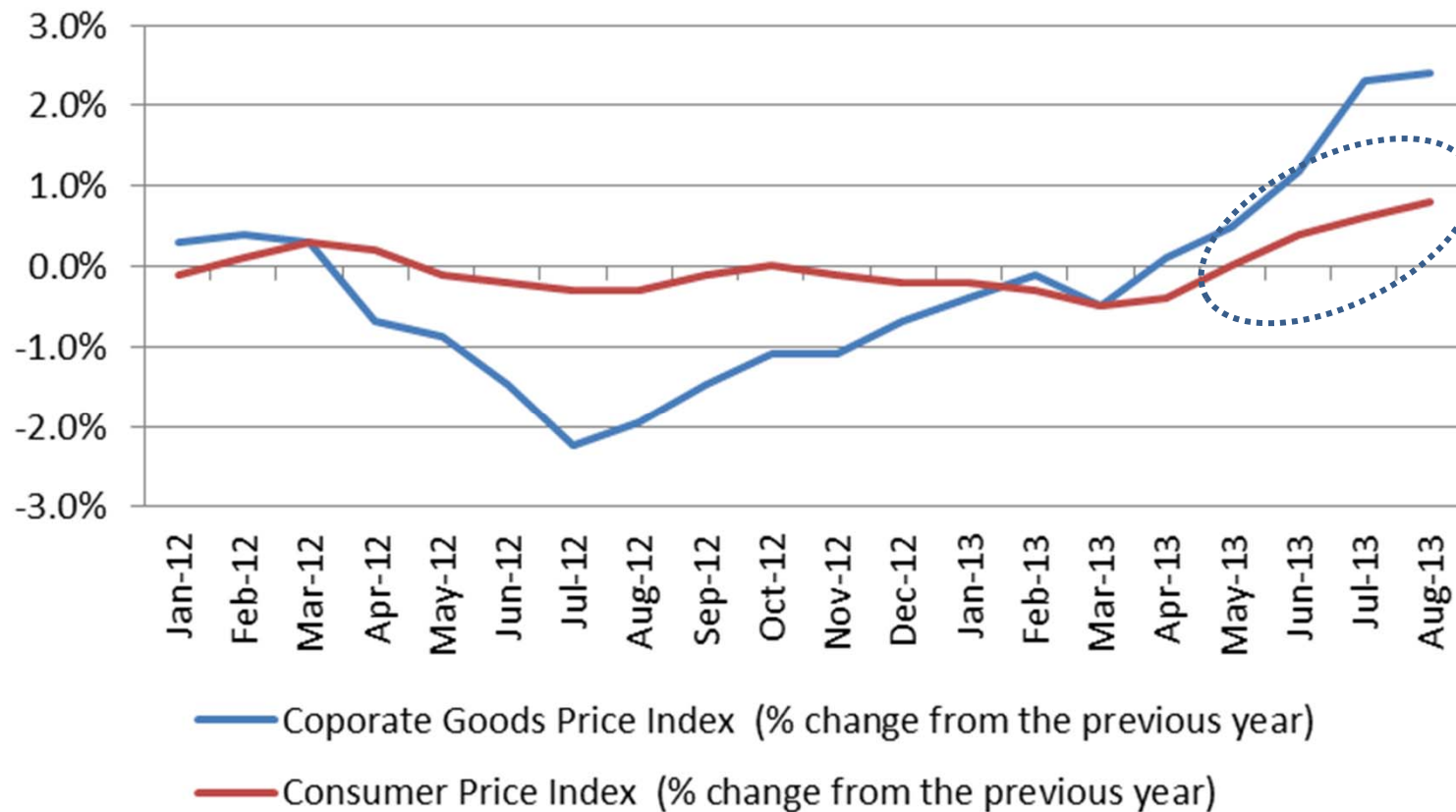
January 2012 = 100



Both real exports and imports have been on the upward trend.

Source: Bank of Japan

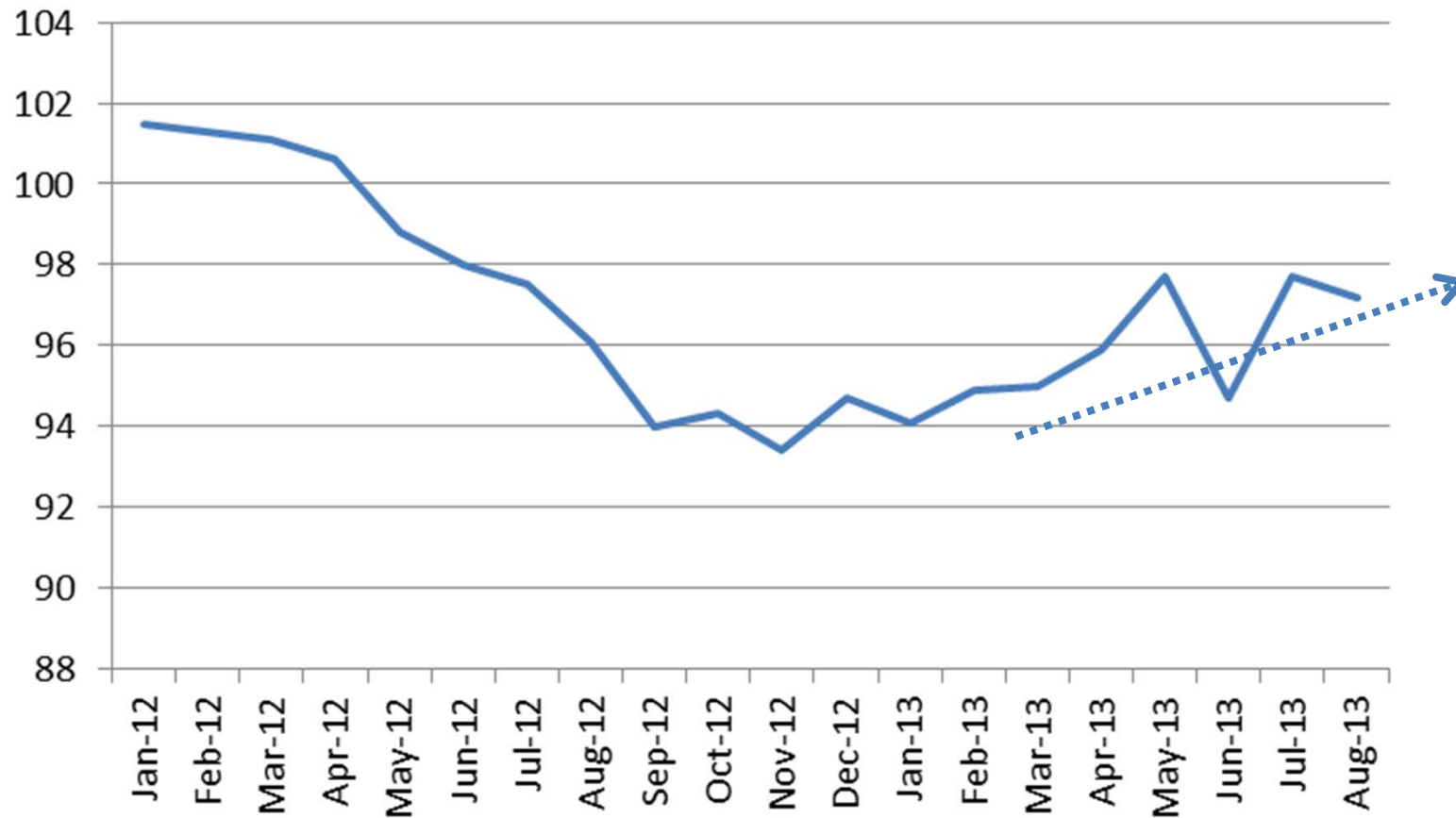
Corporate and consumer prices



Changes in CPI has become positive since this May.

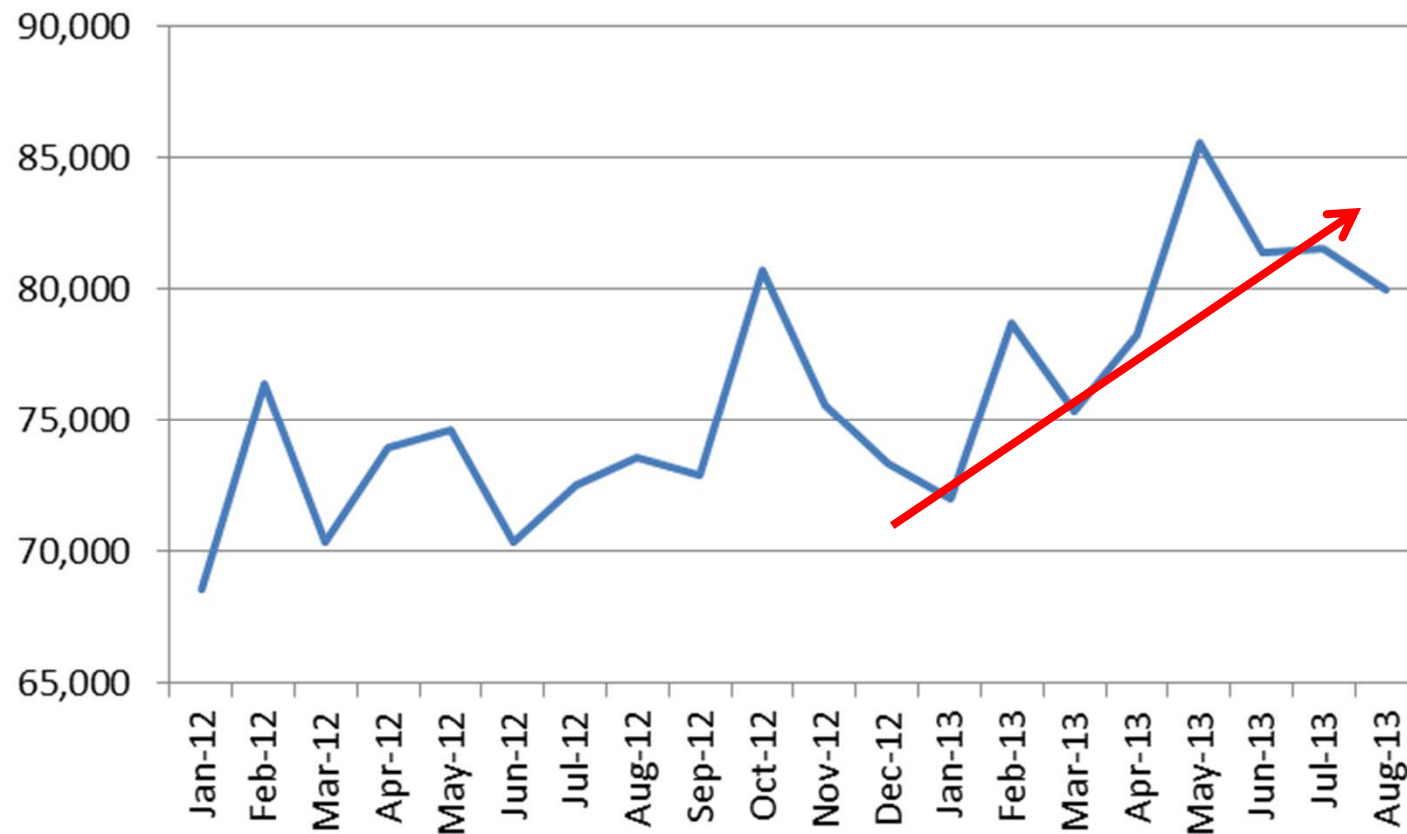
Source: Bank of Japan & Statistics Bureau

Industrial production index



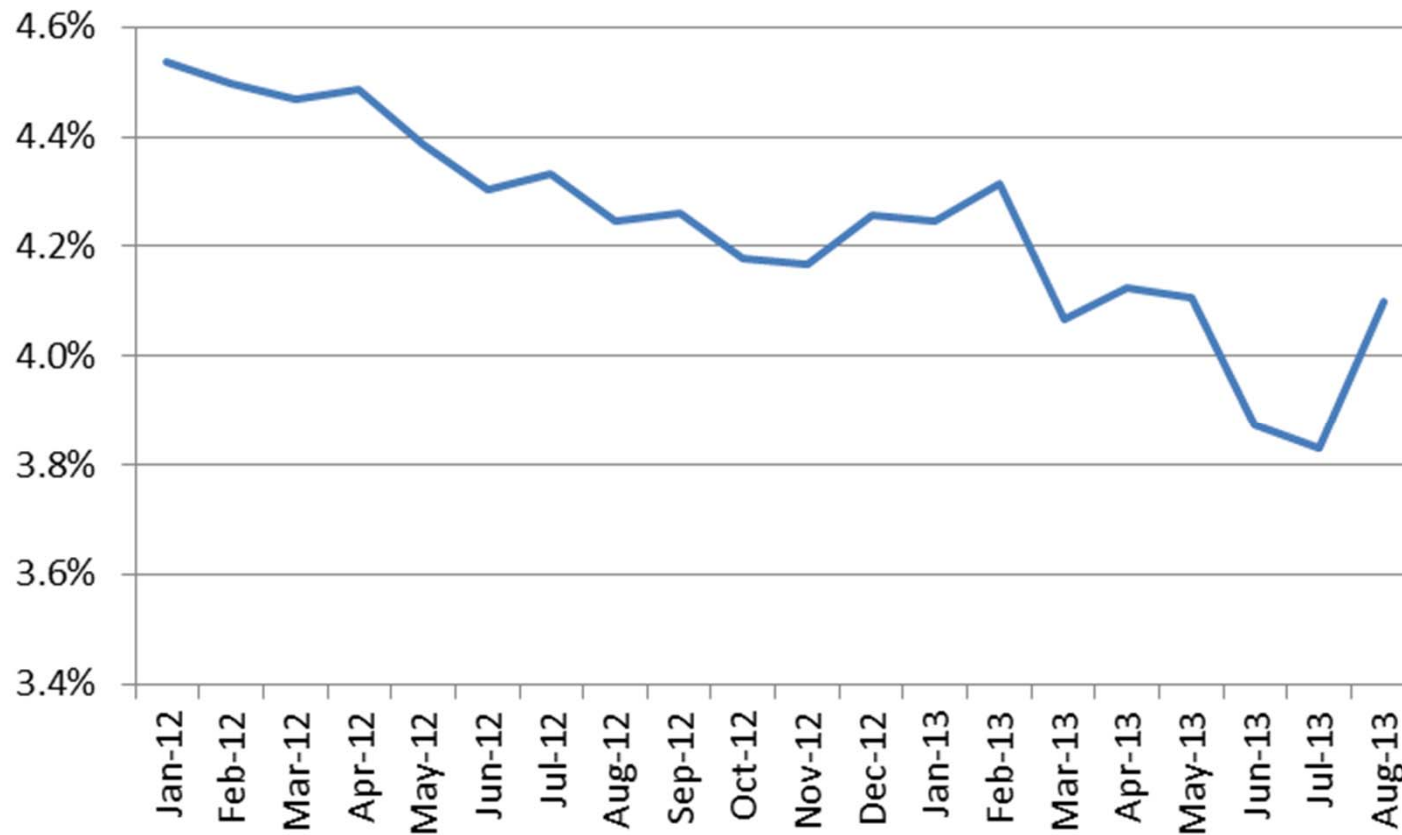
Industrial production is on upward trend

Housing starts reflect rush demand



The amount of housing starts has increased rapidly by rush demand before consumption tax rate hike.

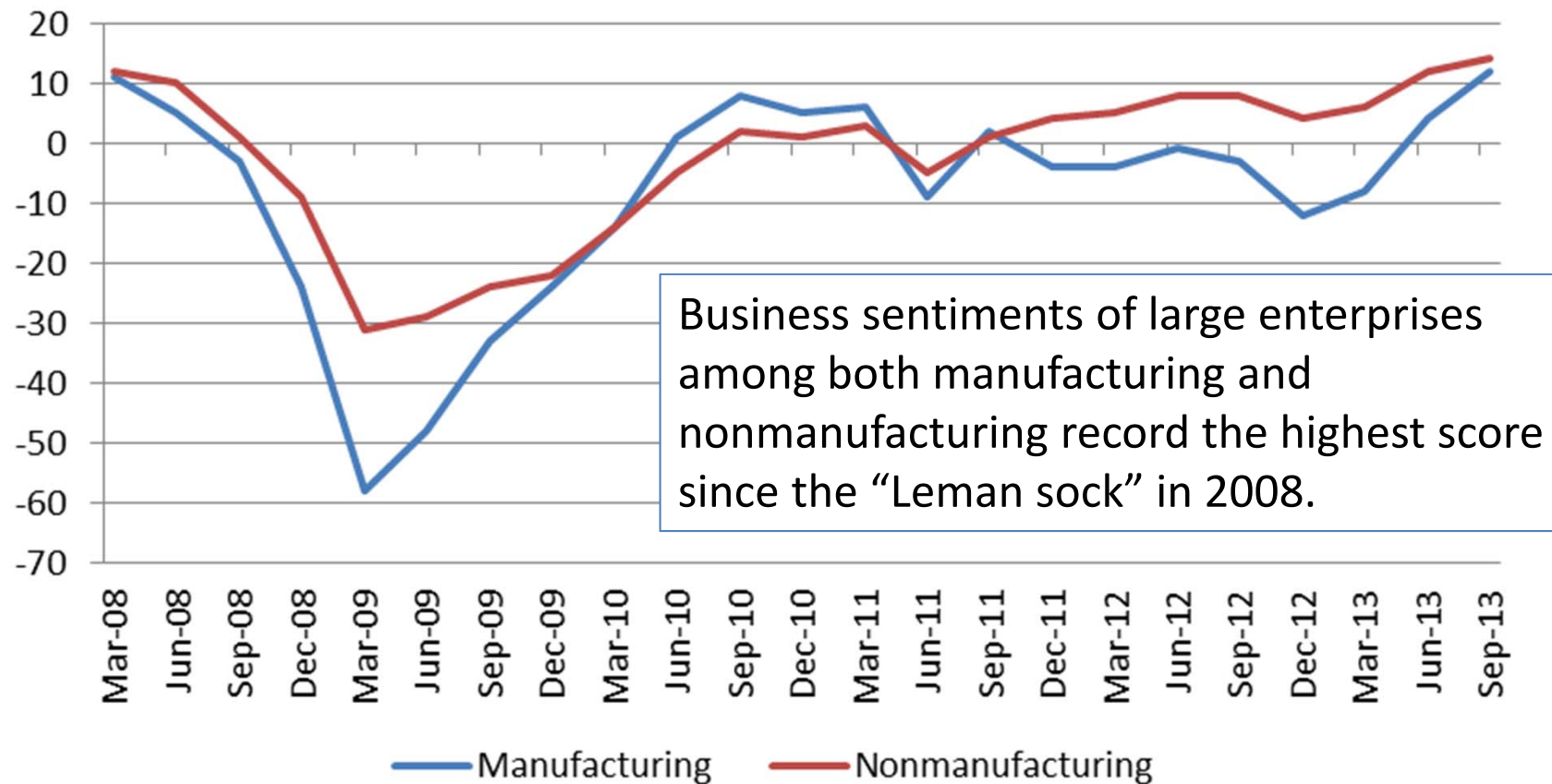
Unemployment



Unemployment deteriorated in August, but has improved since last year.

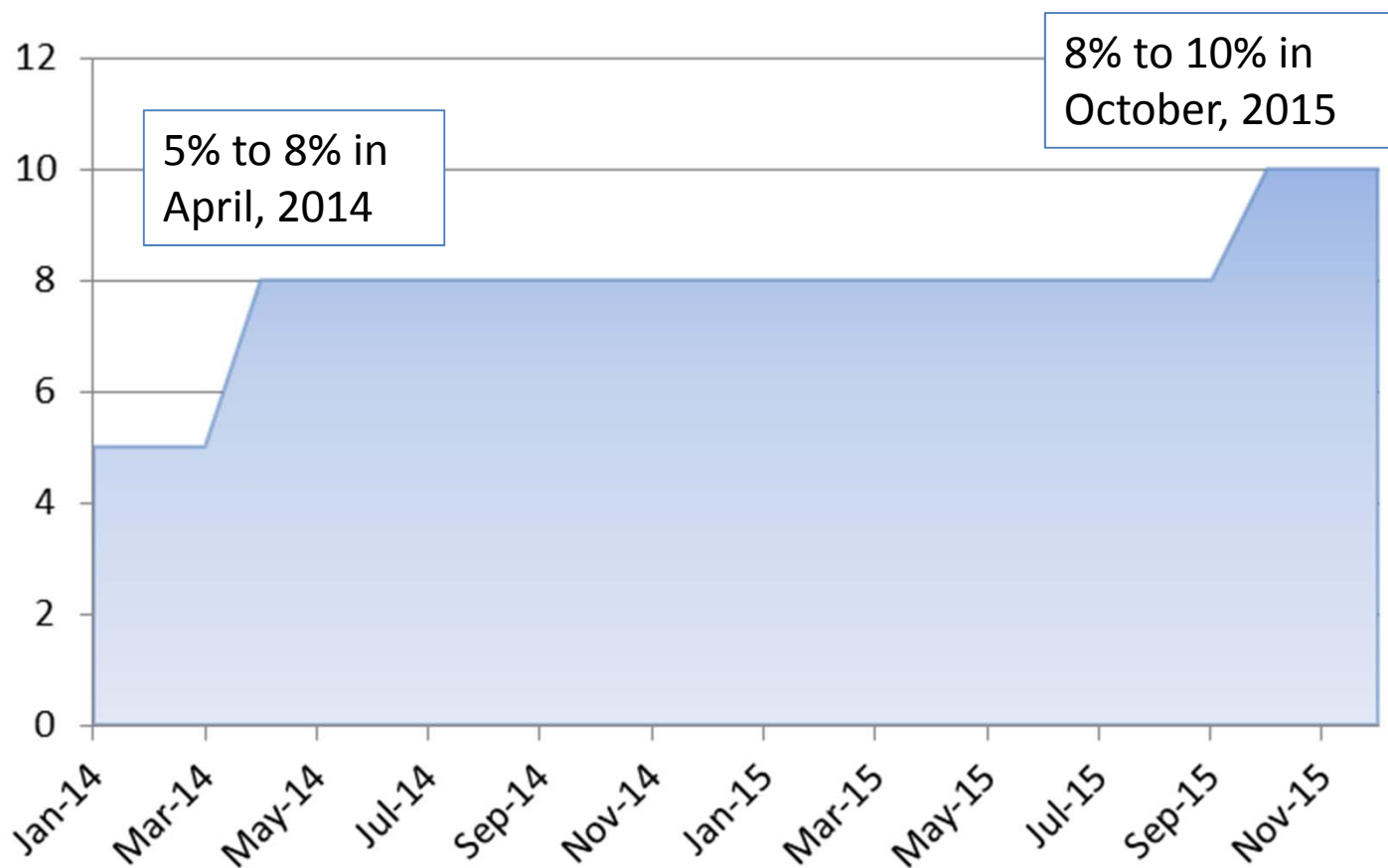
Business Conditions of Large Enterprises

Index of “Favorable” minus “Unfavorable”, %points



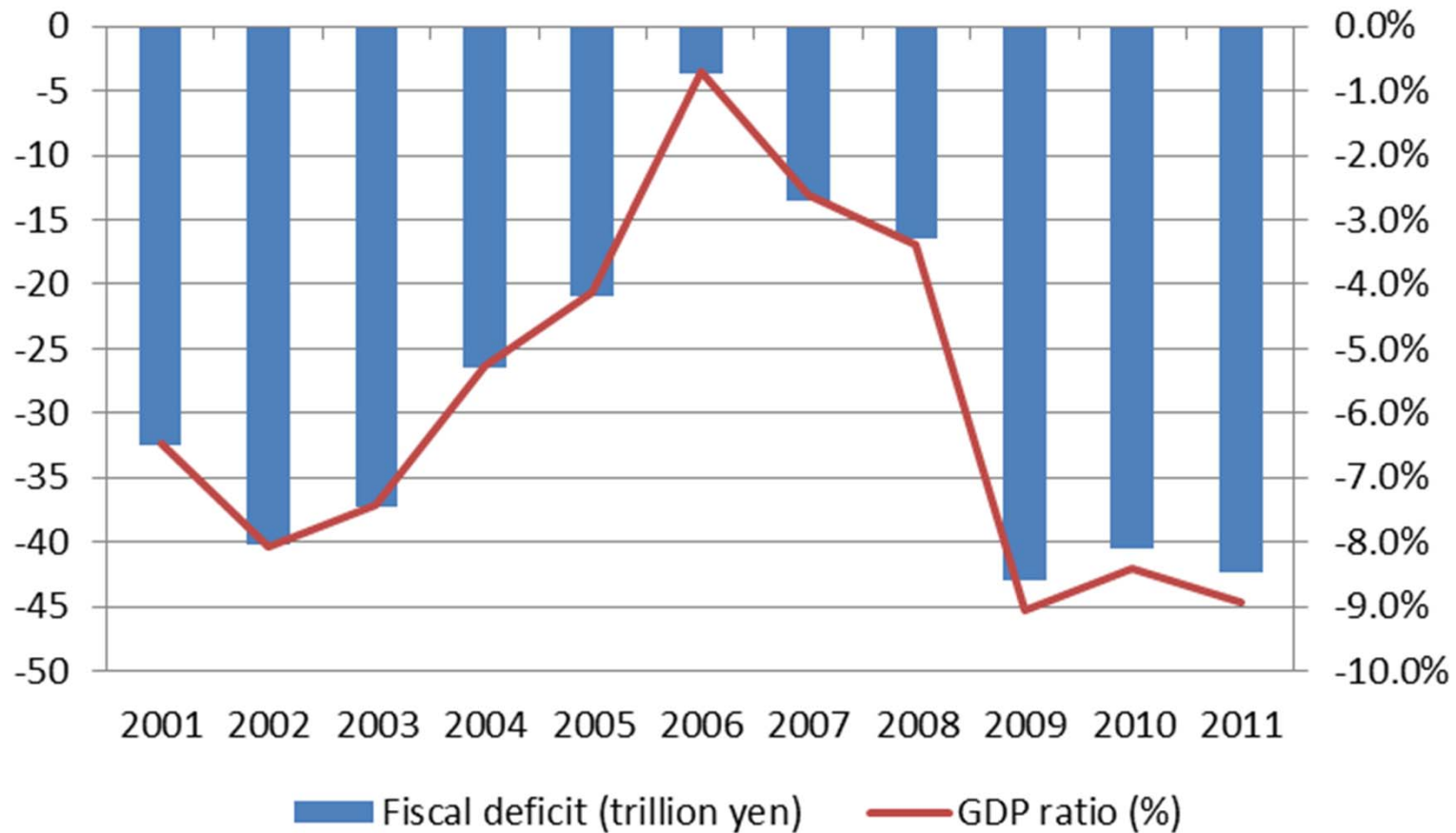
Source: Bank of Japan

Increase in consumption tax rate



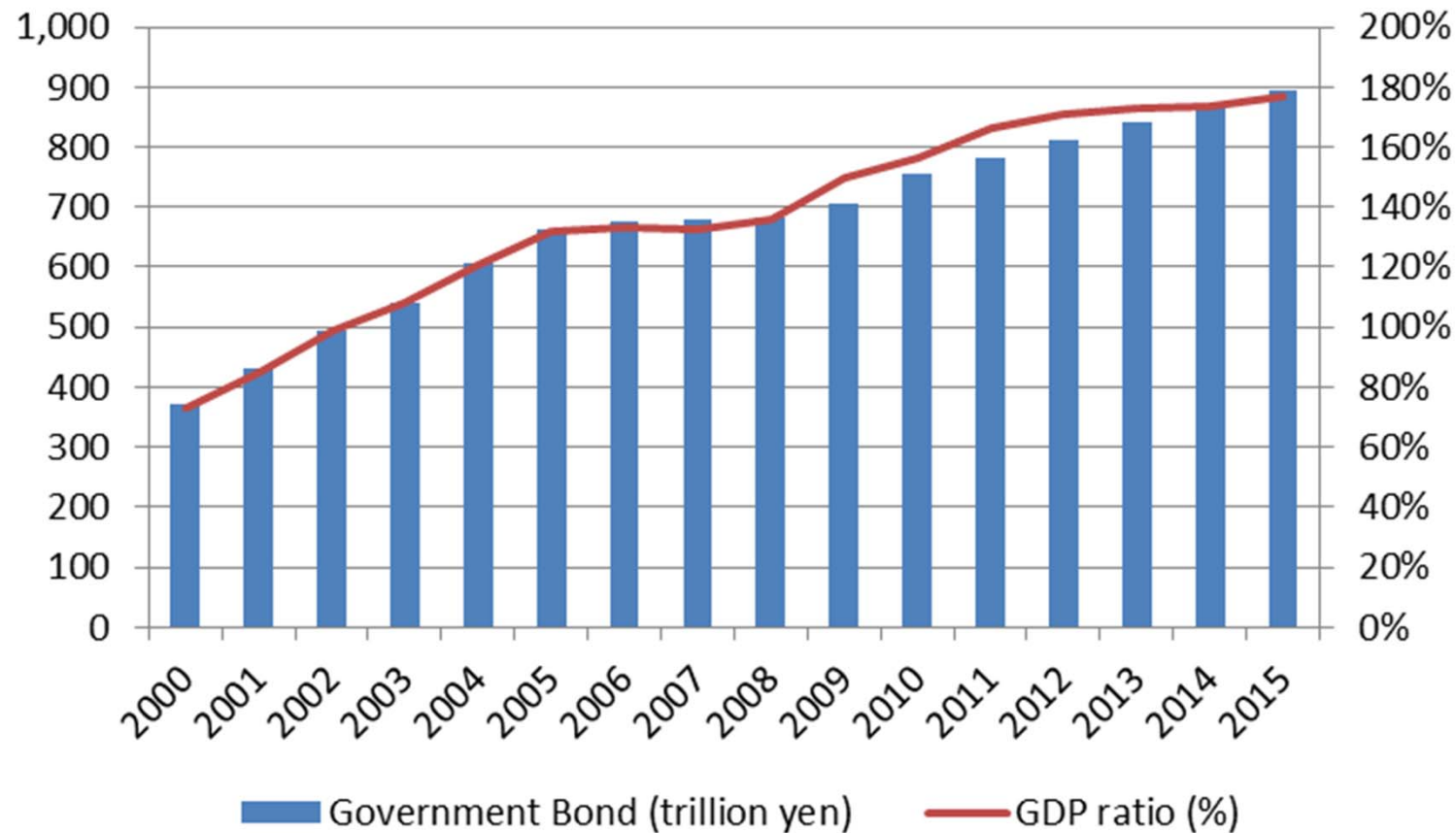
Tax revenue is expected to increase by 2 trillion yen by increase in consumption tax rate by 1%. Source Ministry of Finance

Fiscal deficit



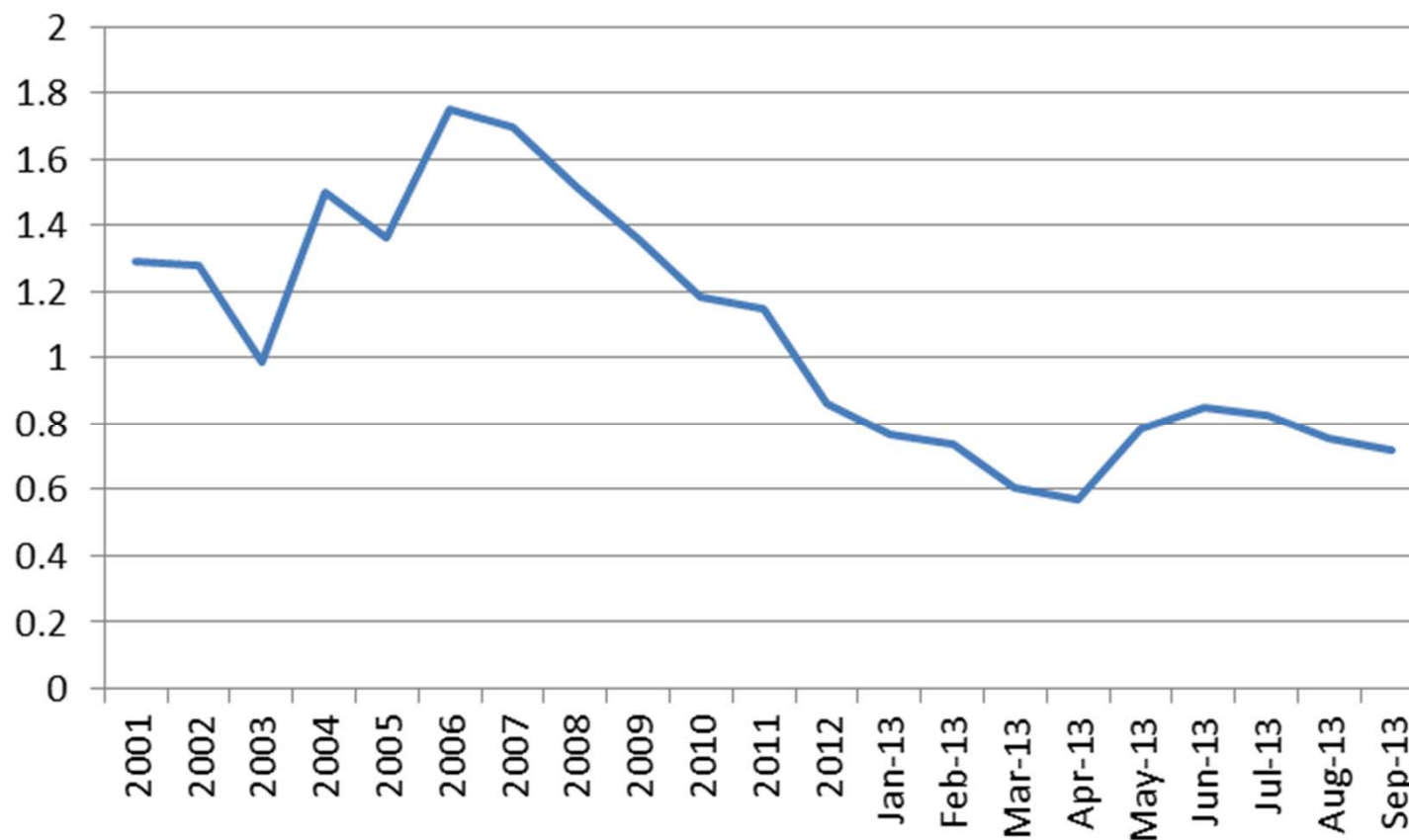
Source: Ministry of Finance
Cabinet office

The amount of long-term government bond



Even though consumption tax rate increase to 10%, the amount of government bond is expected to increase.

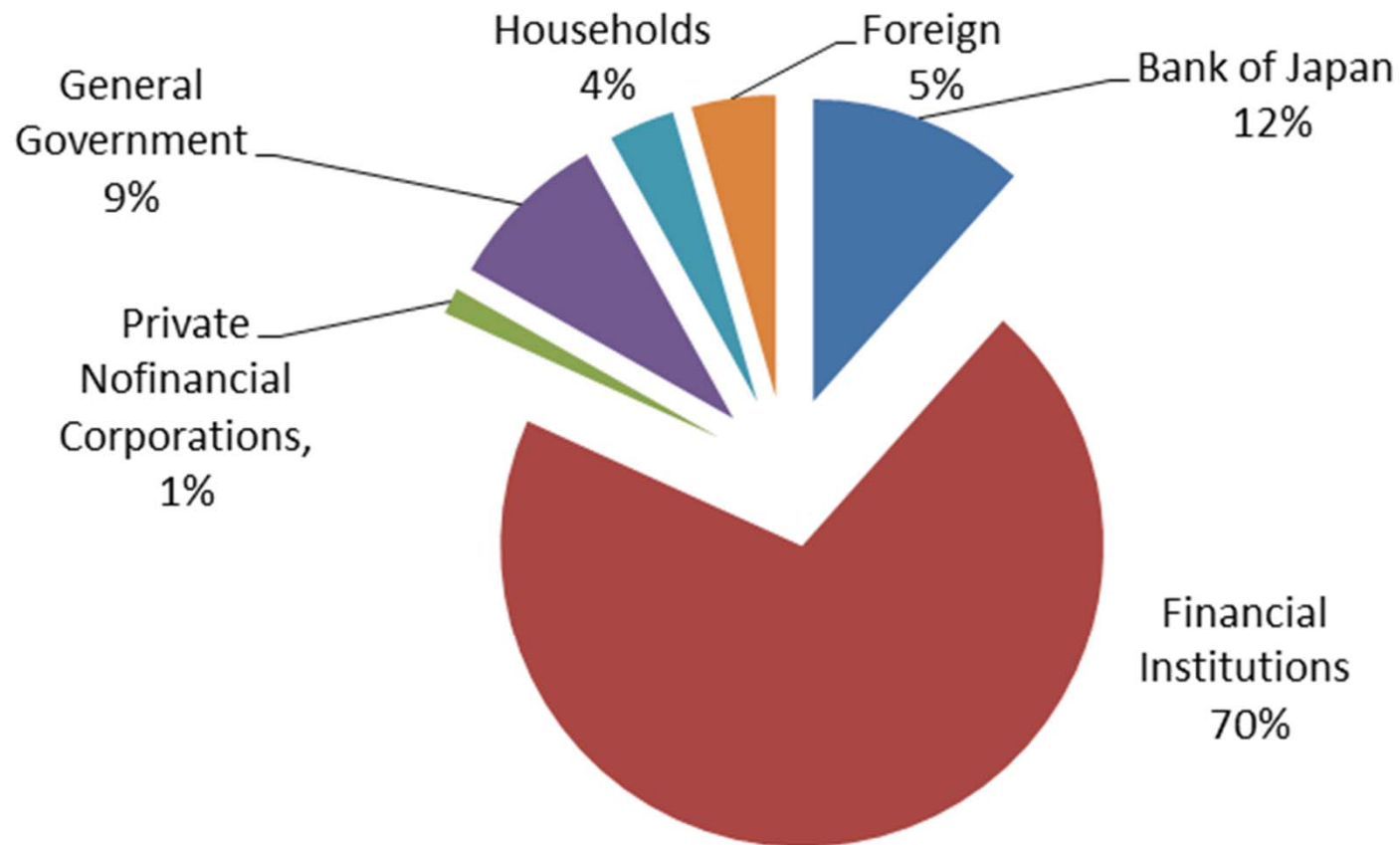
Government bond yields (10 year %)



Despite huge deficit, government bond yields remain stable.

Source: Ministry of Finance

Who holds government bond?



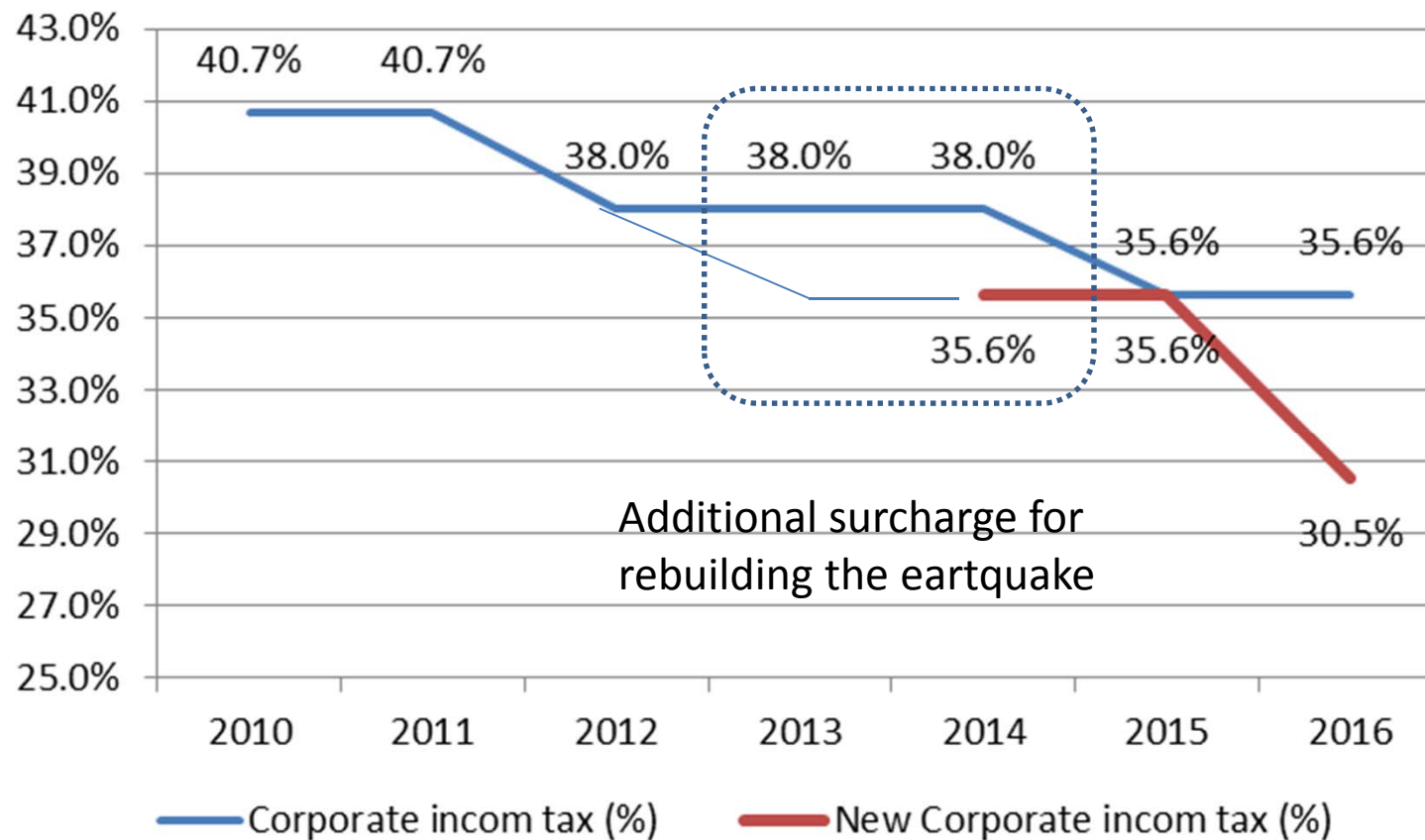
Source: Ministry of Finance

Fiscal stimulus by 5 trillion yen

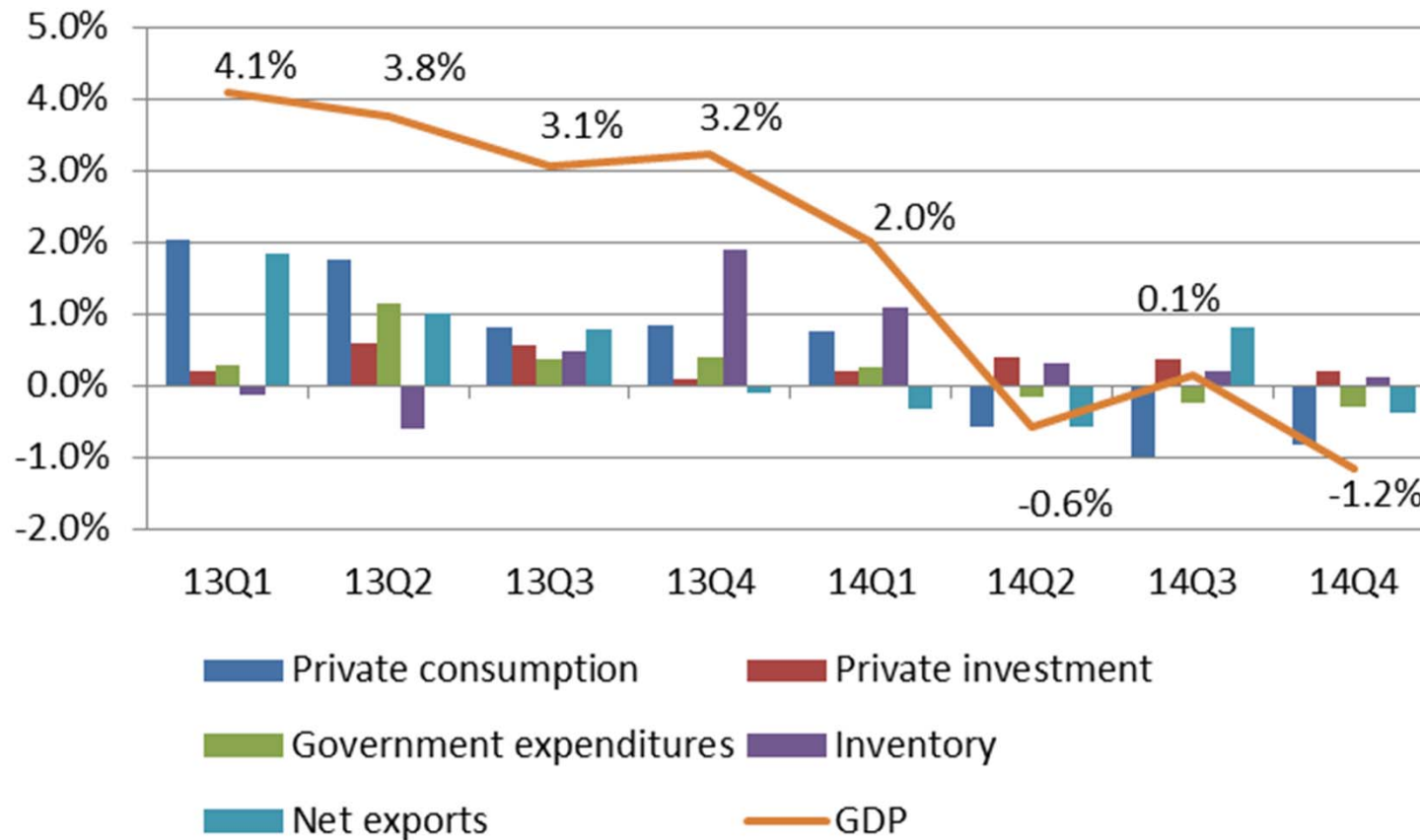
the package to reduce the tax hike's negative impact. which will be included in both the fiscal 2013 supplementary budget and fiscal 2014 regular budget.

1. tax breaks to encourage business firms to purchase equipment, fund research & development and commit to environmentally friendly or earthquake-resistance construction, as well as boost investment in startup technologies
2. tax breaks for business firms that raise workers' salaries by 2 percent from recent levels
3. tax breaks for homebuyers
4. cash payments to 24 million people in low-income households

Lowering corporate income tax rate

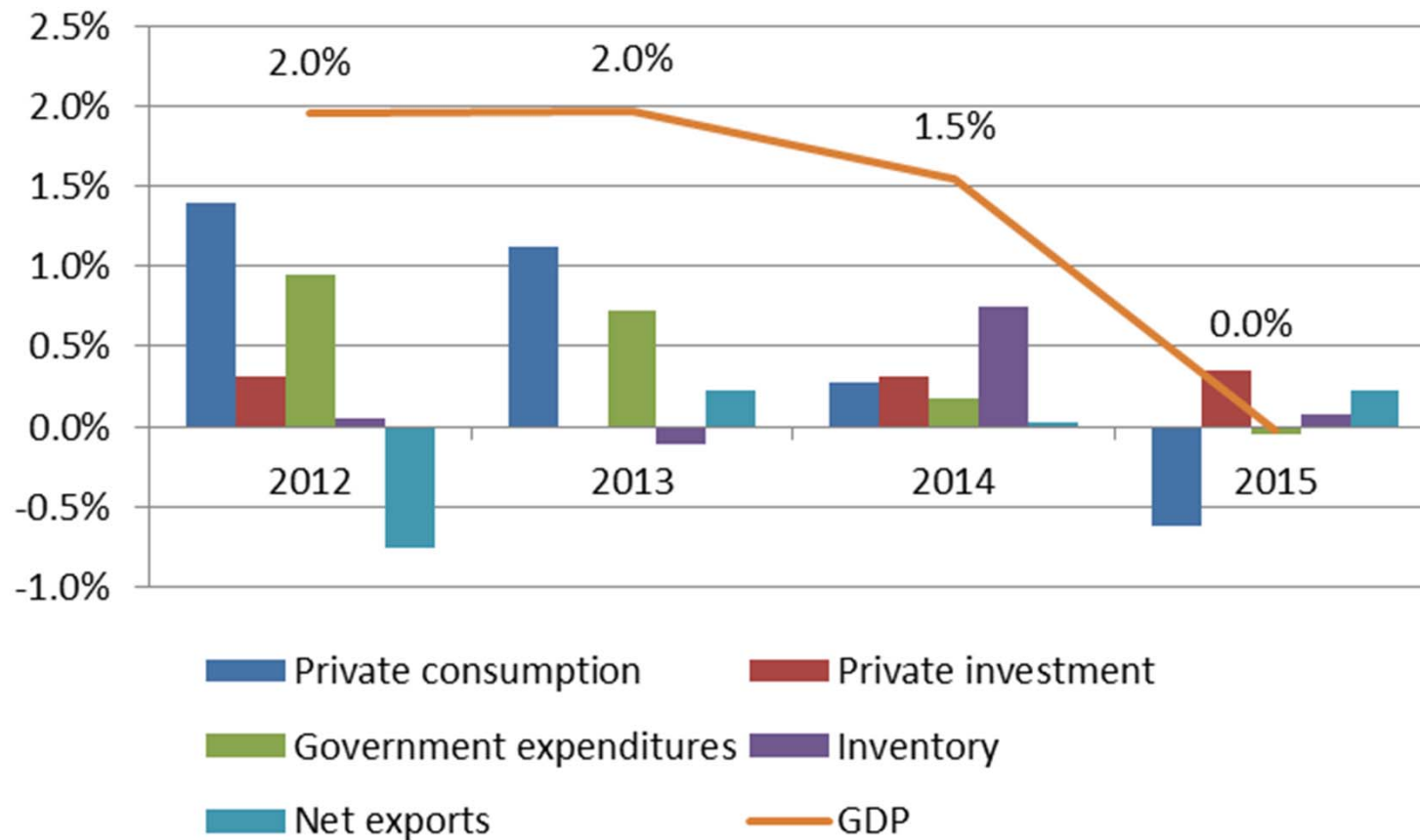


Quarterly Forecast



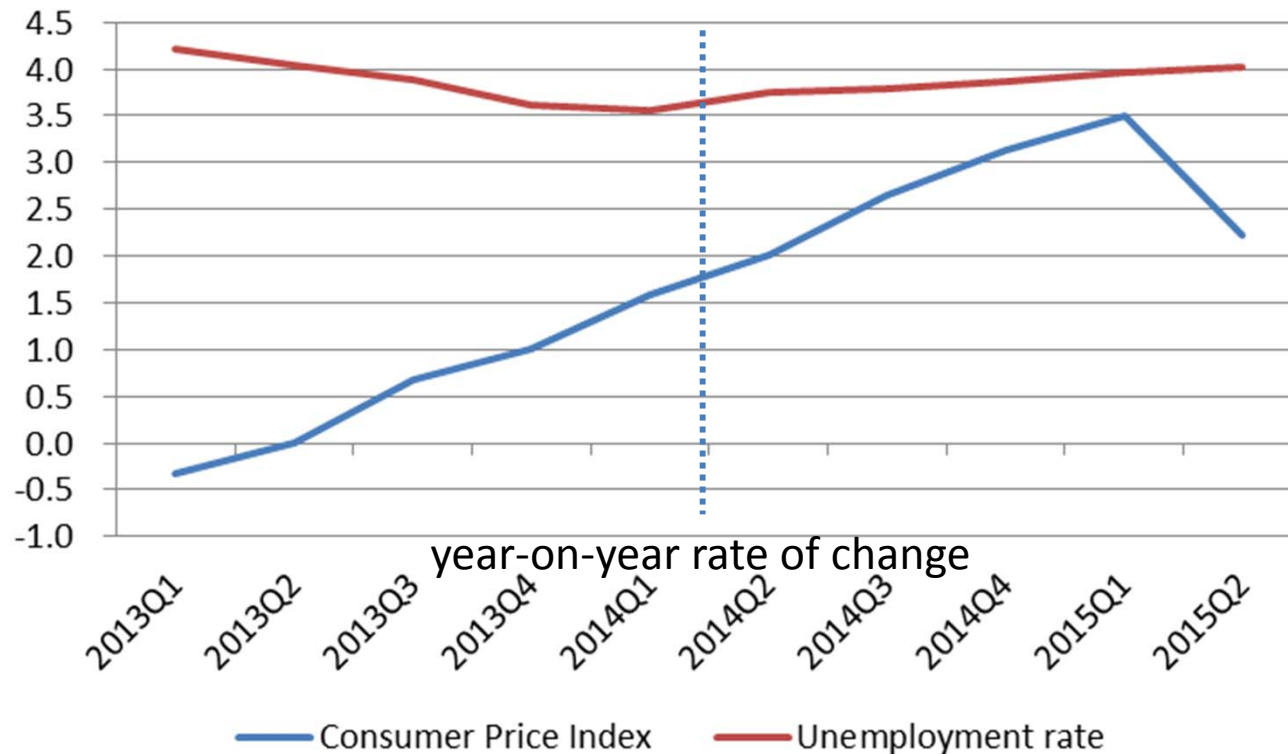
Growth rate is expected to slow down after the second quarter of 2014 because of consumption tax hike.

Annual Forecast



1.5% growth is expected in 2014, because rush demand is expected in the first quarter. On the other hand, the grow rate is expected to be 0.0% in 2015.

CPI and Unemployment rate



1. The year-on-year % change in CPI became positive in 2013Q2, and will gradually increase until 2015Q1. Even 2014Q1 just before consumption tax rate hike, it will record 1.6%. It means that Japan succeeds in departure from deflation.
2. Unemployment rate continues to improve until 2014Q1, then will start to deteriorate a little.