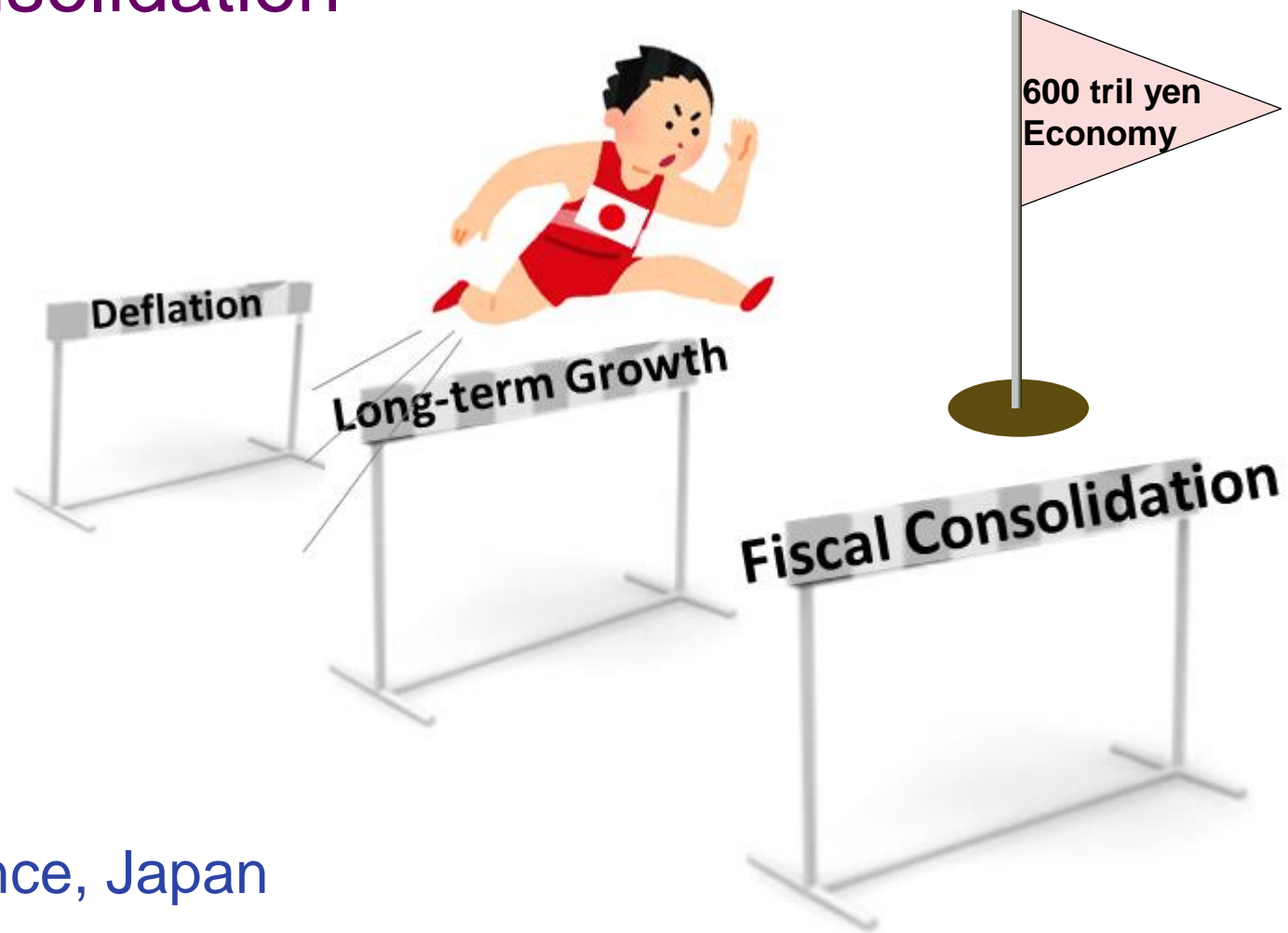


Abenomics in the Second Stage

~Challenges for the Long-term Growth and Fiscal Consolidation

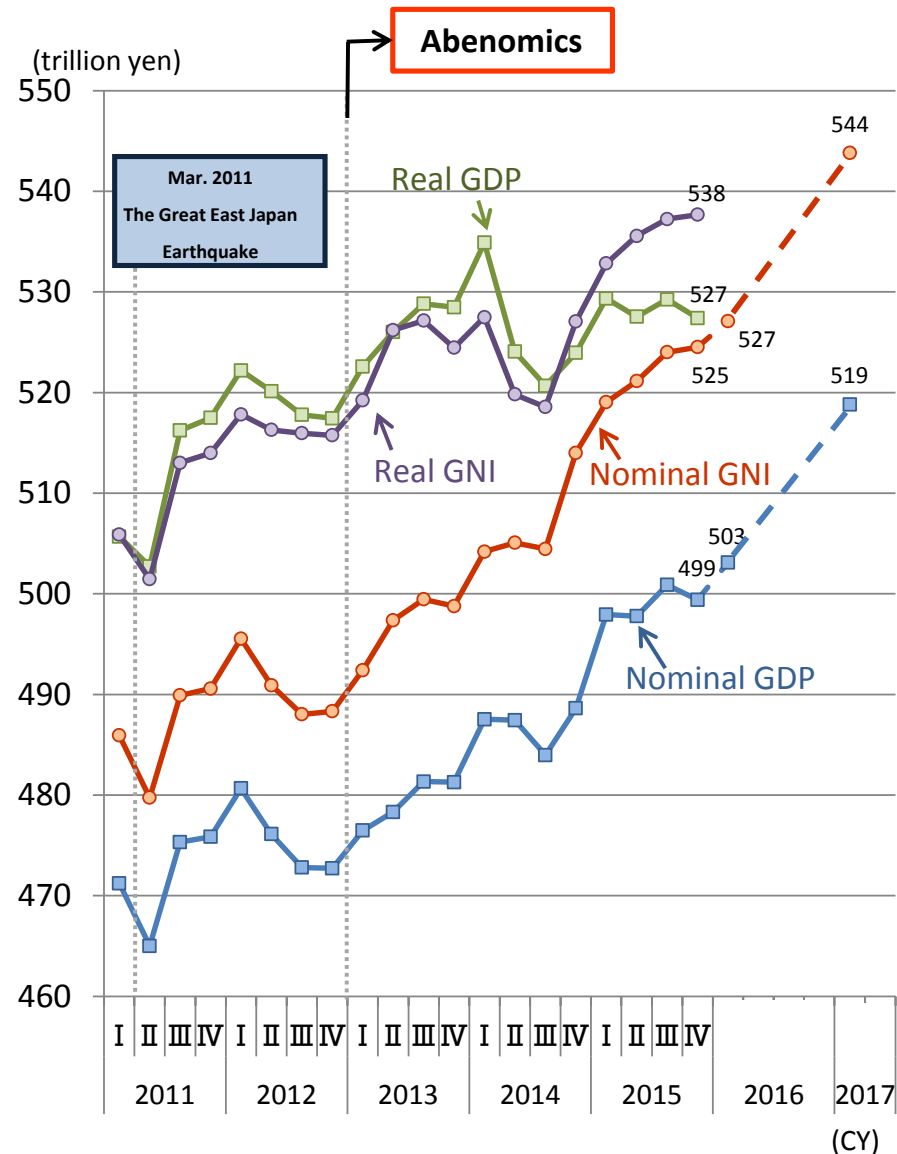


March 2016
Kenta Ichikawa
Ministry of Finance, Japan

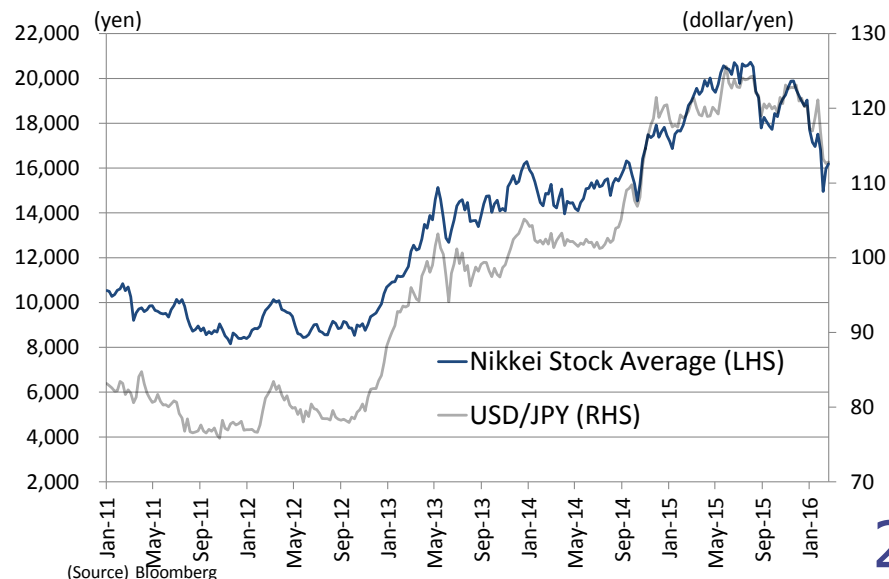
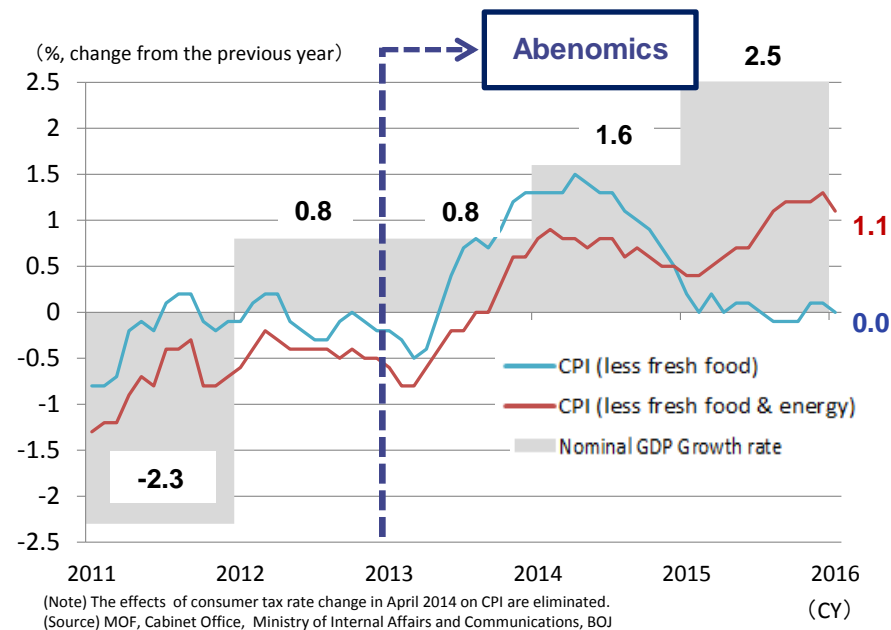
Disclaimer

The views expressed herein are those of the author and do not necessarily reflect the opinions of the organizations to which the author belongs.

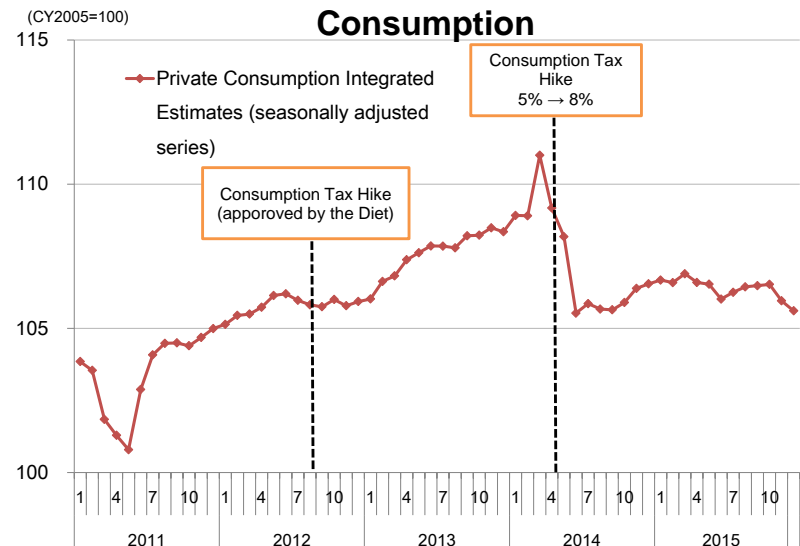
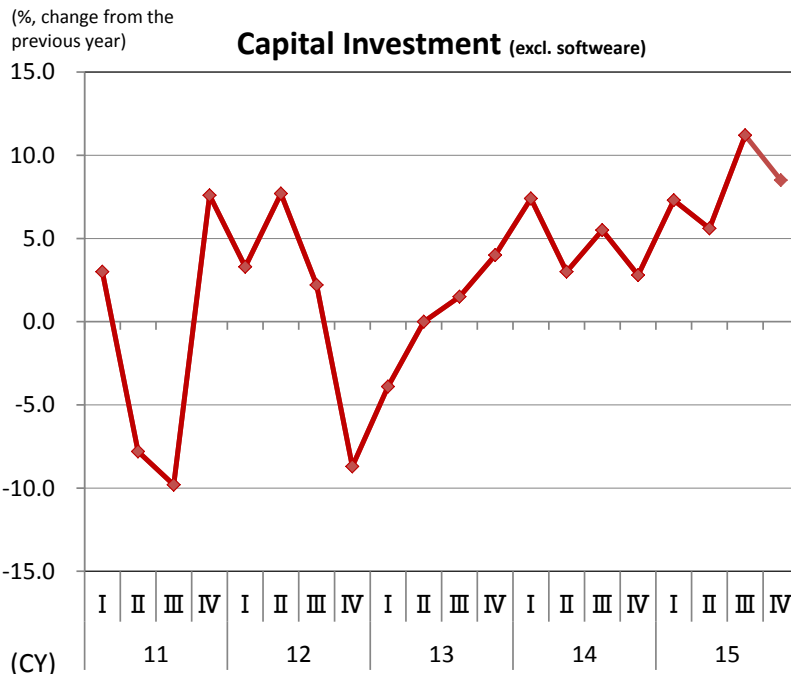
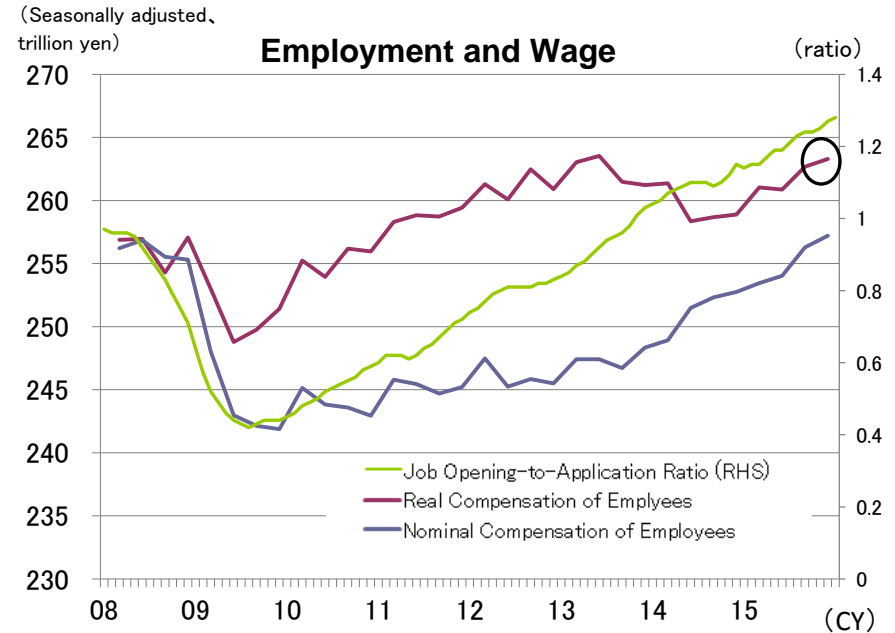
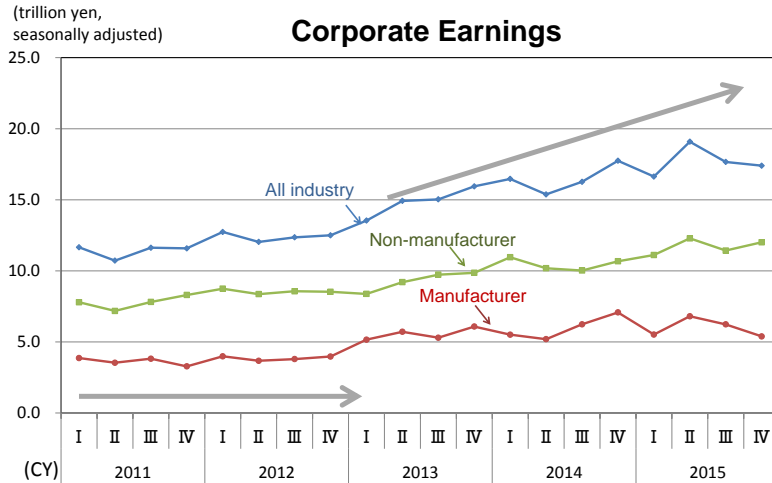
Abenomics is strengthening Japan's "earning power" in the global market, and Japan is getting out of deflation.



(Source) Cabinet Office, Government of Japan "Quarterly Estimates of GDP", "Fiscal 2016 Economic Outlook (Dec, 2015)"



Market may fluctuate, but economic fundamentals are solid. Good cycles are developing in the economy.



(Note) The figures of "Corporate Earnings" exclude financial and insurance industry.
(Source) Ministry of Finance, Cabinet Office, Ministry of Health, Labour and Welfare

Growth Strategy continues evolution.

“Abe Scorecard”

(Sep 10, 2015 Financial Times p.6)

Grade

Agriculture

A

Corporate governance

A

Womenomics

B+

Energy

B

Special economic zones (SEZs)

B

Tax reform

C

Immigration

C

Labour reform

D

Progress after Scorecard

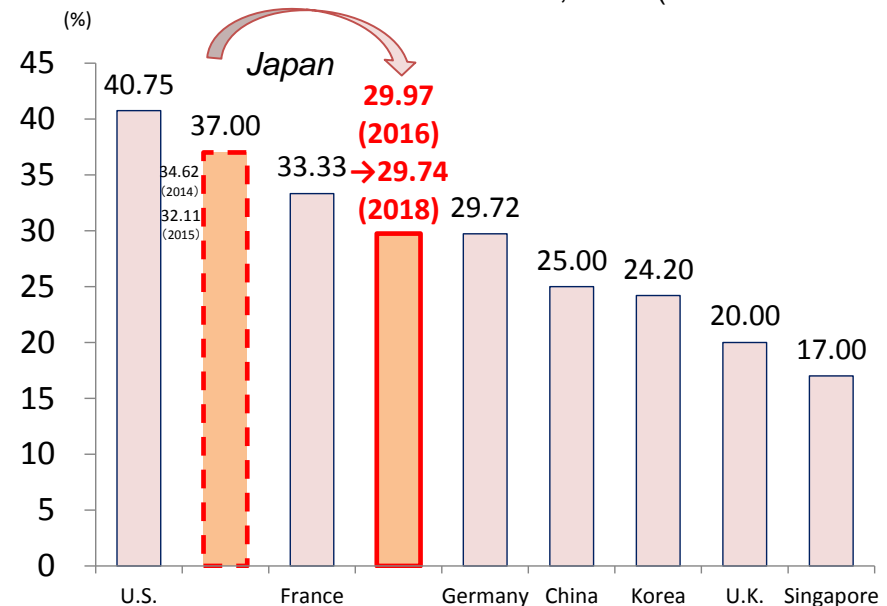
① Successful Agreement of TPP negotiation

Oct 5, 2015

*Economic effect boosting up GDP by 2.6% (13.6 trill yen)
(Projection by Cabinet Secretariat)*

② FY2016 Tax Reform Bill reduced Corporate Tax Rate

Dec 24, 2015 (cabinet decision)



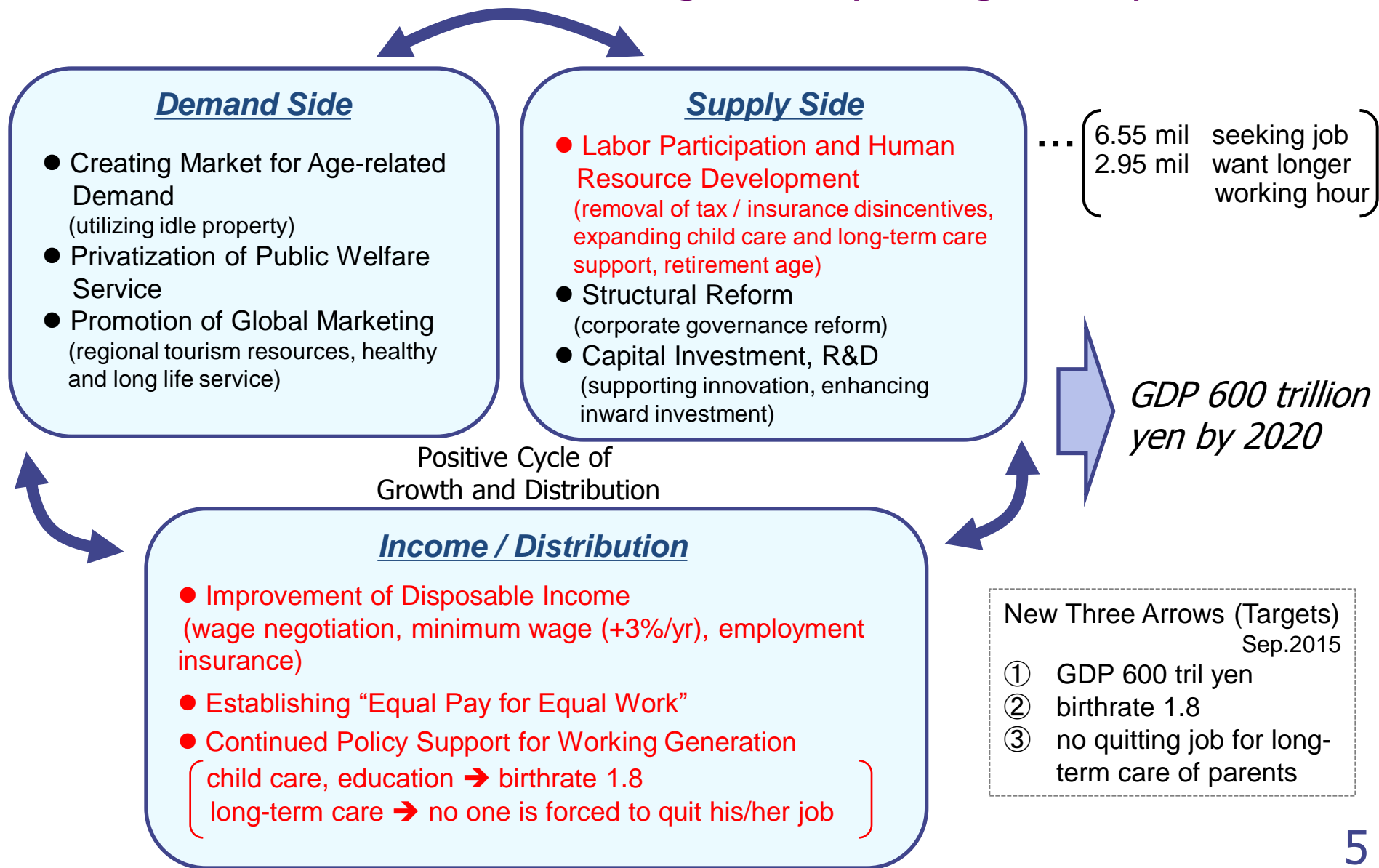
③ Employment Insurance Reform Bill

Jan 29, 2016 (cabinet decision)

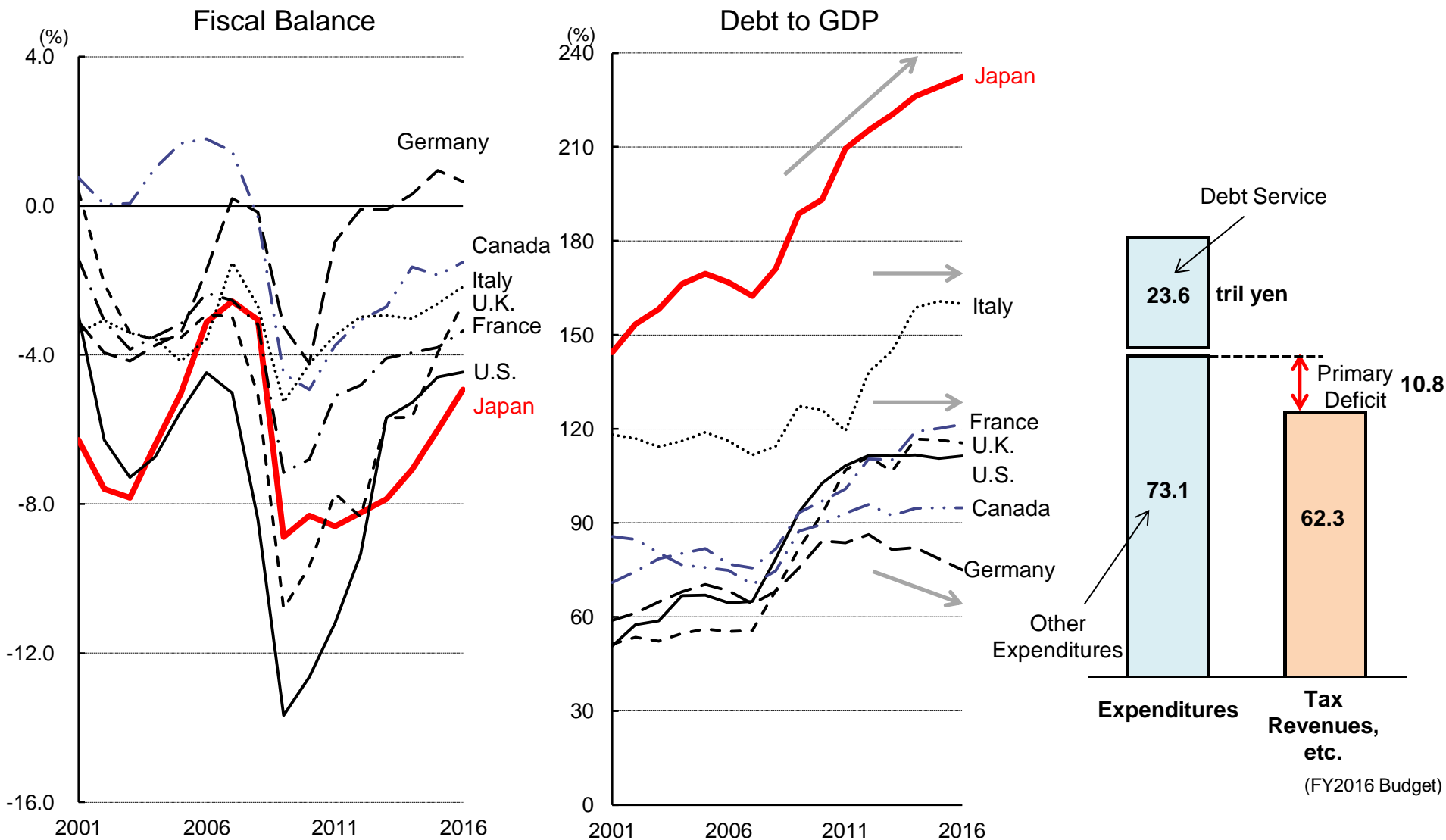
- Expand the coverage to non-regular workers (Oct 2016-)
- Decrease the insurance premium rate (1.0%→0.8%)
- Expand child care and long-term care leaves

→ Further discussion on labor market reform

Abenomics' initiatives in "Labor participation", "Support for working generation" and "Distribution" should effectively address structural bottlenecks, and strengthen Japan's growth potential.

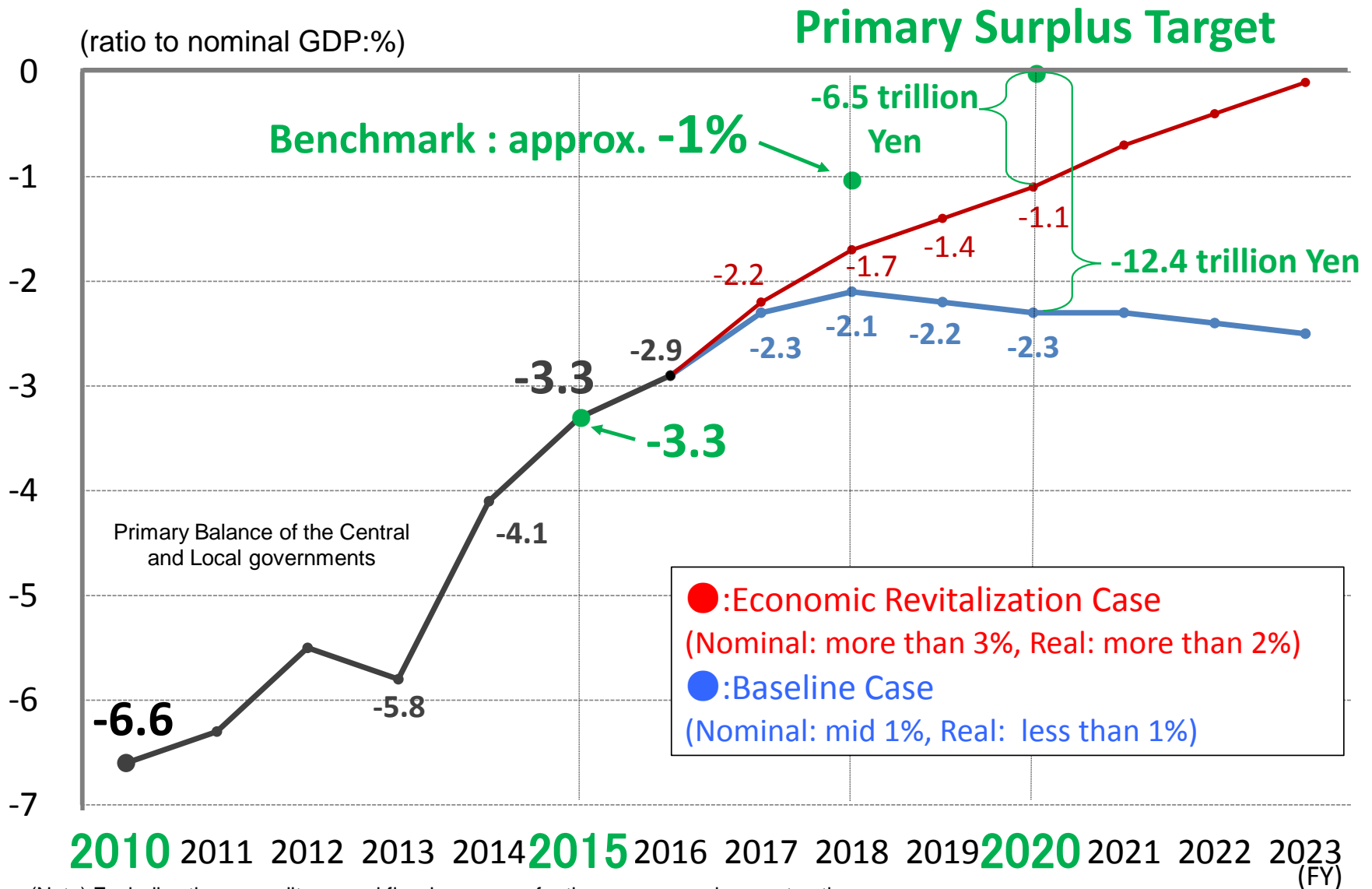


Fiscal balance is improving, but Debt to GDP is yet to be stabilized. Japan aims at Primary Surplus by 2020.



(Source) OECD "Economic Outlook 98" (November 2015)

Japan has successfully halved the deficit by 2015.
In coming years, however, growth alone is not enough.

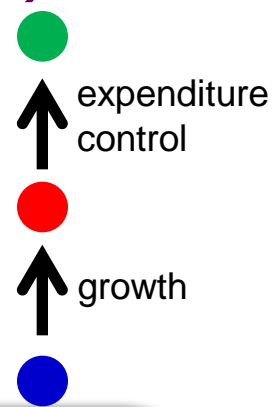


(Note) Excluding the expenditures and fiscal resources for the recovery and reconstruction measures.

(Source) Cabinet Office

The Economic and Fiscal Revitalization Plan (2016 to 2020)

(1) pursues realizing “Economic Revitalization Case”, and
(2) implements fiscal measures below
to achieve FY2020 Primary Surplus Target.



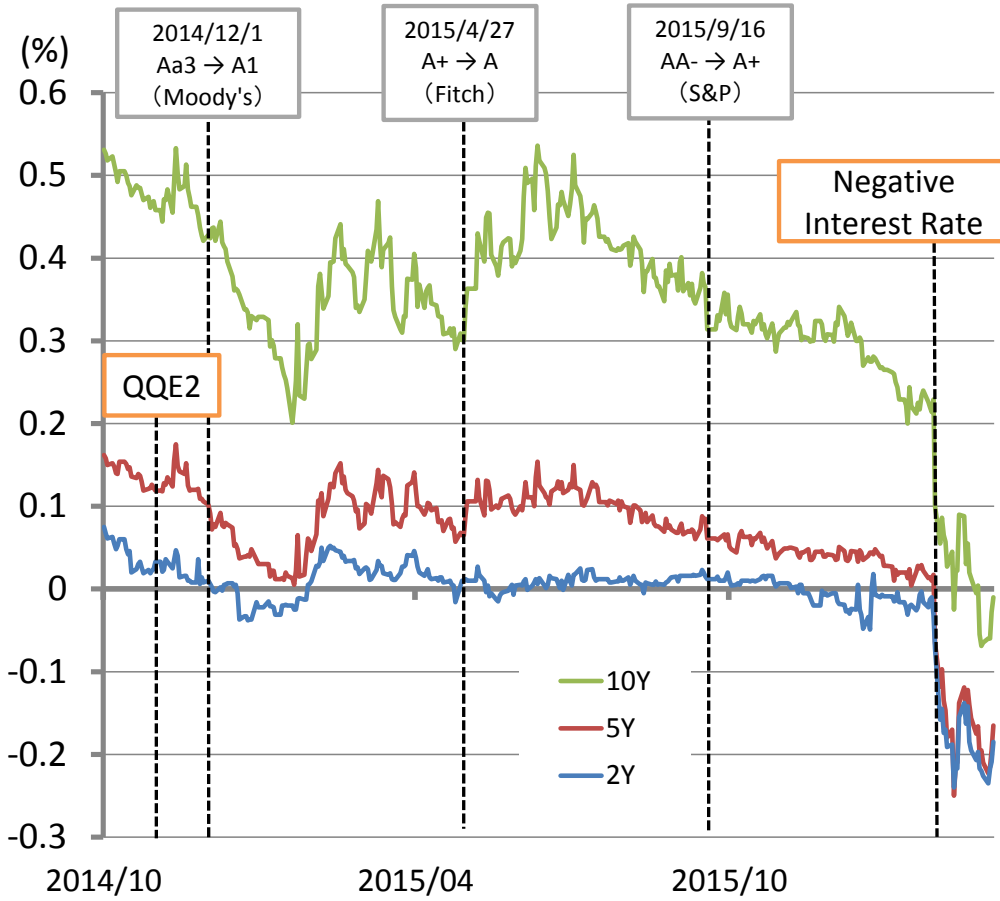
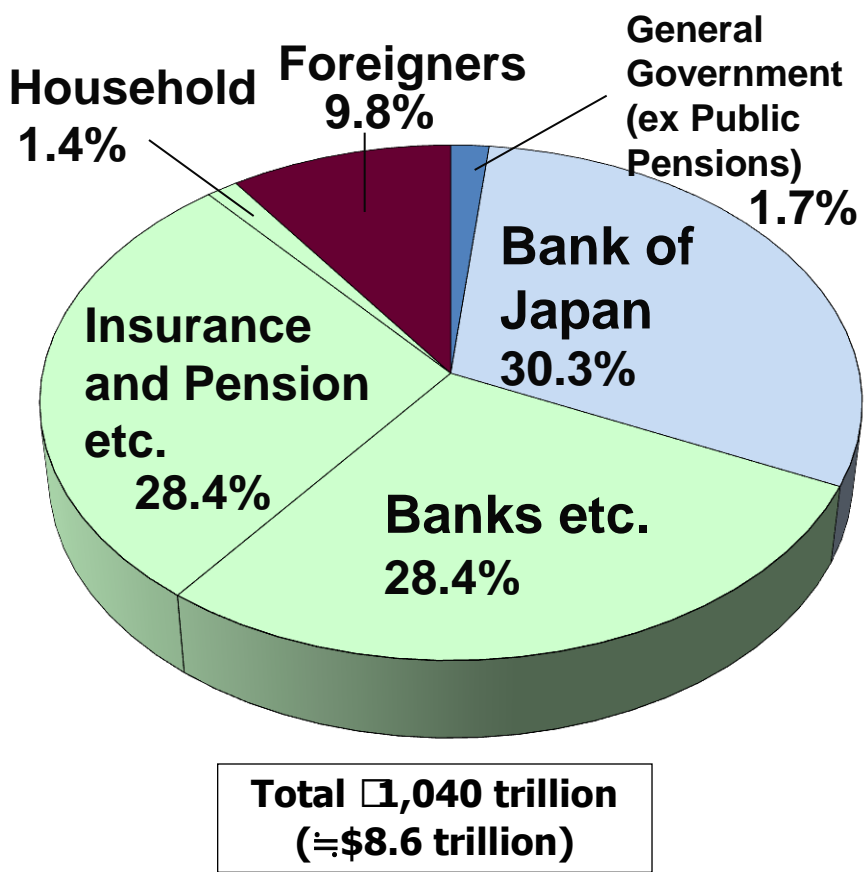
FY2016 Budget fully satisfies limits and conditions of the Plan.

- The government continues current pace of tight expenditure control in coming three years. (Total increase by FY2018 (real terms) is limited to 1.6 trillion yen, including 1.5 trillion yen for social security expenditures.)
- Thorough reform will be implemented on social security programs and other expenditures according to Reform Timetable and Key Performance Indicators.
- Progress toward primary surplus target of FY2020 will be reviewed at the mid-point FY2018*. The government will consider to take, if necessary, additional measures on expenditure and/or revenue sides.

*High growth scenario and planned expenditure control together is expected to reduce the primary deficit to around -1% in FY2018.

Government continues careful debt management, and steadily advances fiscal consolidation according to “Economic and Fiscal Revitalization Plan”.

JGB Shareholders
(The end of Sep 2015)



(Source) Bank of Japan, Bloomberg

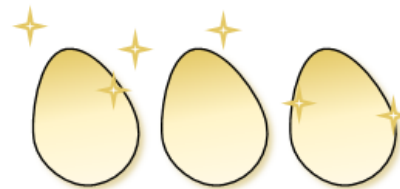
Summary

- Japan is getting out of deflation. Positive cycles of “corporate earnings - investment” and “household income – consumption” are developing.
- Abe government is decisively propelling growth strategy, including all needed structural reforms and social welfare program reviews to improve Japan’s potential growth.
- There is a good progress in fiscal consolidation. Reliable plan is set, and steady implementation started.

The Golden Goose



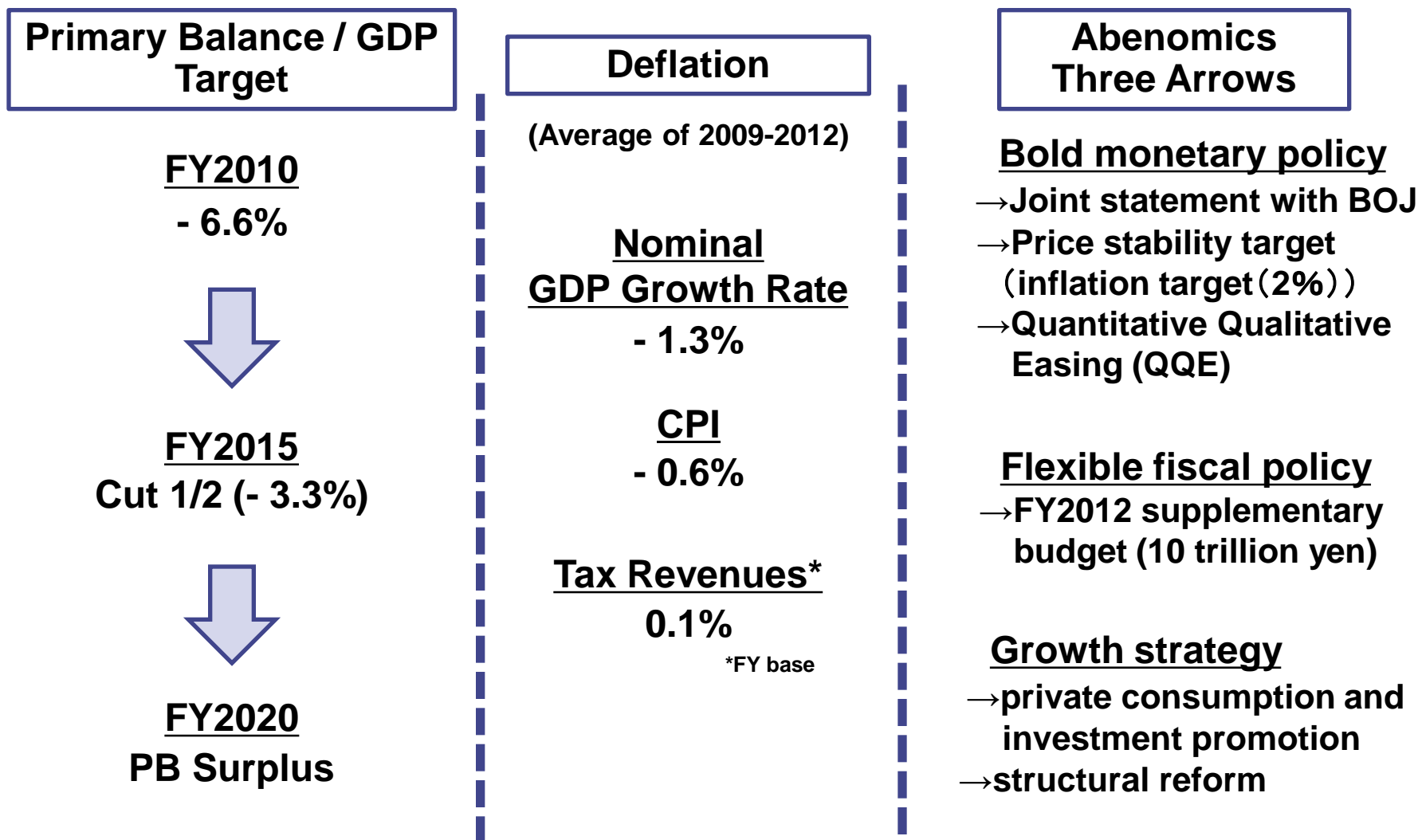
- *Nutrition(capital)*
- *Exercise(structural reform)*
- *Discipline(fiscal consolidation)*



(blank page)

Appendix

Background of Abenomics



Achievement of Abenomics

● Nominal GNI

- ✓ 488 trillion yen (FY2012, 4Q)
→ 525 trillion yen (FY2015, 4Q)

● Corporate Earnings

- ✓ 64.6 trillion yen (FY2014, record high)

● Labor Market

- ✓ Job Opening-to-Application Ratio:
1.28 (Jan. 2016, highest in 24 years)
- ✓ Unemployment Rate: 3.2% (Jan. 2016)
- ✓ Wage Increase:
2.20% (2015, highest in 17 years)

● Outward Direct Investment

- ✓ 94.0 trillion yen (2012)
→ 159.9 trillion yen (2014)

● Net External Assets

- ✓ 3.0 trillion dollars
(2014, the best in the world)

● Foreign Currency Reserve

- ✓ 1.2 trillion dollars (2014, 2nd in the world)

● Inbound Tourists

- ✓ Number of tourists: 19.74 million (2015, record high)
- ✓ Expenditures by tourists: 3.4 trillion yen (2015, record high)

● Agriculture

- ✓ Exports : 611.7 billion yen (2014, record high)

● Energy Effectiveness

- ✓ Energy Consumption (manufacturer):
43% improvement (FY1973-2012)

● Expansion overseas of Japanese Companies

- ✓ 68,573 (Oct. 1, 2014, record high)

● Women in Business

- ✓ More than one million increase
(during Abe Administration)
- ✓ Proportion of women in management position:
6.9% (2012) → 8.3% (2014)

● Economic Effect of Tokyo Olympic 2020

- ✓ Boost up real GDP growth by 0.2 - 0.3% annually
(FY2015-2018)

● Increase in Tax Revenues

- ✓ 57.6 trillion yen (FY2016)
(+ 13.7 trillion yen since Abe Cabinet started)

Society in which All Citizens are Dynamically Engaged (Abenomics' new “Three Arrows”)

The 1st Arrow “A robust economy that gives rise to hope”

→ Nominal GDP toward 600 trillion yen

- Increase in labor share by raising wages
- Expansion of private investment through revolution in productivity
- Increase in the labor participation rate through working-style reforms and improvement in productivity through innovation

The 2nd Arrow “Dream-weaving Childcare Supports”

→ Desirable birthrate of 1.8

- Stabilization of youth employment and improvement in working conditions
- An environment enabling balance of working with childcare
- Ceaseless supports in each stage from marriage, pregnancy, childbirth to childcare including childcare services

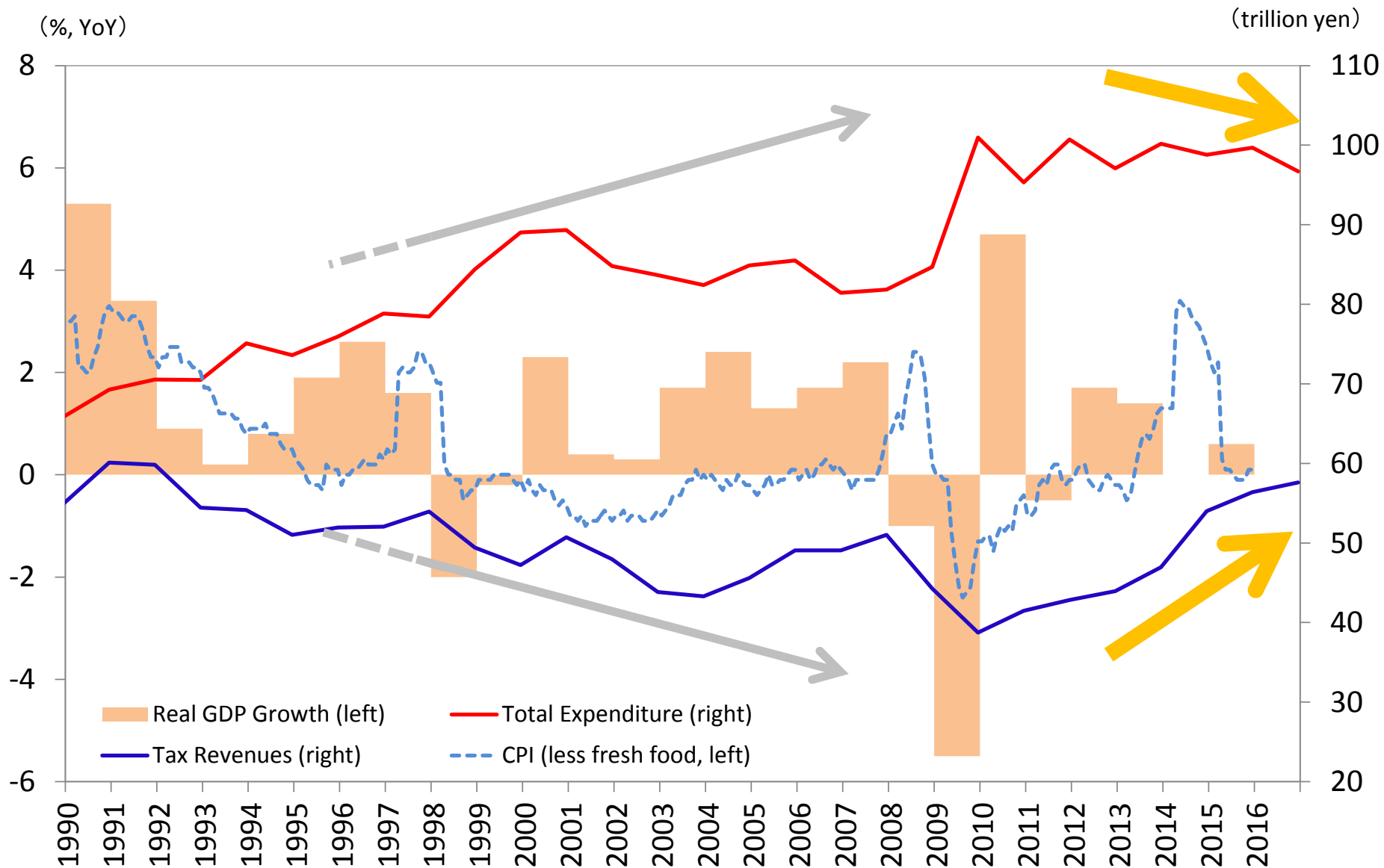
The 3rd Arrow “Social Security that provides reassurance

→ No one forced to leave their jobs for nursing care

- Securement of nursing services
- An environment enabling balance of working with nursing
- Consulting and supporting systems for families
- Extension of healthy life expectancy

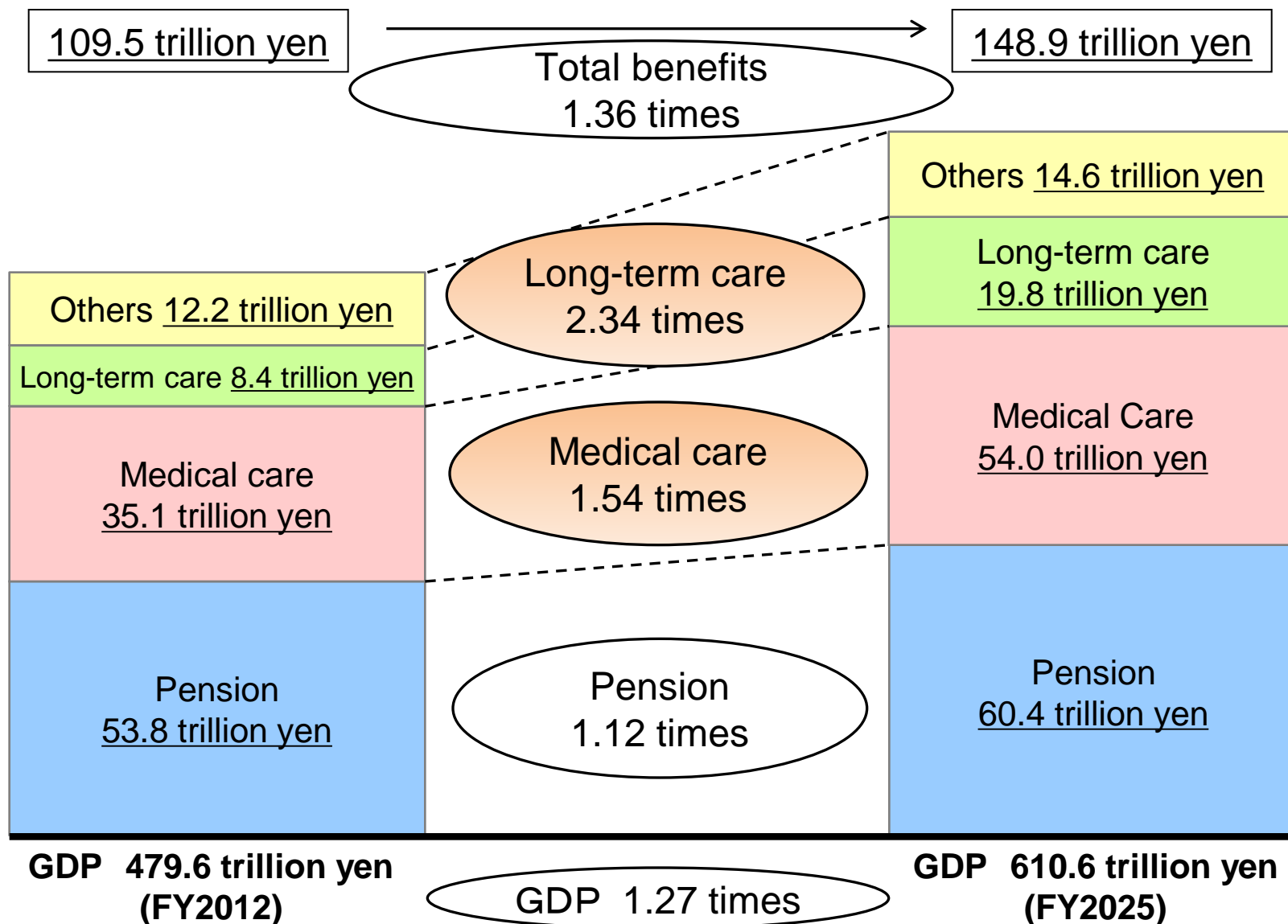
 *Put a brake on the declining birthrate and aging population, and maintain the population at 100 million people 50 years from now*

Crocodile Mouth is Closing



(Source) Cabinet Office, Ministry of Internal Affairs and Communications, Ministry of Finance

Projection of Social Security Benefit



Size of Government (OECD)

	Rate to GDP (%)	Rank in OECD members
Social Security Expenditures	25.3	11 / 29
Other Expenditures	14.8	29 / 29
Tax Revenues	16.8	32 / 34

(as of FY2011)

(expenditures and revenues are general government base)

【Reference】

Tax and Social Security Contributions Ratio* (Rate to NI)	40.5	27 / 33
---	------	---------

(as of FY2012)

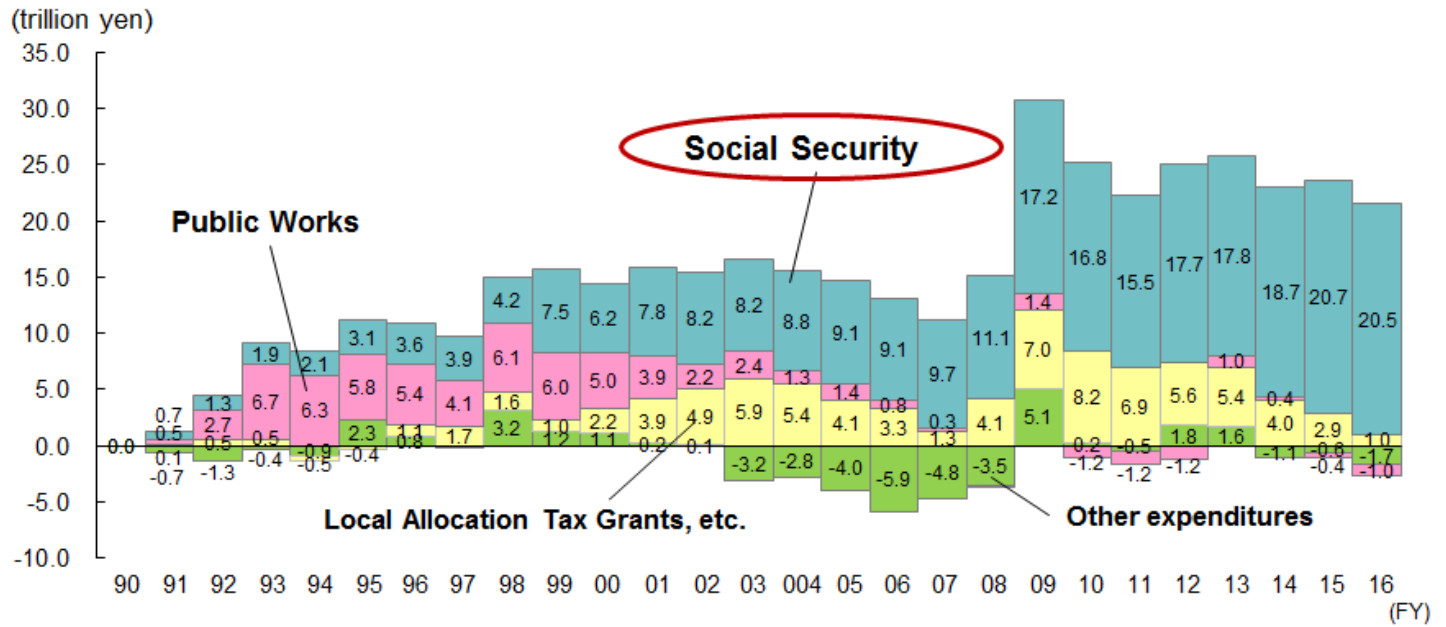
*Total taxes as a percentage of National Income (NI)
+ Social Security Contribution as a percentage of NI

(Some countries' data are not released by OECD)

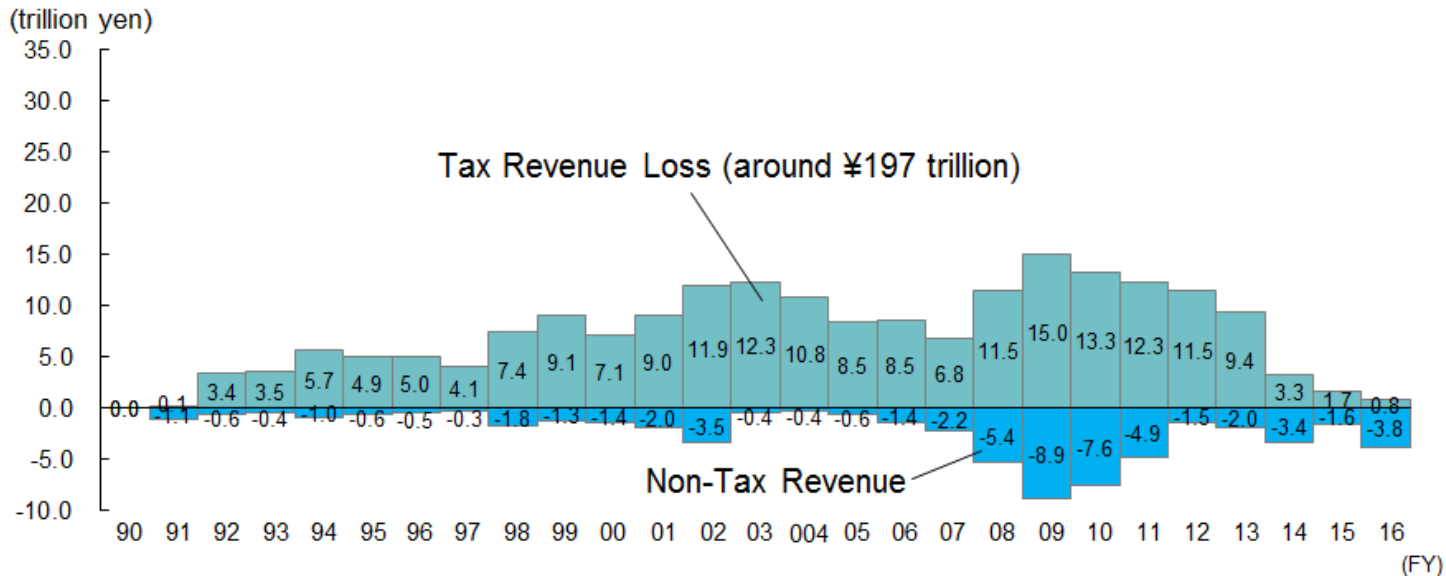
Contribution to Expenditure Expansion and Revenue Decreasing

(FY1990=0)

Expenditure Expansion



Revenue Decreasing



(FY)

Highlights of the Draft Budget for FY2016

- Steady growth is expected

Real GDP growth rate: FY2016: 1.7%

→largely in line with the medium-term outlook

- Increase in tax revenues

57.6 trillion yen (+ 13.7 trillion yen since Abe Cabinet started)

→exceeds the level of tax revenues before Lehman Shock (increase for 7 years in a row)

- Adhering to Strict Expenditure Control

FY2016 budget limited expenditure increase to 530 billion yen (including social security expenditure increase to 500 billion yen) by optimization of drug prices and other reforms

- Reduction of the amount of newly issued government bonds

Newly issued government bonds: 34.4 trillion yen (- 2.4 trillion yen from the previous year)

→Reduction for 6 years in a row

Bond dependency ratio: 35.6%

→the lowest level after FY2008 (decrease for 6 years in a row)

- Decline in Primary Deficit (not including local governments)

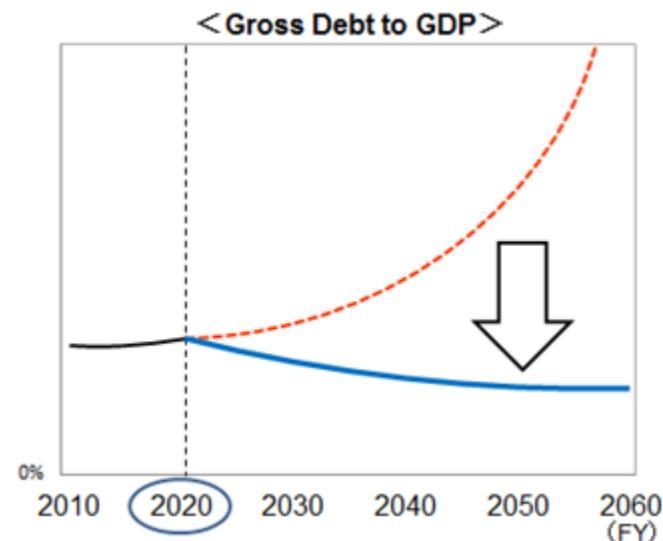
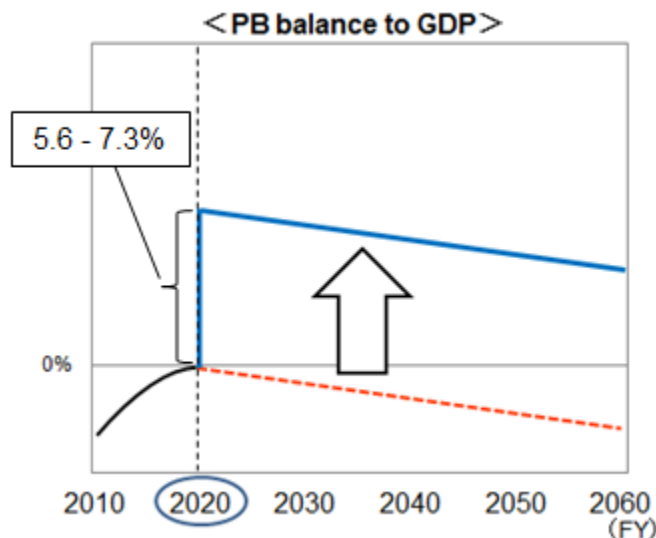
-10.8 trillion yen (+2.6 trillion yen from the previous fiscal year)

Long-Term Fiscal Sustainability Analysis in Japan (Updated Edition)

Fiscal System Council (Oct. 9, 2015)

Conducted long-term projections of Japan's fiscal position toward FY2060 adopting the analysis method of European Commission, and found...

- Primary Balance gets worse after FY2021 and Gross Debt to GDP also increases and diverges due to the increase of “the age-related expenditure” and etc., in case fiscal condition is not improved (no-policy-change).
- Continuing current pace of expenditure control (+1.6 tril yen / 3yrs) until FY2020 will eliminate the most of PB deficit.
- On top of this, necessary fiscal balance improvement for stabilizing Gross Debt to GDP ratio on and after FY2060 is calculated as 5.6 - 7.3% of GDP (in case it is improved at a stroke in FY2020) (including 2.7 - 2.9% of GDP for reducing PB deficit and covering expenditure increase for population aging).



Consumption Tax

Raise the consumption tax rate from 8% to 10% on Apr. 1, 2017

- Purpose of the revenue resources : Social Security Expenditure (pension, medical, Long-term care, child care)
- Introduce multiple tax rate system in April, 2017
 - 8%:①food and drinks excluding alcohol and those served at restaurants
②newspaper subscription fee
 - 10%:other goods and services
- For the necessary revenue of the reduced tax rate, tax reform bill provides the following.
 - ①Stable and permanent fiscal sources will be secured
 - ②Further review will be made on consumption tax system and social security reform based on the interim evaluation of the fiscal consolidation plan in FY2018

Economic Situations

(Impact of Last Consumption Tax Hike)

Consumption Tax Hike
(approved by the Diet)

Consumption
Tax Hike
5%→8%

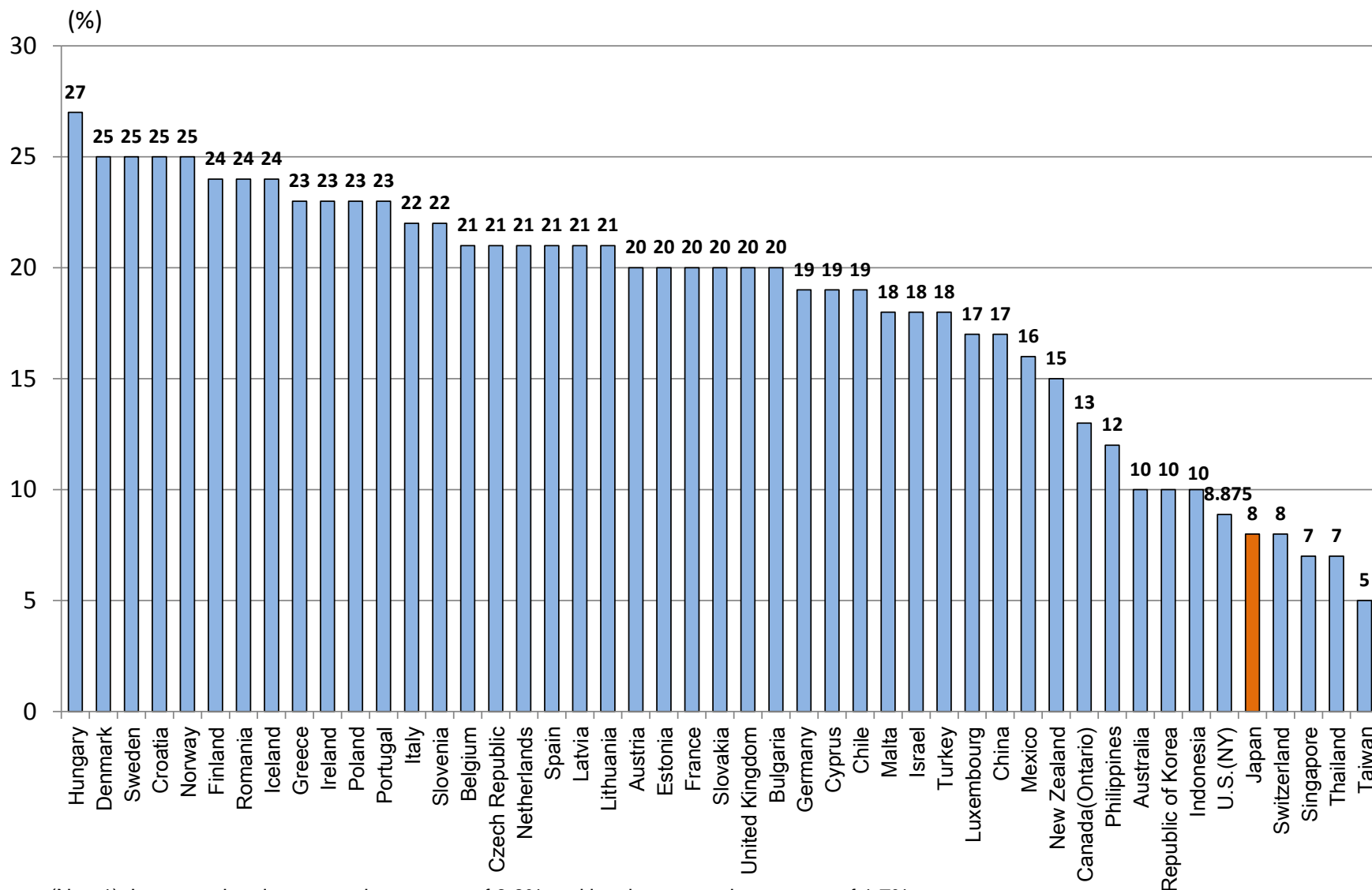
(Change from the previous quarter, seasonally adjusted)

	2012 3Q	4Q	2013 1Q	2Q	3Q	4Q	2014 1Q	2Q	3Q	4Q	2015 1Q	2Q	3Q	4Q
Private Consumption (%)	-0.4	+0.2	+0.7	+0.9	+0.3	+0.1	+2.3	-5.0	-0.0	+0.6	+0.2	-0.8	+0.4	-0.8
Real GDP Growth (%)	-0.5	-0.1	+1.0	+0.7	+0.5	-0.1	+1.2	-2.0	-0.6	+0.6	+1.0	-0.3	+0.3	-0.4

【Comparison of Consumption Tax Increase】

	FY2014	FY2017
Interval	17 years (FY1997 ~ FY2014)	3 years (FY2014 ~ FY2017)
Tax Rate	5% → 8% (+ 8.1 trillion yen)	8% → 10% (+ 5.4 trillion yen)
Others	—	Introduction of Reduced Tax Rates (-1.0 trillion yen)

International Comparison of VAT



(Note1) Japan: national consumption tax rate of 6.3% and local consumption tax rate of 1.7%

(Note2) Canada: Provincial Sales Tax (PST) etc. are added to Goods and Services Tax (GST) in almost all states. e.g.; 8% in Ontario State

(Note3) U.S.: Sales Tax is imposed by each state, county, and city. e.g.; 8.875% in total of NY State and NY city

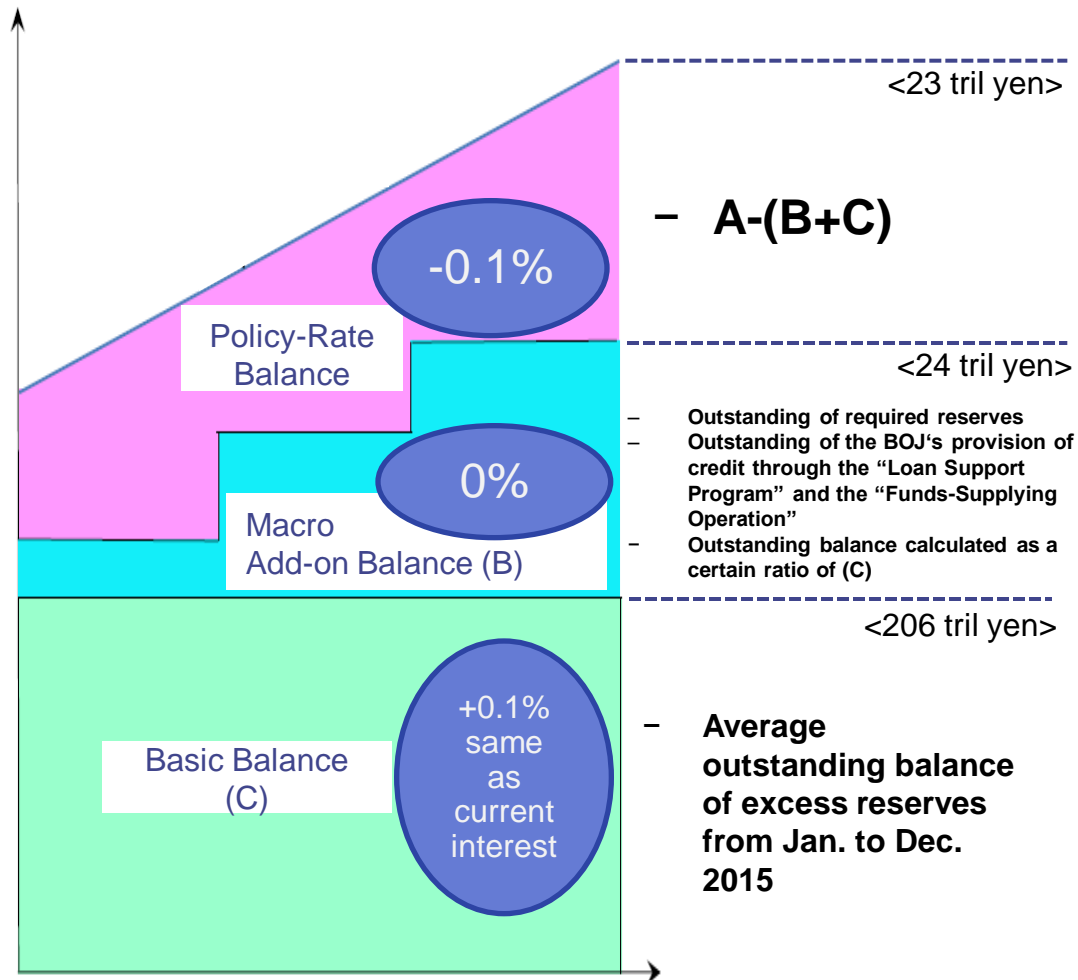
(Source) Ministry of Finance

BOJ's QQE with Negative Interest Rate

Annual Pace of Increase

	QQE (Apr.4 2013-)	Expansion of QQE (Oct.31 2014-) Supplementary Measures for QQE (Dec.18 2015-)
Monetary base	About 60-70	(trillion yen) About 80
Long-term Bonds	About 50	About 80
(Average maturity of JGB purchases)	About 7 years	About 7-10 years → About 7-12 years (from CY2016)
ETF	About 1	About 3
J-REIT	About 0.03	About 0.09
JPX-Nikkei Index 400 (ETF)	-	Eligible for purchase → About 0.3 ※ (from FY2016)

Negative Interest Rate



< > : Test calculated amounts for January current account outstanding

※To support firms' investment in physical and human capital.
BOJ will start selling stocks 0.3 trillion yen per year from FY2016 simultaneously.

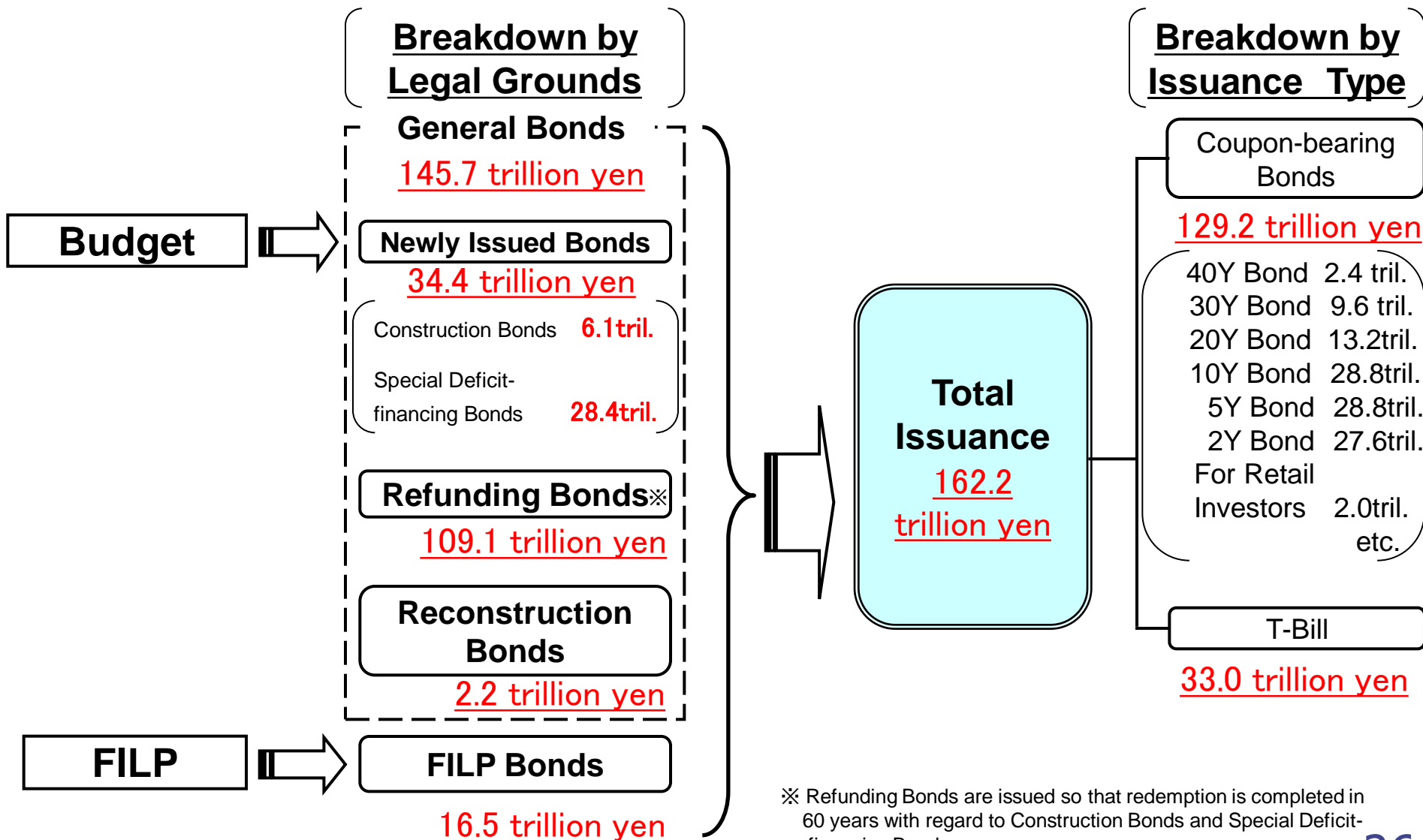
○ JGB Market Impact

BOJ's share 26.5% (Mar, 2015)→28.5% (Jun, 2015)→30.3% (Sep, 2015)

(Source) Bank of Japan

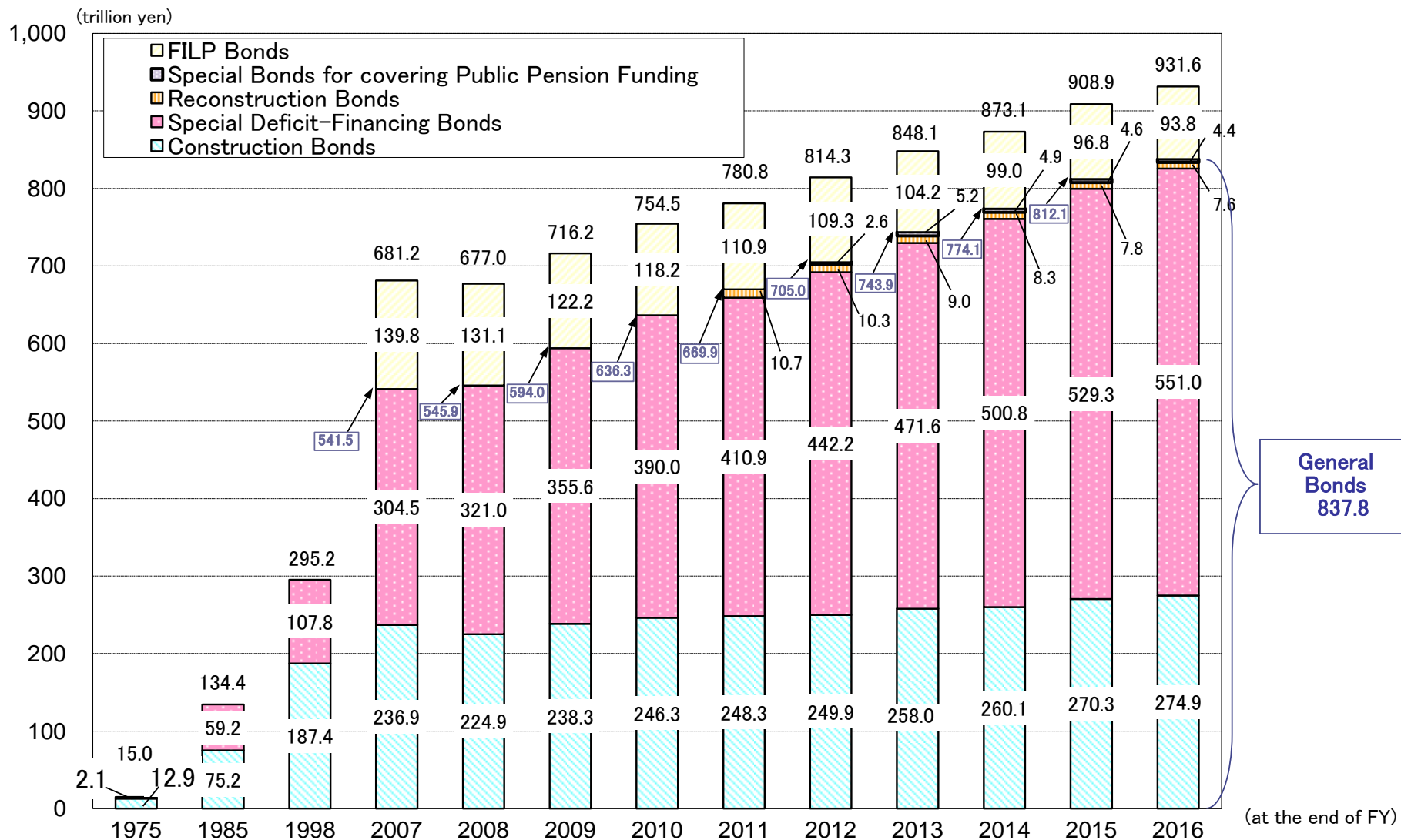
Overview of Primary JGB Market

(FY2016)



※ Refunding Bonds are issued so that redemption is completed in 60 years with regard to Construction Bonds and Special Deficit-financing Bonds.

Outstanding Amount of JGBs



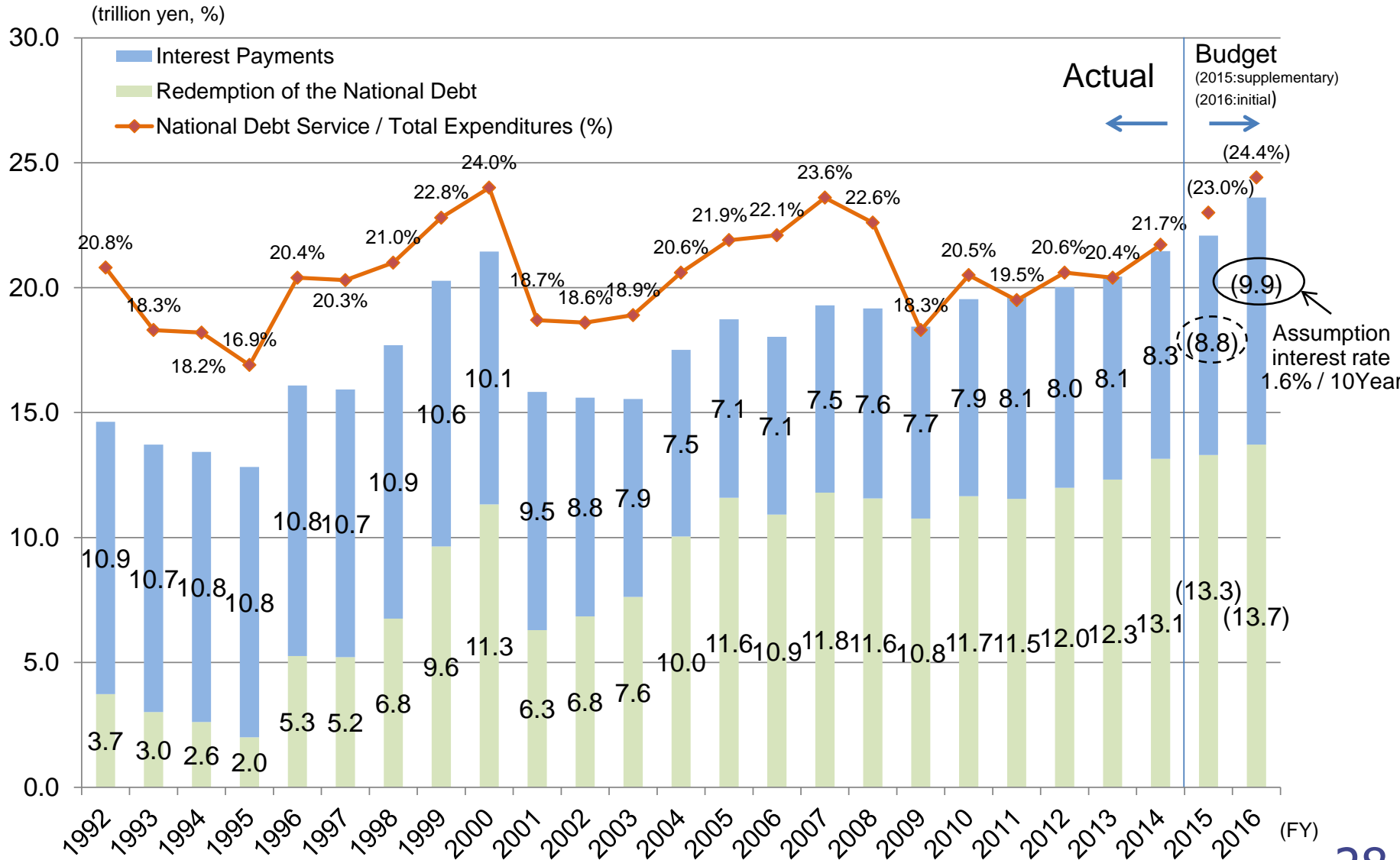
(Note1) Figures may not sum up to total because of rounding.

(Note2) Up to FY2014: Actual figures, FY2015 – FY2016: Estimates

(Note3) Special Deficit-Financing Bonds include the Refunding Bonds which were issued as a result of takeover of the debt transferred from other accounts.

(Source) Ministry of Finance

Historical Changes in Debt Service



(Source) Ministry of Finance