



INTERNATIONAL  
BANKERS  
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OF JAPAN

# **Japanese economy and securities market:** ***Setting the scene***

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# The Background

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- Third largest global economy in the world.
- The major developed market in Asia.
  - well placed to do business with new and expanding markets in the region. (Japan is an important source of capital to Asia)
  - It does not do restrictions: there are no current account, capital account, exchange rate controls unlike some other Asian countries.
- A sound and predictable legal and business environment.
- An aging society with population size predicted to fall substantially
- Dramatic changes in the energy mix post the 'triple disaster'
- China is Japan's largest trading partner followed by the U.S. and the EU (21%, 15% and 11% respectively).

# Japanese business environment

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- 54 Fortune 500 companies are Japanese – ranking third.
  - *11% of firms in Fortune 2000 are Japanese*
- Major globally recognized companies across sectors e.g. car manufacturing, electronics, heavy industry, renewables, transport, trading companies.
  - Japanese carmakers 28% share of market in US and 45% in Canada in 2015
- Japan has the third highest global R&D spend
- Japanese companies are cash rich active in the M&A market
  - Since 2010 over \$3bn invested capital
  - Recent activity included Mizuho targeting RBS North American loan book and Otsuka and Avanir pharma tie up.

# The scale

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## **Remember there are some big numbers:**

- Large pension funds JPY340trn (\$3.1trn, Sept 2014, BOJ) e.g. Government Pension Investment Fund with JPY140tn \$1.2trn which is the world's largest public pension fund (Dec 2015).
- Japan has the largest accumulation of personal wealth in the world – amounting to JPY1,684trn (\$14.6trn, Sept 2015, BOJ).
- Government bond market (JPY902trn, Dec 2015, MOF).
- Size of stock market: TSE market capitalization (section 1) was \$4.2trn, Feb 2016

# Abe administration

- Elected December 2012. His two back to back terms are the longest administration in the last 30 years: a rare bout of stability and the opportunity to effect some change.
- Levels of ambition: monetary policy, fiscal consolidation and structural reform.
- Major economic topics :
  - ❑ TPP (getting to a position where it would be signatory) and progress on EU-Japan FTA – a variety reforms have been required across sectors
  - ❑ Changes and impact of consumption tax
  - ❑ ‘Womanomics’: potential boost to GDP
  - ❑ Monetary policy developments: latest is negative interest rates.
  - ❑ Tax environment: corporate tax reduction and ‘My Number’ (Tax payer id system) which is aimed at stopping tax evasion.
  - ❑ Capital markets changes: JPX400, Stewardship and Corporate governance code, GPIF mandate reform – and their impacts.
- But the markets are clearly looking for more expansive and more timely changes (viz changes in markets and recent net selling by foreign investors).



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