

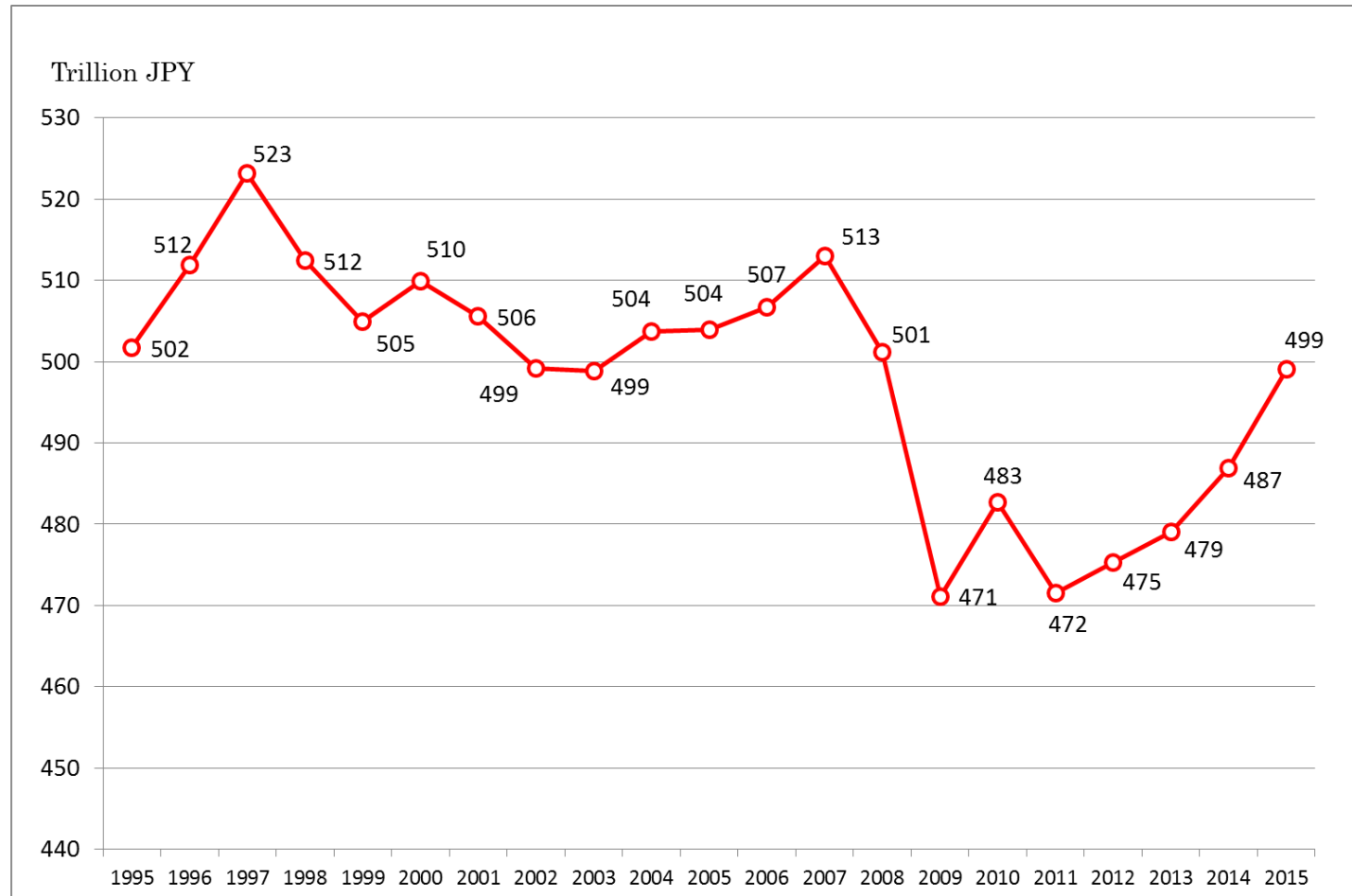
On the Present State of the Japanese Economy

Motoshige ITOH

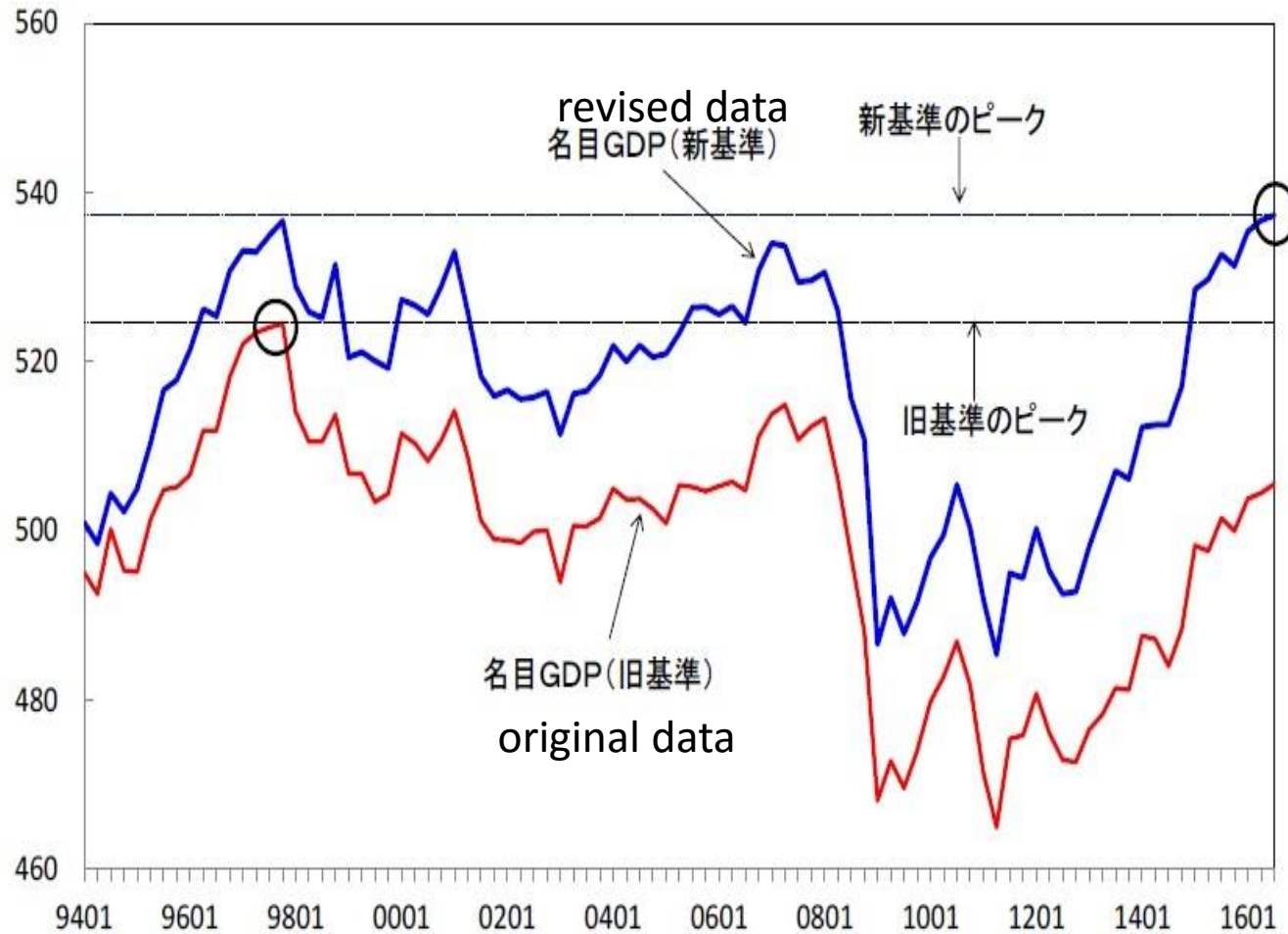
Council on Economic and Fiscal Policy, Japan

Gakusyuin University

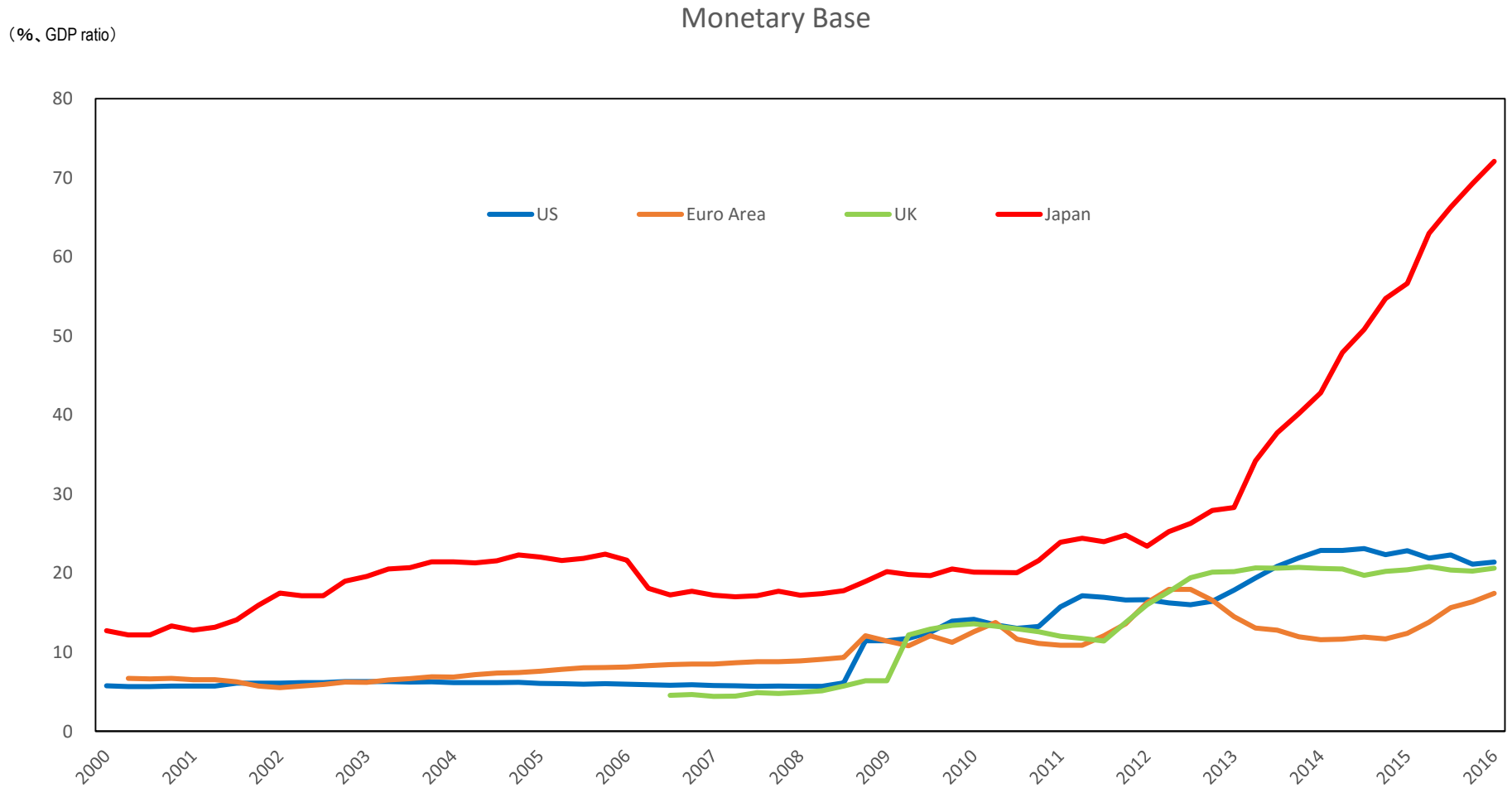
Japan's nominal GDP: recovery process under Abenomics



Nominal GDP of Japan; revised data

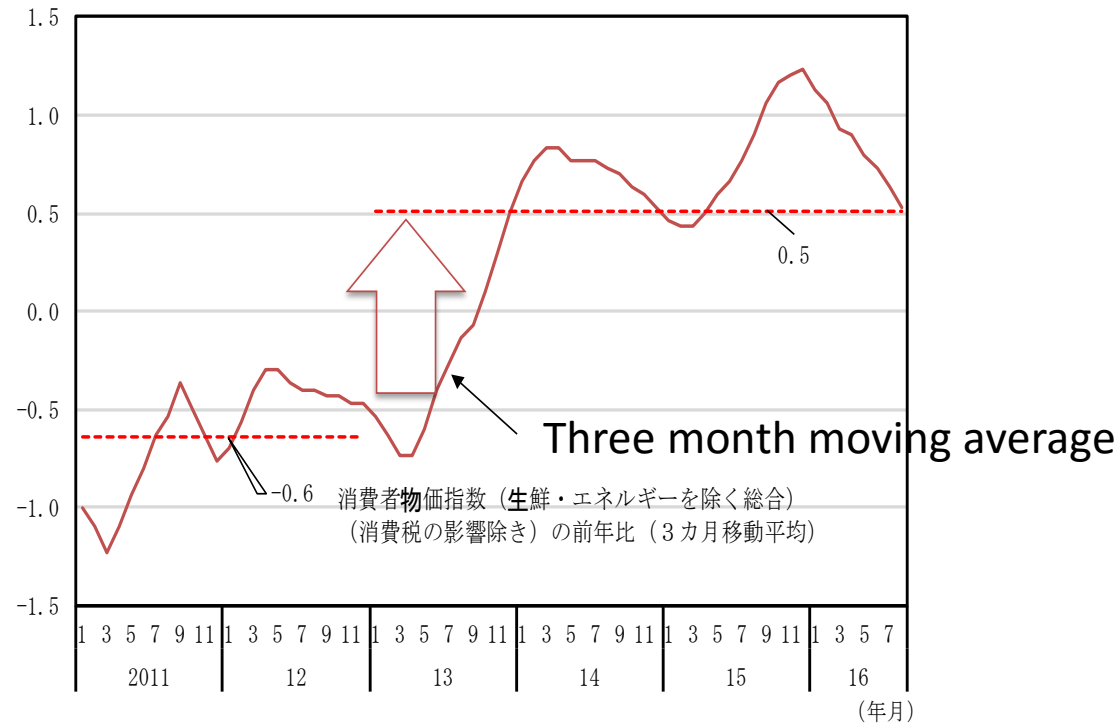


Expanding money balance



Shifting trend of inflation rate

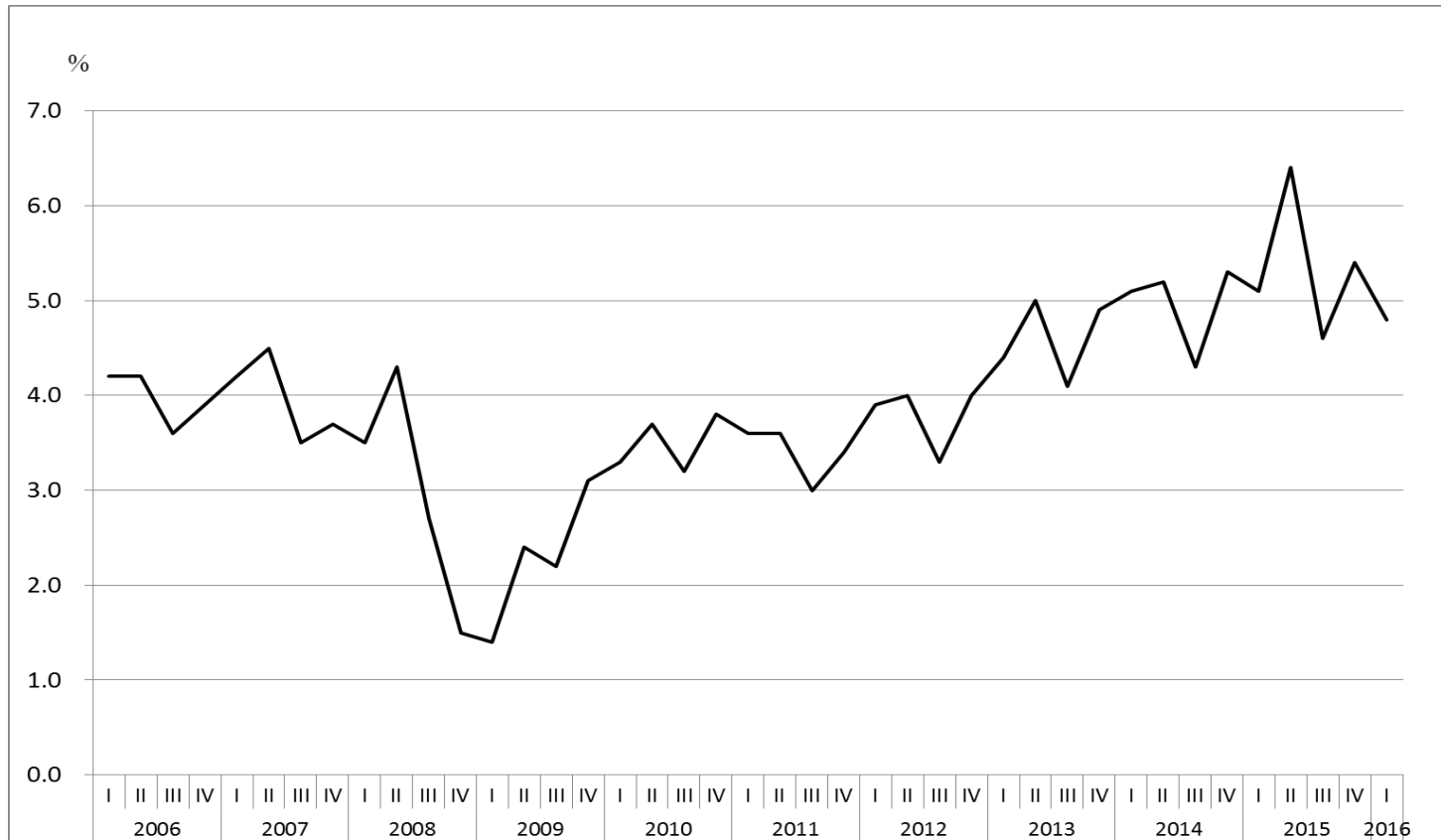
図1 消費者物価指数 CPI inflation rate excluding
energy prices and fresh foods
Inflation rate
(消費者物価指数、%)



Necessary Policy Coordination

- ◆ Three arrows of monetary stimulus, flexible fiscal policy, and structural reforms are required.
- ◆ Fiscal Stimulus which complements monetary policy plays an essential role under the current situation.
- ◆ Quality investment and expenditure to boost potential demand are keys.

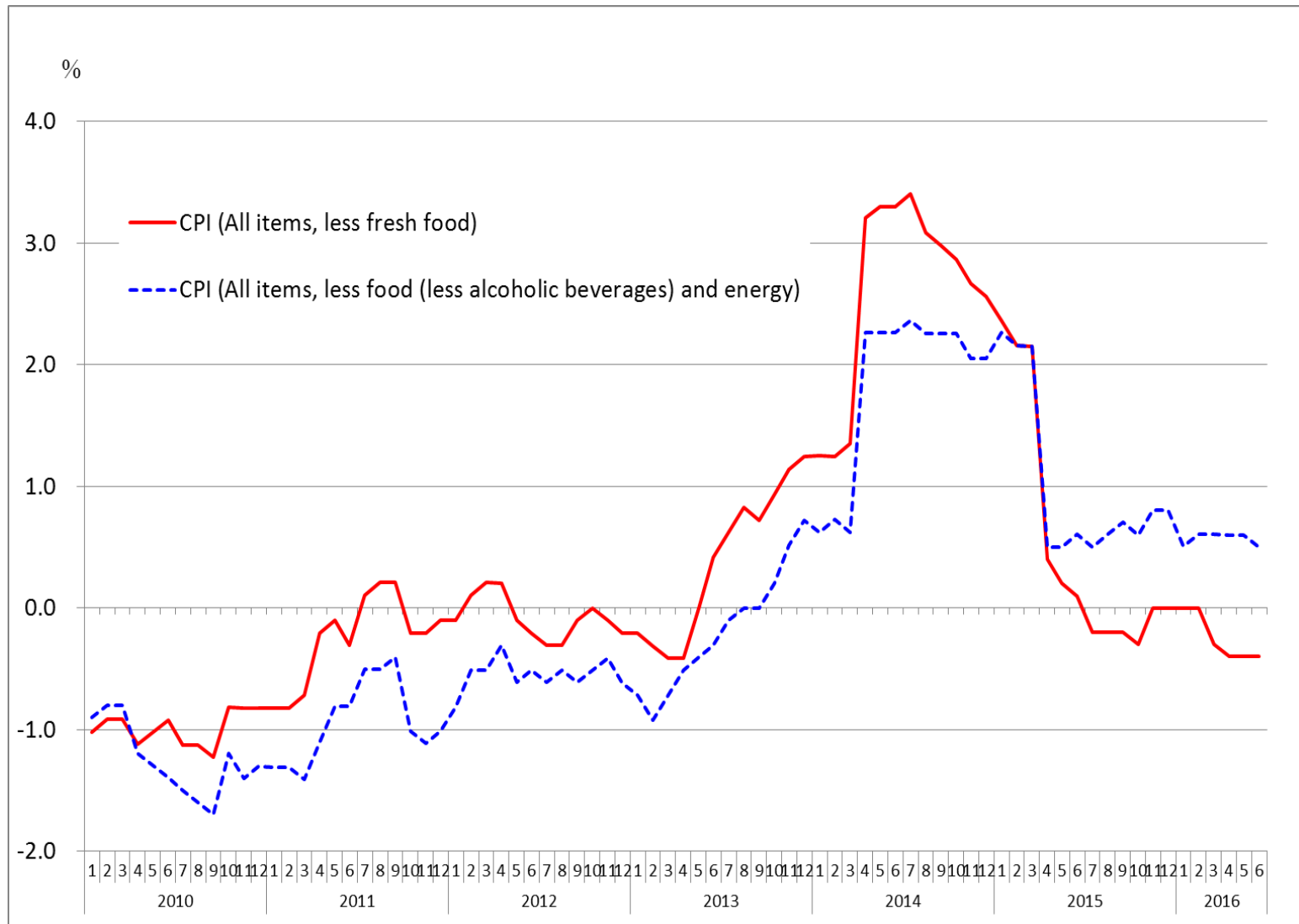
Ratio of Current profit to sales



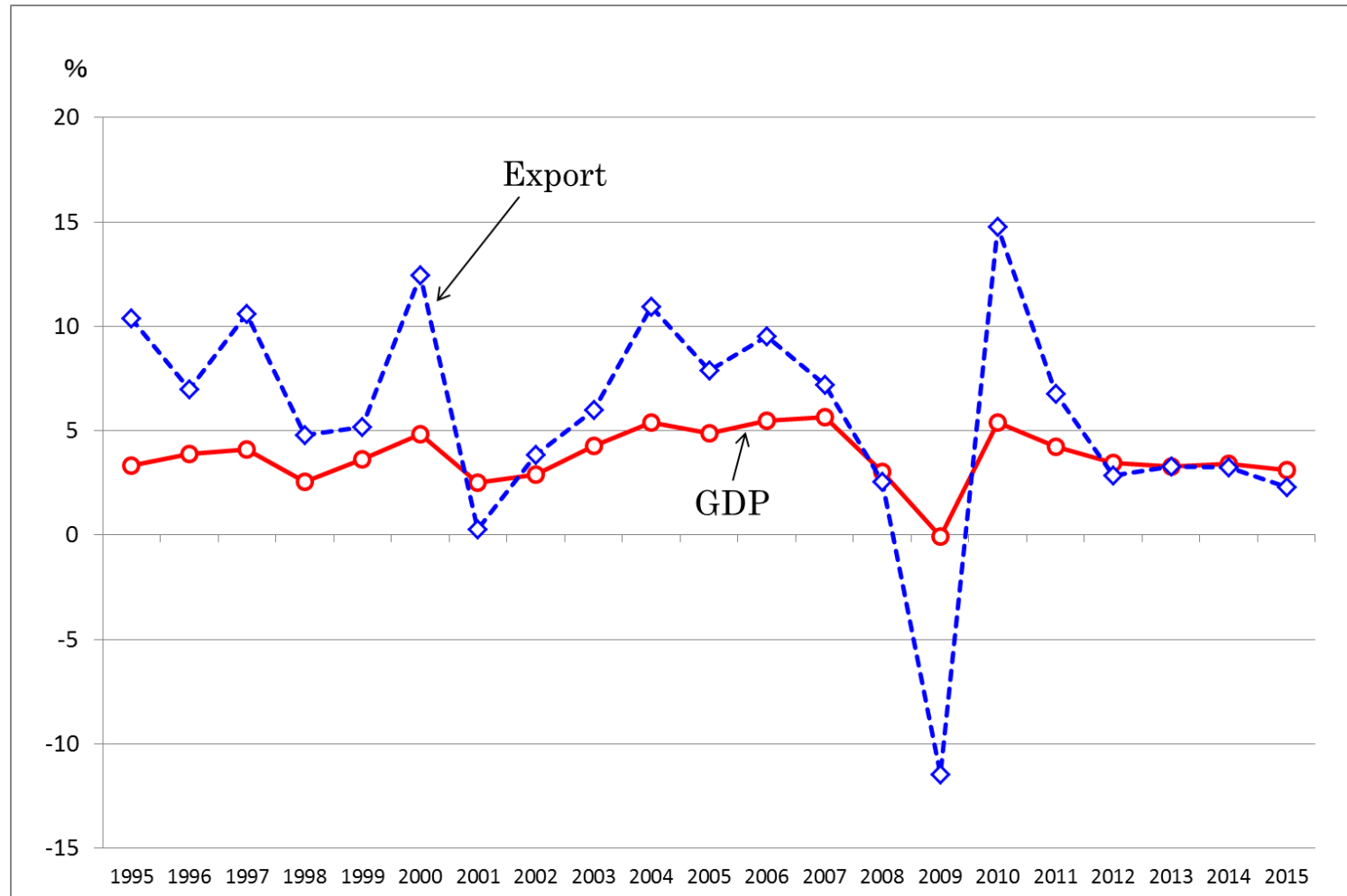
Trends of unemployment rate and job-offer job-seeker ratio



Return of deflation?



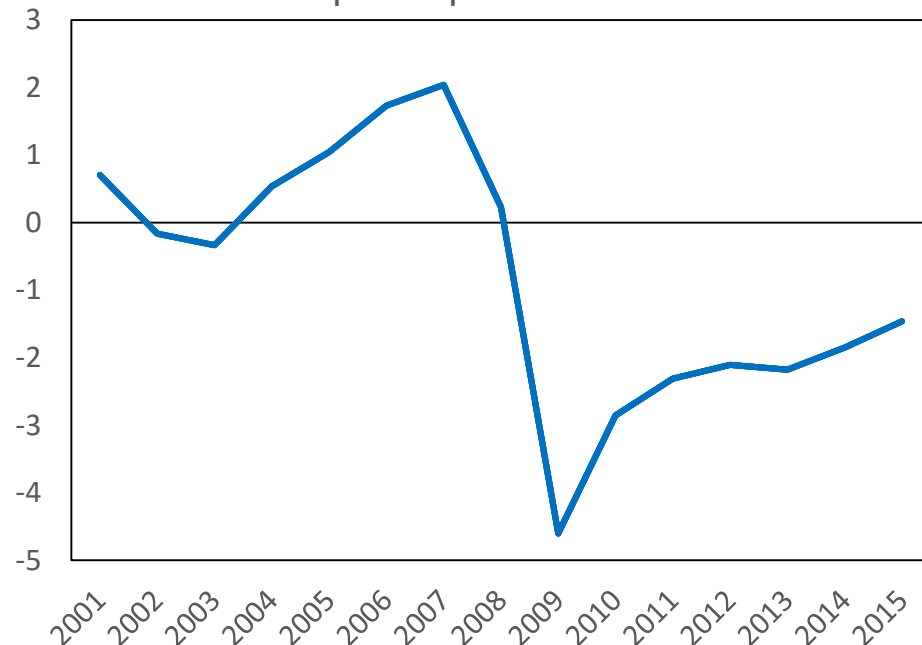
Growth rate of world GDP and world export; world economic trend is against Abenomics



Secular Stagnation?

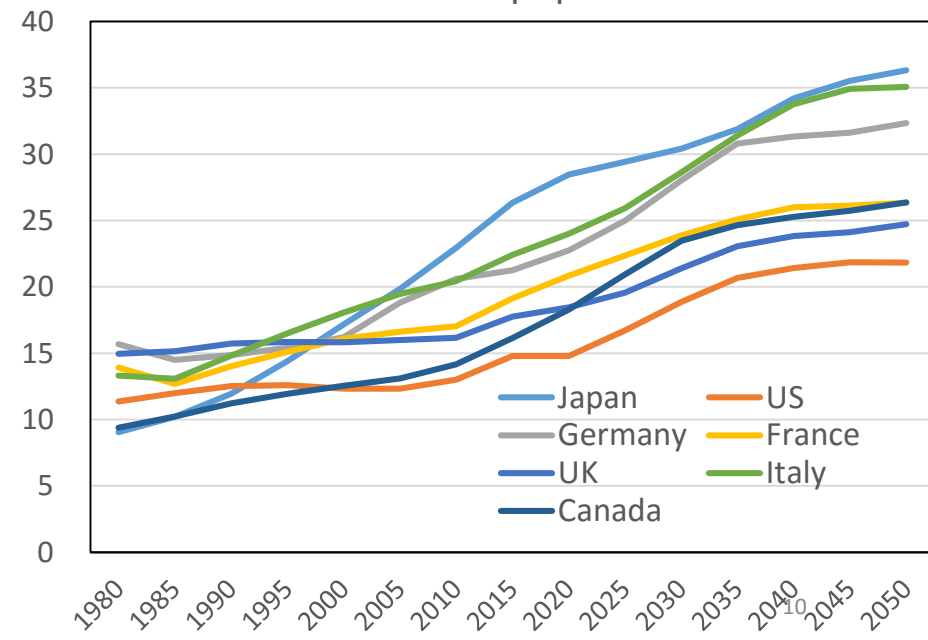
- ◆ Lack of Demand
- ◆ Legacy of the Global Financial Crisis
- ◆ Demographic changes such as ageing
- ◆ Slowdown in innovation and technological diffusion

Output Gap of G7 countries



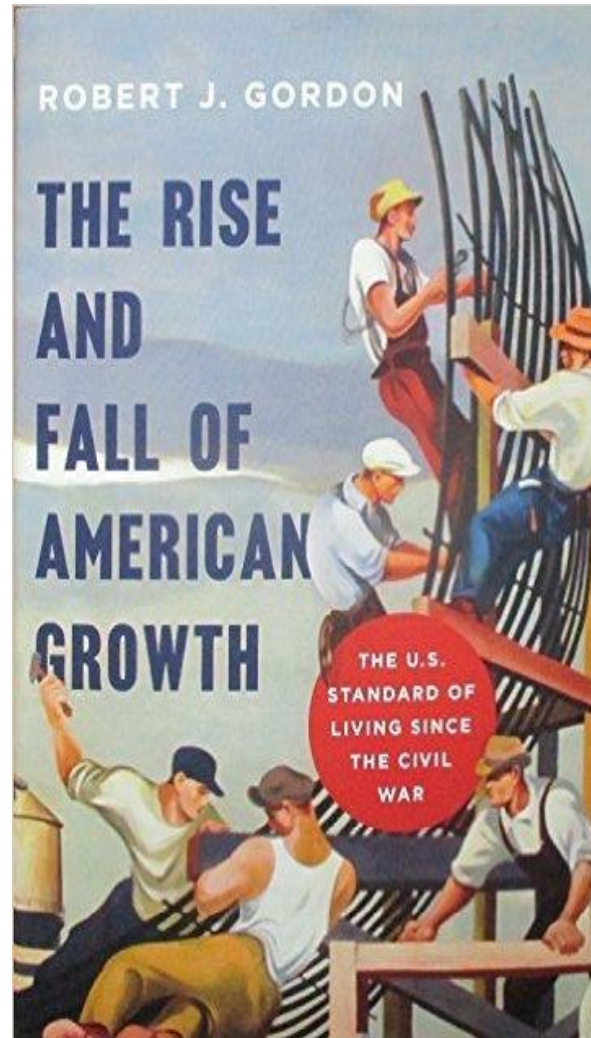
(Source) IMF, World Economic Outlook Database Apr 2016

Share of older population



(Source) United Nations, World Population Prospects, the 2015 Revision

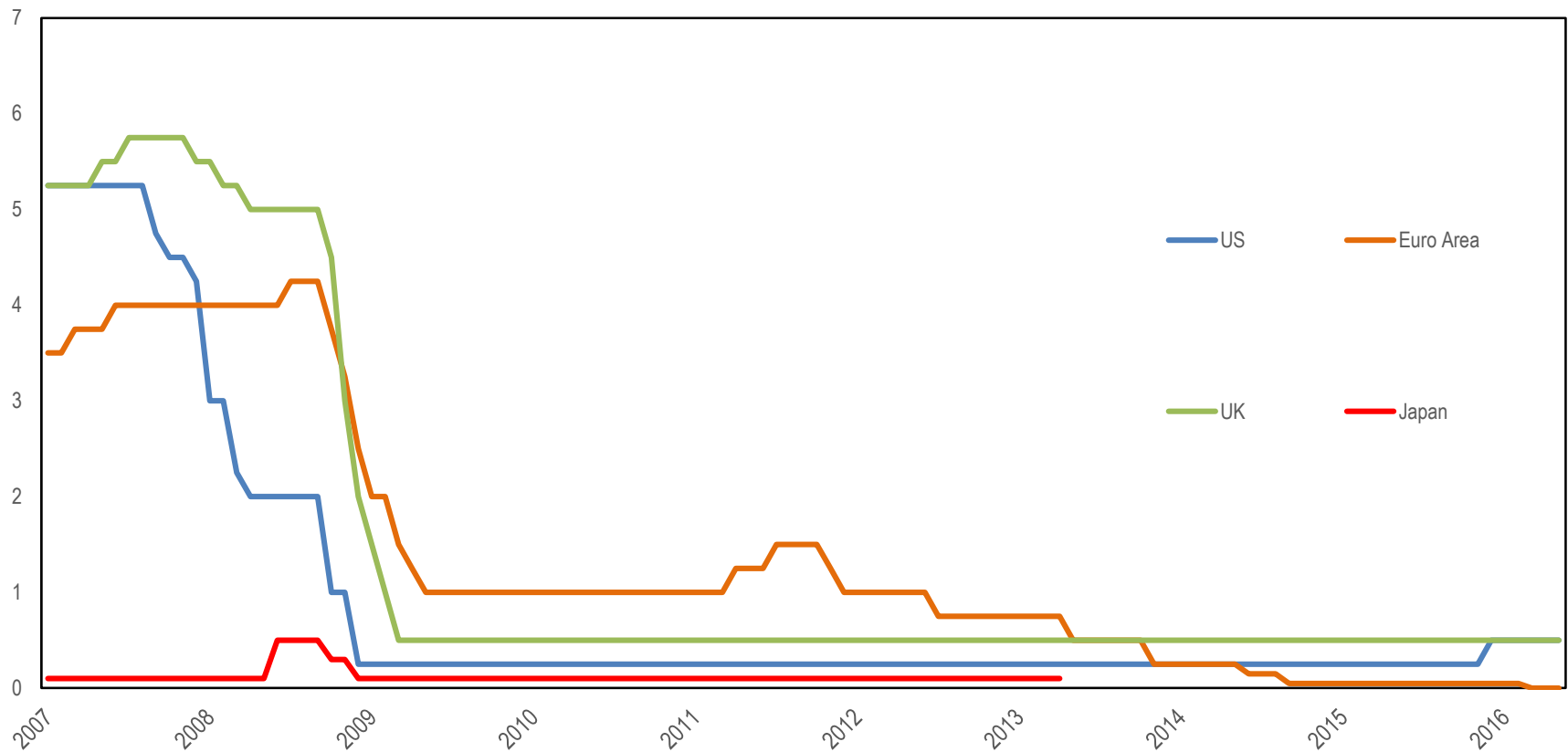
Sluggshi innovation: TFP has been very low since 1980s



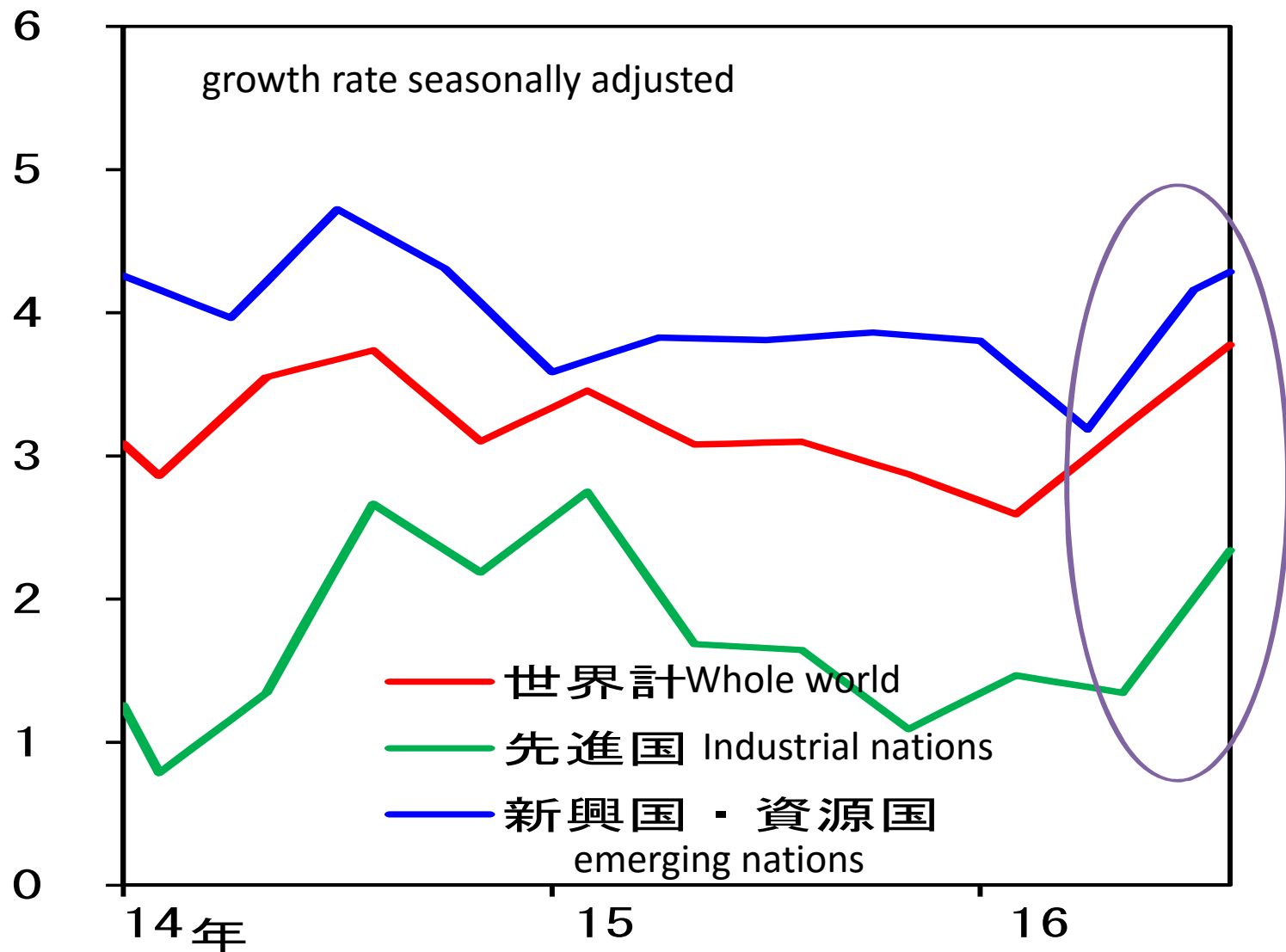
Low interest of major countries

(%)

Policy Rates

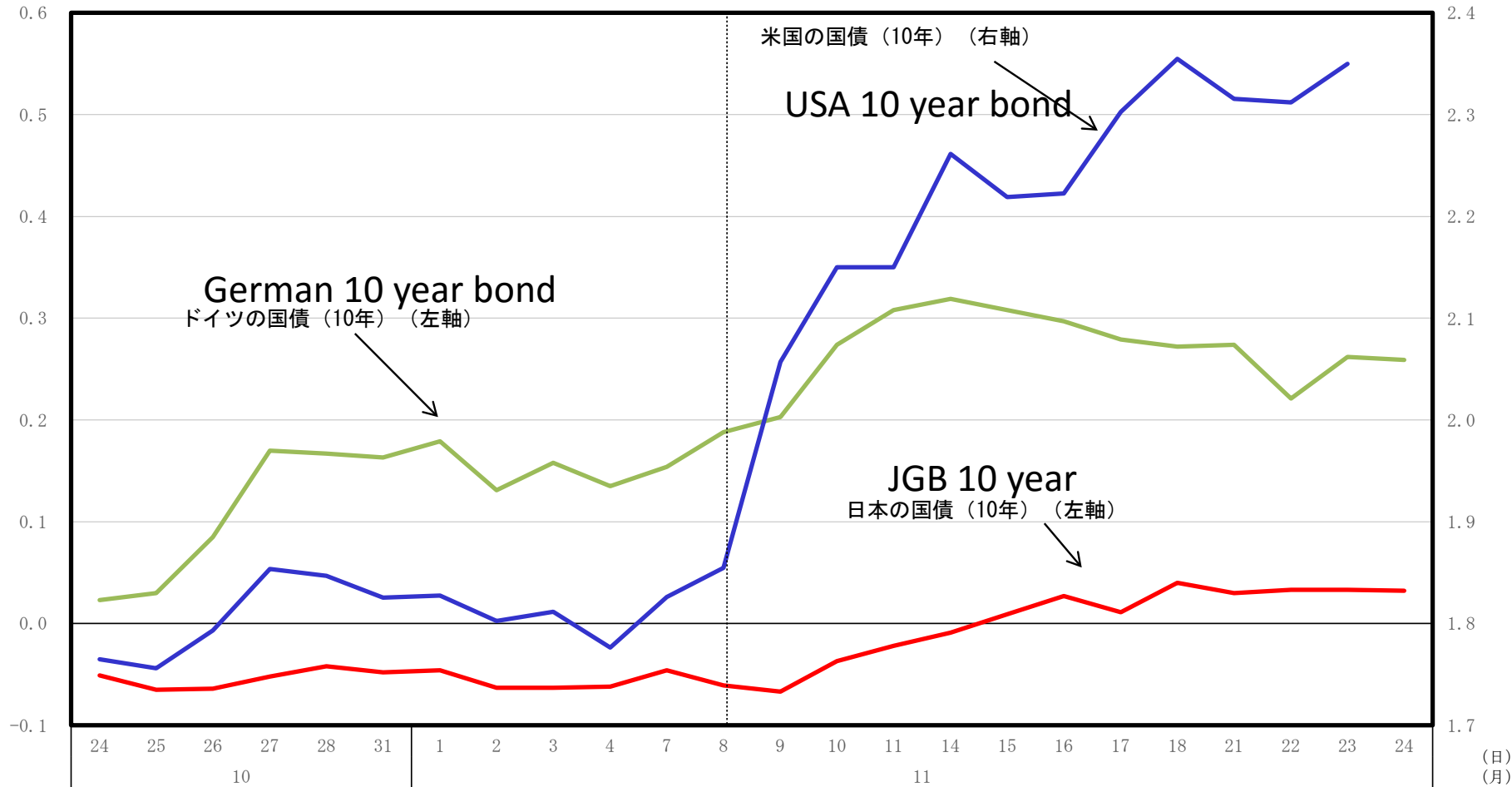


(季節調整済、前期比年率、%)

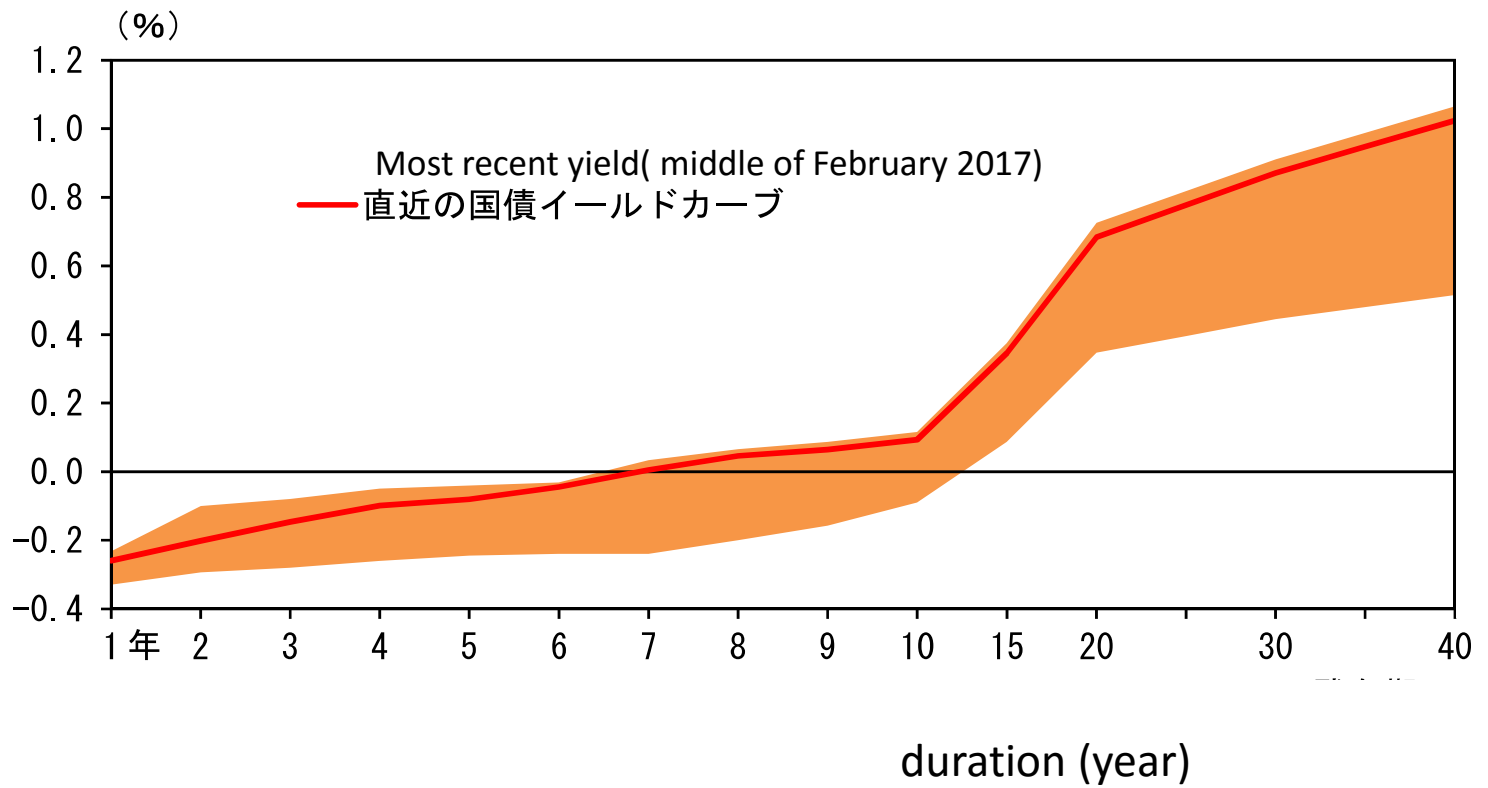


Trump effects; long-term interest rate

US election



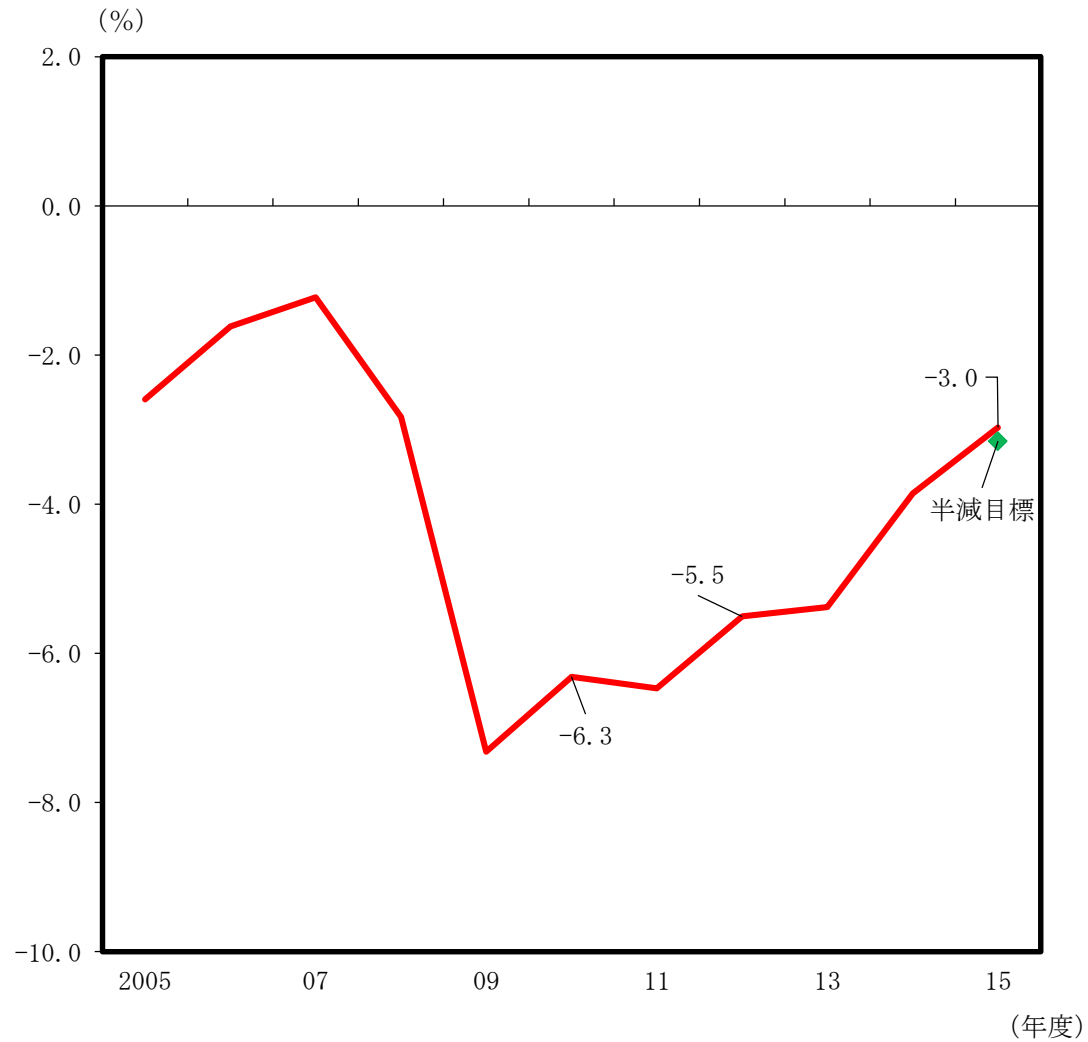
JGB yield curve



Three aspects of fiscal consolidation

- ◆ decreasing budget deficit
 - achieving primary balance surplus by 2020
- ◆ preparing for aging population
 - social security reforms
- ◆ lowering the level of public debt
 - budget surplus and nominal GDP growth
 - mild inflation?

Primary fiscal balance



Abenomics in Progress: Growth Strategy

- ◆ Corporate Governance Reform
- ◆ Pro-growth corporate tax reform
- ◆ EPA(FTA) and agricultural reform
- ◆ Expansion of private participation in public services (PPP, PFI)
- ◆ Increased labor participation of women and elderly people

Acceleration of Growth Strategy

1. Realizing Productivity Revolution

- The 4th Industrial Revolution
- Regulatory reform

2. Increasing investment in new growth areas

- Environment (Investment in energy saving, renewable and alternative sources)
- Healthcare, medical and other senior market
- Education, human resource development

3. Mitigating the impacts of labor force decline

- Further active participation of women and the elderly
- Utilization of foreign human resources
- Labor market reform

Japanese Securities Market Seminar



Panel discussion

**“Japanese Economy and Securities Market
- Outlook and Challenges”**

Moderator

Mr. Paul Hunter, IBA Japan

Panellist

Dr. Motoshige Itoh, Cabinet Office of Japan

Mr. Takeshi Shimizu, PwC Japan

Mr. Gast Juncker, Elvinger Hoss Prussen



INTERNATIONAL
BANKERS
ASSOCIATION
OF JAPAN

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

Paul Hunter

Secretary General, International Bankers Association of Japan

The Background

- 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'.
- The U.S. is Japan's largest trading partner followed by China and the EU (20%, 17.5% and 10.6% respectively).

Japanese business environment

- 52 Fortune 500 companies in 2016 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.
- Japan has the third highest global R&D spend.
- Japanese companies are cash rich active in the M&A market.
 - In 2016, outbound M&A by Japanese firms continued to be strong; JPY 10.4 trillion (USD 90 billion).
 - Recent activity includes Softbank buying ARM, Mizuho targeting RBS North American loan book, and Asahi buying SAB Miller.

The scale

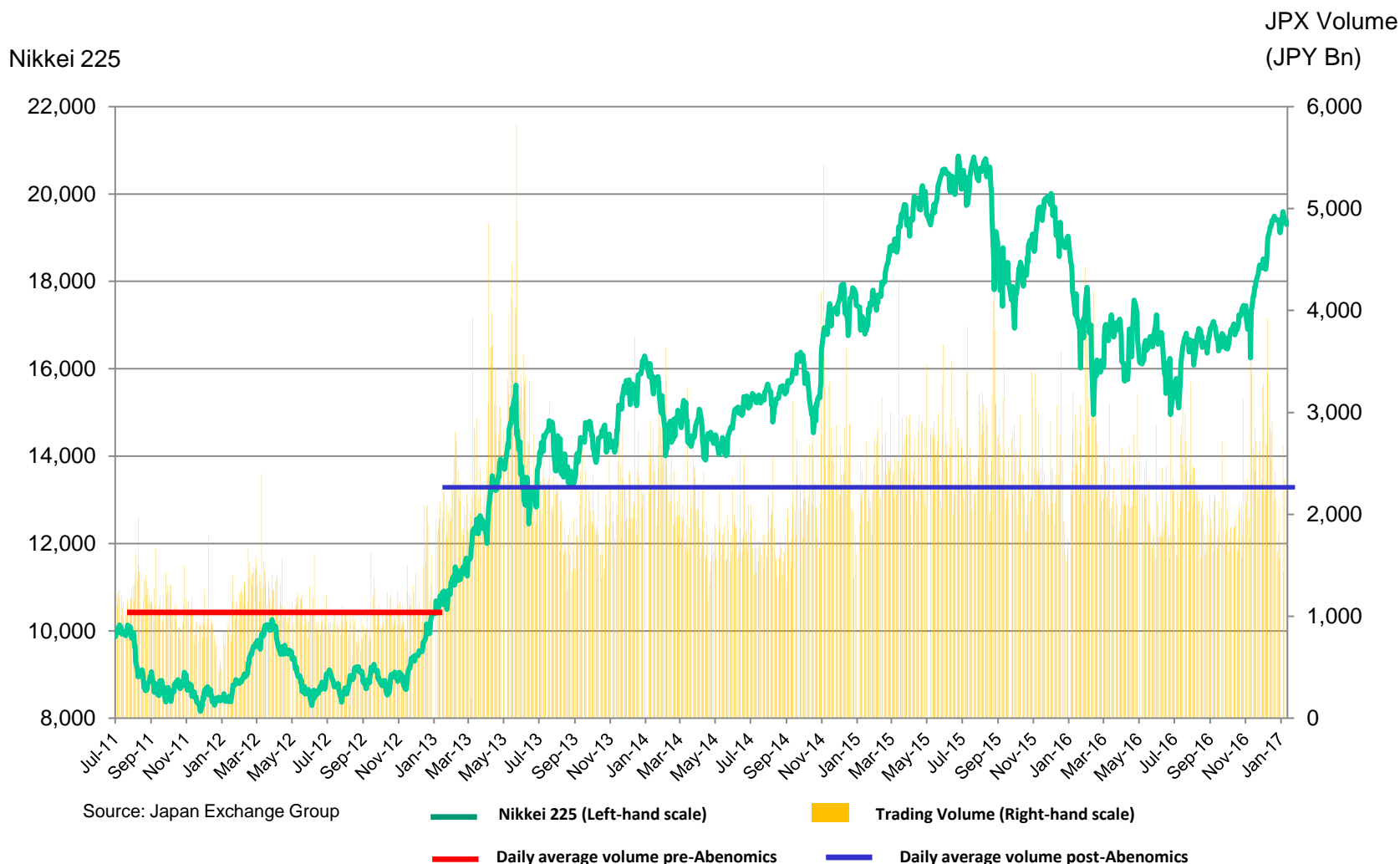
Remember there are some big numbers:

- Large pension funds JPY 360.2 trn (\$ 3.2 trn, Sept 2016, BOJ), e.g. Government Pension Investment Fund with JPY132.8 trn (\$ 1.17trn, Sept 2016) which is the world's largest public pension fund.
- Japan has the largest accumulation of personal wealth in the world – amounting to JPY 1,752 trn (\$ 15.5 trn, Sept 2016, BOJ).
- Government bond market (JPY929trn, Dec 2016, MOF).
- Size of stock market: TSE market capitalization (section 1) was JPY 566 trn (\$ 5 trn), Feb 2017.

Abe administration

- Elected December 2012. His two back to back terms give him 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 although now thwarted) and progress on EU-Japan FTA – a variety reforms have been required across sectors.
 - ❑ ‘Womanomics’: potential boost to GDP.
 - ❑ Monetary policy developments: negative interest rates and targeting the yield curve and not the monetary base.
 - ❑ Tax environment: corporate tax reduction (but probably more needed to be competitive) and ‘My Number’ (Tax payer id system) which is aimed at stopping tax evasion, but out of kilter on inheritance tax changes for foreign workers.
 - ❑ Tokyo as financial centre: role of Governor Koike, the vision and environment to be profitable and building on macro advantages.
 - ❑ 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.

Capital Markets Activity Boosted by Abenomics





IBA

JAPAN

INTERNATIONAL BANKERS
ASSOCIATION OF JAPAN

JSDA/ICMA ***Global Financial City - Tokyo***

March 2017

PwC Japan Group

PricewaterhouseCoopers Aarata LLC

Partner, Takeshi Shimizu

Global Financial City - Tokyo

AGENDA

1. Tokyo's Financial Market Challenges
2. Tokyo Metropolitan Government's Initiatives
3. The Consortium for Japan International Asset Management Center Promotion

1-1. Social imperatives in Japan

Japan is confronting a number of factors which require a strengthening of its asset management capabilities.

Underutilized household assets

- USD 17 trillion of Japanese household assets
- 52% of Japanese household assets (USD 9 trillion) allocated to currency and deposits vis-à-vis 13% and 34% in the US and Europe*
- Slow pace of private asset accumulation compared to other nations

Aging population

- 25% of its people are aged 65 or over
- By 2040, this ratio is estimated to rise to 36%
- Public pension benefits comprise 67% of elderly household income

Pension funds and institutions starting to diversify allocations

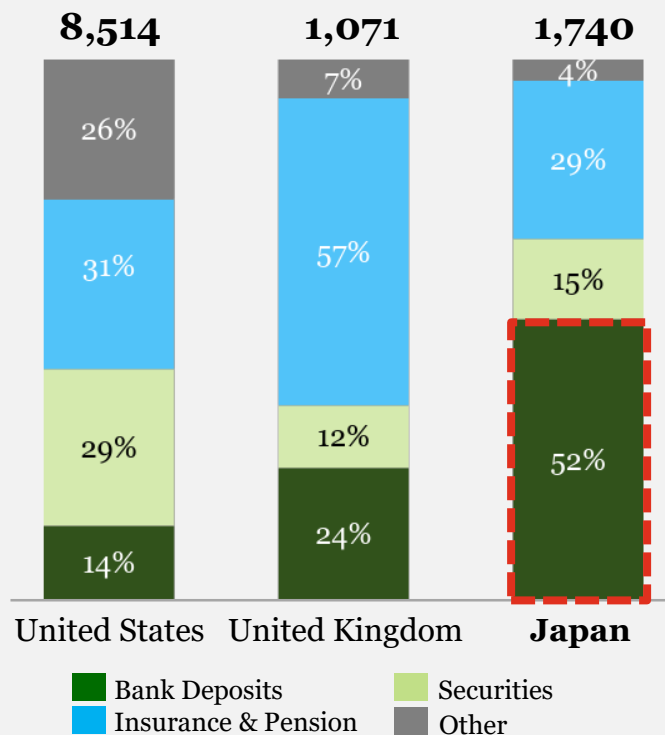
- Government Pension Investment Fund (“GPIF”) is the world's largest public pension fund with USD 1.3 trillion AUM
- GPIF has increased the allocation to global equities and alternative investments to boost returns
- Other asset owners are also seeking to diversify their investments in search of higher rates of return

* Source: *Flow of funds, December 22, 2016, Bank of Japan*

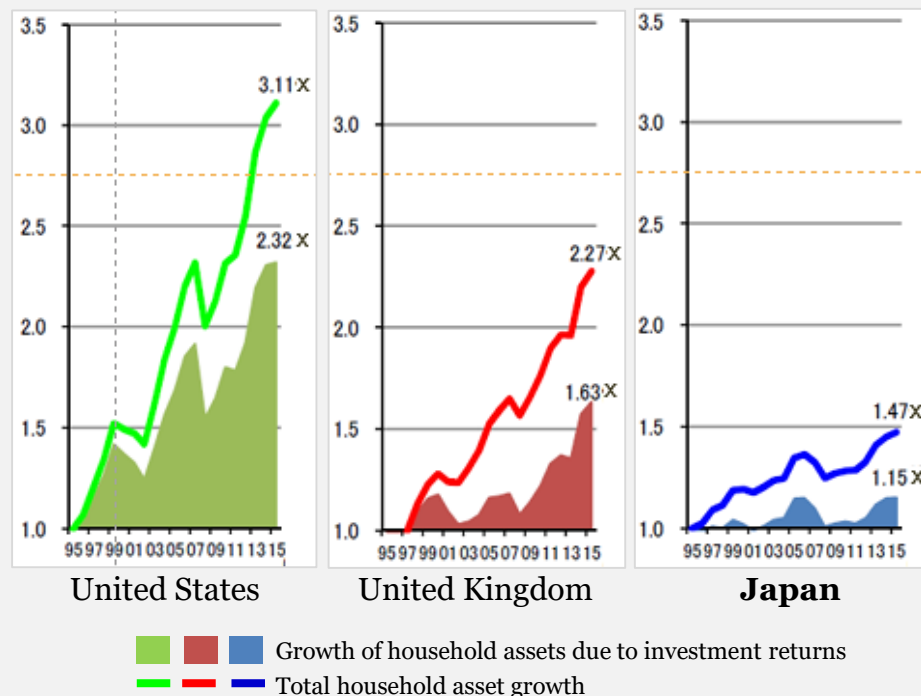
1-2. Household assets and asset accumulation

Japan lags far behind other advanced nations in levels of personal investment, and the majority of household assets linger in bank deposits. Over the last 20 years, household assets have grown at a slow pace.

Household Asset Composition



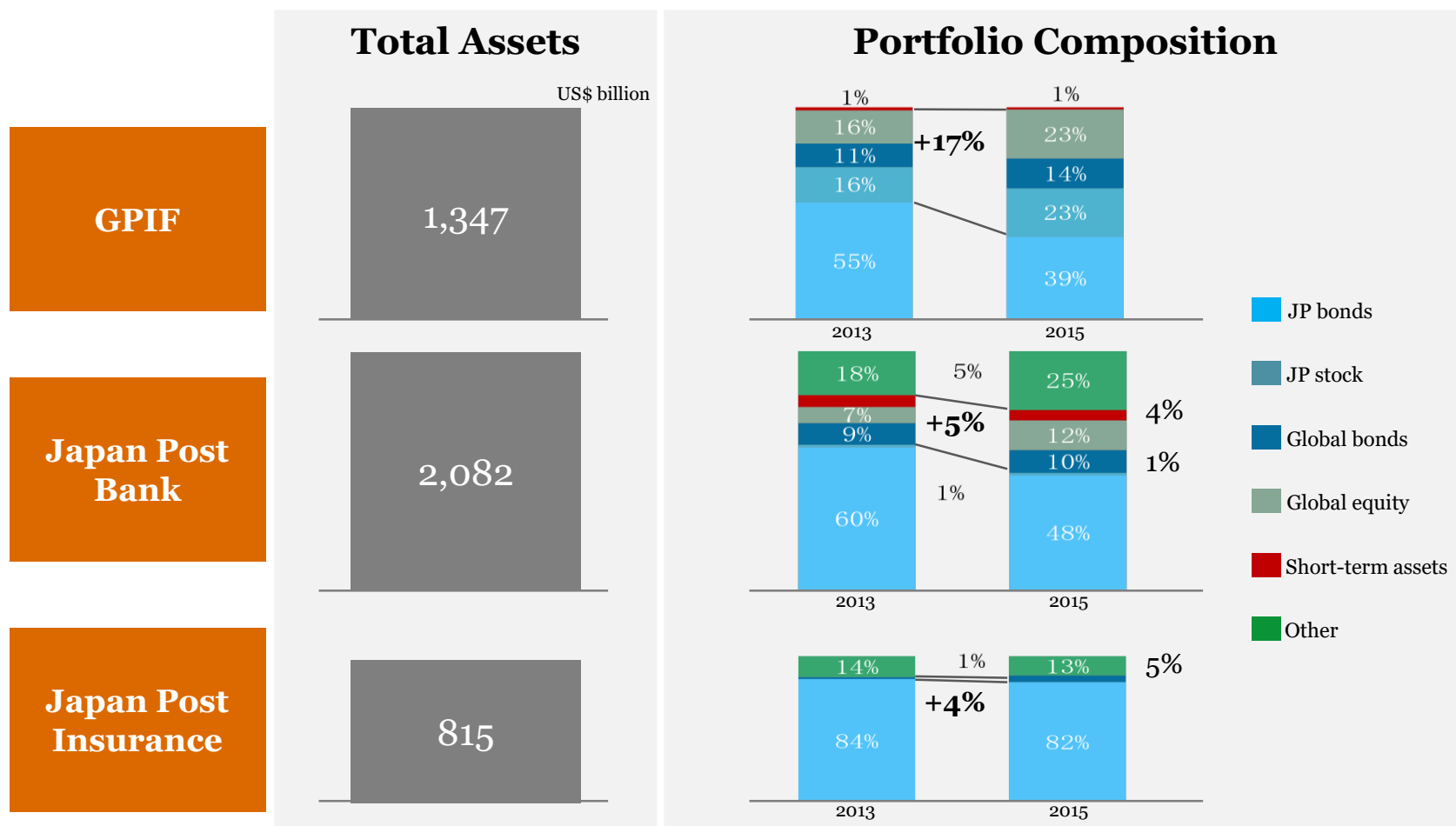
Household Asset Accumulation Trend



Source: Financial Industry Report, September 2016, Japan Financial Services Agency

1-3. Key asset owner investment trends

Japanese asset owners' asset allocation trends have been changed from JGB concentration to global investments.



Source: website of GPIF, Japan Post Bank, and Japan Post Insurance
PwC

1-4. Responses to Japanese social imperatives

Japanese government agencies and industry groups are aligned to redevelop Japan as a leading financial services center, and to cope with Japanese social issues.



2-1. Overview of the immediate measures for attracting foreign financial companies

Foreign financial institutions will be given detailed support at each stage of setting up businesses in Japan, from before entry to actual launch of operations.



Attracting foreign financial institutions

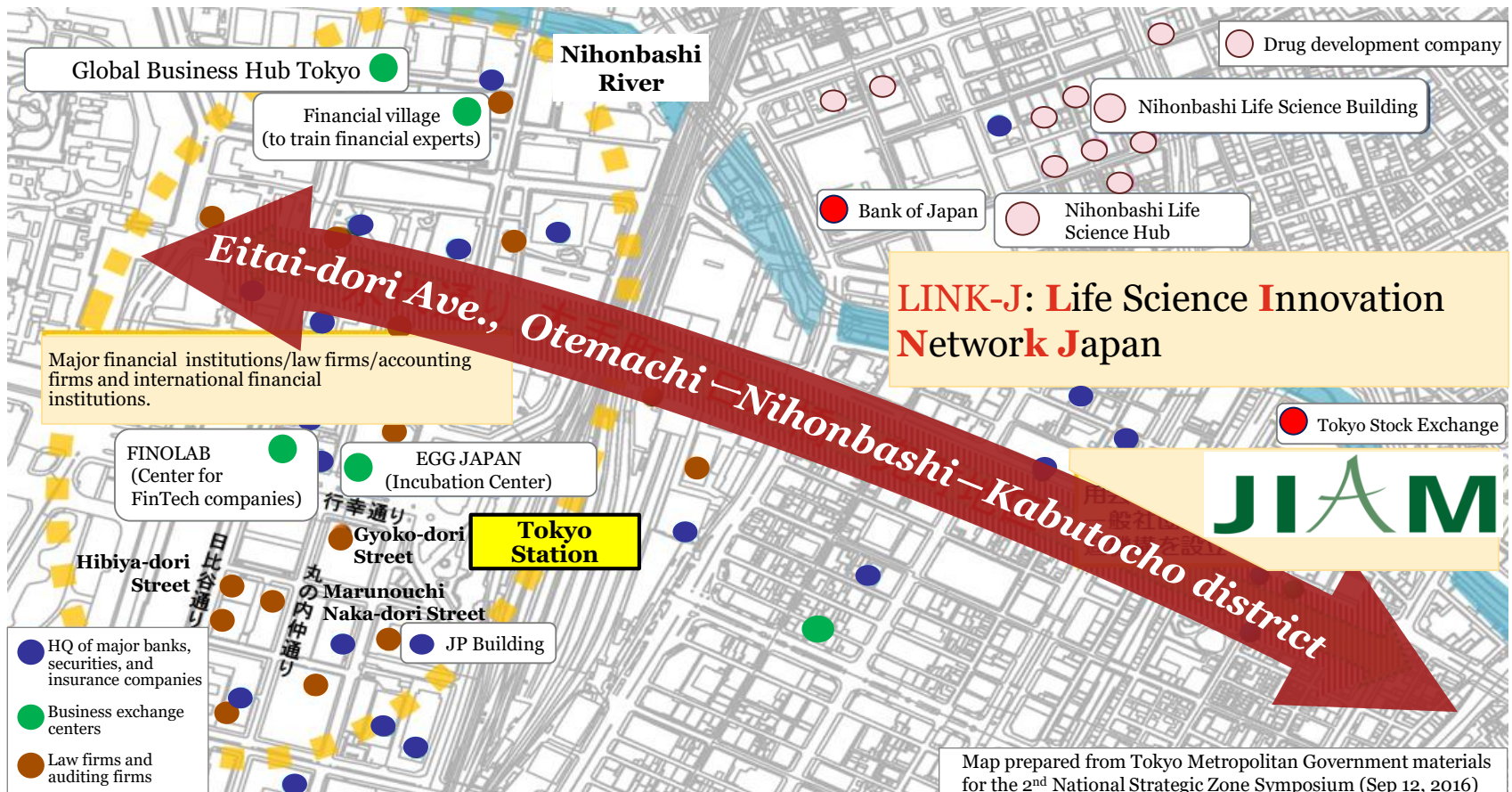
- ✓ Market research, business plan development and preparations for license registration supported by TMG
- ✓ Accelerator program
- ✓ Public-private financial promotion activities
- ✓ Revise the inheritance tax

Support for business establishment procedures after entry to Japan

- ✓ Enhance consultation services for financial businesses
 - Launch a financial one-stop support service
 - Expand services provided by “Tokyo One-Stop Business Establishment Center”
 - Establish an FSA central consultation desk
- ✓ Compile an English Guide Book

2-2. Attracting foreign financial institutions and promotional activities by public-private collaboration

- The ideal form of a public-private promotional organization
- The establishment of a Tokyo version the “Lord Mayor” system
- The expansion of the Consortium for Japan International Asset Management Center Promotion (“JIAM”)



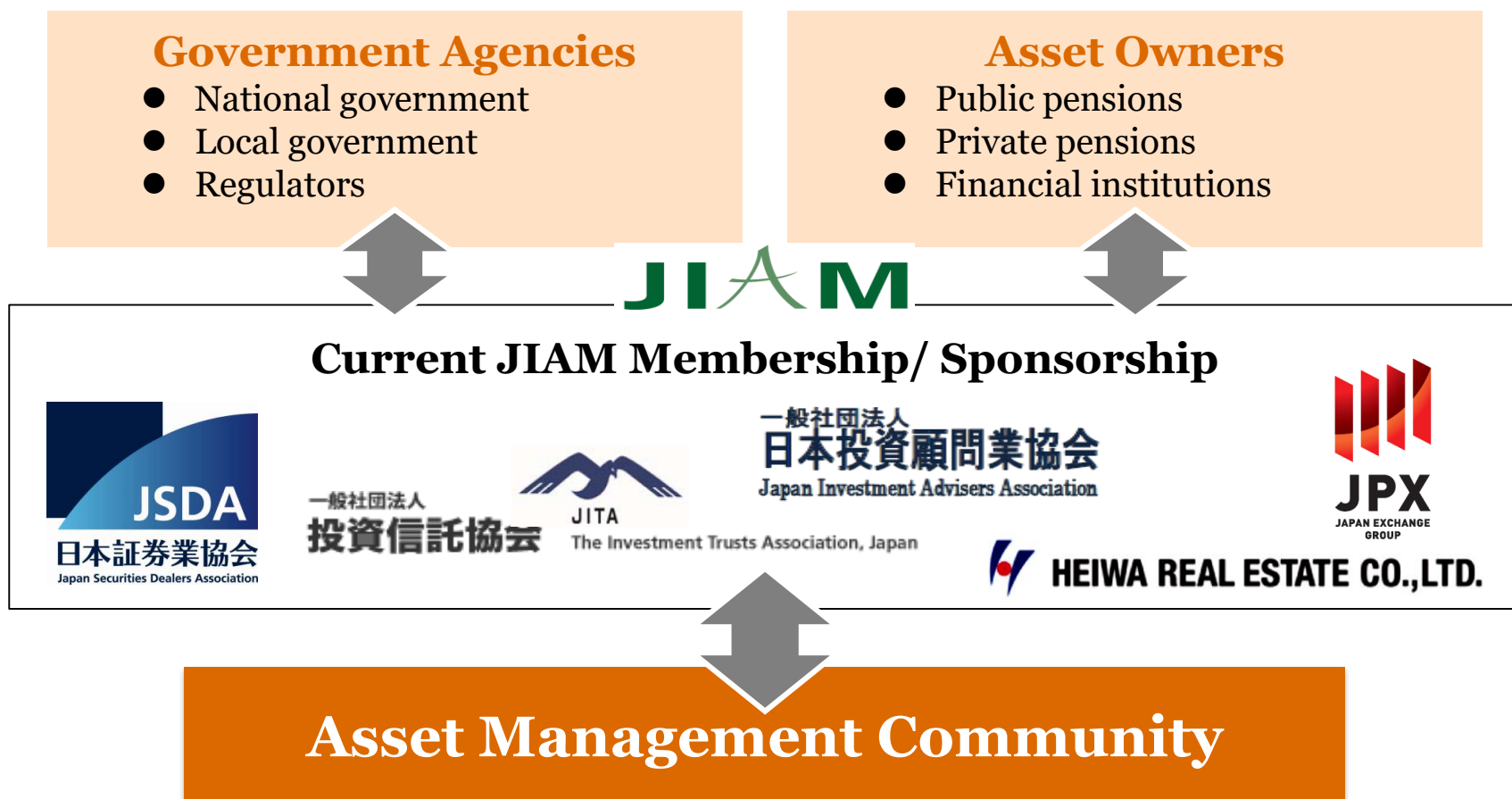
2-3. Matters under current discussion

The following subjects are being discussed in the “Advisory Panel for Global Financial City Tokyo”.

Subject	Challenge to address
Revising the tax system	<ul style="list-style-type: none">• Corporate and individual taxes• Inheritance tax
Optimizing regulations	<ul style="list-style-type: none">• Financial regulations• Fiduciary duty
Building an English language environment	<ul style="list-style-type: none">• Translating laws and regulations into English• Consultations and filing of applications in English at various desks
Cultivating asset managers	<ul style="list-style-type: none">• “Emerging Managers Program” to promote the provision of seed money• Generating opportunities to match up asset managers and institutional investors
Investment education and the nurturing of talent	<ul style="list-style-type: none">• Financial literacy education• High-quality education focused on finance professionals

3-1. JIAM was established to promote Global Financial City Tokyo

JIAM is maintaining close communications with government agencies, industry associations, asset owners and leading service providers to support the development of an internationally competitive and vibrant asset management community.



3-2. JIAM – Service Offerings

JIAM provides support to foreign asset managers to achieve healthy and diversified portfolios of household assets in Japan.

JIAM Service Offerings

- 1** Provide **information and business development** guidance
 - Provide guidance on industry requirements and market entry
 - Support development of business relationships and opportunities
- 2** Support **business establishment**
 - Support in establishing a legal entity in Tokyo and acquiring appropriate licenses
 - Introduce candidate service providers
- 3** Support **operational outsourcing**
 - Provide support for external outsourcing of middle and back-office operations
- 4** **Research and fact finding**
 - Collect and synthesize the "voice" and analyze the requirements of both Japanese and foreign asset managers

Asset Management Community:
Foreign qualified asset managers

JIAM's
ultimate beneficiaries

The Japanese Nation:
Healthy and diversified portfolio of household assets



© 2017 PricewaterhouseCoopers Aarata LLC, PricewaterhouseCoopers Kyoto, PwC Consulting LLC, PwC Advisory LLC, PwC Tax Japan. All rights reserved. PwC refers to the PwC network member firms and/or their specified subsidiaries in Japan, and may sometimes refer to the PwC network. Each of such firms and subsidiaries is a separate legal entity. Please see www.pwc.com/structure for further details.

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.



Japan and Luxembourg – a view from a Luxembourg practitioner

JSDA seminar 6 March 2017



- (1) The Luxembourg story – Focus on Asset Management and Investment Funds
- (2) Japan in Luxembourg
- (3) Luxembourg in Japan
- (4) Potential cooperation in a challenging environment

(1) The Luxembourg story – Focus on Asset Management and Investment Funds

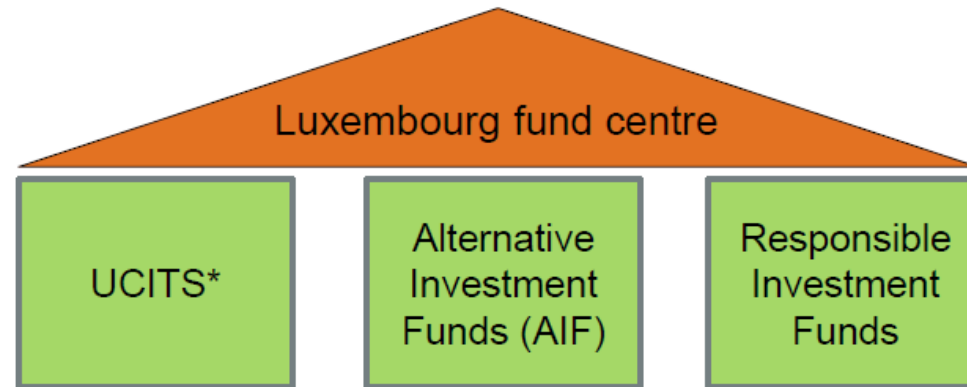


(1) The Luxembourg story – Focus on Asset Management and Investment Funds

...at a glance:

- 4 trillion USD assets under management
- Investors in Luxembourg funds resident in 70 countries
- Fund promoters from nearly 70 countries
- More than 59,000 distribution agreements for Luxembourg UCITS

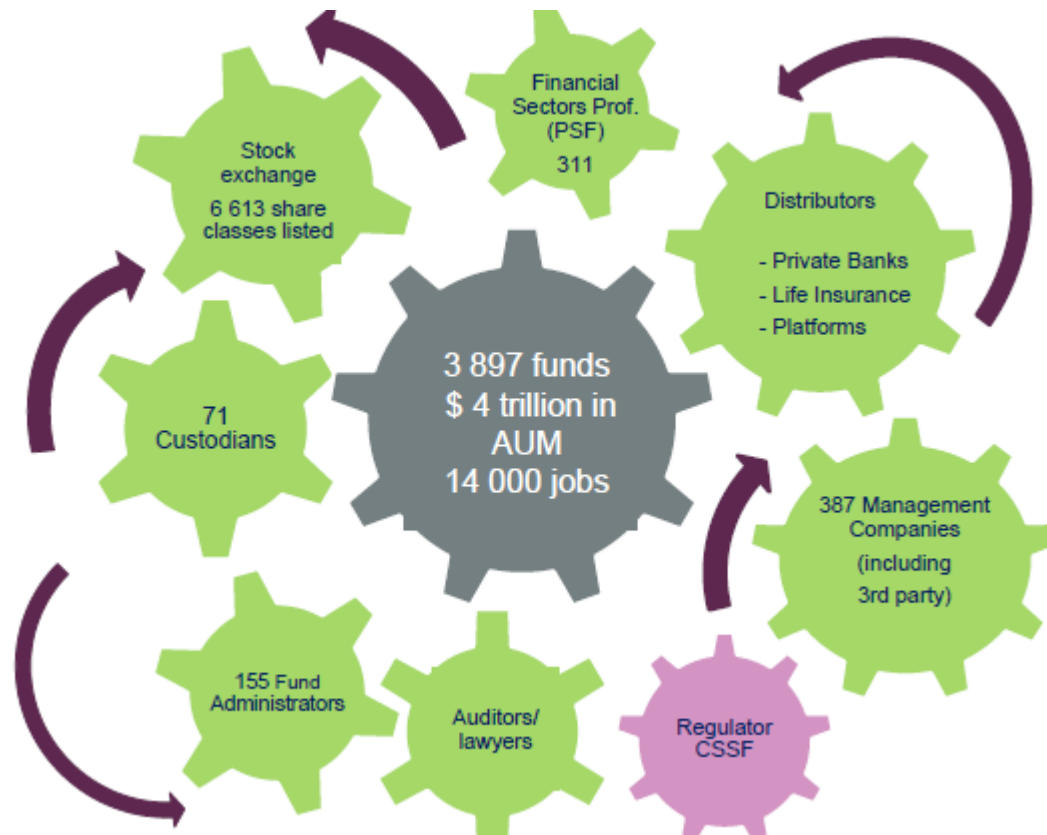
(1) The Luxembourg story – Focus on Asset Management and Investment Funds



We not only focus on products, but also on:

- Fund managers, governance
- Service provision
- Operations, market infrastructure, risk management
- Fund distribution
- Investor protection

(1) The Luxembourg story – Focus on Asset Management and Investment Funds



(2) Japan in Luxembourg

Japanese investment fund promoters using Luxembourg servicing structures for Luxembourg domiciled funds and off-shore (mainly Cayman) funds.

Stable situation but declining due to scheduled liquidations:

	2013	2015
Assets in USD	41,600,000,000	33,833,000,000
Number of funds	154	139

Increase in assets administered for Cayman structures

(2) Japan in Luxembourg

Currency denomination of Luxembourg funds

Still a massive lead of JPY versus CNH/CNY

As of today

1.5 billion in CNH/CNY versus 67 billion in JPY

(2) Japan in Luxembourg

Japanese fund promoters in Luxembourg:

- Nomura;
- Mitsubishi UFJ;
- SMBC Nikko;
- Mizuho;
- Shinko;
- Sumitomo Trust and Banking;
- SBI;
- Daiwa;
- Nikko Asset Management.

(Source: Monterey Insight)

5 Japanese Banks in Luxembourg + Rakuten Europe Bank S.A.

(3) Luxembourg in Japan

- 1973: first Luxembourg investment fund created for sale in Japan
- 1990's: massive sales of Luxembourg funds to Japan including retail investors
- 3 main themes:
 - Funds by Japanese promoters sold back to Japan
 - Fundraising in Japan by international managers
 - Japanese asset managers using Luxembourg vehicles (UCITS/AIF) for global fund distribution

Example:

Nikko AM

Asset Management One

(4) Potential cooperation in a challenging environment

New developments

- Brexit
- MiFID II – passport for non-EU countries
- Move from off-shore to on-shore

Cooperation / opportunities

For Luxembourg

- provide yield solutions to Japanese investors (global access and capabilities)
- be the platform of choice for accessing Japan

For Japan

- become again the key place to access Asia
- participate in Asian fund initiatives

(4) Potential cooperation in a challenging environment

Common challenges and opportunities

- Governance and transparency: an increasing focus of regulators and fund investors
- Demographics: Aging population and pressure on pensions
- Low % of households owning funds
- Global economy and low or zero interest rates
- Geopolitical risks; e.g. Brexit
- Technology and Digitalization
- regulations (example MMF regulations)

Thank you!



GAST JUNCKER
Partner

gastjuncker@elvingerhoss.lu
Tel: +352 4466440

ELVINGER HOSS PRUSSEN, société anonyme | Registered with the Luxembourg Bar | RCS Luxembourg B 209469 | VAT LU28861577
2, place Winston Churchill | B.P. 425 | L-2014 Luxembourg | Tel: +352 44 66 440 | Fax: +352 44 22 55 | www.elvingerhoss.lu