

# Growth Strategies and Fiscal Consolidation in Japan

Fiscal Sustainability and Growth in Japan and the EU  
EU-Japan Open Forum  
Friday, 30th November, 2012  
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Keio University

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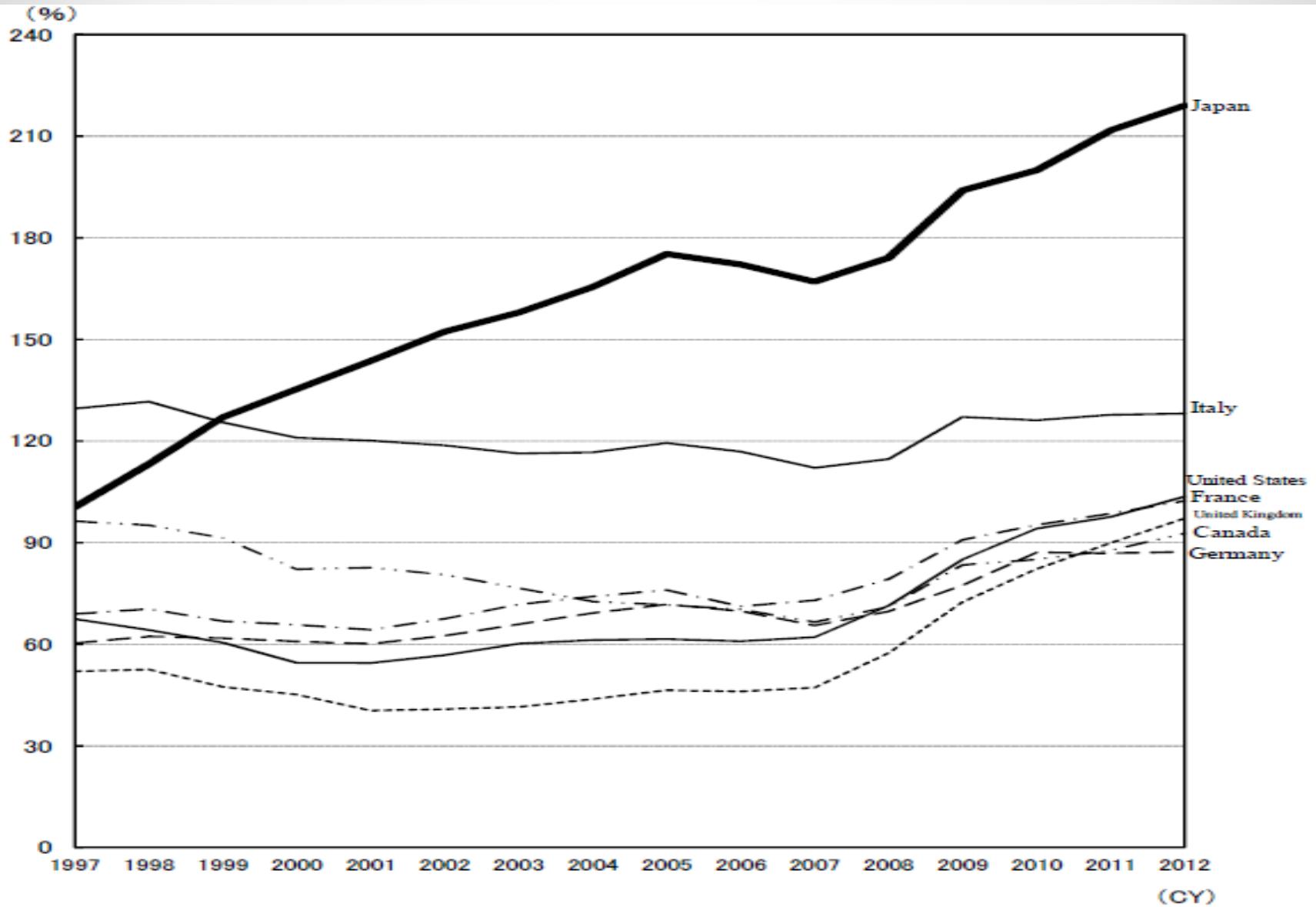
- Japan's fiscal situation
- Japan's economic situation
- Japan's growth strategy

# Japan's fiscal situation



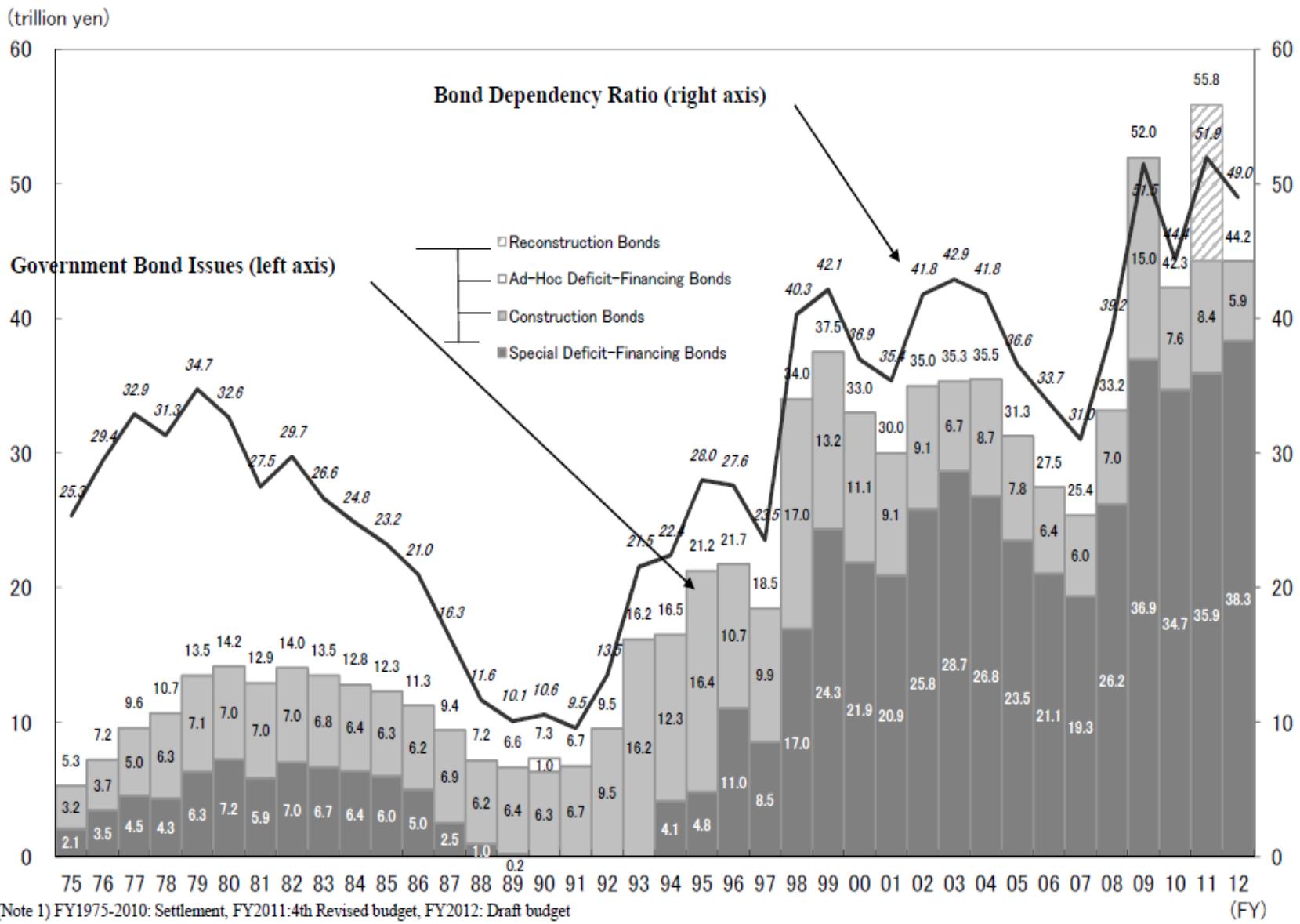
## General Government Financial Balances

<http://www.mof.go.jp/english/budget/budget/fy2012/e20111224b.pdf>



General Government Gross Debt

<http://www.mof.go.jp/english/budget/budget/fy2012/e20111224b.pdf>



(Note 1) FY1975-2010: Settlement, FY2011: 4th Revised budget, FY2012: Draft budget

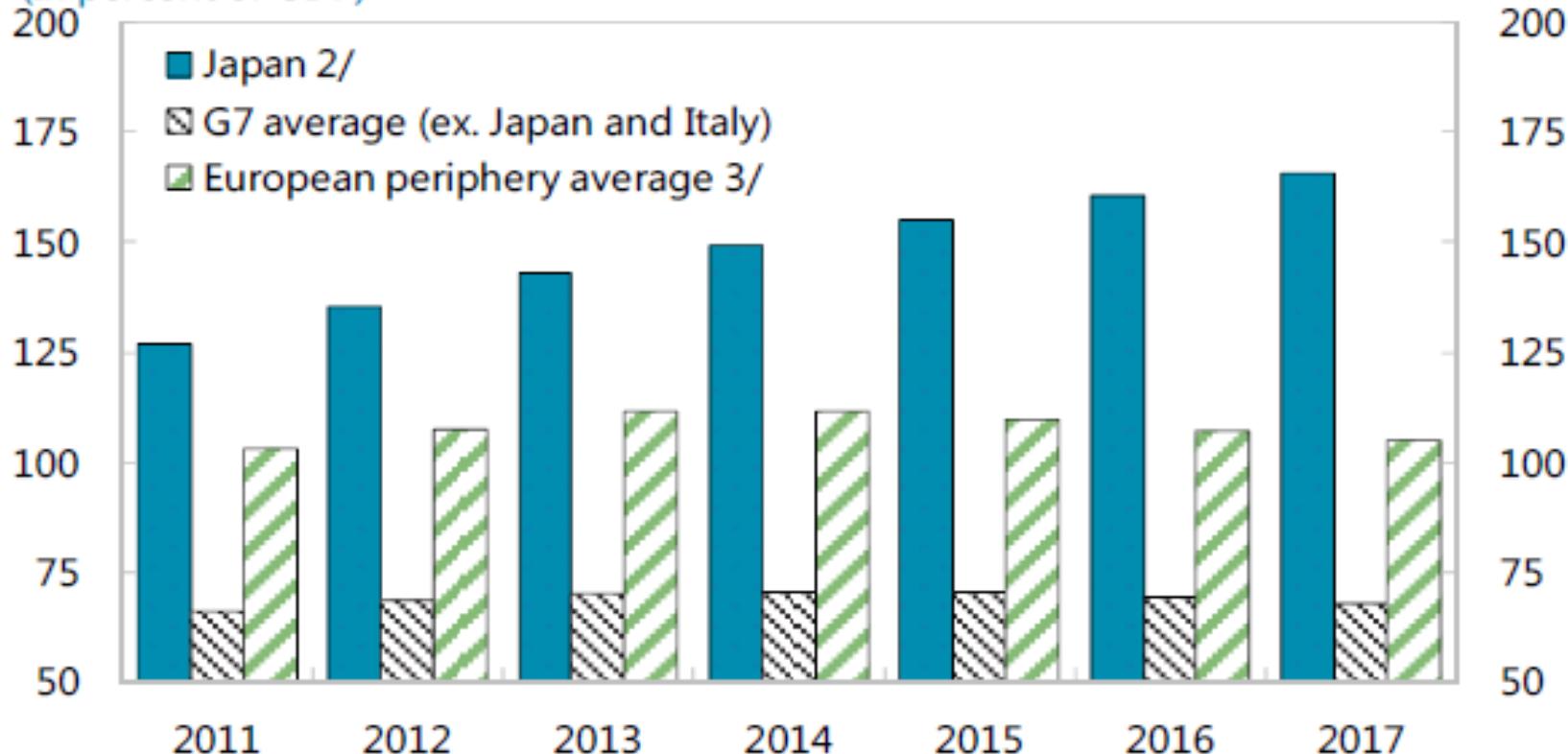
(Note2) Reconstruction bonds(approx.11.6)trillion yen are issued in FY2011, which are used as a temporary means until when the financial resources are secured by the revenues including the special tax for reconstruction. Measures and projects for reconstruction from the Great East Japan Earthquake, expected to be implemented within the first five years (FY2011-FY2015),

## Government Bond Issues and Bond Dependency Ratio

<http://www.mof.go.jp/english/budget/budget/fy2012/e20111224b.pdf>

## WEO Baseline Projections for General Government Net Debt 1/

(In percent of GDP)



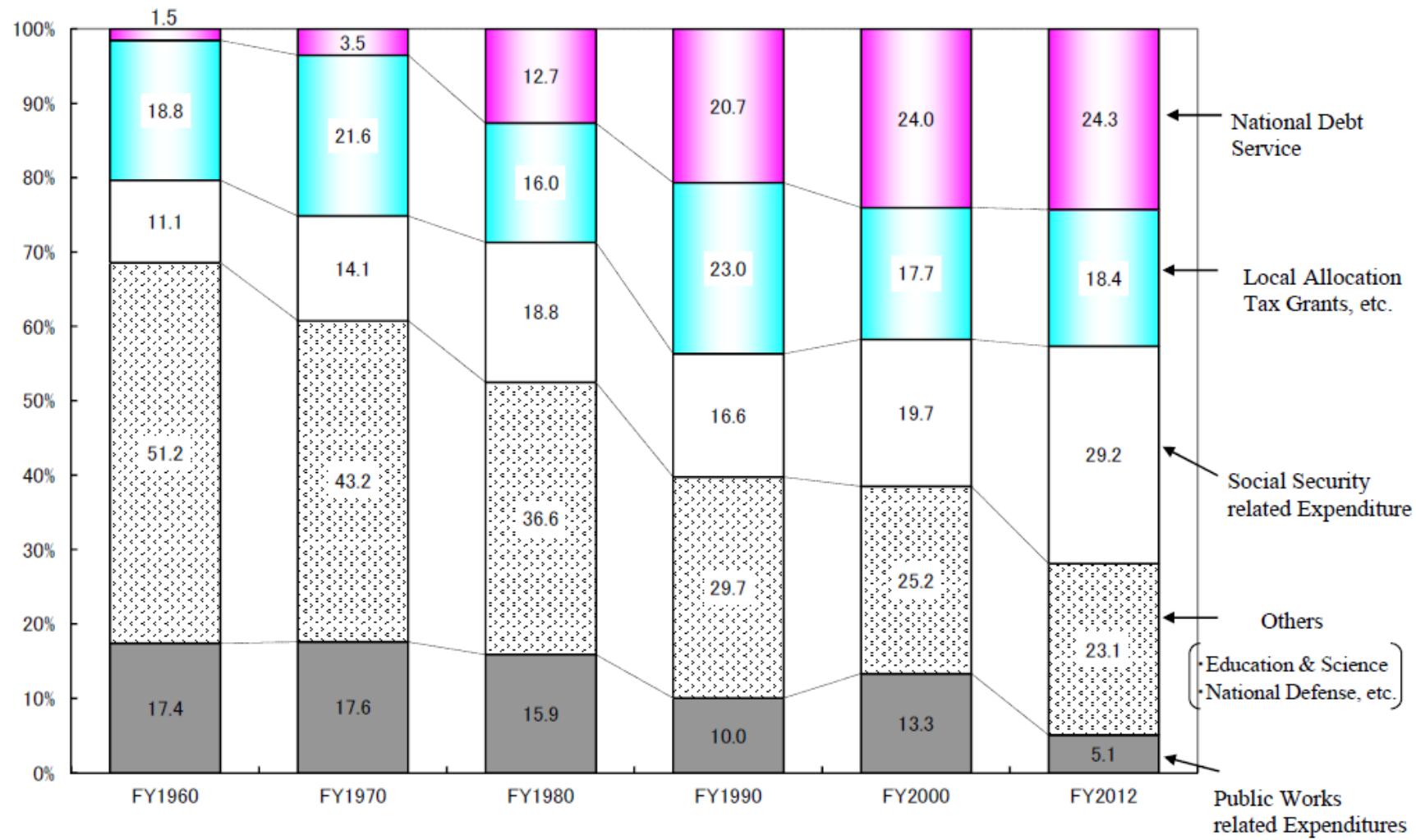
Source: IMF WEO database (April 2012)

1/ Net debt is defined as gross debt minus financial assets.

2/ Not reflecting the consumption tax increases planned by the government.

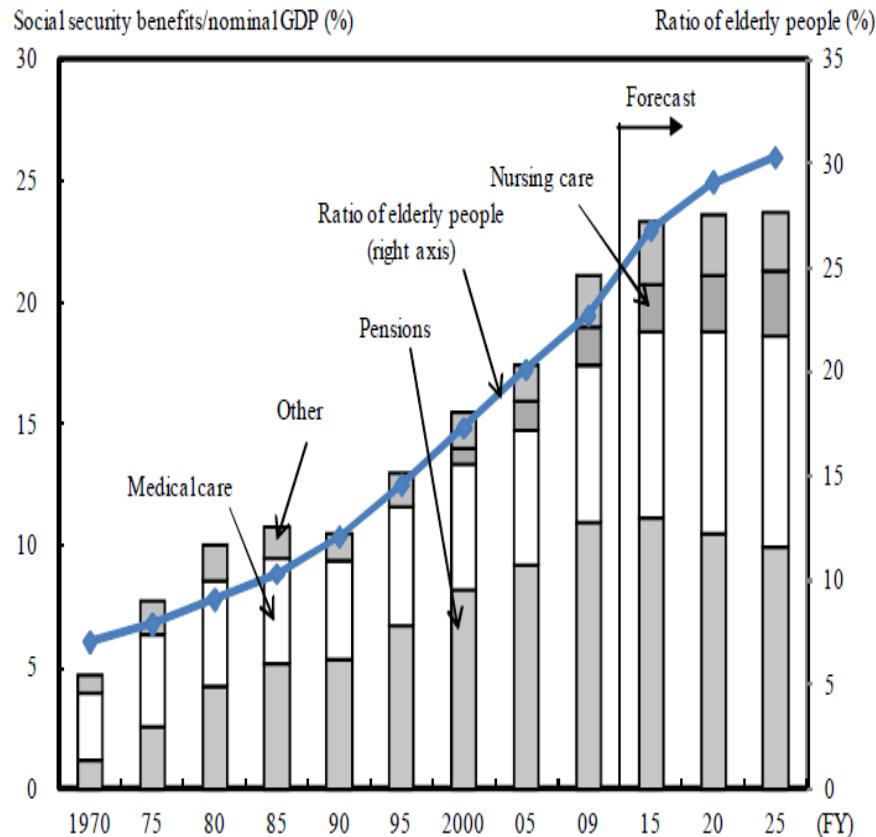
3/ Greece, Ireland, Italy, Portugal and Spain. Greece's debt is on a gross basis, due to data limitations.

## (7) Ratio of Major Expenditure Items in the General Account



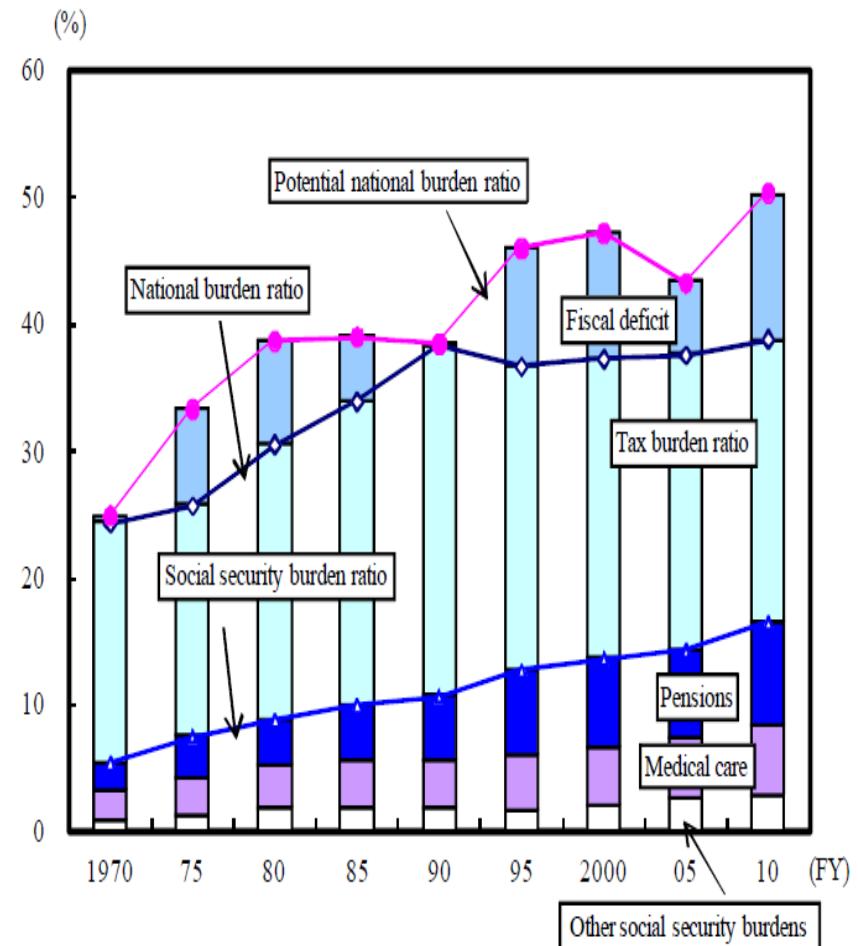
### Figure 3-3-1 Impact of aging of society on public finance

Social security costs are growing due to the progress of the aging of society.

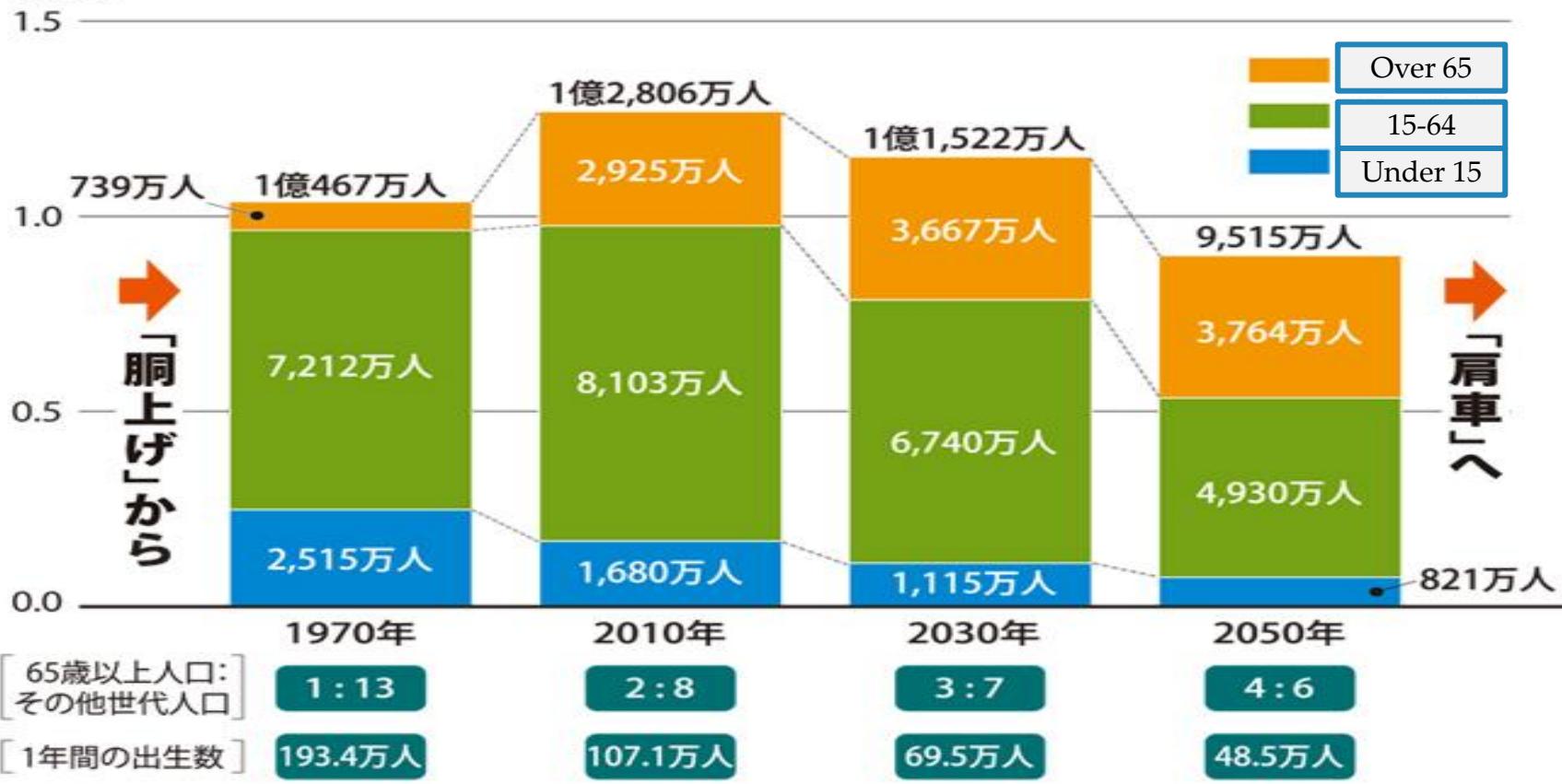


### Figure 3-3-2 Changes in the national burden ratio

The potential national burden ratio has been rising.



# Japan's total population and age structure



[出所]・国立社会保障・人口問題研究所  
「日本の将来推計人口(平成18年12月推計)」(出生中位、死亡中位の場合)(2030年、2050年)  
・人口動態統計(厚生労働省)、国勢調査(総務省)(1970年、2010年)

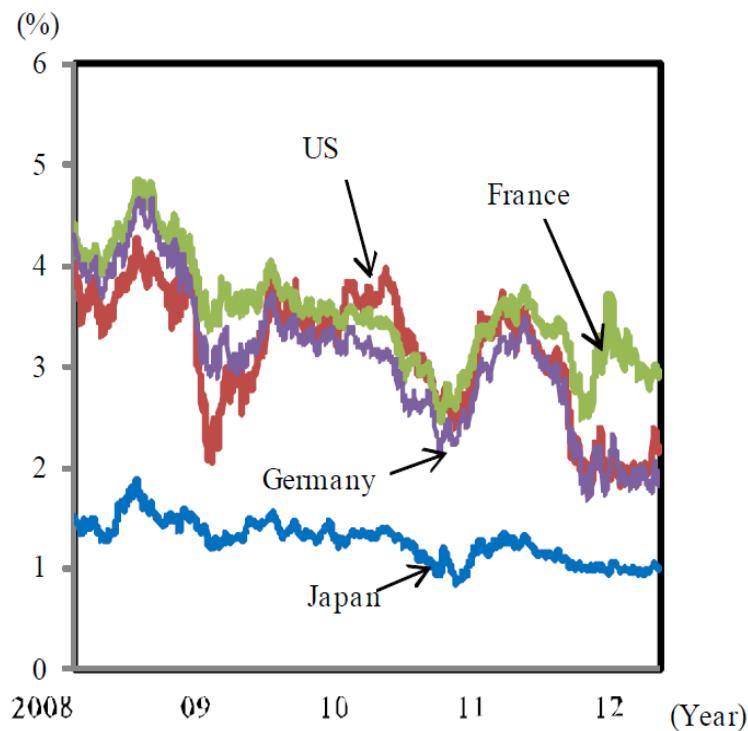
- [http://www.gov-online.go.jp/topics/sz/images/img\\_071.jpg](http://www.gov-online.go.jp/topics/sz/images/img_071.jpg)

# Comprehensive reform of tax and social security

- The bill passed the diet on 10<sup>th</sup> August 2012, supported by DP, LDP and Komei
- The LDP unanimously voted for this bill
- Consumption tax 5% → 8% in April 2014, 10% in October 2015
- At this point the PM announced a dissolution of the diet “in the near future”
- Diet was dissolved on 16<sup>th</sup> November

**Figure 3-1-1 Changes in long-term interest rates in major countries**

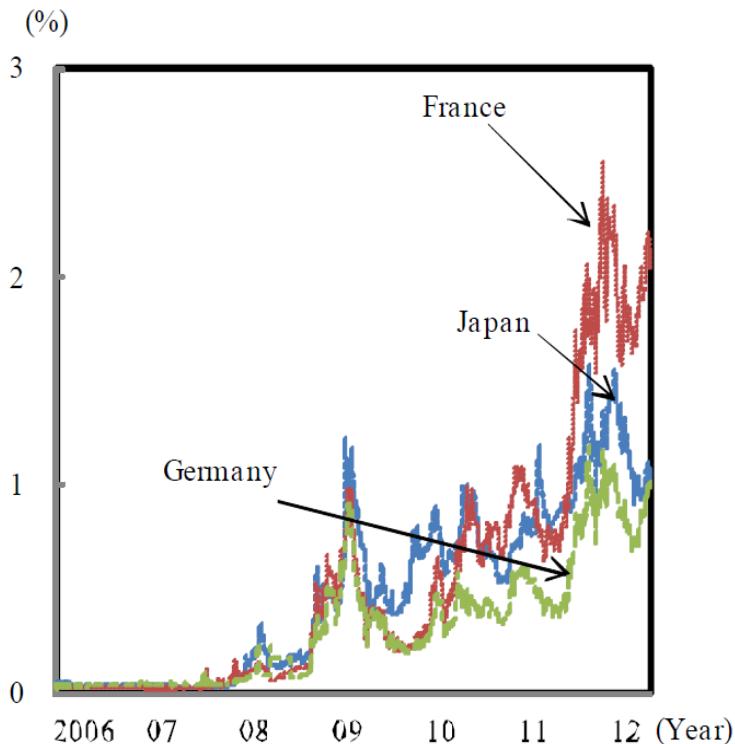
(1) Changes in long-term interest rates in major countries  
(yields on 10-year government bonds)



**Figure 3-1-2 Changes in the sovereign CDS spread**

The sovereign CDS spreads expanded after the Lehman Shock.

(2) CDS spreads for major countries

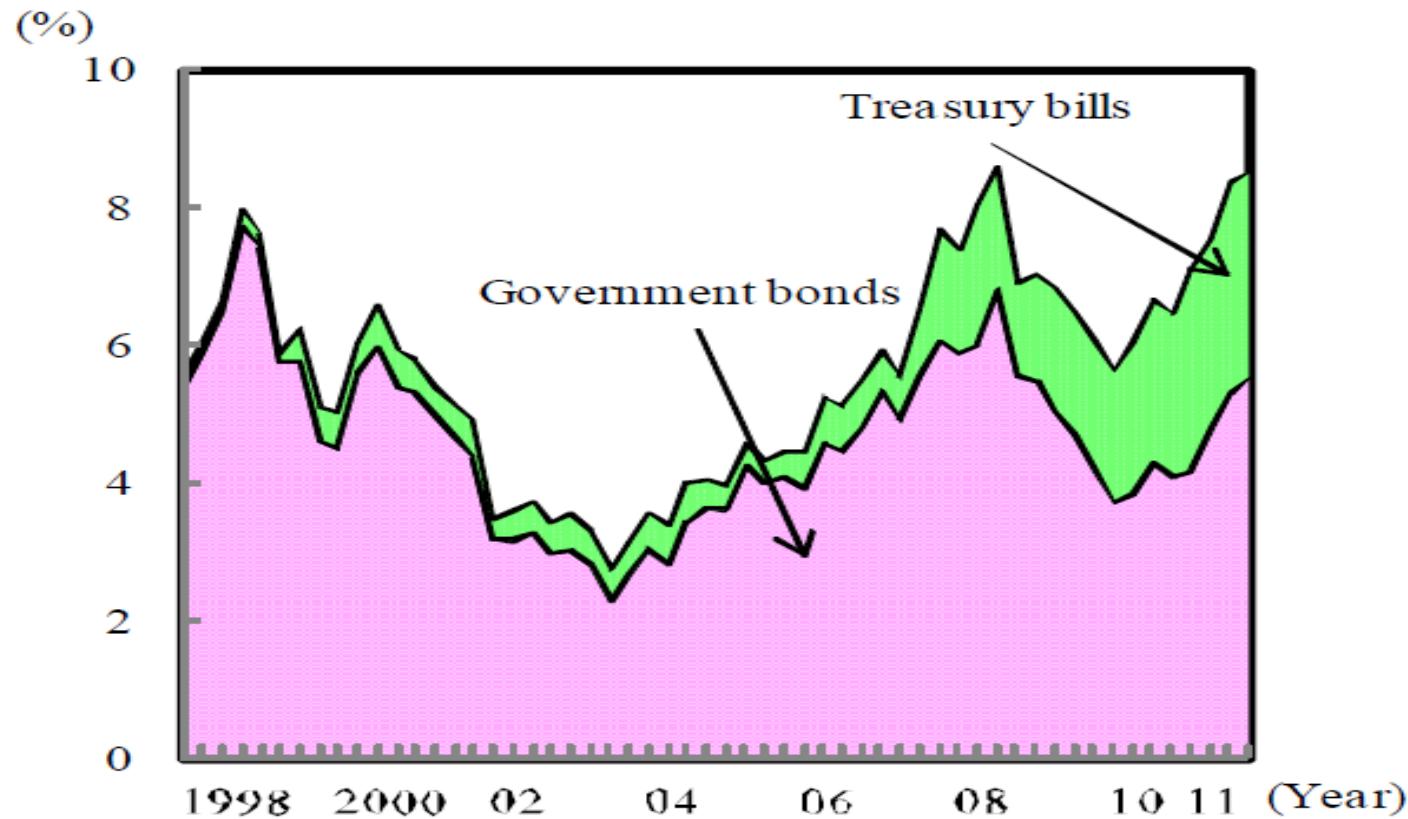


(Note) The sovereign CDS spread (premium) refers to the premium rate for the guarantee of the principal in the case of a credit event (premium/principal).

<http://www5.cao.go.jp/keizai3/2012/0727wp-keizai/3syo-musubi.pdf>

### **Figure 3-1-9 Foreign ownership ratio of Japanese government bonds**

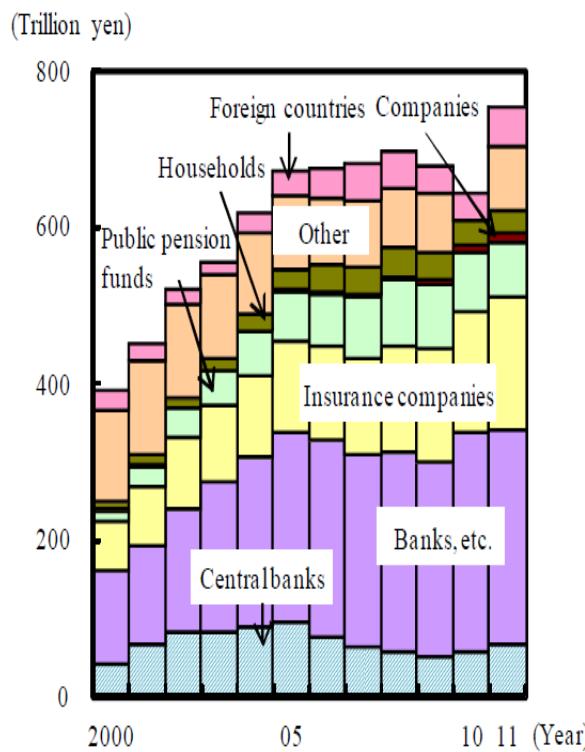
The foreign ownership ratio of Japanese government bonds has stayed low.



**Figure 3-1-11 Government bond holding structure in major countries**

Holdings by financial institutions, including banks, etc., and central banks increased.

(1) Japan

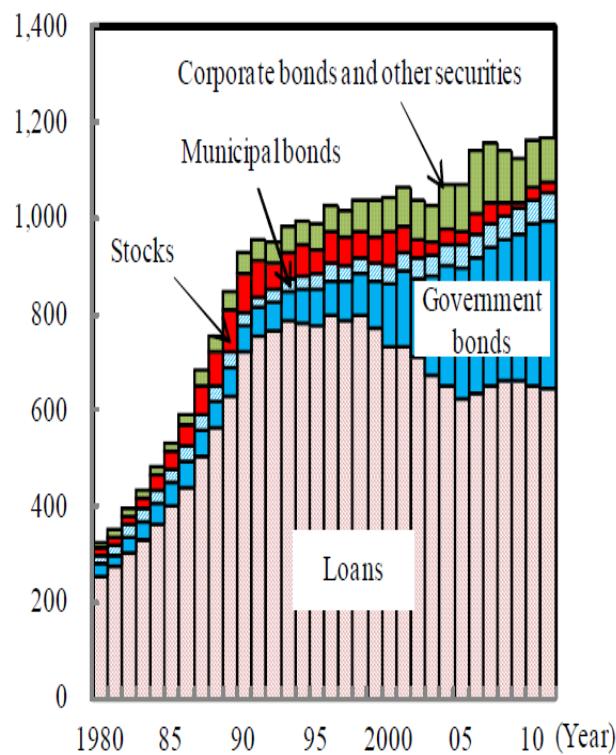


**Figure 3-1-12 Asset mix of banks, etc.**

The value of government bonds held by banks, etc. has been increasing.

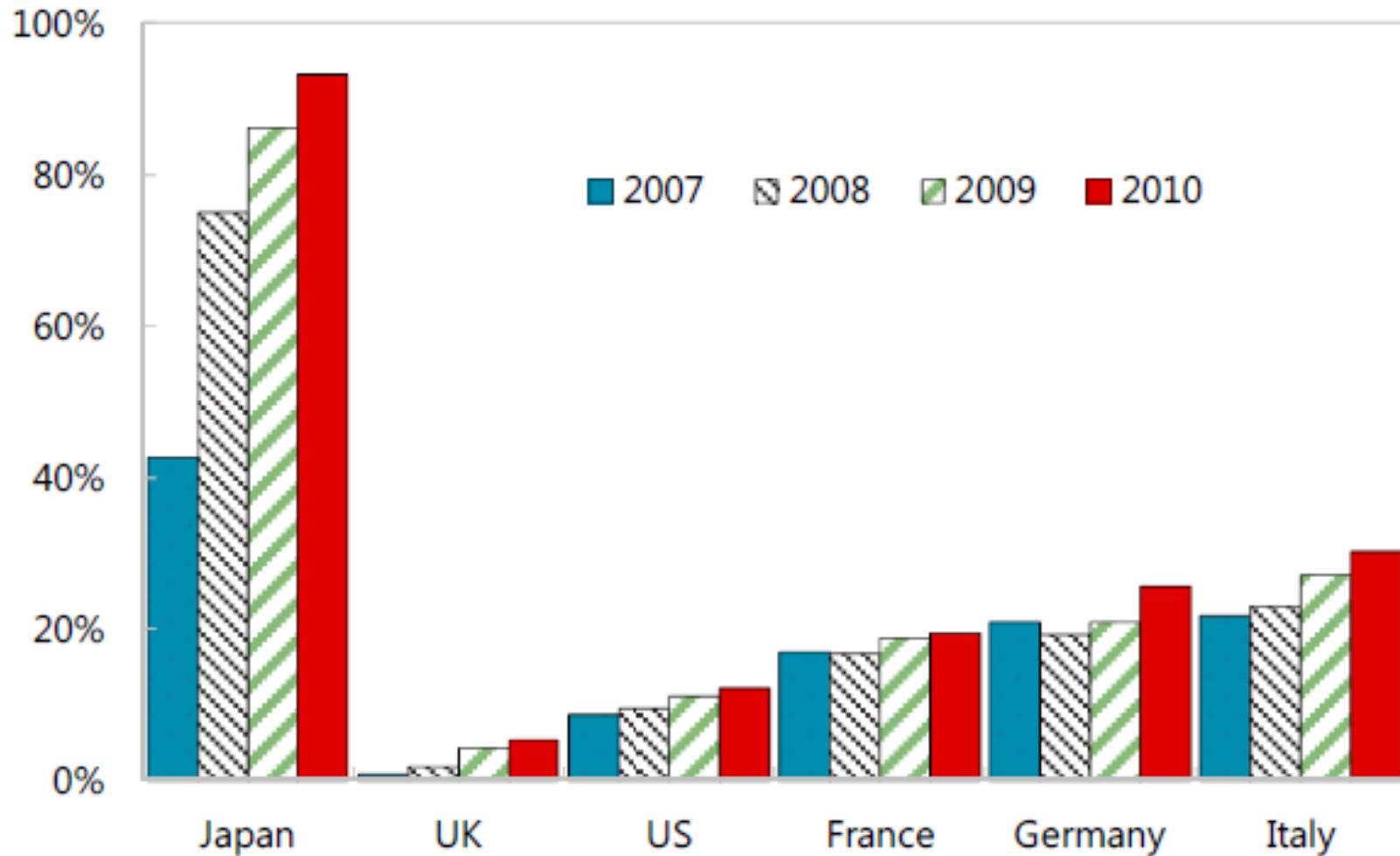
(1) Japan

(Trillion yen)



## Banks' Assets on the Public Sector

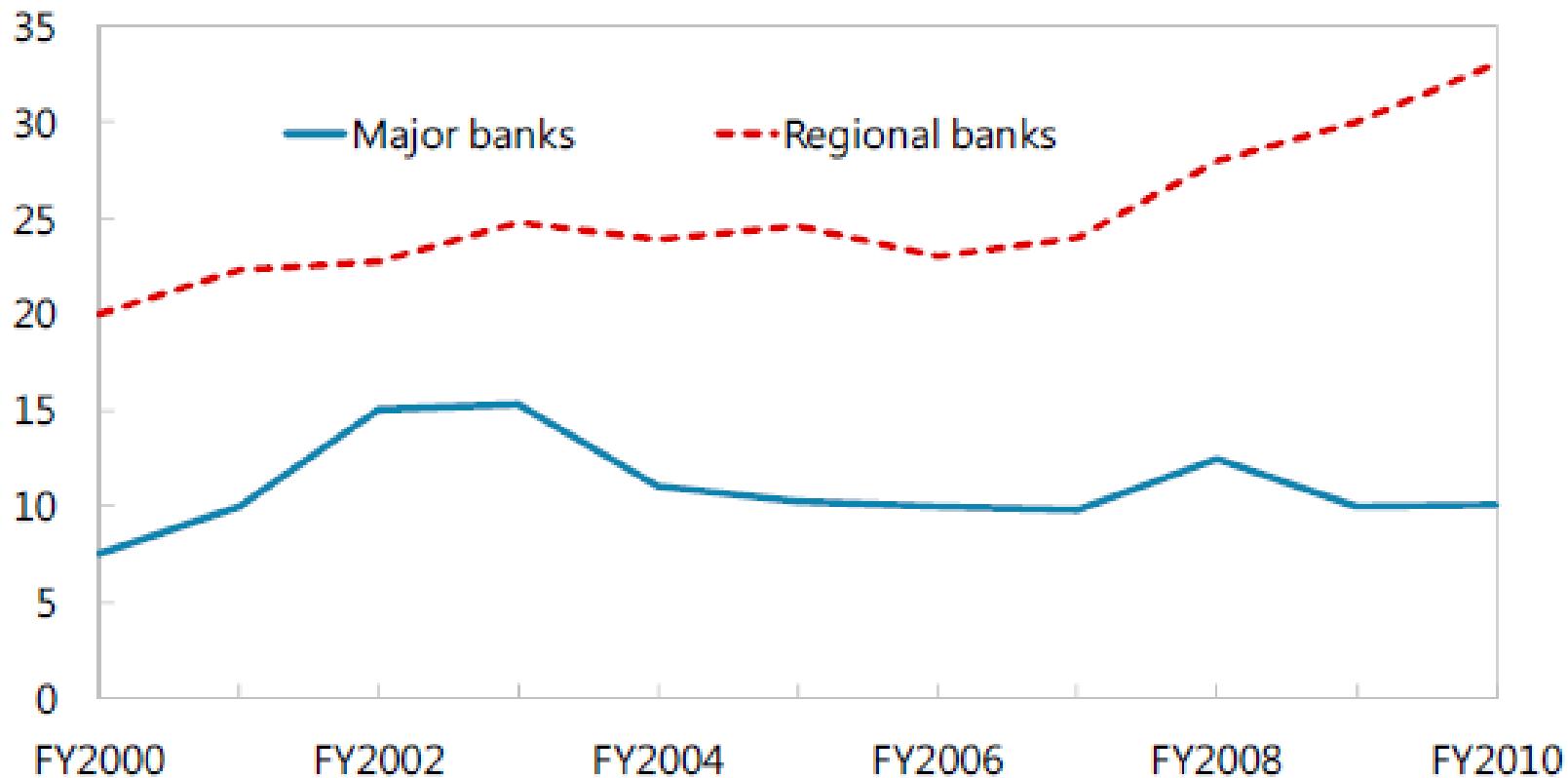
(In percent of GDP)



Sources: Respective countries' central banks; Haver Analytics.

## Interest Rate Risk in the Banking System 1/

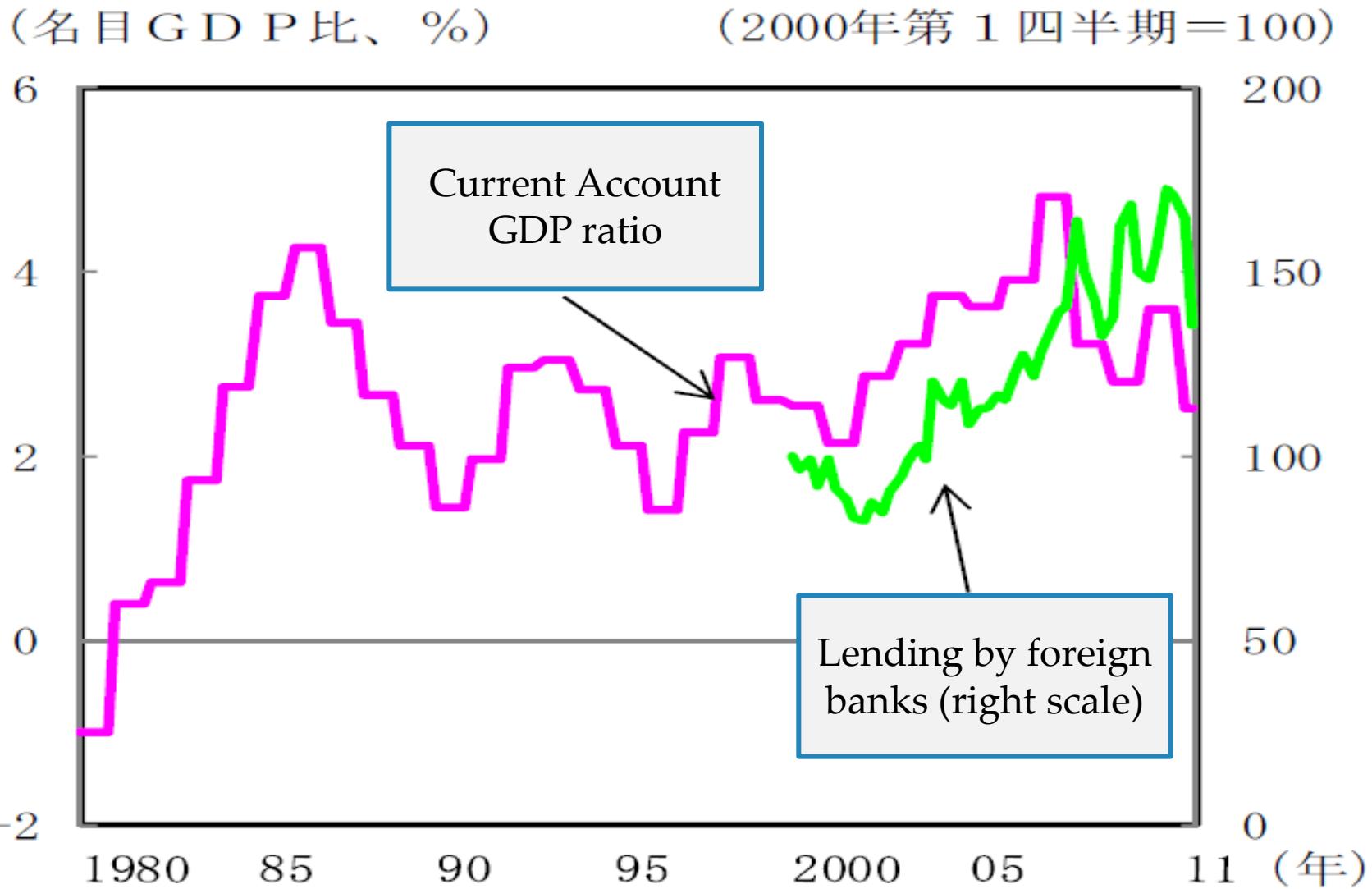
(100 basis point value; in percent of tier-1 capital)



Source: Bank of Japan.

1/ The interest rate risk based on 100 basis point value in the banking book, assuming interest rates of all maturities would rise simultaneously by 1 percentage point. The latest data are as of end-December 2011.

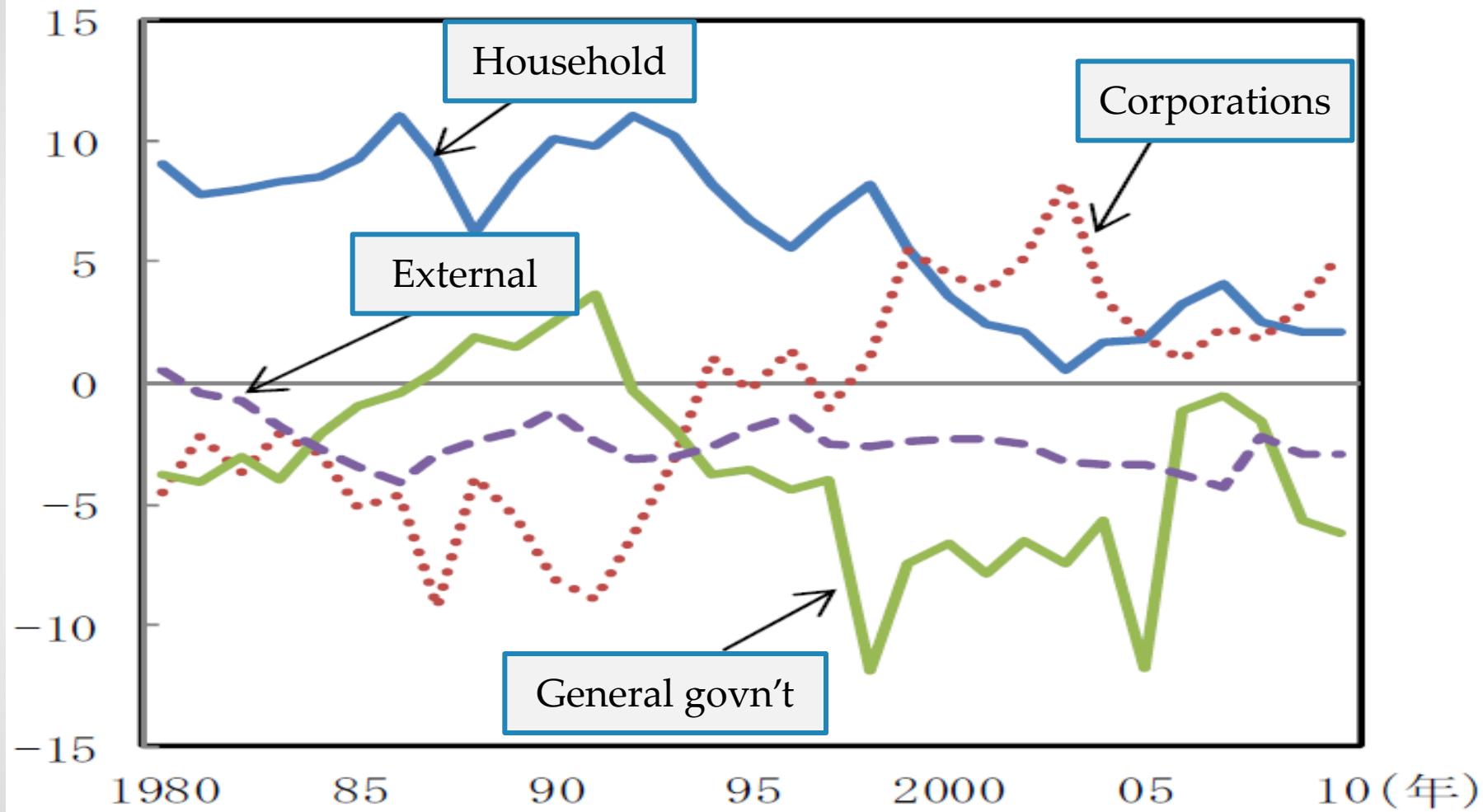
## Japan's Current Account and lending by foreign banks



[http://www5.cao.go.jp/keizai3/2011/1221nk/n11\\_3/n11\\_3\\_2.html](http://www5.cao.go.jp/keizai3/2011/1221nk/n11_3/n11_3_2.html)

# Japan's Saving-Investment Balance

(実質GDP比、%)

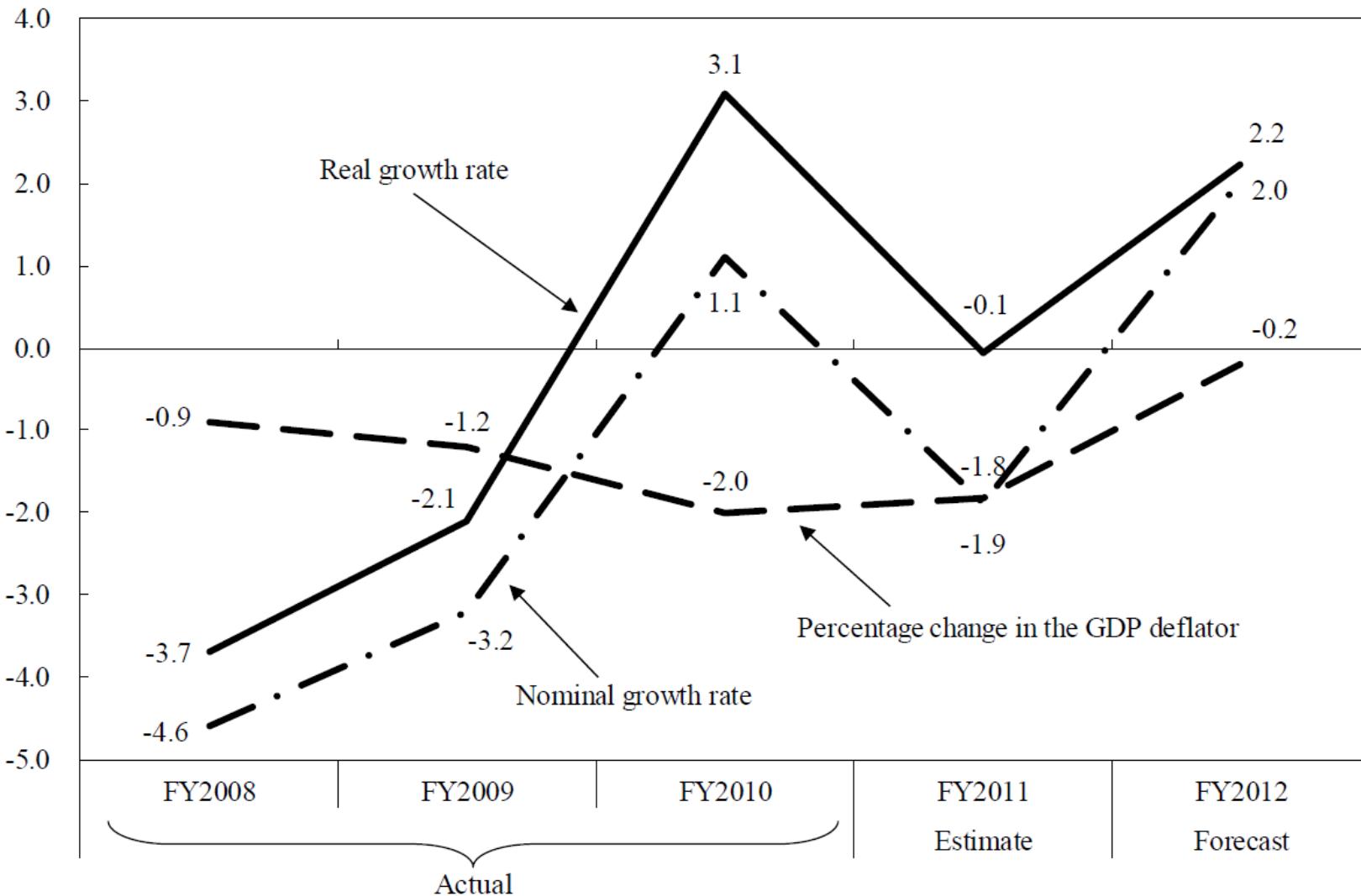


[http://www5.cao.go.jp/keizai3/2011/1221nk/n11\\_3/n11\\_3\\_2.html](http://www5.cao.go.jp/keizai3/2011/1221nk/n11_3/n11_3_2.html)

# Japan's economic situation

(%, or approximate %)

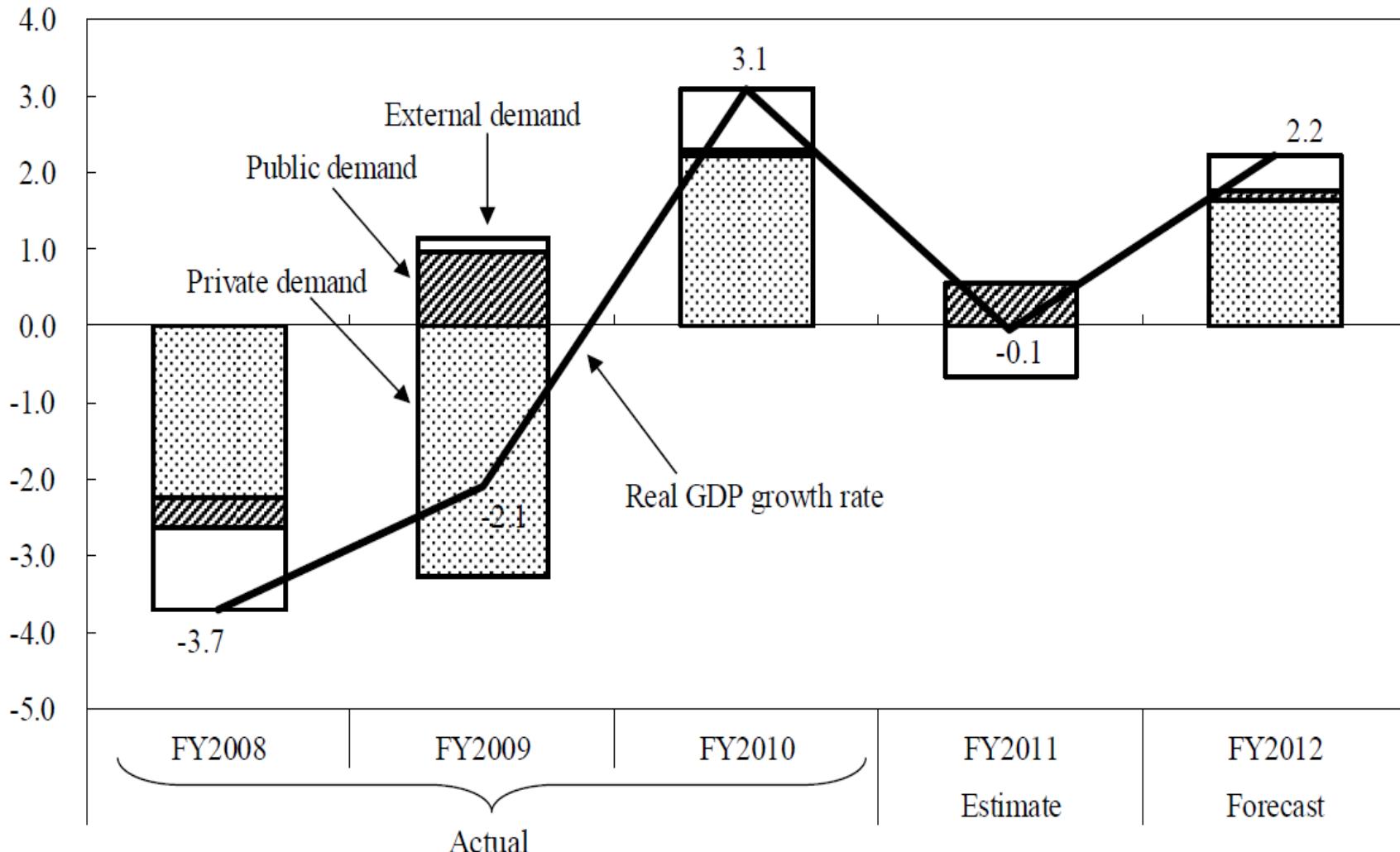
### 1. Gross domestic product (GDP)



<http://www5.cao.go.jp/keizai1/2012/0124mitoshi-e.pdf#page=1>

(%, or approximate %)

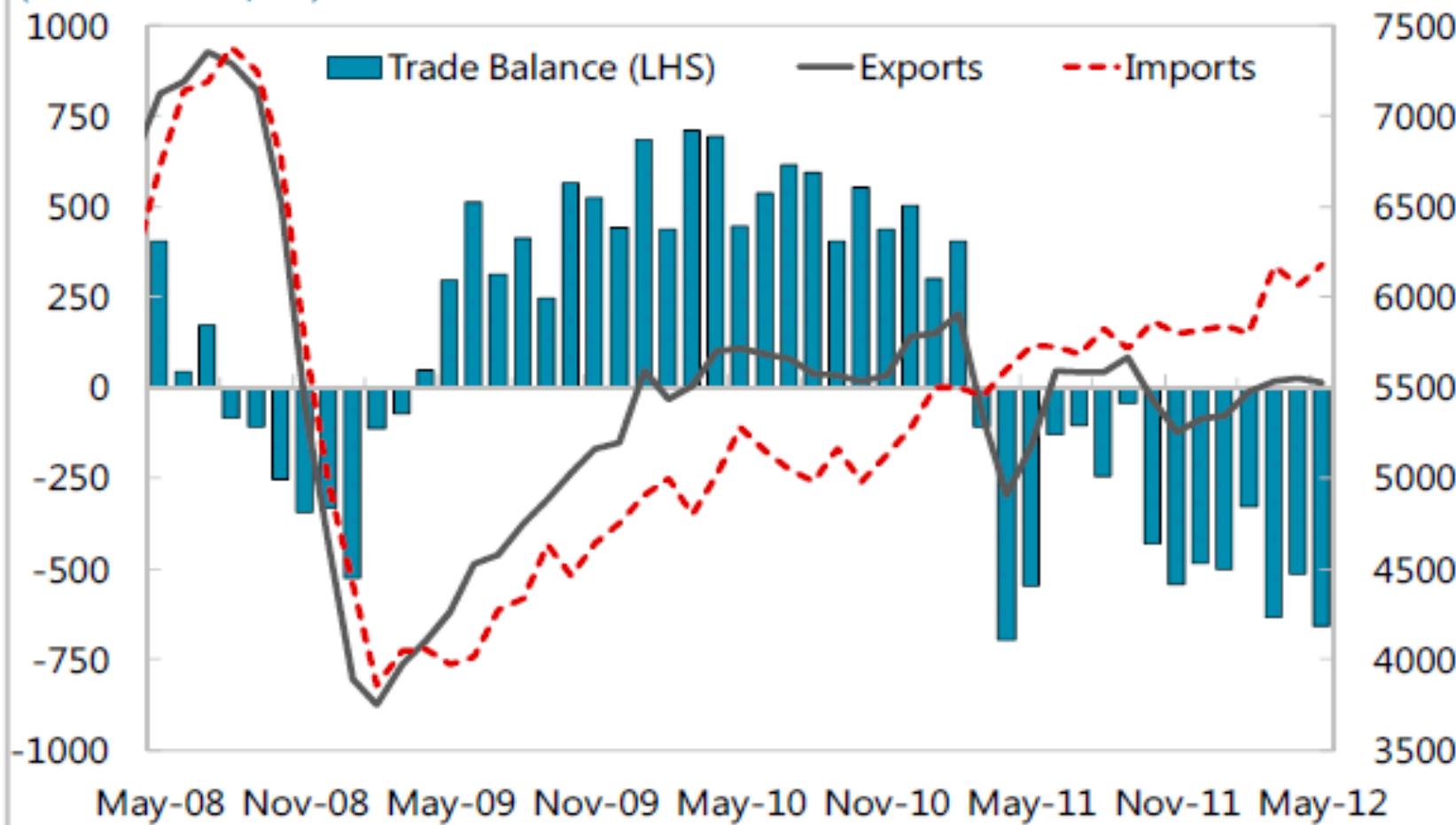
## 2. Real GDP growth rate and contributions to the real GDP growth rate



※Note: Contribution ratios of private demand, public demand, and external demand show their contributions to the real growth rate.

## Trade balance

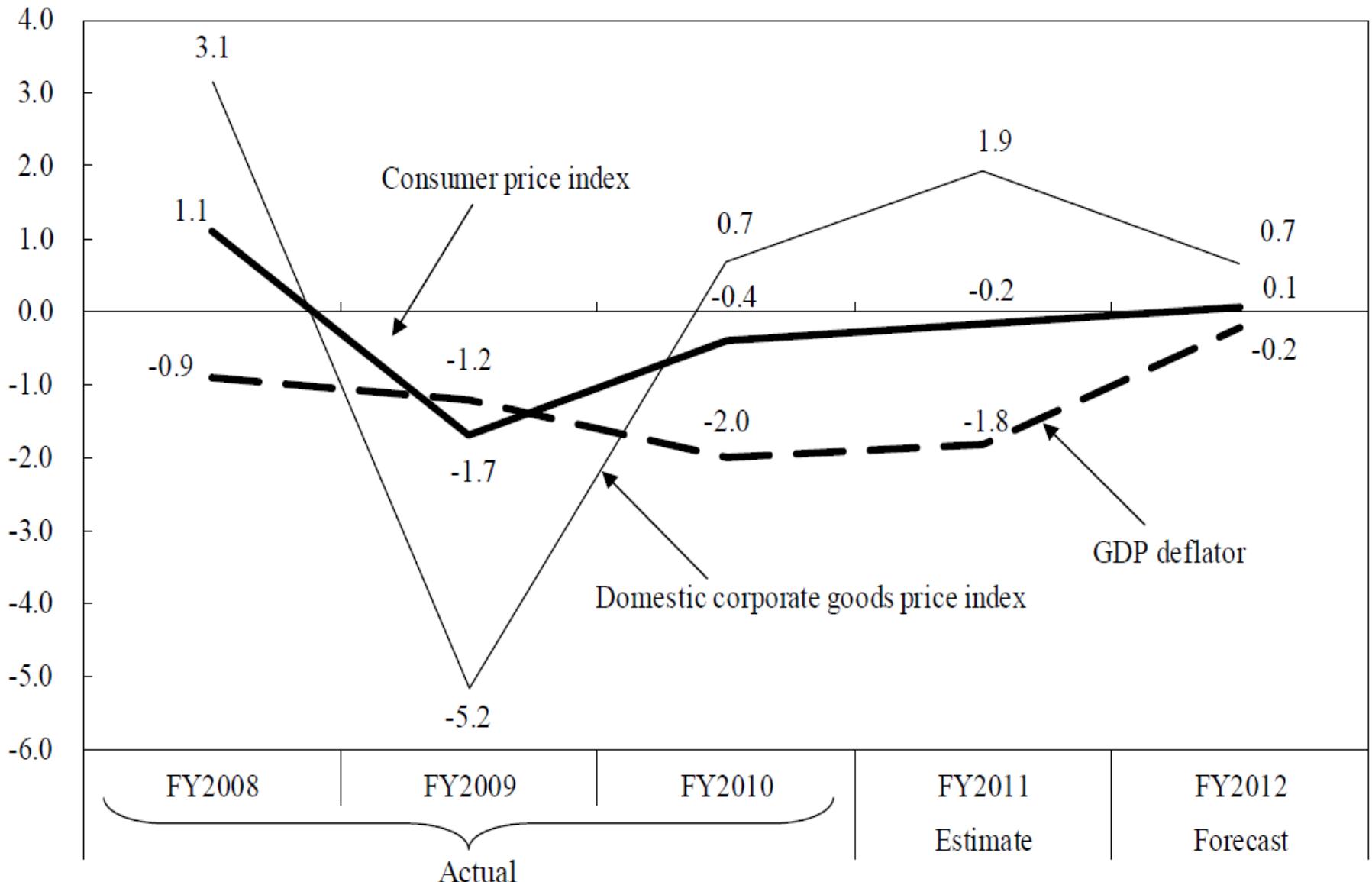
(In Billion Yen, SA)



Source: CEIC and IMF staff estimates.

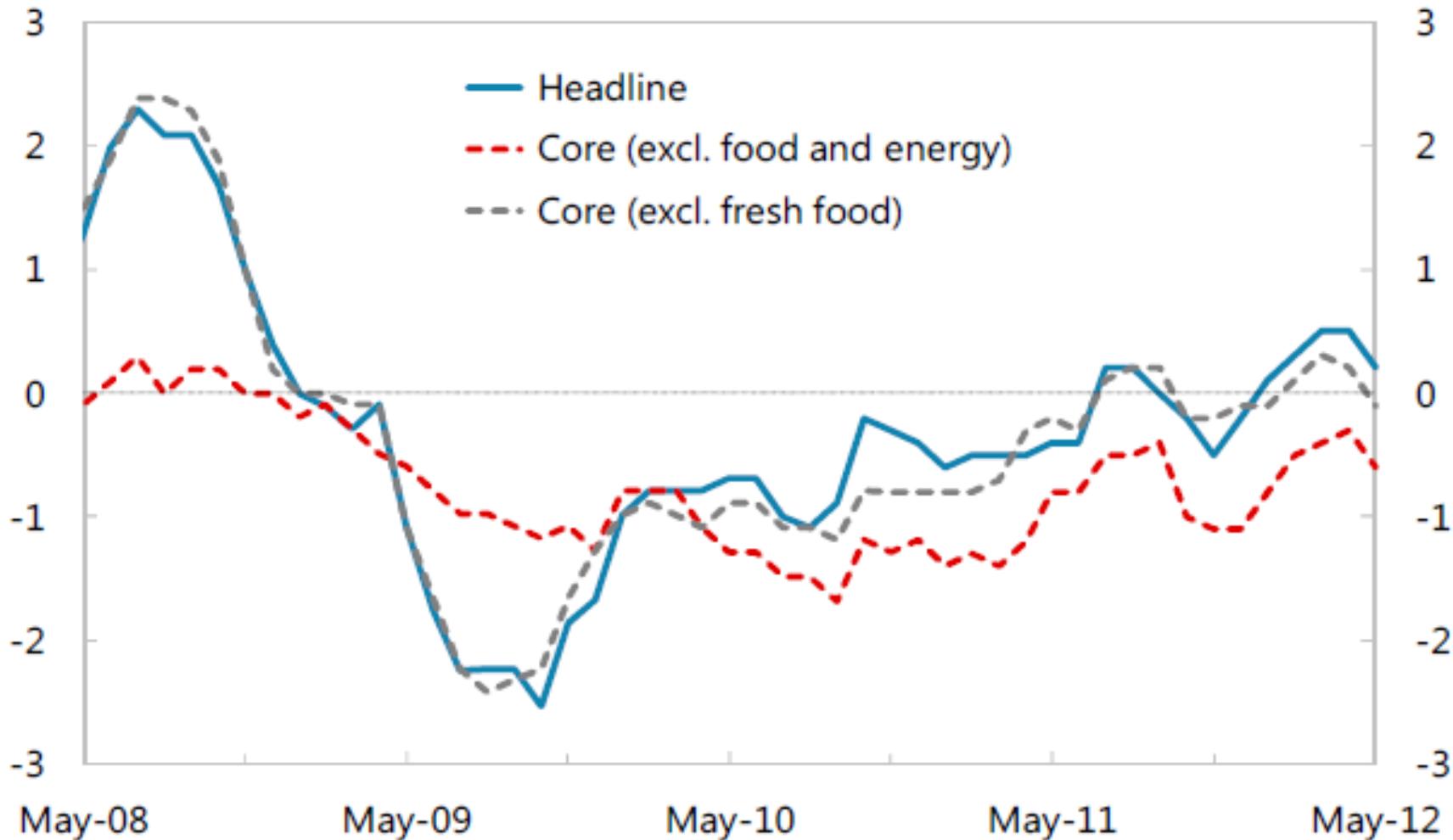
(%, or approximate %)

### 3. Percentage change in price related indices



## Year-on-Year Inflation

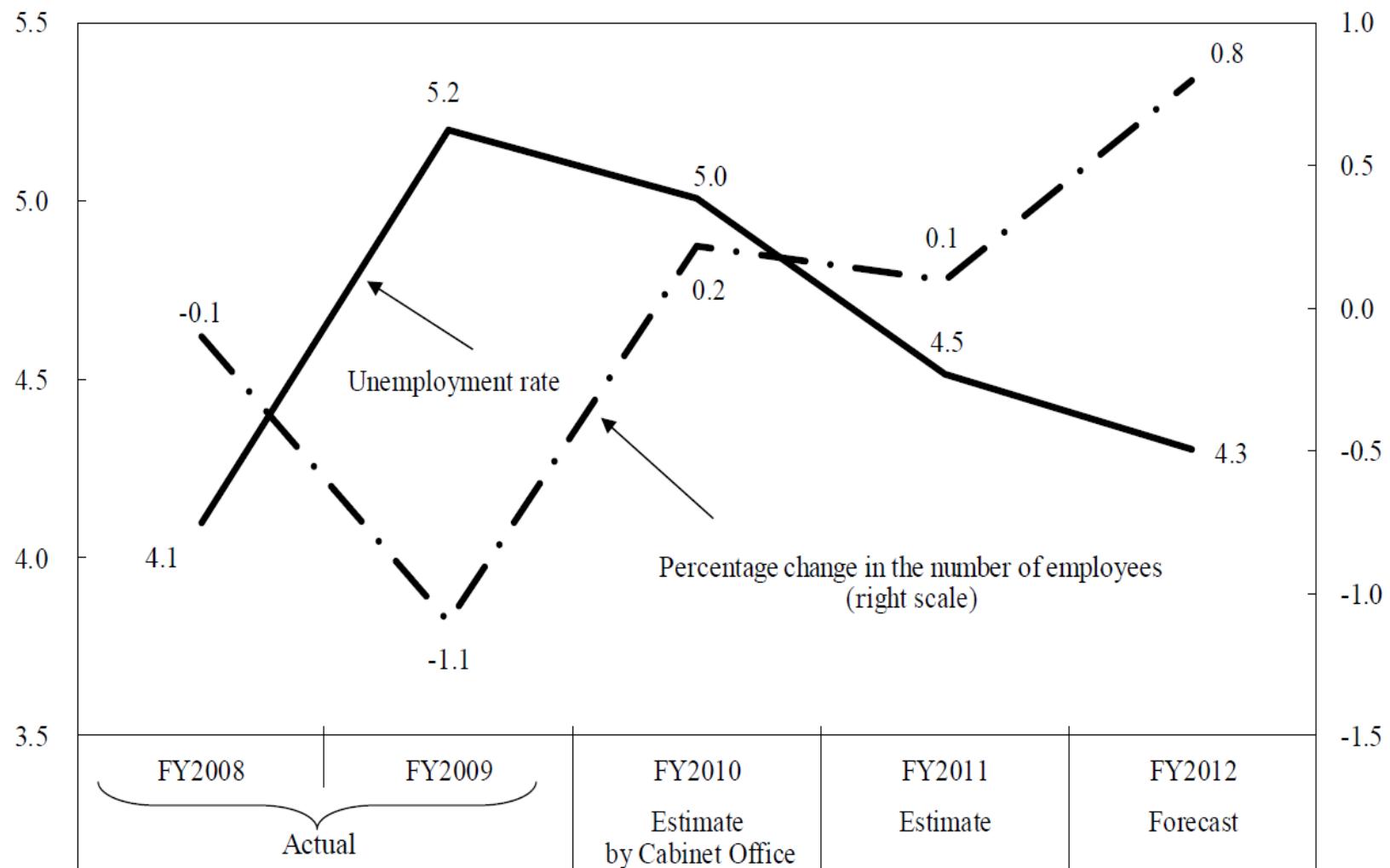
(In percent)



Source: CEIC database and IMF staff estimates.

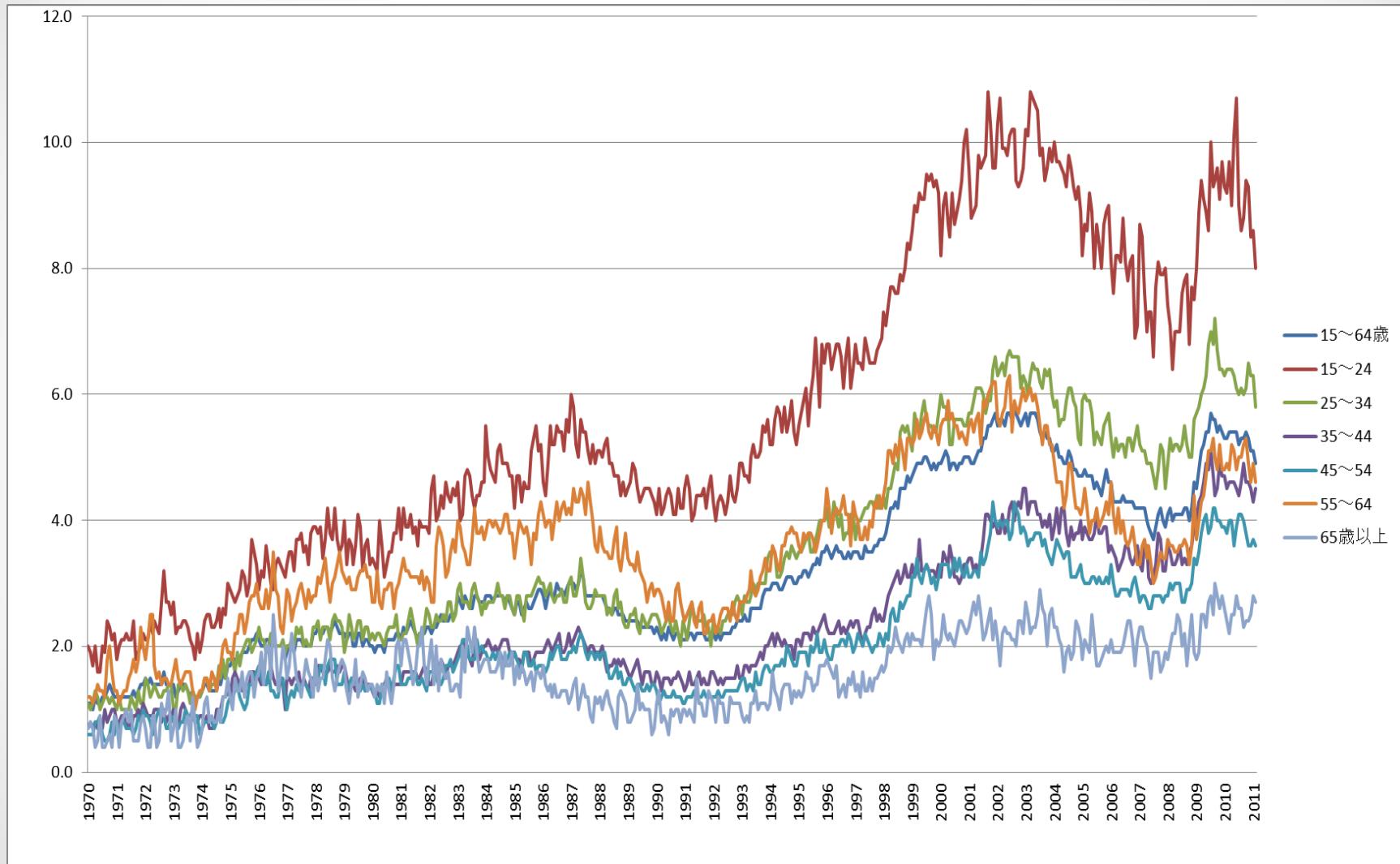
(%, or approximate %)

#### 4. Unemployment rate and the number of employees



※Note: The figures for unemployment rate and the number of employees in FY2010 are estimated by Cabinet Office.

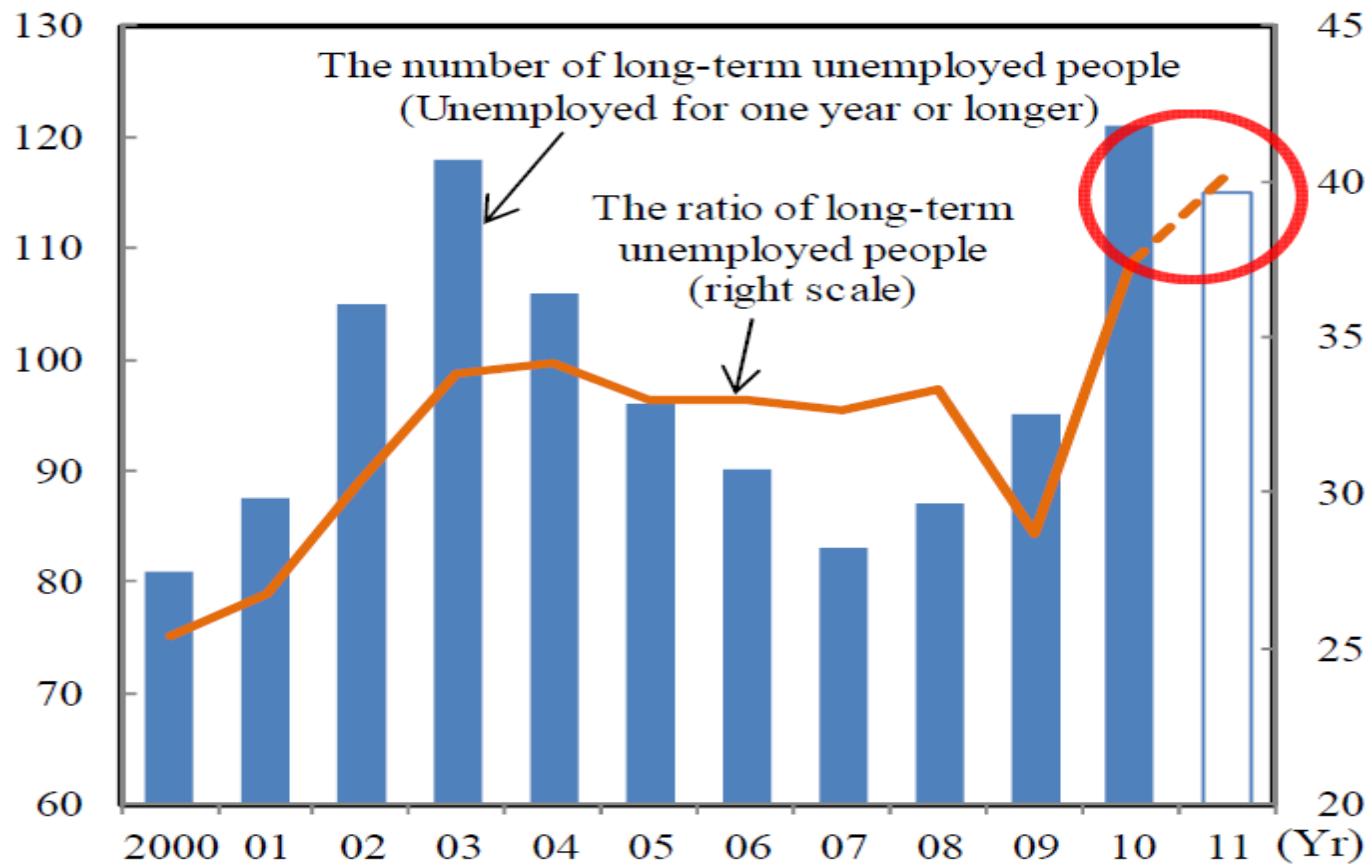
# Japan's Unemployment Rate



### Figure 3-3-4 Changes in the number of long-term unemployed people

The ratio of long-term unemployed people has remained high.

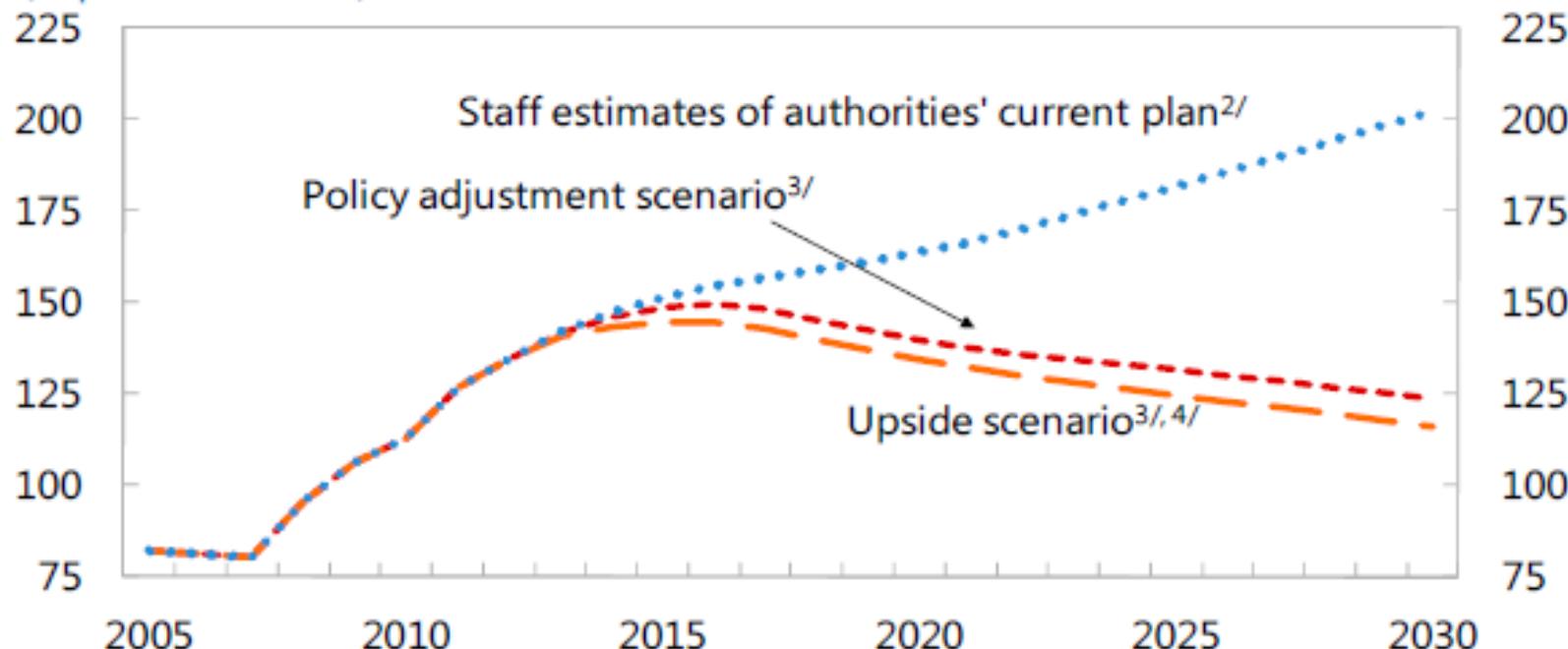
#### (1) Changes in the number of long-term unemployed people (10,000 people)



# Japan's growth strategy

## Japan: Net Public Debt <sup>1/</sup>

(In percent of GDP)



Sources: Cabinet Office; and staff estimates and projections.

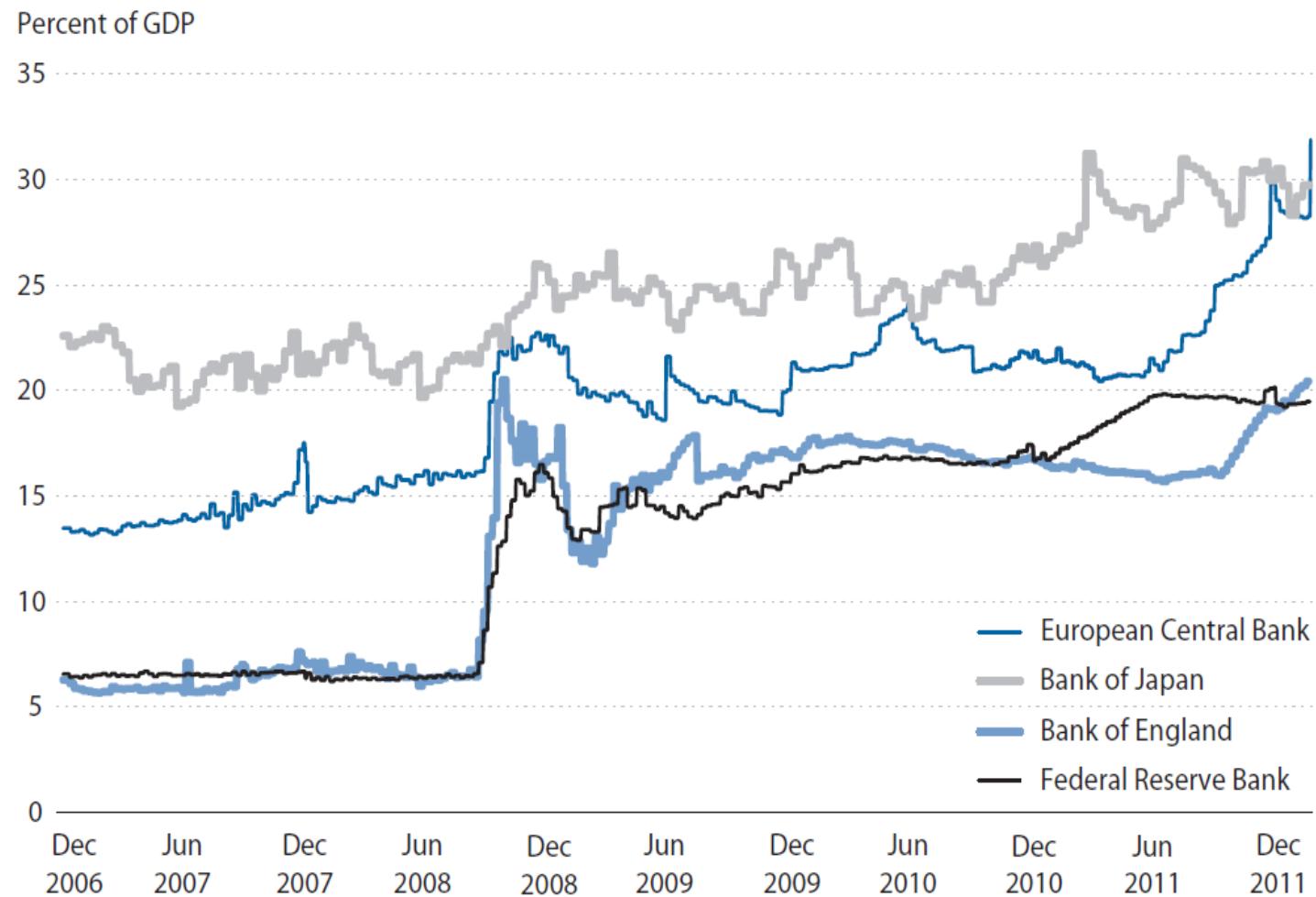
1/ Net debt of the general government including the social security fund.

2/ Consumption tax increases to 8 percent in 2014 and 10 percent in 2015 are assumed.

3/ Assumes a 10 percentage points of GDP improvement (authorities' current plan +5.0 points) in the structural primary balance between end-2011 and 2020.

4/ Upside scenario assumes higher long-term growth rates of real GDP (2 percent) and GDP deflator (1½ percent).

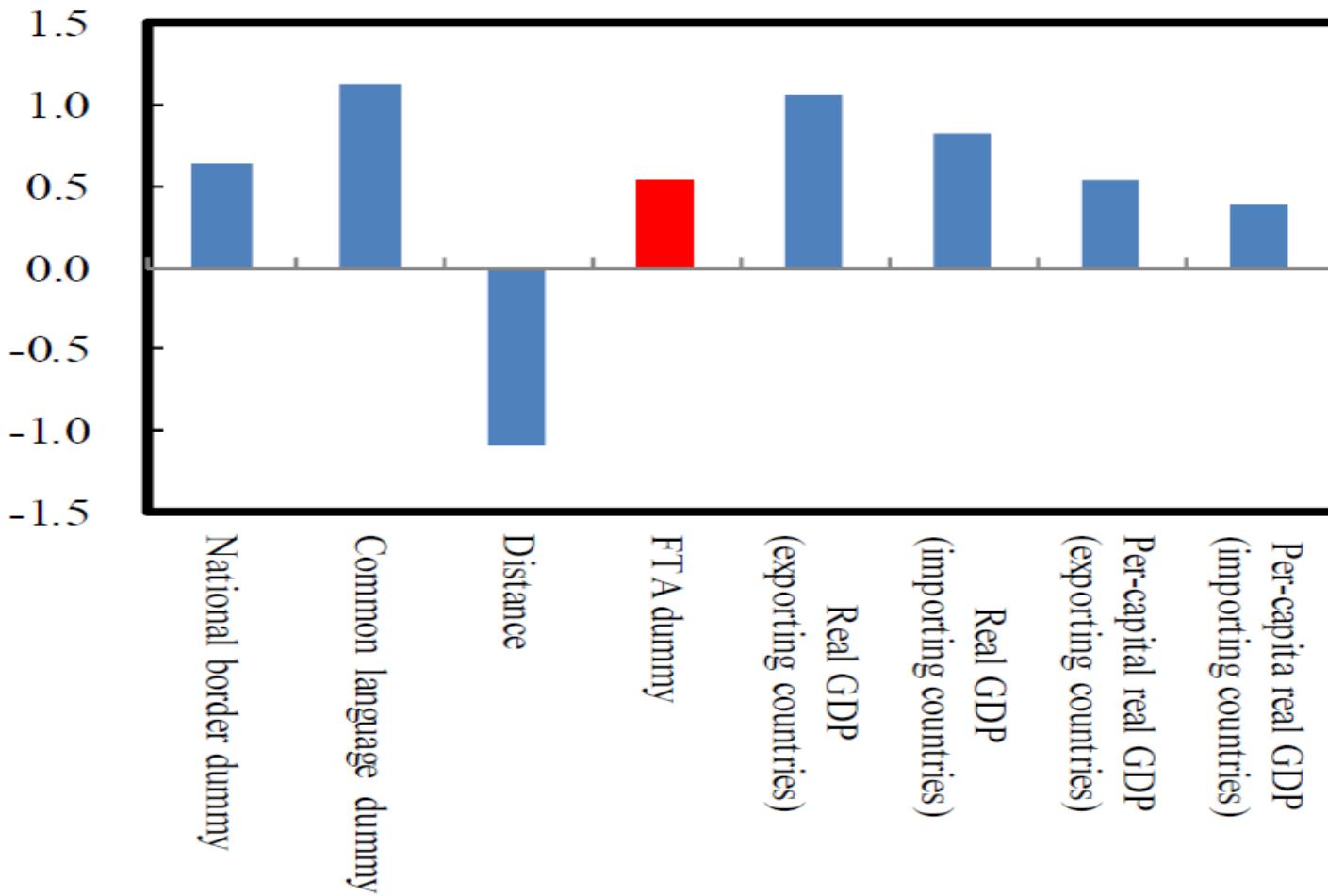
## Balance Sheet (as percent of GDP)



SOURCE: PIMCO, European Central Bank, Bank of England, Federal Reserve, and Bank of Japan.

<http://research.stlouisfed.org/publications/review/12/07/243-264El-Erian.pdf>

The conclusion of FTAs has a positive impact on the trade volume.

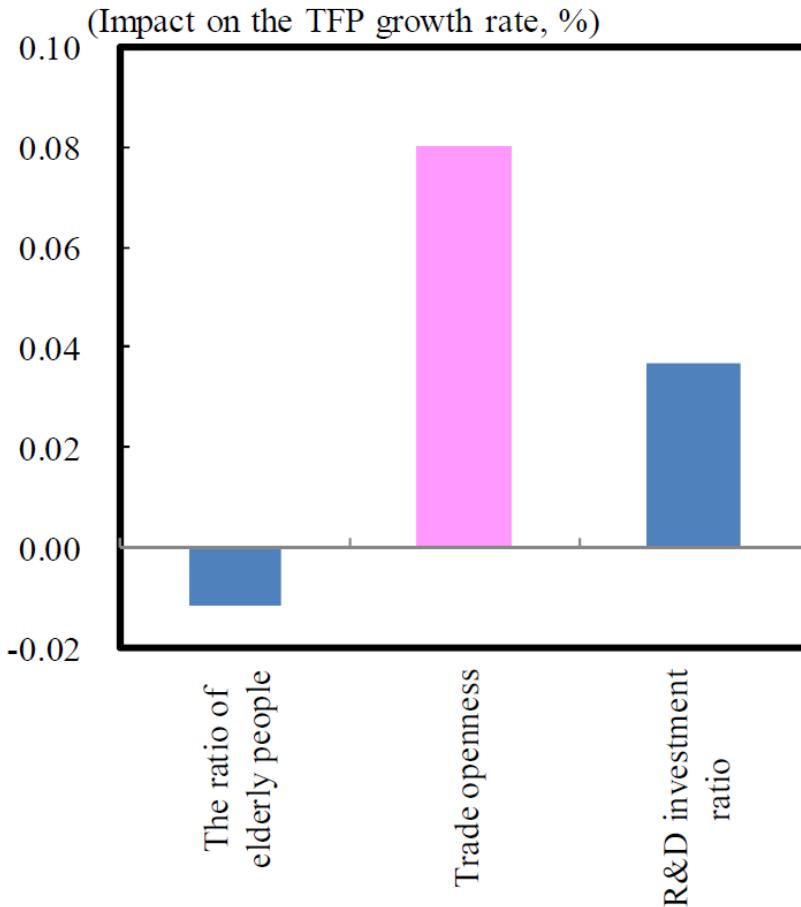


(Note) The above numbers represent the rates of change (%) in real exports with the assumption of the presence or absence of each factor or a 1% change in each factor. The estimate period is from 1990 to 2009.

C

Figure 2-2-7 Trade openness and productivity improvement

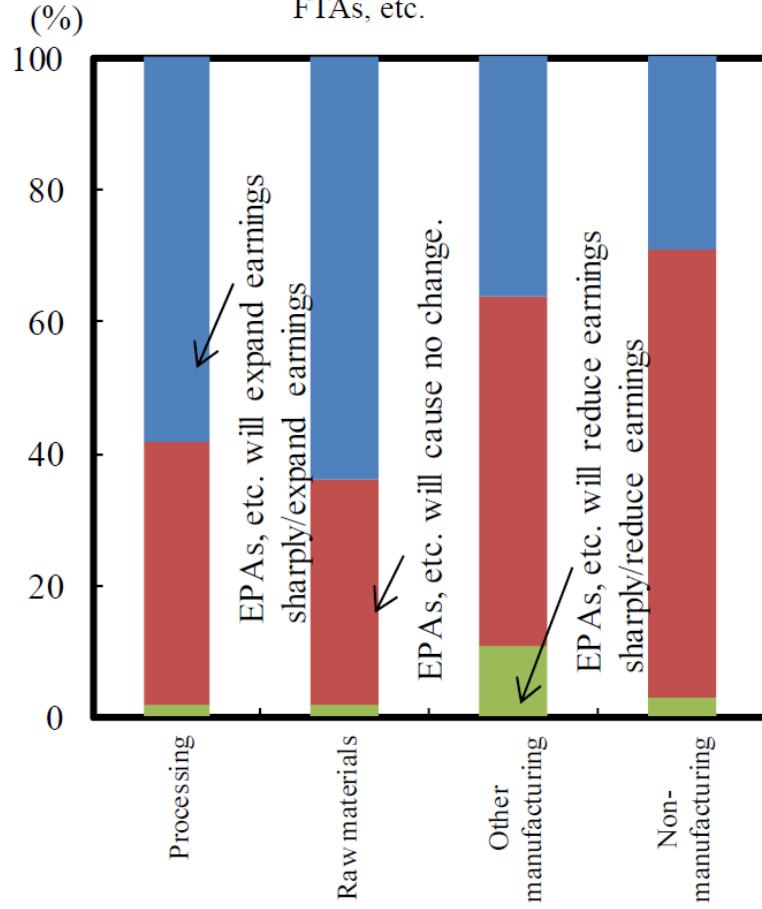
An increase in trade openness contributes to an improvement in the rate of rise in productivity.



(Note) The above numbers represent changes in the TFP growth rate on the assumption of a 10 percentage point change in each variable.

Figure 2-2-8 Impact of EPAs, etc on earnings  
(1) By industry

Japanese companies generally have a positive stance on FTAs, etc.



## Figure 2-1-16 Utilization of foreign workers (1) International comparison of the ratios of foreign workers

The ratio of foreign workers in Japan is small.

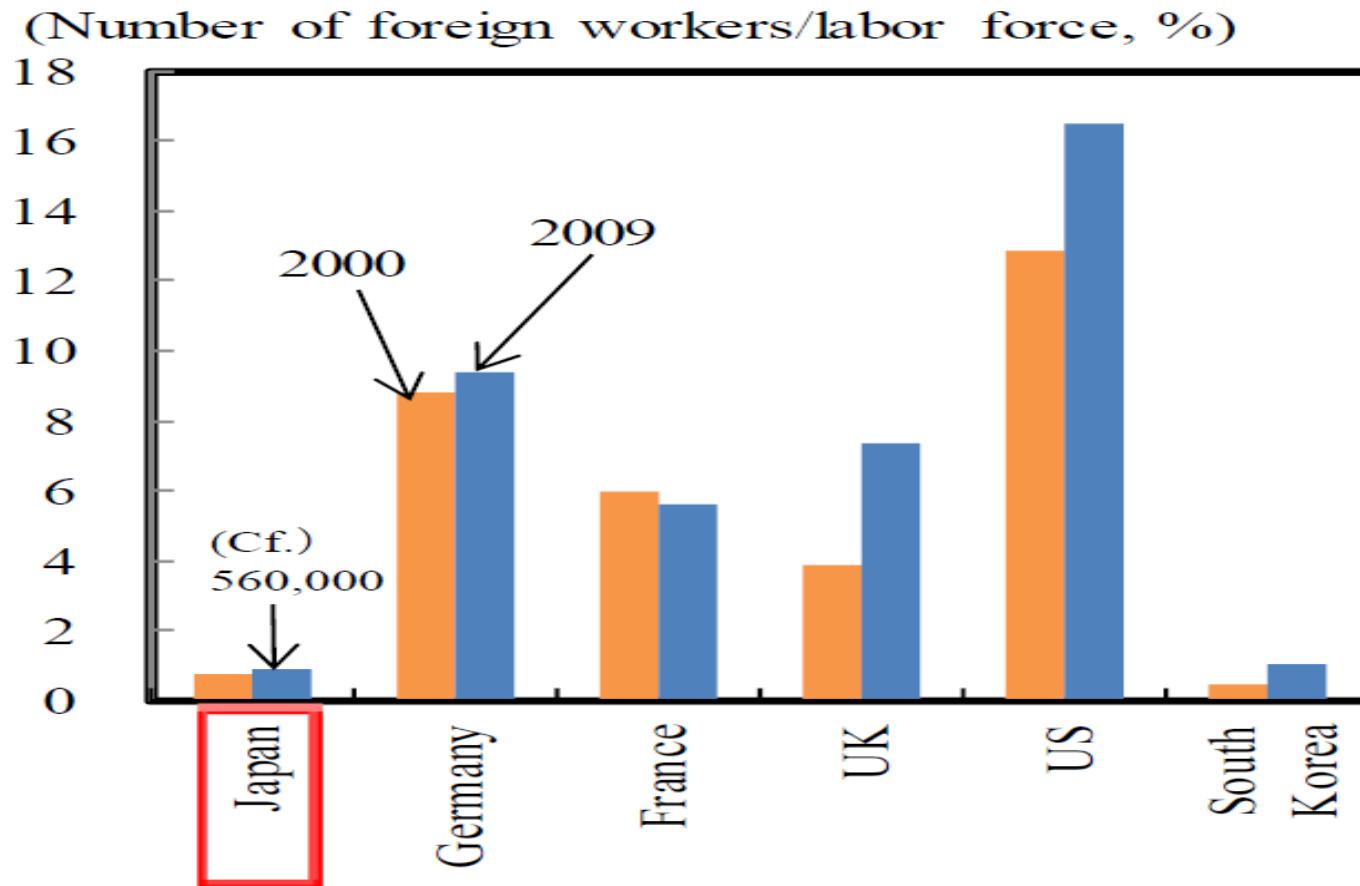
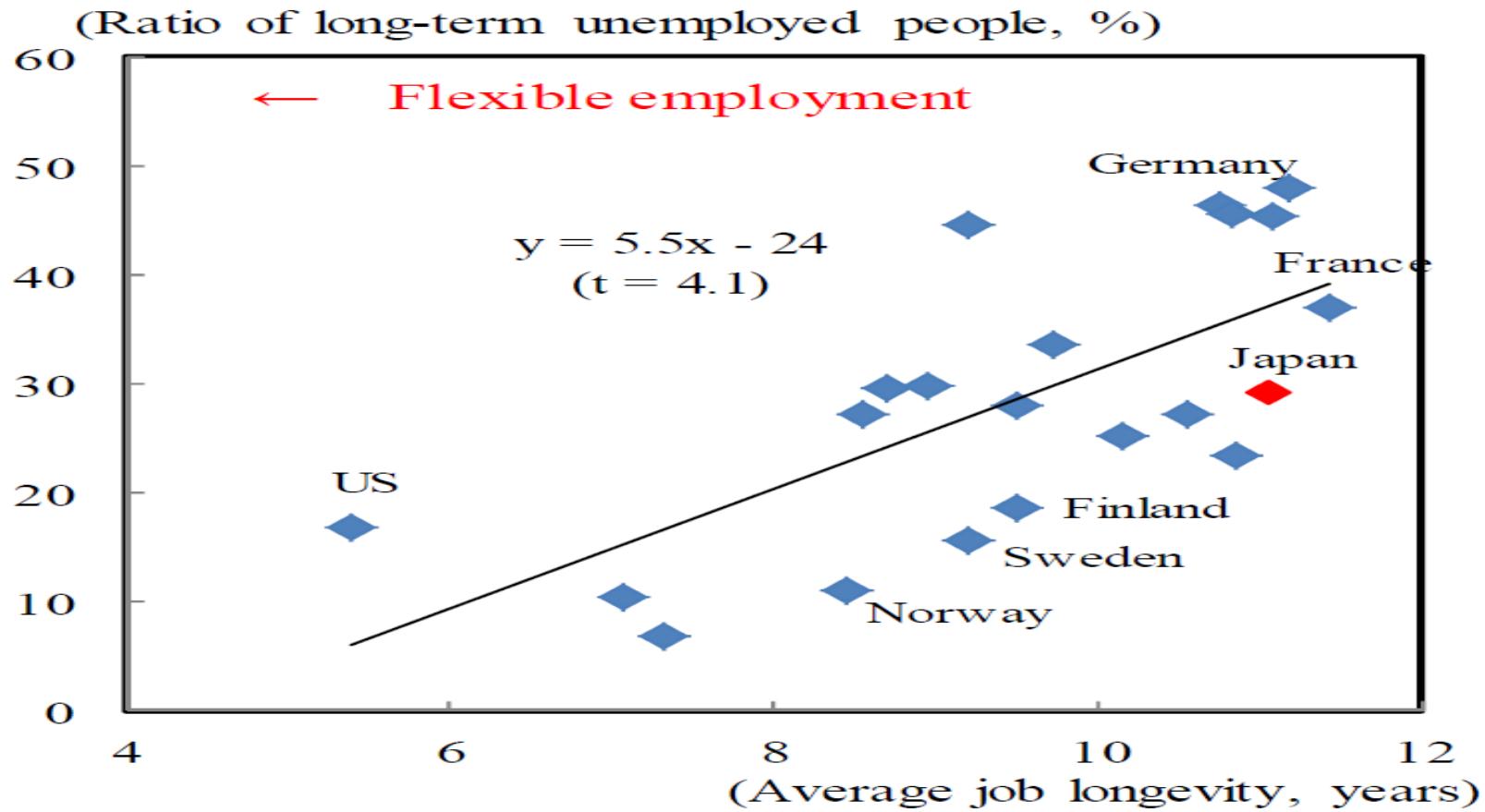


Figure 3-3-6 Labor market mobility and long-term unemployment

The less mobility a country's labor market has, the higher its ratio of long-term unemployed people.

(2) The job longevity and the ratio of long-term unemployed people

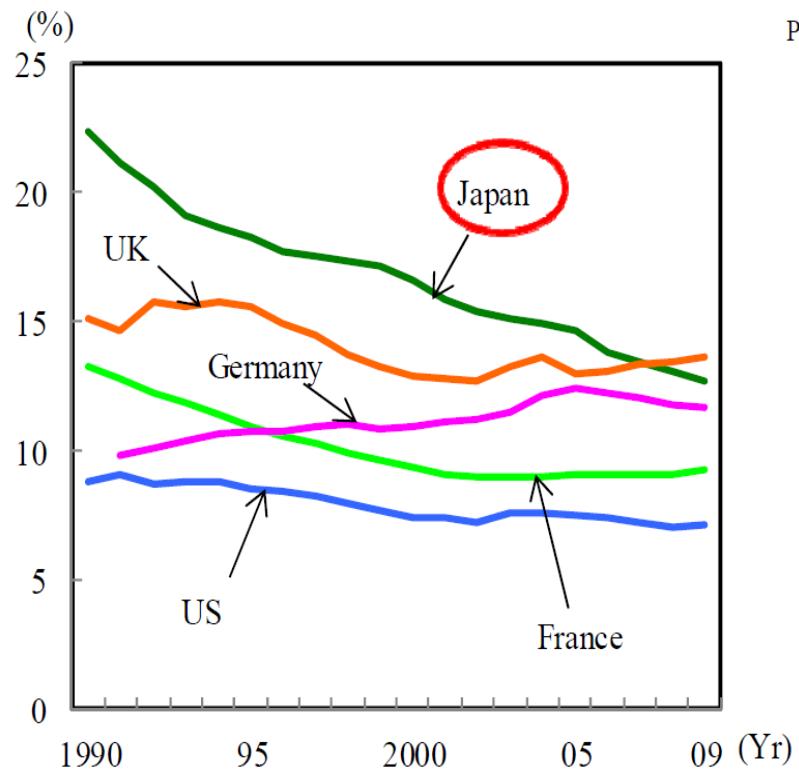


(Note) The figures for the ratio of long-term unemployed people and the average job longevity are those covering people aged 25 to 54.

Figure 3-1-8 Changes in the self-employment rate

In major developed countries, the self-employment rate has been declining.

(1) Changes in the self-employment rate



(Note) The self-employment rate = Self-employment/civilian employment.

Figure 3-1-11 Compensation of employees and mixed income

In Japan, the level of income for self-employed people is relatively low.

(1) Comparison of per-capital compensation of employees and mixed income

Per-capita mixed income/per-capita compensation of employees

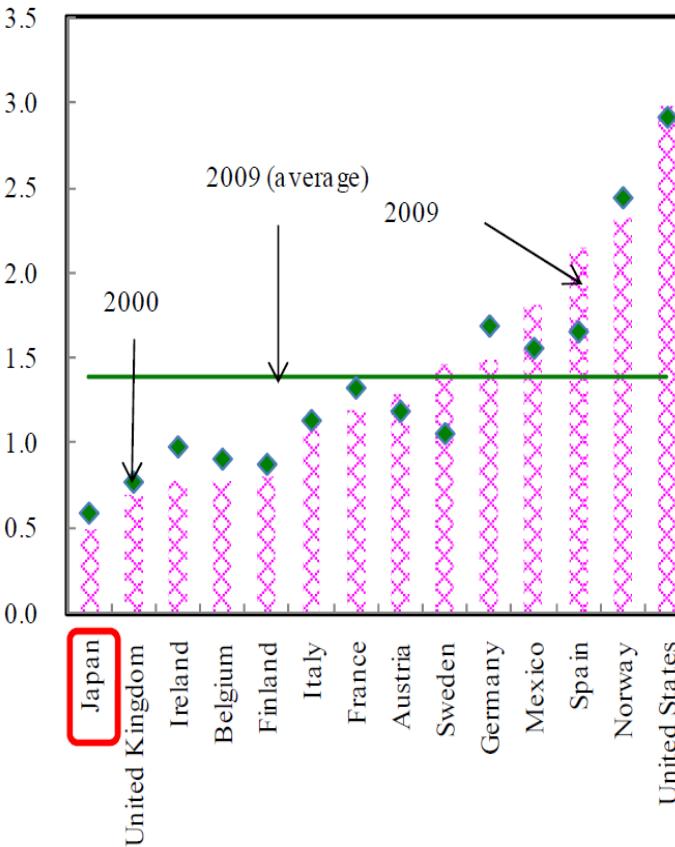
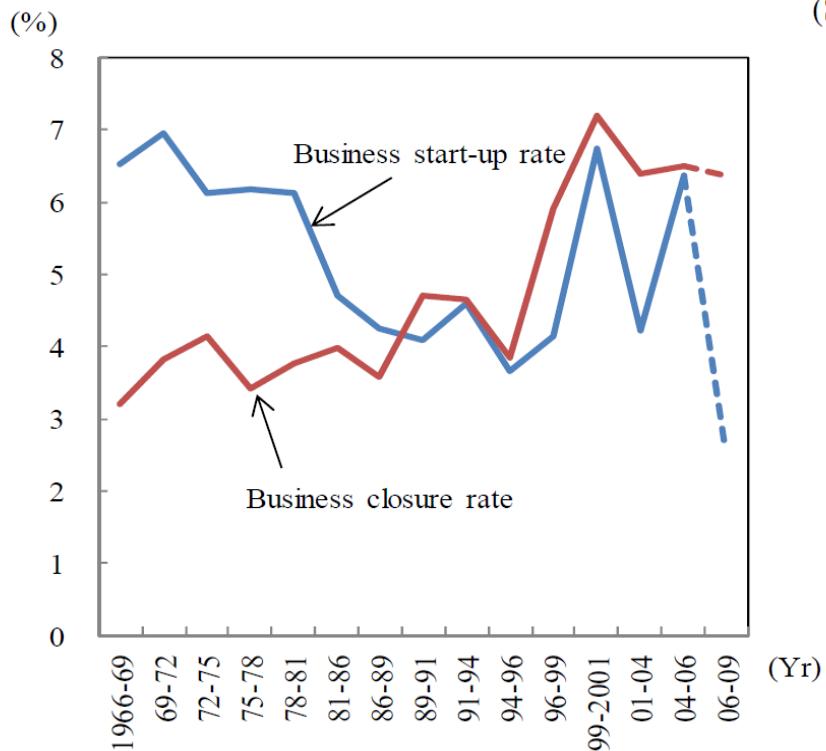


Figure 3-1-5 Changes in the business start-up and closure rates

In recent years, the business closure rate has been higher than the business start-up rate.

- (1) Based on the Establishment and Enterprise Census (private establishments)



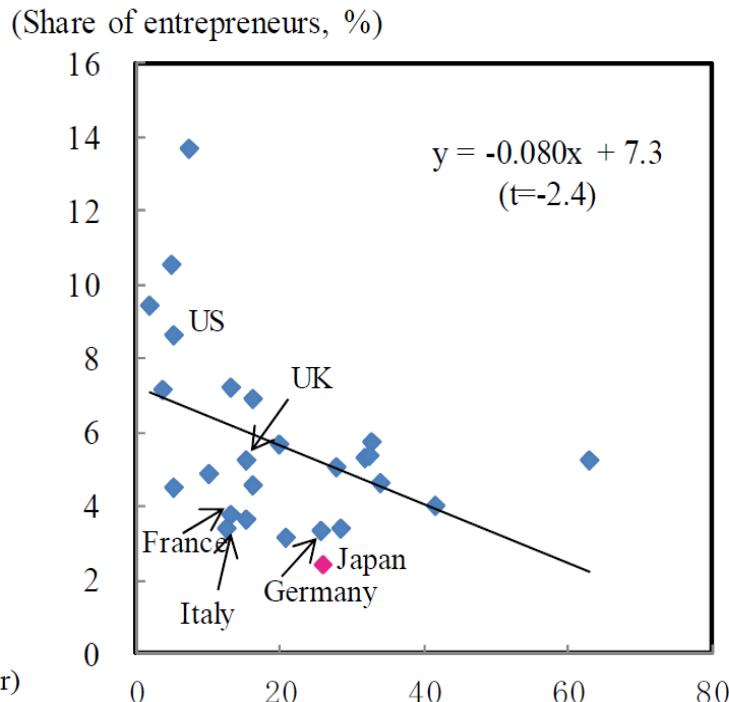
(Note) 1. The above data represent the average numbers for 2003 to 2010.

2. The "share of entrepreneurs" is the share of people who engage in entrepreneur activity of the population of people aged 18 to 64 (limited to those who have not yet started a business and those who have started a business in the past three and a half years). "Entrepreneurs" are defined as people who have taken a chance by starting a business or are planning to do so despite the availability of other options.

Figure 3-1-3 Determinants of the share of entrepreneurs:  
Institutional factors

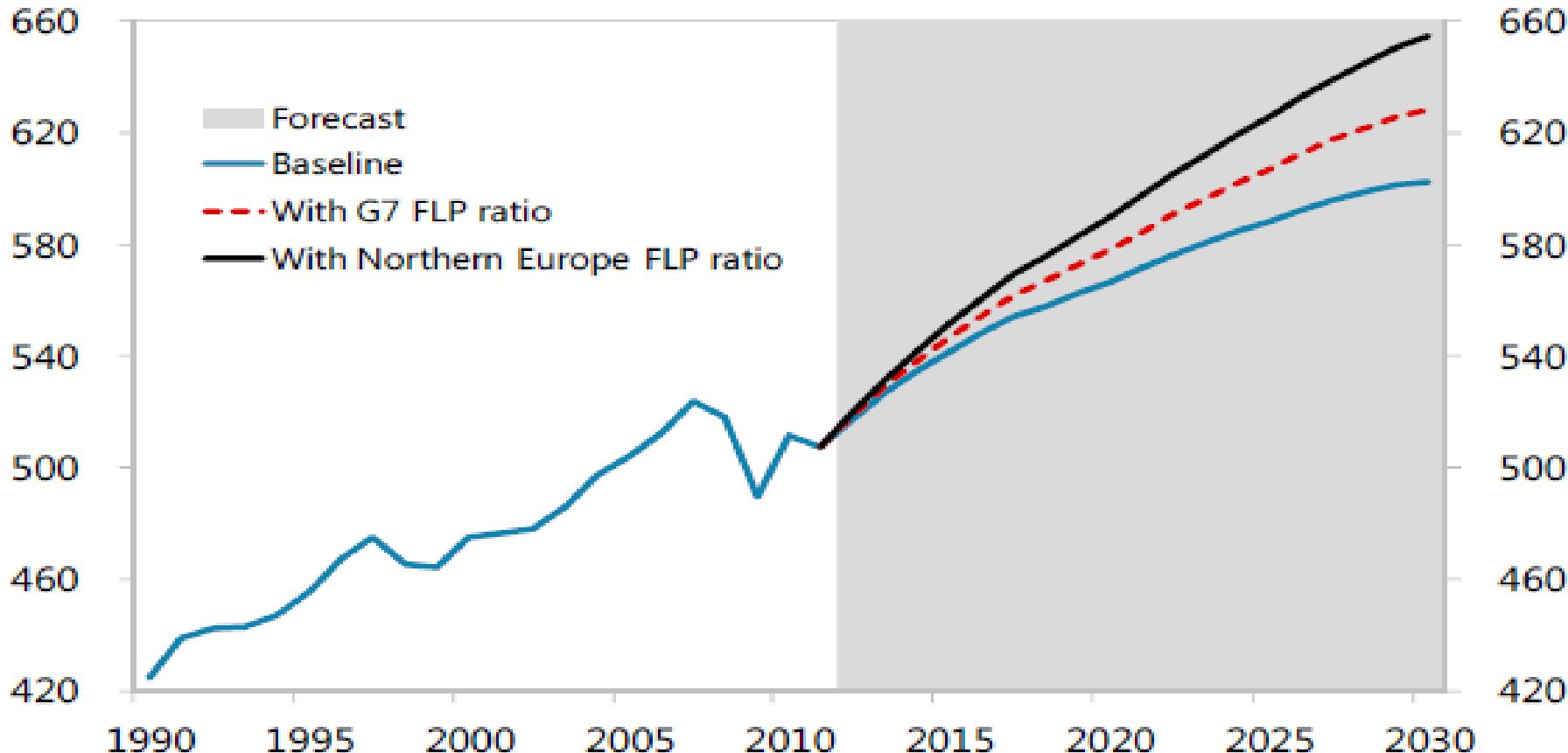
The fewer the number of days required for starting business in a country, the more businesses are started there.

- (1) Share of entrepreneurs and the number of days required for starting business



## Real GDP: Policy Scenario with Higher Female Participation

(In trillion yen)



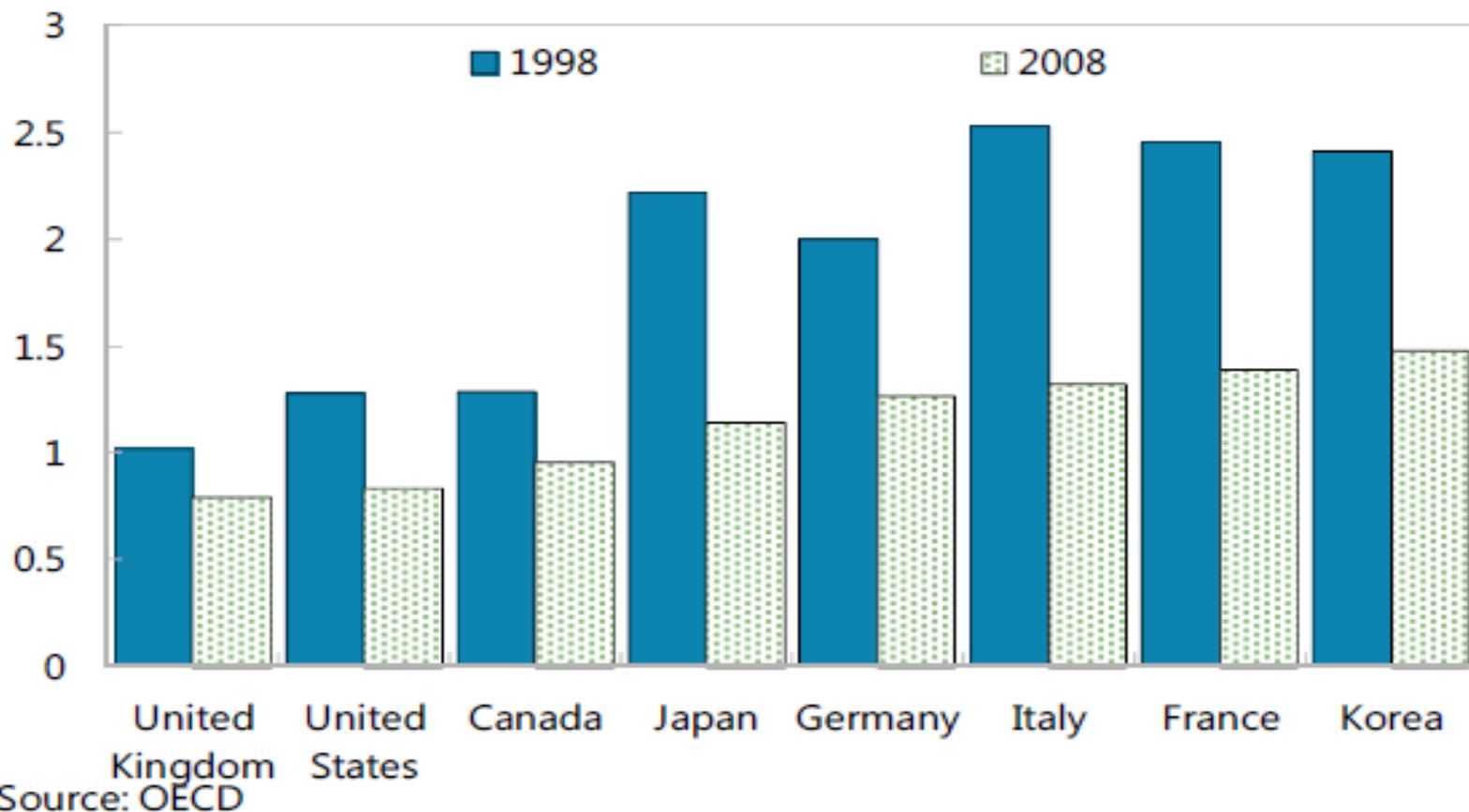
Source: WEO and IMF staff estimates.

*The annual potential growth rate could rise by about  $\frac{1}{4}$  percentage points if Japan was to raise the female labor participation ratio to the G-7 average, ...*

• <http://www.imf.org/external/pubs/ft/scr/2012/cr12208.pdf>

*... and further reduce the administrative burden for firms, building on progress made over the last decade.*

## Product Market Regulation in Advanced Economies (Restrictiveness indicator)



# Growth Strategies

- The euro took away the easy choices of monetary and fiscal expansion
- Along with the Lisbon strategy, the euro was expected to encourage structural reforms and to increase competitiveness and productivity in all Member States
- But this did not happen

# Growth Strategies

- Since the euro crisis, Member States hit by the crisis are conducting structural reforms that are unprecedented in terms of both speed and range
- Had these reforms taken place earlier, asymmetry in the euro area would have gone down and the crisis could have been avoided

# Growth Strategies

- The Japanese might think Europe is experiencing disaster, but actually Japan is in a worse position
- At least in Europe, there are structural reforms, conditionality, sense of crisis, none of which exists in Japan
- The Japanese still think they have the choice to count on monetary and fiscal expansion, to avoid painful reforms

# Growth Strategies

So the Europeans are actually much better off than the Japanese, at least they are moving forward with

- Six Pack (including the Macroeconomic Imbalance Procedure)
- TSCG (including the fiscal compact)
- Europlus Pact
- Two Pack
- European Banking Union
- Euro Area Common Budget ...

# Growth Strategies

- Japan should not rely on monetary and fiscal policies
- Instead, it needs to take bold reforms so that potential demand becomes effective demand
- If not, supply>demand means deflation
- Governance overhaul is needed in Japan too, so that support for structural reform will be reflected in policy