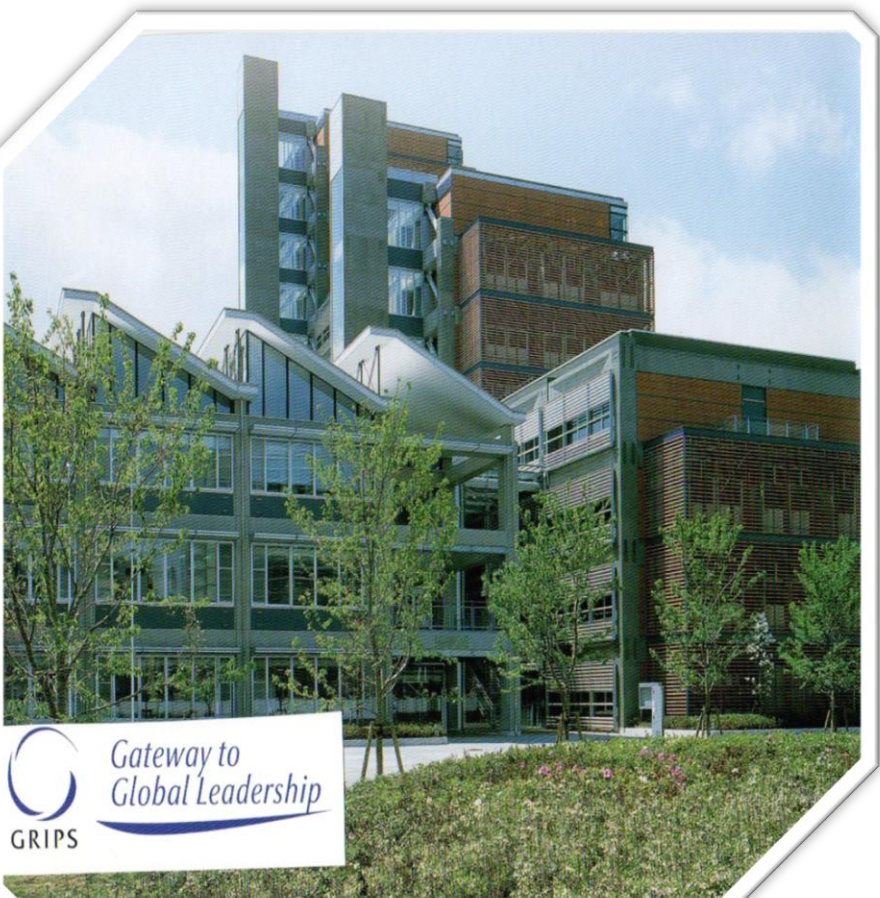


ASPEN—JEF Europe—Japan Conference July 7, 2016

*Europe—Japan:*  
*Common issues, Cooperative Solutions*



Akira KOJIMA

World Trade Center(WTC) Tokyo

National Graduate Institute For Policy Studies(GRIPS)

# Decades Long Economic Stagnation and Sustained Deflation

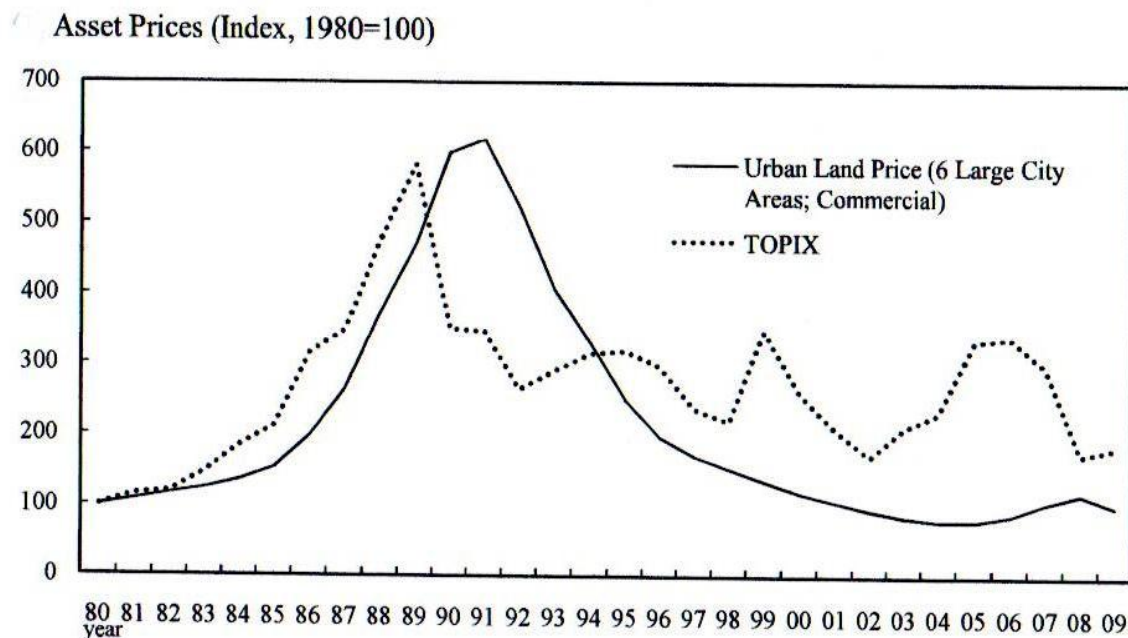
1991 as a watershed year for Japan's economy and society

Bubble Economy Collapse

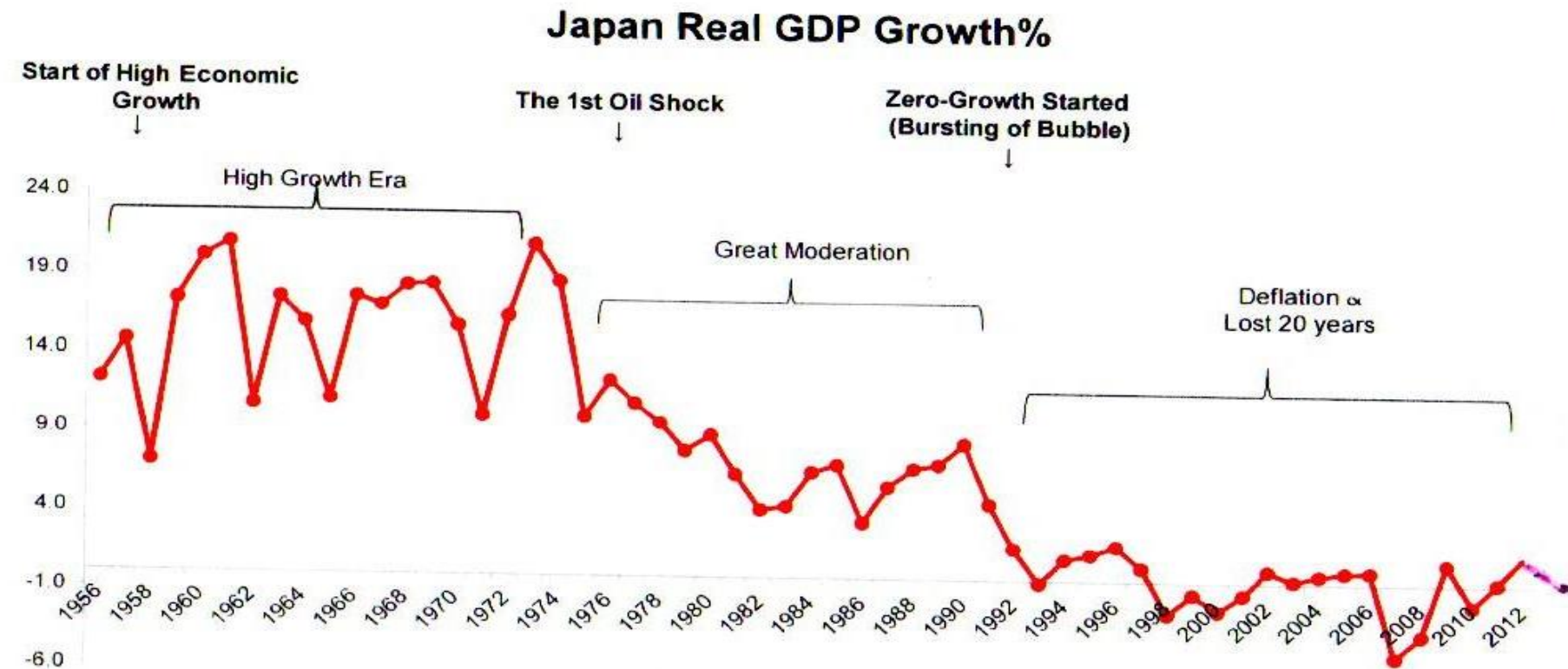
Pessimism

Depressed Business Mind

Debt Deflation



# 20+years stagnation

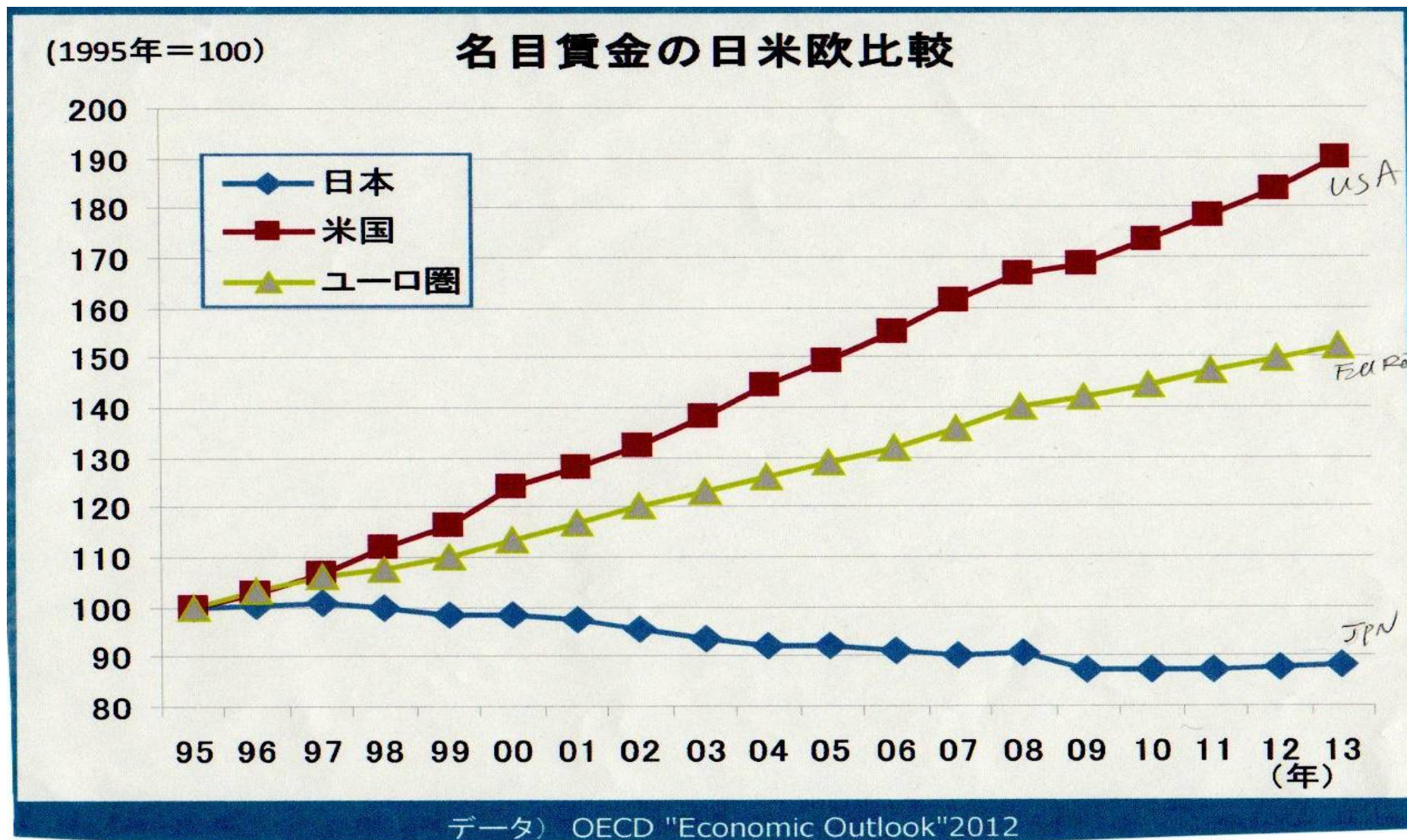


Sources: Cabinet Office and S&P

Source: 8-point Arial (Body). This text box is pre-positioned and formatted to automatically wrap up when more lines are required. Copy and paste on pages as needed.



# Trend of Wages (1995=100)

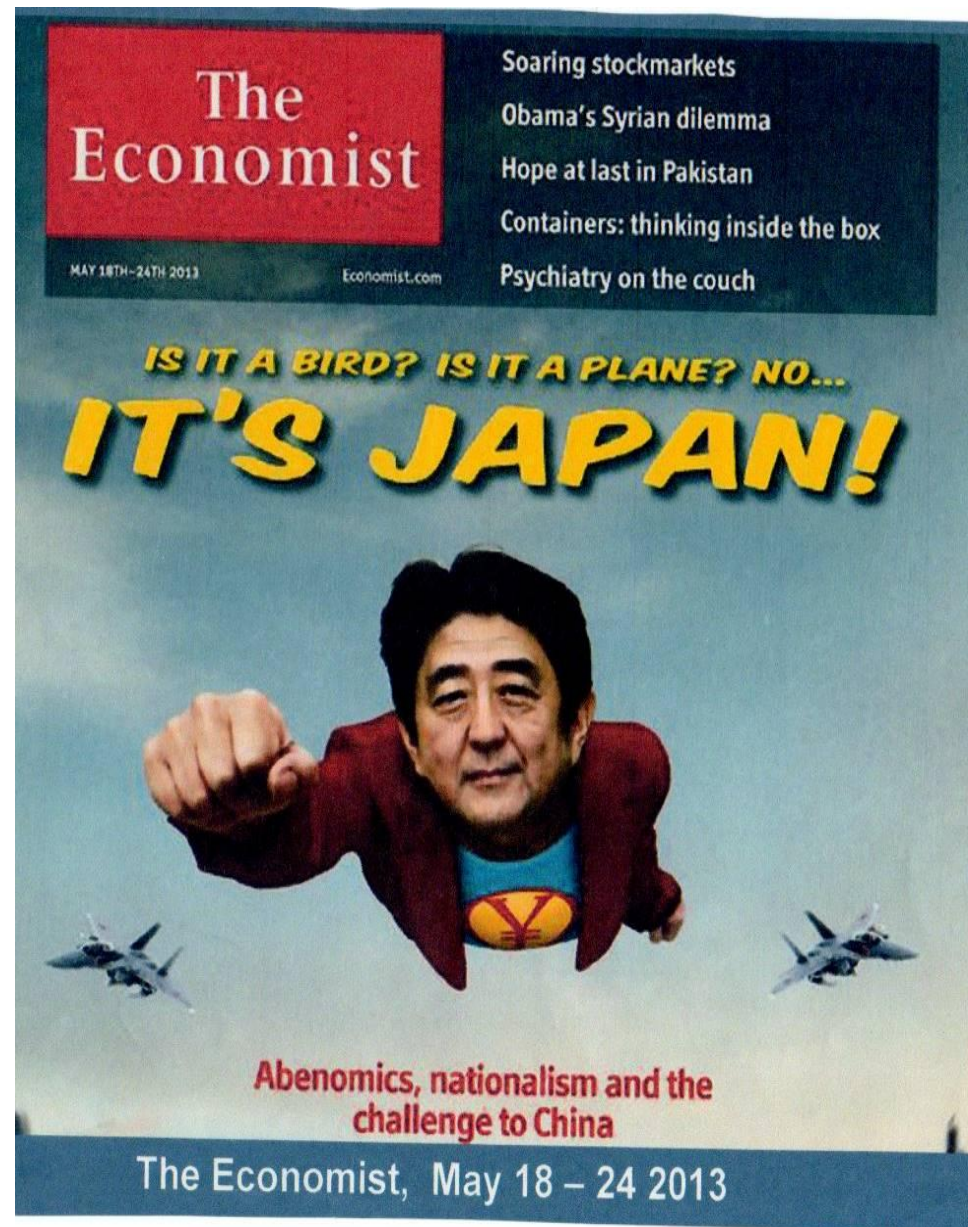


# Enter *Abenomics*

Abe Administration (2012. 12~)

## *Abenomics*

- 1, BOJ QQE
- 2, Flexible Fiscal Policies
- 3, Structural Reform  
(Growth Strategy)





# OECD Japan Outlook

## Japan: Employment, income and inflation

Percentage changes

	2013	2014	2015	2016	2017
Employment	0.7	0.6	0.4	0.5	-0.2
Unemployment rate <sup>1</sup>	4.0	3.6	3.4	3.2	3.1
Compensation per employee <sup>2</sup>	-0.3	0.8	0.7	1.0	2.0
Unit labour cost	-0.8	1.6	1.0	1.6	1.6
Household disposable income	0.2	0.5	1.0	1.1	1.1
GDP deflator	-0.6	1.7	2.0	0.9	1.8
Consumer price index <sup>3</sup>	0.3	2.7	0.8	0.1	2.1
Core consumer price index <sup>4</sup>	-0.1	1.9	1.1	0.8	2.1
Private consumption deflator	-0.2	1.9	0.2	0.0	2.2

1. As a percentage of labour force.


2. In the total economy.

3. Calculated as the sum of the seasonally adjusted quarterly indices for each year.

4. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 99 database.

OECD June 2016

StatLink  <http://dx.doi.org/10.1787/888933368957>

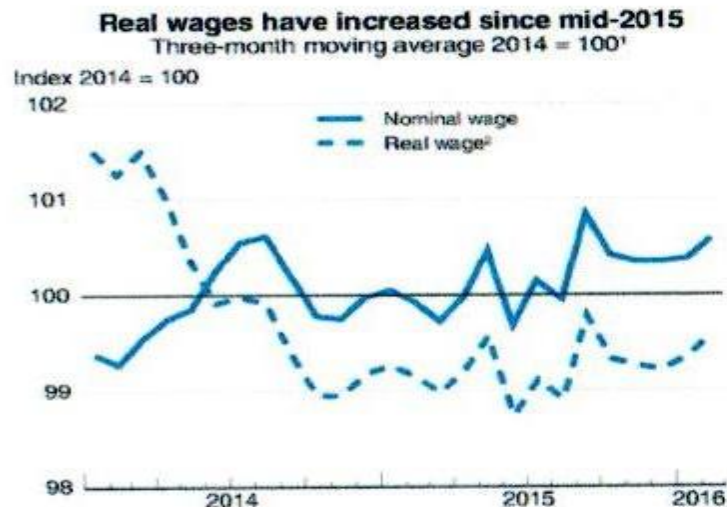
# More Than *A*sset *B*ubble *E*conomy?

## Wages

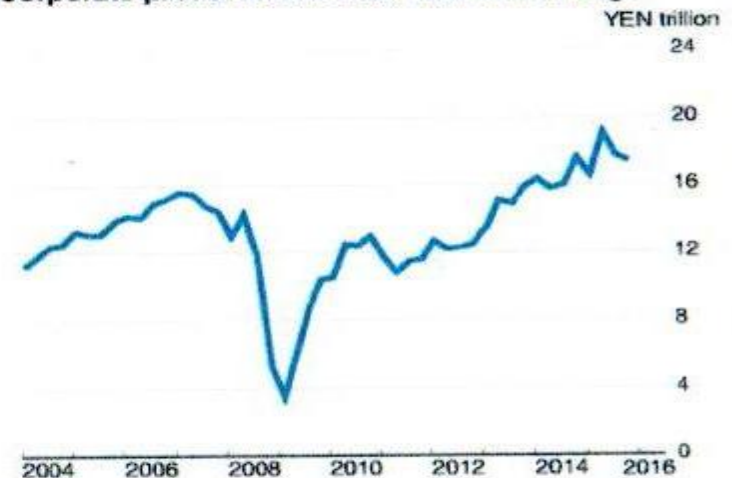
some increase in nominal wages

real wages kept under water


### Japan



### Corporate profits remain near their record high<sup>3</sup>

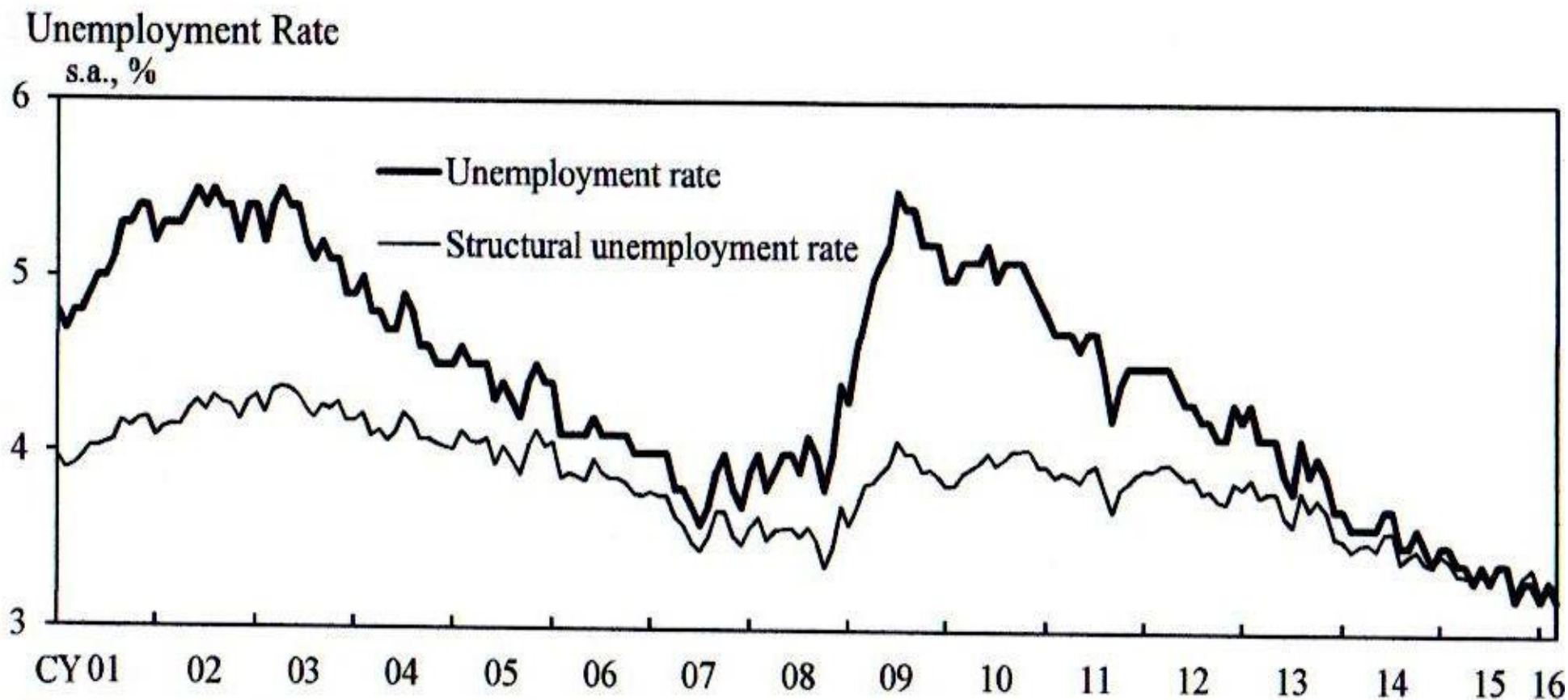


1. Seasonally-adjusted data based on establishments with thirty or more workers.
  2. Deflated by the consumer price index, excluding imputed rent.
  3. Profits of non-financial firms, seasonally-adjusted.
- Source: Ministry of Health, Labour and Welfare; and Ministry of Finance.

StatLink  <http://dx.doi.org/10.1787/888933367954>

# Almost Full Employment

## Unemployment Rate and Labor Force Participation Rate

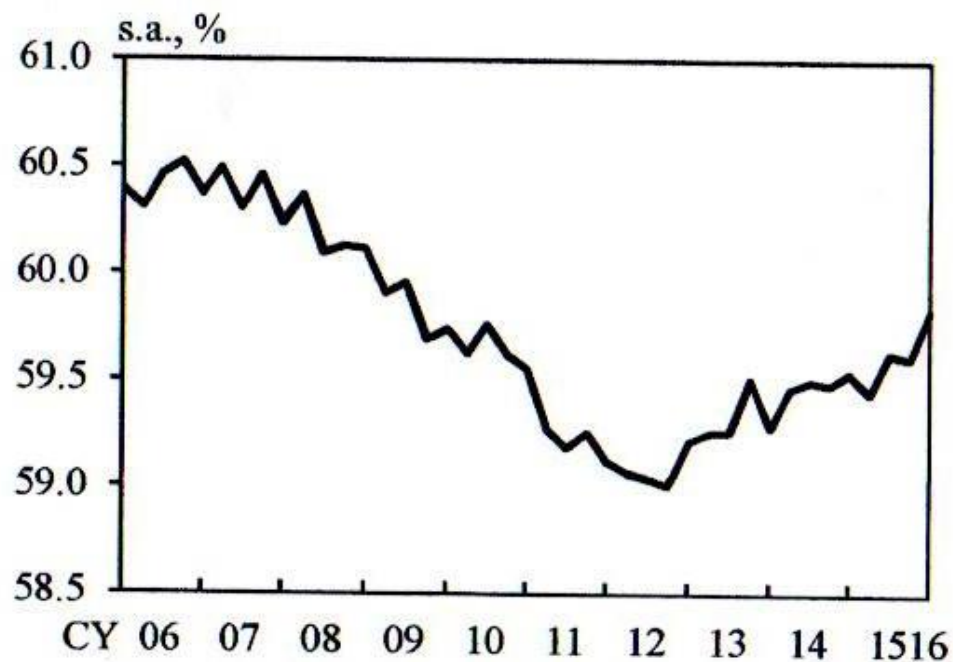


Note: The structural unemployment rate is estimated by the Research and Statistics Department, Bank of Japan.

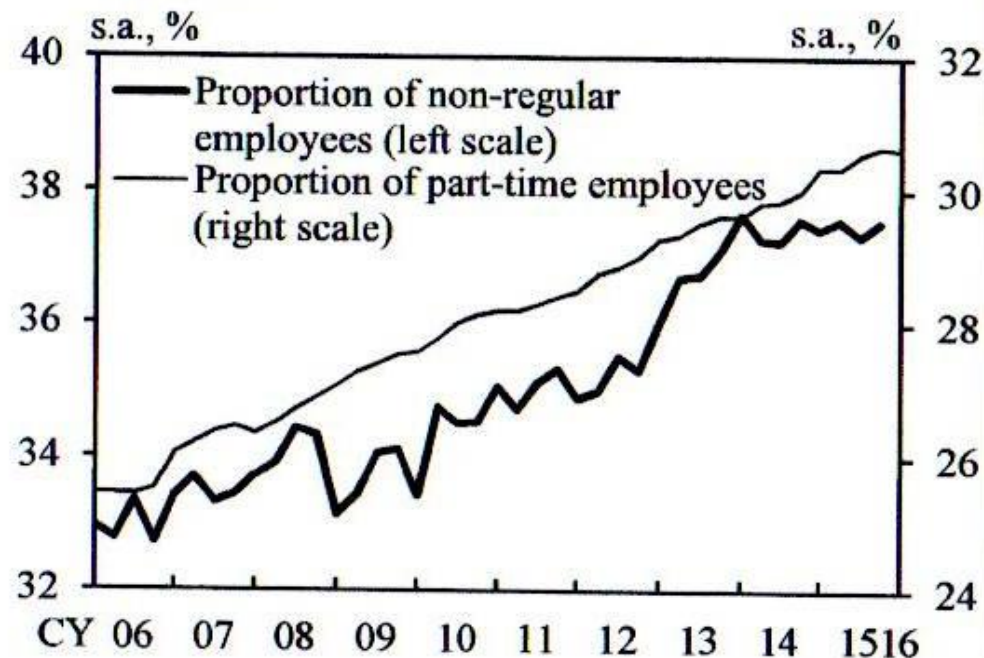


# Higher Labor Force Participation Rate

Ⅱ Labor Force Participation Rate



Ⅲ Proportion of Non-Regular and Part-Time Employees



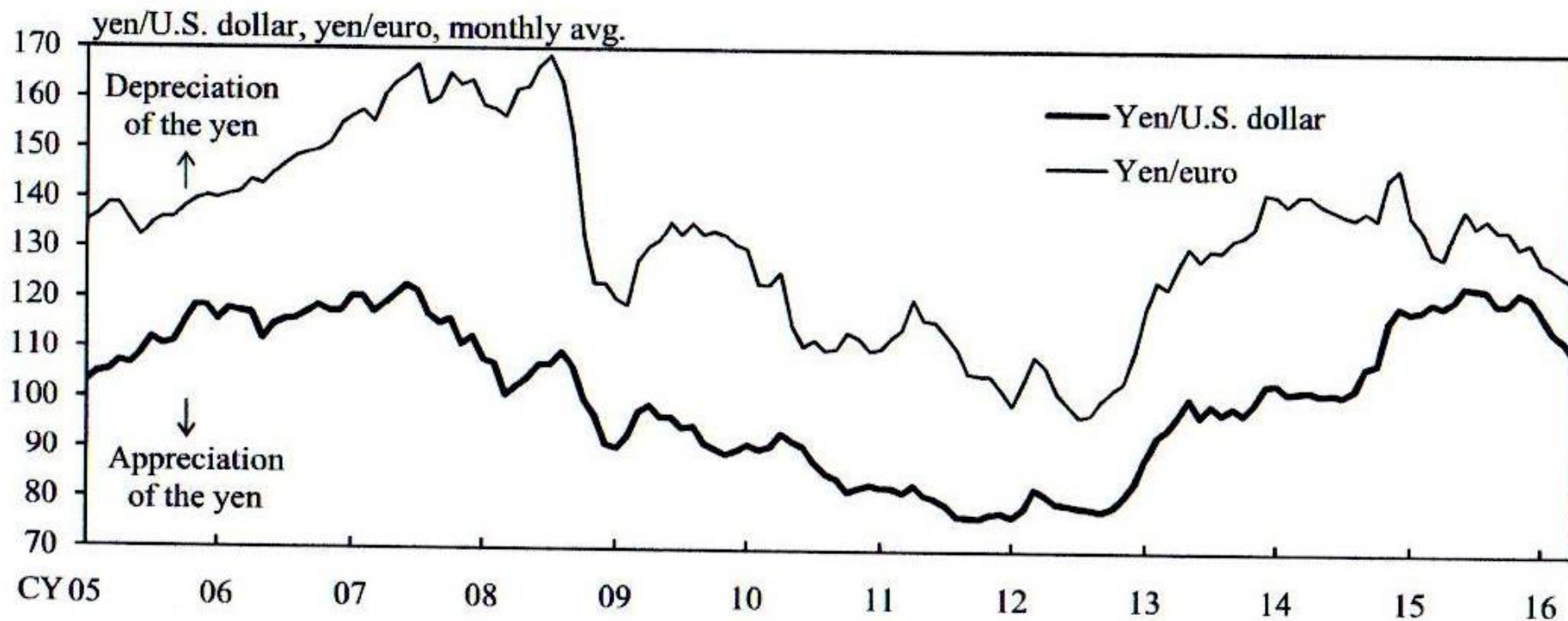
Note: Figures for the proportion of non-regular employees are based on the "detailed tabulation" in the "Labour Force Survey."  
The figure for the proportion of part-time employees for 2016/Q1 is the January-February average.

Sources: Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare.

Yen got Cheaper, but.....

## Exchange Rates

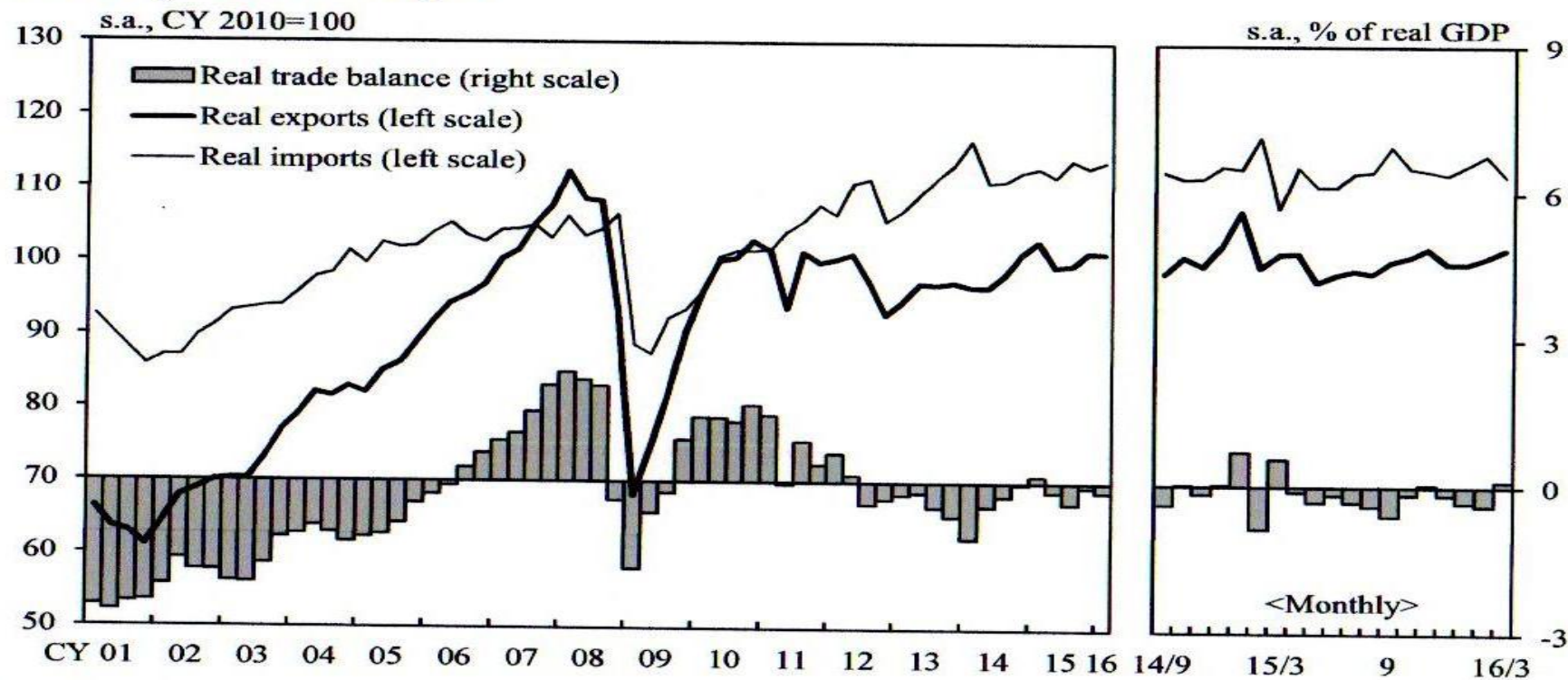
### (1) Yen/U.S. Dollar and Yen/Euro



# “J Curve” Dissappeared ? Cheaper Yen is not Pushing Export

## Real Exports and Real Imports

### (1) Real Exports and Real Imports



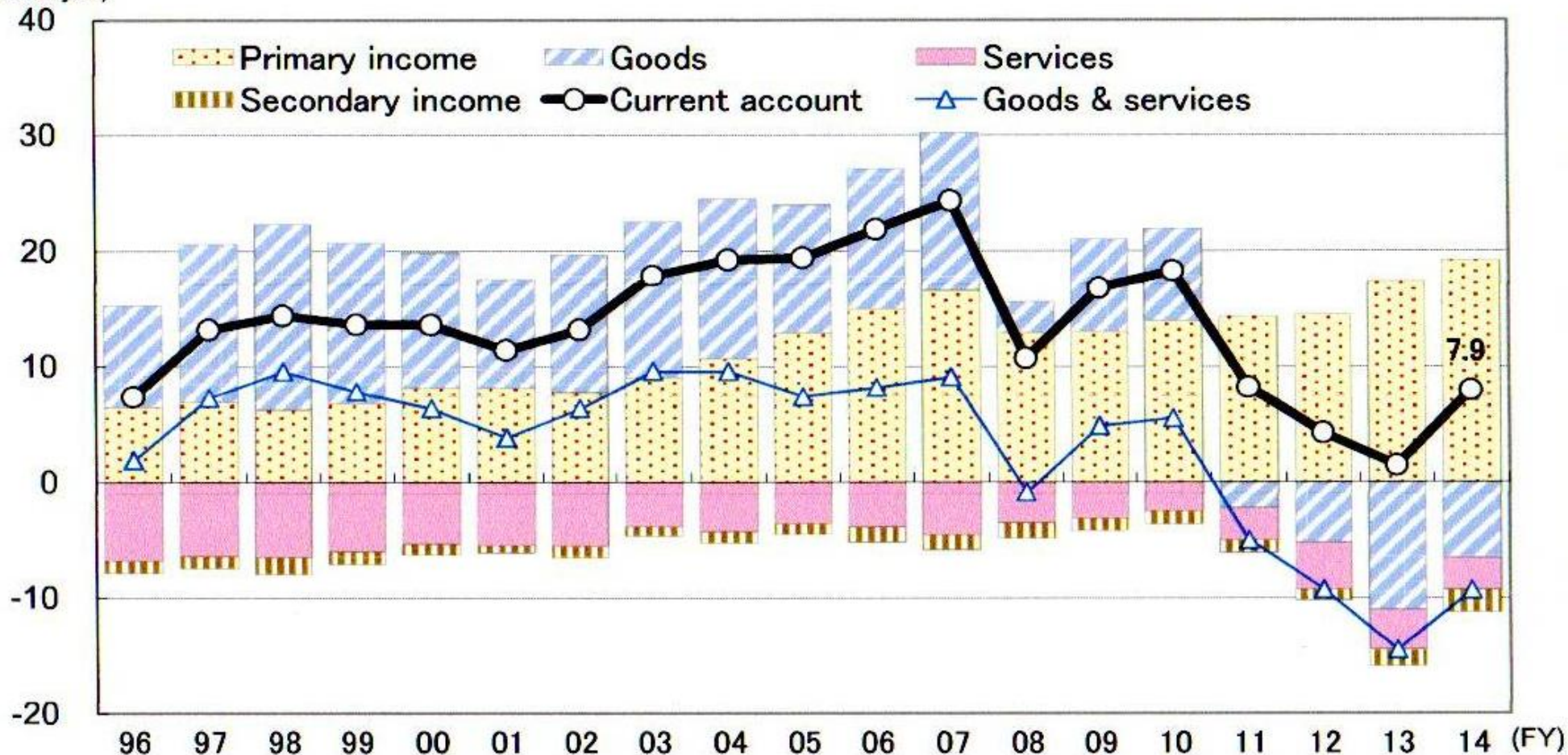
Note: Figures for the real trade balance (as a ratio of real GDP) from January 2016 onward are calculated using real GDP for 2015/Q4.



# Structural Change of Balance of Payments

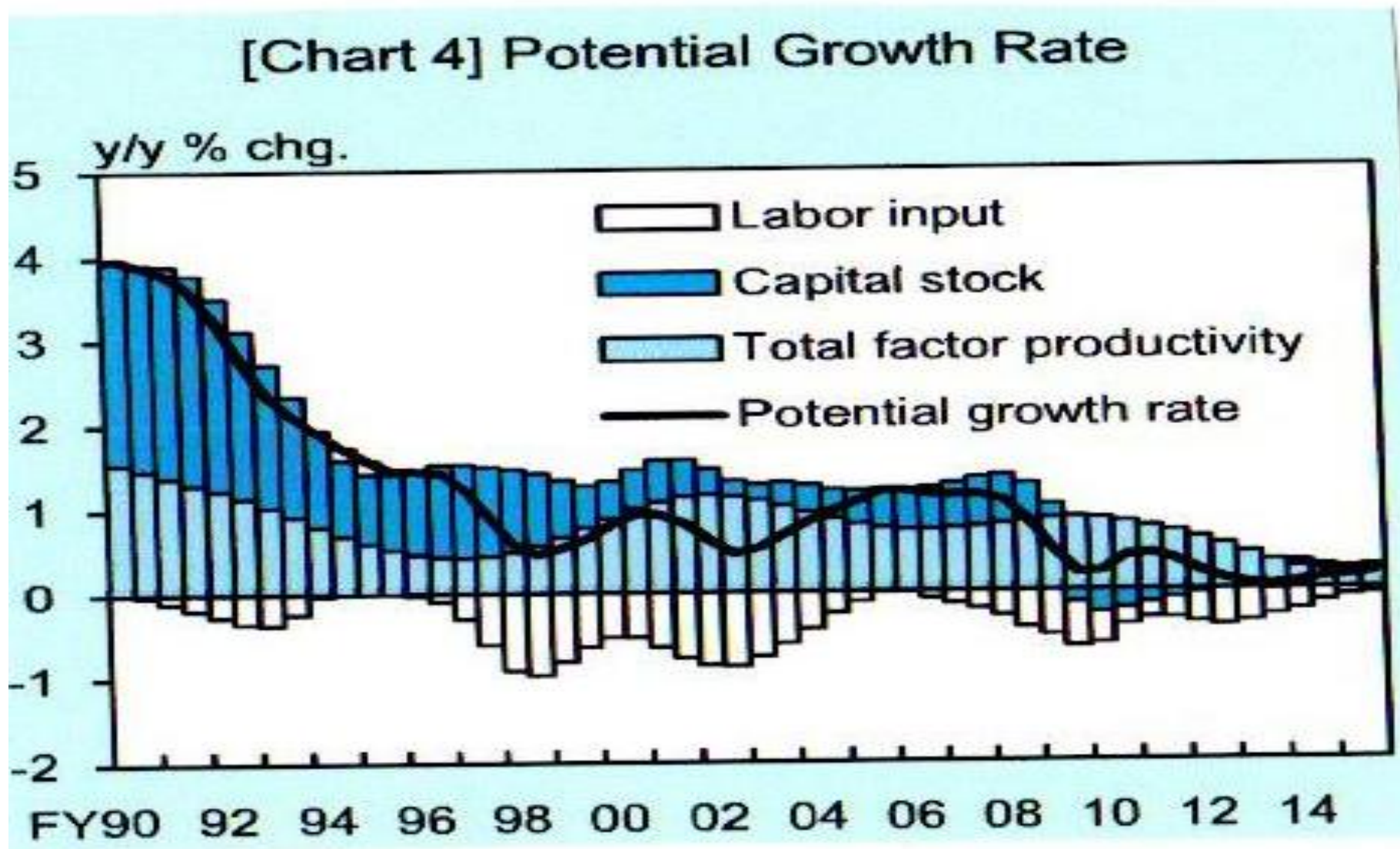
## Trend in Current Balance

(trillion yen)



(Source) Ministry of Finance "Balance of Payments"

## Still Depressed *Potential Growth Rate*

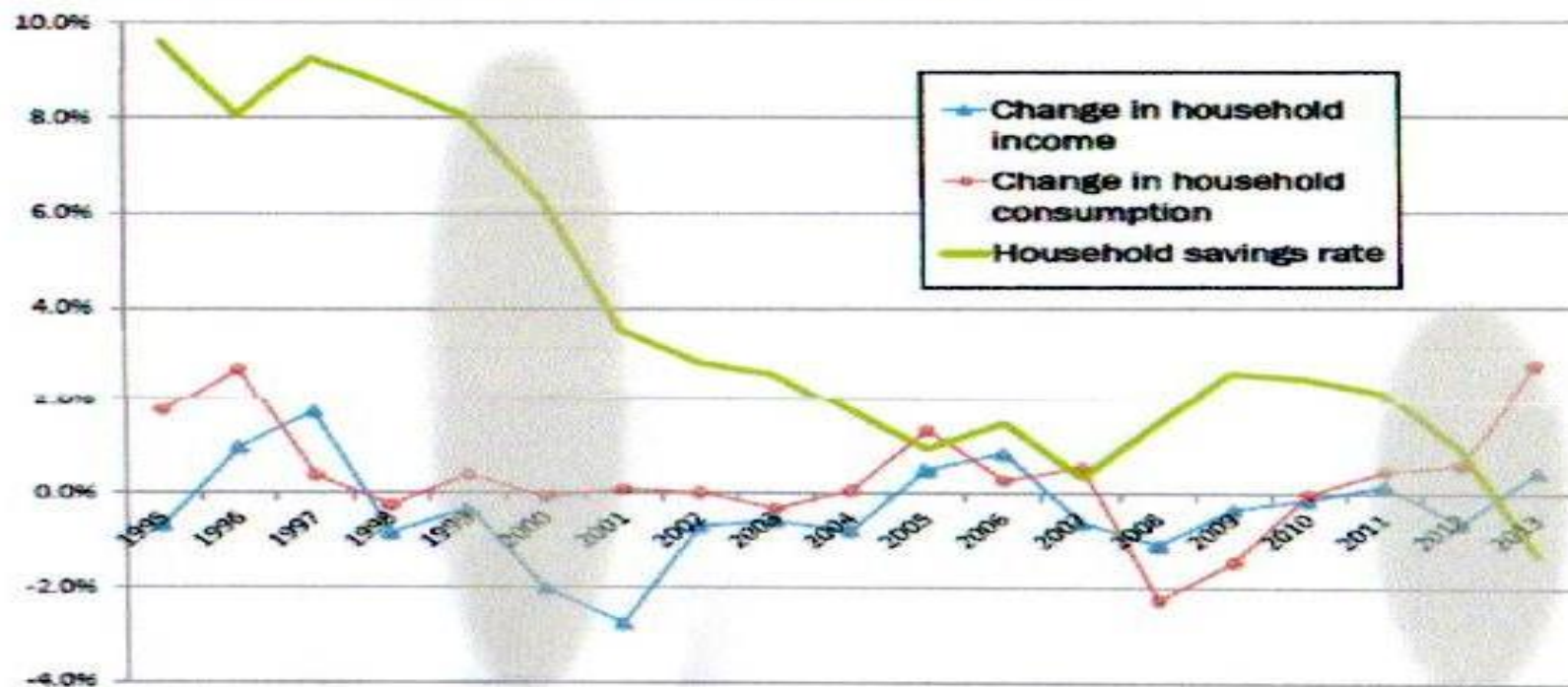




# Rapid Fall in the Household Savings Rates

## The Recent Rapid Fall in the Household Savings Rate is Second to the One in the Early 2000s

(Household savings rate and change in household income/consumption from the previous year)

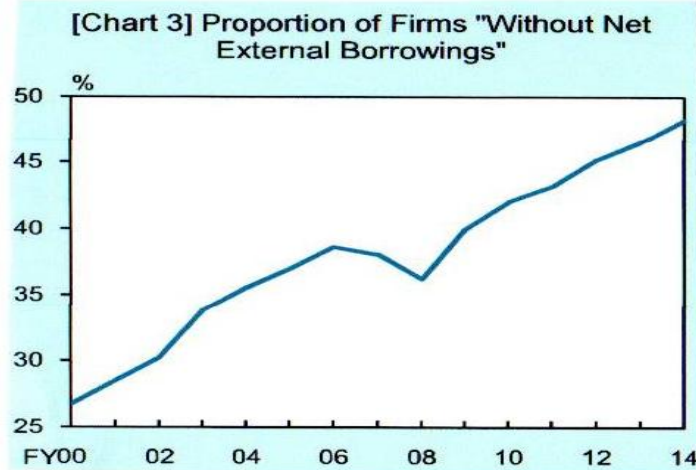
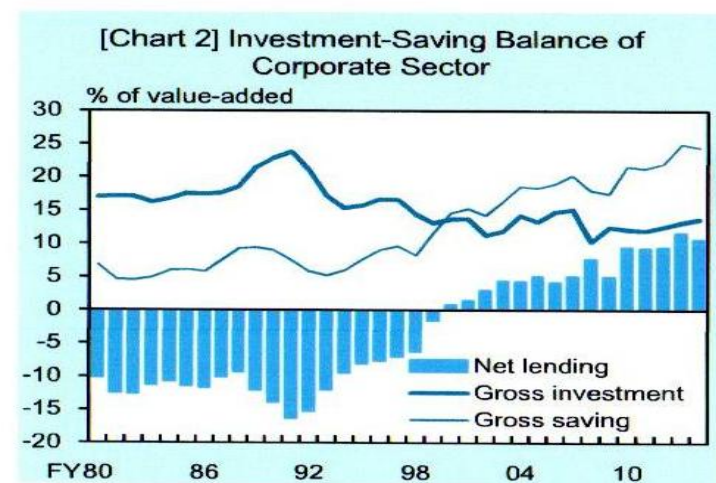
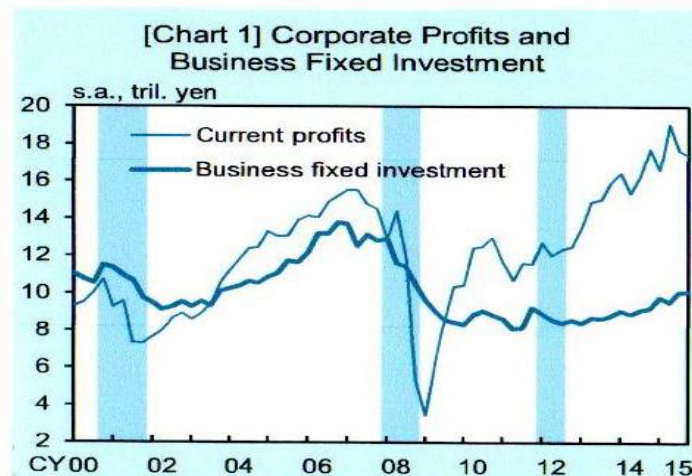


Source: Cabinet Office

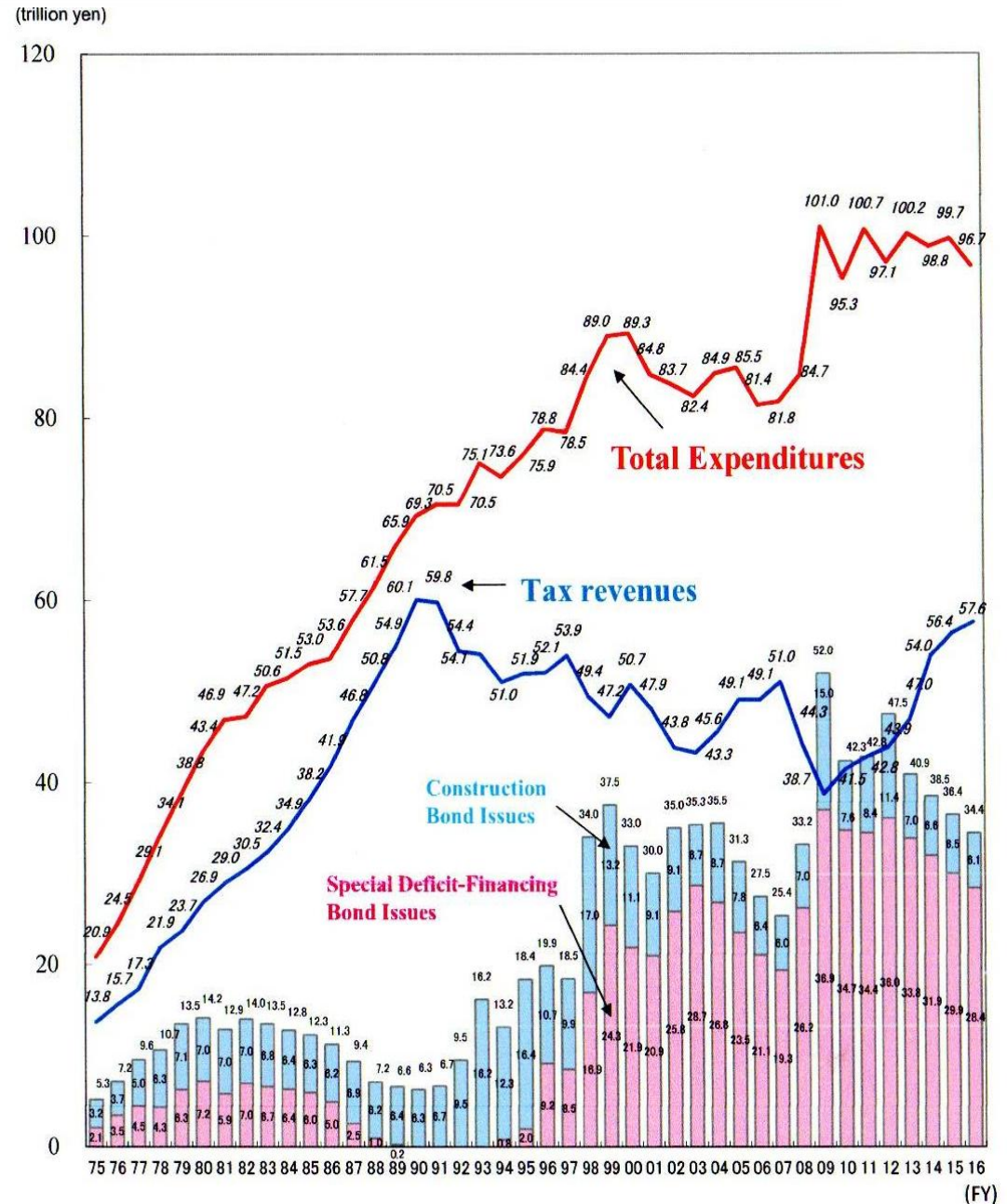


# Savings Shifted from Household to Business

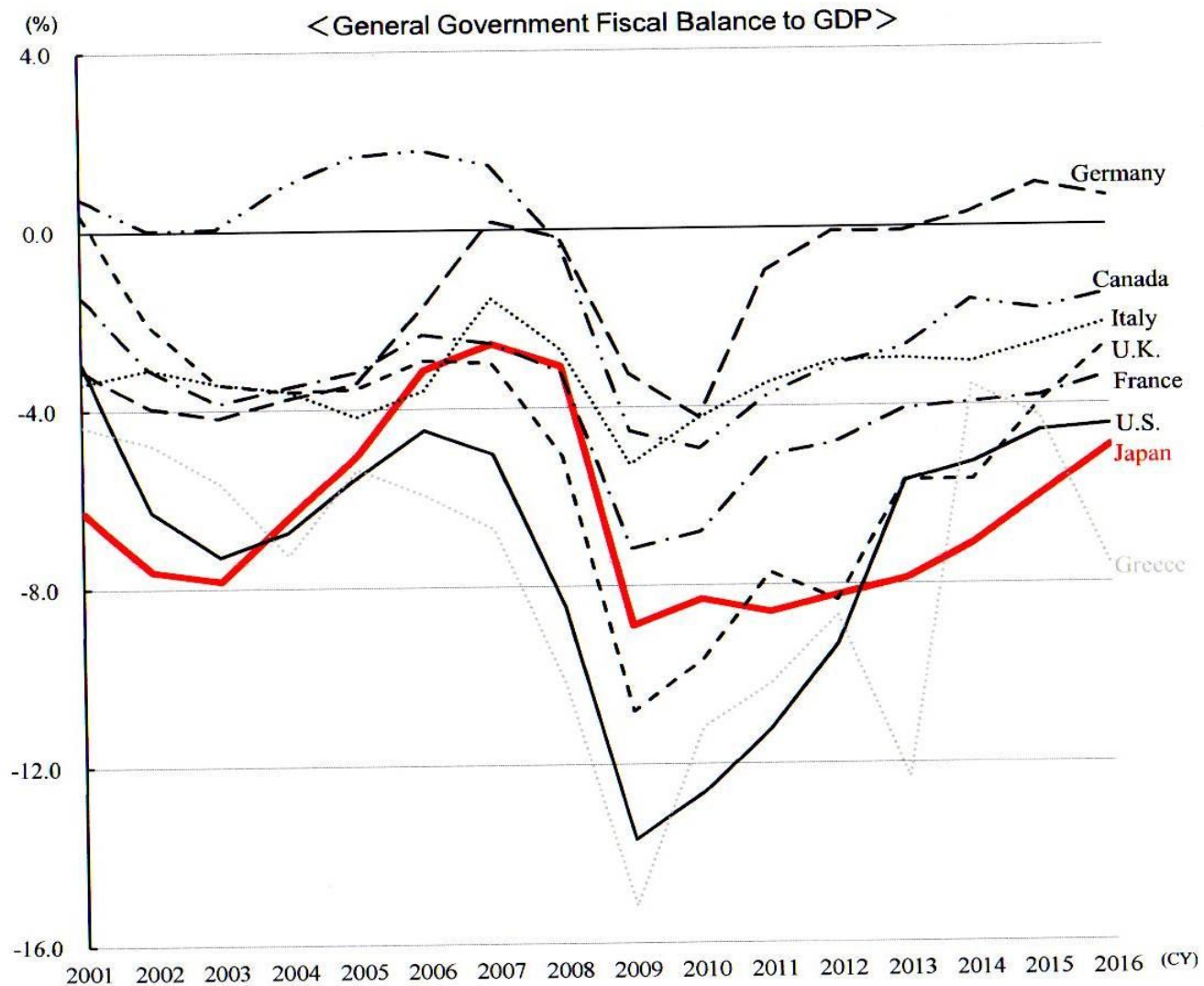
Firms are less aggressive in investment



# Government Deficit 1



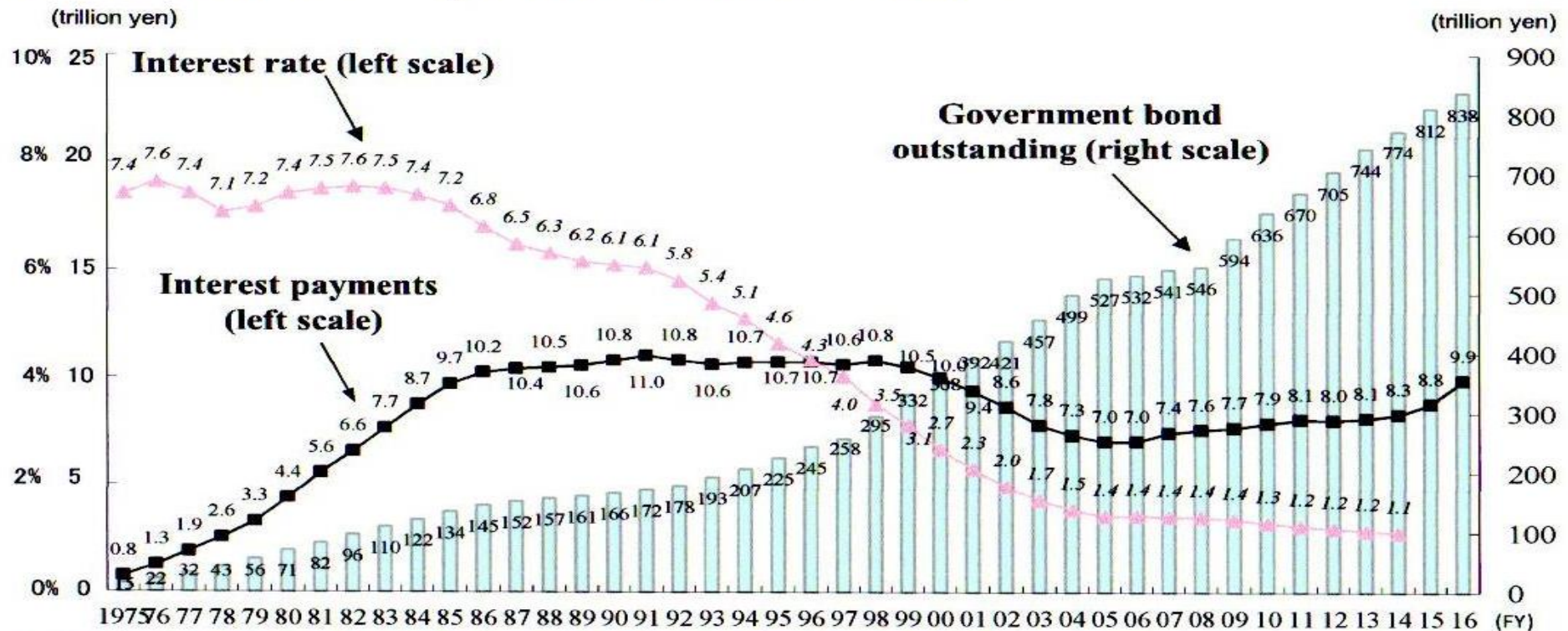
# Government Deficit 2





# Government's Interest Payments and Interest Rate

## Trends of Interest Payments and Interest Rate



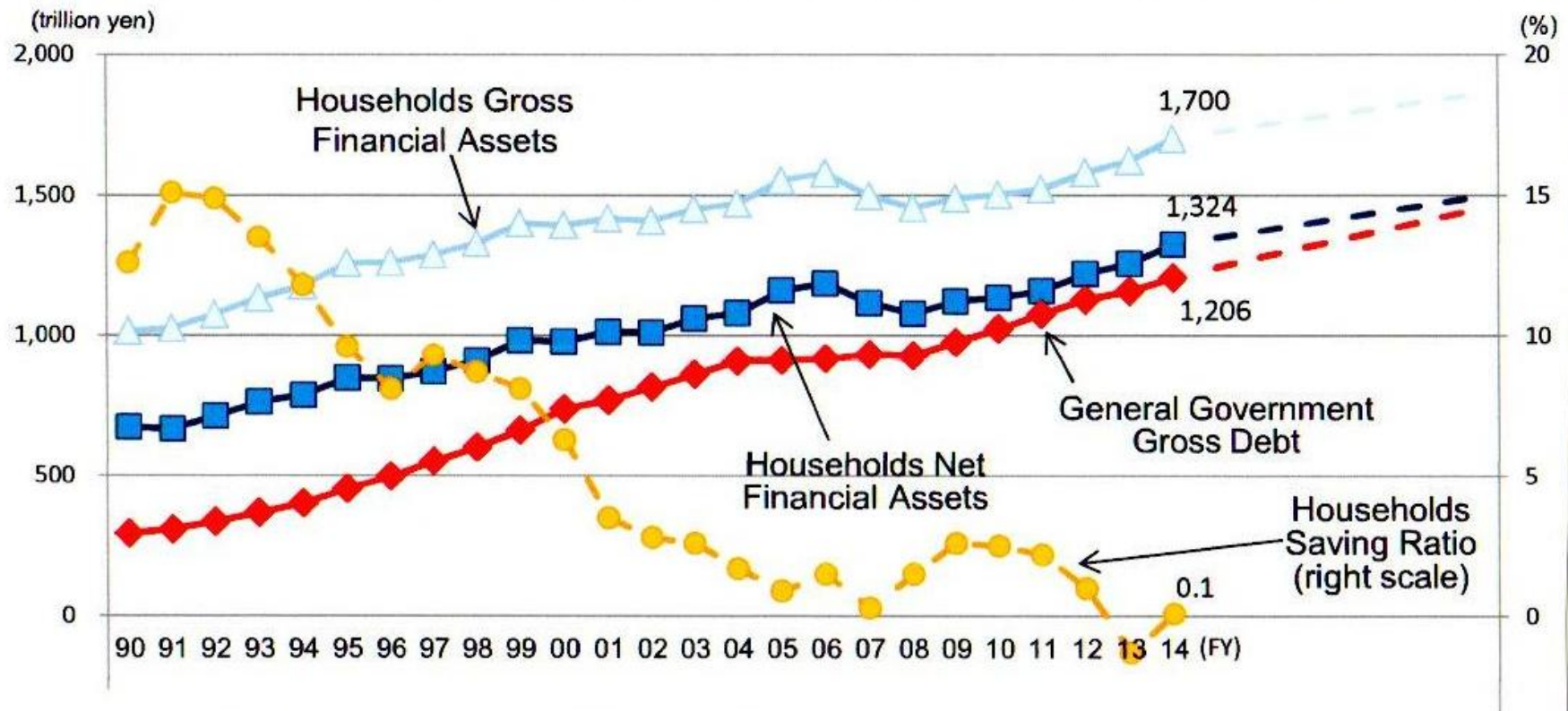
(Note1) Interest Payments for FY1975-2014: Settlement, FY2015: Including supplementary budget, FY2016: Budget

(Note2) Government bonds outstanding for FY1975-2014: Actual, FY2015: Estimates, FY2016: Initial budget

Government Bonds Outstanding includes reconstruction bonds as a source of funds to implement the measures for the reconstruction from the Great East Japan Earthquake in FY2011- FY2016 (FY2011: 10.7 trillion yen, FY2012: 10.3 trillion yen, FY2013: 9.0 trillion yen, FY2014: 8.3 trillion yen, FY2015: 7.8 trillion yen, FY2016: 7.6 trillion yen) and Pension-related Special Deficit-Financing bonds as a source of funds to achieve the targeted national contribution to one-half of basic pension (FY2012: 2.6 trillion yen, FY2013: 5.2 trillion yen, FY2014: 4.9 trillion yen, FY2015: 4.6 trillion yen, FY2016: 4.4 trillion yen).

# Trends of the General Government Debt/Households

## Trends of the General Government Debt and Households Financial Assets



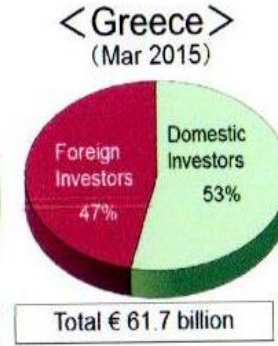
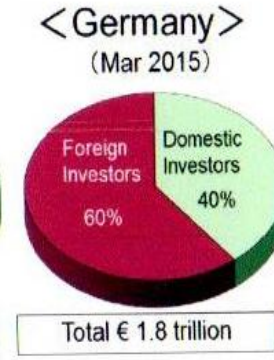
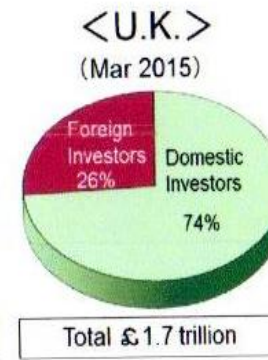
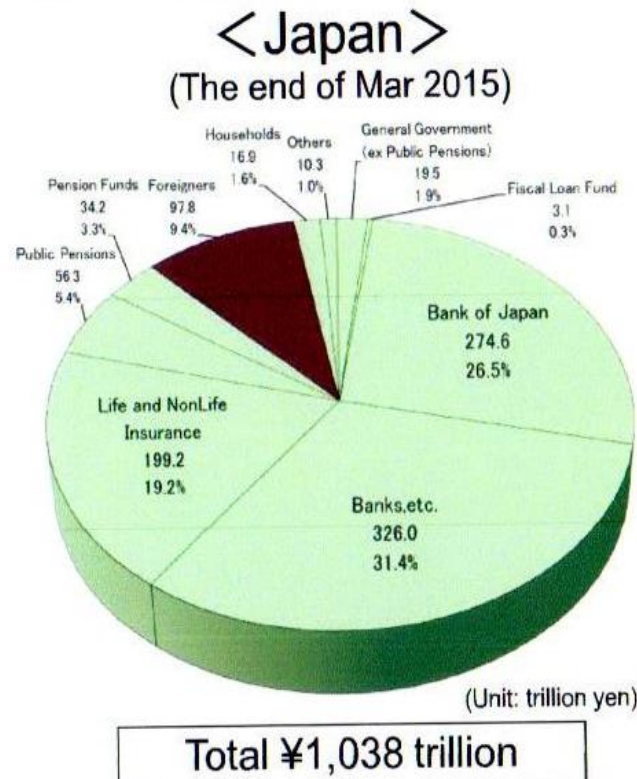
(Source) Bank of Japan "Japan's Flow of Funds Accounts" (September 2015), Cabinet Office "National Accounting"

(Note) General Government debt and households financial assets: as of the end of fiscal year



# Breakdown of National Bond Holders

## Breakdown of National Bond Holders of Each Country



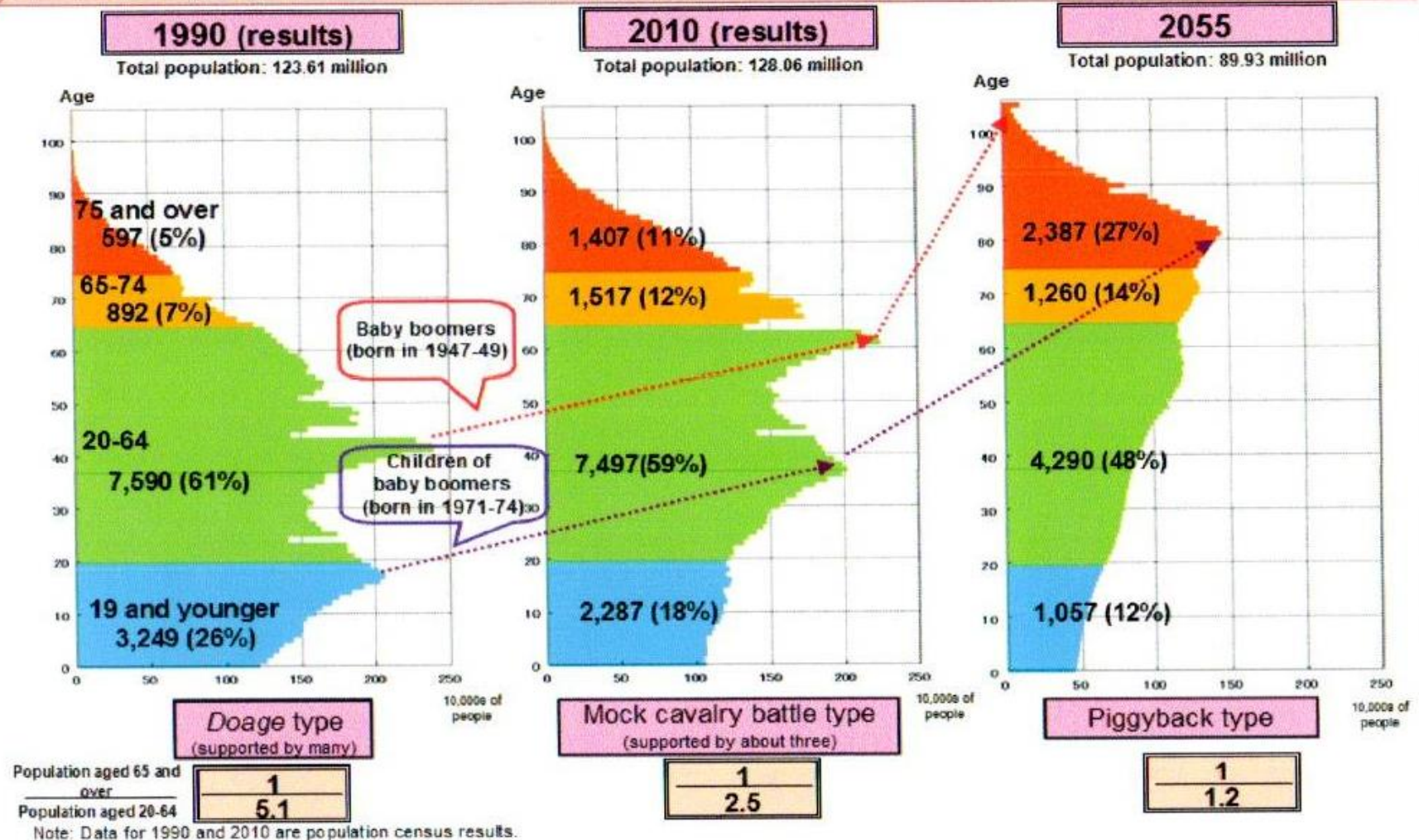
(Note) Japan includes Fiscal Investment and Loan Program bonds and Treasury Bills. U.S. excludes Government Account Series. Germany and Italy include local government bonds, etc. France includes local government bonds, corporate bonds, etc.

(Source) Japan: Bank of Japan, "The Flow of Funds Accounts". U.S.: Federal Reserve Board, "Flow of Funds Accounts of the United States". U.K.: Office for National Statistics, "United Kingdom Economic Accounts". Germany: Deutsche Bundesbank, "Deutsche Bundesbank Monthly Report". France: Banque de France, "Financial Accounts". Italy: Banca d'Italia, "Supplements to the Statistical Bulletin". Greece: Bank of Greece, "Financial Accounts".



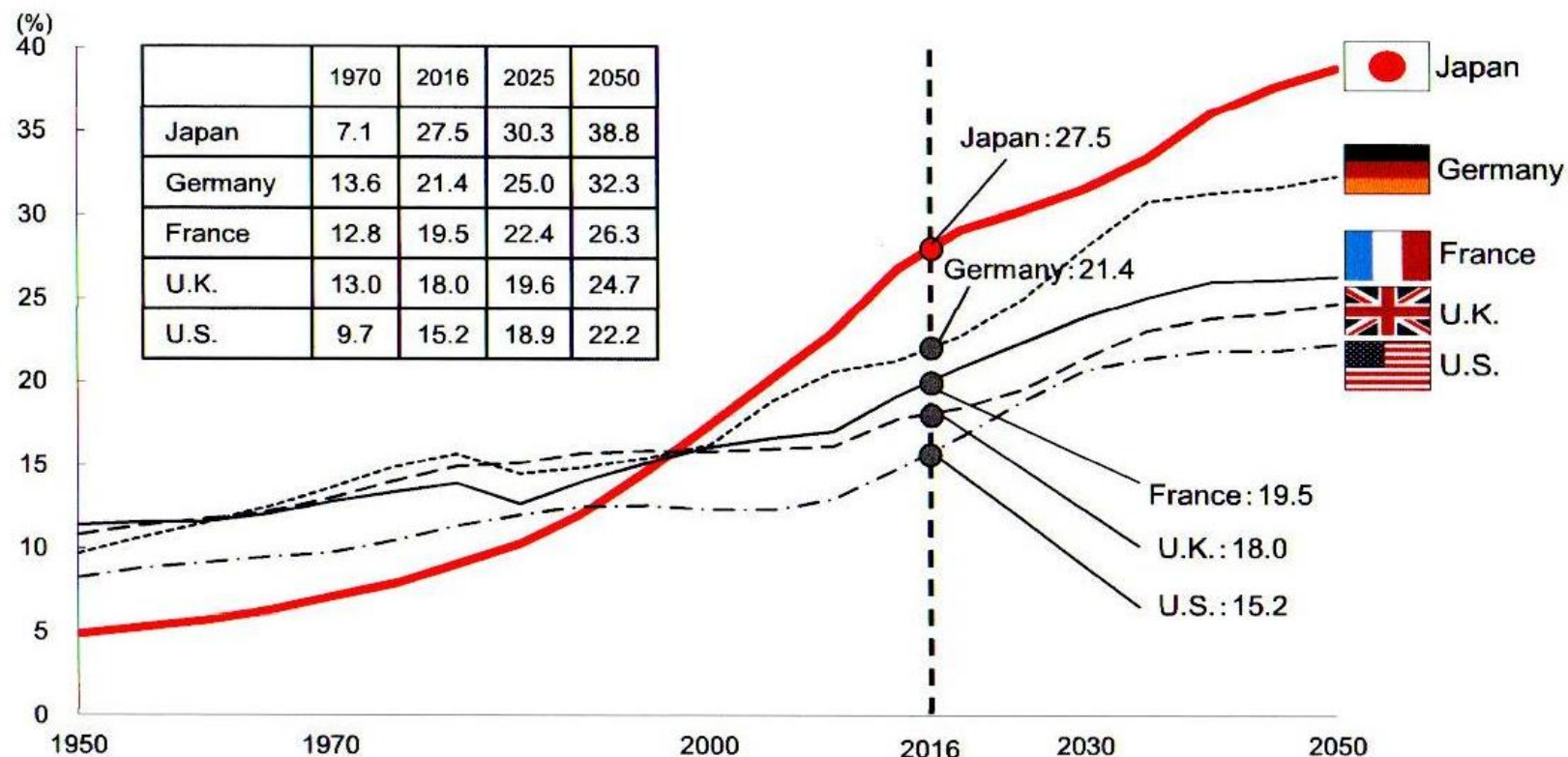
# Rapid Change in the Population Pyramid(1990, 2010, 55)

Change in the population pyramid (1990, 2010, 2055) - 2006 medium variant projection



# All Countries are Rapidly Aging

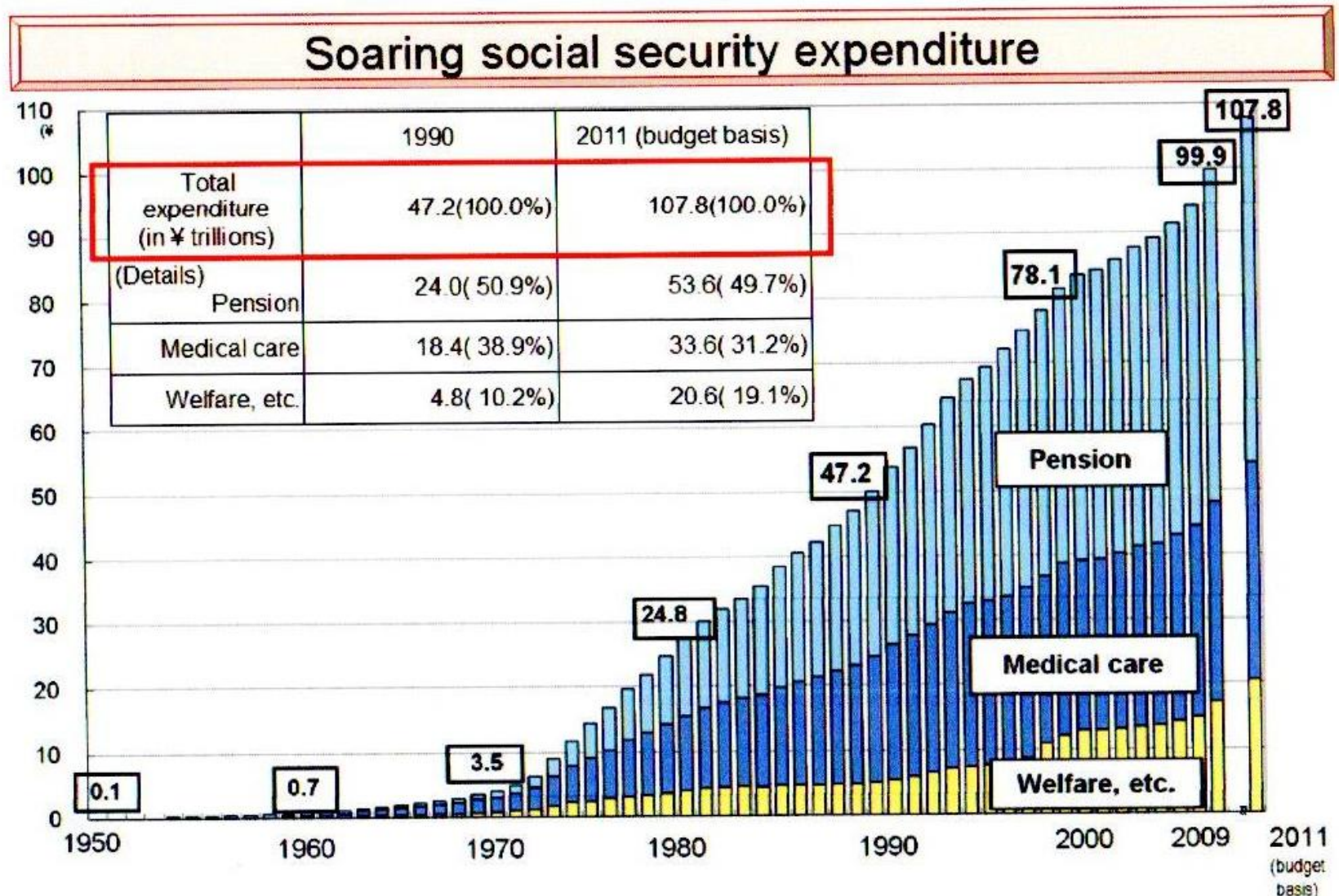
## International Comparison of Population Aging Rate



(Source) Japan 1950-2010: "National Census" (Ministry of Internal Affairs and Communications)  
 2011-2050: "Japanese Future Demographic Projections" (National Institute of Population and Social Security Research) (January, 2012)  
 Other countries: "World Population Prospects: the 2015 Revision" (United Nations)



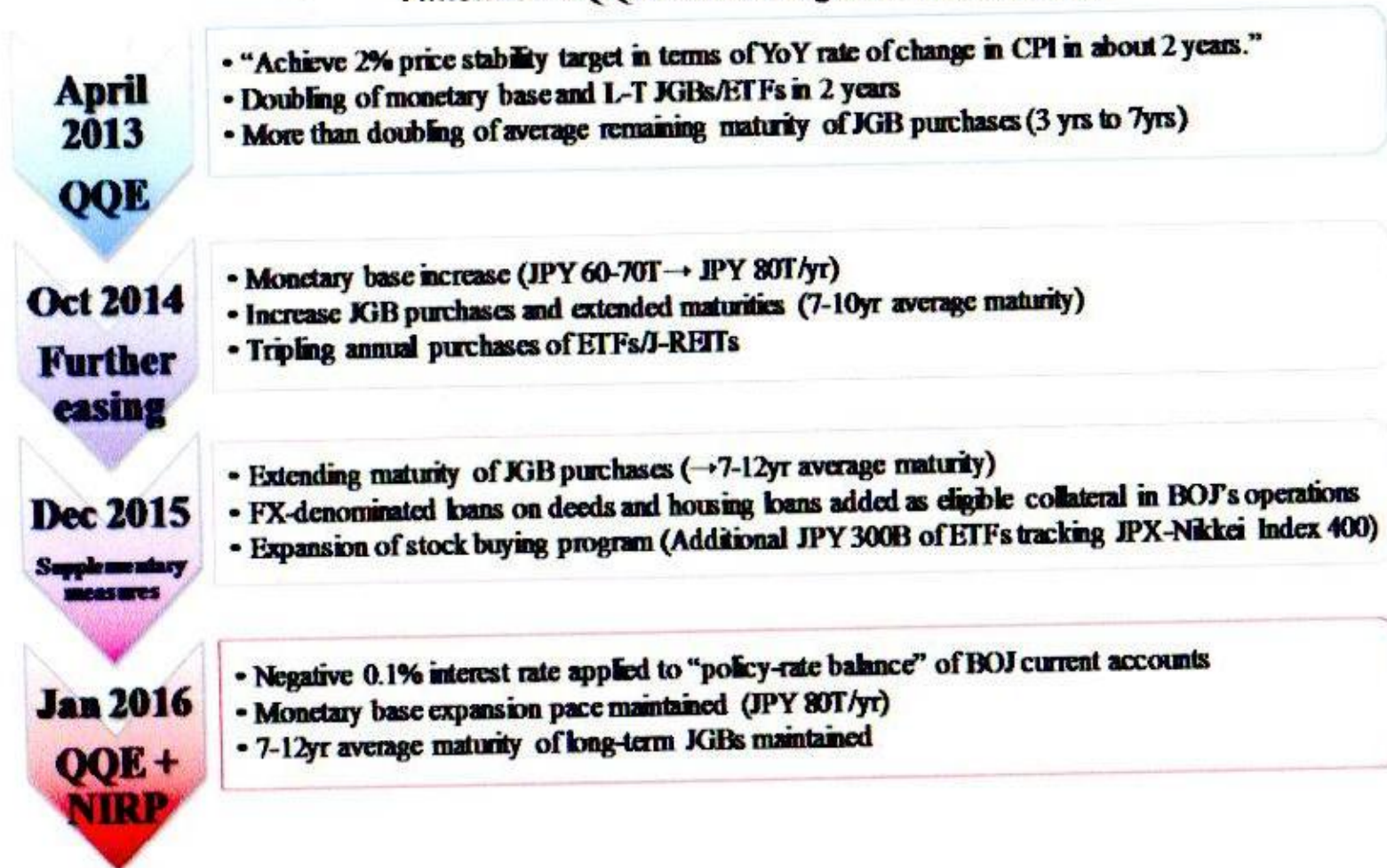
# Increasing Social Security Expenditure: Time is not a Friend





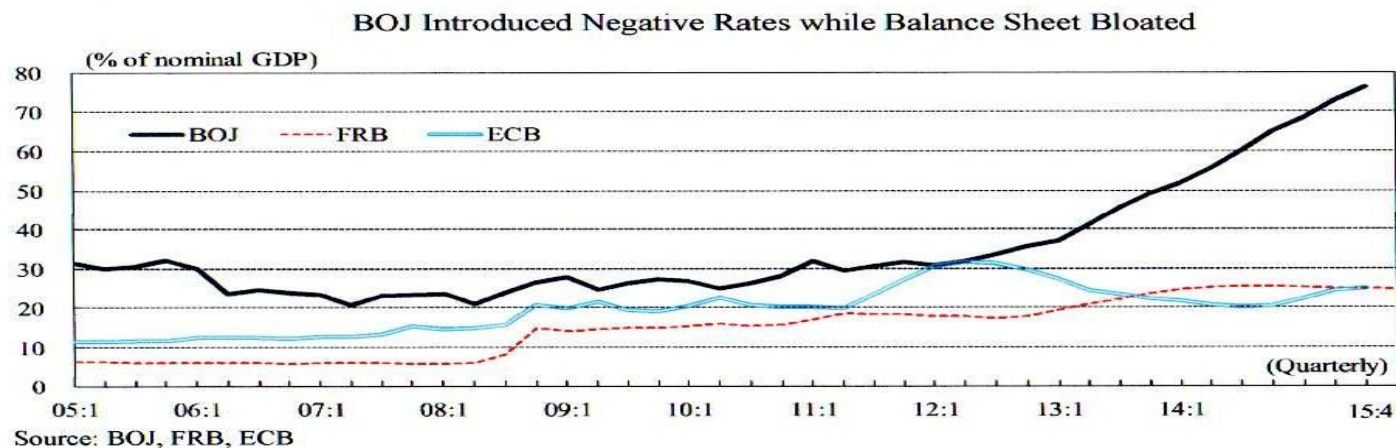
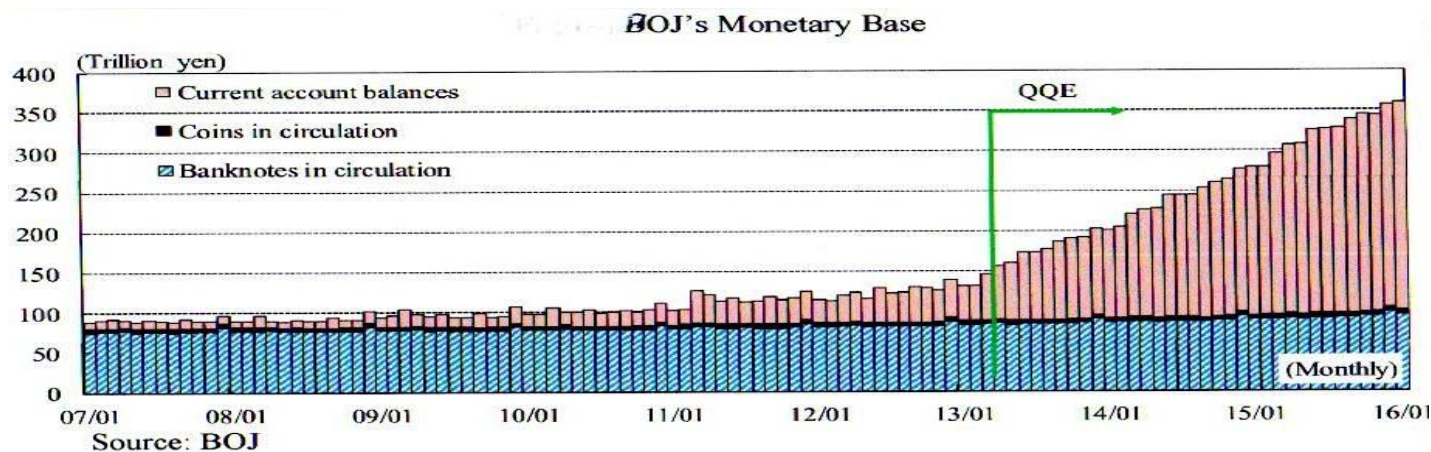
# Bank of Japan's QQE+Negative Interest Rate Policy

## Timeline to QQE with a Negative Interest Rate



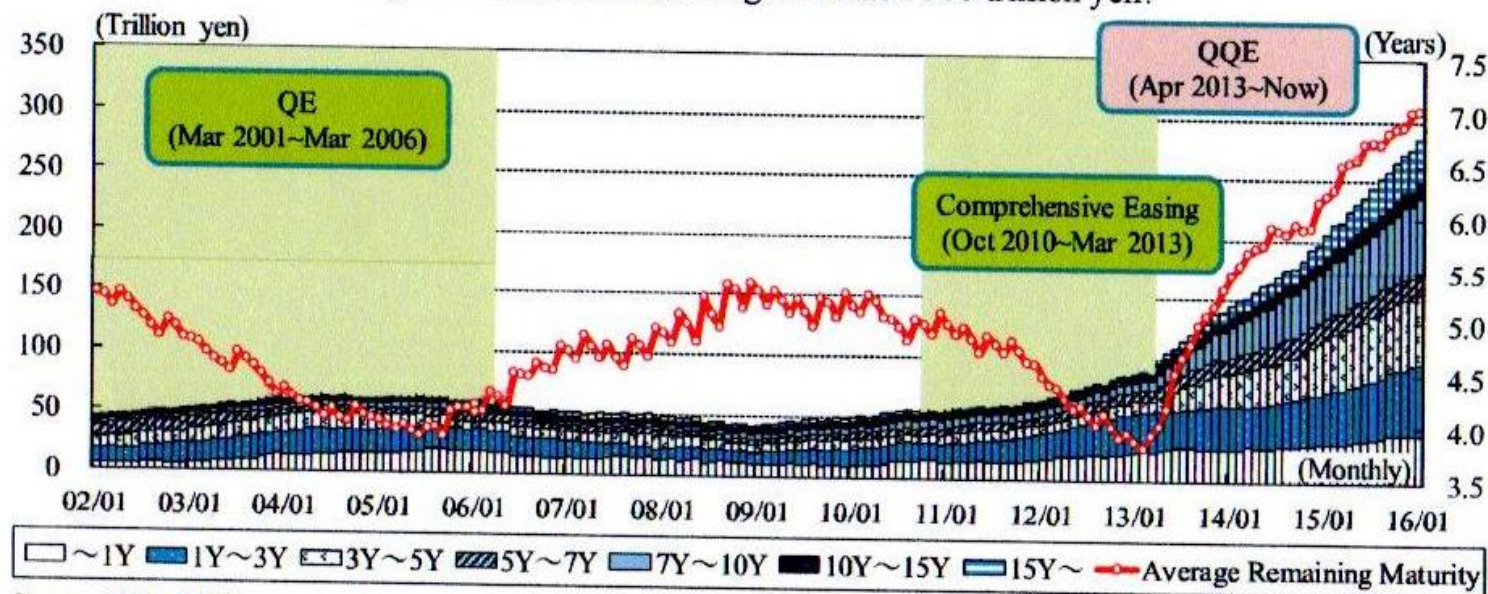
Source: BOJ

# BOJ's Monetary Base and Balance Sheet



# BOJ's JGB Holding Nearing to the Limit?

Fig.1-4 BOJ's JGB Holdings to Reach 300 trillion yen?



Source: BOJ, MOF



# Secular Stagnation? ① Interest rates Submerging

世界の金利の「水没」マップ(2016年6月13日)

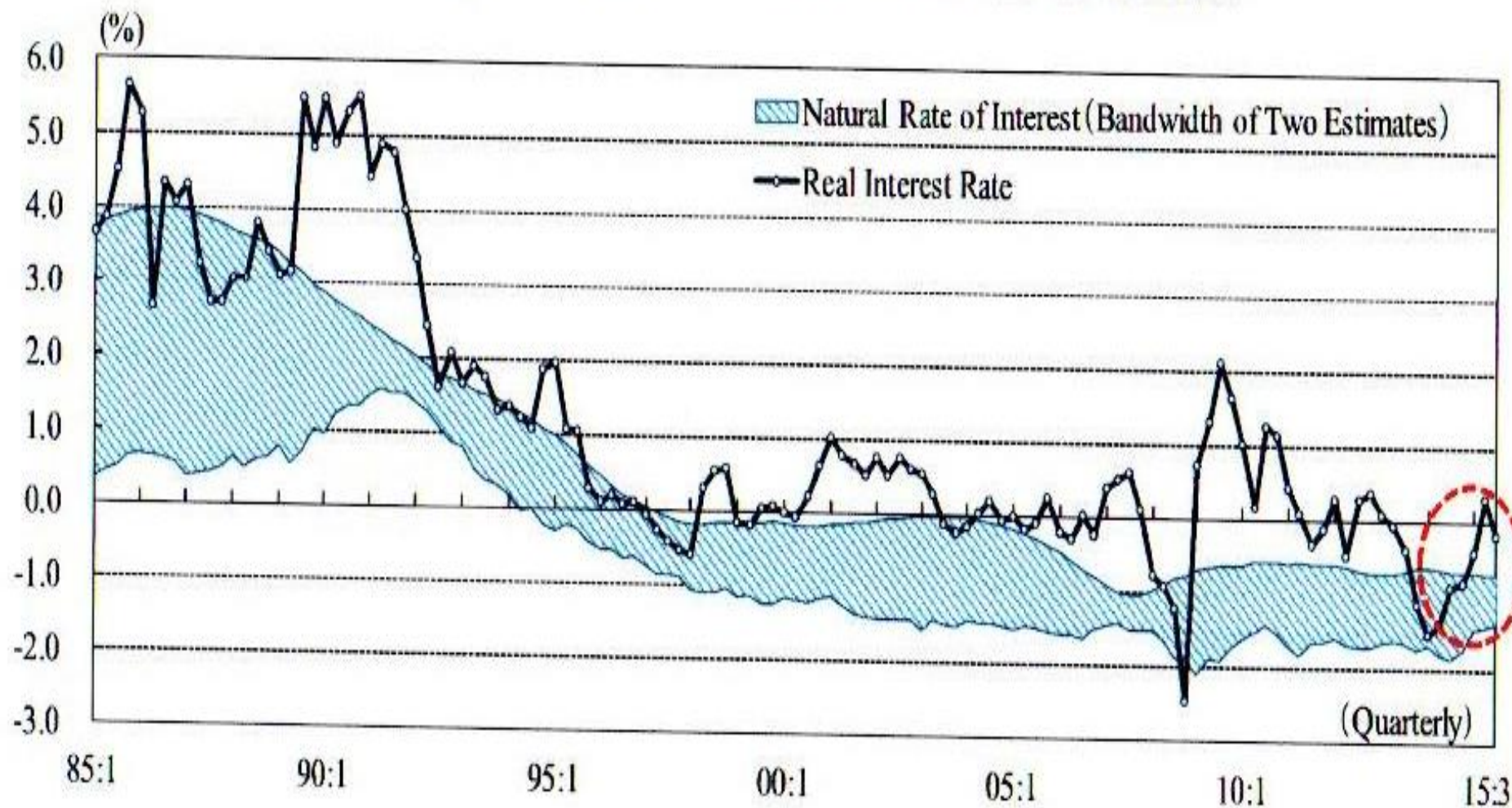
	1年	2年	3年	4年	5年	6年	7年	8年	9年	10年	11年	12年	13年	14年	15年	20年	30年	40年
スイス	-0.89	-0.93	-0.99	-0.95	-0.91	-0.82	-0.78	-0.64	-0.54	-0.47	-0.43	-0.39	-0.33	-0.27	-0.21	-0.09	0.06	0.09
日本 JPN	-0.26	-0.27	-0.25	-0.27	-0.27	-0.26	-0.27	-0.25	-0.21	-0.16	-0.13	-0.10	-0.07	-0.05	-0.02	0.18	0.25	0.29
ドイツ	-0.54	-0.55	-0.56	-0.52	-0.43	-0.39	-0.31	-0.23	-0.11	0.02	0.04	0.06	0.08	0.09	0.11	0.34	0.62	
オーストリア	-0.50	-0.50	-0.42	-0.41	-0.38	-0.19	-0.14	-0.06	0.09	0.23	0.25	0.26	0.28	0.30	0.32	0.56	1.06	
オランダ	-0.51	-0.48	-0.45	-0.42	-0.24	-0.22	-0.10	0.01	0.14	0.26	0.30	0.34	0.38	0.42	0.46	0.52	0.73	
デンマーク	-0.49	-0.44	-0.35	-0.26	-0.17	-0.11	-0.05	0.01	0.14	0.28	0.31	0.33	0.35	0.37	0.40	0.51	0.73	
フィンランド	-0.52	-0.46	-0.44	-0.32	-0.28	-0.11	-0.06	0.04	0.17	0.35	0.39	0.43	0.48	0.52	0.56	0.63	0.76	
スウェーデン	-0.50	-0.62	-0.58	-0.55	-0.36	-0.23	-0.11	0.09	0.17	0.26	0.34	0.41	0.48	0.56	0.63	1.00		
フランス F	-0.49	-0.44	-0.38	-0.31	-0.19	-0.13	-0.01	0.10	0.27	0.41	0.48	0.55	0.62	0.70	0.77	1.05	1.24	
イタリア	-0.09	0.00	0.06	0.26	0.49	0.68	0.88	1.09	1.29	1.46	1.52	1.58	1.65	1.71	1.78	2.10	2.50	
スペイン	-0.10	-0.01	0.08	0.33	0.54	0.59	0.82	1.17	1.32	1.50	1.58	1.65	1.73	1.81	1.88	2.14	2.66	
カナダ	0.54	0.49	0.48	0.54	0.56	0.69	0.80	0.89	1.00	1.11	1.18	1.24	1.31	1.37	1.44	1.76	1.79	
英国 UK	0.40	0.38	0.51	0.64	0.73	0.89	1.01	1.12	1.10	1.21	1.32	1.43	1.54	1.65	1.76	1.92	2.04	1.83
ポルトガル	0.07	0.62	1.24	1.71	2.02	2.26	2.49	2.96	3.04	3.22	3.31	3.40	3.48	3.57	3.66	3.97	4.17	
ノルウェー	0.50	0.51	0.52	0.63	0.75	0.83	0.92	0.99	1.09	1.15								
米国	0.53	0.71	0.84	0.98	1.13	1.27	1.41	1.47	1.54	1.61	1.65	1.69	1.73	1.77	1.81	2.02	2.43	
オーストラリア	1.64	1.63	1.58	1.65	1.72	1.82	1.91	2.00	2.06	2.10	2.15	2.20	2.24	2.29	2.34	2.69		
中国	2.35	2.46	2.59	2.75	2.89	2.91	2.93	2.94	2.95	2.96	3.00	3.05	3.09	3.14	3.18			
インド	7.02	7.10	7.22	7.34	7.48	7.61	7.64	7.64	7.70	7.52	7.83	7.86	7.74	7.80	7.79	7.77	7.88	



(資料) Bloomberg よりみずほ総合研究所作成

# Japan's Natural and Real Interest rate

Figure 5-5 Japan's Natural Rate of Interest and Real Interest Rate





## Environment and *Decoupling* ①

In 2011, the International Resource Panel, hosted by the UN Environment Programme (UNEP), warned that by 2050, the human race could devour 140 Billion tons of minerals, ores, fossil fuels and biomass per year—three times its current rates, unless nations can start *decoupling economic growth from the rate of natural resource consumption*.

In 2014, the same panel published a second report *Decoupling 2*, which highlights existing technological possibilities and opportunities for both developing and developed countries to accelerate *decoupling*.

*Decoupling* (Economic Goods vs. Environmental Bads)=OECD has made *decoupling* a major focus of its Environment Directorate (consequently having rates of increasing wealth greater than the rate of increasing inputs).



## *Decoupling* ②

Emission Control in Manufacturing has Dramatically Reduced Pollution

< Emission of sulfur oxides per unit electricity from thermal power plants>

Japan (2007) 0.2 Sox(kg/kwh)

Germany (2005) 0.7

Italy (2005) 0.8

UK (2005) 1.4

France (2005) 3.1

USA (2005) 3.3

Canada (2005) 3.4

\*Reproduced from “Sustainability Report 2009”, Tokyo Electric Power Company

# Doomsday coming? Tokyo only yesterday

Tokyo Only Yesterday 2





# Sense of Crisis can Change our Future

政策研究大学院大学  
NATIONAL GRADUATE INSTITUTE  
FOR POLICY STUDIES

GRIPS

## Japan---Only Yesterday 1 (Kita-Kyushu)



7



# Tokyo Today

政策研究大学院大学  
NATIONAL GRADUATE INSTITUTE  
FOR POLICY STUDIES

GRIPS

## Tokyo Today Reborn !



## *(Mis)leading Indicators?* We Need More Than GDP,GNP

- GDP, the king of contemporary economic indicators, is indeed has effectively become a proxy for national success or failure. GDP origins lie in the 1930s when US and UK struggled to respond to the *Great Depression*.
- Russian American economist Simon Kuzunets worked to build GNP (gross national product) and its successor , GDO(gross domestic product).

*GDP is and will be an important indicator. It, however, ignores a huge realm of economic activity of today and future. If a steel mill produces pollution that needs a clean up, both steel output and clean up cost add to GDP.*

*Conversely if conventional light bulbs are replaced by long lasting LED bulbs, efficiency gain would detract from GDP.*

## GDP Plus, or Super GDP?

*Stiglitz Report* 2008

UN *Inclusive Wealth Report* 2002 (IWR 2012)

Second Report (2014.12) focuses not annual growth rate( flow), but 4 types capital( level, quality)—human capital, capital produced, social capital and natural capital— as indicators of sustainability of economies.

*Human capital* =education, health, housing etc.

*Capital produced*=capital stock, public investment etc.

*Social capital*= trust in the society, mutual aid

*Natural capital*= natural resources, farmland area etc.

For *sustainable development*, *decoupling*, we do need a new and inclusive approach, international cooperation, interdisciplinary efforts.



Thank you very much.

Hoping better and higher quality of our society  
and global community.