Abenomics and Asian Economy

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Brookings Institute

Abenomics: 3 Arrows (by Prime Minister)

(1) Aggressive Monetary Policy--Inflation target

(2) Fiscal Consolidations

(3) Growth Strategy

Aggressive Monetary Policy

The government and the Bank of Japan (BOJ) announced the joint statement on overcoming deflation and achieving sustainable economic growth on January 22. The BOJ set the price stability target at 2 percent in terms of the year-on-year rate of change in the consumer price index. The government expects the BOJ to implement aggressive monetary easing to achieve this target at the earliest possible time.

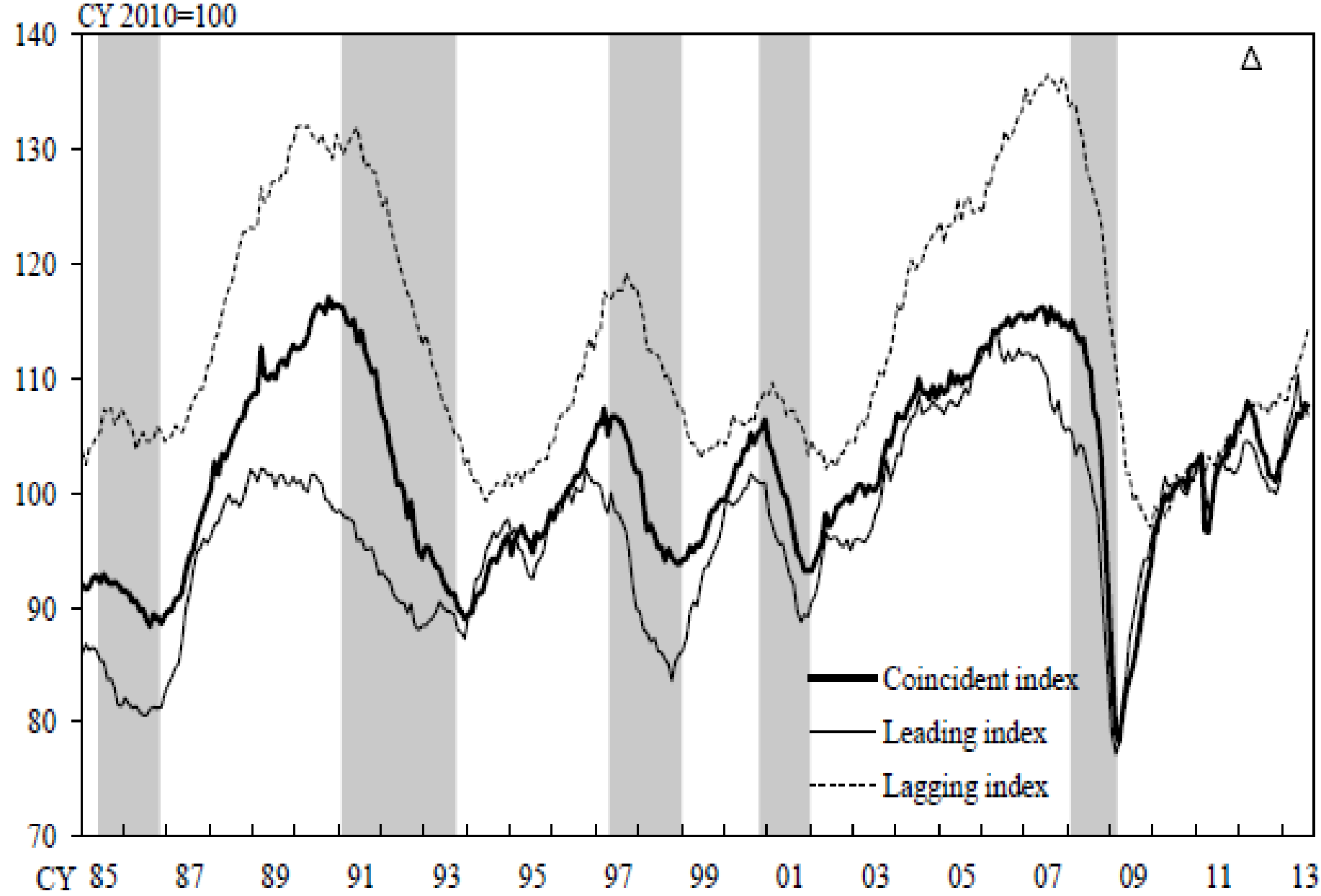
Fiscal Consolidation

As for fiscal policy, we will manage the short-term fiscal policy in a timely and flexible manner, while we note the importance of firmly expressing the political will to restore fiscal balance over the mid- and long-term. We also think it is necessary to stick to the current target of fiscal consolidation, which aims to cut the primary deficit of the central and local governments in half between FY2010 and FY2015 and to achieve fiscal surplus by FY2020. We will take a step towards fiscal consolidation from the FY 2013's budget.

Growth Strategy

Over the mid- and long-term, we will take measures to strengthen the competitiveness of the Japanese economy, to overcome energy constraints, and to enhance the innovation platform based on a well-defined growth strategy, while at the same time accelerating the removal of domestic institutional obstacles, including regulation.

(2) Indexes of Business Conditions (Composite Indexes)



Transmission of monetary policy

1, Inflation target --- 2% → Forward looking Policy

2, Continue quantitative easing (QE) policy

until inflation target of 2% is achieved

3, Expectations of general public changed drastically

4, Depreciation of Japanese yen

→ price of oil import rises

5, Increase of stock price by overseas' investors

6, NISA (Nippon Individual Savings Account)

→ Tax exemption up to 1 million yen to stock invest

1 ”International Rules” → Weakness of Japan

1988 International rule of Capital requirement

All the countries should follow 8% rule

Table 1. Estimates of Optimal Minimum Capital Requirement Ratios for Japan, United States and Canada

(1) Japan	
$\theta^* = -2.20\%$	1998 Q1 - 2008 Q4
(2) USA	
$\theta^* = +4.42\%$	2002 Q4 - 2007 Q4
$\theta^* = -1.116\%$	2001 Q1 - 2002 Q4
(3) Canada	
$\theta^* = +0.37\%$	2003 Q1 - 2004 Q4
$\theta^* = +0.96\%$	2006 Q1 - 2007 Q4

2、Monetary policy can recover Japan

Paul Krugman（Liquidity trap of Japan）

3、China’s exchange Rate

——＞Basket currency System

4、Information Collection by Japanese

Financial Institutions

5, EURO Region

Transfer system must be build in

Banking Union, Deposit Insurance System

Global Asset Management

1, Political Situation

2, Monetary policy of various countries

→ Changes in Capital flows in various region

3, Causes of Bubbles

→ Too much liquidity

4, See the world from the top

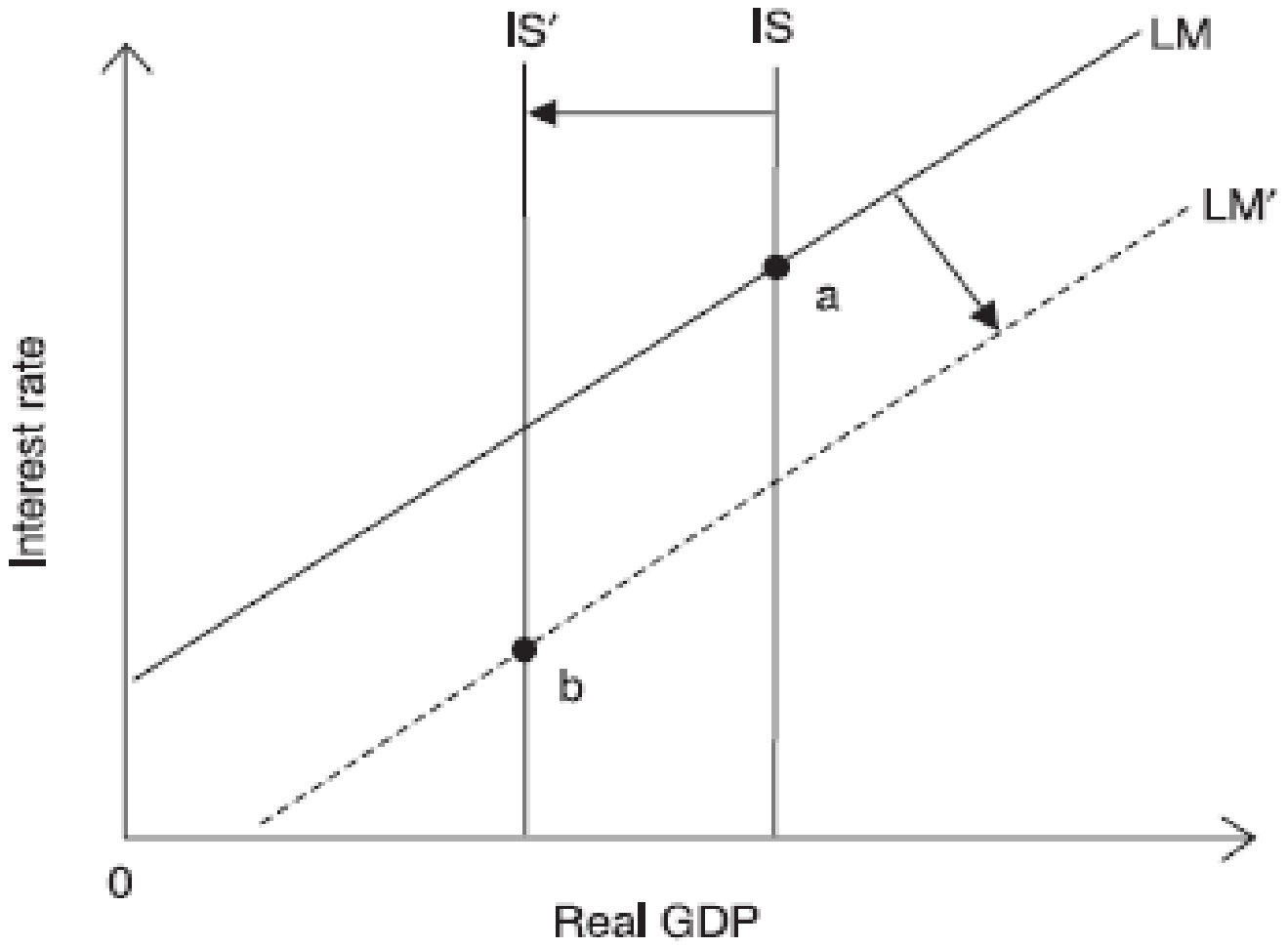
5, Global regional aspects, Country, Sector, Company

6, Visit the country and see by your eyes

7, Know the people in the region

Liquidity Trap（bond yield, short term r）
University of Hong Kong, Macroeconomics

Figure 1. The ineffectiveness of monetary policy



Prime Minister Abe's Policy

Three Arrows

1, Monetary Policy → Inflation target 2%

Exchange rate → External factors (US, EURO)

2, Fiscal Consolidation → G and T simultaneous

3, Growth Strategy

3-1, Reduction of corporate tax rate

3-2, Enhance competition from abroad

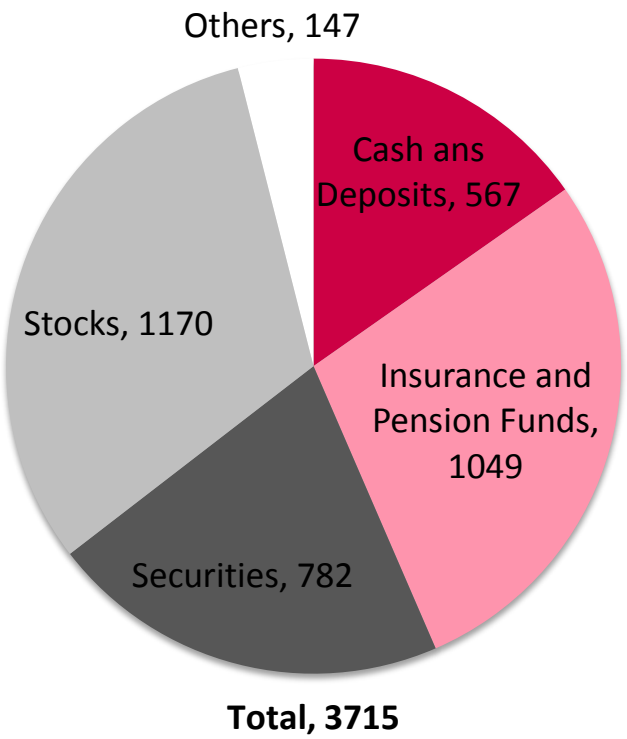
3-3, Female participation in labor force

3-4, Utilize old people with robot

Households' Asset Allocation

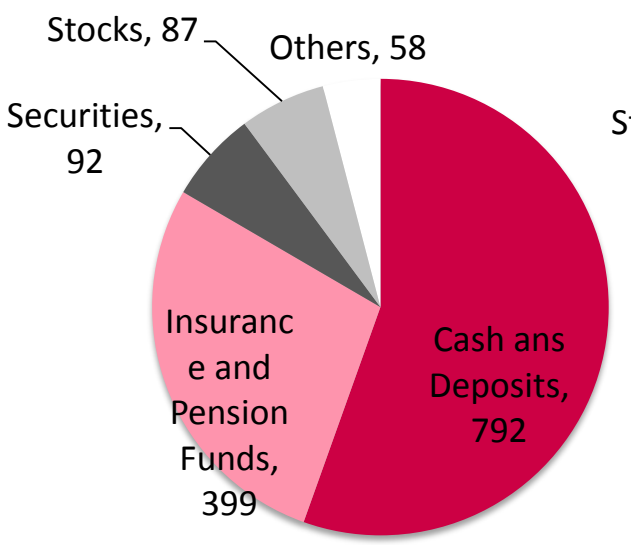
***Hometown Investment Trust Funds*, 2013, Yoshino and Kaji, Springer**

USA



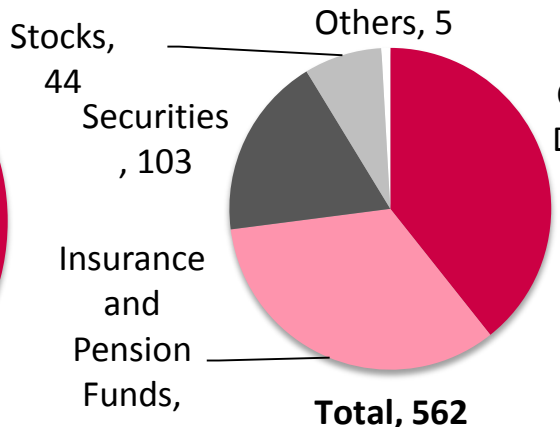
Total, 3715

Japan



Total, 1428

Germany

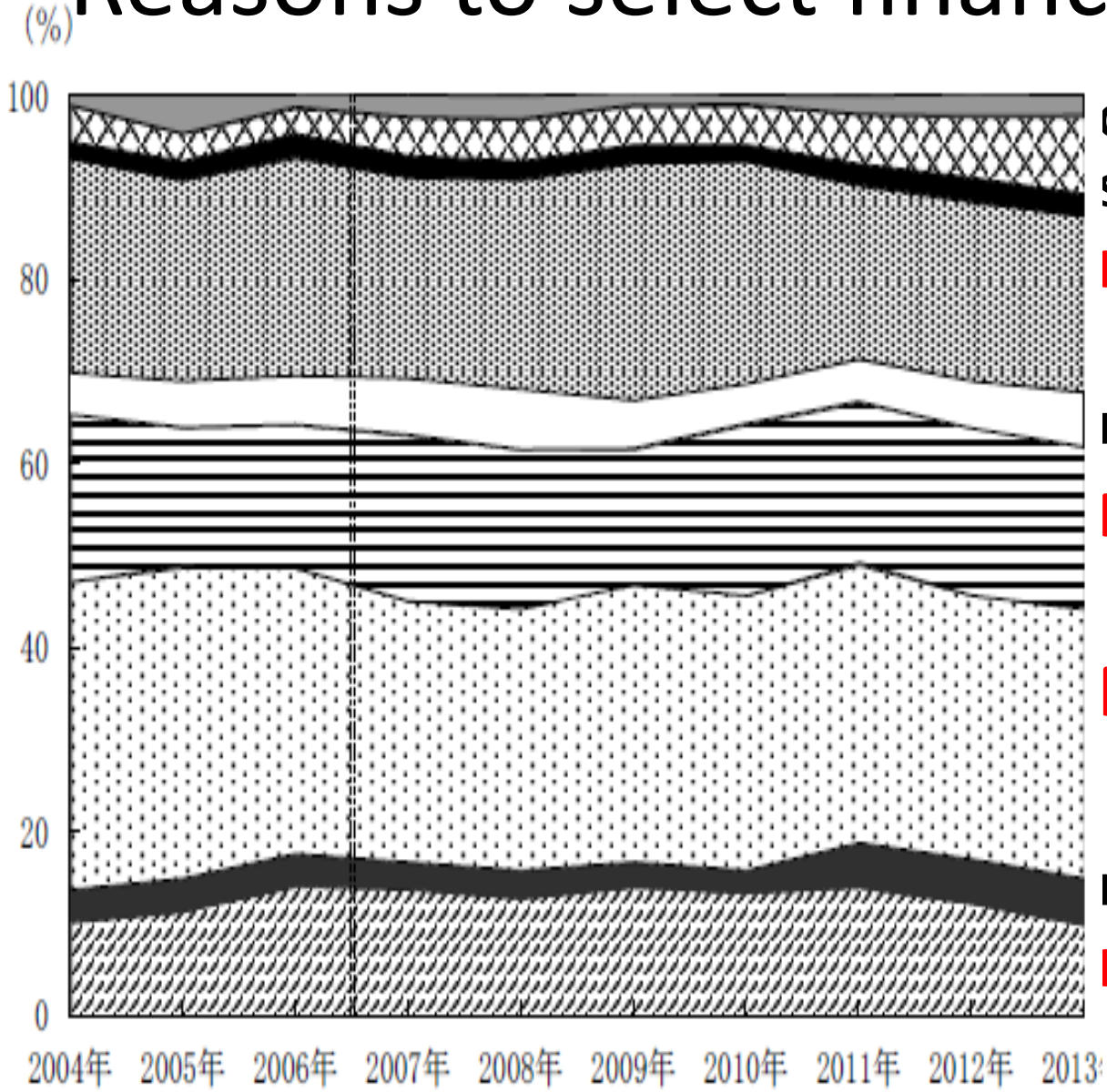


Total, 562

Financial Assets by Age

	Deposits	Insurance	Securities	Others	Total
Average	635	303	179	52	1169
20years	266	26	40	10	342
30years	298	122	77	40	537
40years	355	241	85	62	743
50years	533	344	126	65	1068
60years	811	409	276	43	1539
70years	1035	333	287	52	1707

Reasons to select financial institution



Others

Simple Financial Products

Easy withdrawal and easy to make deposits

Easy to change to cash (Liquid)

Reliability and Safety

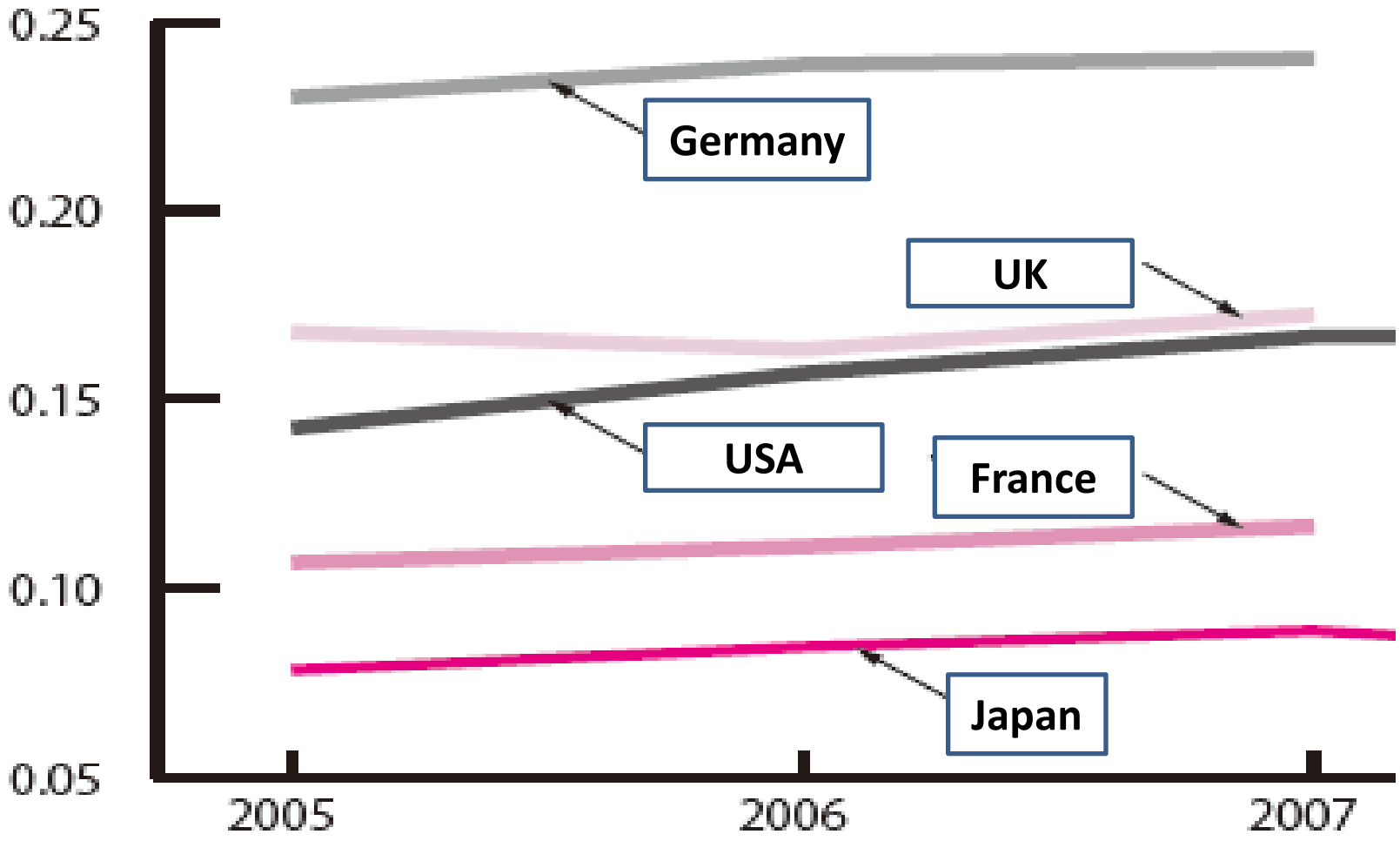
Principal Guaranteed

Expected High Rate of Return

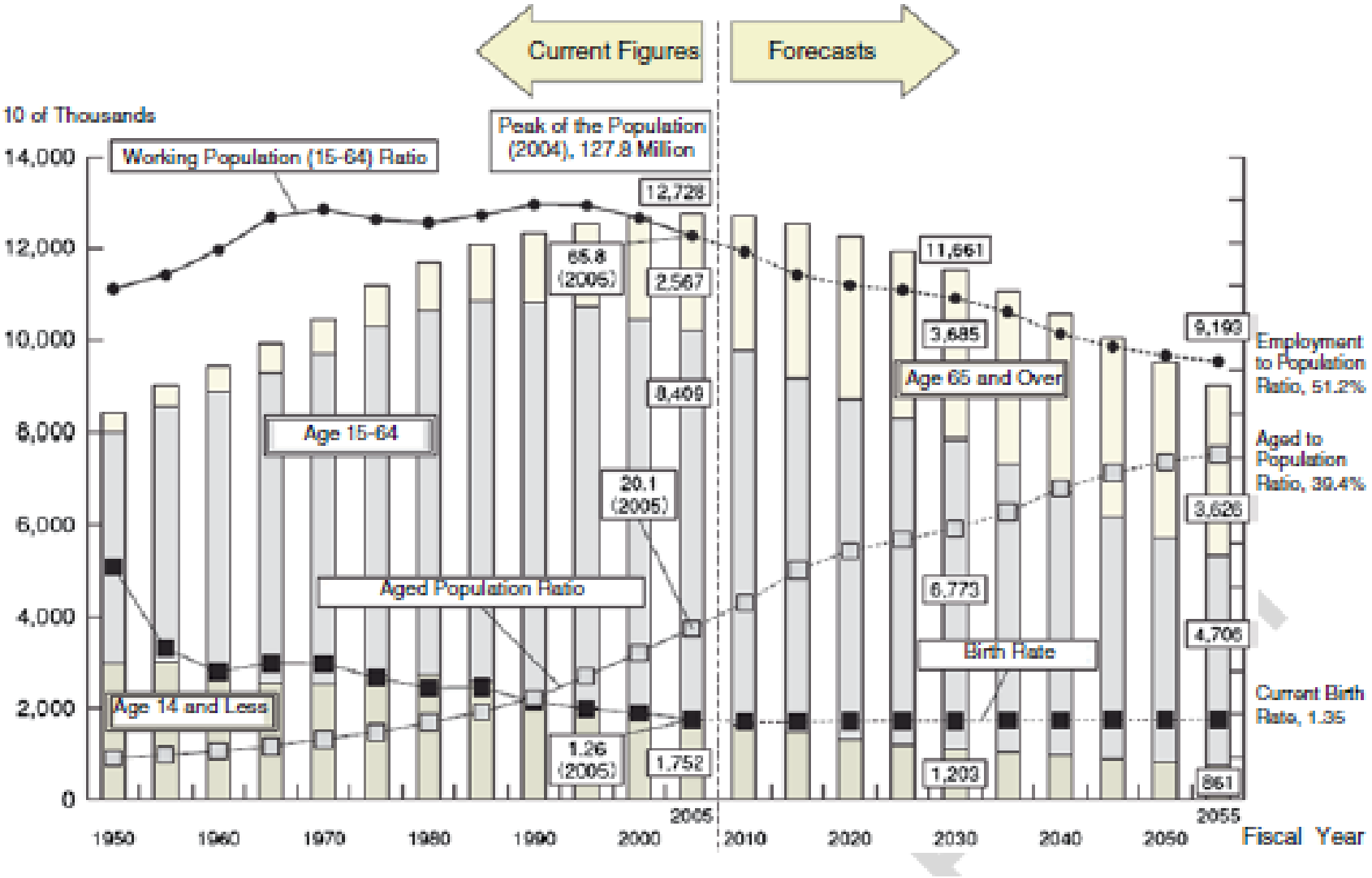
High Rate of Return

(Dividends & Interest receipt)/(Income)

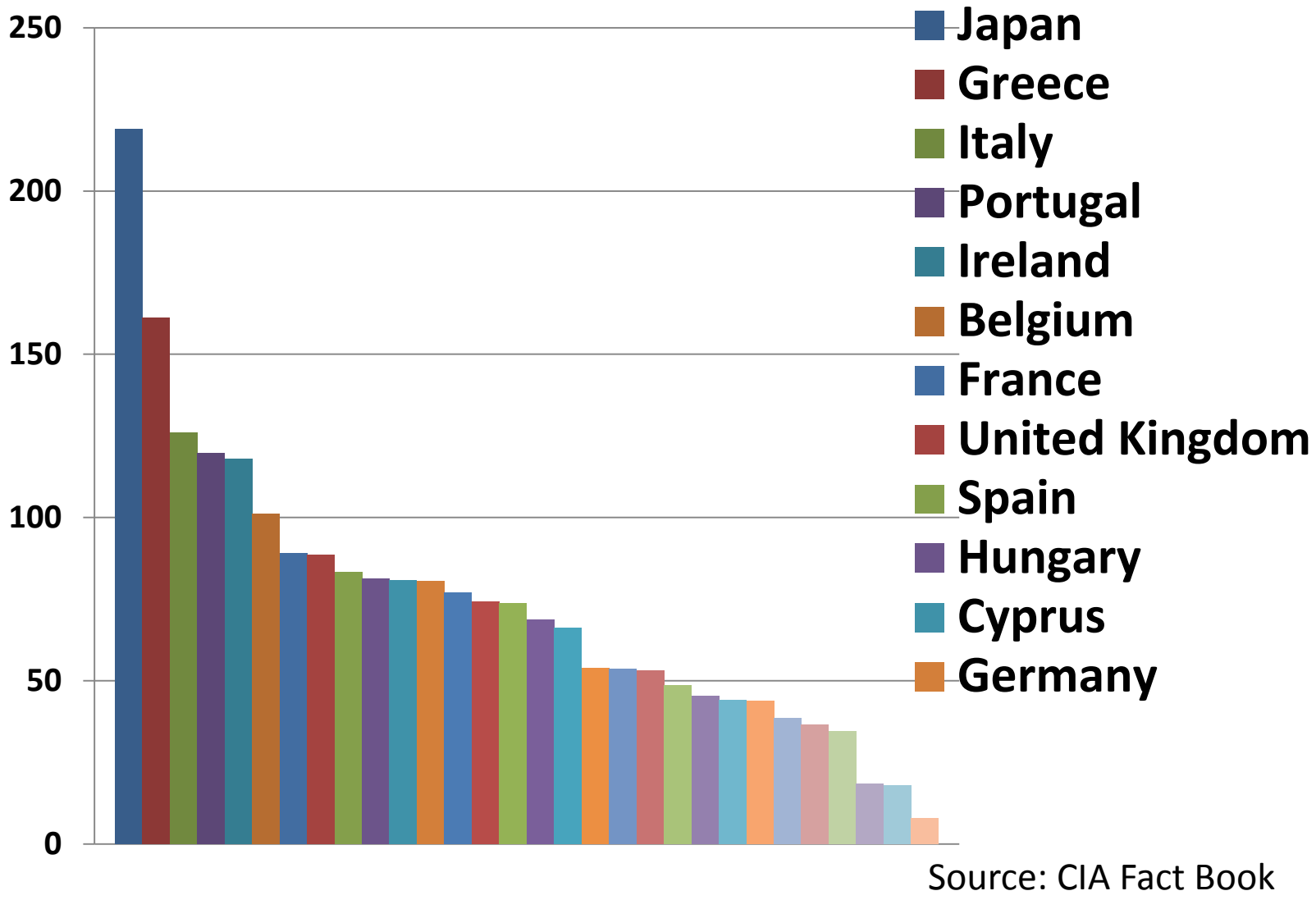
Yoshino & Kaji (2013) *Hometown Investment Trust Funds*, Springer



Population Ageing of Japan

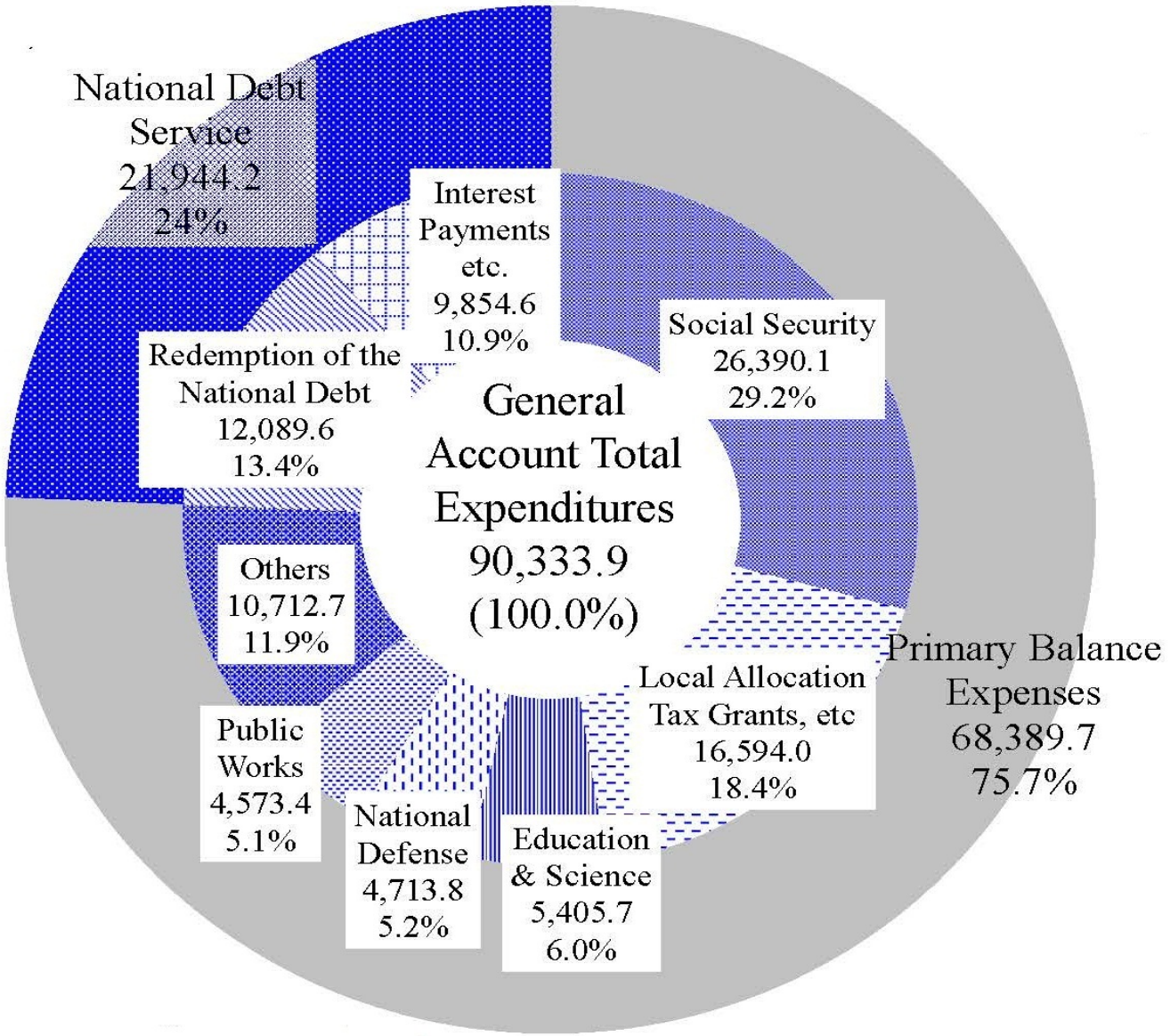


Gross Debt/GDP Ratio, Japan, USA, EU



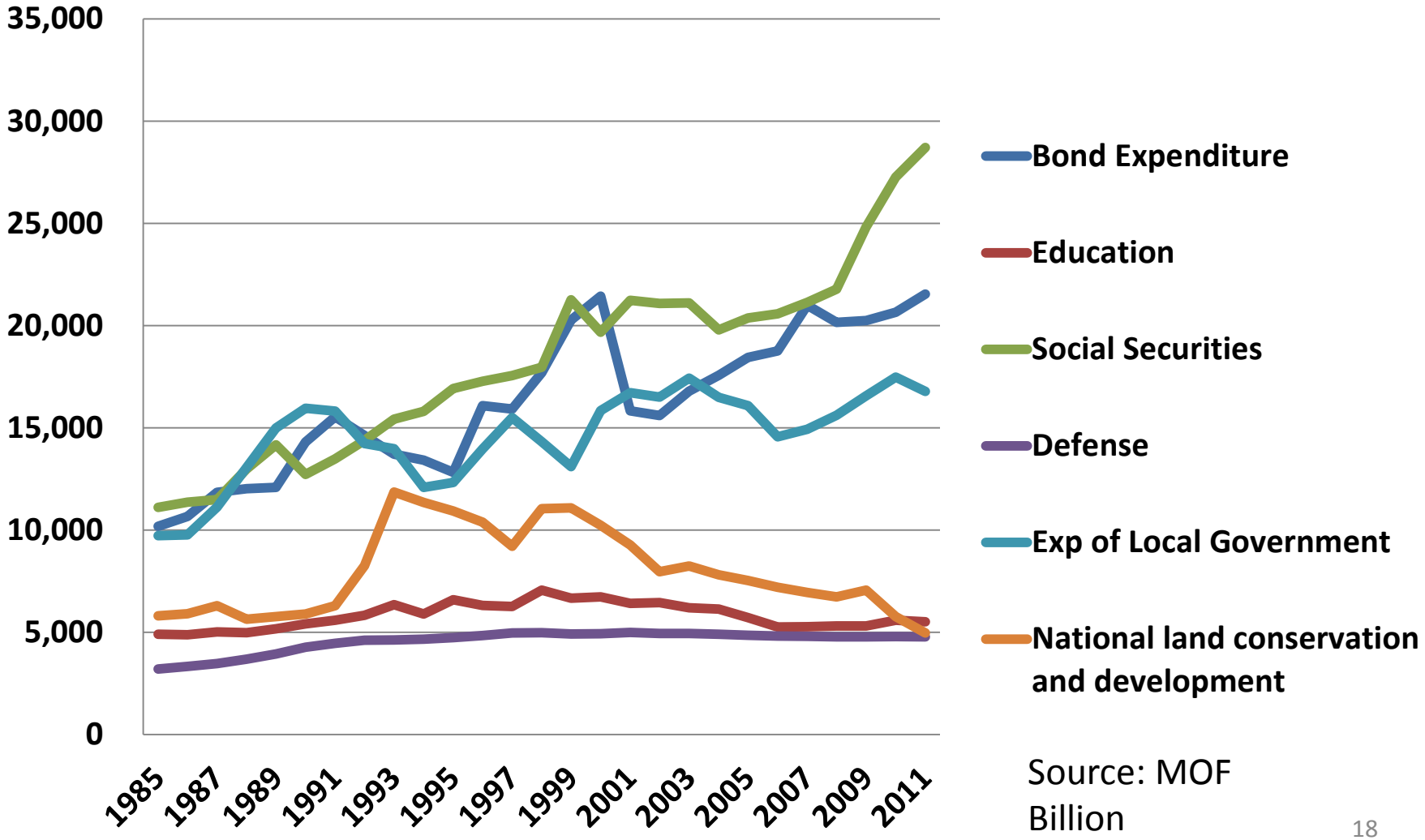
Source: CIA Fact Book

FY 2012 Initial Budget (Japan)



Source: MOF

Budget Allocation of Central Government (Japan, 1985-2011)



Source: MOF
Billion

Japanese Debt, 92% are held by Domestic Investors

HOLDERS	%
Banks and Postal Savings	45%
Life and Non-life Insurances	20%
Public Pension funds	10%
Private Pension Funds	4%
Central Bank of Japan	8%
Overseas' Investors	8%
Households	5%
Others	3%

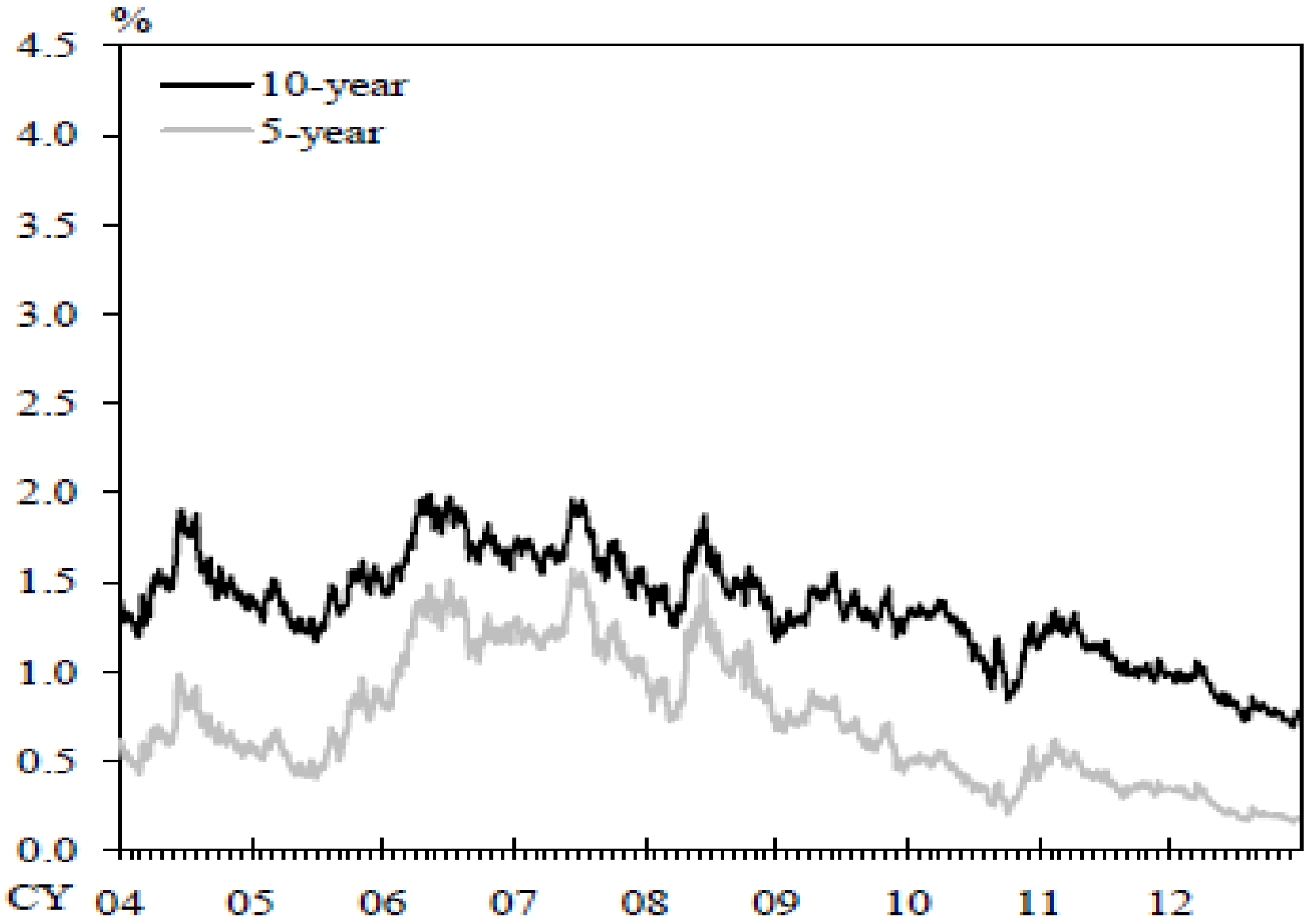
Source: MOF

Greece, 80% of their debts are held by overseas' Investors (2011)

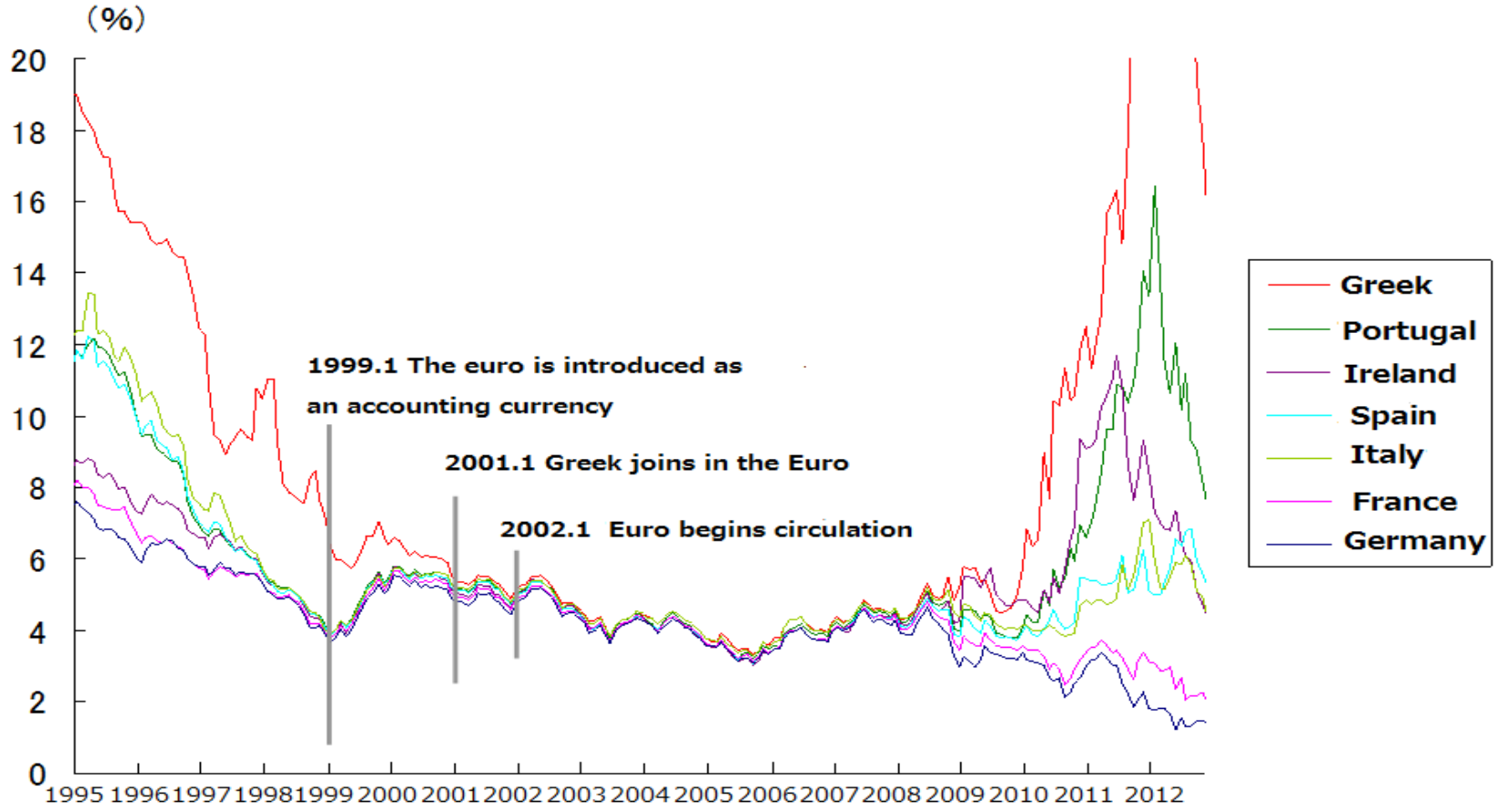
HOLDERS	%
Eurozone	15%
ECB	15%
IMF	6%
Greek banks & non-banks	23%
Other European Banks	10%
Non European Banks	8%
Non-Greek non-Banks	23%

Source : Financial Times

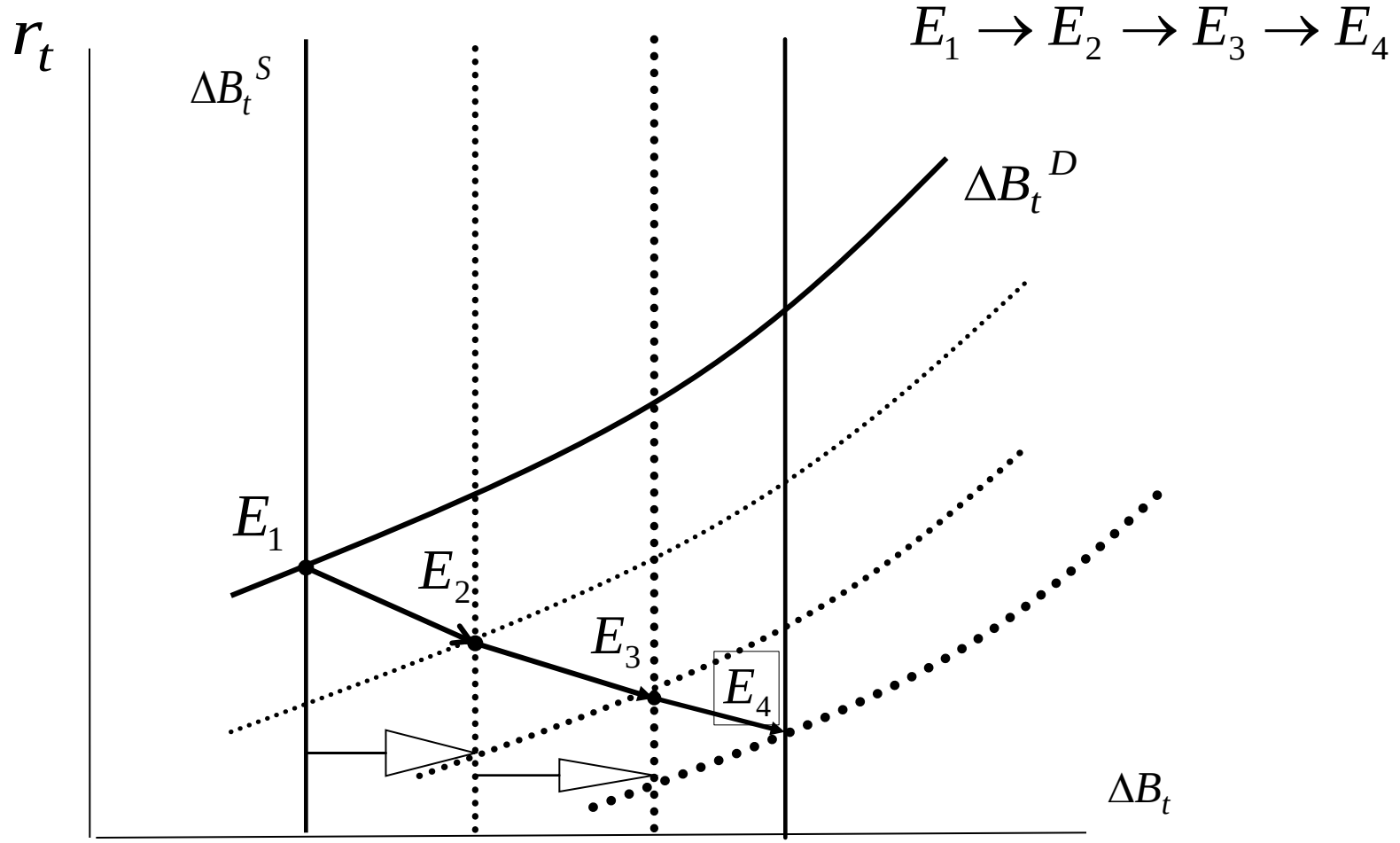
(1) Japanese Government Bond Yields[1]



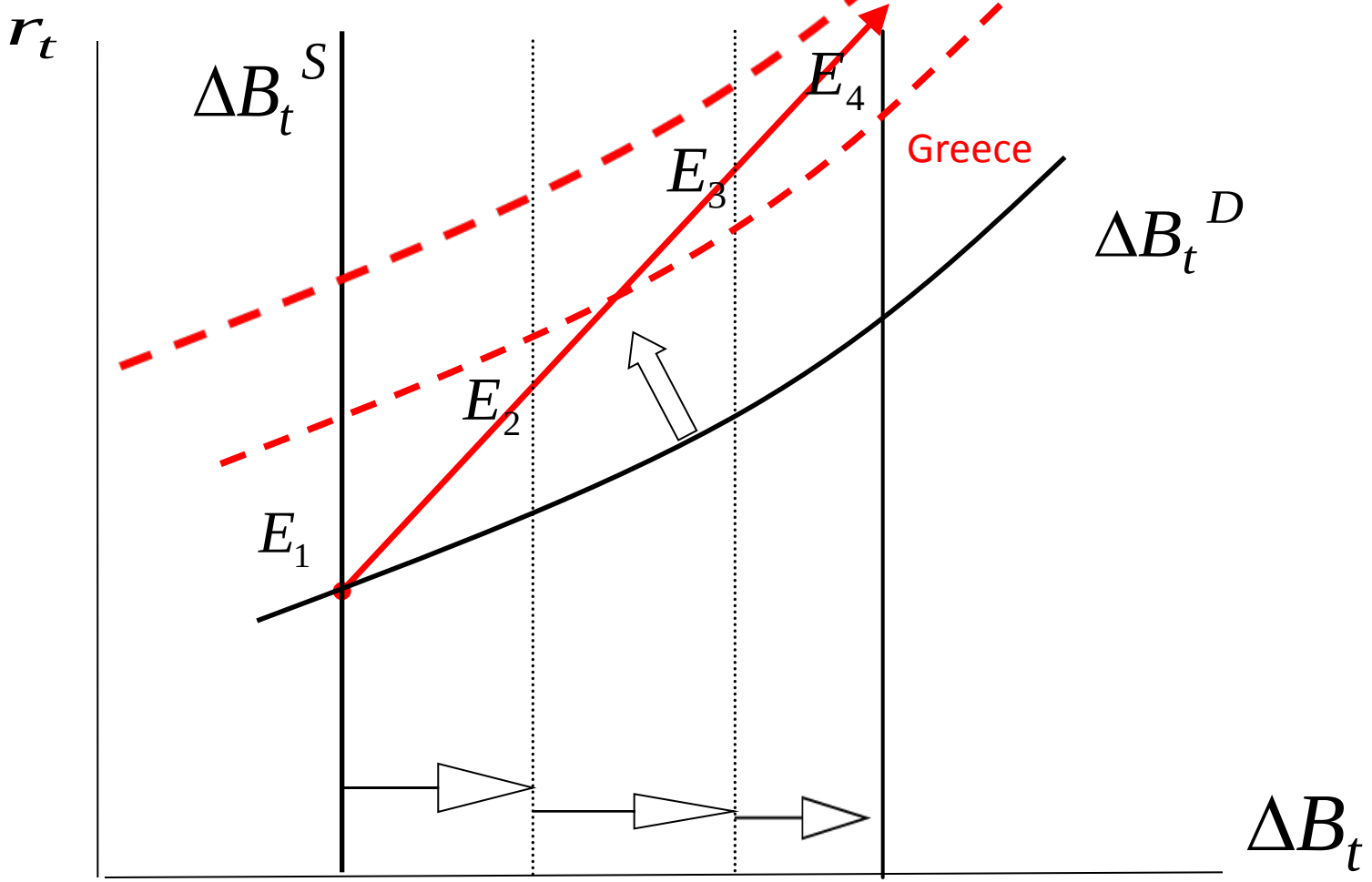
Government long-term bond yield (Eurozone)



Japan's Supply and Demand for Bonds



Greece Supply and Demand for Government bonds

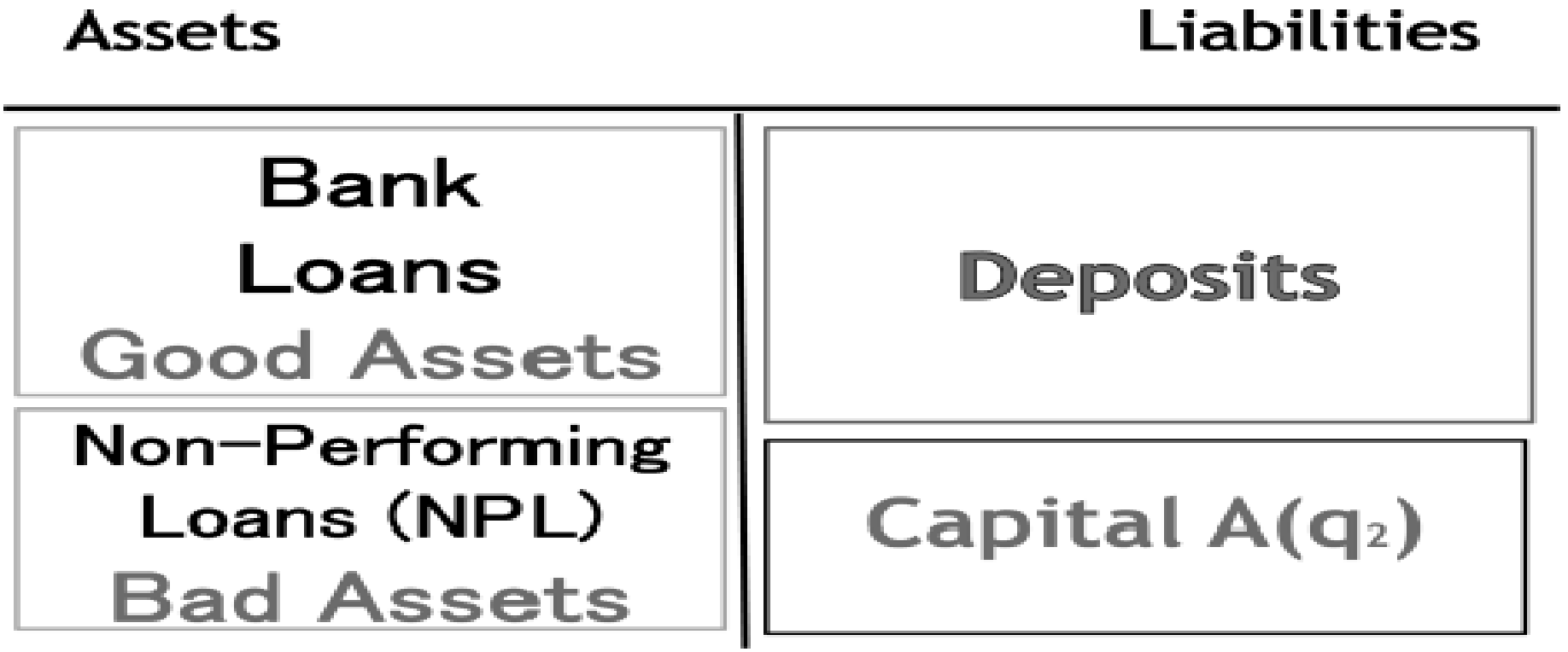


$$E_1 \rightarrow E_2 \rightarrow E_3 \rightarrow E_4$$

Revankar N. and Yoshino, N., (2008) "An Empirical Analysis of Japanese Banking Behavior in a Period of Financial Instability," *Keio Economic Studies*, Vol.45 No.1.

Yoshino, Naoyuki and Tomohiro Hirano (2011) "Pro-cyclicality of the Basel Capital Requirement Ratio and Its Impact on Banks " (*Asian Economic Papers, MIT Press, Vol.10,No.2)*).

Figure 1. Bank's balance sheet



Capital Requirements for banks and Credit Crunch of Japan

1, Each country should have different capital requirement ratio for banks

2, Capital requirement ratio should vary whether in boom or in recession

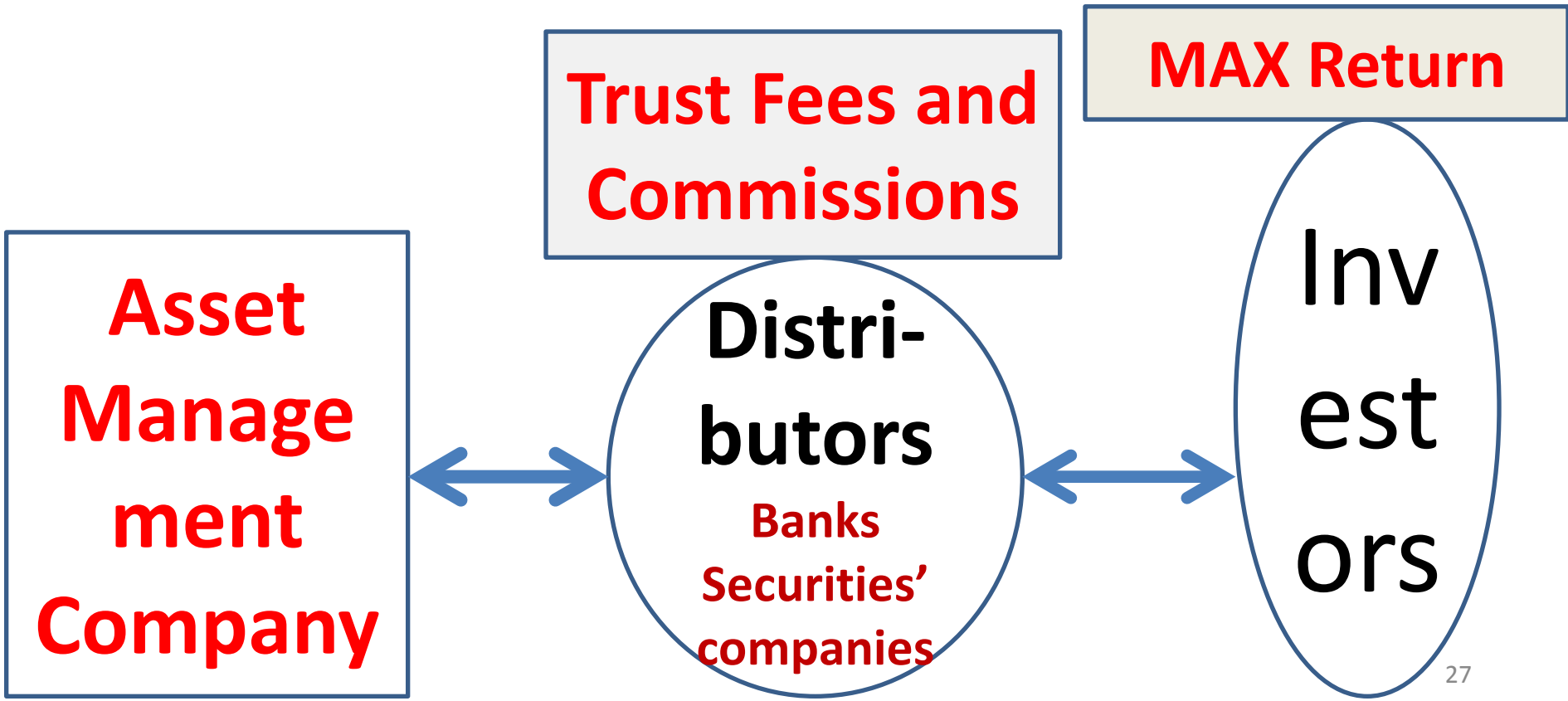
3, Economic structures are different from country to county

4, Comparison of Japan US and Canada

Fees and Commissions of Distributors

1Maximize Fee and Commissions (Distributors)

2Trust Fees & Commissions= α（Principal＋Dividend)



Pension Funds' Asset Allocation in Japan

Long-term Investment & Self Responsibility

1、Lack of long term asset management

rotates every 2 -3 years

Lack of corporate bond market

2, Life Insurance and Pension funds

Defined Benefits of Japanese Public Pension

few ratio of 401 K

Self Responsibility for Asset Allocation

3, Mainly Invest into Government Bonds

Safety and Principal Guaranteed

Compensation & Bonus System of Japan Conservative Asset Management

1、Even if earnings would be very high

→ bonus is small

2、Fail in Asset management compared with others

→ Criticized

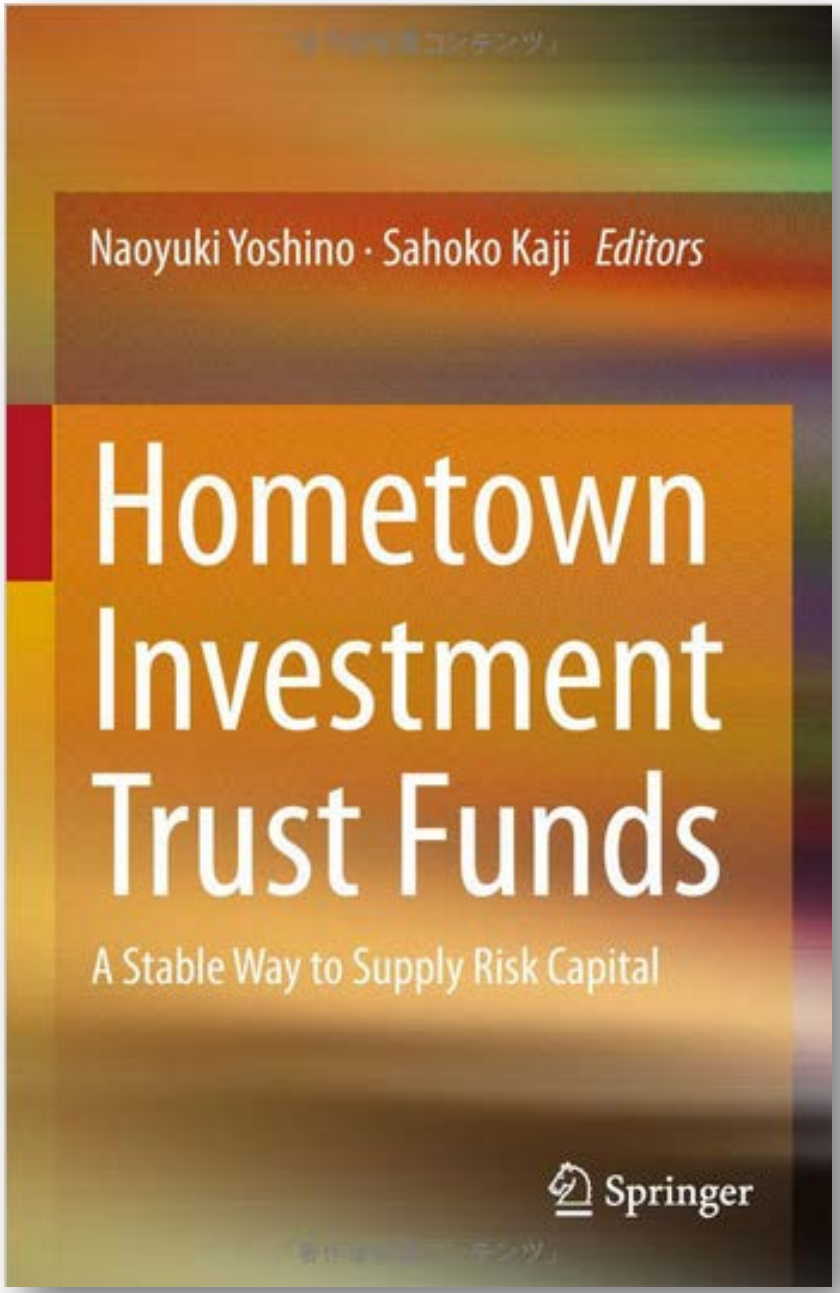
3、If everybody performs poorly, no punishment

→Avoid Risks

→Refer to Benchmark

→Does not seek for higher rate of return

4, Performance based salary → US case



Home town Investment Trust Funds

A Stable Way to Supply Risk Capital (i.e. knowledge base companies)

Naoyuki YOSHINO
Sahoko KAJI

Examples of Hometown Trust Funds Internet sales in Japan; E-fund

1, Solar Power

2, Wind Power

3, Agricultural fund

4, Green fund, Forest fund

5, Small business fund

Tōhoku Earthquake and Tsunami Fund

Fishing Boat Trust Fund


おひさま発電所
「さんぽちゃん1号」
明
星

Agricultural Funds

Beans and Wine

Donation and Investment to the community

Small Business Fund

Hometown Investment Trust Funds

(1) Community Projects

Wind Power Generator Funds

Japanese Wine (=Sake) Fund

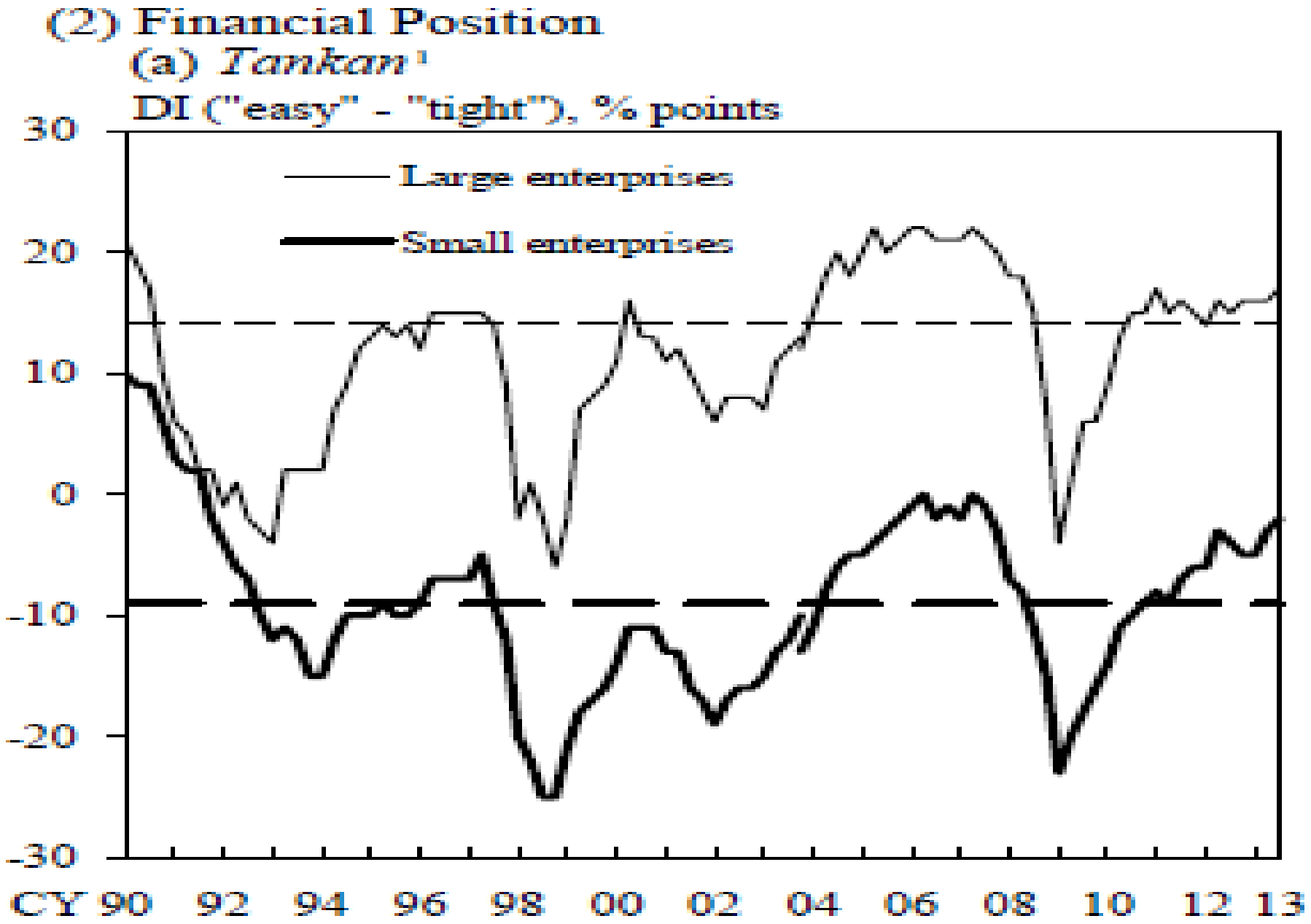
SME Hometown Trust Fund

Local Airport

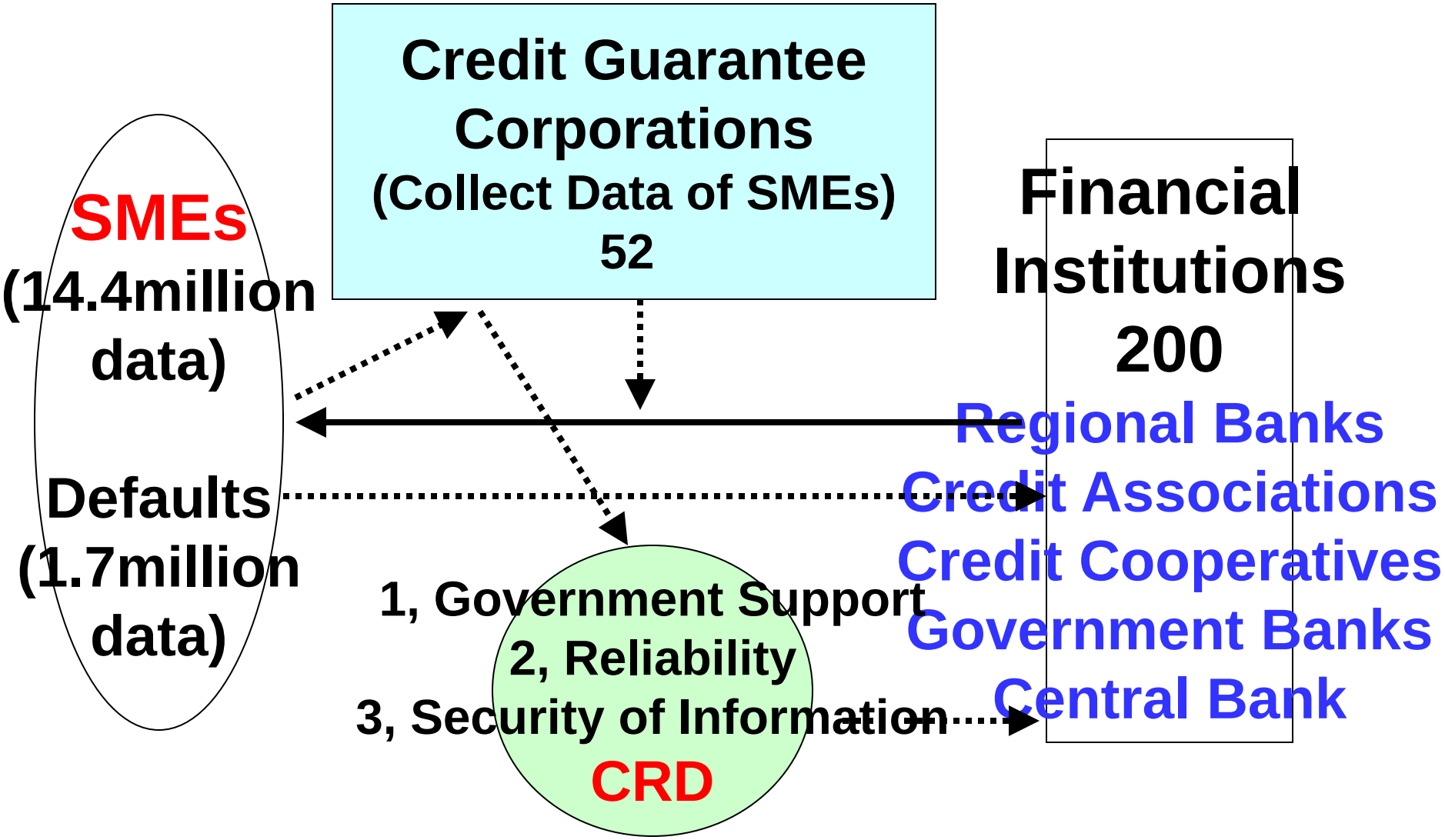
Agricultural Funds

(2) Large Projects by Professional Investors

Pension Funds, Insurance companies


(2) Financial Position
(a) Tankan [1]
DI ("easy" - "tight"), % points
Large enterprises
Small enterprises
30
20
10
0
-10
-20
-30
CY 90
92
94
96
98
00
02
04
06
08
10
12
13

SME Data base (CRD Data base)



CRD database for SMEs

1, Huge number of SME database

2, Nationwide balanced data

3, Default risk ratio can be computed

4, Continuous improvement of default estimates

5, CRD is a private company

6, Venture capital market is not easy to develop in Asian countries

Structural Reform by PM Abe

1, Corporate tax rate

2, Promote Asset Management business

3, Ageing Population

Post pone retirement age

Productivity based wage rate

4, Female participation in labor force

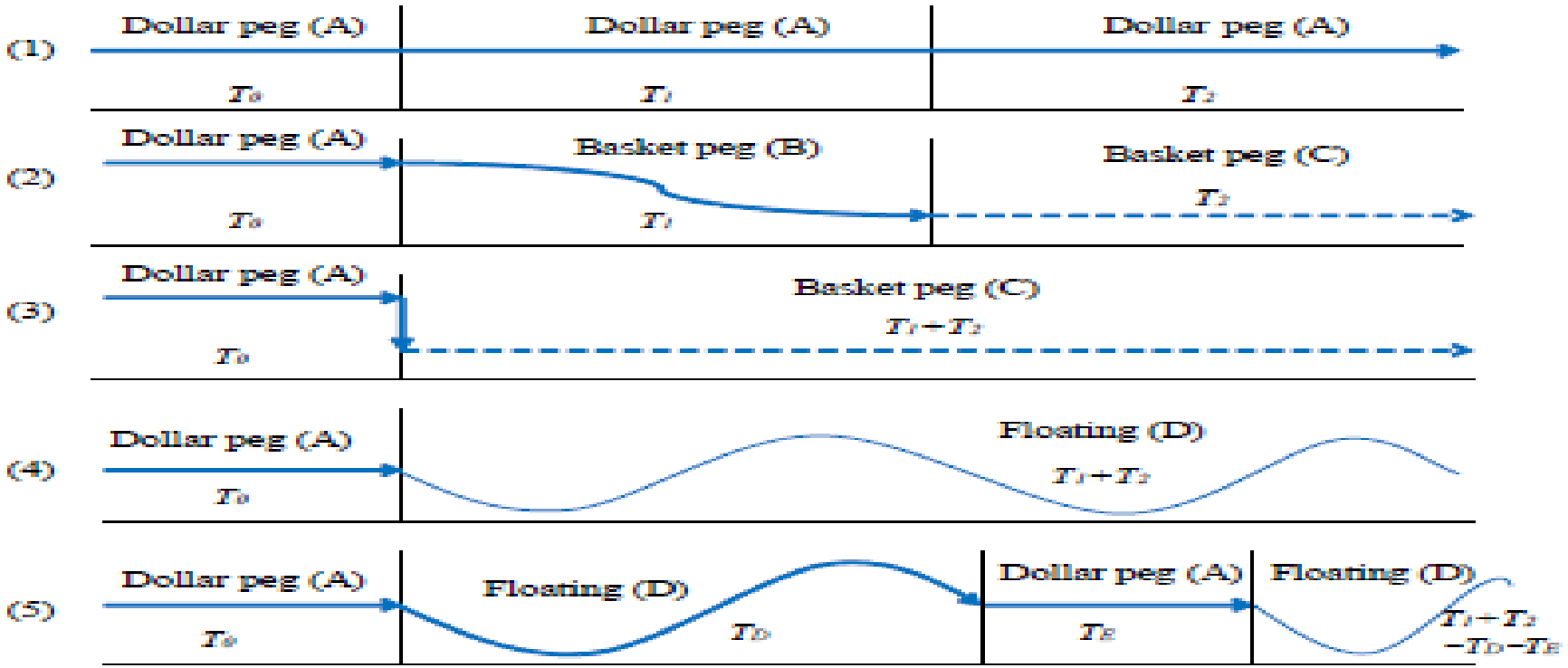
5, Asia's growth potential

6, China's exchange rate

Table 1. Estimates of Weights on the US Dollar Rate

Sample period	Period 1 7 May 2003– 22 July 2005	Period 2 25 July 2005– 30 June 2008	Period 3 1 July 2008– 28 May 2010	Period 4 1 June 2010– 1 June 2012
Estimated weights on the US dollar rate	0.999** (0.001)	0.842** (0.036)	0.918** (0.017)	0.819** (0.039)

$$i_{t+1} - i_t = -\lambda\left[i_t - \left\{i_t^{US} + e_{t+1}^{R/\$,e} - e_t^{R/\$} - \sigma\left(e_t^{R/\$}\right)\right\}\right], \qquad (2)$$



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Dynamic Transition of Exchange Rate Regime in China

*Naoyuki Yoshino, Sahoko Kaji, Tamon Asonuma**

Table 8. Cumulative Losses and Optimal Values of Instruments

Stable regime	Policy (1) Dollar peg	Policy (2) Basket peg	Policy (3) Basket peg	Policy (4) Floating	Policy (5)[b] Managed floating
Adjustment	—	Gradual	Sudden	Sudden	Sudden
Instrument value	$i^* = 4.34$	$v^* = 0.58$	$v^{**} = 0.68$	$m^* = 0.016$	$m^{**} = 0.017$
Cumulative loss (value)	17.04	1.80	1.91	2.67	2.31
Cumulative loss (percent of $(\bar{y}^2)^*$)[a]	23.4	2.4	2.6	3.7	3.2

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