Abenomics and Asian Economy

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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.
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

<table>
<thead>
<tr>
<th>Country</th>
<th>( \theta^* )</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>-2.20%</td>
<td>1998 Q1 - 2008 Q4</td>
</tr>
<tr>
<td>USA</td>
<td>+4.42%</td>
<td>2002 Q4 - 2007 Q4</td>
</tr>
<tr>
<td></td>
<td>-1.116%</td>
<td>2001 Q1 - 2002 Q4</td>
</tr>
<tr>
<td>Canada</td>
<td>+0.37%</td>
<td>2003 Q1 - 2004 Q4</td>
</tr>
<tr>
<td></td>
<td>+0.96%</td>
<td>2006 Q1 - 2007 Q4</td>
</tr>
</tbody>
</table>
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**
- Stocks, 1170
- Securities, 782
- Insurance and Pension Funds, 1049
- Cash and Deposits, 567
- Others, 147

**Japan**
- Stocks, 87
- Securities, 92
- Insurance and Pension Funds, 399
- Cash and Deposits, 792
- Others, 58

**Germany**
- Stocks, 44
- Securities, 103
- Insurance and Pension Funds, 231
- Others, 5

**Total**
- USA, 3715
- Japan, 1428
- Germany, 562
## Financial Assets by Age

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

Population Ageing of Japan
Gross Debt/GDP Ratio, Japan, USA, EU

Source: CIA Fact Book
Budget Allocation of Central Government (Japan, 1985-2011)

Source: MOF

Billion
Japanese Debt, 92% are held by Domestic Investors

<table>
<thead>
<tr>
<th>HOLDERS</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks and Postal Savings</td>
<td>45%</td>
</tr>
<tr>
<td>Life and Non-life Insurances</td>
<td>20%</td>
</tr>
<tr>
<td>Public Pension funds</td>
<td>10%</td>
</tr>
<tr>
<td>Private Pension Funds</td>
<td>4%</td>
</tr>
<tr>
<td>Central Bank of Japan</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Overseas’ Investors</strong></td>
<td>8%</td>
</tr>
<tr>
<td>Households</td>
<td>5%</td>
</tr>
<tr>
<td>Others</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: MOF
Greece, 80% of their debts are held by overseas’ Investors (2011)

<table>
<thead>
<tr>
<th>HOLDERS</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eurozone</td>
<td>15%</td>
</tr>
<tr>
<td>ECB</td>
<td>15%</td>
</tr>
<tr>
<td>IMF</td>
<td>6%</td>
</tr>
<tr>
<td>Greek banks &amp; non-banks</td>
<td>23%</td>
</tr>
<tr>
<td>Other European Banks</td>
<td>10%</td>
</tr>
<tr>
<td>Non European Banks</td>
<td>8%</td>
</tr>
<tr>
<td>Non-Greek non-Banks</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: Financial Times
(1) Japanese Government Bond Yields

- 10-year
- 5-year
Government long-term bond yield (Eurozone)

1999.1 The euro is introduced as an accounting currency
2001.1 Greek joins in the Euro
2002.1 Euro begins circulation

Legend:
- Greek
- Portugal
- Ireland
- Spain
- Italy
- France
- Germany
Japan’s Supply and Demand for Bonds

$E_1 \rightarrow E_2 \rightarrow E_3 \rightarrow E_4$
Greece Supply and Demand for Government bonds

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


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**Figure 1. Bank’s balance sheet**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bank</strong></td>
<td></td>
</tr>
<tr>
<td>Loans</td>
<td>Deposits</td>
</tr>
<tr>
<td>Good Assets</td>
<td>Capital $A(q_2)$</td>
</tr>
<tr>
<td>Non–Performing Loans (NPL)</td>
<td></td>
</tr>
<tr>
<td>Bad Assets</td>
<td></td>
</tr>
</tbody>
</table>
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

1. Maximize Fee and Commissions (Distributors)
2. Trust Fees & Commissions = \( \alpha (\text{Principal} + \text{Dividend}) \)

[Diagram showing relationships between Asset Management Company, Distributors, Banks, Securities’ companies, and Investors with a focus on maximizing return.]
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
Agricultural Funds

Beans and Wine

Dec 11 2013, Tehran – I.R. of IRAN
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) Tankan¹
DI ("easy" - "tight"), % points

- Large enterprises
- Small enterprises

CY 90 92 94 96 98 00 02 04 06 08 10 12 13
SME Data base (CRD Data base)

Credit Guarantee Corporations (Collect Data of SMEs) 52

Financial Institutions
200
Regional Banks
Credit Associations
Credit Cooperatives
Government Banks
Central Bank

SMEs (14.4million data)
Defaults (1.7million data)

1, Government Support
2, Reliability
3, Security of Information

CRD
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
   - Postpone 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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated weights on the US</td>
<td>0.999** <em>(0.001)</em></td>
<td>0.842** <em>(0.036)</em></td>
<td>0.918** <em>(0.017)</em></td>
<td>0.819** <em>(0.039)</em></td>
</tr>
<tr>
<td>dollar rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

---

### Diagrams

1. **Dollar peg (A)**
   - \( T_0 \)
   - \( T_1 \)
   - \( T_2 \)

2. **Dollar peg (A)**
   - \( T_0 \)
   - \( T_1 \)
   - \( T_2 \)

3. **Dollar peg (A)**
   - \( T_0 \)
   - \( T_1 + T_2 \)

4. **Dollar peg (A)**
   - \( T_0 \)
   - \( T_1 + T_2 \)

5. **Dollar peg (A)**
   - \( T_0 \)
   - \( T_D \)
   - \( T_E \)
   - \( T_1 + T_2 \)
   - \( T_D - T_E \)
Table 8. Cumulative Losses and Optimal Values of Instruments

<table>
<thead>
<tr>
<th>Stable regime</th>
<th>Policy (1) Dollar peg</th>
<th>Policy (2) Basket peg</th>
<th>Policy (3) Basket peg</th>
<th>Policy (4) Floating</th>
<th>Policy (5) Managed floating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustment</td>
<td></td>
<td>Gradual</td>
<td>Sudden</td>
<td>Sudden</td>
<td>Sudden</td>
</tr>
<tr>
<td>Instrument value</td>
<td>$i^* = 4.34$</td>
<td>$v^* = 0.58$</td>
<td>$v^{**} = 0.68$</td>
<td>$m^* = 0.016$</td>
<td>$m^{**} = 0.017$</td>
</tr>
<tr>
<td>Cumulative loss (value)</td>
<td>17.04</td>
<td>1.80</td>
<td>1.91</td>
<td>2.67</td>
<td>2.31</td>
</tr>
<tr>
<td>Cumulative loss (percent of $(\bar{y}^2)^*$)</td>
<td>23.4</td>
<td>2.4</td>
<td>2.6</td>
<td>3.7</td>
<td>3.2</td>
</tr>
</tbody>
</table>
References


Yoshino, N.,(2011) “Growing Budget Deficits and Sustainability: Why is Japan still sustainable ?”  

