ABENOMICS $+\alpha$

HOW CAN JAPAN OVERCOME DEFLATION?

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0. Current situation
   ➢ The pressure to raise inflation still lacks strength.

1. 1st arrow (monetary policy)
   ➢ Continuation of QQE is necessary.

2. 2nd arrow (fiscal policy)
   ➢ A basic income system is the most effective way.

3. 3rd arrow (structural policy)
   - Expected Inflation rate
   - Raising wages
   - Improvement of labor productivity

4. Conclusion
From the time series the rate of increase in CPI, it can not be said that the current situation is getting out of deflation.

- **Rate of increase in CPI**
  In particular, the inflation rate of the CPI (less alcoholic beverages and energy) is near zero.

The Monetary Policy Meeting in October summarized the new economic outlook and price forecast and lowered the prospect of inflation from 1.1% in July to 0.8% in 2017. Moreover, they set the forecast for fiscal 2018 from 1.5% to 1.4%.

The pressure to raise inflation still lacks strength.
Continuation of QQE is necessary as a foundation.
2nd arrow FISCAL POLICY :
The Final Alchemy... “Helicopter Money”

- Call Rate, Uncollateralized Overnight/Average
- General Government Debt % of GDP

Is it too late? The government and BOJ can still do something. The answer is “Helicopter Money”.

- **Helicopter money is a reliable method**
  - The BOJ underwrites perpetual bonds, while the government distributes money.
  - Monetary finance does not necessarily lead to hyperinflation.

- **What do we do?**
  - Due to the tendency of Japanese companies to save and not pass earnings on to its workers, it is important to distribute money to citizens.

> A basic income system is the most effective way.
3\textsuperscript{rd} arrow STRUCTURAL POLICY : EXPECTED INFLATION RATE

Realized Inflation and Long-term Expectations


Inflation Expectations


United States

Euro area

Market-implied

Professional forecasters

United Kingdom

Japan

Core inflation - %

Inflation expectations - %

Core inflation - %

0.0

1.5

2.0

2.5

3.0

0.0

1.5

2.0

2.5

3.0

CY05 06 07 08 09 10 11 12 13 14 15 16 17

y/y, ann. avg., %

Economist 1 (6 to 10 years ahead)
Economist 2 (7 to 11 years ahead)
Firms (5 years ahead)
Households (Over the next 5 years)
HOW IT WORKS:
A SELF-FULFILLING PROPHECY

• **People’s mindsets** have a direct impact on inflation. In other words, the expected rate of inflation affects the real rate of inflation.
  • Inflation expectations change how workers and firms set wages and prices.
  • Acts as an indicator of the central banks’ targeting credibility (long-term).

• **Why the gap in Japan’s target and CPI trends?**
  • A loss of credibility.
  • Extremely low-long term expectations.
  • Backward-looking behavior.

• **What do we do?**
  
  - **Push up actual inflation first.** (e.g. incomes policy)
  - **Ensure sustainability.** (e.g. coordination of fiscal and monetary policy)
  - **Structural reform.** (e.g. retraining programs, income support, and programs to increase labor participation)
3rd arrow STRUCTURAL POLICY: RAISING WAGES

A Virtuous Cycle of Wage Raises

Actions to counteract our aging and shrinking population

Increase in expected growth rate

Increases in Wages

Increase in personal consumption

Companies raise product prices

Increase in corporate profits

Changes in nominal wages and CPI

(YOY, %)

※ Three quarter moving average

source: Ministry of Internal Affairs and Communications, Ministry of Health, Labour and Welfare
Some excellent companies have introduced **advanced technologies** to improve labor productivity.

(examples)

Higher labor productivity will...
- reduce working hours
- lead to higher wages
- promote job mobility towards higher salaries

create **larger** demand.
CONCLUSION : 3-Point Operation!

~Monetary Policy~
- Monetary easing measures need to be maintained until Japan overcomes deflation.

~Fiscal Policy~
- Expansionary fiscal policy is needed. The fiscal policy has to be used to link and make clear the commitment to the inflation target.

~Structural Policy~
- Improvement of productivity with innovation.
- Creation of a virtuous wage hike cycle.
- Rising inflation expectations by realizing actual inflation first.
  - Ensure sustainability
  - Structural reform.

Each component alone is not enough.
⇒ All three policies must be implemented simultaneously and until the inflation target is realized.
HOW CAN JAPAN OVERCOME DEFLATION?

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