

ABENOMICS $+ \alpha$

HOW CAN JAPAN

OVERCOME DEFLATION?

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3. 3rd arrow [structural policy]

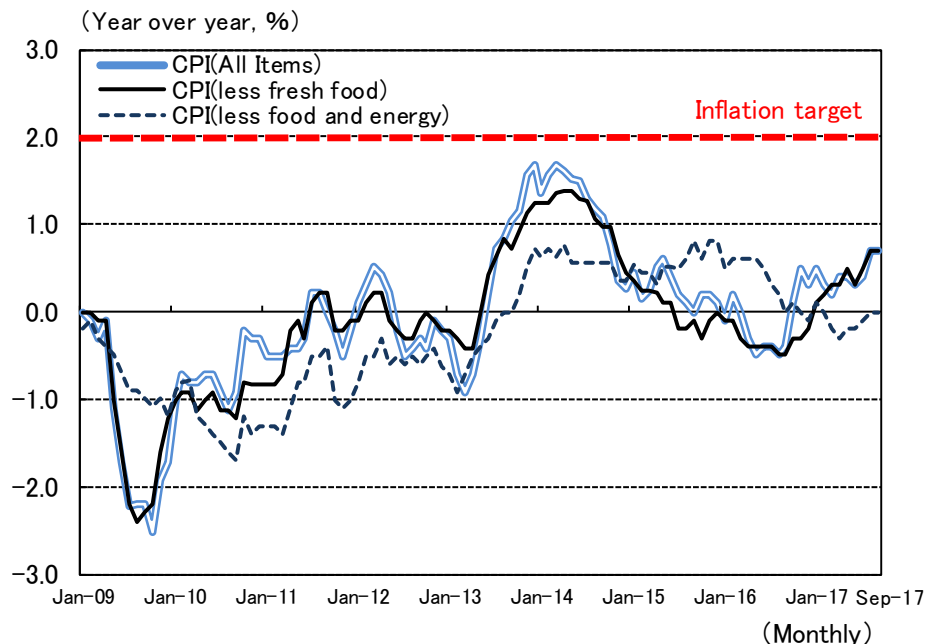
- Expected Inflation rate
- Raising wages
- Improvement of labor productivity

} All HIKE !

4. Conclusion

CURRENT SITUATION

• Rate of Increase in Consumer Price Index



(Annotation) Excluding consumption tax

(Source) MIC『Consumer price index』

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%.



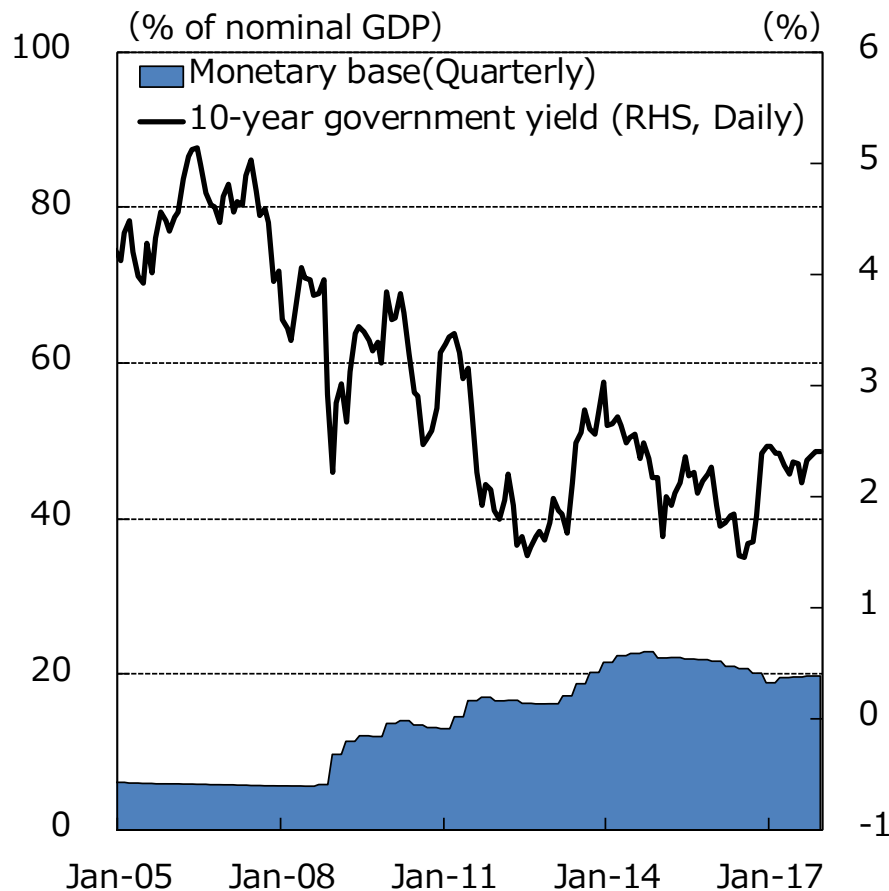
The pressure to raise inflation still lacks strength.

1st arrow MONETARY POLICY :

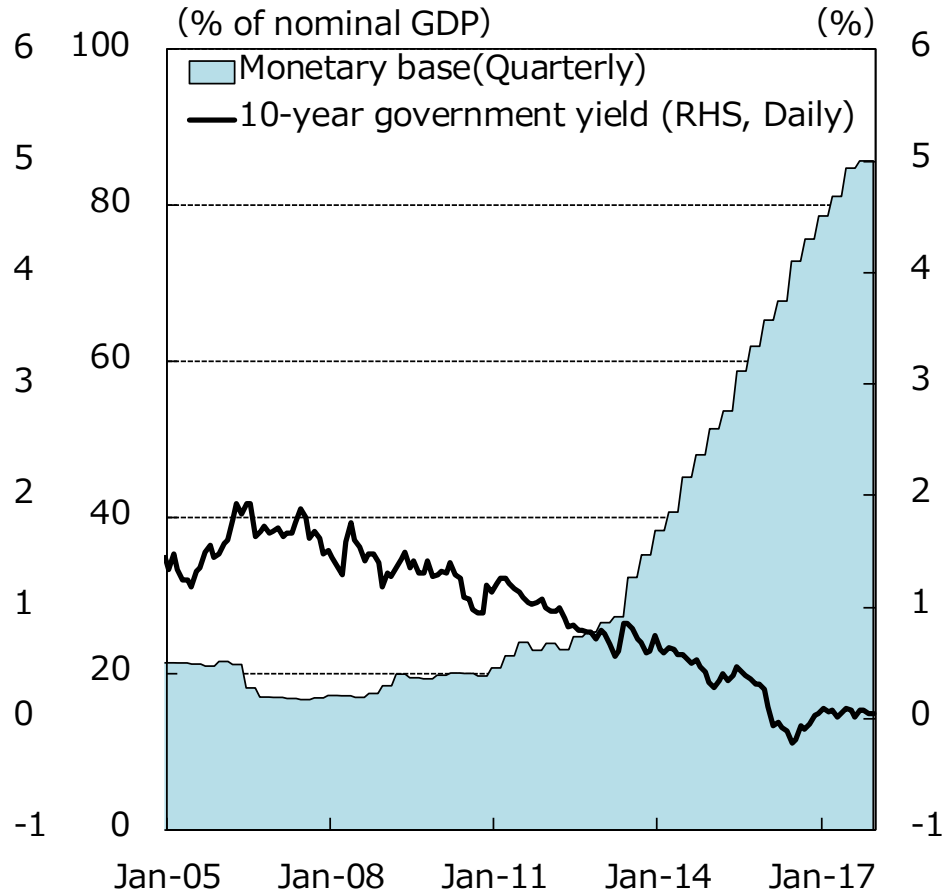
BOJ BAZOOKA'S CONTINUATION

- Monetary Base and 10-Year Government Bond Yields in the U.S. and Japan.

【United States】



【Japan】



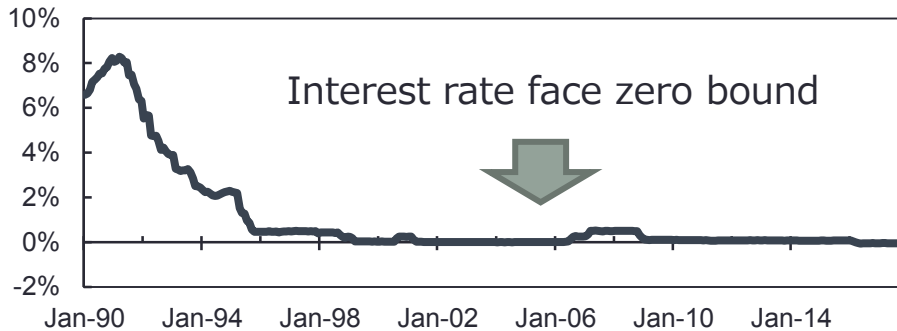
(source) Bloomberg

➡ **Continuation of QQE is necessary as a foundation.**

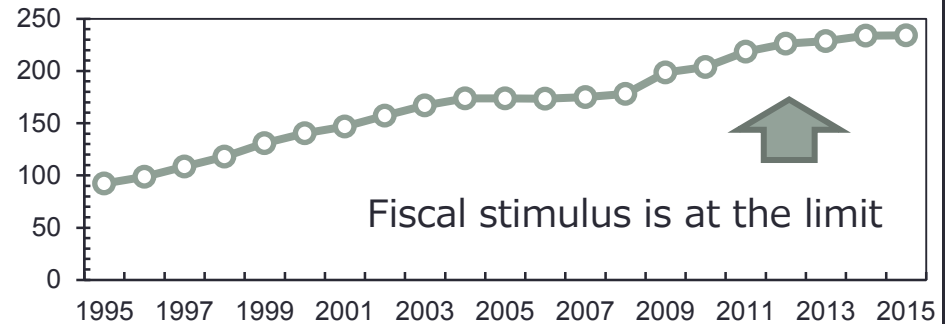
2nd arrow FISCAL POLICY :

The Final Alchemy... "Helicopter Money"

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



Source: BOJ Time-Series Data search



Source: OECD Data General government debt

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.

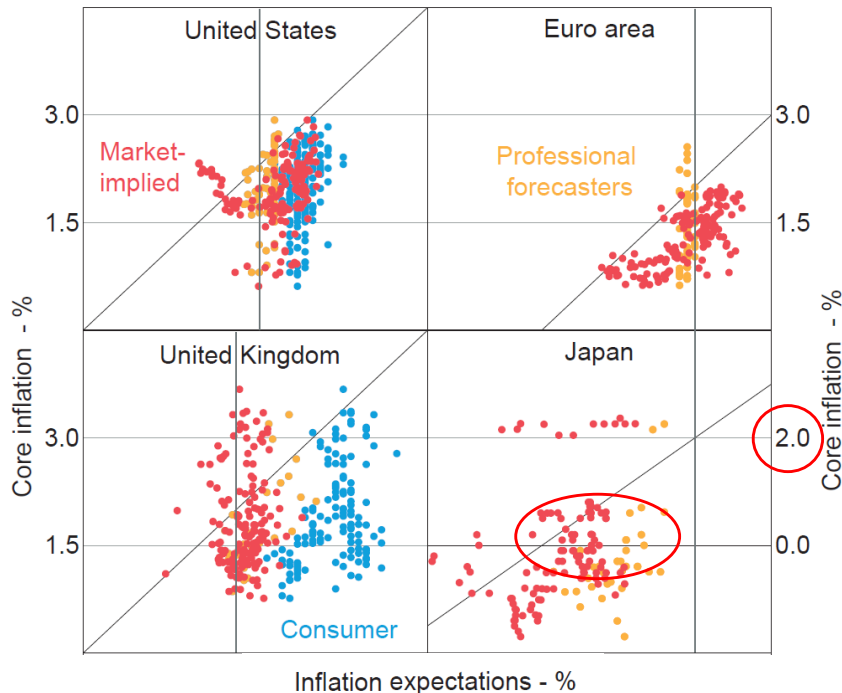
◆ What do we do?

- 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.**

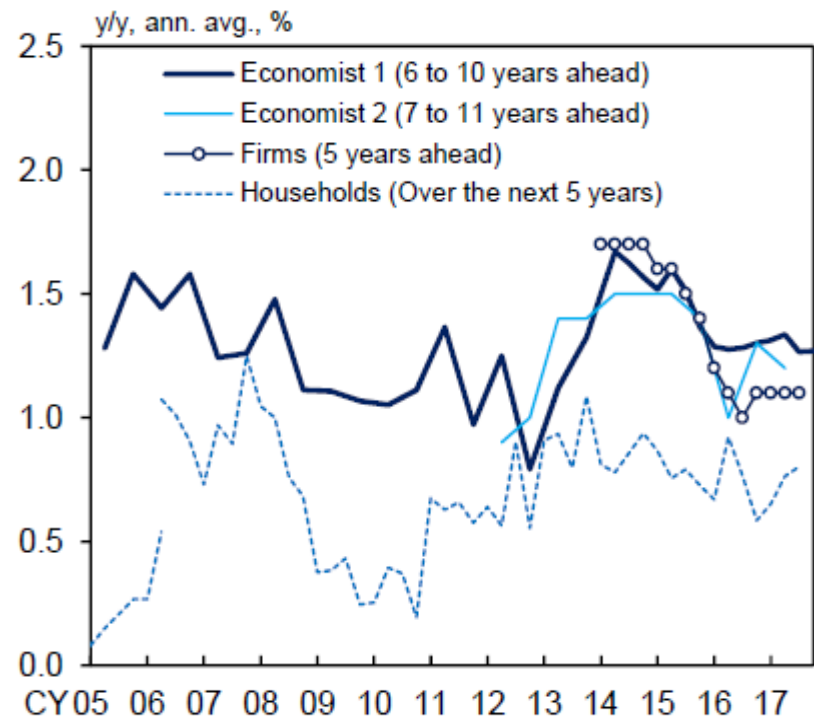
3rd arrow STRUCTURAL POLICY : EXPECTED INFLATION RATE

Realized Inflation and Long-term Expectations



Source: Reserve Bank of Australia (2017).
"Inflation Expectations in Advanced Economies".

Inflation Expectations



Source: Bank of Japan (2017). "Outlook for Economic Activity and Prices".

HOW IT WORKS:

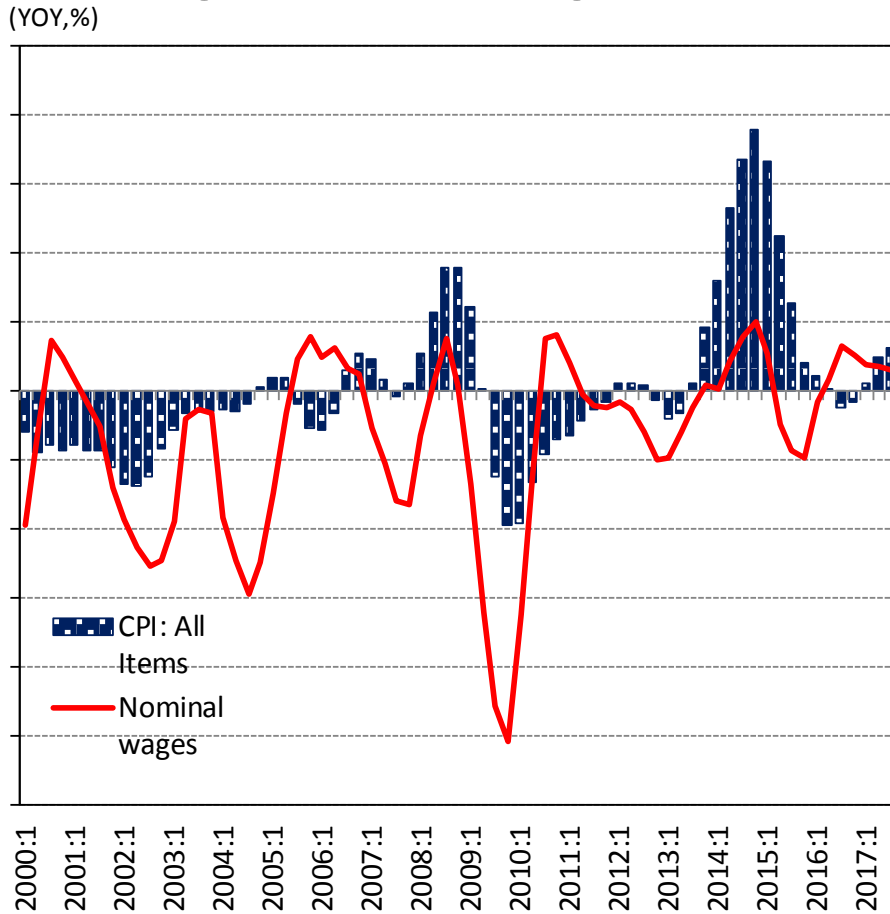
A SELF-FULFILLING PROPHECY

- **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

Changes in nominal wages and CPI



※ Three quarter moving average

source: Ministry of Internal Affairs and Communications, Ministry of Health, Labour and Welfare

A Virtuous Cycle of Wage Raises

Actions to counteract our aging and shrinking population

Increase in expected growth rate

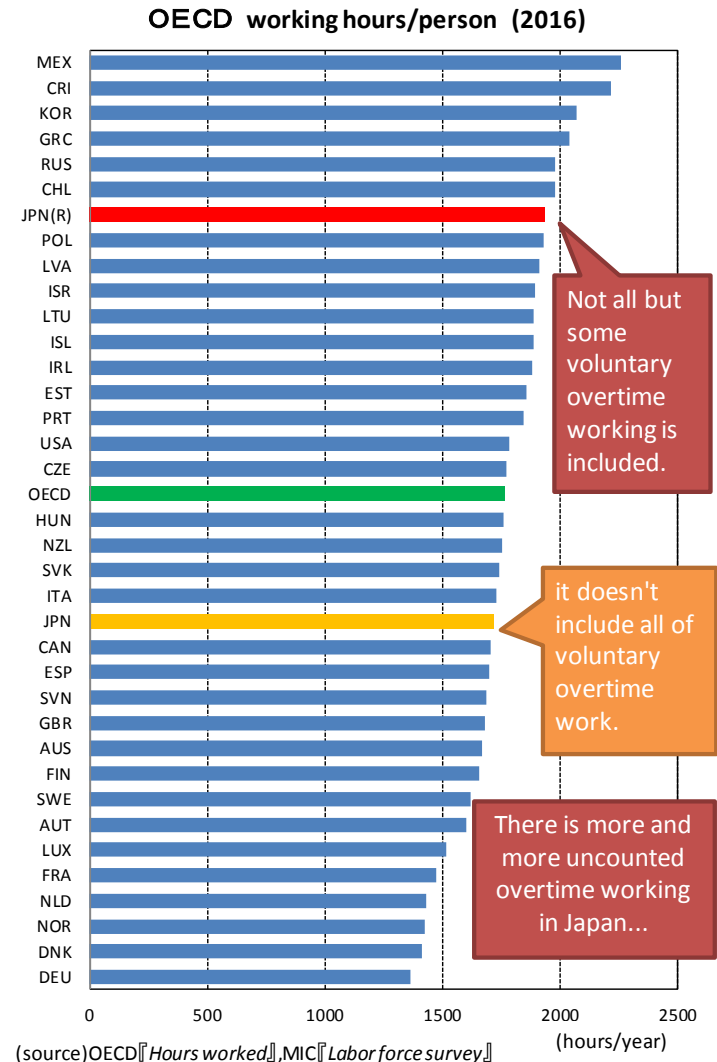
Increases in Wages

Increase in personal consumption

✓ Companies raise product prices

Increase in corporate profits

3rd arrow STRUCTURAL POLICY : IMPROVEMENT OF LABOR PRODUCTIVITY



Some excellent companies have introduced advanced technologies to improve labor productivity.

(examples)



Higher labor productivity will...

reduce working hours

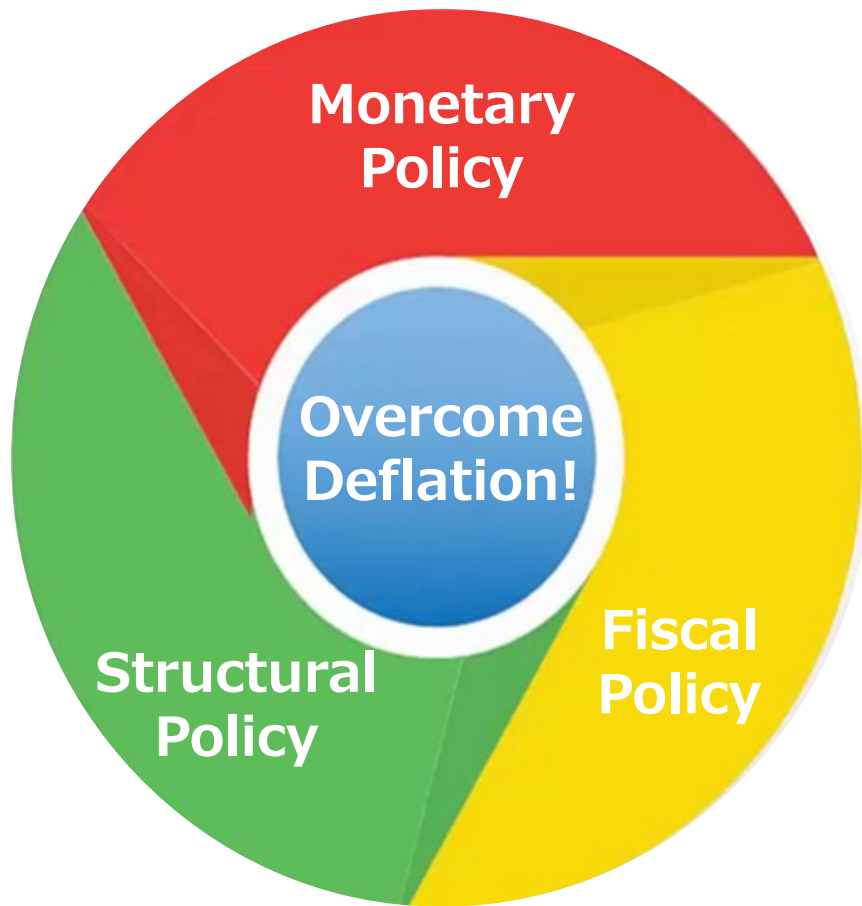
lead to higher wages

promote job mobility towards higher salaries



create larger demand.

CONCLUSION : 3-Point Operation !



Each component alone is not enough.

⇒ All three policies must be implemented simultaneously and until the inflation target is realized.

~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.

HOW CAN JAPAN

OVERCOME DEFLATION?

~PRESENTERS~

 **EMILY CEBULA: ALL NIPPON AIRWAYS**

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