

KIYOTO IDO

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Let me turn to Kiyoto Ido, the Vice Chairman for the Institute for International Economic Studies, and the former Executive Director of the Bank of Japan. You have the floor my dear friend.

Kiyoto IDO

Thank you Chairman.

Today, I would like to begin by discussing Abenomics and the structural issues embraced by the Japanese economy, because they represent some of the solutions to decreased productivity, secular stagnation and stimulating domestic demand, which are today's points for discussion. Then, I would like to briefly comment on financial reform.

Abenomics

In 2012, when Prime Minister Abe became prime minister of Japan, he aimed to pull Japan out of deflation and achieve stable economic growth.

Abenomics is based on the three arrows of monetary easing, flexible fiscal policy and growth strategy. Growth strategy enhances economic growth in the medium to long term, but those involving structural reform require time for results to be generated, and moreover have negative impacts on the economy in the short run. Therefore, while Japan waited for its growth strategy to become effective, it had to harness fiscal and monetary policies to support near-term economic activities as it advanced structural reform.

The impact of Abenomics and its challenges

Under Abenomics, we have seen aggressive structural reform efforts, including reform in the agricultural and electric power sectors, but it will take more time for them to lead to an enhancement of economic growth power. On the other hand, given the global economic slowdown, governments worldwide are relying on fiscal and monetary strategies.

Furthermore, Japan also has to go forward with its fiscal reconstruction movement. Consequently, Japan relies largely on monetary policies.

Monetary Policy

In 2013, the Bank of Japan introduced quantitative and qualitative monetary easing, or so-called QQE. In January this year, it also introduced negative interest rates, followed by yield curve control in September.

These monetary easing strategies provoked a drastic weakening of the yen and rising asset prices, including stock and real estate prices. However, from the perspective of real economics, despite the increase in housing investment resulting from lower housing loan interest rates, the impact on consumption and investment was limited. When future economic growth and demand growth are uncertain, private companies will be hesitant to make new capital investments; and therefore, in the end, it is most important to secure public confidence in future economic growth. Supplying liquidity can be effective when financial institutions cannot supply funds despite an appetite for investment

on the part of private companies. However, given the large amounts of internal reserves that Japanese companies have accumulated, QQE can only promise limited effects.

Challenges faced by the Japanese economy

1. From fiscal and monetary strategies to structural reform

Monetary easing measures have had certain positive effects on the Japanese economy. However, there are limits to what they can achieve alone; and if we are to put the Japanese economy on a sustainable growth path, growth strategy-led structural reform is indispensable in the long run.

The Japan Revitalization Strategy, which is the core growth strategy of Abenomics, has been revised every year following its initial formulation, and it has been crystalized in the areas of improving corporate governance, promoting women's labor force participation and reforming working styles. This year's strategy was centered on the strategic creation of promising growing markets, productivity reforms to overcome population decrease, and the enhancement of human resources.

In other words, the main focus of the Strategy is on innovation and measures to address the declining birthrate. Therefore, I would now like to briefly discuss the major issues challenging the Japanese economy, including the falling birthrate, the labor market, and enhancing corporate competitiveness and earning power.

2. An ageing population with a declining birthrate

Japan has the fastest-ageing population in the world and this is one of the main factors contributing to a declining potential growth rate. The current potential growth rate is estimated to be 0.5 percent, which does not promise dramatic growth in the future.

From this perspective, the government currently aims to boost the birthrate up to 1.8. It is also implementing policies to improve working conditions so that women are encouraged to get married and/or raise children, as well as policies to enhance the labor participation of women and the elderly.

An aging population with a declining birthrate increases social security spending, including pensions and nursing care costs. As a result, government debt has reached approximately 230 percent against the GDP. This has aroused a sense of insecurity towards the future of pensions and healthcare, which according to some, is one of the reasons why consumer spending remains stagnant.

While the government reviews social security spending, it is also considering a consumption tax raise to secure funds to allocate to social security, but this will only be effective when accompanied by stable economic growth.

3. Labor market

Japan's unemployment rate stands at 3.0%, which means that its labor market is nearly at full employment. However, in recent years, the increasing number of irregular, or non-full-time workers have become a major issue. While labor participation of women and the elderly have increased irregular employment, young people in irregular employment are slowing down consumption.

Irregular employment of younger generations not only means unstable employment for them, but it will also lessen opportunities for training, thus reducing potential labor productivity. We need to continue promoting the regular

employment of young people, in particular, as well as to improve wages.

4. Enhancing corporate competitiveness and earning power

Japanese companies have been performing well under Abenomics, supported by low crude oil prices, monetary easing and a weak yen. In particular, corporate earnings have marked record highs.

However, many Japanese companies are taking a cautious approach in their management strategies because of the prolonged deflation and uncertain prospects of stable high growth given an aging population with a declining birthrate.

As a result, although companies have accumulated internal reserves of approximately 380 trillion yen, which is equivalent to three-fourths of the GDP, capital investment has been growing only slowly and the labor share is declining. In order to boost growth, it is essential that we increase consumption by improving productivity and wages.

From this viewpoint, Japan has enhanced corporate governance and increased wages under Abenomics, but future strategies should include strengthening international competitiveness and developing human resources through globalization, creating promising and growing markets through the Fourth Industrial Revolution driven by artificial intelligence, and improving productivity through regulatory and institutional reform.

Finance

Next, I would like to briefly comment on financial reform. Lessons from the global financial crisis of 2008 have driven countries around the world to engage in comprehensive financial regulatory reform. I think highly of the fact that many items on the reform agenda have moved up from the designing phase to the implementation phase.

Regulatory reform has played a contributing role in enhancing the robustness of the financial system to a certain extent. Now that we have an idea of the complete picture of financial reform, I believe that it is time to consider some of the issues that I will go over.

The first issue is achieving both a stable financial system and sustainable economic growth. Should tight regulations discourage financial institutions from taking any risks, then they may no longer be able to fulfill their role of supplying the funds required for economic growth.

The second issue is appropriately re-allocating regulation and supervision roles. As we have witnessed in terms of Japan's negative interest rate policy, financial institutions in Japan and Europe are struggling amid low interest rates. The conventional approaches of accumulating capital and collateral does not always work. We must reconsider conventional supervisory frameworks and shift from static regulation to dynamic supervision.

The third issue is stabilizing regulations. Regulatory reform has been a topic of continuous debate, but in the face of higher economic uncertainties, an indefinite regulatory framework may hinder the stabilization of the financial market, and thus inhibit economic growth. We should now take the time to verify the achievements made up to present, before we discuss what steps to take in the next stage

Jean-Claude TRICHET

Thank you very, very much indeed, Kiyoto. I have to say that the presentation of Abenomics that you made is probably one of the best I have ever heard, so thank you very much.