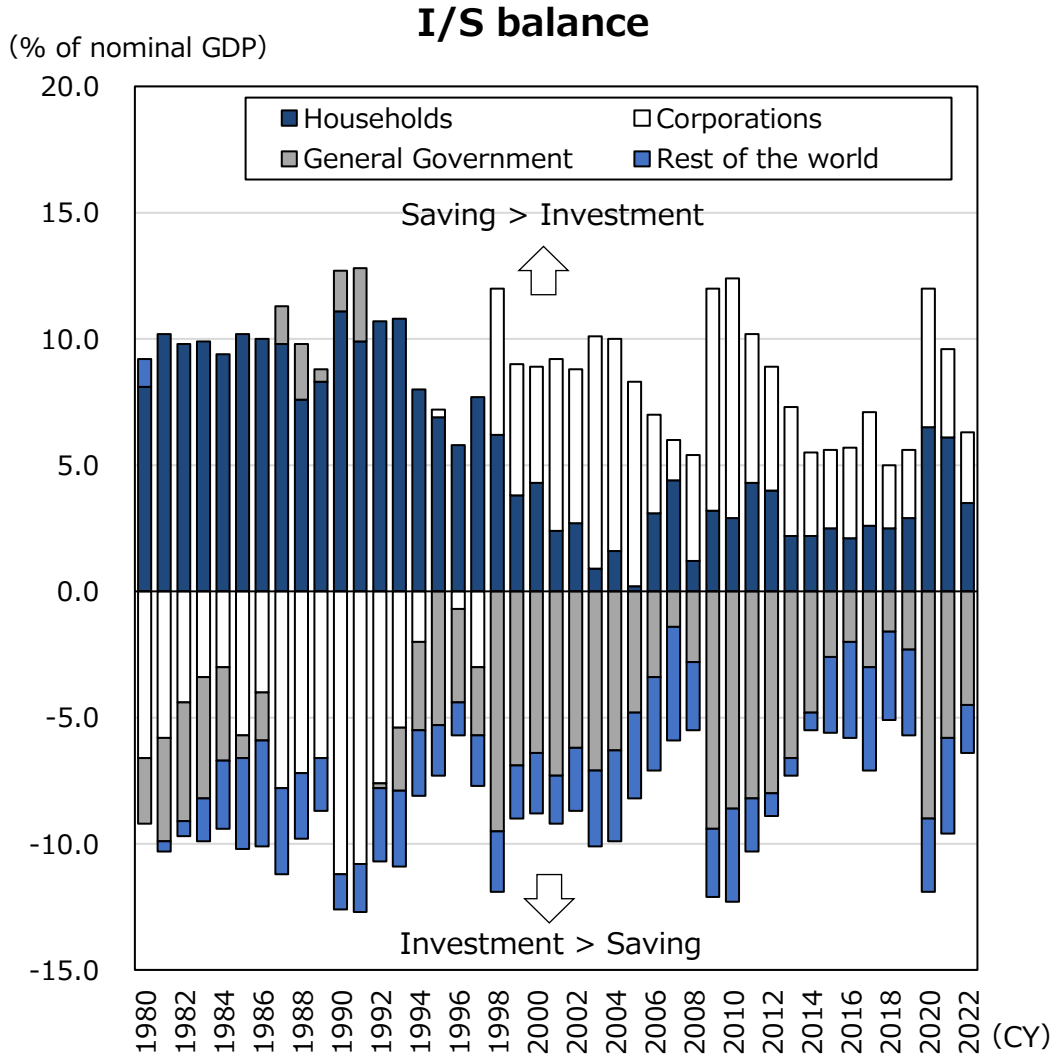

***Challenges of the Japanese Economy and
Japan's Efforts in Advancing Multilateral Cooperation***

Masato Kanda,
Vice-Minister of Finance for International Affairs
Ministry of Finance, Japan

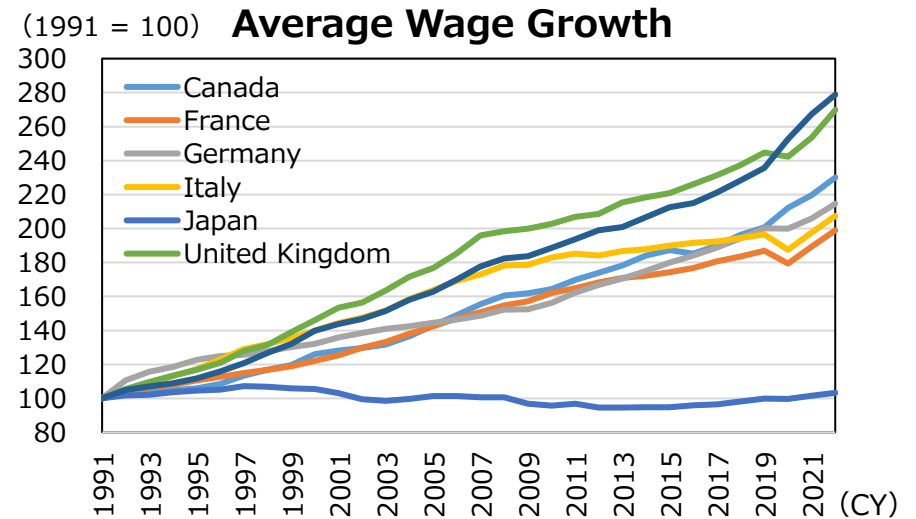
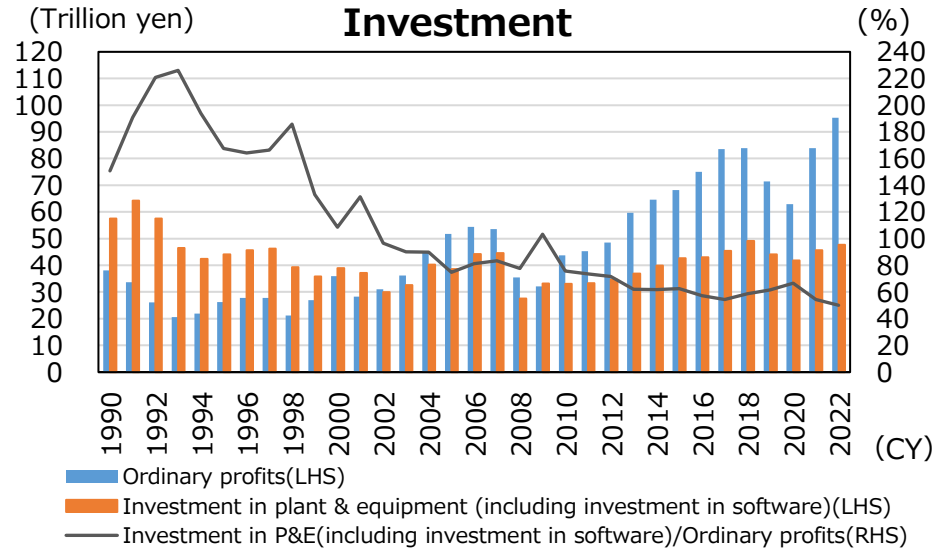
March 5, 2024

Japan's Long-term Challenges – low investment and wage growth

- Priority of Japanese corporate sector after the bubble burst in the early 1990s was to get rid of “three excesses.” (debt overhang, excess equipment, and overemployment)
- This came with a vicious cycle of low investments, wages, and consumption.



(Note) Corporations = Non-financial corporations + Financial corporations + Non-profit institutions serving households
 (Source) Cabinet Office, Ministry of Finance

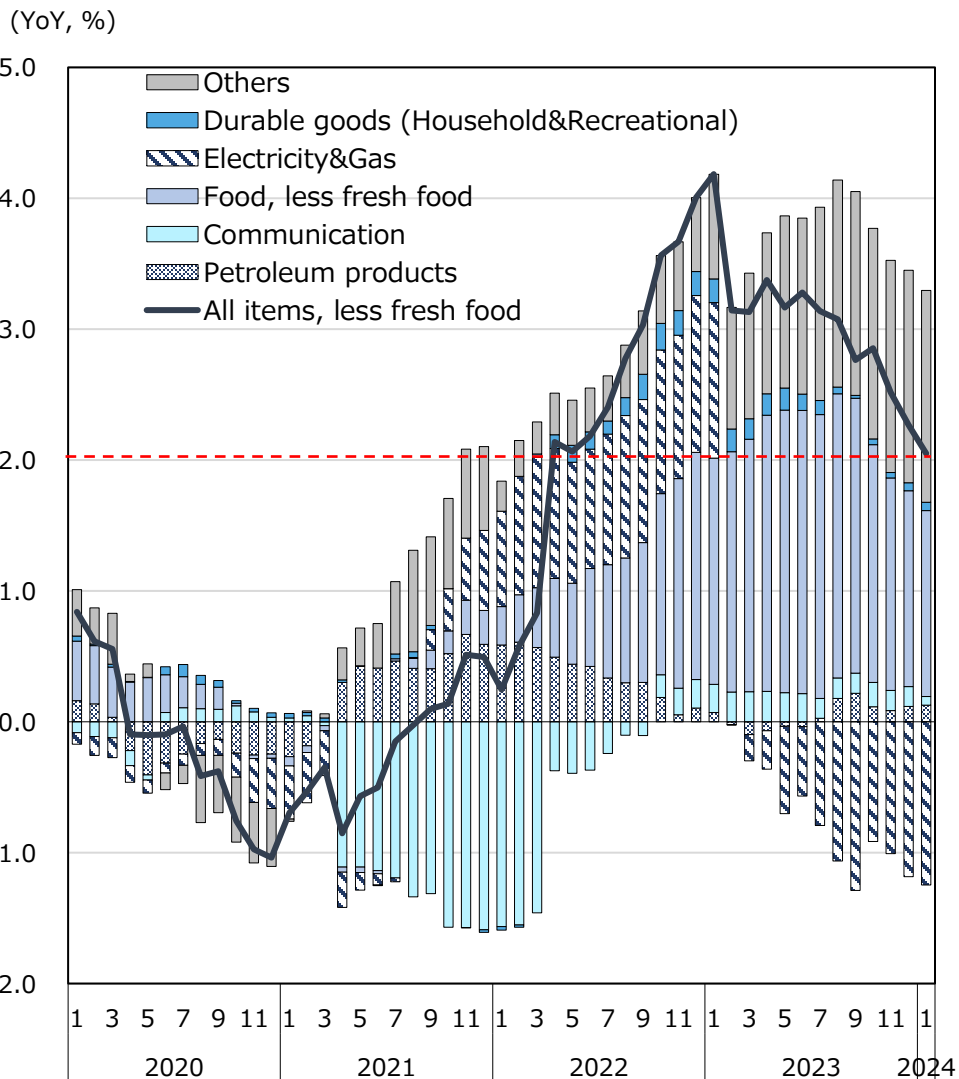


(Source) OECD, Stat

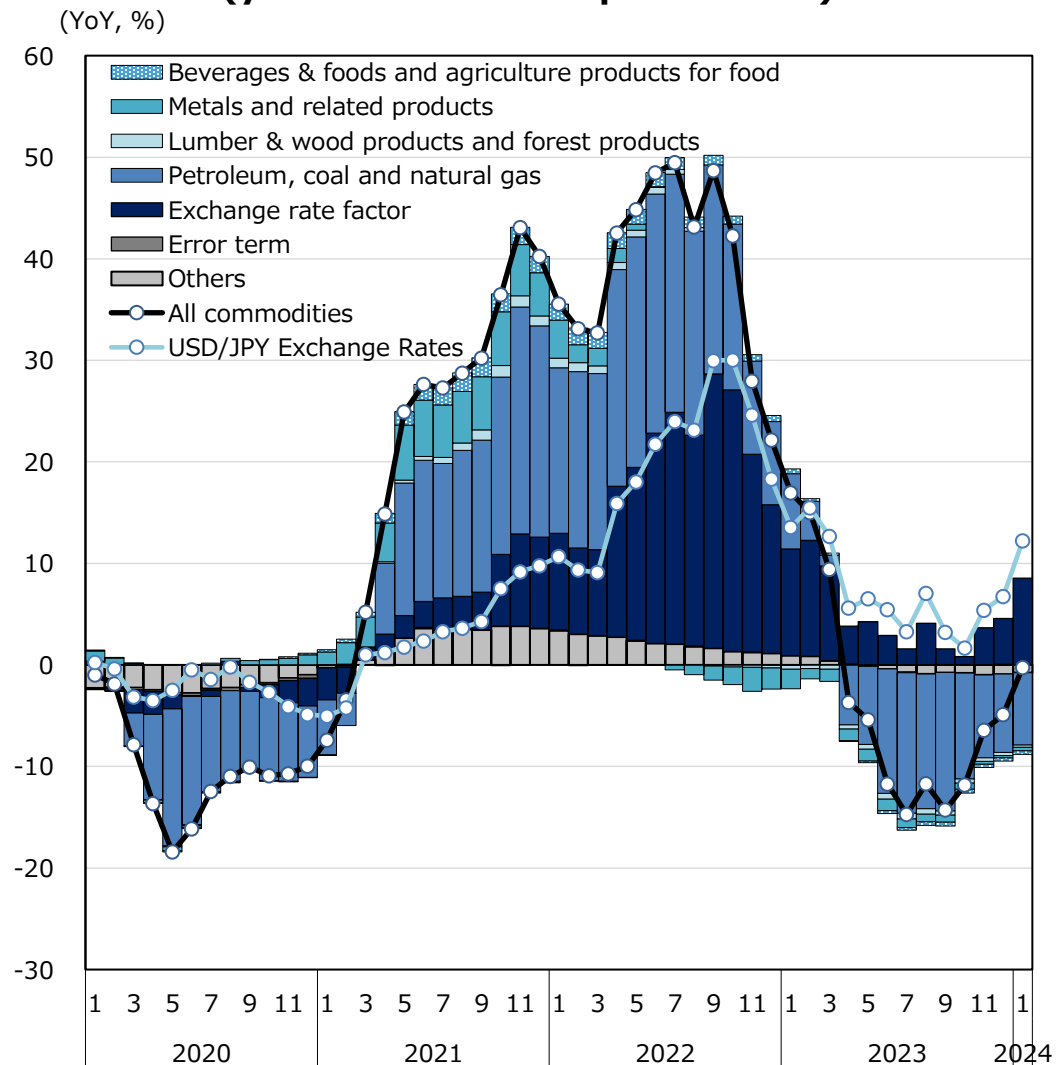
Updates on Japan's price indices -- CPI and import price index

➤ CPI has kept floating above 2% since the spring of 2022, while import prices have fallen recently.

CPI



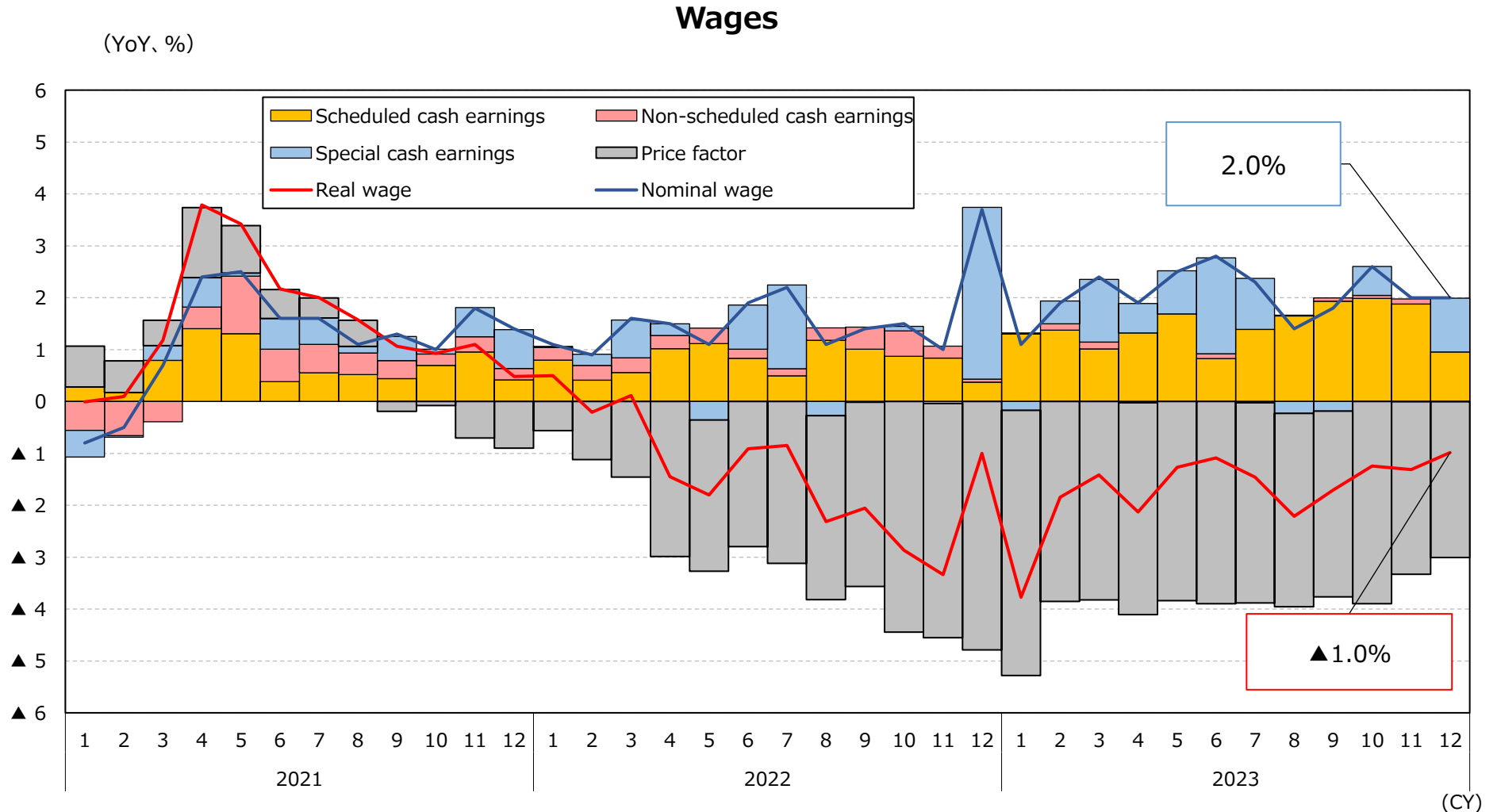
Import price index (yen-denominated price index)



(Source) Bank of Japan, Bloomberg

Updates on Japan's Wages

- Real wages have been decreasing for 21 months in a row.
- To ensure a sustainable rise in wages and prices, increases in real wages must be achieved.



(Note 1) Values of common establishments series (Common establishments refer to establishments that were included in "YoY" and "current month" surveys.)

(Note 2) Real wages are calculated by dividing nominal wages by CPI (All items, less imputed rent).

(Source) Ministry of Health, Labour and Welfare

Evaluation on Japan's Policy Mix

Expansive Fiscal Policy and ultra-loose Monetary Policy

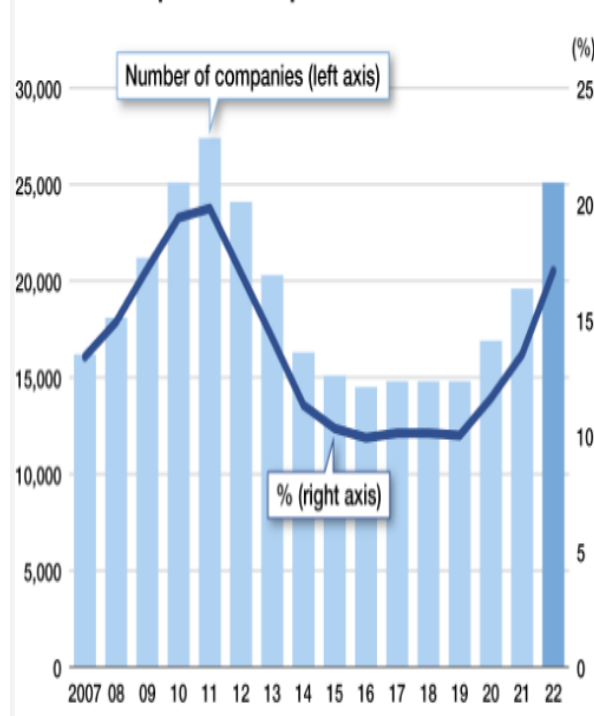
□ Contributions:

- prevented the economy from falling into a deflationary spiral
- created a favorable environment to put sustained wage and price increases within reach
- mitigated shocks from major crises

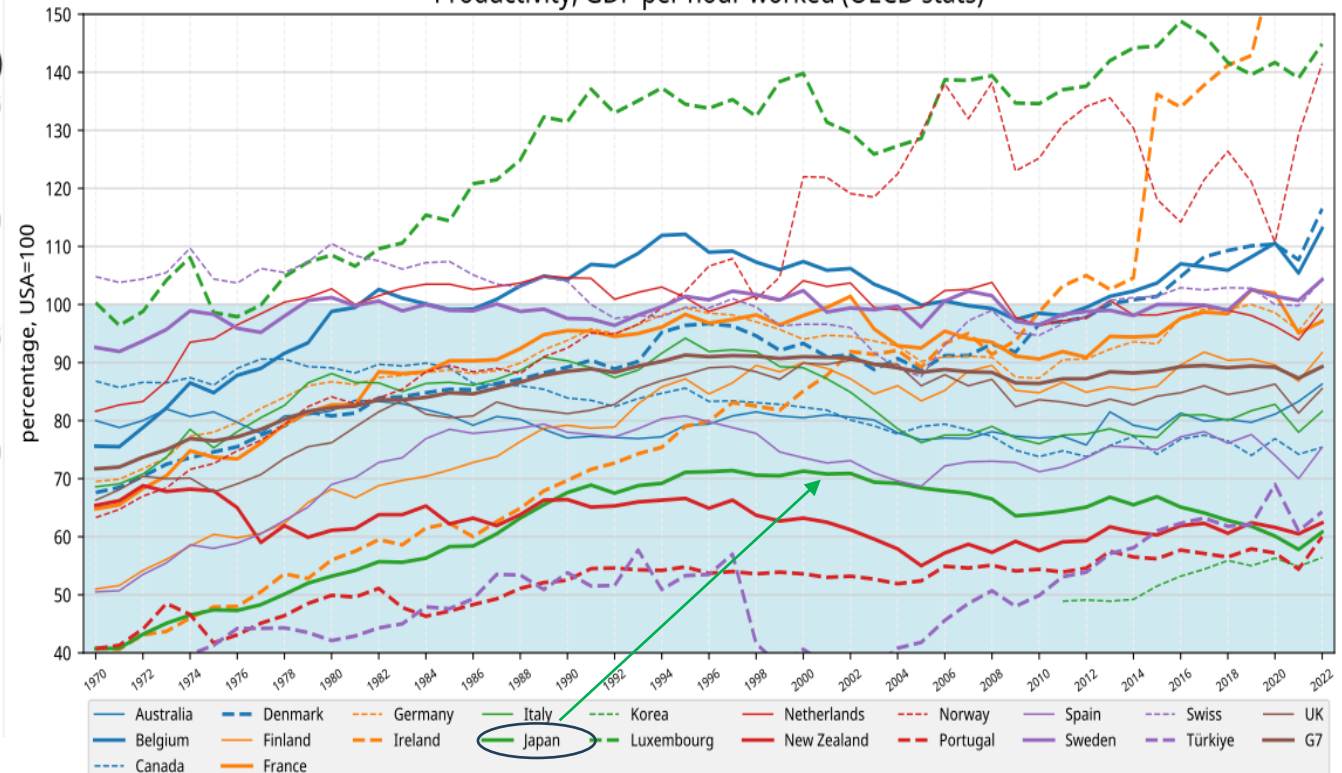
□ Side-effects:

- undermined market mechanisms;
- loosened fiscal discipline.
- hindering efficient allocation of labor and capital to promising industries;
- keeping many "zombie firms" alive.

Zombie Companies in Japan



Productivity, GDP per hour worked (OECD stats)



Source: Taikoku data bank

Growth under the New Form of Capitalism

Speech by PM Kishida at the Guildhall in London, May 5th, 2022

- In Japan, there are a number of things we need to do to achieve a new form of capitalism: eliminate distribution blockages; overcome underinvestment in new value-added sectors; boost labour mobility to new sectors; promote diversity; and nurture what I would call a “healthy economic metabolism.”
- Accomplishing these things will require investment, specifically in four key areas: **people**; **science, technology and innovation**; **start-ups**; and **green and digital initiatives**.

Investment in and distribution
to people

Investment in Science,
Technology and Innovation

Investment in Start-ups

Investment in
Green transformation (GX) and
Digital transformation (DX)

Revision of the G20/OECD Principles of Corporate Governance

- The G20/OECD Principles are **the single global standard for corporate governance**. The comprehensive review of the Principles was managed by the OECD Corporate Governance Committee, chaired by Masato Kanda, with the **aim of promoting capital markets and corporate governance that support companies' sustainable growth**. The review was requested by G20 Leaders at the Rome Summit in October 2021.
- After consultations with a wide range of stakeholders, the **revised Principles were endorsed by G20 Leaders in September 2023**, following the adoption by OECD Council at Ministerial level in June and endorsement by G20 Finance Ministers and Central Bank Governors in July 2023.

6 pillars of the revised Principles:

- I. Ensuring the basis for an effective corporate governance framework
- II. The rights and equitable treatment of shareholders and key ownership functions
- III. Institutional investors, stock markets and other intermediaries
- IV. Disclosure and transparency
- V. The responsibilities of the board
- VI. Sustainability and resilience

Background: recent trends in capital markets

1. Reinforcing the function of equity markets that support the resilience of corporations

Equity markets play a critical role in corporations' sustainable growth. Households with invested savings can benefit either directly or indirectly from the growth of listed companies. Nevertheless, there is a structural decline in the number of listed companies. The comprehensive review of the Principles aimed to promote companies' access to capital from public equity markets while protecting investors.

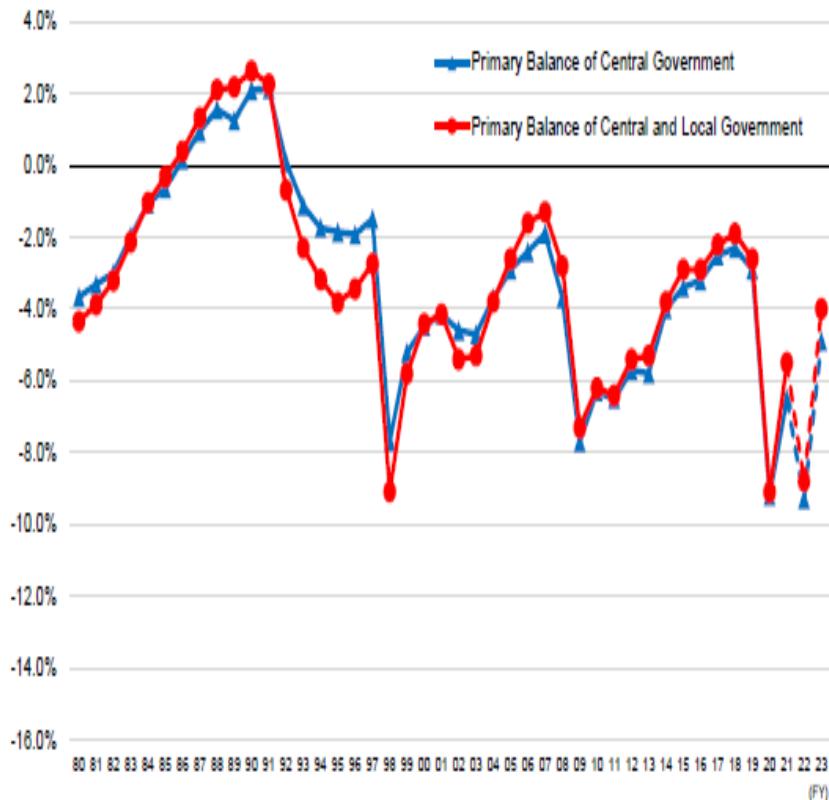
2. Managing sustainability matters

Investors have increasingly expanded their focus on companies' material risks and opportunities associated with sustainability, including environmental and social matters. The revisions include a set of recommendations, such as on risk management and disclosure, to achieve corporations' sustainable growth while considering the interests of various stakeholders.

Japan's Fiscal Situation and Target

- ❑ **Strengthening fiscal discipline** to make our economy more resilient against internal and external shocks, and to ensure better resource allocation.
- ❑ Ensuring responsible fiscal management from both the expenditure and the revenue sides toward the **target of achieving a primary surplus by 2025 and reducing the debt to GDP ratio steadily.**

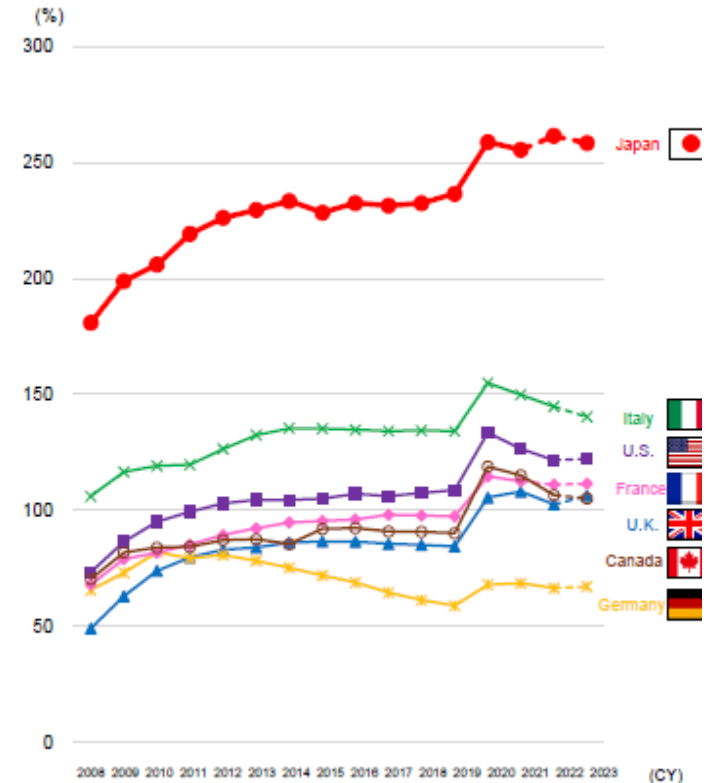
■ Primary Balance (% of GDP)



<World Ranking (out of 172 countries/regions)>

Rank	Country/Region	Primary Balance (%)
1	Macau	0.0%
2	Hong Kong	1.9%
...
108	Germany	68.6%
...
113	China	71.8%
...
154	U.K.	108.1%
...
158	France	112.6%
159	Canada	115.1%
...
164	U.S.	126.4%
...
169	Italy	149.8%
170	Sudan	187.9%
171	Greece	200.7%
172	Japan	255.4%

<Comparison with Major Advanced Countries>



* Actual figures in 2021

Major Outcomes of G7 Finance Track under Japan's Presidency

Under the Japanese Presidency, the G7 was united in addressing various global issues, including through the holding of six meetings of finance ministers and central bank governors.

Responding to an increasingly complex world

- Russia's war of aggression
- Support for Ukraine
- Sanctions

Cooperation with developing countries/ Strengthening IFIs

- Debt issues (Common framework, middle-income countries)
- Strengthening international financial institutions (MDBs, IMF)
- Foreign direct investment
- Cooperation with developing countries including Africa

Global economic resilience/ resolving global challenges

- Climate change and Resilient supply chains through **RISE (Resilient and Inclusive Supply-chain Enhancement)**
- Global health
- Digitalization of economy (international tax, CBDC, financial stability, anti-money laundering)

Economic policies reflecting diverse values

- Pursuit of welfare in economic policy



Major Outcomes of G7 Finance Track under Japan's Presidency

RISE (Resilient and Inclusive Supply-chain Enhancement) :

New multilateral initiative to enable low/middle-income countries to play larger roles in the supply chains of clean energy products

Background

- Supply chains of clean energy products (Solar PV, Storage Batteries, etc.) are excessively concentrated in one country, especially in their middle-stream (simmering/refining critical minerals) and down-stream (manufacturing/assembling).
- Ensuring smooth supply of clean energy products to meet their growing demand requires multilateral efforts in diversifying their supply chains.

Key Deliverables

- **Hosted a launching event of RISE** at the World Bank/IMF Annual Meetings in October 2023 in Marrakesh, with **financial contributions of more than 50 million USD** from **Canada, Germany, Italy, Japan, Korea, the U.K.**
- **Started implementation of RISE in New Delhi** in December 2023 with the representatives of bilateral development finance institutions, local industries, and the government **to facilitate the ground-level information sharing**

Expected Outcomes of RISE

- 1. Sustainable development of low- and middle-income countries (LMICs) through diversification and higher value addition of local industries**
- 2. Steady supply of clean energy products to support global efforts in achieving net-zero**

Concrete Activities

- 1. Analytic works** to identify opportunities and issues for LMICs
- 2. Technical assistances and capacity development** for LMICs to enhance their investment climates
- 3. Information sharing** at the ground level for promoting co-financing to specific projects and firms

Pursuit of welfare in economic policy

- ✓ Our economies and societies are experiencing **fundamental structural changes such as digitalization and climate change**. An increase in the size of the economy does not necessarily lead to improved happiness if inequality is widening or if growth is not sustainable. Therefore, re-examining whether economic policies are conducive to improving wellbeing is important to maintain confidence in democracy and the market economy.
- ✓ While **GDP remains one of the most useful indicators for policymakers, it has various challenges and limitations**. This makes it difficult to comprehensively measure welfare that reflects people's diverse values based on GDP alone.
- ✓ Through discussions with experts, policymakers shared the recognition that it is important to **comprehensively capture welfare through multidimensional indicators** and to reflect these indicators in policymaking.

Presidency Note on Economic Policy in Pursuit of Welfare

Five approaches

- ◆ Addressing limited coverage of GDP
- ◆ Importance of diverse set of non-GDP indicators.
- ◆ Consideration of intergenerational values
- ◆ Wider engagement
- ◆ Continuous fine-tuning

Cooperation with Developing Countries including Africa

G7 Finance Ministers and Central Bank Governors' Meeting Outreach meeting

In addressing global challenges such as climate change and development, global solutions, involving emerging and developing countries, are required. From this perspective, it is important for the G7 to deepen relations with partner countries and an outreach meeting was held at the G7 FMCBG Meeting in Niigata in May, inviting Brazil, Comoros (Chair of the African Union at the time), India, Indonesia, South Korea, and Singapore, to have a dialogue on various issues developing economies are facing.



~ G7-Africa Ministerial Roundtable ~

The G7-Africa Ministerial Roundtable was held during the World Bank/IMF Annual Meetings in Morocco (Marrakech) in October, where G7 members, the G20 Presidency (India and Brazil), African countries (Comoros, Ghana, Morocco, Nigeria, Senegal, South Africa, and Zambia) and others were invited. Participants discussed a role of private and public funding and reforms to improve the business environment to attract investment in African countries that have been particularly hit hard by global challenges including climate change and food insecurity.

The G7 intends to further strengthen their financial and economic collaboration with African countries.



Major Achievements under Japan-Indonesia Co-Chaired ASEAN+3 Finance Ministers' Process

Pillar One: CMIM (Chiang Mai Initiative Multilateralisation)

- ✓ **Agreed on the establishment of the “Rapid Financing Facility (RFF)” under Japan’s initiative.** RFF can address balance of payment needs stemming from sudden exogenous shocks, such as natural disasters and pandemics. **Once created, RFF would be the first new facility since 2014.**
⇒ **RFF has been a priority facility of the ASEAN countries** that face frequent natural disasters. RFF was also mentioned in the “Implementation Plan” adopted at the ASEAN-Japan 50th Year Commemorative Summit.
- ✓ **Agreed on the roadmap for the discussions of financing structures** of the regional financial safety net.
- ✓ **After three-year negotiations, agreed on lowering the CMIM margin** to the level of the IMF margin to meet ASEAN’s expectations.



Pillar Two: AMRO

(ASEAN+3 Macroeconomic Research Office)

- ✓ Agreed on the establishment of the additional senior management position to strengthen its surveillance capability.
- ✓ Agreed on the Terms of Reference of the position and its appointment by mid-2024.

Pillar Three: ABMI

(Asian Bond Markets Initiative)

- ✓ Endorsed the new ABMI Medium-Term Roadmap 2023-2026, which incorporated the emerging issues, such as sustainable finance and digitalization.
- ✓ The Roadmap is expected to contribute to the development of the local currency bond markets and promote flow of funds within the region.

Pillar Four: DRF

(Disaster Risk Financing)

- ✓ Agreed to establish a Secretariat for the DRF Initiative to enable stable promotion of the discussions.