The Impact of the U.S. and Japanese Elections on International Finance

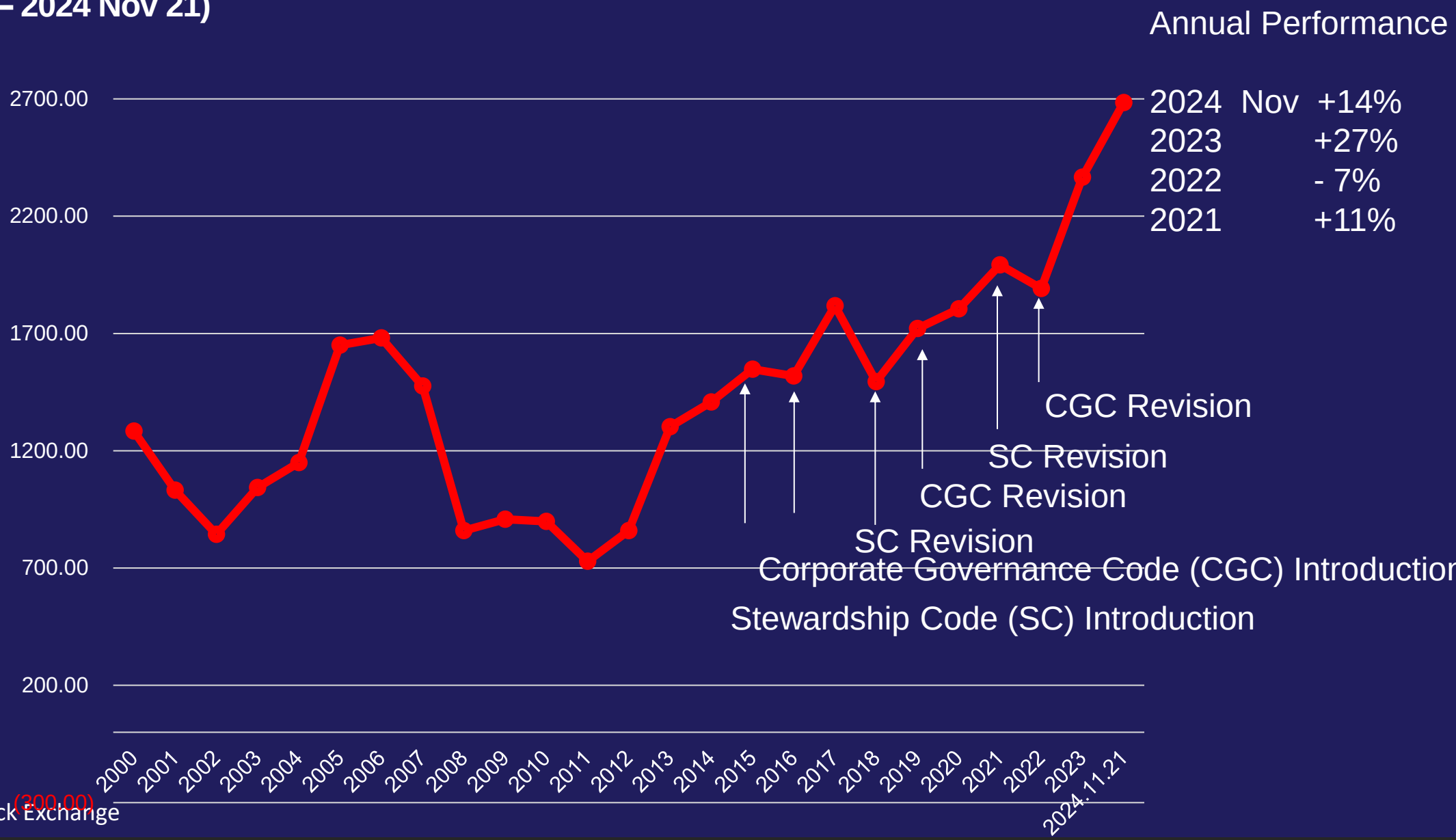
Japan-U.S. Symposium

Keiko Honda



Japan Equity Market

(TOPIX, 2000 – 2024 Nov 21)

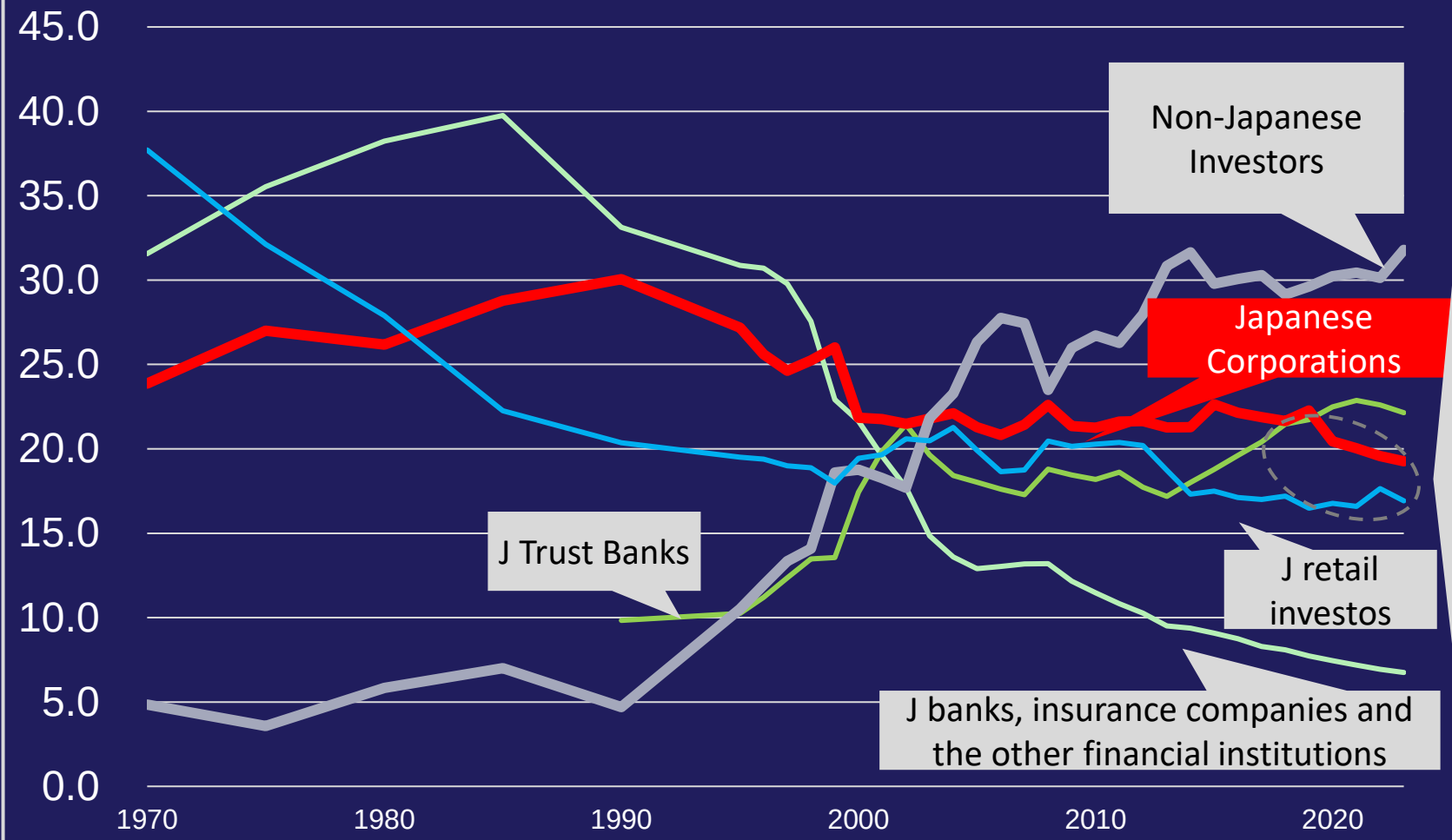


1968=100

Source: Tokyo Stock Exchange

Japanese Equity Ownership – by ownership type

%



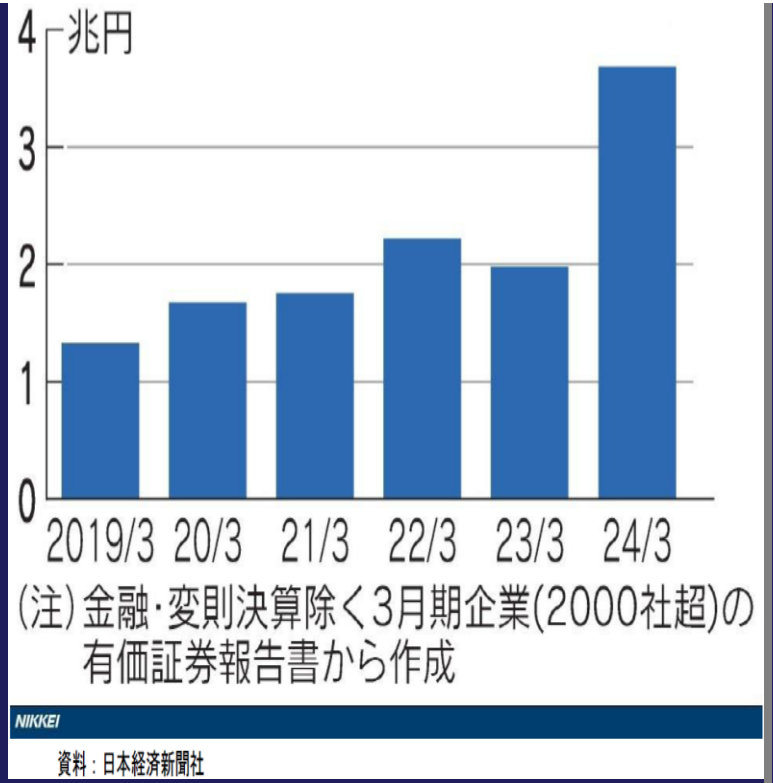
資料：三菱UFJ信託銀行にて作成

Source: Produced by Mitsubishi UFJ Trust and Banking Corporation

Sales of Cross shareholding

Excluding Financial Intuitions,

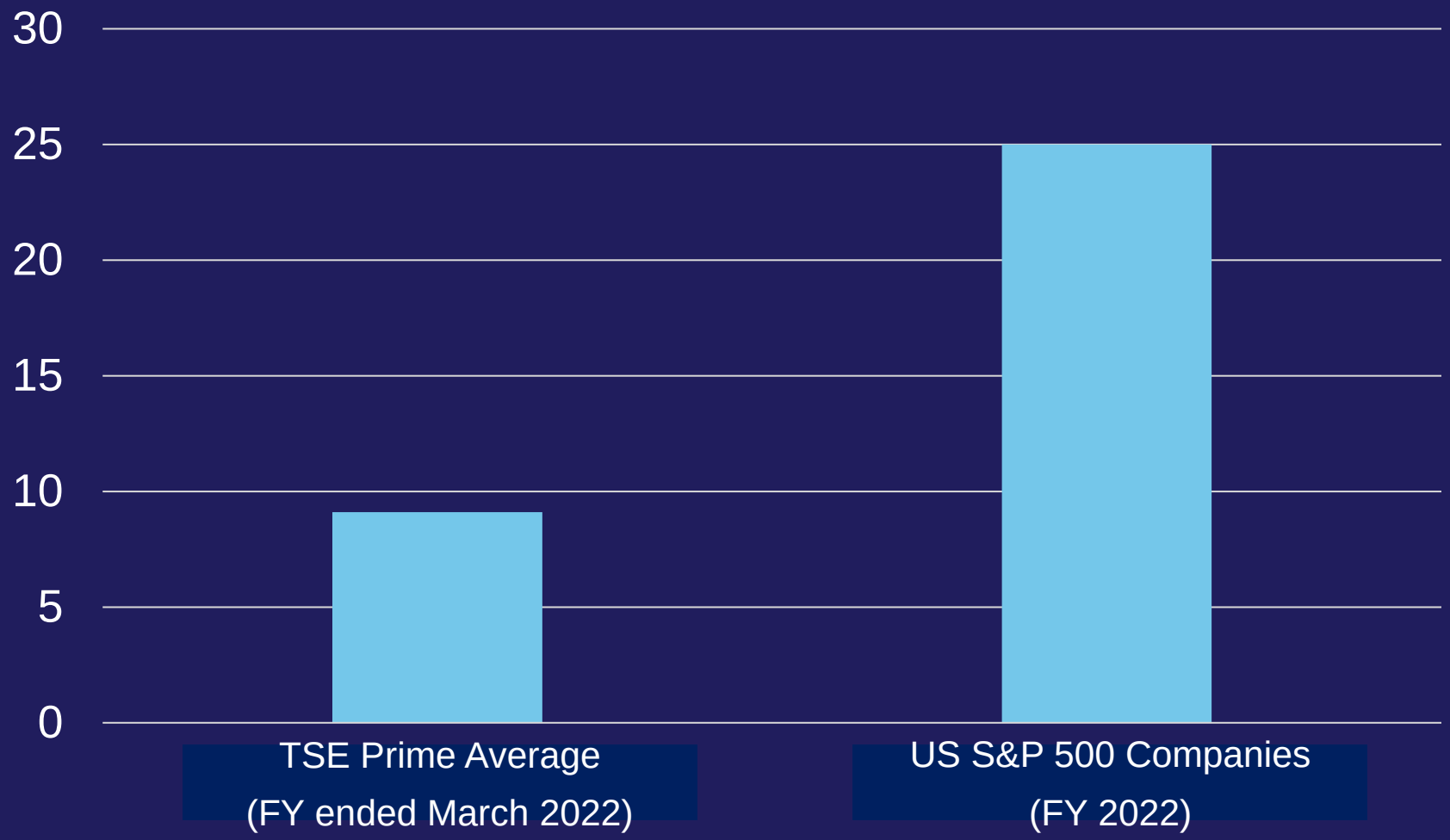
Trillion yen



Source: Nikkei Inc.

ROE of Japanese companies at TSE Prime section is about 1/3 of that of US S&P 500 companies in 2022

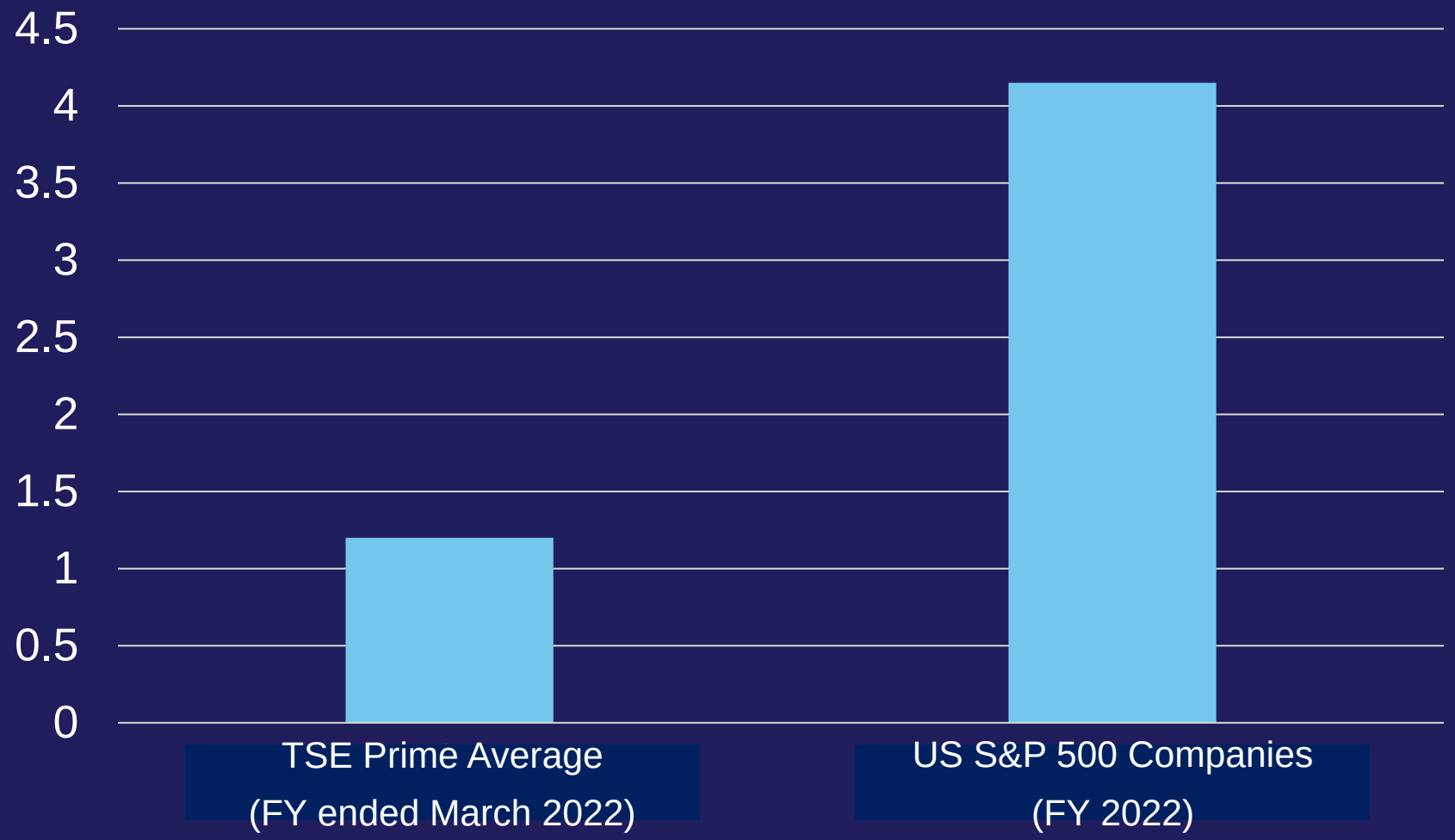
ROE Comparison - 2022



Source：S&P Global, https://www.spglobal.com/spdji/en/documents/performance-reports/dashboard-sp-500-factor.pdf," Page 2., JPXWebsite https://www.jpx.co.jp/markets/statistics-equities/examination/index.html

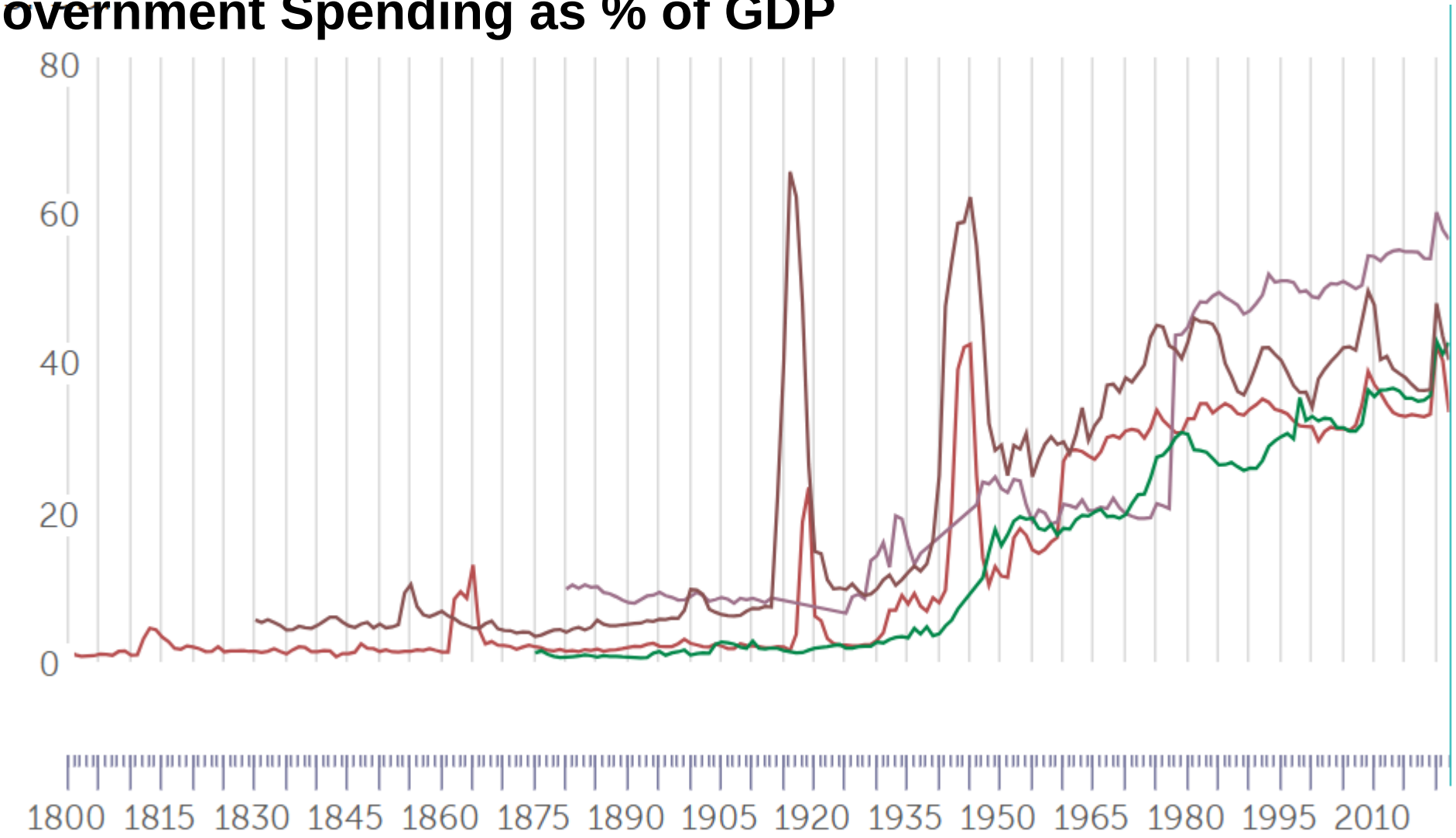
Average PBR of TSE Prime companies is less than 1/3 of US S&P 500 companies

PBR Comparison, Jan. 2023



Source：Tokyo Stock Exchange PBR、https://www.jpx.co.jp/markets/statistics-equities/misc/04.html、 S&0 500 PBR as of Feb 3, 2023 https://www.multpl.com/s-p-500-price-to-book

Government Spending as % of GDP



France

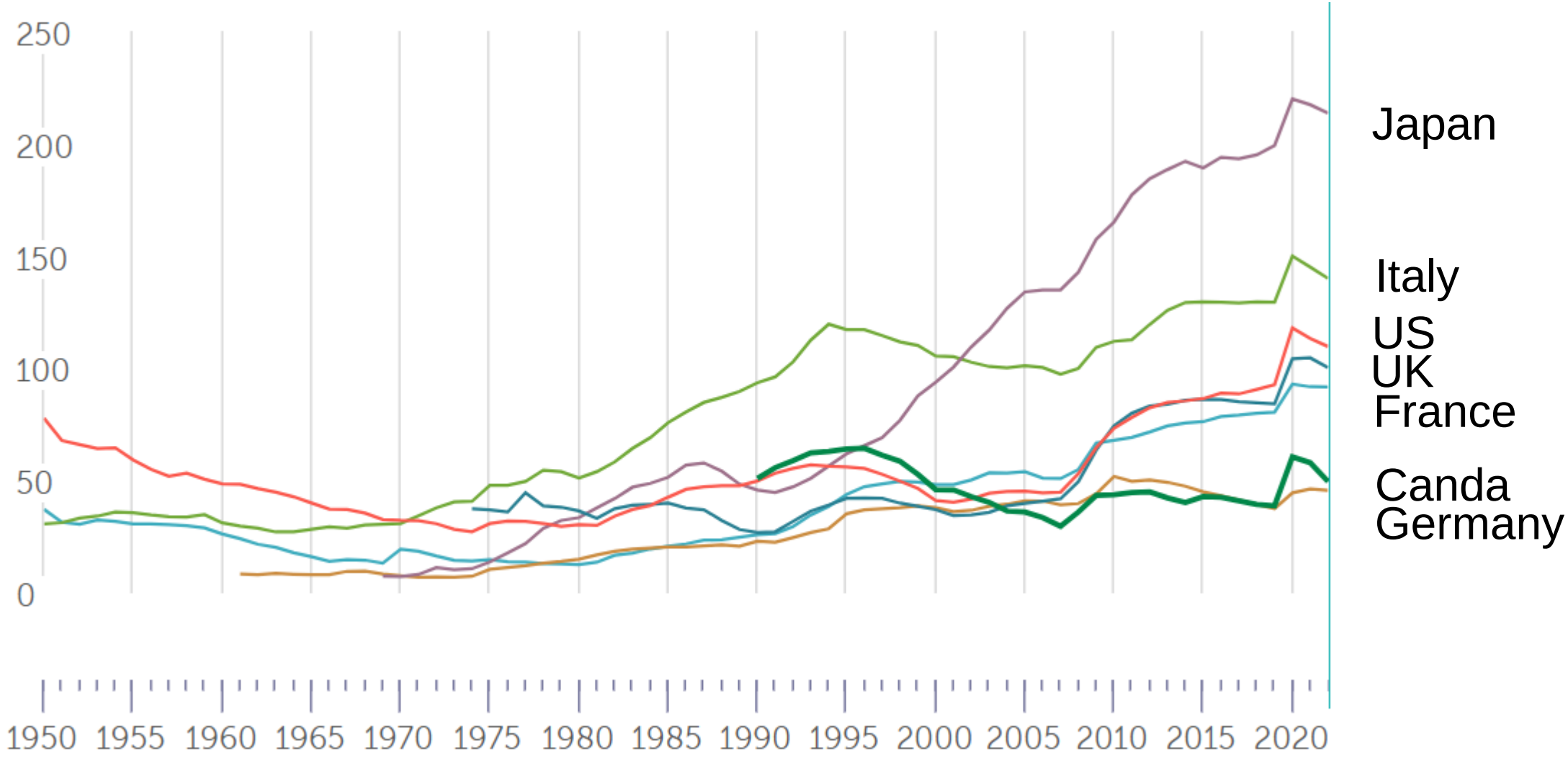
Japan

UK

US

Source: IMF Datamapper

Sovereign Debt as % of GDP



Source: IMF Datamapper

Sovereign Credit Rating 2002 vs Now – S&P

	2002		2024
US	AAA	↘	AA+
Germany	AAA	→	AAA
Canada	AAA	→	AAA
UK	AAA	↘	AA
France	AAA	↘	AA-
Japan	AA-	↘	A+
Italy	AA	↘	BBB
China	BBB	↗	A+
India	BB	↗	BBB-
Brazil	B+	↗	BB
Russia	BB-	↘	-

Source: S&P Global Rating, Bhatia, Ashok Vir, Sovereign Credit Rating Methodology, IMF Working Paper,

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Major Issues in Banking and Capital Market Regulation

Kiyotaka Sasaki, Senior Advisor
Deloitte Tohmatsu LLC
(former Director General, Financial Services Agency)

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The views expressed in this document are solely those of the author and do not necessarily reflect those of the organizations to which he belongs.

Who am I ?

More than 25 years of experiences of financial regulation and oversight at Ministry of Finance and FSA

International experiences;
IMF, OECD, FSB, BCBS, IOSCO, IFIAR





Expertise; risk management, compliance, AML/CFT, audit, governance, DX, crypto

- Senior Advisor, Deloitte Tohmatsu LLC,
- Visiting Professor, National Hitotsubashi Business School

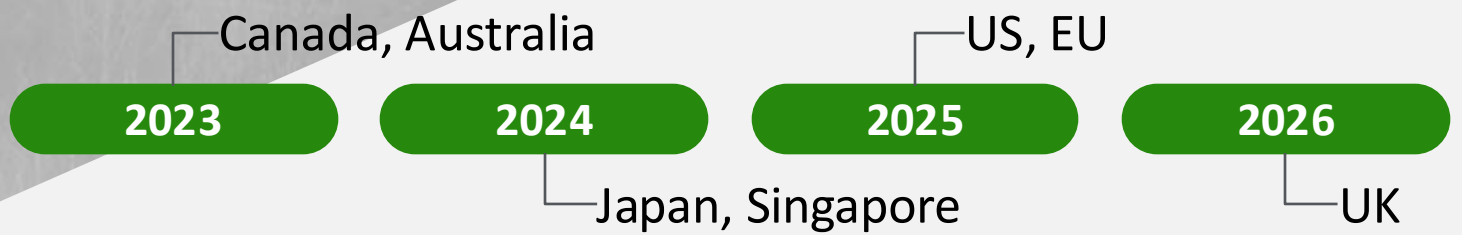
Major issues in Banking and Capital Market Regulation

1. **B**asel III
2. **S**ustainability
3. **C**rypto-asset

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Basel III

- Finalization of Basel III (2023.1)
- Implementation on schedule?



- **More attention to risks** of financial system under the current economic and political environments: both **financial and non-financial**
- Enhanced monitoring of G-SIBs on **group and global basis**
- **Monitoring of increasing NBFIs**: hedge fund, private funds (equities, debts)
- **Emerging risks by DX**: operational resilience, cybersecurity, interlinkages with crypto-asset markets, use of AI

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Sustainability as a national strategy



1. **Net Zero** for Environment

2. Stable **supply of carbon neutral energy and national security**

3. Investments and **economic growth: GX with DX and AI**

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Sustainable finance

1. For **corporate**
   - **Disclosures** on **E**: Standards by ISSB and SSBJ, and **assurance** framework
   - Further work on disclosure on **S** (human capital)
2. For **financial sector**
   - **Transition finance** to support corporates
   - **Carbon credit markets**
   - **Risk management** by financial firms
3. For **market infrastructure**
   - Data collection
   - **ESG washing**: **Code of Conduct for ESG evaluation and data providers** (2022.12)

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Crypto-asset

Regulatory developments and gaps on Crypto-assets

- **Japan** Payment Law (2017), Financial Instrument and Exchange Law (2018), and further review
- **EU** MiCA (2023)
- **US** any regulation?

Increased interlinkages between crypto-asset markets and conventional financial markets, and potential **risk contagion**: the US SEC's approval of BTC ETF (2024.1)

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Thank you for your attendance

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Soft-Landing in the U.S. and Japan?

Symposium on Building the Financial System of the 21st Century: An Agenda for Japan and the United States

Takatoshi Ito
Professor, SIPA, Columbia University

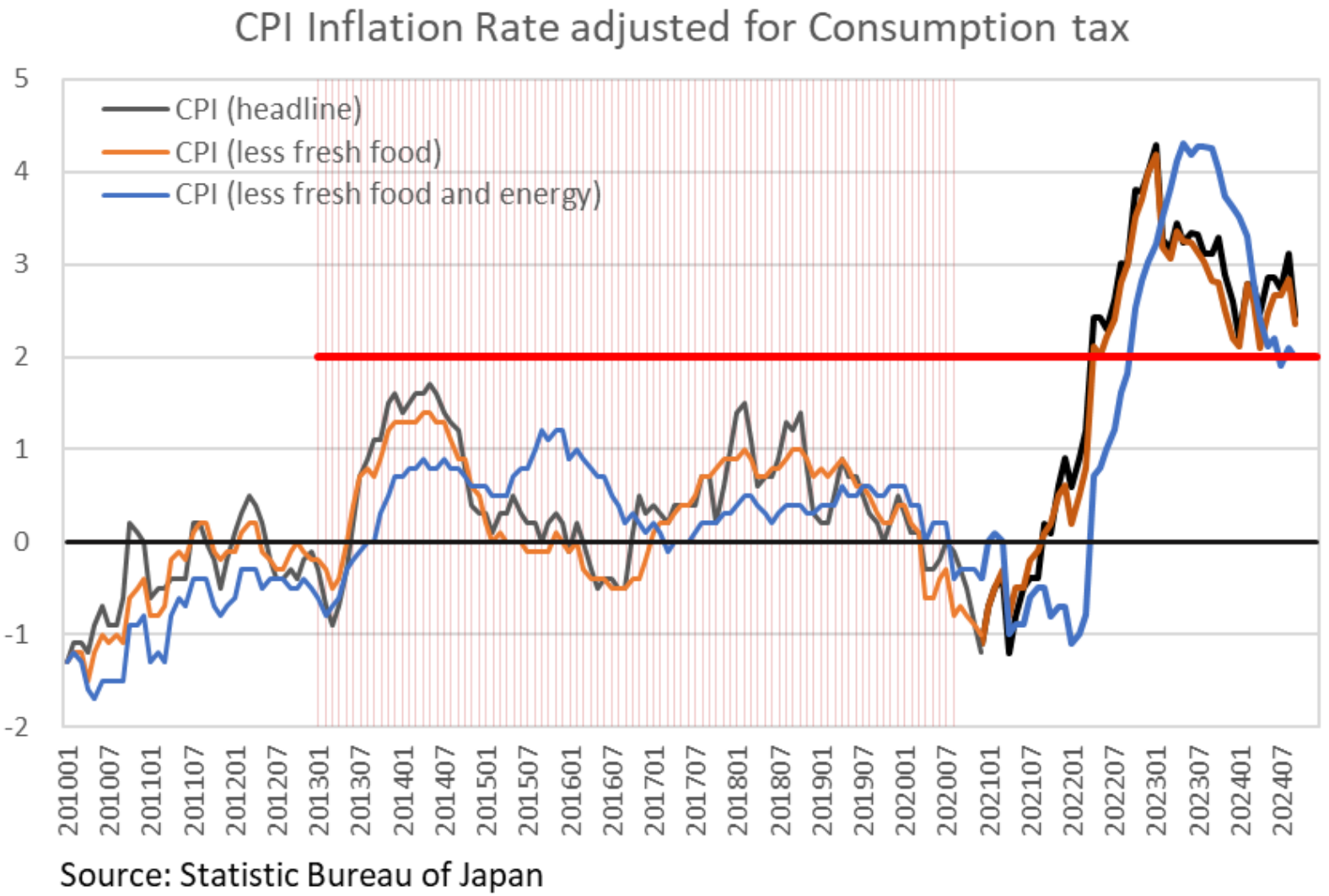
For PIFS 2024, Washington D.C.
November 22, 2024

Takeaways

- The **US** will have ***no landing.***
  - The US economy has an upside risk in that the real economy (GDP, unemployment) will surge again, and the inflation rate may rise again when the incoming Trump administration implements what he promised to do—high tariffs, tax cuts, and deportation of undocumented immigrants.
- The Japanese economy is now on track to have a **soft-landing from below**.
  - A **new equilibrium of (π, π^e, Δw) = (2, 2, 3).** If any, the risk is on the downside. The unstable minority government and uncertain geopolitical environment would not stimulate consumption or investment. The need for fiscal consolidation and monetary policy normalization means no strong stimulus from fiscal or monetary policies.

Figure 1. Monetary policy normalization

2% inflation targeting QQE, NIRP, YCC, and overshooting commitment



Source: Statistic Bureau of Japan

Monetary policy normalization
Opportunistic overshooting

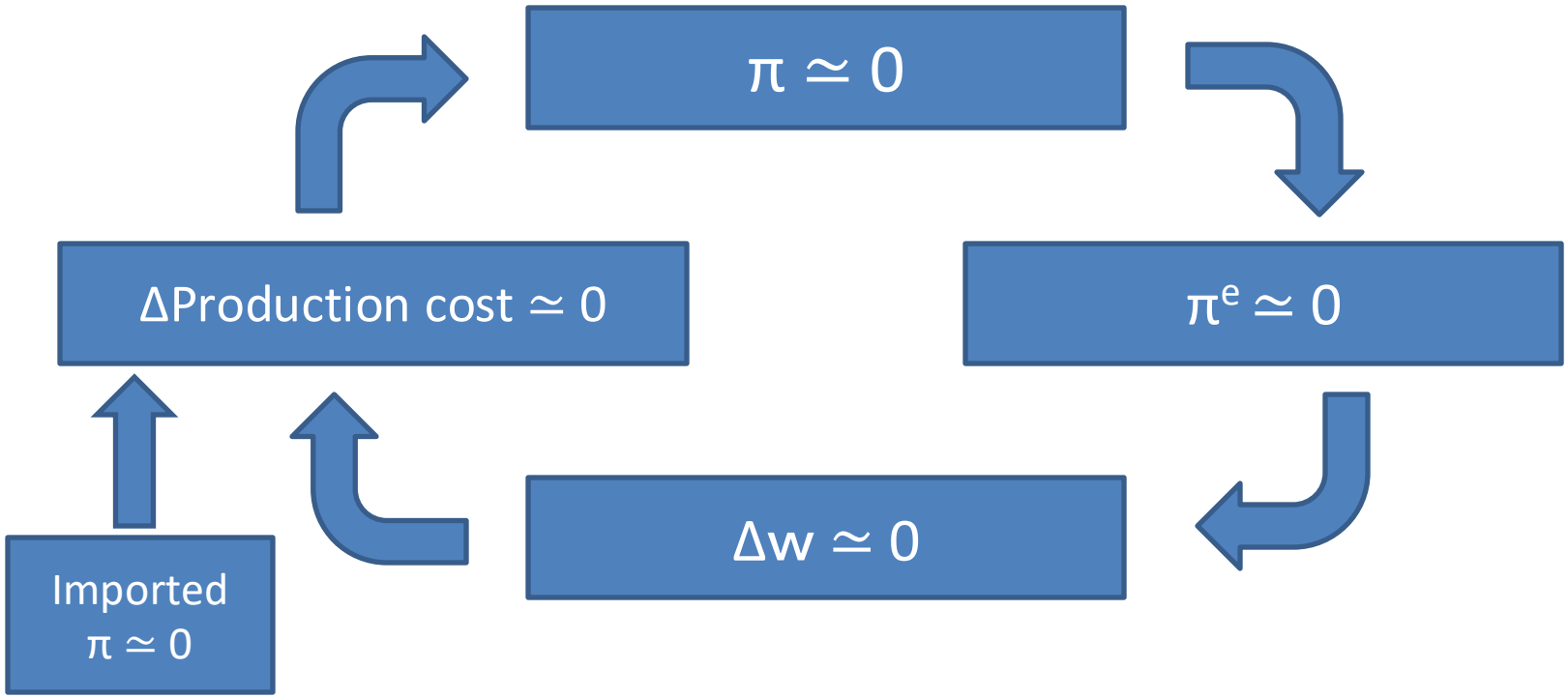
- $\pi \Rightarrow \pi^e \Rightarrow \Delta w$



- 0%➡0% ➡0%　　（1998～2012）
- 0～1%➡0%➡0%（2013 ～ 2021）
- 3%➡1%➡3%　　（2022 ～ 2023）energy price increase
- 2%➡2%➡3%　　（2024 ～ continue?）

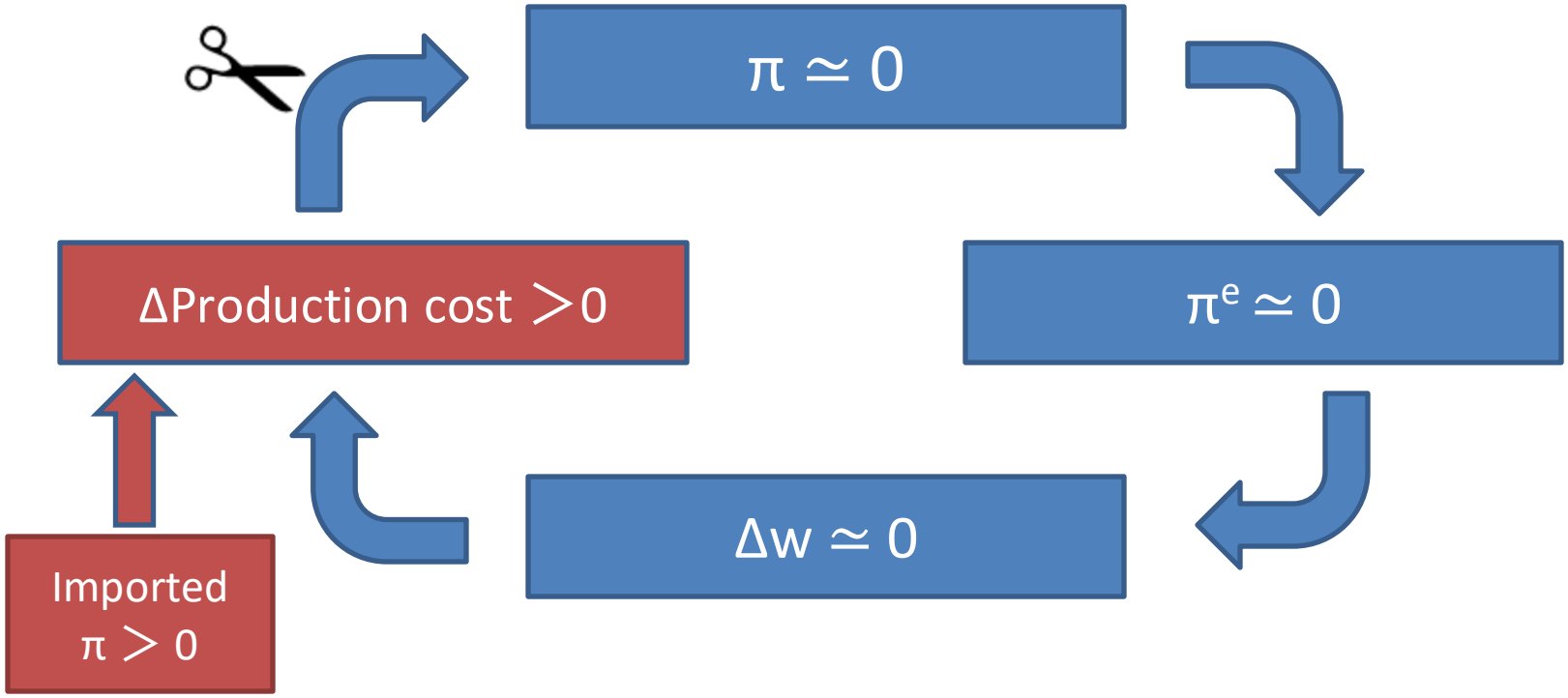
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0-0-0 equilibrium

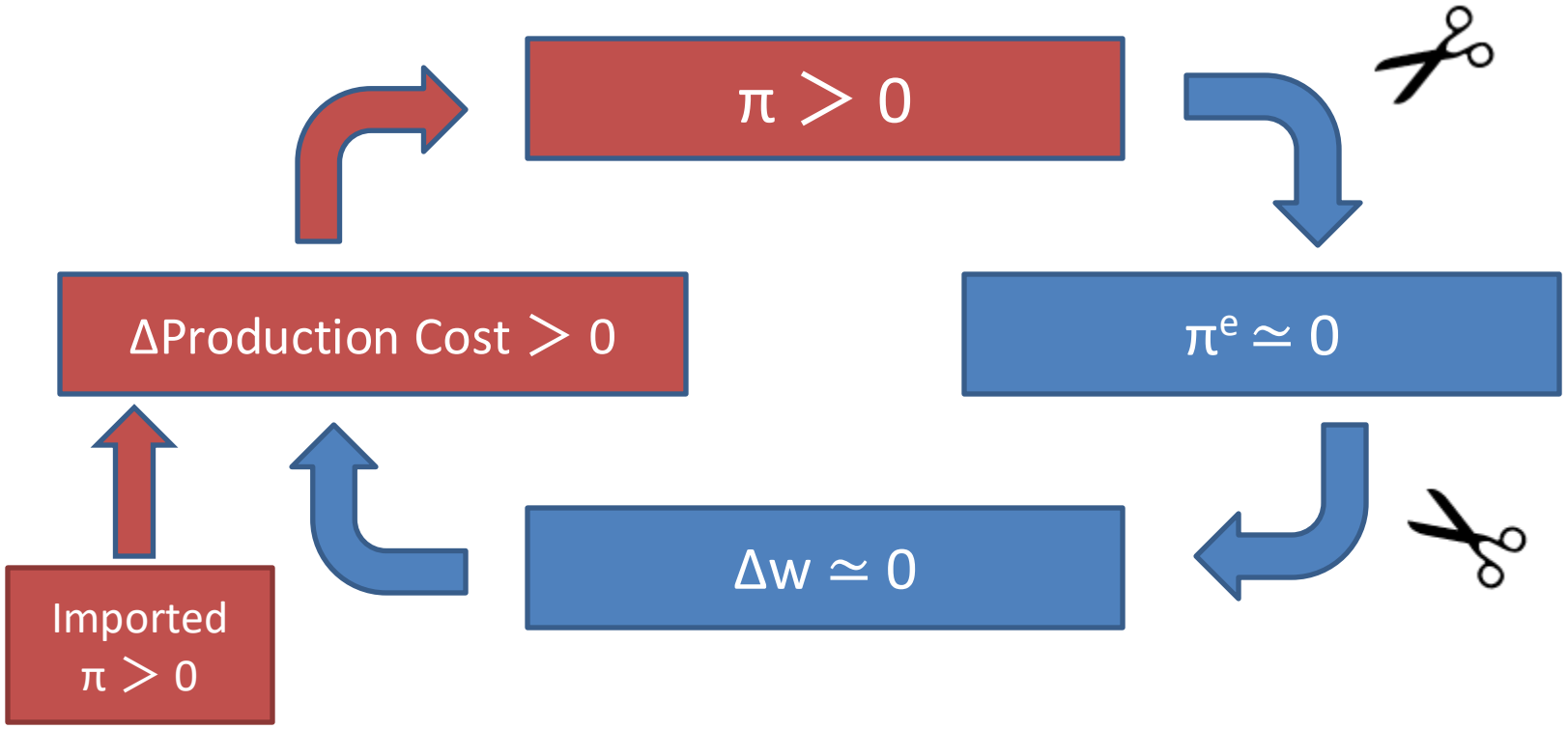


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2022. Energy and yen depreciation shock



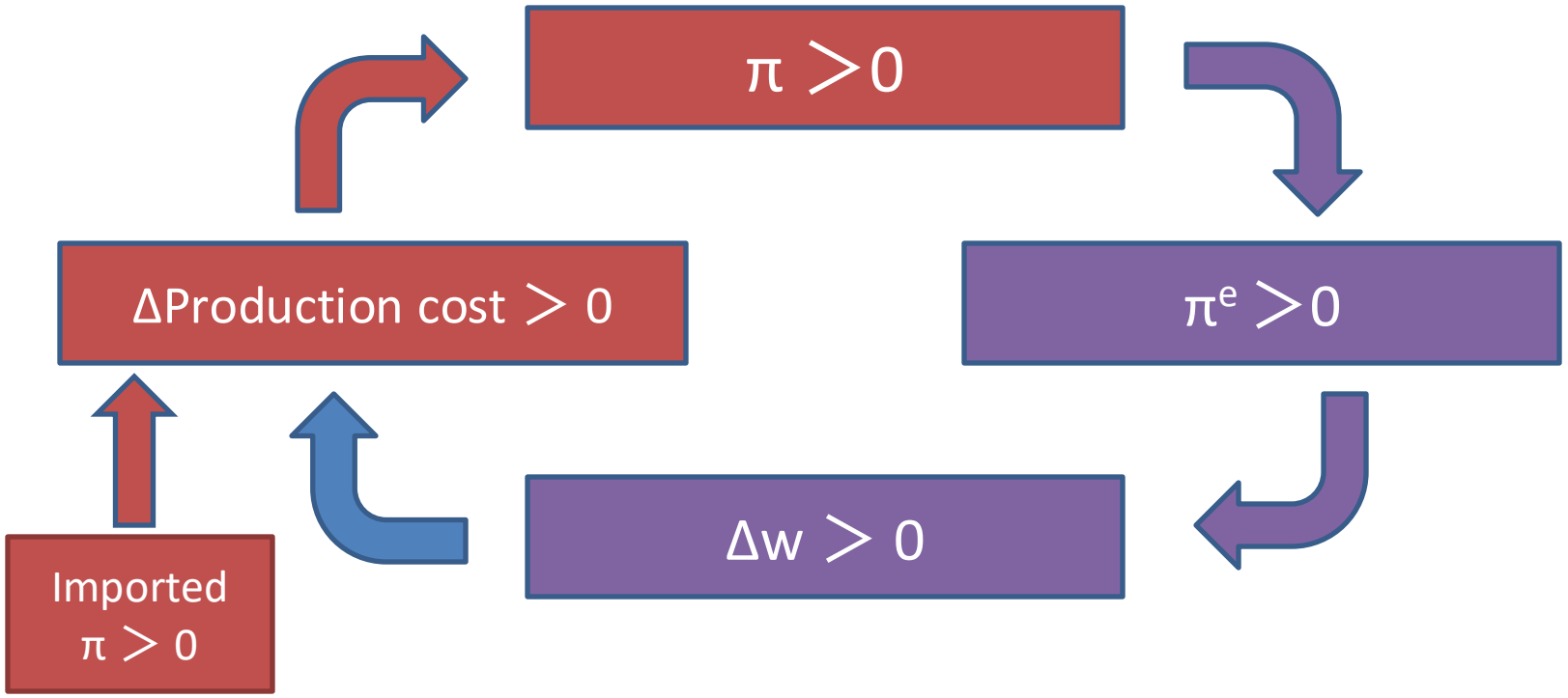
2022. Inflation rate rose rapidly



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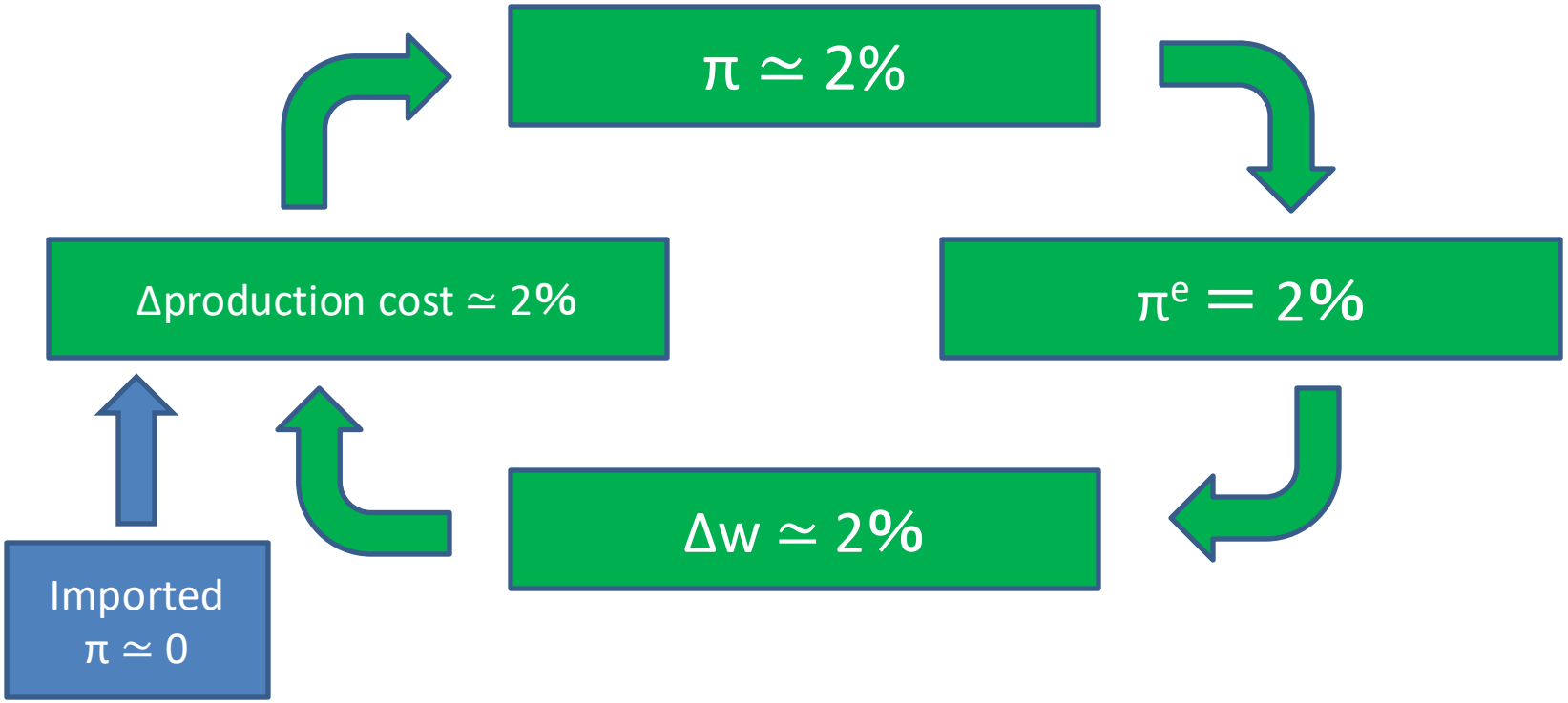
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2023. High inflation rate & high wage hike (Shuto)

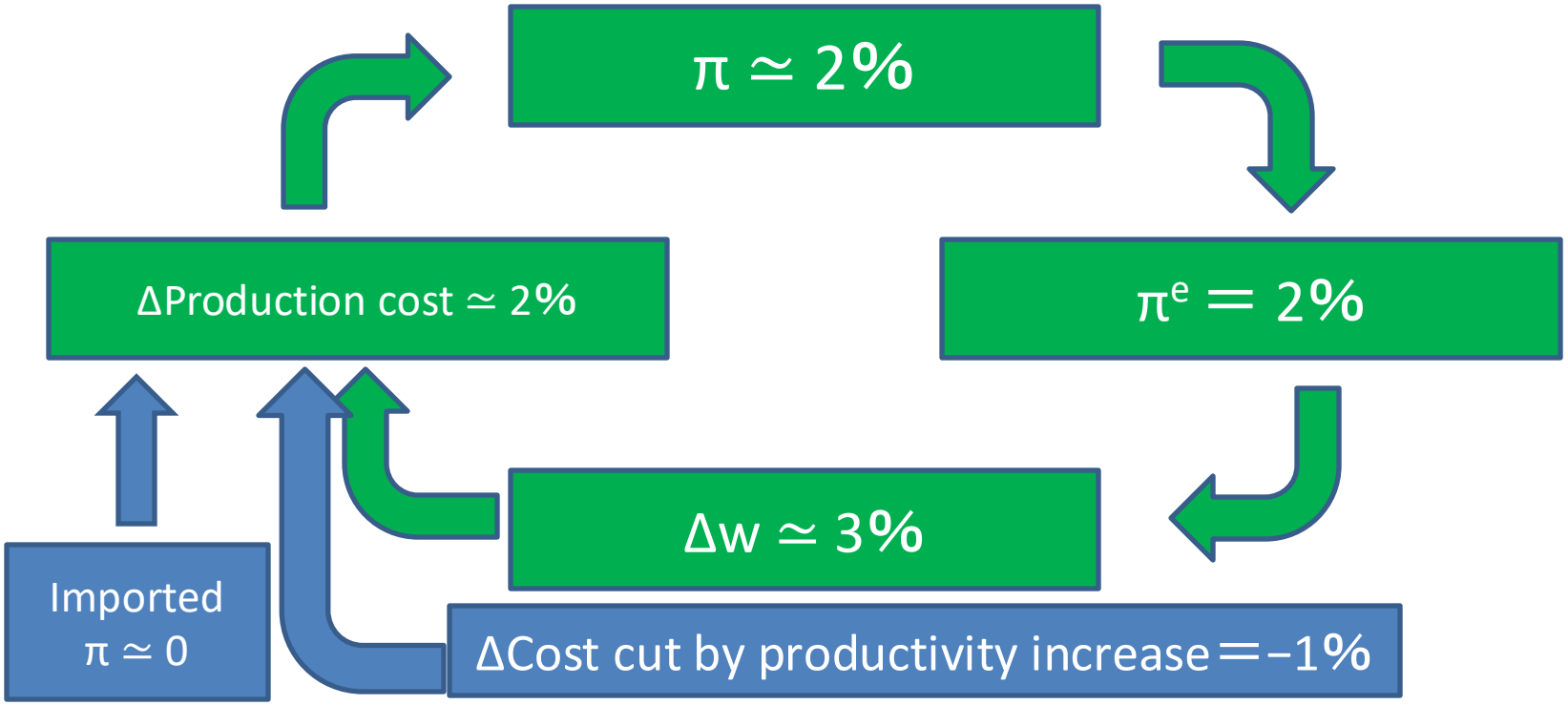


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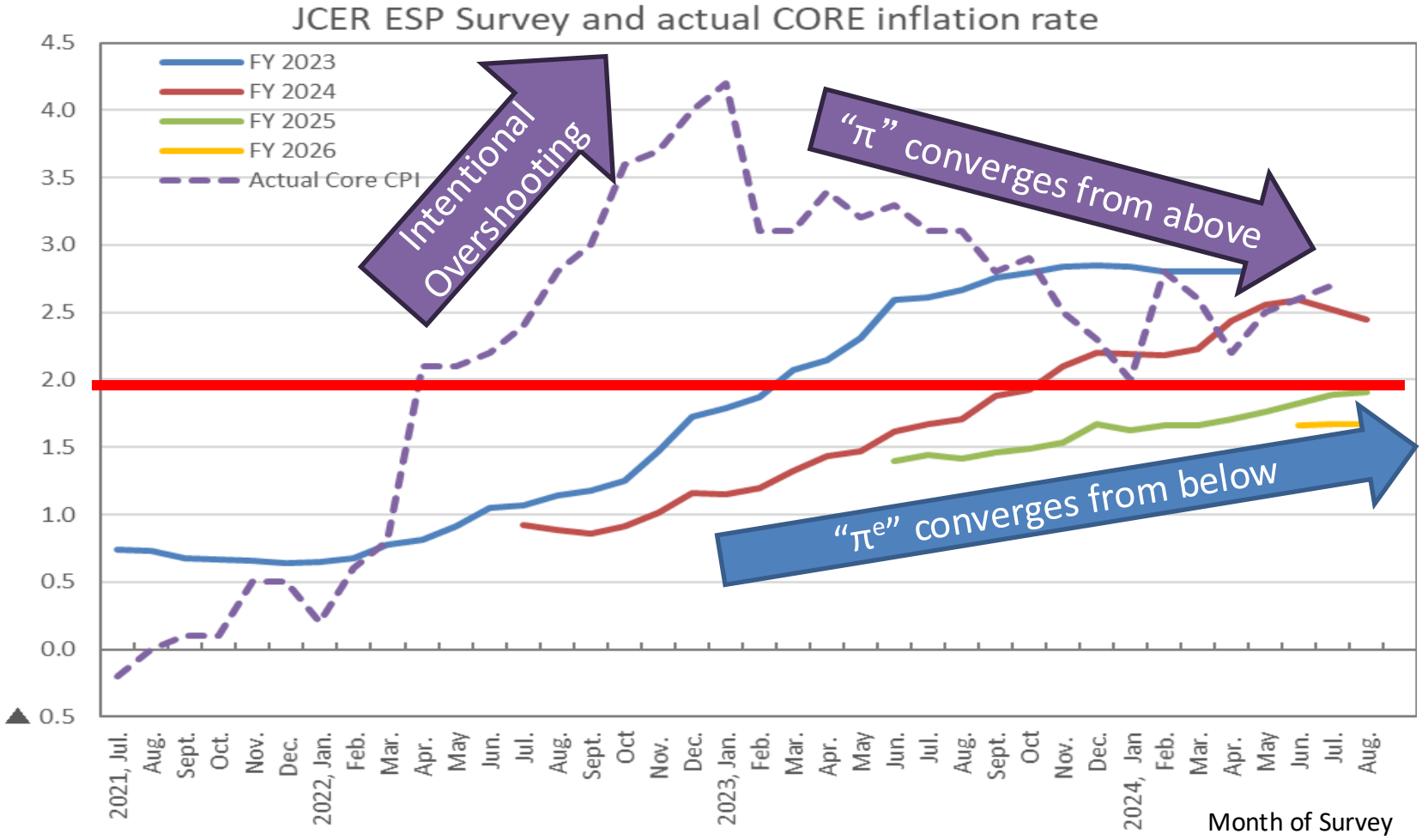
2023. 2-2-2 equilibrium



2-2-3 equilibrium with productivity growth



Monetary policy normalization
Challenges: will π and π^e converge to 2%?



Source: Author's creation based on JCER ESP Survey

日本銀行
BANK OF JAPAN

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How Likely is Soft-Landing?
- Japan's case -

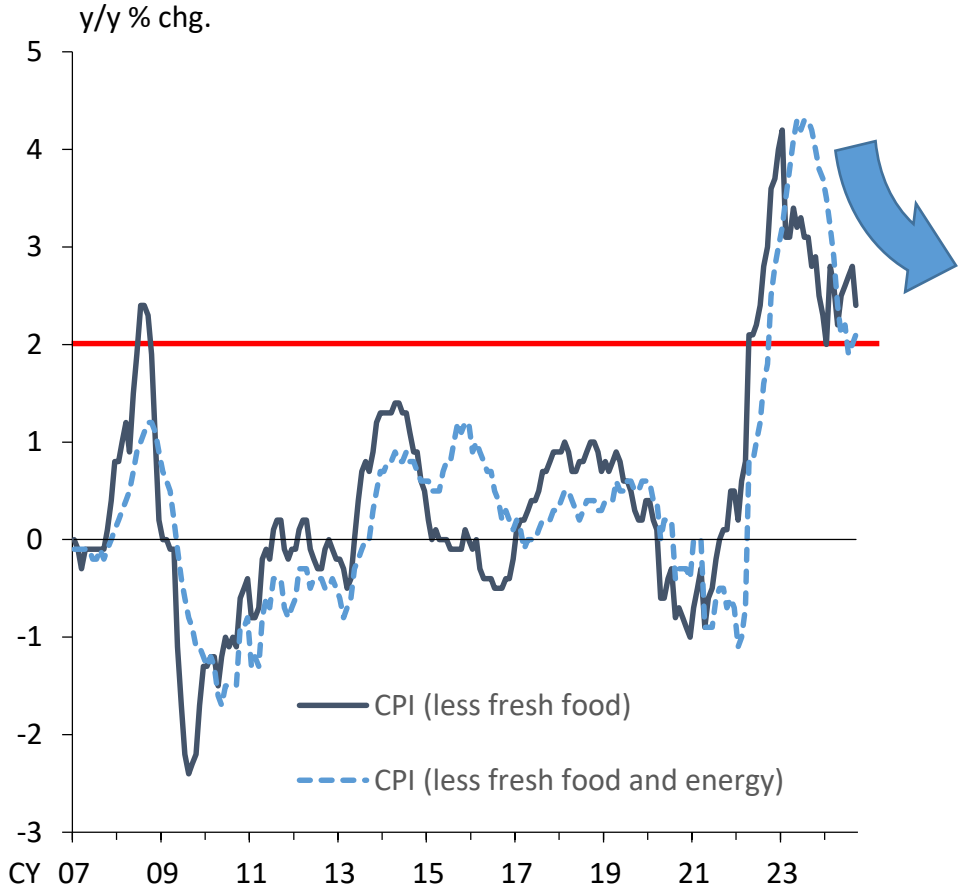
Seiichi SHIMIZU
Bank of Japan

November 2024

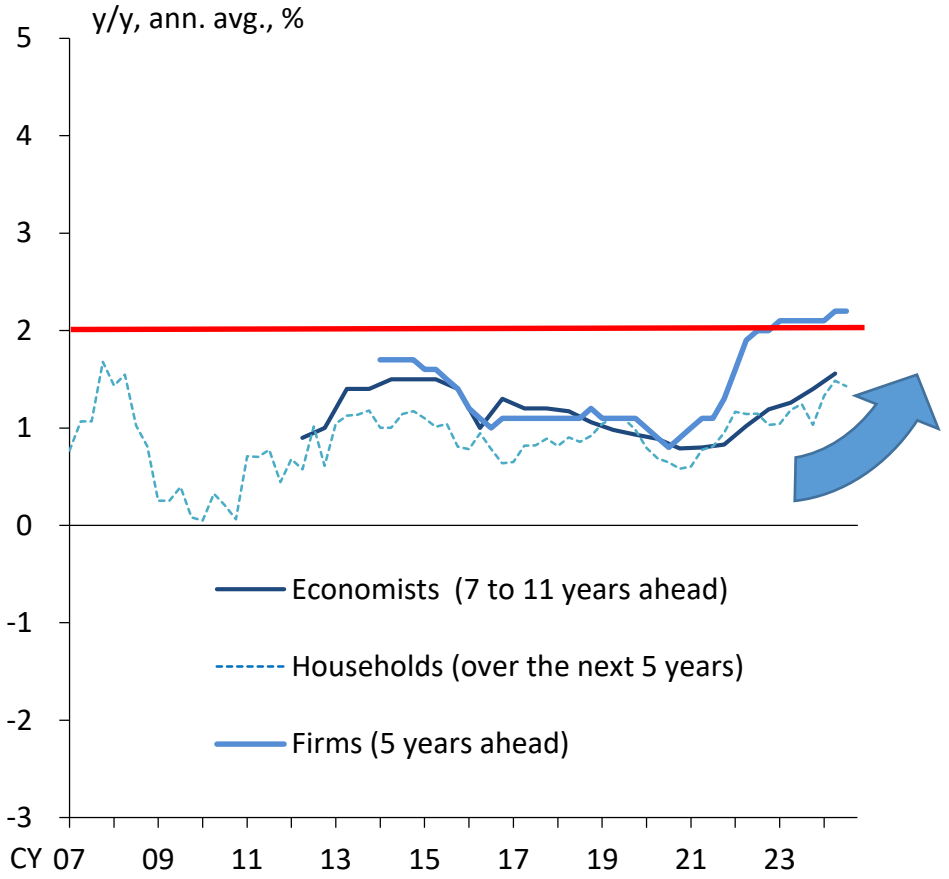
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Soft-Landing/Smooth Taking-off

CPI Inflation



Inflation Expectations

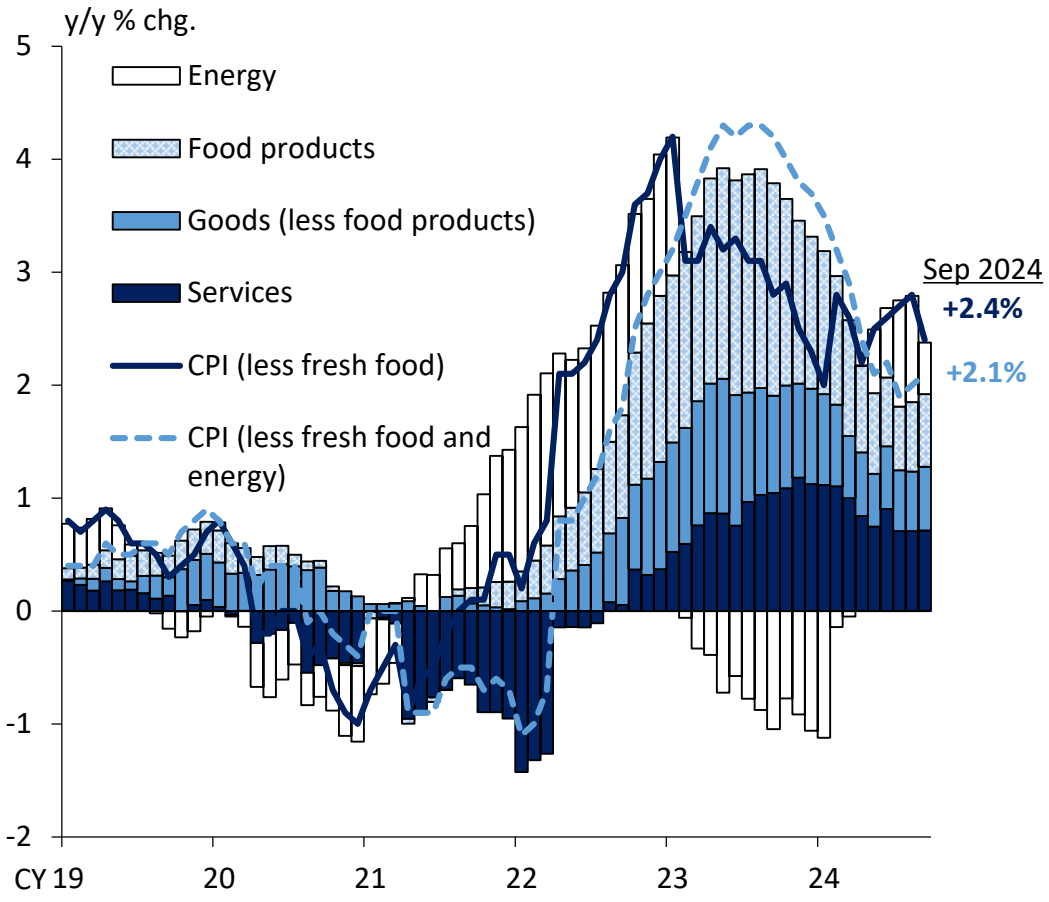


Notes: 1. In the left chart, the CPI figures exclude the effects of the consumption tax hikes.
2. In the right chart, "Economists" shows the forecasts of forecasters surveyed for the ESP Forecast. Figures for households are from the Opinion Survey on the General Public's Views and Behavior, estimated using the modified Carlson-Parkin method for a 5-choice question. Figures for firms show the inflation outlook of enterprises for general prices (all industries and enterprises, average) in the Tankan.

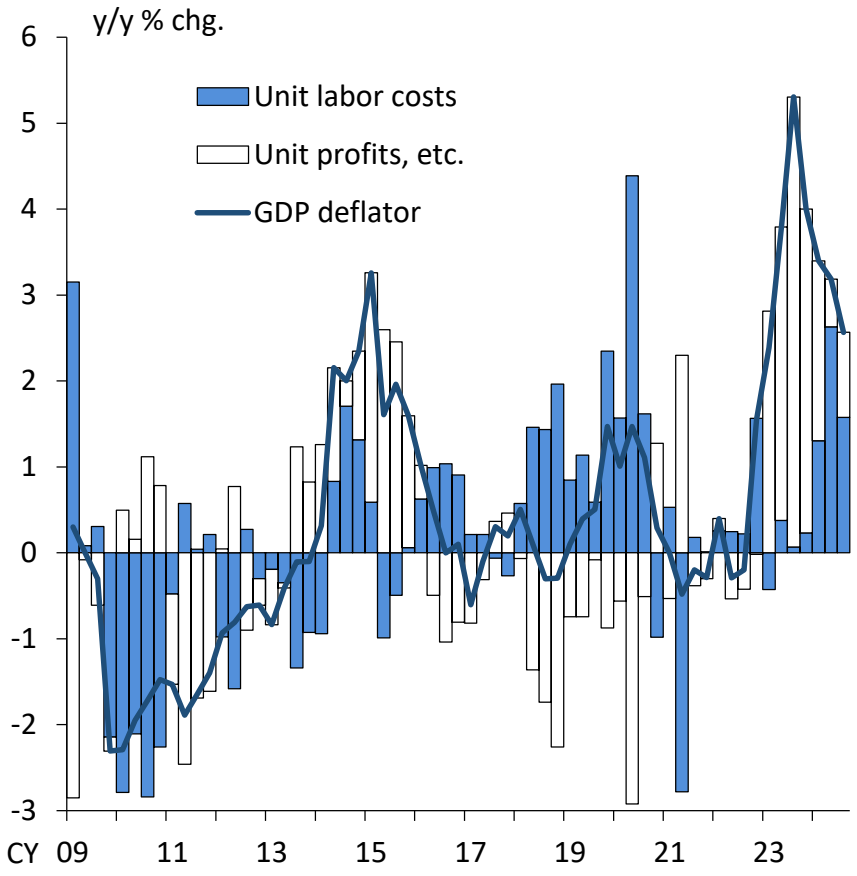
Sources: Ministry of Internal Affairs and Communications; Bank of Japan; JCER, "ESP Forecast."

Consumer Prices

CPI Inflation



GDP Deflator



Note: In the right chart, Unit labor costs = Nominal compensation of employees / Real GDP.
Sources: Ministry of Internal Affairs and Communications; Cabinet Office.

Outlook on Japan's Economy

Medians of the Policy Board Members' forecasts (Outlook for Economic Activity and Prices October 2024)

y/y, % chg.

	Fiscal 2024	Fiscal 2025	Fiscal 2026
Real GDP	0.6 (—)	1.1 (+ 0.1)	1.0 (—)
CPI (all items less fresh food)	2.5 (—)	1.9 (- 0.2)	1.9 (—)
CPI (all items less fresh food and energy)	2.0 (+ 0.1)	1.9 (—)	2.1 (—)

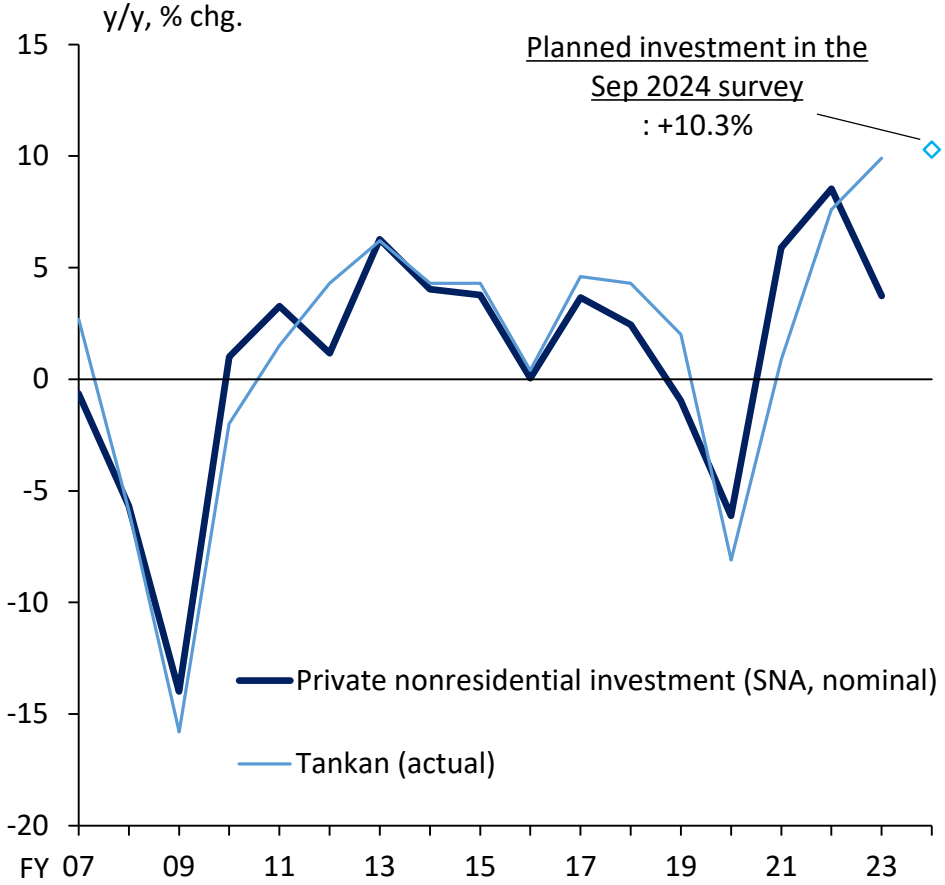
Note: Figures in parentheses indicate changes from the July Outlook Report.

Corporate Sector

Corporate Profits



Business Fixed Investment

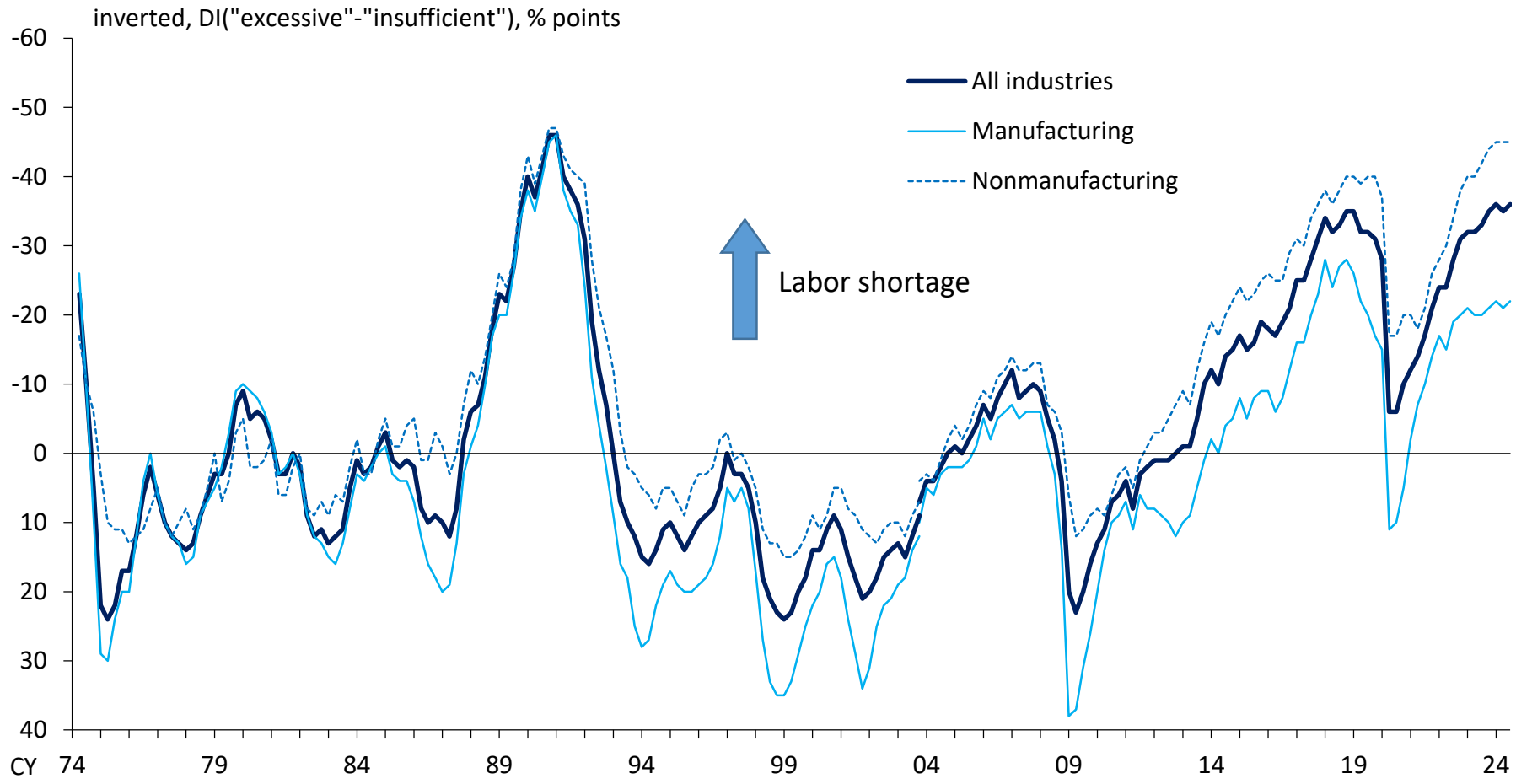


Notes: 1. In the left chart, the figures are current profits excluding "finance and insurance". Figures from 2009/Q2 onward exclude pure holding companies.
2. In the right chart, the Tankan figures include software and R&D investments and exclude land purchasing expenses. R&D investment is not included before the March 2017 survey. The figures are for all industries including financial institutions.

Sources: Bank of Japan; Ministry of Finance; Cabinet Office.

Labor Shortage

Employment Conditions DI

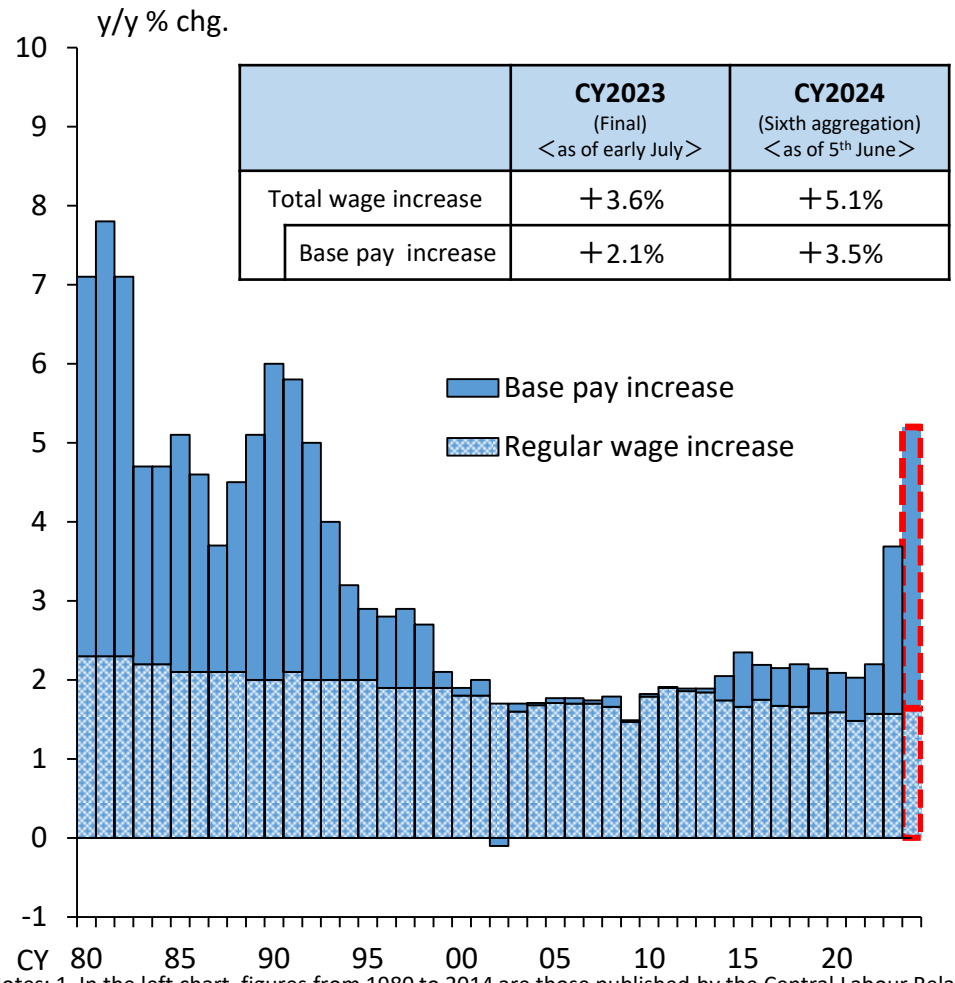


Note: Based on the Tankan. All enterprises. There is a discontinuity in the data for December 2003 due to a change in the survey framework.
Source: Bank of Japan

Participants only

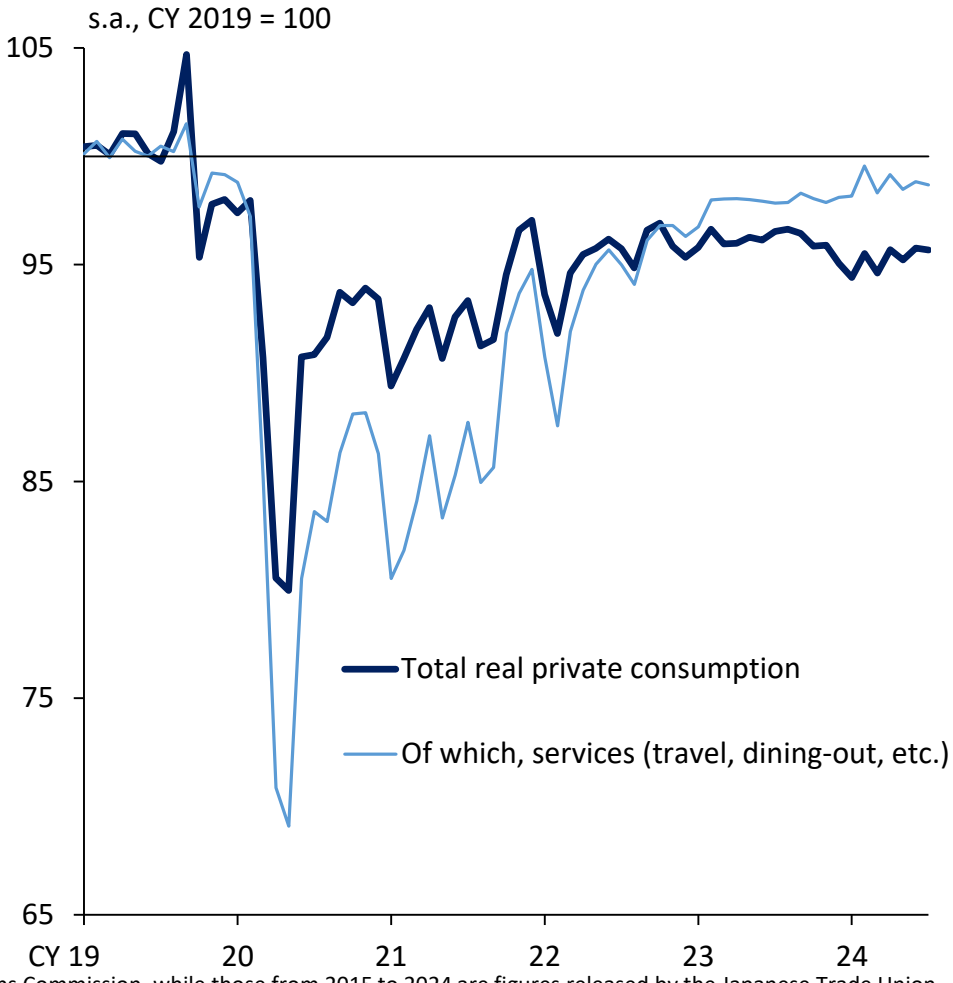
Household Sector

Developments in Wage Revisions



	CY2023 (Final) <as of early July>	CY2024 (Sixth aggregation) <as of 5th June>
Total wage increase	+3.6%	+5.1%
Base pay increase	+2.1%	+3.5%

Private Consumption



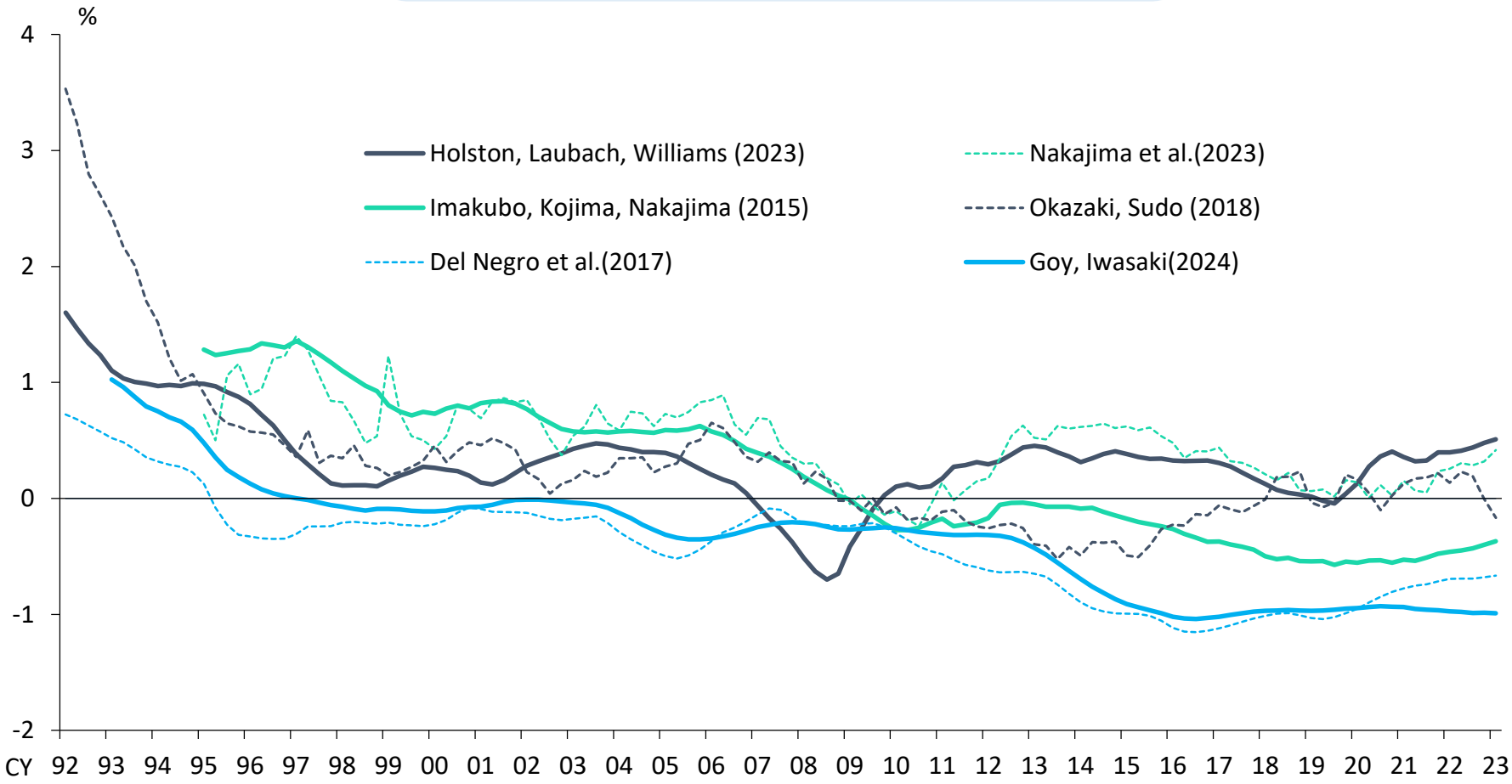
Notes: 1. In the left chart, figures from 1980 to 2014 are those published by the Central Labour Relations Commission, while those from 2015 to 2024 are figures released by the Japanese Trade Union Confederation (Rengo). Figures for base pay increase and regular wage increase are aggregated values of the wage negotiation results of labor unions for which the base pay increase is clear. .
2. In the right chart, figures for the Consumption Activity Index (CAI) are based on staff calculations. The CAI figures are travel balance adjusted; i.e., they exclude inbound tourism consumption and include outbound tourism consumption.
Sources: Japanese Trade Union Confederation (Rengo); Central Labour Relations Commission; Bank of Japan.

BOJ Monetary Policy Development

2024 March MPM	✓ Discontinue "QQE with YCC" • End negative interest policy and YCC. Set policy interest rate (short-term interest rate) at around 0 - 0.1% • End ETF and J-REIT purchases, reduce CP and corporate bonds purchases gradually to zero within about one year
2024 July MPM	✓ Change policy interest rate and release plan for JGB purchase reduction • Raise policy interest rate at around 0.25% • Reduce JGB purchase in a predictable manner, while allowing enough flexibility (to support stability in the JGBs markets) -- reduce the planned amount of its monthly outright purchases of JGBs by about 400 billion yen each calendar quarter.
2024 October MPM	✓ Future Conduct of Monetary Policy If the outlook presented in the October Outlook Report will be realized, the Bank will accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation. On this basis, the Bank needs to pay due attention to the future course of overseas economies, particularly the U.S. economy, and developments in financial and capital markets.

Natural Rate of Interest in Japan

Estimated r* in Japan by Several Methods



Note: Del Negro et al. (2017), HLW (2023), Imakubo, Kojima, and Nakajima (2015), Nakajima et al. (2023), and Okazaki and Sudo (2018) were estimated by the authors; Goy and Iwasaki (2024) was estimated by Hatayama and Iwasaki (2024).
Sources: Bank of Japan; Ministry of Finance; Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications; Cabinet Office; Bloomberg; Consensus Economics "Consensus Forecast;" Google Mobility Index.