

# Abenomics Approaching Its One-Year Mark

## Implementation and Progress



Stephan Danner  
Division Chief  
Asia and Pacific Department  
International Monetary Fund

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# Abenomics: what should we expect?

## The ex ante view

### Fiscal policy

(Stimulus, consumption tax)

### Monetary policy

(2 percent inflation, QQME)

### Growth reforms

(TPP, Diet session)

*Initiates recovery,  
growth becomes self-sustained.  
Over time, deficit and debt ratio  
decline*

*Inflation expectations rise, portfolio  
rebalancing picks up, core inflation  
starts rising*

*Investment recovery,  
employment and wages rise,  
labor supply and productivity  
increase*

Where are we? What's next?

Recovery, Fiscal  
sustainability



Inflation

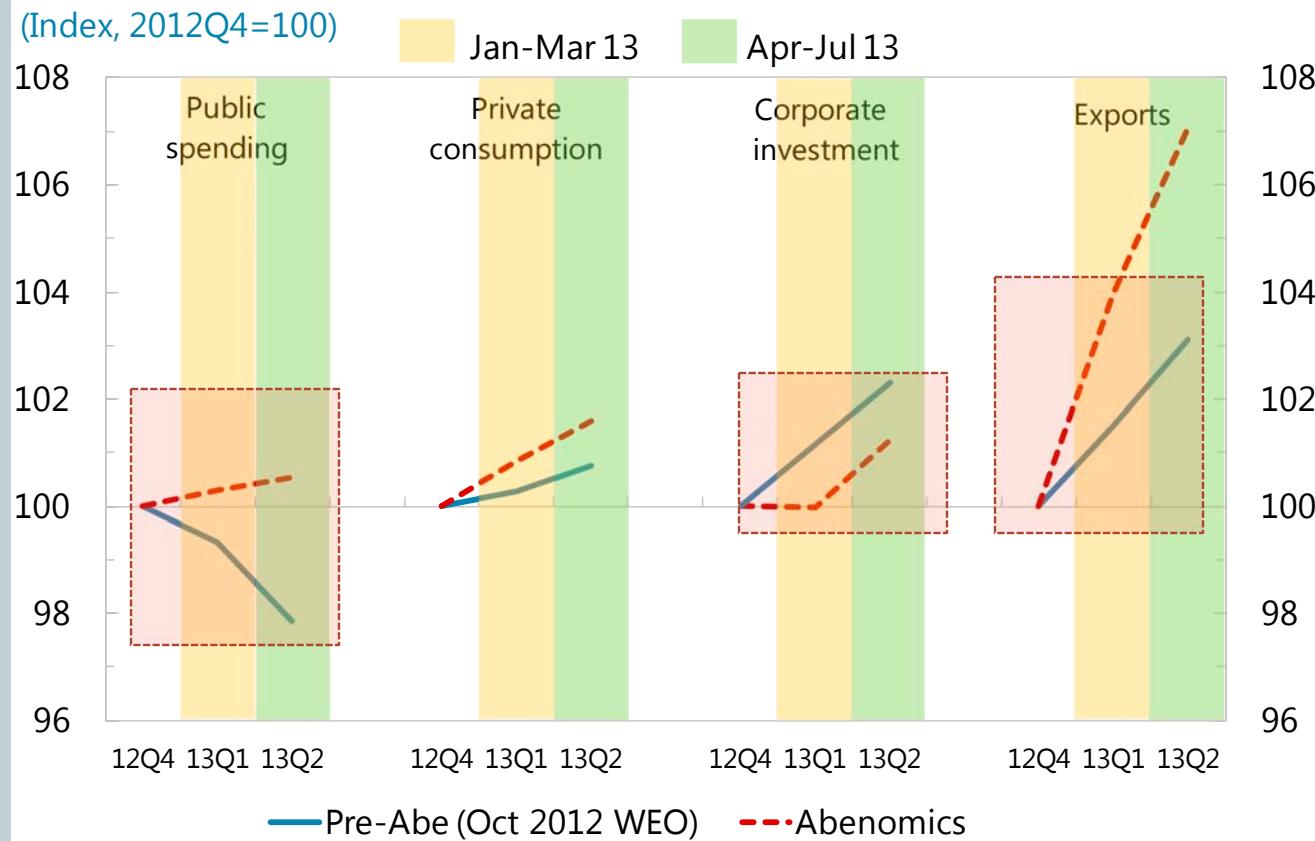


Higher growth



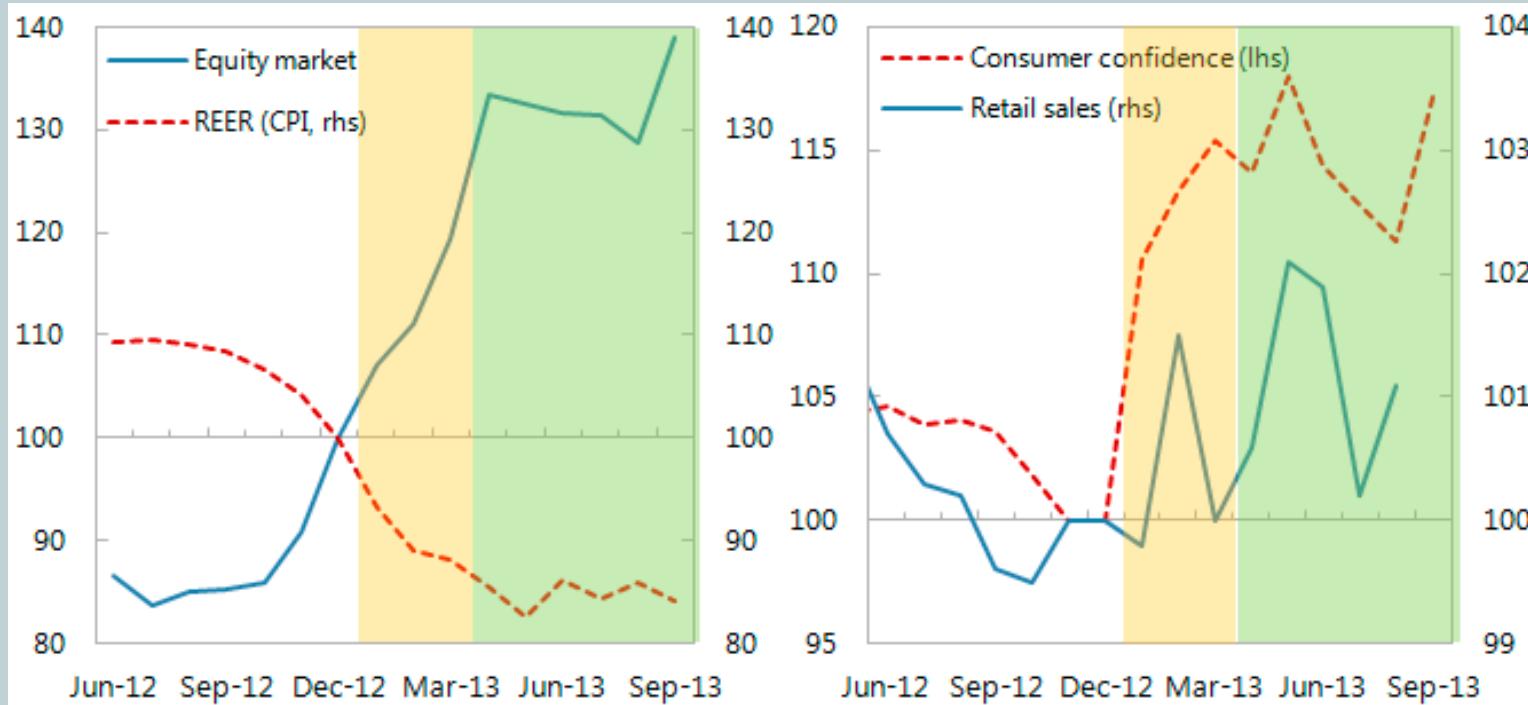
# Growth accelerated and mainly reflects monetary and fiscal stimulus

## Components of Real GDP



Recovery  
on track?

# Exchange rate and equity market steady and consumption has remained strong

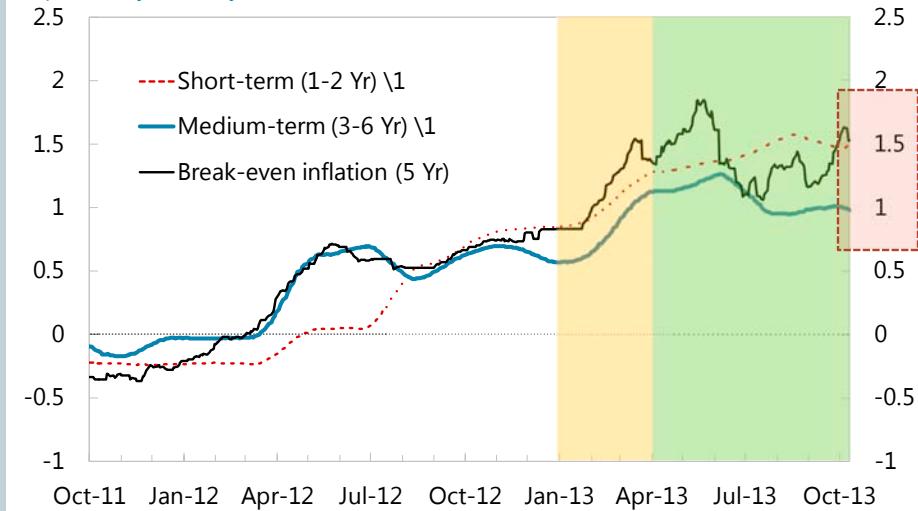


## Progress on Inflation?

# Inflation expectations have risen but are below the BoJ's 2 percent target

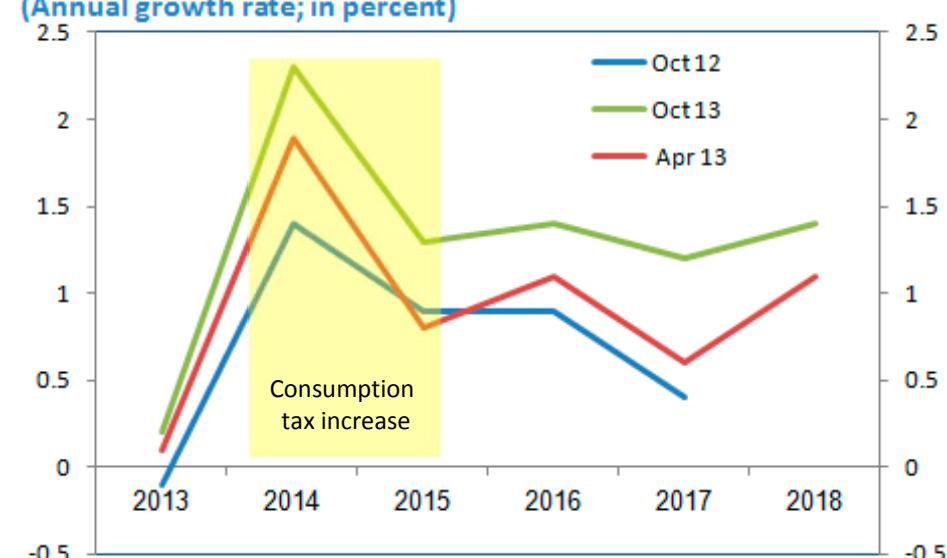
### Inflation Expectations

(In percent, year-on-year)



### Consensus forecast

(Annual growth rate; in percent)

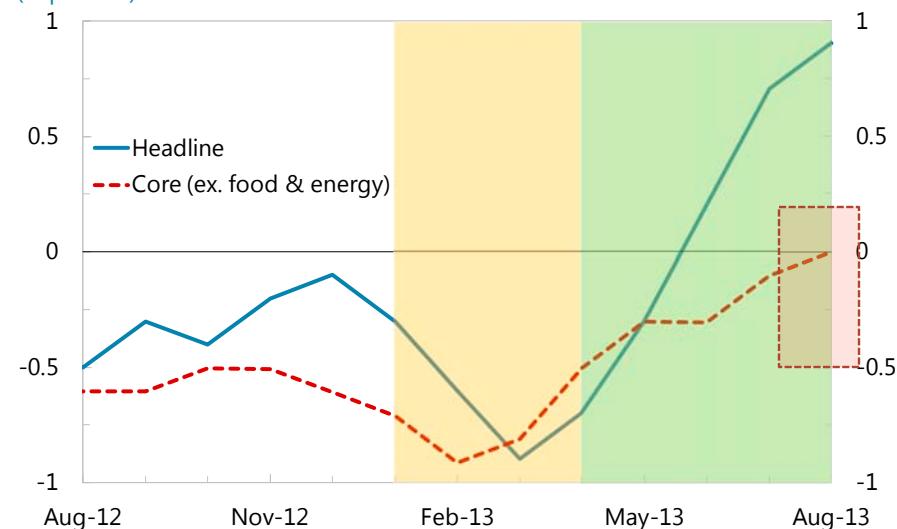


## Progress on Inflation?

# Inflation is up and mainly the result of higher import costs

### Year-on-Year Inflation

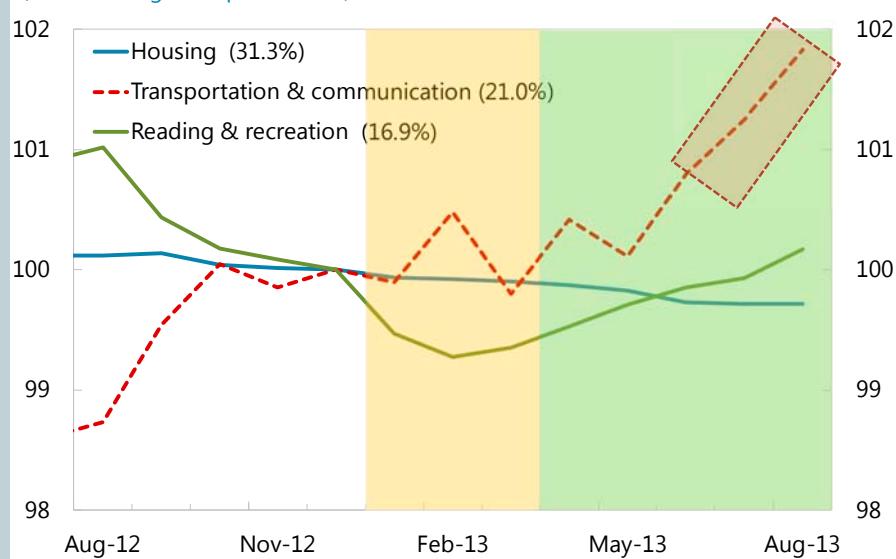
(In percent)



Sources: CEIC database; and IMF staff estimates.

### Core Core-CPI Index (SA): Key Inputs

(Relative weights in parenthesis)

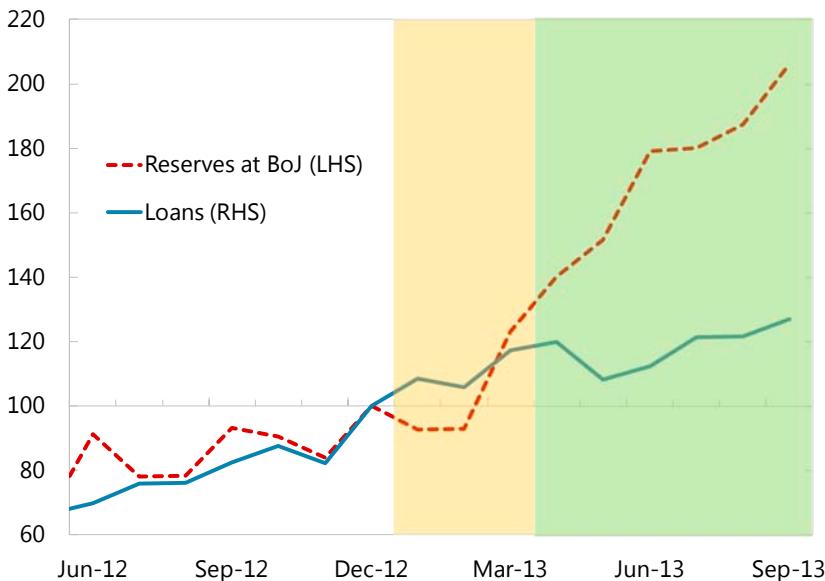


# Transition to sustained recovery?

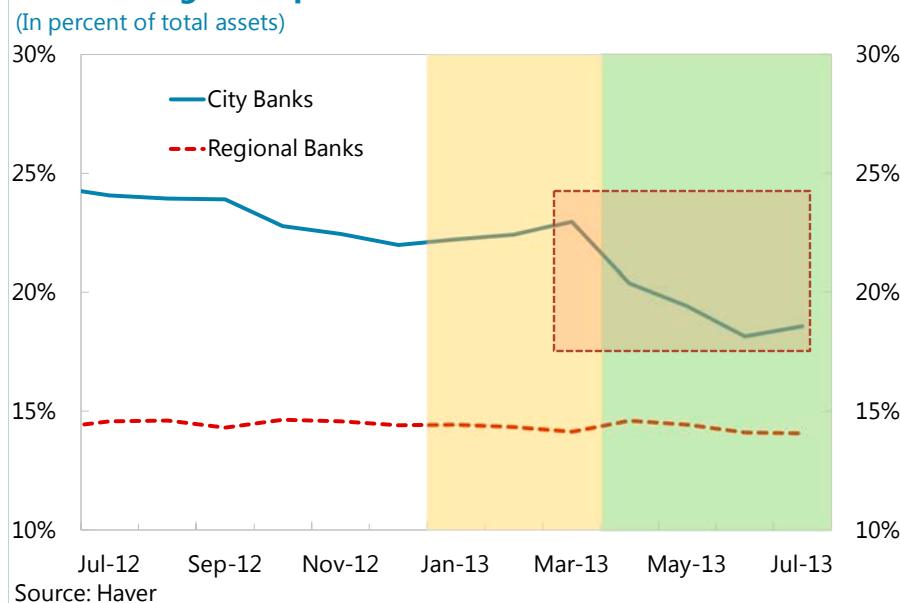
# Portfolio rebalancing has been gradual



## Banks Assets

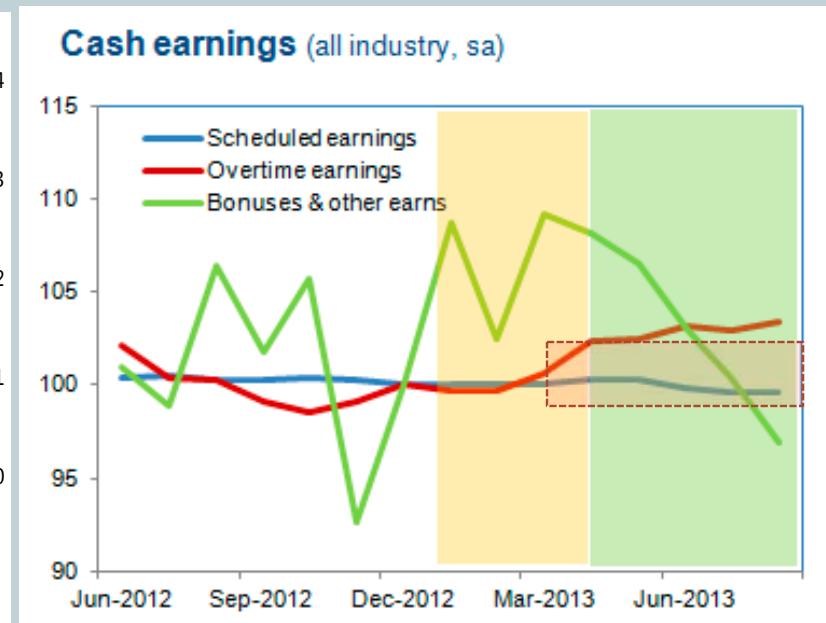


## JGB Holdings of Japanese Banks



## Transition to sustained recovery?

# Labor markets are tighter, but basic wages have not risen

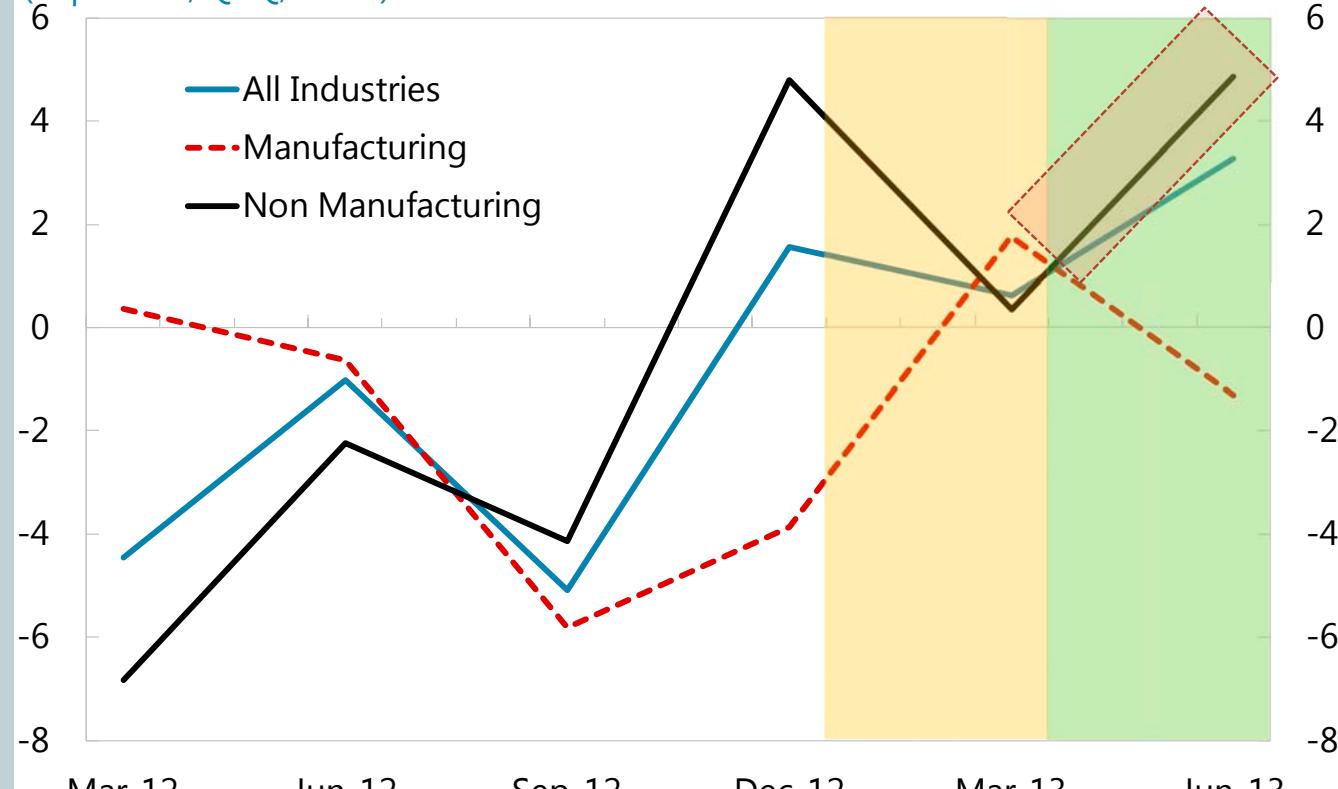


# Investment has picked up but needs to be sustained and broadened



## Private Investment in Plant and Equipment

(In percent, QoQ, SAAR)



Sources: MoF via CEIC

# Abenomics: comparing developments and expectations

## Fiscal policy

✓✓

~

*Initiates recovery,  
growth becomes self-sustained.  
Over time, deficit and debt ratio  
decline*

## Monetary policy

✓

~

*Inflation expectations rise, portfolio  
rebalancing picks up, core inflation  
starts rising*

## Growth reforms

~

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*Investment recovery,  
employment and wages rise,  
labor supply and productivity  
increase*

Where are we? What's next?

Recovery, Fiscal  
sustainability



Inflation



Higher growth





# Abenomics so far successful but now entering critical phase

## Growth needs to become self sustained

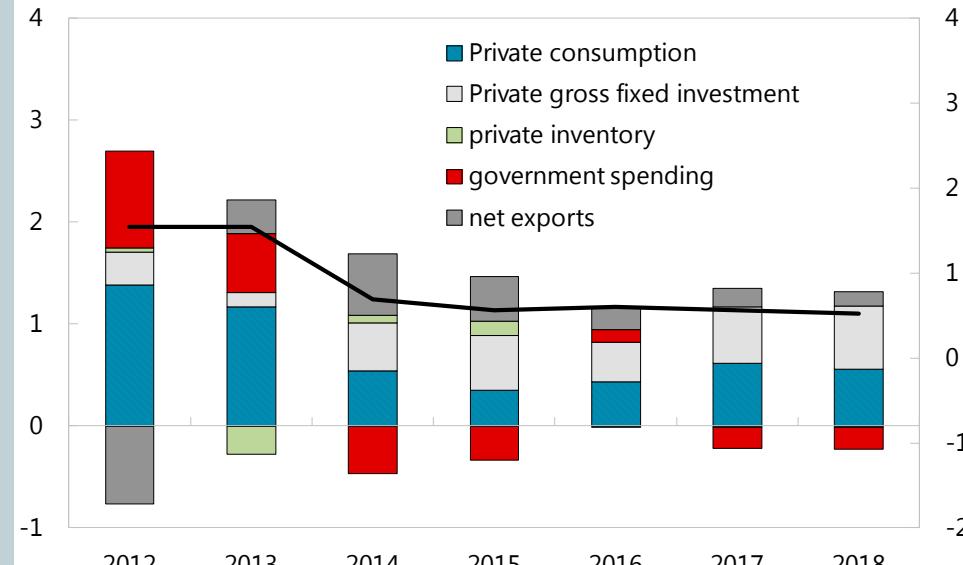
- necessary to meet inflation target and support fiscal reform over long-haul

## Challenges ahead

- *Structural reforms take time*  
**What can be done in short term?**
- *Fiscal reforms need to proceed*  
**How to minimize growth effects?**
- *Inflation/expectations need to rise*  
**How can monetary policy become more effective?**

Components of GDP growth

(In percent)



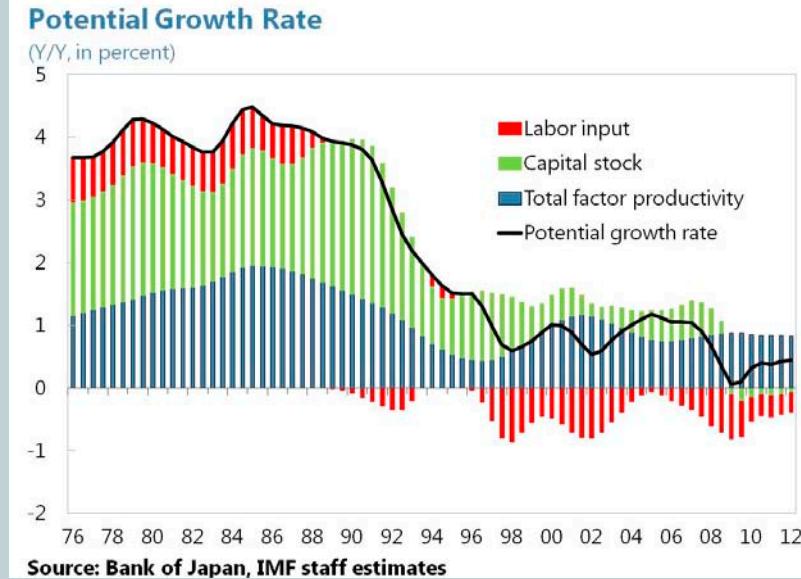
Source: IMF staff estimates

# What needs to happen?

## Broad-based growth reforms

### Adopt comprehensive growth reforms to raise potential growth

- Increase labor force participation and reducing labor market duality (IMF WP13/202)
- Deregulate agriculture and services
- Enhance role of the financial sector in generating growth (IMF WP 12/291)



### What can be done in the short term?

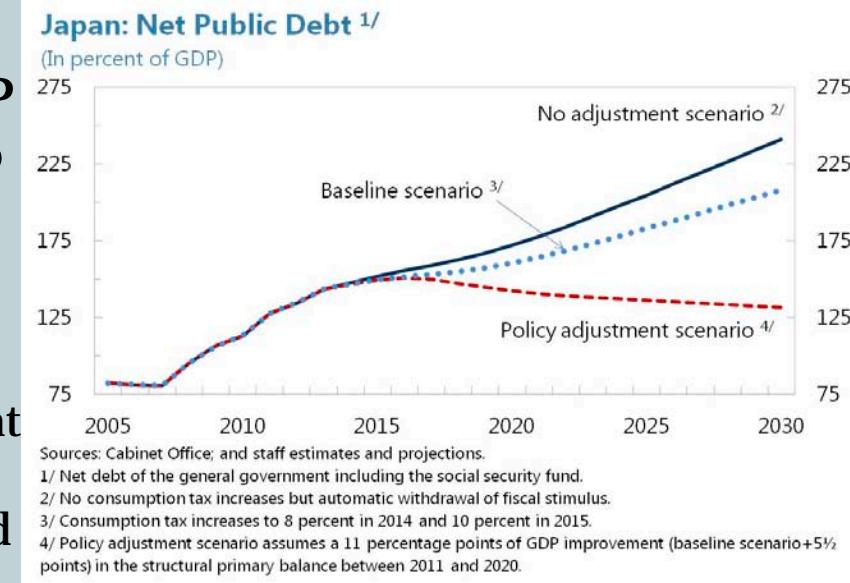
- **Immediate action** (signature initiative) to boost growth expectations: open up a specific sector, region, market
- **Consider measures** to encourage wage and investment growth. Options?

## Rising public debt requires sustained attention

- Without further action, debt-to GDP ratio will increase further after 2015

## What can be done in the short term?

- Stimulus can be made effective
  - Temporary - no permanent commitment
  - Timely - fast acting
  - Targeted - effective in raising demand
- Clarity on corporate tax reform
- Outline fiscal measures beyond 2015 (e.g., increase of pension age to 70) to maintain confidence in public finances and create fiscal space



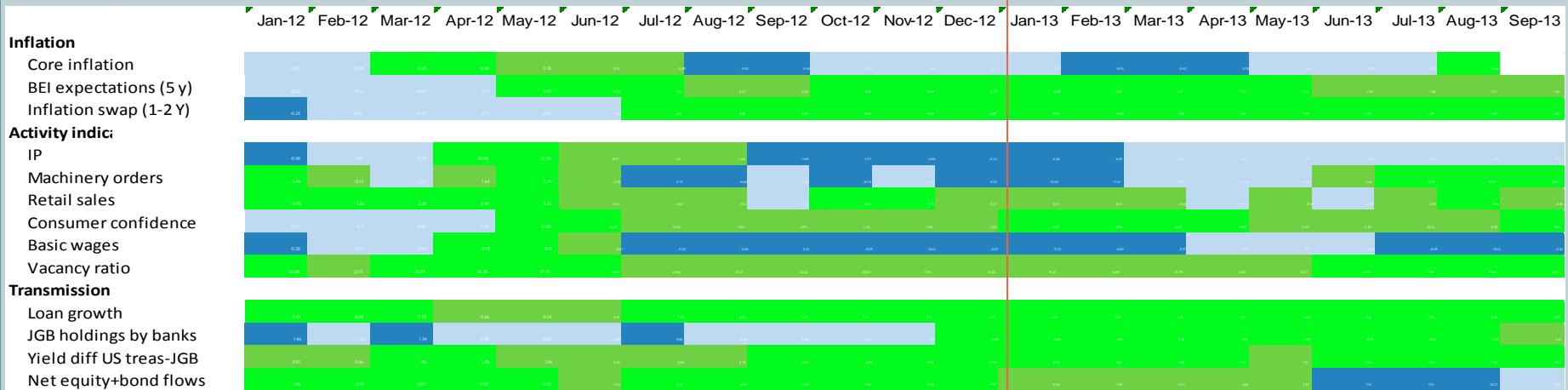
# What needs to happen?

# Maintain supportive monetary policy stance

## Difficult to track progress of QQME

- No historical benchmark for re-anchoring inflation
- Varied signals from tracking different indicators

Abenomics →



Note: Heatmap: blue-deflationary green-inflationary effect

## What can be done in the short term?

- Continued clear communication on commitment to achieve 2 percent inflation
- Prepare for the eventuality of more easing including through more forward guidance.



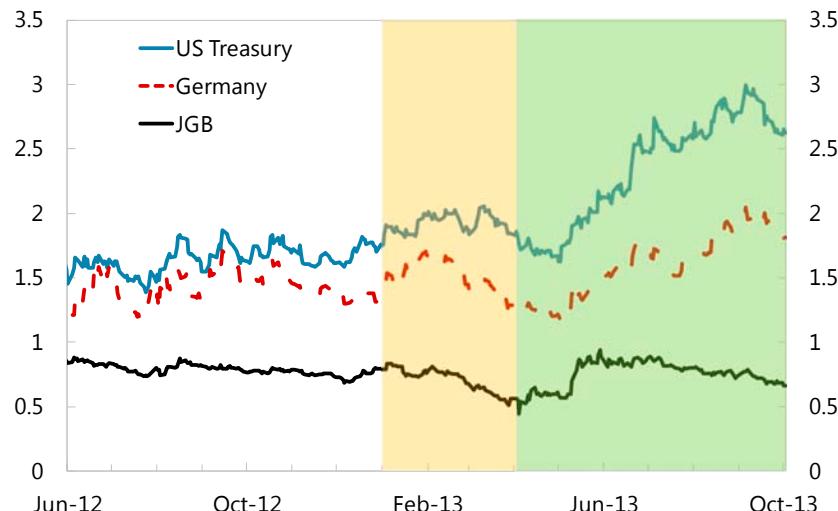
# THANK YOU

# Bond yields have remained low and volatility has declined



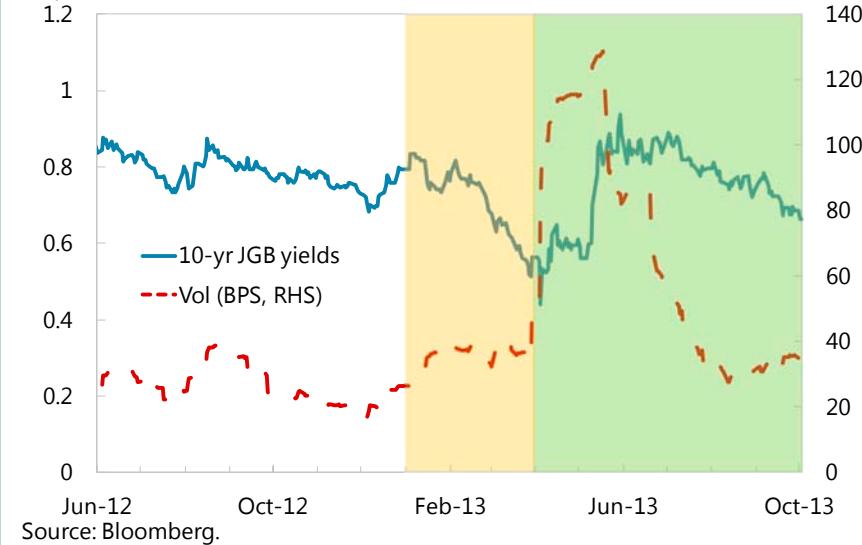
## 10-Year Sovereign Bond Yields

(In Percent)



## Japan: JGB 10-Year Yields and Volatility

(In percent)

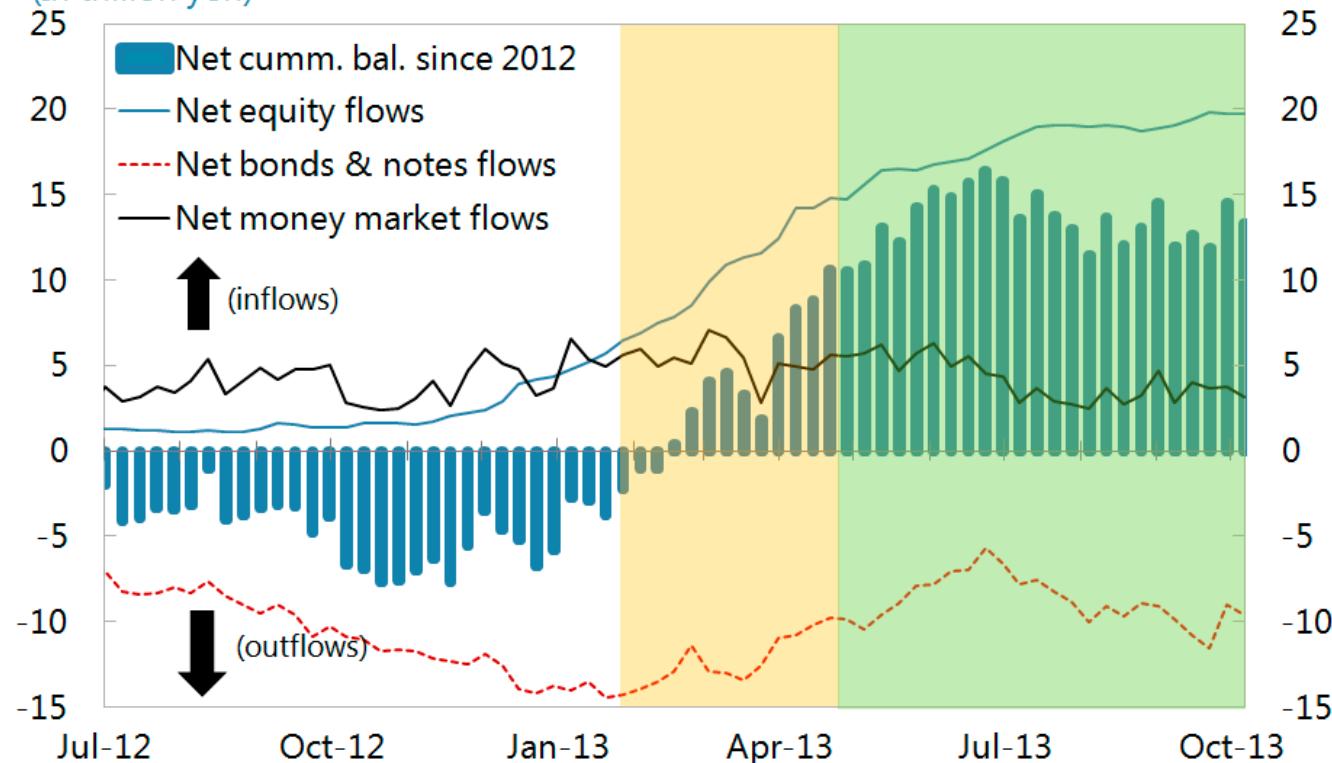


# Capital flows into bond and equity markets



## International Transaction in Securities <sup>1/</sup>

(In trillion yen)



Source: Japan Ministry of Finance.

1/ Cummulative positions since January 2012.