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Population aging and public finances in Japan

Takashi MIWA
Chief Japan Economist
The Nomura Securities, Co. Ltd.
+81 3 6703 1280
takashi.miwa@nomura.com

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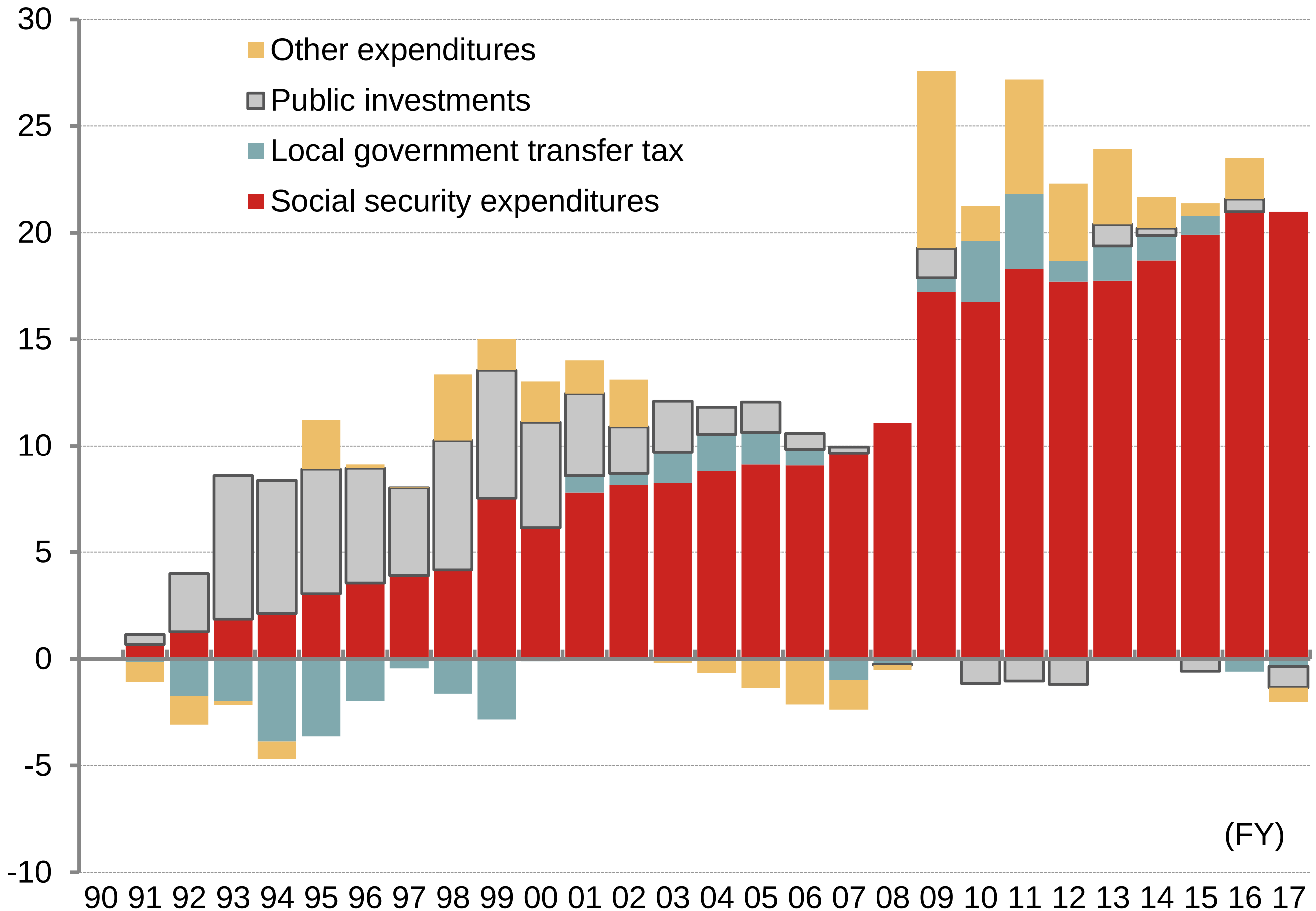
- **Belt tightening in other expenditure items than social security almost completed**

Contribution of major general expenditure items to cumulative growth in government debt since FY90

(Cumulative contribution to increase in government debt, ¥trn)



Source: Nomura, based on MOF data

Social security burden under population aging

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■ **Abrupt rise in Healthcare and Long-term care costs for people aged 75 and over**

Healthcare and long-term care costs by age group

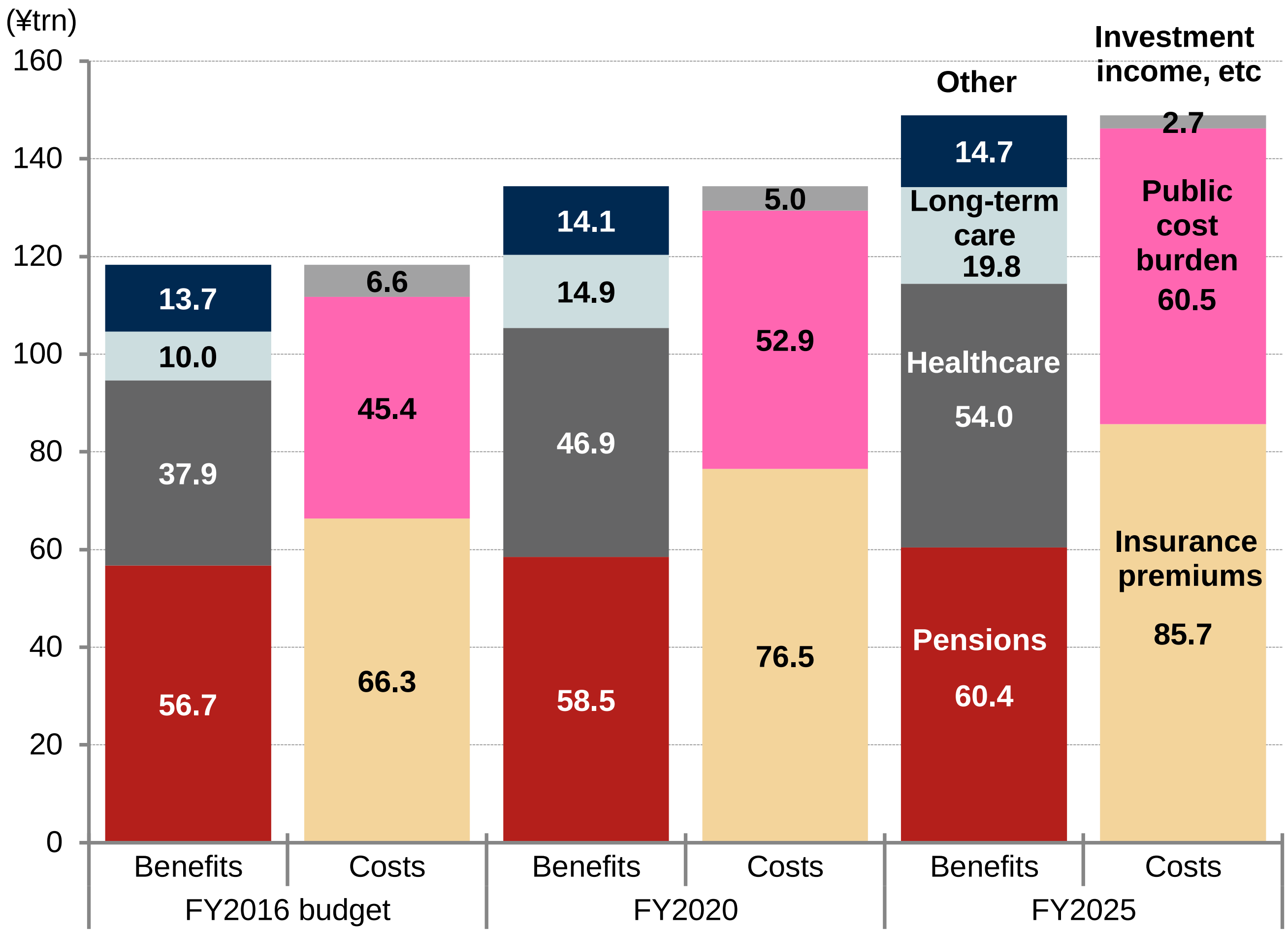
	Healthcare (CY2014)		Long-term care (CY2014)		Estimated population as of CY2025 ('000)	Vs CY2014 ('000)
	Per capita healthcare expenditure	Per capita state burden	Per capita long-term care costs	Per capita state burden		
Aged 65-74	¥554,000	¥78,000	¥55,000	¥15,000	14,790	-2,300
Aged75 and over	¥907,000	¥356,000	¥532,000	¥145,000	21,790	+5,900

Source: Nomura, based on Ministry of Health, Labour, and Welfare (MHLW) and Ministry of Internal Affairs and Communications (MIC) data

The issue we will face in 2025

Further increase in social security cost burden as baby boomer generation reaches 75 and older age group through FY25

Medium-term outlook for social security benefits and costs

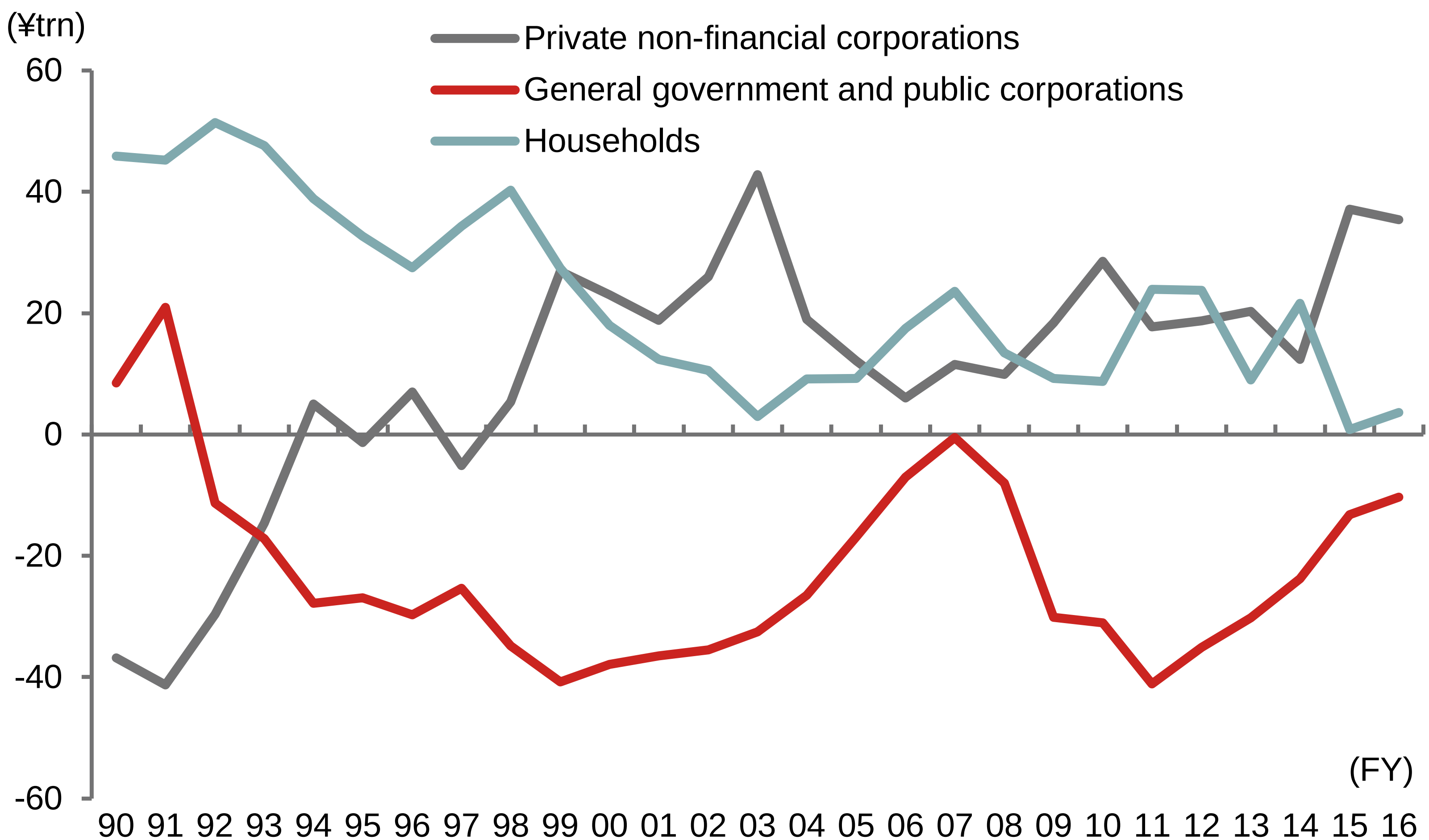


Note: (1) FY16 is initial budget basis. (2) FY20 and FY25 based on government projections revised in March 2012.
Source: Nomura, based on MHLW data

Sustainability of Japan’s fiscal situation and population aging (1): from the point of view of flow

Private sector maintains substantial net savings despite population aging

Financial surplus or deficit (investment-savings balance) by sector



Source: Nomura, based on BOJ data.

Private savings and aging – conventional wisdom

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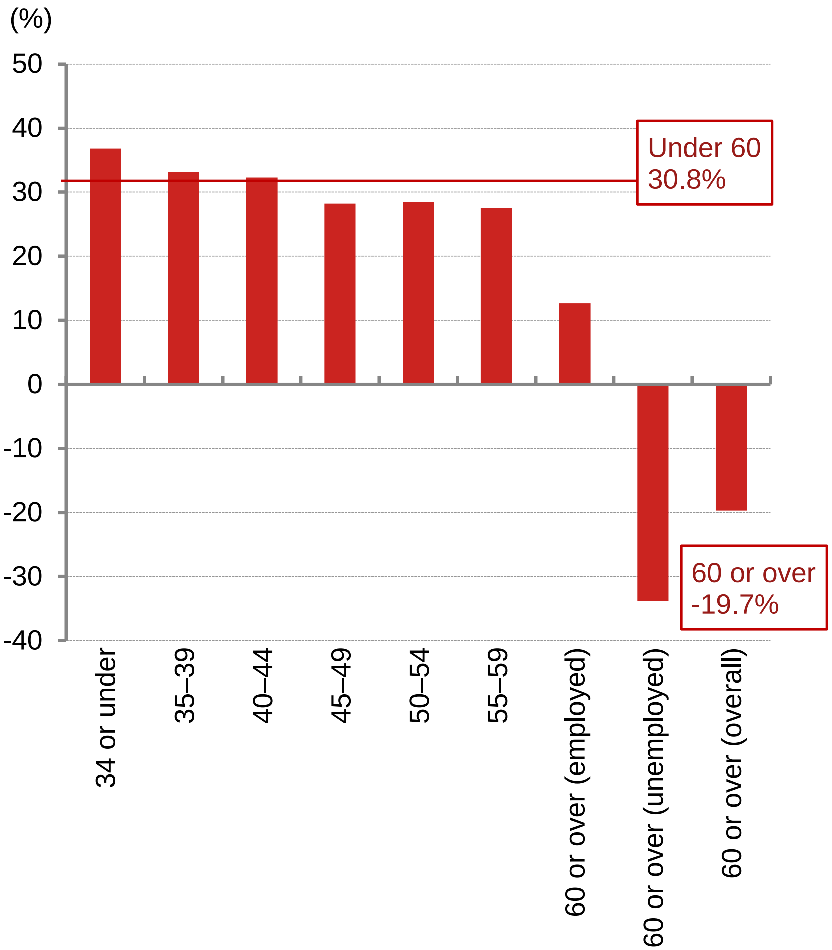
Savings rate tends to fall sharply after retirement while diminishing demand for dwelling depresses housing investment further

Savings rates of different age groups



Note: Savings rates are those of the householders in each age group in MIC's FIES.
Source: Nomura, based on MIC data

Diminishing expected growth maintains positive net savings for corporate sector

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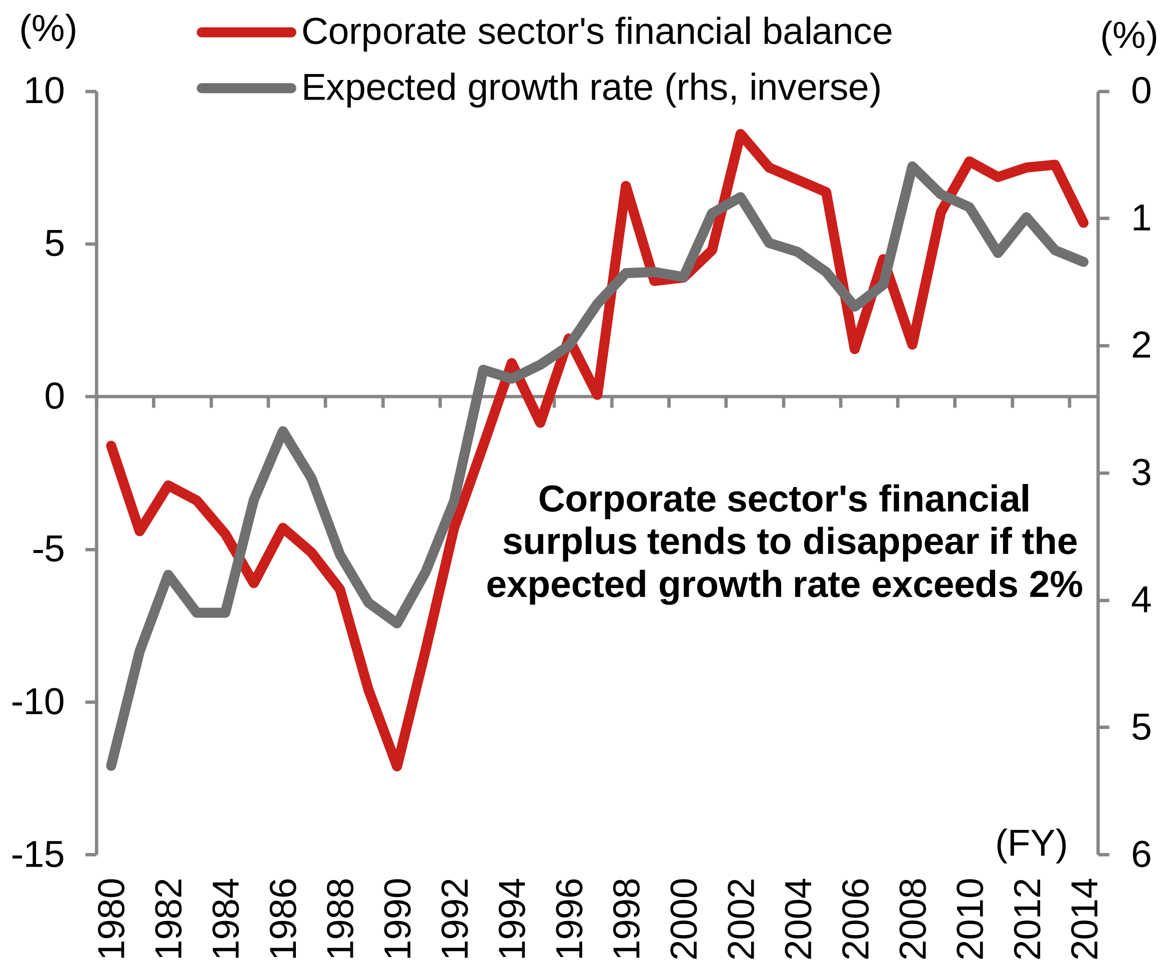
Expected growth of companies and corporate sector’s net savings are highly co-related

Relationship between expected growth rate and corporate sector's savings-investment balance



Note: The financial balance is given in terms of nominal GDP. The corporate sector here includes both nonfinancial corporations and financial institutions.
Source: Nomura, based on Cabinet Office statistics

The private sector net saving continues to cover public sector deficit

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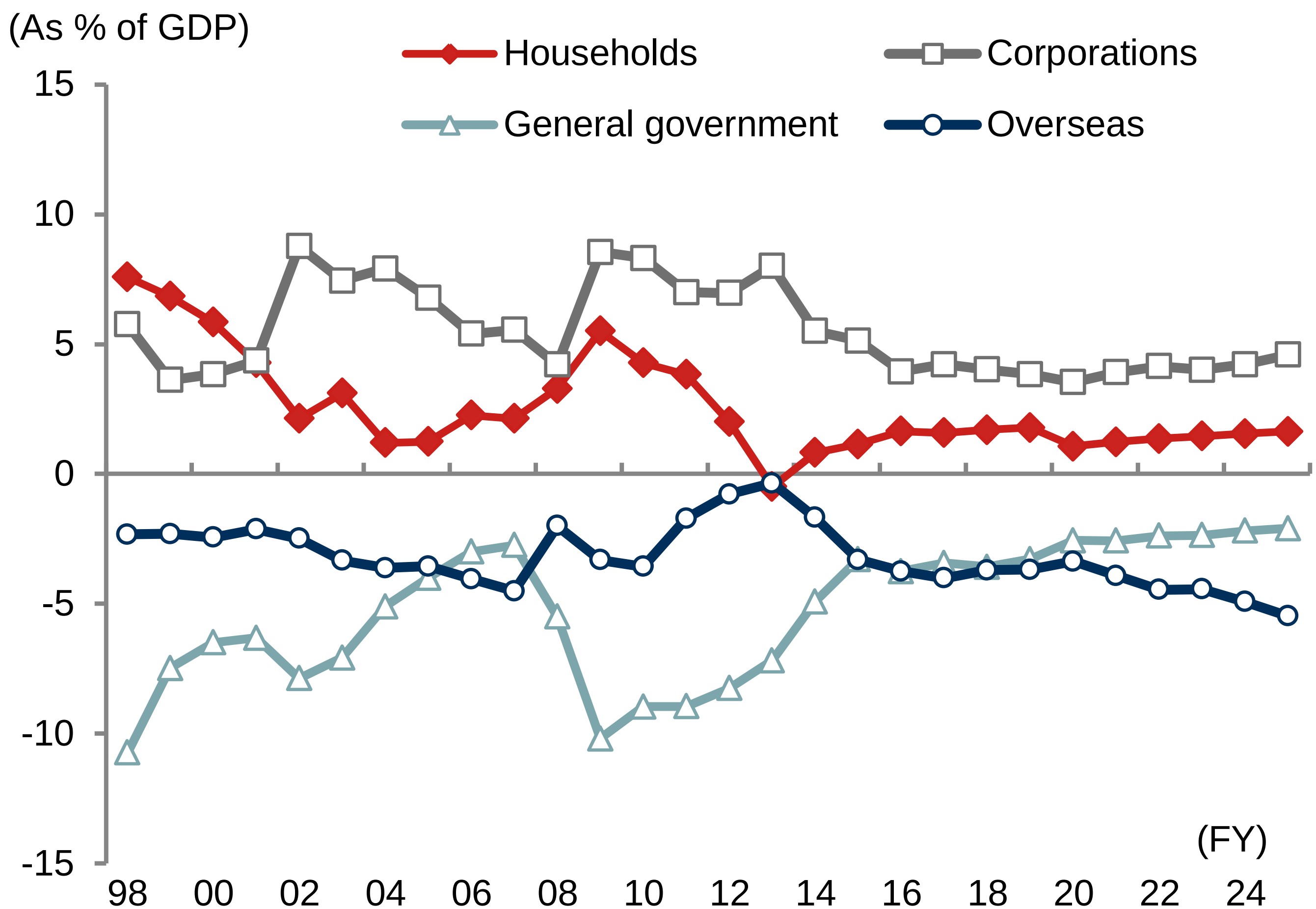
Nomura expects that private sectors continue supplying sufficient savings to fund deficits of general government

Estimates of investment-savings balance by sector under main scenario in Nomura's medium-term forecasts



Note: (1) Households = households + private nonprofit institutions serving households; corporations = nonfinancial corporations + financial corporations. (2) Actual values up to FY15, Nomura estimates from FY16.
Source: Nomura, based on BOJ and Cabinet Office data

Comparing private sector financial assets with public debt outstanding

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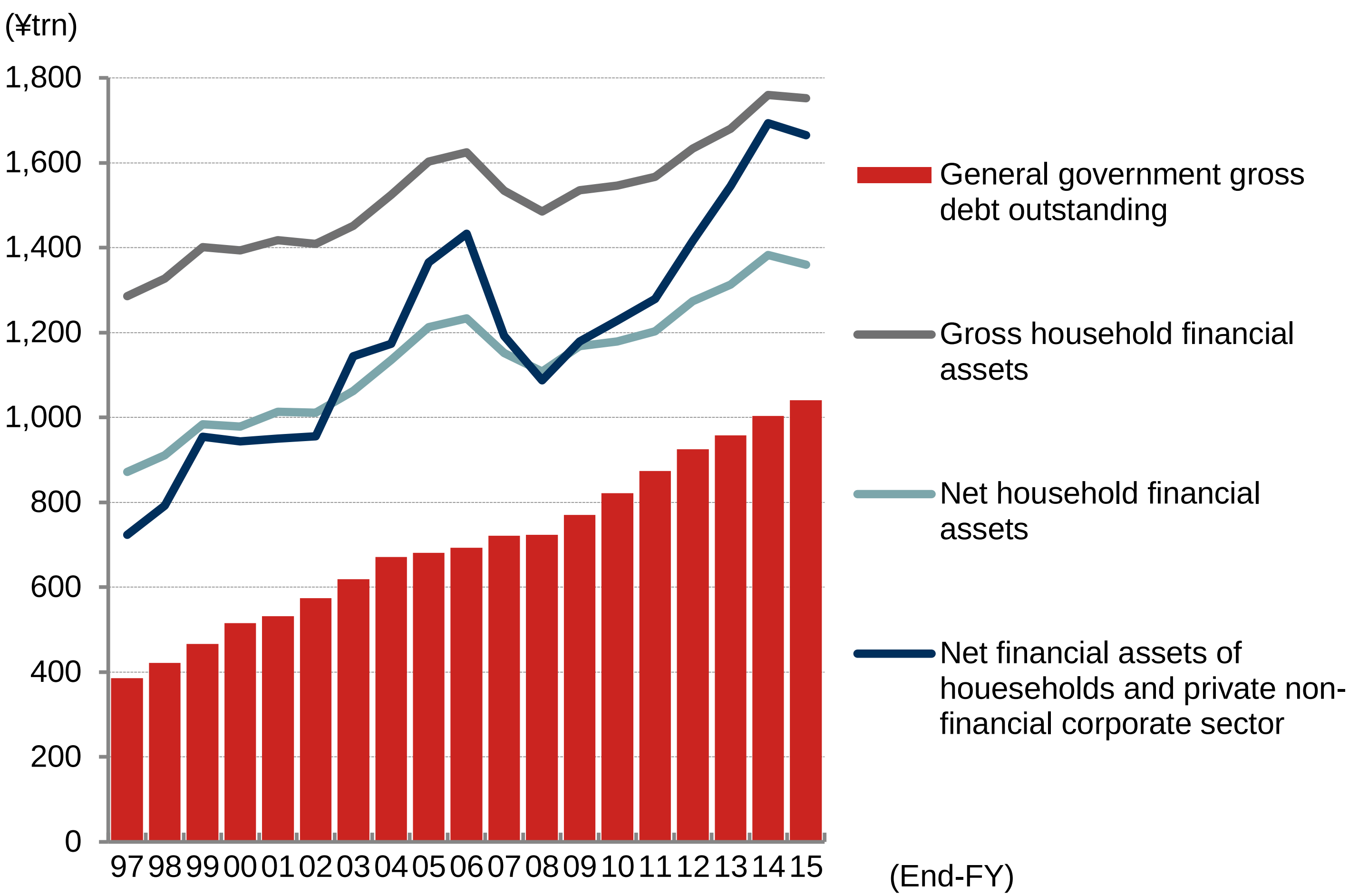
We see low likelihood of supply-demand balance problems for government debt based on relationship with private-sector financial assets

Relationship between government debt and private-sector financial assets

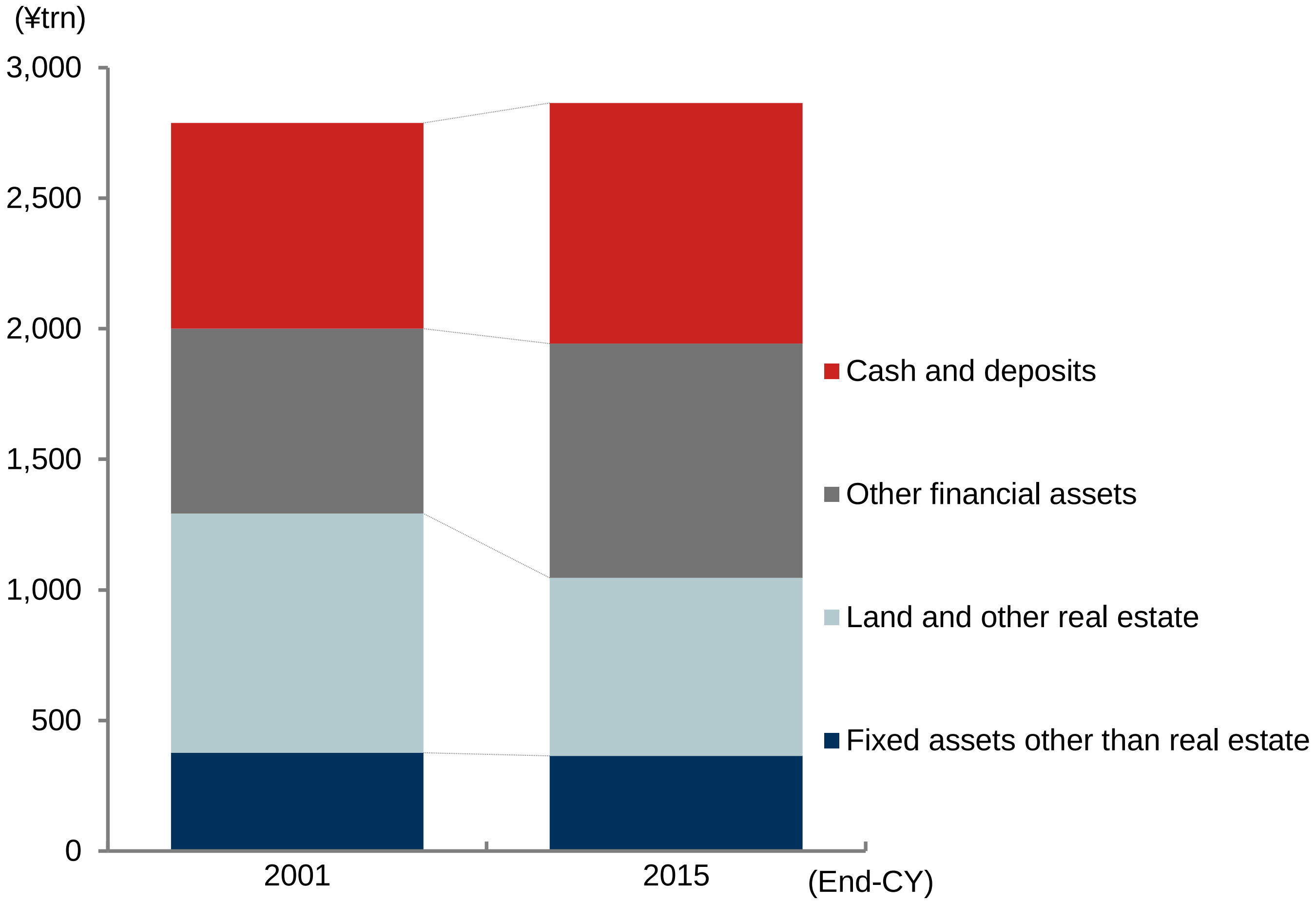


Source: Nomura, based on BOJ data

Hidden source of private sector financial assets that support sustainability of public debt

Marked decline in land and other real estate implies that those physical assets are transformed into cash equivalent assets

Breakdown of household assets including physical assets



Source: Nomura, based on BOJ data

Conclusion – then, what will be the issue for Japanese public finance under population aging?

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- We still see a risk of supply-demand for government debt being severely impaired in the short term if the Japanese private sector's asset structure were to shift substantially owing to some kind of shock.

- The exit from the unconventional monetary accommodation policy by BOJ can be such a trigger.

- Japan's public finance and debt is highly vulnerable to abrupt jump in inflation as well as sudden depreciation of JPY, which could be both a cause and a result of capital flight by private sector in Japan.

- We thus believe the government must continue with its efforts to enhance sustainability of public finances, in particular by stabilizing social security finances as the Japanese population ages.