Population aging and public finances in Japan

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Public finance issues reflecting population aging – traditional approach

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

Government debt and population aging (2): from the perspective of stock

Conclusion
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

Source: Nomura, based on MOF data
Social security burden under population aging

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

Healthcare and long-term care costs by age group

<table>
<thead>
<tr>
<th></th>
<th>Healthcare (CY2014)</th>
<th>Long-term care (CY2014)</th>
<th>Estimated population as of CY2025 ('000)</th>
<th>Vs CY2014 ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Per capita healthcare expenditure</td>
<td>Per capita state burden</td>
<td>Per capita long-term care costs</td>
<td>Per capita state burden</td>
</tr>
<tr>
<td>Aged 65-74</td>
<td>¥554,000</td>
<td>¥78,000</td>
<td>¥55,000</td>
<td>¥15,000</td>
</tr>
<tr>
<td>Aged 75 and over</td>
<td>¥907,000</td>
<td>¥356,000</td>
<td>¥532,000</td>
<td>¥145,000</td>
</tr>
</tbody>
</table>

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

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.
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 HES.
Source: Nomura, based on MIC data
Diminishing expected growth maintains positive net savings for corporate sector

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

Corporate sector's financial surplus tends to disappear if the expected growth rate exceeds 2%

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

![Graph showing the breakdown of household assets from 2001 to 2015. The categories are: Cash and deposits, Other financial assets, Land and other real estate, and Fixed assets other than real estate.]

Source: Nomura, based on BOJ data
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.