



# Japan's NPL Problem; Still A Long Way To Go ?

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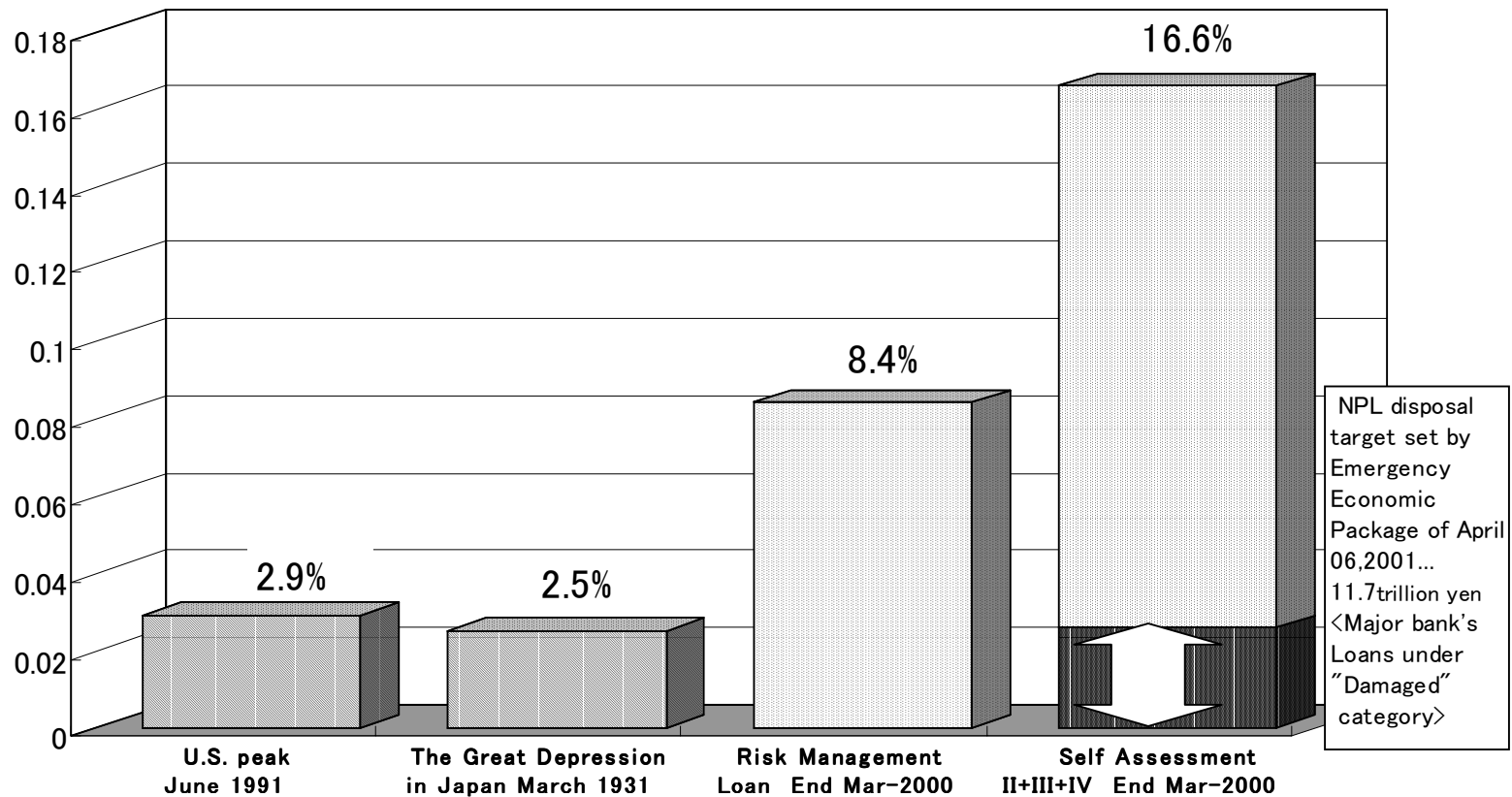
# Seven Reform Programs

- Seven Proposals by the Economic and Fiscal Advisory Council of the Prime Minister's Office:
  - 1) privatization and deregulation, 2) challenger support, 3) social security enhancement, 4) knowledge-based assets doubling, 5) better living, 6) local governments independence and vitalization, 7) fiscal reform
- Further Considerations and Improvements
  - 1) Reform Priority
  - 2) Timing and Sequencing
  - 3) Reform “Engine”

# Magnitude of Japanese NPL

## Magnitude of Japanese NPL Problem

NPL/Nominal GDP ratio



Total NPL held by Banks and Credit Co-ops

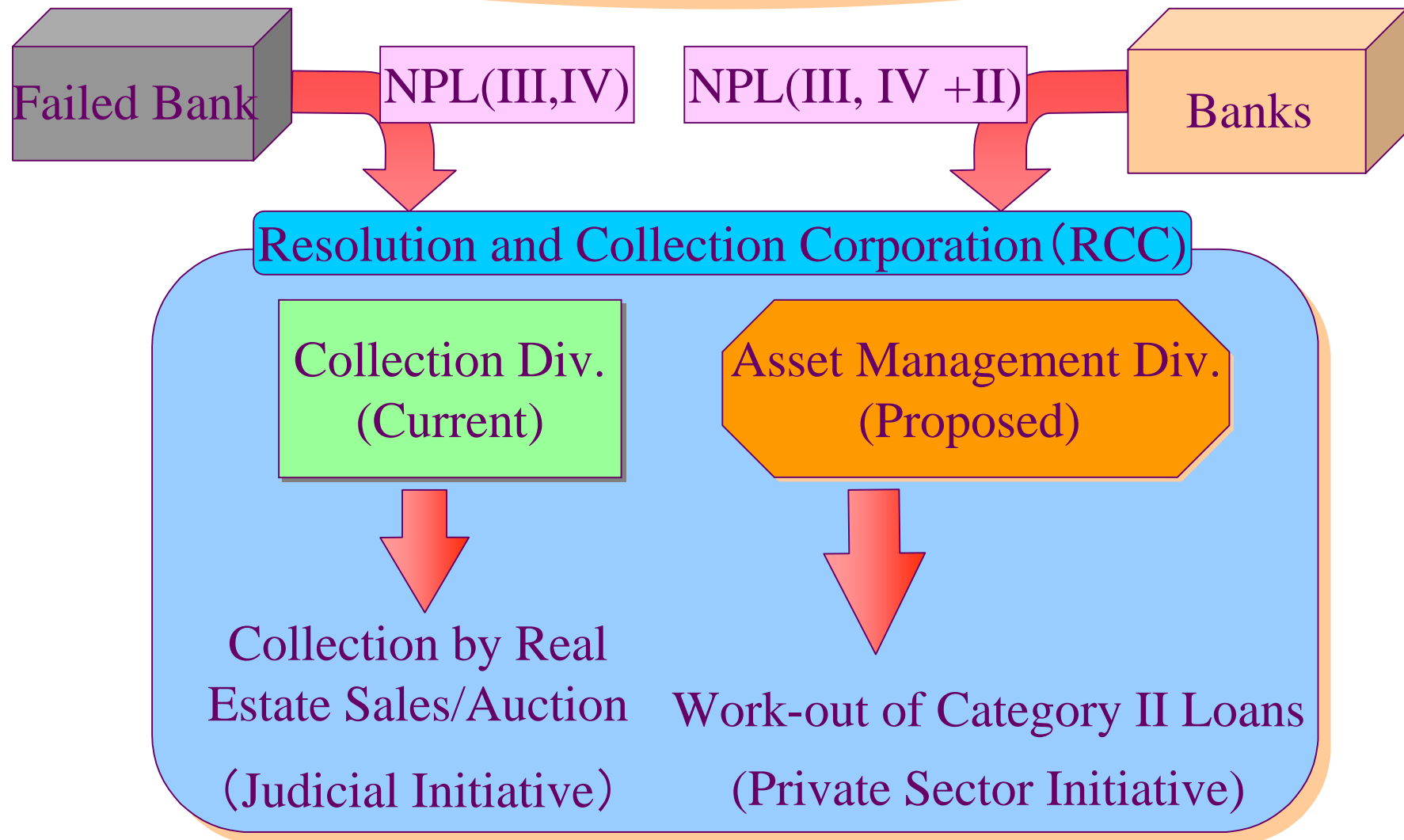
41 Trillion Yen

82 Trillion Yen

# Missing Link I: Insufficient NPL Disposal

- NPL: 16% of GDP
- Key: Workout of Category II(Sub-standard) Loans
- How?
  - 1) Create Asset Management Division under the RCC
  - 2) Capital Injection (Public & Private)
  - 3) More Nationalization
- Ultimate Driving Forces of NPL Resolution:  
FSA (+METI & MLIT)

## Workout by Asset Management Division (AMD) at RCC





## Missing Link II : Reform Priority & Sequencing

- First: NPL Disposal + Workout (2-3years)
- Second: Fiscal Consolidation ( ? )  
Priority must be established within the Cabinet
- Risks:  
Hashimoto risk (spending cut)  
Obuchi risk (too much spending)



## 10 Year Plan for Economic Recovery (Shiozaki Plan)

- Y01-02: NPL Disposal, Deregulation, and Anti-deflationary policy + Safety-net, financed by Privatization, Sale of Government-owned Assets and Securitization
- Y03-05: Continuing Capital & Real Estate Market Reform, plus Fiscal Spending Cut toward Primary Balance (-1.3% /year)
- Y06-10: Comprehensive Tax + Social Security Reform toward Debt Reduction

# Missing Link III: Capital Market

- Creation of strong “Japanese SEC”
- 0% for Individual Capital Gains Tax
- Inclusion of Capital Loss into Ordinary Income
- Mutual Fund Reform



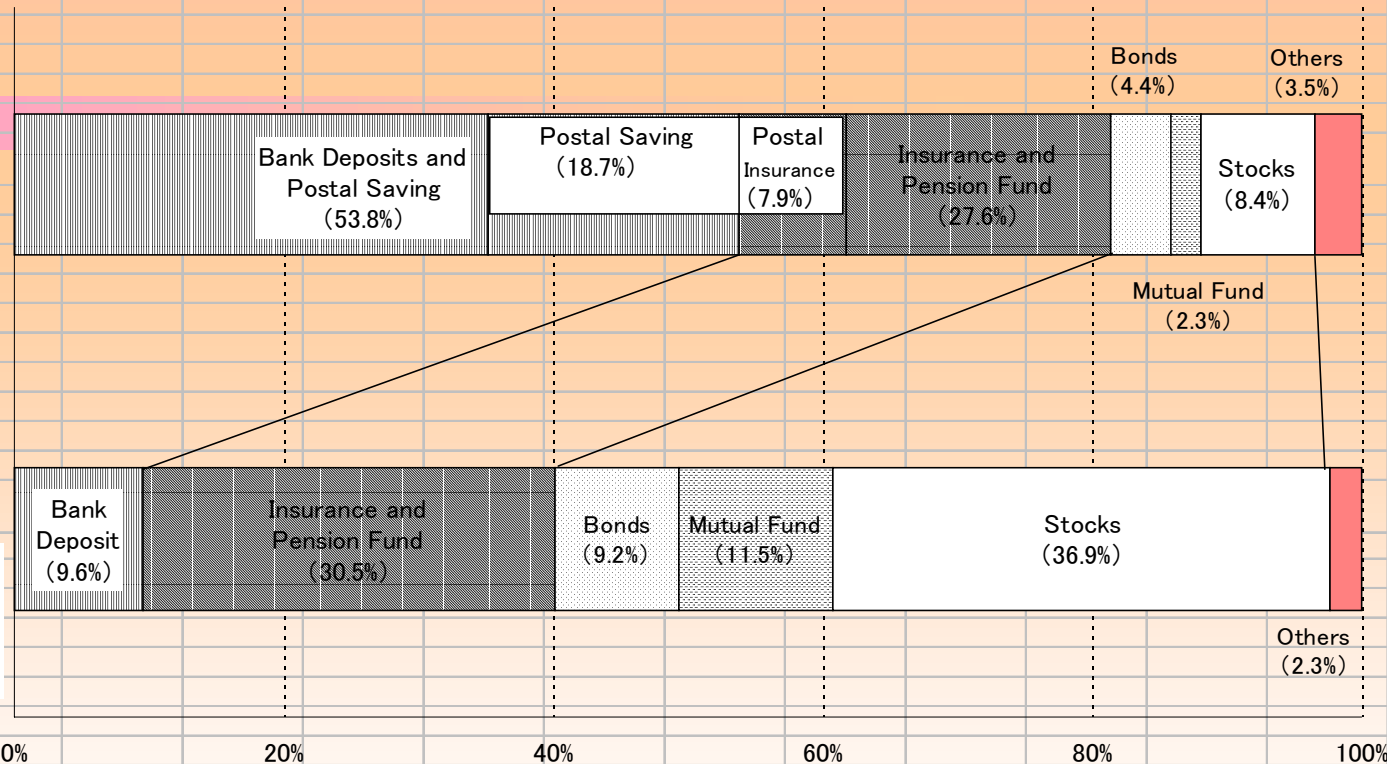
# Deposits vs. Capital Market

## Household Financial Assets

【End-March 2000】

### Japan

1,390  
Trillion Yen  
<2.8times>



### U.S.

36.2 Trillion  
Dollar  
<3.9times>

Note: 1. Percentage of total financial assets (%).  
2. < > shows ratio against nominal GDP.