



Japan's Economy; Can We Restore the Confidence ?

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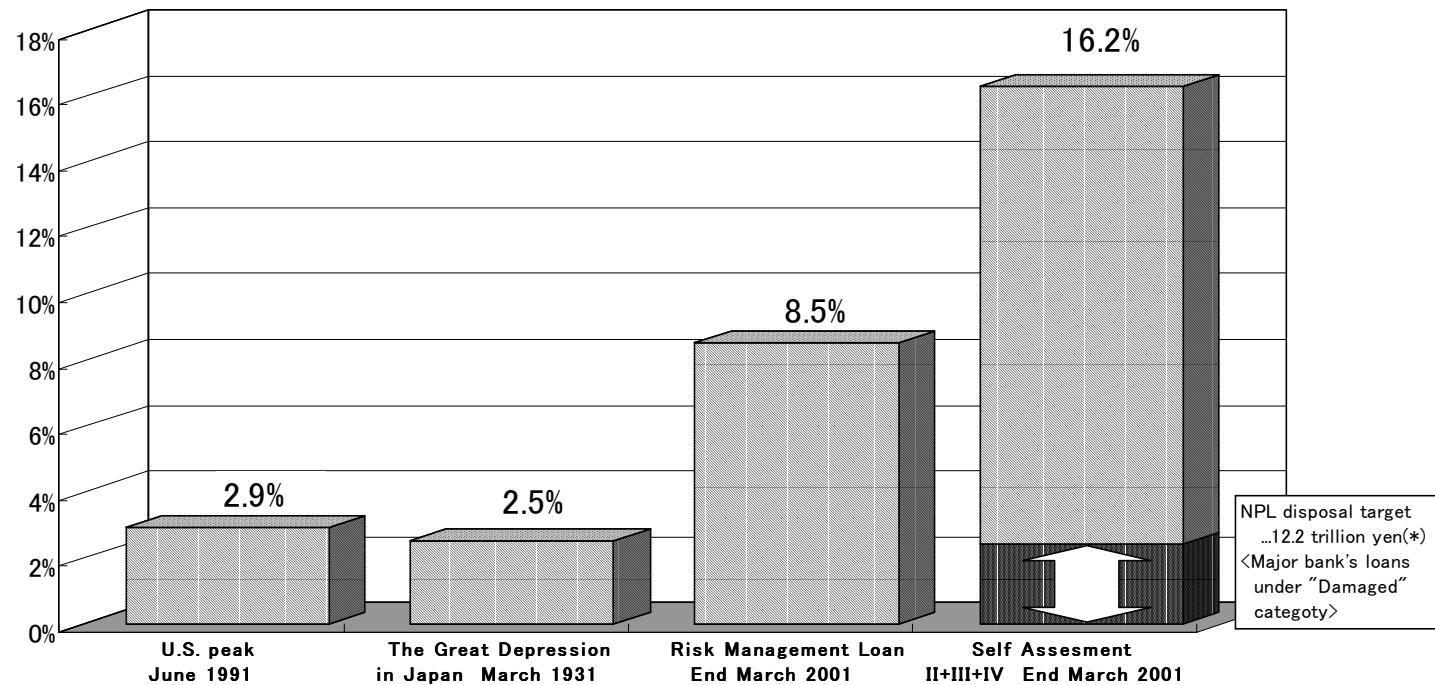
“Anti-Deflation” policy ?

- Proposals by the Economic and Fiscal Advisory Council of the Prime Minister’s Office (Feb. 27);
 - 1) special inspection of major banks, additional NPL disposal, NPL buyout by RCC, establishment of corporate reorganization funds,
 - 2) financial stability, financial crisis management,
 - 3) stringent regulation of short selling in equity market, and
 - 4) strengthening small business financing
- Fundamental Policy “Twists”
 - 1) Lacks Corporate and Industrial Reorganization
 - 2) One-sided Pressure on Monetary Policy
 - 3) Priority Must be on Capital Shortage of Major Banks
- Timing....after FY 2002 national budget passage & with the outcome of special inspection

Magnitude of Japanese NPL

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NPL/Nominal GDP ratio



Total NPL

held by All Banks and Credit Co-ops	43 Trillion Yen	83 Trillion Yen
held by Major Banks	22 Trillion Yen ^(*)	42 Trillion Yen

(*) End Sep. 2001

Action Plan for Economic Crisis Management

1. Financial Crisis Management


- 1) establish more stringent loss provisioning rule
- 2) nationalization and capital injection (government ownership and pressure)
- 3) increase Financial Crisis Funds to 20 trillion yen
- 4) business model reform of major banks

2. Strengthening RCC for Corporate Reorganization

- 1) 20 trillion yen NPL buyout
- 2) incentivise RCC funds managers and investors

3. Establish “National Headquarter for Economic Reform”

- 1) private initiative, under the Prime Minister's Office
- 2) focus on
 - a) enhance ROI
 - b) increase domestic service sector employment lead by FDI
 - c) target for trade surplus of royalties and license fees within 3 years



Another Missing Link: 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)



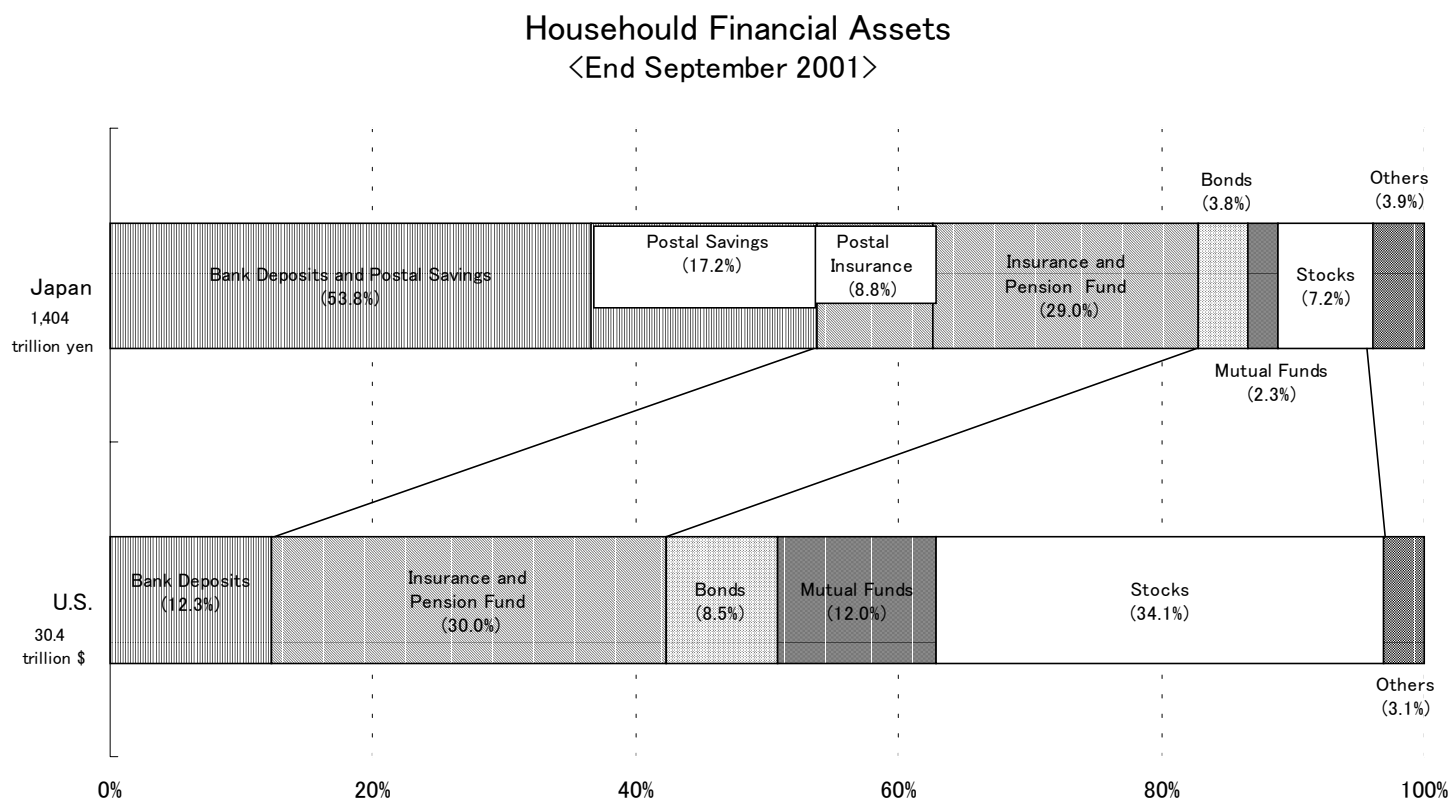
10 Year Plan for Economic Recovery (Shiozaki Plan)

- Y02-03: NPL Disposal, Deregulation, and Anti-deflationary policy + Safety-net, financed by Privatization, Sale of Government-owned Assets and Securitization
- Y04-06: Continuing Capital & Real Estate Market Reform, plus Fiscal Spending Cut toward Primary Balance (-1.3% /year)
- Y07-11: Comprehensive Tax + Social Security Reform toward Debt Reduction

Missing Link II: 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



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