



Discussion

“An Overview of Fiscal and Public Debt Dynamics, and Current Fiscal Policy Settings in Asia and the Pacific”

IMF STI-OAP Webinar

September 26, 2023

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Disclaimer: The views in the presentation slides are those of the presenter and do not reflect the view of the organizations to which he belongs.

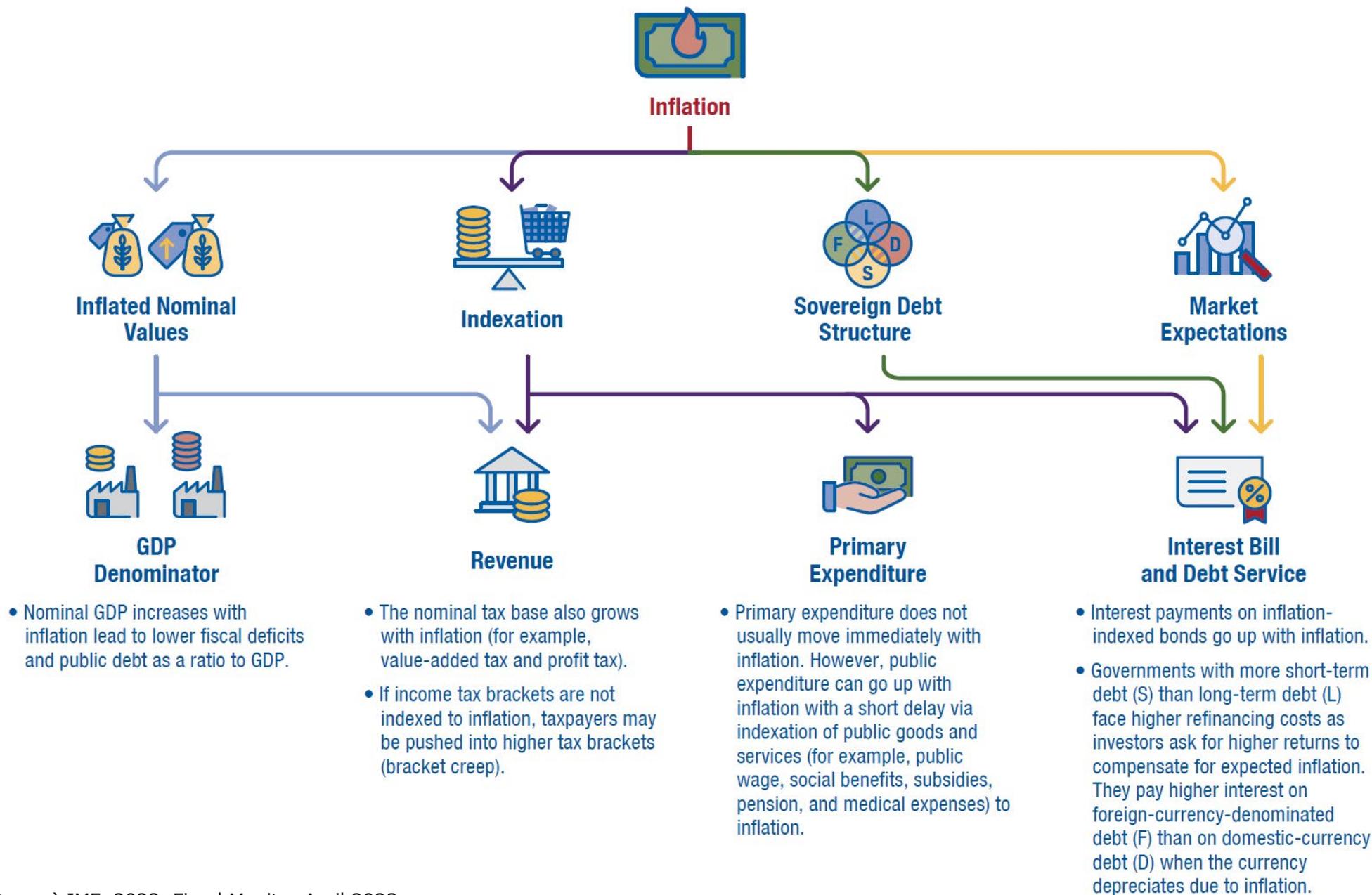
■ Impacts of inflation on public finances

- ✓ Impacts on expenditures and revenues
- ✓ Mitigating fiscal measures for inflation

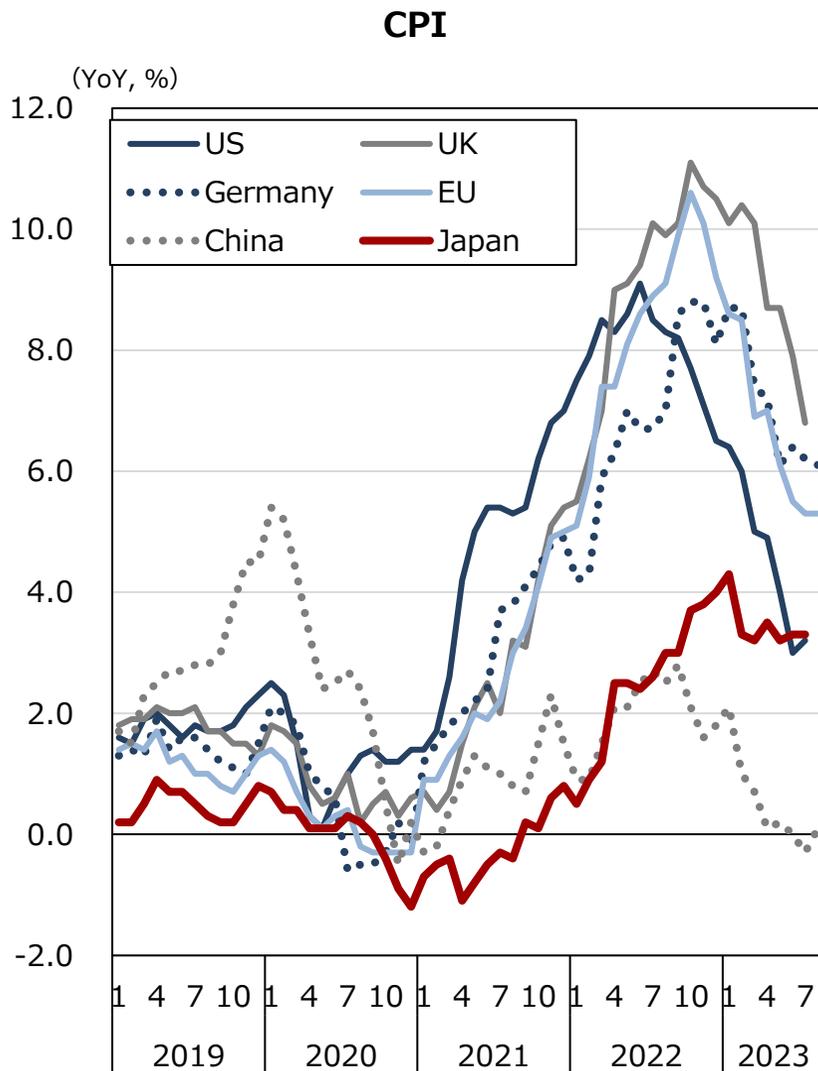
■ Impacts of fiscal policies on inflation

- ✓ How the fiscal instruments affect inflationary pressure
- ✓ Fiscal multipliers and impacts on international trade

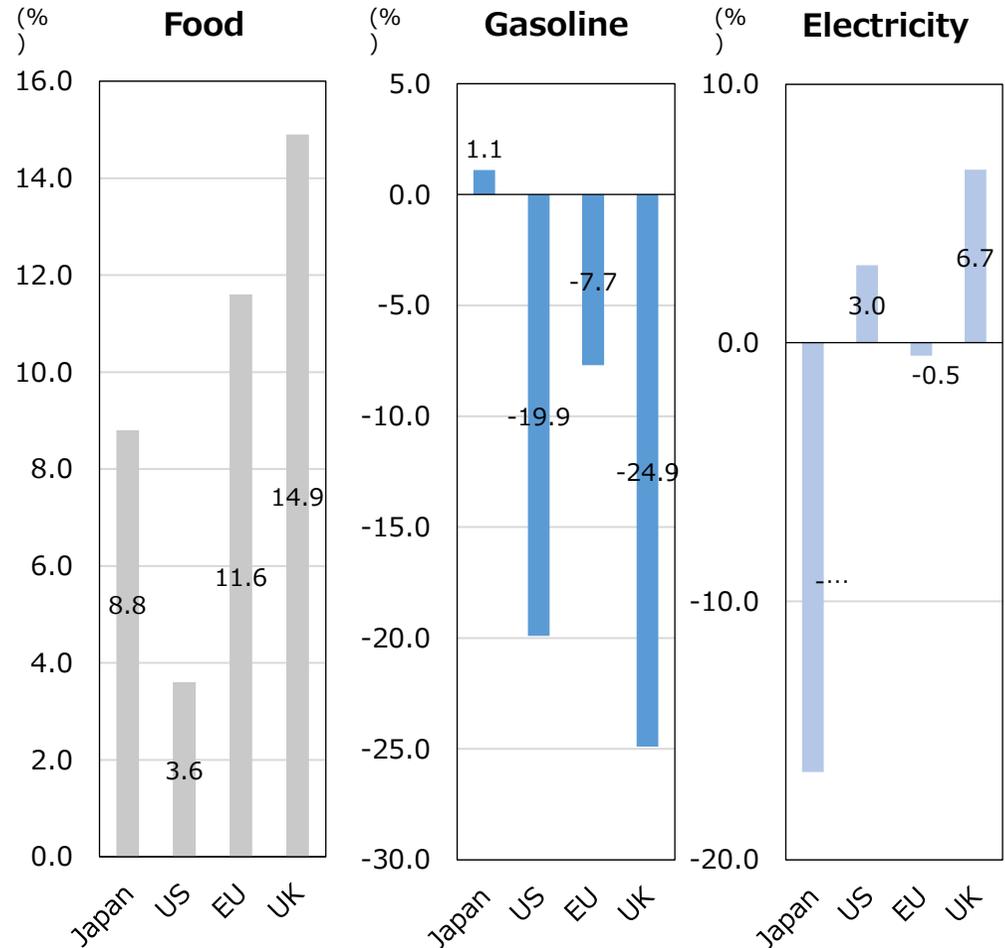
Immediate impacts of inflation on public finances



CPI: cross-country comparison

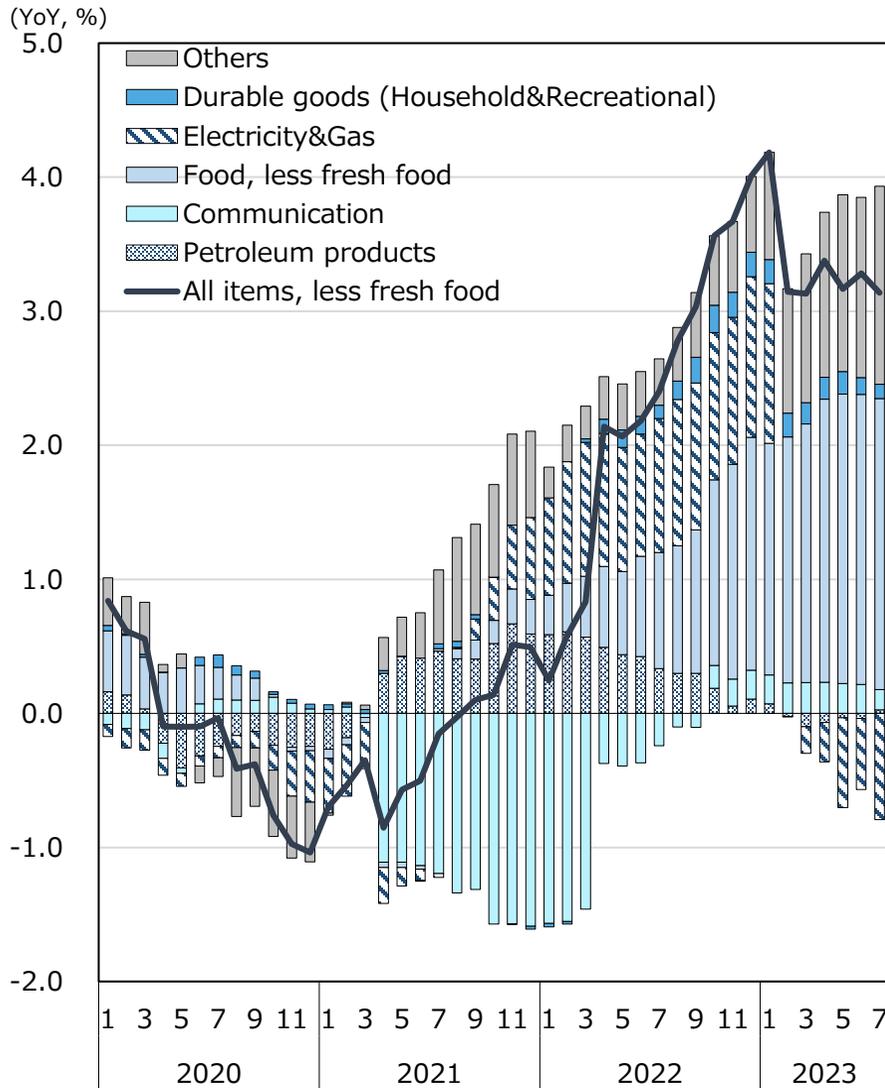


Inflation rates for major items (July 2023, YoY)

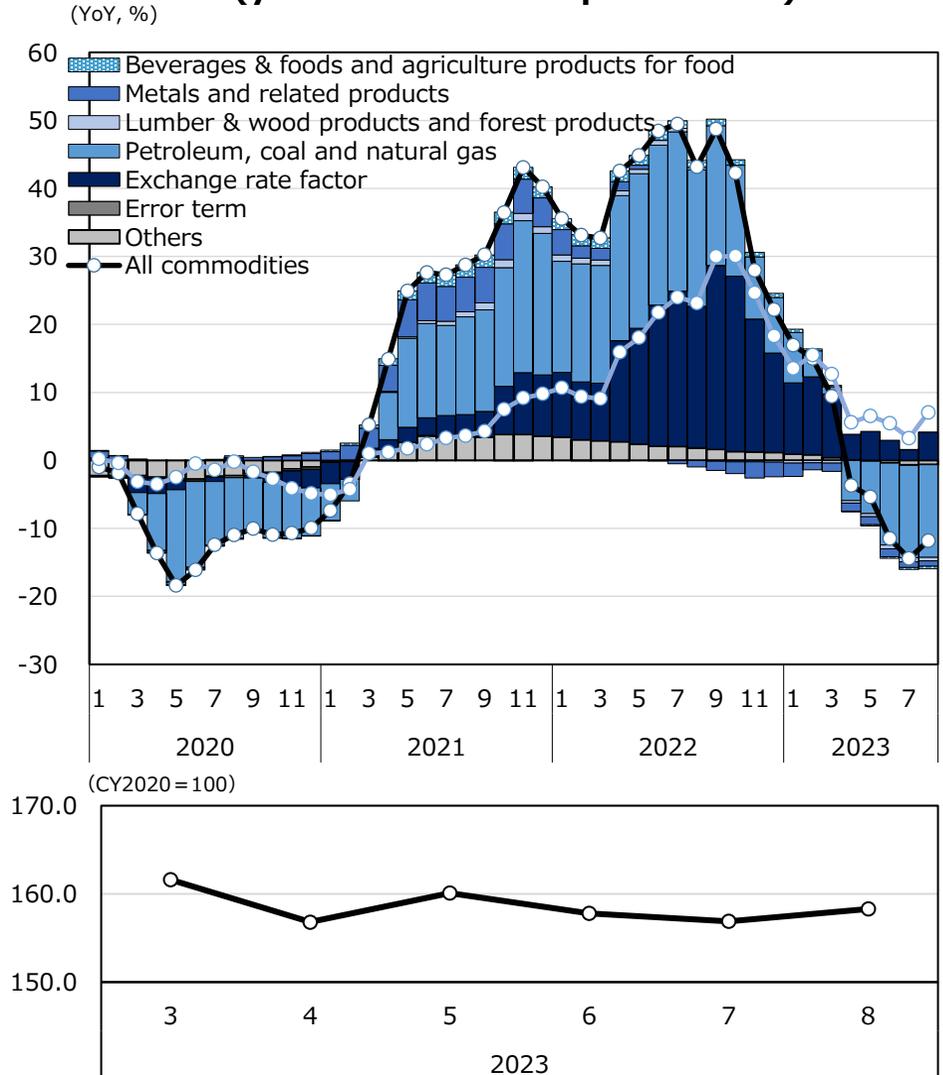


CPI and import price in Japan

CPI: composition



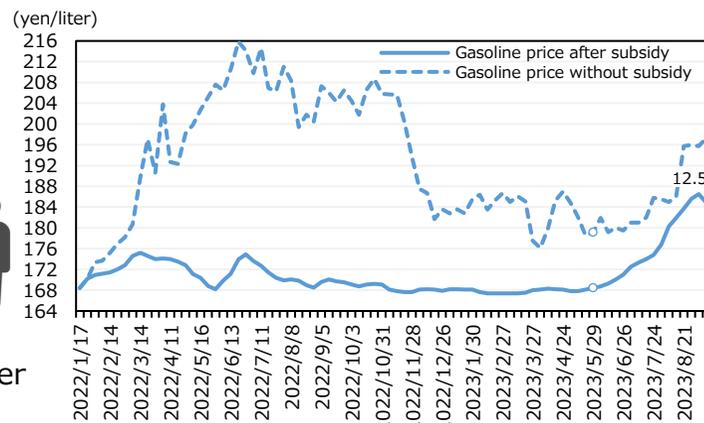
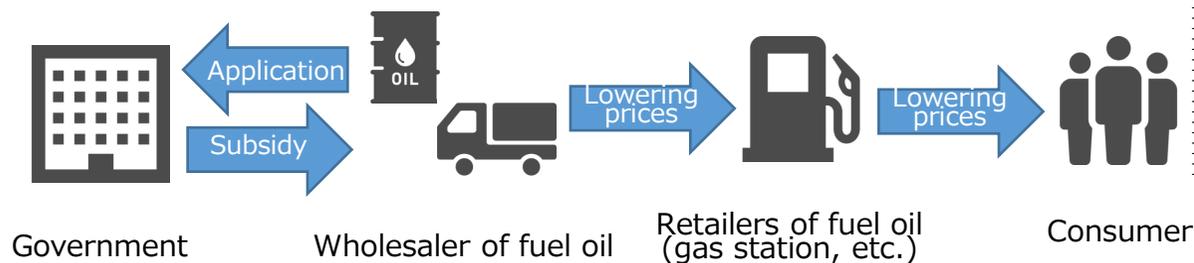
Import price index (yen-denominated price index)



(Source) Bank of Japan, Bloomberg

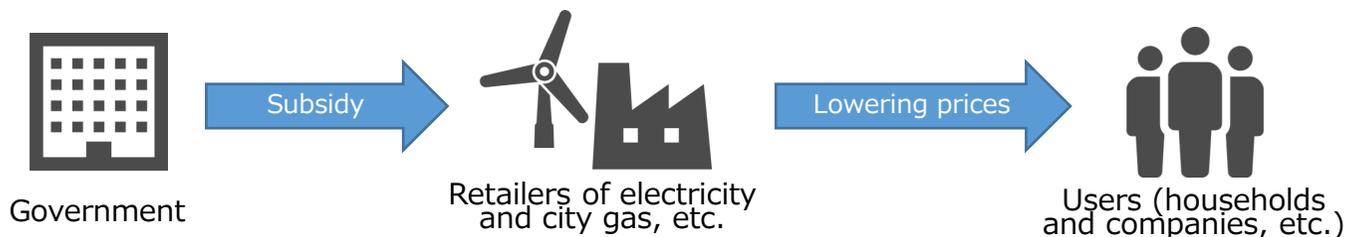
Mitigating measures for surging energy price

■ Mitigating measures for fuel oil price changes



(Source) Agency for Natural Resources and Energy, Ministry of Internal Affairs and Communications

■ Mitigating measures for electricity and gas price changes



Electricity bill

Households and companies with low voltage agreement, etc.
7yen/1kWh



Companies with high voltage agreement, etc.
3.5yen/1kWh

City gas bill



Households and companies with less than 10 million m³ use, etc.



30yen/1m³

Effects of mitigating measures for electricity and gas are estimated to be lowering CPI by **1.0%pt.** (July 2023, All items)

April 28, 2023

Statement on Monetary Policy (excerpt)

2. With extremely high uncertainties surrounding economies and financial markets at home and abroad, **the Bank will patiently continue with monetary easing** while nimbly responding to developments in economic activity and prices as well as financial conditions. **By doing so, it will aim to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases.**

The Bank will continue with Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, aiming to achieve the price stability target, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed consumer price index (CPI, all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. The Bank will continue to maintain stability of financing, mainly of firms, and financial markets, and will not hesitate to take additional easing measures if necessary.

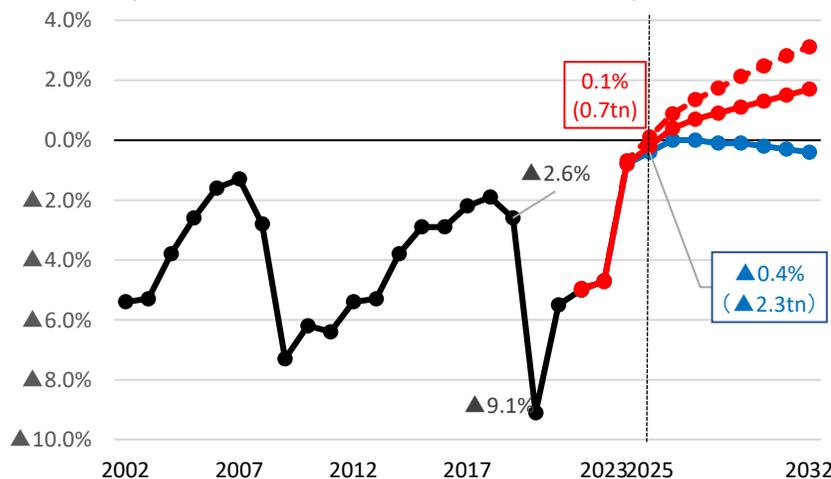
Economic and Fiscal Projections for Medium to Long Term Analysis

* Council on Economic and Fiscal Policy (Cabinet Office, July 25, 2023)

- **The Primary Balance for the central and local governments combined will turn into a surplus in FY2025 by continuing efforts to improve expenditure efficiency in the scenario of Growth Achieved Case.**
- In the Economic Growth Achieved Case, the ratio of outstanding debt to Nominal GDP gradually decline while the Primary Balance for the central and local governments combined will turn into a surplus. It is projected to rise in the latter half of the projecting periods in the Baseline Case.

Primary Balance (Ratio to Nominal GDP)

(Sum of the Central and Local Governments)



("tn" stands for "trillion yen.")

—●— Economic Growth Achieved Case:

Assuming that potential growth rate steady rises, achieving around real 2% and nominal 3% GDP growth.

...●... Economic Growth Achieved Case (Considering the expenditure reform) :

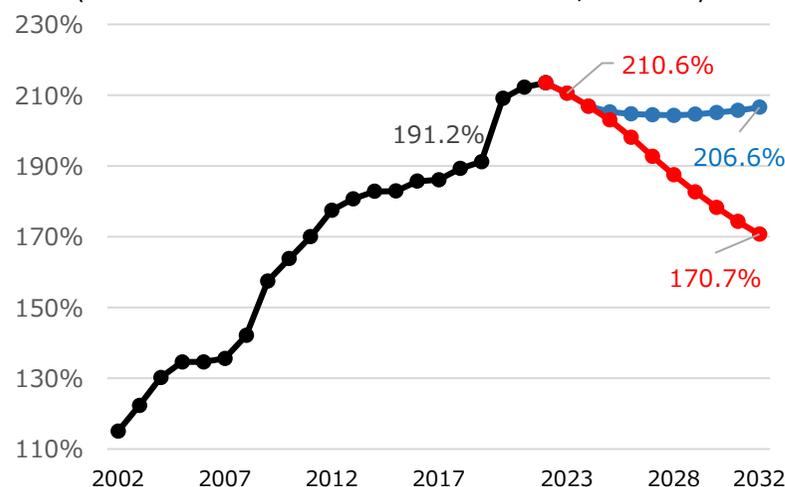
Assuming that potential growth rate steady rises, achieving around real 2% and nominal 3% GDP growth. Also, assuming the effect on improvement in the primary balance by efforts for increasing spending efficiency to be about 1.3 trillion yen per year when its impact on the economy is taken into consideration.

—●— Baseline Case :

Growth rates of GDP are assumed to be in the mid-0% range for both real and nominal GDP every year.

Outstanding Debt (Ratio to Nominal GDP)

(Sum of the Central and Local Governments, % of GDP)



National Security

- **Defense buildup program for FY2023-2027** sets the level of defense force development expenses at around **43 trillion yen** (1.6 times the amount in the previous program for FY2019-2023)
- The revenue will be secured for maintaining stable defense capabilities.

Green Transformation (GX)

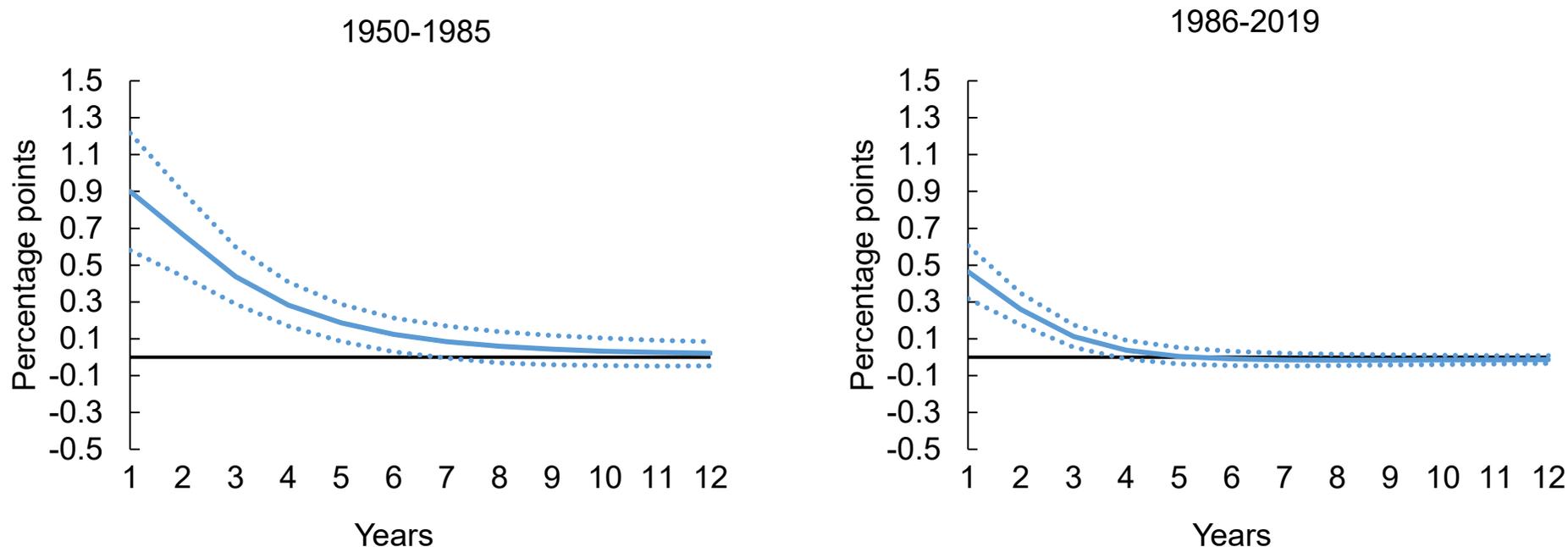
- **GX Economy Transition Bonds** will be established to provide upfront investment support in the amount of **20 trillion yen** over the next 10 years.
- The GX Economy Transition Bonds are going to be redeemed by future fiscal resources through embodying the vision of **Pro-Growth Carbon Pricing**.
- FY2023 budget includes 0.5 trillion yen, in addition to 1.1 trillion yen in FY2022 supplementary budget.

Policies related to children

- Based on "**Policy on Future Strategy for Children**", the Government will fundamentally strengthen its policies. Promote "**Acceleration Plan for Child and Childrearing Support**" without requiring the people to bear any substantial additional burden.
- The budget for "**Acceleration Plan for Child and Childrearing Support**" is currently estimated to be approximately 3 trillion yen.

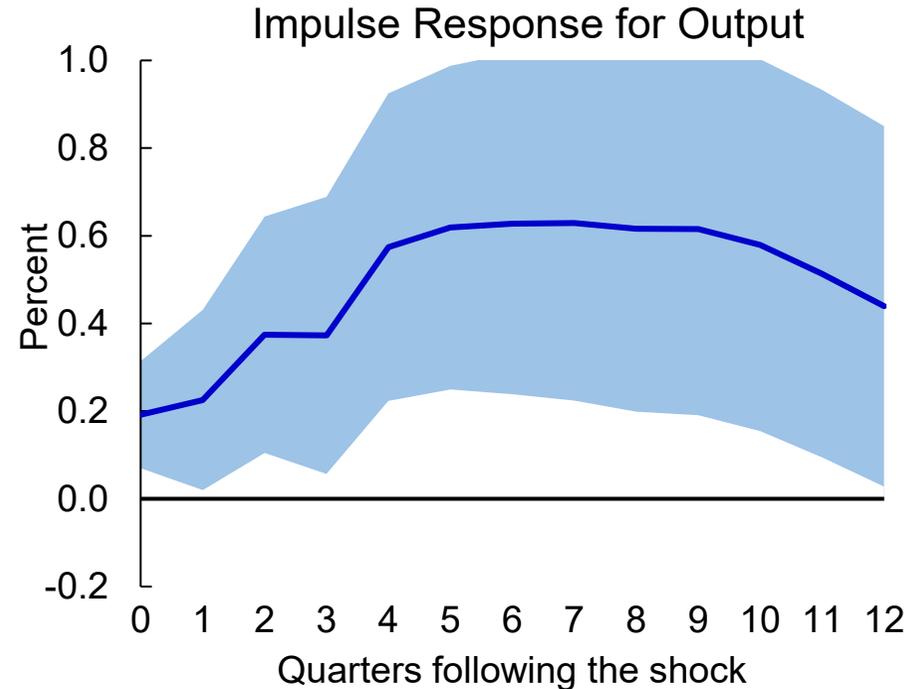
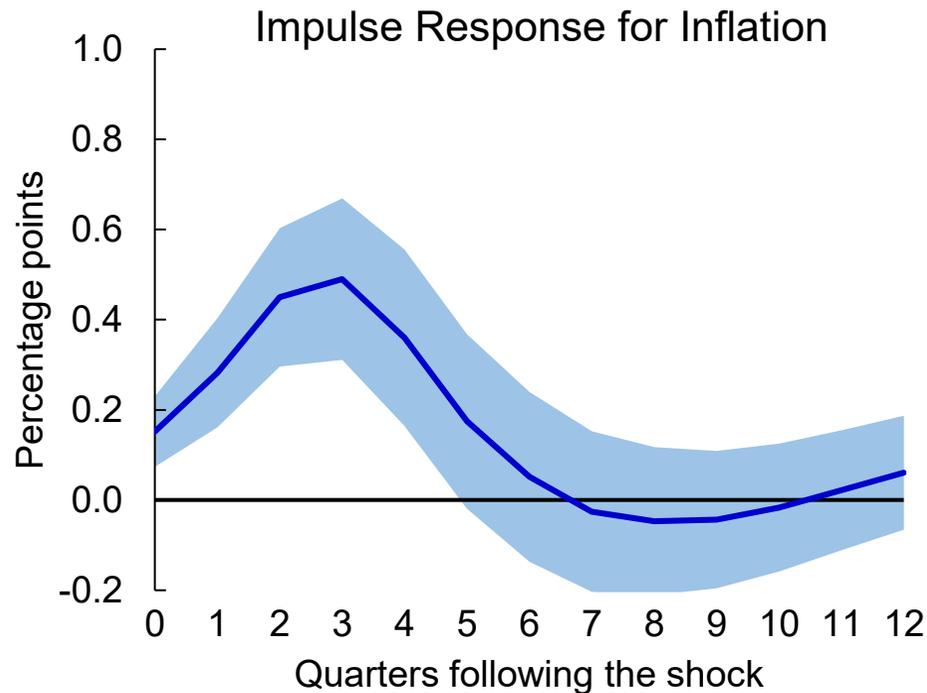
Panel evidence of fiscal policy impact on inflation, 1950-2019

Impulse response of 1% of GDP rise in government spending on inflation;
- Bayesian Panel VAR encompassing 17 advanced countries, 1950-2019
(dotted lines show the 90% confidence bands)



Fiscal policy impact on inflation in the United States, 1939–2015

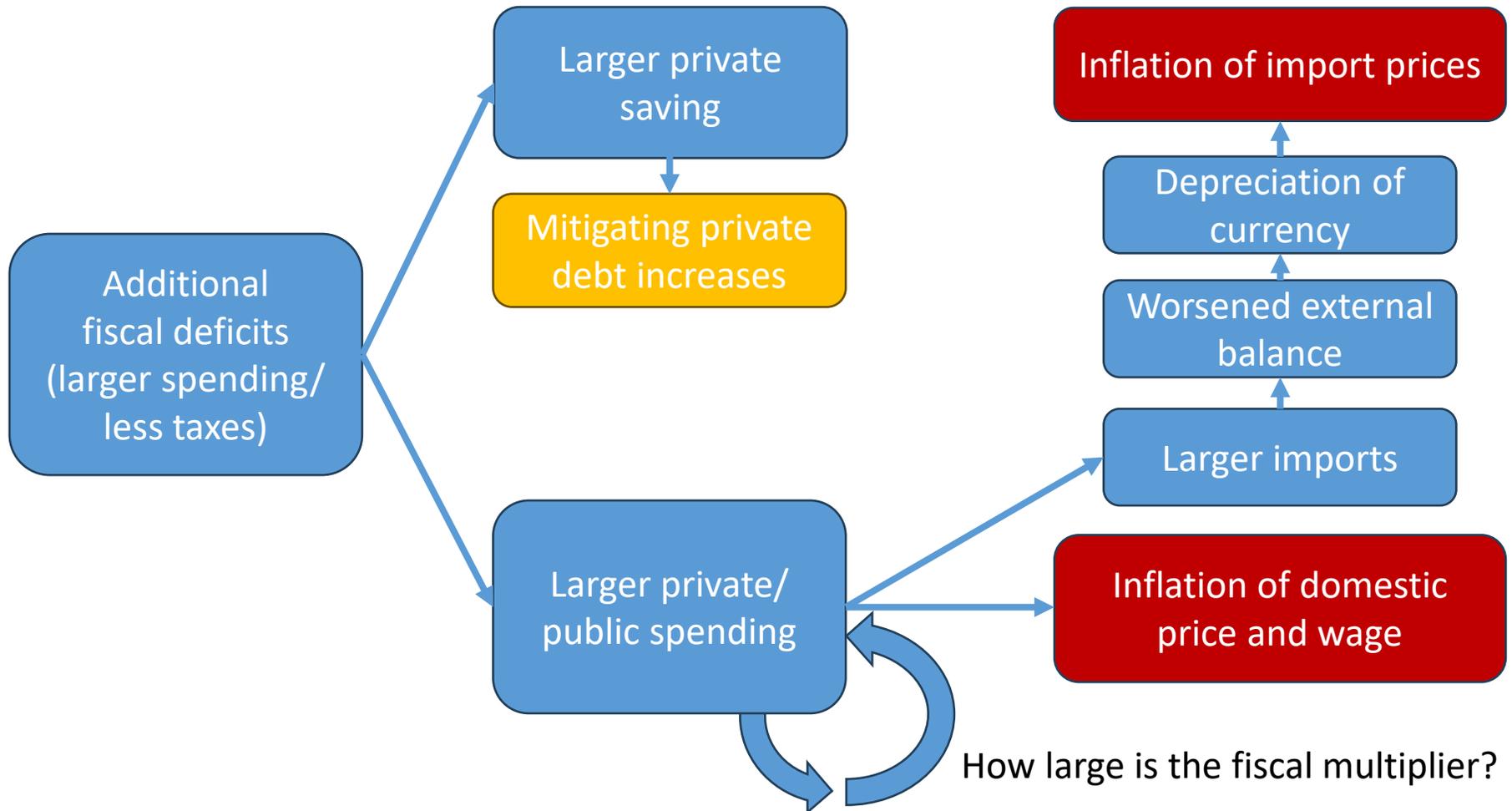
Impulse response of 1% of GDP rise in government spending on inflation;
- identified by quarterly news of additional military spending in the US



Impacts of fiscal policies (additional deficit) on inflation

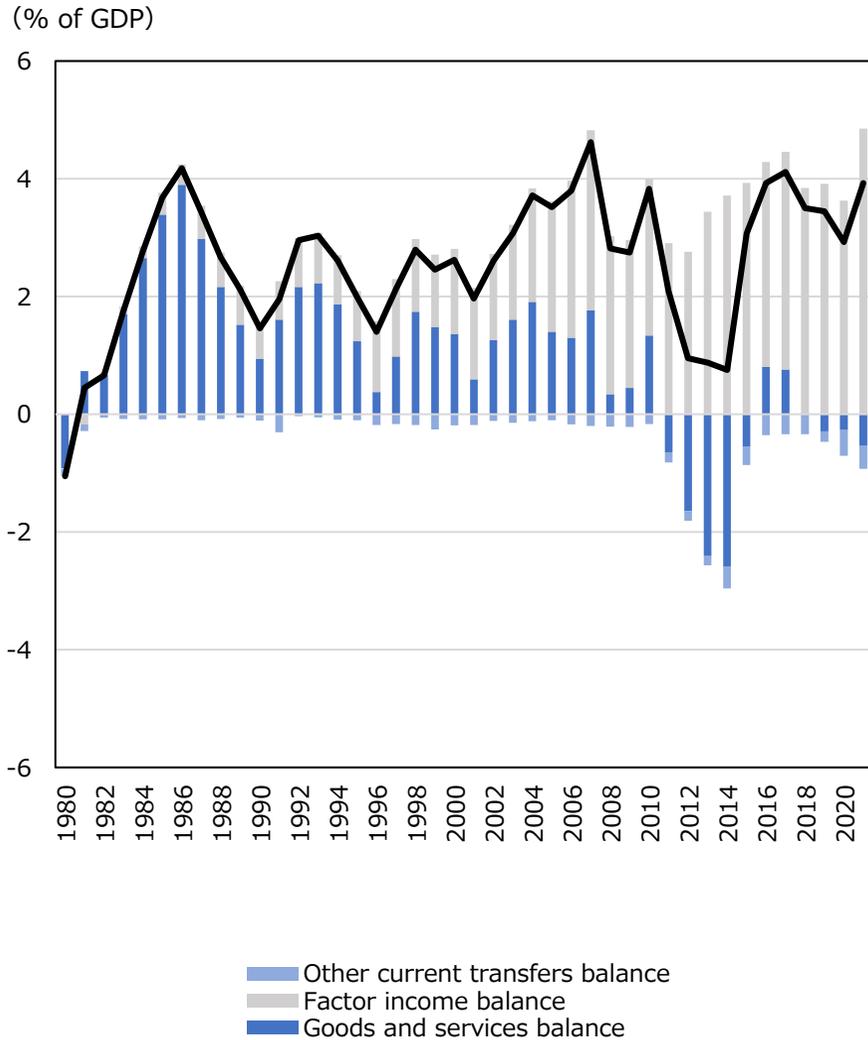
■ Key questions:

- ✓ How are the additional fiscal deficit linked to public / private demands immediately?



Exchange rate and external balance in Japan

External balance (SNA)



Exchange rate (market rate and PPP rate)

