

Japan tenet update – 22 January 2015

The Japanese government recently released its draft budget for 2015. We have updated our numbers and included a summary in the table below. Our investment tenet is detailed in our report of May 2010 focused on solvency concerns. While the government is forecasting improvement in 2015, Japan's solvency position remains very weak. The fund continues to hold a material exposure to this tenet.

The recent actions of the Bank of Japan (BoJ) are also worth putting into some context. Firstly, currently the BoJ owns 26% of Japanese Government Bonds (JGBs) outstanding compared to around 9% in 2010. This looks set to increase to around 30% by the end of 2015 and near 40% by the end of 2016. For context, currently around 15% of US government debt is held by the US Federal Reserve Banks. Secondly, the aggressive monetary policy pursued by the BoJ is also evident in the monetary base which has increased 40% over the past year and 130% over the past 5 years - to nearly 50% of GDP (for context, the US monetary base is around 25% of GDP).

Japan - General Account Budget (Trillions of Yen unless otherwise stated)

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-----------------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|-------|-------|-------|-------|-------|-------|
| Revenue | 62 | 62 | 60 | 59 | 60 | 62 | 56 | 57 | 60 | 57 | 52 | 50 | 53 | 58 | 57 | 59 | 56 | 49 | 48 | 48 | 46 | 47 | 55 | 59 |
| Expenditures | 67 | 72 | 71 | 74 | 73 | 73 | 77 | 79 | 78 | 78 | 77 | 75 | 75 | 74 | 70 | 70 | 73 | 92 | 81 | 80 | 78 | 80 | 83 | 83 |
| Deficit | -5 | -10 | -11 | -15 | -13 | -11 | -22 | -22 | -18 | -21 | -24 | -24 | -21 | -16 | -14 | -11 | -17 | -43 | -33 | -31 | -32 | -33 | -28 | -24 |
| Deficit % GDP | -1 | -2 | -2 | -3 | -3 | -2 | -4 | -4 | -3 | -4 | -5 | -5 | -4 | -3 | -3 | -2 | -3 | -9 | -7 | -7 | -7 | -7 | -6 | -5 |
| GDP | 488 | 491 | 496 | 502 | 512 | 523 | 512 | 505 | 510 | 506 | 499 | 499 | 504 | 504 | 507 | 513 | 501 | 471 | 482 | 471 | 474 | 478 | 489 | 500 |
| Employment (millions) | 64 | 65 | 65 | 65 | 65 | 66 | 65 | 65 | 64 | 64 | 63 | 63 | 63 | 64 | 64 | 64 | 64 | 63 | 63 | 63 | 63 | 63 | 63 | 63 |
| Current a/c % GDP | 2.9 | 3.0 | 2.7 | 2.1 | 1.5 | 2.2 | 2.9 | 2.6 | 2.8 | 2.1 | 2.7 | 3.2 | 3.9 | 3.7 | 4.0 | 4.9 | 2.9 | 2.9 | 4.0 | 2.1 | 1.0 | 0.7 | 1.0 | 1.1 |
| Household savings %** | 15 | 14 | 13 | 12 | 10 | 8 | 9 | 8 | 7 | 4 | 3 | 3 | 2 | 1 | 1 | 1 | 0 | 2 | 2 | 3 | 1 | 0 | 2 | 2 |
| Gross debt* | 360 | 392 | 427 | 477 | 524 | 571 | 623 | 685 | 733 | 777 | 819 | 846 | 910 | 939 | 942 | 939 | 961 | 991 | 1,042 | 1,083 | 1,124 | 1,163 | 1,197 | 1,226 |
| Net debt* | 65 | 81 | 93 | 115 | 144 | 178 | 229 | 264 | 300 | 331 | 372 | 387 | 415 | 414 | 411 | 413 | 478 | 500 | 546 | 600 | 613 | 641 | 673 | 699 |
| Gross debt % GDP | 74 | 80 | 86 | 95 | 102 | 109 | 122 | 136 | 144 | 154 | 164 | 170 | 181 | 186 | 186 | 183 | 192 | 210 | 216 | 230 | 237 | 243 | 245 | 245 |
| Net debt % GDP | 13 | 16 | 19 | 23 | 28 | 34 | 45 | 52 | 59 | 66 | 74 | 78 | 82 | 82 | 81 | 80 | 95 | 106 | 113 | 127 | 129 | 134 | 138 | 140 |
| JGBs held by BoJ as % total | | | | | | | | | | | | | | | | | 8 | 9 | 9 | 10 | 12 | 19 | 26 | |
| Monetary base*** | 39 | 40 | 42 | 44 | 48 | 51 | 56 | 60 | 65 | 69 | 87 | 101 | 109 | 111 | 96 | 89 | 89 | 94 | 98 | 113 | 121 | 163 | 234 | |

Notes / Sources: Japan Ministry of Finance, IMF, OECD, BoJ. 2015 forecasts from Japan Ministry of Finance, IMF and OECD. * General Government. ** as % of disposal household income. *** There are many ways to measure money supply each with their own characteristics.

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