

'This newsletter is translated from the Japanese edition distributed on February 23rd.  
Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

# Global Risk Watch Newsletter

## Will 2018 also be the year of fiscal policy?, etc.

Global Risk Watch Vol.35  
28 February 2018

=====

«index»

1. [# Will 2018 also be the year of fiscal policy? \(Tsuyoshi Oyama\)](#)
2. [# Enhanced cryptocurrency regulation \(Shiro Katsufuji\)](#)
3. [# Will the Big-Boned Policy point to fiscal reforms? \(Toshikazu Kumagai\)](#)
4. [Seminars, Conferences & Publications](#)

=====

### 3. Highlight of Indicator for this Month

#### **# Will the Big-Boned Policy point to fiscal reforms? (Toshikazu Kumagai, Manager, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)**

Although America's budget deficit is drawing attention, we should not forget about Japan's own fiscal woes. In the "Mid-to-Long-Term Economic and Fiscal Policy Calculations" released by the Economic and Fiscal Policy Council of the Japanese Cabinet Office, even the optimistic growth scenario (where sustainable growth is realized) pushed back primary balance of central and local government debt to 2027 (Figure 1). In the report, the Council explained that, as compared to July 2017's calculations, they lowered amount of the increased revenue from the consumption tax hike allocated for fiscal reforms. Hence, this has pushed back the date of a balanced budget. However, despite this change in calculations, Japan's fiscal risk has not necessarily been all that greatly increased.

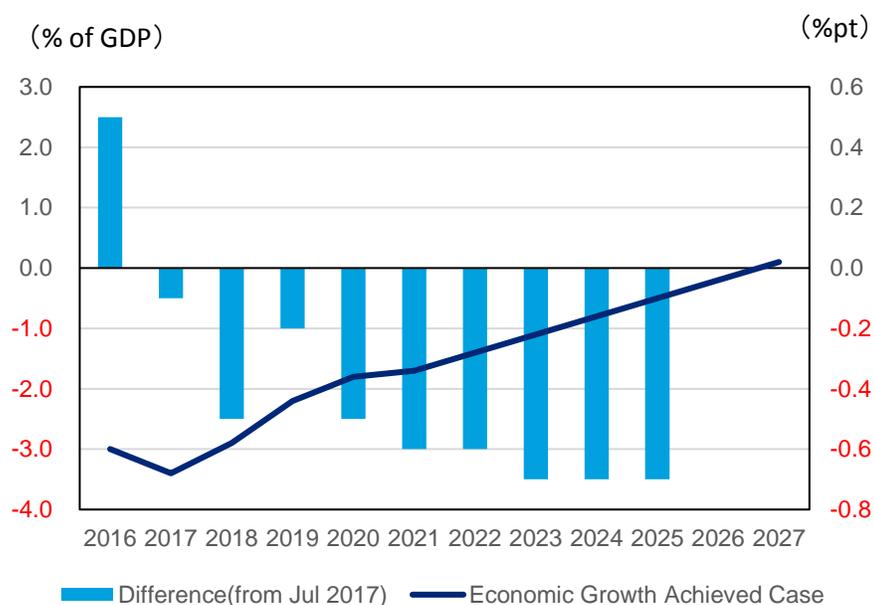
The fact that most of Japan's debt is held nationally (the rate of Japanese ownership is very high – Figure 2) is often given as a reason why the interest rates do not really rise. Most government debt is held by the Bank of Japan, and when Japanese financial firms purchase national debt they need to hold as collaterals. There is no real incentive for firms to aggressively sell government bonds as this would only increase the loss valuation on their assets.

However, it is also often pointed out that in the long-run the ratio of domestically held Japanese government debt will eventually shrink. Using the same mid-to-long-term calculation method as the report, published figures show that the private savings surplus is slowly decreasing as we move towards 2027 (Figure 3). Particularly from 2025 onwards, as baby boomers age and retire, their incomes will shrink but their consumption will not - household

savings will most like shrink as a result. As household savings (and therefore bank deposits) shrink, financial institutions will have less cash to purchase government bonds. All other things remaining equal, the government may have no choice but to raise funds internationally.

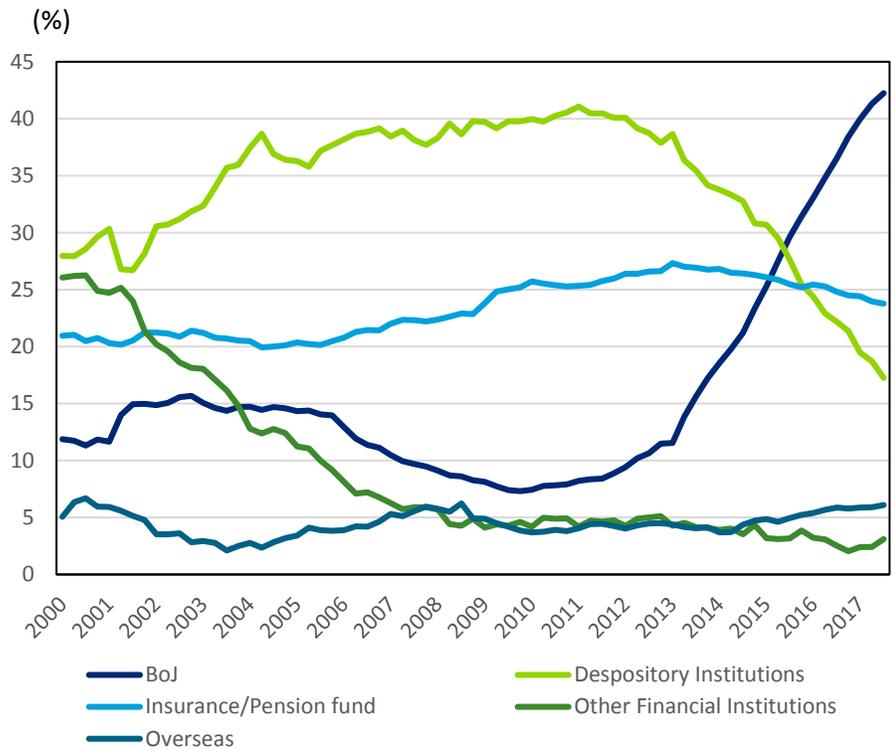
This summer the Japanese government will release their detailed plan for how and when they will achieve primary balance in the “Basic Policies for Economic and Fiscal Management and Reform” (Big-Boned Policy). There is some concern over a worsening supply-demand situation for government debt in the mid-to-long-term. And even if the government can streamline expenditures and increase revenues, whether or not they can create a realistic plan remains to be seen. The report spark considerable debate, and is worth paying attention to going forward.

\*Figure 1: Primary Balance Outlook (Optimistic Scenario)



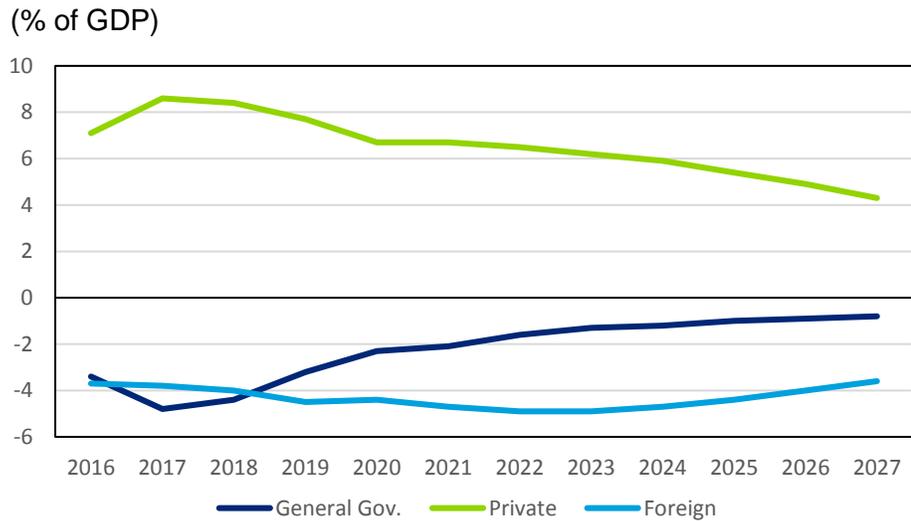
Source: “Mid-to-Long-Term Economic and Fiscal Policy Calculations,” the Japanese Cabinet Office / Analysis by Deloitte Touche Tohmatsu LLC.

\*Figure 2: Breakdown of Main Japanese Government Debt Holders Over Time



Source: Flow of Funds Accounts, Bank of Japan / Analysis by Deloitte Touche Tohmatsu LLC.

\*Figure 3: Savings Outlook by Group



Source: "Mid-to-Long-Term Economic and Fiscal Policy Calculations," the Japanese Cabinet Office / Analysis by Deloitte Touche Tohmatsu LLC.

Deloitte Tohmatsu Group (Deloitte Japan) is a collective term that refers to Deloitte Tohmatsu LLC, which is the Japan member firm of Deloitte Touche Tohmatsu Limited (DTTL), a UK private company limited by guarantee, and firms affiliated with Deloitte Tohmatsu LLC that include Deloitte Touche Tohmatsu LLC, Deloitte Tohmatsu Consulting LLC, Deloitte Tohmatsu Financial Advisory LLC, Deloitte Tohmatsu Tax Co., DT Legal Japan, and Deloitte Tohmatsu Corporate Solutions LLC. Deloitte Tohmatsu Group is known as one of the largest professional services groups in Japan. Through the firms in the Group, Deloitte Tohmatsu Group provides audit & assurance, risk advisory, consulting, financial advisory, tax, legal and related services in accordance with applicable laws and regulations. With about 11,000 professionals in nearly 40 cities throughout Japan, Deloitte Tohmatsu Group serves a number of clients including multinational enterprises and major Japanese businesses. For more information, please visit the Group's website at [www.deloitte.com/jp/en](http://www.deloitte.com/jp/en).

Deloitte provides audit & assurance, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 245,000 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#).

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more about our global network of member firms.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2018. For information, contact Deloitte Touche Tohmatsu LLC.