

For Immediate Release

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**Issuance of the FY2016 - 2018 “Japanese Economy Outlook”
(Second Issue, March 9, 2017 edition)****“Japanese Economy Outlook: Lower structural unemployment leads to higher growth and lower inflation outlook: Potential risk of fiscal expansion based on Sims’ FTPL” (Summary)****Highlights:**

- We revised up the growth outlook for Japanese economy for FY2016-FY2018 based on the recent strong export and production trend. Our growth outlook is more bullish than the market and the Bank of Japan (BOJ) and price outlook is bearish than market and the BOJ.
- Because we estimate that Japanese economy will require lower unemployment rate to achieve full employment than the general market expectation.
- For the future there is some possibility that the Japanese government will expand public expenditure based on the FTPL (Fiscal Theory of Price Level).

1. Upward revision of economic and price outlook

Our primary view on economy is same as before, Japanese economy will grow over 1% and the price will stay at 1% toward FY2018. We slightly revised up the GDP from 1.0% to 1.3% (+0.3 ppt) for FY2016, from 1.7% to 1.8% (+0.1 ppt) for FY2017 and from 1.4% to 1.5% (+0.1 ppt) for FY2018. The demand and supply gap will be narrower due to stronger growth outlook, so the price will be from 0.8% to 0.9% (+0.1 ppt) for FY2017, from 0.9% to 1.1% (+0.2ppt) for FY2018.

2. We estimate around 2.5-3.0% for the unemployment rate in full-employment

“Unemployment rate in full employment” refers to the unemployment rate level where labor market is in full-employment and inflation starts to rise. Although the market considers it around 3.5%, but we estimate that the level is around 2.5-3.0%, which is lower than the market one. Even our growth outlook is strong, but our price outlook is relatively modest.

3. Current status of production and the export

- (1) Production and inventory cycle shows that the production moved in positive direction with the reduction of inventory level in 2016, and production is likely to increase accompanying with the higher inventory in 2017.
- (2) The motor vehicles export to the US and the electronic device and the machinery to produce smart phone export to the Asia, especially to China contribute to the recent strong export and production. In 2016 Q4, the share of China companies’ shipment became already the largest among global cell phone shipment.

4. Future Outlook

Some market participants may expect that the BOJ will increase zero percent long-term interest rate guideline if the overseas interest rates go up. We expect such policy change may not happen until mid-FY2018 because we see it will be after mid-FY2018 when the labor market will be full-employment, price will start to go up significantly.

5. Potential future fiscal expansion based on “Sims’ Theory”

We estimate the third supplementary budget for FY2016 will push up GDP growth rate in FY2017, and public investment will decline in FY2018. There is some room that the government will take expansionary fiscal policy based on the FTPL discussion, which is argued by Princeton University Professor, Christopher Sims and others.

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