For Immediate Release

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Issuance of the FY2017 - 2020 "Japanese Economy Outlook" (Fifth Issue, November 21, 2017 edition)

- Japanese Economy Outlook:
Current economic recovery may not be sufficient to get out from deflationary equilibrium, more stimulus policies will be required to achieve the price stability: (Summary) -

Tokyo (Tuesday, November 21, 2017) --- Shinsei Bank, Limited today announced its issuance of fiscal year 2017 to fiscal year 2020 "Japanese Economy Outlook" (Fifth Issue, November 21, 2017 edition).

Highlights:

- GDP growth rate for third quarter of 2017 (annualized rate) is +2.5% (nominal), +1.4%(real). Real GDP shows seven consecutive positive growths. But the growth is mainly driven by overseas demand, and the domestic demand is still weak.
- Current business recovery is still around the deflation equilibrium, the downward risk on economy and prices are still high with continuation of current monetary easing if the government increases the consumption tax rate in October, 2019.
- Some market participants expect that the government will announce "Japanese economy has emerged out from deflation", but we believe it's too early to say so.
- We believe that expansionary macroeconomic policy is still essential for Japanese economy. In order to achieve 2% inflation target, the government may need to take expansionary fiscal policy and postpone and/or freeze the consumption take hike scheduled in Oct, 2019.

1. 2017-Q3 GDP: Public expenditure began to decrease, decline in consumption is expected to more than offset the strong previous quarter

Overseas demand was main driver of Japan's 2017-Q3 GDP's growth, and the domestic demand was very weak. Public expenditure pushed down the growth. Market sees that the consumption weakness is a reversal of the surprisingly strong consumption in 2017-Q2, but we see that the consumption decline in Q3 more than offset the strong Q2 figures considering the income and wealth effect. Although the Q3 GDP growth rate was above potential growth rate, which is considered around below 1%, it is still not enough to step up toward 2% inflation target.

2. The downward risk on economy and prices are still high if current macro-economic policy continues.

Assuming current monetary easing continues and the government increases the consumption tax rate in October, 2019, we expect the real GDP will growth will be +1.9% for FY2017, +1.5% for FY2018, +0.2% for FY2019, and +0.3% for FY2020. Core CPI (excluding the impact from consumption tax hike) will be as follows: +0.6% for FY2017, +0.9% for FY2018, +0.7% for FY2019, and +0.2% for FY2020.

3. Although Japanese economy has improved significantly, it's too early to announce "Japanese economy has emerged out of deflation"

Although Abenomics has achieved the current stock rally and the improvement in employment, we expect that our relatively bullish growth forecasts are still not enough to achieve 2% inflation in FY2019. Current Japanese economy is still staying at "deflationary equilibrium" where household and corporation do not expect inflation. If this holds, the economy is highly likely to go back to deflation when the negative shock happens such as slowdown in overseas economy or tighter fiscal policy. It's too early to announce "Japanese economy has emerged out of deflation."

4. The BOJ board members selection and the extension of Primary Balance target will be the key to achieve price stability

We believe that achieving the 2% inflation target will be required for Japanese economy to grow in the stable manner. There were some obstacles on growth and prices in Abenomics period. (1) Consumption tax hike in April, 2014, (2) BOJ governor Kuroda's remark in August 2015, stating that he does not expect a further depreciation of yen, (3) "Comprehensive assessment of the Monetary Easing" on nominal interest rates in September, 2017, which essentially put a brake on a further decline of nominal interest rate. We expect that Japanese economy could be closer to achieving the 2% inflation target, if the macro-economy policy will be more expansionary when the government choose BOJ board members for next Spring and extend the primary balance target in next Summer.

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