

For Immediate Release

Company Name: Shinsei Bank, Limited  
Name of Representative: Hideyuki Kudo  
President and CEO  
(Code: 8303, TSE First Section)

**Issuance of the FY2018 - FY2021 “Japanese Economy Outlook”  
(Tenth Issue, Q1 2018 GDP (2nd Preliminary), June 18, 2018 edition)**  
- New Fiscal Consolidation Target -

Tokyo (Monday, June 18, 2018) --- Shinsei Bank, Limited today announced its issuance of fiscal year 2018 to fiscal year 2021 “Japanese Economy Outlook” (Tenth Issue, Q1 2018 GDP (2nd Preliminary), June 18, 2018 edition).

**Highlights:**

- Japanese government decided new fiscal consolidation target in June under “no fiscal consolidation without the economic recovery” policy.
- Government announced that new social security expenditure outlook by FY2040, which may lead to social security debate in the future.
- It is worth noting that the Japan’s social security expenditure has dropped in per capita base.
- We believe that the further expansionary macroeconomic policy is required due to stagnation in price in Japan despite the stable overseas economies.

We examine new fiscal consolidation target in terms of (1) Primary balance (surplus) target, (2) Numerical target for the social security, and (3) consumption tax rate.

The Japanese government announced (1) to extend primary balance target to FY2025, and (2) to abolish the numerical target of the social security expenditure. We think that these are dovish fiscal policies and appropriate for the current Japanese economy. However, we concern that (3) the government is likely to increase consumption tax rate in October 2019 and to implement the related economic policy as scheduled, but the effect of the policy is likely to be quite limited to mitigate the negative impact from the rate hike.

Because the government announced the new social security expenditure outlook until FY2040, the government could possibly launch the new social security debate in the future. Although the total amount of social security expenditure has been increasing, it has dropped in per capita base.

Currently overseas economies show robust growth and central banks continue to increase their policy rates. Although the external environment is quite positive for the Japanese economy, still Japan’s inflation is weakening. We believe that the further expansionary policy may be required under the current situation.

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