

What Kind of “New Normal” Are We Heading For?

November 5, 2021

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Chairman of the Institute
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World Economic Outlook(IMF)

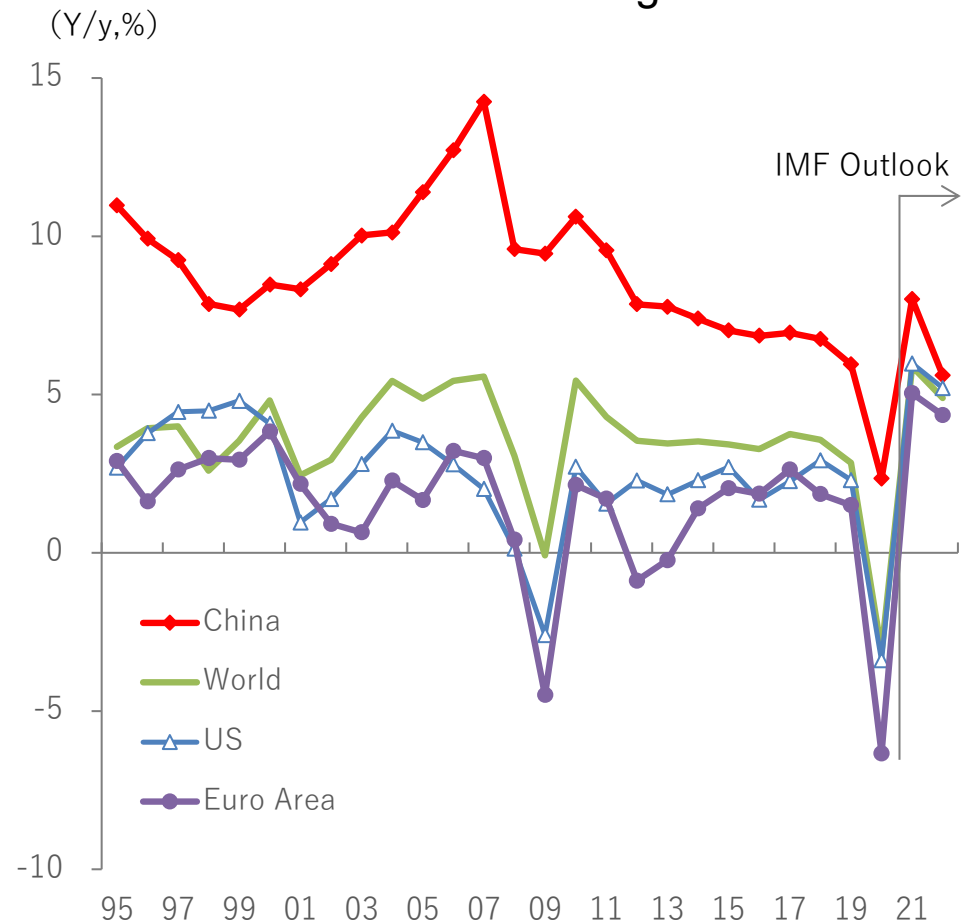
Outlook for Real GDP Growth Rate (y/y)

(%, %pt)

	Performance 2020	Estimation/Prediction as of Oct. 2021		Revision Jul-Oct 2021	
		2021	2022	2021	2022
World Output	-3.1	5.9	4.9	-0.1	0.0
Advanced Economies	-4.5	5.2	4.5	-0.4	0.1
United States	-3.4	6.0	5.2	-1.0	0.3
Euro Area	-6.3	5.0	4.3	0.4	0.0
Germany	-4.6	3.1	4.6	-0.5	0.5
United Kingdom	-9.8	6.8	5.0	-0.2	0.2
Japan	-4.6	2.4	3.2	-0.4	0.2
Emerging Market and Developing Economies	-2.1	6.4	5.1	0.1	-0.1
Sub-Saharan Africa	-1.7	3.7	3.8	0.3	-0.3
Emerging Europe	-2.0	6.0	3.6	1.1	0.0
Russia	-3.0	4.7	2.9	0.3	-0.2
Emerging Asia	-0.8	7.2	6.3	-0.3	-0.1
China	2.3	8.0	5.6	-0.1	-0.1
India	-7.3	9.5	8.5	0.0	0.0
ASEAN-5	-3.4	2.9	5.8	-1.4	-0.5
Middle East and Central Asia	-2.8	4.1	4.1	0.1	0.4
Latin America and the Caribbean	-7.0	6.3	3.0	0.5	-0.2
Brazil	-4.1	5.2	1.5	-0.1	-0.4

Source: IMF "World Economic Outlook (October 2021)"; Compiled by DIR.

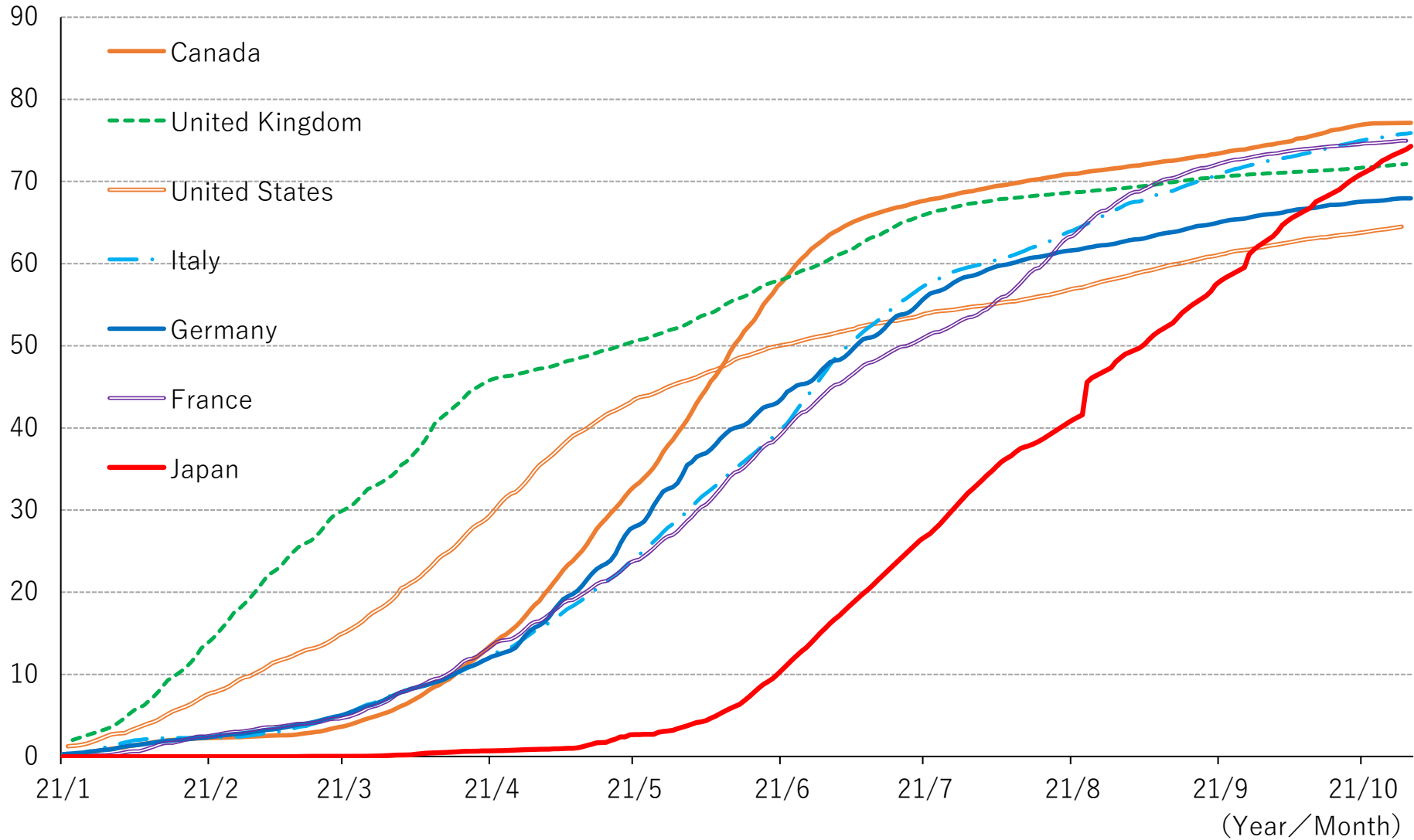
Real GDP Growth Rates of Major Countries & Regions



Source: IMF "World Economic Outlook"; Compiled by DIR.

Status of Vaccinations around the G7 Countries

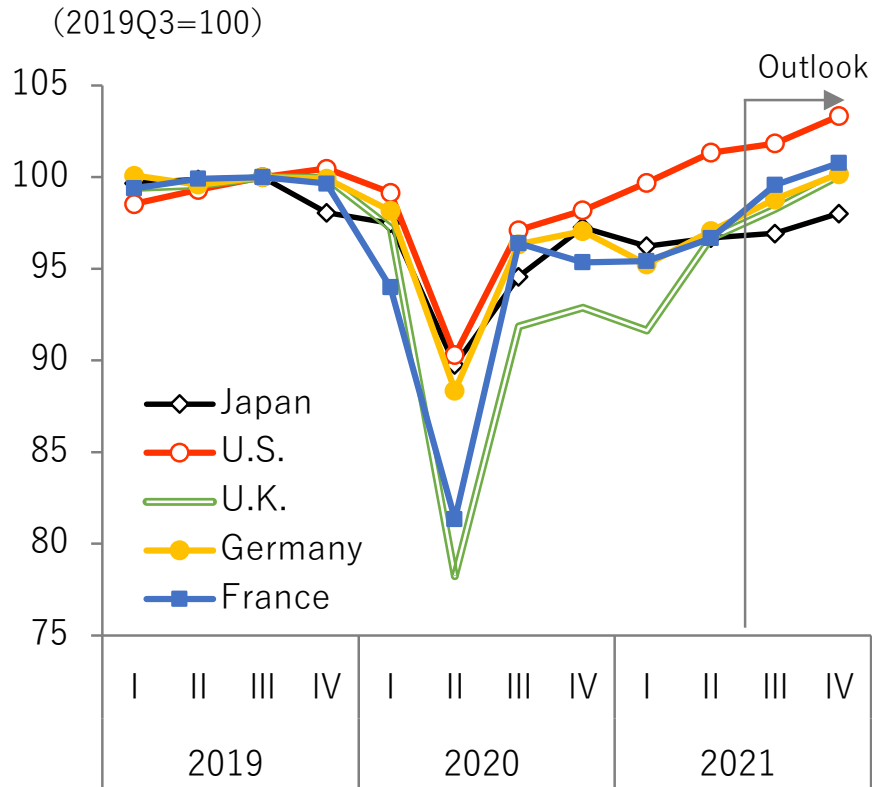
(Share of people who received at least one dose of COVID-19 vaccine, %)



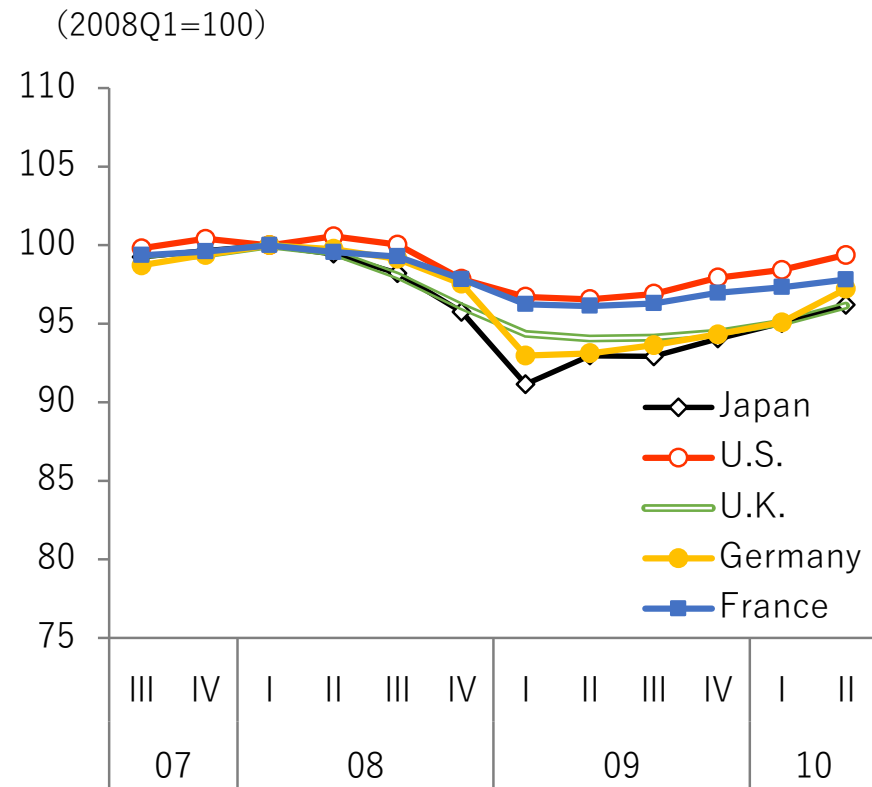
Source: Our World in Data; compiled by DIR.

Changes in Real GDP

Current and Outlook



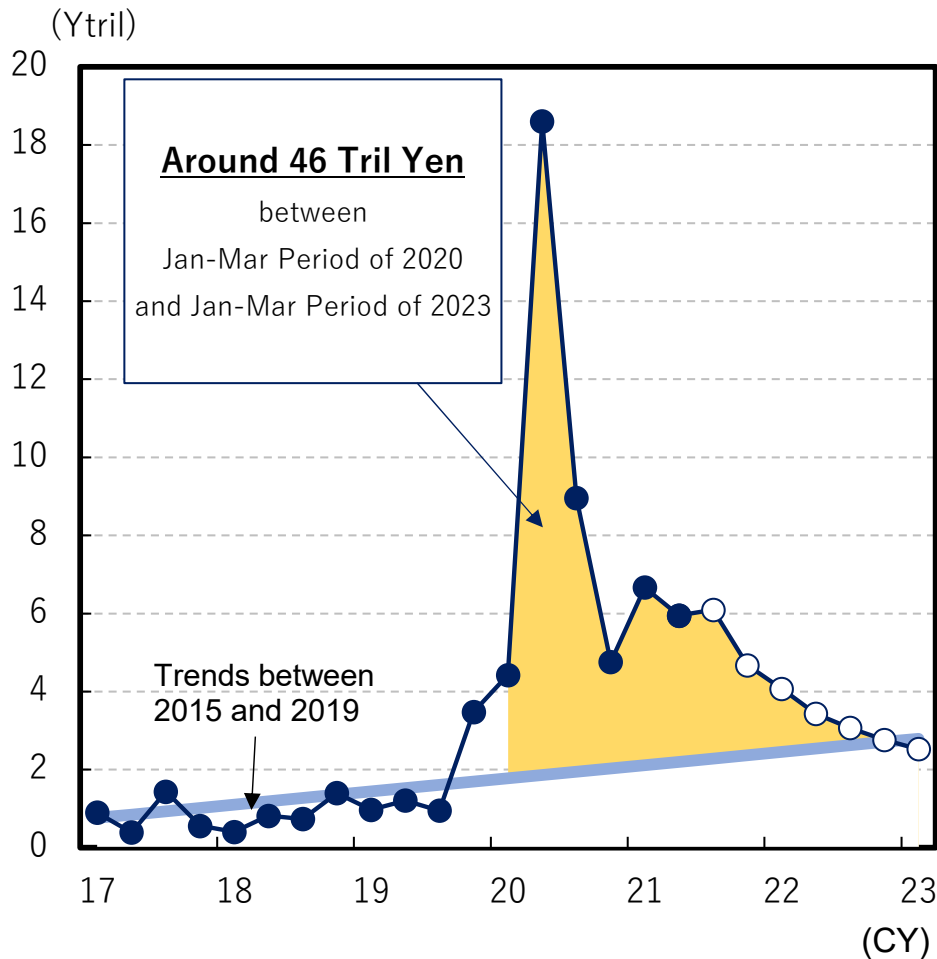
Aftermath of GFC



Note: The outlook for Japan; JCER ESP Forecast Survey(Oct 2021) , U.S.; CBO Interim Economic Projections(July 2021), U.K.;Office of Budget Responsibility Economic and fiscal outlook (Oct 2021), Germany, France; European Commission Economic Forecast(June 2021).
 Source: Cabinet Office, Japan Center for Economic Research, U.S. Department of Commerce, U.S. Congressional Budget Office, Federal Statistical Office of Germany, Office for National Statistics, The National Institute of Statistics and Economic Studies, European Commission; compiled by DIR.

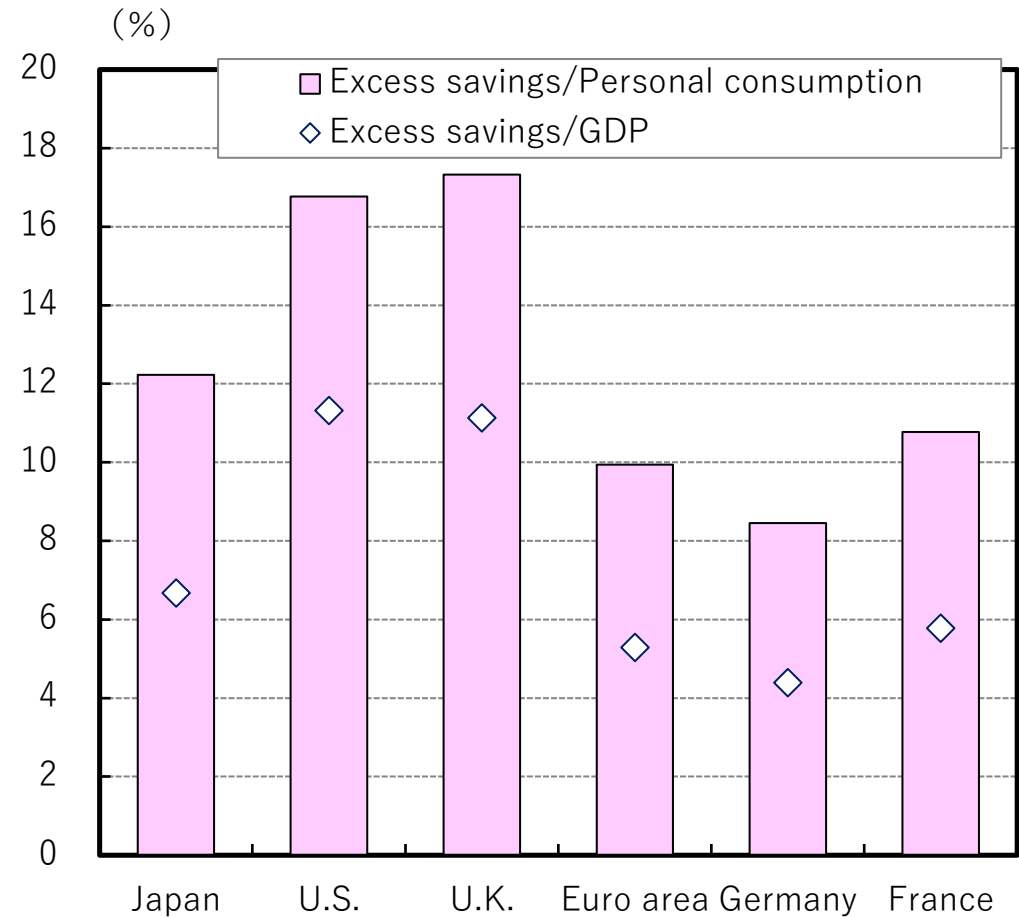
Change in Household Savings

Outlook for Household savings



Note: Values are all seasonally adjusted. Figures represented by the white circles are DIR estimates.
Amount of savings = disposable income – household final consumption expenditure.
Source: Cabinet Office; compiled by DIR.

Excess savings in major advanced economies



Note: Excess savings are cumulative value for 2020Q1 to 2021Q2. GDP and Personal consumption are value for 2019.
Source: Cabinet Office, U.S. Department of Commerce, Office for National Statistics, European commission, Federal Statistical Office of Germany, The National Institute of Statistics and Economic Studies; compiled by DIR.

Growth Rate and Price Outlook

◆ Real GDP Growth Rate

(Yy, %)	DIR	BOJ	Govt	ESP
FY2021	3.5	3.4	3.7	3.3
FY2022	3.3	2.9	2.2	2.8
FY2023	-	1.3	2.0	1.4

◆ Core CPI

(Yy, %)	DIR	BOJ	Govt	ESP
FY2021	-0.2	0.0	0.1	-0.1
FY2022	0.6	0.9	0.7	0.5
FY2023	-	1.0	0.6	0.7

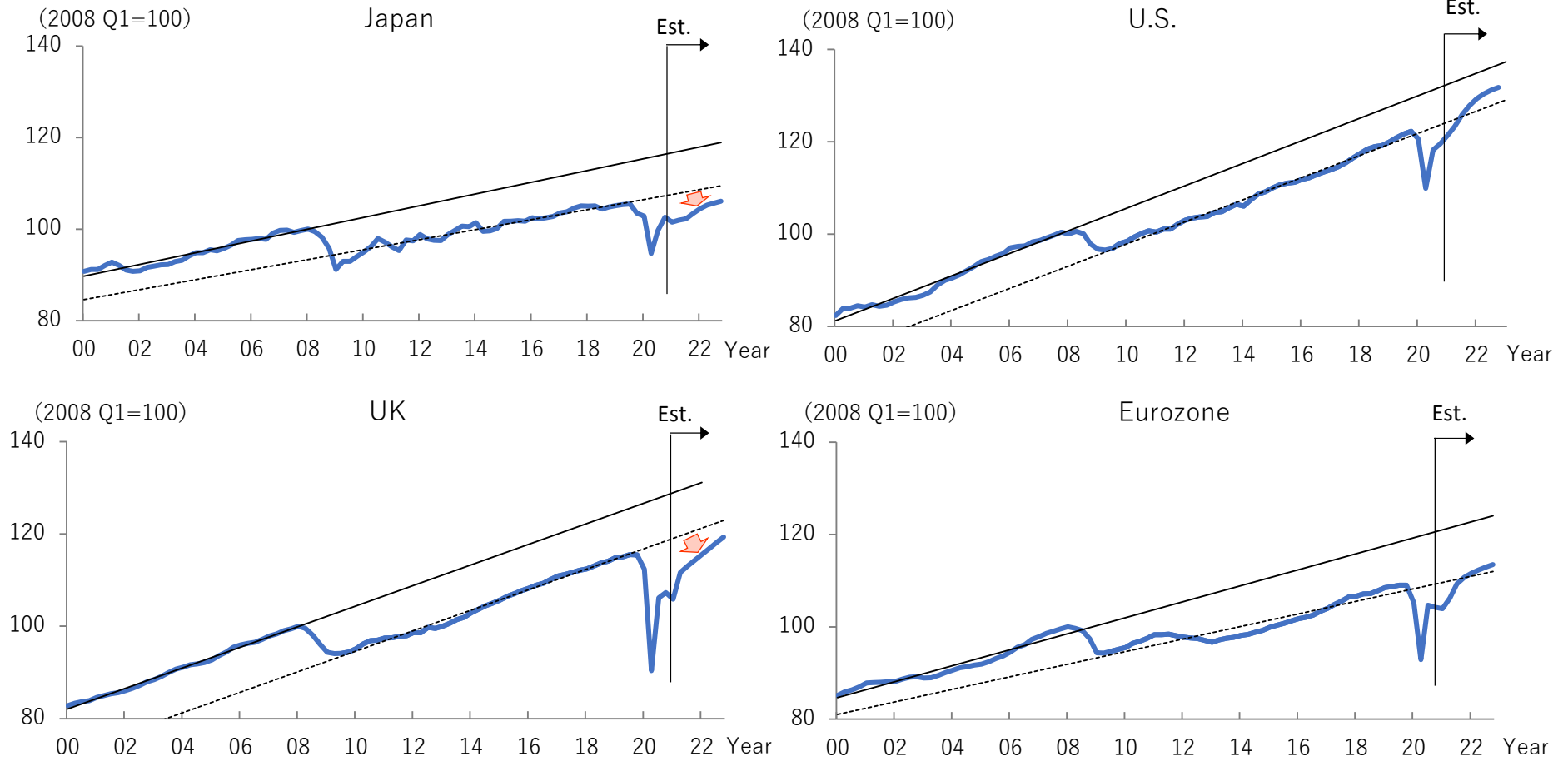
Notes: 1 DIR indicates Daiwa Institute of Research. ESP is the outlook of leading forecasters from private institutes.

2 The Govt figure uses the CPI total value.

3 The BOJ figure uses the medians of the Policy Board members' forecasts (point estimates).

Source: DIR Japan's Economic Outlook No. 210 Update (September 2021), BOJ Outlook for Economic Activity and Prices (October 2021), Japanese Govt. Mid to Long-Term Estimate of Economy & Finance (July 2021) baseline case, ESP October 2021 Survey.

Real GDP Growth Trends



Real GDP Growth Rates after 2000 Q1 (Annual Average Rate, %)

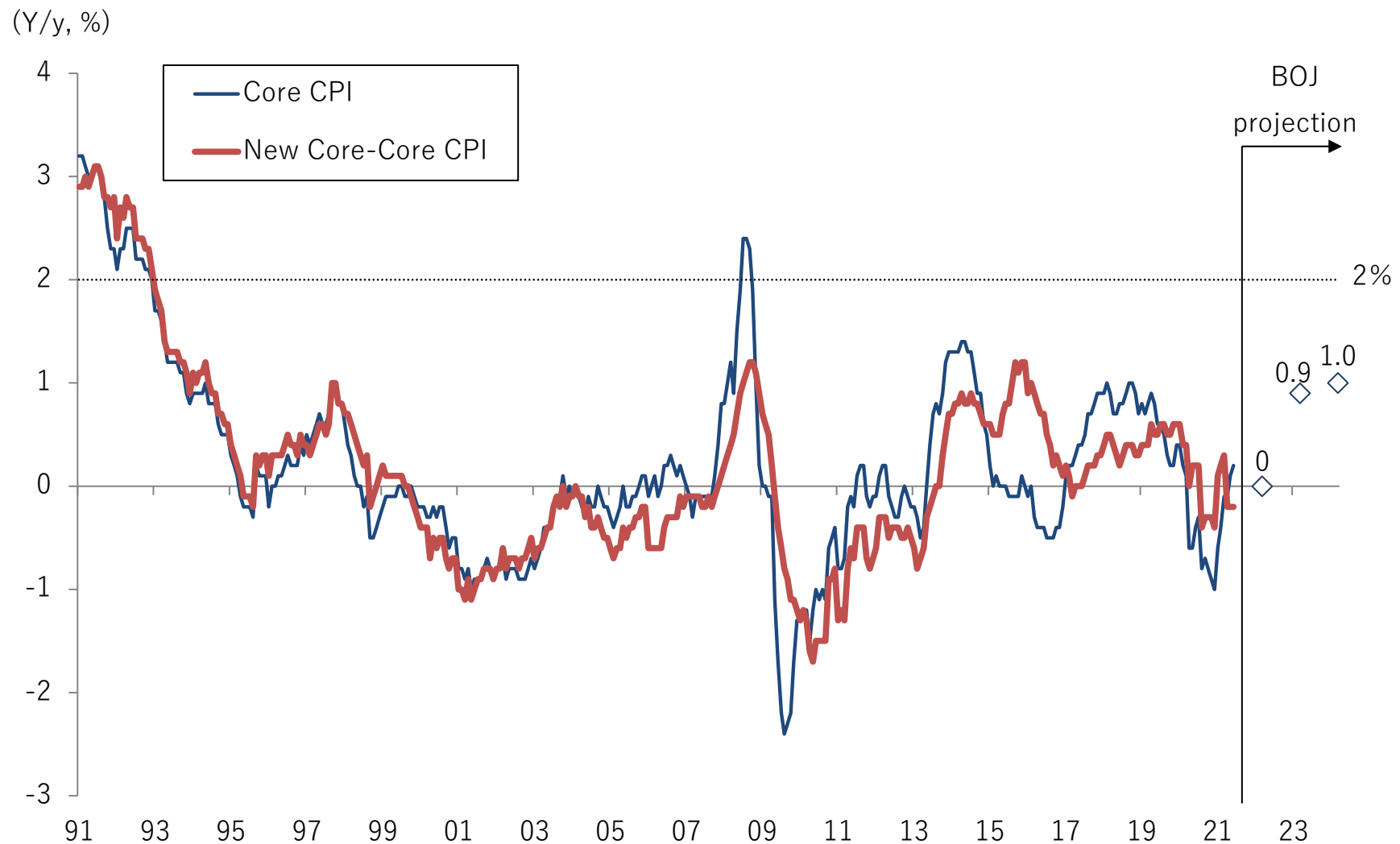
	Japan	U.S.	UK	Eurozone
Before Global Financial Crisis: ~2008 Q1	1.2	2.5	2.4	2.0
After Global Financial Crisis: ~2019 Q4	0.7	2.0	1.7	1.3
After the Outbreak of COVID-19: ~2022 Q4	0.7	2.1	1.6	1.3

Notes 1: Solid lines indicate GDP trends from 2000 Q1 to 2008 Q1. Dotted lines indicate GDP trends from 2009 Q3 to 2019 Q4.

2: The prediction references the ESP Survey of the Japan Center for Economic Research in the case of Japan (Oct. 2021), and the U.S. Department of Commerce and U.S. Congressional Budget Office in the case of the U.S. (Jul. 2021). The European Commission is referenced for the Eurozone (Jun. 2021). DIR is referenced for the UK (Sep. 2020)

Source: Japan Cabinet Office, Japan Center for Economic Research, U.S. Department of Commerce, U.S. Congressional Budget Office, UK Office for National Statistics, European Commission; compiled by DIR.

CPI Inflation in Japan



Notes 1: Japan's core CPI includes everything except fresh food, while new core-core CPI excludes fresh food and energy. Both have been adjusted for consumption tax.

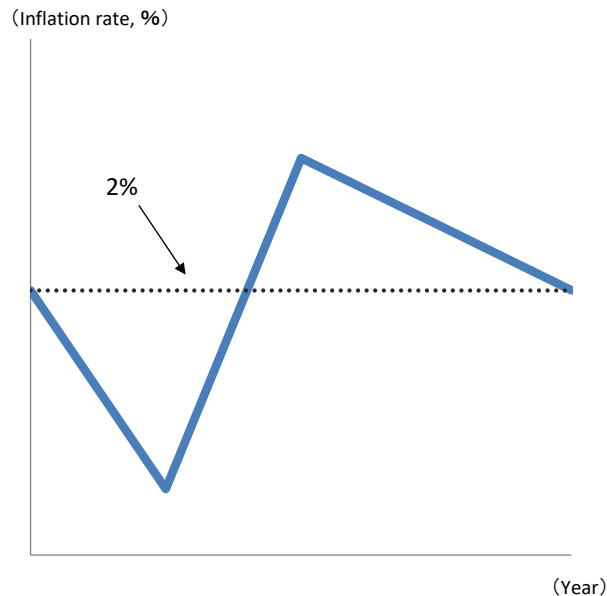
2: CPI as of June 2021.

3: Rhombus indicate the medians of the BOJ Policy Board members' forecasts about CPI in fiscal 2021, 2022, and 2023.

Source: Ministry of Internal Affairs and Communication, Bank of Japan; compiled by DIR.

Average Inflation Targeting (Fed), Inflation-overshooting Commitment (BOJ) and Symmetric Inflation Target (ECB)

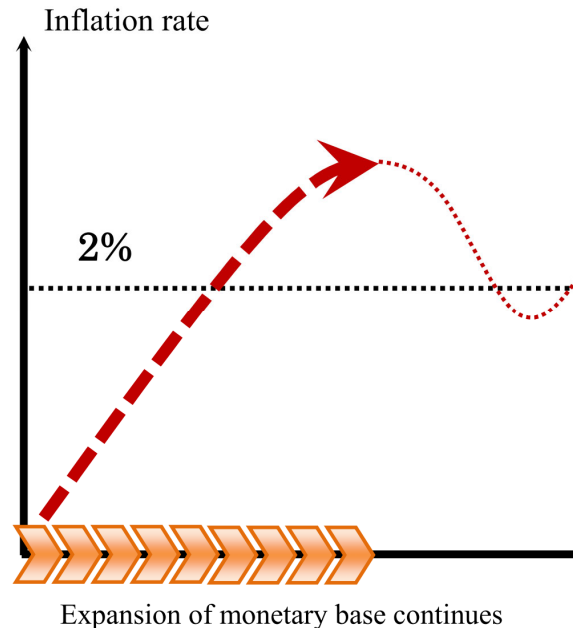
Average Inflation Targeting (Fed)



“Following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.”

Source: Fed (2020) “Review of Monetary Policy Strategy, Tools, and Communications”; compiled by DIR.

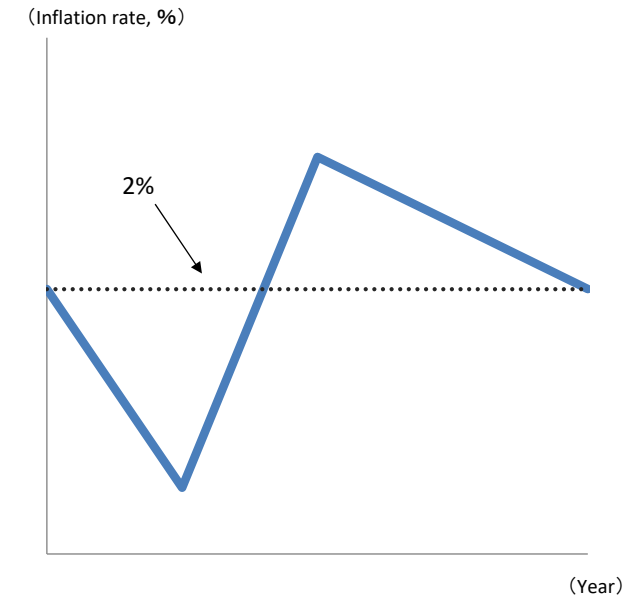
Inflation-overshooting Commitment (BOJ)



“The Bank continues expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds the price stability target of 2 percent and stays above the target in a stable manner.”

Source: Kuroda, Haruhiko(2017) “The Role of Expectations in Monetary Policy: Evolution of Theories and the Bank of Japan's Experience”, Speech at the University of Oxford; compiled by DIR

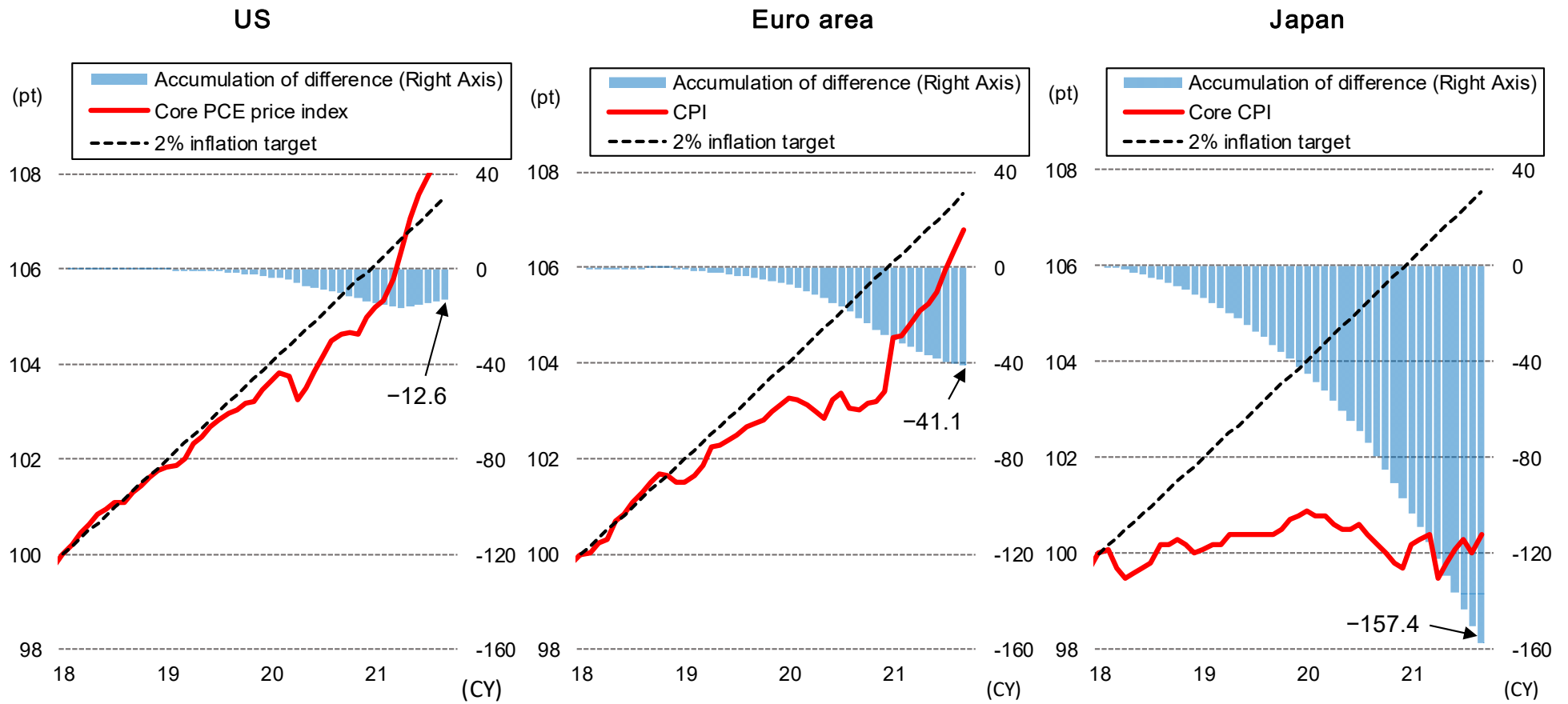
Symmetric Inflation Target (ECB)



“We are committed to target 2%, and we are defining very clearly what symmetry is to us; equally undesirable deviation on both sides of the target, positive or negative.”
 “There might be some moderate temporary deviation in either direction of that 2% – and that is okay.”

Source: Christine Lagarde, Press Conference on the ECB’s new monetary policy strategy (July 8 2021); compiled by DIR.

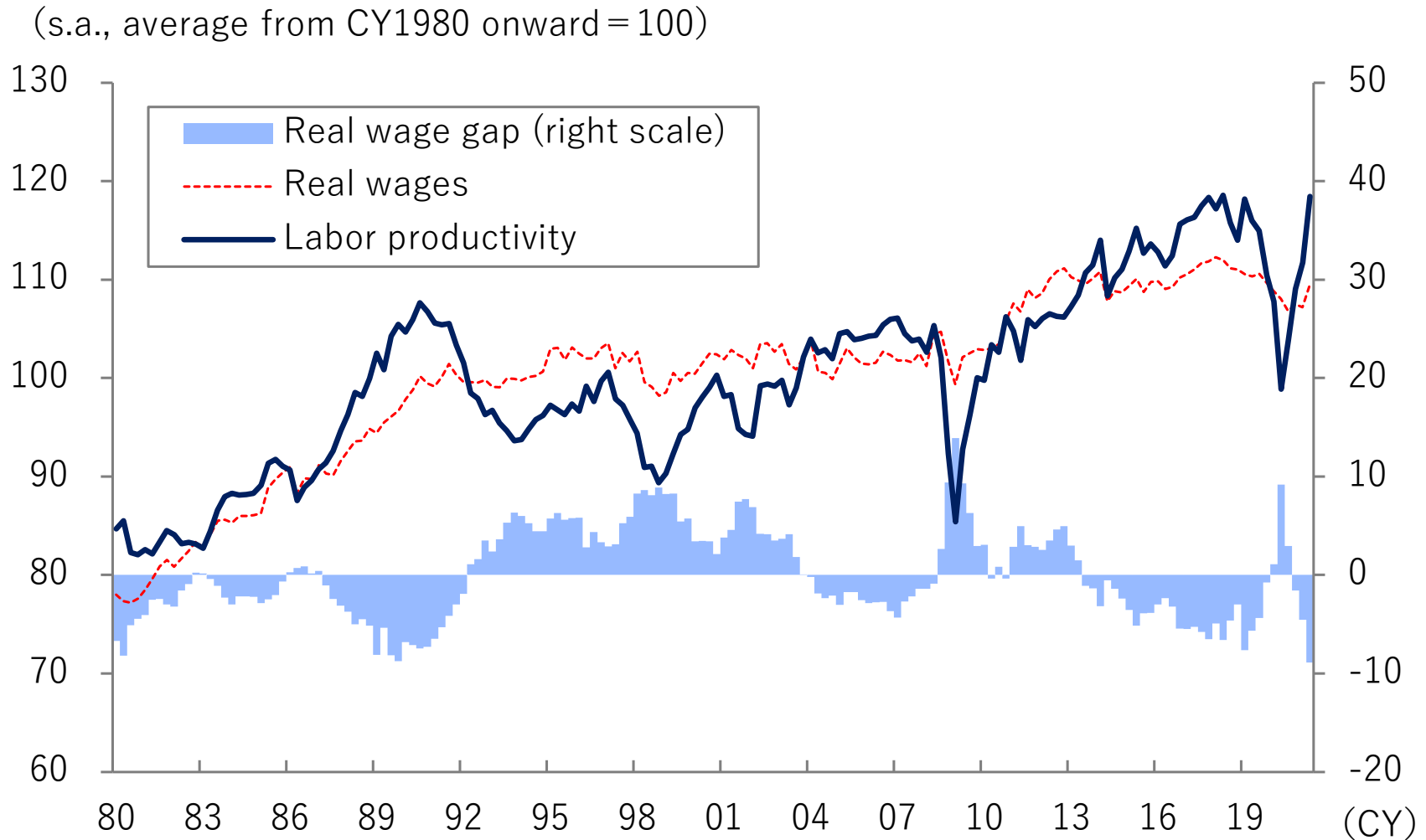
Inflation and 2% target in US, Euro area and Japan



Note: Seasonally adjusted.

Source: BLS, Eurostat, Ministry of Internal Affairs and Communications, Haver Analytics; compiled by DIR.

Real Wage Gap



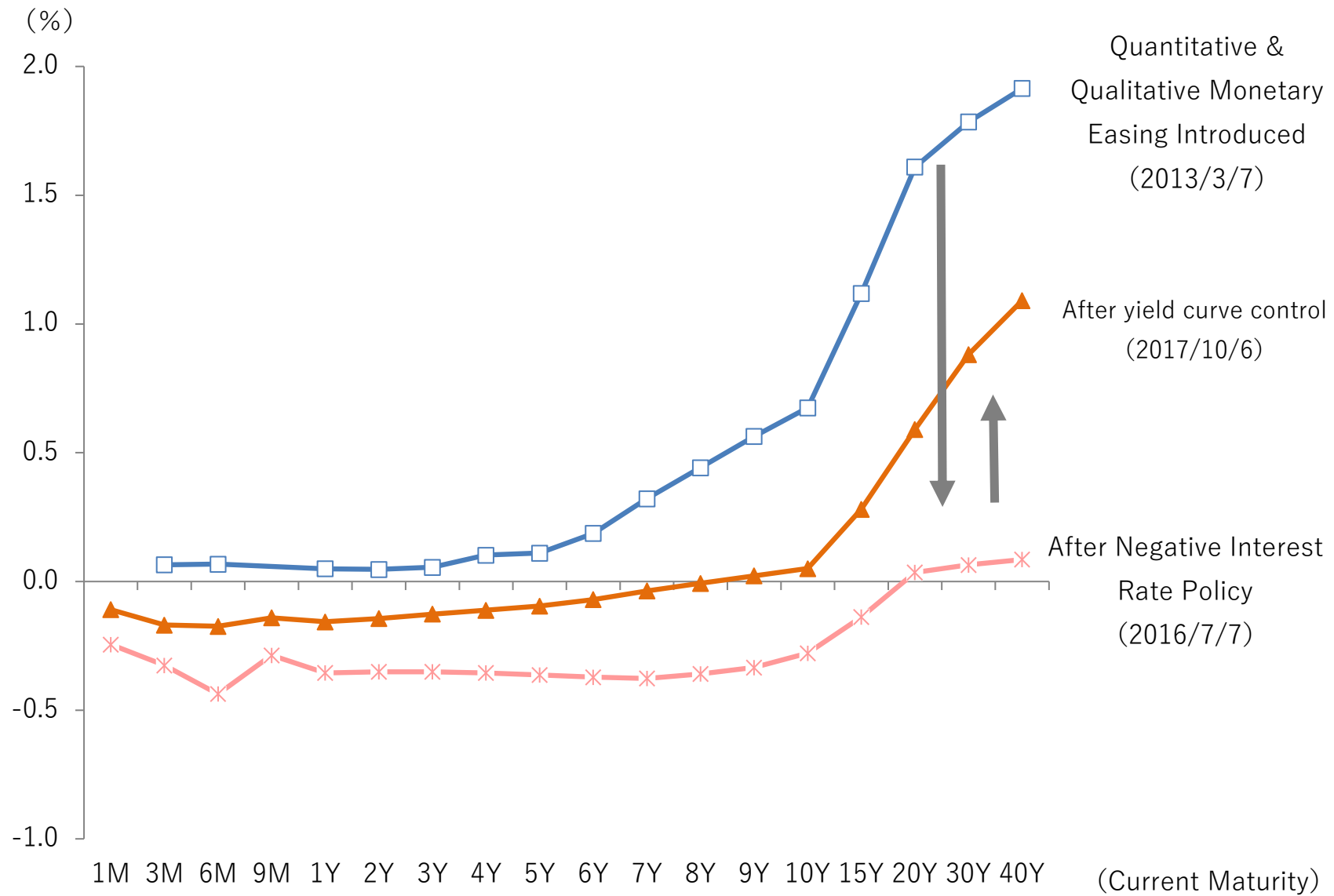
Note. Real wages = personnel expenses / number of workers / GDP deflator,
Labor productivity = (operating profits + personnel expenses + depreciation expenses) / number of workers / GDP deflator.
Source: Ministry of Finance; compiled by DIR.

Transition of BOJ's Monetary Policy

		Operating target	Target of short-term interest rates	① Affecting longer-term interest rates	② Affecting risk premiums	③ Applying a negative interest rate to the current accounts	④ Affecting inflation expectations
Feb.1999	Zero Interest Rate Policy	Uncollateralized O/N call rate	"As low as possible"	Policy duration effect			
Aug.2000							
Mar.2001	Quantitative Easing Policy	Current account balances at the BOJ	Around 0%	Policy duration			
Mar.2006							
Oct.2010	Comprehensive Monetary Easing Policy	Uncollateralized O/N call rate	0 to 0.1% (virtually 0%)	JGB purchases/ Fixed-rate funds-supplying operation	Purchases of risk assets (CP, corporate bonds, ETFs, J-REITs)		
Apr.2013				Policy duration effect (forward guidance)			
Apr.2013	Quantitative and Qualitative Monetary Easing (QQE)	Monetary base	Around 0% ↓ Negative territory <since Jan.2016>	Large-scale JGB purchases	Purchases of risk assets	Negative interest rate (Since Jan.2016)	Strong and clear commitment
Sep.2016	QQE with Yield Curve Control	Short- and long- term interest rates (Short-term policy interest rate • 10-yr JGB yields)	Negative territory	Yield curve control (operating target: 10-yr JGB yields) Introducing forward guidance for policy rates (Since Jul.2018)	Purchases of risk assets Change in the amount of purchases since Jul. 2018	Negative interest rate	Inflation-overshooting commitment

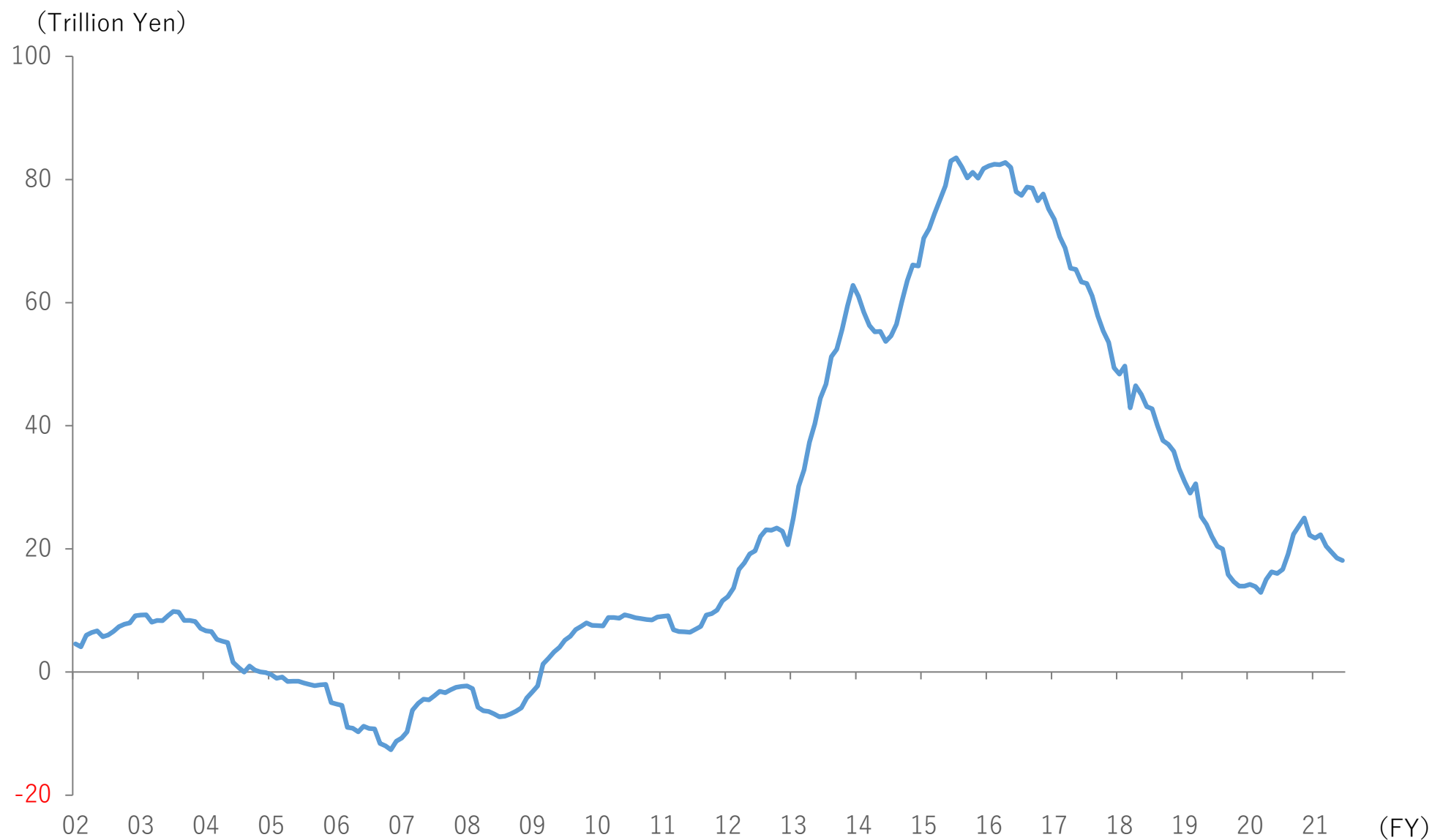
Source: Bank of Japan; compiled by DIR.

Change in Shape of Yield Curve



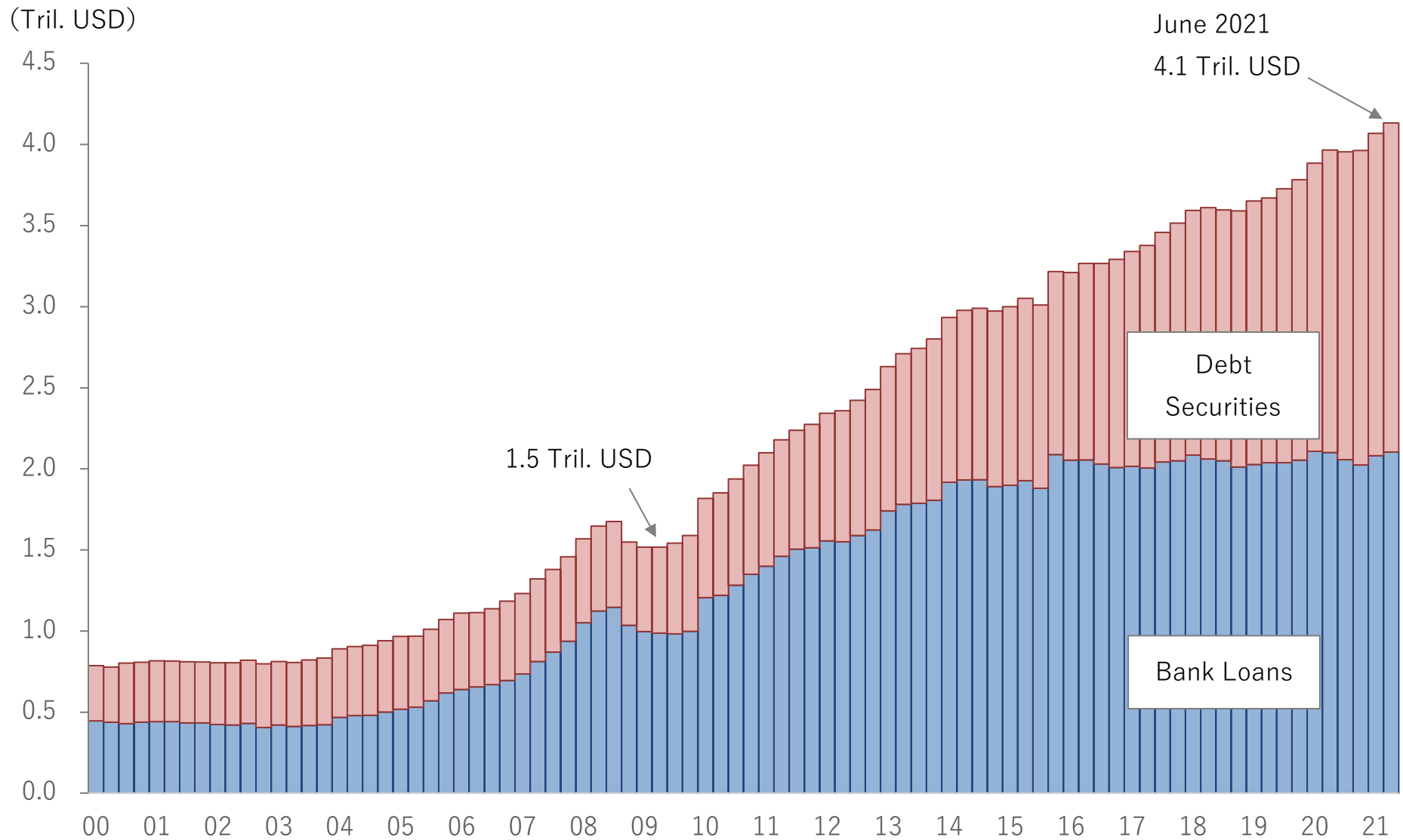
Source: Haver Analytics; compiled by DIR.

Japanese Government Bonds Purchased by the Bank of Japan



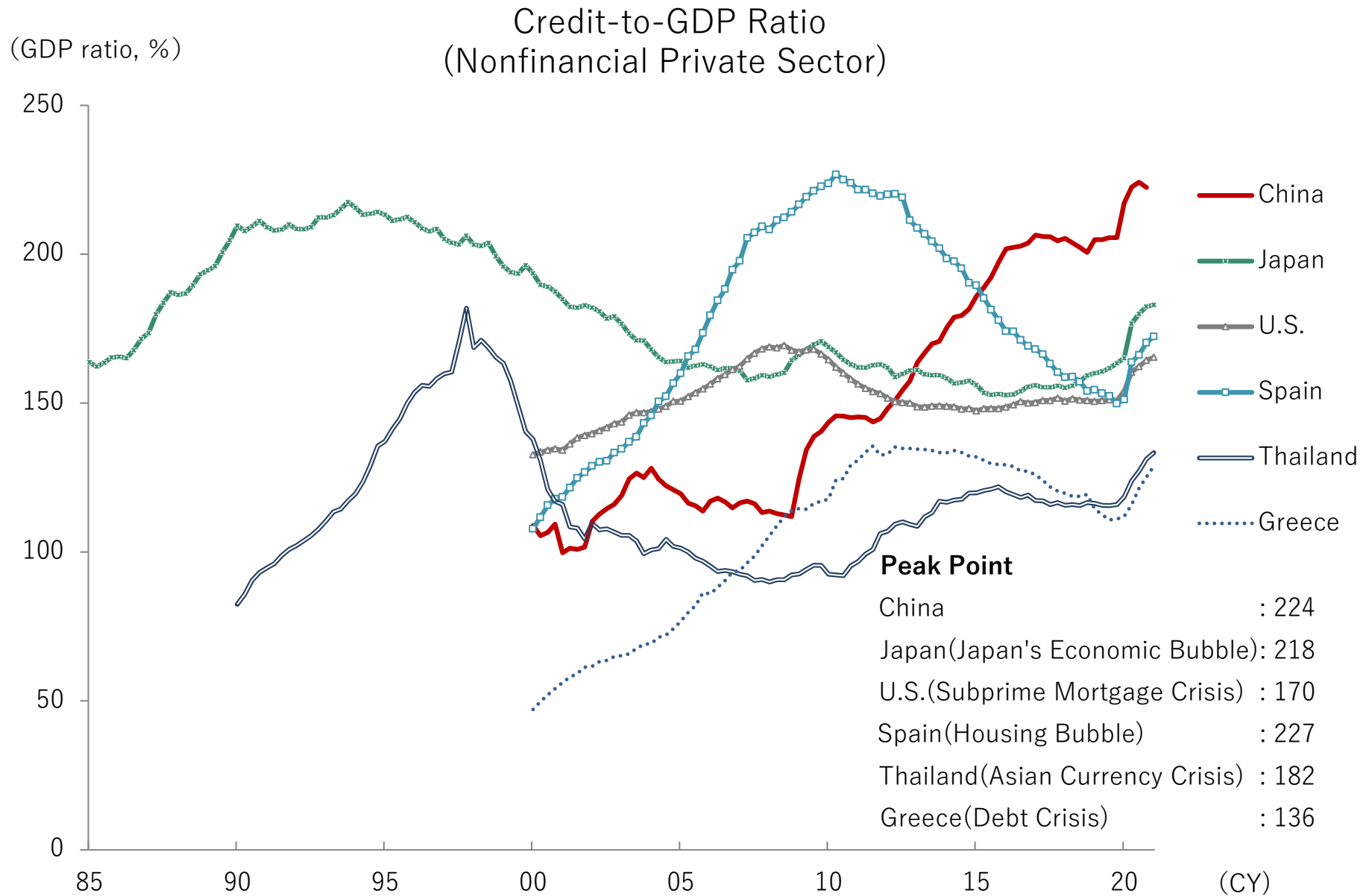
Source: Bank of Japan; compiled by DIR.

High Levels of USD Denominated Debt in EMEs



Note: Latest data as of end June 2021.
Source: BIS; compiled by DIR.

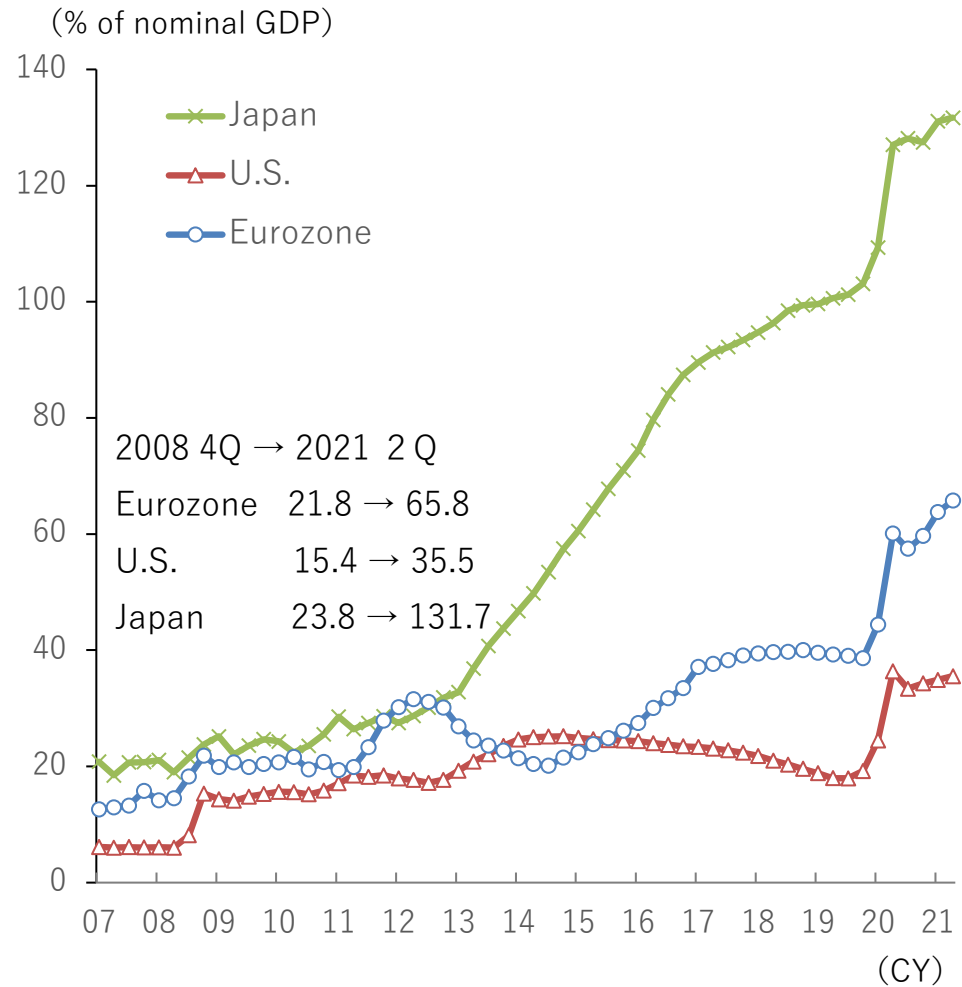
Credit-to-GDP Ratio of China and Countries which have Experienced Financial Crises



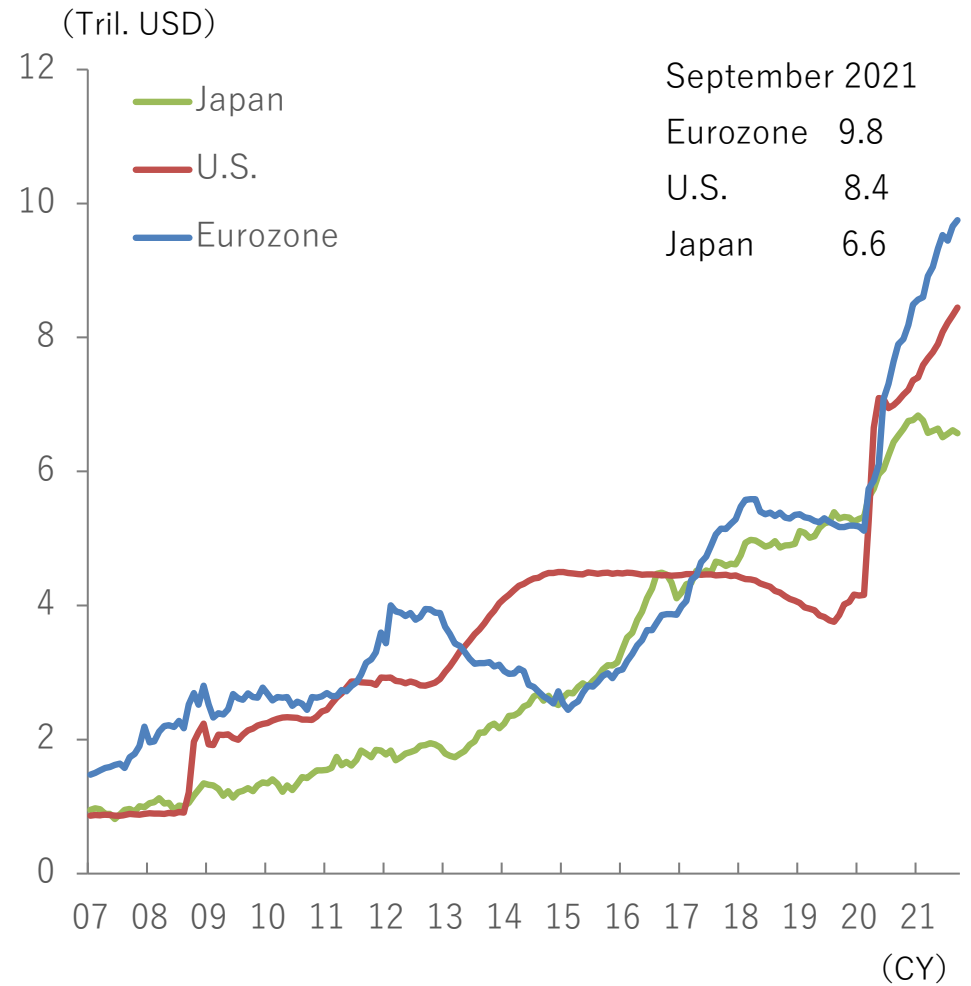
Note: Most recent data as of end of March 2021.
Source : IMF,BIS; compiled by DIR.

Assets of Central Banks

Central Bank Assets as a % of nominal GDP



In USD



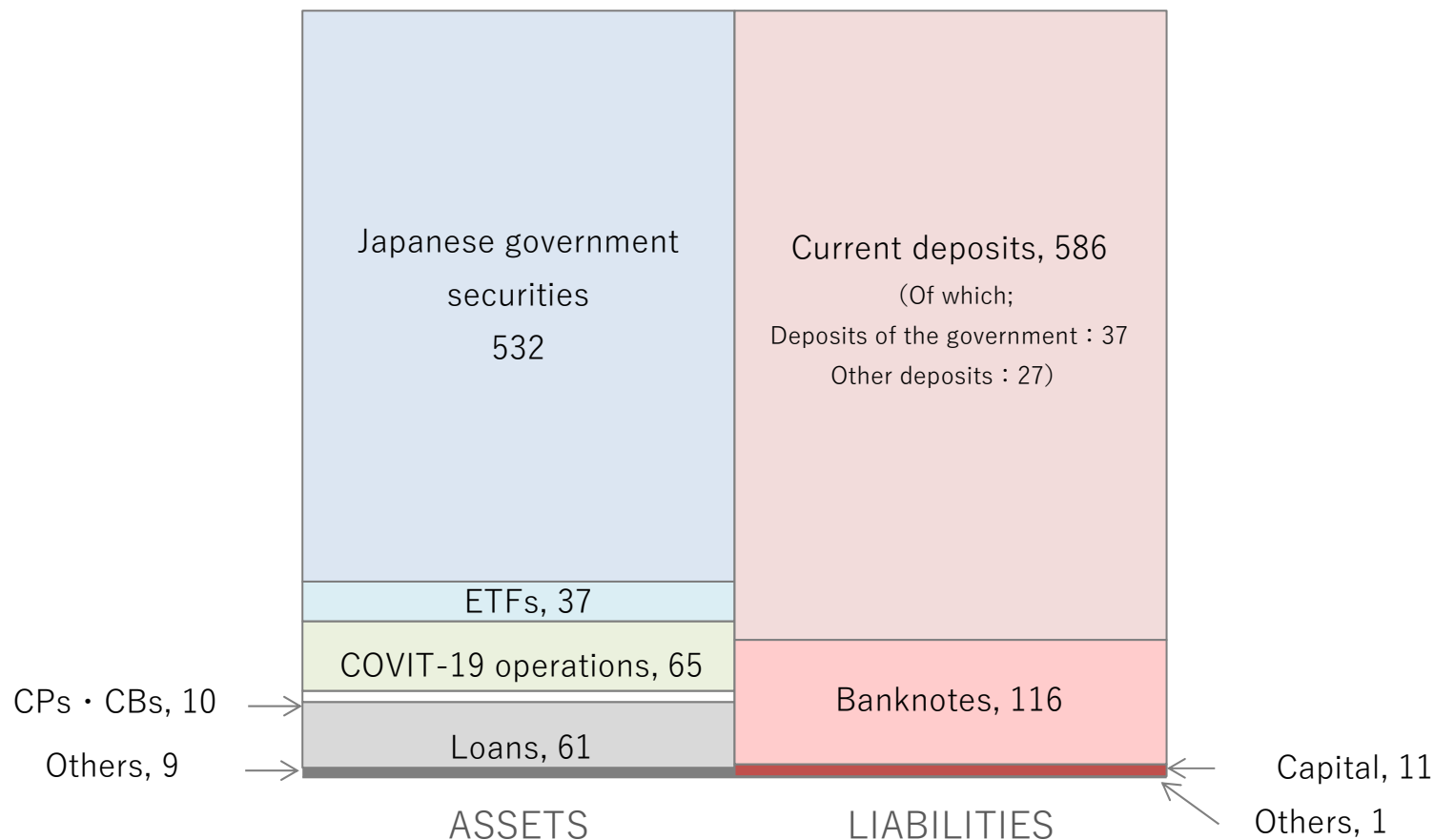
Note: Assets of BOJ and ECB are converted from JPY and EUR to USD at the monthly average.

Source: ECB, Fed, BOJ; compiled by DIR.

BOJ's Balance Sheet as at the End of the Fiscal 2020

Assets, Liabilities and Net Assets; < 715 Trillion Yen >

(Tril. Yen)



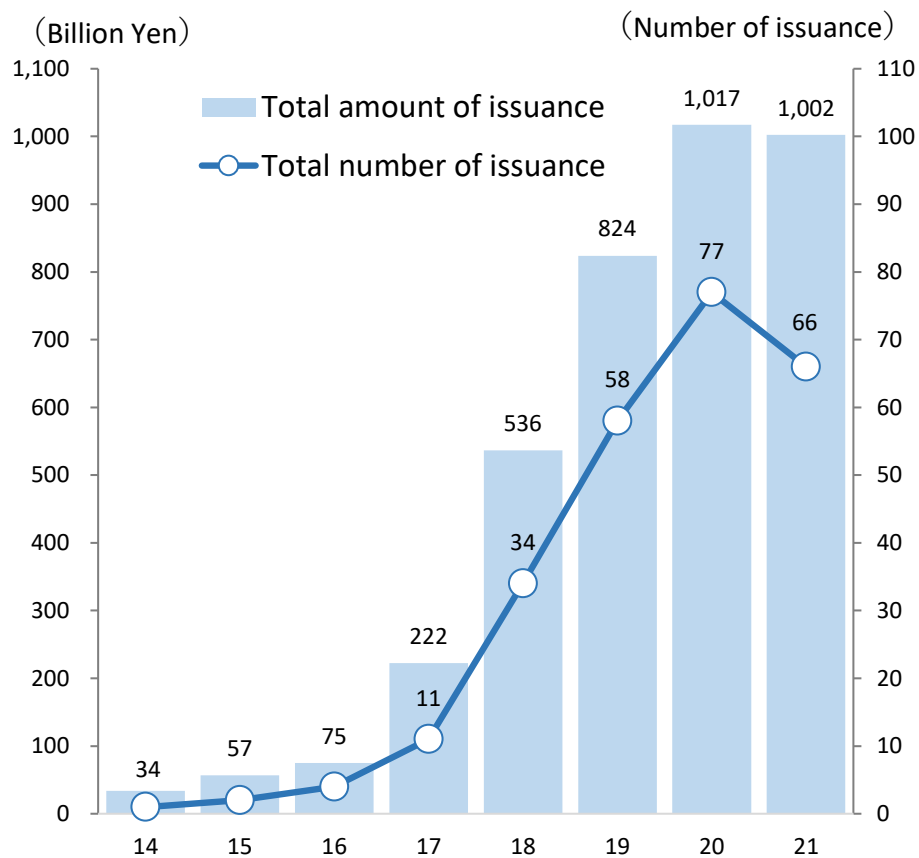
Notes;1 The capital includes the provision for possible losses on bonds transactions, the provision for possible losses on foreign exchange transactions, the capital, the legal reserve, the special reserve, and the net income for the term

2 Others in assets includes the foreign currency assets, others in liabilities includes payables under repurchase agreements, other liabilities, and the provision for retirement benefits.

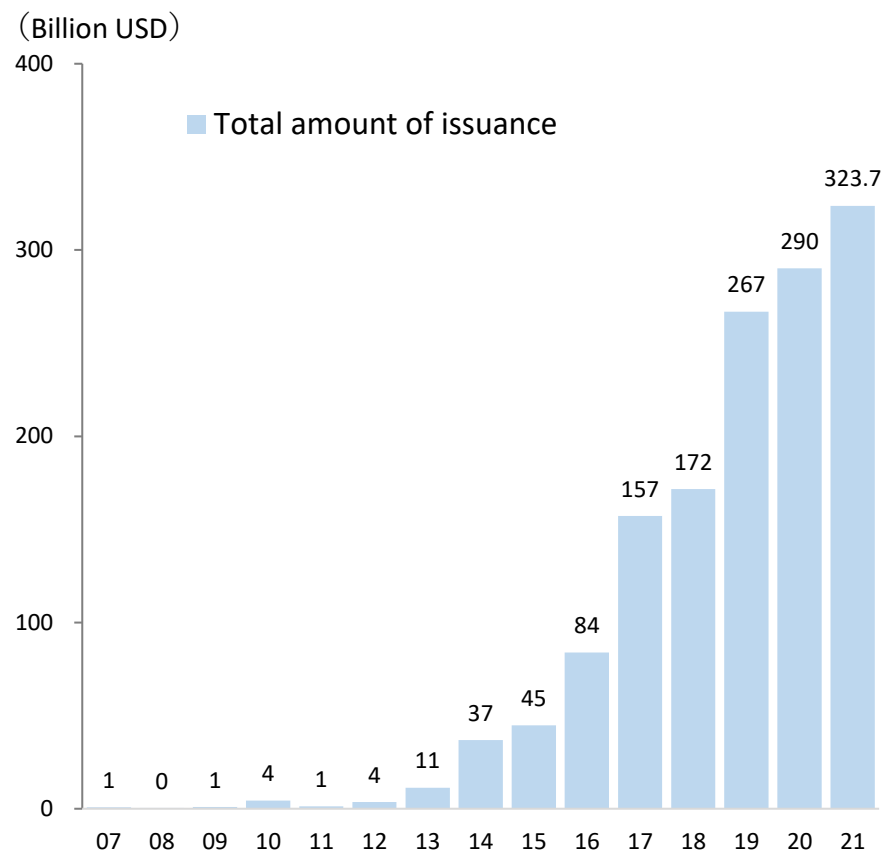
Source: Bank of Japan; compiled by DIR.

Green Bond Issuance

Issuance of Green Bonds by Japanese Companies and Other Entities



Global Trends in Green Bond Issuance Amounts

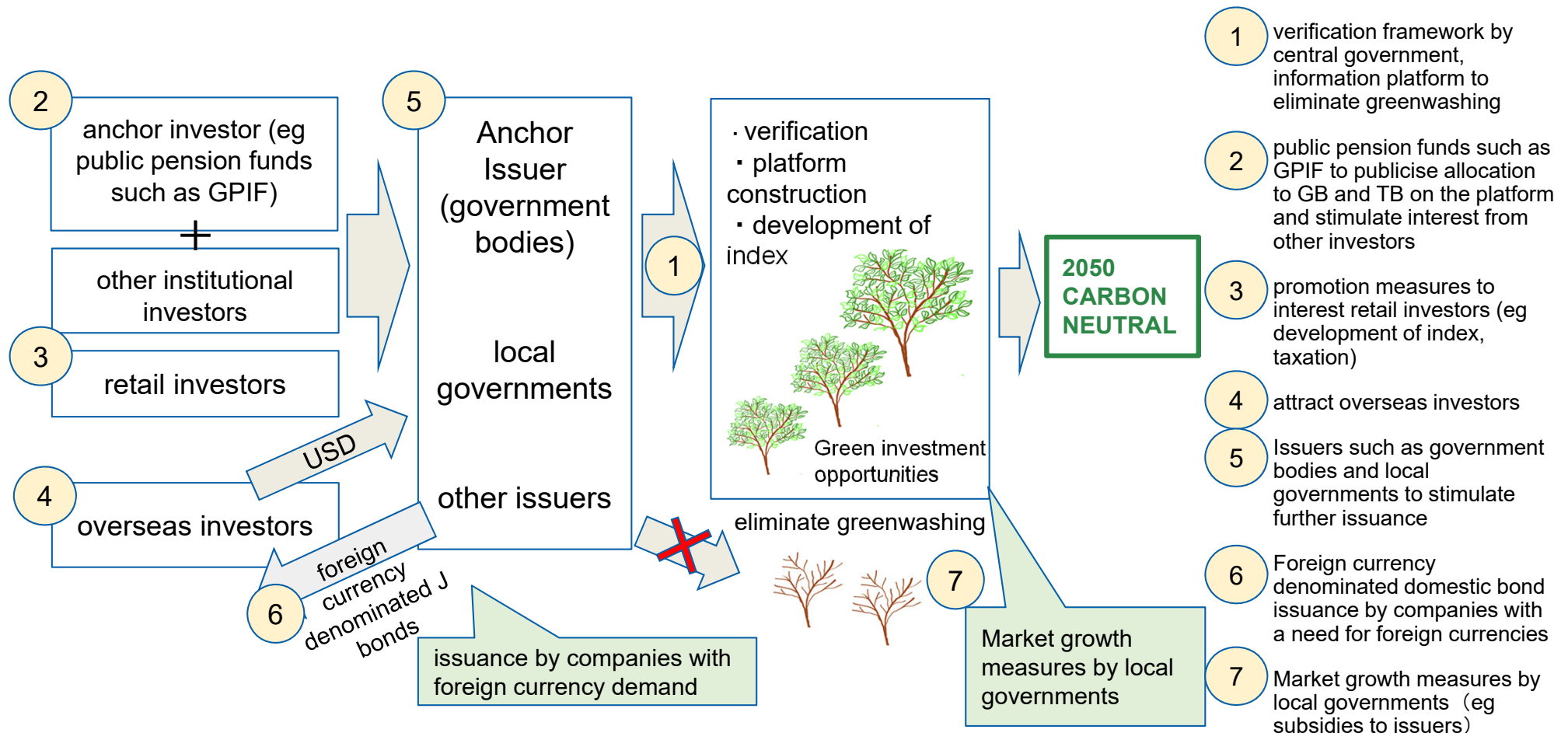


Original source: Climate Bonds Initiative, As of September 2021.

Source: The Ministry of the Environment, compiled by DIR

http://greenfinanceportal.env.go.jp/bond/issuance_data/market_status.html

Towards the Growth of the Green Bond (GB) and Transition Bond (TB) Market



Source: FinCity.Tokyo

Policy Recommendations by FinCity.Tokyo and Progress Status(1 / 3)

Issues and main items	Progress status
<p>1</p> <p>Preferential tax treatment for asset management firms etc</p> <ul style="list-style-type: none"> ➢ Corporate tax ➢ Inheritance tax ➢ Income tax 	<ul style="list-style-type: none"> ➢ <u>Deduction of performance based compensation to become possible for non-listed companies which mainly operate asset management business, subject to meeting certain conditions (To be introduced from 1 April 2021 onwards)</u> ➢ <u>Assets outside of Japan held by a foreign national who is resident in Japan for work etc will be exempt from Japanese inheritance tax regardless of their years of residence (implemented on 1 April 2021)</u> ➢ Clarification that carried interest received by fund managers should not be subject to comprehensive taxation but <u>be taxed as capital gains tax as separate taxation</u> if deemed as economically rational, (announced on 1 April 2021)
<p>2</p> <p>Sophistication of asset owners and promotion of market entry by asset managers</p> <ul style="list-style-type: none"> ➢ Credit insurance for independent asset managers etc ➢ Introducing a Manager Registration system similar to those run in the US ➢ Implementation of the Emerging Manager Program (EMP) to seed emerging managers ➢ Legislative reform to facilitate diversification of sophistication of management of corporate pension funds 	<ul style="list-style-type: none"> ➢ Amendments to be introduced in order for <u>independent asset managers to become eligible for credit insurance and loans by Japan Finance Corporation etc</u> ➢ Confirmation that <u>independent asset managers and fintech companies are eligible for Loan Support Program provided by the Bank of Japan.</u> ➢ <u>TMG to run regular seminars to provide knowhow on setting up an asset management business to financial professionals with an aspiration to run their own asset management business.</u> ➢ <u>TMG plans to set up a fund to support fintech businesses etc. (FY 2021)</u> ➢ Further deliberation on details is required

Source: FinCity.Tokyo

Policy Recommendations by FinCity.Tokyo and Progress Status(2/3)

	Issues and main items	Progress status
3	<p>Simplification of Japan entry process for foreign asset management firms etc</p> <ul style="list-style-type: none"> ➢ Further reduction of time required for obtaining an FIEA license ➢ Business continuity support for overseas financial institutions whose business faces disruption by natural hazards etc 	<ul style="list-style-type: none"> ➢ <u>Financial Market Entry Office was established</u> by FSA and Finance Bureau (22 January 2021). Since then four firms have completed registration within 2.5 months with its support. ➢ <u>Enforcement of Amended Cabinet Office Order to enable the use of English in registration and supervision of overseas asset management companies etc</u> (12 January 2021). ➢ <u>Establishment of exception measures for overseas asset management with a proven track record to enable entry under a simplified procedure</u> (law was promulgated on 26 May 2021) ➢ Enforcement of the amended Cabinet Office Order Art 2 on Definition (22 July 2020) to enable overseas financial institutions which have difficulty in continuing their business operation in their home jurisdiction due to natural hazards etc to continue their business operation for a given scope in <u>Japan without having to obtain an FIEA license up to a period of 3 months</u>
4	<p>Reduction of operational cost of asset management companies etc</p> <ul style="list-style-type: none"> ➢ Reduction of cost associated with asset management business 	<ul style="list-style-type: none"> ➢ TMG <u>subsidizes part of the cost incurred in outsourcing of mid/back office</u> ➢ TMG <u>subsidizes part of the cost incurred in office establishment, eg personnel hire cost</u> ➢ TMG subsidizes temporary accommodation in Tokyo by firms <u>conducting pre-survey ahead of formal establishment</u>

Source: FinCity.Tokyo

Policy Recommendations by FinCity.Tokyo and Progress Status(3/3)

Issues and main items	Progress status
<p>5</p> <p>Preparation of office/living environment for foreign nationals</p> <ul style="list-style-type: none"> > Subsidies towards rent for office space etc > Relaxation of status of residence etc such as criteria for accompanying domestic helpers 	<ul style="list-style-type: none"> > <u>TMG subsidizes accommodation costs incurred in association with pre-survey visits by prospective entering firms.</u> > <u>" Comprehensive Economic Measures to Secure People's Lives and Livelihoods toward Relief and Hope " (December 8th, Cabinet decision) stipulated <u>exception for granting of residential status, introduction of a bonus point system for highly skilled foreign professionals (asset managers), relaxation for criteria for hiring domestic helpers, exception measures to improve convenience for employment of spouses.</u></u>
<p>6</p> <p>Abolishment of business customs which are unique to Japan</p> <ul style="list-style-type: none"> > Streamlining duplicated reporting obligations to authorities, trade associations, exchanges, public pension funds etc 	<ul style="list-style-type: none"> > <u>The aforementioned Economic Measures stipulated digitization of charts and tables, consolidation and centralized submission.</u>

Source: FinCity.Tokyo

Some Examples of Recent Entry/Expansion by Foreign Firms

Company	HQs	Announced	Description
London Stock Exchange Group	UK	July 2018 Feb 2021	Agreement to cooperate with TSE on sustainable investment and product marketing Significant expansion of Japan operation following its merger with Refinitiv
Zanders	Netherlands	Nov 2019	Consulting firm specializing in treasury and risk management
Glass Lewis	US	Jan 2020	Advisory services for proxy voting.. Upgraded its temporary Tokyo office which was designed to service the shareholder AGM season in June to a permanent sales office.
EQT	Sweden	Jan 2021	PE funded by SEB Group and Wallenberg. The Japan office will focus on investment opportunities in Japanese SMEs with global expansion ambitions.
Partners Group	Switzerland	Jan 2021	The company has been managing mandates by Japanese institutional investors but have commenced investment in Japanese real estate and PE activities.
UBS	Switzerland	Jan 2021	Commencement of wealth management services under a JV with Sumitomo Mitsui Trust Bank
Affirmative Investment Management	UK	April 2021	Asset management firm specializing in Impact Bonds. The first entry case supported by the FSA' s Financial Market Entry Office which handles the licensing process in English.
Coinbase	US	Aug 2021	Leading crypto asset exchange. Launched its service in Japan in partnership with MUFG.
Schonfeld Strategic Advisors	US	May 2021	Leading US hedge fund with AUM in excess of USD 18 billion. Second case with FSA Financial Market Entry Office support.
LGTGroup	Liechtenstein	Oct 2021	A private bank/asset management business owned by the princely House of Liechtenstein. Its Japan subsidiary obtained a trust business license

Source: FinCity.Tokyo

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- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau
(Kin-sho) No.108

Memberships: Japan Securities Dealers Association
The Financial Futures Association of Japan
Japan Investment Advisers Association
Type II Financial Instruments Firms Association