Daiwa Institute of Research

21 January 2015 (No. of pages: 15)

Japanese report: 21 Jan 2015

Japan's Economy: Monthly Review

Risk Factors Facing Japan's Economy

Japan's economy expected to move toward recovery, but care should be taken regarding four risk factors

Economic Intelligence Team
Mitsumaru Kumagai
Satoshi Osanai
Masahiko Hashimoto
Shotaro Kugo
Hiroyuki Nagai

Summary

- **Main economic scenario for Japan:** Japan's economy is now seen as having entered a period of decline since having peaked in January 2014. However, there is a good possibility that this will have been short-term. We expect Japan's economy to gradually recover in 2015 due to the following factors: (1) Continuation of the virtuous circle brought on by Abenomics, and (2) The gradual firming up of exports centering on the US, leading to a moderate recovery trend. (For further detail see "Japan's Economic Outlook No. 183 Update (Summary)" by Mitsumaru Kumagai, Dec. 12, 2014).

- **BOJ's monetary policy:** Our current outlook is that it will be difficult for the BOJ to reach its target growth rate in consumer price of 2% by the original deadline.

- **Four risk factors facing Japan's economy:** In this report we examine risk factors facing Japan's economy. Risk factors for the Japanese economy are: (1) The *Triple Weaknesses* – a weak bond market, weak yen, and weak stock market stemming from the postponement of the additional consumption tax hike, (2) China's shadow banking problem, (3) tumult in the economies of emerging nations in response to the US exit strategy, and (4) a worldwide decline in stock values due to geopolitical risk.

1. Can The BOJ Reach Its Price Target?

Japan's Economic Scenario

Japan's economy is now seen as having entered a period of decline since having peaked in January 2014. However, there is a good possibility that this will have been short-term. We expect Japan's economy to gradually recover in 2015 due to the following factors: (1) Continuation of the virtuous circle brought on by Abenomics, and (2) The gradual firming up of exports centering on the US, leading to a moderate recovery trend. (For further detail see "Japan's Economic Outlook No. 183 Update (Summary)" by Mitsumaru Kumagai, Dec. 12, 2014).

Our main scenario expects it to be difficult for the BOJ to reach its price target

In this section we examine the arguments as to whether or not the BOJ can reach its price target.

On October 31, the BOJ implemented additional monetary easing measures. The bold new stimulus package took the financial markets by surprise, increasing the pace of growth in monetary base from the previous 60-70 trillion yen per year to 80 trillion yen. The financial markets reacted positively, with stock prices rising considerably, while the yen weakened further. In taking this action, Bank of Japan Governor Haruhiko Kuroda indicated his commitment to doing everything he could to achieve the target for raising prices by 2%.

However, our current outlook is that it will be difficult for the BOJ to reach its target growth rate in consumer price of 2% by the original deadline.

Increase in consumer price appears to be taking a break

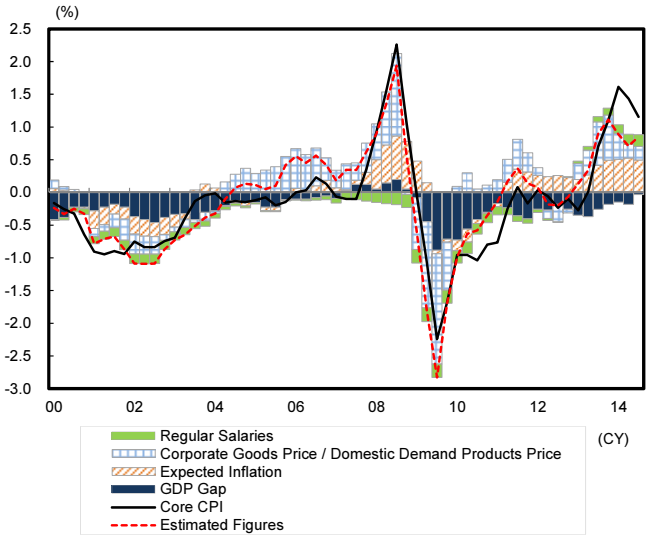
Consumer prices in Japan moved into a moderate growth phase as a result of Abenomics, but recently growth seems to be taking a break. In this section we examine core CPI more closely, breaking this phenomenon down as follows: (1) the GDP gap, (2) expected inflation, (3) corporate goods price index/domestic demand products price index, and (4) regular salaries. See Chart 1 for the breakdown.

The consumer price showed signs of bottoming out soon after the beginning of 2013. Prices shifted upwards by the last half of the year, which points to the fact that all factors influencing prices were working in the positive direction. The corporate goods price index/domestic demand products price index were major factors contributing to the rise in core CPI. This was due to the rise in import prices following the weakening of the yen since autumn of 2012 (see Chart 2). Since then, the expected inflation factor came into play, pushing up prices further. This was made possible by the easing up of the deflationary mindset of households which ensued after the BOJ implemented qualitative and quantitative monetary easing measures. Additionally, with the domestic economy and corporate earnings improving, the GDP gap factor narrowed somewhat, shedding some of its negative numbers, and regular salaries began to work more in the positive direction. As of that point the diagnosis was that the economy had begun to shed some of its deflationary tendencies and that the gears had begun to turn.

However, as the economy entered a new year in 2014, the yen took a break from its earlier weakening tendency, causing the upward influence of the corporate goods price index and domestic demand products price index, which had previously reacted to the increase in import prices, to lose some of its teeth. The high level of expected inflation held by households maintained its level while the GDP gap and regular salaries continued improving, but these positive factors were overcome by the negative influence of the corporate goods price index/domestic demand products price index having lost some of their clout in pushing up prices. Meanwhile, the increase in core CPI gradually became more restricted. By the autumn of 2014, the International Energy Agency (IEA) had revised its outlook for oil prices downwards while the International Monetary Fund (IMF) lowered its outlook for the world

economy. Meanwhile, the US Federal Reserve Board (FRB) ended its quantitative easing program, and as if in harmony with this series of events, the price of oil fell dramatically. This factor is expected to contribute to a further drop in prices in Japan in the future. However, the BOJ then announced additional monetary easing measures at the Monetary Policy Meeting on October 31. Close monitoring of the effectiveness of this new policy will now likely ensue.

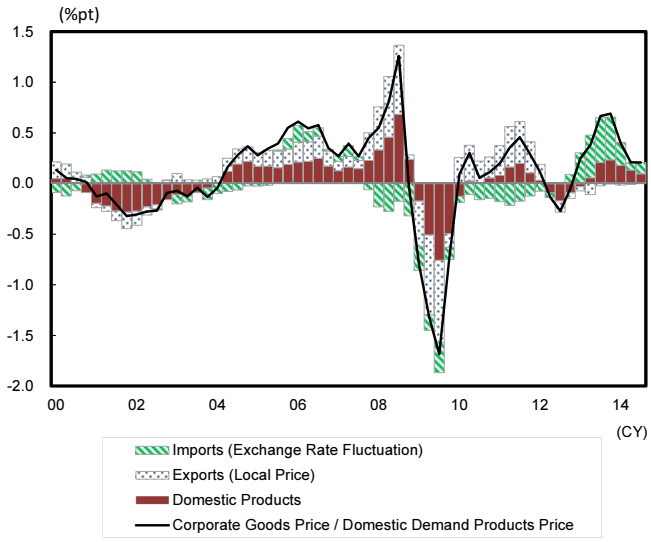
Core CPI Function **Chart 1**



Source: Ministry of Internal Affairs and Communications, BOJ, Cabinet Office; compiled by DIR.

Notes: 1) Estimation formula for y/y change in core CPI is as follows: Core CPI y/y change (t) = GDP Gap (t-2) + Expected Inflation Rate (t-1) + Corporate Goods Price / Domestic Demand Products Price (t) + Trend in Regular Salaries (t) All coefficients are significant at 1%. Newey-West HAC standard deviation is used for significant test.
2) Core CPI is all items less fresh food and energy. Trend in regular salaries is calculated using HP filter.
3) Adjusted figure used for effects of April 2014 increase in consumption tax.

Breakdown of Corporate Goods Price / Domestic Demand Products Price **Chart 2**



Source: BOJ; compiled by DIR.

Note: Due to margin of error in calculation, total used in breakdown may differ from Corporate Goods Price / Domestic Demand Products Price factor.

There are difficult hurdles to overcome in order to achieve a price increase rate of 2%

With little room left for further interest rate cuts associated with monetary easing, increasing the monetary base any further is considered to have limited effect on the real economy. We believe that the intent of the additional monetary easing measure is to attempt to stimulate a rise in prices by virtue of promoting expectations.

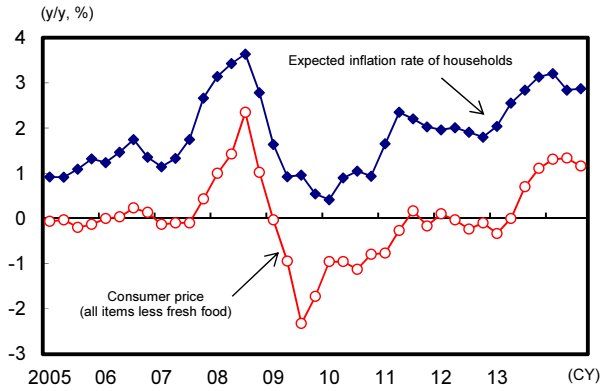
In order for prices to attain stable growth on of the most important factors is an increase in expected inflation rate. However, on the one hand, the expected inflation rate of households tends to be swayed by fluctuation in actual prices. In other words, prices and expected inflation rate simultaneously influence each other. When we look at changes in the consumer price index and the expected inflation rate as shown in Chart 3, we see that although the expected inflation rate exceeds the actual inflation rate, the two are generally linked.

Chart 4 presents the results of calculations to figure the effect of wages and exchange rate fluctuations on consumer price, factoring in the combined effect of the expected inflation rate and actual prices. In order to achieve the BOJ's targeted growth rate of 2% in prices by the end of 2015, assuming the yen exchange rate remains at the same level as it has been up to now, scheduled wages would have to be at a high of +2.0%pt. Meanwhile, in order to achieve a 2% growth rate in prices by virtue of a further

weakening of the yen, the yen rate would have to fall to around 135 yen to the dollar by the end of 2015. But as the inflation rate has peaked just recently due mostly to the weak yen effect having lost its potency, it is evident that the increase in prices due to the weak yen was only temporary. It therefore must be stated that there are some difficult hurdles to overcome in order to achieve a stable growth rate in prices of 2%.

Consumer Price and Expected Inflation Rate of Households

Chart 3



Source: Cabinet office, ministry of internal affairs and communications.
Note: The expected inflation rate is the weighted average of the outlook for prices one year from now in the cabinet office's consumer behavior survey.

Rate of Increase in Consumer Price if Exchange Rate and Wages Change

Chart 4

Scheduled wage up from baseline	Dollar-yen exchange rate as of end FY15				
	100	110	120	130	140
0%pt	0.7	1.0	1.2	1.5	1.8
+0.5%pt	0.9	1.2	1.4	1.7	2.0
+1.0%pt	1.1	1.3	1.6	1.9	2.2
+1.5%pt	1.2	1.5	1.8	2.0	2.3
+2.0%pt	1.4	1.7	1.9	2.2	2.5
+2.5%pt	1.6	1.9	2.1	2.4	2.7

Source: Ministry of Internal Affairs and Communications, Ministry of Health, Labour, and Welfare, BOJ, compiled by DIR.
Notes: 1) Values used in the table represent rate of change in each scenario and core CPI as of Jan-Mar period of FY2016.
2) Exchange rate assumptions (horizontal axis) - as of CY2016 Jan-Mar period.

2. Four Risk Factors Facing Japan's Economy

Four risk factors facing Japan's economy

In this section we examine the four risk factors facing Japan's economy.

Risk factors for the Japanese economy are: (1) The *Triple Weaknesses* – a weak bond market, weak yen, and weak stock market stemming from the postponement of the additional consumption tax hike, (2) China's shadow banking problem, (3) tumult in the economies of emerging nations in response to the US exit strategy, and (4) a worldwide decline in stock values due to geopolitical risk.

2.1 Risk (1): The *Triple Weaknesses* – a weak bond market, weak yen, and weak stock market stemming from the postponement of the additional consumption tax hike

Postponement of the additional consumption tax hike triggers a host of new problems

The first risk we examine here is the *Triple Weaknesses* – a weak bond market, weak yen, and weak stock market stemming from the postponement of the additional consumption tax hike.

Implementing monetary easing measures while at the same time forfeiting fiscal discipline is indeed an action tinged with monetization. If the bond market were to suddenly drop (which means a major increase in the long-term interest rate), there would be danger of a situation occurring where a malignantly weak yen and rising import prices would go unchecked, and which would in turn run into stagflation.

Five structural changes in Japan's economy

The Japanese government must steadily work toward fiscal reconstruction, keeping in mind the dramatic changes in the environment Japan will find itself in further up the road. As shown in Chart 5, the economic environment influencing Japan will likely see the following five structural changes: (1) an expanding fiscal deficit, (2) a dwindling current account surplus, (3) the shift from a strong yen to a weak yen, (4) the move from deflation to inflation, or stagflation, and (5) a change in the declining long-term interest rate to rising interest rates. The danger is that these five factors could suddenly occur all at once, upsetting Japan's entire economy. These structural changes would cause a huge shock to the system.

Japan's population is now aging faster than any other country in the world and this brings greater risk of a major increase in the fiscal deficit.

Then the increase in fiscal deficit would bring with it a decline in current account surplus as the public sector's condition worsens, causing the investment-savings balance to crumble, meaning the public sector would lose the capital surplus it needs. (In macro-economics the desirable equation to achieve is current account balance (excess savings in international trade) = fiscal balance (excess savings in the public sector) + excess savings in the private sector.

Meanwhile, the yen would continue to weaken on the foreign exchange markets if the following were to occur: (1) the timing of the BOJ's shift to monetary restraint is seen as being too far behind similar actions of central banks in other countries and (2) Japan's current account surplus shrinks.

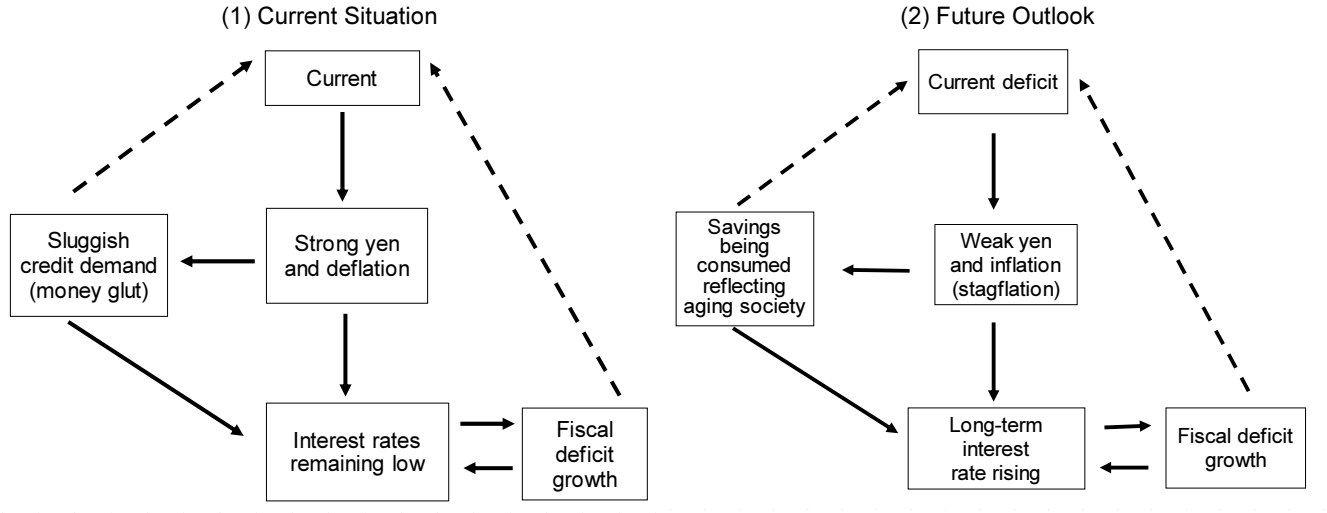
As a result of the BOJ's qualitative and quantitative monetary easing measures, Japan is now moving quickly to the point where it will experience a shift from deflation to inflation. The danger here is that if fiscal discipline is lost, the yen rate could diverge from Japan's economic fundamentals and fall

considerably against other currencies, aggravating imported inflation pressure and putting the squeeze on Japanese pocketbooks.

Additionally, the situation in the Middle East has become increasingly tense due to religious wars. Over 80% of Japan's oil imports travel through the Strait of Hormuz. If oil prices were to rise due to geopolitical risk causing a supply crisis, positive inflation in Japan would quickly turn into a more negative stagflation.

Finally, there would be an increasing risk of Japan's government bond bubble bursting if the above issues all came to a head at once. In this environment, the collapse of the government bond market is always there, hovering nearby.

Changes in Japan's Economic Environment **Chart 5**



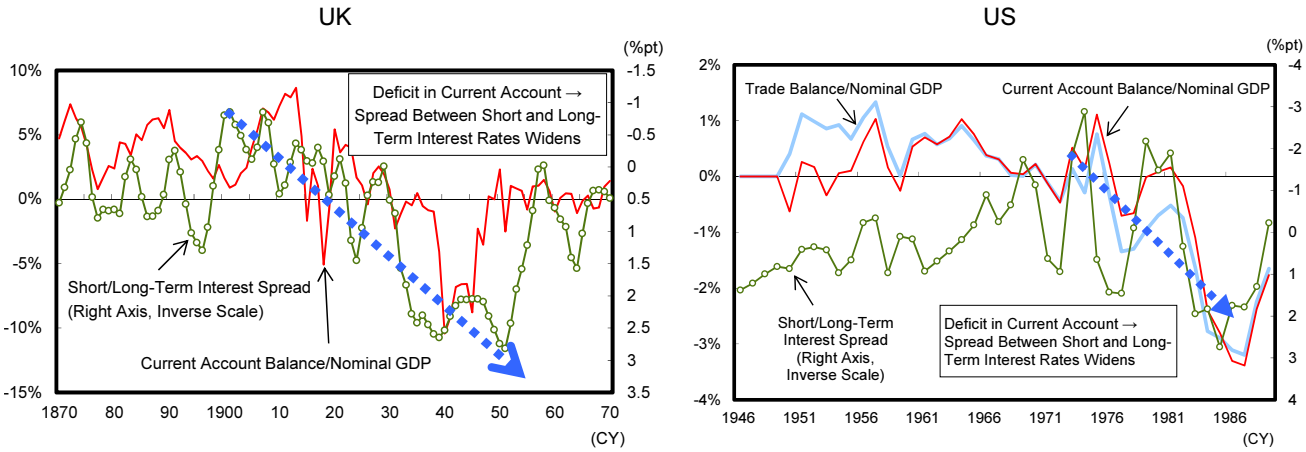
Source: Compiled by DIR

Spread between short and long-term interest rates widens when current account balance worsens

Historical data tells us that when the current account balance worsens, the spread between short and long-term interest rates tends to widen.

Chart 6 shows changes in the spread between short and long-term interest rates during periods when there were deficits in current account in the UK and the US (UK: 1920-1940, US: 1970-1980). In both cases, the spread between short and long-term interest rates rapidly widened. Considering the cumulative increases Japan has already experienced in its fiscal deficit, we should remain on the lookout religiously for the possibility of a rapid increase in the spread between short and long-term interest rates as soon as signs develop of a deficit in current account in the future.

Current Account Balance and Spread Between Short and Long-Term Interest Rates (UK & US) **Chart 6**



Source: International Historic Statistics, by Brian R. Mitchell (Palgrave Macmillan), A History of Interest Rates; compiled by DIR.
Note: Long-term interest rate expressed in terms of 3-qtr moving average.

Source: Historical Statistics of the United States; compiled by DIR.

Be on guard for rapid increase in long-term interest rate during exit from bold monetary easing

The long-term interest rate has currently stabilized at a low level due to the effects of the BOJ's aggressive purchase of government bonds. However, we need to be on guard for a rapid increase in the long-term interest rate once exit begins from the BOJ's qualitative and quantitative monetary easing measures.

Chart 7 is a simulation of movement in the long-term interest rate once BOJ comes out with its exit strategy.

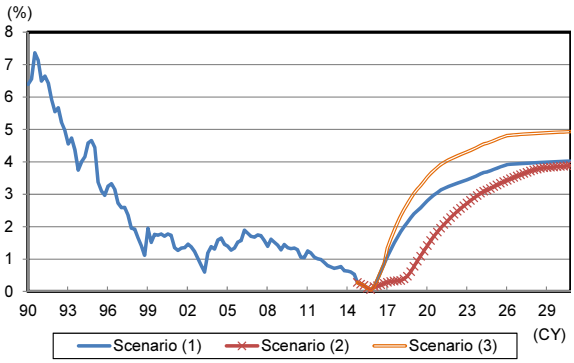
Scenario (1) approximates the BOJ's own assumptions, while Scenario (2) is closer to what the market would presume. Meanwhile, Scenario (3) is a simulation of what would happen if prices were to rise above the BOJ's inflation target. While qualitative and quantitative monetary easing measures are still ongoing, downward pressure remains on the long-term interest rate since the BOJ's purchase of large volumes of government bonds keeps supply and demand tight. The one point all of these simulations have in common is that they all conclude that the long-term interest rate will increase rapidly as of the point the BOJ stops purchasing long-term government bonds.

During the recent additional monetary easing measures announced on October 31, not only was the amount in long-term government bonds purchased increased, but the average duration was also lengthened. The assumption here is that the intent was, from a supply and demand point of view, to force interest rates in the long-term zone further downwards. However, this type of policy can also foster the malfunctioning of the bond market, causing it to lose its function of demanding an appropriate risk premium. And when the bond market recovers its normal functioning as of the point when an exit strategy is implemented and the market suddenly becomes aware of the necessity of coming up with an appropriate risk premium, with the additional factor of a relaxation of supply and demand, it could end up overshooting the appropriate level for the long-term interest rate. Hence when the BOJ begins moving toward exit from its qualitative and quantitative monetary easing measures, credibility of the budgetary policy will be extremely important.

On November 18, 2014 Japan's Prime minister Shinzo Abe announced the postponement of the additional consumption tax hike. While this decision may prevent the risk of the economy from moving into a downward swing, it may also bring about pessimism regarding Japan's ability to maintain its fiscal integrity on into the future, and this could cause tumult in the bond market. The

other risk is that this decision may be assessed as having been a major turning point in Japan's handling of its fiscal situation.

Simulation of Long-Term Interest Rate — Chart 7



Source: Bloomberg; Compiled by DIR.

Shared Assumptions

○Forecasting Formula

・ Long-Term Interest Rate = 0.89 + 0.47* Call Rate + 0.2* Core core CPI - 3.57* (BOJ Long-Term Bond Holdings/Nominal GDP) + 0.24* US Long-Term Interest Rate

・ Call Rate = 0.89* Call Rate (t-1) + 0.11* ((Potential Growth Rate + 2) + 0.8* GDP Gap + 1.53* (Core CPI-2))

○Macro Assumptions

・ Real GDP uses annual rate + 2.0%, Nominal GDP uses annual rate + 3.0%, Potential Growth Rate uses annual rate + 0.64%, Assumed GDP Gap will not increase more than 1.5%.

・ While Core core CPI is 2% or less, Call Rate assumed to be 0.1%.

・ Bank of Japan long-term bond purchase and duration based on October 31, 2014 announcement.

Scenario Assumptions

○Scenario (1)

・ Purchase of long-term government bonds stops after March 2016.

・ Core core CPI growth rate reaches 2% during the 2016 Jan-Mar Period, and maintains 2% level after that point.

○Scenario (2)

・ Tapering begins in March 2018, and long-term government bond purchases stop after March 2019.

・ Core core CPI growth rate reaches 2% during the 2016 Jan-Mar Period, and maintains 2% level after that point.

○Scenario (3)

・ Purchase of long-term government bonds stops after March 2016.

・ Core core CPI growth rate reaches 3% during the 2016 Jan-Mar Period, and maintains 3% level after that point.

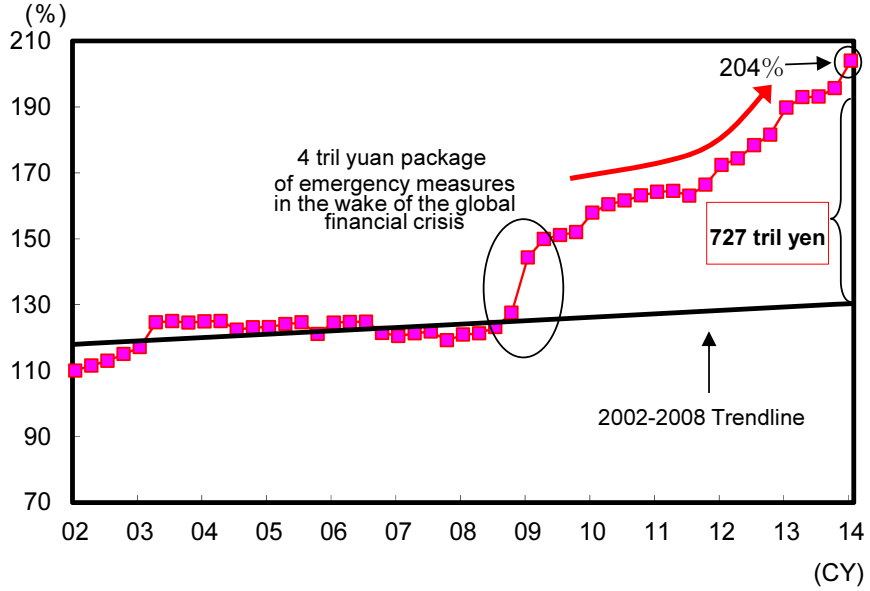
Note: Core core CPI = All items, less food (less alcoholic beverages) and energy

2.2 Risk (2): China's shadow banking problem

The second major risk facing Japan's economy is China's shadow banking problem

Excessive lending has become a problem in China in the wake of its response to the global financial crisis in 2008. Chart 8 provides an estimate of total social financing in China as a proportion of China's GDP. Such financing jumped from its long-term trend in 2009 and has continued to expand, reaching 204% of nominal GDP at the end of March 2014. Comparing current levels to the long-term trend, we estimate excessive lending in China to be around Y727 trillion. Should part of these assets become non-performing, this could cause major turbulence in China and global financial markets. Risk scenarios that should be kept in mind include (1) China drawing down its foreign currency reserves (around $3.5 tril) to deal with non-performing debt, causing long-term interest rates to surge in the US, and (2) the yen appreciating from a global flight to quality.

China's Total Social Financing (% of GDP) **Chart 8**



Source: People's Bank of China, National Bureau of Statistics of China; compiled by DIR.
Assumption: Outstanding balance of total social financing as of end-Mar 2002 to be 1.1 times bank lending.

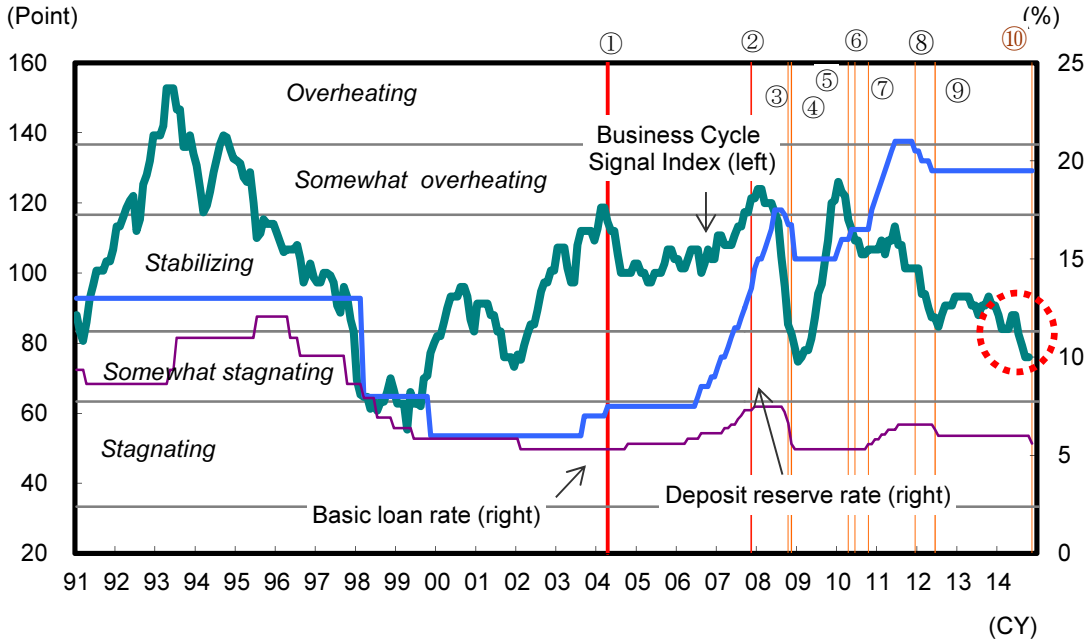
How will the world economy be affected by the collapse of China's debt bubble?

We believe that the impact on the world economy of the collapse of China's debt bubble should not be excessively overstated. Chart 9 presents the Business Cycle Signal Index for China. According to this index, we can confirm that China's economy has slowed significantly. After peaking at 123.3 in February 2010, the index has fallen to the lower bound of the zone signaling stability, between 83.33 and 116.66. Similar to previous instances when the economy has slowed to this extent, the likelihood is high that authorities will respond with some form of a stimulus measure and that the collapse of China's economy will be avoided one way or another.

Key phrases are "socialist market economy," "collective leadership," and "gradualism"

China being a socialist market economy rather than a pure capitalist economy may also be a factor supporting the economy for the time being. During the change in political leadership that occurs once a decade, it is natural for leaders to want to circumvent a rapid deceleration of the economy as much as possible. Politically speaking, collective leadership and a policy of gradualism could also be factors that preclude a short-term relapse of the Chinese economy. In fact, there are growing views that the lower limit for the growth rate of real GDP in China is currently around 7% based on comments such as those recently made by Premier Li Keqiang.

China: Business Cycle Signal Index — Chart 9



Source: National Bureau of Statistics of China, People's Bank of China, CEIC Data; compiled by DIR.

1. Apr 2004: Restrictions on aggregate loans strengthened
2. Oct 2007: Restrictions on aggregate loans strengthened
3. Oct 2008: Restrictions on aggregate loans eased
4. Nov 2008: Stimulus package of 4 tril yuan announced
5. Apr 2010: Real estate regulations strengthened
6. Jun 2010: More flexible regime for control of yuan exchange rate
7. Oct 2010-Jul 2011: Period of loan rate hikes
8. From Dec 2011: A series of deposit reserve rate lowering moves began
9. From Jun 2012: A series of loan rate cuts began
10. Nov 2014: Loan rate cut.

2.3 Risk (3): Tumult in emerging markets in response to the US exit strategy

The US exit strategy will be a plus for the Japanese economy

The third risk factor facing Japan's economy is the question of whether or not the US exit strategy will cause tumult in the emerging markets.
In this section we contemplate how the global financial markets have been evaluating the US exit strategy since 2013.

We believe that the US exit strategy will hold many beneficial points for the Japanese economy. Possibilities are good that the US long-term interest rate will rise gradually in a mirroring of the recovery in the actual economy. Chart 10 shows changes in the US long-term interest rate and TOPIX. Movements of these two indices have fairly close linkage.

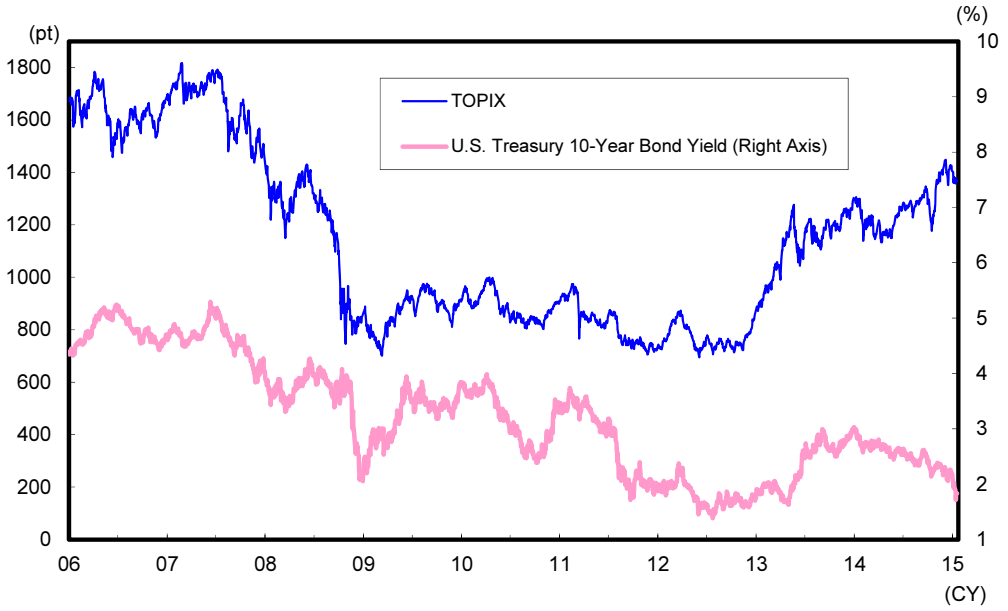
The question is why are the US long-term interest rate and Japanese stocks so closely linked?

The first reason is that the difference between US and Japan interest rates widens the more the US long-term interest rate rises, and this becomes a factor in the current weak yen/strong dollar relationship. As yen depreciation progresses, the amount of exports that Japan's corporations can achieve grows.

The second reason is that when the US long-term interest rate is tending upwards, it is usually because the US economy is strong. A favorable US economy provides fundamental support for Japan's overall exports.

Finally, if the FRB gives its official stamp to the recovery of the actual US economy, allowing for the moving ahead of a serious exit strategy, this will provide more confidence in the economy. FRB chair Janet Yellen recently announced that she would gradually move forward with an exit strategy while carefully observing the recovery in the actual economy. In conclusion, we believe that any risk of the FRB's exit strategy being too fast, hence leading to major confusion in the international markets, especially emerging nations, is extremely limited.

TOPIX and U.S. Treasury 10-Year Bond Yield **Chart 10**



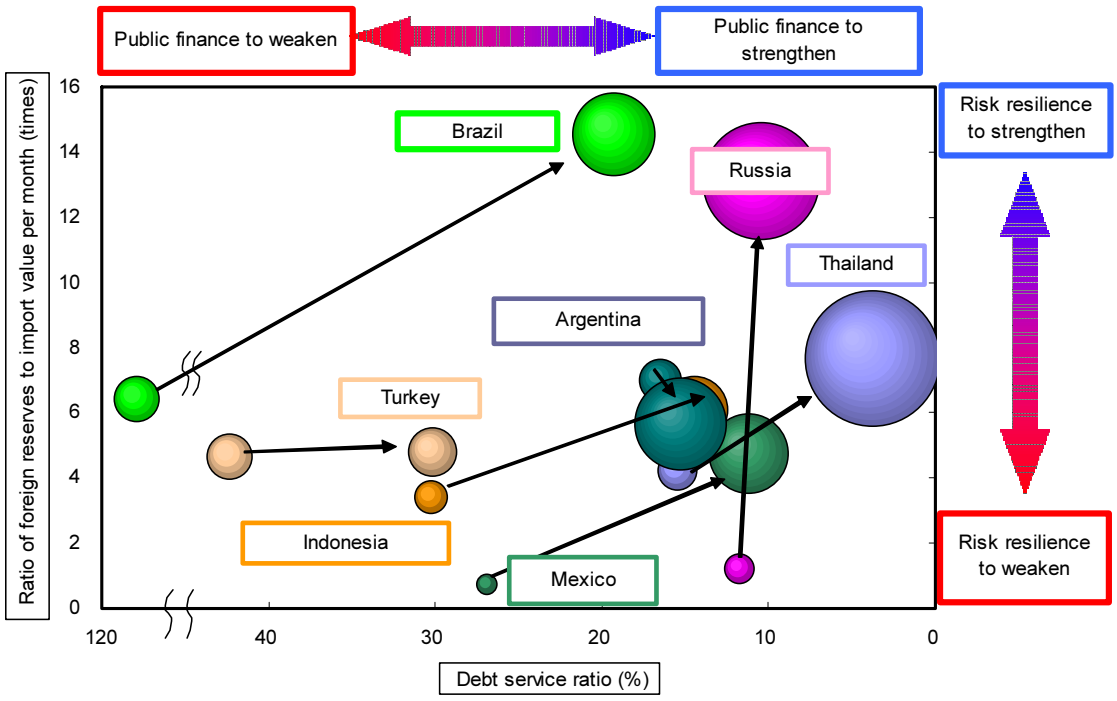
Source: Tokyo Stock Exchange and FRB; compiled by DIR.

Possibility of a serious crisis in emerging economies is limited

We believe there is a limited possibility that emerging economies will experience a serious crisis similar to the Asian currency crisis in 1997. Chart 11 depicts changes in risk resilience of emerging market nations from the year each nation experienced a financial crisis. Learning from past financial crises, these nations have amassed huge foreign currency reserves. Not only has the absolute size of such reserves increased, but the size of foreign currency reserves relative to goods and services imports (vertical axis) and that relative to short-term foreign debt (the sizes of circles) have also improved for most nations. Moreover, the debt service ratio, defined as debt service payments for external debt as a percentage share of good and service exports, a leading indicator used to determine country risk, has fallen for the most part (conditions have improved) since the financial crisis.

As far as we can see from this chart, the possibilities of turmoil occurring in the world financial markets after January 2014 are rather slim. The ignition point for the last crisis was Argentina, but it seems to be an exception. Looking at the emerging nations overall, we see steady improvement in the fundamentals.

Risk Resilience of Emerging Market Economies **Chart 11**



Source: Haver Analytics; compiled by DIR.
Notes: 1) Arrows denote shift of positions at critical moments to 2012.
2) Year of crises defined as 1994 for Mexico, 1997 for Thailand and Indonesia, 1998 for Russia, 1999 for Brazil, 2001 for Turkey, and 2002 for Argentina.
3) Size of circles shows ratio of foreign reserves to foreign debt with less than one-year maturity. The larger the circle, the greater the resilience.

2.4 Risk (4): A worldwide decline in stock values due to geopolitical risk.

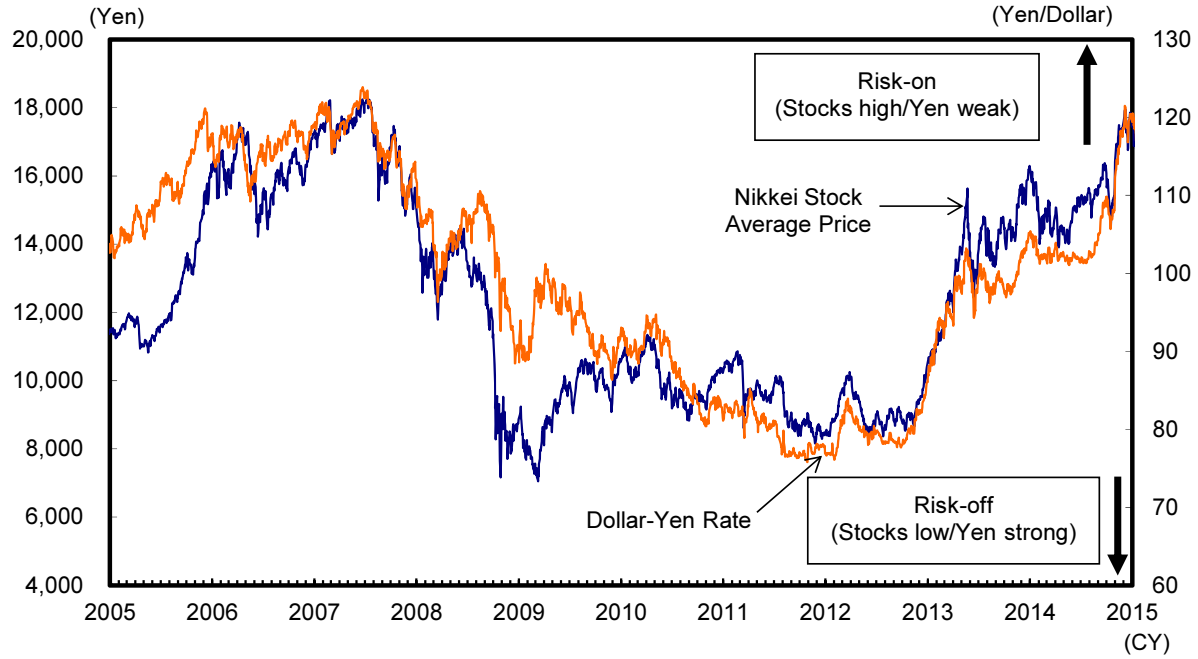
Will investors switch from risk-on to risk-off?

The fourth risk factor which the Japanese economy faces is geopolitical.

When the sense of caution increases in the business world due to geopolitical risk, the global financial markets tend to move away from risk-on to risk-off investment behavior. Chart 12 shows changes in the yen/dollar rate and the Nikkei stock average price over the last several years. In recent years, the yen exchange rate and the Nikkei average have exhibited a close linkage. As the global economy has begun to recover, investors have shown more willingness to take risks in their investments. This is called "risk-on" behavior. The Bank of Japan's bold monetary easing measures have also had an effect on investor behavior, and ever since the last part of 2012, investors have acted with a positive, risk-on behavior. The weak yen and rising stock prices have been moving in tandem since that time. In the future, caution in regard to geopolitical risk may encourage investors to switch to a risk-off approach, and the yen could strengthen again, influencing Japan's export business negatively. If this occurs, caution will also be necessary in regard to downward pressure on personal consumption due to falling stock prices.

In addition to a strong yen and falling stock prices, if a greater sense of urgency regarding the situation in the Middle East develops, there will also be the risk of surging oil prices. Over 80% of Japan's oil imports are shipped through the Strait of Hormuz. According to calculations performed using the DIR macro model, if crude oil prices rise by $50/bbl above our standard scenario, real GDP level is forecast to shrink by 0.2% in FY2015.

Dollar-Yen Rate and Nikkei Stock Average **Chart 12**



Source: Bloomberg, Nikkei; compiled by DIR.

Which countries are most susceptible to geopolitical risk?

Next we examine how the economies of various countries might be affected by geopolitical risk if the Russia-Ukraine situation, as well as developments in Iraq, get any worse (see Chart 13).

First we take a look at geopolitical risk in Russia. Considering Russia's trade relations, we see that the greater share of Russia's exports are to the Netherlands, Italy, and Germany. Russia is closely linked with the EU via energy exports. The balance of credit to Russia is also significant for members of the EU such as France and Italy. As far as we can see by the above data, if geopolitical risk associated with Russia were to worsen in the near future, it is quite possible that Europe would be most susceptible to negative influence in both the financial area and in the real economy.

In contrast, if geopolitical risk in Iraq worsens, direct influence on the EU would be limited, as trade levels and credit balance are rather low. However, there is some collateral risk such as the possibility of a surge in the price of crude oil. Countries with an especially high dependence on imported oil could see economic conditions deteriorate rapidly. Hence geopolitical risk in these areas should be continually monitored.

Lastly, we would like to emphasize the close-knit nature of China's economic relationship with Russia and Iraq. If geopolitical risk rises to the surface in Russia or Iraq in the future, the sense of uncertainty as regards China's economy could deepen further. This is another area which requires close monitoring on into the future.

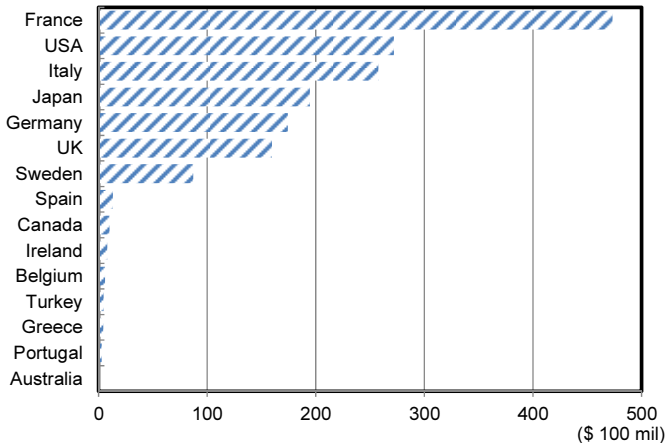
Trade Relations with Russia and Iraq **Chart 13**

Russian Imports & Exports (2013)

Exports		Imports	
Country	Share (%)	Country	Share (%)
EU	39.4	EU	31.2
Netherlands	13.3	China	16.9
Italy	7.5	Germany	12.0
Germany	7.0	USA	5.3
China	6.8	Ukraine	5.0
Turkey	4.8	Italy	4.6
Ukraine	4.5	Belarus	4.4
Belarus	3.8	Japan	4.3
Japan	3.7	France	4.1
Poland	3.7	Korea	3.3

Source: Statistics from IMF; compiled by DIR.

Claims Held Against Russia (2014, Q1)



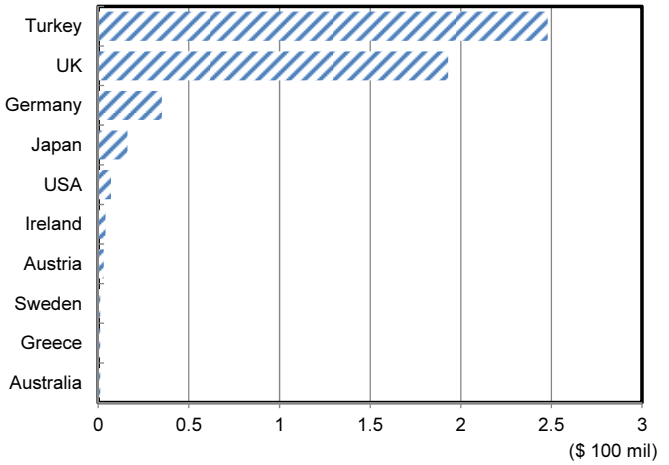
Source: Statistics from BIS; compiled by DIR.

Iraq Imports & Exports (2013)

Exports		Imports	
Country	Share (%)	Country	Share (%)
India	21.6	Turkey	25.4
China	19.8	Syria	18.1
EU	15.1	China	14.7
USA	14.6	EU	11.2
Korea	10.2	USA	4.3
Greece	5.3	Korea	4.2
Italy	4.3	Germany	3.5
Canada	3.8	Italy	3.5
Singapore	3.3	Jordan	2.6
Japan	2.9	India	2.0

Source: Statistics from IMF; compiled by DIR.

Claims Held Against Iraq (2014, Q1)



Source: Statistics from BIS; compiled by DIR.

Economic Indicators and Interest Rates — Chart 14

Indicator	2013	2014				2015	FY12	FY13	FY14	FY15
	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar				
	Actual				DIR estimates		Actual		DIR estimates	
Real GDP										
Q/q %, annualized	-1.5	5.8	-6.7	-1.9	3.8	3.0				
Y/y %	2.3	2.5	-0.3	-1.3	0.1	-0.7	1.0	2.1	-0.5	1.8
Current account balance SAAR (Y tril)	0.0	-5.5	2.8	2.6	6.6	6.7	4.2	0.8	4.7	7.9
Unemployment rate (%)	3.9	3.6	3.6	3.6	3.6	3.5	4.3	3.9	3.6	3.5
CPI (excl. fresh foods; 2010 prices; y/y %)	1.1	1.3	3.3	3.2	2.8	2.9	-0.2	0.8	3.1	1.1
Unsecured overnight call rate (period end; %)	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100
10-year JGB yield (period average; %)	0.64	0.61	0.59	0.52	0.40	0.25	0.74	0.62	0.44	0.45

Source: compiled by DIR.
Note: Estimates taken from DIR's *Japan's Economic Outlook No.183 Update*.