



# Japan's NPL Problem; Clear and Present Danger

Yasuhisa Shiozaki

Member, House of Representatives

Research Institute of Economy, Trade and Industry

September 25, 2001

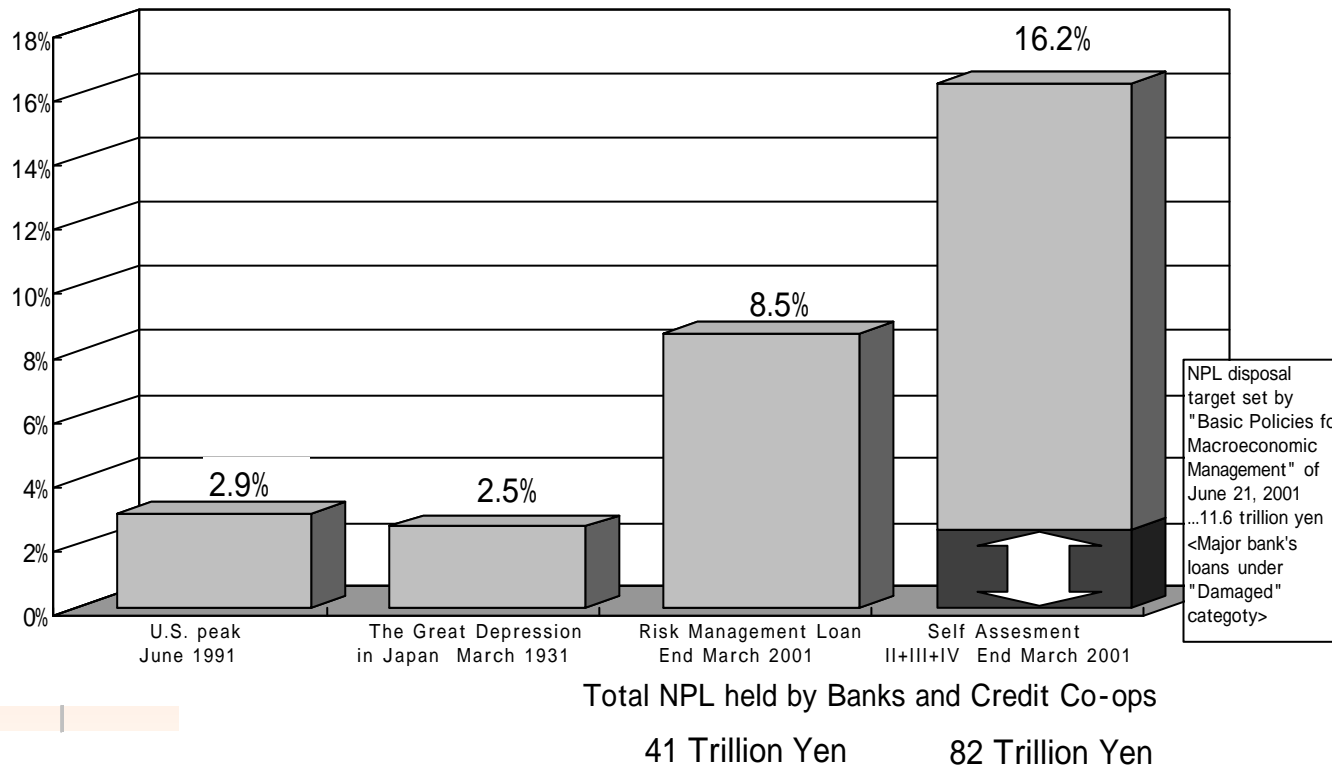
# Seven Reform Programs

- Seven Proposals by the Economic and Fiscal Advisory Council of the Prime Minister's Office:
  - 1) privatization and deregulation, 2) challenger support, 3) social security enhancement, 4) knowledge-based assets doubling, 5) better living, 6) local governments independence and vitalization, 7) fiscal reform
- Further Considerations and Improvements
  - 1) Reform Priority
  - 2) Timing and Sequencing
  - 3) Reform "Engine"

# Magnitude of Japanese NPL

## Magnitude of Japanese NPL

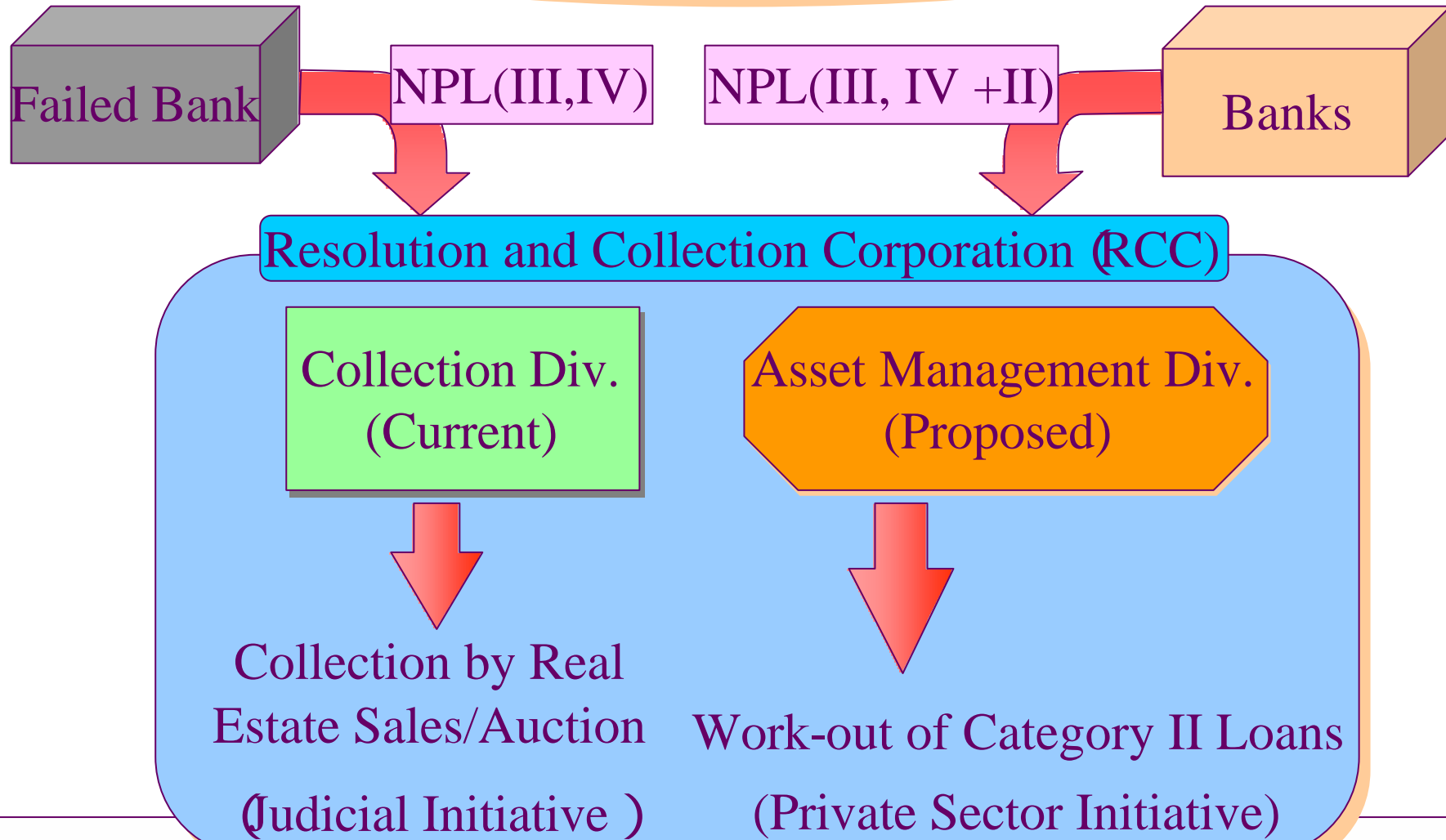
NPL/Nominal GDP ratio



# Missing Link I: Insufficient NPL Disposal

- NPL: 16% of GDP, but No action taken so far
- Key: Workout of Category II(Sub-standard) Loans
- How?
  - 1) Create Asset Management Division under the RCC
  - 2) Capital Injection (Public & Private)
  - 3) More Nationalization
- Ultimate Driving Forces of NPL Resolution:  
FSA (+METI & MLIT)
- “Mandatory Transfer ”of NPL may be required  
from Banks to RCC/AMD

# Workout by Asset Management Division (AMD) at RCC





## Missing Link II : Reform Priority & Sequencing

- First: NPL Disposal + Workout (2-3years)
- Second: Fiscal Consolidation ( ? )  
Priority must be established within the Cabinet
- Risks:  
Hashimoto risk (spending cut)  
Obuchi risk (too much spending)



## 10 Year Plan for Economic Recovery (Shiozaki Plan)

- Y01-02: NPL Disposal, Deregulation, and Anti-deflationary policy + Safety-net, financed by Privatization, Sale of Government-owned Assets and Securitization
- Y03-05: Continuing Capital & Real Estate Market Reform, plus Fiscal Spending Cut toward Primary Balance (-1.3% /year)
- Y06-10: Comprehensive Tax + Social Security Reform toward Debt Reduction



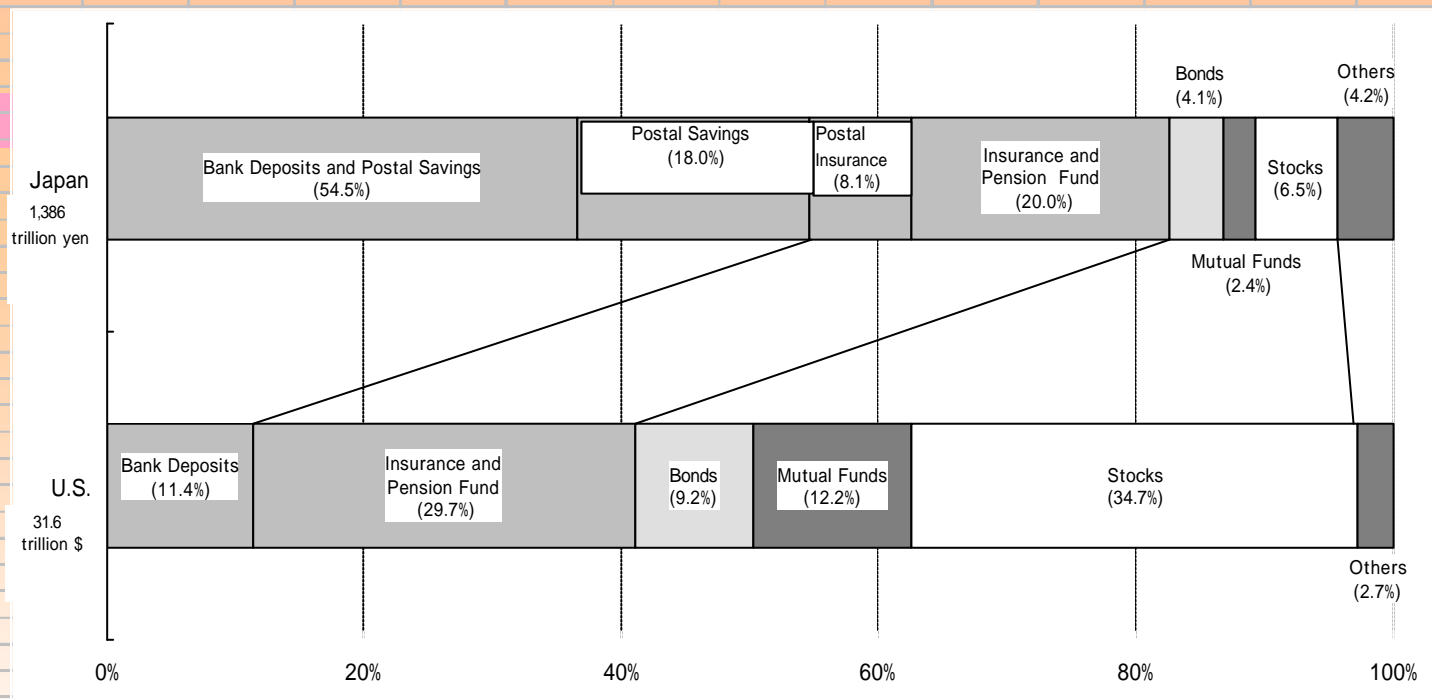
## Missing Link III: Capital Market

- Creation of strong “Japanese SEC”
- 0% for Individual Capital Gains Tax
- Inclusion of Capital Loss into Ordinary Income
- Mutual Fund Reform



# Deposits vs. Capital Market

Household Financial Assets  
<End March 2001>



Note: 1. Percentage of total financial assets (%)  
2. <> shows ratio against nominal GDP.