

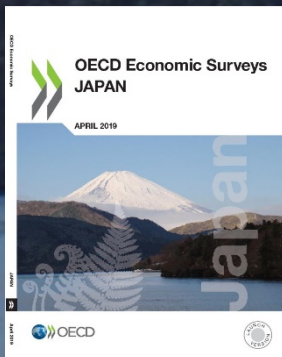


2019 OECD ECONOMIC SURVEY OF JAPAN

Meeting the challenges of population ageing and high government debt

Tokyo, 15 April 2019

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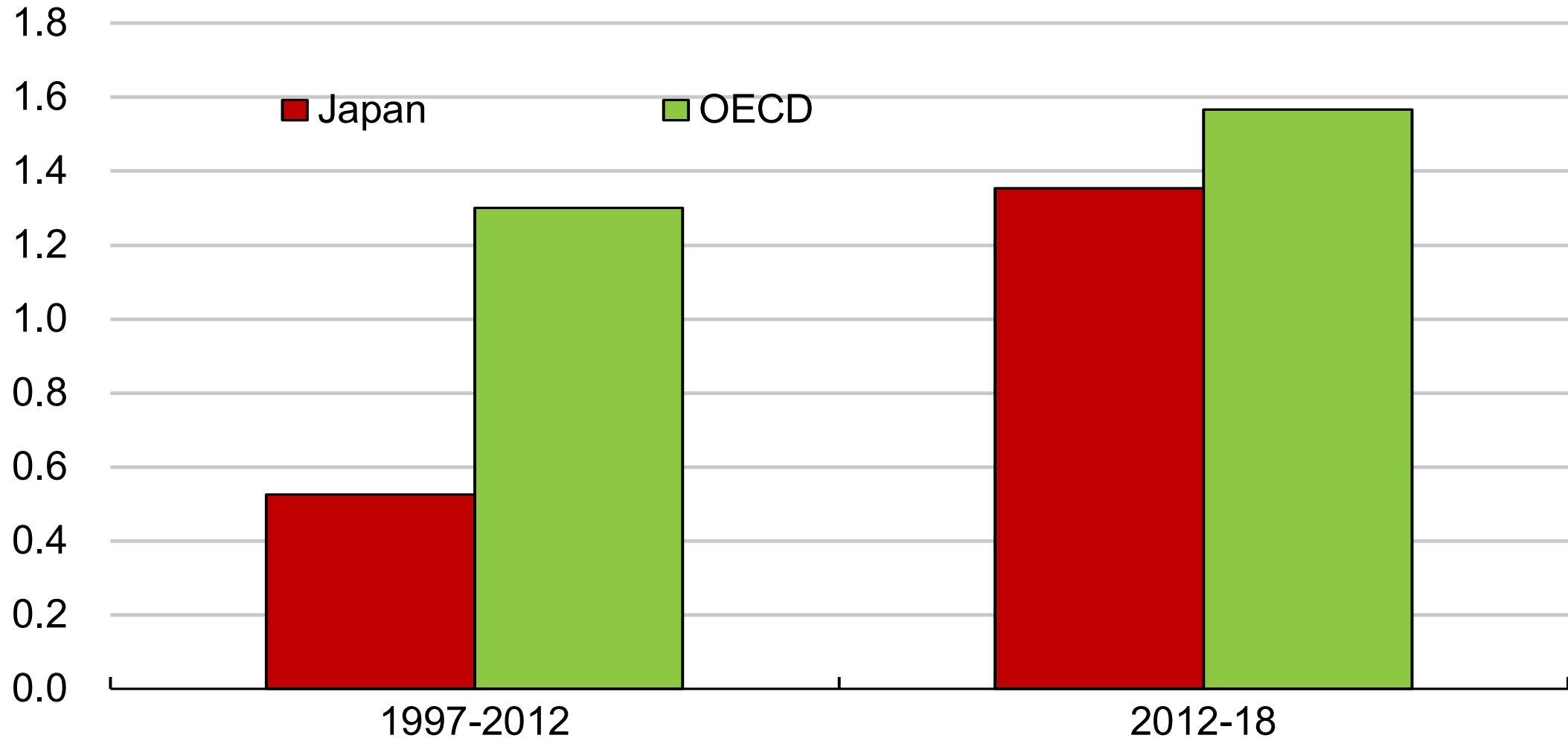
Growth has been more robust but major challenges remain

- **Japan has achieved faster growth during the past six years:**
 - Real GDP growth in per capita terms has been close to the OECD area.
 - Job creation has been strong, particularly among women.

- **Japan faces the intertwined challenges of rapid population ageing and high government debt.**
 - A declining working-age population is creating labour shortages.
 - The rising number of elderly puts upward pressure on public spending.
 - The government's fiscal position remains in deficit.
 - Labour productivity and per capita income are well below leading OECD economies.



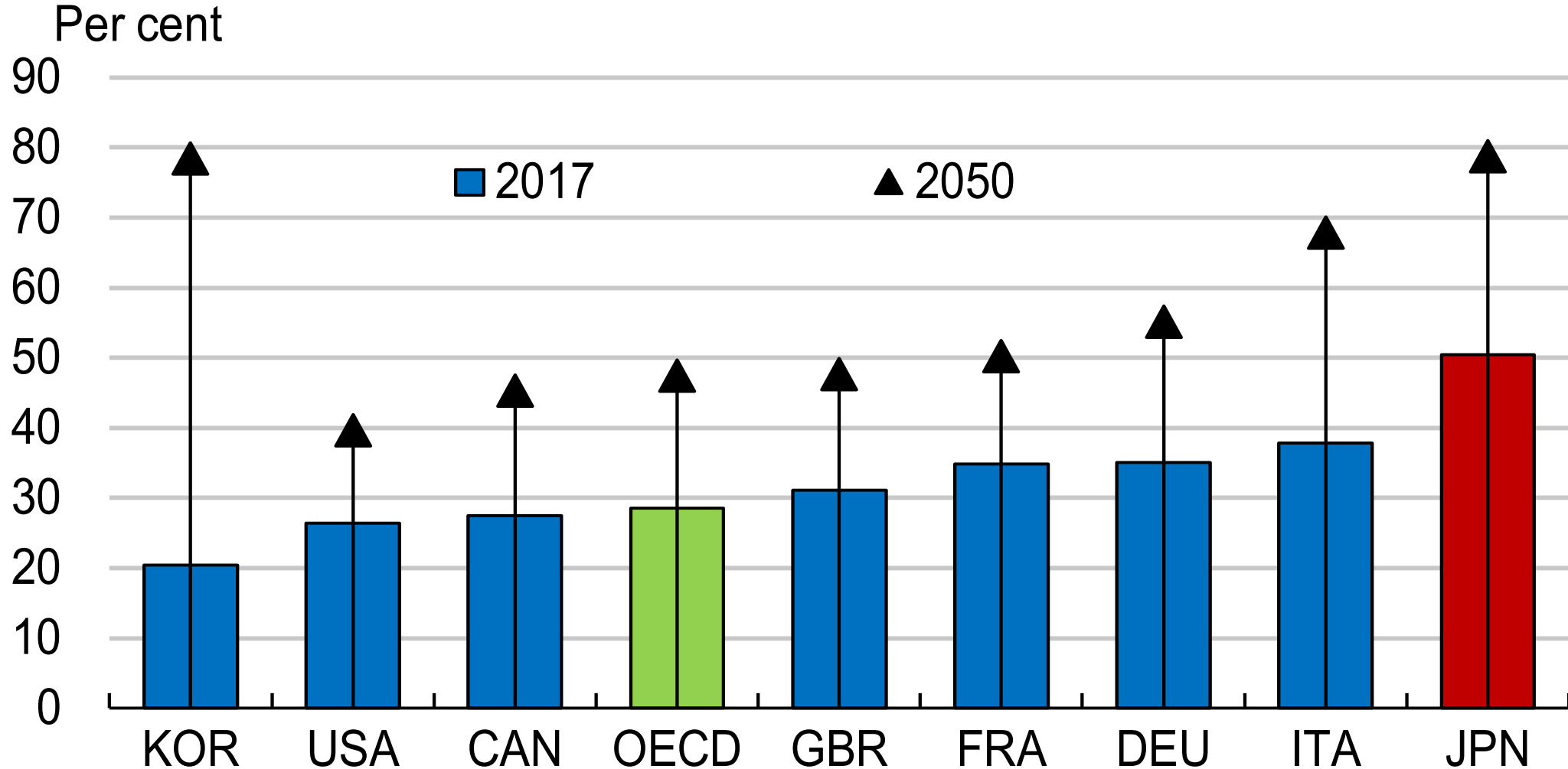
Per capita output growth has accelerated



Note: Annual average percentage change in real GDP on a per capita basis.
Source: OECD Economic Outlook (database).



Japan's population will still be the oldest in the OECD in 2050

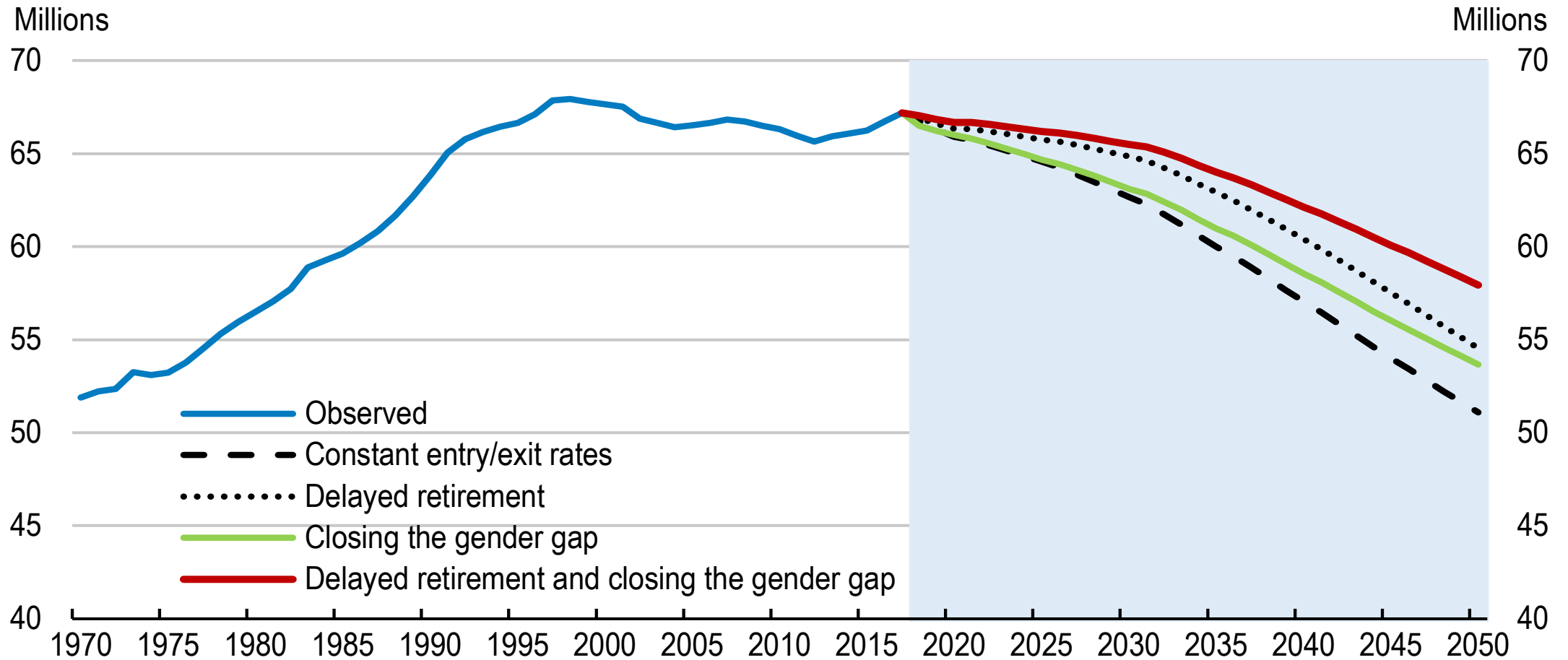


Note: Population aged 65 and older as a share of the population aged 20 to 64.

Source: OECD Demography and Population database.



The labour force will decrease

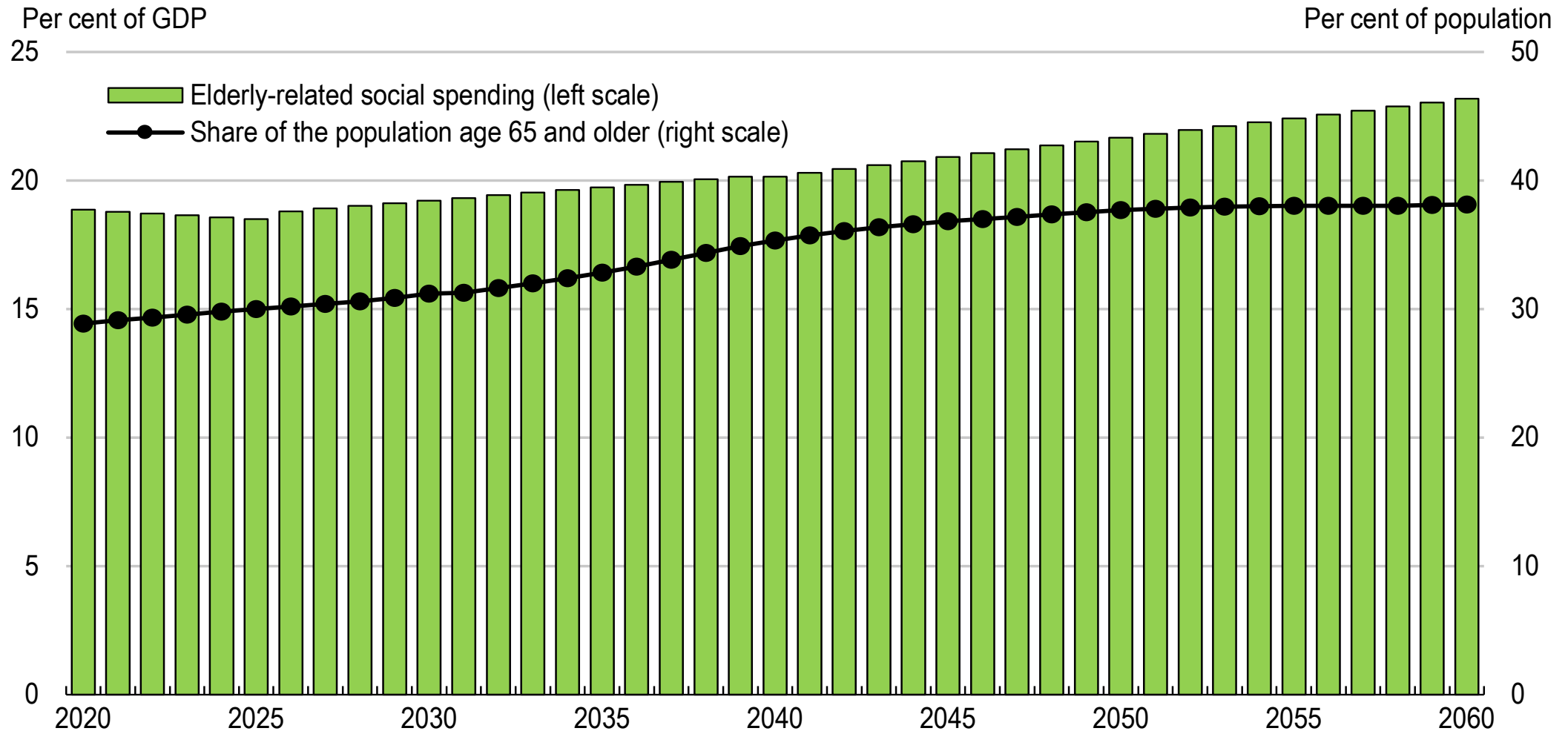


Note: The baseline assumes constant labour market entry and exit rates by gender for each five-year age group. In the “delayed retirement scenario”, exit rates are reduced for both men and women by 10% for each five-year age group between the ages 55 and 74. In the “closing the gender gap” scenario, the participation rates for women converge to those for men in each five-year age group.

Source: OECD projections based on data from the OECD Population and Labour Force Projections database.



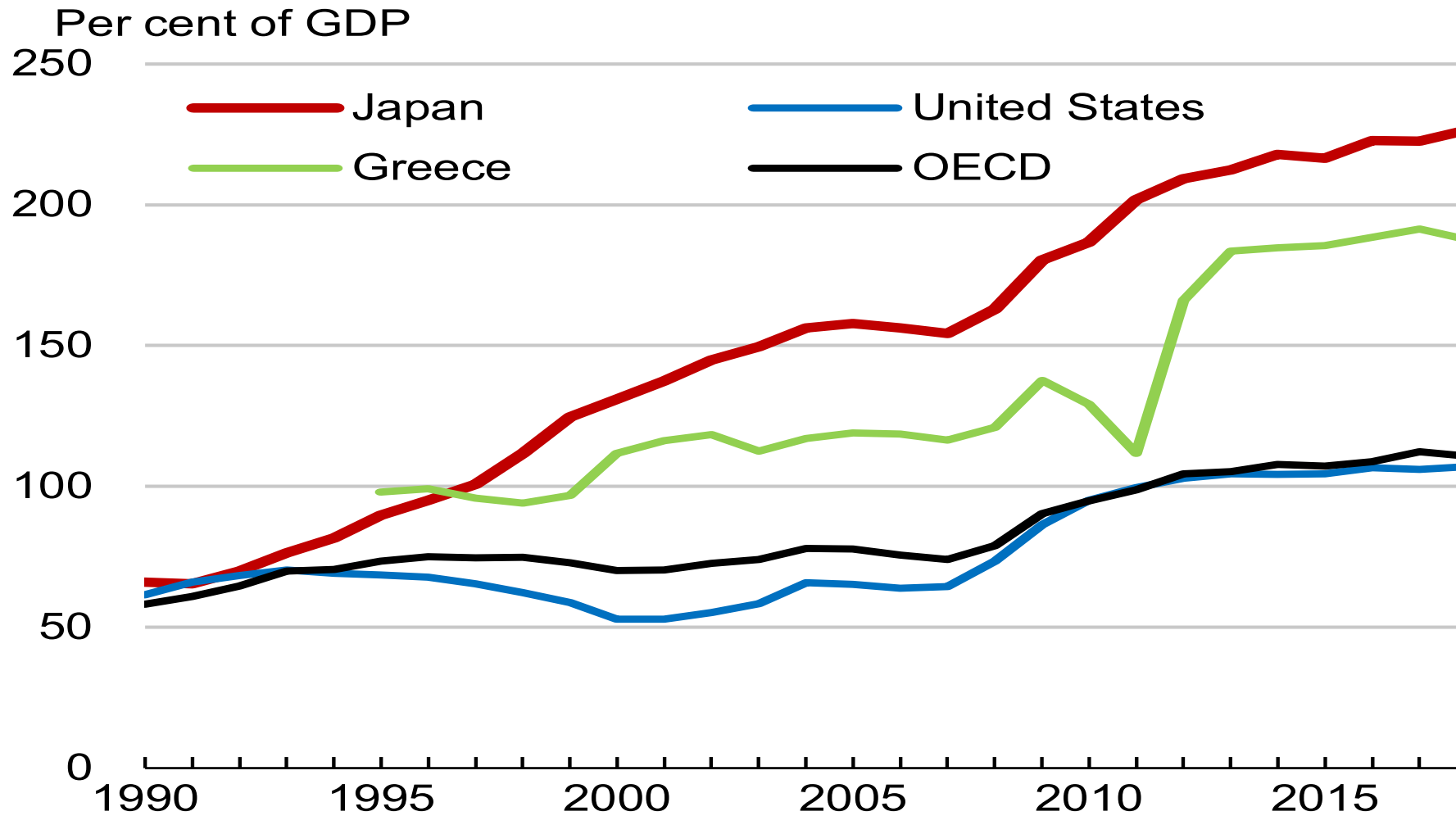
Elderly-related spending will rise further



Source: Cabinet Secretariat et al. (2018); Fiscal System Council (2018); Ministry of Internal Affairs and Communications; and OECD calculations.



The government debt ratio is the highest in the OECD

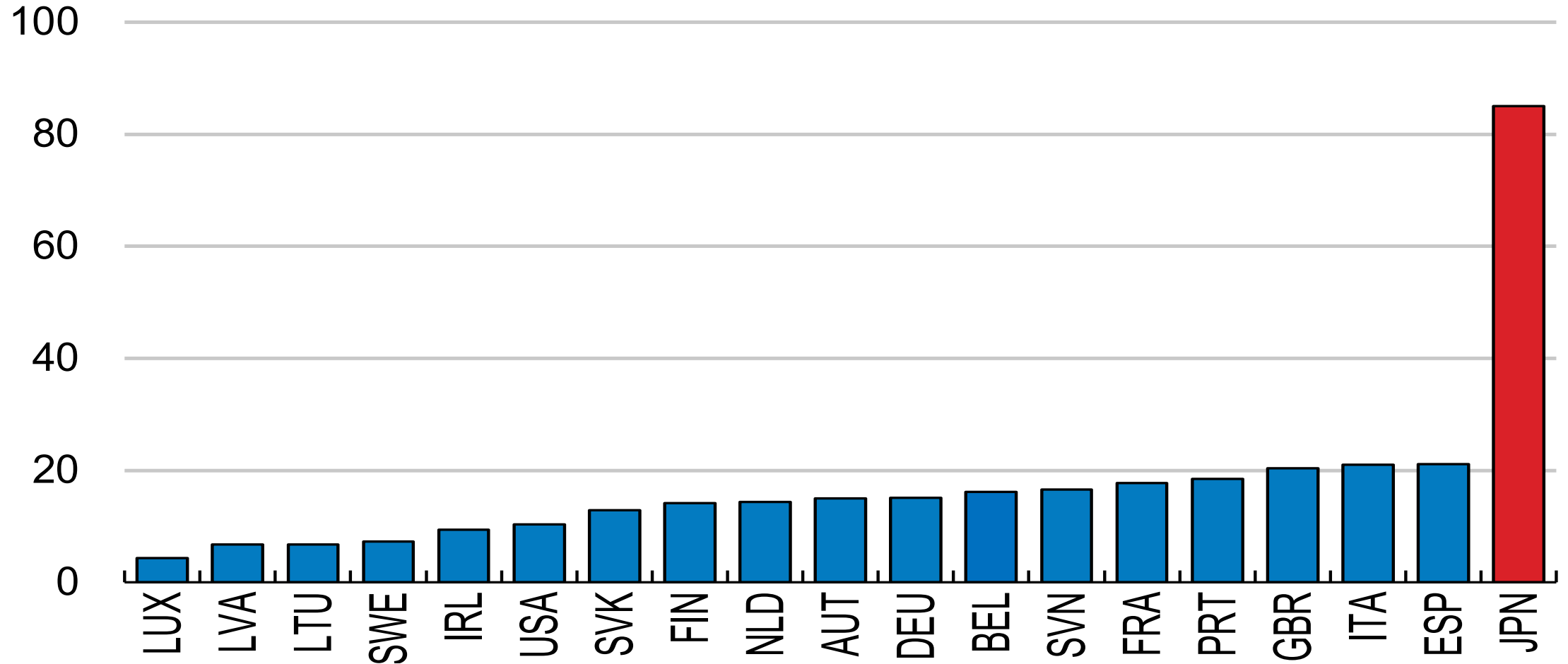


Note: Gross government as a percentage of GDP. OECD estimates for 2018.
Source: OECD Economic Outlook database.



The Bank of Japan's holdings of government bonds are large

As a per cent of GDP, at the end of 2018¹

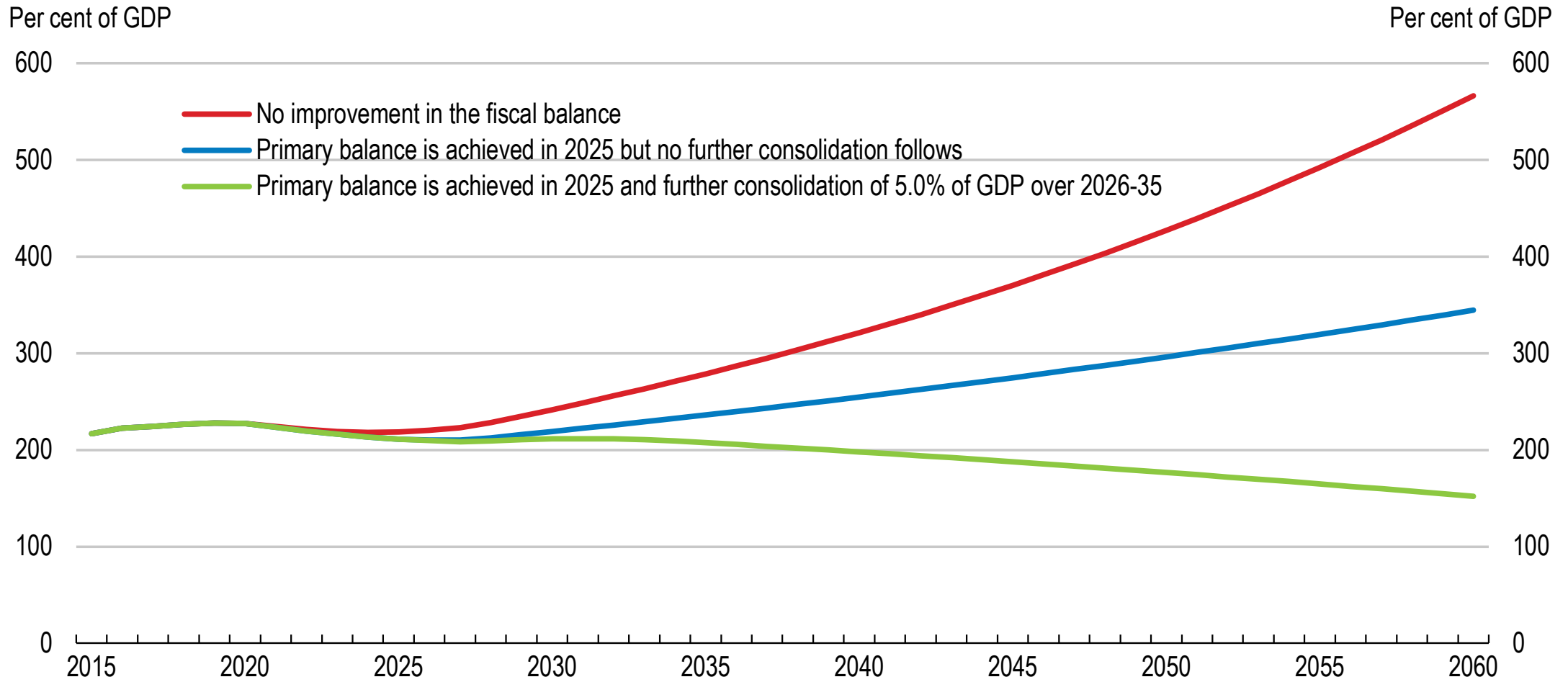


1. March 2019 for Japan, January 2019 for the United States and November 2018 for Sweden.

Source: OECD Economic Outlook database.



Fiscal consolidation beyond 2025 is necessary to stabilise government debt

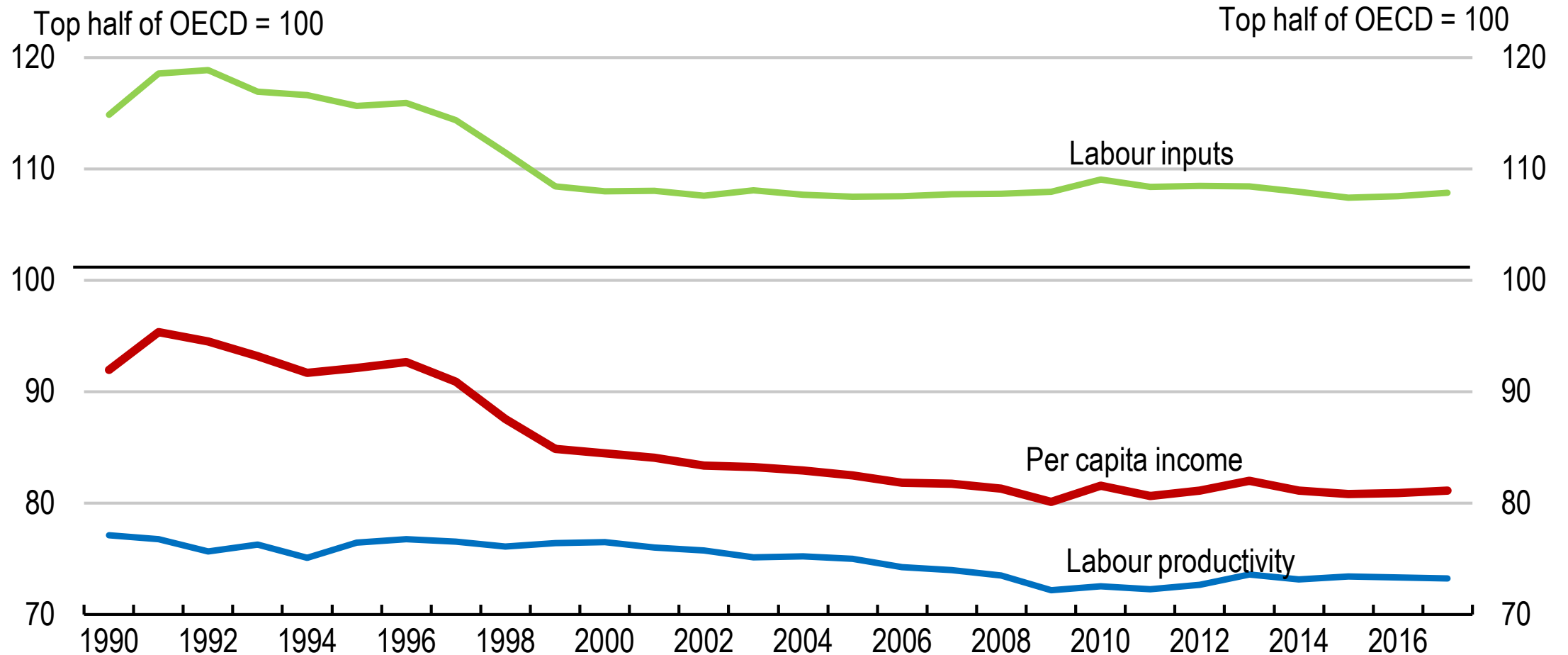


Source: OECD calculations based on *OECD Economic Outlook No. 104* through 2020, Cabinet Office projections through 2027 (using the “Economic Growth Achieved Case”, which implies real growth of more than 2% and nominal growth of more than 3% a year in the first half of the 2020s) and government assumptions for growth, spending and interest rates through 2060.



Living standards and productivity are well below leading OECD countries

Japan relative to the top half of OECD countries¹



1. Per capita GDP using 2010 prices and PPP exchange rates. Labour productivity equals GDP per hour of labour input.
Source: OECD Economic Outlook database.



Sustaining labour inputs in the face of rapid population ageing



Fundamental reform of Japan's traditional labour market practices is needed

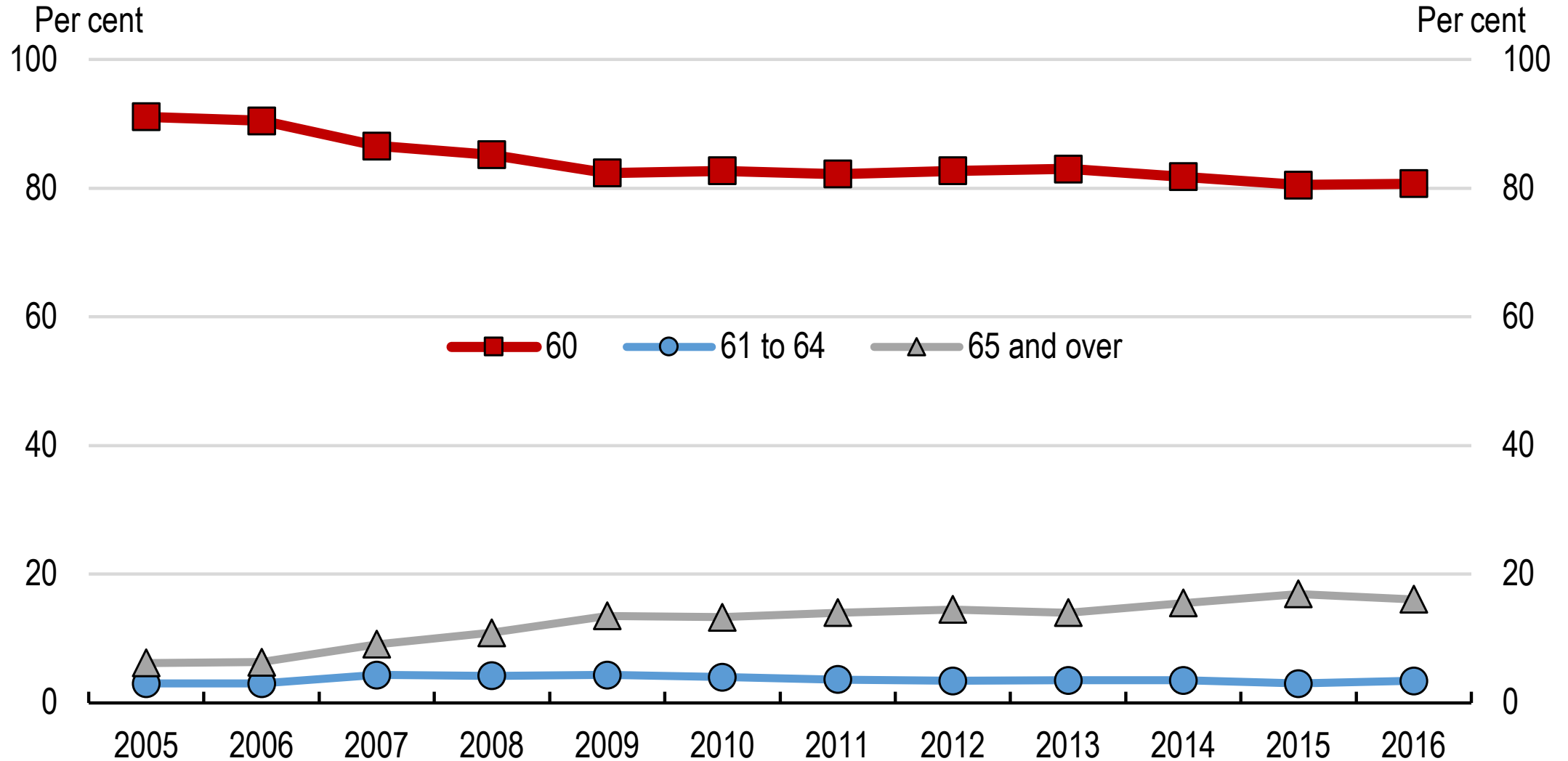
- **Around 80% of firms set a mandatory retirement age of 60:** abolish the right of firms to set mandatory retirement.
- **Wages are closely linked to seniority:** increase the importance of job position and performance in wage setting.
- **Lifetime (or long-term) employment is still prevalent:** facilitate mid-career mobility.

In sum, a shift to more flexible employment and wage systems based on performance rather than age would enable Japan to better utilise its human capital, including women and older persons.



Most firms have kept their mandatory retirement age at 60

The mandatory retirement age set by companies

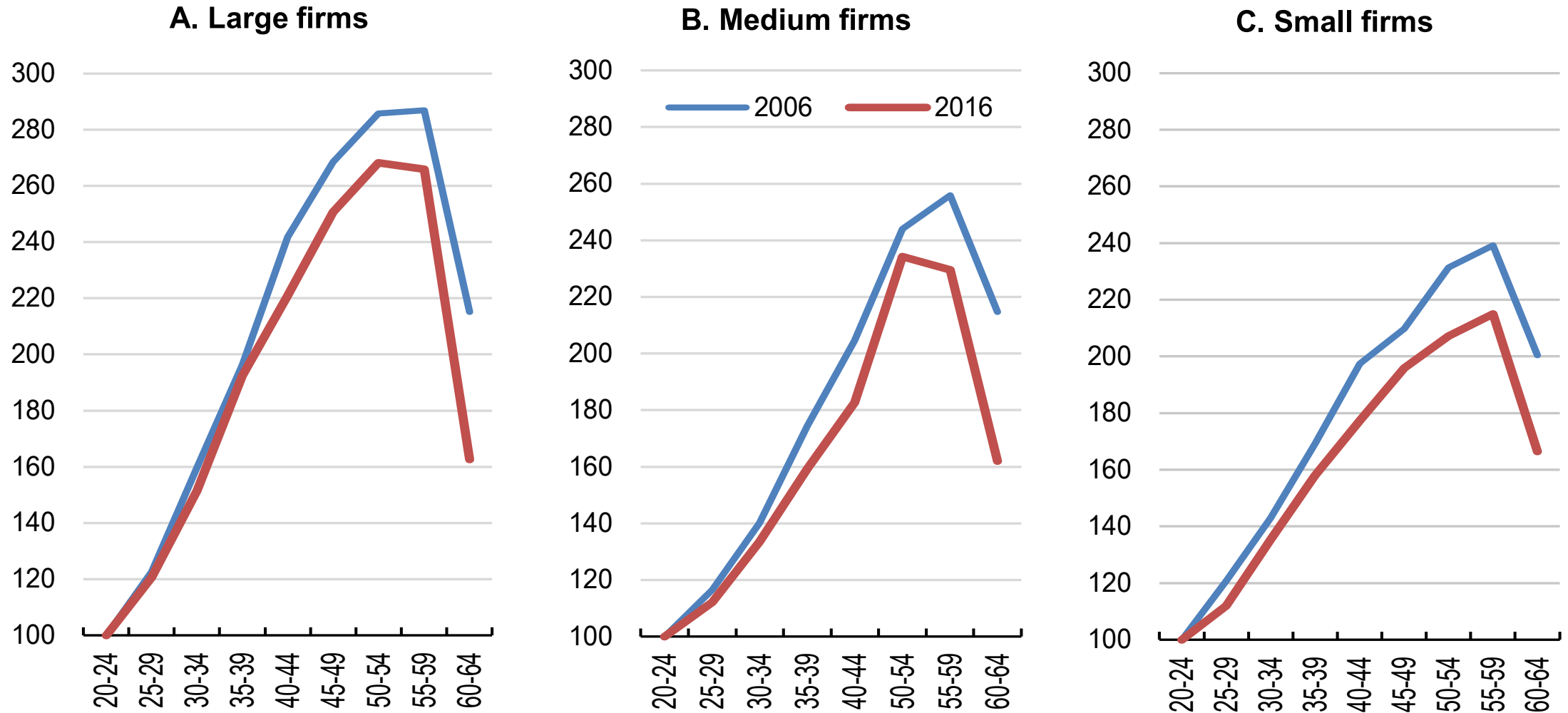


Source: Ministry of Health, Labour and Welfare, *General Survey on Working Conditions*, 2017.



Japan's wage system remains closely linked to seniority

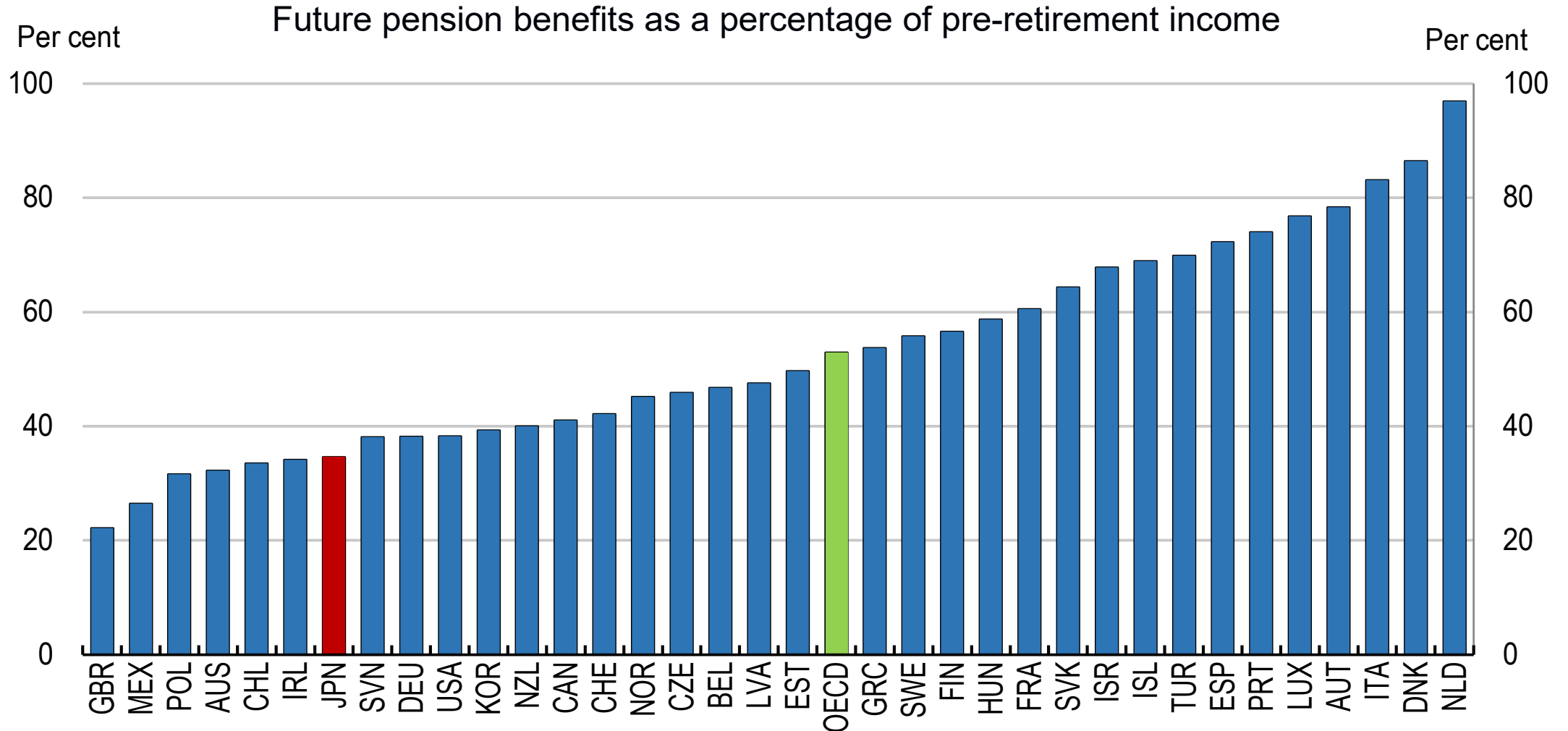
Wage profile for male lifetime employees, 20-24 age group = 100



Source: Japanese Ministry of Health, Labour and Welfare, *Basic Survey on Wage Structure* (2006, 2016).



Raising the pension eligibility age would increase pension benefits and reduce poverty among the elderly

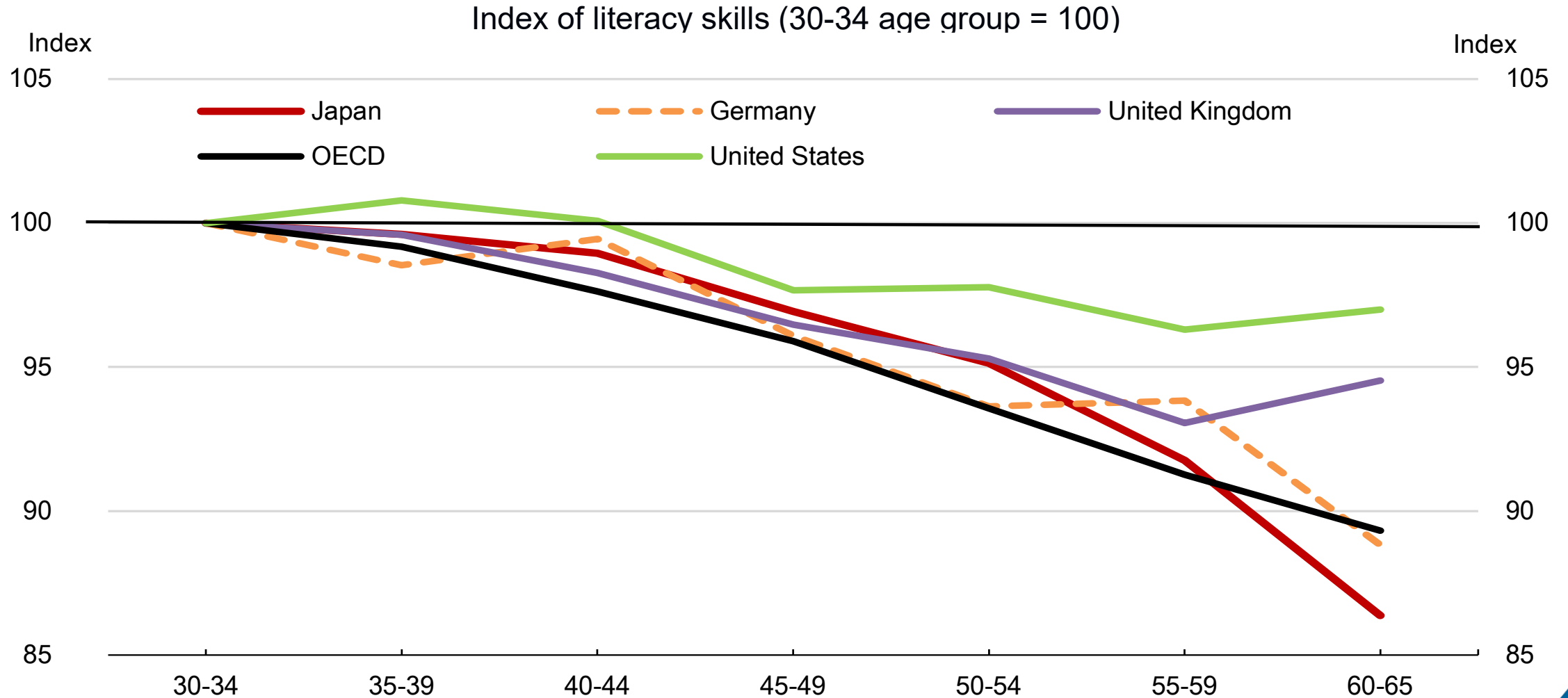


Note: For full-career average-workers under current legislation.

Source: OECD (2017), *Pensions at a Glance 2017: OECD and G20 Indicators*.



Skills of older workers are well below those of younger workers



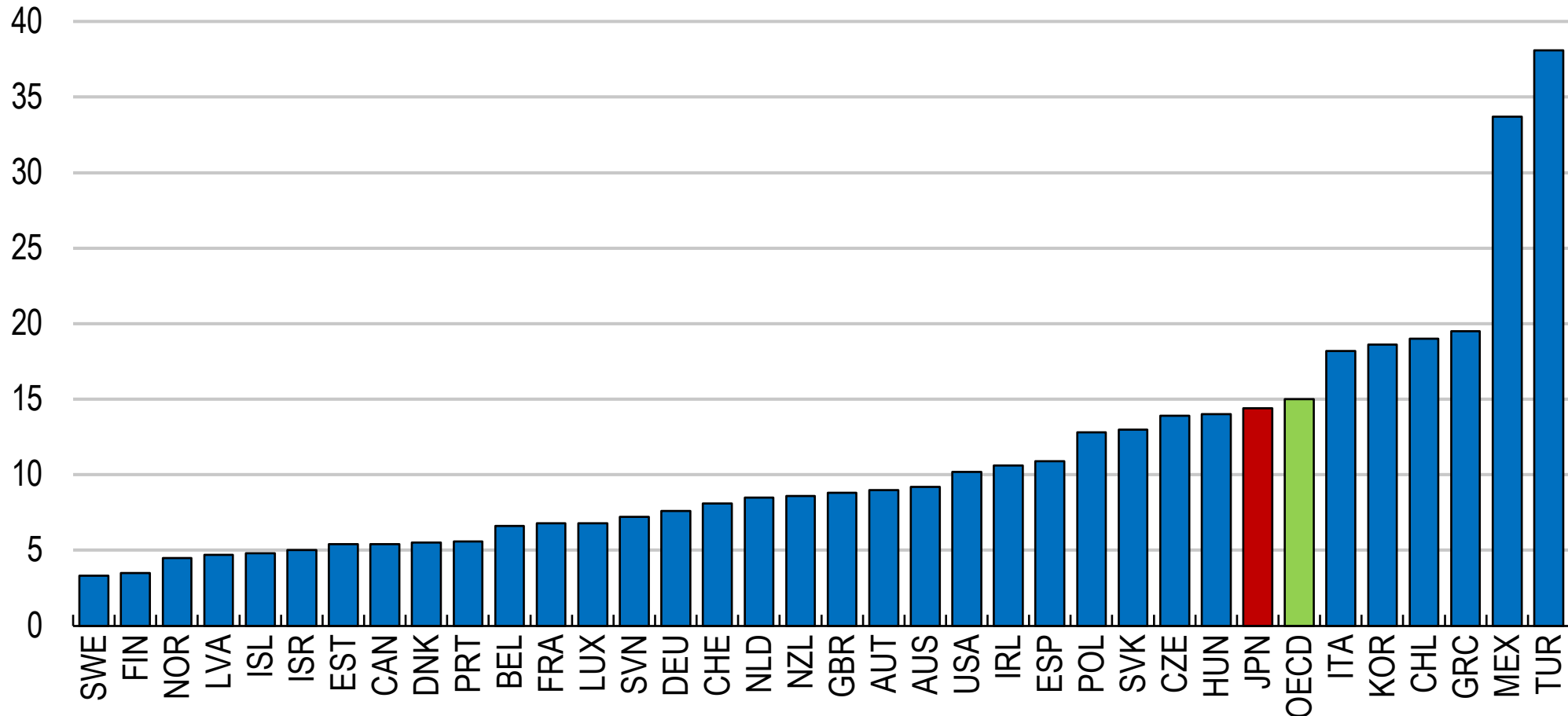
Source: OECD (2018), *Working Better with Age*.



The gender employment gap is close to the OECD average

Male employment rate minus female employment rate in 2018

Percentage points

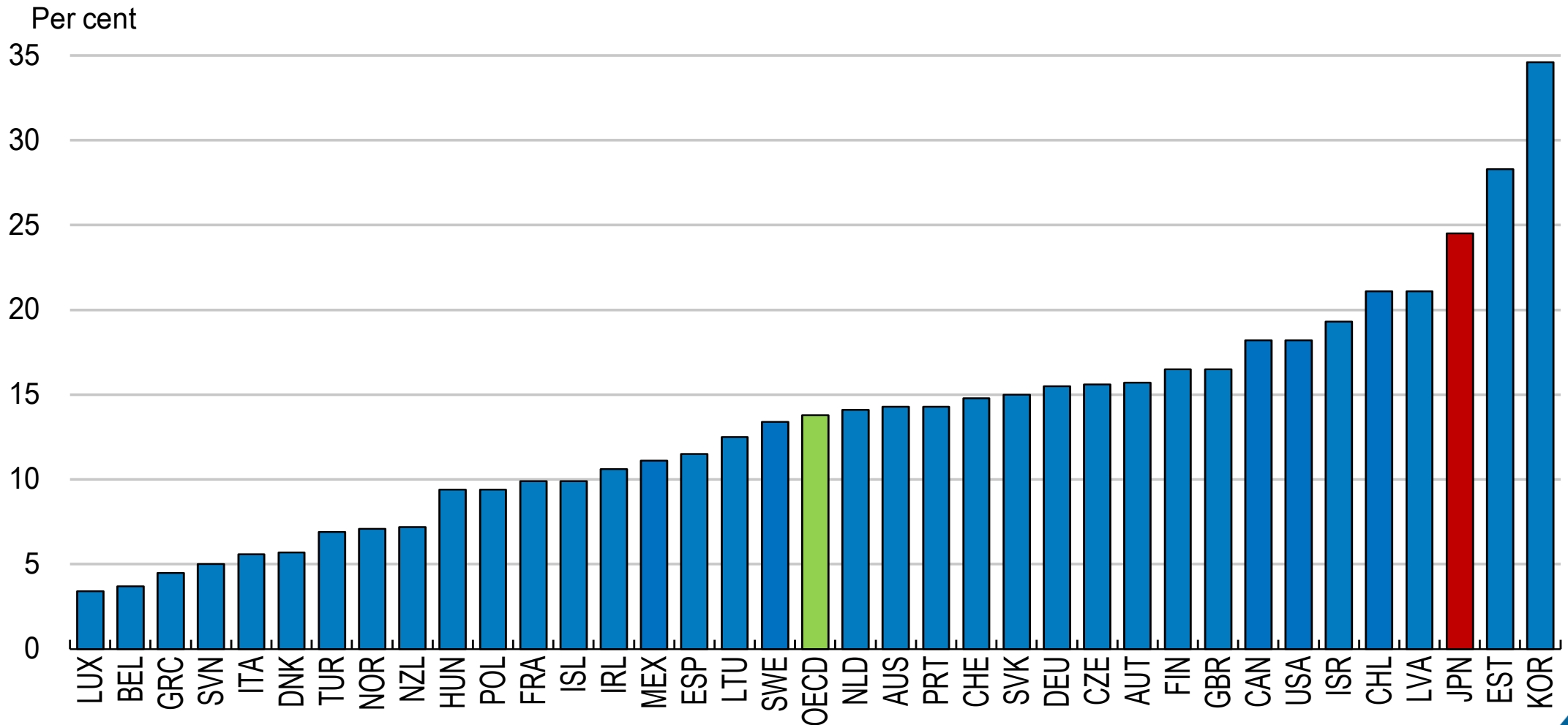


Source: OECD Gender database.



The gender wage gap is the third highest in the OECD

Difference between median earnings of men and women divided by median earnings of men who are full-time employees



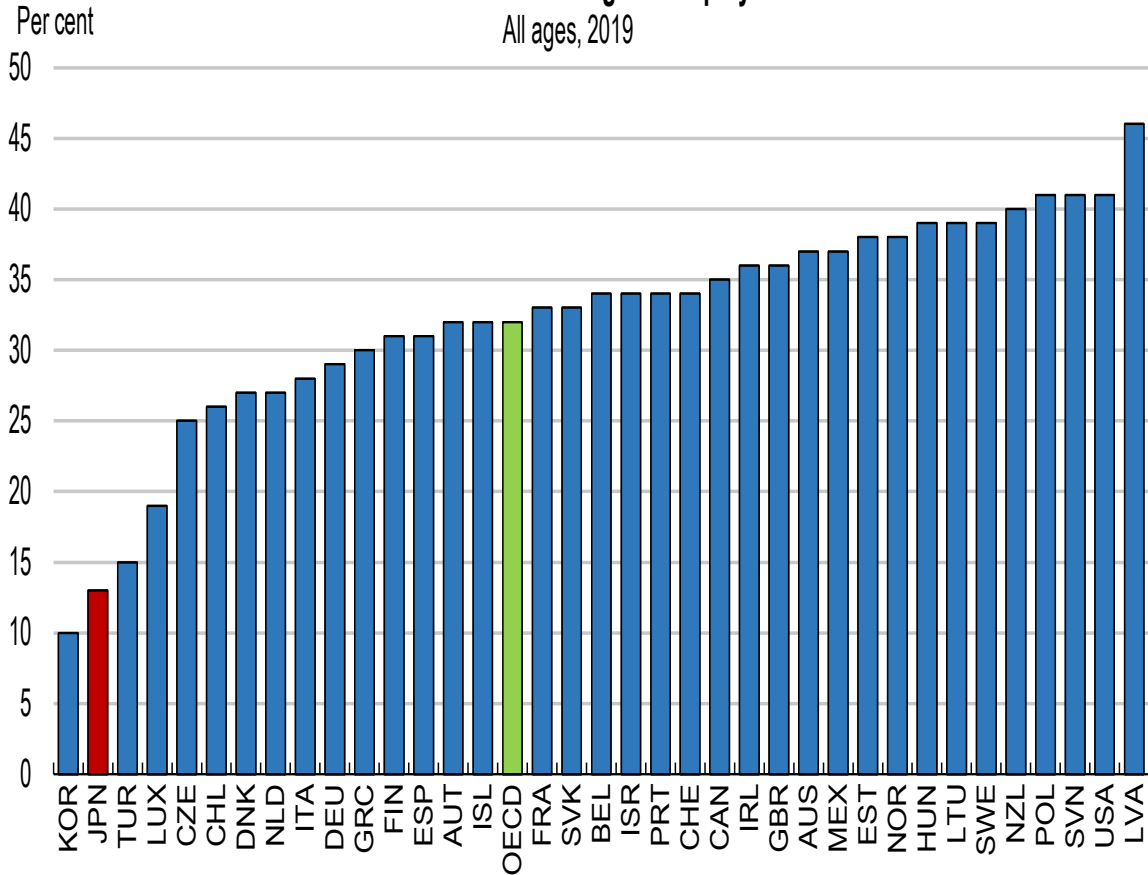
Source: OECD Gender database.



Japanese women are under-represented in leadership positions and certain professions

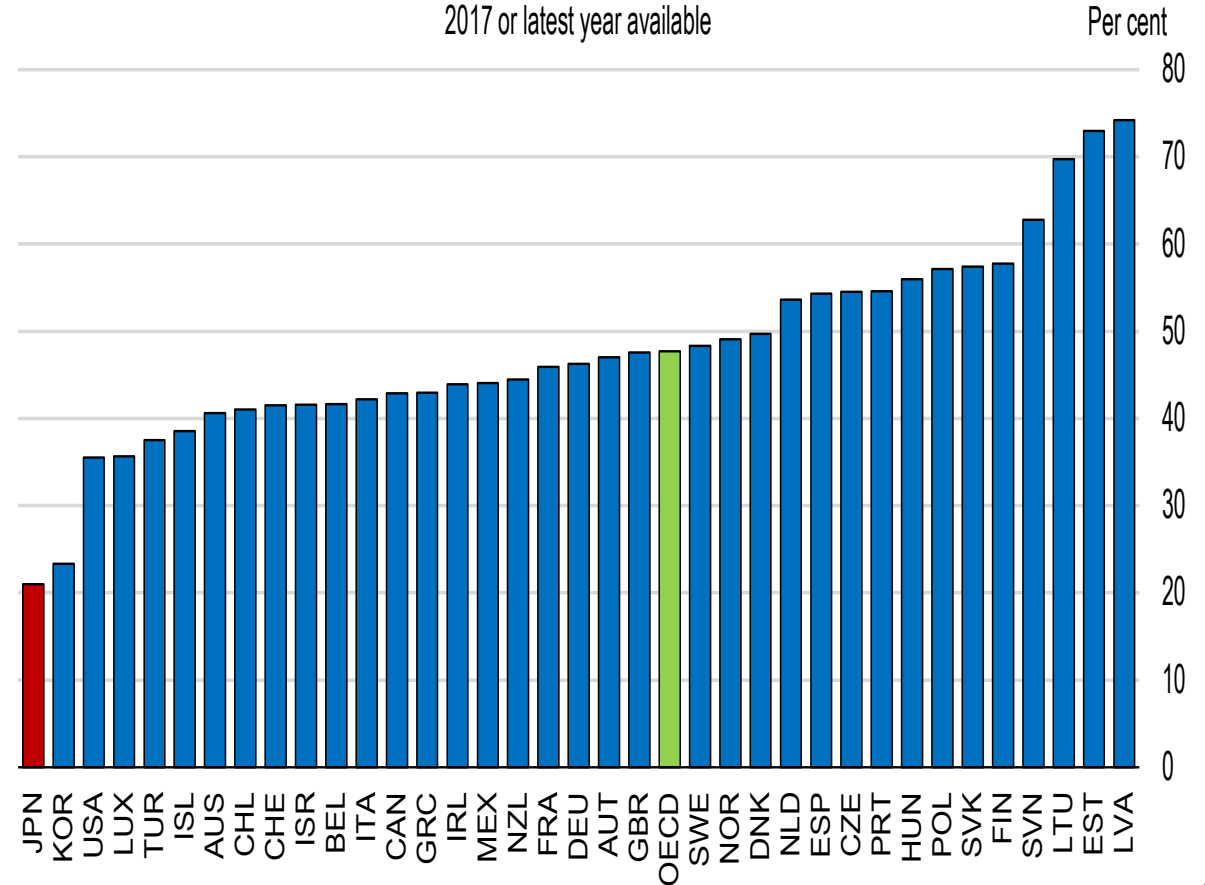
A. Female share of managerial employment

All ages, 2019



B. The share of doctors who are women in Japan is the lowest in the OECD

2017 or latest year available

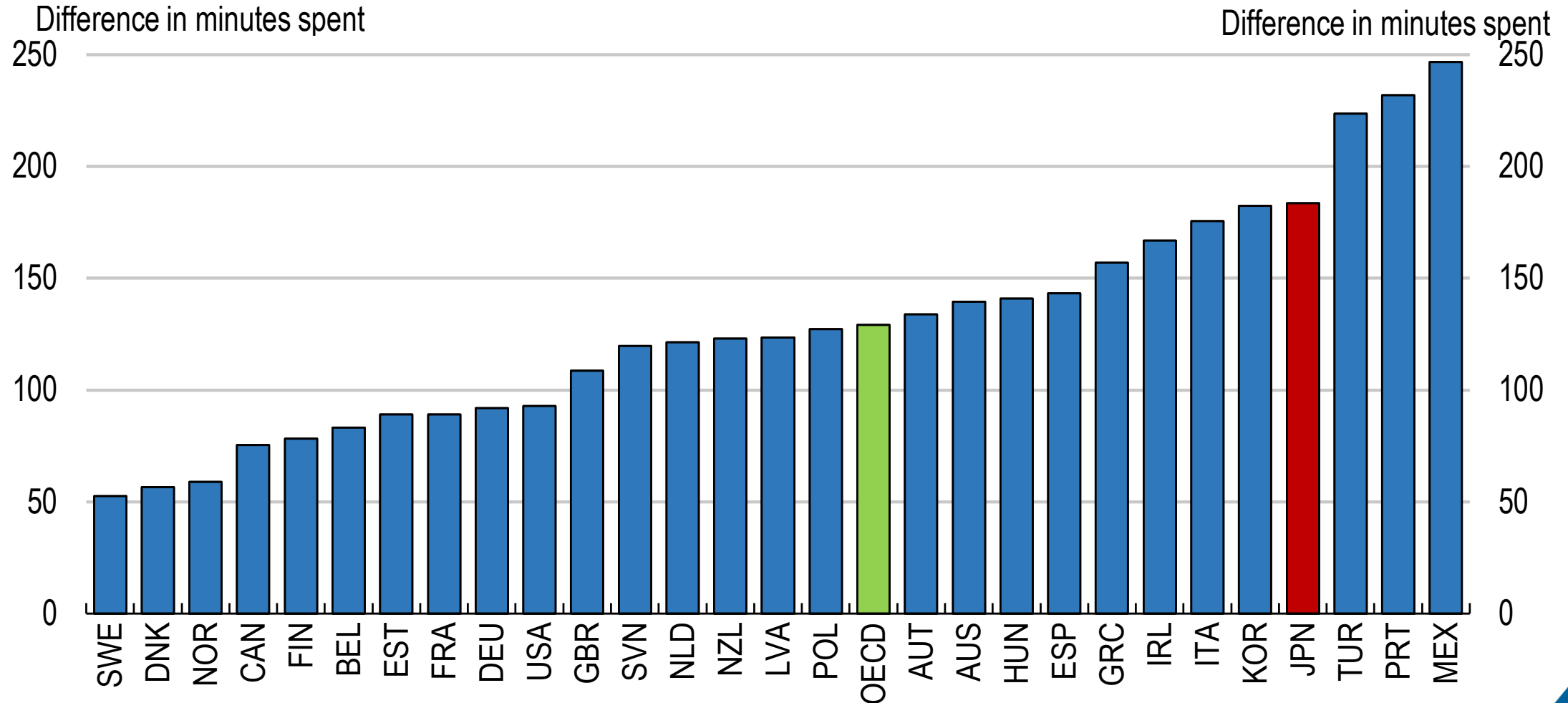


Source: OECD Gender database.



Japanese women spend much more time in household work than men

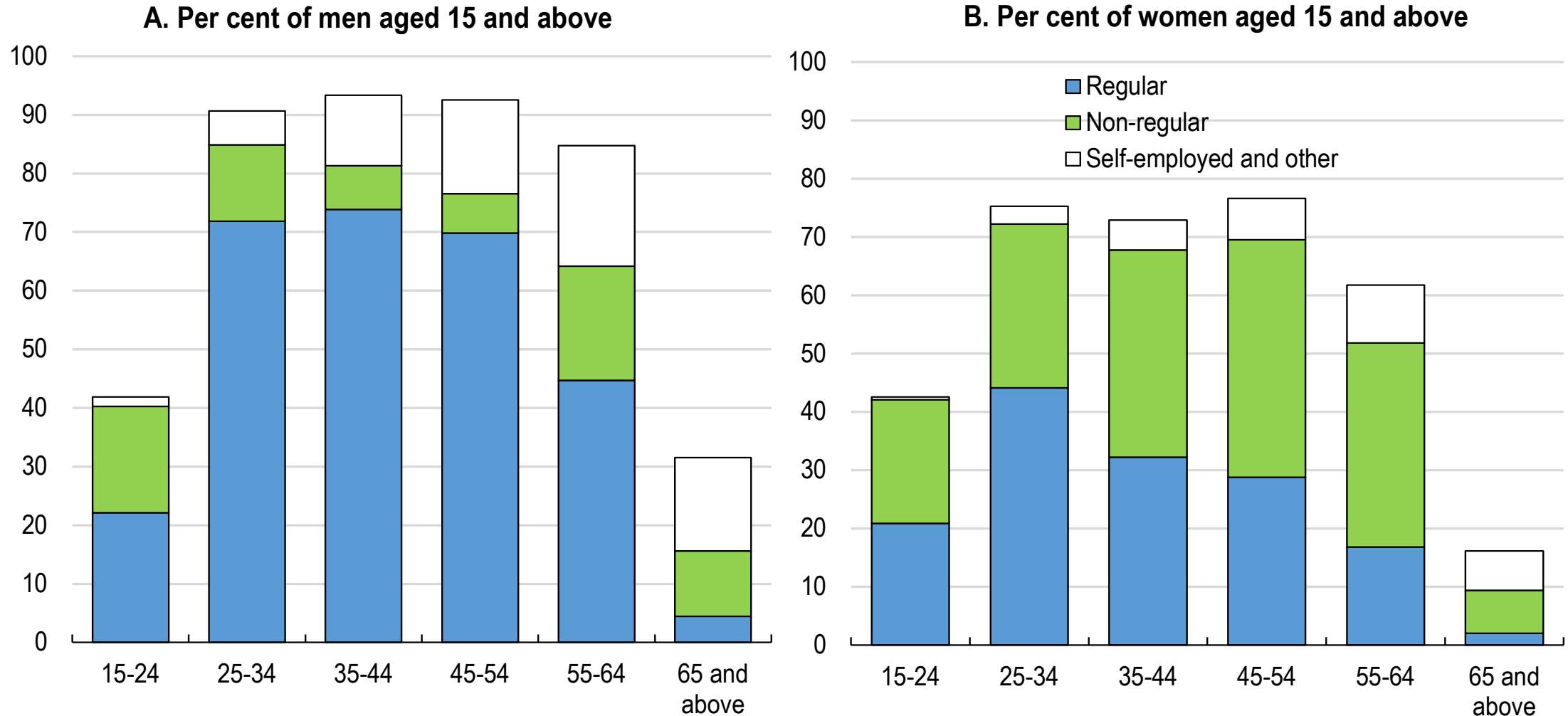
Gender gap in minutes spent per day on unpaid work, female minus male, 15-64 year-olds



Source: OECD Gender database.



Non-regular employment is concentrated among women

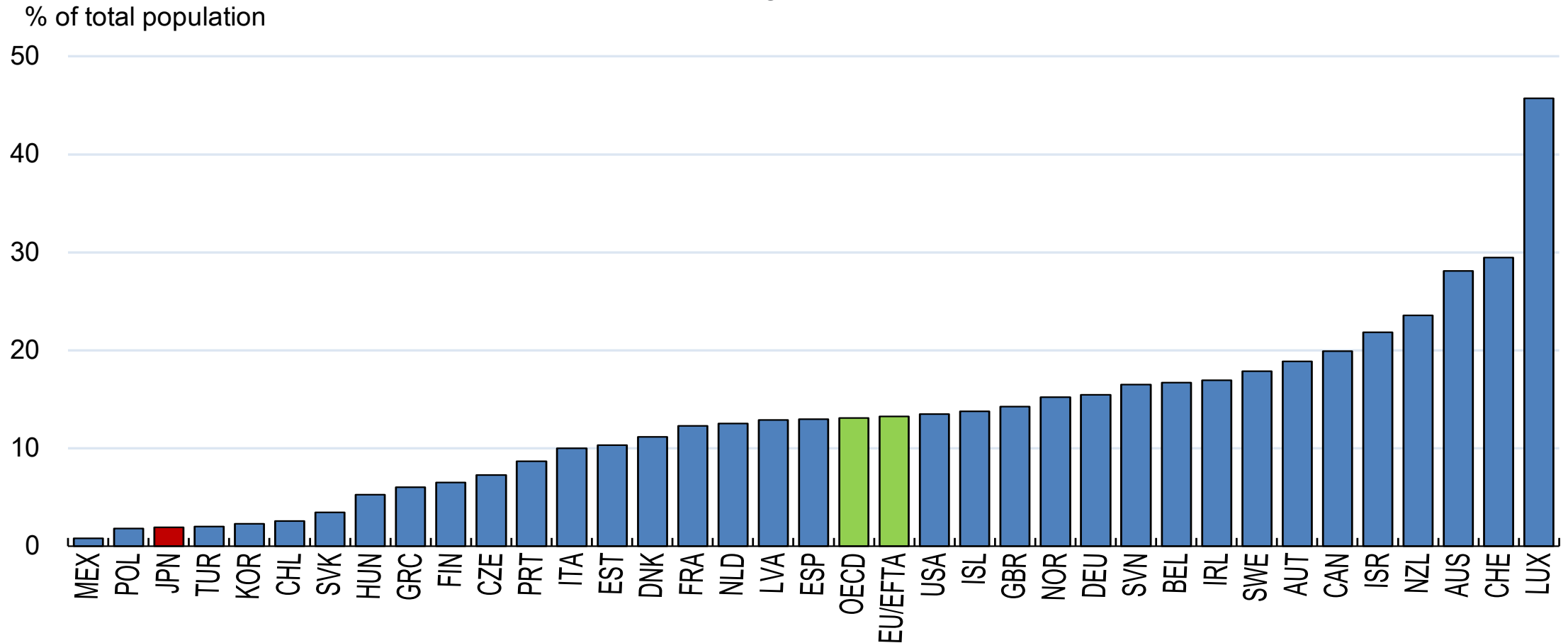


Source: Ministry of Internal Affairs and Communications, *Labour Force Survey, Basic Tabulation, 2017*.



Japan needs to make greater use of foreign workers

Share of the foreign-born population



Source: OECD (2018), *Education Policy in Japan: Building Bridges towards 2030*.



Policy recommendations to make the most of Japan's human resources

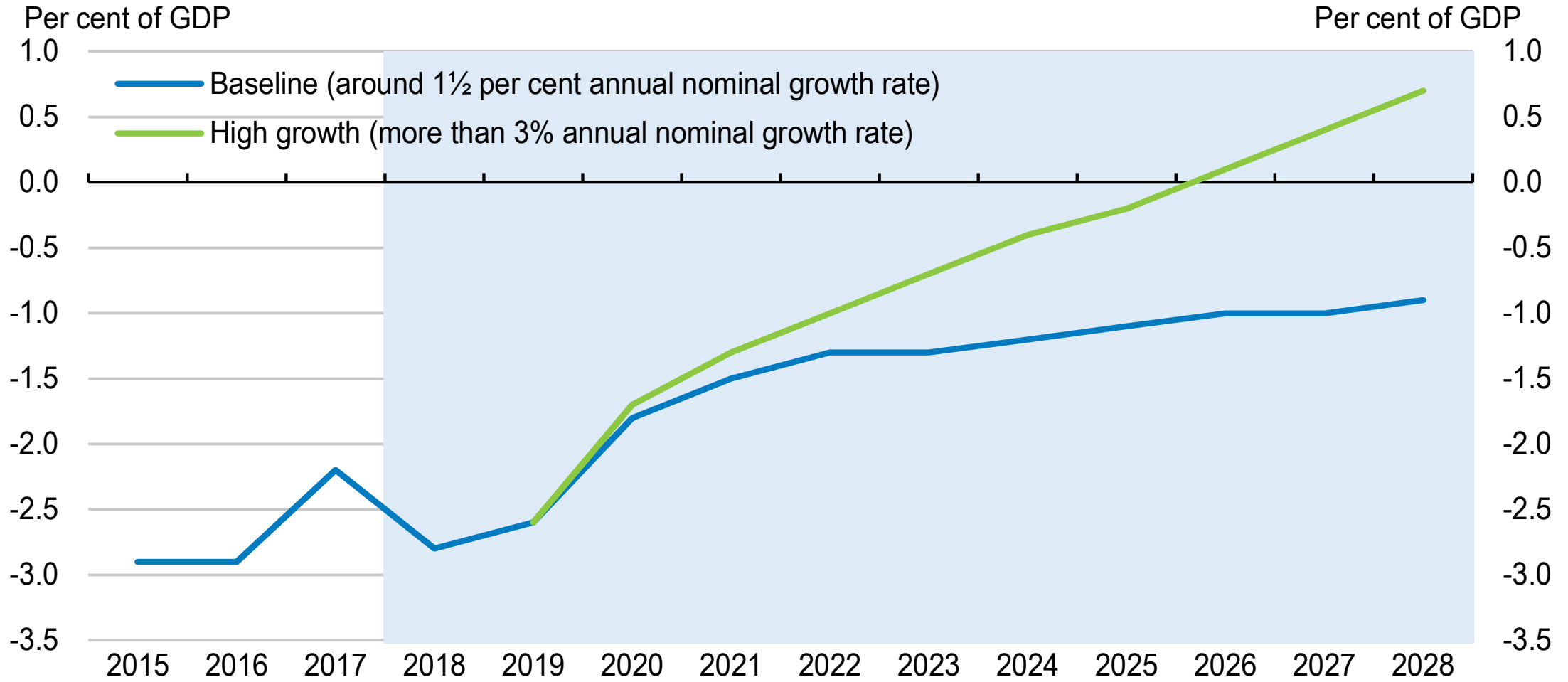
- Abolish the right of firms to set a mandatory retirement age and reinforce legislation against age discrimination.
- Break down dualism through a comprehensive strategy to reduce employment protection for regular workers, in part by setting clear rules on dismissal of workers, and expanding social insurance coverage and training for non-regular workers.
- Flatten the seniority wage curve by enforcing the equal pay for equal work provision in the work style reform.
- Raise the pension eligibility age above 65 and expand employment opportunities for older persons to reduce elderly poverty.
- Improve lifelong learning by making it more relevant, including for older workers, and addressing the time and financial constraints that limit participation.
- Strictly enforce the new 360-hour annual limit on overtime hours and raise penalties on firms that exceed it to improve work-life balance.
- Focus on reducing the waiting list for childcare so that mothers are not forced to leave the work force.
- Strengthen measures to prevent discrimination against women in education and employment.
- Reform tax-benefit systems so that both parents have broadly similar financial incentives to work.
- Provide programmes to help foreign nationals adjust to Japan, including through education.



Policies to ensure fiscal sustainability in the face of a shrinking and ageing population



A primary deficit is projected to continue through FY 2025 under current policies



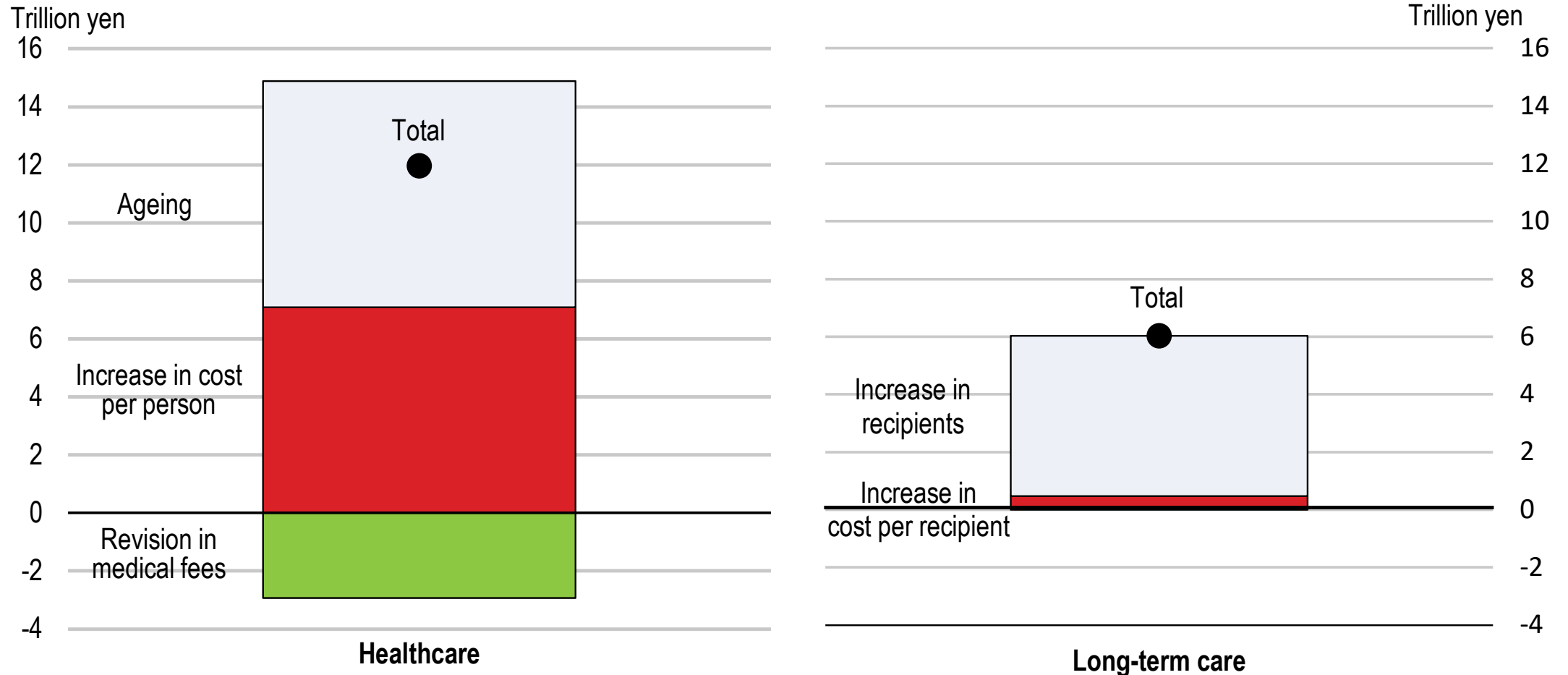
Note: Government projections in January 2019. It assumes that the hike in the consumption tax rate from 8% to 10% is implemented as planned in 2019. The primary balance is central and local governments, as a percentage of GDP on a fiscal year basis.

Source: Cabinet Office (2019).



Health and long-term care spending has increased

Health and long-term care spending increase between FY 2000 and FY 2016



Source: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications; and OECD calculations.



There is room for healthcare cost savings

In 2017 or latest year available

	Number of doctor consultations per capita per year	Share of private expenditure on outpatient care (%)	Average total hospital stay ¹	Average hospital stay for acute care ¹	Total number of hospital beds ²	Number of acute-care beds ^{2,3}	Number of long-term care beds ^{2,3}	Number of beds in long-term care facilities ²
Japan	12.8	16.9	28.5	16.3	13.1	7.8	2.7	6.5
OECD average	7.4	31.7	8.4	6.6	4.9	3.7	0.7	7.6
Highest country	17.0	59.7	28.5	16.3	13.1	7.8	4.8	12.9
Lowest country	2.8	12.4	3.8	4.0	1.5	1.5	0.0	0.7

1. In days.

2. Per 1 000 population.

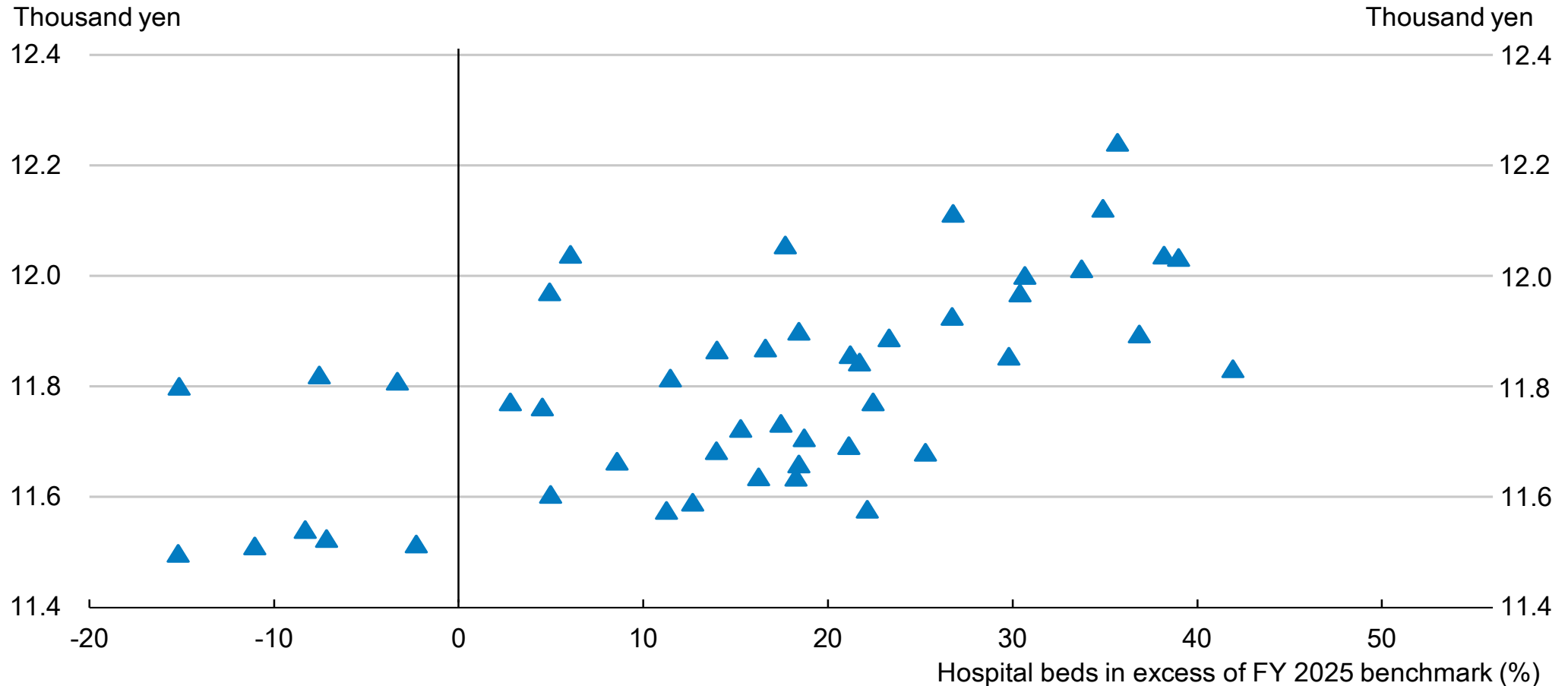
3. In hospitals.

Source: OECD Health Statistics database.



Excess hospital beds leads to higher hospitalisation costs

Per capita hospitalisation cost by prefecture, 2016¹



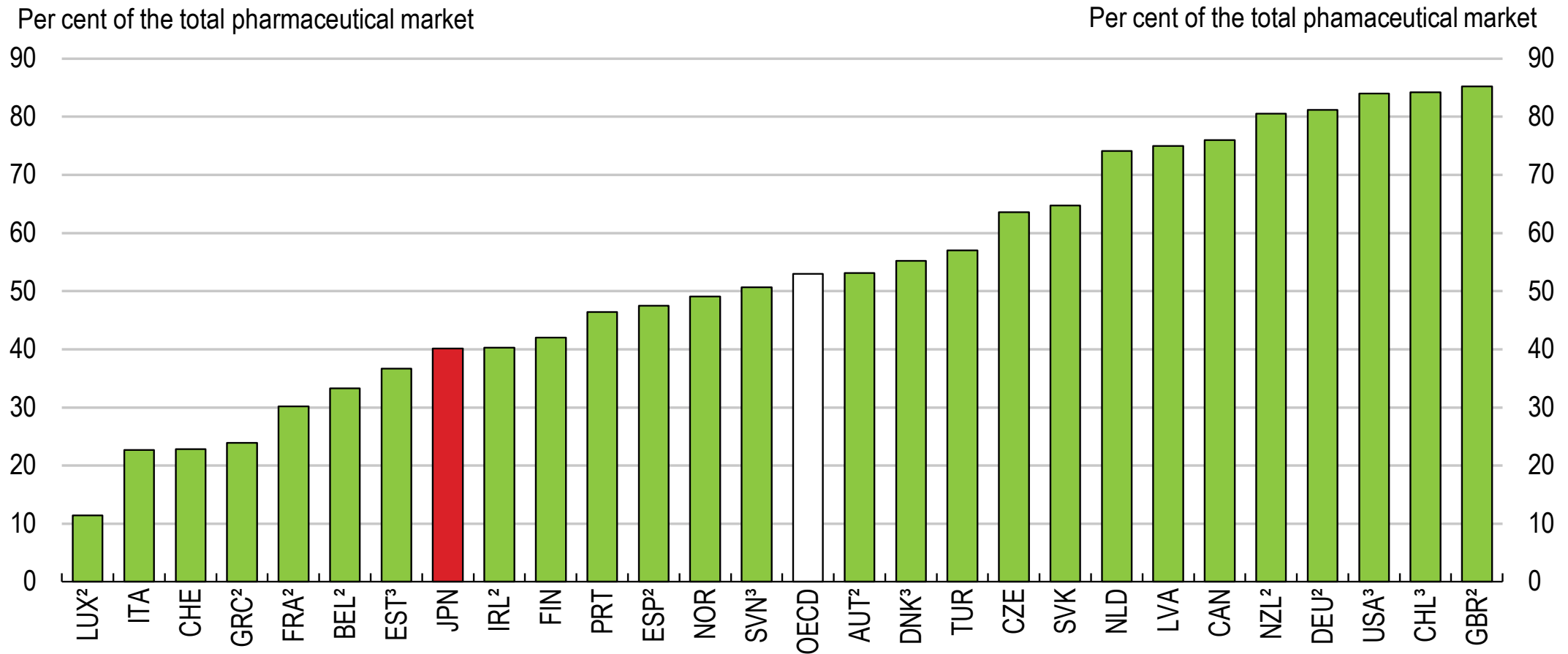
1. The vertical axis shows the natural log of a thousand yen. A gap of one unit corresponds to 100% difference.

Source: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications; and OECD calculations.



The use of generic drugs is low

Share of generics in 2017 or latest year available in volume terms¹



1. Including medical non-durables.

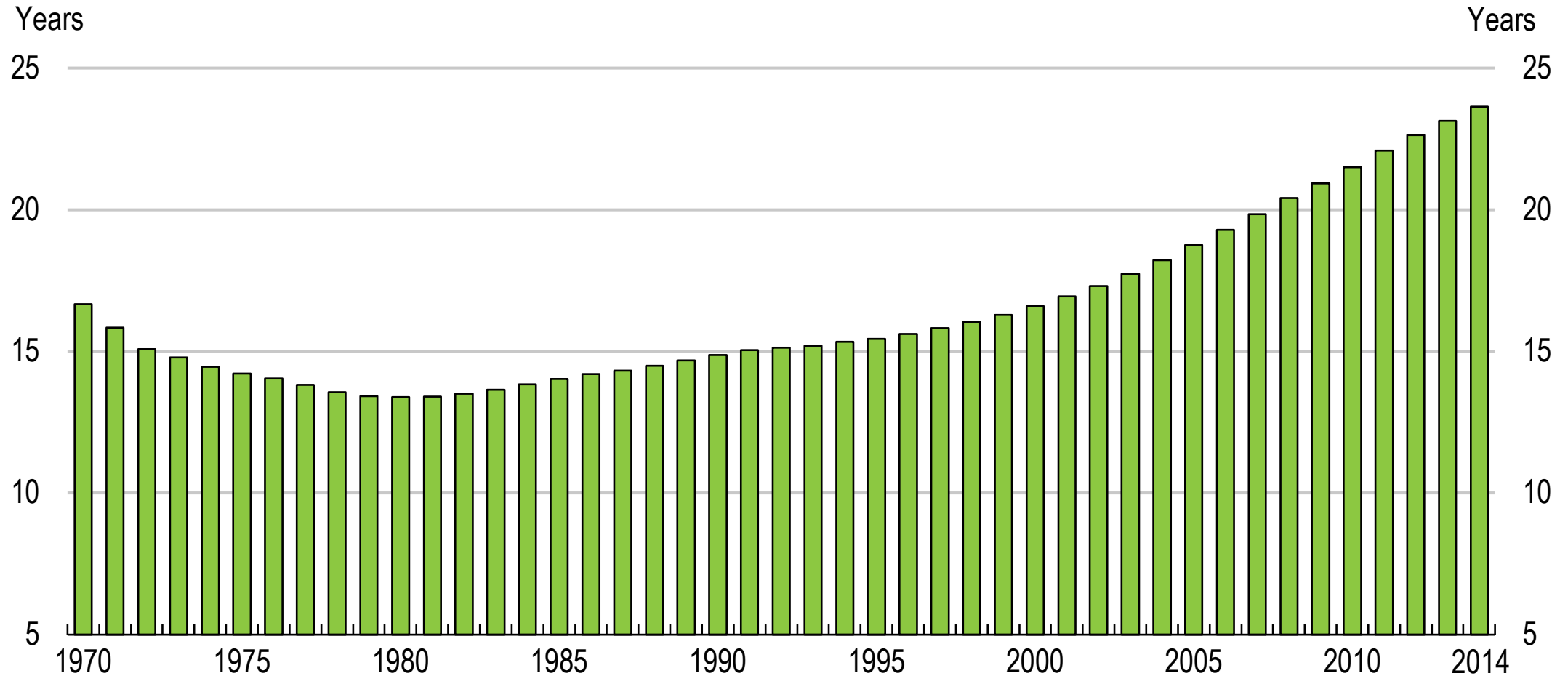
2. Reimbursed pharmaceutical market.

3. Community pharmacy market.

Source: OECD Health Statistics database.



The public capital stock is ageing rapidly

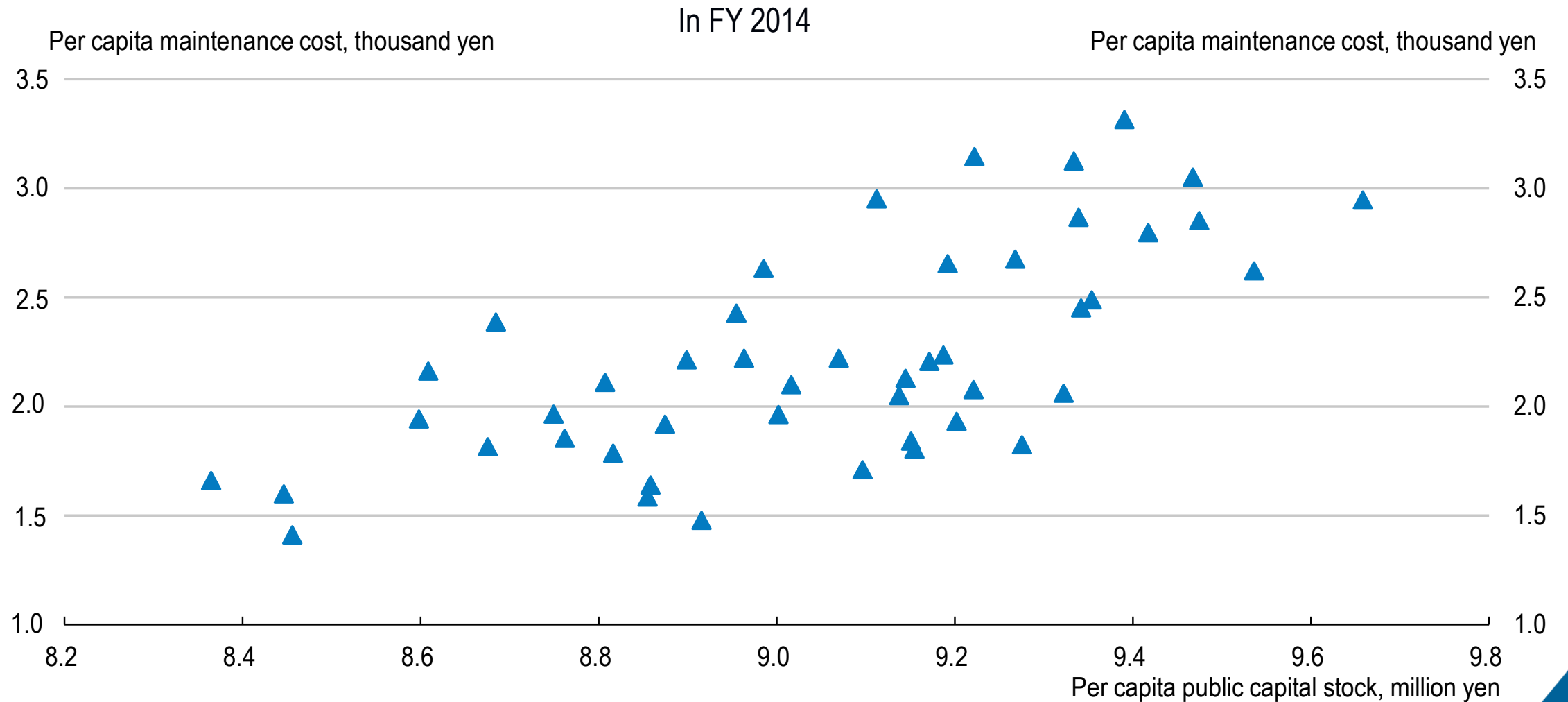


Note: A weighted average of 18 sectors, such as water supply, flood control and agriculture.

Source: Cabinet Office; Ministry of Internal Affairs and Communications; and OECD calculations.



Maintenance costs vary widely across regions

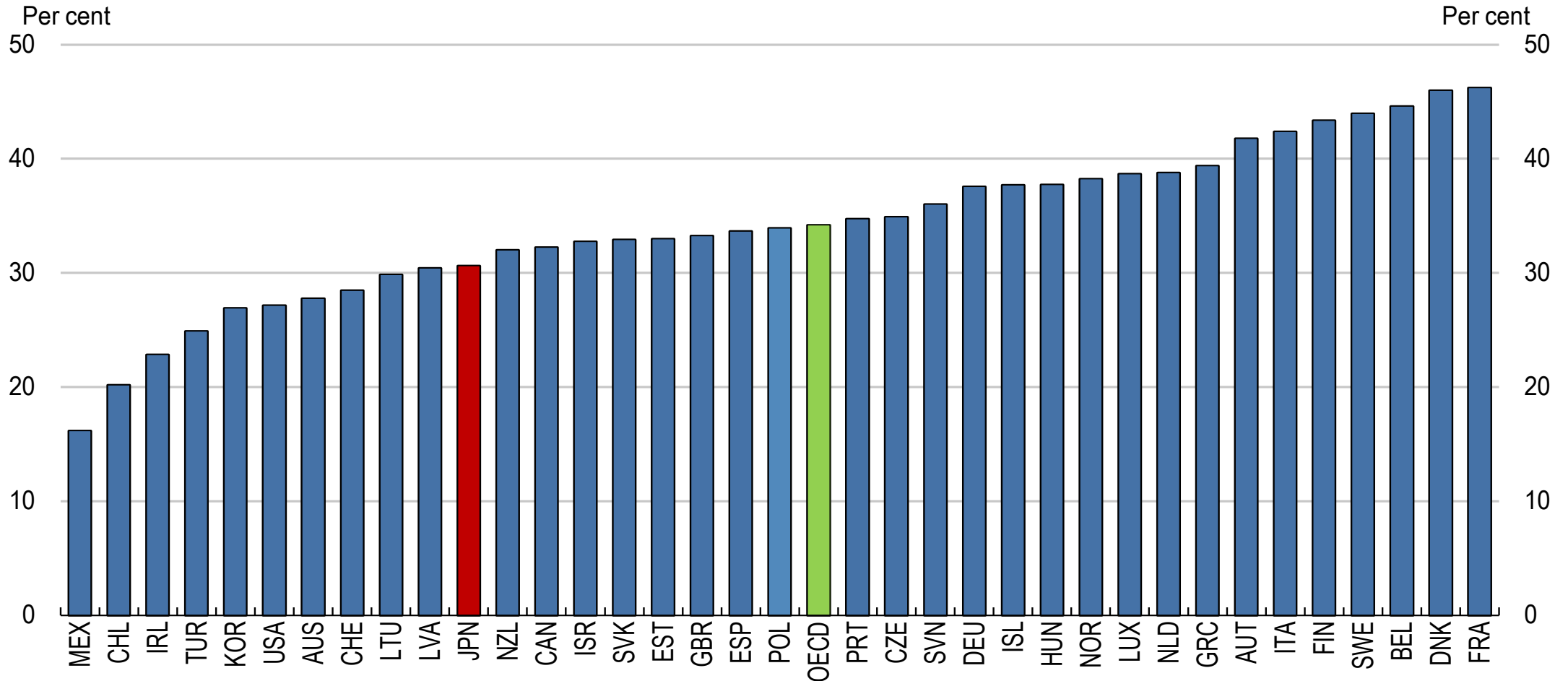


Source: Cabinet Office; Ministry of Internal Affairs and Communications; and OECD calculations.



The tax and social security burden is relatively low

Total tax and social security revenue as a per cent of GDP in 2017 or latest year available

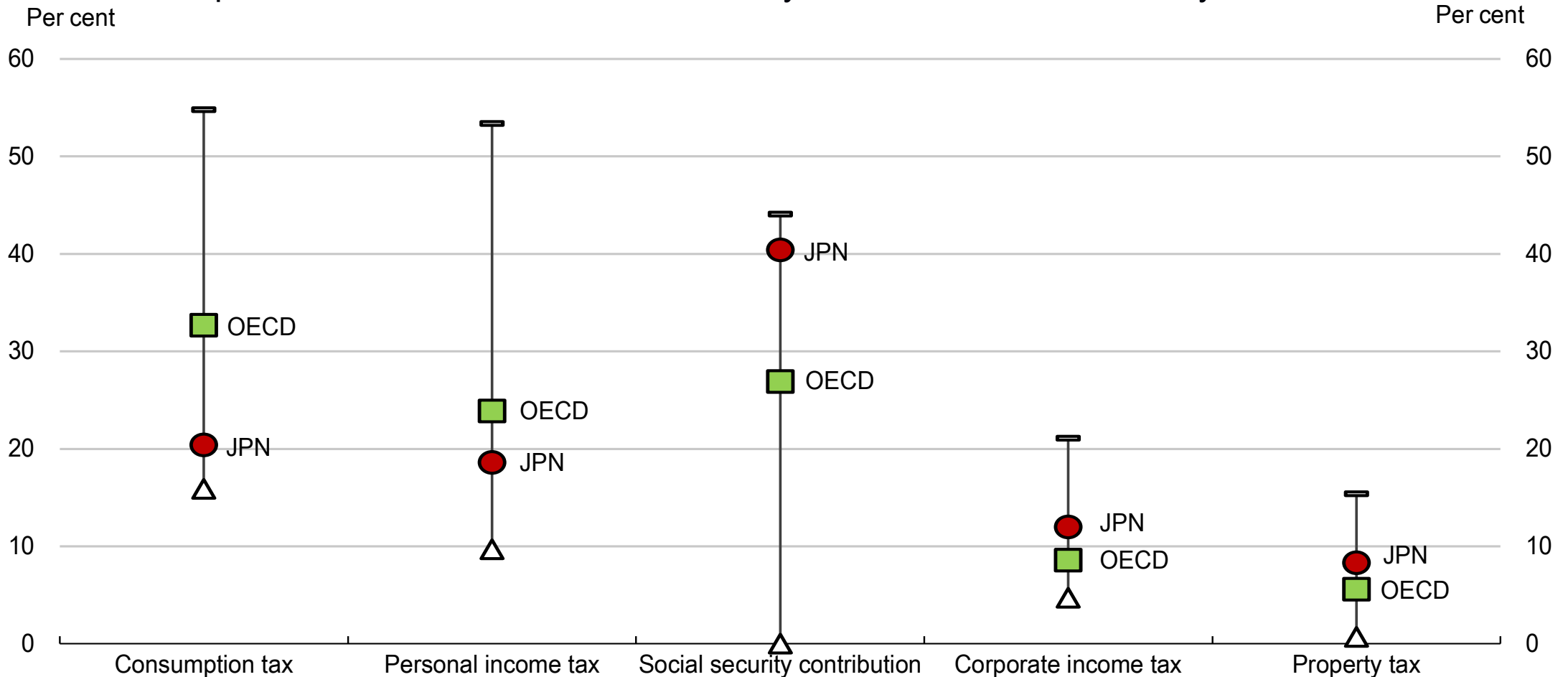


Source: OECD Revenue Statistics database.



The share of consumption and personal taxes in tax revenues is relatively low

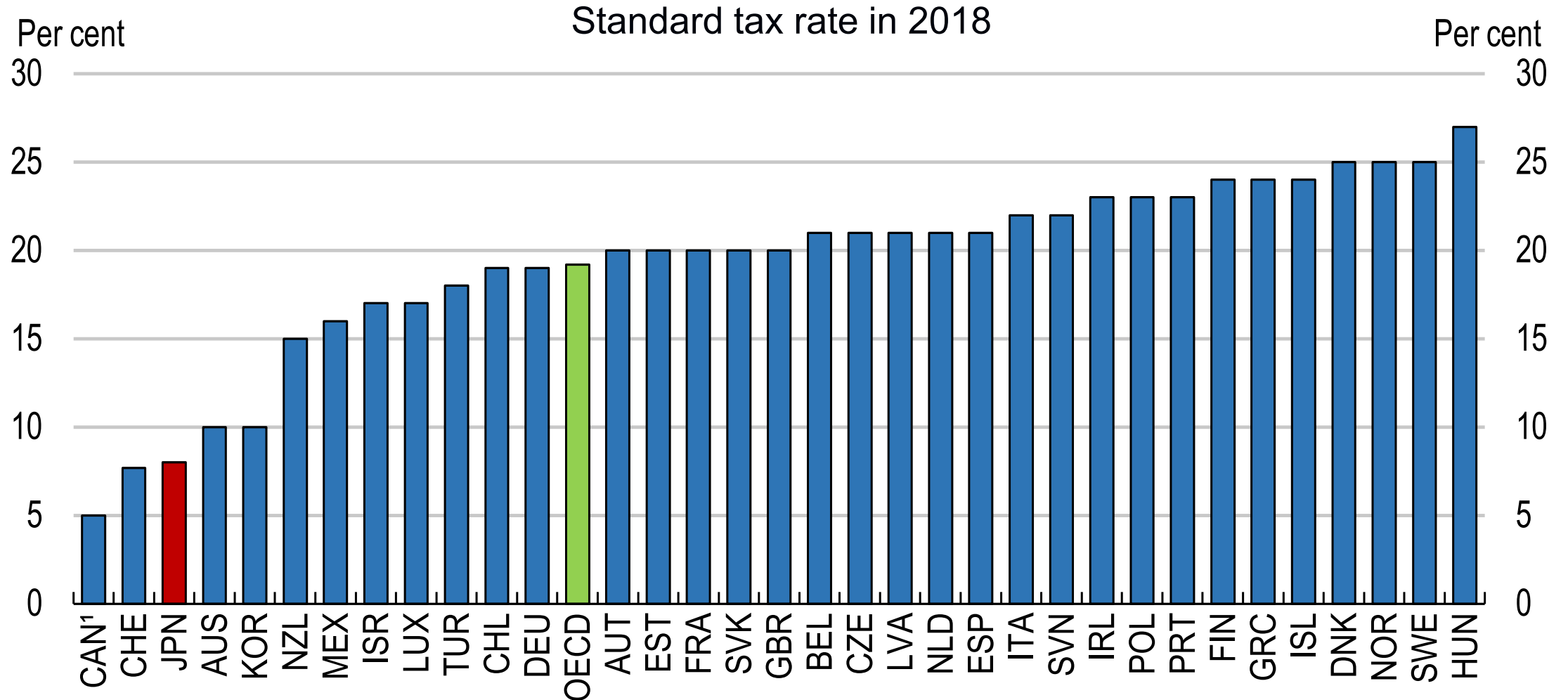
As a per cent of total tax and social security revenue in 2017 or latest year available



Source: OECD Revenue Statistics database.



Japan's consumption tax rate is one of the lowest in the OECD

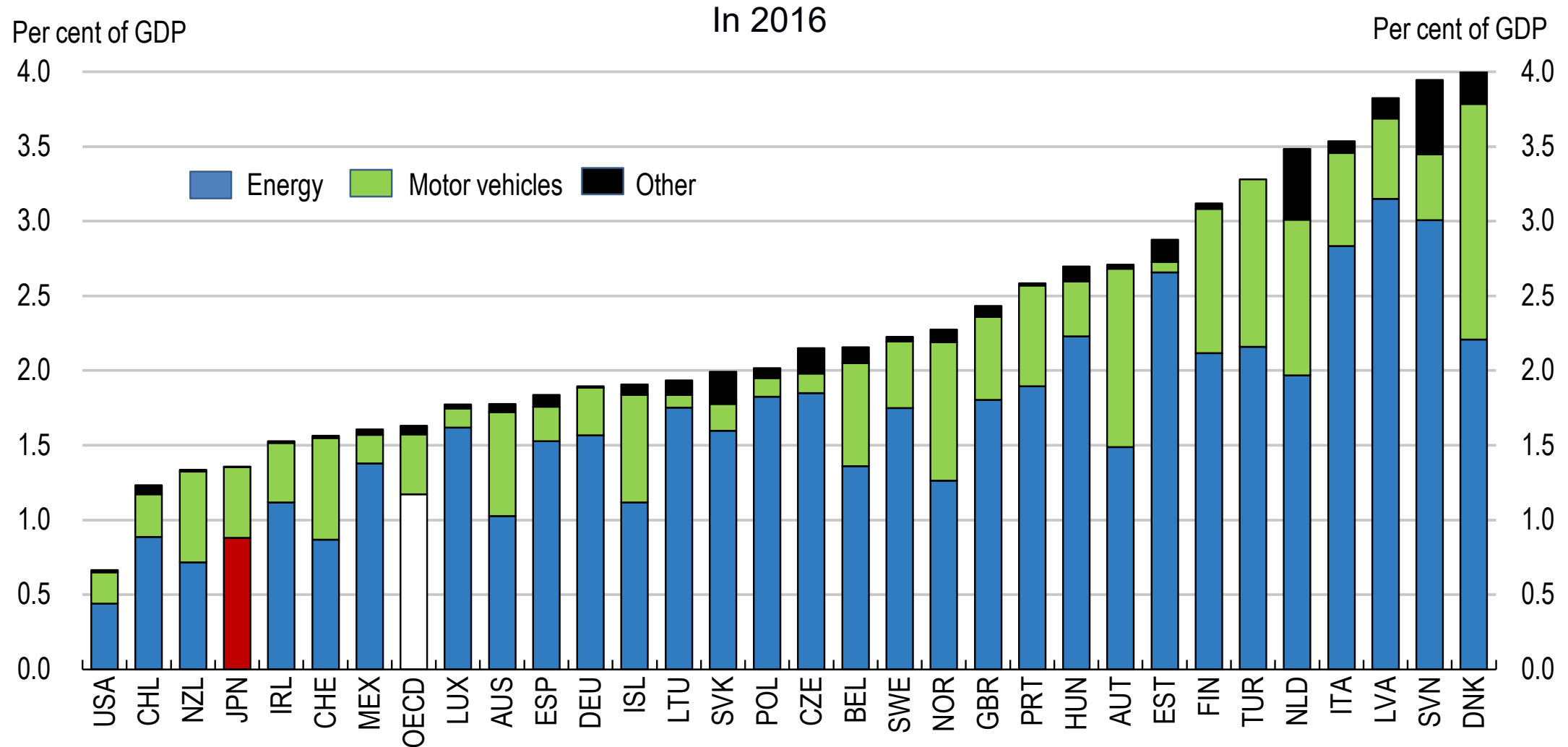


1. In Canada, the provinces can levy a consumption tax on top of the federal tax, making it higher than Japan's 8%.

Source: OECD Consumption Tax Trends 2018.



There is scope to raise environmental taxes



Source: OECD (2018), *Taxing Energy Use*.



Policy recommendations to ensure fiscal sustainability

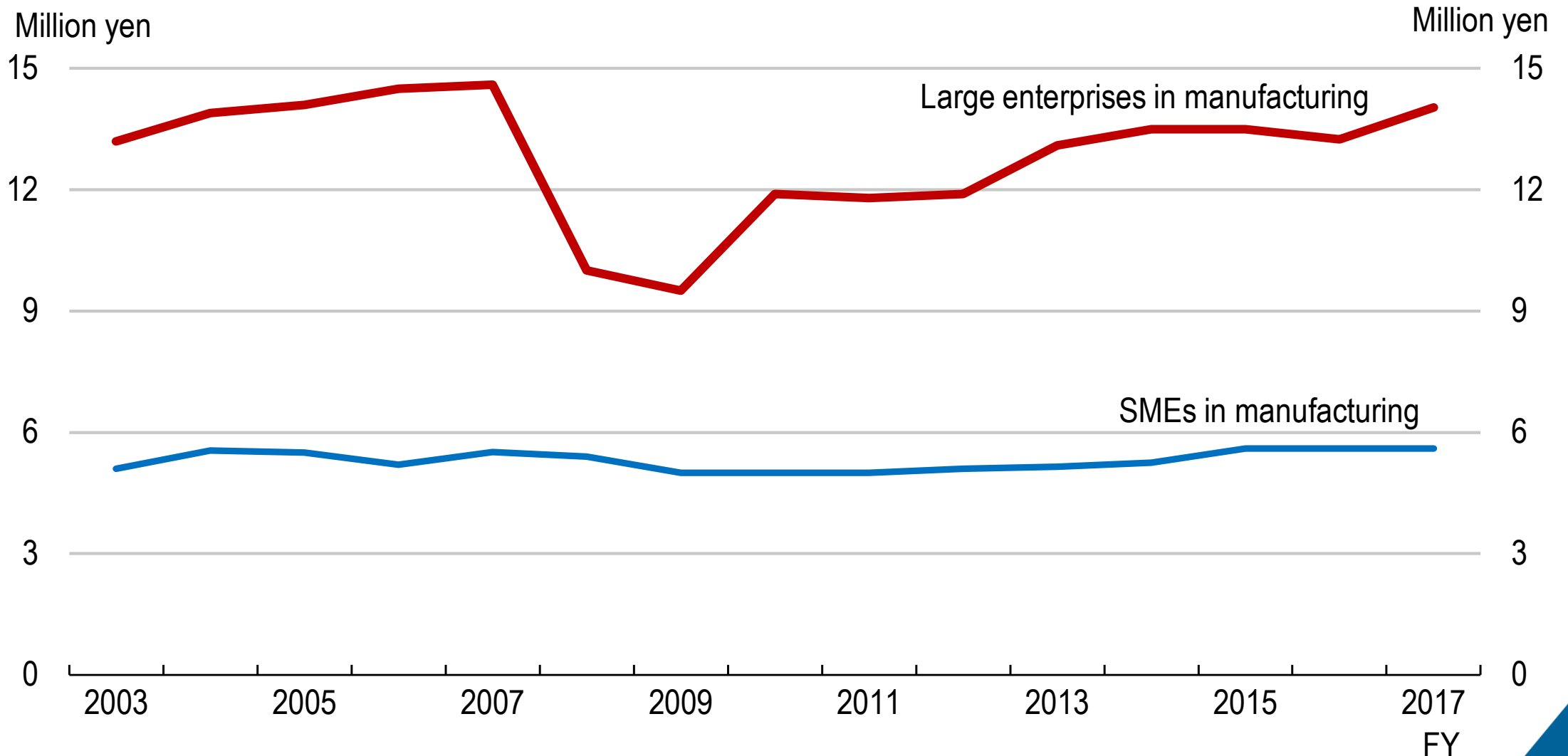
- Develop a comprehensive fiscal consolidation plan covering specific spending cuts and tax increases, including a further gradual rise of the consumption tax, to ensure fiscal sustainability.
- Take long-term care out of hospitals and shift its focus to home-based care.
- Reduce long-term care insurance coverage by focusing preventive care on effective programmes and removing unnecessary services for those with less severe care needs.
- Promote greater use of generic drugs by making them the standard for reimbursement by health insurance.
- Raise the co-payment rate of the elderly by establishing the ability-to-pay principle through an effective system for assessing income and assets.
- Improve the effectiveness of health check-ups and health guidance to lengthen the healthy life span.
- Promote the joint provision of local public services and infrastructure across jurisdictions and the development of compact cities.
- Raise the pension eligibility age above 65 to maintain a sufficiently high replacement rate, while taking measures to expand the employment of older persons.
- Shift the tax mix by reducing the share of social security contributions and increase the share of taxes on consumption and personal income.
- Remove distortions in tax and social benefit systems, such as the spousal deduction, that discourage labour force participation.
- Increase the coverage of firm-based social insurance and ensure better compliance with the public pension schemes.
- Improve the fiscal framework, including taking measures to insulate assessment of macroeconomic and fiscal forecasts and the monitoring of fiscal plans from normative policy-making responsibility.



**Narrowing the productivity gap
with leading OECD countries**



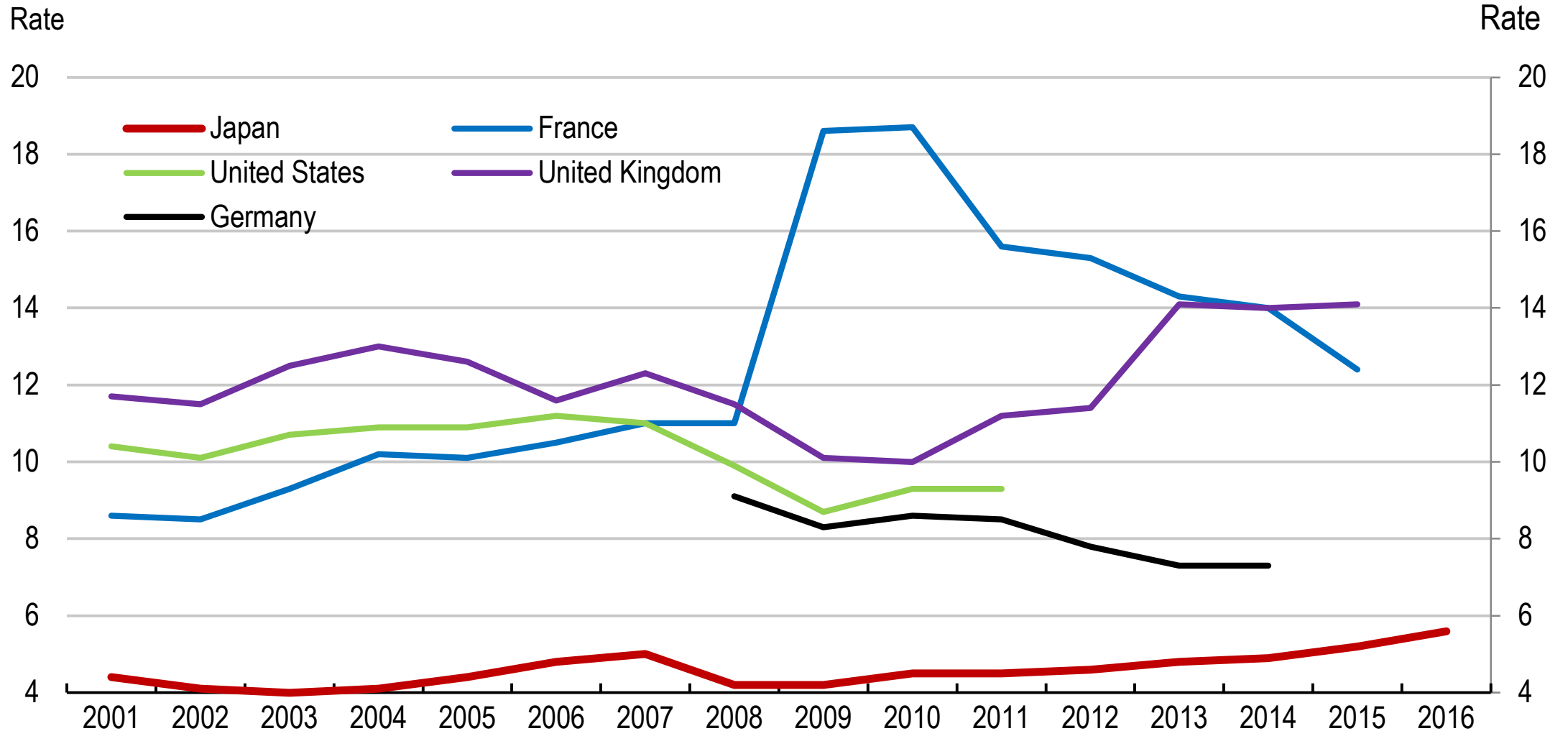
The productivity gap between large firms and SMEs is increasing



Source: Ministry of Finance, *Financial Statement Statistics of Corporations by Industry*.



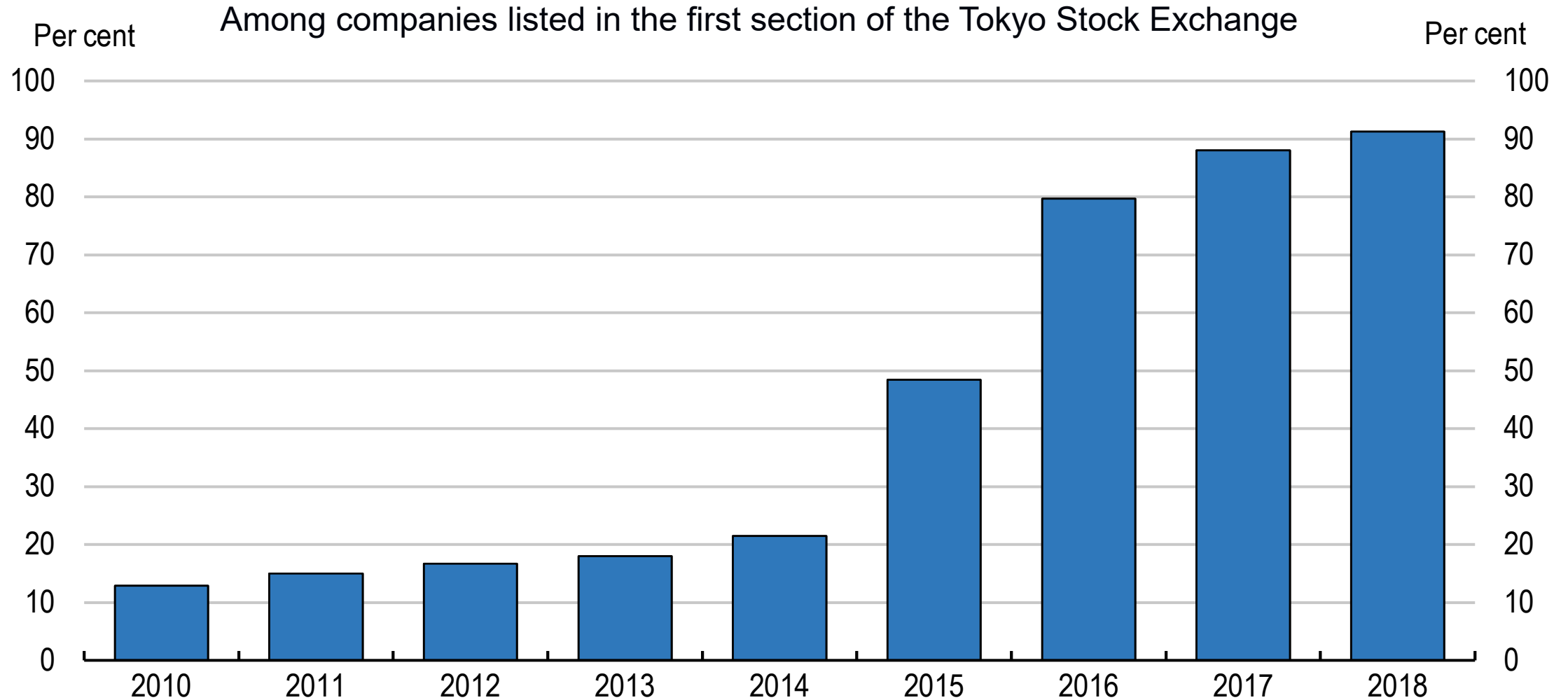
The firm entry rate in Japan is rising, but remains below other major economies



Source: Ministry of Economy, Trade and Industry, 2017 White Paper on Small Enterprises in Japan.



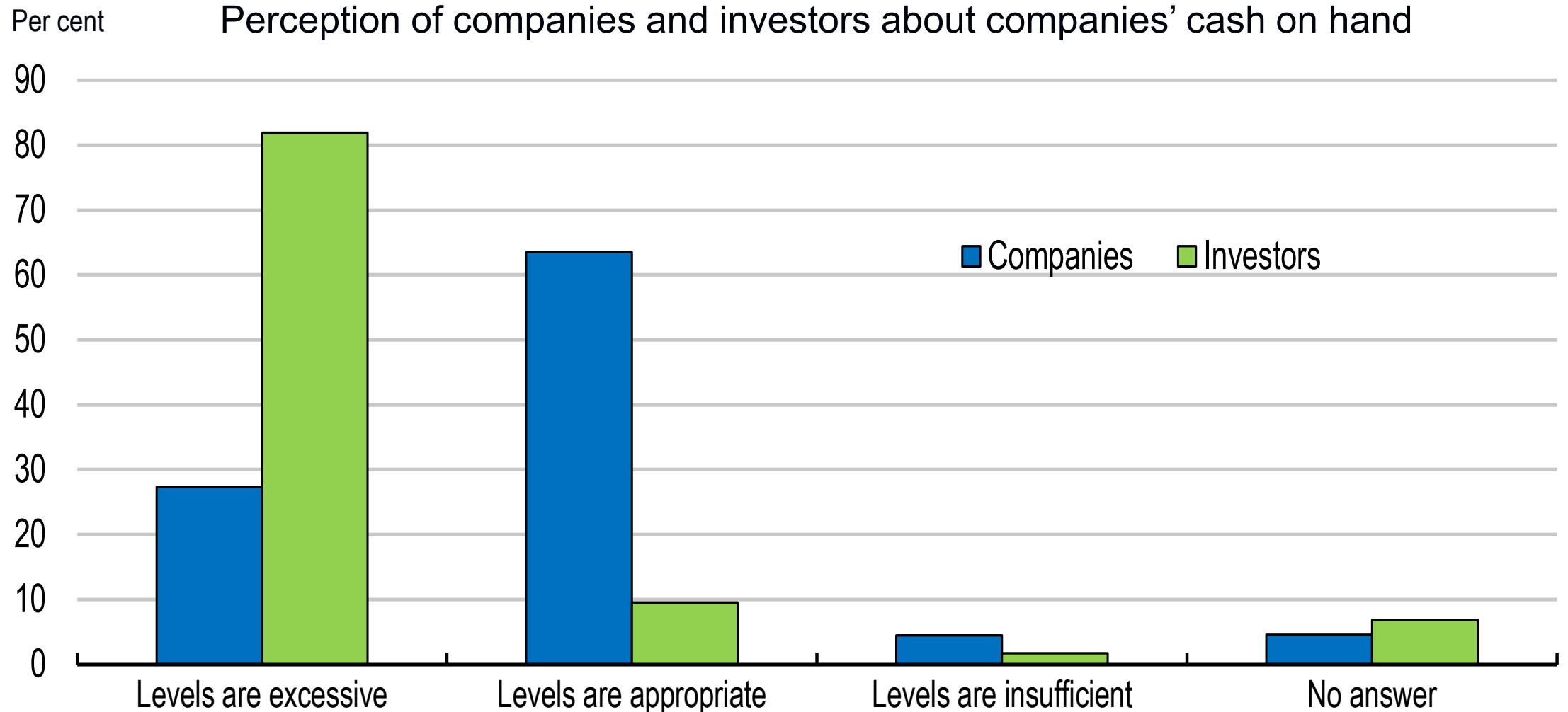
The share of firms with two or more independent directors has risen sharply



Source: Japan Exchange Group.



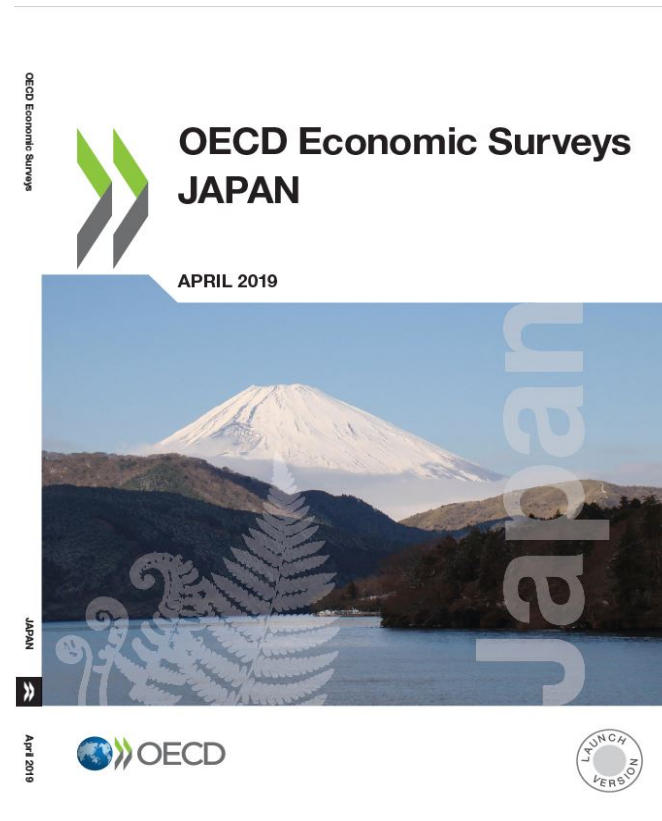
Improved corporate governance may help reduce the cash holdings of companies



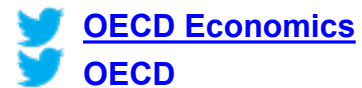
Source: Japan Exchange Group.



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