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Challenges Facing the Japanese and Asian Economies

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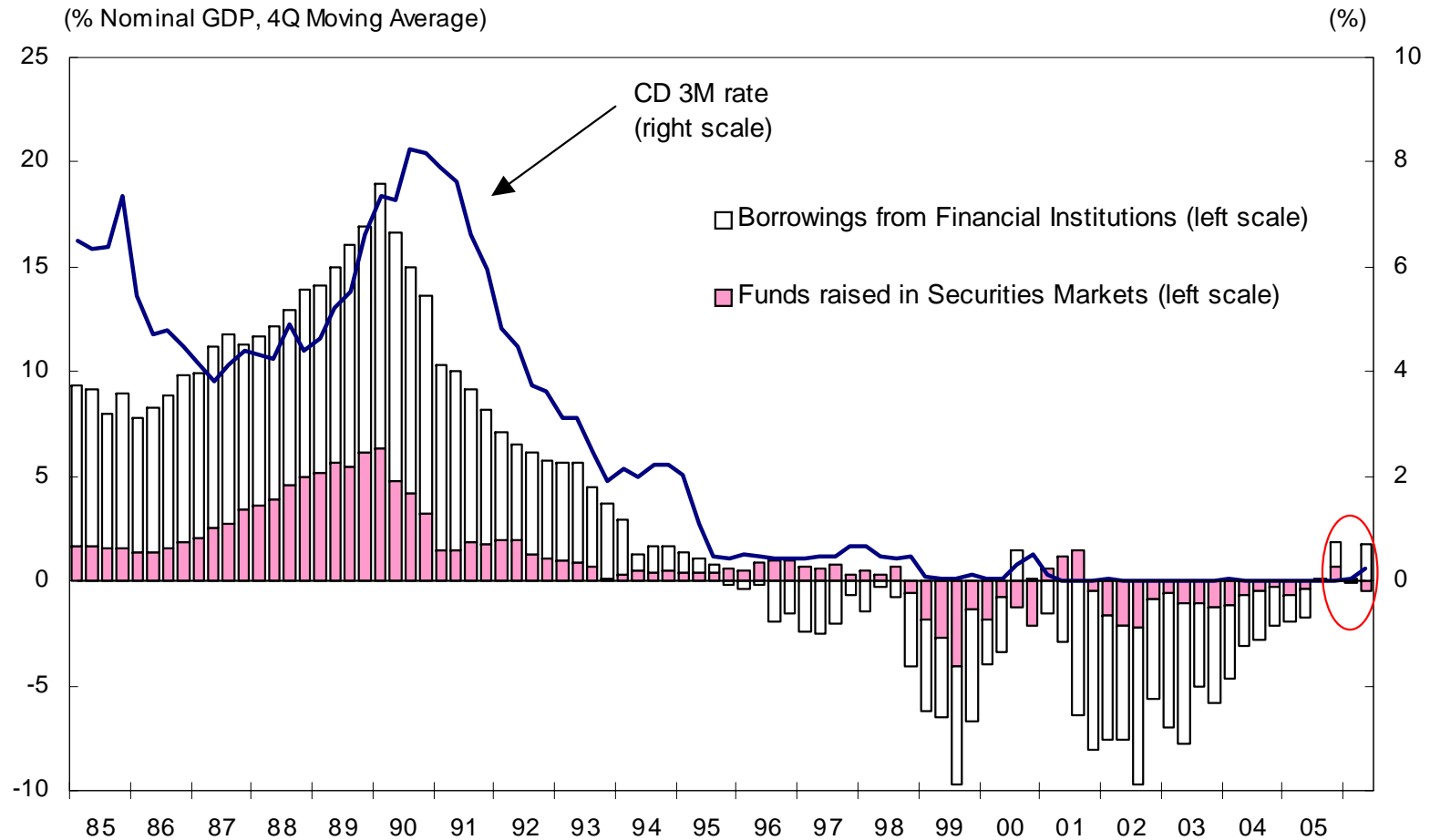
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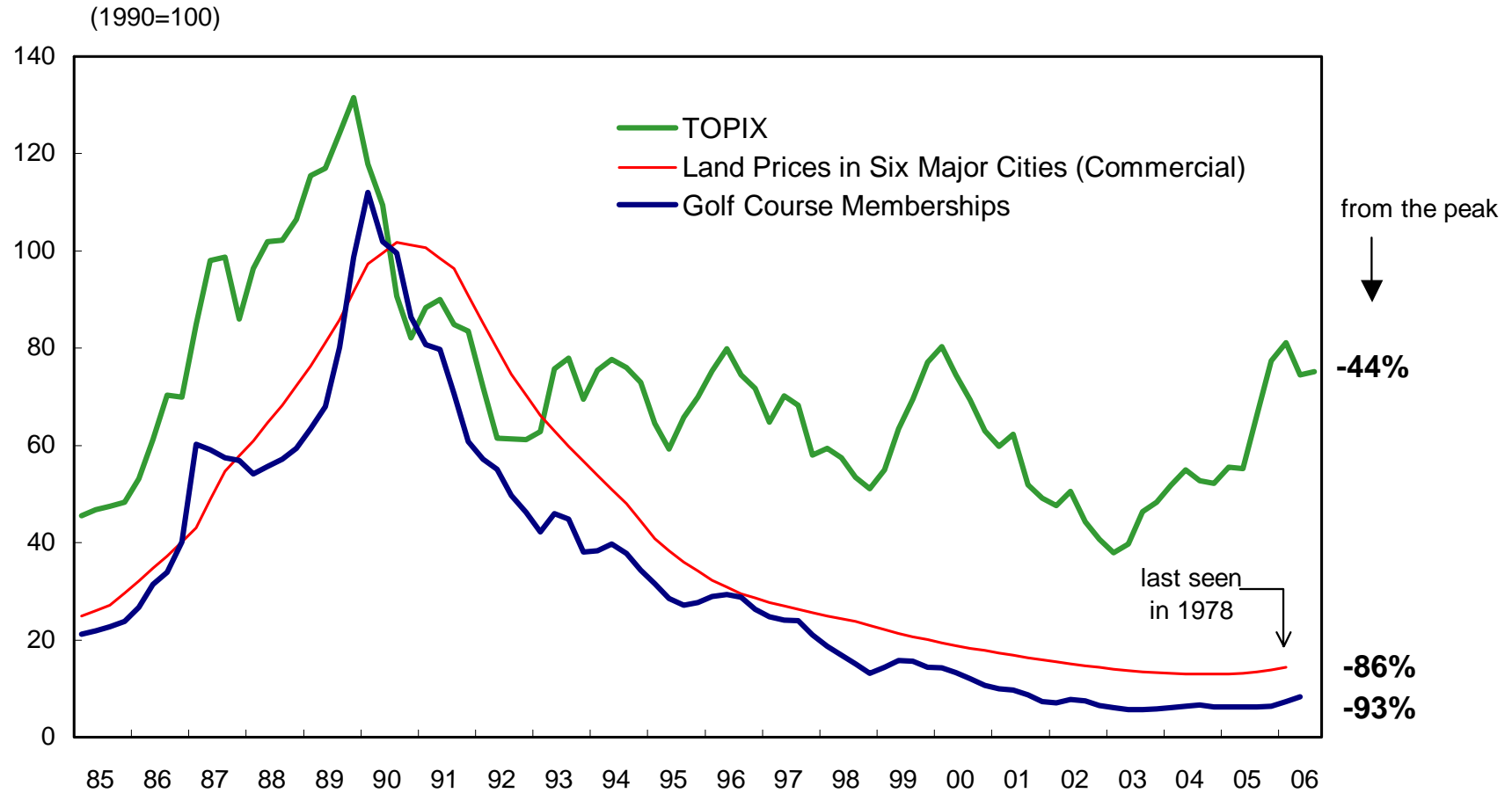
Exhibit 1. Japanese Companies Had Been Paying Down Debt even with Zero Interest Rates

Funds Raised by Non-Financial Corporate Sector



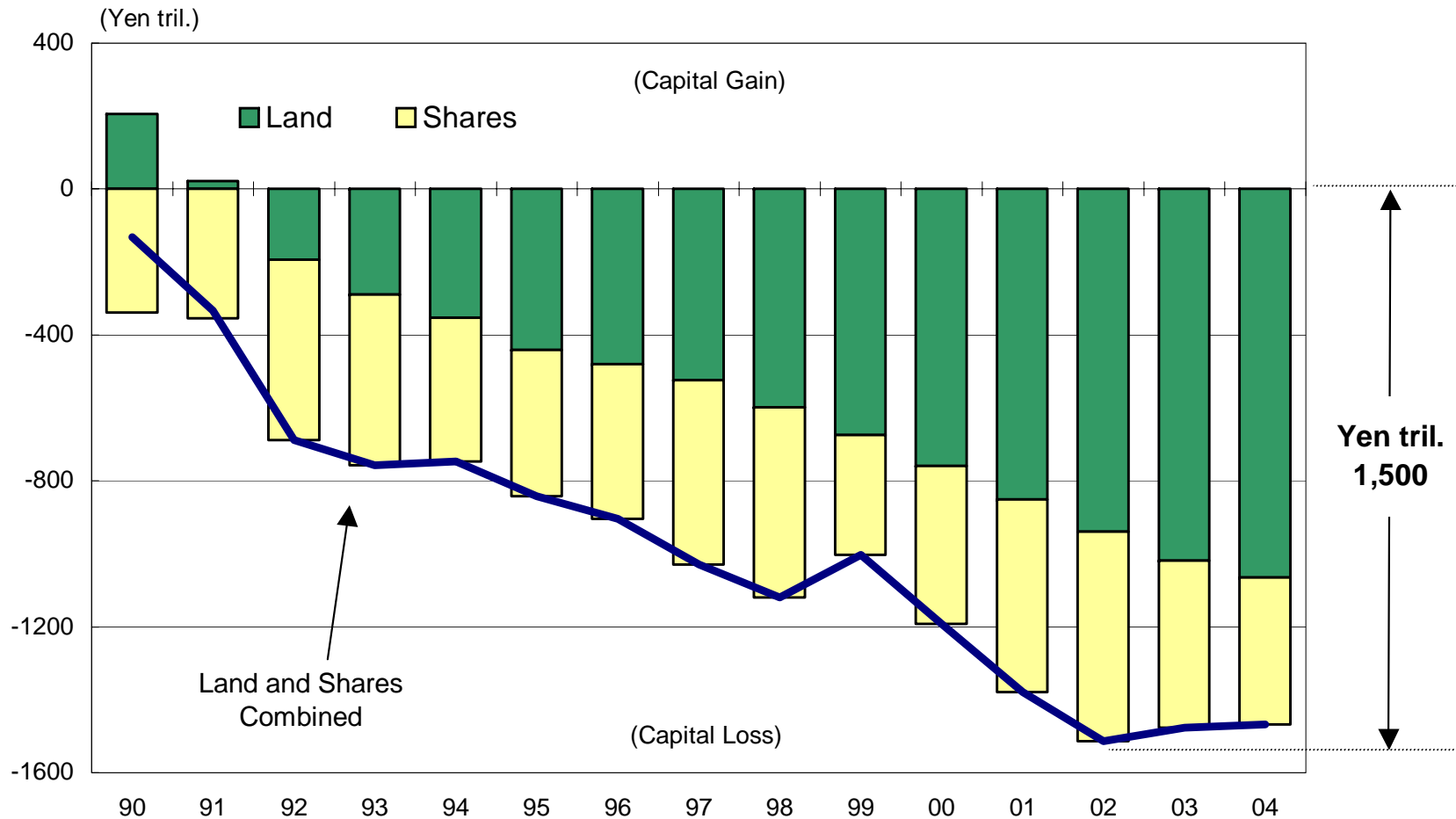
Sources: Bank of Japan, Cabinet Office, Japan

Exhibit 2. Debt Repayment Prompted by Collapse in Asset Prices



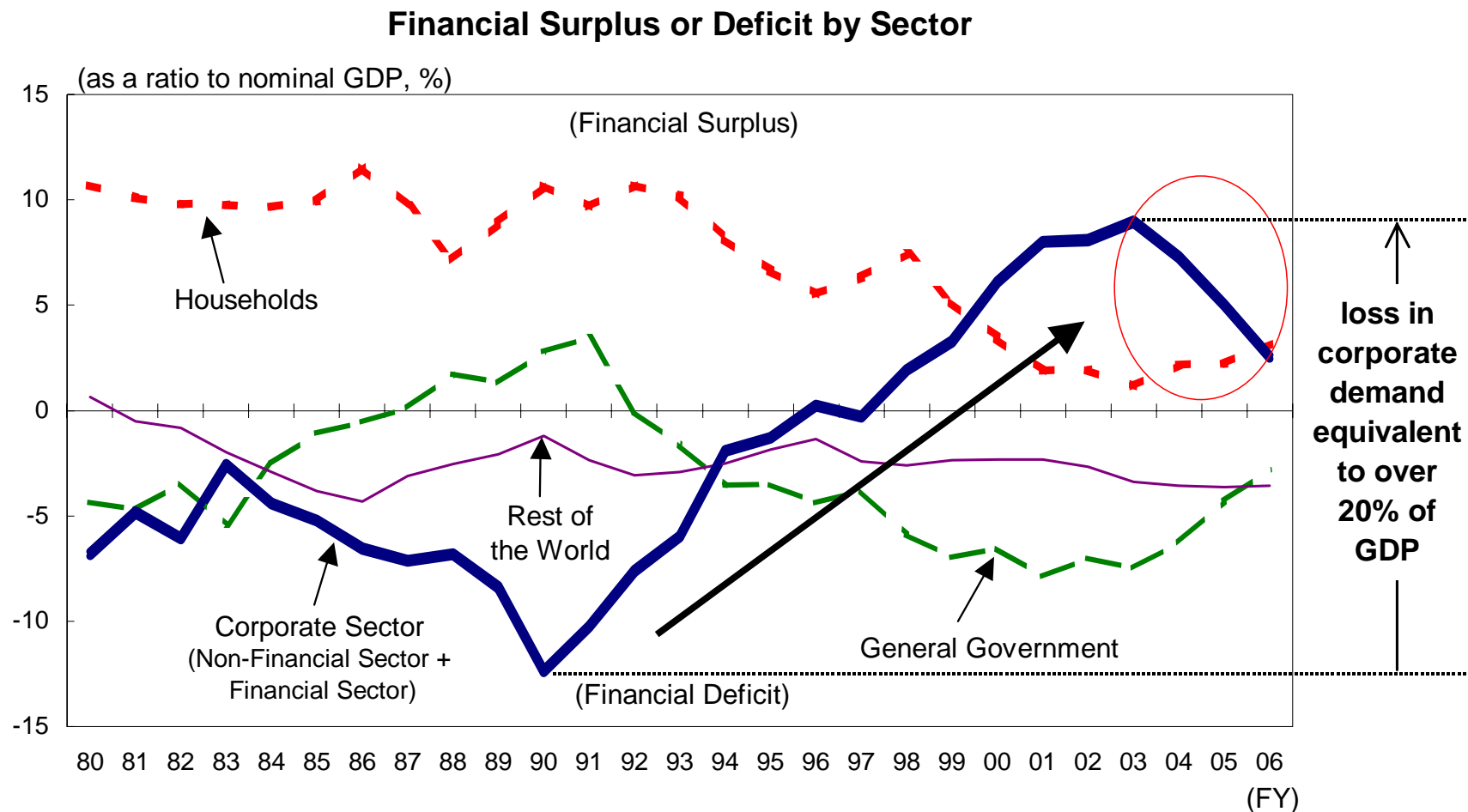
Sources: Tokyo Stock Exchange, Japan Real Estate Institute, *Nikkei Sangyo Shimbun*

Exhibit 3. Cumulative Capital Losses on Shares and Land since End-1989 Reached 1,500 Trillion Yen



Source: Cabinet Office, Japan "National Accounts"

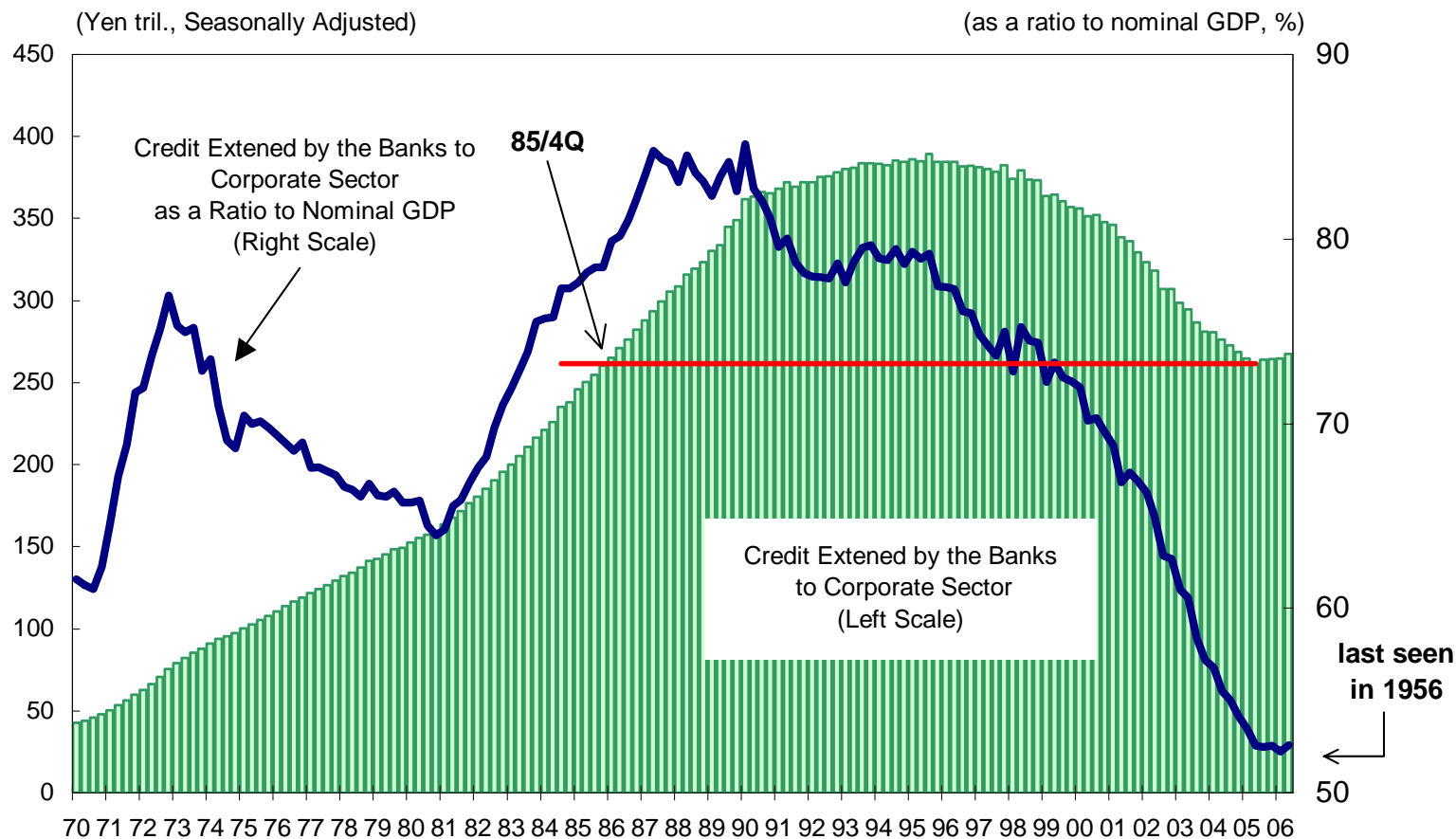
Exhibit 4. Japanese Companies Are Still in Financial Surplus Position



Sources: Bank of Japan, *Flow of Funds Accounts*, and Government of Japan, Cabinet Office, *National Accounts*

Note: For fiscal 06' figures, 4 quarter averages ending with 2Q/06' are used.

Exhibit 5. Japanese Companies Have Been Making Huge Progress in Reducing Debt Overhang



Sources : Bank of Japan, "Loans and Discounts Outstanding by Sector" "Loans to Individuals", Cabinet Office, Japan "National Accounts"

Notes: 1. 'Credit Extended by the Banks to Corporation' is extended to 1970 by NRI after adjustment for discontinuities in statistics in 1993 and again in 1975.

2. As a percentage of nominal GDP. For GDP statistics before 1979, 68 SNA is used.

Exhibit 6. Premature Fiscal Reforms in 1997 and 2001 Actually Reduced Tax Revenue and Increased Deficit

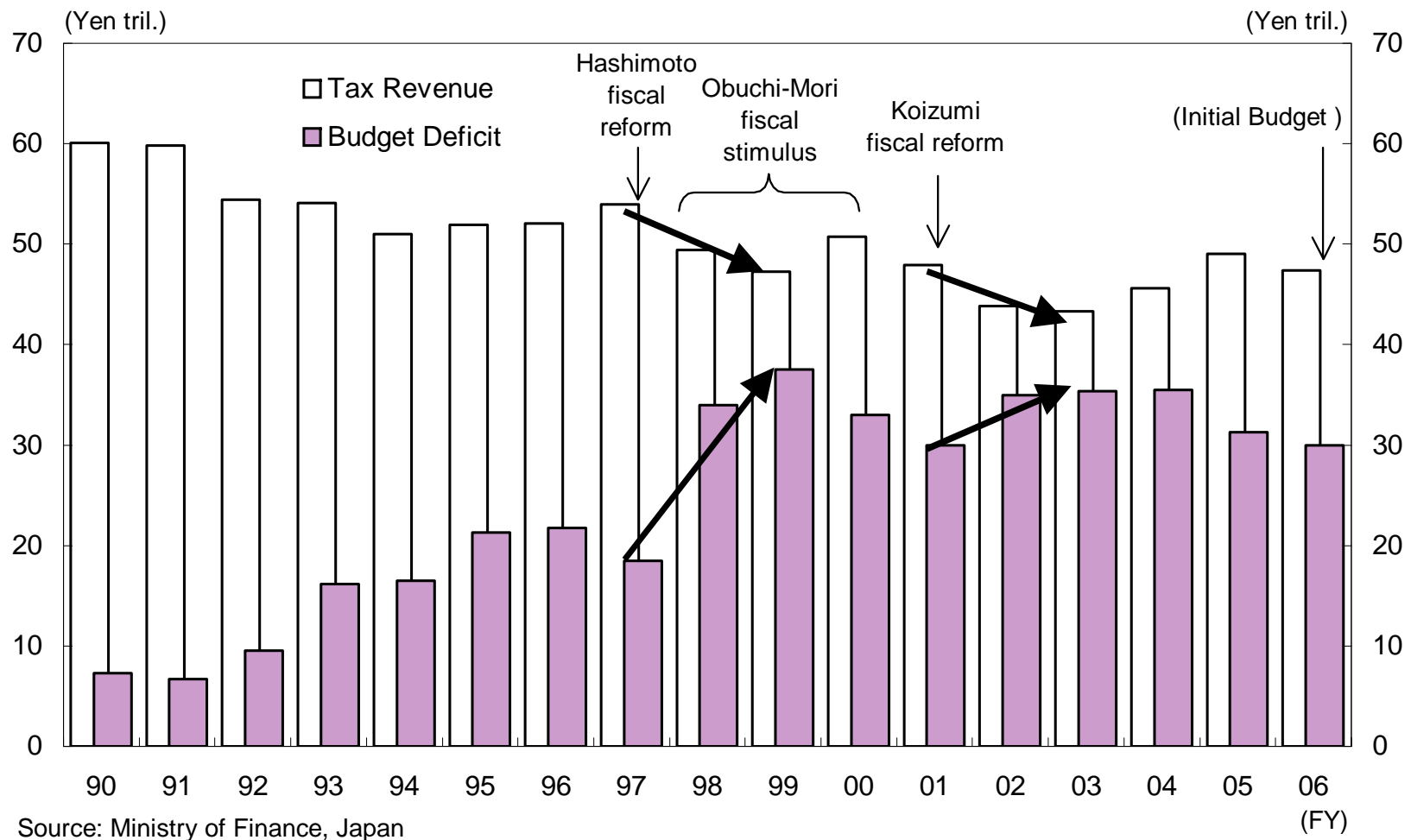
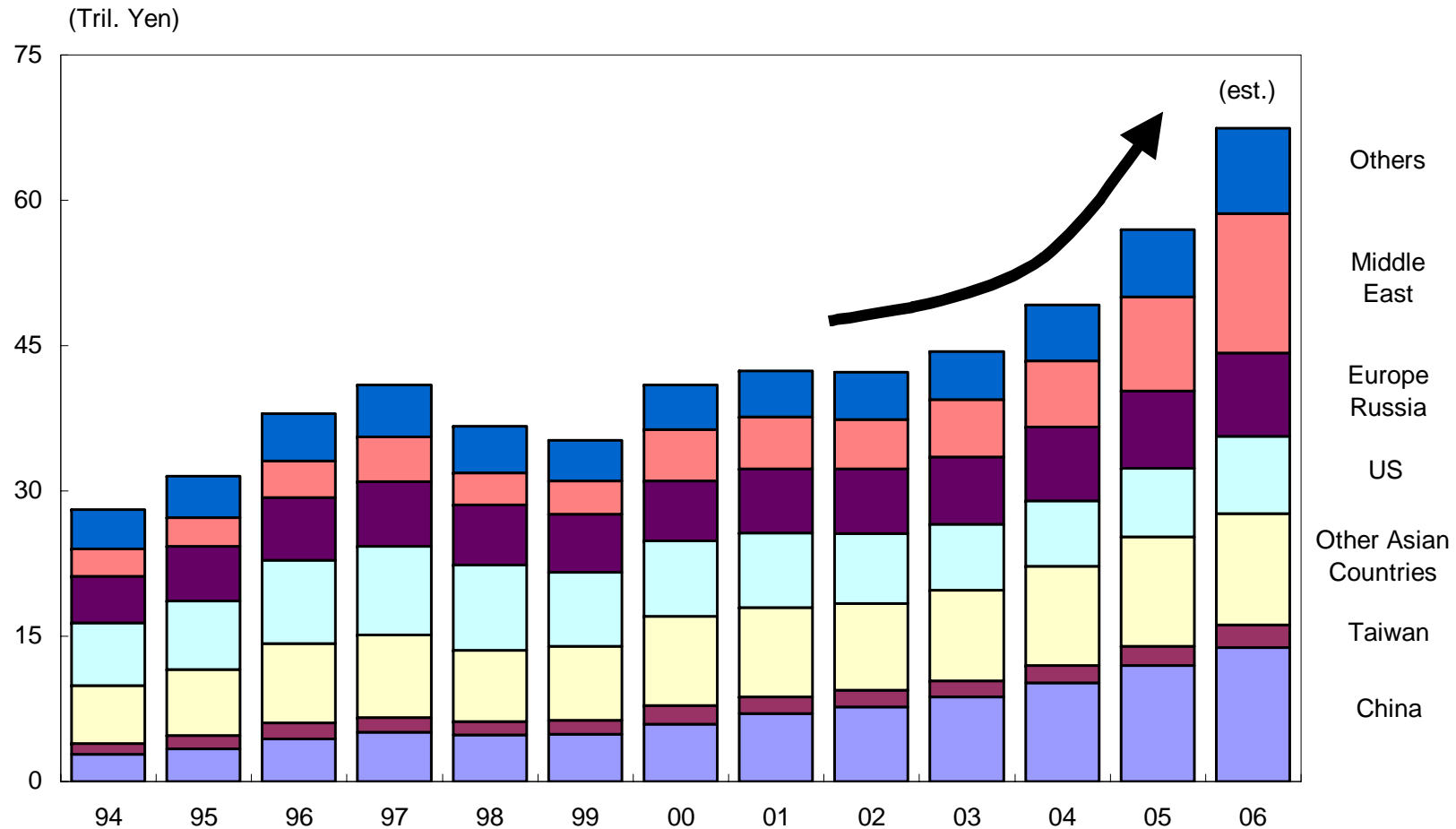
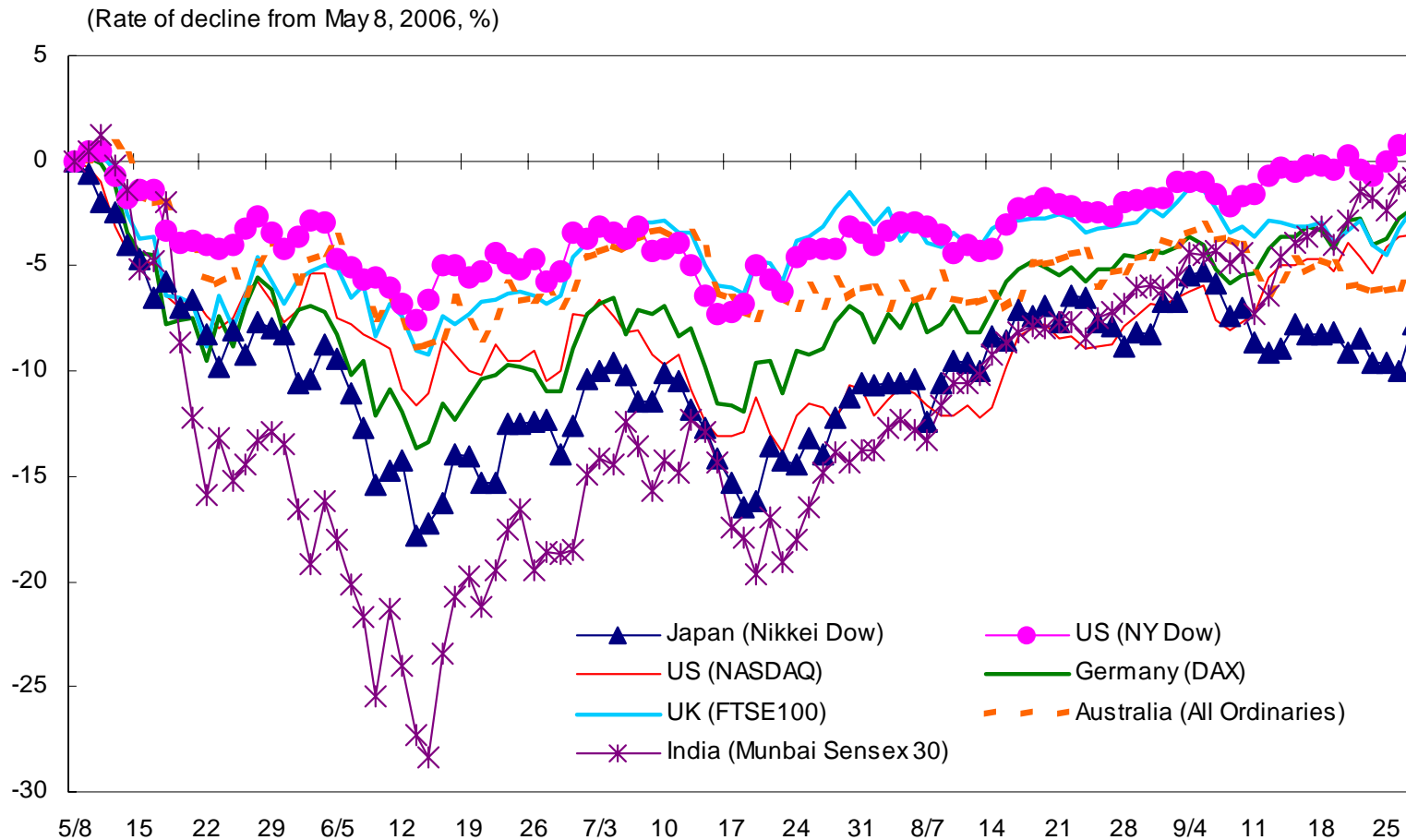


Exhibit 7. Japanese Imports Growing with Economic Recovery



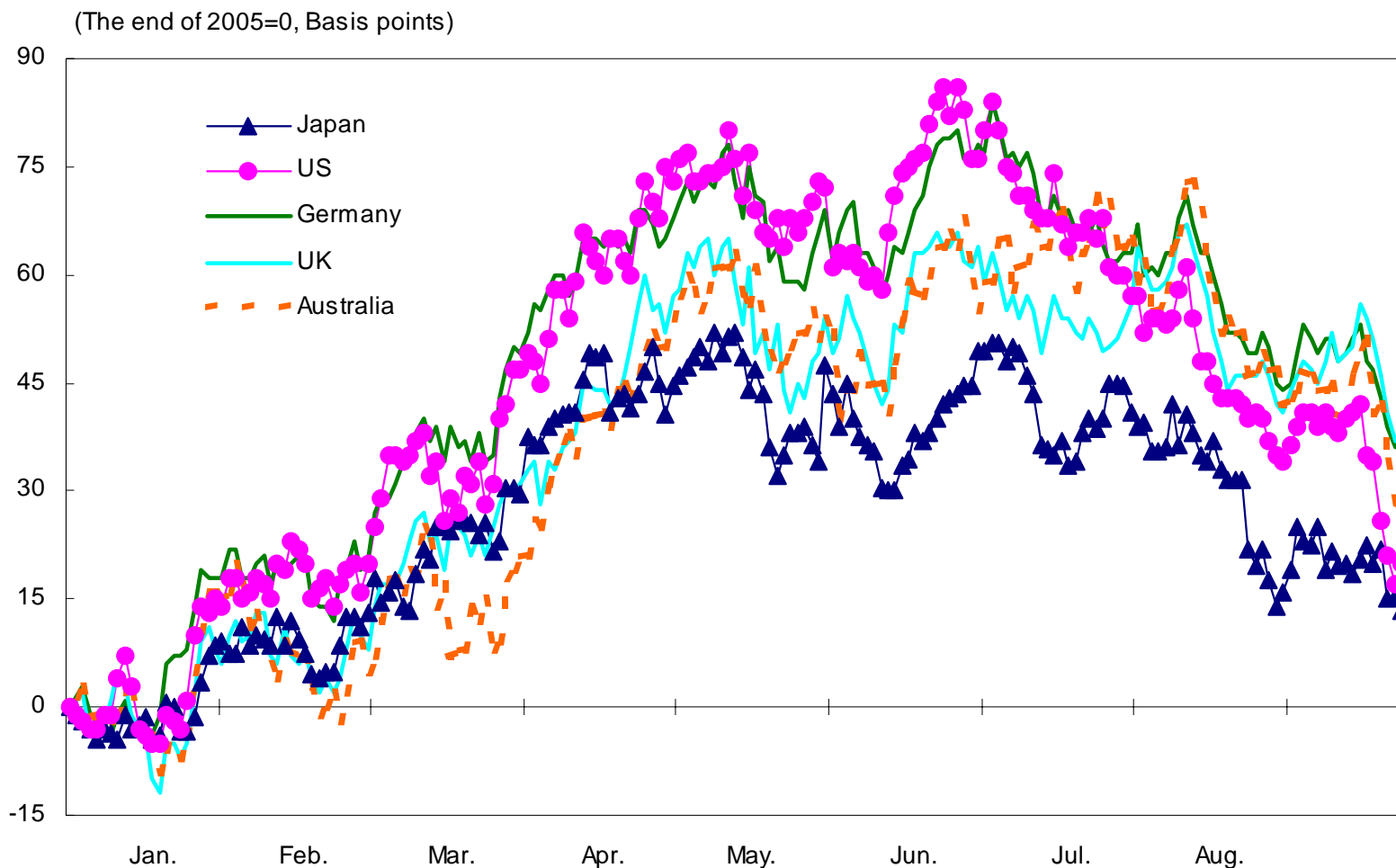
Source: Ministry of Finance "Trade Statistics"

Exhibit 8. Stock Market Decline Since Early May Has Been a Global Phenomenon



Sources: Nihon Keizai Shimbun, Dow Jones, NASDAQ, Deutsche Borse, Financial Times, Australia Stock Exchange, and Bloomberg

Exhibit 9. Fall in Long-term Interest Rates Since May Has Also Been a Global Phenomenon



Sources: Japan Bond Trading Co.,Ltd., FRB, Financial Times, BOE, RBA, and Bloomberg.

Exhibit 10. Both the IMF and G7 Issuing Warnings on Global Imbalances

IMF World Economic Outlook (April 2006)

... an orderly resolution of global imbalances will require measures to facilitate a rebalancing of demand across countries and a realignment of exchange rates over the medium term, with the U.S. dollar needing to depreciate significantly from current levels, and currencies in surplus countries -including in parts of Asia and among oil producers- to appreciate.

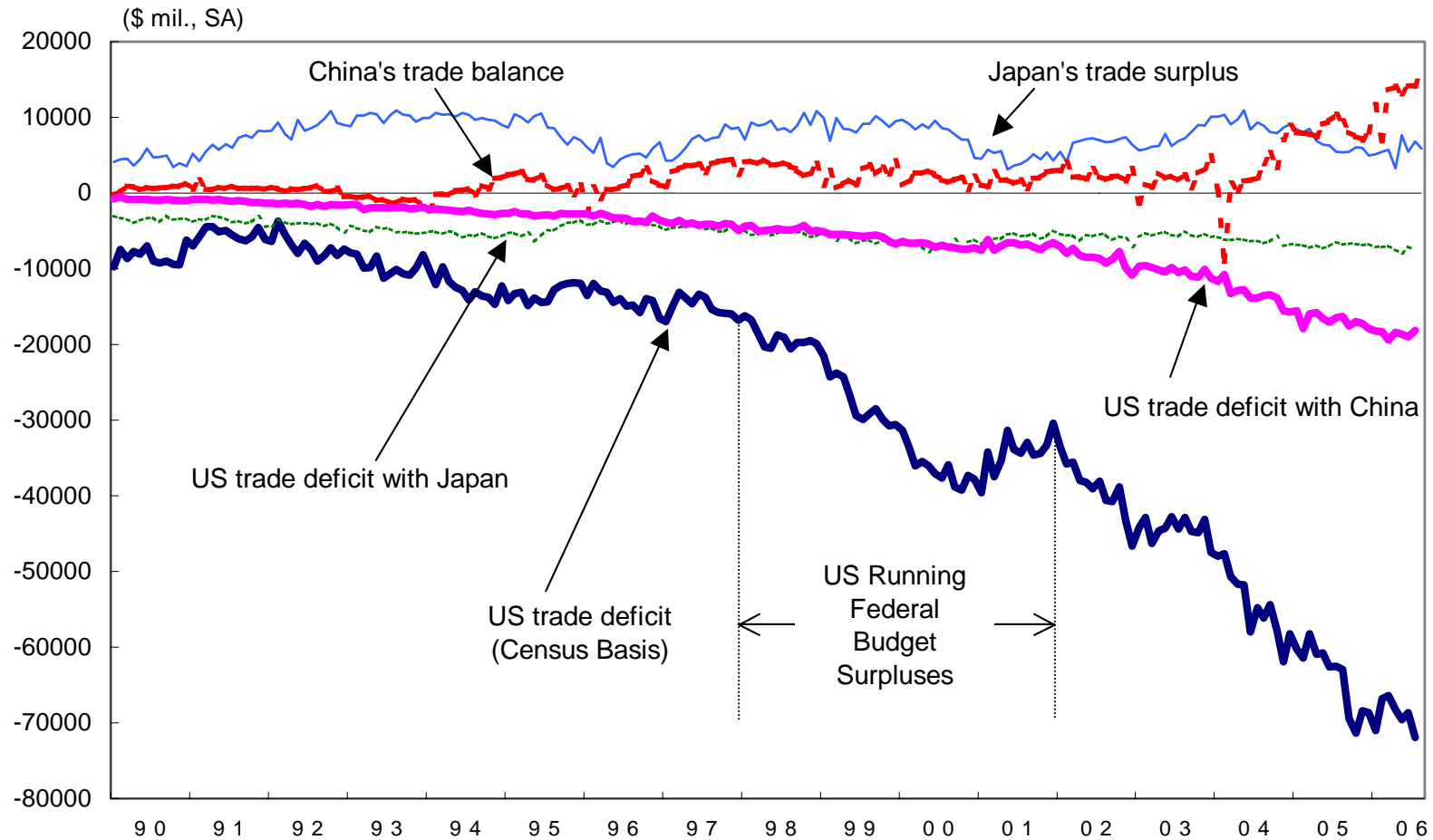
G7 Annex on Global Imbalances (April 21, 2006)

We recognized that global imbalances are the project of wide array of macroeconomic and microeconomic forces throughout the world economy that affect private sector saving and investment decisions. We reaffirmed our view that adjustment of global imbalances:

- Is shared responsibility and requires participation by all regions in this global process.
- Will importantly entail the medium-term evolution of private saving and investment across countries as well as counterpart shifts in global capital flows; and
- Is best accomplished in a way that maximizes sustained growth, which requires strengthening policies and removing distortions to the adjustment process.

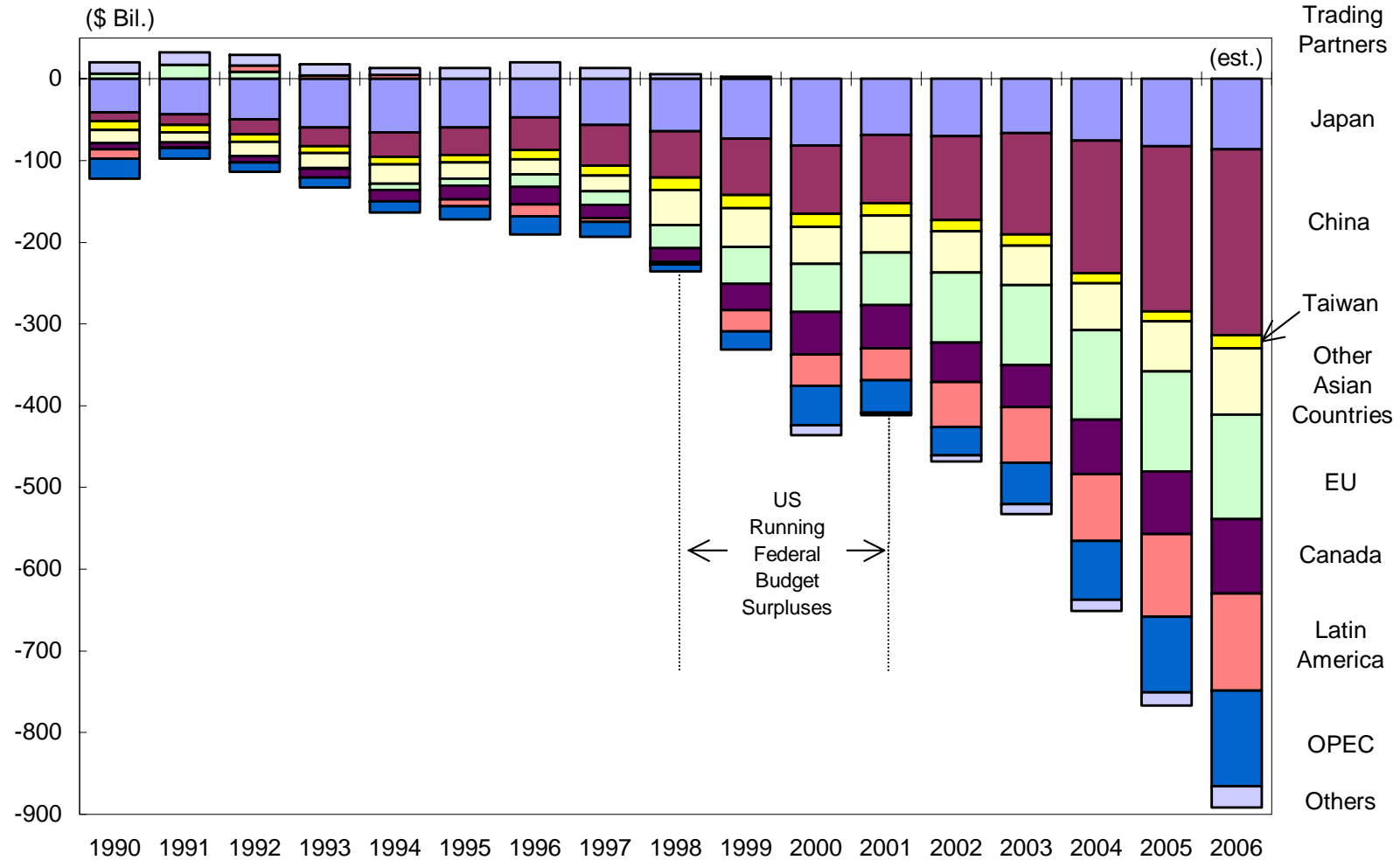
Sources: International Monetary Fund, *World Economic Outlook April 2006, Globalization and Inflation* p.1, Ministry of Finance, Japan

Exhibit 11. US Trade Deficit Is Enormous and Is still Growing



Sources: US Department of Commerce, US Department of Treasury, Ministry of Finance Japan
 National Bureau of Statistics of China
 These data are seasonally adjusted by Nomura Research Institute.

Exhibit 12. US Trade Deficits Are Expanding with All Countries



Source: US Sensus Bureau

Notes: The data of EU is based on 15 countries till 1996, 25 countries from 1997.

Exhibit 13. Three Challenges Facing the US Economy and Their Contradictory Remedies

1) Huge Trade Deficit: already over 7% of GDP

Needed policy response: weaker Dollar, restrained domestic demand,
stronger demand abroad

2) Inflation: headline CPI rising at 3.6% (core 3.0%) annual rate

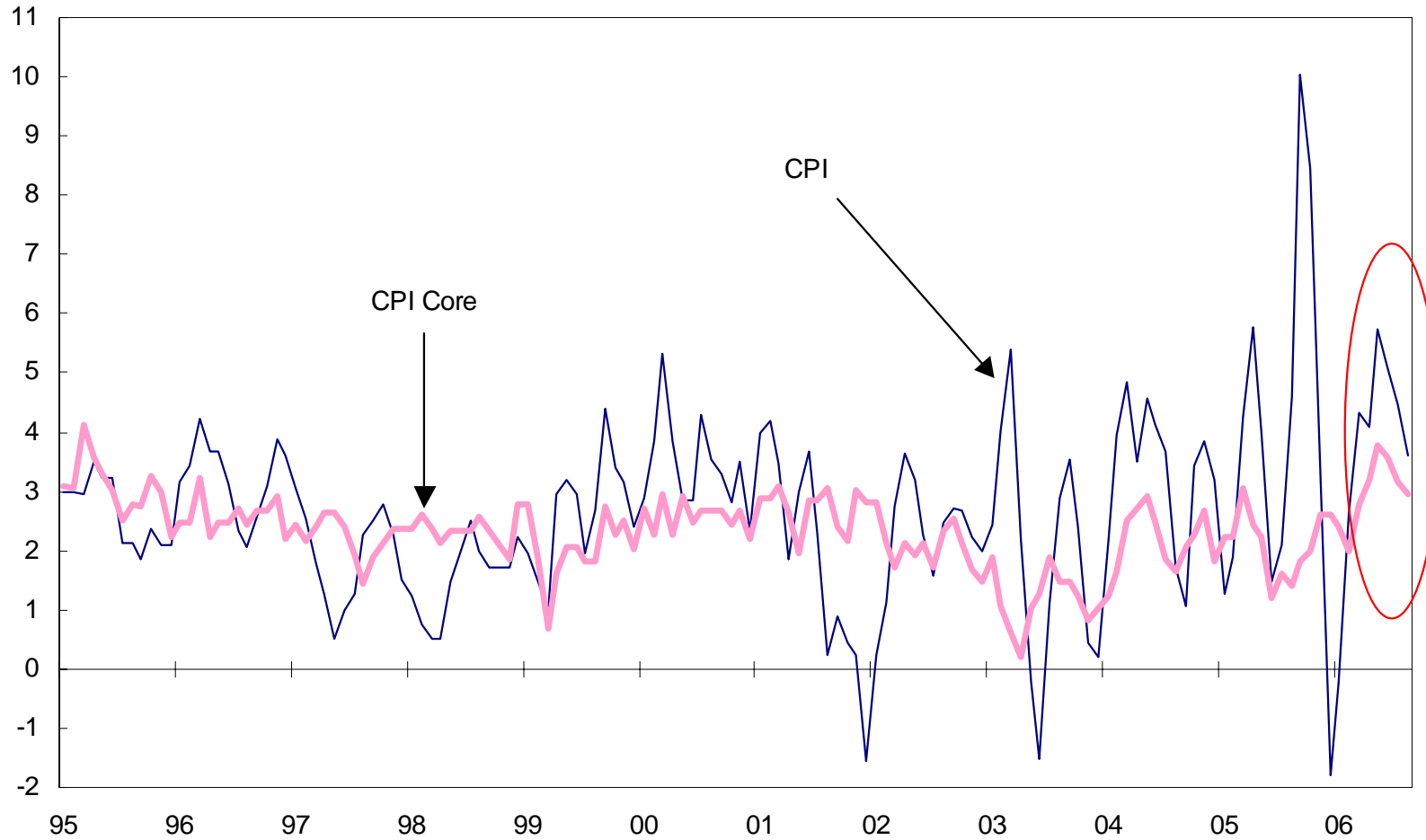
Needed policy response: stronger Dollar, higher interest rates

3) Shrinking Housing Bubble: inventory of unsold houses at record levels

Needed policy response: lower interest rates,
stronger demand outside housing

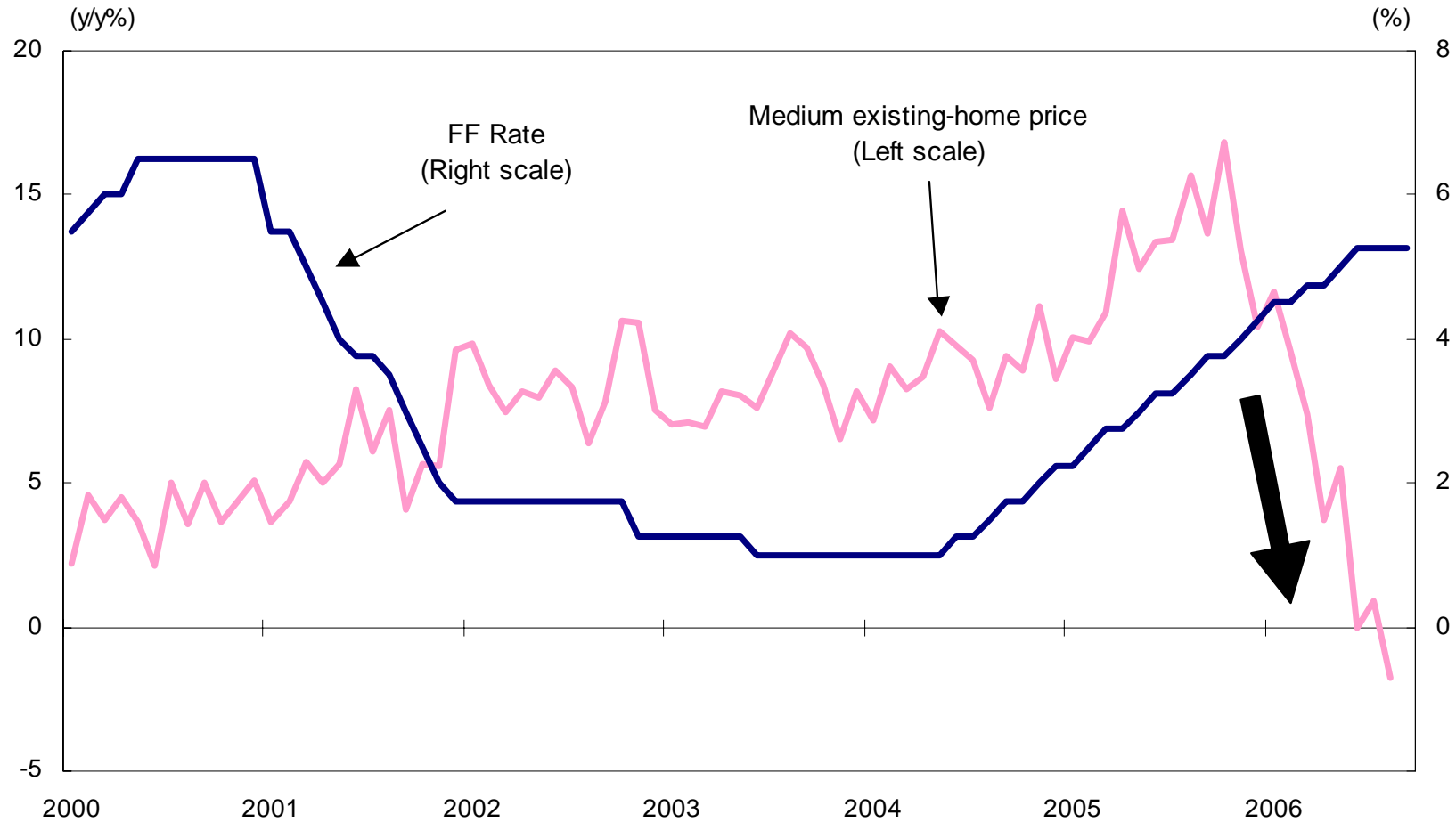
Exhibit 14. Some Acceleration in US Consumer Price Index

(Change from 3 months ago, annualized)



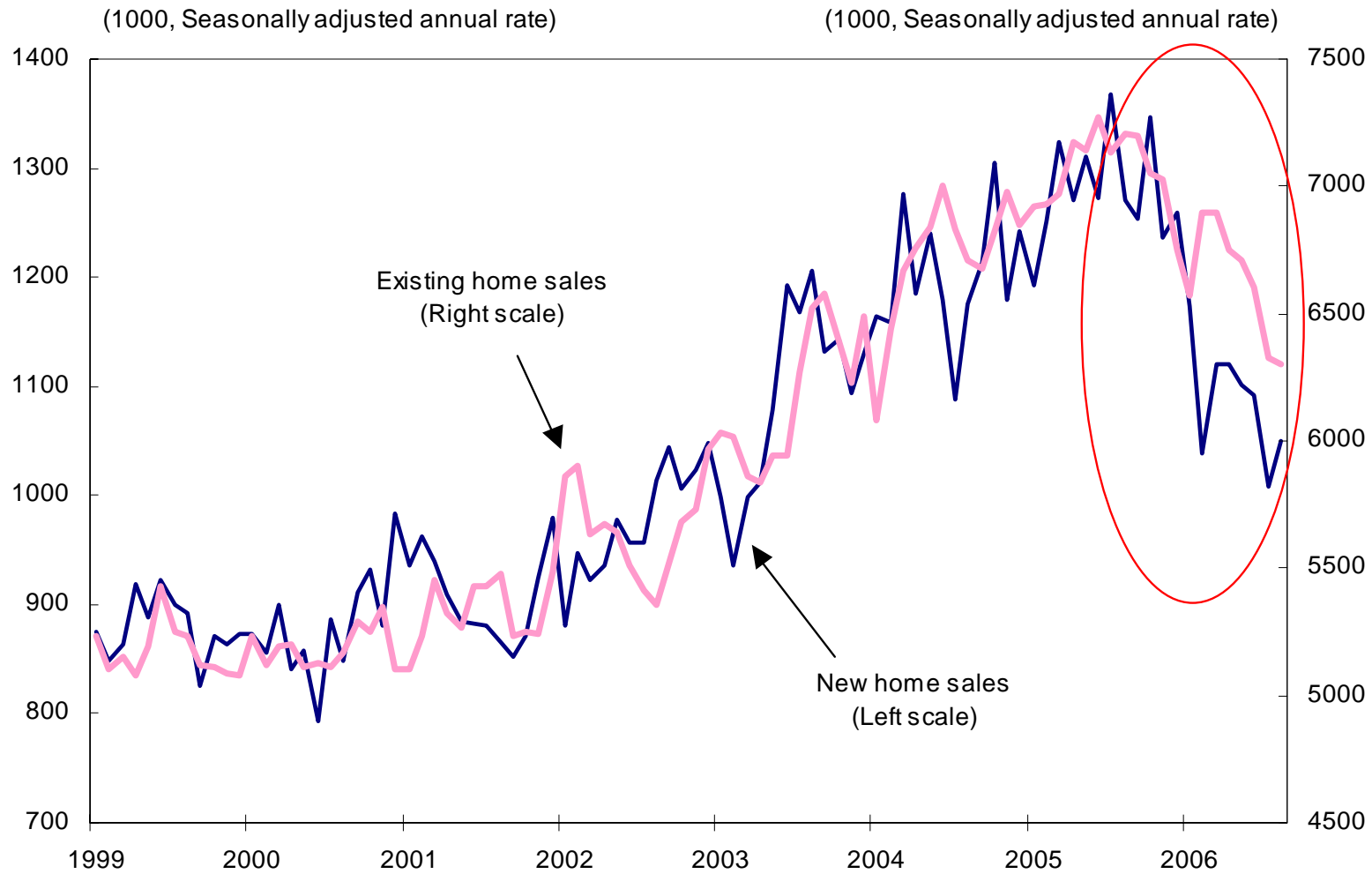
Source: United States Department of Labor

Exhibit 15. US Housing Market Is Deteriorating Rapidly (I)



Sources: FRB, National Association of Realtors

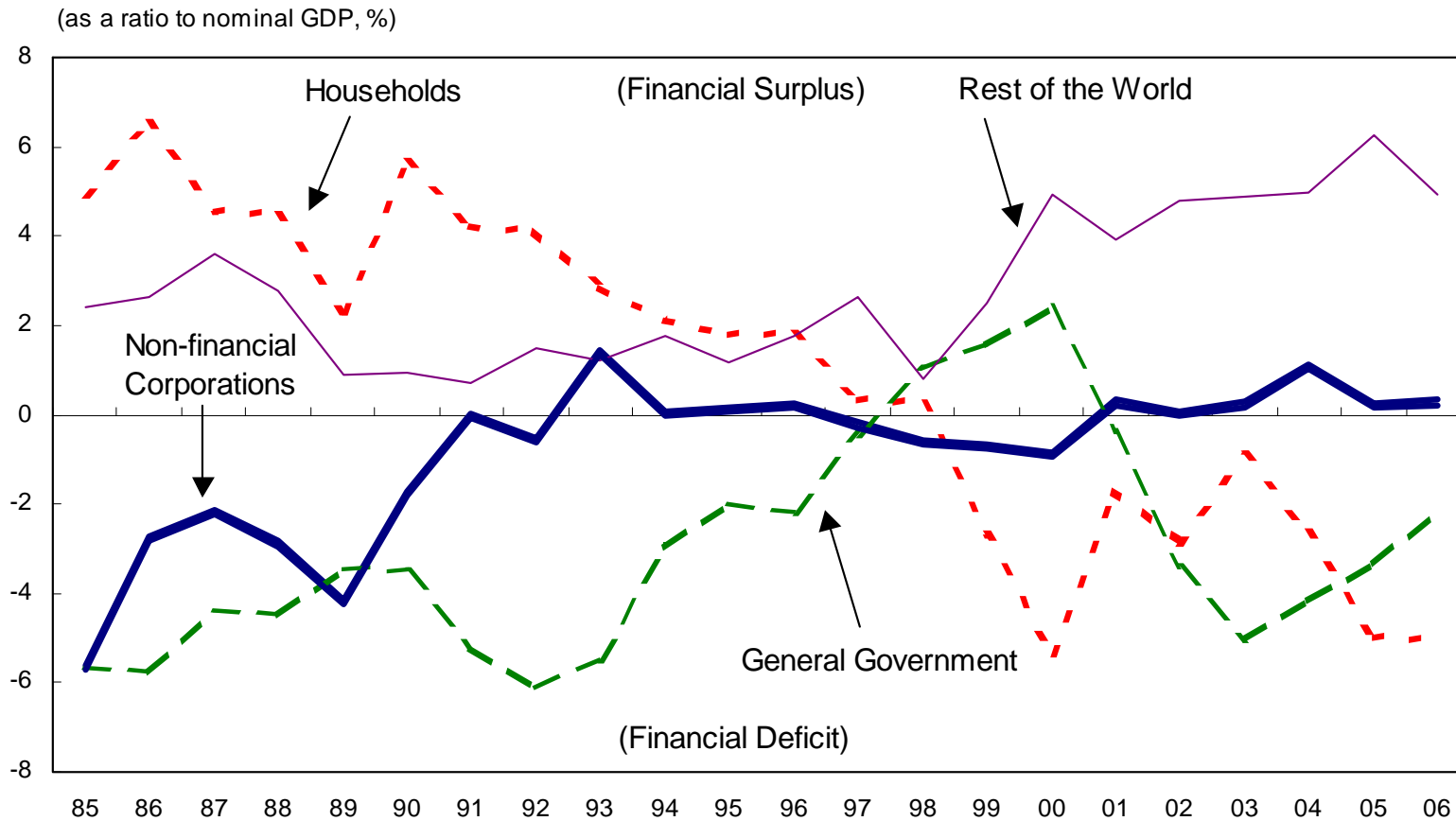
Exhibit 16. US Housing Market Is Deteriorating Rapidly (II)



Sources: Bloomberg, National Association of Realtors, US Department of Commerce

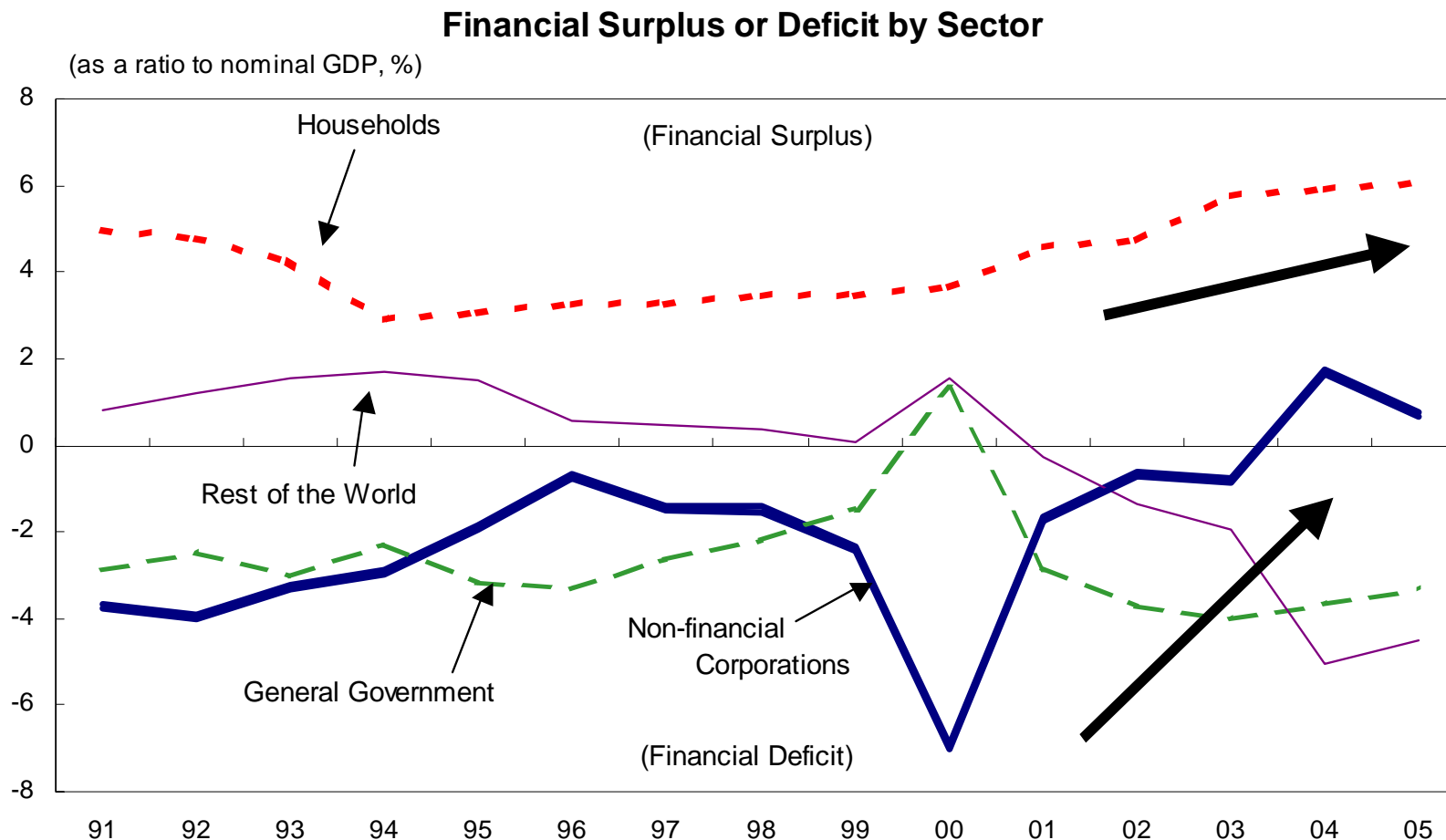
Exhibit 17. US Companies Have Been Cautious with Their Borrowings since 1991

Financial Surplus or Deficit by Sector



Sources: FRB, US Department of Commerce
 Note: 06' figures are for 1st and 2nd quarters only.

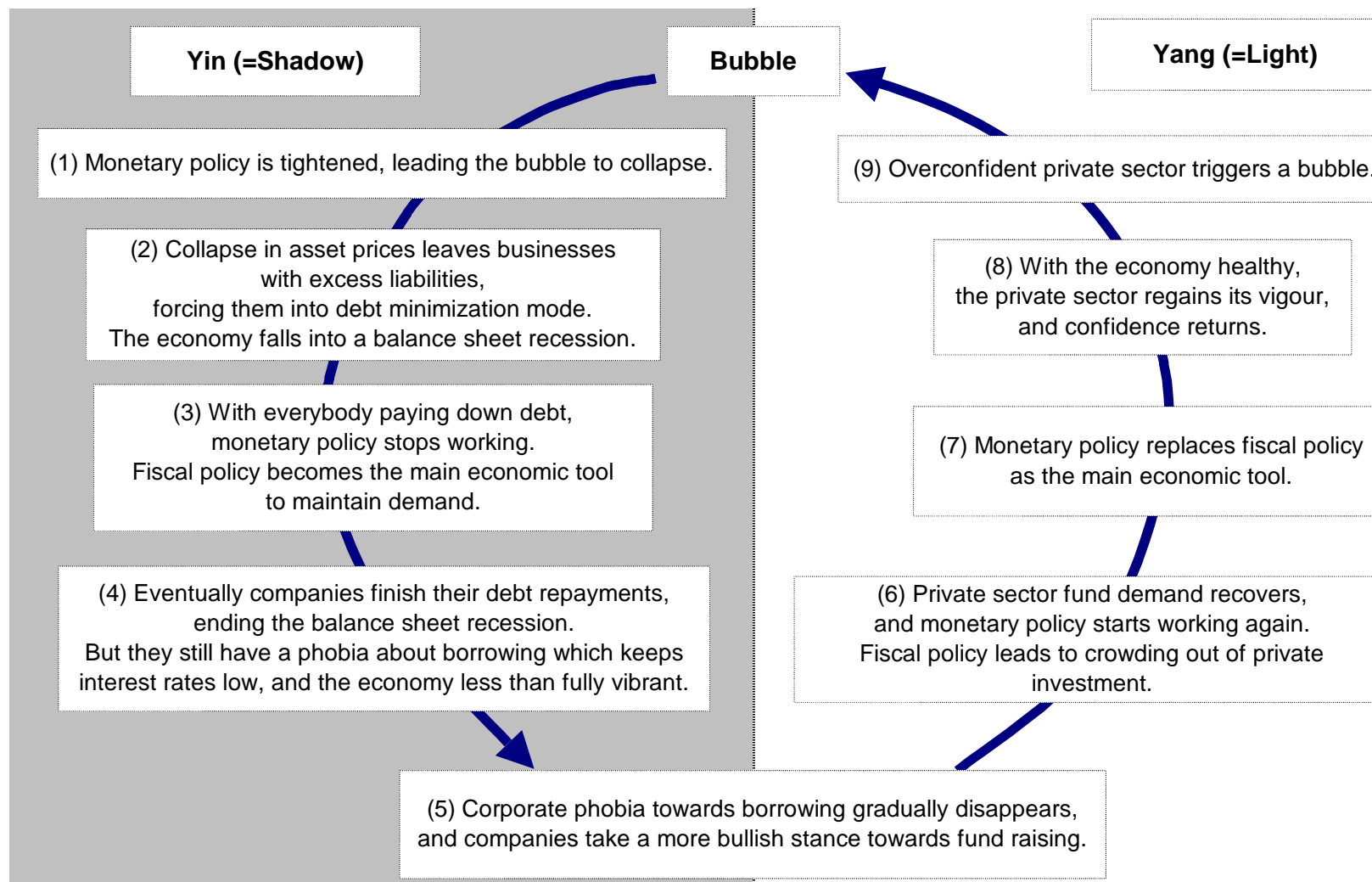
Exhibit 18. German Households and Corporations Have Been Repairing Balance Sheets Following Their Tele-Communication Bubble



Sources: Deutsche Bundesbank, Federal Statistical Office Germany

Note: The assumption of Treuhand agency's debt by the Redemption Fund for Inherited Liabilities in 1995 is adjusted.

Exhibit 19. Yin Yang Cycle of Bubbles and Balance Sheet Recessions



Source: Nomura Research Institute