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### Feature Articles

#### This month's focus: **Financial Markets Under a Declining Population and Aging Society**

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#### Articles

**Life Planning and Financial Services Reconsidered under Declining Population and Rapid Aging in Japan** ..... *Yukinobu Kitamura* 6

How are wealth and financial markets functioning under demographic change in Japan? How will household income, consumption, and wealth holdings change? This paper explores behavioral changes in the household sector under demographic change and the digital economy. It also sheds some light on new aspects in financial services.

**Aging Society and Inter-Regional Capital Flows in Japan** ..... *Shin-ichi Fukuda* 16

This paper examines the impact of a declining and aging population on financial markets using Japanese prefectural data, with particular attention on inter-regional capital flows. Population aging saw an increase in the savings rate until the mid-1990s, but which since then has decreased. As a result, even in local economies where deposits previously exceeded loans, deposits are expected to decline due to the aging of society, resulting in a shortage of funds in the near future.

**Financial Environment Amid a Declining and Aging Population and Framework of Financial Intermediation Such as Pension Fund Investment** ..... *Nobusuke Tamaki* 28

Financial intermediation regimes need to keep adapting to the changing environment. In an aging society, a declining potential growth rate as well as long-term interest rate requires changes not only in social security programs but also in the financial intermediation regime, a segment of which is the prefunding of pension schemes. In this context, in addition to households which provide labor in return for wage income, we need to explicitly take into consideration retirees who depend on public pension benefits and decumulation of their assets to support their living. For the life of senior citizens to be based on a solid financial base, well-balanced analyses from the viewpoint of social security as well as finance are necessary.

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It is very probable that the aging and shrinking of Japan’s population will continue, at least for the next half century. Will house prices and office rents also continue to edge down because of the stronger demographic headwinds in the future? The answer is “No”. However, there are some measures to offset the negative demographic impact and lift prices and rents in Japan. This article uses an asset pricing model with long-term population, GDP, and property market data to examine the impact of demographics on real estate investment in Japan. Our findings highlight the importance of a complex challenge that requires addressing fundamental issues like housing oversupply, limitation of the snowball effect, and diminishing animal spirits on the part of domestic companies. In spite of demographic metrics, can we take measures to guard property values at any time? That is the question.

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