

“Consumption Tax Hike” to be postponed to October 2019

PM Abe indicated his intention to delay the raise of consumption tax to 10% scheduled for April 2017, to October 2019 for two and a half years. Market is likely to welcome this decision as this is aiming at prioritizing the recovery of weak Japanese economy. Market may appreciate further if the Japanese government can show the roadmap to bolster economic growth together with other measures. On the other hand, management of fiscal consolidation seems to become difficult as timing of the tax hike was significantly postponed.

Point 1

G7 nations acknowledged risk of global economy to fall into crisis Reiterated importance of the three pronged approach to achieve strong economy

- In the G7 Ise-Shima Leaders’ Declaration (Global Economy), member nations reiterated commitments to “use all policy tools”, based on the common acknowledgement of downward revision risk of future global economy. The important role of the three pronged approach (mutually-reinforcing fiscal, monetary and structural policies) to achieve strong economic growth was also reaffirmed.

Point 2

Consumption tax hike to be postponed to October 2019 PM Abe prioritizes economic growth

- PM Abe indicated his intention to postpone raising consumption tax (from 8% to 10%) scheduled for April 2017, to October 2019 for two and a half years. PM Abe’s observation seems to be such that there is high risk of economic slowdown if consumption tax were to be raised as scheduled, since current economy is weak.
- On the other hand, there is also a view that achievement of fiscal consolidation will become difficult due to postponement this time. The Japanese government had set a target to turn primary balance* positive by FY 2020. However, PM Abe has decided to prioritize economic growth for his economic management, despite that primary balance remains negative by JPY 6.5 trillion in FY 2020 even if the tax is raised to 10% in FY 2017, based on calculation by the Cabinet Office.

* Government net borrowing or net lending, excluding interest payments on consolidated government liabilities. Surplus in the primary balance means that government can cover all of its liabilities without any borrowings.

G7 Ise-Shima Leaders’ Declaration (Global Economy)

State of the Global Economy

Downside risks to the global outlook have increased. Taking all appropriate policy responses to avoid falling into another crisis.

Policy Response

- Commitments to using all policy tools – monetary, fiscal and structural – individually and collectively, to strengthen global demand and address supply constraints, while continuing efforts to put debt on a sustainable path.
- Implement fiscal strategies flexibly as well as to advance structural reforms decisively.
- Excess volatility and disorderly movements in exchange rates can have adverse implications for economic and financial stability.

(Source) SMAM, based on G7 Ise-Shima Leaders’ Declaration.

The so called “three arrows” of PM Abe’s economic measures are likely to be put into action

- The Basic Policies for Economic and Fiscal Management and Structural Reform 2015 (the so called Large-boned Policy), Growth Strategy and “Promoting Dynamic Engagement of All Citizens” are scheduled to be approved by cabinet around the beginning of June this year. Additional easing by BOJ at Monetary Policy Meeting in June and submission of large-scaled supplementary budget of JPY 5 trillion to JPY 10 trillion after Upper House election, are expected. The so called “three arrows” ; i) monetary policy, ii) fiscal policy and iii) growth strategy are quite likely to be shot again. Market is expected to react positively on the postponement of consumption tax hike as they think it will be the first step of the “three arrows” implementation that helps bolster economic growth of Japan.

■ Disclaimer

Please read this disclaimer carefully.

- This material is for non-Japanese institutional investors only.
- The research and analysis included in this report, and those opinions or judgments as outcomes thereof, are intended to introduce or demonstrate capabilities and expertise of Sumitomo Mitsui Asset Management Company, Ltd. (hereinafter “SMAM”), or to provide information on investment strategies and opportunities. Therefore this material is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.
- The expected returns or risks in this report are calculated based upon historical data and/or estimated upon the economic outlook at present, and should be construed no warrant of future returns and risks.
- Past performance is not necessarily indicative of future results.
- The simulated data or returns in this report besides the fund historical returns do not include/reflect any investment management fees, transaction costs, or re-balancing costs, etc.
- The investment products or strategies do not guarantee future results nor guarantee the principal of investments. The investments may suffer losses and the results of investments, including such losses, belong to the client.
- The recipient of this report must make its own independent decisions regarding investments.
- The opinions, outlooks and estimates in this report do not guarantee future trends or results. They constitute SMAM’s judgment as of the date of this material and are subject to change without notice.
- The awards included in this report are based on past achievements and do not guarantee future results.
- The intellectual property and all rights of the benchmarks/indices belong to the publisher and the authorized entities/individuals.
- This material has been prepared by obtaining data from sources which are believed to be reliable but SMAM can not and does not guarantee its completeness or accuracy.
- All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMAM, except as otherwise stated. It is strictly prohibited from using this material for investments, reproducing/copying this material without SMAM’s authorization, or from disclosing this material to a third party.

Registered Number: Kanto Local Finance Bureau (KINSHO) No.399

Member of Japan Investment Advisers Association, The Investment Trusts Association, Japan and

Type II Financial Instruments Firms Association

© Sumitomo Mitsui Asset Management Company, Limited

