

Japan: A 'good' pandemic

Having kept early coronavirus cases in check, Japan is seeing them rise more rapidly, and lockdowns are possible. Fiscal stimulus equal to 10% or more is being increasingly discussed



Source: Shutterstock

No Japanese lockdown (yet)

So far, Japan has had what you might call a 'good' pandemic.

After having been one of the earliest arrivals on the Covid-19 league table, Japan currently sits at the lower end of the rankings, with fewer confirmed Covid-19 cases than Poland, a country with a population about half as big.

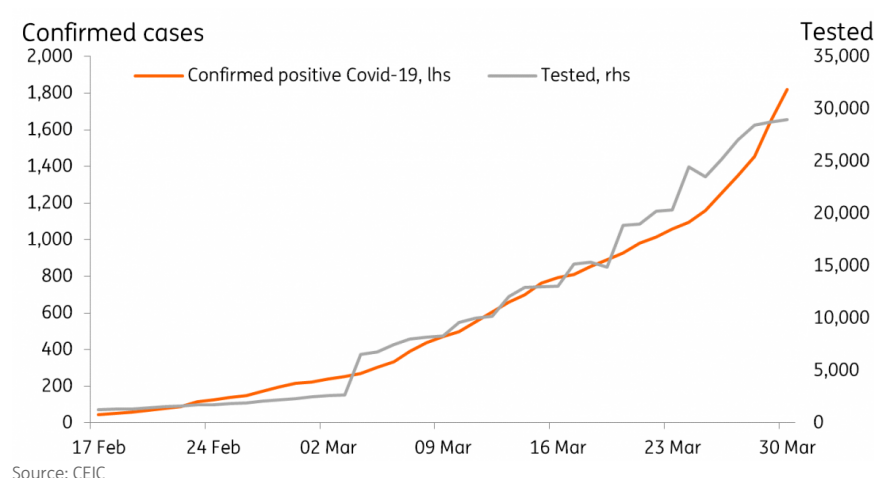
As a result, Japan has avoided having to take many of the same decisions that other countries with higher rates of infections have had to.

If Tokyo or other major cities lockdown, then our base case assumes, GDP will fall down to about -4 to -5% for the full year

There is no lockdown. Yet. And the day-to-day economy is functioning fairly normally relative to other countries around the world. But the number of new Covid-19 cases is now picking up more quickly, and given the experience of other countries, a confirmed case total of 2000 today can quickly turn into a confirmed case total of 8000 in only a week.

This would probably be a game-changer for Japan. Tokyo at least might need to be placed on lockdown, and possibly other major cities too. That would lead to a substantial and abrupt deterioration in economic activity as we have seen elsewhere. Indeed, our base case now assumes that this is what happens, and the resulting loss of activity in 2Q20, even assuming that the lockdown ends swiftly in May enabling activity to recover, takes GDP down to about -4 to -5% for the full year.

Japanese cases



Stimulus coming, but Japan has limited room to manoeuvre

The government is already talking up the numbers of the fiscal stimulus plans it will implement, and a new emergency budget may be unleashed within days. Headlines suggest something around the 10% of GDP mark (and rising). It is usual for much of this to comprise soft loans and guarantees, and our assumption is that the real spending and real tax cut content of the package will not be anything like as big, perhaps only 2% of GDP.

Japan's central bank has been practicing unorthodox monetary easing since 2001. It isn't about to discover untapped sources of stimulus now

On the one hand, Japan, with a debt-to-GDP ratio of more than 300% has no room to manoeuvre on a stimulus package. On the other hand, failure to support the economy with spending now could lead to a greater loss of potential growth for the future, which is probably even worse. Moreover, there is no more fiscal credibility to be lost, so the arguments for prudence are very feeble.

The Bank of Japan likewise will continue to talk up its support for the economy, and will supply liquidity as needed and maintain low bond yields as it has been doing for years. Buying ETF's will also continue in the absence of other channels for BoJ stimulus. But there will be no material change in the scale of BoJ support for the economy.

This is a central bank that has been practicing unorthodox monetary easing since 2001. It isn't about to discover untapped sources of stimulus now.

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