

Japan: Trying times

After all the speculation, Japan's government has imposed the consumption tax hike. The coming months will be heavily distorted by this and it may not be until the New Year before we have clarity on how this plays out



Japanese Prime Minister Shinzo Abe

Source: Shutterstock

10%

New consumption tax rate

Up from 8%

As expected

Fiscal consolidation in Japan

Japan's public finances are the worst in the developed world. Measures of gross debt to GDP top 240% on some measures (OECD), and even netting out the considerable amount owned by the government itself, is far in excess of 120%. At this scale, the exact numbers lose a lot of their meaning. Government debt is huge, and it does not seem unreasonable to try to bring this under

some control.

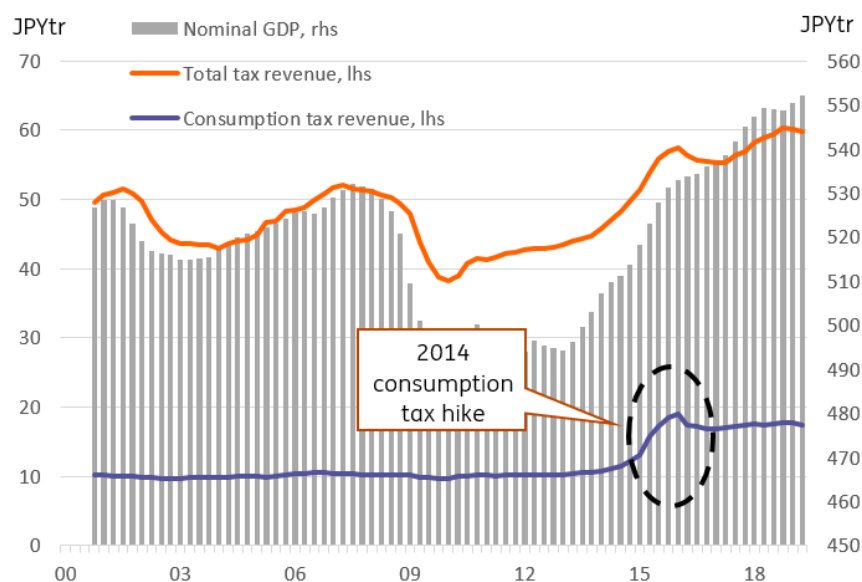
Is this the right thing to be doing?

That said, there may be better ways of Japan going about this than a consumption tax hike. Especially when most of its peer group is belatedly coming to understand that monetary policy has lost most, if not all, of its potency and fiscal policy is the only way to give growth a helping hand.

Consumption tax revenues static

The chart below shows total tax revenues on an annualised basis and nominal GDP. Total tax revenues track nominal GDP more or less. But consumption tax revenues are virtually a constant, with the exception of the bump in revenues following the 2014 April consumption tax hike.

Tax revenues and nominal GDP



Source: CEIC

A lot of distortion for not much fiscal benefit

A two percentage point increase in this tax would add about JPY 5.4 trillion annually to total tax revenues (about 1% of GDP) though the total effect on the budget deficit will be considerably less than this, due to the numerous offsetting measures that have been put in place to mitigate the impact of the tax on activity, and the numerous opt-outs that mean the full 2ppt increase will never be brought to bear.

Some front-running, but not much

In the short-run, the biggest impact of the tax hike will be to distort spending and inflation data. We don't have much to go on, but the front running so far seems fairly muted. August retail sales spiked up 4.8% month-on-month, and we can expect an elevated figure for September, too before the October figures drop sharply back. In 2014, they fell far more than they rose, though they fairly quickly returned to the pre-hike trend.

BoJ to buy more short tenor, fewer long tenor bonds

Japan's bond yields have retreated from the -0.3% level they reached at the end of August and were on the way to returning towards in the latter part of September. The 10-year yield now sits at about -0.164%.

BoJ schedule for outright bond purchases

	August	September	Difference
< 1y	100-1000	100-1000	0
> 1 ≤ 3	2500-5000	3000-5500	500
> 3 ≤ 5	2500-5000	200-4500	-500
> 5 ≤ 10	2500-5500	2000-5000	-500
> 10 ≤ 25	1000-2500	500-2000	-500
> 25	100-1000	0-500	-500
Inflation indexed	250	250	0
Floating rate bonds	1000	1000	0
Max total	21250	19750	-2500

Source: Bank of Japan

Reverse Twist

The central bank has refrained from changing its official policy stance, but the announced bond purchases suggest the Bank is engaging in a sort of reverse twist operation, buying more shorter-dated assets, and fewer longer-dated ones. Along with an announcement by the Government Pension Investment Fund that currency-hedged foreign bonds could be viewed as similar to domestic government bonds, this has added to the yield curve steepening, and given the currency a little upwards push too.

Author

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering

Senior Macro Economist
raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley

Chief International Economist, US
james.knightley@ing.com

Tim Condon

Asia Chief Economist
+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist
+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com