

## Abe resigns as Japan's PM

With a big job still left to do to pull Japan out of its Covid-19 induced recession, this is obviously a difficult time for a change in prime minister. But we would caution against thoughts that this will usher in some even easier policy from the Bank of Japan



Japanese Prime Minister Shinzo Abe

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### What happens now?

There are plenty of good articles on the process that will follow PM Shinzo Abe's resignation today on health grounds without us re-hashing them. [This one from Reuters is well worth a read.](#) But in brief, what will happen now is that the LDP will hold elections to vote for a new President of their party. There would then be a vote in parliament for the new Prime Minister, which the winner of the LDP Presidential election would almost certainly win. That person would hold the job until new lower house elections, which must be held before October 2021 with a September 2021 date being widely expected.

In the past, prime ministers in Japan have come and gone rapidly. Before Abe, who was Japan's longest-serving PM, his predecessor, Junichiro Koizumi (2001-2006) also broke the mould for tenure as PM. Both have been popular leaders, and both can argue that they have helped lift Japan out of the mire following the asset bubble boom and bust of the 1990s. PM Abe's "Abenomics"

policy of massive fiscal, monetary support and economic reforms may not have achieved all of its aims, but it wasn't an unmitigated failure either, and Japan has made some important progress under his leadership.

Prior to this, the door to the PM's office might as well have been a revolving one. PMs came and went quickly, with factions choosing a number of leaders almost on the basis of it being "their turn".

Two of the names being thrown about currently (more are covered in the linked Reuters article), are Finance Minister Taro Aso, and Fumio Kishida, former Foreign Minister.

While the most contentious elements of Japanese politics in recent years have typically revolved around constitutional issues and the consumption tax hike, both Aso and Kishida have also at times expressed concern over the continuation of the BoJ's qualitative and quantitative easing policies and negative rates. So although the BoJ Governor is not due to step down until April 2023, there has already been speculation that he may go early. Abe's resignation and a potentially less supportive new PM might precipitate this, which would open the door for a clean sweep at the top central bank job in Japan and potentially some new policies.

While there will doubtless be plenty of baseless speculation about which way all of this could go, we would caution against automatically assuming that this will usher in some more stimulative BoJ policies. Rather, for the central bank with the longest history of unorthodox policies, doing yet more of the same seems a particularly pointless exercise, even if other central banks (Federal Reserve, European Central Bank) seem determined to do so with tweaks to their inflation targets under the guise of strategic reviews. Japan has already raised its inflation target once before, in 2013 (up from 1% to 2%). The result of which was that the BoJ simply missed its target by an even wider margin each month.

## Short term - fiscal policy and the pandemic are the key factors to watch

There has already been quite a lot of volatility in the Japanese yen and Japanese government bond (JGB) markets, with the JPY rising to just under 107 from 106.55 prior to the resignation announcement. It has now moved all the way down to 105.80. Bond yields, too, have pushed up from the near-zero yield they usually occupy to around 0.055%.

I think the only thing we can say at this stage, whilst the jockeying for the top job takes place and speculation mounts about a potential BoJ re-shuffle, is that this volatility will likely continue.

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