

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

Source: Shutterstock

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.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information

purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.