



Access World News

Japan unveils stimulus plan

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Abstract: News Analysis Measures intended to kick-start its faltering economy are unlikely to bear real fruit, writes Michiyo Nakamoto

The Japanese government yesterday unveiled a series of emergency measures to shore up the slumping economy, including an income tax cut, fuel subsidies and government loans to small and medium-size companies, in a stimulus package worth Y11,500bn.

The package, which includes only Y1,800bn in additional spending and nearly Y10,000bn (\$91.5bn, €62bn, £50bn) in government loans and credit guarantees to small business, follows the biggest economic contraction in seven years last month, combined with steadily rising inflation, which yesterday topped 2 per cent for the first time in a decade.

Core consumer prices, which excluded fresh food, rose 2.3 per cent in July after rising 1.9 per cent in June, but prices of goods purchased at least 15 times a year rose 3.6 per cent, the government said.

The stimulus measures highlight the pressure facing Yasuo Fukuda, prime minister, to respond to growing public discontent over rising prices at a time when wages have been stagnant. The economy is widely considered to be in a period of stagflation or even recession because exports, which have been its main driver, have slumped amid weakening global demand.

"It is necessary to respond quickly to the public's pain and concerns and important to implement measures as soon as possible," Mr Fukuda said yesterday.

The prime minister must call an election to the powerful lower house of parliament by September next year, but public support for his ruling Liberal Democratic party remains low at about 30 per cent.

However, the package was widely criticised as ineffective in countering the impact of the economic slump compared with the \$100bn (€68bn, £55bn) in tax return cheques distributed directly to consumers by the US earlier this year.

"It does look to me like the impact of this package will be relatively small. It's a knee-jerk reaction to difficult economic times," said Robert Feldman, chief economist at Morgan Stanley in Tokyo.

The substance of the package was unlikely to address the fundamental problem of the Japanese economy, which was low productivity, he said.

"It will slow the deterioration of the economy just a little but it won't lift growth," said Akira Maekawa, senior economist at UBS in Tokyo.

An important pillar of the package was government support for smaller companies to improve energy conservation and efficiency, to help make Japan into a more energy-efficient economy, said Tatsuya Terazawa, head of the economic policy unit in the ministry of economy, trade and industry.

But he conceded that the measures were unlikely to make a significant contribution to growth in the near term. Rather, it would help shore up businesses that might otherwise have gone under amid rising prices and a deteriorating business environment.

The government said it would announce plans for income tax cuts vigorously championed by the New Komeito party, the junior member of the ruling coalition, at the end of the year.

However, economists said any cuts were likely to be relatively small, given the fiscal constraints facing the government, which faces public debt equivalent to nearly 180 per cent of gross domestic product - the highest level among developed countries.

Nevertheless, not many economists are terribly worried about Japan's economy.

"Even without a fiscal stimulus, we believe the recovery will become clear from next year", when the US economy was expected to see a gradual recovery, said Akira Maekawa, senior economist at UBS in Tokyo.

Japan's current slowdown was moderate, "so when it hits bottom, the recovery should be firm", he said.

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Page: 08

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