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Japan's Prime Minister Kishida Promises Economic Stimulus Programmes to Combat Corona Crisis After Election Victory

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In Japan's parliamentary elections, Prime Minister Fumio Kishida's ruling LDP recently gained a surprisingly comfortable majority. The party gained the 261 seats needed for an „absolute stable majority“ of the 465 total seats in the Shūgiin, the Japanese House of Representatives. Together with its smaller coalition partner Komeito, the party even holds 291 seats, allowing the government to control the chairmanship of all committees and comfortably push legislation through the House of Representatives.

The election results were received positively on the Tokyo stock exchange. Investors are hoping for economic stimulus programmes and a continuation of the expansionary monetary policy under the new government. The Nikkei index rose 2.6 per cent the day after the election, trading almost as high as in September, when it had intermittently risen to its highest level since 1990.

64-year-old Kishida had come to power in the party just before the election, having been elected prime minister by parliament in early October after his largely hapless predecessor, Yoshihide Suga, threw in the towel after just one year. Suga had come under criticism for his Corona policy and had lost a lot of popularity. Kishida then called a new election to obtain a mandate from the people for a government under his leadership.

Although the former banker has the image of having little charisma, he also stands for continuity and the continuation of his party's right wing's traditional policies. Before his election, Kishida had promised a new beginning as well as massive corona pandemic aid for the economy. On the day after the election, Kishida again focused his program on economic recovery from the effects of the coronavirus pandemic, but also on combating climate change and a stronger deterrent defense policy against China.

Stimulus Package to Counter Effects of Corona Pandemic and “New Capitalism”

In mid-November, Kishida announced a comprehensive package to boost the economy, particularly including investment in environmentally friendly energy, and a special budget for the end of the year. He also held out the prospect of aid for the tourism industry. However, he also signaled that Japan would have to generally consider the ability of attacking enemy bases as an option to counter foreign nations' defense technologies, which puts a drastic increase in the defense budget on the agenda.

Kishida also proclaimed a “New Capitalism”. Under this catchphrase, he wants to significantly increase the salaries of the Japanese in order to improve the financial situation of the poorer population and the middle class. Details of this plan are not yet known, but it is expected that Kishida will rely on an expansionary fiscal policy and measures to redistribute wealth. The party's right-wing had scrapped these plans before the election, but with the absolute majority he has won, Kishida now has a better chance.

Further plans include starting up nuclear power plants again. Since the Fukushima nuclear disaster in 2011, only one-third of the 33 operational reactors are still on the grid. However, in view of the Fukushima meltdown, which led to the shutdown of nuclear power plants, many Japanese are critical of a return to nuclear energy.

Hopes are high for the newly elected government's economic stimulus program, as the pandemic, supply shortages, production disruptions in Asia and slower growth in China have hit Japan's heavily export-dependent economy hard. Most Japanese car manufacturers, for example, saw their global output decline in September because of shortages of memory chips and other components. The supply shortages are also reflected in economic statistics. According to government data, Japan's industry shrank by 5.4 per cent in September compared to the previous month. This is the third consecutive decline.

Central Bank Likely to Continue Expansionary Zero Interest Rate Policy for Now

The Bank of Japan (BoJ) also recently lowered its economic growth forecast for Japan. The central bank expects gross domestic product (GDP) to grow by 3.4 per cent in the fiscal year ending on 31 March. With this in mind, the central bank also confirmed its loose monetary policy in support of the economy at the end of October. With this interest rate decision, the short-term interest rate target was left at minus 0.1 per cent and the target yield for ten-year government bonds at zero per cent.

Unlike in other industrialized countries, there are no rising inflation rates in Japan that would require a departure from the low interest rate policy. While other central banks in Europe and the US therefore may raise interest rates this year or next to keep rising inflation in check, Japan has the opposite problem: the Bank of Japan has been fighting falling wages and prices for years and has been trying to fuel inflation with securities purchases. But the BoJ expects inflation to remain below its 2 per cent target for at least two more years, which means that an end to its loose monetary policy is not in sight for the time being.

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Note: **Past performance is not a reliable indicator of a fund's future performance.**

CONCLUSION: The parliamentary elections in Japan confirmed Prime Minister Fumio Kishida's pro-business course. Will the stock market gain new momentum? With the ERSTE STOCK JAPAN you can invest in a selection of attractive Japanese equities.

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