

JAPAN STRATEGIST ROUNDTABLE: MASATOSHI KIKUCHI ON THE PROGRESS OF ABENOMICS

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As part of a trip to Japan in early September, I had the pleasure of attending the Mizuho Japan Investment Forum. The conference included sessions with government officials who lead and advise Prime Minister Abe's economic agenda, a head of the statistics department at the Bank of Japan (BOJ), professors and companies. The conference was very educational. I also had the opportunity to speak with a number of Mizuho's strategists, including Masatoshi Kikuchi, the Pan-Asia chief equity strategist at Mizuho Securities Equity Research. Below are the most salient points from my discussion with Mr. Kikuchi. **Question: The government has discussed lowering corporate tax rates. How do you think this will progress? And will it also raise the [consumption tax](#) from 8% to 10% as planned?** Kikuchi: I think the government will cut the corporate tax rate 2% every two years over a period of six years—to target Germany levels of taxes over a period of several years. Twenty-five percent is the Asian average tax, and Japan's government says it is not necessarily competing with other Asian companies, so we may not get down to 25%. On the other hand, to not raise the consumption tax, the government needs to change the law. Technically, it already has been decided really, and it will be complicated politically to go back and get a new law to reverse the rise in the consumption tax. Furthermore, the market opinion is that it will go through, and this matters to the Abe government. I did a survey on several global investors. The survey showed 80% of investors expect a hike in the consumption tax. If the government postpones the hike, I think the market will be disappointed; therefore I think the hike happens as planned. The government, of course, needs to come up with stimulus measures to push it forward. It will come up with a supplementary [fiscal budget](#). The government also has plans to change the [Government Pension Investment Fund \(GPIF\)](#) asset mix, and there is a special committee to publish corporate governance code. I think these are three weapons to prop up the stock market even with the consumption tax hike. **Question: What is your outlook for the markets?** Kikuchi: I have a stock market outlook through next fiscal year. I think we will see a strong market through the middle of next year. But the bull market has lasted more than five years, and we may see correction with the hike of [U.S. interest rates](#), which I believe is likely to occur in the middle of next year. There is an LDP [Liberal Democratic Party] presidential election in September next year. Stock market prices are important to Abe, and he will try to keep strong prices until then. **Question: There has been some discussion of expanding [tax-deferred savings accounts](#) beyond the [Nippon Individual Savings Account \(NISA\)](#).** Kikuchi: Already the government is discussing increasing the contribution limits 20% for the existing NISA (to 1.2 million yen per individual per year), while also allowing NISA to be set up for children (up to 80,000 yen per child). But there is also thought of expanding [defined contribution \(DC\)](#) plans more generally. Current assets in Japan DC plans are only 7 trillion yen. This is just one-eighth of DC plans in the U.S. I hope Mr. Shiozaki changes this. Discussion of DC plans is just getting started and should be part of overall welfare/pension reform. There are a lot of political obstacles. Social welfare reform is big [on the] agenda, but Abe intentionally avoided. Old people have vested interests, and Abe was focused on national security issues. **Question: How is Abe's popularity faring?** Kikuchi: After the Cabinet reshuffle, Abe's popularity went up. The appointment of five females to minister positions was quite popular. The stock market likes Shiozaki, who is overseeing the GPIF, as the most popular appointment. But ordinary people don't care about the stock market that much. Ms. [Yuko] Obuchi, the minister for trade and industries, is widely expected to be the first prime minister as a female and was a well-received appointment. She is the daughter of a former prime minister and has two children, also part of the reason why she is popular. **Question: Your outlook report for 2020 suggested you expect the [Japanese government bond \(JGB\)](#) yield to rise to 3%. Do you still believe that?** Kikuchi: JGB yields are quite difficult to forecast. I think 3% is most likely. The government wants to reach a [primary budget](#) balance to be cut in half next year and then go from deficit to surplus by 2020. If the government is successful, 3% is the most likely scenario and

positive. If the Japanese government fails to fix the deficit and personal savings goes down, then Japan may look like Greece, and the 10-year bond rate goes up to 8%. Another risk scenario is Japan goes back to [deflation](#) and the rate stays at 0.5%. But overall I see it going toward 3% in a positive manner. We want to thank Masatoshi Kikuchi for spending time with us and Mizuho for hosting a fantastic conference. For more insights from Mr. Kikuchi and some of the other strategists and economists we spoke with in Japan, please see our full roundtable [here](#).

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DEFINITIONS

Consumption tax : Tax applied to spending on goods and services.

Fiscal budget : is a period used for calculating annual budget requirements for a country or an organization or company.

Government Pension Investment Fund (GPIF) : Japan's largest public pension fund.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Tax-deferred savings accounts : Accounts that allow for the postponement of certain types of taxes for specified periods of time.

NISA : Nippon Individual Savings Account. Nippon is the Japanese word for Japan.

Defined contribution : Type of retirement plan where participants decide to defer part of their current compensation into the plan and assume the risk of having sufficient future assets in retirement.

Japanese Government Bond (JGB) : A bond issued by the government of Japan. The government pays interest on the bond until the maturity date. At the maturity date, the full price of the bond is returned to the bondholder. Japanese government bonds play a key role in the financial securities market in Japan.

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

Deflation : The opposite of inflation, characterized by falling price levels.