

Team Abe 3.0: From a new cabinet towards new policies

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Prime Minister Abe has presented his new cabinet. It is Abe's third leadership team since becoming Prime Minister in December 2012 and, like his previous teams, it is dominated by close and trusted allies. Moreover, the key positions did not change—Aso stays as Finance Minister, Seko as Economics Minister, and Suga as Chief Cabinet Spokesman. I expect this new cabinet will present a next supplementary budget of around Y5trn by October, focusing on added support for women, families and elderly.

For markets and policy direction, the most interesting appointment is the promotion of Kato Katsunobu from Minister of Inclusion to Minister of Health, Welfare and Labor (and this is the Minister overseeing the GPIF public pension system). Kato is one of Abe's most trusted allies and his ministry is where key new policy developments are expected, both from a structural change and macro balances perspective.

Specifically, more aggressive labor market and entitlement reform can now be expected, with added incentives to boost both female and youth participation in the full-time economy. Increases in childcare allowances and reduced child education burden are likely, as well as greater push for “third contract” employment, that is, raising the flexibility of full-time employment contracts. A supplementary budget focused on boosting disposable incomes for females and families with children is likely to be presented by early autumn, in my view.

Structurally, the previous Minister of Health, Welfare and Labor had been denying the GPIF's ability to manage equities in-house—all equity positions are mandated to outside managers. It will be interesting to see whether the new Minister is open to allowing GPIF inhouse equity management. From a GPIF perspective, inhouse management of equities could potentially enhance its push for improved Corporate Governance and ESG accountability. In addition, the new Minister is poised to push more aggressively for upgrading the IT infrastructure and use of big-data analysis to optimise entitlement pricing and allocation, in our view. In other words, IT-related budget requests are poised to increase, in our view.

Overall, the challenge for Abe is to turn around his recent drop in popularity.

The new team line-up is a step in the right direction, but from here, concrete new policy initiatives are poised to be key. A focus on women, family and free education as well as greater public support for elderly care is likely to be the mainstay of the new policy thrust. I expect a supplementary budget of around Y5trn to that effect to be presented by October.

For monetary policy, the cabinet re-shuffle has de-facto no impact. Debate on who should be the next BoJ Governor—Kuroda's first term ends in March 2018—is not expected to start in earnest until early next year.

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