

Japan's Prime Minister Abe announced that it would become difficult to achieve fiscal consolidation target by FY2020. Its impact on Japan's fiscal position will be closely examined.

Japan Credit Rating Agency, Ltd. (JCR) expresses the following opinion on Prime Minister Abe's announcement that it would become difficult to achieve fiscal consolidation target by FY2020.

- (1) On September 25, 2017, Prime Minister Shinzo Abe announced his intention to dissolve the House of Representatives at the onset of an extraordinary Diet session to be convened on September 28. He also unveiled his plans to formulate a new economic policy package consisting of "revolution in productivity and human resources development" within this year, and to change the use of increased revenues from the projected consumption tax hike to 10%. He stated that it would become difficult to achieve the fiscal consolidation target of a surplus in the primary balance of the central and local governments by FY2020.
- (2) Prime Minister Abe said that he would appeal to the nation the realization of a "social security system for all generations" in the upcoming general election which is now scheduled for October. Specifically, his government will divert an increase in the consumption tax revenues estimated at more than JPY5 trillion from debt service to spending on child care. As the diversion will widen the primary balance deficit for a while, the achievement of the fiscal consolidation target will have to be put off.
- (3) JCR kept its long-term issuer ratings of Japan (FC/LC: AAA/AAA) and Negative outlook unchanged in a news release published on June 16. It stated in the release, "Attaining a primary surplus by FY2020 is considered to be a pivotal goal for restoring fiscal discipline." JCR will closely examine the possible impact the announced postponement may have on Japan's fiscal position, and have them reflected on its ratings.

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<Reference>

Issuer: Japan

Foreign Currency Long-term Issuer Rating: AAA Outlook: Negative

Local Currency Long-term Issuer Rating: AAA Outlook: Negative

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