

IMF cuts Japan growth forecast, warns over Abenomics
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The International Monetary Fund on Tuesday cut its 2014 growth forecast for Japan and warned that Prime Minister Shinzo Abe must follow through on promised reforms to cement a turnaround in the world's number-three economy.

In its World Economic Outlook, the IMF said it expected Japan's economy to grow 1.4% this year, down from an earlier 1.7% forecast, before slowing to 1% in 2015.

The Washington-based Fund has previously been upbeat on Abe's growth policy blitz, a mixture of government spending and central bank monetary easing dubbed Abenomics, designed to drag the economy out of years of deflation and laggard growth.

The plan's so-called 'third arrow' - reforms that include more flexible labour markets and free-trade deals - have been more talk than action so far, although Tokyo on Monday agreed on a long-awaited trade deal with Australia.

The agreement was the first time Japan had negotiated a comprehensive economic partnership agreement or free trade deal with a major economy.

Separate negotiations involving the United States, Japan and 10 other nations, known as the Trans-Pacific Partnership, have stalled.

Japan has long been accused of protecting its domestic industries, including the politically powerful agricultural sector, with high trade and other non-tariff barriers, while many of its exports, including vehicles and electronics, enjoy big sales overseas.

Abe has pledged to make changes and grow the long-laggard economy, while battling to contain one of the rich world's heaviest debt burdens.

But "Abenomics still needs to translate into stronger domestic private demand", the IMF said.

"Implementation of the remaining two arrows of Abenomics - structural reform and plans for fiscal consolidation beyond 2015 - is essential to achieve the inflation target and higher sustained growth."

Earlier Tuesday, the Bank of Japan painted an upbeat picture of the economy and stood pat on its monetary easing programme as it assesses the impact of a controversial sales tax rise.

Markets had expected the decision after the April 1 sales tax increase to 8% from 5%. There are also tentative plans to bump the rate again to 10% next year.

While it is seen as crucial to shrinking Japan's mountainous debt burden, the recent rise has increased speculation that the BoJ will be forced at some stage to add to its stimulus to counter an expected slowdown in consumer spending.

Japan's economic growth in the latter part of last year slowed after a sizzling start to 2013 when it led G7 nations. Full-year growth was 1.5%.

The IMF noted that Tokyo's special budget to counter an expected tax-linked slowdown may not be enough.

"The positive effect of the recently approved stimulus measures is expected to be more than offset by the negative impact of the consumption tax hike and the waning of reconstruction spending and past stimulus measures," the report said.

It noted that "underlying growth drivers" including private investment and exports would likely strengthen after the yen weakened sharply since Abe took office in late 2012.

The weaker currency boosts profitability among Japanese exporters such as Toyota and Sony.

"Nevertheless, activity overall is projected to slow moderately in response to a tightening fiscal policy stance," the IMF added, referring to the tax hike.

"Longer-term stagnation risks are present primarily because of the sizable fiscal consolidation that will be needed during the next decade or so to ensure the transition to a sustainable long-term fiscal position in a rapidly ageing society." – AFP, April 8, 2014.

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