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Effects and challenges of measures to deal with the consumption tax hike

Economic impact of spending stimulus measures totaling roughly 150 billion yen

< **Summary** >

◆ The Japanese government announced it would follow through with the consumption tax hike slated for October 2019. Many voices are calling for policy measures to avoid a repeat of the consumer spending slump that occurred after the previous consumption tax hike in 2014.

◆ In addition to its decisions already made to introduce a reduced tax rate, free early childhood education, and support benefits for pensioners, the government is considering other tax relief measures, including point rewards, premium vouchers, and housing purchase support, aimed at stimulating consumer spending and curbing a reactionary decline after the tax increase.

◆ The economic impact of point rewards and premium vouchers is estimated at a total of approximately 150 billion yen. However, the measures under consideration are temporary, and attention should be paid to the risk of negative repercussions after the termination of these measures, alongside economic slowdowns in Japan and abroad.

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Japan's Prime Minister Shinzo Abe announced at the extraordinary Cabinet meeting on October 15, 2018 that the government would move forward to raise the consumption tax rate from 8% to 10% as scheduled in October 2019. In addition, the prime minister laid out plans to implement measures to curb a last-minute spending surge and reactionary decline arising from the tax hike by stating: "We will mobilize a range of measures and make every effort to ensure that the 2% increase does not affect the economy" and "adequate support measures will be taken so as to level consumption before and after the tax increase." Prime Minster Abe's statement of "based on our previous experience with the 3% consumption tax hike, we will mobilize a range of measures and make every effort to ensure that the 2% increase does not affect the economy" was also reiterated as a policy measure to deal with the scheduled consumption tax hike in the interim review of the economic policy direction at the joint meeting of the Council on Investments for the Future, Council on Overcoming Population Decline and Vitalizing Local Economy, Council on Economic and Fiscal Policy, and Council for Promotion of Regulatory Reform on November 26, 2018.

To alleviate the negative impact of the consumption tax hike on the economy, the government has already decided to implement mitigating measures that include a reduced tax rate, free early childhood education, and support benefits for pensioners. The government is also considering additional tax relief measures[1] (totaling over 2 trillion yen according to news reports), such as point rewards for cashless payments, premium vouchers, housing purchase support, and tax breaks on automobiles. This report examines the effects and challenges of these various measures in terms of the mechanisms of how a consumption tax hike affects consumer spending.

1. Why are tax relief measures necessary? – Three mechanisms of how a consumption tax hike affects consumer spending

Japan sees an ever growing need for policy measures to deal with the planned consumption tax hike in October 2019 because of the unexpected spending slump that pummeled the economy after the consumption tax hike in April 2014. At that time, a last-minute spending surge and reactionary decline were observed before and after the tax increase, and the slowdown in consumer spending followed from 2015 to 2016. **Chart 1** outlines the mechanisms of how a consumption tax hike affects consumer spending. A consumption tax hike is believed to have a negative impact on consumer spending through three mechanisms: (1) last-minute surge and reactionary decline, (2)

[1] In addition, as pointed out by Sakai (2018), expanded public-works projects for disaster prevention and mitigation aimed at building national resilience are expected in the second supplementary budget of FY2018 (financial resources from additional tax and other revenues).

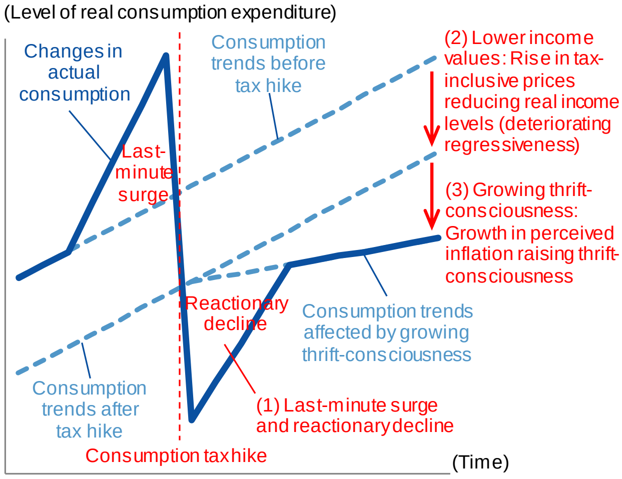
lower income values, and (3) growing thrift-consciousness.[2]

Under the (1) last-minute surge and reactionary decline mechanism, a portion of consumer spending originally expected after the tax increase accelerates ahead of the tax hike, causing fluctuations in consumption before and after the tax rate change. This is because the announcement of a consumption tax hike encourages households to spend as much as possible during the lower tax rate period. In fact, when the consumption tax was raised in April 2014, real consumption expenditures during the first quarter of 2014, just before the tax hike, surged higher by approximately 2.5%, but experienced a similar level of reactionary decline during the second quarter of the same year.

The (2) lower income value mechanism refers to a decline in real household income levels, as a result of tax-inclusive prices raised by the consumption tax hike, accompanied by falling real consumption expenditures. With the consumption tax rate scheduled to rise from 8% to 10% in October 2019, tax-inclusive prices are expected to increase by 1.85% (1.1/1.08-1) as long as tax-exclusive prices remain the same. But if businesses view the consumption tax hike as an opportune time for price changes and raise tax-exclusive prices, tax-inclusive prices will rise by over 1.85% and reduce income values to the same extent. Furthermore, falling income values caused by the tax hike will have a greater impact on lower income groups with a higher propensity to consume, possibly exacerbating the regressive aspects of the consumption tax.

In the (3) growing thrift-consciousness mechanism, households become more conscious of saving money as their perception of inflation grows. Households' perceived inflation is likely affected by frequently purchased items, such as food and beverages. When the prices of these necessities climb, households perceive prices rising higher than they actually are. In addition, their perception of inflation tends to respond to higher prices than lower prices because with households reacting perceptibly to price growth, their impression of higher prices remains and makes them less responsive to price cuts afterward. Consequently, perceived inflation

Chart 1: Mechanisms of the consumption tax hike impact



Source: Made by MHRI.

[2] See Hattori et al. (2018) for details of the mechanisms.

when heightened will continue to have a negative effect on consumer confidence among households, leading to slower consumption growth over the long term. The consumer spending slump observed after the 2014 consumption tax hike is considered mainly attributable to this heightened perception of inflation that raised thrift-consciousness.

2. Adopted tax relief measures – Focus on curbing growing thrift-consciousness through a reduced tax rate

Based on these three mechanisms, this report first provides an overview of the tax relief measures adopted by the government. The government has already decided to introduce three measures that include a reduced tax rate, free early childhood education, and support benefits for pensioners (**Chart 2**). Looking at the impact of each measure, the tax rate cut helps ease the tax burden, free preschool education reduces educational expenses, and pensioners directly receive support benefits, all of which will help offset lower income values.[3]

Among these three mechanisms, our report pays particular attention to the reduced tax rate because it can help not only offset the decline in income values but also curb growing thrift-consciousness. As mentioned above, households are perceptible to the prices of frequently purchased necessities, including food and beverages. Actually, households' perceived inflation tends to change in tandem with the consumer price index (CPI) for food (excluding dining out and alcoholic beverages) applicable to the reduced tax rate (correlation coefficient is around 0.7, **Chart 3**). With the consumption tax on food and beverages remaining at the current 8% under the reduced tax rate policy, at least the rise in tax-inclusive grocery prices will be controlled, thereby holding down growing thrift-consciousness among households.

Measures to mitigate the regressive effects of the consumption tax hike could include refundable tax credits aside from the reduced tax rate.[4] But compared with the tax refund system, despite the same payment amount in the end, a reduced tax rate helps alleviate the burden felt when actually paying the consumption tax, possibly curbing a downturn in consumer confidence. This is considered one advantage of a lower tax rate.[5]

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[3] The policy of spending increased consumption tax revenues on social security, including healthcare and nursing, and education (in contrast to spending that benefits the entire society, e.g., national defense (government collective consumption expenditure), this spending, referred to as government individual consumption expenditure, brings direct benefits to households), can be justified in terms of its economic effects. For example, Kodera and Sakai (2018) constructed a dynamic stochastic general equilibrium (DSGE) model incorporating subdivided government expenditures and taxation to perform a simulation analysis using a Bayesian estimation. Their analysis indicates that allocating the increased tax revenues derived from a higher consumption tax rate to government individual consumption expenditure (merit goods), including healthcare, nursing, and education, has a positive effect on the economy in the short term.

[4] Among possible refundable tax credits is the one introduced in Canada, where the consumption tax rate to basic living expenses is calculated, and the amount is deducted and refunded from income tax.

[5] However, this does not mean that a reduced tax rate is more desirable than refundable tax credits. This report does not go into details, but refundable tax credits are believed to be more effective in mitigating the regressiveness of the consumption tax than a reduced tax

Chart 2: Table of tax relief measures adopted and under consideration

	Measure	Outline	Major impact and relation to the mechanisms		Challenges	Period
Adopted measures	Reduced tax rate	Keeping the consumption tax rate for food, beverages, and newspapers at 8%. (Total of about 1 trillion yen)	Controlling rising tax-inclusive prices of daily necessities to subdue thrift-consciousness.	(2) (3)	Organizing items applicable to a reduced tax rate is complicated. Retailers need to invest in a system that can respond to different tax rates. The reduced tax rate also benefits high-income earners, failing to offset the regressiveness of the consumption tax.	Permanent
	Free early childhood education	Offering free kindergartens, preschools, and authorized daycare centers to all children aged 3 to 5 and children up to 2 for households exempt from residential tax. (Total of about 1.4 trillion yen)	Easing the economic burden on child-rearing households.	(2)	This free education measure does not benefit households other than child-rearing households. It is unclear how the money saved by free education will be spent. Free education may exacerbate the imminent shortage of daycare facilities.	Permanent
	Support benefits for pensioners	Providing a maximum of 60,000 yen annually for low-income pensioners. (Total of about 500 billion yen)	Mitigating the impact of the consumption tax hike on low-income pension households.	(2)	Support benefits are scheduled to be provided in December 2019, creating a time lag after the tax hike.	Permanent
Measures under consideration	Point rewards for cashless payments	Refunding 5% in reward points when using cashless payments at small and medium-sized retailers. (Total of about 460 billion yen)	Supporting consumer spending after the tax hike and promoting cashless transactions.	(2) (3)	Credit card business systems need to be upgraded to identify small and medium-sized retailers and to refund reward points. With credit cards used by many high-income earners, this point reward scheme may promote the regressiveness of the consumption tax.	Nine months after the tax hike
	Premium vouchers	Selling vouchers with an additional bonus on the purchase price to low-income people and child-rearing households. (Total of about 70 billion yen)	Ensuring spending with the purchase of vouchers based on consumer confidence, while addressing the regressive consequences by targeting low-income people.	(2)	It is important to sustainably stimulate consumer spending. Given that lower-income people bought fewer vouchers when issued in 2015, it is necessary to work out methods of facilitating their purchase.	About half a year after the tax hike
	My Number card points	Temporarily offering "My Number" card holders government-backed additional "Jichitai Points" for use at local shopping areas.	Supporting consumer spending after the tax hike and promoting the "My Number" system as tax and social security infrastructure.	(2)	The "Jichitai Points" system is spreading slowly at present. It is uncertain whether offering "Jichitai Points" will promptly stimulate consumer spending.	Undecided
	Expanding and extending housing loan tax credits	Raising the maximum annual deduction and extending the tax deduction period from 10 to 11-15 years.	Reducing home purchase costs after the tax hike to curb a last-minute surge and reactionary decline, while boosting consumption of the "wealthy hand-to-mouth" households.	(1) (2)	The benefits of expanding this tax deduction are limited to high-income earners, possibly exacerbating the regressiveness of the consumption tax.	End of 2021 (current)
	Expanding "sumai-kyufu" housing cash payments and relaxing requirements	Increasing the upper limit of payments (a maximum of 500,000 yen) and relaxing income requirements (annual income of 7.75 million yen or lower).	Reducing home purchase costs after the tax hike by targeting mainly low- and middle-income people to curb a last-minute surge and reactionary decline.	(1) (2)	The benefits derived from relaxed income requirements and housing loan tax credits will overlap, and violate the original purpose of supporting low- and middle-income people.	End of 2021 (current)
	Housing "eco-points"	Providing "eco-points" according to the levels of insulation and earthquake resistance when building or renovating houses, with points exchanged for gift certificates, etc.	Curbing a last-minute surge and reactionary decline before and after the tax hike, and supporting consumer spending after the tax hike through the use of points.	(1) (2)	When buying a new home, the same level of eco-points as in 2015 (300,000 points) will not cover the increased tax, and eco-points alone are unlikely to help curb a last-minute surge and reactionary decline.	Undecided
	Tax cuts for car purchases	Temporarily suspending the automobile tax based on environmental performance scheduled to be introduced in October 2019 in place of the automobile acquisition tax.	Lowering automobile acquisition costs after the tax hike to curb a last-minute surge and reactionary decline.	(1) (2)	These tax cuts are likely to be opposed by local governments suffering a substantial loss of financial resources and by the automobile industry that prefers permanent tax cuts for automobiles.	About one and a half year after the tax hike
	Tax cuts for car ownership	Exempting mainly low-emission vehicles from automobile taxes for the first year after purchase.	Lowering automobile ownership costs after the tax hike to curb a last-minute surge and reactionary decline.	(1) (2)		One to two years after the tax hike

Note: The contents are based upon data as of writing this report.
Source: Made by MHRI based upon various news media reports.

Of course, while the consumption tax rate for food, beverages, and newspapers will remain the same under the reduced tax rate system, there is no denying that a rise in the tax-inclusive prices of other items may increase perceived inflation and strengthen thrift-consciousness. For example, dining out that has pushed up the CPI since the second

rate. Considering further consumption tax increases in the future, refundable tax credits should continue to be an option for introduction.

half of 2017 is excluded from the reduced tax rate, but the frequency of dining out is increasing due to the growing numbers of single-person households and female workers, and the rising cost of eating out may affect consumer confidence (Sakai and Hirayoshi (2018)). Furthermore, businesses may use the tax hike as an opportunity to promptly shift higher labor and other costs onto prices. Compared with the 2014 tax hike, thrift-consciousness is likely to be subdued, but to analyze the outlook for consumer spending, careful attention should certainly be paid to business trends, including changes in company attitudes toward raising prices, that could heighten consumers' perception of inflation.

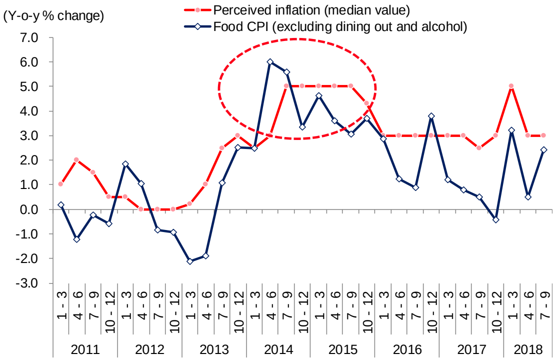
3. Tax relief measures under consideration – Point rewards and premium vouchers as key spending stimulus schemes

Meanwhile, the government is considering additional tax relief measures to stimulate consumer spending, ranging from point rewards, premium vouchers, and point programs using the "My Number" system (individual number cards), to even big-ticket items that include tax cuts for car purchases and ownership, tax credits for housing loans to support home buying and renovations, "sumai-kyufu" housing cash payments for home buyers, and housing "eco-point" subsidies for eco-friendly homes. In particular, this section focuses on point rewards and premium vouchers as schemes drawing particular attention.

(1) Point rewards for cashless payments

The point reward program offers 5% of purchase prices as rebate points to consumers using credit cards and other cashless payments at small and medium-sized retailers after the consumption tax hike. This reward system is expected to mitigate the additional burden arising from the tax hike and to offset falling income values. The definition of small and medium-sized retailers is ambiguous, but it seems to refer mainly to individual stores and retail and restaurant franchises. With goods sold at these stores consisting mostly of frequently purchased items, such as food, beverages, and other daily necessities, this point reward program can also help buck the trend toward thrift-consciousness. In addition, due to Japan's low cashless payment rate compared with other countries (**Chart 4**), the reward-point rebate is also aimed at promoting cashless payments in view of the 2020 Tokyo Olympic Games and the 2025 World Expo in Osaka.

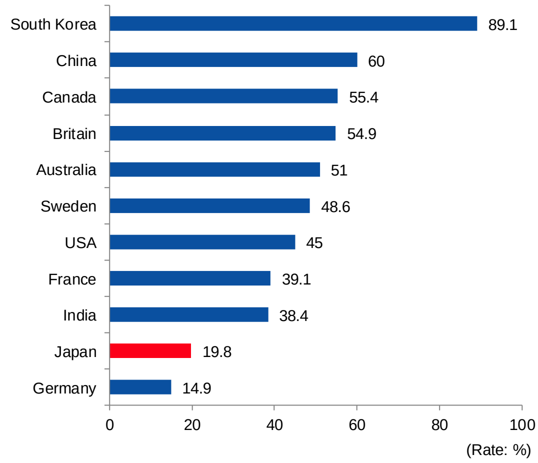
Chart 3: Food (excluding dining out and alcoholic beverages) CPI and perceived inflation



Note: Households' perceived inflation refers to median values based upon a questionnaire survey, asking "By what percent do you think prices have changed compared with one year ago?"

Source: Made by MHRI based upon the Bank of Japan, *Opinion Survey on the General Public's Views and Behavior*, and the Ministry of Internal Affairs and Communications, *Consumer Price Index*.

Chart 4: Cashless payment rate in different countries



Note: Japan is based upon data in 2016 and the other countries in 2015.

Source: Made by MHRI based upon the Ministry of Economy, Trade and Industry, *Cashless Vision* (2018), and the Japan Consumer Credit Association, *Consumer Credit Statistics of Japan*.

Based on taxable consumption expenditures per household (approximately 2.45 million yen a year) in the Ministry of Internal Affairs and Communications' *Family Income and Expenditure Survey (2017)*, the amount of point rewards per household is calculated at about 11,200 yen a year.[6] With the additional burden per household stemming from the consumption tax rate increase (from 8% to 10%) standing at roughly 33,600 yen a year (considering a reduced tax rate for food, beverages, and newspapers), the reward-point rebate is estimated to reduce about one third of the additional tax burden. The government is considering the point reward program for the nine-month period leading up to the 2020 Tokyo Olympic Games, in which case the reward points per household will amount to about 8,400 yen, and the country's total amount of reward points will reach approximately 460 billion yen. According to calculations using a macro model multiplier, the point reward program is expected to generate an economic impact of roughly 130 billion yen (around 0.02% to GDP) (**Chart 5**).

However, the point reward program raises challenges as well. As mentioned above,

[6] The calculation method of the annual point reward amount per household is as follows. First, the consumption expenditure per household (roughly 2.92 million yen) based on the total households in the Family Income and Expenditure Survey (2017) is divided by item into taxable consumption (about 2.45 million yen) and non-taxable consumption (about 470,000 yen). Next, the taxable consumption amount of small and medium-sized stores (about 1.23 million yen) is calculated by multiplying the sales ratio of small and medium-sized stores that apply to items (2017: assuming small and medium-sized stores with capital of less than 100 million yen). Then, the consumption amount of point rewards (about 240,000 yen) is calculated by multiplying the cashless payment rate (2016: 19.8%). With this amount including the consumption tax, the point reward amount is calculated by multiplying the point reward rate (5%) after subtracting the current 8% consumption tax.

cashless payments are not so popular in Japan, with the country's cashless payment rate (the rate of cashless payments to private final consumption expenditures) at no more than 20% in 2016.[7] As for credit card use accounting for 90% of cashless payments, online shopping, cellphone bills, and supermarkets were listed as the top three.[8] Under these circumstances, it is uncertain whether stores eligible for the point reward program and consumers will share the same interest in cashless transactions.

Moreover, cashless payment service providers, including credit card companies, need to introduce a system to sort out the size of their affiliated companies, while small and medium-sized retailers have to pay handling fees to the payment service providers. According to the Ministry of Economy, Trade and Industry's *Cashless Vision (2018)*, the most cited reason for retailers not introducing cashless payments is "high handling fees" (42.1% of respondents) (**Chart 6**). Most stores unable to use cashless payments appear to be small and medium-sized physical stores, and it is unclear how widely cashless transactions will spread simply for the purpose of a nine-month temporary measure.[9]

Furthermore, the majority of people presently using cashless payment options such as credit cards are apparently high-income earners, raising concerns about increasing the regressiveness of the consumption tax with point reward benefits concentrating on the wealthy. Considering credit card application restrictions, including income requirements and annual membership fees, the number of new cardholders aiming to capitalize on the nine months of the point reward program is unlikely to increase greatly. While it is desirable to promote cashless transactions in terms of improving both consumers'

Chart 5: Estimated economic impact of point rewards and premium vouchers (2019)

Proposed measure	Point rewards	Premium vouchers
Target	Cashless payments at small and medium-sized retailers	About 14 million households
Scale	Total point reward of about 460 billion yen	Total of about 70 billion yen worth of premium vouchers
Economic impact	About 130 billion yen (0.02% to GDP)	About 20 billion yen (0.004% to GDP)

Note: The values are calculated based upon data as of writing this report. With the calculations based upon past average consumption trends, these estimates need to be open to wider interpretation.

Source: Made by MHRI based upon various news media reports.

7 According to the Japan Consumer Credit Association's *Consumer Credit Statistics of Japan*, the country's cashless payment rate in 2016 was 19.8%, of which credit cards accounted for 18%, debit cards for 0.1%, and e-money (prepaid cards) for 1.7%. The Ministry of Economy, Trade and Industry has set the goal of raising the cashless payment rate to 40% by 2025 in its *Cashless Vision (April 2018).*

8 Based on JCB's *Comprehensive Survey on Credit Cards (FY2017)*.

9 The government is planning to subsidize the initial investment to introduce cashless transaction devices, while asking credit card companies to set the upper limit of handling fees in the 3% range. It should be noted that the government's regulation on setting handling fees is likely to disrupt the business models of the credit card companies.

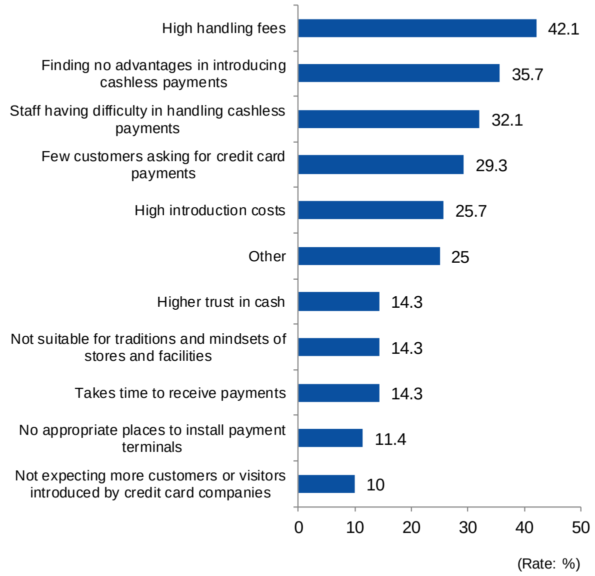
convenience and retailers' productivity, when it comes to time and cost-effectiveness, the point reward program will face many challenges before it can be positioned as an economic stimulus measure to deal with the consumption tax hike.

(2) Premium vouchers

In the premium voucher scheme, local governments plan to sell vouchers to low-income households, with an additional bonus on the purchase price. According to various news reports, the national government is considering a 20,000 yen voucher that allows consumers to buy goods worth up to 25,000 yen, with the extra 5,000 yen premium covered by public funds. With this premium directly added to household income, the voucher scheme is expected to compensate for declining income values and shore up consumer spending after the tax hike. In addition, because the above-mentioned point rewards are less likely to benefit low-income people unable to use cashless payment methods, including credit cards, the eligibility for premium vouchers will be limited to households exempt from residential tax and with children up to two years old in light of the regressive consequences.

According to the Cabinet Office,[10] the issuance of premium vouchers in 2015 amounted to 808.7 billion yen, 99% of which, or 799.9 billion yen, was spent. Based on a questionnaire survey, the amount of newly stimulated voucher spending (the amount newly spent because of the available vouchers) was 272.2 billion yen. Subtracting government expenditures of 153.8 billion yen, premium vouchers had 118.4 billion yen in economic effects. But with these effects also including earlier future spending (spending ahead of time) and potential spending substituted by new consumption with vouchers (spending on other things), the net economic effect is thought to have been less than 118.4 billion yen (Cabinet Office). Kazama (2015) estimated the economic impact of the premium

Chart 6: Reasons for retailers not introducing cashless payments



Source: Made by MHRI based upon the Ministry of Economy, Trade and Industry, *Cashless Vision* (2018).

[10] Office for the Promotion of Regional Revitalization, Cabinet Office, *Report on Verification of the Effects on Regional Spending Stimulus and Life Support Grant Programs* (April 2017).

vouchers issued in 2015 at around 64 billion yen.

The premium voucher scheme currently under consideration aims to mitigate the regressiveness of the consumption tax hike by targeting the low-income population, and the total number of households eligible for premium vouchers, including those with children up to two years old, is estimated at around 14 million. As mentioned above, the voucher amount per household is projected at 25,000 yen, with the total issuance limited to roughly 350 billion yen, less than half of the previous issuance. Given that the additional premium amount is 5,000 yen per household (total of about 70 billion yen), the economic impact of the planned vouchers calculated by a macro model multiplier will be approximately 20 billion yen (around 0.004% to GDP), playing only a minor role as a single policy measure (**Chart 5**).[11]

Furthermore, as a challenge of the premium voucher scheme, a study by Goto (2015) revealed that lower income households purchased fewer premium vouchers introduced in 2015. To deal with the regressiveness of the consumption tax, it is necessary to focus on measures that encourage low-income families to purchase the vouchers.

(3) Other proposed measures

Other proposed measures include support for automobile purchases and housing. Both measures will help reduce the cost to purchase cars and homes after the tax hike. In the same way as point rewards and premium vouchers, these support measures will effectively offset the decline in income values arising from the consumption tax hike.

Tax breaks on mortgages in particular are expected to stimulate consumer spending in addition to promoting home purchases after the tax hike. Unayama and Hara (2015) point out that about 15% of households in Japan are "hand-to-mouth" households facing liquidity constraints and spending more with supplementary income payments provided by local governments, and that the majority of them are "wealthy hand-to-mouth" households possessing non-liquid assets (instead of liquid assets). Based on the study by Unayama and Hara (2015), households with non-liquid assets such as housing and struggling to pay off a mortgage tend to have a higher marginal propensity to consume. In this sense, tax breaks on mortgages are a significant measure to compensate for declining income values in terms of stimulating consumption.

On the other hand, unlike point rewards and premium vouchers, support measures for automobile purchases and housing may have a substantial impact on curbing a last-minute surge and reactionary decline before and after the tax hike. For example, to

[11] However, calculations by a macro model multiplier use past average consumption trends, on the assumption that households purchasing vouchers spend the entire voucher amount while cutting down on other consumption expenditures.

support car buyers, the government is considering a temporary exemption of the automobile tax based on environmental performance levied when purchasing an automobile (scheduled for introduction in October 2019 to replace the automobile acquisition tax) and the automobile tax imposed on car owners after the consumption tax hike. These tax relief schemes seek to balance out the spending surge and decline before and after the tax hike by offering incentives to encourage car purchases after the consumption tax hike. In the same way, housing support measures are designed to mitigate rapid fluctuations through more incentives to purchase or renovate homes after the tax increase.

As for the “Jichitai (Municipality) Points” reward system, local governments will offer additional reward points to “My Number” card users, apparently aimed more at pursuing the national government’s policy objective of promoting the My Number system than stimulating consumer spending and revitalizing local economies. According to the Ministry of Internal Affairs and Communications’ statistics, the number of My Number cards issued as of July 2018 totaled approximately 14.67 million, or 11.5% of the population. To push through comprehensive social security and taxation reforms, including the introduction of refundable tax credits in the future, enhancing the My Number system infrastructure is indispensable, and the “Jichitai Points” reward system is considered strategically important in this respect.

4. Concerns over future sluggish demand after the termination of relief measures

Based on the mechanisms of how a consumption tax hike affects consumer spending, this report has summarized the effects and challenges of the government’s adopted tax relief measures and other measures under consideration. Looking once again at an overview of these measures, while the three adopted measures are permanent, all other measures under consideration are temporary, creating the risk of sluggish demand after their termination in the future. At present, as far as the details of the proposed measures are concerned, most of the implementation periods are set for half a year to two years after the consumption tax hike, raising concerns over a slump in consumer spending and home purchases once the relief measures expire.

In 2020 and 2021, half a year to two years after the planned consumption tax hike in October 2019, temporary adjustments to capital investment are expected following the 2020 Tokyo Olympic Games, while overseas economies may enter a slowdown phase. The combination of economic cycles and termination of consumption tax relief measures could cause both domestic and foreign demand to stagnate. Meanwhile, unreasonably extending the support measures by deferring the expiration period could raise questions about maintaining fiscal discipline. The government is likely to face the tough challenge of addressing three important issues – a reactionary spending decline with the termination of consumption tax relief measures, domestic and foreign macroeconomic cycles, and the maintenance of fiscal discipline.

Refer to the original Japanese report by clicking the URL below for the reference material.

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