

Japan unveils new \$81 billion stimulus package

TOMOKO A. HOSAKA - Associated Press Writer - Associated Press

Japan's government on Tuesday unveiled \$81 billion of new stimulus spending to keep the world's second-biggest economy from lurching back into recession.

Despite shrinking tax revenue, Prime Minister Yukio Hatoyama and his Cabinet agreed to 7.2 trillion yen (\$80.6 billion) in new spending after days of negotiations with coalition partners. The announcement had been expected on Friday but was delayed by wrangling over the size of the plan.

The largesse underlines that the world's biggest economies are still too fragile to get by without government life support even as a recovery from the global recession takes shape. In export-reliant Asia that's partly because demand from Europe and the U.S. is improving only tepidly and efforts to reduce dependence on trade by boosting consumer spending will take several years to fully bear fruit.

Japan also faces falling prices while brandname exporters like Toyota Motor Corp. and Sony Corp. are losing record amounts of money as a galloping yen adds to their woes. China, which has bounced back strongly, still vowed Monday to keep its massive stimulus spending and easy credit policies in place. In the U.S., meanwhile, President Barack Obama is looking at using some \$200 billion leftover from the pot of money for bank bailouts to finance job creation schemes — spending that would come on top of the \$787 billion stimulus approved earlier this year.

The new Japanese package is Hatoyama's first major policy deal since his Democratic Party swept into power this summer promising help for workers and families. Since then, the country's economic turnaround has been under threat from intensifying deflation and a strong yen.

He also faces pressure to improve his approval ratings before upper house elections next year. The previous government under former Prime Minister Taro Aso injected 25 trillion yen in stimulus spending.

After enduring its worst recession since World War II, Japan's economy grew for the second straight quarter in the July-September period, expanding at an annualized pace of 4.8 percent. It was the strongest growth in more than two years thanks to previous stimulus measures and improvement in global demand.

But with consumer prices falling for the eighth month in October, the government has grown increasingly concerned about prolonged deflation.

Declining prices, which plagued Japan during its "Lost Decade" in the 1990s, can hamper economic growth by depressing company profits, sparking wage cuts and causing consumers to postpone purchases. It also can increase debt burdens.

Japan unveils new \$81 billion stimulus package

Published on Electronic Component News (<http://www.ecnmag.com>)

Compounding worries is the yen, which surged to a fresh 14-year high against the dollar recently.

Japan is particularly vulnerable to currency swings because it relies so heavily on exports to drive the economy. A stronger yen reduces the value of overseas profits for exporters like Toyota and Sony and makes their products more expensive in foreign markets.

The government's latest package includes measures to bolster employment, extend consumer incentives to buy eco-friendly products and provide support for small and medium-size firms hurt by the strong yen.

The measures will be financed by the second extra budget for this fiscal year through March 31. Finance Minister Hirohisa Fujii said he expects the Cabinet to approve the supplementary budget next week.

He also warned that Japan's tax revenue will tumble to 36.9 trillion yen (\$412.9 billion) this fiscal year, about 9.2 trillion yen below initial projections.

Japan's public debt, the largest in the world, will surpass revenue for the first time since 1946.

"Our country's finances are in an extremely serious state," Fujii said Tuesday.

Hatoyama has repeatedly said he wants to limit the amount of bonds the government issues. For the stimulus package, the government will mainly tap into money saved after it froze "wasteful" projects undertaken by the previous administration.

The tax shortfall, however, will likely push government bond issuance to a record 53.5 trillion yen this year, Fujii said.

Source URL (retrieved on 04/18/2015 - 12:02am):

<http://www.ecnmag.com/news/2009/12/japan-unveils-new-81-billion-stimulus-package>