The Weekly Observer

July 27-31

YOUR WEEKLY RECAP OF POLITICAL DEVELOPMENTS IN JAPAN!

Takaichi Decides on Consumption Tax Cut Despite Lingering Opposition

On Thursday, **Prime Minister Takaichi Sanae** announced her intention to **lower the consumption tax on food and beverages from eight to one percent for two years starting April 2027,** with benefits equivalent to the one percent tax for low- and middle-income earners in June, **effectively bringing the net impact to zero.** She did not specify concrete funding measures, merely stating that the GOJ will not rely on deficit bonds.

Takaichi stated that the GOJ will work toward **submitting tax-related legislation during the fall extraordinary Diet session.** She also committed to **raising the tax rate back to eight percent at the end of the two-year limit.** Critics have pointed out that it may be challenging to raise the tax rate if the economy is not performing well.

The LDP aims to form a consensus, **despite strong opposition**, by the Cabinet decision in August.

Japan-U.S. Intervention to Suppress Yen Depreciation

The GOJ, Bank of Japan (BOJ), and U.S. authorities acted in unison to prevent further depreciation of the yen. The GOJ/BOJ sold the dollar and bought the yen, while U.S. authorities sold the euro and bought the yen.

A "joint intervention" is rare, seen only in extreme cases like the 1998 financial crisis and the 2011 Great East Japan Earthquake. Joint intervention has a greater impact on financial markets and is more effective than unilateral intervention.

On Friday, the **yen abruptly appreciated to ¥157 to the dollar,** reaching levels last seen in mid-May. The **GOJ and BOJ intervened for two consecutive business days,** pushing the yen from ¥162 to the dollar before the intervention to **¥157**. A *Reuters* article showed a photo of a note on **U.S. Secretary of the Treasury Scott Bessent's** desk, which indicated a **$5-10 billion purchase of the yen** on a "To Do" list.

THIS WEEK IN NUMBERS

Cabinet Approval

54% (-2 pts.)

34% (+6 pts.)

Kyodo News (July 27)

State of the Economy

CAO Economic Forecast:
Forecasted growth rate for FY 2026 expected to be 0.9% (-0.4 pts. from the last forecast in Dec. 2025)

Real growth rate of 1.1% in FY 2027; global growth rate of 2.7% (-1%)

PB in FY 2027 changed from ¥2.1 trillion deficit in June forecast to a ¥1.4 trillion surplus

Monthly Economic Report (July):
Maintained assessment for 5th consecutive month that economy is "recovering at a moderate pace, while attention should be given to the effects caused from the situation in the Middle East"