The Weekly Observer

August 3-7

YOUR WEEKLY RECAP OF POLITICAL DEVELOPMENTS IN JAPAN!

GOJ Adopts Food Consumption Tax Cut Plan

On Wednesday, the GOJ adopted plans to **lower the consumption tax on food and beverages from eight percent 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**. While a proposal to use **pooled funds in the Foreign Exchange Fund Special Account** has been floated, no details were revealed as part of the Cabinet decision.

The consumption tax is estimated to reduce the burden on taxpayers by **¥36,000 per year**. It is positioned as a **temporary measure** to deliver inflation relief to particularly low- and middle-income earners until the **"tax credit with benefits" scheme** is officially introduced in April 2028. **Minister of Finance Katayama Satsuki** said that the decision on how to finance the tax cut would likely be made in the "second week of December" alongside the GOJ's **tax system reform plan for FY 2027**.

Yen Intervention Estimated at Around ¥5 Trillion

Nikkei reported Monday that the **yen-buying foreign exchange intervention** carried out by the GOJ and Bank of Japan (BOJ) on July 31 is estimated to have been a total of **¥5 trillion** based on the BOJ's checking account balance. The intervention on July 30 is estimated to have been **anywhere between ¥6-7 trillion.**

Katayama said at a press conference on Tuesday that, "as has been the case in the past, I cannot provide a specific answer regarding the effectiveness of the intervention." The GOJ and U.S. Government announced the **first coordinated intervention since 1998** on Monday.

Both Katayama and **U.S. Secretary of the Treasury Scott Bessent** issued statements on Monday morning. Bessent posted on X, writing, **"We will not hesitate to participate in further coordinated interventions."** The yen appreciated to **¥155.20 to the dollar** at one point on Monday, the first appreciation to that level since early May.

THIS WEEK IN NUMBERS

Cabinet Approval

59% (-7 pts.)

38% (+7 pts.)

JNN (August 3)

State of the Economy

Economic Situation Report (July):
Maintained assessment for 12th consecutive quarter that the "economy is recovering gradually, but it is necessary to closely monitor the impact of the situation in the Middle East"

Outlook for Economic Activity and Prices (July):
Rising demand for AI-related products and continued weak yen will "continue to exert persistent upward pressure on domestic goods prices, such as those of electrical appliances, for the time being"

Real Wages (June):
+1.6% annual (6th month on rise)