
TEAM ABE 3.0—FROM A NEW CABINET TOWARD NEW POLICIES

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Japanese Prime Minister Shinzo Abe has presented his new cabinet. It is Abe's third leadership team since becoming prime minister in December 2012, and similar to his previous teams, it is dominated by close and trusted allies. Moreover, the key positions did not change: Taro Aso stays as Finance Minister, Hiroshige Seko stays as Economics Minister, and Yoshihide Suga stays as Chief Cabinet Spokesman. I expect this new cabinet will present a new supplementary budget of around ¥5 trillion by October, focusing on added support for women, families and the elderly.

For markets and policy direction, the most interesting appointment is the promotion of Kato Katsunobu from Minister of Inclusion to Minister of Health, Welfare and Labor (and this is the minister overseeing the Government Pension Investment Fund (GPIF)). Kato is one of Abe's most trusted allies, and his ministry is where key new policy developments are expected, both from a structural-change and a [macro](#)-balance perspective.

Specifically, more aggressive labor market and entitlement reform can now be expected, with added incentives to boost both female and youth participation in the full-time economy. Increases in childcare allowances and reduced child education burden are likely, as is a greater push for "third contract" employment, i.e., raising the flexibility of full-time employment contracts. A supplementary budget focused on boosting disposable incomes for females and families with children is likely to be presented by early autumn, in my view.

Structurally, the previous Minister of Health, Welfare and Labor had been denying the GPIF's ability to manage equities in-house—all equity positions had been mandated to outside managers. It will be interesting to see whether the new minister is open to allowing GPIF in-house equity management. From a GPIF perspective, in-house management of equities could potentially enhance its push for improved corporate governance and [ESG](#) accountability. In addition, the new minister is expected to make a more aggressive push for upgrading the IT infrastructure and use of big-data analysis to optimize entitlement pricing and allocation, in our view. In other words, IT-related budget requests are poised to increase, in our view.

Overall, the challenge for Abe is to turn around his recent drop in popularity.

The new team lineup is a step in the right direction, but from here, concrete new policy initiatives are key. A focus on women, families and free education as well as greater public support for elder care is likely to be the mainstay of the new policy thrust. I expect a supplementary budget of around ¥5 trillion to that effect to be presented by October.

For [monetary policy](#), the cabinet reshuffle has no real impact. Debate on who should be the next Governor of the Bank of Japan—Haruhiko Kuroda’s first term ends in March 2018—is not expected to start in earnest until early next year.

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ESG: An acronym for environmental, social and governance, ESG standards quantify the degree to which a company is socially responsible.

Monetary policy: Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.