

Introduction

At the lower house election, the LDP made a substantial victory with securing “overwhelming majority”, which enables the overturn of the decision at the upper house (Constitution: Chapter 59 Section 2). Readers may need to have second thoughts, however, on its implication on economic policies.

Rhetoric on consumption tax

At the start of the election, the LDP advocated the temporary reduction in consumption tax on food stuffs for two years. Interestingly, however, PM Takaichi was relatively silent on this topic during the election period.

Experts of politics suspected the two major reasons. First, the announcement of the tax reduction was intended to minimize the differences of policy agendas against other parties which were vocal for the tax reduction. Second, initial reaction of the general public was mixed. It was not because they had concerns about the fiscal consolidation. Nevertheless, they seemed to have concerns about the sustainability of the social welfare, as it crucially linked with the revenues from consumption tax.

Accordingly, there appear two major lines of argument. On the one hand, PM Takaichi would promote the temporary and partial reduction of consumption tax. While it would require technical preparation by businesses, the LDP could decide as a revision of FY2026 budget at the earliest. It should be noted that the relevant legislations could be decided solely at the lower house as the LDP secures “overwhelming majority”.

On the other hand, the LDP is required to show the reasonable source of funding in order to calm the concerns of the general public on the social welfare. There are some complicated issues, however. First, it would be desirable to enhance the sustainability of the social welfare rather than to fill the gap by the temporary tax reduction. Second, it would be reasonable to reduce the burdens of the social welfare premium in order to improve the disposable income.

If PM Takaichi intends a strong leadership, one potential outcome would be a step toward re-allocation of income both between high-earners and low-income population and corporate profits and household earnings. While PM Takaichi appears to have sufficient political capital to promote this agenda, it could compromise the next important agenda.

Promotion of strategic investment

Although, the promotion of strategic investment did not attract so much attention during the election, it would have significant importance as economic policy. Moreover, it is one of the reasons why both domestic and overseas investors appreciate PM Takaichi.

In order to promote investments in 17 targeted areas, active engagement by private businesses would be crucial. As prospective measures include the public investment and the targeted tax reduction, there is a risk that these measures could conflict with the idea of income re-allocation between businesses and households discussed above.

On the fiscal consolidation front, one good factor is that the implementation of strategic investment would take longer time than a potential modification of consumption tax. This is

because it requires substantial preparations by private firms both in terms of business plans and financial means.

Nevertheless, there is another important factor that could affect the fiscal condition on a front-loading manner. It is the prospects of defense budget.

Reinforcing the national defense is not only the personal agenda of PM Takaichi, but also it is supported stronger by the general public. It is evidenced by the substantial gains of seats by some small parties advocating the policy at this election. Moreover, it would be one of the important topic at a prospective bi-lateral meeting by PM Takaichi and President Trump in coming month. Lastly, PM Takaichi argues that enhancing defense industries would have positive spillover for global competitiveness of firms.

Accordingly, some concrete action of increasing the expenditure on defense as the modification of FY2026 budget would be possible.

Implications for financial markets

Readers should like to note that the initial point of fiscal condition is a good shape, thanks to the elevated level of tax revenue. Moreover, as the LDP secures overwhelming majority, they would be in a good position to promote their own agenda regardless of the opinions for fiscal expansions by the opposing parties. With this respect, experts of politics suggest that there are diversified opinions within the LDP, which may function as the safeguard against simply prioritizing fiscal expansion.

Then, the focus of attention is the idea and the plan of fiscal sustainability from long-term perspectives. While a temporary reduction in consumption tax might be managed by increase in corporate tax and some revisions of administration of public funds, sustainability of fiscal soundness against increased needs for social welfare and national defense remains the key issue. Accelerated pace of discussion is considerably important.

Lastly, I would not agree with a market view that PM Takaichi would try to have stronger impacts on the BOJ's policy. This is because artificially slow pace of policy normalization could trigger further depreciation of JPY, which would undermine the policy efforts to improve purchasing power of households. Good relation between the cabinet and the BOJ would be maintained for the time being.

From longer-term perspectives, however, intension of PM Takaichi remains uncertain, as she previously mentioned a stronger control of the BOJ. While it is not a prioritized agenda, it is worth noting in coming years.

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