

Economic Trends

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Takaichi's Economic Policy Agenda: What to Expect Under the New LDP Leader

Takuya HOSHINO, Chief Economist
Economic Research Department, Dai-ichi Life Research Institute Inc.

Executive Summary

Sanae Takaichi was elected President of the Liberal Democratic Party (LDP) in the party leadership election on the 4th. While uncertainty remains about whether she will become Prime Minister under a minority ruling party, this report uses a Q&A format to examine the potential economic policy implications of a Takaichi administration.

We will accept press inquiries and interviews. Please contact us hoshino@dlri.co.jp.

Q. How will economic policy change?

She takes a dovish stance on both fiscal and monetary policy. Advocating for "responsible proactive fiscal policy," she has indicated a willingness to issue deficit bonds when necessary for important measures. She places particular emphasis on government growth investment. On monetary policy, she stresses the importance of coordination between the government and the Bank of Japan. She appears to favor a "high-pressure economy policy"—using fiscal and monetary policy to maintain excess demand, thereby encouraging supply capacity expansion through investment.

Her emphasis on introducing refundable tax credits and raising the basic income tax deduction signals a focus on supporting working-age households, working families, and the middle class. Compared to the Kishida and Ishiba administrations, which prioritized raising the minimum wage, her philosophy leans more toward "rewarding those who work hard" rather than "protecting the vulnerable"—a distinction likely to become increasingly evident in her policies.

Q. Will fiscal expansion actually intensify?

During the leadership election, she moderated her fiscal dove rhetoric. While promoting a proactive fiscal stance, she also emphasized that "fiscal consolidation is ultimately necessary" and distanced herself from opposition demands for consumption tax cuts. Many have drawn parallels between Takaichi's election and the UK's Truss Shock, and she likely wants to avoid the perception that her policies could trigger market turmoil. I don't expect her to pursue extreme policies.

Q. What will happen to monetary policy?

As most market observers expect, an October interest rate hike has become less likely. However, from

a market stability perspective, she also cannot easily apply strong pressure on the Bank of Japan. While implementing measures to counter inflation, she would want to avoid making statements that trigger extreme yen depreciation. Takaichi's economic assessment doesn't appear to differ significantly from the BOJ's view that "underlying inflation hasn't reached 2% but is approaching it." While taking a cautious stance on tightening and emphasizing government-BOJ coordination, she will likely accept the BOJ's rate hike trajectory.

Her monetary policy stance is expected to become clearer once the policy rate reaches 1.00%. At that point, the rate would enter the BOJ's estimated neutral rate range, and further hikes would shift from "adjustment from accommodation to neutral" into potentially "restrictive" territory. She is likely to push back strongly against rate hikes above 1.00%.

Q. What will happen to this year's budget compilation and economic measures?

Economic measures (supplementary budget) and next year's budget will follow the usual autumn-to-year-end schedule. Items under consideration include abolishing the provisional gasoline tax rate, raising public prices for medical care and nursing care, grants to local governments for inflation relief, the automobile tax environmental performance levy (0-3% of vehicle price at purchase), and tax incentives for wage increases at deficit companies. Additionally, budgets will likely be allocated for her signature "crisis management investment" and "growth investment" initiatives.

The economic measures will likely overlap substantially with those of the previous Kishida and Ishiba administrations. Both governments already expanded spending in priority areas like decarbonization and digitalization under the "New Capitalism", issuing large amounts of deficit bonds for supplementary budgets. While Takaichi will also formulate supplementary budgets based on deficit bond issuance, this represents no departure from previous administrations.

The key question is scale. Recent supplementary budgets with economic measures totaled: FY2022: ¥28.9 trillion → FY2023: ¥13.2 trillion → FY2024: ¥13.9 trillion. This fiscal year may see some expansion from FY2024 levels. However, as noted earlier, she wants to avoid appearing extremely dovish, so we expect a level roughly comparable to last year's supplementary budget, perhaps with a slight increase. Based on her previous positions, the content may place greater emphasis on cybersecurity strengthening and an energy policy shift from renewable energy to nuclear power. Regarding budget formulation, the coalition structure will be under discussion. The Democratic Party for the People's policies align well with Takaichi's positions, making cooperation highly likely.

Q. What will happen to refundable tax credits?

Discussions are already underway between the ruling party and the Constitutional Democratic Party, and deliberations will accelerate. Both the Constitutional Democratic Party and the Democratic Party for the People support this measure, making implementation more likely than ever. As Takaichi has acknowledged, specific system design is still under discussion, and building the necessary infrastructure will take time. This makes it a medium-term initiative rather than a short-term inflation

relief measure.

While not immediately effective, the policy is significant. Refundable tax credits function as "negative income tax"—providing household benefits through tax cuts while paying the difference directly to low-income earners with insufficient tax liability. Beyond extending tax cut benefits to low-income earners, the greater significance for Japan lies in creating "a vehicle for supporting middle-class households." In recent years, household support has frequently taken the form of payments to "households exempt from resident tax." However, this classification primarily captures elderly retirees, and repeatedly providing support to those who, despite low average incomes, hold substantial assets has drawn criticism. Asset-rich households don't face liquidity constraints, limiting the consumption-stimulating effect of such measures.

The 2024 flat-rate tax cut was designed with middle-class support in mind. Without refundable tax credit infrastructure, authorities hastily created a "payment + tax cut" mechanism to ensure low-income earners benefited, but the resulting complexity in system design between payment and tax-cut households created confusion in municipal administration. One major benefit of refundable tax credits is escaping a situation where household support can only be smoothly delivered through either universal payments or payments to tax-exempt households.

Q. What is the outlook for raising the basic deduction?

Raising the "annual income wall": She supports raising both the basic deduction and employment income deduction in the income tax system. The government's Tax Commission is already discussing mechanisms to index basic deduction increases to inflation, but a key question is whether Takaichi will pursue the ¥1.78 million level advocated by the Democratic Party for the People.

Q. What will happen to wage-related policies?

While other candidates set numerical wage targets, Takaichi distanced herself from this approach, saying wages are "something private companies decide." Instead, she advocates household support through measures like refundable tax credits. Rather than deemphasizing wage increases, she appears to believe wages will rise naturally by maintaining tight macro supply-demand conditions. She prioritizes increasing take-home pay through refundable tax credits over directly raising wages.

For public sector wages where government has direct influence—such as medical care and nursing care—she has indicated she will implement early increases, partially through the supplementary budget. She will also establish inflation-indexed systems as inflation becomes entrenched. Candidate Shinjiro Koizumi also mentioned indexing public prices to inflation, but this was already included in the June cabinet decision on basic policy guidelines under the current Ishiba administration. Opposition within the ruling party is unlikely.

The emphasis on minimum wage increases championed by Prime Minister Ishiba may diminish. While the FY2025 minimum wage was raised 6.3%, regular employee wage growth remains around 2.5%—a substantial gap. Ishiba's goal of reaching ¥1,500 by the 2020s would require further acceleration. As

noted earlier, she focuses distribution on the working-age middle class and isn't necessarily supportive of government intervention in wage-setting.

Q. Will the yen weaken?

The initial market reaction to Takaichi's election, given her dovish monetary policy stance, has been yen depreciation and stock price gains. While her dovish macroeconomic policies suggest yen weakness, her energy policy stance deserves attention from a yen supply-demand perspective. She advocates for nuclear power and nuclear fusion, representing a likely policy shift from the renewable energy emphasis of the Kishida and Ishiba administrations. This could reduce the trade deficit, which from a yen supply-demand perspective would be a yen-strengthening factor.

Q. What will happen to "work-life balance"?

Her post-election statement that she would "abandon the term work-life balance" attracted considerable attention. But this was fundamentally a message directed at herself and LDP lawmakers, not a reference to revising labor time regulations. The former Abe administration strengthened labor time regulations to improve work-life balance. The likelihood of this immediately leading to relaxed labor time regulations is low.

However, a core principle in Takaichi's thinking is boosting work motivation to drive growth. The strong reaction to her statement reflects genuine public sentiment about pushback against work style reforms and their side effects. For example, labor time regulations (Labor Standards Act) that apply only to non-managers have shifted the burden of working hours onto managers and narrowed choices for those who want to work voluntarily. While a complete reversal to pre-reform regulations is unlikely, we should watch for intensifying future debates about work style reform's side effects and refining labor time regulations (to allow those who want to work to do so). Work style reforms were promoted during the Abenomics disinflation period, when macroeconomic supply-demand was somewhat looser than today. With labor shortages apparently deepening compared to the past, relaxing labor time regulations is easier to justify from a supply capacity expansion perspective.

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