

Daiwa's View

Kono's fiscal policy

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On 10 September, Taro Kono held a press conference to announce his decision to run in the Liberal Democratic Party (LDP) presidential election. While he showed a stance of focusing on administrative and regulatory reforms, he did not offer in-depth information about macroeconomic, monetary, or fiscal policies. Regarding fiscal policy, however, it is presumed that he is inclined towards austerity.

At the outset of this press conference, Mr. Kono emphasized his record of taking the first step towards the digitalization of Japan's administration by eliminating the seal custom and pointed out that he changed rules of administrative procedures to cope with problems raised by overseas pharmaceutical firms during negotiation for procurement of COVID-19 vaccines. As he has a long cabinet career in the fields of administrative and regulatory reforms, it seems that he is also highly interested in those fields. If a Kono administration emerges, these reforms would become major policy pillars.

He did not bring up macroeconomic, monetary, or fiscal policies in this press conference. Moreover, his new book published on 27 August has no section dedicated to these policy areas; neither does the policy pamphlet posted on his blog website the same day as the press conference. In the press conference Q and A session, questioned about whether he will maintain the target of achieving a primary balance surplus by FY25 he replied that various discussions would be needed. And asked about the size of economic measures, he said that he would like to conduct research a little bit more. As such, his stance is still highly uncertain.

His pledges in the policy pamphlet include (1) containment of COVID-19 by drastically restricting the movement of people when necessary, (2) safeguarding the lives of citizens from repeated natural disasters, (3) leaving sustainable infrastructure for the next generation, and (4) protection of SMEs and solo proprietors. Fiscal spending will be needed to fulfill these pledges. As he said that he would implement "reform in ordinary times and fiscal spending in emergency situations" at the press conference, crisis-response and economic stimulus measures are likely to be implemented.

Meanwhile, he has focused on the sustainability of social security in past blog websites and in his new book, in addition to his keen interest in administrative reform. In the press conference Q and A, he stated that the direction of investment was more important than the size of economic measures. We thus presume that he is inclined towards austere fiscal policy, rather than expansionary policy. As he showed an awareness of Japan's Y22tn GDP gap at the press conference, he may bring the size of economic measures below Y30tn.

It is assumed that candidates in the LDP presidential election will adjust their fiscal policies before the voting day. Sanae Takaichi's dovish stance became clear as she revised her position after the press conference announcing her candidacy, now saying that it would be difficult to hike taxes before achieving the 2% price stability target. Under fiscal policies to date, deficits have continued due to low growth and the aging society, and fiscal spending has been implemented without abandoning fiscal reconstruction. In comparison, Kono is likely to insist on an austere stance, Fumio Kishida is expected to maintain the existing stance or adopt a slightly expansive one, and Takaichi is likely to insist on a clearly expansive stance.

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